The Impact of European Union Membership on the Levels of Economic Development.

Nothizile J. Ncube

Wartburg College

Faculty Sponsor: Dr. Bret Billet

Abstract

This paper explores the impact of European Union (EU) membership on the levels of economic development by comparing 38 European countries using data for the year of 2012. The impact of other variables including foreign direct investment (FDI), unemployment, corruption, and political stability are also investigated. The data obtained through the use of correlation and regression statistics indicates that membership in the EU is not a significant factor in predicting economic development. This research concludes that corruption is a more significant independent variable in predicting the levels of economic development. In the future, this research can be focused on comparing rich EU member countries to rich non-EU member countries to study the factors that led to their development. Furthermore, members of the European Free Trade Association can be removed from the research to control for any benefits associated with the EU.

Keywords: European Union, Economic Development, Foreign direct investment, unemployment, political stability, corruption, and modernization theory.

Introduction

By the end of World War II (WWII), Europe was devastated and in shambles. National economies were almost nonexistent. Excessive nationalism prevailed and Europe was divided, (Monnier and Rogers, 2004 &Wells, 2007). However, with the ambition of some European political leaders, such as Robert Schuman and Jean Monnet, to create a "United States of Europe," economic integration was achieved. Economic integration led to the birth of the EU in 1993.

The first symbol of European integration was the European Coal and Steel Community (ECSC) which came into existence after the Treaty of Paris was signed between Germany, France, Italy, Belgium, the Netherlands and Luxembourg in 1951. These member states are also known as "the six". The ECSC was a supranational entity which eliminated competition between its members as they pooled their coal and steel production. In 1957, the Treaty of Rome was signed to establish the European Economic Community (EEC) also known as the single market and the European Atomic Energy Community (Euratom). The Treaty of Rome was also signed by "the six" (Burgess, 1996 and Wells, 2007). The EEC led to the birth of the European Community (EC), which came with the single market benefits. The single market allowed for free movement of goods, services, people, and money. It also promoted international trade and commerce, shared macro and microeconomic policies as well as common external tariffs. Between 1973 and 1986, more members joined the EC, increasing the numbers from six to twelve members (Burgess, 1996, Sapir, 1992 and Wells, 2007).

The Treaty of the European Union was signed in 1993 with two fundamental objectives: economic prosperity and peace (Sapir, 1992). Following the treaty of the European Union was

the Economic and Monetary Union (EMU) which was created in 1999. The EMU established a single currency, the Euro which came into use in 2000. The Euro ensured deeper economic integration, maintained a common external exchange rate, and controlled the monetary and fiscal policies of member states. However, in quest to protect their sovereignty, some countries like the United Kingdom did not join the EMU (European Commission, 2012 and Lane, 2006).

Membership in these intergovernmental and supranational entities since the end of WWII ensured economic growth for the member states. By 2013, the EU member states had increased to 28 (European Commission, 2014). The goal of the EU was to promote economic, social, and territorial cohesion. The 2007- 2013 goal of the EU was economic convergence, economic growth, and increasing employment opportunities. Hence, about a third of the EU budget was set aside to eliminate disparities between the member states (Belka, 2013).

This research explores the impact of EU membership on 38 European countries using the GDP per capita data for the year 2012 as a measurement of economic development. From the existing knowledge on the EU and its benefits, the predicted outcome for the research is that there is positive correlation between EU membership and economic development. Furthermore, the impact of four other independent variables including foreign direct investment (FDI), political stability, corruption, and unemployment are explored.

The first part of this paper focuses on the review of literature and the theory used to establish the hypotheses. The second section focuses on the methodology including discussion of the hypotheses, the measurement of the variables, and the type of statistical analysis used. The third section of the paper analyzes and explains the research findings. The final section of this paper concludes and discusses the implications of the findings and gives suggestions for further research.

Literature review

Thorhallson and Kirby (2012), argued that membership in some form of economic alliance shields small states from economic instability and the vulnerability of their small economies. Thorhallson and Kirby investigated the impact of presence or absence of the EU and the Economic Monetary Union (EMU) on reducing risk before the financial crisis and the effect of assistance on recovery on Ireland and Iceland. They concluded that although the support received by Ireland, a member of both the EU and the EMU did not fully prevent the crisis, it made the situation better whereas for Iceland, a non-member of both, lack of support worsened the economic crisis. Thus, as suggested by Moravcsik and Vachudova (2003), most East European states join the EU to partake in the economic benefits associated with membership. With the certainty of states joining the EU, FDI inflows become more solid and more jobs are created (Lehmann, 2010). Members of both the EMU and the EU have experienced greater increases in FDI inflows compared to states that are only members of the EU (Lane, 2006). Furthermore, EU structural funds in 2009 provided support for member states to overcome the economic crisis (Grigorescu & Balalia, 2009; Belka, 2013).

