BTI 2012: East-Central and Southeast Europe

Martin Brusis[*]

An overview of development and transformation in Albania, Bosnia and Herzegovina (hereafter: Bosnia), Bulgaria, Croatia, the Czech Republic, Estonia, Kosovo, Macedonia, Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

In the last two years, most East-Central and Southeast European states saw declines in the quality of their democracy, along with corresponding setbacks in economic development and political management. All 17 states of this BTI region are, however, still designated as democracies. According to the BTI 2012, only five states – Albania, Bosnia, Kosovo, Macedonia and Montenegro – exhibit democracy deficits; these are more pronounced in Bosnia and in Kosovo, which has been independent only since 2008. Above all these deficits are reflected in the rule of law, weak civil societies and the representation of commercial interests through political parties and lobbies. In Bosnia, Kosovo and to a lesser degree Macedonia, these democracy deficits are linked to conflicts over the borders and makeup of

[*] Dr. Martin Brusis is Managing Director of the Project Network “Institutions and Institutional Change in Postsocialism” at the Geschwister-Scholl Institute for Political Science (University of Munich) and BTI Regional Coordinator for East-Central and Southeast Europe.

the particular states, a result of individual ethnic groups, or parts thereof, that live there but do not want to belong to these states.

The global economic and financial crisis affected the countries in East-Central and Southeast Europe to varying degrees, depending on factors such as integration into international capital markets, public budgetary matters, private debt and the stability of the banking system. The Baltic states in particular suffered a massive economic downturn in 2009; however, the governments of these states were in a position to defend their exchange-rate regimes and improve their competitiveness through internal currency devaluations. In contrast, Poland succeeded in achieving economic growth during the crisis, while Serbia was able to improve the institutional framework of its economy, despite the crisis.

Within the region, the eight East-Central European states have more stable democracies and more developed economies than the nine Southeast European states. In a comparison with the results of the BTI 2010, the gap between the two sub-regions has remained nearly the same for both subindices of democracy and market economy. This is remarkable in that all Southeast European states are aspiring to EU membership – with the exception of Bulgaria and Romania, members since 2007, which are striving to solidify their standing within the EU. Although the EU expects the development of stable democracies and functioning, competitive market economies from states seeking to join its ranks, and in various ways even supports the corresponding efforts to do so, membership candidates have achieved only minimal progress in terms of economic reforms and the quality of democracy and transformation management in these countries has eroded.

These findings indicate that leading political actors (especially in Albania, Bosnia, Kosovo and Macedonia) are struggling to overcome serious structural problems and fend off political opposition, and are apparently less successful than in previous years at unifying and mobilizing their populations behind the prospect of EU accession. Political polarization and patterns of confrontation and conflict have intensified and are increasingly poorly contained by simply appealing to the common goal of EU membership. This is possibly due to the fact that prospects of acceptance have become less certain and that the costs of preparing for membership are proving to be more significant. Political costs are associated with, for example, prosecuting high-ranking political corruption, containing the spoils system, restructuring old industrial sectors and consolidating budgets.

In the group of East-Central European states, the diverging paths of Hungary and Poland also demonstrate that membership in the EU does not reliably prevent losses in democratic quality, nor, on the other hand, does the lack of accession conditionality inevitably result in such losses. While the Polish government has managed to further consolidate its democratic institutions, the Hungarian government, in control since May 2010, has set out to strip the Constitutional Court of its power, bring the independent state authorities under its control and limit freedom of the press.

Political transformation

In the period from 2009 to the beginning of 2011, democracy quality as measured by the BTI, decreased in 13 of the 17 East-Central and Southeast European countries. This is attributable to the fact that President Bronisław Komorowski, who took office in August 2010, and the Civic Platform-led government of Prime Minister Donald Tusk have worked constructively together. In addition, the government has improved its respect for civil rights and the party system has stabilized.

