



EUROPEAN POLICY ANALYSIS

Strengthening State Capacity: Lessons for the EU's Next Enlargement

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Summary

This European policy analysis considers the main EU instruments for strengthening state capacity in Central and Eastern Europe (CEE) during the 2004 and 2007 enlargements and draws lessons for the future EU enlargement. The analysis focuses on the forms of state capacity relevant for economic integration, which is widely considered a successful aspect of the earlier enlargements. The paper identifies the main state capacities relevant for this economic success and analyses the key instruments through which the EU helped bring about positive change in CEE state institutions. The text also brings selected empirical data comparing the state capacity of Ukraine, Moldova and Georgia with those of the CEE countries.

The main conclusions are that strengthening state institutions in the candidate countries should be one of the EU's key priorities for enlargement. This should include not only the judiciary and public administration – crucial for curbing corruption – but also regulatory and developmental state institutions, to ensure that integration brings economic prosperity. Furthermore, the EU's enlargement strategy should address both economic and social consequences of integration. Ignoring the distributive implications of integration could undermine democracy in the enlarged EU.

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The opinions expressed in the publication are those of the author.

1. Introduction

From the economic point of view, the integration of Central and East European (CEE) countries¹ into the EU is by-and-large considered a success. Since accession, the so-called ‘new member states’ have experienced significant economic growth and convergence towards the EU-average income levels, and they have also witnessed increasing economic complexity and technological sophistication of their exports (Andor, 2019; Vukov, 2023). While for some of the CEE states there are valid concerns about the state of their democracy or rule of law, their economic performance is widely praised and sometimes considered an economic miracle (Piatkowski, 2018).

‘[...] the key element in preparing the candidate countries and their economies for EU membership lies in strengthening their state institutions.’

Existing research clearly shows that this success did not come about simply as a result of market integration and/or disbursements from the EU’s cohesion funds. Rather, the key element in preparing the candidate countries and their economies for EU membership lies in strengthening their state institutions (Bruszt and Vukov, 2017). State capacity has been crucial for development and successful economic integration with the EU market, as well as for the implementation of EU rules and regulations in CEE countries (Bruszt and Langbein, 2020; Vukov, 2020a; Vukov, 2020b). On the other hand, the weakness of state institutions and the inability to counter state capture is identified as one of the most important reasons for the EU’s failure to successfully integrate countries of the Western Balkans (Börzel, 2011; Richter and Wunsch, 2020). As the EU embarks on further enlargement including Ukraine, Moldova and Georgia, one of the key questions for its current strategy is: how could the EU strengthen state capacities in new candidate countries in order to ensure they are ready for EU membership?

In answering this question, this paper draws lessons from the EU’s previous Eastern enlargement in

2004 and 2007 and analyses the instruments which the EU used to strengthen state capacities in the CEE countries during their preparations for accession. State capacity is defined as the government’s ability to accomplish its intended policy goals (Dincecco, 2017). From the perspective of economic integration, particularly relevant is economic state capacity, which can be defined as a state’s ability to use public power in order to maintain and correct market order (Bruszt and Vukov, 2017). Any state operating in a market economy needs the capacity to preserve market order by protecting property rights and enforcing contracts, while different governments may vary in the degree to which they want to *correct* markets, for instance by providing public goods, by channeling economic activities into particular sectors, or by redistributing economic outcomes.

The present analysis focuses in particular on the state capacities relevant to meeting the EU’s economic criteria for accession (being a functioning market economy capable of withstanding competitive pressures in the European market), as well as the requirements to take on membership obligations, i.e. to implement the EU *acquis*. Since a bulk of the *acquis* consists of rules regulating different aspects of economic activity, the ability to implement this body of EU law is a fundamental part of candidate states’ capacity for membership of the EU as well as for successful economic integration. The following capacities are thus analysed: having a functioning and independent judiciary, the professionalism of the public administration, the quality of regulatory institutions and their developmental capacities.

The paper explores how the EU has strengthened the above capacities during the 2004 and 2007 Eastern enlargement, and analyses the EU instruments that have been the most successful in producing positive changes in CEE state institutions and in helping them reap the benefits of economic integration. The paper also provides a brief analysis of selected state capacities in Ukraine, Moldova and Georgia in comparison with the CEE countries and discusses the main challenges that could be expected with regard to strengthening state institutions in new candidate countries. The final part draws policy recommendations for further EU enlargement governance.

