



# COMING TOGETHER OR DRIFTING APART?

## THE EU'S POLITICAL INTEGRATION CAPACITY IN EASTERN EUROPE

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Tanja A. Börzel and Frank Schimmelfennig

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# COMING TOGETHER OR DRIFTING APART? THE EU'S POLITICAL INTEGRATION CAPACITY IN EASTERN EUROPE

Tanja A. Börzel and Frank Schimmelfennig

## Abstract

This paper assesses the EU's external political integration capacity: its ability to promote democracy and governance effectiveness in non-member and new member states. Based on macro-quantitative data, we examine the political trajectory of Central European, Southeast European, and Post-Soviet countries. We find that democracy and governance effectiveness have improved overall in the past 20 years. However, Eastern Europeans have been moving on distinct sub-regional paths and unable to catch up with the old member states. Our analysis of the EU impact shows a robust effect of EU accession conditionality. By contrast, we do not find a systematic effect of conditionality in the absence of membership incentives. Once countries become members, the EU's political integration capacity weakens. Finally, we observe that the EU has a stronger effect on governance effectiveness than on democracy as such.

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## 1. Introduction

With enlargement, the European Union (EU) has sought to actively promote democracy, human rights, and the rule of law. The ‘golden carrot’ of membership has been identified as the core of the EU’s external political integration capacity. Democratic in some of the new Central and Eastern European (CEE) member states, however, sheds some doubts on the transformative power of accession conditionality. The EU’s Southeast European (SEE) neighbours are also offered a membership perspective. Whether it is sufficient, however, to draw the Western Balkans and Turkey closer to the EU is still an open question. Not only has the initial misfit with EU demands for political reforms been much greater than in the case of the CEE countries. The EU has also exerted less pressure for adaptation on the current and potential SEE candidates. The European Neighbourhood Policy (ENP), finally, was modeled on the EU’s enlargement policy – without providing a membership perspective, though. Offering ‘everything but institutions’ (European Commission 2002) has been largely blamed for the EU’s failure to transform its Eastern neighbourhood into an area of peace, stability, and prosperity.

This article assesses the external political integration capacity of the EU across neighbours, candidates, and new members in different regions of Eastern Europe. *External* integration capacity refers to the ability of the EU to prepare non-members for accession and association, respectively; *political* integration capacity refers to strengthening democracy and governance effectiveness. We ask how successful a transformative power the EU is. Has the Union been able to increase the aptitude of non-members to satisfy its political criteria for membership and closer relationships below membership, respectively? Has Eastern enlargement been a success for the political development of the CEE post-communist countries? We examine these questions in a descriptive and inferential statistical analysis based on quantitative indicators covering the period since the mid-1990s.

Our data show overall progress in democracy and governance effectiveness. Still, there are significant disparities in both, marking a rift between the ‘old’ member states and the ‘new’ member states and candidate countries in Central, Eastern, and Southeast Europe. The disparities become even more pronounced when the Eastern neighbourhood countries (ENC) are included in the analysis. Western Europe and the sub-regions of Eastern Europe have neither drifted apart nor have they, however, been coming together.

We argue that membership conditionality is the backbone of the EU’s external political integration capacity, even in the absence of an *acquis communautaire* regarding democracy and governance effectiveness. The stronger the membership incentives become and the more credible they are, the more political change we observe. Conversely, partnership and association agreements cannot compensate for the lack of a (credible) membership perspective when it comes to improving democracy and governance effectiveness. These findings confirm previous research on the basis of more encompassing and up-to-date data. In two ways, our findings go beyond existing studies. First, we distinguish between democratic and effective governance, showing that the EU’s impact is stronger and more sustainable with regard to governance effectiveness than democracy. Moreover, our study includes the new member states after their accession and shows that membership as such tends to have a negative effect when compared with the impact of pre-accession conditionality.

The article proceeds in three steps. The first part introduces the modes of political integration the EU draws on to promote effective and democratic governance in candidate and neighbourhood countries. Conditionality features prominently in both policy frameworks, which begs the question of how much difference the membership perspective makes compared to other incentives the EU has on offer in the neighbourhood context, such as visa liberalization and market access. In the second part, we use macro-quantitative data to map changes in democracy and governance effectiveness across the CEE new members, the SEE candidates, and the Eastern neighbourhood countries. The third part reports the findings of a fixed-effects panel analysis of EU conditionality. The article concludes with a discussion of the findings and their broader implications for the EU's external political integration capacity.

