

**CORRUPTION ON THE ROPES?  
THE EFFECTIVENESS OF EU LEVERAGE IN FIGHTING CORRUPTION  
IN CENTRAL AND EASTERN EUROPE**

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## **ABSTRACT**

SVETOSLAV DERDERYAN: Corruption on the ropes? The effectiveness of EU leverage in fighting corruption in Central and Eastern Europe  
(Under the direction of Milada Vachudova, Gary Marks, and Liesbet Hooghe)

The implementation of the 31 chapters of the *aquis communautaire* has been credited with the overall alignment of the Central and Eastern European (CEE) post-communist candidates' systems of governance with Western European standards. During the accession period CEE countries had huge incentives to comply with EU institutions. However, these incentives decreased once membership was attained and the EU's leverage correspondingly diminished. This study finds convincing evidence that this was not the case with corruption. Although not including corruption either in the *acquis* or of the Copenhagen criteria, the EU was able to demand reforms that served to curb corruption levels during the both the candidacy period and after membership. The relative loss of leverage after accession was compensated by continued leverage in terms of conditional EU funds, increased linkages and socializations effects, and spillover effects from the removal of the state from the economy and improvements in the legal systems.

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## I. INTRODUCTION

The European Union's (EU) eastern enlargement stands as one of the greatest political achievements of the modern era. The two waves of the enlargement in 2004 and 2007 made the Union the world's largest commercial and financial market, with a population exceeding 490 million people and a GDP of more than \$13 trillion. The significance of this historic event, however, extends far beyond geography, demography and economics and has deep symbolic implications. As Romano Prodi put it, "Five decades after our great project of European integration began, we are celebrating the fact that Europeans are no longer kept apart by artificial ideological barriers." This was a moment when after more than a decade of difficult transitions, 10 post-communist Central and Eastern European (CEE) countries finally broke free from their communist legacies and joined the ranks of the developed world. Authoritarianism and central planning were now buried in the past. Democracy and the free market were "the only game in town."

However, institutional developments affected by the accession process have had varying levels of success. Although there have been encouraging results in many areas, there is still ongoing debate about the readiness of some of these newly accepted countries to be full members. The evolution of the fight against corruption in Central and Eastern Europe (CEE) provides a useful illustration of this concern. This study, however, refutes the skepticism about these countries' success in trying to contain corruption and shows that both before and after membership, CEE

countries made substantial absolute gains in curbing corruption levels. Although corruption was neither part of the *acquis* nor of the Copenhagen criteria, it was an issue that received tremendous visibility during the accession period through the Commission Regular Reports and the attention of the media in the CEE countries. Taking advantage of its leverage, the EU was able to demand reforms that served to decrease corruption levels during the accession period. After accession gains in the fight against corruption were not negated as the relative loss of leverage in this time period was compensated by positive pressures coming from continued leverage (Structural and Cohesion Funds and Cooperation and Verification Mechanism reports), increased linkage (socialization effects leading to higher demands for accountability of public officials), and spillover effects (reduction of the role of the state in the economy and improvements in the legal system) from implementing the *acquis communautaire* in other areas.

## II. BACKGROUND

The task of reforming the CEE countries during the accession process was a challenging one. Overall, however, the EU's membership conditionality has been widely perceived as a highly effective means of influence. The promise of membership combined with the implementation of the 31 chapters of the *aquis communautaire* during the negotiations phase of the accession period has been credited with the overall alignment of the ten post-communist countries' systems of governance, economies and legal structures with Western European standards. There is no doubt, therefore, that during the accession period CEE countries had huge incentives to comply and collaborate with EU institutions. As a number of scholars have argued, however, these incentives may have decreased once membership was attained and the EU's leverage correspondingly diminished.

There are some examples of issue areas where compliance has indeed declined after accession, most evidently with respect to party platforms and economic and monetary union (Vachudova 2008; Johnson 2008). At the same time, there is plenty of evidence of continued compliance, such as in the areas of bank privatization and pension reform (Epstein 2008; Orenstein 2008). It is therefore unclear to what extent the EU has had a system-wide impact and continues to cause political and economic reform in new members after accession. In order to try to



shed more light on these ongoing debates I focus on the area of governance which is most likely to engender skepticism – government efforts to fight corruption.

There are many reasons that justify focusing on corruption in particular. Corruption is important because it undermines democratic institutions, reduces economic growth, and challenges liberal democracy – “as political elites violate the legal limits of their power, citizens lose trust in state institutions, and civil society is oppressed and co-opted by powerful networks” (Vachudova 2009). Furthermore, it endangers the cohesion of the Union in a way few other governance challenges do. First, if the Structural and Cohesion Funds that become available to new members after accession are not fairly allocated, they fail to adequately address the economic and infrastructural challenges these countries face and delay their effective integration in the Union. Second, as corruption scandals in CEE countries make more and more headlines, public support for the Union’s integration and further enlargement diminishes as both eastern and western European publics become skeptical of the EU. Thus, corruption is an important issue which deserves the attention of both policy-makers and academics.

Many scholars suggest that post-accession compliance would be maintained in cases where dismantling institutions is difficult and domestic costs in general remain high (Epstein and Seledmeier 2008; Schimmelfennig; Vachudova 2005; Kelley 2004). But Epstein and Seledmeier (2008) argue that the power of EU conditionality would be the weakest in areas where the EU never applied specific conditionality, such as rules that are neither part of the *acquis*, nor of the Copenhagen criteria. Such is the case with corruption. Although the membership

criteria do call, somewhat broadly, for developing institutional capacities to curb corruption and organized crime, corruption is neither part of the *acquis*, nor of the Copenhagen criteria. Some scholarly evidence suggests that this is not coincidental since there was never a consensus among the older member states to push or emphasize the issue (Vachudova 2009) and some Council members systematically tried to avoid it.

Jacoby (2004) also contributes to the argument that the density of EU rules in each area of reform predetermines their success and longevity. He compares regional and healthcare policy and finds that the sector characterized by more extensive external pressure (stronger EU conditionality), regional policy, made greater progress towards approximating Western European models. The high level of outside incentives and the relative scarcity of domestic actors in the case of regional policy (as opposed to healthcare) compelled and enabled some CEE governments to implement the EU's regional policy rules fairly and faithfully. Thus, Jacoby would also expect to find modest EU-driven progress fighting corruption since the density of EU rules is low.

As stated earlier, if we look at the *acquis* or the Copenhagen criteria, corruption is characterized by a relatively low level of outside incentives. Thus, one can legitimately expect only modest improvements in corruption levels during the candidacy period and perhaps backsliding after accession when EU leverage diminishes. Yet, as mentioned earlier, I find robust evidence for the positive impact of both EU candidacy and membership on corruption levels in CEE countries.

I will explore the question of how corruption levels were influenced by the EU in several stages. In Part 1 I will provide an overview of the main literature about the impact of the EU on governance in CEE countries during and after accession. In this section I will also present the theoretical framework that I utilize to formulate my hypotheses. Part 2 will present the statistical framework of the study including a discussion on the choice and operationalization of variables and the results from the time series analyses. Part 3 will discuss the exact causal mechanisms that may be in play before and after accession as well as some possible alternative explanations. Finally, the conclusion will summarize the main arguments and findings and discuss their implications for EU policy-making.