In Hungary the decline in the quality of democracy has been especially steep, as the conservative-populist government of Prime Minister Viktor Orbán, elected in May 2010, and his party Fidesz have used their two-thirds majority to weaken the system of checks and balances. In August 2010 all public media outlets were transferred into one broadcasting company controlled by Fidesz supporters. In December 2010, parliament passed a new media law placing the press and public broadcasting under strict state control. The media supervisory office envisaged by this law can impose high fines against media whose reports are, according to this office, either erroneous or biased. In protest to the law's inclination towards both media censorship and self-censorship, the country's big newspapers published blank title pages. Along with the Organization for Security and Co-operation in Europe (OSCE), several EU institutions and EU member states criticized the law, which succeeded in compelling the government to revise some of its discriminatory provisions in April 2011.

After Hungary's Constitutional Court had declared unconstitutional a retroactive tax law passed by the majority government, parliament withdrew the court's right to review the constitutionality of laws concerning the budget as well as those having to do with taxes and duties. The government appointed Fidesz supporters to lead the Supreme Public Prosecutor's Office, the State Audit Board, the Antitrust Authority, the State Financial Oversight Board and the new Media Supervisory Authority. By cutting the salary of the central bank president, significantly changing the laws governing the bank and criticizing its interest rate policy, the Fidesz government shattered the independence of Hungary's central bank. The new state president, elected in July 2010 by the majority government, greatly limited his role to a merely symbolic protection of national identity and the unconditional signing of laws passed by a majority in Parliament. In April 2011 – after the BTI 2012 assessment period – the government majority adopted a new constitution that, among other things, requires a two-thirds majority for changing a wide range of laws, thus restricting the power of future parliaments. The socialist and liberal opposition parties MSzP and LMP boycotted the debates on the constitution in protest against the government’s unwillingness to hold discussions. In addition to Hungary, Slovakia in particular and the Southeast European states of Albania, Kosovo, Macedonia and Montenegro have suffered more significant losses in democratic quality. The strongest declines have been observed in the areas of free and fair elections, freedom of opinion and the press as well as in the compliance with democratic norms. The first parliamentary elections in independent Kosovo, in December 2010, were overshadowed by numerous incidents of fraud and manipulation. The Albanian parliamentary elections in June 2009, the Bulgarian parliamentary elections in July 2009, the Romanian presidential elections in November 2009 and the Bosnian parliamentary and presidential elections in October 2010 were also beset with the breach of rules, the buying of votes and accusations of fraud. In Albania, the Democratic Party of Prime Minister Sali Berisha was able to protect its government majority; however, the elections were marked by extreme polarization and prompted the Socialist Party to boycott sessions of parliament for six months in protest against voter fraud. After local elections in May 2011, the Democratic and Socialist parties quarreled anew over correct voting tallies in Tirana.

Romania’s Social Democratic party raised a constitutional challenge to what it perceived as vote manipulation in the presidential election; however, this challenge was dismissed in December 2009. In contrast, parliamentary elections in Latvia (October 2010), the Czech Republic (May 2010) and Slovakia (June 2010) proceeded relatively smoothly, although Latvia has still not granted civil rights to a portion of its Russian-speaking minority; this group (roughly 15% of the population) was excluded from the elections.

Tab. 1: State of political transformation

Democracies in consolidation	**Defective democracies**	**Highly defective democracies**	**Moderate autocracies**	**Hard-line autocracies**
(10 to 8)	**(<8 to 6)**	**(<6)**	**(>4)**	**(<4)**
Czech Republic Slovenia	Macedonia Montenegro			

Estonia Lithuania Poland Slovakia Latvia Bulgaria Romania Croatia Hungary Serbia	Albania Kosovo Bosnia and Herzegovina			
Table derived from BTI 2012 index scores for political transformation. Countries are listed according to their democracy status scores.				