## **2. The EU's external political integration capacity: Promoting democratic and effective governance**

*External* integration capacity refers to the ability of the EU to prepare non-members for accession; political integration capacity covers both democracy and governance effectiveness, which are at the core of what the EU expects from countries seeking membership and closer relations with the EU. By promoting democratic and effective governance, the EU seeks to actively foster peace, stability, and prosperity in its neighbouring regions (cf. Börzel et al. 2007; Wetzel/Orbie 2011). To encourage countries to adopt its constitutional principles and sectoral policies and adapt their domestic institutions, policies, and political processes accordingly, the EU has developed a sophisticated tool box that heavily draws on 'reinforcement by reward' (positive conditionality) and 'reinforcement by support' (capacity-building) (Schimmelfennig et al. 2003; cf. Schimmelfennig/Sedelmeier 2005; Schimmelfennig et al. 2006). Both instruments are linked to the perspective of EU membership, which is conditional upon compliance with the EU's Copenhagen Criteria and comes with comprehensive financial and technical assistance to strengthen the reform capacity of state institutions. The 'golden carrot' of membership is considered to form the core of the EU's transformative power, which explains the success story of Eastern enlargement, the differential progress of the Western Balkan countries and Turkey as well as the lack of improvement in the ENC (i.e. Magen 2006; Schimmelfennig/Sedelmeier 2004; Vachudova 2005; Schimmelfennig/Scholtz 2008; Knaus/Cox 2005). Amid persistent protests against Ukraine's President Viktor Yanukovich, EU Commissioner Štefan Füle called for a membership perspective for former Soviet countries: "You can't transform this part of Europe without using this most powerful instrument [enlargement]".<sup>1</sup> In the absence of a (consistent and credible) membership perspective, the EU seems unlikely to improve democracy and governance effectiveness in non-members by inducing domestic reforms that would bring them closer to membership (Bieber 2011; Caizer 2011; Magen 2006; Noutcheva/Düzgit 2012; Schimmelfennig/Scholtz 2008, 2010; Silander/Nilsson 2013).

At the same time, the literature has questioned whether the membership perspective really provides the crucial incentive for (potential) candidates to initiate political change. First, the CEE countries would have

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1 Commissioner Füle quoted in 'EU commissioner calls for Ukraine accession promise', *EU Observer*, 1 February 2014, available at <http://euobserver.com/foreign/122972>, accessed 3 January 2016.

initiated most domestic changes even without a membership perspective (Houghton 2007; Mungiu-Pippidi 2014; for a more sceptical view see Levitz/Pop-Eleches 2009). Moreover, Turkey, Ukraine, and the Southern Caucasus countries introduced costly domestic change in line with the EU's demands for democratic and effective governance even though they have no (credible) membership perspective (Börzel/van Hüllen 2014; Delcour/Wolczuk 2015; Gawrich et al. 2009; Casier 2011; Langbein/Wolczuk 2012; Yilmaz 2011; Börzel/Soyaltin 2012).

Second, the credible, conditional promise of accession to the EU is at best a necessary, yet not sufficient condition for political change. EU conditionality has strengthened democracy where the political costs for the incumbent were not prohibitive by threatening their political survival, and veto players were not powerful enough to block domestic reforms (Schimmelfennig et al. 2003; Kelley 2004; Pridham 2005; Vachudova 2005).

Third, countries only receive a membership perspective once they have sufficiently aligned with the trend and made substantial progress towards effective and democratic governance, which the EU then helps to lock-in with a credible membership perspective (Levitz/Pop-Eleches 2009; Börzel/van Hüllen 2011). This may also explain why accession conditionality has been found most effective when the EU decided on opening accession negotiations (Houghton 2007; Saatcioglu 2010; Mungiu-Pippidi 2014).

Fourth, even if membership conditionality provided crucial incentives for the political transformation of CEE countries, they may no longer work for current and future candidates. The EU does not necessarily have the same symbolic meaning for the Western Balkans and Turkey as it had for the CEE, for which accession meant modernization and a return to Europe (Dimitrova 2004). Moreover, the EU is not the only game in town anymore and the various crises have undermined its attractiveness as well as its willingness and capacity to take on new members. While membership may be increasingly less credible and attractive, the adjustment costs are considerably higher given the lower levels of democracy and governance effectiveness in the current and potential candidates.

Finally, membership conditionality has been most effective where the EU has its own *acquis* (Sedelmeier 2008; Toshkov 2008; Dimitrova 2010). By contrast, democracy and governance effectiveness are only part of the Copenhagen Criteria. The EU lacks a clear specification of these fundamental principles, which would guide domestic reform, and has failed to transfer these principles into its legislation. In the remainder of this article, we will test empirically whether the EU's 'golden carrot' has indeed lost its luster-

