

Circles and Hemispheres of Integration

The Development of a System of Graded European Union Membership

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Abstract

Whereas the study of regional integration has traditionally focused on organizational growth (“deepening” and “widening”), this paper analyzes regional differentiation. It conceives of differentiation as a process, in which states either refuse, or are being refused, further regional integration but all parties find value in creating in-between grades of membership. A particularly fine-grained system of circles of membership has developed in Europe. This paper describes the development of this system and explains the positioning and movement of states across the grades of membership. It argues that the fully integrated core countries of the EU set a standard of good governance and wealth for the other countries of the region. They are less integrated to the extent that they either underfulfill or overfulfill this standard. Countries that underfulfill the standard are *refused* further integration by the core; those that overfulfill the standard *refuse* further integration. A panel analysis of European countries since the early 1990s shows that membership status among the refused countries increases with wealth, democracy, and good governance. To the contrary, membership status among the refusers is inversely related to wealth, democracy, good governance, and national identity.

Keywords: differentiation, European Union, good governance, membership, regional integration

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Introduction¹

In the course of its history, the European Union (EU)² has developed from a customs union to an internal market and a currency union; it has acquired competences in almost all areas of public policy; and it has transferred powers to supranational organizations such as the European Parliament, the European Commission, and the European Central Bank. At the same time, it has expanded its membership from six to 28 countries. These developments in European integration – often dubbed “deepening” and “widening” – have been theorized and analyzed extensively in the literature on European integration.³ In other words, research on the dynamics of European integration has overwhelmingly focused on the functional, authority, and territorial growth of the EU as an organization. The same is true for the comparative literature on international and regional organizations: the conceptualization and measurements of institutional design has focused on the level of authority and the policy scope of international organizations.⁴

This paper takes a different perspective. First, it starts from the fact that the deepening and widening of the EU has been accompanied by a process of differentiation. As the competences and the membership of the EU have grown, European integration has become less uniform. Whereas initially the integrated policies applied to *all* member states and to member states *only*, the congruence of membership and policy integration has become increasingly blurred. Today member states do not participate in EU policies such as monetary union or the Schengen area of abolished internal border controls, and the EU routinely excludes new member states from immediate participation in these two areas of integration. On the other hand, nonmember states participate in the EU’s customs union (Turkey), internal market (Iceland and Norway), or Schengen area, and they conclude trade, partnership, or association agreements. Adequate accounts of the dynamics of European integration need to move beyond the exclusive focus on deepening and widening and include differentiation as a core feature of the European integration process.⁵

Second, the paper takes a regional rather than a strictly organizational perspective. In the course of time, the EU has cast a net of varied institutional relationships across the region of Europe. An increasing number of countries have concluded broad formal agreements with the EU, which define the range and intensity of their cooperation and integration. No European country is currently without such an agreement.⁶ Taking the two perspectives together, this paper examines the EU as a differentially integrated regional system.

¹ For helpful comments on earlier versions, I thank Michael Bechtel, Tina Freyburg, Thomas Winzen, Arndt Wonka and audiences at the Universities of Bremen, St. Gallen, ETH Zurich and the EUSA and Swiss Political Science Association conventions. My work on this paper has benefited from a fellowship at the KFG “The Transformative Power of Europe” at the FU Berlin, directed by Tanja Börzel and Thomas Risse.

² When I refer to the EU in this paper, I include its predecessor organizations, the European Communities of the 1950s and 1960s and the European Community (EC).

³ See, e.g., Moravcsik 1998 on the big intergovernmental integration decisions; Sandholtz and Stone Sweet 1998 on the incremental supranationalization of the EU; Rittberger 2005 on the empowerment of the European Parliament; Schimmelfennig 2003 on enlargement.

⁴ Koremenos et al. 2001; Acharya and Johnston 2007; Hooghe and Marks 2012; Haftel 2013.

⁵ Leuffen et al. 2013.

⁶ Kosovo, a new and not universally recognized country, is currently negotiating an association agreement. The Partnership and Cooperation Agreement with Belarus has not been ratified because of the political situation in the country.

Whereas differentiated integration has been an important topic of policy debate in the EU for a long time, systematic theory-based analysis is rare.⁷ Metaphorical taxonomies abound. For instance, “multi-speed Europe”, “core Europe”, “variable geometry”, and “Europe à la carte” have long entered scholarly and political discourse.⁸ With a focus on nonmembers, Christiansen et al. speak of “fuzzy borders” and Lavenex categorizes them as “concentric circles”.⁹ Recent descriptions of the EU as an “empire” are consistent with the idea of graded, differentiated membership and fuzzy, flexible borders – common features of empires – but focus on authority relations.¹⁰ In addition, the concept of empire comes with problematic historical and value-laden connotations. Leuffen et al. introduce the more technical term “system of differentiated integration”, which describes both variable membership in and variable centralization of integrated policies.¹¹ Explanatory and comparative analyses of differentiated integration in the EU focus on the member states¹² and on formal accession to the EU, i.e. the move from formal non-membership to formal membership.¹³ To my knowledge, there are no systematic analyses covering the full range of grades of membership.

This paper seeks to advance the state of the art in two ways. First, it moves beyond the division in the literature focusing either on differentiation within the EU or differentiation in the EU’s relations with nonmembers by providing an analysis of graded membership which cuts across the formal organizational borders of the EU. I contend that the same factors and mechanisms explain graded membership among members and nonmembers. Second, the paper moves beyond typological description by putting forward and testing a theory-based explanation of graded membership with a novel dataset.

In a nutshell, I argue that graded membership is an – often unintended – outcome of international disagreement about proposals to deepen or widen European integration. Two types of disagreement can be distinguished: states may either refuse or be refused (further) integration. New grades of membership are introduced if all parties agree that differentiating membership is preferable to the status quo. Where states are located in the EU’s system of graded membership depends on the position at which they refused to be integrated further or at which they were blocked from further integration.

The “refusers” and the “refused” constitute two distinct groups of countries who relate differently to the core countries that set the standard of governance in European integration. Whereas the refusers overfulfill this standard, the refused underfulfill it. Both overfulfillment and underfulfillment produce efficiency, good governance, and identity concerns. States refuse further integration if they fear that supranational integration will harm domestic good governance and efficiency and if they value their national autonomy and identity highly. The wealthier they are, the better they are governed, and the stronger their national identity is, the earlier in the process they refuse to

⁷ For a recent review of the literature, see Holzinger and Schimmelfennig 2012.

⁸ See Stubb 1996 for a review and an influential contribution. Dyson and Sepos 2010 explore a variety of meanings of differentiated integration in the EU.

⁹ Christiansen et al. 2000; Lavenex 2010.

¹⁰ E.g. Beck and Grande 2007; Marks 2012; and Zielonka 2006.

¹¹ Leuffen et al. 2013.

¹² See Kölliker 2001; 2006 for an analysis of the effects of differentiation based on collective goods theory, Plümpner and Schneider 2007 and Schneider 2009 for studies of discriminatory membership of new members, Jensen and Slapin 2012 for a spatial theory of decision-making on differentiation with a few illustrations; and Schimmelfennig and Winzen 2014 describing logics of differentiation in EU treaty law.

¹³ Gstöhl 2002; Schimmelfennig and Sedelmeier 2001.

integrate further and the lower their membership status remains. Similarly, core countries fear that the integration of underperforming countries will produce redistribution, efficiency losses, and a dilution of the EU's democratic identity. As a consequence, states are refused further integration by the core countries if they are relatively poor and poorly governed. The wealthier they become, the more they consolidate democratically, and the more they improve their governance, the further they are allowed to move towards full membership in the system. As a consequence, countries may have the same membership status (such as "non-Eurozone country" or "candidate for membership") for opposite reasons. They may either be more wealthy and better governed than the core countries (and refuse to integrate further), or they may be poorer and less well-governed than the core (and be refused to integrate further). These two groups of countries constitute two "hemispheres" in the European regional system that cut across the "circles" of membership ranging from "no institutionalized relationship" with the EU to "complete integration".

In the next section, I develop this theoretical argument in more detail. I then describe how the EU's system of graded membership has developed over time. Subsequently, I present the results of a panel regression analysis of the positioning and movement of European countries in the EU system of graded membership to support the theoretical argument empirically.

Theorizing Differentiated Membership

Why and how do international organizations establish graded systems of membership and why do countries find themselves in different grades of membership? I start with a simple model of differentiation. On the basis of this model, I hypothesize under which conditions the membership structure changes and which factors determine the position and movement of a country in this structure. Although the model will be used to explain the graded membership of the EU, I formulate it at a sufficiently high level of abstraction to apply it to (regional) international organizations more generally.

