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The Quality of national institutional environment of EU and Neighboring Countries in Comparative perspective

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The Quality of national institutional environment of EU and Neighboring Countries in Comparative perspective

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Abstract

The paper focuses on a comparative analysis of the institutional quality of the European Union countries and its neighbors: candidate countries, European Neighboring countries (South and East) and Black Sea countries. The main aim is to highlight trends of convergence or divergence of institutional quality across time for single countries or groups of countries and their influence on global competitiveness. Based on reliable data from the World Economic Forum (WEF), reflecting the assessment of qualified experts of the business sector, a methodological framework is elaborated, in order to test empirically, our main hypothesis: The contradictory process of Europeanization towards integration promotes the improvement of institutional quality of national environments in different ways, which are expressed in trends of convergence and/or divergence, changing over time depending on different domestic responses to adopt the "European acquis" and other driving forces (globalization, financial crisis etc.). Furthermore, the improvement of institutional quality (government effectiveness, regulatory quality, rule of law, control of corruption) influences positively the path of economic development and global competitiveness of a country / group of countries.

Keywords

Quality of national institutions, Europeanization, global competitiveness, governance, comparative analysis, institutional quality, government effectiveness, regulatory quality, rule of law, control of corruption

JEL Classification

J240, O180, O470, R110

1. INTRODUCTION

The paper focuses on a comparative analysis of the quality of national institutional environments of selected groups of countries: EU, candidate, European neighboring and Black Sea countries. The main objective of the research is to highlight trends of convergence and/or divergence of the institutional quality across time for single countries or groups of countries and their respective global competitiveness. Although the quality of institutions is not easy to measure, the World Economic Forum provides a solid base of common data and indicators for all countries, based on a sample of qualified experts of the business sector, reflecting their assessment as actors in different national institutional environments. The paper consists of five parts and the conclusions.

The second part deals with the theoretical background, presenting three strands of theoretical approaches ("neo-institutionalist", "governance" and "Europeanization" approach) contributing to the relation of institutional environment with economic growth and development. Three hypotheses are formulated, concerning the direction of change of institutional quality (improvement / deterioration, convergence / divergence) of single countries and groups of countries and their relevant scoring in global competitiveness.

In the third part of the paper the methodological framework for the measurement of national institutional quality is presented. The operationalization of the empirical comparative research (on the data from WEF), consists of the selection of the most appropriate indicators, constructing four pillars of institutional quality ("Government Effectiveness", Regulatory Quality", "Rule of Law", "Control of Corruption") and a "composite" Index of Institutional Quality for each one of the examined countries. According to the different "waves" of Europeanization and geographical criteria, several groups of countries are comparatively analyzed: EU 15 old member states, EU 12 new member states, EU 27 of today, candidate countries, ENC countries (south and east) and Black Sea countries.

In the fourth part of the paper the main trends of convergence and/or divergence of the institutional quality among different groups of countries are examined.

The fifth part of the paper deals with a more detailed analysis of the four main fields of institutional quality (government effectiveness, regulatory quality, rule of law, control of corruption). The main findings concerning trends of convergence and divergence are presented, while the linkage of global competitiveness and the Quality of Institutions is identified.

In the conclusions, the main results of the empirical research in relation to the main hypothesis are summarized.

2. QUALITY OF INSTITUTIONS, EUROPEANIZATION AND GLOBAL COMPETITIVENESS: THEORETICAL BACKGROUND

Institutions matter! The importance of institutional framework for the economic development has been persuasive and well founded both theoretically and empirically in a series of comparative studies.

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) (North, 1990, Hodgson, 1998, Campbell, 2004, Olson et al., 2000). Good performance of public institution is acknowledged as an important factor for economic development. The institutional framework can facilitate or discourage new investments. The legal and administrative regulations and the relevant rules and norms function as incentives and disincentives for economic transactions in the markets (Olson et al., 2000, North, 1990). 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 public 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 (Olsen, 2010, Risse et al., 2001, Boerzel and Risse, 2003). “…a large number of partly autonomous processes of incremental change have fostered integration with consistent direction over half a century […] in spite of considerable political, economic, social and cultural diversity; disagreement about the kind of Europe and political community that is desirable; incomplete means-end knowledge and control; ambiguous compromises, uncertain effects, and surprise events and developments” (Olsen, 2010). The incremental construction of the “European Acquis” on the one hand, 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 (Bache, 2008, Paraskevopoulos et al., 2006, Giuliani, 2003, Radaelli, 2003, Radaelli, 2004) 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 analysis focuses on features of institutions at the national level, due to the lack of data at the regional level. 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.

Our 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, clientalism 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).

3. METHODOLOGICAL FRAMEWORK: MEASUREMENT OF NATIONAL INSTITUTIONAL QUALITY

The methodology that was followed for the measurement of the national institutional environments was mainly based on the data provided by the Global Competitiveness Reports (GCRs) published by the World Economic Forum (WEF)[1].

Based on annual Executive Opinion Surveys, the 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

[1] Similar methodology has been used by JURLIN, K. & CUCKOVIC, N. 2009. Comparative Analysis of the Quality of Institutions in the European countries. *XVII Scientific Conference: Associazione Italiana per lo Studio dei Sistemi Economici Comparati.* Perugia, Italy in their study on comparative analysis of the Quality of Institutions in the European countries. Based on data by WEF, they constructed a composite Index and five sub-indexes for their analysis.

selection focused on indicators, concerning burdens and strengths of institutional framework and policies regarding trust, favoritism, transparency, reliability etc. In this framework, the new pillars that were constructed and the selected indicators are shown in the following Table 1. All scores of the WEF survey questions range from 1 (worst score) to 7 (best score).

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). More analytically:

a) The 15 old members of the EU: (EU15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom)
b) The EU member states as they are today, after the Enlargement of the EU with the 12 new member states: (EU27: Austria, Belgium, Bulgaria, Cyprus, Czech Republic Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom)
c) The Candidate countries: (CC: Croatia, Iceland, FYROM, Montenegro, Serbia, Turkey)
d) The European Neighborhood countries: (ENC total: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Syria, Tunisia, Ukraine)
    i. The Eastern European Neighborhood countries: (ENC East: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine)
    ii. The Southern European Neighborhood countries: (ENC South: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia)
e) The Black Sea countries[2]: (BSEC: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Serbia, Turkey, Ukraine)

In an attempt to evaluate the evolution of institutional quality over time, both in specific countries and in groups of countries, we examined the WEF indicators that were analyzed in the Global

[2] The 12 Black Sea countries are the ones mentioned in the Black Sea Economic Cooperation (BSEC).

Competitiveness Reports of the years 2004, 2006, 2008, 2010 and the most recent one, 2011[3]. In this way, we can obtain a general overview of the institutional trends and make sound comparisons.

Table 1: Index of Institutional Quality

	PILLARS	INDICATORS	SURVEY QUESTION
INDEX OF NATIONAL INSTITUTIONAL QUALITY	1. Government Effectiveness (GE)	1.1 Public trust of politicians	How would you rate the level of public trust in the ethical standards of politicians in your country? [1 = very low; 7 = very high]
		1.2 Favoritism in decisions of government officials	To what extent do government officials in your country show favoritism to well-connected firms and individuals when deciding upon policies and contracts? [1 = always show favoritism; 7 = never show favoritism]
		1.3 Wastefulness of government spending	How would you rate the composition of public spending in your country? [1 = extremely wasteful; 7 = highly efficient in providing necessary goods and services]
		1.4 Burden of government regulation[4]	How burdensome is it for businesses in your country to comply with governmental administrative requirements (e.g., permits, regulations, reporting)? [1 = extremely burdensome; 7 = not burdensome at all]
	2. Regulatory Quality (RQ)	2.1 Efficiency of legal framework[5]	The legal framework in your country for private businesses to settle disputes and challenge the legality of governm,ent actions and/or regulations [1 = is inefficient and subject to manilulation; 7 = is efficient and follows a clear, neutral process]
		2.2 Transparency of government policymaking[6]	How easy is it for businesses in your country to obtain information about changes in government policies and regulations affecting their activities? [1 = impossible; 7 = extremely easy]
		2.3 Strength of auditing and	In your country, how would you assess

[3] Each year, every GCR includes data for more countries than the previous one. So, the GCR of 2004 includes 104 countries, the CCR 2006 125 countries, the GCR 2008 134 countries, the GCR 2010 139 countries and the GCR 2011 142 countries. Inevitably, there are missing countries and data in certain calculations.
More specifically, in 2004 the missing countries are Albania, Armenia, Azerbaijan, Lebanon, Moldova, Montenegro (which is considered as one country along with Serbia) and Syria. In 2006, Lebanon, Montenegro (is with Serbia) and Syria are missing. In 2008, the missing country is Lebanon and for 2011 Libya.

[4] For year 2004, the indicator 1.4 "Burden of government regulation" corresponds to the "Burden of central government regulation" as it is presented in the GCR 2004-2005.

[5] For years 2010 and 2011, the indicator 2.1 "Efficiency of legal framework" is calculated as the average of two separate indicators: "Efficiency of legal framework in settling disputes" and "Efficiency of legal framework in challenging regulations", as they are presented in the GCR 2010-2011 and CCR 2011-2012.

[6] For year 2006, the indicator "Transparency of government policymaking" does not exist in the GCR 2006-2007.

		reporting standards	financial auditing and reporting standards regarding company financial performance? [1 = extremely weak; 7 = extremely strong]
		2.4 Efficacy of corporate boards	How would you characterize corporate governance by investors and boards of directors in your country? [1 = management has little accountability to investors and boards; 7 = investors and boards exert strong supervision of management decisions]
		2.5 Protection of minority shareholders' interests	In your country, to what extent are the interests of minority shareholders protected by the legal system? [1 = not protected at all; 7 = fully protected]
	3. Rule of Law (RL)	3.1 Property rights	How would you rate the protection of property rights, including financial assets, in your country? [1 = very weak; 7 = very strong]
		3.2 Intellectual property protection[7]	How would you rate intellectual property protection, including anti-counterfeiting measures, in your country? [1 = very weak; 7 = very strong]
		3.3 Judicial independence	To what extent is the judiciary in your country independent from influences of members of government, citizens, or firms? [1 = heavily influenced; 7 = entirely independent]
		3.4 Business costs of terrorism[8]	To what extent does the threat of terrorism impose costs on businesses in your country? [1 = significant costs; 7 = no costs]
		3.5 Business costs of crime and violence	To what extent does the incidence of crime and violence impose costs on businesses in your country? [1 = significant costs; 7 = no costs]
		3.6 Organized crime	To what extent does organized crime (mafia-oriented racketeering, extortion) impose costs on businesses in your country? [1 = significant costs; 7 = no costs]
		3.7 Reliability of police services	To what extent can police services be relied upon to enforce law and order in your country? [1 = cannot be relied upon at all; 7 = can always be relied upon]
	4. Control of Corruption (CC)	4.1 Diversion of public funds	In your country, how common is diversion of public funds to companies, individuals, or groups due to corruption? [1 = very common; 7 = never occurs]
		4.2 Ethical behavior of firms	How would you compare the corporate ethics (ethical behaviour in interactions with public officials, politicians, and other enterprises) of firms in your country with those of other countries in the world? [1 = among the worst in the world; 7 = among the best in the world]

According to the three Hypotheses, formulated in the first theoretical part of the paper, the main purposes of the quantitative analysis were the identification of:

[7] For year 2006, the indicator "Intellectual property protection" does not exist in the CCR 2006-2007.
[8] For year 2004, the indicator "Business costs of terrorism" does not exist in the GCR 2004-2005.