The erosion of press freedom, a trend already visible in the BTI 2010, continued in the last two years. Economic concentration processes on the one hand and intrusion by governments and political actors into public television and radio programming on the other hand are increasingly threatening the basis of journalism as well as the democratic public that arose after the fall of the state socialist regime. Due to the financial crisis and the overall trend of sinking profits derived from advertising and subscriptions, journalists and publishers in many countries of the region have become increasingly dependent on media owners, whose commercial and partially even political interests, as a result, have gained greater influence over news coverage. Moreover, tabloids have displaced serious media outlets in growing numbers, hence lowering the level of political news coverage. In several countries, economic interest groups and political parties pay journalists for positive coverage, while critical journalists must fear for their physical wellbeing, and even their lives. Governments and leading politicians use the criminal and civil justice system to intimidate critical media outlets and cause financial ruin.

In an OSCE poll, two-thirds of Serbian media publishers declared that their journalistic freedom was restricted in 2009. In June 2010, an Albanian court issued the most popular private television channel a ruinous fine on charges of invading the privacy of a minister. In similar fashion, Slovakian Prime Minister Fico and Justice Minister Harabin initiated costly libel suits against several print media. In January 2011, Macedonia’s government froze the accounts of A1, a television station critical of the government. In Bosnia journalists and publishers are threatened, such as Bakir Hadžiomerović, the editor of the investigative TV program “60 Minuta.” In Croatia influential interest groups pressure journalists to exercise self-censorship. In Kosovo in May 2010, Veton and Flaka Surroi, the founder and CEO of the independent media group Koha, were anonymously accused of working for the Yugoslavian secret police, in order to provoke hatred among the public. In Latvia an ownership change in the private media world led to the dismissal of numerous experienced journalists, who were replaced by employees more dependent on the owners.

Despite many reforms in preparation for EU accession, legal institutions, especially in the Southeast European countries, still exhibit great shortcomings: With regard to judicial independence, the extent of political corruption and the inherent problems of and conflicts between governments, presidents, parliaments and courts, the Southeast European states significantly trail the East-Central European states. Governments and parties still encroach on judicial independence by influencing the appointment of judges, publicly criticizing court decisions and awarding the courts no financial independence. On the other hand, corrupt judges attempt to sabotage initiatives intended to strengthen the integrity and professionalism of the justice system.

In Bosnia, the prime minister of the Republika Srpska, the part of the country dominated by Bosnian Serbs, refused to recognize the State Court, the Prosecutor's Office and the National Anti-Corruption Authority. In Latvia and Romania anti-corruption policy was the subject of massive conflict between various government bodies. In Romania in April 2010, the Constitutional Court stripped the National Integrity Agency of its rights to publicize asset declarations, share information with law enforcement agencies and seize assets of uncertain origin. Parliament initially adhered to the court's decision, but then in August 2010, under pressure from the EU Commission, the rights of the National Integrity Agency were restored.

In December 2010, Bulgaria's parliament passed a justice reform law intended to strengthen the independence of judges, and installed a state commission to investigate the financial circumstances of dubious businesspeople and seize their assets if necessary. The Supreme Judicial Council, which functions as a self-governing organ of the justice system, made several questionable appointment decisions, prompting two of its members to resign. As the EU Commission criticized anew in a report from July 2011, neither in Bulgaria nor Romania did police, state prosecutors or courts act effectively enough to fight cases of suspected corruption among top politicians and leading officials.

In Serbia political actors attempted to remove corrupt judges from their benches by newly appointing all judges. However, the non-transparent procedure of evaluating and selecting the judges to be dismissed created wide protest in the judiciary and a wave of constitutional challenges from the affected judges. The EU Commission and the United States criticized the process. In Slovakia, while Robert Fico was prime minister (July 2006 to July 2010), the justice minister tried to dissolve the judicial bodies responsible for prosecuting high-level corruption and organized crime. The spoils system allowed the Justice Minister to succeed in getting himself elected president of the Supreme Court in June 2009. He and his supporters in the Supreme Judicial Council, a self-governing judiciary committee, commenced disciplinary proceedings against their critics within the judiciary and prevented attempts by the government to restructure the Judicial Council.