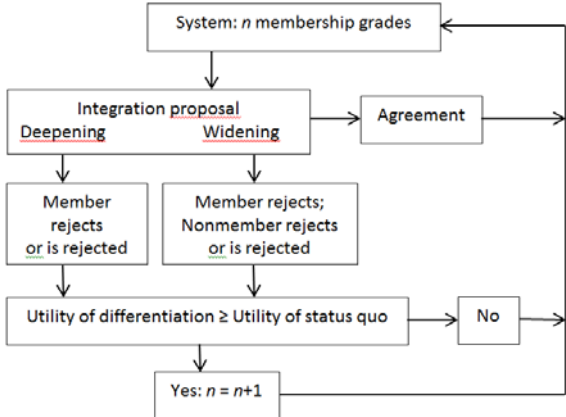
A Model of Differentiation

I assume that differentiated membership emerges from a sequence of decisions on the deepening and widening of an international organization (see Figure 1). It is an emergent phenomenon in the sense that differentiation is often not the outcome intended by the actor proposing to integrate policies or countries further – and not even part of the set of outcomes on which the actors initially negotiate. Rather, it comes up as an option during the negotiations or after their failure. The major deepening and widening decisions of the EU come in the form of new treaties or the revision of existing treaties; they therefore require unanimous intergovernmental agreement and domestic ratification. Deepening needs the consent of all member states; widening requires the agreement of both the existing member states and the prospective new member.

Let us start with a typical binary organization, which has two membership grades ($n=2$): members and nonmembers. A state or a group of states makes a proposal to deepen its competences or to widen its membership. If all states have compatible preferences, there is no demand for differentiation and the outcome is uniform further deepening – or full membership in the case of

widening. If the proposal is controversial, however, veto threats arise. States may refuse or be refused (further) integration. When a proposal for deepening is made, a member state may refuse to participate in the deepened organization – or it may be precluded from doing so by the other member states. Likewise, nonmember states may decline membership in, or be declined membership by, the organization. If differentiated integration was not an option, the outcome would be the status quo: no deepening or widening.

Figure 1 A Model of Differentiation



Differentiated integration provides an alternative to the stark choice between the status quo, on one hand, and full membership or uniform integration, on the other. In the case of deepening, it allows member states desiring more integration to move ahead while those opposed to or unfit for further integration can remain behind for the time being. In the case of widening, states that do not wish to become full members can ask for a lower grade of membership that allows for some participation in the integrated policies. Conversely, member states opposed to widening can offer the nonmember some form of association below full membership.

If the supporters or opponents of deepening or widening prefer the status quo to differentiated membership, the status quo is reaffirmed and no differentiation is established. They may be concerned, for instance, about free-riding, discrimination, or high transaction costs from creating an additional grade of membership.¹⁴ By contrast, if the supporters of integration find that differentiated integration will provide them higher utility than the status quo, and if the opponents are at least indifferent, they can agree on creating a new membership grade.

In the following round of integration, the actors play the same widening and deepening game again – except that they have one more outcome option: differentiated membership. This additional option should make it easier to accommodate heterogeneous integration preferences and reach agreement on integration. Otherwise, the actors create another grade of membership if they prefer differentiation to the status quo. The system will be increasingly differentiated until it provides for levels of membership that can accommodate any constellation of integration preferences that may arise when a new proposal for deepening or widening is made. I therefore assume that a new grade

¹⁴ Kölliker 2001.

of membership is established if states (i) do not agree on the placement of a state in the existing system of graded membership and (ii) prefer the creation of a new grade to the status quo.

Explaining state positions in a system of graded membership

Why do countries have different positions in a system of graded membership? Why are they interested in and admitted to certain membership grades and why do they refuse – or are prevented from – moving further? This section moves from accounting for differentiation in a membership system – an argument about structure – to explaining the position of countries within this structure.

According to the model of differentiation, the triggers for negotiations on differentiated membership are proposals to widen or deepen the organization. Widening starts with a state that does not have any institutionalized relationship with the organization. This state makes a request to the organization to upgrade its relationship, or it may be invited to join. If the organization rejects the request, or the state rejects the invitation, the upgrade fails. If both agree, the state moves to a higher level of membership, and this process is repeated until either the organization or the state reject further integration. Deepening concerns only the formal member states of the organization. When a proposal is made to deepen the organization by expanding its policy scope or by pooling and delegating further state competences, each member state decides whether it wants to go along or negotiate an opt-out – and the states proposing the deepening decide whether they want other members in or out.

To explain why states move up levels of membership and why they reject or are rejected further integration at some point, I draw on two general logics of international cooperation and integration: efficiency and identity. These logics have been at the heart of the rationalist-constructivist debate in research on (international) institutions¹⁵, the constructivist or post-functional challenge to both intergovernmentalist and supranationalist theories of regional integration¹⁶, and the conceptualization of types of multi-level governance.¹⁷

The logic of efficiency is fundamental for rationalist institutionalism in IR and both intergovernmentalist and supranationalist integration theories. States establish international institutions as a response to material international interdependence. International institutions help them reap benefits of scale, internalize international externalities, and solve problems of decentralized cooperation. International organizations are conceived of as clubs, i.e. voluntary associations deriving mutual benefit from producing and sharing collective goods.¹⁸ Membership in clubs can be limited – and often needs to be because new members are not only additional contributors but also rival consumers (causing so-called crowding costs). When international clubs form, they produce external effects for non-member countries (for instance, by diverting trade and investments away from them) but may also suffer from free-riding by non-members. In both cases, it

¹⁵ See e.g. Scott 1995 on institutions in general and Hasenclever et al. 1997 on international institutions (regimes).

¹⁶ For rationalist integration theories, see e.g. Moravcsik 1998 (intergovernmentalism) and Pierson 1996 (supranationalism). See Schimmelfennig 2003 for a constructivist explanation of enlargement and Hooghe and Marks 2008 for a post-functional approach to integration.

¹⁷ Hooghe and Marks 2003. They refer to “scale” and “community”.

¹⁸ Cornes and Sandler 1986.

would be beneficial to enlarge the club. In addition, a larger size produces economies of scale and increases the club budget. Thus, in a rationalist perspective, the question is whether a given club already has optimal size or welfare may be increased by expanding or downsizing the club.

According to this logic, grades of membership represent different clubs or “clubs within clubs”. The core club is made up of states that are linked by strong interdependence, governance capacity, and roughly similar levels of wealth and development. Interdependence creates the demand for cooperation and integration. If interdependence is weak, there is no need for states to cooperate. Governance capacity is a major supply-side condition. Although integration is about centralizing governance capacity, even a highly integrated organization such as the EU has weak administrative and fiscal capacity in comparison with its member states and relies on them to implement the rules it makes. If a state has weak capacity to comply with common policies, other states may doubt the benefits of cooperation even if interdependence is high. Finally, cooperation and integration are facilitated by roughly equal levels of wealth and development. Strong discrepancies are likely to create heterogeneous integration preferences and demands for redistribution that make it more difficult to reach agreement. Correspondingly, as we move out from the core, states are expected to become less interdependent with the inner circle, differ in policy-making capacity, or diverge in levels of wealth and development. States seek to move inwards as the (opportunity) costs of interdependence and their expected efficiency gains from integration increase. And states are invited or allowed to do so to the extent that the core expects efficiency gains, too, and its concerns about governance capacity, redistribution, and divergent integration preferences lessen.

By contrast, the logic of identity is at the core of constructivist or sociological-institutionalist theories of international relations and European integration. An identity expresses who “we” are, who belongs to “us” and what unifies “us”. Identity defines a community and distinguishes it from other communities. In this perspective, organizations are “community representatives”¹⁹ and community-builders. Whereas clubs pursue efficiency, communities seek to maintain and strengthen their identity. Accordingly, membership is patterned by identity.²⁰ Graded membership mirrors layers of identity or variation in the strength of community identity. The core is made up of the states with the strongest community identity. They possess all the identity markers of the community and feel strongly attached to it. Members at lower levels differ from them by shallower or more contested community identities. States seek to move up the levels of graded membership if they aspire to become part of the (inner) community and if their identity assimilates to the community identity. Likewise, the core agrees to upgrade the membership of states whose identity has become more similar to the core identity of the community.

As a community, the EU is a supranational union of European liberal democracies. The Treaty on European Union limits membership to “European” states (Art. 49 TEU) respecting the common values of freedom, democracy, equality, the rule of law, and human rights (Art. 2 TEU). In Article 1 TEU, the EU commits the member states to “ever closer union among the peoples of Europe” and to conferring competences to the Union to attain common objectives. Consequently, liberal democracy and supranationalism are the main identity components of the EU as a community. If nationalism is the belief that nations are the exclusive or primary focus of individuals’ social identity and political loyalty and that legitimate political authority resides in the sovereign nation-state, supranationalism

¹⁹ Abbott and Snidal 1998: 24.