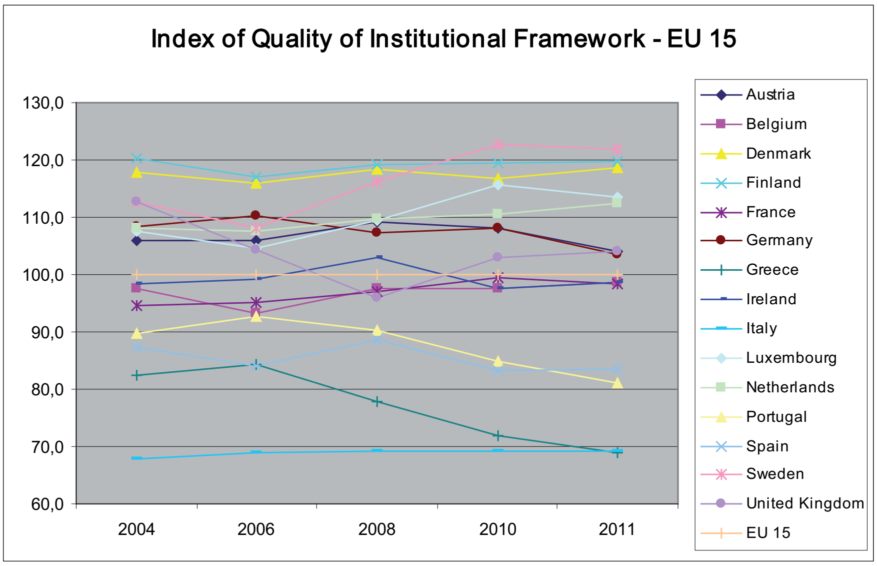
- national evolutions of government effectiveness, regulatory quality, rule of law, control of corruption and institutional quality as a whole (Hypothesis 1)
- the same trends of the abovementioned indicators, but in different geographical levels calculating the average indicators for the specific groups 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)

4. TRENDS OF CONVERGENCE AND/OR DIVERGENCE: EUROPEANIZATION TOWARDS MULTIPLE DIRECTIONS OF CHANGE OF THE QUALITY OF INSTITUTIONAL ENVIRONMENT

Different waves of Europeanization and different paths of adaptation to the "European acquis" are reflected in changes of the quality of national institutional environment. The analysis focuses on the time frame from 2004 until 2011, attempting to identify trends of convergence or divergence regarding the levels of institutional quality in every country, comparing to the average of EU 15, as a common base of reference. Furthermore, convergence or divergence trends within the groups of countries (using the coefficient of variation) are measured. For this reason we developed the composite Index of Quality of Institutional Framework, which is composed by the 4 pillars of government effectiveness, regulatory quality, rule of law and control of corruption. For each country, the average of the 4 scores of these pillars synthesizes the index of quality of institutional framework.

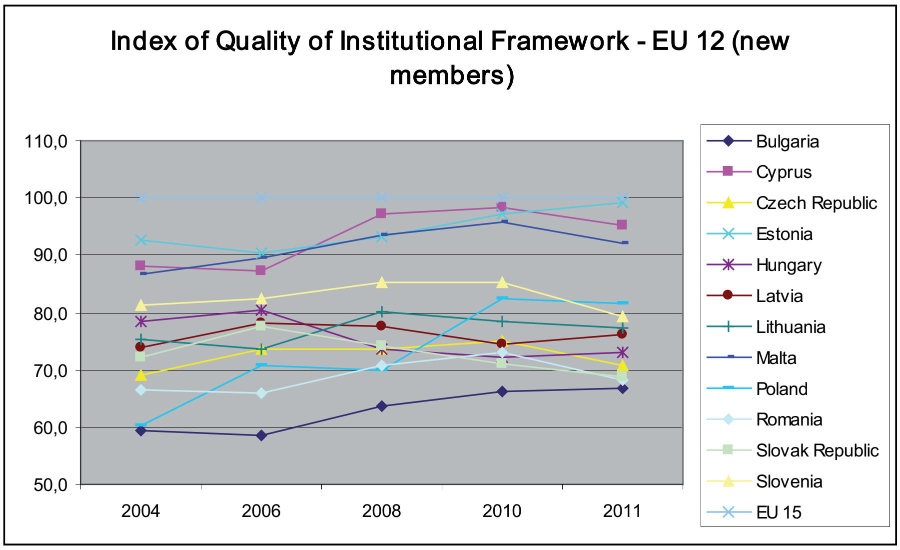
For the 15 European "old" member states the following graph (Figure 1) illustrates the evolution of the 15 countries from 2004 until 2011, regarding the quality of their institutions. It is interesting to note that there is no clear convergence towards the EU15 average. The southern countries are lagging behind concerning the European average, while Portugal and Greece have also a declining course since 2006. Italy keeps the lowest scores (below 70), having a stagnating course over the years. The other countries showcase values just under or above the EU15 average, not having significant changes in the examined time period. Only Sweden presents an upwards trend since 2006 having the highest score of all in 2011 (121,8). A north / south division persists, although strong pressures of Europeanization exist, both legislative and regulatory within the "acquis communautaire".

Figure 1



The 12 “new” EU member states, which together with the EU 15 “old” members constitute the EU 27 of today, show worse scores than the EU 15, concerning the quality of institutions (Fig. 2). However, although it was expected to show significant trends of institutional quality improvement, there is a stalemate without clear convergence to the EU 15 average. Different trends reflect different velocities and paths of Europeanization: on the one hand, countries such as Estonia and Poland move towards EU 15 average, on the other hand, other countries perform worse scores, diverging from EU 15 average (e.g. Hungary et al.).

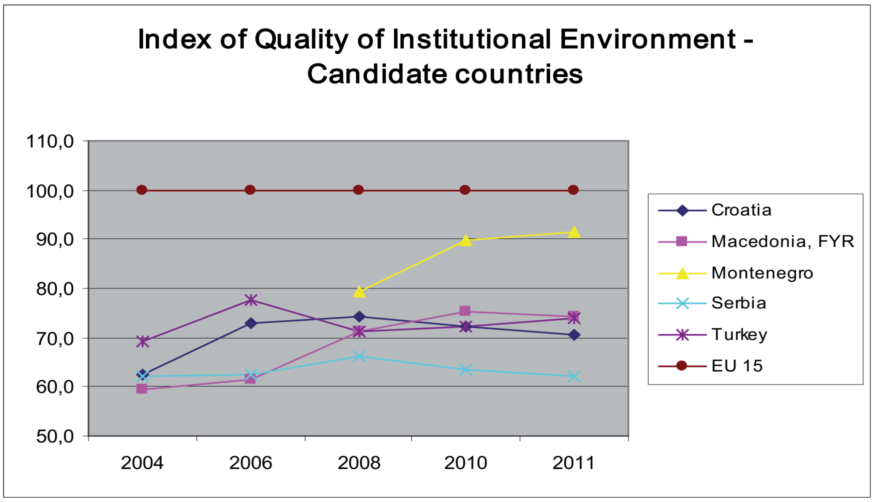
Figure 2



Candidate countries, being at strong pressure of Europeanization in the pre-accession phase and adopting the Copenhagen criteria, show improvement of institutional quality (Fig. 3), especially until 2006 (“enlargement euphoria” period 2000-2006) and a stagnation trend of convergence after

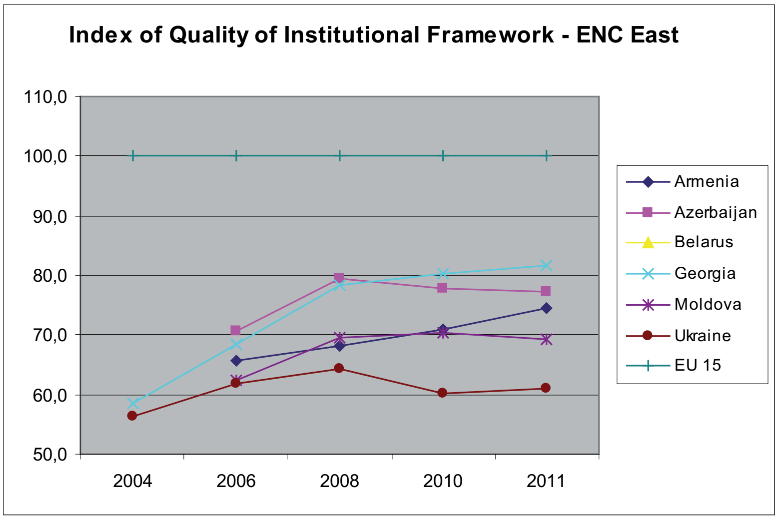
2006, compared to the EU 15 average. In particular, Montenegro and FYROM improve steadily in the whole period (2004-2011) their institutional quality converging to the EU 15 average.

Figure 3



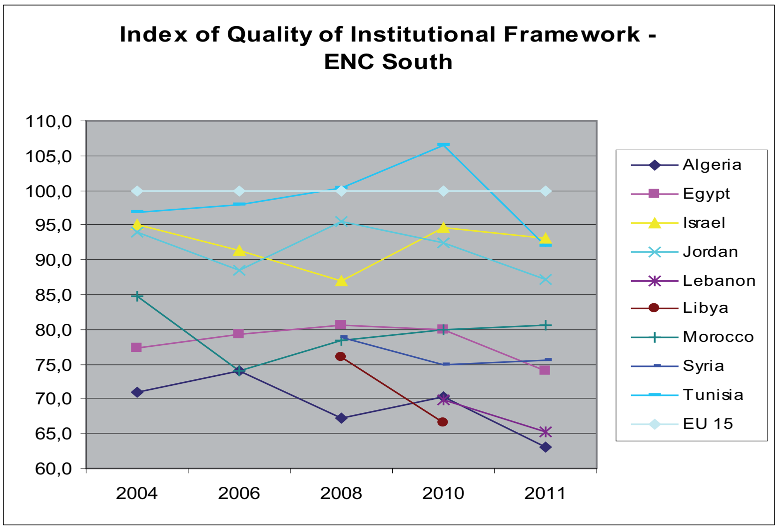
Concerning the Eastern neighboring countries, Georgia, Armenia and Moldova indicate convergence trends towards the EU15 average, although their course to this direction is being made with small steps (Fig. 4). Azerbaijan and Ukraine, on the other hand, have a declining course regarding their quality of institutional framework, although this fall is not significant.

Figure 4



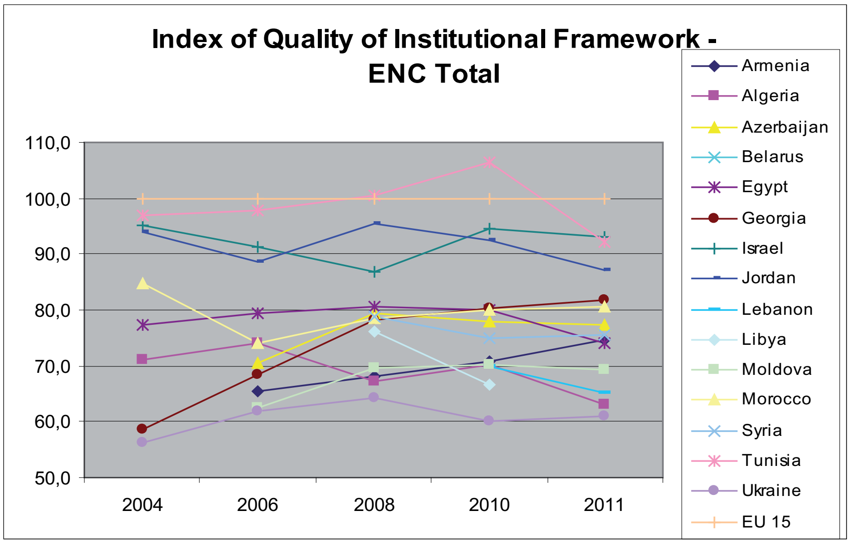
Regarding the neighboring countries of south, Tunisia indicates surprisingly high figures of institutional quality, near below or even above the EU15 average (Fig.5). Right after, Israel and Jordan follow with many ups and downs and no specific trend of convergence or divergence to the European average. The rest of the countries present quite lower scores, with a remarkable fall in 2010, probably due to their involvement in the Arab Spring.

Figure 5



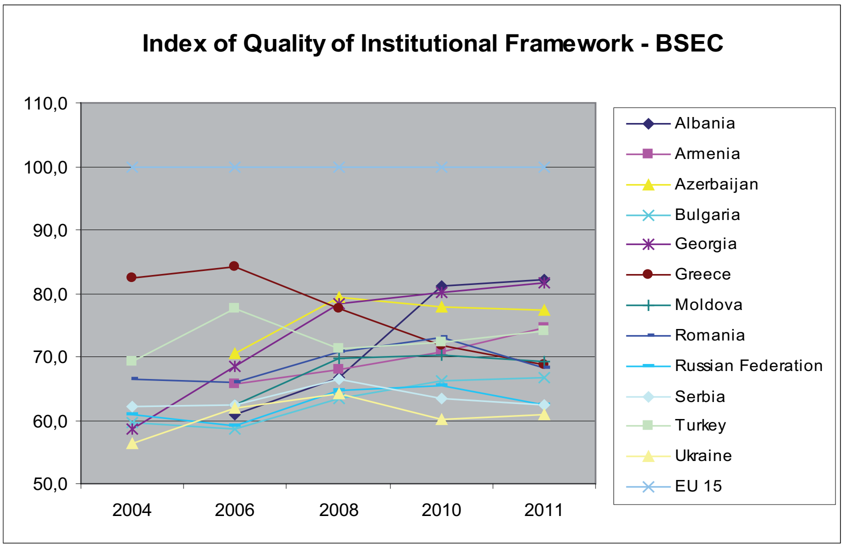
Regarding the whole group of neighboring countries, we cannot detect any convergence or divergence trend to the EU15 average (Fig. 6). On the contrary, calculating the average scores of the group of neighboring countries for the 5 different years, we simply observe a stagnating course.