In March 2010, the Albanian Constitutional Court declared unconstitutional a controversial lustration law passed by the Berisha government, thus demonstrating its increased independence. However, in November 2010 a conflict between the parliamentary majority and the president over the appointment of three judges to the Constitutional Court endangered the independence of the court. In the last two years, numerous high-level corruption cases were again publicized, allowing people to see to what extent the political elite have exploited their public offices for personal gain and to the advantage of their party. One of the most spectacular cases of political corruption involves the former Croatian Prime Minister Ivo Sanade, who resigned in September 2009 and is suspected of crimes that include having transferred funds for fictitious contracts from ministries and state-owned companies into a slush fund for his party and into his private assets. While attempting to flee, Sanader was arrested in Austria in December 2010 and then extradited to Croatia in July 2011. In October 2010 a Croatian court convicted Damir Polančec, the deputy prime minister under Sanader, of swindling the Croatian food company Podravka out of millions. In August 2010 a Slovenian court brought charges against former Prime Minister Janez Janša, who is suspected of corruption in connection with state arms purchases.

In comparison to the widely observable, persistent and sometimes even growing deficits in terms of rule of law and the general public, stateness problems have largely been limited to Bosnia and Kosovo. In both countries the international community is safeguarding existing state structures through international authorities and multinational peacekeeping troops.

The Peace Implementation Council is overseeing the Bosnian peace process. In 2008 this council’s steering committee decided to make the end of the international oversight of Bosnia dependent upon, among other things, the settlement of disputed ownership issues, judicial reform and a positive situational assessment. However, discussions initiated by the United States and the Swedish EU presidency on constitutional reform broke down in October 2009 due to the leading Bosnian politicians’ lack of willingness to compromise.

Before and after the general Bosnian elections (October 2010) political representatives of the Republika Srpska (RS) campaigned for a referendum on independence. In February 2010 the

RS parliament passed a law on holding referenda, and in April 2011 parliament voted for a referendum on the withdrawal of its representatives from the State Court and Prosecutor's Office. This referendum was considered a test for a referendum on national independence. Under pressure from the international community, the RS forewent the holding of this "trial referendum". However, the political elite of the RS continue to strive for national independence and can rely on wide support from the population. According to a 2010 poll, 87 percent of Bosnian Serbs endorse secession of the RS.

In the general Bosnian parliamentary elections (October 2010) the Bosnian Social Democrats managed to gain voting shares with respect to the ethnonational parties. However, by July 2011 a coalition government had not been formed and political decision-makers were not able to agree on a constitutional amendment to comply with a judgment by the European Court of Human Rights. In 2009 the court had decided that restricting voting eligibility to members of the three largest ethnic groups is in violation of the European Convention on Human Rights.

Kosovo's legal status is still disputed under international law, even though the International Court of Justice declared in July 2010 that Kosovo's declaration of independence in February 2008 was not in violation of international law or Resolution 1244 (1999) of the United Nations Security Council. While 77 of the 193 UN member states, including most EU member states and the United States, have recognized Kosovo as an independent state, Serbia, Russia as well as five EU member states continue to refuse to do so.

As a result, the cited security resolution is still in force and the UN administration (UNMIK) created with its mandate exists alongside the International Civilian Office (ICO), which is intended to oversee Kosovo's path to independence. An EU mission of experts on the development of the rule of law and the NATO-led multinational peacekeeping troops KFOR support these structures. By a large majority Kosovo's ethnic Serbs (about 6% of the population) reject the idea of Kosovo becoming a new state. In northern Kosovo, where they constitute a majority of the population, with the support of Serbia they have developed parallel political and administrative institutions that are not recognized by the Kosovan institutions.

In March 2011 Kosovo and Serbia began EU-mediated bilateral negotiations to establish practical cooperation, the results of which included the freedom to travel for their citizens. The unresolved conflict between Kosovo and Serbia (that continues to consider Kosovo a part of its territory) complicates the legal and economic development of Kosovo and bears the risk of violent escalation, as evidenced anew by clashes between KosovoSerbs and Kosovan-Albanian police at the Serbian border in July 2011.