### 3. Comparing political change in Eastern Europe: Democracy and governance effectiveness

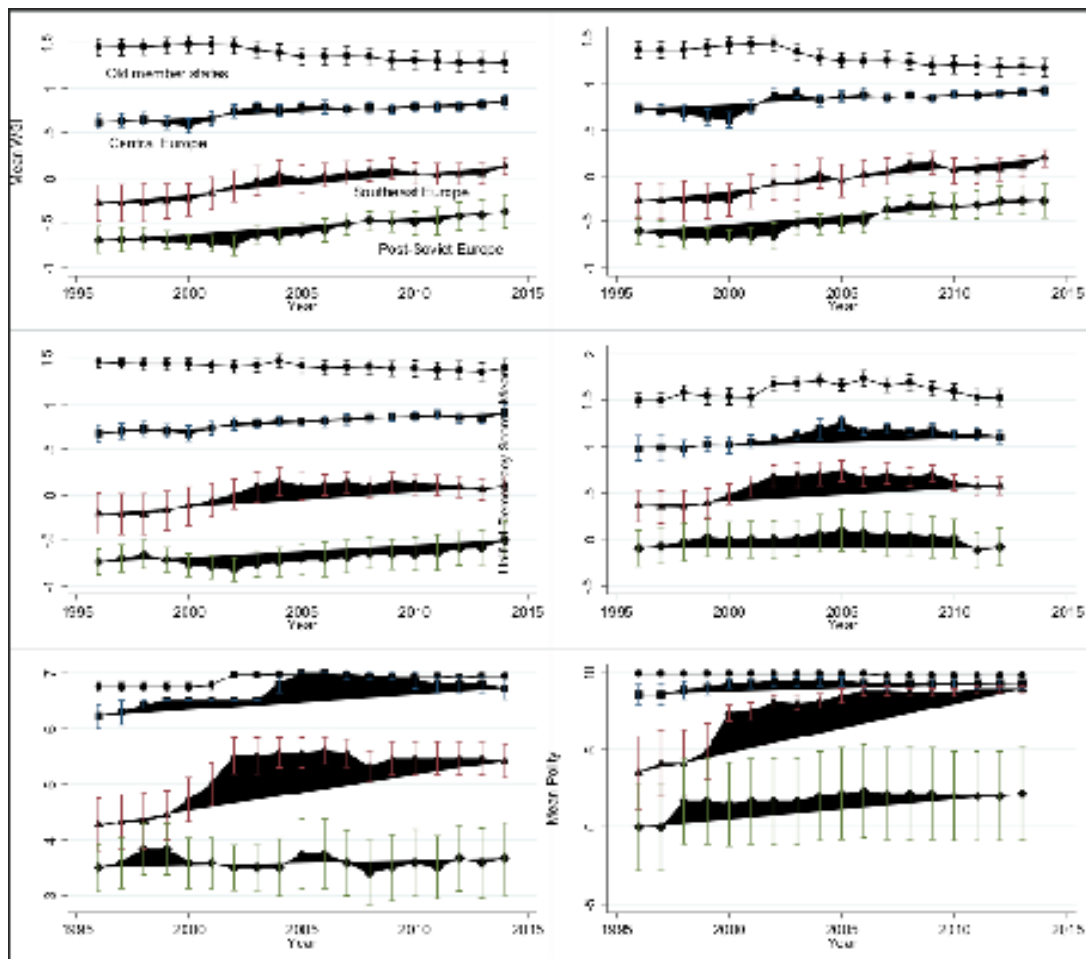
This section assesses the degree of change in democracy and governance effectiveness<sup>2</sup> that has occurred in the CEE new member states, the current and potential SEE candidates, and the Eastern neighbourhood countries. Our assessment is based on quantitative indicators allowing us to measure change across

<sup>2</sup> See <http://info.worldbank.org/governance/wgi/index.aspx#home>, accessed 25 February 2016.



non-members and new members in the post-Cold War period. The annual mean score of the Worldwide Governance Indicators (WGI) provides an overall estimate of good governance combining democracy and governance effectiveness. The six indicators are ‘voice and accountability’, ‘rule of law’, ‘political stability’, ‘government effectiveness’, ‘regulatory quality’, and ‘control of corruption’. The WGI are aggregated from a variety of data sources including surveys, NGO reports, business information services, and public sector organizations, and are available for 1996-2014.<sup>3</sup> Because we are interested in evaluating democracy and governance effectiveness separately, we construct an index of ‘liberal democracy’ using the indicators for voice and accountability and the rule of law, and an index of ‘governance capacity’ averaging the other four indicators. As a robustness check for the measurement of democracy, we further use the Unified Democracy Score (UDS)<sup>4</sup> (Pemstein et al. 2010). This composite scale makes use of various measures of democracy and helps to offset their individual biases and measurement errors. In addition, it overcomes the ‘ceiling effect’ of traditional measures such as Freedom House and Polity IV and their inability to distinguish the democratic quality of more advanced democracies.

Figure 1: Development of governance effectiveness and democracy in the sub-regions of Europe



Note: Mean values per sub-region with standard error bars.

3 See <http://info.worldbank.org/governance/wgi/index.aspx#doc-sources>, accessed 25 February 2016.

4 Pemstein et al. (2010). See also <http://www.unified-democracy-scores.org/index.html>, accessed 25 February 2016.

Figure 1 traces the development of these measures for four sub-regions: the 15 old member states of 1995, Central Europe (including the Baltic countries), Southeast Europe (the successor countries of Yugoslavia, Albania, Bulgaria, Romania, and Turkey), and the post-Soviet countries (Belarus, Moldova, Ukraine, and the Southern Caucasus). The Figure shows distinct and enduring levels of democracy and governance effectiveness for these sub-regions. There is a stable rank order of political development in Europe: the old member states have the highest level of democracy and governance effectiveness, followed by Central Europe, Southeast Europe, and finally the post-Soviet area. In addition, in the two decades since 1995, the parts of Europe have come together to some extent. The overall WGI index shows an upward movement for all Eastern European groupings and a downward movement for the old member states. The other panels reveal, however, that the slight convergence has mainly been an effect of governance effectiveness rather than democracy. The liberal democracy components of the WGI show that the Eastern European regions have only made limited democracy gains during the 20-year period against a stationary development for the old member states. The alternative democracy measures confirm this general picture but point to a wave-like development: whereas democracy has improved until the mid-2000s, it has slightly backslid afterwards. This democratic recession is in line with a global trend (cf. Fukuyama 2015; Àgh 2014). Finally, Figure 1 shows the ‘ceiling’ effect of the Freedom House and Polity scores: Western, Central, and even SEE countries cluster at the top of the range. Let us look at the sub-regions and the dimensions of political development in more detail.