²⁰ See, e.g., Rumelili 2004.

can be defined as the identification of individuals with a larger international community and their belief in the legitimacy of supranational political authority. Supranationalism does not require a European identity that replaces national identities but a “Europeanized identity” according to which citizens identify at least somewhat with “Europe” in addition to their national identity.²¹

Circles and hemispheres in European integration

I assume that both efficiency and identity shape the pattern of differentiated membership in the EU. The full members at the core of the EU define the standard of efficiency and identity – or “good governance” – for the organization. The good-governance standard consists of a high level of governance capacity, wealth, liberal democracy, and supranationalism. The other countries of the region deviate from this standard in two ways causing them to either refuse or be refused full integration.

The refusers are characterized by “better governance” than the core. That is, they possess on average higher governance capacity and are wealthier and more democratic than the core countries. Because such countries would strengthen the EU’s governance capacity, wealth, and democratic standards, the core would welcome them as full members. By contrast, the better-governance countries have both the reasons and the means to decline full membership. Two plausible and compatible causal mechanisms link better governance with the refusal to integrate (fully). First, refusers are motivated by a strong national identity, which makes them reluctant to delegate competences to supranational organizations, especially in areas of core state powers crucial to their nation-state sovereignty.²² Because of their high wealth, democratic quality, and governance capacity, they can afford to cultivate their national identity.²³ Second, superior wealth, governance capacity, and democratic quality cause concern that further integration will lead to losses from regional redistribution, less efficient and transparent governance, and a weakening of democratic quality at home. These concerns reinforce nationalism. How close these countries move to the core depends on a combination of wealth, capacity, democracy, and national identity. I hypothesize for the refusers that *the higher the democratic quality, governance capacity, wealth, and national identity of a country is, the earlier it says no to further integration and the more it remains on the periphery of the EU’s system of graded membership (H1).*

By contrast, the refused are characterized by comparatively “bad governance” – a combination of lower-quality democracy (or autocracy), weaker governance capacity, lower wealth, and a less Europeanized identity than the core. For these reasons, the core countries are reluctant to accept these countries into their circle of integration. Poorer countries are likely to require subsidies and transfers from the core. Weak governance capacity increases the chance that such transfers are misappropriated and that EU rules are not properly implemented. Defective democracies and strong nationalism dilute the community identity of the EU – and make integrated policy-making more difficult. In order to move towards the core, the refused countries need to improve their democratic quality, increase their governance capacity and wealth, and Europeanize their identities. The more

²¹ Risse 2010; 2014.

²² See Rittberger et al. 2014; Schimmelfennig and Winzen 2014.

²³ See Mattli 1999 for a similar argument on how states trade off growth against autonomy in regional integration.

they share the identity of the core and the fewer efficiency or distributional concerns they produce, the fewer reasons the core countries have to exclude them. For the refused countries, I hypothesize that *the lower the democratic quality, governance capacity, wealth, and supranational identity of a country is, the earlier the EU says no to further integration and the more it remains on the periphery of the EU's system of graded membership (H2).*

These hypotheses imply that democracy, governance capacity, and wealth affect both the refusers and the refused but in opposite directions. As initially poorly governed countries become wealthier and more democratic, and acquire higher governance capacity, their position in the system of graded membership moves closer to the core. As well-governed countries become (comparatively) wealthier, more democratic, and better governed, however, their position moves outward from the core. As a result, countries can be located at the same level of membership for very different reasons – either because they better-governed or worse-governed than the core countries. National identity, however, is assumed to affect membership negatively for both the refusers and the refused. It contributes to the refusers' unwillingness to seek further integration and to the core countries' unwillingness to admit bad-governance countries.

Fig. 2: Circles and hemispheres in the EU system of graded membership

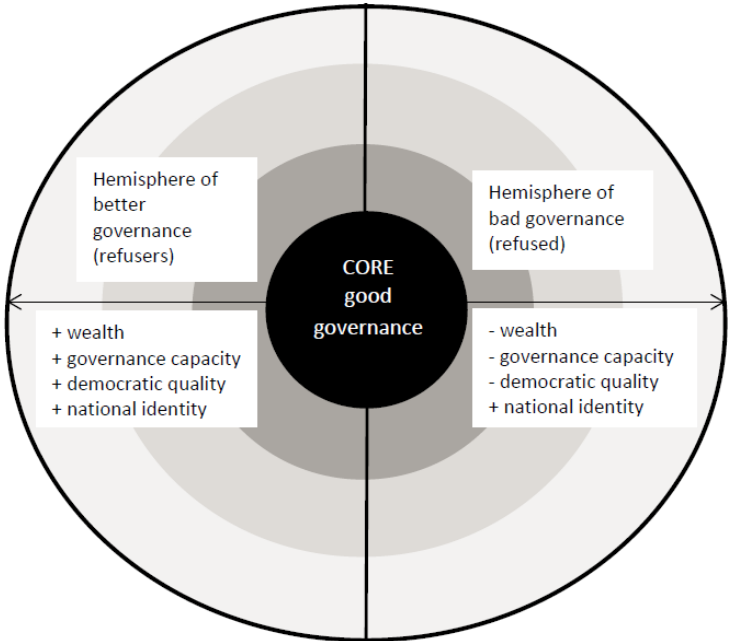


Figure 2 shows a model of the European system of graded membership that does not only consist of “circles” of integration moving from the core to the periphery but is also divided into the two “hemispheres” of the refusers and the refused. Circles of increasingly weaker integration (shaded) surround the core; each circle runs through two hemispheres. The refusers are located in the left-hand hemisphere of the circles, whereas the refused are located in the right-hand hemisphere. The two hemispheres are characterized by different kinds of wealth, governance capacity, democratic

quality, and national identity deviations from the core's identity and efficiency standard.²⁴ In the following sections, I explore this theoretical framework empirically. I first describe how Europe's system of graded membership has developed over time and then analyze the positioning and movement of countries in this system.

The Differentiation of Membership in European Integration

"Membership" is operationalized as type of formal institutional relationship between a state and the EU. I use this formal, institutional indicator because membership is an institutional attribute. Formal agreements define the basic rights and obligations of a state vis-à-vis the organization and regulate the depth of its integration in the organization's activities; and, on a pragmatic note, data on formal agreements is easy to find and interpret. In addition, my classification of formal institutional relationships is inductive. I start from the basic dichotomy between members and nonmembers and add a new category every time the EU decides to introduce a new category.

I use the model of differentiation to briefly describe the historical sequence of decisions that have produced the EU system of graded membership. This description is illustrative and should not be understood as a test of the model. First, I focus exclusively on positive outcome cases – those instances of integration proposals that led to the establishment of a new membership grade. Second, I do not provide an analysis of the relative utility of the status quo and differentiation for the actors involved. I describe, however, how deepening and widening proposals have resulted in disagreement about the suitability of existing grades of membership and produced differentiation.

The conventional starting point for the European integration process is the Treaty of Paris establishing the European Coal and Steel Community (ECSC) in 1952. The ECSC started with and maintained a simple binary membership structure. By contrast, the Treaty of Rome establishing the European Economic Community (EEC) in 1958 provided for the *association* of third countries (Art. 238) below the membership threshold. This first differentiation of membership is not in line with the model, however, because it was not triggered by a (rejected) proposal to enlarge the Community. The signing of the first association agreement between the EEC and Greece in 1961 reflected the common preference of Greece and the member states to aim for a customs union for the time being and prepare for membership later on.²⁵ Yet association was the only category of graded membership for European countries explicitly codified in the Treaty of Rome.²⁶ Subsequent differentiations were generally unintended outcomes of disagreement about integration proposals.

At the time of the association negotiations between the EEC and Greece, the Spanish government also expressed its interest in joining the Community and concluding an association agreement as a stepping stone. Whereas the member state governments were initially favorable to the Spanish request, they eventually rejected it after strong mobilization by the Parliamentary Assembly and

²⁴ Please note that terms have been chosen for familiarity of metaphorical usage rather than geometrical correctness: circles are two-dimensional and hemispheres are three-dimensional

²⁵ Pelt 2006: 179-214.

²⁶ Another set of provisions related to the association of overseas territories.

European trade unions against the association of a non-democratic state.²⁷ As a consequence, Spain became the first European country to start negotiations on a preferential *trade agreement* in 1967.