Economic transformation

Overall, the countries in the region faced a slight decline in their economic transformation processes. Latvia was especially affected, but Romania and Slovakia also suffered minor setbacks in terms of their levels of economic development. Poland and Serbia, however, emerged as countries able to advance their economic reforms. While all East-Central European countries, except Latvia but including Croatia, are classified by the BTI as developed economies, the other states displayed minor or, in the cases of Bosnia and Kosovo, rather pronounced shortcomings. The largest deficits were in terms of sustainability as well as economic and socioeconomic performance. Above all, the global economic and financial crisis was reflected in poor BTI evaluations of public fiscal and debt management policy, while the banking systems as a whole were not destabilized by the crisis and in some countries emerged even stronger than before.

In East-Central Europe the economic and financial crisis especially affected the Baltic states and Hungary. Latvia, as well as Estonia and Lithuania, experienced the strongest financial slumps, ranging from 14 to 18 percent of the gross domestic product (GDP) in 2009, while the GDP of the 17 countries fell by an average of 5.5 percent in that year. In the following year the region again saw a growth of 1.5 percent. Poland's was the only economy to show expansion in the crisis year of 2009. In connection with the global recession the 2009 inflation rate sank 2.3 percent and remained at roughly the same level in 2010. Only in Romania, Serbia and Hungary did prices increase significantly.

Balance of payment deficits also decreased in 2009 and 2010 in almost all countries, but for the small economy of Montenegro, which is strongly dependent on foreign trade, the drop reached almost 26 percent even in 2010, while in Albania and Kosovo the figure was over 10 percent. Average unemployment numbers rose from 10 percent (2008) to 15 percent (2010) and reached especially high in Macedonia (32%), Bosnia (27%) and Kosovo (estimated at 40%); conversely, low employment figures of seven percent (2010) were recorded for the developing economies of the Czech Republic and Slovenia, which have more flexible job markets. Budget deficits emerged in all countries of the region and reached alarmingly high levels in Latvia and Lithuania in particular.

Tab. 2: State of economic transformation

Developed market economies	**Functioning market economies**	**Market economies with functional flaws**	**Poorly functioning market economies**	**Rudimentary market economies**
(10 to 8)	**(<8 to 7)**	**(<7 to 5)**	**(<5 to 3)**	**(<3)**
Czech Republic Slovenia Estonia Poland Slovakia Lithuania Hungary Croatia	Bulgaria Latvia ▼ Romania Macedonia	Montenegro Serbia Albania Bosnia and Herzegovina Kosovo		
Table derived from BTI 2012 index scores for economic transformation. Countries are listed according to their market economy status scores. Arrows indicate a change in category relative to the BTI 2010.				

During the crisis, all the Baltic states succeeded in defending the pegging of their national currencies to the Euro. They also managed to carry out massive spending cuts and tax increases while preventing systemic banking crises. In doing so, Latvia nationalized its second largest commercial bank, the Parex-Bank, which was threatened with insolvency in November 2008. Estonia managed to lower its budget deficit by 1.7 percent of GDP in the crisis year of 2009, which contributed to it be able to join the eurozone on 1 January 2011. Both Latvia and Hungary had to negotiate Stand-By Arrangements with the International Monetary Fund (IMF), which ultimately prevented their financial collapse. Although the Hungarian governments managed to reduce budget deficits to less than five percent through spending cuts and tax increases, Hungary's high public and foreign debt (roughly 80% and 140% of GDP, respectively) further jeopardized the country's financial stability.