### 3.1. *Democracy: Between lock-in and backsliding*

Most of the ten Central and Eastern European countries, which joined the EU in 2004 and 2007, respectively, had already reached a relatively high level of democracy when they obtained a membership perspective in 1993. Their scores did not change significantly until they began negotiating their accession to the EU in 1999. Estonia, Latvia, Slovakia, and Romania, which had started well below the CEE average, showed some significant improvements until they joined the EU in 2004/2007. However, only Estonia and Slovakia kept their progress after accession. Latvia, Romania, Bulgaria, and even Hungary, once a democratic front-runner, slowed down in their reform efforts (Levitz/Pop-Eleches 2009). Hungary even showed signs of backsliding in the past years after the Fidesz party of Viktor Orbán came to power in 2010 and overhauled the Hungarian constitution (Birdwell et al. 2013: 44-45, 57-59; Sedelmeier 2014). Poland may be likely to follow the slippery slope of Hungary with the PiS (Law and Justice Party) government starting to encroach on the independence of the judiciary and the public media in 2015. Risks or tendencies of democratic backsliding are mostly associated with regard to minority rights (Sasse 2008; Schwellnus 2009), the functioning of political parties and party systems (Haughton 2014; Innes 2014), control of corruption, and the independence of the judiciary (Spendzharova/Vachudova 2012).

Turkey and the Western Balkans have made substantial progress since the EU recognized them as potential candidate countries in 1999 and 2000, respectively. They started at a much lower level of democracy than the CEE. Since the turn of the millennium, they have moved ever closer, Croatia being rewarded for its progress with becoming the 28th member state of the EU. Yet, a closer look reveals a more nuanced picture; while Croatia and Serbia seemed to have locked in their democratic changes, the others have not made substantial progress since the last eight years or so.

The Eastern Partnership countries, by contrast, have not made any sustainable progress towards democracy. They seem to have developed rather stable hybrid regimes “in the gray zone between democracy and autocracy” (cf. Carothers 2002; Hadenius/Toerell 2006: 1), which have been referred to as ‘semi-authoritarianism’ (Ottaway 2003), ‘electoral authoritarianism’ (Schedler 2006) or ‘competitive authoritarianism’ (Levitsky/Way 2010). In addition, the democracy measures show large variation in this group. Belarus has been the most authoritarian regime in Europe (Kvashuk et al. 2013: 58-59). Azerbaijan has successfully resisted democratic reforms, too, while Armenia has seen a steady decline in democracy. Whereas the colored revolutions in Ukraine and Georgia brought substantial improvements, Ukraine has returned to ‘square one’ afterwards. In Georgia, it remains to be seen whether the first peaceful changes in government through the ballot box in 2012 and 2013 are indicative of a reversal of the authoritarian tendencies of the late Saakashvili regime. Moldova appears to have been most advanced in terms of democracy but has not made any progress over the past years.

### 3.2. *Governance effectiveness: Improvement and stabilization*

Governance capacity shows a general increase after 2000 in all sub-regions. Most of the Eastern European countries had already reached a rather high level when they started negotiating their accession to the EU (Dimitrova 2002, 2005). There is, however, more variation with Lithuania, Estonia, Slovakia, and Slovenia leading the new member states, and Romania and Bulgaria catching up but still trailing behind (Bachtler et al. 2013; Meyer-Sahling 2009; Vachudova 2009) and showing some tendencies of slowing down in their reform efforts (Levitz/Pop-Eleches 2009) – if not sliding back after they joined the EU in 2007 (Mungiu-Pippidi 2014).

The current and potential candidates in Southeast Europe show a steady improvement in their governance effectiveness, which is also confirmed by the literature (Cohen 2010; Elbasani 2013; Mungiu-Pippidi 2014). Interestingly, the variance in governance effectiveness is lower among the current and potential candidates than in democracy. Moreover, Croatia, which joined the EU in 2013, has barely caught up with the CEE laggards, Romania and Bulgaria, while it has overtaken them with regard to democracy.

The ENC show a similar pattern to the SEE candidates. However, there is again substantial variance within the sub-region. The three Southern Caucasus countries are the only ones having subsequently increased their governance effectiveness with Georgia outperforming Armenia and Azerbaijan at an overall lower level than the CEE countries though (Mungiu-Pippidi 2014; Börzel/van Hüllen 2014).

To conclude, the Eastern European countries have made progress in democratic and effective governance over the past 25 years. Whereas they have not closed ranks with the old member states in Western and Southern Europe, they have been able to narrow the gap. And even though they have experienced some democratic backsliding in the recent past, they have been part of an overall global and European trend and have not lost their previous gains entirely. At the same time, the Eastern European countries form three distinct and durable sub-regional clusters. The clustering also reflects different levels and speeds of integration with the EU. This pattern points to a strong association between integration and the quality

of governance. It remains to be seen, however, how influential the EU has been in the progress of Eastern Europe and which of its policies have had the strongest impact. The final section of this article will use the panel data to probe further into the EU's external integration capacity.

