

Estonia: Escaping Russia's Shadow

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IN THE WAKE OF THE COLLAPSE OF THE RUSSIAN, Austro-Hungarian and Ottoman empires following World War I, the map of Europe changed dramatically, with the sudden appearance of a number new or long-forgotten countries: Austria, Czechoslovakia, Estonia, Finland, Hungary, Latvia, Lithuania, Poland, Turkey, Yugoslavia. But while all these countries belong to the "class of 18", as it were, popular understanding of them in Western Europe and especially the United States, varies in direct proportion to the degree they were dominated by the Soviet Union. Looking at these countries in 1994, Americans tend to see some of them, e.g. Finland or Austria as "Old" or "Western" Europe. Others form a kind of an almost "Europe", i.e. Eastern Europe, the former satellites of the Soviet Union, e.g. Hungary, Poland, what now are the Czech and Slovak Republics. These are, in the popular imagination, a little grimy and dingy, poor and polluted but at least they are imaginable. In the case of at least one, the Czech Republic, there is even an aura of hipness associated with it. Finally, the subjective mental geography contains the "new" states on the Baltic: Estonia, Latvia and Lithuania. People know little if anything about these countries, except perhaps that they played some role in the collapse of the Soviet Union and that they have problems with Russia.

Among those who study Eastern Europe, however, Estonia has generated quite a bit of excitement. In the Fall 1993 issue of *National Interest*, Zbigniew Brzezinski provided a list of criteria for successful transition from communism to democratic market economies. In that article Mr. Brzezinski listed five countries he thought had a fairly good chance of succeeding. These were Poland, Hungary, the Czech Republic, Slovenia, and as the only country from the Former Ruble Zone, Estonia. Estonia's inclusion on this list came as a surprise to many, but in fact if one looks at the range of possible reform paths taken by the twenty-odd countries of Europe and Asia that emerged in the wake of the collapse of communism, Estonia has undertaken by far the most radical, deeply cutting reforms. And they have worked. A mere two years ago, coming out from under the yoke of decades of Russian occupation, Estonia was a land in ruins. Ninety-two percent of our trade was tied to Russia, industry and agriculture were in a shambles and incapable of competing on the world market. Inflation was running at 1000 percent a year; bread was strictly rationed and milk was sold only to families with more than three children; because of a shortage of heating fuel the government was seriously planning the evacuation of entire sections of the capital to the coun-

tryside.

Today no one believes any longer that this ever happened, let alone a mere two years ago. Estonia and the Estonians have changed beyond recognition. No one visiting our capital Tallinn today can believe we are dealing with the same city. We have undergone a cardinal re-orientation of our economy from dependence on the East to trade with the West. In 1991, our trade was over 90 percent with Russia. Today it is less than 20 percent. Last year inflation dropped from 1000 percent to 35 percent per annum. At the same time Estonian exports increased 50 percent in 1993 and foreign investments doubled. The budget is balanced and will remain so. Registered unemployed is about 2 percent. We have free trade agreements with all the Nordic countries and we are the only country from the Former Ruble Zone that will sign a free trade agreement with the European Union. Our Foreign Currency reserves tripled in 1993. For 1994 the IMF has predicted a 6 percent rate of growth in the GDP, and with the year winding up, it looks like this will be surpassed; real-growth according to the Economist, may top 10 percent.

It is natural to ask, how is this possible, especially given all the bad news we hear from the rest of the countries that once shared our fate, mired in that economic morass called the Soviet Union. After all, the general view seems to be that people of ex-communist states are not ready for change and that the solution to economic problems in that area is to send more US tax dollars there. We disagree. The answer to the question of why Estonia? is complicated and a number of factors are at work. First is that Estonia has always had a different mentality and attitude. Even in the darkest periods of Soviet occupation, Estonians belonged spiritually and emotionally in the West.

No small role in this attitude has been played by History. Since the 12th Century, when Estonia was conquered by the Germans, the country followed a distinctly European path of development. Already then our Eastern border clearly had become a border up against Russia. Ever since then we have been a special outpost of Europe, even in the time of the Russian Empire, we maintained our German Legal System. It was this European base that allowed the creation of the independent state in 1918 when the world saw the emergence of a number of the other so-called Newly Independent States listed above. During the inter-war period, Estonia was a typical small European state; but economically we were on par with Finland. In some areas, such as for example the defense of minorities and minority rights, Estonia was at the forefront of European states.