Figure 6



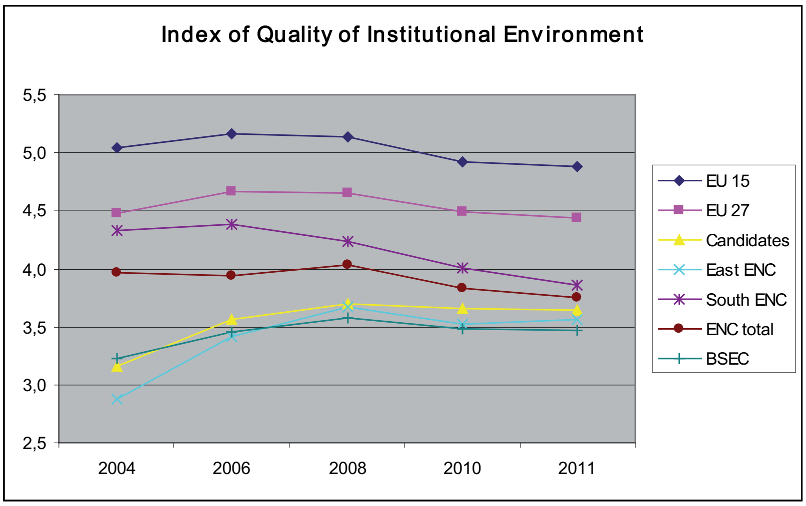
The BSEC countries, a regional cooperation macro-region with a mixture of EU and non EU countries, show different paths of institutional performance. The scores of the BSEC countries indicate that they are lagging behind regarding the quality of institutions, but most importantly, they do not present any signs of convergence towards the European average (Fig. 7). A slight improvement until 2006 is followed by a stagnation trend in the period 2006-2011. Especially Greece has the highest divergence trend from the EU15 average, especially since 2006, which may be interpreted by the insufficient economic governance and the institutional corruption, which had already, began to spread, long before the economic crisis of 2008.

Figure 7



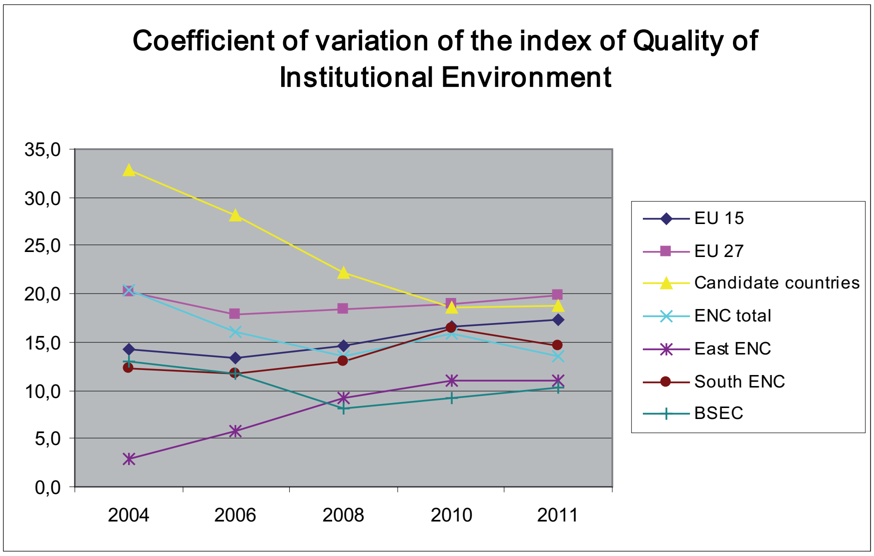
The abovementioned outcomes can be summarized in the following graph, where the institutional quality figures are given in a scale from 1 (worst score) to 7 (best score) (Fig. 8). It is interesting to stress that the leading geographical group is the EU15 with the best scores in the quality of institutional framework. The next best groups are the EU27, the ENC South, the ENC Total and the Candidate countries. In these five groups of countries, it is worth mentioning that, their performances slightly decline after 2008, showcasing that the economic crisis is negatively affecting the quality of institutions. Concerning the other groups of countries (ENC East and BSEC), they present similar scores, while they do not seem to be particularly influenced by the financial crisis of 2008.

Figure 8



Attempting to measure the convergence or divergence levels within the groups of countries, we used the Coefficient of Variation as a ratio of the standard deviation to the mean (average value) (Jurlin and Cuckovic, 2009). The results, which are illustrated in the following graph (Fig. 9), indicate only in the group of candidate countries there is a strong convergence trend from 2004 until 2010. Between the countries of EU15, EU27 and ENC South, convergence is also evident, but only until 2006. After that, it seems that the countries begin to follow different courses (slightly divergence trends). On the contrary, in the group of ENC East the high divergence between countries is terminated in 2010, with stagnation since.

Figure 9



Overall Europeanization process is not a linear adaptation procedure of the "European acquis" and does not always lead to "Goodness of Fit" and improvement of national institutional quality. Although incremental improvements have been made, especially in the phase of "enlargement euphoria", multiple directions of change of national institutional environments and different velocities and paths of institutional reforms emerge and even "Misfit" situations of worsening of the institutional quality have been empirically detected. The reproduction of inherent inequalities e.g. north-south division in EU 15 and the different domestic responses to globalization and crucial situations (e.g. financial and economic crisis of 2008, public debt crisis of southern EU states 2009-2012, Arab Awakening et al.) are important factors influencing, in different ways, the change of the national institutional environment of any single country. Convergence, divergence and stagnation trends in the different groupings of countries have been detected.

5. COMPARING THE QUALITY OF INSTITUTIONAL FRAMEWORK

In this section of the analysis four separate indicators are being analyzed: Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. As it is indicated in the graphs of Annex I, for each indicator we examine the seven groups of countries (EU 15, EU 12 new member states, Candidates, ENC East, ENC South, ENC Total and BSEC), always in comparison to the average of EU 15. In order to calculate the scores (I_{ij}) of each country (i) for each one of the 4 abovementioned indicators (j), we used the following formula, where S_{ij} are the original WEF scores and S_{EUj} are the WEF scores for the EU15 countries:

$$Iij = 100 * Sij / (\Sigma S_{EUj} /15)$$

All results are interpreted as below or above EU15 average for the scores below or above 100, respectively. For example an indicator score "90" means that a country has scored 10% below the EU15 average for the specific indicator.

The main aim of this procedure is to provide some detailed outcomes of the 4 pillars, identifying which countries are leaders of institutional quality and which follow next and are lagging behind.

5.1 Government Effectiveness

The scores of Government Effectiveness of the seven groups of countries compared to the average EU15 score are illustrated in figures 10-16 (Annex I). The main results of the analysis are presented by country group below.

The countries of the EU 15 group (Fig. 10) are almost equally divided below and above the EU15 average (north-south division). The northern countries (Finland, Denmark, Sweden, Netherlands, Luxembourg, Germany and Austria) are those presenting the highest scores. The United Kingdom scored above the EU15 average for years 2004 and 2006, but its course was declining until 2008. The southern countries (Portugal, Spain, Greece, and Italy) along with France, Belgium and Ireland are for the whole period from 2004 until 2011 below the EU15 average. Especially the scores of Italy are particularly low, while Greece is the second worst, presenting a continuous decline since 2006.

The 12 new member states present worse scores of government effectiveness compared to the old member states (Fig. 11). All countries are much lower than the EU 15 average, apart from Cyprus and Estonia, whose improving course since 2006, makes them the leaders of their group in 2011, with scores even higher than the average score of the EU 15 "old" countries. The rest of the countries do not present any clear convergence trend towards the European average, since it is evident from their performances that there are many fluctuations over the examined time period.

The performance of government effectiveness of candidate countries (Fig. 12) compared to the EU15 average shows that Turkey, FYROM, Serbia and Croatia are quite below the European average. Especially in the case of Serbia stagnation is observed, while FYROM and Turkey present increased scores over time. On the other hand, Montenegro has particularly high scores of government effectiveness with increasing course since 2008 and since 2010 is above the EU15 average.

The Eastern neighboring countries (ENC East) (Fig. 13) range from 60 to 90, concerning government effectiveness and have an increasing trend approaching the EU15 average with slow but steady steps. The best performances can be found in Georgia and Azerbaijan, while Armenia, Moldova and Ukraine follow next.

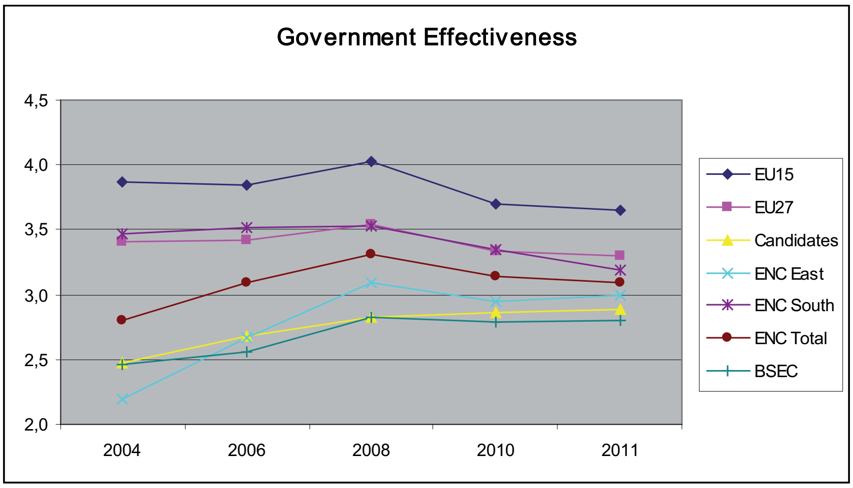
The Southern neighboring countries (ENC South) (Fig. 14) range from 70 to almost 100 regarding their government effectiveness scores, with several ups and downs from 2004 until 2011. The only exception is Tunisia which presents extraordinarily high scores above the EU15 average, reminding the performances of Netherlands or Luxembourg. And regardless the sudden fall in its score from 2010 to 2011 (approximately from 130 to 110), its government effectiveness value is still higher than the European average.

Concerning the group of all the neighboring countries (ENC Total) (Fig. 15), apart from the case of Tunisia which presents the highest scores, all other countries perform below the EU15 average. Jordan is one of the best performing countries, although its scores have a declining course since 2008. Georgia has a remarkable increase of government effectiveness values (from 60 to 97) over the years, while Ukraine and Moldova have the lowest scores. An important decline is observed in Algeria, especially after 2006.

In the case of the BSEC regional cooperation area (Fig. 16), all 12 countries are below the EU15 average but the majority of them present an increasing trend through the years. The only exception is Greece which, although a European country, has a declining course since 2006.

The following diagram illustrates the average scores of the seven groups of countries, in order to obtain a general overview of the group performances regarding their government effectiveness. The scores are given in a scale from 1 (worst value) to 7 (best value). As it is illustrated below, the best performing group is the EU 15 old member states, which however, has a declining tendency since 2008. Similar trends can be observed in the groups of EU27, ENC South and ENC Total that have lower scores. Even lower performances can be detected in the cases of ENC East, Candidate and BSEC countries, which nevertheless, present a slightly improving course.

Figure 17



5.2 Regulatory Quality

The second pillar of indicators is the "Regulatory Quality", where the national performances of countries are categorized in the seven groups and are compared to the EU 15 average score of regulatory quality (see Figures 18-24 in Annex I).