Similarly, Belka (2013) investigated the influence of the EU on Poland's economy focusing mainly on the crucial aspects of economic development. Belka found that the EU structural funds had a positive impact on foreign direct investment inflows, migrations, and transfers. Belka suggested that Poland is one of the fastest growing economies among other EU member states. Furthermore, accession into the EU led to the rebuilding of the Polish economy, improved productivity, and the standards of living. Belka concludes that 1966 to 2004 was a period of transformation which facilitated modernization of the Polish economy. Therefore, EU membership is believed to be a symbol of modernization and democracy (Belka, 2013; Royo,

2007). Royo (2007) also argued that countries like Spain and Ireland blossomed economically because they took advantage of the EU benefits whereas countries like Portugal have benefitted but have not completely taken advantage of the EU as a driving force to economic development.

Economic development is defined by Harrison (1996) as the process by which societies, nations or regions increase their per capita output and income by improvements and increases in productivity and how these improvements translate into improvements in the per capita and wellbeing of the society. Harrison (1996), suggested that economic development is a reflection of structural and institutional changes. Economic development is also largely dependent on the resources and atmosphere provided by the political, cultural and environmental factors. An effective use of these therefore leads to development. Gurley and Shaw (1955) argued that development is associated with real goods or debt, institutionalization of savings, investments, and the change in market prices. Although globalization reduces national autonomy in Europe, it is said to have encouraged economic interdependence which also increases the chances of economic development (Dunford & Perrons, 1994).

According to McCloud and Kumbhakar (2011), foreign direct investment "is the long term investment by entities from one country in entities in another country" (p.1), and is driven by the search for markets, resources, efficiency and strategic assets. Its impact on economic development has been debated by many researchers. Suliman and Elian (2014), argued that FDI has a positive impact on economic growth as it supplies technology and education to the host country. However, the impact of FDI in less developed countries is less compared to developed countries. For the host country to gain from FDI, it should have well-developed financial markets and properly exploit the FDI opportunities. According to Al Nasser (2010), FDI plays a significant role on economic growth but its effect is largely dependent on the internal conditions

of the host country. FDI is the main medium of the transfer of capital in developing countries that have difficulties in long term economic growth (McCloud & Kumbhakar, 2010). Bandelj (2010) also argues that the availability of FDI enhances the chances of economic development. Hence, we expect high levels of FDI to be associated with high levels of economic development in host countries (Billet, 1993).

Corruption defined by Swaleheen and Stansel (2010) as the use of public office and power for private gain." According to Habib and Zurawicki (2002), corruption lies mostly in bureaucratic inefficiency and the instability of political institutions. Its effects differ from one country to another depending on the internal conditions of that country. Similarly, the effects of corruption has been debated upon by a lot of researchers. As suggested by Swaleheen and Stansel (2010), corruption reduces growth in countries with low economic freedom whilst increasing growth in countries with high economic freedom. Henderson (2008), argued that corruption is more prevalent in less developed and less free countries. Henderson also suggested that this form of corruption monopolizes markets hence shifting competition from the public to the political arena. Mauro (1995) and Podobnik, Shao, Njavro, Ivanov and Stanely (2009) suggested that corruption acts as a tax which lowers the chances of FDI and limits economic development. In fact, corrupt institutions are perceived to breed nothing but inefficiency (Mauro, 1995). Mauro further suggests that efficient governments increase the levels of investment and innovation whereas inefficient governments decrease them. Hence corruption breeds poverty, hurts investment, and crushes the economy. (Henderson, 2008; Mauro, 1995; Habib & Zurawacki, 2002).

Ake (1975) defined political stability is the regularity of political exchange (p.273). The more regular the flow of political exchange, the more stable a country is. Regular flows in

political exchange are believed to maintain the laws of the society whereas irregular exchanges violate the society laws. Alesina, Ozler, Roubini and Swagel (1992) also defined political stability as the ability of a government to remain intact. In their study, they investigated the impact of political instability on economic growth for 113 countries from 1950 to 1982. They found political instability and economic growth are interrelated. Furthermore, Aisen and Viega (2011) investigated the effect of political instability on economic growth of 169 countries every five years from 1960 to 2004. They found that political instability is largely associated with lower levels of GDP per capita. Therefore political instability has a negative impact on economic growth whereas political stability leads to high levels of economic growth (Aisen and Viega, 2011; Alesina et al. 1992). Moreover, Aisen and Viega suggest that economic freedom and ethnic homogeneity are essential for economic growth. Dimitraki (2010) investigated the effect of political instability on economic growth in Western European countries over a period of 55 years and found an inverse relationship between political instability and economic growth. In addition, Dimitraki suggested that conflict in the neighboring countries might also affect the political stability of a nation hence leading to low levels of economic growth. Democracies are believed to have a better chance of experiencing political instability than equally long lived autocracies. According to Alesina et al., the instability of surrounding countries decreases the chances of FDI inflows hence decreasing the chances of economic development. Moreover, political instability could hinder multinational companies from achieving their goals in the host country (Billet, 1993).

Unemployment is defined by the World Bank as the "the share of the labor force that is without work but available for and seeking employment" (World Bank, 2014). According to Berry and Sabot (1984), prolonged unemployment lowers the levels of economic development.

Modernization Theory.

In this research, the hypotheses are largely derived from modernization theory. Modernization theory is used to explain the transition of traditional societies to modernity. By mainly looking at the internal factors of a society, modernization theory suggests that assistance and existence of capital leads to modernization. Modernization is then likened to economic development.