¹ By Central and East European countries here we mean all the post-communist countries that are now members of the European Union: Bulgaria, Croatia, Czechia, Hungary, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia.

2. EU governance of enlargement in 2004 and 2007

The EU's Eastern enlargement was linked with specific political, economic and institutional membership criteria, established at the Copenhagen European Council in 1993. These so-called Copenhagen criteria continue to guide the enlargement process, including the EU's engagement with the Western Balkans and more recently with Ukraine, Moldova and Georgia. Whereas the political criteria refer to the stability of institutions guaranteeing democracy, rule of law and human rights, the economic criteria require the existence of a functioning market economy capable of withstanding competitive pressures and market forces within the EU. Finally, the third type of criteria demands that would-be members have the ability to take on the obligations of membership, including the capacity to effectively implement the rules, standards and policies that make up the body of EU law (the *acquis*). Together with economic criteria, the *acquis*-related requirements are particularly important from the perspective of economic integration as they comprise a large number of rules regulating economic activity within the European market.

'Conditionality, financial assistance and institution building are thus three main aspects of the EU governance of enlargement.'

The central part of the EU's governance of enlargement consists of pre-accession conditionality, whereby the EU sets up clear economic, political and institutional conditions for membership. In addition to setting the conditions, the EU also assists the candidate states to meet the required criteria by providing financial assistance and by engaging in institution building in the candidate countries. Conditionality, financial assistance and institution building are thus three main aspects of the EU governance of enlargement.

2.1 Membership conditionality

The setting of membership conditions presents national governments with clear costs and benefits linked with adopting the EU rules and complying with the EU demands. It has thus been widely

recognized as one of the most important tools for transforming candidate countries (Schimmelfennig and Sedelmeier, 2005). Yet, the exact scope and content of these demands is not always clearly defined. In the case of **economic criteria for accession**, such ambiguity has turned out to be an advantage for CEE countries (Bruszt and Langbein, 2015). The EU has never defined what a functioning market economy is, or what it means to be able to withstand competitive pressures in the EU market. In contrast with the Maastricht criteria for entry into the EMU, which stipulated clear macroeconomic indicators, the Copenhagen economic criteria are much more open to interpretation. This leaves a lot of space for the European Commission to ask for very broad and varied reforms as part of its exercise of monitoring compliance with the economic criteria for accession. The EU's demands in this area include the speed of privatization, macroeconomic stability, openness for foreign investments, and liberalization and privatization in the financial sector. These are then used as the basis for making decisions on individual country's progress in accession negotiations.

A country's **ability to implement the EU *acquis*** is also regularly monitored and assessed before accession. In this case, the institutional criteria are clearer, and they were more precisely operationalized ahead of the 2004 and 2007 enlargements, but again, the Commission did not simply go through a check-list of compliance. Rather, it engaged in a years-long process of joint problem-solving with local policy makers and bureaucrats in more than 30 different policy areas (Bruszt and Langbein, 2015). The process would start with the EU's assessment of how the situation in a candidate country compares with the EU demands. This would be followed by the candidate states' response which already had to include a plan on the actions and resources needed for meeting the requirements. The assessment of the progress in meeting the EU demands was repeated on a yearly basis. Through this process, the candidate states rules and regulations were increasingly aligned with those of the EU.

2.2 Financial assistance

The EU's provision of pre-accession financial assistance was an important element in governing market integration in CEE countries. This was not because of the generosity of the funds – the

resources were indeed minuscule in comparison with the structural and cohesion funds available to less developed EU member states (Bruszt and Vukov, 2017). The most important aspect was rather the goals and targets attached to pre-accession funding. In contrast with the EU's structural and cohesion funds, which are mainly spent on infrastructure development (Medve-Balint, 2018), pre-accession financial assistance to the CEE was specifically aimed to foster the restructuring of these economies and prepare them for participation in the Single Market. As early as the early 1990s, the EU PHARE programme provided assistance to privatization authorities, ministries in charge of industrial restructuring, as well as investment promotion agencies – the key institutions for attracting foreign direct investments (FDI). Before accession, the EU funds thus engaged with and financed those state institutions that laid the basis for the inflow of foreign direct investments and the resulting FDI-led growth in the region.

2.3 Institution building

The third aspect of the governance of enlargement, closely linked with conditionality and pre-accession financial assistance, can be described as EU-led institution building. In many policy areas, the European Commission insisted that candidate states create new national institutions, such as specific standardization agencies, bodies regulating market competition, or regional and national development agencies. In some cases the EU demanded the creation of institutions that did not even exist in the old member states, such as independent national state aid authorities. These effectively tied the hands of national governments in the candidate states and obliged them to comply with the EU market rules. The result was not only strong state capacity to implement the EU rules, but also deeper economic integration with the West European market (Vukov, 2020a).

