



## ABSTRACT WORKING PAPER 5.27

### HAS ENP CHANGED THE INSTITUTIONAL, SOCIAL AND ECONOMIC PERFORMANCE OF EU NEIGHBOURING COUNTRIES?

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One of the objectives of the European Neighbourhood Policy (ENP) is to promote political and institutional changes towards democratic governance and market liberalisation, a process that at the same time can be understood as a tool for economic development and convergence in neighbouring countries.

The objective of this paper is to analyse the macroeconomic, social and institutional impact of the ENP in a comparative and multidimensional perspective. With this aim, we first elaborate a composite index (Institutional, Social & Economic Performance Index – ISEPI) that combines data related to different economic, social and institutional factors. Second, we analyse regional differences in the evolution of this index in order to provide an assessment of the impact of the ENP on the different dimensions, but also to shed light on how the great recession has limited the impact of recent reforms. Finally we analyse if a convergence process has happened and if ENP plans have had a significant role.

The index is calculated for 75 countries from 1995 to 2011 combining data for 51 variables obtained from several sources: World Bank, OECD, IMF, The Fraser Institute, Transparency International and IMD, among others. The countries considered included the most competitive economies according to the World Economic Global Competitiveness Report, the core European Union member states, emerging economies and the EU neighbouring countries. These countries are also grouped in different regions according to their level of development and geographical situation.

The obtained results show that (a) there are significant differences among countries in the ISEPI index; (b) the European Union neighbouring countries (ENC) are at the bottom positions of the figure; (c) there are some differences between those countries located in the south of European Union and those located in the east; (d) between 1995 and 2011, only in case of developed and European Union countries an improvement in the ISEPI index is observed; (e) a convergence process to a unique steady-state is not observed in the global ISEPI index; and (f) a conditional convergence process have occurred during the period. The obtained results show that ENP has had different effects according to the considered dimensions and that the

evolution of neighbouring countries is quite heterogeneous taking into account their recent institutional, social and economic performance.

From a policy perspective, these results reinforce the validity of the bilateral action plans that have characterized ENP recognising the different starting point and particular characteristics of each neighbouring country.