A traditional society is defined by Rostow (1960) as one "whose structure is developed within limited production functions, based on the pre- Newtonian science and technology as well as pre- Newtonian attitudes to the physical world" (p. 4). A traditional society is largely characterized by constant rising and falling levels of the quality of life due to inaccessibility to modern science, war, and plague. Furthermore, transforming a traditional society to modernity requires time and energy. As a result, the transformation classified into stages.

From the traditional stage, the next stage of economic growth is the preconditions of take-off which is the process of transition. In this stage, "the society either prepares itself or is prepared by external forces for sustained growth" (Rostow, 1960, p. 17). The creation of this stage largely consisted of building of social capital, increasing investment rates and the levels of productivity. Hence, a traditional society shifts from being entirely dependent on agricultural production to being a society dominated by commerce, industry, and communication. Moreover, this stage is characterized by non-economic transformation consisting mainly of political roles. The political roles include the capability of the government to organize a nation in a way that financial markets develop, it should develop fiscal and monetary systems that encourage modernity and it should lead the way to modernity in every aspect of the society, (in education,

tariffs and public health). Nationalism and coalitions also make up part of the non-economic roles in the modernization of a traditional society (Rostow, 1960).

Following the preconditions of take-off is the take off stage. This is the stage when "the old blocks and resistance to steady growth are overcome" (Rostow, 1960, p. 7). This stage can happen in any direction, there is no single pattern and for many countries the take-off stage happened in different years. For example, the take-off stage in Britain was between 1783-1802, France was 1830- 1860 and the US was 1843-1860. However, according to Rostow (1960), the take-off stage requires three conditions:

> A rise in the rate of productive investment from about 5% or less to over 10% of national income, the development of one or more substantial manufacturing sectors, the existence of a political, social and institutional framework which exploits the impulses of expansion in the modern sector and the potential external economy effects of the take-off and gives growth to an ongoing character. (p. 39)

The drive to maturity stage us defined as stage in which the economy demonstrates the ability to move beyond the original industries that powered its take-off and apply efficiently the most advanced fruits on modern technology. (Rostow, 1960, p. 10, p. 59) This happened in the nineteenth century and was the industrial revolution for Britain. This stage in Britain was based on the textile industry and other countries like the US, France and Germany, the stage was based on industries. Furthermore, a lot of countries experienced a great boom in the productivity levels.

The age of high mass consumption stage is associated with the need to extend power and influence through the allocation of more resources to the military and government, redistribution of power through income taxation, and achieving maturity through expansion in the consumption

of basic commodities. Thus by the twentieth century, some European powers attained colonies from other continents (Rostow, 1960).

Modernization of a traditional society therefore depends on the availability of capital, commerce and high levels of production. Modernization happens with or without the import of capital. As suggested by Rostow (1960), the take-off stage of Britain and Japan happened without imported capital whereas for countries like the US, Russia, and Canada the take-off stage was necessitated by foreign capital. This therefore assumes a positive correlation between availability of capital and economic growth (Rostow, 1960 and Billet, 1993). From this, we except less developed countries to have less capital be it unimproved or foreign (Billet, 1993).

Other researchers have associated the modernization theory and economic development with democracy (Pzerworski and Limongi, 1997). Thus, democracies are expected to be more economically developed. However other researchers have argued that even though, there is a positive correlation between economic growth and democracy, that relationship is insufficient in predicting and explaining economic growth (Arat, 1988).

As mentioned earlier, the purpose of this research is to investigate the impact that European Union membership has on economic development. Other independent variables, foreign direct investment, corruption, unemployment, and political stability will be used in the model.

Research Design

Research has shown that the EU improves the economic standards of member states. For countries like Poland, the EU has attracted foreign investors, promotes trade and increased its levels of productivity (Belka, 2013). The EU has also helped the new twelve members achieve a high average percentage of economic growth. Moreover, as a result of EU policies and funds the

member states have benefited a lot. Based on the theory and past research I list the following hypotheses:

H_1: Membership in the European Union leads to higher levels of economic development.

H_0: Membership in the European has no effect on economic development.

H_2: Higher levels of foreign direct investment lead to higher levels of economic development.

H_0: Foreign direct investment has not effect on the levels of economic development.

H_3: Higher levels of corruption lead to lower levels of economic development.

H_0: Corruption has no effect on the levels of economic development.

H_4: Greater political stability leads to greater levels of economic development.

H_0: Political stability has no effect on the levels of economic development.

H_5: The higher the level of unemployment, the lower the level of economic development.

H_0: unemployment has no impact on the level of economic development.

As proposed earlier on in the essay membership in the European Union has been seen to cultivate economic development. Membership in the EU affirmed Poland's position as a safe destination for outside capital investors because of the insurance provided by the European Law. This additionally prompted increase in levels of productivity, competition, free movement of individuals and also the introduction to FDI. (Belka, 2013).The EU fiscal and monetary strategies upheld the improvement of its member states. The EU structural funds aim at strengthening economic and social cohesion between the member states. Hence this has ensured sustainable economic growth. For example, since joining the EU, Hungary has received about 22. 5 billion Euros worth of structural funds. Membership in the EU also allowed stability, growth in GDP per capita, and increased FDI inflows for Hungary (Hungarian Chamber of Commerce and Industry, 2014). The European Commission (2010) suggested that for the EU-10,

(member states that joined in 2004), the EU has attracted about 40 percent of the total GDP worth of FDI. Therefore, EU enlargement is seen as a force to modernization and has led to greater macroeconomic stability. From the hypothesis, members of EU are expected to be more developed than the non EU members.