3. State capacity for EU membership

Membership conditionality, financial assistance and institution building together helped strengthen state capacity for successful integration with the EU market and for the consistent implementation of the obligations of membership and EU rules in the economic area. While foreclosing the possibility for the CEE states to protect their domestic firms and markets from competition with Western economic

actors, such EU interventions helped bring about economic state capacities crucial for attaining economic development within the EU market (Bruszt and Vukov, 2017; Bruszt and Lanbgein, 2020). From this perspective, four main types of state institutions appear to be the most important ones: a) judiciary; b) public administration; c) regulatory institutions; d) developmental institutions.

- a) A functioning and independent judiciary is a necessary precondition for the rule of law and for creating and maintaining the basic preconditions of market order, such as upholding property rights and ensuring the respect of contractual relations. Furthermore, judicial institutions are also a key aspect of curbing corruption and strengthening a state's ability to avoid or extricate itself from capture by specific economic elites. Such state capacity to resist corruption was particularly important in the context of post-socialism where simultaneous economic and political reforms created a lot of space for the establishment of networks between economic and political elites and for the misuse of public resources for private benefits (Grzymala Busse, 2003; Hellman, 1998). Strengthening judicial capacity has thus been crucial in CEE states, and the similar holds for the current accession candidates. The reforms undertaken in response to the EU demands in this area would typically involve laws on the procedures for judicial appointments, or strengthening the independence of public prosecutorial institutions.
- b) Public administration is another key, basic state institution needed for the impartial implementation of public policies, including market rules and specific regulations stemming from the EU *acquis*. Fearful that the weak capacity to implement EU regulations would undermine the level playing field nature of the European market, the EU has thus promoted the strengthening of general administrative state capacity and the creation of an impartial, trustworthy and efficient public bureaucracy in the candidate states. The EU requirements in this area have included civil service reforms and well-staffed and depoliticized state bureaucracies with civil servants selected and promoted on a meritocratic basis (Meyer-Sahling 2011). In the process of accession, candidate states

would thus typically adopt new laws on public administration, establish continuous training for civil servants, or change the nomination process for higher level civil servant positions from political appointments to expertise-based and meritocratic ones.

A functioning judiciary and an impartial and professional public administration are two general state capacities linked with the judicial and executive branch of the government. However, besides such general functioning of the state apparatus, successful economic integration also requires the existence and operation of two types of institutions more narrowly in charge of governing the economy: regulatory and developmental institutions.

- c) Regulatory institutions are all those public agencies and organizations in charge of ensuring market competition as well as the implementation of specific market rules, standards and regulations, including for example environmental standards, health and safety or consumer protection. In the context of post-communist CEE economies, the existence of such institutions was not a given, and many of them were established specifically in response to EU demands. In the common European market, these institutions become relevant from the perspective of ensuring non-discrimination against economic actors from other member states. National institutions in charge of monitoring and implementing environmental standards become relevant not only for protecting the environment, but they also play a role in safeguarding the consistent implementation of EU rules and preserving the level playing field across the common market. Institutions in charge of market competition and anti-monopoly practices are key for ensuring that national or local governments do not engage in discriminatory practices that would favour some firms or economic actors over others. While this is fundamental for preventing unfair competition in the EU market, it is also an important part of curbing corruption, as strong and independent institutions in charge of competition policy or public procurement may also prevent national governments from extending favours to politically connected economic actors.

- d) Finally, developmental institutions and state capacity to foster development increase the chances that economic actors from the candidate states, typically endowed with less capital and technology, can survive integration with some of the richest and most competitive economies on Earth. The capacity to withstand competitive pressures in the EU market, one of the economic criteria of accession, fundamentally depends on the ability of the candidate states or new EU member states to engage in policies that can help to upgrade and increase knowledge intensity and technological sophistication of their economies. In that respect, strong regional development agencies, institutions in charge of industrial policy, local development banks, and investment promotion agencies can become crucial for successful integration with the EU market. Similarly, the existence of tax incentives for firms engaging in research and development, the promotion of small- and medium-sized enterprises or the establishment of clusters linking multinational corporations, local businesses and local universities and research institutes are all relevant practices fostering participation in higher value added activities within transnational production chains. These are also important institutions for increasing a country's economic complexity, defined as the amount of capability and know-how that goes into the production of any given product produced in the economy (The Growth Lab Harvard). Countries with higher economic complexity will show higher levels of technological sophistication and a higher share of knowledge-based activities in the economy, and they will also have higher potential for future economic growth.