### III. LITERATURE REVIEW

The issues of non-compliance and backsliding have already received a fair amount of attention both from policymakers and academics. Invited to a hearing at the US House Foreign Affairs Committee in July 2007, expert witness Charles Gati pointed out a number of ways in which CEE countries are backsliding: right-wing inspired riots in Hungary, growing skepticism toward politics in the Czech Republic, a popular backlash against the government that engineered the economic miracle in Slovakia, the personalization of politics in Poland (the Kaczynski twins), general leadership deficit in the region, resistance to the next round of economic reforms, growing inequality and skepticism about the virtues of capitalism. Concerning corruption in particular deputy prosecutor general at the Court of Appeals at Ghent, De Pauw wrote a scathing Expert Report on Romania. In the wake of the enlargement he claimed that there are many ways through which the government and the judiciary have undermined anti-corruption initiatives. To validate his criticism he cited a number of amendments to existing laws that would make high-profile anti-corruption prosecutions improbable.

Some academics have also identified areas where the impact of EU conditionality is not as lasting as most people wish. Mungiu-Pippidi (2007) emphasizes that challenges like populism and nationalism unfortunately do not end with accession and are likely to continue playing an important role in the domestic

political arenas of the CEE countries. Rupnik (2007) also notes a populist backlash against accession in much of the region, but admits that this effect is not likely to persist over time. Sasse (2008) finds that there are still on-going practical problems with the application of minority rights rules, despite some demonstrated formal legal compliance. Vachudova (2008) shows that although political parties moderated their agendas to bring them more in line with the EU during the candidacy period, parameters of competition broadened again post-accession as party programs became increasingly more nationalist and culturally conservative. Finally, Kochenov (2008) demonstrates that the Commission ended up establishing a low threshold for meeting the Copenhagen criteria by merging the concepts of democracy and rule of law in its annual assessments of the candidate countries. He also criticizes the vagueness of some governance criteria, such as the concept of the rule of law, since it was never made clear whether it includes any requirements pertaining to corruption, and candidate countries never received specific instructions on how to combat this endemic governance challenge.

Nevertheless, there is also a large body of literature identifying a range of issues where compliance was systematic and endured after membership. For example Sedelmeier (2008) finds convincing evidence for the continuation of implementation of EU law among the newest members of the Union. He even argues that compliance after accession was in fact stronger in the new members than in the old members. Epstein (2008) adds to this “positivist” literature by delineating patterns of increasing openness to foreign direct investment in the banking sectors of these countries. Johnson (2008), then, defies some of the more critical assessments of monetary

integration and shows that there is definite convergence on some, though not all, key indicators. Ivanov (forthcoming) admits that after accession Romania regressed from its previous achievements against corruption, and Bulgaria remained reluctant to prosecute senior officials or confront organized crime. Nevertheless, he shows that the European Commission has continued its monitoring activities, and its ability to freeze funds has maintained a modicum of pressure for reform which has led to some positive results. Falkner and Treib (2008) explore the pattern of non-compliance with EU law in the CEE member states and find that it is actually similar to that of some existing members. This suggests that there is no evidence for a *sui generis* reaction to any pre-accession overstretch. Finally Kelley (2006) and Dimitrova (2002) find that the EU's influence on minority protections and strengthening the state's administrative capacity has been substantial.

#### IV. THEORY AND HYPOTHESES

Although many authors have made the case that the power of EU conditionality would be the weakest in areas where the EU never applied specific conditionality (such as rules that are neither part of the *acquis*, nor of the Copenhagen criteria), I argue that the issue of corruption always received a high level of visibility (from the media and from the Regular Reports) and this allowed EU leverage to introduce powerful incentives to try to curb it during the accession period. Furthermore, in the case of the eastern enlargement EU leverage was unprecedented and was thus likely to significantly affect areas, such as corruption, that were not explicitly emphasized.

Pridham (2005) points to four factors that increased the power of EU conditionality. First, he emphasizes that as they were shaking off the bonds of communism in the early 1990's, the CEE countries decided to attempt a total overhaul of their political, economic, and social systems. There was hardly any aspect of public or private life that remained untouched. Total overhaul is not easy in an environment of falling incomes, weak institutional capacity, and insufficient familiarity with modern practices. In such a difficult and all-encompassing effort, it was inevitable that the CEE countries would falter in some aspects of reform – and it therefore made sense to seek the expert help of the EU. For example, Bulgaria, which experienced a hyperinflation crisis in 1996-97 decided to implement a currency board and deliberately surrender the conduct of monetary policy to the

German and, later, the European Central Bank. The main point here is that countries undergoing complete systemic change are more in need of EU help and are therefore more responsive to EU conditionality than in other circumstances, such as during the southern enlargement in the 1980s.

Second, the onset of conditionality roughly coincided with the collapse of the Soviet Union, and the security imperative was probably high on the minds of CEE elites. In this unstable international environment, EU conditionality may have been more effective, as the perceived geo-political benefits for candidate states may have been greater. Third, the EU's Fifth Enlargement involved a record 12 countries (the ten that joined in 2004 plus Bulgaria and Romania, which joined in 2007). Competition among all these applicant countries was fierce, and the media in any given country were reporting on the progress of the rest of the pack. Importantly, corruption was always a salient issue receiving special attention in the Regular Reports of the Commission. Government officials were then under intense pressure from their publics to perform, and the public backlash in the countries that were not invited to begin negotiations in late 1997 was severe.

Finally, Pridham argues, most CEE candidates were small states, who wanted to become part of powerful organization like the EU. If size and leverage are negatively correlated in international relations, then the domestic environments of the CEE countries were quite conducive to the effects of EU conditionality. Thus, during the entire candidacy period the relationship between CEE countries and the EU was characterized by what Vachudova has termed *asymmetrical interdependence*: CEE countries needed the EU much more than the EU needed



them (Vachudova 2005) and this vastly superior bargaining position allowed the EU to influence candidates in ways that went even beyond the *acquis* and the Copenhagen criteria.

Thus, in light of the unprecedented power of EU leverage during the accession period and the high visibility of the issue of corruption, in these countries, I propose the following hypothesis:

*H1: Corruption levels start improving as soon as a country is given the green light to be able to join the EU (credible candidate status) and this trend remains sustainable during the entire candidacy period.*

As stated earlier, many authors have made the case that a slowdown or even backsliding is likely to occur in the post-accession period due to the decrease of leverage after the ultimate reward of membership has been granted. There are three mechanisms, however, that compensate for this loss of leverage in this period and suggest that corruption levels may actually continue to improve. As Levitz and Pop-Eleches argue, EU leverage, though transformed, remained an important force after membership (Levitz and Pop-Eleches 2009). Greater dependence on trade and especially the potential threat of freezing the massive Structural and Cohesion funds available to new poorer members acted as a powerful incentive for elites to stay on the reform path. Additionally, greater linkage and exposure to the West for both elites and citizens was associated with higher expectations of government performance and served as an additional pressure to continue compliance. Finally,

spillover effects associated with the gradual removal of the state from the economy, improvements in the legal system and strengthened regulatory institutions also contributed to fewer opportunities for corrupt behavior in the political realm.

Thus, in light of these arguments I propose the following hypothesis related to the post-accession period:

*H2: Progress in curbing corruption continues after accession, even as EU leverage becomes weaker.*

## V. METHODOLOGICAL FRAMEWORK

### *Operationalization of the dependent variable - Corruption*

In order to specify the dependent variable, corruption, I refer to the Control of Corruption (CC) index, which is part of the World Bank's World Governance Indicators (WGI). Kaufmann, Kraay, and Mastruzzi (KKM), who have developed the index, define CC as an index "measuring perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests." (p.8 KKM). The index covers 212 countries and territories for the years 1996, 1998, 2000, and 2002-2007. The scores for the years 1997, 1999, and 2001 are manually constructed by averaging the adjoining years.