When accession negotiations with Britain, Denmark, Ireland, and Norway were launched in 1970, the other member states of the European Free Trade Association (EFTA) started negotiations on *free trade agreements* with the EEC. For the four most important economies of this group – Austria, Finland, Sweden, and Switzerland – neutrality was the major impediment not only to full membership but also to association with the EEC. At the same time, they sought to preserve the free trade area they had established with Britain, Denmark, and Norway in EFTA.²⁸ For this reason, a preferential trade agreement was considered insufficient. As an in-between solution, the EEC signed Special Relations Agreements on industrial free trade with these four countries, Iceland, and Portugal in 1972 and 1973. Norway joined when its population rejected accession in a referendum.

In 1970, the EEC signed a first (non-preferential) trade agreement with Yugoslavia. In 1977, both sides decided to expand their cooperation beyond trade. Because Yugoslavia was neither a democratic country nor a market economy, both association and a free trade agreement (FTA) were ruled out. Rather, the European Community (EC) created a new type of agreement, a comprehensive *Cooperation Agreement* signed in 1980 and covering a large number of policy areas including energy, transport, agriculture, fisheries, the environment and tourism.²⁹ Exploratory talks for an association agreement were held when Yugoslavia began to democratize but aborted when civil war broke out. Following the Yugoslav precedent, cooperation agreements have been widely used by the EU in its relations with transition countries and post-Soviet countries (Partnership and Cooperation Agreements) after the end of the Cold War.

Whereas the early steps toward differentiated membership concerned formal nonmember countries only (external differentiation), graded membership among formal member states (internal differentiation) started in the mid-1980s. Plans to abolish internal border controls and to advance the free movement of persons in the common market had dated back to the 1970s but only five out of 10 member states signed the *Schengen Agreement* “on the gradual abolition of checks at their common borders” in 1985: Belgium, France, Germany, Luxembourg, and the Netherlands. This limited number resulted from two types of rejection. The UK (and Ireland in its tow), Denmark and Greece rejected the idea of abolishing internal border controls; Italy supported the idea but was initially prevented from joining because it was not considered to control its external borders effectively.³⁰ To be able to move ahead with their project nevertheless, the Schengen-5 concluded an intergovernmental treaty outside the Community framework. The Schengen provisions and related policies (such as asylum policy) were reintegrated into Community law by the Treaty of Amsterdam of 1997 but have remained differentiated to this day.

In the Single European Act of 1986, the EC prepared the ground for establishing a single market until 1993. Fearing economic losses from trade and investment diversion, the free trade partners of the EC strove to participate in the internal market. With the exception of Austria, they did not initially seek full membership, however. At the same time, the EC wanted to avoid admitting new members while it was busy implementing the internal market program. In 1989, Commission President Jacques

²⁷ Thomas 2006.

²⁸ See contributions to Gehler and Steininger 2000.

²⁹ Commission of the European Communities 1988.

³⁰ Gehring 1998; Kölliker 2006: 212-213.

Delors therefore proposed the creation of a European Economic Area (EEA), providing for *market integration* without Community membership. The treaty signed in 1992 was based on the EC's internal market rules and the dynamic adoption of Community legislation by the EFTA countries.

In 1990, the EC opened an intergovernmental conference on Economic and Monetary Union. The British government opposed the single currency from the start of the negotiations; in Denmark, the Treaty of Maastricht that resulted from the conference was rejected in a referendum. As a consequence, the Treaty on European Union (1992) contained formal "opt-outs" from *monetary union* for these two countries. The divide between the Eurozone and the rest of the EU has since become the most important form of differentiated membership among the members of the EU.

Further differentiations during the 1990s concerned the nonmember countries. In Switzerland, the referendum on the EEA Treaty failed in December 1992. Because the country did not want to be excluded from the internal market, however, it started negotiations on a series of bilateral international agreements – devoid of the EEA's supranational institutional mechanisms – in 1994; *bilateralism* has since characterized Switzerland's special relationship with the EU.

Finally, the EU invented the formal status of *candidate country* in 1999. Turkey had already applied for membership in 1987 but the European Commission repeatedly recommended against opening accession negotiations because Turkey did not fulfill the political criteria. In 1997, Turkey reacted harshly to another negative EU decision by blocking further talks with the EU and on Cyprus and by threatening to veto the use of NATO facilities for EU missions. By granting Turkey the status of candidate for membership, the EU therefore made an accommodative gesture without actually committing itself to accession negotiations. Since then, the EU has used candidate status to reward countries seeking membership for progress on the accession criteria (and distinguishing them from "potential candidates"), while deferring the decision to open accession negotiations.³¹

In sum, the EU has gradually differentiated its membership structure. Starting with the basic distinction of formal members and nonmembers, which is common to all international organizations, and a transitional status of accession negotiations, which can take many years in the EU case, it has created nine additional grades of differentiated membership since its foundation. With the exception of the Treaty of Rome "association" status, each new grade of membership has been a response to a deepening or widening proposal, which met with disagreement that could not be accommodated on the basis of the existing membership structure. The grades of membership are of a qualitative nature. Whereas the relationship of the EU with each nonmember has its peculiarities, and even most member states have specific individual exemptions from Community law, the grades of membership result from decisions of the organization to invent new types of formal agreements. As the brief history of differentiated membership also shows, the grades of membership represent a rank order. Each new grade of membership was consciously distinguished from existing higher and lower grades of membership. And even though no European country has ever moved through all individual grades from bottom to top, countries normally move from lower to higher grades.³² Table

³¹ Önis 2000: 470; Schimmelfennig 2009: 423. A similar decision had already been made on Eastern enlargement in 1997 when the EU decided to formally open the accession process with all applicants but only started actual negotiations with half of them.

³² In rare cases, nonmember states have withdrawn their candidacy (Iceland in 2013) or the EU has suspended their status (e.g. Greece's association in 1967 and Yugoslavia's cooperation agreement in 1991).

1 shows this inductive rank order as it currently stands – from “no institutionalized relationship” at the bottom to “complete integration” at the top.

Table 1: Grades of membership in the EU regional system

Formal membership	12 Complete integration
	11 Monetary union
	10 Enhanced integration (AFSJ)
	9 Economic union
Formal non-membership	8 Accession negotiations
	7 Candidacy
	6 Internal market (EEA)
	5 Association
	4 Bilateralism
	3 Free Trade Area
	2 Cooperation agreement
	1 Trade agreement
0 No institutionalized relationship	

Whereas the grades of membership for formal nonmembers follow from the description of the trajectory of differentiation above, those for formal member states reflect different combinations of membership and non-membership in the main areas of permanent internal differentiation: the Eurozone and the “Area of Freedom, Security, and Justice” (AFSJ) comprising Schengen and other justice and home affairs policies.³³ All member states of the EU participate fully in the internal market and its flanking policies (such as competition policy or consumer protection policy). This “economic union” is at the heart of the EU and can be considered the indispensable minimum of formal membership; the differentiation between economic union (only) and full membership came into being with the Schengen Agreement in 1985 and deepened with the agreement on monetary union in 1992. Britain and Denmark are the longest-standing members in the “economic union” category. Participation in monetary union and AFSJ counts as “complete integration”; “monetary union” refers to membership in the Eurozone without full participation in AFSJ (currently Cyprus and Ireland); and participation in AFSJ without Eurozone membership (e.g. Sweden and Poland) is termed “enhanced integration”.

Even though the classification is inductive, it can largely be reconstructed deductively, too, e.g. based on Balassa’s typology of economic integration³⁴ or on a scale of supranationalism. Balassa’s ordinal scale of free-trade area, customs union, common market, economic union, and full economic integration maps onto the types of free trade area, association, internal market, economic union, and monetary union in the inductive classification. The inductive classification is more detailed, however. Moreover, the scope (breadth) and/or level (depth) of integration³⁵ generally increase with every step from the low to the high end of the scale. Cooperation agreements have a larger scope than trade agreements; FTAs deepen economic integration in comparison with cooperation agreements. Switzerland’s bilateralism further deepens and broadens economic integration in

³³ Schimmelfennig and Winzen 2014: 365.
³⁴ Balassa 1961: 5-6.
³⁵ Schmitter 1969; Börzel 2005.

comparison with FTAs but eschews the supranational legal integration characteristic of the EEA and the commitment to membership typical of association. Candidacy includes a commitment to full membership that is absent for EEA countries. Finally, the level and scope of integration is higher in monetary union than in economic union, and for the members of both economic and monetary union, the scope of integration is broader if they participate in AFSJ additionally.