#### **4. Testing the 'golden carrot': Membership, membership conditionality, and association incentives**

EU membership is considered the linchpin of strengthening the integration capacity of post-communist countries. Accordingly, the ineffectiveness of the ENP in bringing about the domestic change that conforms to the EU's expectations tends to be blamed on the lack of this 'golden carrot' (e.g. Schimmelfennig et al. 2003; Magen 2006; Schimmelfennig/Scholtz 2008; Whitman/Wolff 2010; Börzel/Lebanidze 2015). Likewise, the stalling of domestic reforms in current and potential candidates (Albania, Turkey, Bosnia and Herzegovina, and Macedonia) as well as the potential backsliding of some of the new member states (Bulgaria, Rumania, Hungary, and Latvia) are explained by the 'carrot' already being 'eaten up' or not being 'juicy enough (any more)' (Börzel 2014; Schimmelfennig/Sedelmeier 2005; Magen/Morlino 2008; Elbasani 2013). So, how important is membership compared to other incentives, such as partnership and association, in promoting democratic and effective governance?

In order to test the effectiveness of EU incentives on the development of good governance, we analyze a panel of Central, Eastern, and SEE countries, which were non-members in the mid-1990s. We limit the analysis to European countries because they are the only ones to stand a theoretical chance to join the EU and thus to become subject to the entire range of EU incentives. Ex-communist countries constitute the core of the panel. In addition to the Western former Soviet republics (Belarus, Moldova, and Ukraine), we include the Southern Caucasus (Armenia, Azerbaijan, and Georgia) because they are members of the Council of Europe and thus regarded as part of the European regional system. Although it is a (partly) European country, we exclude Russia because its membership in the EU is out of the question. In addition to the ex-communist countries, the panel includes Cyprus, Malta, and Turkey. We do not examine Western European non-member countries such as Iceland, Norway, or Switzerland whose relationship with the EU follows a different logic. These countries are consolidated democracies with high levels of governance effectiveness; moreover, they have voluntarily opted against EU membership. For these reasons, EU incentives are unlikely to have an impact on democracy and governance effectiveness. The panel covers the period from 1993 to 2015. By 1993, most of the current European states (with the exception of Kosovo, Montenegro, and Serbia) had formed; in 1993, the EU took the decision to embark on Eastern enlargement and formulated its Copenhagen Criteria for membership. The unit of analysis is the country-year.

We take our main explanatory variable 'EU incentives' from an earlier study of EU political conditionality (Schimmelfennig/Scholtz 2008), which covered the pre-accession period, and update it. 'EU incentives' is an index variable composed of the size of the reward and the credibility of conditionality. The size of the reward refers to the type of institutional arrangement the EU offers conditionally to a state. It ranges from no incentive (0) via partnership (1) and association (2) to accession (3). Higher institutional arrangements

offer non-member countries higher benefits of cooperation and integration than lower ones. Association agreements offer better access to the EU market than partnership agreements, and accession offers not only full market integration but also agricultural and infrastructural subsidies and voting rights. After joining the EU as full members, states are in category (4). In addition to size, EU incentives vary with regard to the credibility of conditionality: the credibility of the threat to withhold the reward if the conditions are not met and the credibility of the promise to pay the reward. If rewards are not tied to any conditions, credibility is absent (0). Incentives have low credibility (1) if either the credibility of the threat or the credibility of the promise is weak. High credibility (2) requires that both the threat and the promise are credible.

In the period of examination, the weakest incentive was the low-credibility offer of Partnership and Cooperation Agreements (PCAs) to the post-Soviet countries (1/1). In general, the EU did not make the conclusion of PCAs conditional upon the human rights, democracy, and governance record of its partner countries. The exception was the stricter conditionality applied to Belarus (1/2). The same size and credibility of incentives applies to the Trade and Cooperation Agreements the EU initially offered to the Central and Southeast European countries – and suspended and denounced in the cases of Croatia and Yugoslavia.

The ENP is classified as low-credibility association (2/1). Whereas it increased the size of incentives by offering a higher level of cooperation in comparison with the older cooperation agreements, the credibility of the conditionality was weak with regard to both political conditions and promised benefits. Credibility improved only when the EU established the Eastern Partnership in the late 2000s and offered the post-Soviet countries association and free-trade agreements (2/2). In contrast with the open agenda of the ENP and the ‘ownership’ principle, which lets the EU’s partners determine the scope and depth of cooperation, the Eastern Partnership makes concrete policy offers such as visa liberalization and free trade, uses explicit conditionality, and requires legally binding commitments (Delcour 2013). Likewise, the ‘Europe Agreements’ negotiated with Central Europe, the Baltic countries, and Bulgaria and Romania constituted association agreements with highly credible conditionality already in the early 1990s. These agreements came not only with explicit political conditionality but also raised expectations of eventual membership. The same is true of the older association agreements, which were concluded, for instance, with Turkey.

