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THE QUALITY OF NATIONAL INSTITUTIONAL ENVIRONMENT OF EU AND NEIGHBORING COUNTRIES IN COMPARATIVE PERSPECTIVE

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OBJECTIVE

The main objective of this paper is to analyze the quality of institutional environments and their relation to economic development among countries or groups of countries of the European Union and the European Neighborhood (neighboring countries). The study also focuses on institutional evolution trends and seeks for convergence, divergence or stagnation tendencies within a certain time period and based on reliable data from the World Economic Forum. So, the main policy issue that this task addresses is how different Europeanization phases influence the quality of institutional performances.

SCIENTIFIC/RESEARCH METHODS

Three strands of theoretical approaches, based on different methodological frameworks and different disciplines (economics, political sciences) have mainly contributed to the impact of institutional environment on economic growth and development: a) neo-institutional economics b) Governance approach and c) the Europeanization approach.

a) The "neo-institutional economics" highlighted the relevance of institutions and their impact at the macro or micro level on the market economy and economic growth (North, 1990, Hodgson, 1998, Campbell, 2004, Olson et al., 2000). On the one hand, effective government, high quality of public services, enforcement of the rule of law, protection of property rights, transparency of policy making and judicial independence encourage business climate and economic growth. On the other hand, institutional failure caused from a series of factors like favouritism, corruption, bureaucracy, wasteful pubic spending, and inefficiency of the enforcement of the rule of law function as burdens and obstacles for business and economic development. Neo-institutionalist economic research has shown in a broad number of studies the close link among the institutional framework and economic growth.

b) The "Governance approach" has highlighted the importance of new forms in governing modern societies towards participatory governance and horizontal

networking, which can achieve broader legitimacy and efficiency in policy making and thus can contribute to economic development complementing the hierarchical representative forms of governing (Rhodes, 1995, Mayntz, 2009, Heinelt, 2010). Given the failures of the state and the market as it is expressed in the crisis of the legitimacy paradigm, (Haus, 2010) (concerning the political representation, the socio-economic mode of regulation and the public administration), "post-hierarchical" new forms of participatory governance offer better outcomes in win-win situations (Geisel, 2012, Getimis and Kafkalas, 2002, Heinelt et al., 2002). Hierarchical and vertical forms of governing are often associated with inefficiency, authoritative decision making, clientelism and favouritism, distrust, uncivicness, dishonesty, law breaking and corruption (Putmann, 1993). On the other hand, "horizontal networks" and new governance arrangements are considered more legitimate and effective, associated with trust, fairness, cooperation, civicness and reciprocity. Even if this strict dichotomy is does not absolutely correspond to the complex reality, where vertical/hierarchical and horizontal/network forms of governance coexist (Getimis and Kafkalas, 2002, Grote, 2012), the important contribution of the governance debate should not be underestimated. A series of the theoretical and empirical research studies, within the framework of multi-level governance approach, have highlighted the important links among institutional frameworks (at a national and regional/local level) with economic and regional development (Grote et al., 2008, Grote, 2012, Geisel, 2012).

c) The "Europeanization approach" highlighted important aspects of the dynamic and contradictory process of "top-down" or "bottom-up" European integration, focusing on the changes of the different national and institutional frameworks towards convergence or divergence (Risse et al., 2001, Boerzel and Risse, 2003, Olsen, 2010). The incremental construction of the "European Acquis", concerning regulatory institutions on the one hand (legal and administrative directives and norms) and the voluntary mechanisms and tools of coordination and cooperation on the other hand, (e.g. Open Method of Coordination, "white paper of governance", subsidiarity principle) form the common European institutional policy framework, which member states are committed to adopt (Radaelli, 2004).

However, processes of Europeanization are not linear harmonization processes. Despite early assumptions about adoption of a pan-European pattern by all states, more recent theoretical and empirical studies (Gualiani, 2003, Radaelli, 2003, 2004, Bache, 2008, Paraskevopoulos et al., 2006) have focused on the divergent processes of Europeanization in different countries and macro-regions reflecting the "goodness of fit" or "misfit", along line different responses of domestic structures to the "European Acquis". Institutional settings and strategies of actors at the national and regional level play an important role in the convergent or divergent trends of Europeanization ("cluster convergence", Boerzel and Risse, 2003). "Path-dependent" and "path-shaping" factors influence the different trajectories of change, with different paces and velocities of transformation. Existing traditional institutional structures and practices coexist with reformative and innovative efforts, while the implementation of reforms to increase the quality, as most evaluation reports show, is lagging behind, even in cases of legal compliance ("formal" or "nominal" convergence). Accordingly, important differentiations concerning the quality of institutions across the EU countries exist, while different paths of economic development for every country or groups of countries are acknowledged.

Based on the above three strands of theoretical approaches (neo-institutionalist, Governance and Europeanization) the paper attempts a comparative analysis of the national institutional environments of EU and neighboring countries and groups of countries in a period from 2004 to 2011. The comparative analysis relies mainly on a qualitative assessment of features of institutional quality (government efficiency, regulatory quality, rule of law, control of corruption). The quality of institutions is not easy to measure (Kaufmann et al., 2008). The World Economic Forum provides however, a solid base of common indicators and empirical data, based on a sample of qualified professionals and experts of the business sector, reflecting their perceptions and assessment as actors in different national institutional environments.