The CC index is based on a number of individual variables measuring perceptions of corruption, representing 35 separate data sources produced by 32 different organizations from around the world<sup>1</sup>. Importantly, all WGI indicators are based on subjective or perceptions-based data on governance reflecting the perspectives of a wide range of informed stakeholders including thousands of private individual and firm survey respondents, experts working for the private sector, NGOs, and public sector agencies. The aggregation technique KKM use is an

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<sup>1</sup> Since the number of data sources varies from year to year, critics of the CC and the CPI have made the case that comparisons across time are inconsistent and should not be done. However, KKM have argued that since the measure is constructed for the entire dataset at the same time, levels of corruption at different time points can be considered methodologically comparable.

unobserved components model which allows for the extraction of the common component of the multiple corruption measures and thereby assigns a single, annual corruption score to every country in the world. The main advantage of this approach is that the aggregate indicators are more informative about unobserved governance than any individual data source. The aggregate corruption scores are then scaled to follow a normal distribution with a mean of zero and a standard deviation of one in each period. This means that virtually all scores lie between -2.5 and 2.5, with higher scores corresponding to better outcomes. The measure is constructed for the entire dataset at the same time, so that levels of corruption at different time points can be considered comparable. The dependent variable in this study is defined as the annual level of a country's aggregate Control of Corruption score, as calculated from the publicly available dataset provided by the World Bank.

The CC is one of the most popular indexes measuring corruption. This is not surprising given the indisputable advantages of the index – a broader country coverage than any individual data source on corruption and a systematic aggregation of corruption data from over 30 different data sources. Nevertheless, the CC is often criticized by politicians, the popular media and even academics for the fact that the index is based on subjective perception-based data and not on objective measures of corruption. KKM defend the appropriateness of CC pointing out at several considerations.

First of all, perceptions do matter immensely because political and economic actors often base their actions on their perceptions, impressions, and views. Thus, if citizens, for example, believe that the courts are ineffective or the police are corrupt,

they are likely to downplay their importance as institutions and avoid their services. Furthermore, if investors believe that the investment climate in a given country is inappropriate, they will withdraw their investments even if the fundamentals of the national economy look good on paper. Secondly, as far as corruption is concerned, there are few alternatives to relying on perceptions data since by definition corruption leaves no 'paper trail' that can be captured objectively. Thirdly, KKM point that potential problems with expert assessments, such as, that such assessments can sometimes be tainted by ideological biases, or be biased towards the views of the business elite or by the recent economic performance of the countries in question (i.e. so called 'halo effects') are tested for empirically and proven to be statistically insignificant. Last, even when fact-based data are actually available, the *de jure* notion of national laws may differ substantially from the *de facto* reality that exists on the ground. Additionally, the legal systems of different countries often define instances of corruption differently, so a measure that may seem objective, such as relative share of verdicts for cases of corruption, may actually be highly inconsistent across countries.

Thinking about the implications of this last point is particularly important. While looking at corruption-related indictments and convictions across different countries and legal systems makes little sense, such data are an important part of what the cooperation and verification mechanism (CVM) reports of the Commission track in new members like Bulgaria and Romania. As part of the CVM procedure, the Commission created benchmarks and set up monitoring teams to assess progress made in problematic areas such as corruption, and thus these reports, which have

been quite critical in the post accession period, play a large role in determining the perceptions of corruption in both countries (Vachudova 2009). These perceptions are also shaped by the media, the program of the government, the state of the judiciary, etc. While none of these are going to be consistent across countries (the media in one country may be largely controlled by friends of the corrupt or of the government, while the media in another country may be more scathing - and therefore create the perception of more corruption), when it comes to the EU accession stages and especially after a country has already become a full member, the fact that a country is finally tackling corruption and there is greater publicity may create the impression that there is more of it during a period when in fact there are finally measures to curb it. This theoretical intuition, which cannot be captured by the available data, suggests that even if certain post-accession backsliding is observed, this may not necessarily be the result of a true increase in corruption trends.

A potential weakness of the CC index is that it measures the public's general perception about corruption, which renders measuring different aspects or forms of corruption (nepotism, bribery, extortion etc) impossible (Heidenheimer 2005). Nevertheless, for the purpose of this study the CC's advantages outweigh by far its shortcomings. Its broad geographical coverage and the systematic aggregation of data from a variety of sources allows us to conduct effective cross-country comparisons of overall corruption trends over time and derive sensible and valid results.

An alternative measure that some studies have employed is the Transparency International's Corruption Perceptions Index (CPI), which uses a similar methodological approach to produce its aggregate scores. There are two disadvantages of this index compared to the CC. First, it covers fewer countries and second it uses fewer sources to produce its aggregate scores. Having said that, I did run a correlation analysis to test for the level of overlap between the CPI and the CC in my sample and the high correlation coefficient of .972 indicated that the two indexes can basically be used interchangeably.

*Operationalization of the independent variables - EU Candidacy Process and Full Membership*

The two independent variables of interest in this study are EU candidacy process and EU membership. EU candidacy process is defined as the period between the moment when a country has signed an association agreement with the EU (but has not yet entered accession negotiations) and the moment when full membership is achieved. Although the EU candidacy process goes through several stages starting with more general rather than specific conditionality and then moving to actively transposing the full *acquis communautaire* during the negotiations phase, looking at the process as a whole is a sensible approach given that both the softer inactive leverage of the initial phase and the active leverage of the negotiations phase exert powerful influence on acceding members. Per hypothesis 1, I expect a strong improvement in corruption levels during the Candidacy Process.

Table 1: Independent Variable – EU Candidacy Process

Status	Country and Period
EU Candidacy Process	Bulgaria 1996-2006, Czech Republic 1996-2003, Estonia 1996-2003, Hungary 1996-2003, Latvia 1996-2003, Lithuania 1996-2003, Poland 1996-2003, Romania 1996-2006, Slovakia 1996-2003, Slovenia 1996-2003

The second independent variable, EU membership, is defined as the moment when all the existing member states have ratified the Treaty of Accession and a country has become a full-fledged member of the Union. Importantly, at that point, the EU can no longer threaten to withhold membership in order to compel a country to comply with its demands, though it can use other types of leverage such as threatening to stop or stopping Structural and Cohesion Funds to new members. This considerable decrease of leverage after full membership is granted is interpreted by many as the main reason why new members can experience backsliding. Therefore, looking at corruption levels post accession is also extremely important for this study since it will show whether potential gains made during the candidacy process are sustainable. Per hypothesis 2, I expect that the strong improvement in corruption levels achieved during the candidacy period will be sustained in the post-enlargement period.



Table 2: Independent variable – Full Membership

Status	Country and Period
Full Membership	Bulgaria 2007-2008, Czech Republic 2004-2008, Estonia 2004-2008, Hungary 2004-2008, Latvia 2004-2008, Lithuania 2004-2008, Poland 2004-2008, Romania 2007-2008, Slovakia 2004-2008, Slovenia 2004-2008

In the two regressions that follow I am assigning dummies to CEE candidate countries in accordance with the independent variables outlined above. For the first independent variable, EU accession process, a country receives a 1 if in any given year it is at any stage of the EU candidacy process (if it has signed an association agreement with the EU, is conducting accession negotiations, or has signed a Treaty of Accession). For years that the country is not part of the process it receives a 0. For the second independent variable, full membership, a country receives a 1 for any year in which it is a full member of the Union. Conversely, for years preceding the year of accession it receives a 0. There are no overlapping years and the eight post-communist countries who joined in May 2004 receive a 1 for the entire 2004.

*Control Variables/Alternative Explanations*

In order to isolate the effects of the EU candidacy process and EU membership I refer to the academic literature on corruption to identify factors affecting corruption levels. Thus, the control variables included in the statistical analysis are: size of the public sector (government expenditure), level of economic development (GDP), level of economic competition (ratio of imports to GDP), level of democracy (Freedom in the World - average of political rights and civil liberties scores), freedom of the press, abundance of natural resources, ethnic fragmentation, and neighboring and diffusion effects. The time-sensitive control variables are lagged by one year because corruption perceptions may change slowly rather than immediately in response to these factors.