The Copenhagen European Council granted the Central and Eastern European countries a general membership perspective. It was, however, only highly credible (3/2) for the Central European countries (the Czech Republic, Hungary, Poland, and Slovakia), whereas the accession of the Baltic and Balkan countries remained disputed (3/1). This changed in 1997, when the accession process was formally opened with these countries. In addition, the accession incentive became credible for Turkey after the Helsinki Council of 1999, whereas credibility has been reduced since 2006, when some member states blocked the opening of several negotiating chapters. Also in 1999, the Western Balkans obtained a general accession perspective, too (3/1), which became more credible at the Thessaloniki European Council in 2003 (3/2). Membership is the most sizeable incentive the EU has on offer; we therefore assume that the strongest effects on good governance will be observed in candidates for membership. Earlier research corroborates this expectation. Indeed, it shows that accession is the only incentive with systematic democracy effects (Schimmelfennig/Scholtz 2008, 2010).

When states join the EU, political conditionality still applies in principle but its credibility is reduced (4/1). On the one hand, member states are entitled to the highest benefits the EU has to offer. Whereas it is true that some of these benefits were only granted after a transitional period of several years (such as full agricultural subsidies and full freedom of movement), they were not linked to democracy and governance effectiveness. On the other hand, sanctions against member states violating the EU's political norms are generally regarded as unlikely given that they require the unanimous consent of the other member states (Art. 7 TEU). As a consequence, we assume that EU conditionality is stronger and more effective for candidates than for members.

Table 1 gives a full list of the countries in the panel and the EU incentives they faced at different points in time. Our main hypothesis is:

*The more sizeable and credible EU incentives are, the stronger is their impact on the improvement of good governance.*

Accordingly, accession conditionality has the strongest impact on democracy and governance effectiveness, and highly credible accession conditionality has a stronger impact than weakly credible accession conditionality.

Table 1: EU incentives, 1993-2015

		Credibility	
		1	2
Size	1	<i>Partnership and Cooperation Agreements</i>  Armenia (1993-2003); Azerbaijan (1993-2003); Georgia (1993-2003); Moldova (1993-2003); Ukraine (1993-2003)  N=60	<i>Trade/Cooperation Agreements</i>  Albania (1993-99); Belarus (1993-2008); Bosnia and Herzegovina (1993-99); Croatia (1993-99); Macedonia (1993-99); Yugoslavia (1993-99)  N=61
	2	<i>European Neighbourhood Policy</i>  Armenia (2004-8); Azerbaijan (2004-8); Georgia (2004-8); Moldova (2004-8); Ukraine (2004-8)  N=25	<i>Association Agreements</i>  Armenia (2009-15); Azerbaijan (2009-15); Belarus (2009-15); Georgia (2009-15); Moldova (2009-2015); Turkey (1993-96); Ukraine (2009-15)  N=53

3	<p><i>Weakly credible accession perspective</i></p> <p>Albania (2000-2); Bosnia and Herzegovina (2000-2); Bulgaria (1993-96); Croatia (2000-2); Cyprus (1993-96); Estonia (1993-96); Kosovo (2008-15); Latvia (1993-96); Lithuania (1993-96); Macedonia (2000-2); Malta (1993-96); Romania (1993-96); Slovenia (1993-96); Turkey (1997-99) (2006-15); Yugoslavia (2000-2)</p> <p>N=68</p>	<p><i>Credible accession perspective</i></p> <p>Albania (2003-15); Bosnia and Herzegovina (2003-15); Bulgaria (1997-2006); Croatia (2003-12); Cyprus (1997-2003); Czech Republic (1993-2003); Estonia (1997-2003); Hungary (1993-2003); Latvia (1997-2003); Lithuania (1997-2003); Macedonia (2003-15); Malta (1997-2003); Montenegro (2006-15); Poland (1993-2003); Romania (1997-2006); Serbia (2006-15); Slovakia (1993-2003); Slovenia (1997-2003); Turkey (2000-5); Yugoslavia (2003-5)</p> <p>N=184</p>
4	<p><i>Membership</i></p> <p>Bulgaria (2007-15); Croatia (2013-15); Cyprus (2004-15); Czech Republic (2004-15); Estonia (2004-15); Hungary (2004-15); Latvia (2004-15); Lithuania (2004-15); Malta (2004-15); Poland (2004-15); Romania (2007-15); Slovakia (2004-15); Slovenia (2004-15)</p> <p>N=140</p>	

Source: Authors.

To examine the effects of EU incentives, we conduct a fixed-effects (FE) panel regression analysis, which makes the best use of panel data for causal inference (Brüderl/Ludwig 2015). In contrast to pooled OLS regression, it only takes into account the within-variation of each unit (country) and discards the variation across countries. It compares the levels of good governance before and after the Eastern European countries were exposed to a new EU incentive, and it averages the effect across those countries that experience the same incentive. As a consequence, the findings of an FE analysis cannot be generalized beyond the sample. Because we analyze the entire relevant population, however, this limitation does not affect our study.

FE estimation controls for all time-constant confounders of the relationship between EU incentives and good governance such as geography, culture and historical legacies. Previous studies have shown that the



distance between the EU, and non-member states, their civilizational culture and regime or imperial legacies may not only affect a state's probability of democratization but also the institutional relationships the EU is willing to enter into (Schimmelfennig/Scholtz 2008, 2010). The EU's geographically and culturally more proximate neighbours are more likely to be offered association and membership and more likely to be influenced by transnational exchanges such as trade, migration, and communication, which help diffuse democratic norms and governance standards independently of EU incentives. To be sure, FE analysis will not tell us anything about the impact of such time-constant factors. But then we are only interested in the effect of EU incentives given the different starting conditions of the target countries. Therefore, FE analysis offers the best chance to obtain an unbiased estimate of this effect.