The starting assumption is that the contradictory Europeanization process towards integration, with convergence and divergence trends, promotes in different ways the improvement of institutional quality, which affects positively economic development and global competitiveness. "Europeanization" constitutes the basic driving force for the reforms and transformations of the national institutional environments. However, every country has its "significant trajectory" of institutional performance. Other factors e.g. domestic responses to the adoption of "European Acquis" and the global financial crisis and the different impacts on national economies also play an important role. Based on this assumption, the following hypotheses are formulated and empirically tested:

Hypothesis H1
The "old EU 15" ("old" 15 member states) show in average better institutional performance than the EU27, while candidate countries, neighboring countries (NC) and Black Sea countries (BSEC) are lagging behind (different "paces of Europeanization" among groups of countries). Old democracies with a long tradition in developed and effective governance structures perform better concerning institutional quality than the new EU member states (12) and candidate countries, many of which are former communist countries and states in transition to market economies.

Hypothesis H2
Convergent or divergent trends among different groups of countries (EU15, EU27, Candidate Countries, Neighboring Countries, BSEC) can change over time, due to other than Europeanization driving forces (domestic path-dependency or globalization). Are there significant differences among countries belonging to the same group e.g. North-South divide in EU, East-West NC countries? It is expected that countries with well-designed and effective public services, respecting and protecting property rights, enforcing the rule of law and controlling corruption (e.g. Nordic countries) score high in institutional quality, while countries with redundant regulation, corruption, clientelism and favouritism (e.g. Greece, Italy, Bulgaria) score much less. Furthermore, it is also expected that, differences in institutional performance emerge across the different fields of institutional quality (indicators) a) governance effectiveness, b) regulatory quality, c) rule of law d) control of corruption.

Hypothesis H3
The quality of institutional environment influences the path of economic development and global competitiveness of a country. Countries or group of countries with a high

score of institutional performance show a high score in institutional competitiveness (GDP and other economic indicators).

Based on annual Executive Opinion Surveys, the Global Competitiveness Reports (GCRs) provide a Global Competitiveness Index for each country (GCI), composed of nine pillars of indicators, reflecting different aspects of the competitiveness of an economy. In order to construct a "composite" Index of Institutional Quality and be able to compare different national institutional environments, we had to select the most appropriate indicators and construct four new "pillars" that constitute crucial aspects of institutional quality, focusing on its impact to economic development and business. The operationalization that was followed was based on the concept that the Index of national institutional quality is dependent on "Government Effectiveness", "Regulatory Quality", "Rule of Law" and "Control of Corruption", which correspond to the new 4 pillars. In their turn, each pillar is composed of a number of indicators (18 in total) selected from the WEF surveys. This crucial selection focused on indicators, concerning burdens and strengths of institutional framework and policies regarding trust, favoritism, transparency, reliability etc.

The analysis focuses on different geographical groups of countries, corresponding to the different waves and paths of Europeanization. The EU 15, the "old Europe", with 15 country members till 1986, the EU 27 of today after the accession of the 12 new member states and the important Enlargement of 2004, the current Candidate countries (6) and the European Neighboring Countries, which are examined in two distinctive geographical macro-regions (Eastern and southern). Additionally, the group of Black Sea countries is analyzed, as a specific regional cooperation area, in which a mixture of countries participate (EU member states, candidate countries, eastern neighboring countries and the Russian Federation).
According to the three Hypotheses, the main purposes of the quantitative analysis are the identification of:

- national evolutions of government effectiveness, regulatory quality, rule of law, control of corruption and institutional quality as a whole (Hypothesis 1)
- the same trends of the abovementioned indicators, but in different geographical levels calculating the average indicators for the specific groups of countries mentioned before (Hypothesis 1)
- comparisons regarding trends of convergence or divergence among different groups of countries and between countries within the same group, concerning their institutional quality, compared to the EU15 figures (Hypothesis 2)
- linkages between institutional quality and competitiveness of economies (Hypothesis 3)

3. POLICY VALUE-ADDED

The adoption of "European acquis", either through legal compliance of the regulative and legislative framework, or through "voluntary" domestic policies in the framework of new Governance arrangements (Open Method of Coordination, "White Paper of Governance") has certainly improved institutional quality and its positive impact on economic development in EU and neighboring countries. So, Europeanization process shows incremental progress in the quality of national institutional environments and in the global competitiveness of the countries.

Except Europeanization, other factors that play an important role appear to be global financial crisis 2007/8, public debt crisis of the European Southern countries 2008 until today and domestic institutional governance reforms. Different waves and velocities of Europeanization alongside with external and internal driving forces influence the significant path of institutional quality of each country. Divergent processes of Europeanization in different countries or groups of countries reflect the "Goodness of Fit" or "Misfit", along with the responses of domestic structures and actors to European and global driving forces.

However, even in cases of improvement of institutional quality, the detailed analysis has shown important differentiations concerning the government effectiveness, regulatory quality, rule of law and control of corruption, which are the four main pillars of indicators, synthesizing the main Index of Institutional Quality. The legal compliance and adoption of formal criteria has to be complemented with effective implementation of policies, employing more legitimate governance arrangements.

Taking into consideration the abovementioned findings, the following policy recommendations need to be stressed:

- The EU policies should be adjusted to the particular characteristics and the different trajectories of each country, aiming at a more "bottom-up" integration and harmonization with the European acquis.

- The asymmetry of national institutional performances, even in the EU 15, indicates that emphasis should be given not only to the improvement of legal compliance of countries, but also to their institutional capacity as well.