It is also worth noting that this formal institutional typology does not necessarily mirror *de facto* material integration and does not capture all imbalances across policy areas. The Swiss bilateral way, for instance, has led to higher *de facto* integration than in most “association” countries and includes participation in the Schengen area, which some member states reject. It reflects, however, the long-standing refusal of Switzerland to accept formal supranational integration mechanisms in general.

Figure 3 Development of Graded EU Membership (1952-2014)

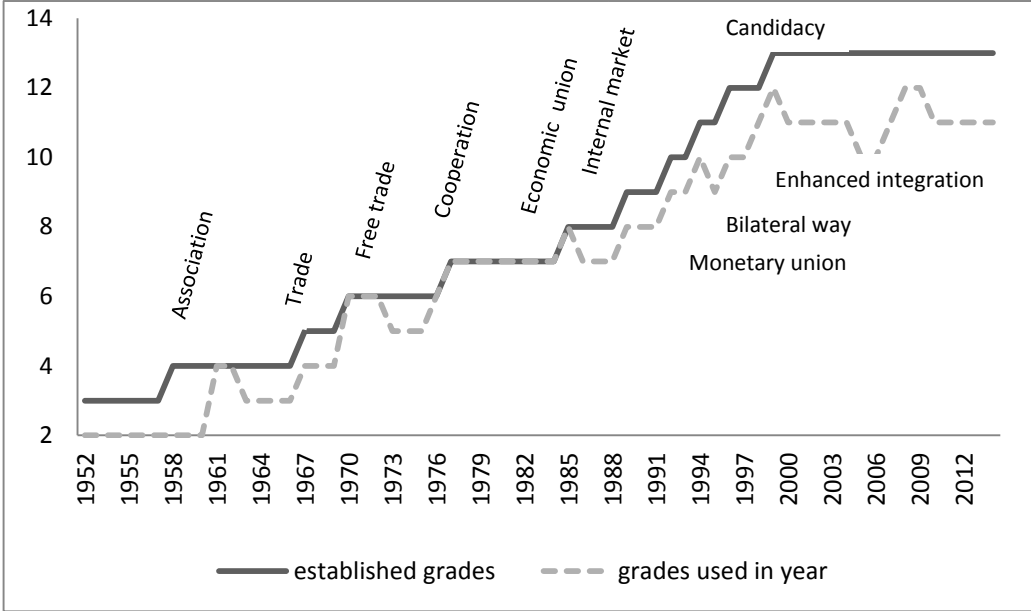


Figure 3 illustrates the development of graded EU membership in the European region. This region is defined here as including all countries that stand a theoretical chance to become EU members. This includes Turkey, the countries of the Southern Caucasus (Armenia, Azerbaijan, and Georgia), and the Western former Soviet republics (Belarus, Moldova, and Ukraine) but not Russia, i.e. currently 44 countries. The European micro-states are excluded, too. For the thirteen grades of membership listed in Table 1, Figure 3 shows how many grades of membership were in place (solid line) and how many were actually used in any given year (dotted line).³⁶ The diagram shows how membership in the EU has become increasingly differentiated over time and that the grades of membership have not just been transitional arrangements: established and used grades of membership have generally increased together; in some periods (especially from the mid-1970s to the mid-1980s), all existing

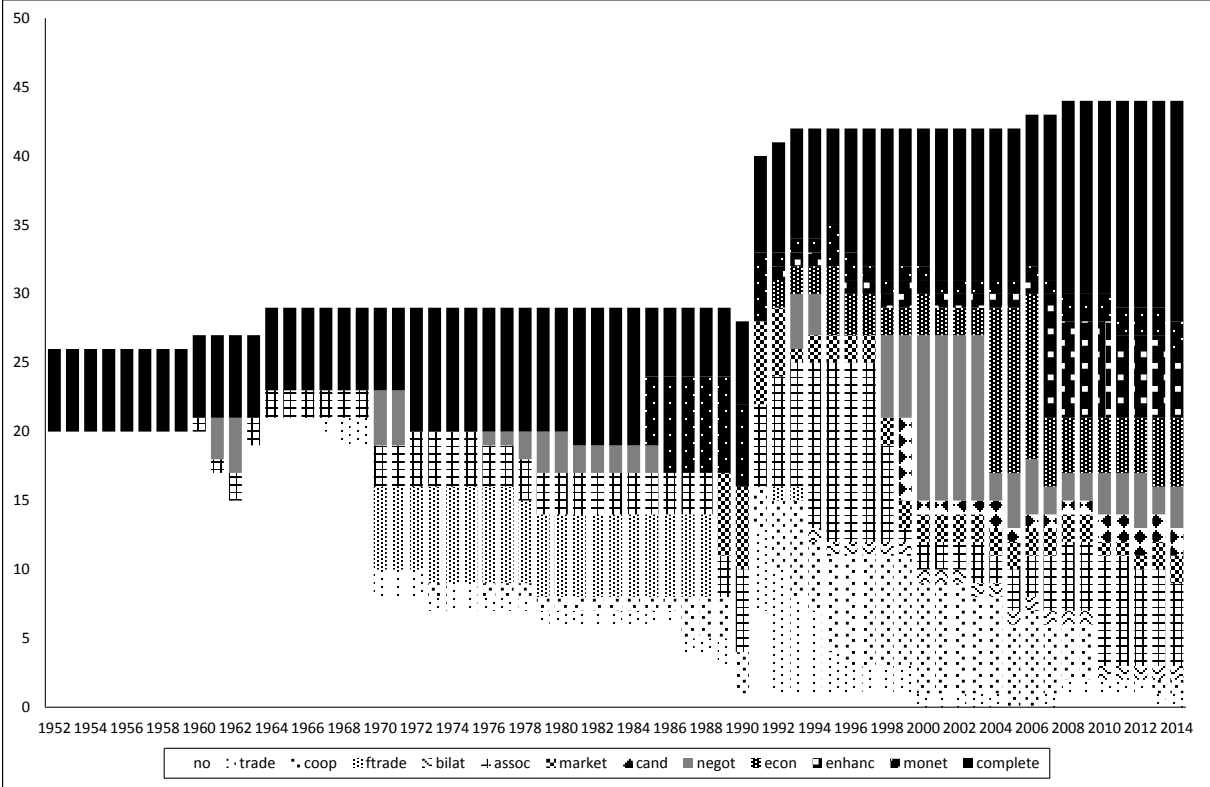
³⁶ “Use” is defined as at least one country having the formal status or beginning formal negotiations with the EU on membership in this category. A formal status starts with negotiations on the status (except for membership which has a separate accession negotiations category. Negotiations on a free-trade agreement thus count as the use of the FTA status.

grades of membership were in use, too. Currently, all countries of the region are part of the EU’s system of graded membership, and 11 out of 13 membership grades have been in use by at least one European state since 2010.

Figure 3 also shows that the development of graded membership has initially focused exclusively on external differentiation, i.e. differentiation among nonmembers. Internal differentiation only started in the mid-1980s. Since the beginning of this century, the system has been institutionally stable. All grades of membership in the current system were already in place in 1999. This is the longest period of institutional stability in the system. While countries continue to move across the grades of membership, the structure in which they move has remained constant in the past 15 years. This seems to point to an institutional consolidation of the system of graded membership after the dynamic development of the 1990s.

Figure 4 shows how the countries of the region have been distributed across the grades of membership in each year between 1952 and 2014. Countries in the “complete integration” category are shown in black, completely non-integrated countries in white, and countries in accession negotiations in grey; formal members are shown in darker patterns, formal nonmembers in lighter patterns. A structural break of the system at the end of the Cold War is clearly visible. Not only did the number of countries increase sharply – but with very few exceptions (first Yugoslavia, then Kosovo) all countries of the region have been part of the EU’s system of graded membership.

Figure 4 Distribution of European Countries across Grades of Membership (1952-2014)



Both before and after the post-Cold War break, the integration of European countries into the EU system has gradually progressed – the darker parts of the bars have become longer over time. From 1952 to 1969, the median European country had no special institutional relationship with the EU; in 1989 it was negotiating market integration. In 1991, the median European country was negotiating an association agreement with the EC; in 2013 it is an EU member state. Integration has been accompanied by differentiation, however. On the one hand, the share of European countries with some membership status has increased from 23 percent in 1952 to 100 percent in 2013, and the share of formal EU member states has reached 64 percent. On the other hand, the share of completely integrated countries has only increased from 23 to 36 percent of the countries of the region. Taken together, Figures 3 and 4 show that there is considerable (upward) mobility in the system, but the trend towards more integration has been accompanied by a trend towards differentiation until the end of the 1990s. Since 1999, the differentiation of membership positions has remained structurally stable: no new grades of membership have been created and the use of established grades has oscillated between 10 and 12. This persistence of graded membership is remarkable given the massive increase in integration levels for the states of the region. These descriptive findings strengthen the claim that European integration is differentiated integration.