In the first group of countries, the EU 15, it is evident that the majority of countries is above the European average, while there is a tendency of a remarkable increase of their performances after 2010 (Fig. 18). The only countries scoring low are the Mediterranean ones; Spain, Portugal, Greece and Italy, whose performance is the lowest of all (north-south division). Belgium is the only northern country that is below the EU15 average, while it is worth mentioning that Ireland presents a notable decrease after 2008, which might be explained by the economic crisis that emerged in that year.

The 12 new member states present strong convergence trends to the EU 15 average score (Fig. 19), during the whole examined time period. Estonia, Cyprus and Malta have the best scores slightly below the European average, while the rest of the countries present lower figures, regarding the performance of their national regulatory quality.

The Candidate countries indicate a clear trend towards the EU15 average score (Fig. 20), ameliorating their national scores of regulatory quality and converging to the European figure.

This tendency is especially apparent after 2008. In this case the national economic performances do not present any connection with the quality of regulations. It is also worth mentioning that out of the 5 candidate countries, Turkey is the one with the highest increase of regulatory quality figures.

The Eastern neighboring countries present an augmenting performance since 2006 (Fig. 21), approaching the EU15 average score. It seems that all countries have similar scores in the examined time periods, except for Ukraine, whose scores are quite lower and its increasing tendency is slower that the others.

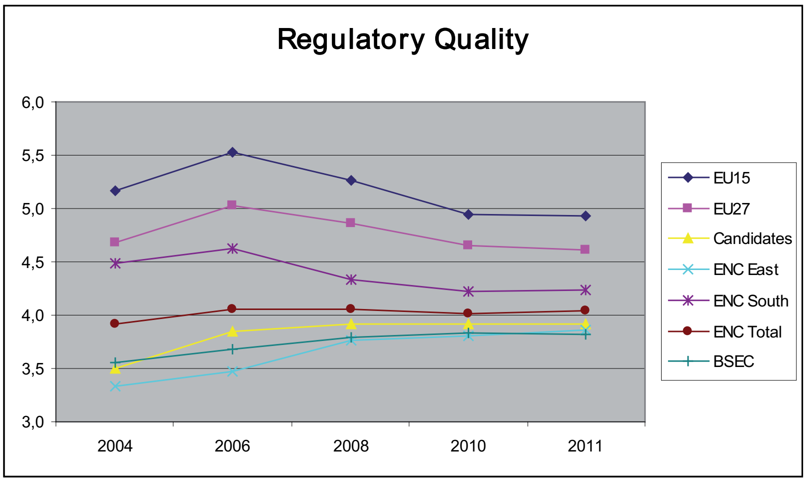
In comparison to the eastern neighboring countries, the southern ones have better scores of regulatory quality (Fig. 22). The figures of Tunisia, Israel and Jordan are rather impressive. Especially Tunisia even surpasses the European average for 2010! Another observation is that the countries of this group do not have a common trend since 2004 and that their scores range significantly between 65 and 101. Finally, it is worth noting that Morocco has the most remarkable course of convergence to the European average with a continuous increase of its regulatory quality since 2006.

As the whole group of neighboring countries is concerned (eastern and southern), the average regulatory quality of the group, despite divergent trends of the sub-groups and single countries, shows a slight improvement until 2011 (Fig. 23).

The BSEC countries' scores of regulatory quality are quite lower that the EU15 average value (Fig. 24). Nevertheless, there is an evident convergence to the European average score after the year 2006. All countries' figures are increasing since then, apart from Greece, which although it was the leader of the group in 2004, 2006 and 2008, it presents notable decrease since 2006. We have to stress that out of the 12 BSEC countries, Albania has the most remarkable increase of regulatory quality figures.

Concerning the seven average scores of the seven groups of countries, the following figure gives an overview of the evolution of trends regarding quality of regulations. As it is illustrated below (Fig. 25) the evolution of group average scores is quite clear with the EU 15 being the leader of regulatory quality, followed by EU 27, ENC South, ENC Total, Candidate countries, BSEC and ENC East. It is worth mentioning that after 2006 the 3 best performing groups present a remarkable decline, while the four worst groups are rather stagnated.

Figure 25



5.3 Rule of Law

In the third pillar of indicators, we examine the national performances of countries regarding their "Rule of Law" and we compare it to the EU15 average figure (Annex I, fig. 26-32).

In the first group of the old EU member states, a first observation is that the majority of countries converge to the European average (Fig. 26). The southern countries of the Mediterranean (Spain, Italy and Greece) are once again below the average score for the whole period of time, while Portugal although having an increasing course until 2006 (above the European average), presents a notable fall ever since. Another important outcome emerging from the graph is the disappointing (decreasing) course of the United Kingdom until 2008, while since then, its rule of law scores are increasing. Greece's figures are once more dramatically falling since 2006, while Italy has the worst scores for the whole period of time from 2004 until 2011.

Regarding the new 12 member states of the EU, a clear convergence trend to the EU 15 average score can be observed (Fig. 27). Although there are countries whose figures are decreasing over time (e.g. Slovak and Czech Republics), the general trend is that until 2010 there was an improvement in the in the rule of law average score of these 12 countries. A slight decline can be noted from 2010 until 2011.

Concerning the group of candidate countries (Fig. 28), we can observe that there are 2 different courses followed by Turkey and Serbia on the one hand, and Croatia, FYROM and Montenegro on the other. The first sub-group had a converging trend to the EU 15 average until 2006, when their figures started to decrease significantly until 2010 and since then, they follow again a very slow but yet increasing course. The other sub-group follows a steadily converging course (increasing figures) towards the European average, but from 2010 until 2011 their scores of rule of law stagnate.

The eastern neighboring countries score quite lower than the European average rule of law (Fig. 29) and they do not present any convergence trends towards it, rather stagnation, especially after 2008. Azerbaijan keeps the highest scores, while Ukraine the lowest.

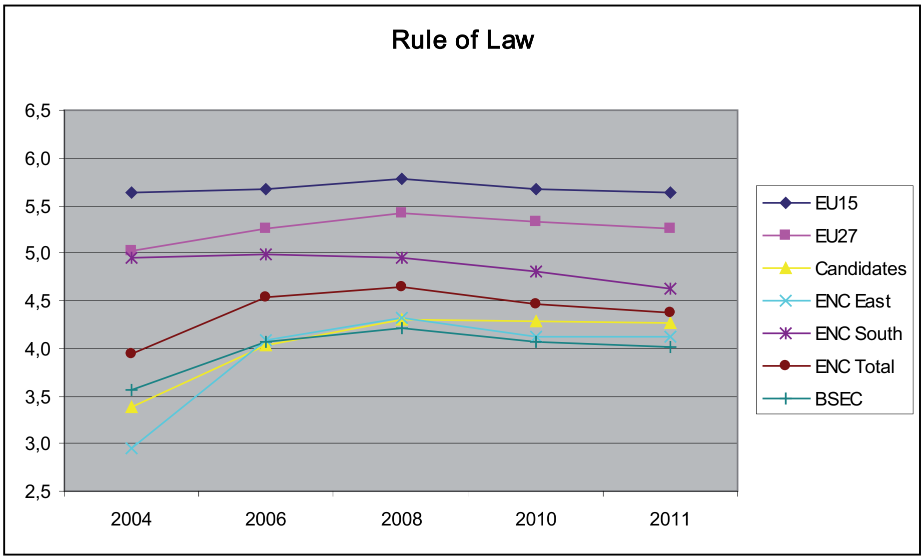
The southern neighboring countries perform better than the eastern ones (Fig. 30), with higher scores regarding the pillar of rule of law. However, we cannot observe a clear trend of the national scores, either converging or diverging to the EU 15 average. Again Tunisia (and Jordan this time) score extraordinarily high, while Syria has the lowest figures during the whole period of time since 2004.

Regarding the total group of neighboring countries (Fig. 31) a general trend is an improvement of rule of law figures from 2004 until 2008 and a slight decline ever since.

In the group of the BSEC countries, Greece stands out demonstrating the worst performance regarding its rule of law scores (Fig. 32). Although in 2006 it was slightly below the EU15 average, in 2010 after a decreasing course that kept for 4 years, Greece's score fell down to the levels of Albania and Azerbaijan, indicating the decayed political and institutional system of the country. For the rest of the countries there is no clear tendency of convergence or divergence to the European average. Although all of them appear to approach the EU15 average until 2006, some of them continue the same trend, but some others present a decreasing course until 2010. Nevertheless, the highest national increase is observed in Romania (although its scores fall after 2010), while the most abrupt fall (after the one of Greece) in Turkey (with an increasing trend since 2010).

Regarding the average rule of law performances of the seven groups of countries, it seems that there is an increasing course of their figures until 2008 and a clear decreasing trend ever since (Fig. 33). The European groups are once more ahead, followed by the ENC south, ENC total, Candidates, ENC East and finally BSEC countries.

Figure 33



5.4 Control of Corruption

This section focuses on the fourth pillar of indicators, "Control of Corruption", analyzing the performances of the seven groups of countries in relation to the EU 15 average (Annex I, fig. 34-40).

As the old EU member states are concerned (Fig. 34), the first observation that can be made is that the division between northern and southern countries is once more evident. All northern countries have higher scores in control of corruption that the European average, (apart from Belgium and France, which are slightly below) and most importantly keep an increasing course, which is more apparent especially after 2008. On the other hand, the southern countries (Portugal, Spain, Italy and Greece), not only do they have the lowest scores, but they also keep a significant declining course. Particularly Greece has the worst performance of all, emerging as the champion of corruption.

The 12 new member states' performance is much worse compared to the old European countries (Fig. 35), while in general it is safe to stress that there is a slight divergence trend from the EU 15 average. Most of these countries present falling figures regarding the control of their corruption (e.g. Slovenia and Czech Republic), while the best performing countries with increasing tendencies towards the EU average are Estonia and Poland.

Regarding the group of candidate countries (Fig. 36), Montenegro has the best performance in controlling corruption and also the highest convergence towards the EU 15 average. Increasing figures can also be noted in the case of Turkey but only after 2010, while the rest of the countries

(Croatia, FYROM and Serbia) show declining scores and diverging courses from the European average.

As for the eastern neighboring countries, it seems that the task of controlling corruption is not an easy one (Fig. 37). 2011 figures for Azerbaijan, Moldova and Ukraine are lower than the respective scores of 2004, indicating that these countries are still far from approaching the EU 15 average. On the other hand, Georgia seems to have the best performance of all, moving swiftly towards the European average.

The southern neighboring countries present a clear divergence trend from the EU 15 average (Fig. 38). Even the high-scored countries of Tunisia, Israel and Jordan follow the same pattern as the rest of the group's countries since 2010, declining from their former high scores of 2008 and 2010.

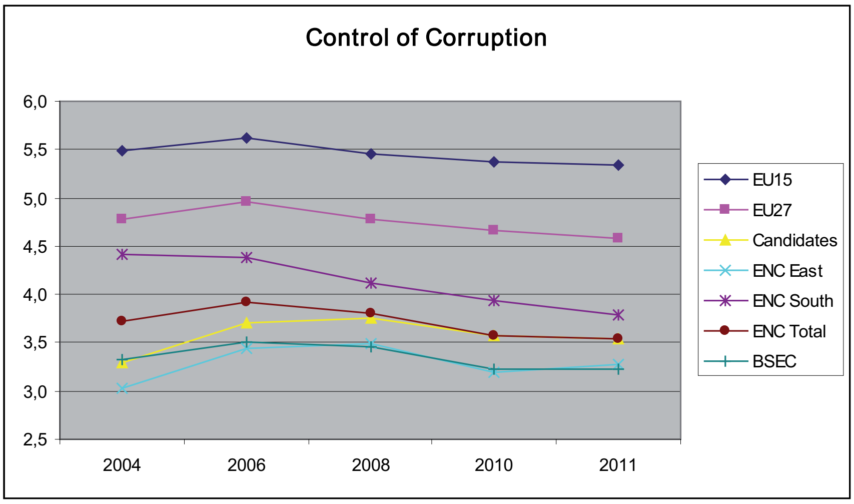
The same divergence tendency is also observed in the case of the whole group of neighboring countries (Fig. 39). This declining course is not steep, but is quite steady over the years.

Finally, regarding the BSEC countries, it seems that there is also a declining course in the countries' scores since 2008 (Fig. 40). The most apparent fall of figures can be observed again (as in the three previous pillars) in the case of Greece, which presents a remarkable plunge since 2006, indicative of the corrupted political and institutional systems of the country. On the contrary, the best performances are those of Georgia and Albania, following a steadily increasing course towards the EU 15 average.