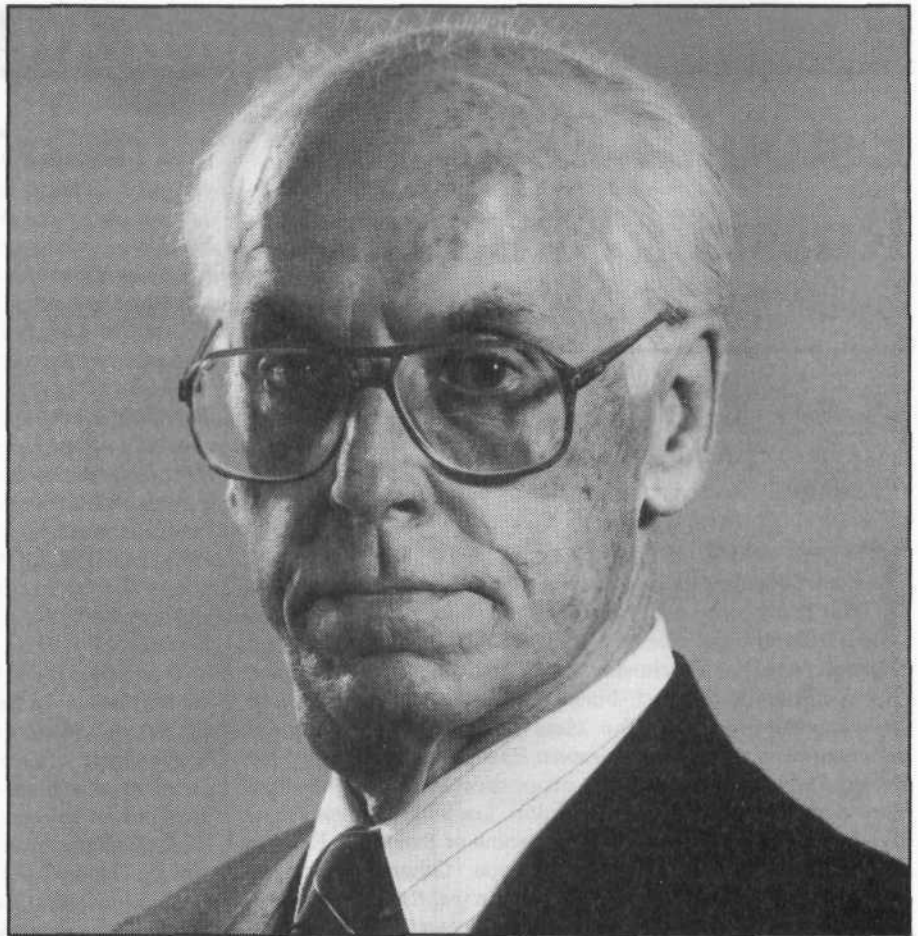
Unfortunately our independence was terminated by the Molotov-Ribbentrop Pact dividing Europe up between Nazi Germany and Communist Russia. But while de facto we were part of this entity the Soviet empire, we were never part of it spiritually, as demonstrated by our long and extensive partisan war, nor legally - as the non-recognition policy of the Western world so crucially demonstrated. When it was possible again to enjoy a little more freedom of action in the Soviet Union, the Estonians immediately began to announce their own views on the nature of that empire and Estonia became the flagship of the democratization and hence the demolition of the Soviet Union. Estonia has also been an example in the development of pluralistic democracy. Our constitution was not written behind closed doors; we convened a constitutional assembly to draft it over a period of ten months after independence. At the

same time we have quickly re-established classical western parties and by now these groups have staked out our political landscape.

The rapid development of civil society is surely one of the bases of the success of Estonia. Crucial to this was the ratification by popular vote in 1992 of the new constitution, which was followed by free and fair democratic elections, where the electorate supported those promoting rapid and radical reforms. Without sure support from the parliament, without consensus on the need for social reforms, such painful reforms would have been impossible to implement. One could imagine the fate of a European government that eliminates farmers' subsidies, almost completely eliminates unemployment insurance and at the same time allows the price of gasoline to float to world prices — that is, increase by a thousand percent. Secondly, we have learned from the experiences of other countries implementing reforms. We learned quite conclusively that the idea proposed in a number of forums of a so-called alternative road between capitalism and socialism, the so-called Third Way, is a road that leads only to the poverty we find in the Third World.