By contrast, we need to control for time-varying confounders explicitly. By far the most important single variable is wealth. In countless studies following Lipset's seminal paper (Lipset 1959), wealth has been shown to systematically increase the probability that democracies form and persist. In addition, wealth is highly correlated with governance effectiveness. Finally, the EU is more likely to offer membership to richer countries, which produce less migration pressure and require less support from the EU budget, among other things (Schimmelfennig/Winzen 2014). In order to compare relative living standards over time and countries, wealth is measured as the expenditure-side real GDP per capita at chained purchasing-power parities (Feenstra et al. 2013).<sup>5</sup> In addition, we take into account that proximity to the EU is not entirely constant over time: as the EU expands, distant neighbours move closer. In line with earlier studies (Schimmelfennig/Scholtz 2008), we distinguish direct neighbours (sharing a land border with an EU member state) from maritime neighbours (sharing a sea border) and distant neighbours (separated by another country from the EU). We lag our independent variables by one year to avoid simultaneity bias. Finally, we include a period dummy to control for the changing global context of democratization post-2005.<sup>6</sup>

The main dependent variable in the analysis is the annual WGI mean. In order to test for differences between effects on democracy and governance effectiveness, we use the liberal democracy and the governance capacity indices separately. In addition, we check the robustness of our findings by using the UDS, Freedom House and Polity measures as dependent variables. As a result, the models vary in temporal scope. Models explaining WGI scores have a starting year of 1997; the alternative democracy measures allow us to start with 1994. Due to the limited availability of the wealth measure, the analysis ends in 2012. The baseline for the incentives index is low-credibility partnership (1/2); the baseline for proximity is direct neighbours. Table 2 lists the results of the FE regression analysis.<sup>7</sup>

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5 We first-difference the wealth data because a unit root test reveals non-stationarity.

6 We also ran models with year dummies to control for temporal heterogeneity. The main effects are robust against this change in the model specification.

7 All results were obtained by running Stata's *xtreg* estimation for fixed effects at the country level and with panel-corrected standard errors.



Table 2: Regression results

	(1) WGI	(2) WGI capacity	(3) WGI democracy	(4) UDS	(5) Freedom Index	(6) Polity
High-credibility partnership (1/2)	.21 (.15)	.31 (.14)*	.13 (.16)	-.12 (.16)	.32 (.41)	
Low-credibility association (2/1)	.17 (.11)	.20 (.11)	.12 (.12)	.14 (.05)*	.15 (.29)	1.68 (.81)
High-credibility association (2/2)	.25 (.15)	.34 (.15)*	.17 (.14)	.01 (.08)	.12 (.28)	
Low-credibility accession (3/1)	.48 (.15)**	.55 (.15)**	.44 (.17)*	.29 (.17)	1.59 (.46)**	5.70 (1.72)**
High-credibility accession (3/2)	.56 (.15)**	.63 (.15)***	.52 (.17)**	.35 (.17)*	1.79 (.47)**	
Membership (4/1)	.56 (.17)**	.64 (.16)**	.55 (.18)**	.44 (.19)*	2.06 (.59)**	5.97 (1.93)**
Maritime neighbours	-.09 (.04)*	-.02 (.03)	-.13 (.05)*	-.13 (.05)*	-.24 (.15)	-1.59 (.82)
Distant neighbours	.09 (.09)	.16 (.09)	.02 (.11)	-.02 (.04)	-.15 (.25)	.15 (.66)
Wealth (1000 USD)	.03 (.01)**	.03 (.00)**	.09 (.09)	.01 (.01)	-.01 (.05)	-.36 (.24)
Post-2005	.07 (.03)	.11 (.04)**	-.01 (.04)	-.06 (.03)	-.05 (.14)	-.35 (.41)
Constant	-.34 (.15)*	-.41 (.14)**	-.22 (.16)	.47 (.13)**	4.16 (.38)***	2.94 (1.05)*
N	410	410	410	456	456	418
R <sup>2</sup>	.47	.47	.39	.35	.44	.37

Note: FE estimation with country-clustered standard errors (in brackets). Significance: \*\*\*  $p < .001$ ; \*\*  $p < .01$ ; \*  $p < .05$ . Model (6) with collapsed incentive categories. Robust effects shaded in grey.

Source: Authors.

The findings generally support our hypothesis. First, accession incentives have a robustly higher positive impact on good governance than the partnership baseline. By contrast, weaker incentives than the ‘membership carrot’ do not have any systematic effect on good governance (when compared with the baseline). Moreover, high-credibility accession conditionality has a significantly stronger effect than low-credibility accession conditionality. Even when evaluated against the combined impact of all other incentives, accession conditionality has a positive effect on the WGI index ( $\beta = .15$ ,  $p = .000$ ). This effect holds for the other measures as well (not shown here).

Second, membership also has a robust positive impact in comparison with low-credibility partnership. This effect is not significantly different from the accession conditionality effect. Moreover, when assessed against the combined effect of all other incentives, membership even has a negative effect on the WGI index ( $\beta = -.10$ ,  $p = .06$ ). This negative effect is not robustly significant, however. Third, the EU’s impact on democracy appears to be weaker than its impact on governance effectiveness (compare Models 2 and 3).