1) Government Spending (General government final consumption expenditure as a percentage of GDP; United Nations Statistical Division)

Several studies, including LaPalombara (1994), Rijckeghem and Weber (1997), Elliott (1997) employ this measure and argue that the incidence of corruption may be related to the size of the public sector. Intuitively, a system entailing more frequent and extensive intervention of the state in the economy may sometimes introduce more opportunities for corruption. Such opportunities include, but are not limited to, some of the most obvious forms of corruption, such as nepotism, bribery and extortion.

2) Level of Economic Development (Log of GDP per capita; Economist Intelligence Unit, World Development Indicators)

Studies by Kaufman et al (1999), Poirson (1998) and Leite & Weidmann (1999), Sandholtz and Gray (2003), and Dearden (2000) have all confirmed the significance of economic growth for corruption levels. Although the causal story varies somewhat among low, middle and high-income countries, the effects of economic growth on corruption are unquestionable and it therefore seems appropriate to include the log of GDP per capita as a proxy for level of economic development in a given country.

3) Competition (Imports as a percentage of GDP; United Nations Statistical Division)

The intuition is that opportunities for corruption may increase due to the lack of competition in a national economy. This means that theoretically, more open economies must be less corrupt. Gerring and Thacker (2005) and Ades and Di Tella (1999) prove this correlation empirically by examining the precise relationship between trade openness and levels of political corruption. That is why using imports as a percentage of GDP (like Ades and Di Tella) to account for the level of competition in a national economy seems like a sensible choice.

4) Level of Democracy (Freedom in the World: average of political rights and civil liberties scores; Freedom House)

Montinola and Jackman (2002) present convincing evidence that democratic practices inhibit corruption especially after a threshold of democratic consolidation is passed. Boerzel, Stahn, and Pamuk (forthcoming) show that the level of corruption in the Eastern Europe is strongly connected to the success of democratic and economic reforms. Thus, including the Freedom in the World index as a proxy for level of democracy seems appropriate.

#### 5) Freedom of the Press (Freedom House)

Many scholars argue that the media may serve as a powerful check on corruption. Karkins (2005) finds that the media has proven to be one of the most effective promoters of anti-corrupt politics. Freille et al. (2005), in a 10-year panel study, find that restrictions on press freedom lead to higher levels of corruption. Holmes (2006) provides survey evidence on the effects of the media on public perceptions of corruption in Bulgaria, Hungary, Poland, Russia, and China and concludes that the media in these countries cover corruption extensively, provide most of the knowledge that the public has of corruption, and therefore heavily influences the public's perception of corruption in state institutions.

6) Abundance of Natural Resources (Production of minerals and utilities as a percentage of GDP; United Nations Statistical Division)

The intuition behind this variable is that abundance of natural resources may create opportunities for rent seeking and thus facilitate corrupt behavior. Leite and Weidemann (1999), Ades and Di Tella (1999), and Ross (2008) review such arguments and prove their statistical significance. For the purposes of this study I will use production of fuels and minerals as a share of GNP to proxy for abundance of natural resources.

7) Ethnic Fragmentation (RQ index developed by Montalvo and Reynal-Querol)

Some scholars have argued that more ethnically heterogeneous environments may be conducive to the emergence of more extensive clientilistic networks and more corruption. Glaeser and Saks (2005), Montalvo and Reynal-Querol (2004), Holmes (2006), and Levitz and Pop Elelcech (2009) include ethnic fragmentation as a variable in their analyses on corruption.

8) Neighborhood and Diffusion Effects (Average corruption score of neighboring countries, as calculated from the World Bank's Control of Corruption index).

Controlling for neighborhood and diffusion effects is also a very good idea. Sandholtz and Gray (2003) argue that international interactions can affect norms and practices that one may think were determined by social and local factors. They focus specifically on corruption and show that corruption tends increase in countries surrounded by corrupt neighbors. Similar regional diffusion effects are also

extensively explored in the international political economy literature by Simmons et al (2008).

### *Statistical Analysis and Results*

The descriptive statistics, presented in Figure 1 below, provide some evidence for the hypotheses stated earlier. Seven out of the ten post-communist members experience a reduction in levels of corruption during the EU candidacy process. The trend looks particularly strong in Bulgaria, Estonia, Latvia and Lithuania. The evidence for hypothesis 2 is less convincing. Five out of the ten countries remain on their positive trajectory in the fight against corruption after attaining EU membership, but the other five look like they are experiencing some backsliding. It is extremely difficult, however, to make any conclusive arguments based only on these observations for it is not clear whether differences are statistically significant. That is why we next turn to a time-series cross-sectional regression analysis in order to examine the true effects of the EU candidacy process and membership on corruption levels in CEE countries.

Fig. 1: Total Change in Levels of Corruption in Candidate Countries during the EU Candidacy Process and Post-Membership

Note: Higher values indicate less corruption.

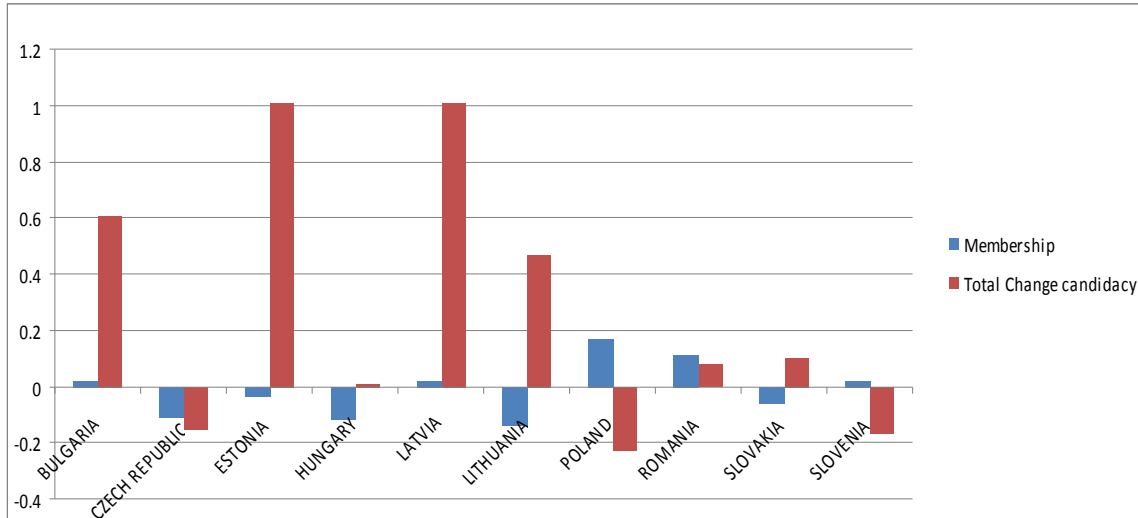


Table 3 below presents the results of the time-series cross-sectional analyses utilizing a Fixed Effects Regression Model (FE). After testing for unit effects and getting a significant F-score, I decided to account for such effects using a FE design. The Hausman test invariably rejected the random effects as an appropriate model, rendering fixed effects the most sensible choice. Fixed effects are particularly appropriate in studies like this, where unobservable country-specific characteristics and historical differences may affect the dependent variable in ways that the control variables by themselves cannot account for.

The table includes three designs (Design 1, Design 2 and Design 3), the difference between which is the choice of the reference group – all countries from around the world in Designs 1, the 27 EU countries in Design 2, and only the post-communist countries in Design 3. All three designs exhibit no autocorrelation. This was illustrated by the application of the Wooldridge test, for which the F-tests in the three designs were insignificant, meaning that we couldn't reject  $H_0$  that there was

no autocorrelation. Moreover, none of the variables in either design seem to be collinear as all VIF-scores are below 10.