As indicated by the other researchers, there is a positive correlation between foreign direct investment and economic development (Billet, 1993; Banjelj, 2010). Using the modernization theory which also puts emphasis on the availability of capital, I expect to find a significant positive correlation between FDI and economic development. This explains the hypothesis that high levels of FDI will lead to high levels of economic development. Therefore in the model we should expect to find a significant positive relationship between economic development and FDI if the hypothesis is supported by the results.

Similarly, a positive correlation between political stability and economic growth is expected based on the literature by other researchers (Aisen & Viega, 2011; Alesina et al. 1992) and the modernization theory.

Furthermore, the hypothesis that higher levels of corruption lead to lower levels of economic development is derived from what the other researchers and scholars have suggested. Corruption is said to be a distraction to the economy and reduces the chances of investments whereas, efficiency and transparency of governments produces higher chances of economic growth development (Mauro, 1995). Therefore, if the hypothesis is supported by the results, we expect to find a significant negative relationship between economic development and corruption. Based on the literature by Berry and Sabot (1984), a negative correlation between unemployment and economic growth are expected if the results support the hypothesis.

From the above hypothesis the anticipated model for this research is as follows:

Economic development = IV1 + IV2 + IV3 + IV4 + IV5 + E.

Where IV1 represents the primary independent variable, membership in the EU

IV2 = Foreign direct investment,

IV3 = Corruption,

IV4 = Political stability,

IV5 = unemployment,

Membership in the European Union was defined according to the fulfillment of the European Union membership criteria. European Union member state list was obtained from the UE website as of 2012. It is important to note that even though this study is conducted in 2014, any state that gained membership to the European Union after 2012 (e.g. Croatia which became a member in 2013) was considered a nonmember for the sake of this study. Values were assigned to the two measurements. EU members were assigned a value of 1and EU nonmembers a value of 0.

Foreign direct investment was defined as the long term investment by entities from one country in entities in another country (McCloud and Kumbhakar, 2011). The data for FDI data was obtained from the World Bank.

Corruption was defined as the abuse of public office and power for private gain (Podonik et al, 2008; Swaleheen and Stansel, 2010). The data for corruption was obtained from the Transparency International website. The Corruption Perceptions Index (CPI) ranks countries based on how corrupt their public sector is. CPI ranges from 0 to 100. The higher the CPI, the less corrupt a country is.

The operationalized definition of political stability for this research was the regularity of political exchange (Ake, 1975). The more regular the rate of political exchange, the more stable a government is. The political stability data was obtained from the World Bank. The data ranges from -2.5 to 2.5. The negative values indicate weak government whereas the positive values represent a strong government. The strength of the government also reflects on the regularity of political exchange, the maintenance of the law, and determines the ability of the government to stay intact. Stronger governments are expected to stay intact to a long time while weaker governments are expected to lose control within a short period of time.

Unemployment was defined as when people who have looked for jobs have actively looked for jobs and not found them for the past two to four weeks and are currently available to work. The Data was obtained from the World Bank.

Data Analysis

Descriptive analysis. I first looked at the descriptive analysis to determine if the variables where normally distributed or skewed. The GDP per capita data was skewed thus, transformation of the data led to a normal distribution curve (see appendix A). The four other independent variables were also transformed to obtain a normal distribution curve. However, for foreign direct investment, the data was skewed and had a lot of outliers even after the transformation. Under the assumption that countries with larger populations are likely to get more foreign direct investment. I divided foreign direct investment values by the population for each country to control for the size of the country.

Correlation Analysis. After the descriptive analysis, I obtained the correlation for all the variables using the Pearson correlation analysis. I found that there is a significant positive correlation between GDP per capita and three independent variables, including membership,

political stability and corruption. There is a negative correlation between unemployment and GDP per capita. The relationship between FDI and GDP is shown to be insignificant. Furthermore, as highlighted in the table below, the data shows significant correlations between the independent variables.

Table 1

Sample Correlation analysis table

		Politicalstability	tTransparencyIndex	Membership 2012	Unemploymentlevels	GDPPPC	FDIPPC
politicalstability	Pearson Correlation	1	.894**	.680**	-.301	.804**	.173
	Sig. (2-tailed)		.000	.000	.053	.000	.266
	N	43	40	43	42	42	43
tTransparencyIndex	Pearson Correlation	.894**	1	.473**	-.409**	.814**	.320*
	Sig. (2-tailed)	.000		.002	.010	.000	.044
	N	40	40	40	39	39	40
Membership 2012	Pearson Correlation	.680**	.473**	1	-.187	.466**	-.172
	Sig. (2-tailed)	.000	.002		.235	.002	.270
	N	43	40	43	42	42	43
Unemploymentlevels	Pearson Correlation	-.301	-.409**	-.187	1	-.353*	-.316*
	Sig. (2-tailed)	.053	.010	.235		.024	.042
	N	42	39	42	42	41	42
GDPPPC	Pearson Correlation	.804**	.814**	.466**	-.353*	1	.179
	Sig. (2-tailed)	.000	.000	.002	.024		.258
	N	42	39	42	41	42	42
FDIPPC	Pearson Correlation	.173	.320*	-.172	-.316*	.179	1
	Sig. (2-tailed)	.266	.044	.270	.042	.258	
	N	43	40	43	42	42	43

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 2

Model summary for the first Regression Analysis.