Position and movement in the EU system of graded membership: a panel analysis

Design and variables

The analysis is based on a panel of European countries with annual records from 1993-2013. It consists of all countries of the region as defined above (42 countries in 1993 and 44 countries in 2013). The only imbalances in the panel result from countries that were newly created in this time period (Montenegro and Serbia in 2006 and Kosovo in 2008) or ceased to exist (Yugoslavia in 2005). For all other countries, the panel is balanced. The period was chosen for structural stability and data availability. In 1993, the structural break of the end of the Cold War had largely ended. From 1993 onwards, the number of countries has remained fairly stable. Moreover, the system of graded EU membership did not change much during this time period: Swiss bilateralism and the official candidate status only brought minor changes to the structure of membership; no changes at all have occurred after 1999.

The dependent variable is “circle”, the membership grade of a country at the end of a given year.³⁷ The grades from “no institutionalized relationship” to “complete integration” represent an ordinal scale strictly speaking. Because the number of categories is relatively large (13), however, I use linear regression models to facilitate computing and interpretation. In addition to circles, countries are assigned to hemispheres according to whether their position in a given year resulted from a refusal of the core to accord them higher status (refused countries) or from their own decision not to integrate further (refuser countries). Note that I code the initial decision. For instance, it may well be that neither the Czech Republic nor Hungary actually want to introduce the euro at this point, but their position originally resulted from a refusal of the old member states. In the period of examination, no country switched from “refuser” to “refused” or vice versa. In each year, every

³⁷ As in the descriptive analysis, a status starts with negotiations rather than the signing of an agreement or the coming into effect of the status. The findings are robust against modifications in the measurement of the status, however.

European country is thus identified by its circle and hemisphere. Table 2 shows a snapshot of the circles and hemispheres at the end of 2014.

Table 2 The EU System of Graded Membership (2014)

Circle	Hemisphere	Refusers	Refused
12 Complete integration (Core)		Austria, Belgium, Estonia, Finland, France, Germany, Greece, Italy, Latvia, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain	
11 Monetary union		Ireland	Cyprus
10 Enhanced integration (AFSJ)		Sweden	Czech Republic, Hungary, Lithuania, Poland
9 Economic union		Denmark, UK	Bulgaria, Croatia, Romania
8 Accession negotiations			Montenegro, Serbia, Turkey
7 Candidacy			Albania, Macedonia
6 Internal market (EEA)		Iceland, Norway	
5 Association			Azerbaijan, Bosnia-Herzegovina, Georgia, Kosovo, Moldova, Ukraine
4 Bilateralism		Switzerland	
3 Free Trade Area			
2 Cooperation agreement			Armenia
1 Trade agreement			Belarus
0 No institutionalized relationship			

In line with the two hypotheses, the test variables are wealth, governance capacity, liberal democracy, and identity. In order to compare relative living standards across countries and over time, wealth is measured as expenditure-side real GDP per capita at chained purchasing-power parities.³⁸ Because this measure is only available until 2011, the study period is effectively limited to 1993-2012 (given a one-year lag of the independent variables). The World Governance Indicators combine a measurement of liberal democracy and governance capacity.³⁹ These indicators are only available from 1996, however; including governance and wealth thus limits the period of examination to 1997-2012. As an alternative democracy indicator covering the entire period, I therefore use the Freedom Index by Freedom House.⁴⁰ Identity measures covering the entire panel are not available. The measure used here, the share of citizens with an exclusively national identity as reported by Eurobarometer⁴¹, has been shown to capture identity-based support for European integration well but is only available for EU member states.⁴²

³⁸ Feenstra et al. 2013.

³⁹ See <http://info.worldbank.org/governance/wgi/index.aspx#home>. The six indicators are “voice and accountability” and “rule of law” for liberal democracy and “political stability”, “government effectiveness”, “regulatory quality” and “control of corruption” for governance capacity.

⁴⁰ <http://www.freedomhouse.org/report-types/freedom-world#.VBwHBU0cRes>. Alternatively, I used the Polity IV score as a robustness check.

⁴¹ See http://ec.europa.eu/public_opinion/cf/index_en.cfm, item 40.

⁴² Hooghe and Marks 2005.

The analysis includes two controls for interdependence. “Borders” is a dummy variable distinguishing direct land borders with the EU from direct maritime borders with the EU and others.⁴³ In addition, interdependence is measured as the share of EU exports and imports in total trade in goods for each country. Until 2006, the EU shares are calculated on the basis of Correlates of War bilateral trade data.⁴⁴ For more recent years, I used Eurostat data (for the member states and candidate countries)⁴⁵ and reports by the European Commission for other countries.⁴⁶ See Appendix I for summary information on the variables.

Because the main variables are expected to have opposite effects, I conduct separate analyses for each hemisphere. The core countries (the fully integrated member states, 8 in 1993 and 14 in 2012) are part of each hemisphere. They are compared against the refuser countries (8 countries in 1993 and 7 in 2012) in the first hemisphere and against the refused countries (26 countries in 1993 and 23 in 2012) in the second hemisphere. The hemisphere of refuser countries is thus considerably smaller than the hemisphere of the refused. Only Denmark, Iceland, Ireland, Norway, Sweden, Switzerland, and the United Kingdom have refused further integration for the entire time period; Finland has been in this group for some years. Countries in this hemisphere have occupied eight different membership grades but shown little movement. The status of Denmark, Ireland, Norway, and the UK has been stable throughout the period of examination; the new members of 1995 (Austria, Finland, and Sweden) and Switzerland have experienced movement in the 1990s only, and Iceland moved more recently as a result of its decision to apply for membership in 2009. As a consequence, the scope for a “within”-analysis of movement is more limited than for a “between”-analysis of positioning. By contrast, the refused states have occupied 10 of the 13 grades of membership since the early 1990s and frequently changed positions. All new associated countries as well as 13 of the 16 new member states can be found here. This hemisphere is thus highly suitable to studying both the positioning and movement of states in the EU system of graded membership.

For each hemisphere, the analysis seeks to answer two questions. First, to what extent are democracy, governance capacity, wealth, and identity correlated with the membership grades in the EU system? This descriptive question about positions is examined with the help of pooled OLS regression. Second, what explains changes in grades of membership? This causal question is addressed in a logistic regression analysis examining the conditions under which countries experienced a (positive) change in a given year.

The analysis is expected to be affected by temporal heterogeneity. Events like the war in Kosovo 1999, the 2004 enlargement, the 2005 failure of the Constitutional Treaty, or the onset of the Eurozone crisis in 2010 may be suspected to affect membership decisions. Because temporal heterogeneity is not covered by the theory, I simply include time dummies for each year. Finally, there is every reason to assume pervasive endogeneity. Higher grades of membership – even the anticipation of more integration – have been shown elsewhere to affect wealth, democracy, and

⁴³ I also used distance from Brussels in km, which did not produce consistent effects in the OLS models, however.

⁴⁴ Barbieri et al. 2010.

⁴⁵ See http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database, “Intra and Extra-EU trade by Member State and product group”.

⁴⁶ See <http://ec.europa.eu/trade/policy/countries-and-regions/statistics/>.

trade.⁴⁷ The interpretation of the findings must therefore take into account that any effect of these variables on circle membership is likely to include indirect effects of earlier grades of membership.

Country positions

Table 3 shows the pooled OLS regression results for both hemispheres. The coefficients for the good governance (comprising both liberal democracy and governance capacity) and wealth fit the hypothetical expectations.⁴⁸ They are positively correlated with the membership grade of the refused countries but negatively correlated with the membership grade of the refusers. In addition, the strength of exclusive national identities in the refuser countries has a negative effect on status. In contrast to Hypothesis 1, national identity is positively correlated with the membership grade of the refused countries. This effect is not robust, however, if the Freedom Index is used instead of the World Governance Indicators. Moreover, the models including identity only cover the formal member states.⁴⁹ These findings support the assumption that the integration of the refusers and the refused follow opposite logics. However, the model fit is generally lower in the hemisphere of “better governance” than in the hemisphere of “bad governance”.