Table 3: The Effects of EU Candidacy and Membership on Corruption Levels

<b>Drivers</b>	<b>Design 1</b>	<b>Design 2</b>	<b>Design 3</b>
<u>EU Candidacy process</u>	.089** (.056)	.173*** (.052)	.112 *** (.055)
<u>Full Membership</u>	.116** (.064)	.189*** (.063)	.106* (.065)
Level of Economic Development	.156** (.077)	.406* (.248)	.451*** (.137)
Neighbors' corruption	.093*** (.033)	.007 (.101)	.033 (.094)
Size of the Public sector	.438*** (.162)	-1.83*** (.586)	.009** (.004)
Competition	-.062 (.051)	-.126 (.169)	-.000 (.001)
Natural resources	-.421*** (.122)	-.196 (1.66)	-.003 (.003)
Level of democracy (“Freedom in the World” score)	-.068*** (.009)	.015 (.031)	.090*** (.023)



Freedom of the press	-.221*** (.073)	-.439** (.196)	-.002* (.001)
Ethnic fragmentation	-.002 (.037)	-.023 (.038)	-.043 (.090)
Constant	-.289 (.292)	-.372 (1.03)	-1.71*** (.531)
R-squared	0.63	0.26	0.83
Number of Observations	1898	319	330

*Standard errors in parentheses. Significant at: \* 10%; \*\* 5%; \*\*\* 1%. One-tailed tests for the independent variables.*

In Design 1 the reference group to which post-communist candidate states are compared consists of the entire set of non-candidate countries. Here we test whether a country's inclusion in the EU candidacy process improves corruption levels in any way. Per Hypotheses 1 we expect that corruption would be declining while a country is part of the accession process. Per hypothesis 2 we expect that this trend will remain unchanged after membership is attained.

The results of this analysis confirm both hypotheses. Relative to the base of non-candidate countries from around the world, CEE countries performed strongly, on average, (positive coefficient of .089) and statistically significantly (p-value: 0.05) during the EU candidacy process. After accession, the candidate states did not experience backsliding (positive coefficient of .116) – a result that is statistically significant (p-value: 0.04). Thus, based on this analysis we can infer that the progress

made during the accession process led to sound and sustainable results that continued to be present in the post-membership period. Six of the control variables, Level of Economic Development, Neighboring Corruption, Size of the Public Sector, Natural Resources, Level of Democracy, and Freedom of the Press were also found to be significant drivers of corruption levels. Although they are of no particular interest in the present study, these control variables have signs and levels of statistical significance broadly consistent with theory and prior studies. Incidentally, the negative coefficient on the freedom of the press variable is to be expected, since in this particular Freedom House assessment, higher scores correspond to less freedom. This is important because it also provides some evidence to the claim that the high visibility of the issue of corruption created by the media allowed EU leverage to work even in this area which was not explicitly emphasized in the *acquis* or the Copenhagen criteria. The high R-squared of the design, 63%, further underpins our confidence that these findings confirm the hypotheses that during the accession process corruption levels would be falling and that this process will remain stable even after membership has been obtained and when EU leverage has become weaker.

In Design 2 the reference group to which post-communist candidate states are compared consists of the other EU members. The results of this analysis also confirm both the hypotheses. Relative to the base of old EU members, CEE countries performed strongly (positive coefficient of .173) and statistically significantly (p-value: 0.001) both during the EU candidacy process and after they attained membership (positive coefficient of .189 and p-value: 0.003). However, we have to

be rather cautious with the interpretation of these results since old EU members had considerably lower levels of corruption to start with (hence less room and opportunities to improve). That is why it is not surprising that the CEE countries outperformed this base. Nevertheless, the results of this regression are important since they demonstrate that CEE countries are firmly set on a positive trajectory in their fight against corruption and are trying to catch up with their more developed and less corrupt Western European counterparts. Three of the control variables, Level of Economic Development, Size of the Public Sector, and Freedom of the Press were also found to be significant drivers of corruption levels.

Design 3 restricts the sample to the candidate countries plus the non-candidate post-communist states of the former Soviet bloc. The inclusion of this reference group serves a specific methodological goal – to separate the effect of the EU’s incentive-based approach from the set of potential domestic issues associated with the post-communist transition period that all these countries were part of. The results of Design 3 are consistent with the results of the previous two designs. Relative to the reference group of post-communist non-candidate states, candidate countries performed better both during the EU candidacy process and after membership, although the positive coefficient for the post-membership dummy is significant only at the 10% level for a one-tailed test (p-value 0.052). Since the coefficient for the full membership period is barely significant, I also ran a joint F-test for the variables indicating the two periods. In this way I was able to test the joint hypothesis that EU leverage, before and after accession, matters and corruption trends do indeed continue to deteriorate after accession. The positive coefficients for

the two periods and the significant F-score (p-value: 0.02) confirmed the joint hypothesis. Thus, we can safely say that the overall effect of EU leverage both during and after a country's accession process matters and leads to a decrease in corruption levels. Four of the control variables, Level of Economic Development, Size of the Public Sector, Levels of Democracy and Freedom of the Press were also found to be significant drivers of corruption levels. The R-squared of this design is the highest, 83%, and the findings once again confirm both the hypotheses that before accession corruption would be falling and no backsliding will occur after membership has been obtained and EU leverage diminishes.

## VI. CAUSAL MECHANISMS

The purpose of this section is to trace the causal mechanisms through which the EU was able to influence the fight against corruption before and after accession. Focusing first on the period before accession, although not part of the *acquis* or the Copenhagen criteria, progress in combating corruption became a recurrent theme in the Commission Regular Reports, which were becoming more detailed and specific as accession was approaching. This was partly due to the candidates' desire for more explicit targets and for assurances that they are meeting all membership criteria (Grabbe 2006). By the early 2000s specific and detailed recommendations for anti-corruption measures had replaced the vague and formalistic statements of the earliest reports (Hughes, Sasse, Gordon 2004). In fact, corruption had become such a salient issue that the EU built into Bulgaria and Romania's accession treaty a safeguard clause (Article 39) allowing for a delay of accession by one year in the event of insufficient progress in tackling corruption. Importantly, such strictness was not confined only to these presumably more corrupt countries. The EU consistently noted the prevalence of corruption in Hungary as a problem and identified public procurement as an area of concern in both the 1999 and 2000 Regular Reports. The situation was similar in the 1999 Regular Report on Latvia and in the 2002 Regular Report on Poland asserting that corruption "threatens to undermine the functioning of many public spheres" (Regular Reports 1999; 2000; 2002). This is just a sample of several reports, but corruption was a central issue in many. Furthermore, the

issuance of every report was followed by enormous publicity in the media, thus forging a significant level of domestic pressure for compliance as well. Thus, since corruption was clearly a highly visible and salient issue, EU leverage was substantial. In other words, the incentives for candidates to decrease levels of corruption during the accession period were high since this decrease was directly tied to their prospects of qualifying for membership.

The more interesting question, however, is what mechanisms have prevented potential backsliding after accession when EU leverage has become weaker. I argue that there are three mechanisms in play that compensate for the presumed loss of leverage after membership: continued leverage (Structural and Cohesion Funds and CVM reports), increased linkage (socialization effects), and spillover effects from other parts of the *acquis* (reduction of the role of the state in the economy and improvements in the legal system).

First, after accession new members become eligible for significant amounts of Structural and Cohesion Funds (S&C funds) (about 1/3 of the EU budget). These members' dependence on conditional EU funding (which can be cut off in cases of non-compliance as it happened in Bulgaria), therefore, continues to promote governance reforms. Furthermore, in the cases of Bulgaria and Romania a Cooperation and Verification Mechanism (CVM) was instituted to ensure that both countries comply with their commitments. Progress in fighting corruption has thus far always been a special focus in these reports. To elaborate a little on how the leverage of S&C funds translates into pressure for reform, I will now turn to a brief case-specific discussion of Bulgaria and Romania.