4. EU policies and the strengthening of state institutions during the 2004/2007 enlargement

How did the EU strengthen the above-mentioned state capacities and institutions during the 2004 and 2007 Eastern enlargement? Below is a summary of the main features that contributed to positive changes in the East.

- a) **The judiciary: safeguarding independence.** With regard to the judiciary, the key element of the market-preserving state, the European

Commission created elaborate institutional requirements for nurturing its independence. The EU promoted institutional guarantees regarding this independence and the Commission also regularly checked whether the courts were staffed with well-trained judges who handled cases in a fair way. As a result of these efforts, the CEE states substantively improved the performance of their judiciary compared with the situation prior to EU accession (Bruszt and Vukov, 2017). They also scored very well in subsequent comparative evaluations of judicial effectiveness and business friendliness (CEPEJ, 2013). In this respect, the former socialist states of the Eastern Europe have actually surpassed the Southern European EU member states. Even after accession, they still appear relatively well performing on some measures such as the disposition time (the time a judicial system takes to resolve a case) for commercial matters, though in many of them the perceived independence of courts has recently been assessed as among the worst in Europe (CEPEJ, 2020).

b) Public administration: reforming the civil service. The EU's demands also helped to improve the professionalism and efficiency of the East European countries' public administrations. In the period before accession the European Commission would regularly comment on public administration reforms as part of the assessment of the fulfillment of the political accession criteria. The EU demands included civil service reforms, the depoliticization of the public administrations, the establishment of a system of open competition for entry into the civil service, the design of transparent and predictable salary systems, the strengthening of training programmes for civil servants, and the establishment of measures protecting civil servants from political dismissals (Meyer-Sahling, 2011). Part of the EU pre-accession funds were used for meeting these goals. The EU also coordinated with the OECD in the creation of SIGMA, a unit which from the late 1990s performed annual assessments of the public administration in the CEE countries and thus provided the basis both for the Commission's assessment of progress and its further demands.

The quality of government in CEE states has substantively improved as a result of these efforts in the period before the EU accession. While still not reaching the levels of Western Europe, the data on the quality of government suggest that the East European bureaucracies have converged with those of Southern Europe (Bruszt and Vukov, 2017). After their accession, CEE countries diverge in the extent to which they continued or reversed some of the civil service reforms introduced during the pre-accession period (Meyer-Sahling, 2011). Nevertheless, the demands and assessments of the European Commission were effective in producing the desired change before enlargement, and in bringing these states into the EU with more professionalized and politically independent public administrations.

c) Regulatory institutions: building capacity to implement and regulate. Regulatory state capacities were among the most important elements used to assess a country's progress in meeting the accession criteria. The European Commission developed a comprehensive overview of different policy areas included in the EU's *acquis*. The Commission carefully examined the institutional architecture in the candidate states linked with these policy areas, the operation, resources and capacities of the relevant institutions and their ability to effectively implement the EU rules in the future. EU interventions included numerous technical capacity-building programmes which financed training for the staff working in the CEE regulatory institutions, or helped with the development of their internal rules and procedures. National telecommunication agencies, environmental and labour inspectorates, and institutions in charge of implementing food safety regulations were all created or substantively strengthened by these EU demands. In the field of state aid, the European Commission even demanded the creation of national state aid institutions in candidate countries that would monitor the compliance of state aid with the EU rules and thus mimic the role that the European Commission plays for the states within the EU (Vukov, 2020a). As a result of all these interventions before accession, the CEE

member states continued to record relatively high compliance with the EU rules after accession (Sedelmeier, 2016; Vukov, 2020a).

d) Developmental institutions: preparing to face the competition. Finally, state capacities for helping economic development were also substantively strengthened by EU pre-accession conditionality and assistance. It should be noted that economic development was never an explicit goal of the pre-accession preparations; rather the EU was much more focused on avoiding potential negative consequences of CEE economic integration with the Single Market (Bruszt and Langbein, 2015). As part of this attempt to avoid any downturn, state bureaucrats working in various sectors, or those otherwise responsible for general economic policy, were requested to prepare reports on the sectoral problems linked with integration, and on the opportunities, constraints and threats when it came to coping with these problems. Influenced by the experience of German reunification, the EU thus actively tried to manage and prevent possible economic shocks and negative consequences of an introduction of a whole set of new market rules onto the terrain of former socialist economies (Bruszt and Vukov, 2017). EU assistance programmes transferred €28 billion of funds in the 2004 Eastern enlargement specifically targeted to address the problems detected in these reports (Bruszt and Vukov, 2017).