Model	R	R Square	Adjusted R Square
1	.832[a]	.692	.644

Table 3

Sample Anova Table for the first Regression Analysis.

Model		Sum of Squares	df	Mean Square	F
1	Regression	21.013	5	4.203	14.360
	Residual	9.365	32	.293	
	Total	30.378	37		

Regression Analysis. A regression analysis was done to come up with the model that will effectively uncover the impact of the independent variables on economic development. Table 2 shows the model summary for this research. The model shows that for 38 countries, the independent variables explain 64.4 percent of the variance in the dependent variable. This means that 35.6 percent of the variance is unexplained. Table 3, the Anova table indicates the significance of the model. The F value for the model is14.360. This means that it is significant in explaining the outcome of the dependent variable. Furthermore, the table shows a *p* value that is less than 0.05 indicating the significance of the model.

The coefficients table (appendix B), shows the variance inflation factor (VIF) which indicates the severity of multicollinearity among the independent variables. Using the study by Pan and Jackson (2007) as a reference for VIF, this research maintained that despite the significance of the model any variables with a VIF that exceeds four were excluded from the

model. Political stability has a VIF of 7.905 and corruption has a VIF of 6.205. Furthermore, the collinearity diagnostics table (appendix B) indicates that these two independent variables are high on the same factor, dimension 6. Therefore, the coefficients table and the collinearity diagnostics table indicate that political stability and corruption and highly correlated and may have the same impact on the dependent variable. Based on these observations political stability was eliminated from the model and the statistical analysis was rerun to obtain a stronger model.

Table 4

Model Summary for the second Regression Analysis

Model	R	R Square	Adjusted R Square
1	.832[a]	.692	.644

Table 5

Anova Table for the second Regression Analysis

Model		df	F
1	Regression	5	14.360
	Residual	32	
	Total	37	

Although the model obtained after eliminating political stability showed that the independent variables explain 63.2 percent of the variance in the dependent variable, the F value increased from 14.360 to 16.904 indicating a stronger model in explaining the outcome of the dependent variable (table 4 & 5). Moreover, the *p* value that is less than 0.05 in the coefficients table (appendix C) shows an increased significance corruption in predicting the outcome of economic development. The VIF for all the independent variables is below 4 (appendix C). The

new model suggests that corruption and the error tunm are the most significant in explaining the outcome of economic development. The next significant independent variable as shown by the model is unemployment followed by FDI. With a *p* value of 0. 978, the final model suggests that membership in the EU is the least predictor of economic development.

Discussion of Hypotheses and Implications.

The purpose of this study was to determine the significance of European Union membership in predicting economic development. The results of the study indicate that EU membership is the least significant factor in predicting the levels economic development. This refutes the hypothesis (H_1), that European Union membership leads to higher levels of economic development for member states; we fail to reject the null hypothesis.

On the contrary, the data supports the hypothesis (H_3), that high levels of corruption lead to lower levels of economic development. From this model we reject the null hypothesis that corruption has no effect on the levels of economic development. This shows that corruption is more likely to have a very significant impact on the economy regardless of membership in the EU. Corrupt governments as suggested by Mauro (1995) and other researchers, breed poverty and low levels of economic development. The least corrupt a government is, the greater chances of economic development. Furthermore, the data shows that foreign direct investment, unemployment, and political stability are insignificant in explaining economic development. We therefore fail to reject the null hypotheses; H_2, H_4, and H_5.

The period of membership in the EU is not the same for all countries. "The six" had been members for 54 years (since ECSC) whereas members like Cyprus, Czech Republic, Estonia, Hungary, Latvia, and Poland among others had only been members for 8 years in 2012. New members of the EU have not had enough time to fully modernize. This means that despite their

membership in the same entity, the EU members have experienced different forms of development which is not in line with the stage theory suggested by Rostow. Furthermore, the results do not show any emphasis on assistance, the availability of capital, and high levels of production for the transition of a traditional society to modernity. Instead, they indicate that higher level of corruption lead to lower levels of economic development.

However, it is important to note that the model also suggests that the error tenm may be as significant as corruption. This means other independent variables that were not included in this model may have a significant impact on economic development. These factors could include foreign aid, trade, human and natural resources, and social and cultural structure.