In response to a corruption scandal in Bulgaria with two officials of the National Road Agency in January 2008, the Commission exercised its leverage by cutting off funding for road construction. Importantly, the investigation was initiated by a scathing article in Bulgaria's leading business newspaper, *Kapital*. In February and March the Commission froze Phare and SAPARD funding in light of more corruption allegations in the ministries of finance and regional development. As a result of its failure to address its looming corruption, Bulgaria ended up with two ministerial resignations, an irreversible loss of 220 and a freezing of 340 million Euro. Although the 340 million were later on unfrozen, Bulgarian authorities, and most specifically the new Prime Minister Boiko Borisov realized that the time has come to "wage a full-scale war" on corruption. In early 2010 during operation "Octopus" ("Октопод") the government was able to expose and arrest high ranking public officials (associated with the State Agency for National Security with jurisdictions to fight corruption) involved in money laundering, tax evasion and siphoning money from a now-defunct steelmaker, among other allegations (Liubomirska 2010). A few months earlier during the operation "Insolent Bastards" ("Наглите") the Borisov government was able to deal a major blow against organized crime by arresting a number of mafia members involved in kidnappings, contract killings, and trafficking.

In 2007 the Commission threatened to freeze agricultural funds to Romania unless the country filled some corruption-inducing gaps in its payments system. Reforms were quickly implemented and allegations of corruption led to the resignation of Romania's justice minister Tudor Chiuariu two months later (Ivanov

forthcoming). All these developments were closely and extensively covered by a series of EU monitoring reports and the media, which criticized Bulgaria and Romania and called for more intense efforts to curb corruption (CVM Reports June 2007; February 2008; July 2008).

Thus, the EU was clearly able to continue to exert leverage over all its new members through the threat of cutting off conditional funding in cases of non-compliance and through the actual freezing of such funding in the case of Bulgaria. For Bulgaria and Romania this means of exercising leverage was further supplanted by the implementation of the CVM. CVM reports track and assess progress against corruption (and other commitments), thus establishing a direct monitoring system, which allowed the EU to continue to exert a sustained pressure for reform.

The second mechanism that translates EU influence into domestic changes is the diffusion of democratic norms and values. This includes increasing linkages between new and old EU members, exemplified in more travel and work opportunities in the West for CEE citizens, greater mass media exposure, more joint-business ventures etc, all contributing to greater expectations for good governance (Levitz and Pop-Eleches 2009). In a study focusing specifically on the lack of new EU members' backsliding along an array of indicators Levitz and Pop-Eleches find a strong negative correlation between international travel and share of CEE citizens living in Western Europe and corruption levels. These findings strongly align with the growing literature on socialization effects (Checkel 2005; Gheciu, 2005; Epstein and Seledmeier 2008).



In explaining the puzzling lack of backsliding in CEE countries, Sedelmeier suggests focusing on the “greater susceptibility of the new member states to shaming” (Sedelmeier 2008, p.806). He argues that extended linkages with the West could have made CEE citizens more sensitive about public shaming and more demanding as far as compliance goes through a process of socialization. Levitz and Pop-Eleches add to this argument by empirically showing that East Europeans working and traveling abroad are steadily turning into an electorate with higher expectations about the rule of law and corruption standards, thus exerting an important positive impact on the political culture in their home countries.

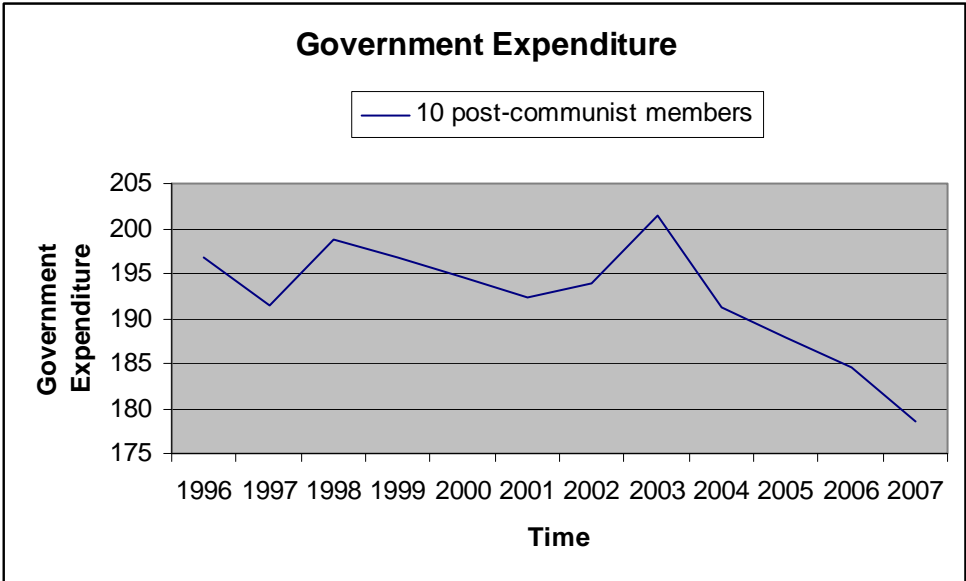
The third mechanism explaining the lack of backsliding in corruption levels after accession can be attributed to spillover effects from the gradual removal of the state from the economy, from stricter and more effective regulatory institutions, and from improvements in the legal system as a result of the implementation of the *acquis*. Using descriptive statistics from the World Bank, I show that the governments in the 10 post-communist countries that joined the EU in 2004 and 2007 have decreased their spending as a percentage of GDP, have encouraged privatization and the growth of the private sector, and have improved the quality of the civil service, the police and the courts. All these developments are likely to either limit opportunities for corruption or combat it more effectively.

In all of the figures that follow, the ten post-communist countries that are depicted are: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. Figures 2 and 3 pertain to the diminishing

role of the state in the economy and figures 4 and 5 pertain to the evolution of more effective regulatory institutions and an improved legal system.

Figure 2 below shows a declining trend in government expenditure starting in 2003. This suggests that shortly before the enlargement took place the role of the state of the economy had already started to decline.

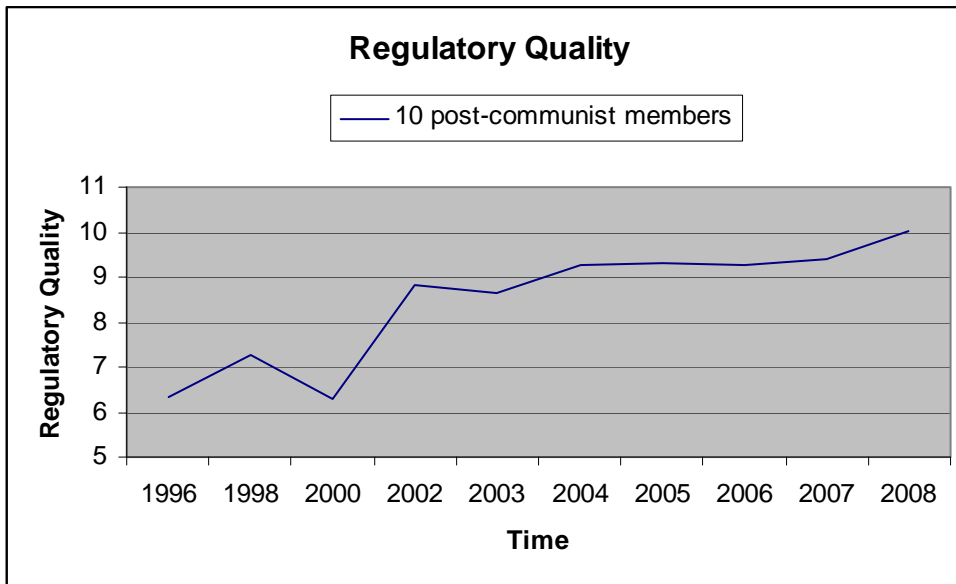
Fig. 2: Government Expenditure in the 10 post-communist members of the EU



Source: <http://info.worldbank.org/governance/wgi>

Figure 3 below shows a constant improvement in the ability of the government to formulate and implement policies and regulations that permit and promote private sector development since the early 2000s.