Furthermore, EU pre-accession funds provided substantive support for industrial re-structuring accompanying integration, and for cushioning its adverse social effects. Such assistance strengthened state capacity to foster developmental alliances among multinational corporations and domestic stakeholders, as it helped ameliorate the concerns of the domestic actors, particularly trade unions, about the social consequences of privatization and liberalization (Vukov, 2020b). Early in the post-socialist years many CEE states attempted to create national capitalism and protect the newly privatized domestic enterprises from market competition (Bohle and Greskovits, 2012). The EU interventions, including financial assistance, helped transform such economic growth strategies from those based on protectionism

and national capitalism to those based on FDI and deep integration with the EU market (Vukov, 2023). The EU however went beyond simply demanding liberalization. Rather, EU financial assistance before and after accession also financed regional development agencies, national development banks (Piroska and Mero, 2021), or programmes for the creation of clusters linking multinational corporations, local suppliers and local governments and education institutions. As a result of this, economic integration of the CEE was coupled with increasing economic complexity and sophistication of their exports, rather than confining these states to merely providing cheap labour or engaging in lower value-added activities within the European market (Vukov, 2023).

5. State capacity and the challenge of integrating Ukraine, Moldova and Georgia

How do Ukraine, Moldova and Georgia fare when it comes to their readiness for EU membership? How do they perform in particular with regards to the above-identified state capacities, relevant from the perspective of economic integration? This section presents comparative data, where it is available, on the situation in the candidate countries regarding the four types of state capacity we have been looking at throughout this essay.

a) Judicial capacity and efficiency. Judicial capacity is the first precondition of a stable market order. Table 1 shows comparative data on the efficiency of the judiciary and its staffing levels in CEE countries and in Ukraine in 2018 and 2020. Judicial efficiency is measured by two indicators. The first is the clearance rate, which is the number of resolved cases divided by the number of incoming cases. When the number of resolved cases in a specific year exceeds the number of new incoming cases, the clearance rate can be higher than 100%. The second measure is the disposition time for civil and commercial litigious cases, expressed in days. The data is taken from 2018 rather than 2020 in order to avoid the effects of the COVID-19 pandemic on the functioning of judiciary.

Table 1: **Judicial capacity and efficiency**

	Clearance rate	Disposition time (in days) for civil and commercial litigious cases	Number of judges per 100 000 inhabitants
Bulgaria	NA	NA	31.8
Czechia	102%	149	28.4
Estonia	101%	143	17.7
Hungary	116%	151	30.2
Latvia	103%	236	29.1
Lithuania	104%	84	27.1
Poland	92%	273	25.5
Romania	103%	157	24.1
Slovakia	131%	157	25.3
Slovenia	110%	283	41.7
CEE Average	107%	181	28
Ukraine	97%	129	13.1
Moldova	104%	143	17.5
Georgia	91%	274	8.8

Source: CEPEJ (European Commission for the Efficiency of Justice). Data for clearance rate and disposition time is for 2018. Data for the number of judges is from 2020.

The table shows that in the measures of judicial efficiency Ukraine, Moldova and Georgia lag behind the CEE states with regards to clearance rates, while they perform similarly to the CEE countries when looking at the disposition time. The difference between the two groups is however most pronounced in the number of judges per capita which is much lower in Ukraine, Moldova and Georgia than in CEE states. Hence, judicial capacity is certainly an area where there is room for improvement in the candidate countries. The European Commission’s progress reports for three countries also note the need to improve judicial capacity (European Commission, 2023a; European Commission, 2023b; European Commission, 2023c). Looking at similar indicators to those reported here, the Commission’s reports discuss the need

to improve judicial efficiency in particular. Furthermore, the reports note the need for increasing judicial independence and the efforts made in this direction, in particular through reforms in the nominations and functioning of supreme courts (European Commission, 2023b, European Commission, 2023c). In that respect however, Ukraine and Moldova have made more progress, while Georgia continues to lag behind.

b) Public administration. With regards to administrative capacity, one of the most common measures in political science is the Quality of Government Index developed by The Quality of Government Institute at the University of Gothenburg. The indicator captures the capacity of governments to deliver high quality policies, defined as policies

characterized by the absence of corruption and the upholding of an impartial treatment of citizens, enacted through effective administrative machineries (Charron and Lapuente, 2013).