Table 3 Pooled OLS Regression results

Model	(1a) circle refused	(1b) circle refused	(2a) circle refusers	(2b) circle refusers
Wealth (log)	1.21 (.19)***	1.95 (.24)***	-1.31 (.75) ⁺	-.65 (.23)**
Governance	2.67 (.16)***	.44 (.19)*	-2.43 (.36)***	-.84 (.23)***
Identity		.02 (.007)*		-.05 (.007)***
EU export share	-.002 (.006)	-.009 (.006)	-.001 (.012)	.024 (.005)***
EU import share	.018 (.007)**	-.007 (.006)	-.043 (.017)*	-.011 (.005)*
Borders2	-.56 (.20)**		-2.51 (.40)***	
Borders3	-.75 (.20)***		omitted	
Constant	-6.7 (1.7)***	-8.3 (2.6)**	30.00 (7.79)***	22.56 (2.31)***
Obs.	564	279	301	253
Period	1997-2012	1997-2012	1997-2012	1997-2012
Countries	37	24	22	20
R-squared	.86	.63	.31	.42

Pooled ordinary least squares regression; all independent variables lagged by one period. Period dummies omitted from table. Models 2a/b estimated with robust standard errors. ***: $p < 0.001$; **: $p < 0.01$; *: $p < 0.05$; ⁺: $p < 0.1$.

The interdependence proxies show less consistent and systematic effects. In most models, territorial proximity has the expected effect. Immediate territorial neighbors of EU member states have a higher probability of a high status than those that only share a maritime border with the EU or are separated from the EU by at least one other state territory. It does not make a consistent difference, however, whether countries are separated from the EU by land or by sea. The effect of EU export

⁴⁷ Campos et al. 2014; Egger and Larch 2011; Schimmelfennig and Scholtz 2008.

⁴⁸ The findings are robust when the Freedom Index is used instead of the WGI.

⁴⁹ For this reason, the borders variable was omitted.

shares is almost never statistically significant, and the coefficient for import shares is not sufficiently robust in the refused countries models and has the wrong sign in the refuser models.⁵⁰

Country movement

So far, the analyses have captured the relative positions of countries in the circles of graded membership. They support the theoretical expectation that these relative positions reflect differences in wealth, good governance and national identity – and that refuser countries and refused countries are affected in opposite ways by these factors. These findings do not lend themselves to a causal interpretation of movement in the system, however.

To explore this question, I change the dependent variable from the grade of membership in a given year to a binary variable that measures whether a country's grade has changed from one year to another. Such movement has been overwhelmingly upward. The only exceptions are Norway's rejection of membership in 1994, Italy's and Greece's initial non-participation in the Schengen area and the Eurozone, respectively, and the removal of trade preferences for Belarus in 2007. I therefore exclude negative changes from the analysis. The core countries are also excluded from this analysis because status upgrades are impossible. In the hemisphere of the refusers, positive changes cover almost 11 percent of the cases, and more than 16 percent of the cases in the hemisphere of the refused. Theoretically, change could be affected by levels of wealth, good governance, and identity as well as by recent changes in these factors. Change-on-change models did not produce any robust results, however. I therefore only report the results of the level-on-change analysis. I exclude the "borders" variable and the period dummies: borders are always collinear in the hemisphere of the refuser countries, and time dummies often predict failure completely, causing too many observations to be dropped from the analysis.

Table 4 Logistic regression results: upward movement

Model	(3a) movement refused	(3b) movement refused	(4a) movement refusers	(4b) movement refusers
Wealth (log)	-.14 (.34)	-2.62 (1.33)*	-7.57 (2.26)**	-8.99 (3.53)*
Governance	.92 (.37)*	3.81 (1.24)**	-4.39 (1.78)*	-3.90 (1.63)*
Identity		-.02 (.03)		-.02 (.08)
EU export share	-.004 (.01)	-.08 (.04)*	.06 (.05)	.07 (.14)
EU import share	.013 (.02)	.010 (.03)	.05 (.04)	.03 (.08)
Constant	-1.01 (3.13)	27.2 (12.9)*	75.4 (20.9)***	91.5 (35.2)**
Obs.	380	95	118	70
Period	1997-2012	1997-2012	1997-2012	1997-2012
Countries	28	15	13	10
Pseudo R-squared	.06	.15	.44	.57

Logistic regression. Independent variables lagged by one period. Country-clustered standard errors. ***: p < 0.001; **: p < 0.01; *: p < 0.05.

In the group of refused countries (models 3a and 3b), higher levels of governance quality are the only factors that increase the probability of status upgrades significantly. The sign of the GDP per capita

⁵⁰ See Appendix 2 for marginal effects plots.

coefficients contradicts the theoretical expectation. Whereas wealth is positively correlated with membership grades in this hemisphere, it does not seem to produce status change. By contrast, in the group of refuser countries, higher wealth and better governance both affect the probability of circle upgrades negatively. This matches the theoretical expectations. Neither national identity nor trade shares are significantly related to status change.

In sum, good governance is the most robust predictor of country position and movement in the EU system of graded membership. Countries that are better governed than the core members of the EU are likely to refuse further integration; countries that are governed worse are likely to be refused. In the hemisphere of “bad governance”, the better a country is governed in terms of liberal democracy and governance capacity, the less peripheral its position remains and the more likely it is permitted to move towards the core. By contrast, in the hemisphere of “better governance”, better-governed countries occupy more peripheral positions and are less likely to move closer to the core. Wealth is robustly correlated with position – wealthier countries are more likely to refuse but less likely to be refused further integration – and with movement in the hemisphere of the refusers. Wealthier countries are, however, not more likely to experience upward movement in the hemisphere of “bad governance”. Finally, exclusive national identities are not systematically correlated with movement in the EU system of graded membership at all. Countries with higher shares of exclusive national identities are, however, likely to refuse further integration at an earlier stage.

Conclusions

The European Union has developed a system of graded membership, which has become increasingly differentiated over time, extended over the entire region of Europe, outlasted the overall deepening and widening of integration, but has not been systematically theorized, described, and explained so far. This paper proposed a model of membership differentiation, described the growth and persistence of graded membership in the EU, and tested a variety of factors theorized to shape the positions and movements of countries in the system.

The EU system of graded membership is the – most often unintended – outcome of disagreement on the deepening and widening of integration. The differentiation of membership provides a solution to such disagreement. It offers countries opposed to or deemed unfit for (more) supranational policy integration a customized position that all parties can agree on. Whether a state refuses or is refused further integration, which position it takes in the system of graded membership and under which conditions it moves towards the core depends on the standard of good governance (liberal democracy, governance capacity), wealth, and supranationalism established by the core members. The core countries deny further integration to countries that underfulfill their standards and threaten to undermine the efficiency of supranational integration and the identity of the supranational community. Empirically, it could be shown that countries with higher levels of democracy and governance capacity are less likely to be refused: they have a higher membership grade and experience more membership upgrades. Wealth is positively correlated with membership grades but not with changes in membership status of the refused states. Identity does not play a systematic role in their integration. By contrast, states that overfulfill the core standards are concerned that further integration will undermine the efficiency of national institutions and their national identity. The empirical analysis showed that refuser countries are likely to be in a more

peripheral position, the better-governed, wealthier, and more nationalist they are. Conversely, the less wealthy and less well-governed they are, the more likely they are to move towards the core.

The results support many existing findings in the literature on membership in European integration, e.g. concerning the relevance of economic performance gaps⁵¹, the importance of both efficiency and identity concerns for the “reluctant” (or refuser) former or current EFTA countries⁵², and the role of liberal democratic norms in Eastern enlargement.⁵³ The value added of the present paper consists in offering an integrated explanatory framework for these findings and in testing them more comprehensively across time and all countries of the region.

Still, various problems and open questions remain. To name just a few, the analysis was limited by data problems. Above all, the scarcity and questionable quality of quantitative identity data makes it difficult to examine identity effects in a comprehensive way across longer time periods and the entire region. At a theoretical level, the nature of the identity effects and their interaction with efficiency concerns needs to be explored further. For instance, are the refusers primarily motivated by identity or efficiency concerns? Does national identity play any role in the case of the refused states or is it marginalized by the dominance of economic interest? In addition, the pervasive endogeneity of the positioning and movement of countries in the system of graded membership requires further analysis. It is furthermore an open question whether the relationship between international interdependence and graded membership is really as weak and unsystematic as suggested in this paper.

Finally, although this paper has focused exclusively on European integration, the analysis is potentially relevant beyond Europe. The number, level of integration and membership of regional organizations has increased around the globe.⁵⁴ Several of these organizations have established forms of graded membership: Mercosur, for instance, has associate members; ASEAN has observer and candidate status. As the international system has become more regionally institutionalized, it is also likely to become more differentially institutionalized within regions.

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⁵¹ Mattli 1999.

⁵² Gstöhl 2002.

⁵³ Schimmelfennig 2001.

⁵⁴ Goertz and Powers 2010; Haftel 2013.