The average scores of the seven groups of countries concerning the pillar of control of corruption are illustrated in the figure below, in a scale of 1 (worst score) to 7 (best score). It is evident that there is a clear fall after 2006 in all group scores.

It is worth mentioning, that in all four pillars that were examined, the countries' groups are ranked in the same position more or less, indicating that there are no significant differences in the evolution of their trends during the time period from 2004 until 2011. The only difference that can be detected is in the average scores of the seven groups and especially the figures of "government effectiveness" that seem to be lower in relation to the three other pillars of indicators. The highest average score of the EU 15 concerning government effectiveness is 4, when the respective scores in regulatory quality, rule of law and control of corruption are 5.5, 5.8 and 5.6, indicating the poor performance of countries in this field.

Figure 41

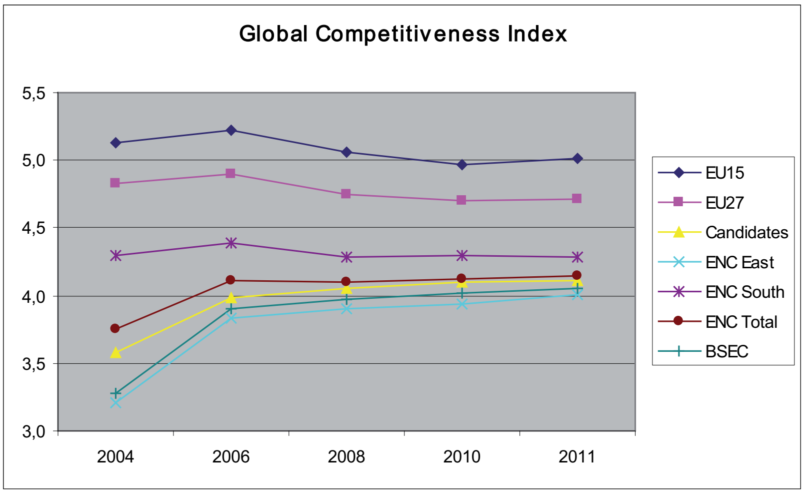


5.5 Quality of Institutions and Global Competitiveness

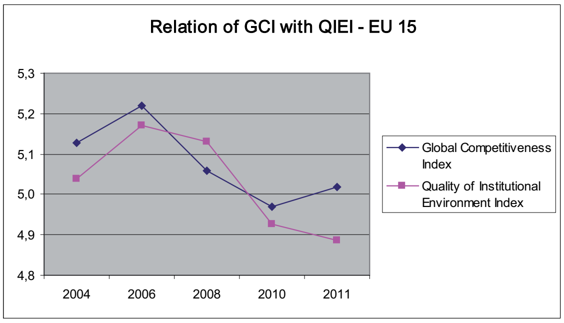
The Global Competitiveness Reports of the World Economic Forum base their analysis on a complex indicator, the Global Competitiveness Index (GCI), which captures the microeconomic and macroeconomic foundations of national competitiveness. The measurement of this index involves a large number of key components that altogether synthesize the productivity level of an economy. Institutional quality is certainly one of the main factors that determine a country's competitiveness. Institutions influence investment decisions, development strategies and legal frameworks and determine business operation and attitudes towards markets.

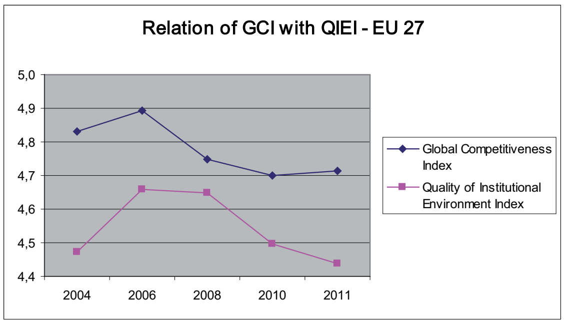
Taking as a starting point the national scores of GCI, we were able to calculate the average scores of the seven groups of countries for the time period 2004-2011. The evolution of global competitiveness trends are illustrated in the following diagram. From a first comparison of the following figure 42 with figure 8 (Index of Institutional Quality), we can simply stress that these 2 diagrams have no significant differences. On the contrary, the trends of global competitiveness and institutional quality for all seven groups over time are practically the same. Therefore, it is safe to conclude that these two indexes are interconnected, although their relation is not only casual (since the institutional quality index is a component of the GCI).

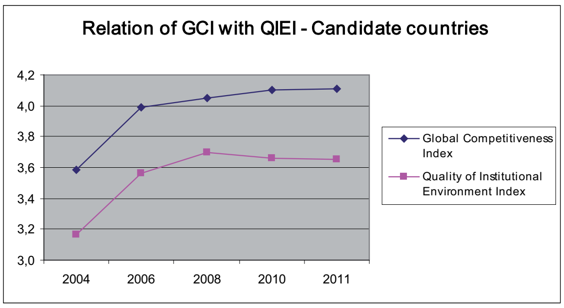
Figure 42

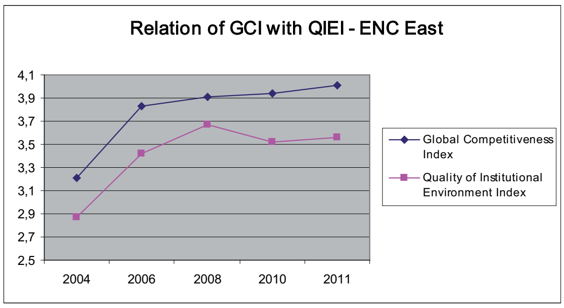


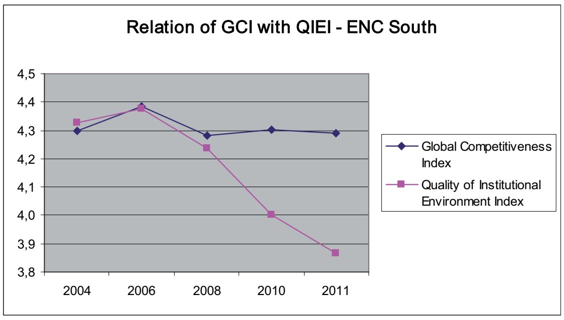
It is also interesting to examine the relation of these two indexes and their trends over time, in the seven groups of countries separately. As it is shown below, it is obvious that there is an interrelation between these two trends and usually the average scores of GCI are higher that the respective scores of institutional quality (both measurements have been made in the same scale from 1: worse to 7: best).

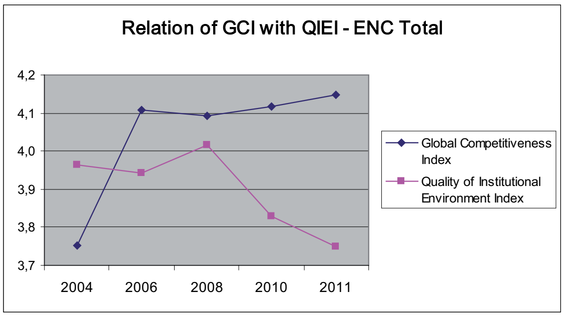


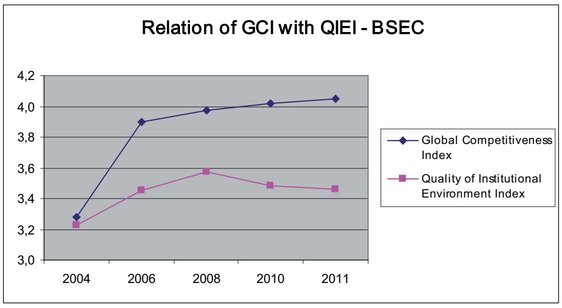







Relation of GCI with QIEI - ENC South
4,5
4,4
4,3
4,2
4,1
4,0
3,9
3,8
2004
2006
2008
2010
2011
Global Competitiveness Index
Quality of Institutional Environment Index


Relation of GCI with QIEI - ENC Total
4,2
4,1
4,0
3,9
3,8
3,7
2004
2006
2008
2010
2011
Global Competitiveness Index
Quality of Institutional Environment Index


Relation of GCI with QIEI - BSEC
4,2
4,0
3,8
3,6
3,4
3,2
3,0
2004
2006
2008
2010
2011
Global Competitiveness Index
Quality of Institutional Environment Index

6. CONCLUSIONS

Comparing the quality of institutions and their influence to economic development among countries or groups of countries and the trends of change in a certain limited period, was the main task of this paper. Leaving aside the difficulties and limitations being raised in the academic discussions concerning the theoretical and methodological problems of measuring the quality of institutions and their contribution to economic growth, we find useful and relevant for cross-national comparisons to use indicators and available data based on WEF (Executive Survey Indicators for Global Competitiveness Index Report).

Based on three strands of theoretical approaches (neo-institutionalist, Europeanization and Governance approach) we formulated three main hypotheses, which have been tested empirically using a composite indicator and 18 selected indicators, classified in four pillars of institutional quality: government effectiveness, regulatory quality, rule of law and control of corruption.

Overall the analysis has shown (similarly with other former studies), that upgrading the institutional quality of a country affects positively its economic development (positive relation between Global Competitiveness Index and the Quality of Institutional Environment Index in all groups of countries). Of course, it should be acknowledged that a country's competitiveness is not only dependent on the institutional quality factor. On the contrary, it is influenced by a series of dynamics, and therefore, their relation is not always proportional.

Focusing on the macro level (average scores of the different groups of countries), Europeanization process shows incremental progress in the quality of national institutional environments and in the global competitiveness of the countries. 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 the institutional quality and its positive impact on economic development in EU and neighboring countries.

However, important differences have been also detected, concerning the trends of convergence and divergence among countries and groups of countries. These trends change also across time. Thus in the period of "Enlargement euphoria", until 2006, candidate countries being under strong Europeanization pressure improve their institutional quality converging to the EU 15 average, while after 2006 stagnation is evident.

Even among the core EU 15 countries, divergences are detected. The southern European countries, such as Greece, Italy, Portugal and Spain diverge after 2006 from the EU 15 average, demonstrating a deterioration of their institutional quality, while northern countries are above the EU 15 average (north-south division). Similar divergent trends among countries have been detected in the other groups of countries as well, e.g. new Baltic countries moving upwards converging to the EU 15.

Every country has its “significant” trajectory of institutional performance. 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.

It should be mentioned that even in cases of improvement of institutional quality, complying with the formal convergence criteria, the detailed analysis of the four pillars and the 18 indicators has shown important differentiations concerning the government effectiveness, regulatory quality, rule of law and control of corruption. The legal compliance and adoption of formal criteria has to be complemented with effective implementation of policies, employing more legitimate governance arrangements.