Table 2 shows the data on the composite indicator reflecting quality of government, and a more specific measurement of corruption reported in the Quality of Government dataset. While higher scores in Quality of Government indicate higher quality, higher scores on corruption indicate higher levels of corruption, i.e. a worse performing system. In both cases the data refer to the latest year available: 2022 for the Quality of Government and 2021 for Corruption measurement. The table shows that Ukraine and Moldova perform worse than CEE on both indicators, while Georgia according to this measurement displays somewhat better performance with regards to corruption.

The European Commission’s reports note only a moderate level of preparation by the public administrations for accession in Ukraine, Moldova and Georgia, as well as continuing problems with corruption (European Commission, 2023a; European Commission, 2023b; European Commission, 2023c) The main identified weaknesses in terms of public administration include the need to introduce or strengthen merit-based recruitment and selection of staff, as well as the need for salary reforms. As for corruption, it is highlighted as an issue in all three countries. The EU has asked for specific institutional reforms in this area and the three candidates have indeed created or strengthened anti-corruption agencies or anti-corruption prosecutor bodies in response to the EU demands. Furthermore, a novelty in comparison with the CEE enlargement is that the EU has now explicitly asked for the reforms in the direction of ‘de-oligarchization’ (reducing the power of the small class of extremely wealthy and influential individuals) and the Commission’s reports comment on the ongoing judicial procedures and judgements against oligarchs. The real challenge, however, as noted by the Venice Commission, is to enact systemic reforms that could lead to de-oligarchization rather than taking a personalistic approach that tackles individual oligarchs. Such systemic reforms would involve strengthening legislation relating

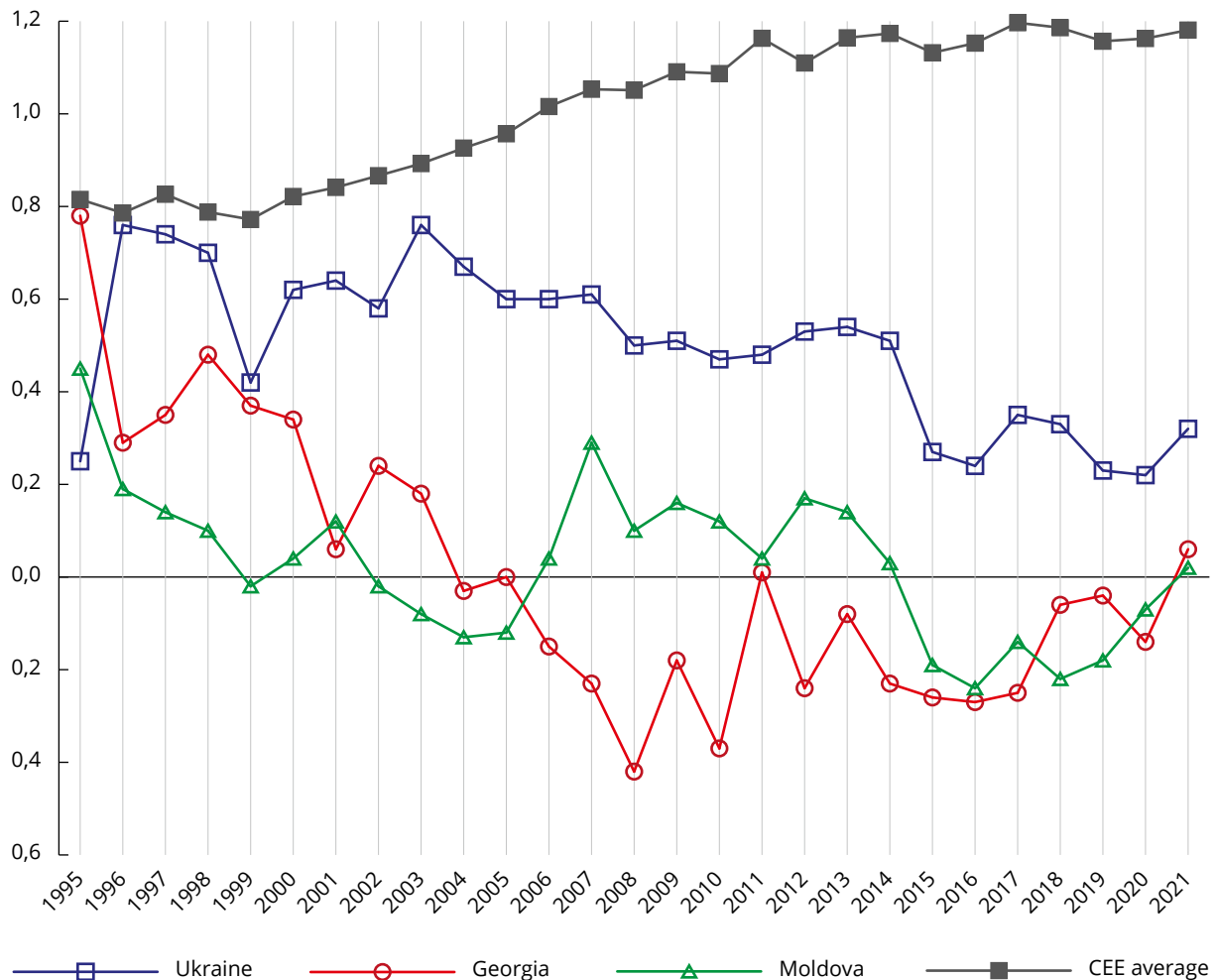
Table 2: **Quality of Government and Corruption**