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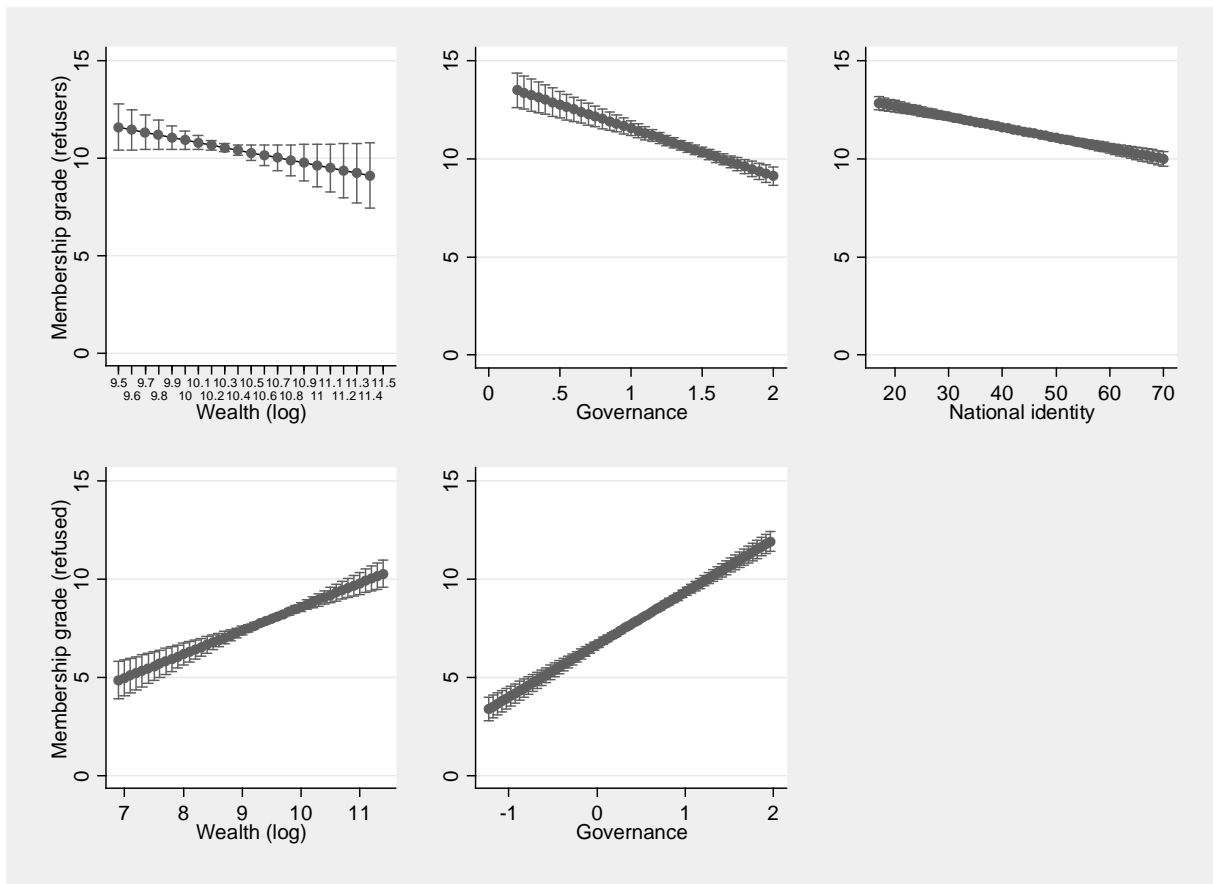
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Appendix I Variables

Name	Description	Source	Obs	Years	States	Mean	Std dev	Min	Max
Circle	Membership grade	Author	896	1993-2013	45	7.60	3.75	0	12
Hemis1 (dummy)	Refuser country	Author	896	1993-2013	45	.43	.50	0	1
Hemis2 (dummy)	Refused country	Author	896	1993-2013	45	.83	.37	0	1
RGDPpc	Wealth (real GDP p.c. USD)	Feenstra et al. 2013	804	1993-2011	45	19591	13261	1111	81682
FrIndex	Democracy (Freedom Index)	Freedom House	896	1993-2013	45	2.04	1.43	1	6.5
WGI	Governance capacity (World Governance Indicators, scores)	World Bank	726	1996-2012	45	.68	.87	-1.22	1.99
Natid	Exclusive national identity (percent)	Eurobarometer	439	1993-2013	28	43.13	10.01	17	70
Borders (dummy)	Land and maritime borders with EU	Author	896	1993-2013	45	1.49	.78	1	3
Tradeimp	Share of imports from EU in total goods imports (percent)	Barbieri et al. 2010, Eurostat, European Commission	879	1993-2013	45	56.52	16.91	3.80	89.15
Tradeexp	Share of exports from EU in total good exports (percent)	Barbieri et al. 2010, Eurostat, European Commission	879	1993-2013	45	59.79	17.04	4.06	97.97

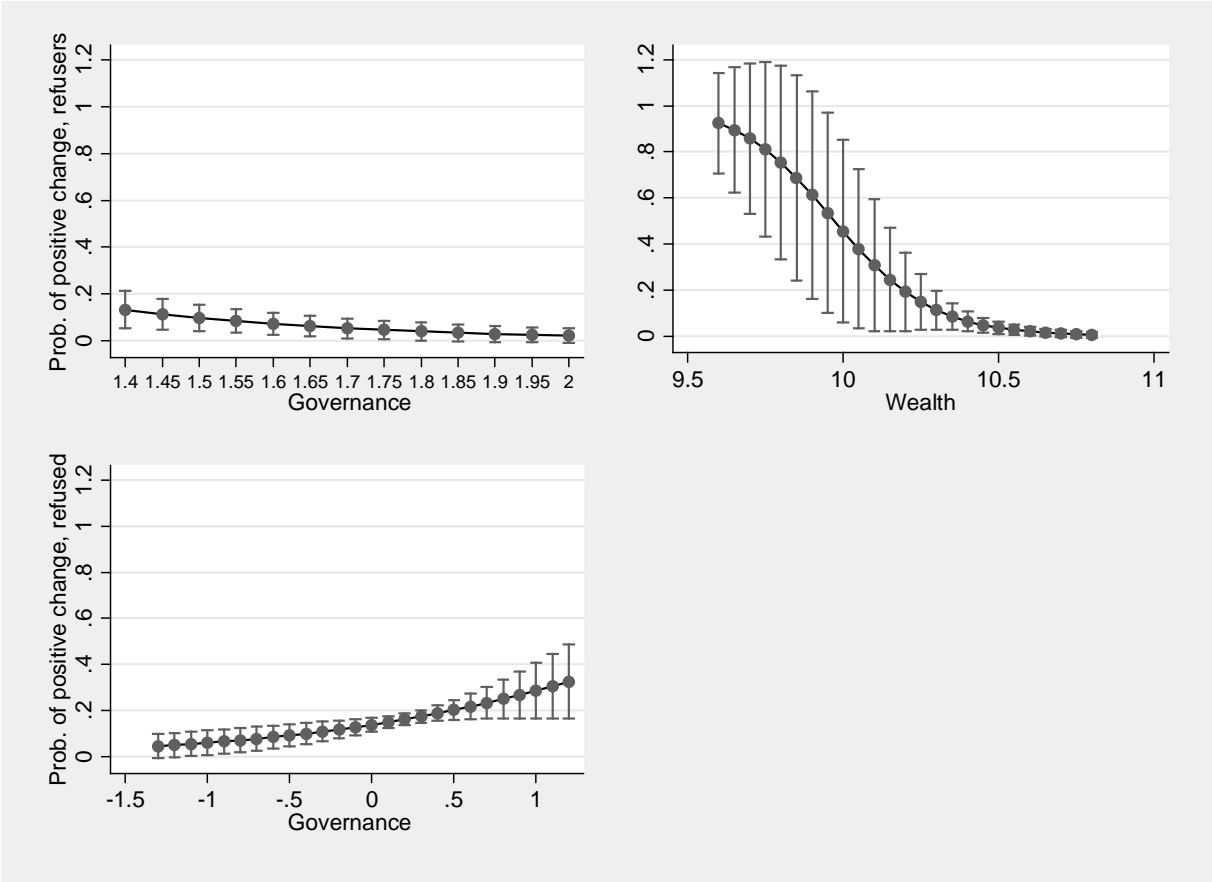
Note : Missing years for WGI and Natid added by linear extrapolation.

Appendix II Marginal Effects Plots, Pooled OLS Regression



Note: Predictive margins with 95 percent confidence intervals.

Appendix III Marginal Effects Plots, Logistic Regression



Note: Predictive margins with 95 percent confidence intervals.