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ANNEX I

Figure 10

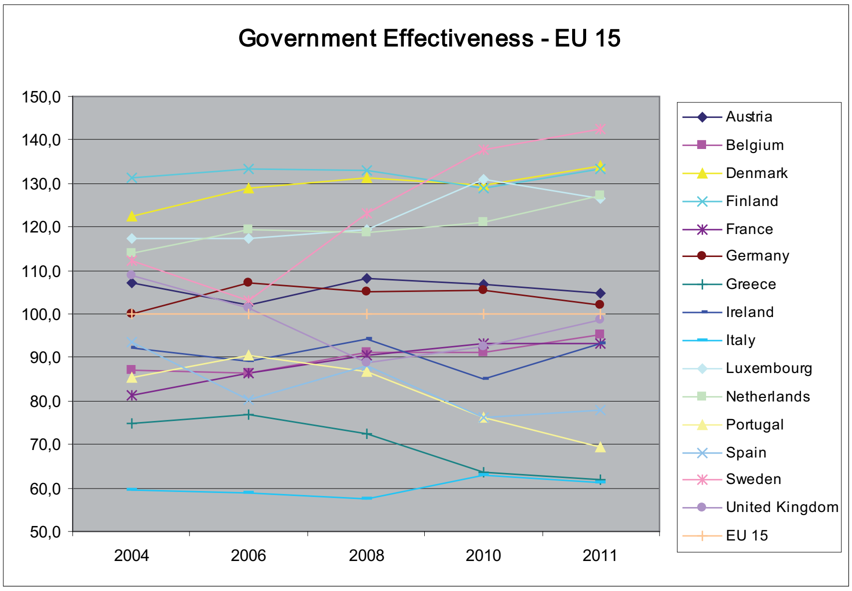


Figure11

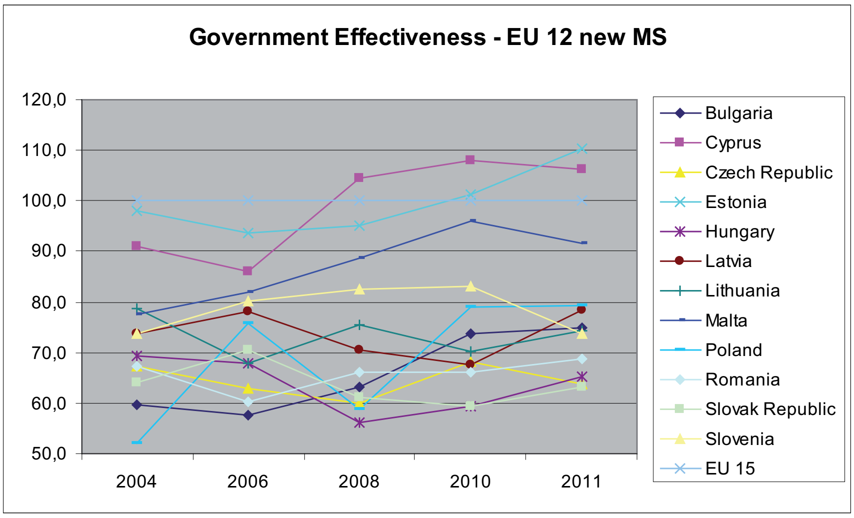


Figure 12

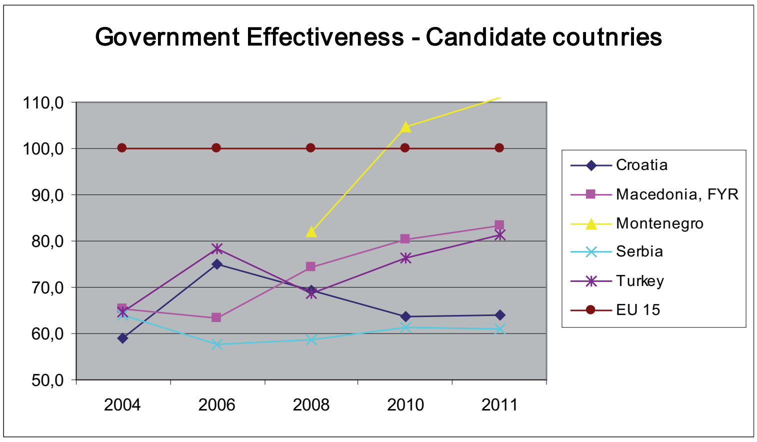


Figure 13

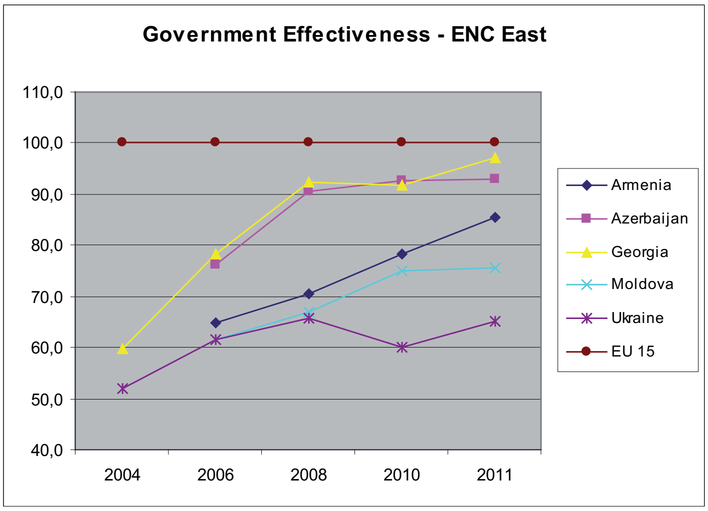


Figure 14

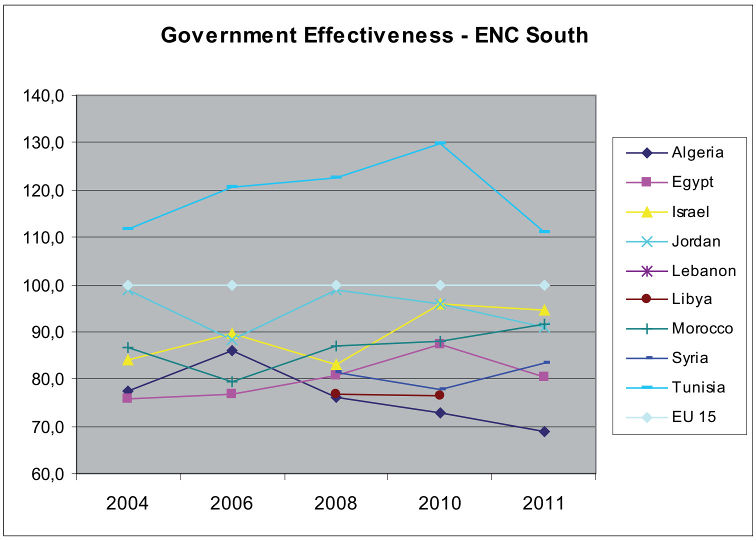


Figure 15

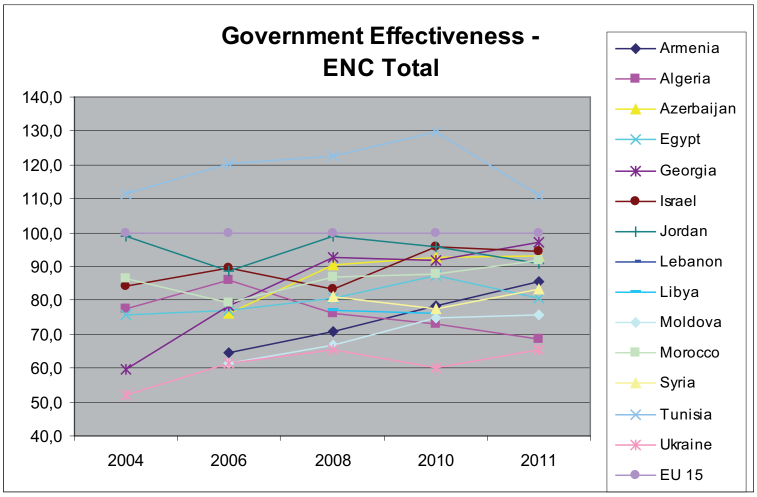


Figure 16

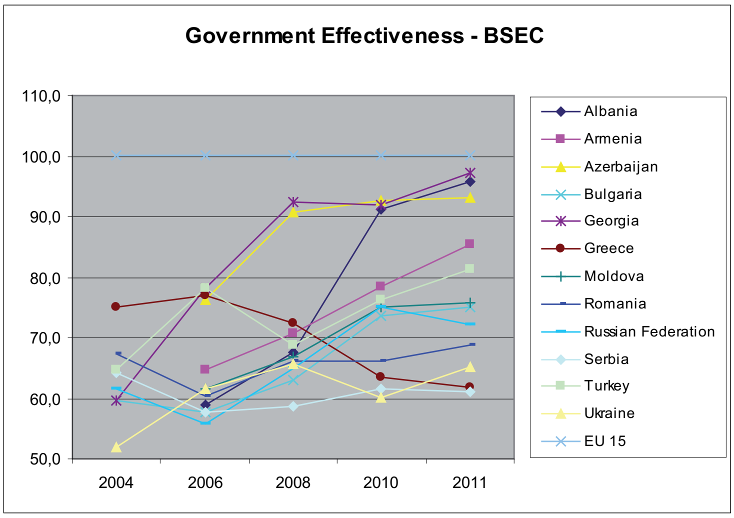


Figure 18

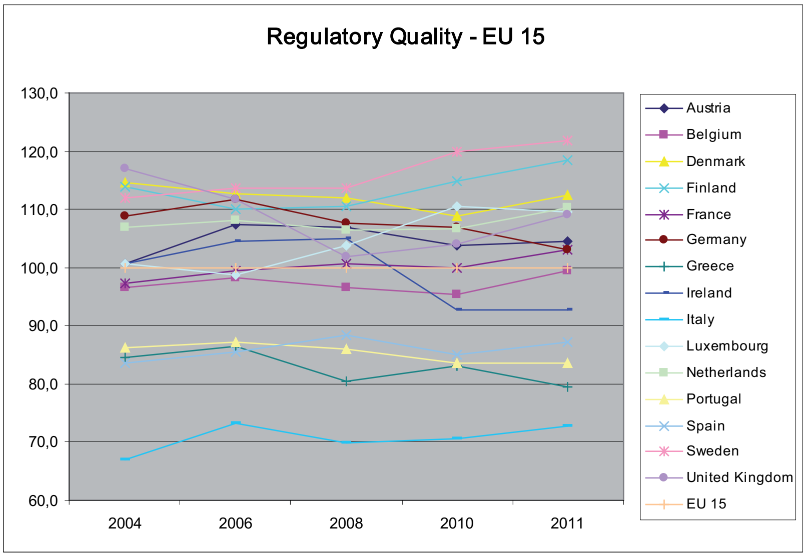


Figure 19

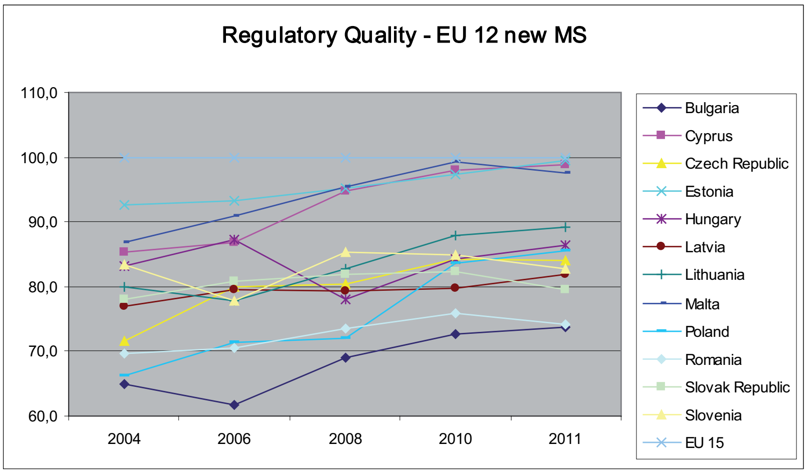


Figure 20

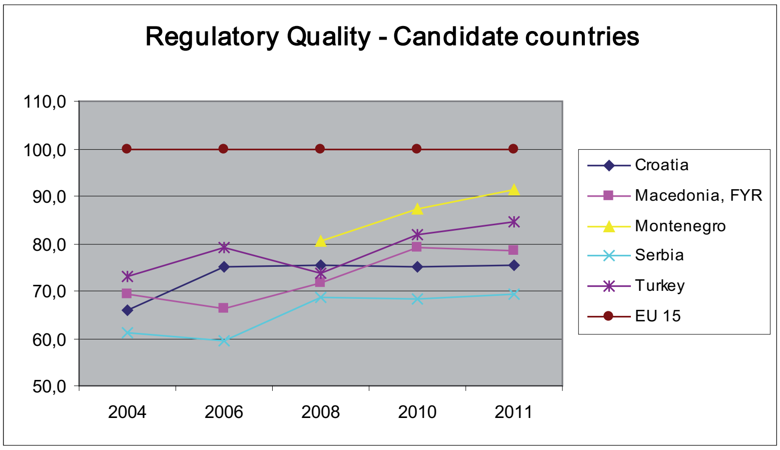
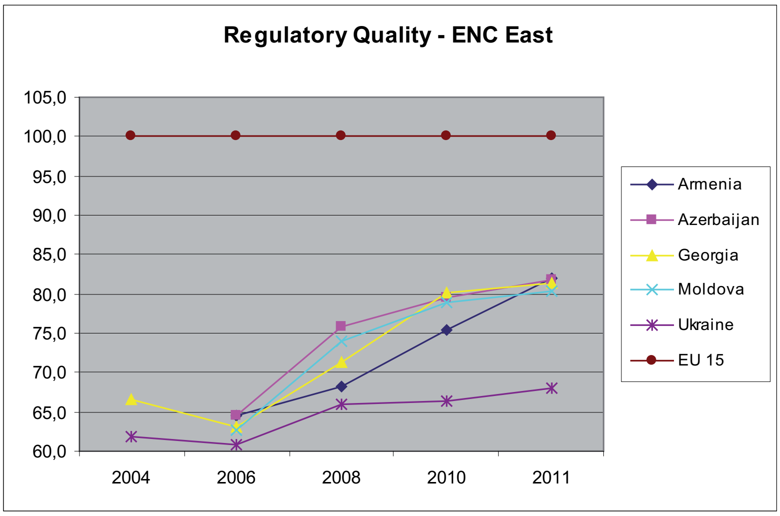