In Southeast Europe Bosnia, Romania and Serbia were most strongly hit by the economic and financial crisis. Between January 2009 and July 2010 Bosnia, Kosovo, Romania and Serbia negotiated a Stand-By Arrangement with the IMF to ensure solvency. While Bosnia's commitment to the IMF included reviews of its payments to war veterans, reviews of public sector salaries and the arrangement of pension reform, it was only able to partially reach the spending targets tied to the agreement. Kosovo's government could not implement the budget consolidation agreed upon with the IMF in 2010 due to an enormous rise in spending caused by public service salary increases and the financing of the highway from Prishtina to Albania. In 2009 – 2010 Romania reduced public service salaries and various social benefits and cut some 130,000 jobs from the public sector. Serbia froze public service salaries and pensions and devalued the dinar, which decreased domestic demand and drastically reduced jobs in the formal and informal private sector.

All East-Central and Southeast European states share a heavy dependence on foreign capital. Thus, the ratio of foreign investment to GDP for the 10 new EU member states from East-Central and Southeast Europe plus Croatia (the CEE-11) was 47 percent in 2008. In comparison, the 2009 World Investment Report cited the corresponding ratio in Germany as only 11 percent. The IMF reported that foreign banks controlled an estimated 58 percent of the region's total assets in2005. The significance of this figure is also best revealed through comparison: In Latin America, during the same year, this share was just 38 percent.

The states in the region have developed hybrid social security systems that combine elements of continental European social insurance and the Anglo-American policies of minimum income protection based on citizenship. Great disparity in wealth persists within the region: Slovenia's per capita income of $26,240 (PPP) is more than four times larger than analogous income figures in Albania. According to data from the EU Statistical Office, the average ratio between the total incomes of the richest and poorest fifths of the population of the CEE-11 in 2009 roughly corresponded to the average in the old EU member states. Between 2005 and 2009 the at-risk-of-poverty rates in these states (the share of people with a household-size-adjusted income (after social transfer) below 60% of the national median income) increased from 16 to 17 percent – a figure lying just below the average in the old EU member states. The poorer Southeast European countries in particular have large informal sectors and low employment rates.

Transformation management

The region's average score for transformation management performance, as assessed by the BTI, decreased in correlation to the declining trends in the state of economic and political transformation. Hungary worsened to a particularly dramatic degree, while Poland managed to improve overall. Besides the successful management of the economic crisis by the Tusk government, this positive assessment is reflected in the greater willingness of the government to engage in dialogue with societal actors. Alongside Poland, Latvia's steering capability and implementation performance were highlighted. The government led by Prime Minister Valdis Dombrovskis cut salaries in the public sector by more than 30 percent and reduced state spending by 14 percent of GDP. Nevertheless, in the October 2010 elections the Prime

Minister's Unity party doubled their representation in parliament, while the opposition party "For a Good Latvia" lost despite the support of several Latvian oligarchs.
More modest slowdowns were experienced in countries with relatively good management performance like the Czech Republic, but also in countries such as Albania and Bosnia, which were already classified as weak by the BTI 2010. In the Czech Republic, the stalemate following the March 2009 resignation of Prime Minister Miroslav Topolánek, the unstable political foundation of the interim government headed by Jan Fischer (May 2009 to June 2010) and the heterogeneousness of the subsequent government coalition of Prime Minister Petr Nečas paralyzed political prioritization, learning ability and coordination.

Tab. 3: Quality of transformation management

Very good	**Good**	**Moderate**	**Weak**	**Failed or nonexistent**
(10 to 7)	**(<7 to 5.6)**	**(<5.6 to 4.3)**	**(<4.3 to 3)**	**(<3)**
Estonia Lithuania ▲	Latvia Slovakia ▼ Poland Czech Republic Slovenia Bulgaria Macedonia Croatia Romania Montenegro Serbia	Hungary ▼ Albania ▼ Kosovo	Bosnia and Herzegovina ▼	
Table derived from BTI 2012 index scores for political management. Countries are listed according to their transformation management scores. Arrows indicate a change in category relative to the BTI 2010.				