	Quality of Government	Corruption
Bulgaria	0.50	48.29
Czechia	0.69	35.44
Estonia	0.65	14.98
Hungary	0.62	33.67
Estonia	0.65	14.98
Latvia	0.67	33.06
Lithuania	0.60	33.75
Poland	0.58	33.51
Romania	0.42	44.67
Slovenia	0.73	28.31
Slovakia	0.61	40.63
CEE Average	0.61	32.85
Ukraine	0.44	62.35
Moldova	0.42	56.58
Georgia	N/A	29.40

Source: Quality of Government Institute, University of Gothenburg.

to media, monopolies, public procurement, the financing of political parties, elections, taxation, corruption and money laundering with a view to preventing the destructive influence of oligarchy in a comprehensive manner (Venice Commission, 2023). The reforms so far undertaken in Ukraine and Georgia are based primarily on creating a register of oligarchs and imposing specific limitations on persons designated as oligarchs, while reforms that would be based on a more systemic approach are still rather weak (Venice Commission, 2023).

Figure 1. Economic complexity in CEE, Ukraine, Moldova and Georgia



Source: Harvard Atlas of Economic Complexity.

c) **Regulatory institutions.** As for the regulatory capacity of the new candidate states, at this stage it is too early to provide comparative information. The European Commission has only started with its assessment of those state institutions that will have to implement EU rules and regulations. The existing progress reports note some progress being made in selected sectors but little in others. In the area of competition policy, which is one of the fundamental aspects of economic integration, the EC report notes limited progress in Ukraine (European Commission, 2023c), some progress in Moldova, though the capacity of its Competition Council is still weak, and the need to further align legislation with EU rules (European Commission, 2023b). In Georgia,

it notes no progress: the national State Aid Commission is reported to still lack operational independence (European Commission, 2023a).

d) **Developmental capacities.** A robust overview of relevant state institutions reflecting candidate states' developmental capacities would also need further empirical work. Nevertheless, some insight into developmental capacities can be inferred from examining the structure of the economy. As suggested by the rich literature on the developmental state (Evans, 1995; Amsden, 2001), the ability of the state to spur economic development will typically result in more sophisticated and technologically advanced economic activities in the country. In Figure 1 we show the data on economic

complexity provided by the Harvard Atlas of Economic Complexity. The data is based on the examination of the export structure of these economies. Countries that export technologically more advanced and more knowledge intensive products and services have a higher score of economic complexity (Growth Lab Harvard, online).

The data show that Ukraine, Moldova and Georgia display much lower levels of economic complexity than the CEE countries. The latter have been continuously increasing their economic complexity since the mid-1990s as a result of large inflows of FDI in complex manufacturing sectors, and as a result of joint national and EU-level policies fostering increased knowledge intensity and economic upgrading (Bruszt and Langbein, 2020; Vukov, 2023). On the other hand, Georgia, Moldova and Ukraine, which have so far only had limited integration with the EU, based mainly on trade liberalization, have actually experienced developmental decline during the same period. This suggests that at the moment they have rather weak developmental capacities and it would be critical to strengthen them.