Fig. 3: Government Promotion of Private Sector Development



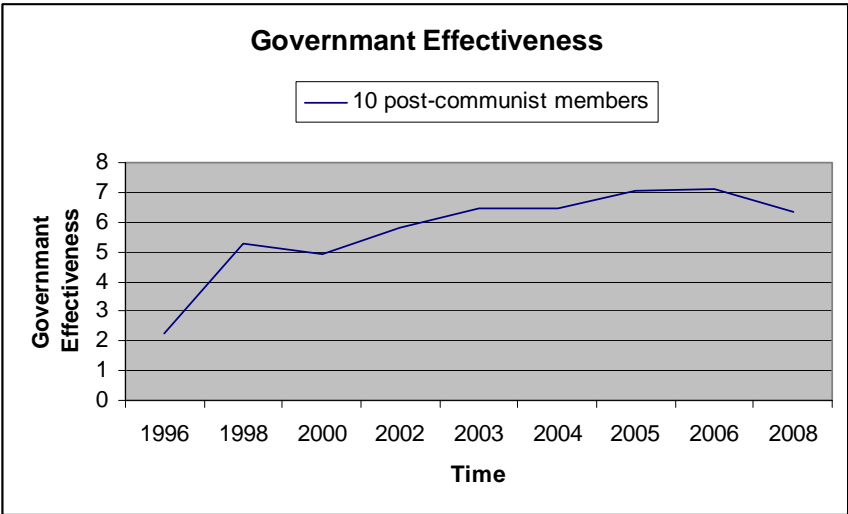
Source: <http://info.worldbank.org/governance/wgi>

Both Figures 2 and 3 suggest that the role of the state in the economy has undergone a considerable reduction since the early 2000s. This conclusion is not surprising given the EU's emphasis on the privatization of state owned enterprises, the reduction of price regulation and the decrease of subsidies. These policy prescriptions followed from the criticisms included in the Regular Reports produced by the Commission and also reflect specific targets and objectives from several of the chapters of the *acquis*. Chapter 6, *Competition Policy*, covers both anti-trust and state aid control policies. It includes rules and procedures to fight anti-competitive behavior by companies and to prevent governments from granting state aid which

distorts competition in the internal market. Related to this, Chapter 11, *Economic and Monetary Policy*, contains specific rules prohibiting privileged access of the public sector to financial institutions. Finally, chapters 15, *Industrial Policy*, and 16, *Small and Medium-sized Enterprises*, promote privatization and industrial strategies enhancing internal and external competitiveness. Thus, given that the implementation of these chapters preceded, for the most part, the periods when we observe less state subsidies and better promotion of private sector development, it is likely that it was precisely the development of these EU-driven institutional capacities that played a key role in generating the observed outcomes.

Figure 4 below shows an improving trend in the quality of public and civil services and the degree of their independence from political pressures as well as the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies since the mid-1990s. An insignificant slowdown in the trend occurs after the 2007 enlargement.

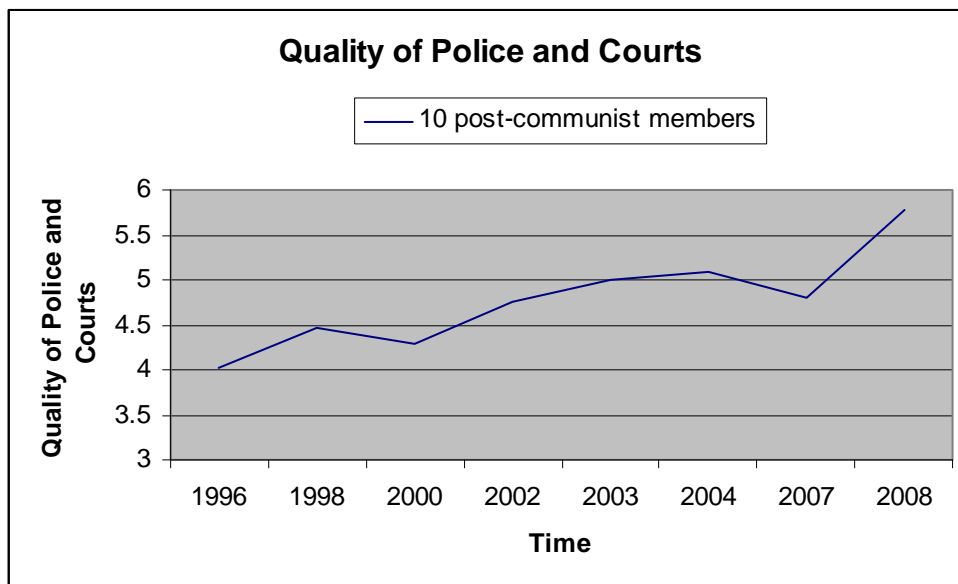
Fig. 4: Quality of Public and Civil Service



Source: <http://info.worldbank.org/governance/wgi>

Figure 5 below also shows an improving trend in the level of confidence that societal actors have in the quality of the police and the courts. The trend becomes even more pronounced after the 2007 enlargement.

Fig. 5: Quality of the Police and the Courts



Source: <http://info.worldbank.org/governance/wgi>

Focusing on government effectiveness and the quality of civil and public service, we can say that the adoption of the *acquis* governing the internal market and other common policies (in particular, environment, labor relations, agriculture, transport and energy) represented a massive re-regulatory exercise in these countries. The removal of regulatory differences between the member states in the Single Market was paralleled by a transformation of regulatory standards, i.e. setting EU

wide common standards and practices, which in most cases meant a significant improvement in the effectiveness and quality of the work of state agencies in the post-communist members.

As far as the quality of the police and courts is concerned, Chapter 24 of the *acquis*, *Cooperation in the field of Justice and Home Affairs*, emphasizes the establishment of an independent and efficient judiciary combined with a firm commitment devoting adequate financial resources and training to employees of the judicial system. Again, therefore, improvements in civil and public services and in the judiciary can be attributed to the systematic implementation of the *acquis*.

To sum up, before accession, CEE leaders had strong incentives to try to curb corruption since it was a highly salient issue specifically emphasized in the Commission Regular Reports. The asymmetric power relationship between the EU and the candidate members allowed the EU to effectively use its leverage to induce change even in areas that were not formally in the *acquis* or the Copenhagen criteria, such as corruption. After accession, the relative loss of leverage was compensated by three mechanisms which sustained the pressure for reform and prevented backsliding: continued leverage (Structural and Cohesion Funds and CVM reports), increased linkage (socialization effects), and spillover effects (reduction of the role of the state in the economy and improvements in the legal system) from implementing the *acquis* in other areas.

## VII. ALTERNATIVE EXPLANATIONS

This study was able to find support for both of the hypotheses proposed. Corruption levels do indeed start improving as soon as a country joins the EU candidacy process and progress in curbing corruption continues even after accession, when EU leverage becomes weaker. Nevertheless there are three methodological challenges to this study that are worth mentioning. First, although the CC is based on a number of individual variables measuring perceptions of corruption, representing 35 separate data sources, it is possible that interviewees may sometimes conflate their perception of corruption with their perception of general government performance. Second, it is methodologically difficult to disentangle the effect of the EU candidacy process from a potential selection effect suggesting that these 10 post-communist countries were going to have lower levels of corruption as opposed to other uninvited countries anyway. Third, some studies (e.g. Rose and Mishler forthcoming) have suggested the possibility that perception of corruption may be closely linked to perceptions of economic performance.