In considering the individual management assessment components for all 17 countries, the greatest shortcoming has been in developing systems of integrity for effectively fighting and avoiding corruption. In addition, many states scored poorly in terms of the effective use of financial, organizational and human resources. As compared to the situation at the start of 2009, governments have especially regressed in the setting and maintaining of strategic priorities.
Although this decline was more pronounced in several East-Central European countries, and especially in Hungary, the setbacks for Albania and Bosnia are particularly alarming, in part because of their extant deficits in setting strategic priorities, but also given their preparations for EU accession, which "should" make it easier for governments to prioritize and realize

economic and legal reforms. This points to the fact that liberal reformers in these countries are apparently unable to employ the perspective of EU membership to the same extent as their East-Central European neighbors in order to negotiate political compromises and overcome logjams.

An important cause of the decreasing appeal of European integration can be seen in the fact that the pre-accession process for Southeast European countries has been delayed since Bulgaria and Romania became members. In June 2011 the European Union concluded its accession negotiations with Croatia after Croatia and Slovenia agreed to resolve a conflict over their shared Adriatic border through International Court of Justice arbitration. However, the Croatian population's approval of EU membership has fallen to a new low, and Prime Minister Jadranka Kosor's government was plunged into a legitimacy crisis associated with the economic situation and a corruption scandal in her party. In addition, a majority of the population held the government responsible for the fact that a pair of "national heroes," former army generals Ante Gotovina and Mladen Markač, were condemned in April 2011 as war criminals by the International Criminal Tribunal for the former Yugoslavia (ICTY). Tens of thousands took to the streets to protest against this process, sometimes violently.

The other EU aspirants remain far from achieving membership. Montenegro was awarded candidate status in December 2010, but its weak rule of law and political control mechanisms, lack of administrative capacity and the macroeconomic vulnerabilities exposed by the economic crisis represent serious obstacles to eventual completion of this path. Albania's Stabilization and Association Agreement with the European Union entered into force in April 2009, although its fragile institutions, domestic political polarization and lagging socioeconomic development may serve to delay further steps toward integration for years to come.

In May and July 2011 Serbia arrested Ratko Mladić and Goran Hadžić, respectively the former general chief of staff of the Bosnian Serb army and the president of the self-proclaimed "Republic of Serbian Krajina," and delivered them to the ICTY tribunal. These actions finally helped allay the EU's reservations about the country's Stabilization and Association Agreement. However, a second precondition was the establishment of good neighborly relations with Kosovo. This may prove difficult to achieve, as members of current President Boris Tadić's party – and certainly his nationalist opponents – are likely to interpret any concession to Prishtina as a betrayal and to exploit these growing social tensions for political gain.

In the case of Macedonia, the EU Commission recommended in October 2009 that accession negotiations be initiated. However, Greece blocked the corresponding European Council decision on the grounds that the name of Macedonia’s state implies a territorial claim on the Greek province of the same name. In light of the financial crisis, the Greek government appeared to be using this symbolically important question to signal intransigence, hoping this would minimize the government’s vulnerability to its populist critics. For its part, Macedonia’s conservative government, led by Prime Minister Gruevski, considers the naming proposals acceptable to Greece as demeaning. It responded with a lawsuit against Greece’s blockade of its NATO membership, and made pointed reference to controversy-laden historical icons such as Alexander the Great. The European Union has to date proved unable to solve the conflict.

Due to their ongoing stateness conflicts, Bosnia and Kosovo ultimately have rather poor prospects of becoming EU members. Particularly because of their meager hopes of accession, they could transfer political and societal strife to neighboring countries.

Outlook

The years 2009 and 2010 have shown that two fundamental processes determine the future political possibilities and scope of the East-Central and Southeast European states:
A dealignment between society and political system on the one hand and economic and international dependencies on the other.
Foremost, the countries in the region are burdened by the problematic legacy of weak civil societies. Delayed socioeconomic modernization during the 20th century prolonged and impeded the development of a domestic property-owning middle class. Civic movements contributed to the democratic transformations of the 1990s, but widespread disappointment over their results has since led to a demobilization of civil societies. Polls have again confirmed people’s modest trust in political institutions.
Polls on citizens’ values have also indicated distinct contrasts between the older generation still shaped by their experiences under state socialism and the younger generation that grew up after the regime change. Democratization, structural economic change and the cultural influence of the West offer the young new opportunities for social mobility. The inter-

generational gap corresponds to differences between urban and rural segments of the population as well as between those with greater education and income and those with less. In addition, the inter-generational gap is reflected in the distance between “modern” and “traditional” attitudes and practices.