Finally, our control variables are not robustly associated with democracy and governance effectiveness. Wealth only has a significant but weak positive impact when the measure of the dependent variable is or includes governance effectiveness. Distant neighbours do not perform systematically worse than close neighbours. The hypothesized disadvantage of maritime neighbours in comparison with land neighbours can only be observed in a few estimations. The difference between the pre-2005 and post-2005 periods shows the expected negative sign for the democracy measures but does not reach conventional levels of statistical significance.

The size of the coefficient for credible accession conditionality and membership is higher than .5 in all WGI models. That is, offering non-member countries membership rather than simple partnership improves their WGI score by approximately 20 percent of the range of WGI scores in the sample. In 2014, this amounts to the difference in average WGI scores between Southeast Europe and the Post-Soviet area, or the differences between Albania and Croatia and between Georgia and Poland.

## 5. Conclusion

Strengthening democracy and governance effectiveness are central goals of the EU. In general, Eastern European countries have made progress on both accounts. Yet the gaps between old and new member states, and between the Central, Southern, and post-Soviet sub-regions, have remained. Moreover, democracy has suffered from partial backsliding in the past decade. How much of this development can be attributed to the EU's external political integration capacity?

Our results provide a differentiated picture. In line with our expectations and earlier research, the EU has made a systematic difference in good governance in those countries that it offered membership. This also holds for current candidates despite more unfavorable conditions regarding lower EU attractiveness and higher domestic adjustment costs, on the one hand, and the continuous lack of a political *acquis*, on the other. This may be due to the changes the EU made to its enlargement policy. In light of the experience with the most recent accessions of Bulgaria, Romania, and Croatia, the EU has placed strong emphasis on democracy and the rule of law, on the one hand, and public administration reform on the other. To ensure compliance, it has introduced a general system of closing benchmarks and specific targets, which are assessed and monitored by experts from the member states and the candidate countries (Fagan forthcoming; Müftüler-Baç forthcoming).

By contrast, weaker incentives have had no discernible impact. Going beyond existing research, we also show that, whereas membership is certainly more beneficial to democracy and governance effectiveness than leaving countries 'out in the cold', it tends to have a negative effect in comparison with pre-accession incentives.

In policy terms, our findings confirm the statement of former EU Commissioner Štefan Füle quoted above: If the EU wants to politically transform its neighbours, it needs to offer them a credible membership perspective. Other incentives do not have a systematic impact. We cannot exclude endogeneity in the sense that the EU may be cautious to offer membership only to those countries it expects to improve in democracy and governance effectiveness. Since our analysis only says something about those countries that were actually offered membership, it cannot be interpreted to imply that accession conditionality will work in the same way in countries that have not been offered membership so far. It is thus an open question whether the Eastern neighbourhood countries would have made significant progress in democracy and governance effectiveness had they had a membership perspective, as Füle would have expected.

It is true that EU conditionality can promote democratic and effective governance even in the absence of a membership perspective (Börzel/van Hüllen 2014; Börzel/Lebanidze 2015). However, the EU has to be consistent in rewarding progress and sanctioning the lack thereof. Even then, visa liberalization and market access only promote good governance if they can empower domestic reform coalitions. And they might still not be sizeable enough to pay off the high costs of sustainable political change. A membership perspective for countries with EU aspirations and pro-reform coalitions, such as Ukraine, Moldova, and Georgia, would not only be more effective in supporting and locking in good governance reforms. It would also strengthen the legitimacy of the EU in demanding such costly changes.

In addition, our findings suggest that the EU needs to strengthen its political integration capacity vis-à-vis its member states. Concerns raised in the literature on political conditionality (e.g. Schimmelfennig/Sedelmeier 2005b) that the EU's ability to promote EU norms and rules will be reduced after the 'carrot of membership' was consumed appear justified in the light of our results. The Article 7 sanctions have not proven credible so far. It remains to be seen whether the new rule of law mechanisms first used in the Polish case will make a difference. These findings are striking in comparison with the sustained pre-accession conditionality effects on post-accession compliance with EU law (Börzel/Sedelmeier forthcoming). This variation points to major differences between political and *acquis* conditionality. As regards compliance with the EU *acquis*, pre-accession conditionality can be substituted with the EU's regular system of compliance monitoring and judicial review. When it comes to liberal democracy and governance effectiveness more generally, however, no such institutionalized procedures exist. Moreover, compliance with the technical rules of the EU is less politicized and can be more easily insulated from political pressure.

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**“Maximizing the integration capacity of the European Union: Lessons of and prospects for enlargement and beyond”**

The ‘big bang enlargement’ of the European Union (EU) has nurtured vivid debates among both academics and practitioners about the consequences of ‘an ever larger Union’ for the EU’s integration capacity. The research project MAXCAP will start with a critical analysis of the effects of the 2004-2007 enlargement on stability, democracy and prosperity of candidate countries, on the one hand, and the EU’s institutions, on the other. We will then investigate how the EU can maximize its integration capacity for current and future enlargements. Featuring a nine-partner consortium of academic, policy, dissemination and management excellence, MAXCAP will create new and strengthen existing links within and between the academic and the policy world on matters relating to the current and future enlargement of the EU.