Figure 21



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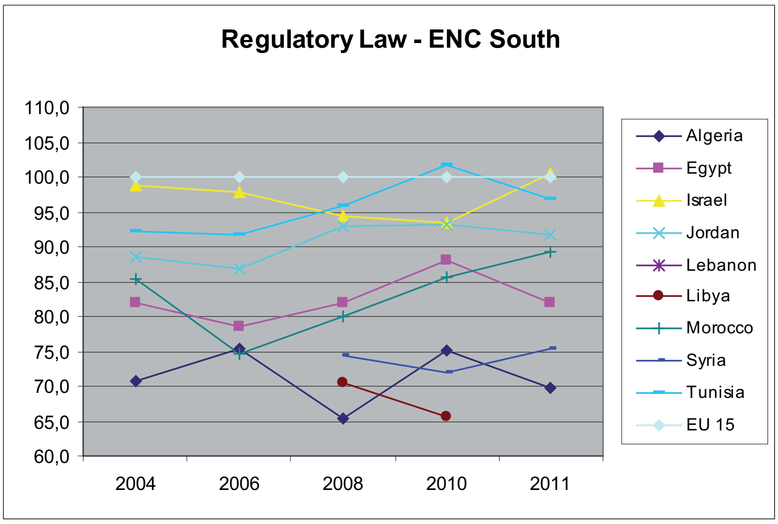

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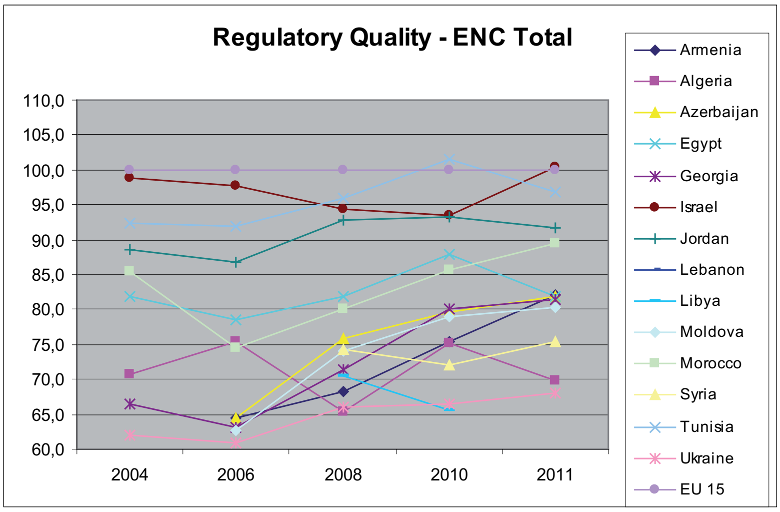

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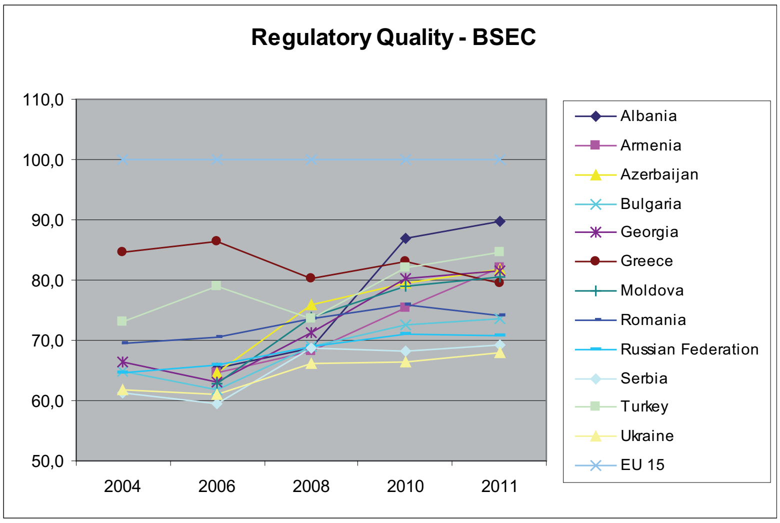

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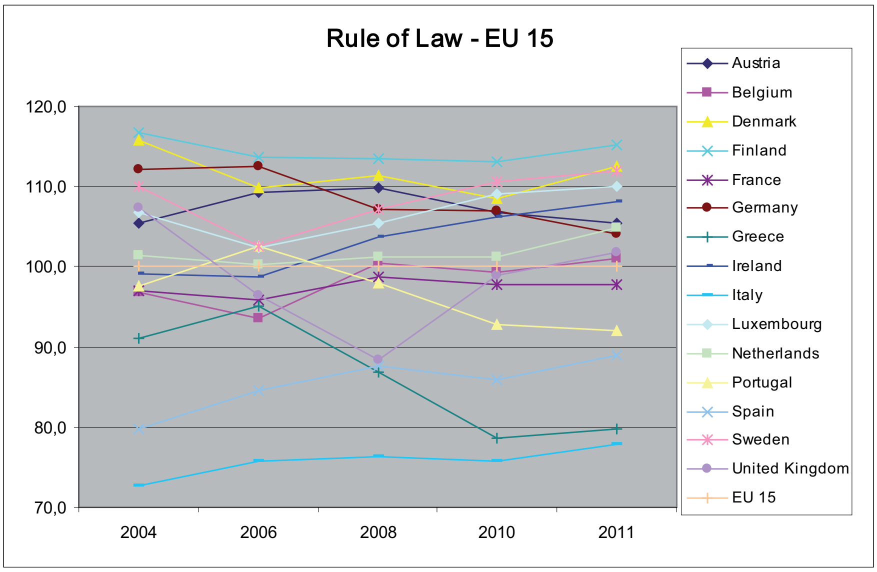

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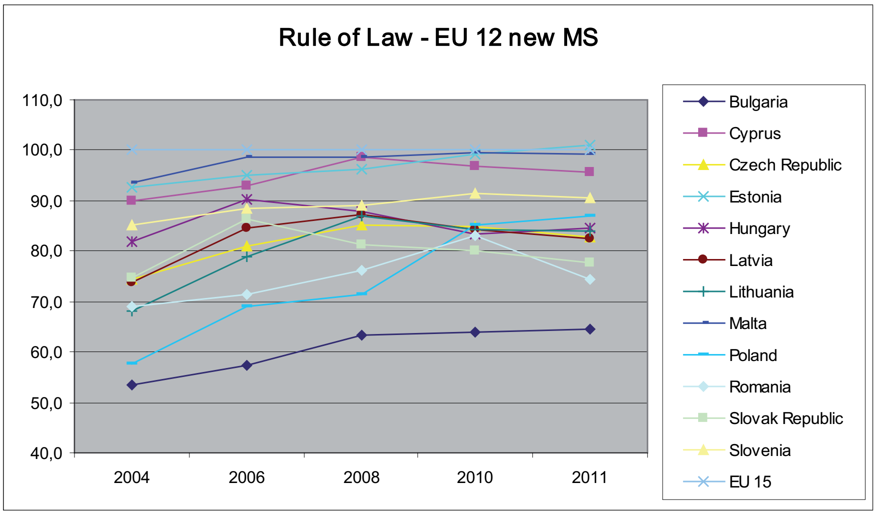

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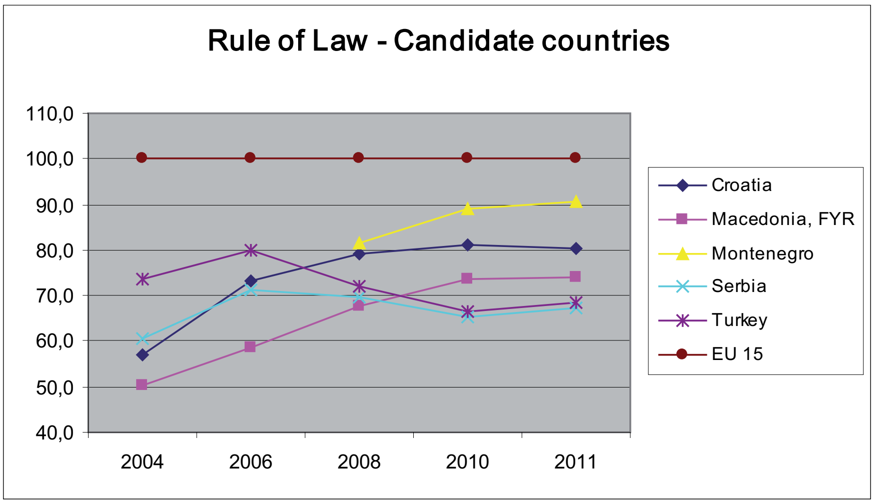

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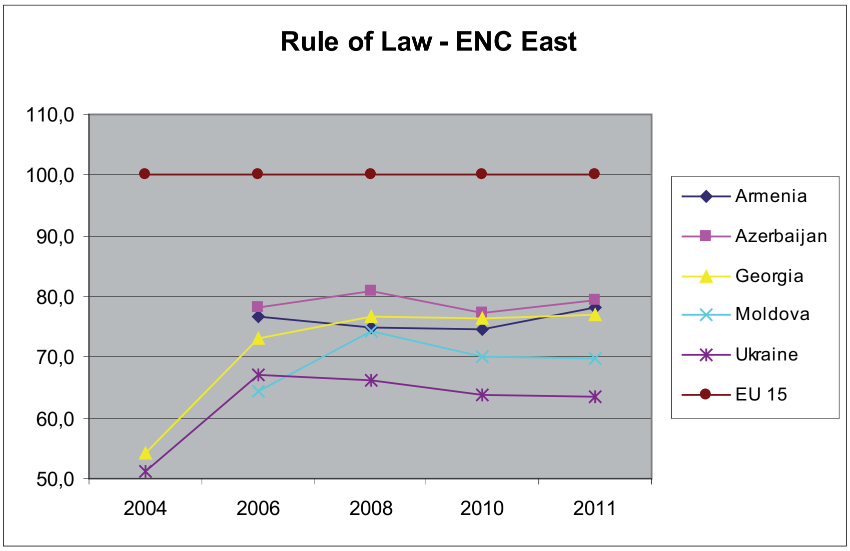

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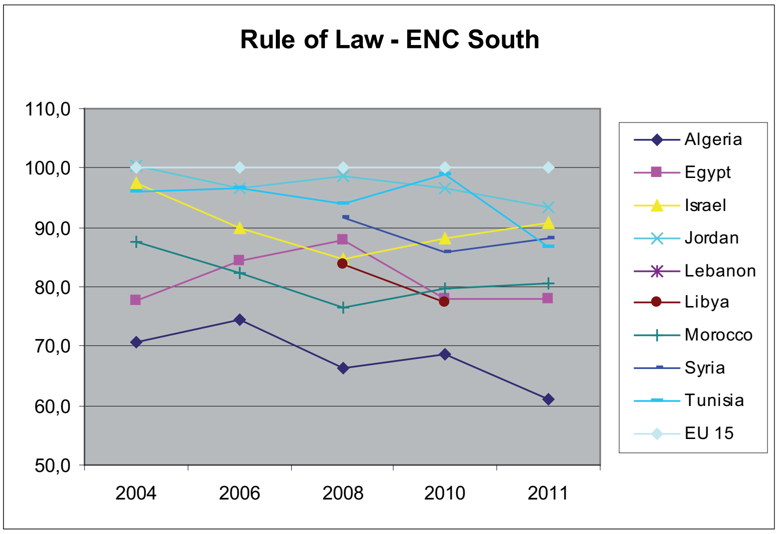