Conclusion

Corruption as shown by the study is the most significant independent variable in economic development. Although membership in the European Union is not a significant predictor of economic development, it is important to note that there are factors that were not considered in research that could account to this insignificance. There are some countries that are not members of the EU but are members of the European Free Trade Association (EFTA). This means that they partake in the free trade and internal market benefits of the EU. According to Fredriksen (2012) and Tatham (2014), the EFTA and the EU had the free trade and bilateral trade agreements since the 1950s. The trade agreements indicate that the EFTA members have experienced the same trade benefits as the EU member states. Furthermore, countries like the United Kingdom, Denmark, Portugal, Austria, Finland and Sweden were members of the EFTA before their accession into the EU. Hence for further research, members of the EFTA can be removed from the study to control for any form of benefits associated with the EU.

This research can also be focused on rich EU and rich non-EU members to compare the factors that have led to their economic development. Moreover, as mentioned in the discussion of the results, other independent variables can be investigated in the future.

For the purposes of economic development, future members of the EU and other countries aiming at economic development should consider maintaining transparency in their governments prior to increasing their productivity and the availability of capital. Controlling for corruption will increase the chances of foreign investment and the fair distribution of resources amongst the population.

References

Aisen, A; & Viega F.J. (2011). How does political instability affect economic growth? *International Monetary Fund, 11*, 1-29. doi: 10.5089/9781455211906.001

Ake, C. A. (1975). A definition of political stability. *Comparative Politics, 7(2),* 271-283.

Alesina, A.; Ozler, S.; Roubini, N.; & Swagel P. (1996). Political instability and economic growth. *Journal of Economic Growth 1(2),* 189-211. doi: 10.1007/BF00138862

Al Nasser, O, M. (2010). How does foreign direct investment affect economic growth? The role of local conditions. Latin American Business Review, 11 (2), 111–139. doi: 10.1080/10978526.2010.486715

Arat, Z. F. (1988). Democracy and economic development: Modernization Theory revisited. *Comparative Politics, 21(1).* 21-36.

Bandelj, N. (2010). How EU integration and legacies mattered for foreign direct investment into Central and Eastern Europe. *Europe-Asia studies. 62(3)*, 481–501. doi: 10.1080/09668131003647846

Belka, M. (2013). How Poland's EU membership helped transform its economy. *Occasional Paper, 1(88),* 1-76.

Berry, A., & Sabot, R. H. (1984). Unemployment and economic development. *Economic Development and Cultural Change, 33(1),* 99-116. doi: 10.1086/451445

Billet, B.L. (1993). *Modernization Theory and Economic Development: Discontent in the Developing World*. Westport: Praeger Publishers.

Burgess, M. (1996). Introduction: Federalism and building of the European Union. *Publius: The Journal of Federalism, 26(4),* 1-16. doi: 10.1093/oxfordjournals.pubjof.a029873

Dimitraki, O. (2010, February). Political instability and economic growth in Western Europe: A causality analysis for 55 years. Paper presented at Brunel University, West London.

Dunford, M and Perrons, D. (1994). Regional inequality, regimes of accumulation and economic development in Contemporary Europe. *Transactions of the Institute of British Geographers*, *19(2*), 163-182. doi: 10.2307/622752

European Commission. (2010). Economic and Financial Affairs. Retrieved from: http://ec.europa.eu/economy_finance/euro/emu/index_en.htm

European Commission. (2013). European Neighborhood Policy and Enlargement Negotiations. Retrieved from: http://ec.europa.eu/enlargement/policy/conditions-membership/index_en.htm

European Commission. (2012). The European Union explained: The Economic and Monetary Union and the Euro. Retrieved from: http://europa.eu/pol/emu/flipbook/en/files/economic_and_monetary_union_and_the_euro_en.pdf

European Union. (2014). Countries. Retrieved from: http://europa.eu/about-eu/countries/index_en.htm

Fredriksen. H. H. (2012). Bridging the widening gap between the EU treaties and the agreement on the European Economic Area. *European Law Journal, 18(6),* 868-886. doi:10.1111/eulj.12001

Grigorescu, A., & Balalia, A. (2010). The involvement of the European Union in funding the member states during the economic crisis period. *Review of Management and economical engineering, 9(5),* 1-10.

Gurley, J., & Shaw E. (1955). Financial aspects of economic development. *The American Economic Review*, *45(4),* 515-538.

Habib, M, M., &Leon Z. (2002). Corruption and foreign direct investment. *Journal of International Business Studies, 33(2),* 291-307.

Harrison, F. E (1996). *Economic Development: Theory and Policy Applications.* Westport: Praeger Publishers.

Henderson, D.R. (Ed.). (2008). *The Concise Encyclopedia of Economics*. Indianapolis: Cambridge University press.

Hungarian Chamber of Commerce and Industry. (2014). Benefits of EU membership. Retrieved from: http://www.mkik.hu/en/magyar-kereskedelmi-es-iparkamara/benefits-of-eu-membership-2630

Lane, P. (2006). The real effects of European Monetary Union. *The Journal of Economic Perspectives, Vol. 20(4),* 47-66. doi: 10.1257/jep.20.4.47

Lehmann, H. (2010). Macedonia's accession to the EU and the labor market: What can be learned from the new member states? *Institute for the Study of Labor,1(14),* 1-79.