As a consequence of civil society’s weak development and comparatively poor organization, large portions of the electorate lack ties to any particular political party, and instead evaluate governing parties on the basis of tangible results. If their expectations go unfulfilled, voters immediately withdraw their support, choosing a new party or declining to participate in elections altogether. These attitudes and patterns of electoral behavior explain why newly created parties were able to enter parliament relatively easily, extremist parties were voted out after seemingly unsuccessful terms in government and populist parties such as Fidesz in Hungary, the party of the Kaczyński twins in Poland (PiS), Robert Fico’s SMER party in Slovakia and the GERB party of Prime Minister Boyko Borisov in Bulgaria were able to oust traditional centrist parties.

The weak connections between voters and parties have increased the importance of the media in the political process. Because the governments must reckon with a high number of swing voters and widespread mistrust, they are especially dependent on the media to convey their policies and attract followers. This reliance can at least partly explain why governing political elites, even in consolidated democracies, are inclined to influence the political orientation of public and private media in their favor.

The persistent prosperity gaps between the countries of the region and Western Europe further reinforces the disaffection with politics in East-Central and Southeast Europe. Because EU membership has not quickly increased prosperity as was promised and hoped, and because the financial crisis has shaken the Eastern European model of growth dependent on foreign investment, many citizens are currently dissatisfied with the poor socioeconomic performance of the democratic systems in the region.

Economic and international conditions also influence the political scope and future opportunities for East-Central and Southeast Europe. More restrictive fiscal-policy monitoring within the eurozone and for candidate countries will significantly narrow the scope of action in coming years. States with relatively high levels of social expenditure and social transfers based on subjective rights will be particularly hard pressed. The rapid introduction of a flat-rate income tax in many of the region’s countries has demonstrated how thoroughly governments see themselves as competing for foreign investors, which in turn play a disproportionately large role in the region’s economic life.

The global financial and economic crisis revealed just how deeply many countries depend on foreign capital. Over the course of the crisis international financial markets have grown more risk averse and market actors are now precisely monitoring the financial stability of states and state budgets. The scope for redistributive policies is becoming narrower. Governing parties attempting to honor cost-intensive campaign promises by financing unsustainable spending policies risk sanctions from the financial markets..

Membership in the EU also limits the scope of regulatory policy in areas where detailed EU regulations already exist. In candidate countries, the adoption of EU law dominates the agendas of governments and parliaments. In order to join, states are forced to meet the guidelines and expectations of the EU. Negotiation leeway exists only in terms of the schedule for the implementation of EU regulations. In principle new EU member states participate in EU governance on equal footing with the old member states and can impede legislative projects that require unanimous consent. However influencing EU law in areas of politics determined by majority rule requires building coalitions and entering into compromises with other EU states, actions that often necessitate the curtailment of one's original positions. And if nothing else, the modest size and limited financial capacities of new member states restrict their influence within the EU system.

The narrowed scope of political decision-making seems to encourage fluctuations between populist political promises and technocratic policy implementation observable in many countries. Under pressure from the high expectations of their voters and faced with the odds of competing for a fickle electorate, parties tend to make unrealistic political statements over the course of a campaign. In contrast, the narrow leeway for action increases the incentive for governing parties to present their measures as dictated by purpose and circumstances , in order to steer voters' expectations, avoid public criticism of unfulfilled campaign promises and evade attacks by the opposition.

Under these conditions education and research policy assume strategic importance, because it is here that the relatively small states of East-Central and Southeast Europe can most readily affect their future position in the world economy's division of labor. However, and the BTI 2012 shows this as well: Most states do not yet dedicate the deserved amount of attention to sustainable, strategically conceived future plans.