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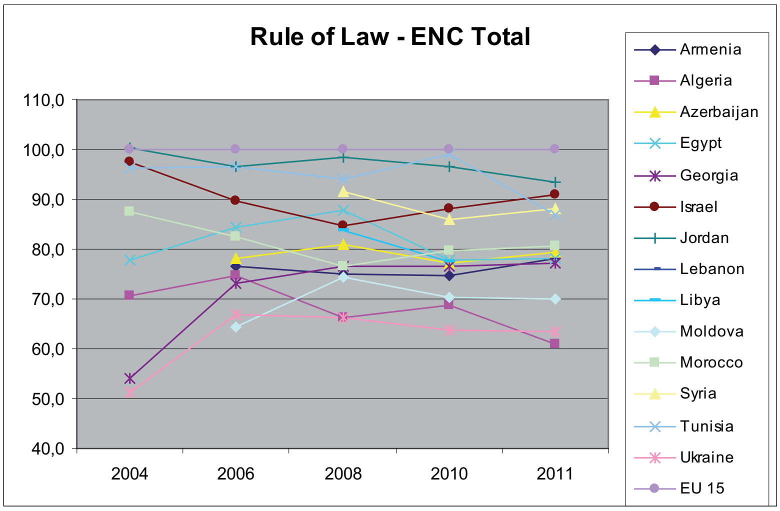

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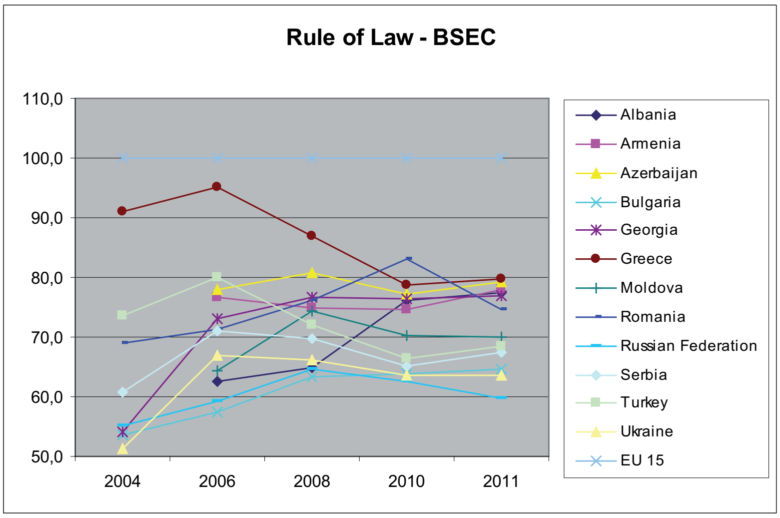

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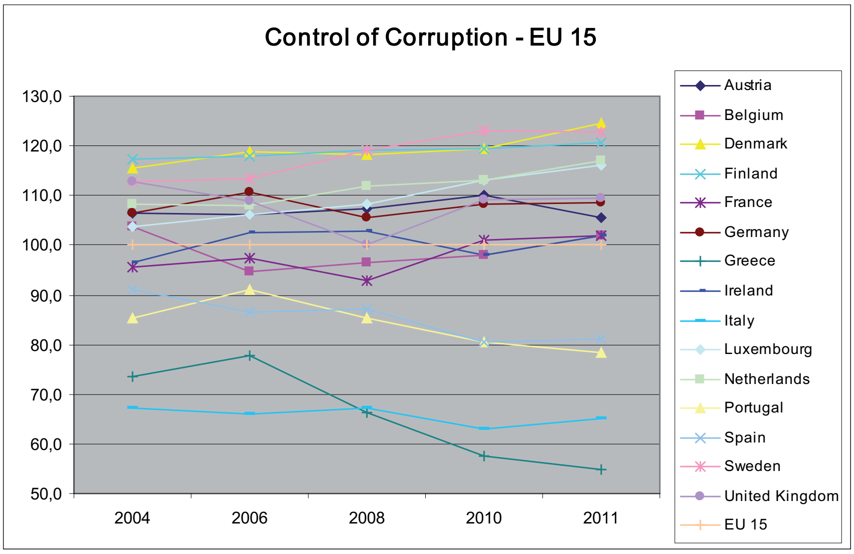

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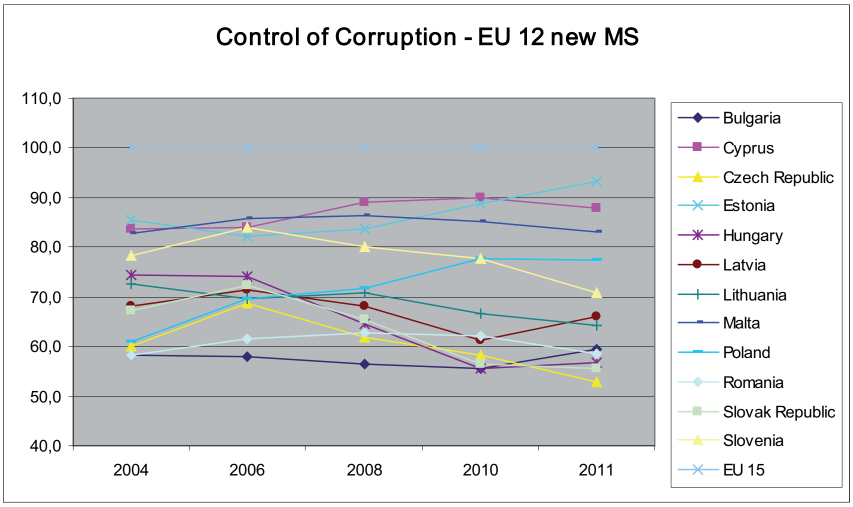

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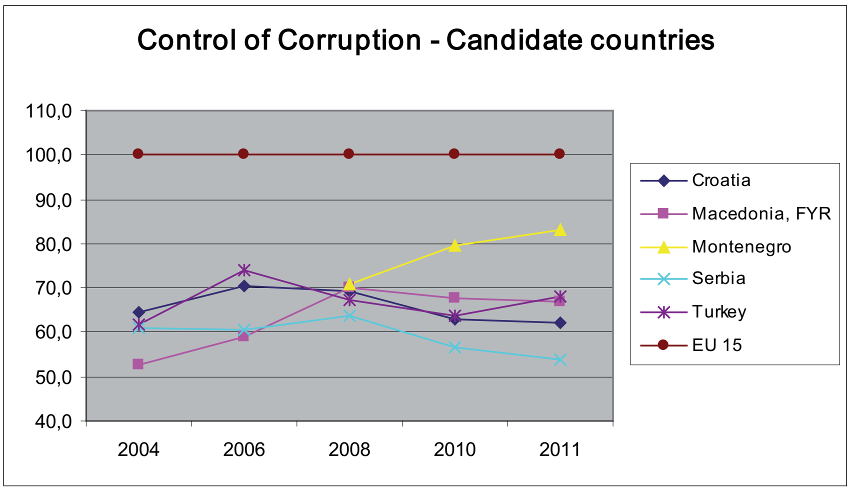

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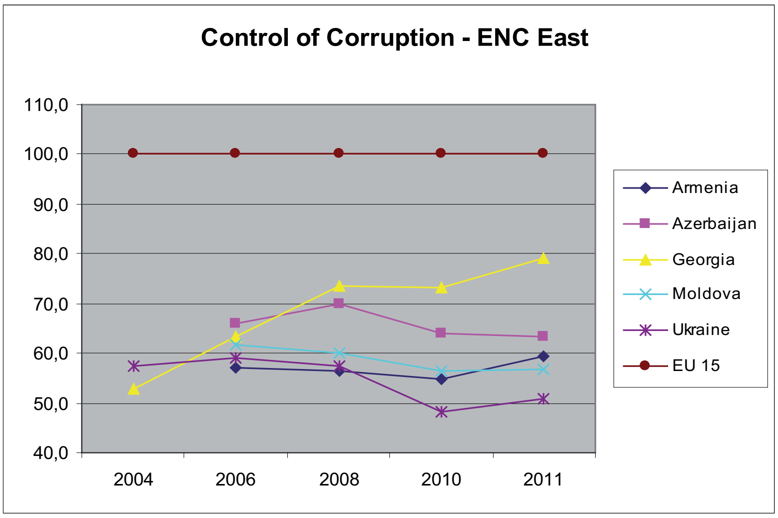

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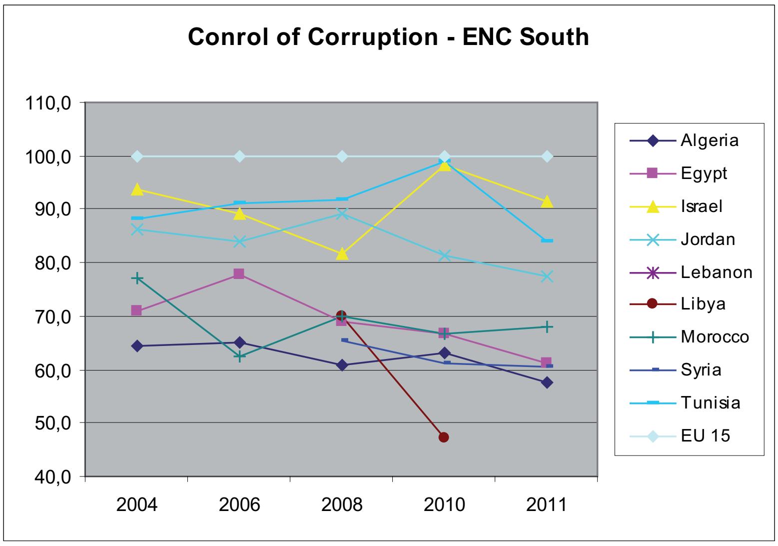

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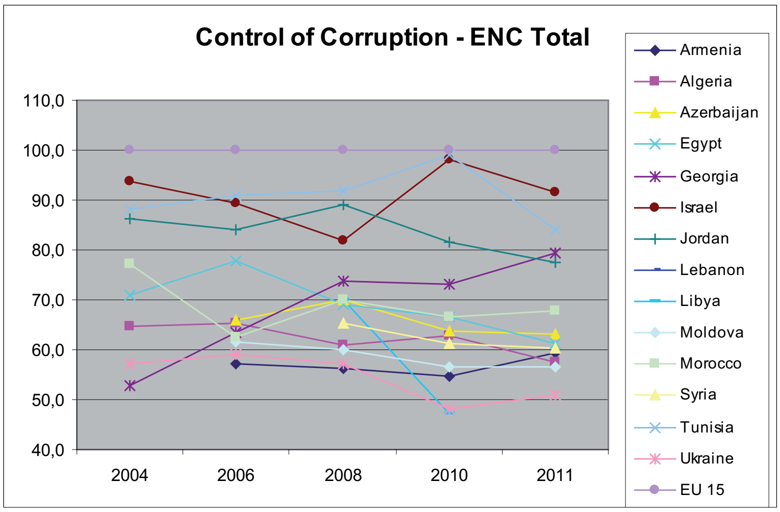

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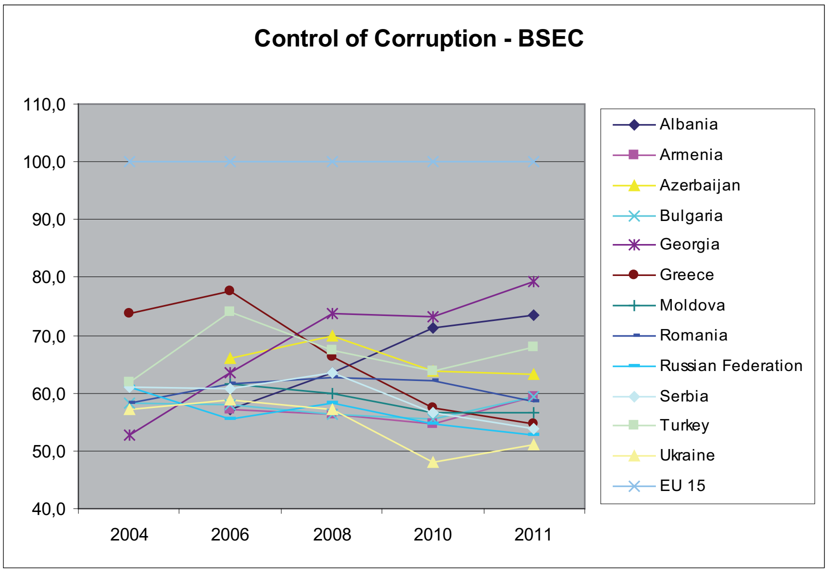
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