All in all, Ukraine, Moldova and Georgia show moderate judicial capacities, with the main weakness being relatively low number of judges, and still weak judicial independence. Their overall quality of government is similar to the weakest CEE states, but their levels of corruption are much worse, with the exception of Georgia that performs relatively better in this respect. Preliminary analysis suggests that their regulatory and developmental state capacities are still underdeveloped and this is one of the critical areas that the EU should tackle in preparing the countries for accession.

6. Conclusions and policy recommendations

What are some of the main lessons the EU should draw from its experience of the 2004 and 2007 enlargements when it comes to the integration of Ukraine, Moldova and Georgia?

First, given their low levels of income per capita and economic complexity, the challenges of economic integration for Georgia, Moldova and

Ukraine are likely to be even larger than in the first Eastern enlargement. The EU should thus identify economic development and increasing economic complexity among the explicit goals of enlargement. These goals should then be incorporated into the design of EU policies towards the candidate countries, including the EU's assessment of their readiness for accession and its financial assistance. Currently, the EU emphasizes macro-financial stability and improving the business climate as important economic goals in its financing programmes for candidate countries, such as the Ukraine facility or the macro-financial assistance to Moldova. However, besides financial stability, greater attention should be devoted to transforming the economic structure of the candidate countries to orient them towards more technologically advanced and knowledge-intensive types of economic activity.

Second, when tackling the challenge of economic development, the EU should not trust that market integration and financial transfers will on their own lead to sustainable growth and economic improvements. Upgrading state institutions should be viewed as a key component of economic development. As argued throughout this paper, this includes the judiciary and bureaucracy, as well as regulatory agencies and institutions dealing with technological change and industrial policy. While the EU is already insisting on independent judiciary and anti-corruption measures, it should also emphasize strengthening those domestic institutions in charge of competition policy, state aid, and public procurement. These institutions should be regularly assessed, from the very beginning of accession negotiations, and the EU should insist on their independence, professionalization and endowment with sufficient financial resources. Furthermore, the EU should also support the creation (and where they exist, the strengthening) of national and regional development agencies and public development banks, which could help ensure that integration brings economic prosperity for the candidate countries.

Third, strengthening state institutions in the candidate countries requires a variety of EU actions. Conditionality is an important part of the EU's toolbox, but it should work in tandem with financial assistance and domestic institution

building. Financial assistance should, however, be clearly linked with and conditional upon the strengthening of the judiciary and anti-corruption agencies, as well as the strengthening of institutions in charge of governing the economy. Strong and impartial institutions implementing EU market regulations play an important role in curbing corruption, as they limit the possibilities for local and national government to favour specific domestic actors. The EU should thus not leave the negotiations on the implementation of the EU market rules for later stages in the accession process. Rather, the effective implementation of the EU market rules should be understood as a part of the strategy of reducing corruption and addressed early.

Fourth, a key aspect of EU governance of integration during the earlier Eastern enlargement was its dialogue with domestic decision makers and the joint problem-solving approach it took. This is a feature that should be preserved in the future enlargements. Nevertheless, the EU should also do more to foster the inclusion of broader groups of domestic stakeholders in discussing and designing plans for meeting EU demands. A rich literature has warned about the executive bias in the EU's dealings with candidate states in CEE before their accession, and the concomitant sidelining of parliaments and the various domestic interest groups (Grzymala Busse and Innes, 2003). Similar weaknesses are apparent in the EU's relations with the Western Balkans (Lazarevic and Maric, 2019). This is a bias that should be avoided in the future.

Finally, the experience of CEE countries as members of the EU shows that the political success of integration also depends on how economic gains are distributed across different social groups. Discontent with the distribution of benefits and losses from integration can provide fertile ground for nationalism and authoritarianism (Schering, 2021), and illiberal governments elected as a result of this trend may seek to subvert exactly those state institutions that were responsible for economic growth and development in the first place. It is thus necessary for the EU to govern enlargement in a way that both upgrades national economies and fosters more equal distribution of the risks and benefits linked with integration. When supporting the creation of domestic development institutions, the EU should also insist that they include a broader range of stakeholders in the design of regional and national development strategies. Such inclusive governance structures could help distribute the benefits of integration more widely across different social groups. In addition, the EU's assessment of the readiness of candidates' economies for integration could include monitoring different indicators of social or regional inequality, in addition to the standard macroeconomic measures such as GDP, inflation, and public debt. Considering the social alongside the economic consequences of integration could prove to be crucial for ensuring the democratic resilience of an enlarged EU.

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