In order to test whether CC scores indeed correspond to people's perception of corruption and not their perception of general government performance, I looked at how corruption levels changed in Bulgaria and Romania after the two countries' watershed elections in 1997 and 1996 respectively which removed from power governments with poor performance. The general level of disapproval of the illiberal governments in the two countries prior to these elections was very high, but it is

unlikely that corruption levels underwent a fundamental transformation in the first year after the elections. The score for Bulgaria in 1997 is  $-.54$  and for 1998  $-.29$ , a significant improvement of  $.25$ . This simple calculation suggests that there is indeed reason to suspect that people's perception of corruption and their perception of general government performance are closely linked. The score for Romania in 1996 is  $-.25$  and for 1997  $-.30$ , an insignificant deterioration in corruption levels ( $-.05$ ). This result defies the previous intuition that perception of corruption and perception of general government performance are conflated. Nevertheless, if CC sometimes fails to capture the true perception of corruption, perhaps it is worth considering other measures, such as number of anticorruption verdicts, or trying to build a latent variable by combining several of the available indexes.

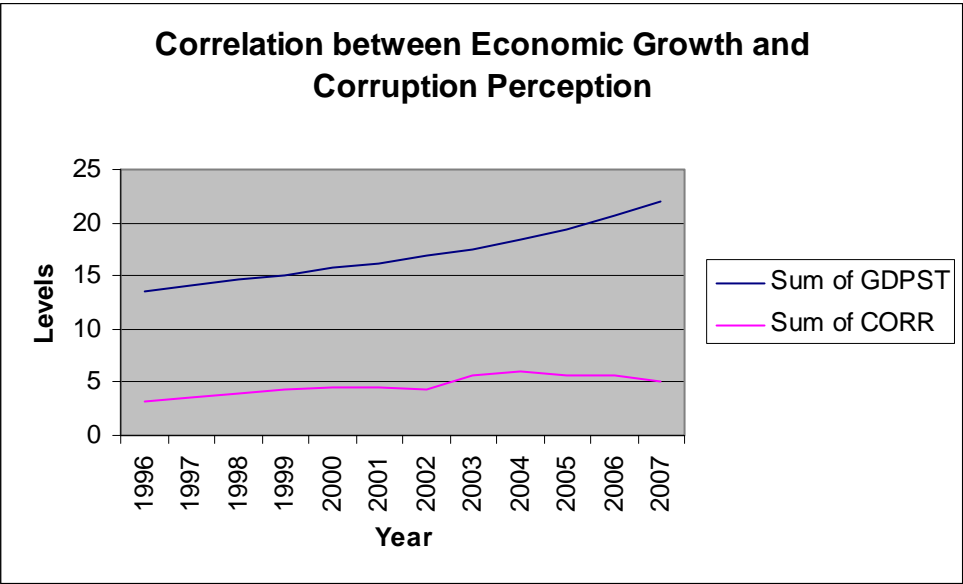
The second challenge to the results of this study has to do with the fact it is methodologically challenging to evaluate the impact of the EU on corruption in CEE because the application of conditionality coincided with the fundamental political transition that these countries underwent after the collapse of their communist regimes. Additionally, EU incentives were strongest in those countries whose domestic conditions were most conducive to democratization and adaptation to free market economics. Therefore, any improvements in corruption levels that we observe may be due primarily to domestic factors or to the ability of the EU to cherry-pick the countries with the best reform conditions rather than to its ability to induce change that these countries would have been unable or unwilling to initiate otherwise.



This study, however, tries to control for some of this dynamic by comparing the 10 post-communist countries to a reference group of the communist countries were never part of the EU's incentive-based conditionality. After all these countries underwent similar transitions and were in some respects similar to the 10 new members of the EU. As the results of Design 3 show, the 10 post-communist countries performed strongly relative to this base.

The third challenge to the results of this study stems from the fact that the dependent variable, perceptions of corruption, may be closely linked to and determined by perceptions of economic performance. Figure 6 below shows that such a link does indeed exist and the correlation coefficient of .78 further reinforces this idea. Nevertheless, in light of the larger corruption literature (Kaufman et al (1999), Dearden (2000) etc), it should not be surprising that corruption levels would indeed deteriorate with economic growth.

Fig. 6: Economic Growth and Corruption Perception



## VIII. CONCLUSION

The ten post-communist countries that joined the EU in 2004 and 2007 constitute a special case in the history of EU enlargement marked by unprecedented EU leverage which translated into a systemic overhaul of these countries' political, economic, and legal systems. By the end of their long and painful transitions that took most of the 1990s, the majority of CEE states had declared that joining the EU was their top foreign policy goal (Vachudova 2005). There were multiple reasons for this preference, from political and geo-strategic (locking in democracy, guaranteeing national security vis-à-vis Russia, reducing uncertainty by regulating relations with powerful West European states) to economic (eliminating trade barriers, receiving subsidies, obtaining a voice in the decision-making process of CEE's most powerful trading partner). Small, economically weak, and politically vulnerable, the CEE countries needed the EU much more than the EU needed them. Thus, this asymmetrical interdependence provided the EU with a solid bargaining position and allowed it to impose comprehensive and intrusive membership conditions that went beyond the scope of the *acquis* and the Copenhagen criteria.

Although compliance in certain areas did indeed deteriorate in the post-accession period when EU leverage had diminished, this study finds convincing evidence that this was not the case with corruption. Although it remains a hot topic and an area of continued criticism for many of these countries, absolute gains in

progress against corruption have been sustained even after membership. Although corruption was neither part of the *acquis* nor of the Copenhagen criteria, it was an issue that received tremendous visibility during the accession period through the Commission Regular Reports and the attention of the media in the CEE countries. Taking advantage of its leverage, the EU was able to demand reforms that served to curb corruption levels during the Candidacy period. Importantly, gains in the fight against corruption were not negated after accession. This study has identified three mechanisms that compensated for the relative loss of leverage in this time period.

First, the EU was able to continue to exert some leverage and thus sustain pressure for reform through the threat of cutting off conditional funding in cases of non-compliance. Having acted on this threat once, in the case of Bulgaria, the EU demonstrated that this was a real and credible punishment mechanism, which it can use if serious violations are uncovered. Secondly, increased linkages between Western and Eastern Europe, exemplified in the number of people traveling and working in the West, led to the gradual emergence of an electorate of more “Europeanized” CEE citizens with higher expectations about the rule of law and corruption. Such socialization effects serve as the silent underpinnings of a new political culture, one that holds politicians to higher standards and demands good governance at all costs. As opinion polls have indicated, Central and Eastern Europeans are a lot more pro-EU than their Western European counterparts and are therefore unwilling to risk marginalization with respect to the EU for lack of compliance. Thirdly, spillover effects associated with the reduction of the role of the state in the economy and improvements in the legal system and the strengthened

effectiveness of regulatory institutions as a result of the implementation of the *acquis* either limit opportunities for corruption or allow for more conducive conditions to tackle it.

Nevertheless, absolute improvements in corruption levels in CEE countries do not necessarily mean that a bright future is inevitable. These countries still remain much more corrupt than the Western European members and corruption continues to undermine economic progress and the citizens' faith in the democratic system. That is why pressure for reform should persist and perhaps more detailed studies focusing on particular aspects of corruption should be encouraged, so that both the EU and the CEE governments can collectively come up with more targeted and effective strategies to tackle this serious and endemic challenge.

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