Mauro, P. (1995). Corruption and growth. *The Quarterly Journal of Economics, 110(3),* 681-712. doi: 10.2307/2946696

McCloud, N. and Kumbhakar, S.C. (2011). Institutions, foreign direct investment and growth: a hierarchical Bayesian approach. *Journal of Royal Statistical Society: Series A (Statistics in Society). 175*(1), 83–105. doi: 10.1111/j.1467-985x.2011.00710.x

Monnier, A and Rogers, G, I. (2004). The European Union at the time of enlargement. *Population (English Edition, 2002), 59(2),* 315-336. doi: 10.2307/3654906

Moravcsik, A., & Vachudova, M.A. (2003). National interests: State power and EU enlargement. *East European Politics and Societies, 17(1),* 42-57. doi:10.1177/0888325402239682

Pan. Y., & Jackson. R.T. (2007). Ethnic difference in the relationship between acute inflammation and the serum ferritin in the US adult males. *Epidemiology and Infection, 136(3),* 421-431. doi:10.1017/s095026880700831x

Podobnik, B., Shao, J., Njavro, D., Ch. Ivanov, P. Ch., & Stanley, H. E. (2008). Influence of corruption on growth and foreign direct investment. *European Physical Journal B, 63 (4),* 547-550. doi: 10.1140/epjb/e2008-00210-2

Przeworski, A., & Limongi, F. (1997). Modernization: Theories and Facts. *World Politics, 49(2),* 155-183. doi: 10.1353/wp.1997.0004

Rostow. W.W. (1960). *The Stages of Economic Growth*. London, NW: Cambridge University Press.

Royo, S. (2007). Lessons from the integration of Spain and Portugal to the EU. *Political Science and Politics, 40*(4), 689-693. doi: 10.1017/s1049096507071107

Tatham. A.F. (2014). Diffusing EU law beyond the borders of the union: The judicialization of the European Trading Area. *Columbia Intercional 81.* 27-66. doi:10.7440/colombiaint81.2014.02

Thorhallsson, B., & Kirby, P. (2012). Financial crises in Iceland and Ireland: Does European Union and Euro membership matter? Journal of Common Market Studies, 50(5), 801–818. doi: 10.1111/j.1468-5965.2012.02258.x

Sapir, A. (1992). Regional integration in Europe. *The Economic Journal, 102,* 1491- 1506. doi: 10.2307/2234805

Suliman, A. H., & Alian M, I. (2014). Foreign direct investment, financial development and economic growth: A Cointegration Model. *The Journal of Developing Areas, 48*(3) 219-243. doi: 10.1353/jda.2014.0041

Swaleheen, M., & Stansel, D. (2007). Economic freedom, corruption, and growth. *Cato Journal, 27(3)*, 343-358.

Transparency International (2014). Corruption Perception Index 2012. Retrieved from: http://www.transparency.org/cpi2012/results.

Wells, S. B. (2007). *Pioneers of European Integration and Peace, 1945- 1963, A Brief History with Documents.* Boston, MA: Bedford.

World Bank Data (2014). GDP per capita (constant 2005 US$). Retrieved from: http://data.worldbank.org/indicator/NY.GDP.PCAP.KD

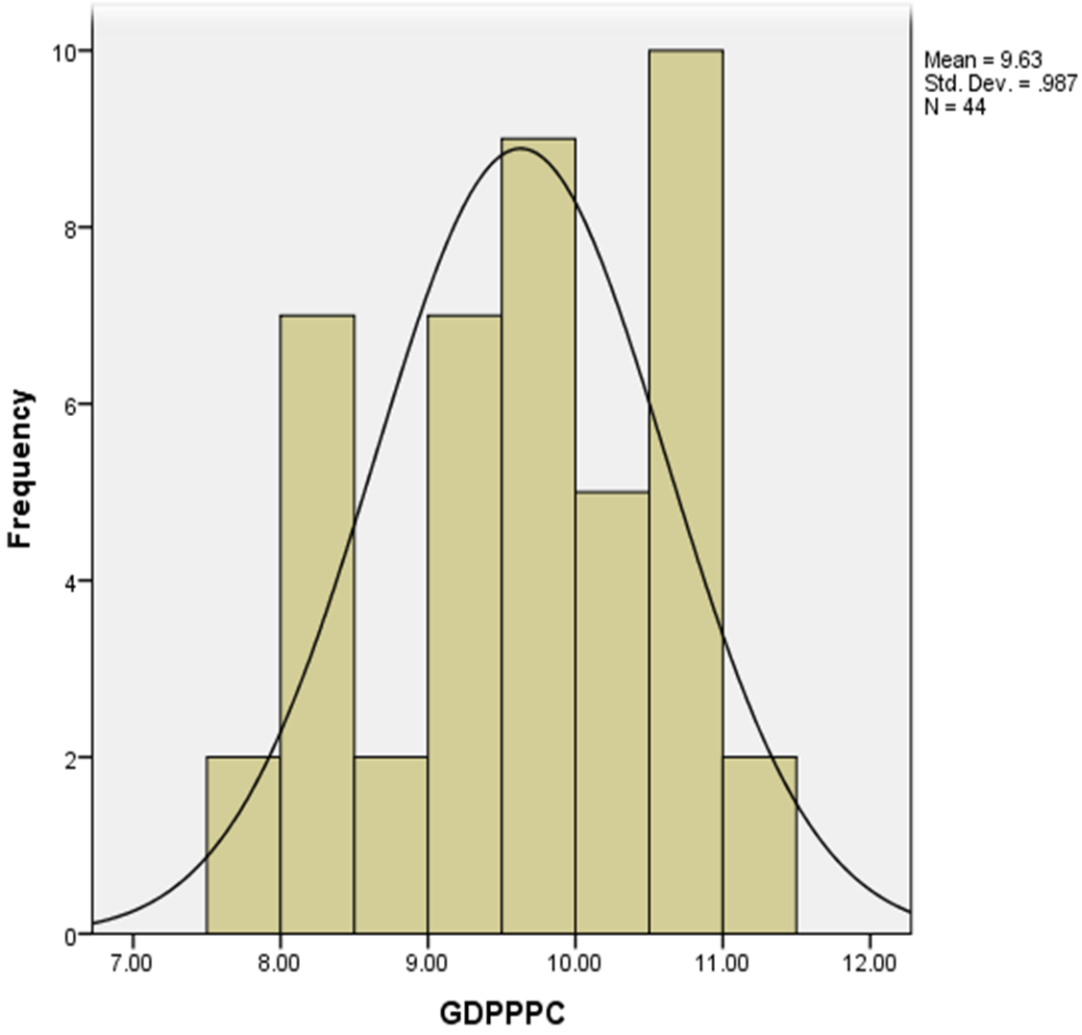
World Bank Data (2014). Foreign direct investment, net inflows (BoP, current US$). Retrieved from: http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD

World Bank Data (2014). Unemployment, total (% of total labor force) (national estimate). Retrieved from: http://data.worldbank.org/indicator/SL.UEM.TOTL.NE.ZS

World Bank Data (2014). World Wide Governance Indicators. Retrieved from: http://info.worldbank.org/governance/wgi/index.aspx#home

Appendix A

GDP per capita Transformed Histogram



Appendix B

Tables for the first Regression Analysis

Table 1

Coefficients Table

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. error	Beta	t	sig	Tolerance	VIF
1 (constant)	8.625	.743		11.609	0.000		
FDIPPC	-9.715E-5	.000	-.119	-1.008	.321	.689	1.452
Politicalstability	.492	.344	.395	1.430	.162	1.27	7.905
Membership2012	-.227	.274	-.120	-.826	.415	.454	2.202
tTransparencyindex	.023	.012	0.480	1.962	059	.161	6.205
UEM	-.250	.192	-.151	-1.306	.201	.716	1.397

Table 2

Collinearity Diagnostics Table

				Variance Proportions					
Model	Dimension	Eigenvalue	Condition Index	(Constant)	FDIPPC	politicalstability	Membership 2012	tTransparencyIndex	UEM
1	1	4.396	1.000	.00	.00	.00	.01	.00	.00
	2	1.056	2.041	.00	.61	.00	.00	.00	.00
	3	.394	3.341	.01	.03	.05	.08	.00	.03
	4	.122	5.992	.00	.25	.10	.75	.01	.00
	5	.024	13.412	.09	.11	.29	.05	.15	.69
	6	.007	24.757	.91	.00	.56	.12	.83	.28

Appendix C

Tables for the second Regression Analysis

Table 1

Coefficients Table

	Unstandardized Coefficients		standardized coefficients				
Model	B	Std. error	Beta	t	sig	tolerance	VIF
1 (constant)	8.056	.637		12.642		.000	
FDIPPC	-9.613E-	5.000	-.118	-.982	.333	.689	1.452
Membership2012	.006	.224	.003	.028	.978	.702	1.425
tTransaprencyindex	.038	.006	.778	5.992	.000	.590	1.695
UEM	-.251	.195	-.152	-1.292	.205	.716	1.397

Table 2

Collinearity Diagnostics Table

				Variance Proportions				
Model	Dimension	Eigenvalue	Condition Index	(Constant)	FDIPPC	Membership 2012	tTransparencyIndex	UEM
1	1	3.641	1.000	.00	.00	.01	.00	.00
	2	1.024	1.885	.00	.65	.00	.00	.00
	3	.261	3.737	.01	.01	.63	.00	.03
	4	.061	7.711	.00	.33	.34	.55	.16
	5	.012	17.106	.99	.01	.01	.44	.80

Appendix D.

Countries.

EU Members	Non-EU Members	EFTA Member
Austria	Albania	Iceland
Belgium	Armenia	Liechtenstein
Bulgaria	Azerbaijan	Norway
Cyprus	Belarus	Switzerland
Czech Republic	Bosnia and Herzegovina	
Denmark	Croatia	
Estonia	Georgia	
Finland	Kosovo	
France	Macedonia	
Germany	Moldova	
Greece	Montenegro	
Hungary	Serbia	
Ireland	Turkey	
Italy	Russian Federation	
Latvia	Ukraine	
Lithuania		
Luxembourg		
Malta		
Netherlands		
Poland		

Portugal Romania Slovakia Slovenia Spain Sweden United Kingdom		