It is also clear to us that there is much to learn from what we consider negative trends among developed Western Industrial nations. For example, that the massive development of such a huge and expensive social welfare system as many Western countries have done will lead you inevitably to the brink of economic catastrophe. This is doubly true when one is trying to emerge from a subsistence level communist economy. In striving to reach the kind of social welfare levels of Western countries, a number of former communist states are condemning themselves to poverty. The states of Eastern and Central Europe that were freed in the late eighties and early nineties from the shackles of communism were in more or less the same situation as Germany immediately after the war. For those countries too, World War Two had just ended, their economies too were in a shambles, the situation was dominated by the Black Market and money lost its value not in months but in weeks. Those countries that undertook painful reforms began to take off, those with less radical reforms have grown less. These same principles also form the basis for Estonian economic reforms.

The Monetary reform of 1992, opened the floodgates of reform, as we can now



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say with hindsight. The basis of economic success has been first and foremost openness in all senses. The economy was liberalized, prices were freed, trade was opened up, and we removed virtually all tariffs. The role of the state in the economy has been minimized. Companies develop in free and fair competition, every privatized enterprise making the transition from command economy to the free market has to decide: to go bankrupt, i.e. to die, or to start producing things that can be sold on the free market. These companies have discovered and are already getting used to idea that Estonian products can successfully compete in foreign markets. Unsuccessful companies that during the communist period were artificially kept alive through state supports and which never produced anything that anyone wanted, in fact must disappear. Estonia has taken away their artificial support. Our taxation system has also changed fundamentally. Taxes have been reduced dramatically and we now have a flat rate income tax of 26 percent for individuals and companies alike. There is nothing "progressive" about it. Indeed we aim to tax

the consumer not the earner, through various taxes such as the VAT, which provides the largest single component of our tax revenue.

The natural result of all this is major growth in production. This growth is both absolute and relative; in the past two years tens of thousands of new companies have been established. All of this should also be viewed in context. Estonia has no natural resources such as oil, gas, gold or diamonds to sell abroad. Democratic and reformist governments that have been able to carry out reforms all too often are losers in the political realm. The return of former communist rulers has become a reality in a number of east and central European countries. In some places in Eastern Europe they have never left office. There are a number of reasons for this. On the one hand people's fear of radical reform and this search for an easier "third way". Secondly, democratic, free-market oriented political parties have difficulties carrying their more sophisticated message to the electorate, especially when the competition consists of populist sloga-

neering and well-organized ex-communists who promise security, well-being and riches, i.e. pie in the sky. In Estonia this kind of development is extremely unlikely since we have dismantled so much of the socialist system.

Having talked about those aspects of Estonia which are most interesting to us, allow me to turn to topics that are more difficult and which for a number of reasons interest people outside Estonia. Here I am speaking of course our relations with our neighbor, Russia. Some people in Moscow cannot get used the idea that the Empire is dead. A successful and rapidly developing Estonia is a challenge to those who dream of restoring the Empire (as it is a challenge to those who say that Russia can not be expected to implement radical reform. Recall again that Estonia was until two and half years ago a part of the same economic entity called the Soviet Union, and unlike Russia we have no natural resources). Some wish to bring* the Soviet Empire back to life as a kind of restored Russian Empire, forgetting that the time of empires is over, as is the politics of force, at least among those countries that consider themselves part of a civilized Europe. We see this impulse to Restoration take many forms: as armed conflict and intervention under the guise of decidedly non-neutral Russian-led peace-keeping along the Southern tier of the Former Soviet Union, economic pressure on countries such as Ukraine and Lithuania, and in the case of Estonia and Latvia, talking about "protecting" Russians in those countries. This is a very dangerous trend. Russia's attempt to use its ethnic population abroad to maintain political control in neighboring states is no different from Vereinigung des Deutschen Volkstum im Ausland, or reunification of Germanhood abroad, the foreign policy of Germany in 1937 and 38. That policy, it will be remembered, used disinformation and agitation among ethnic Germans abroad to bring about the dismemberment of Czechoslovakia, the annexation to Germany of Memel (or Klaipeda), Lithuania, the Sudetenland, and of course the Anschluss of Austria. As an "ethnic Russian" the Estonian government has asked to serve as ambassador to the United States, I am especially galled by claims of a foreign state to "protect me" against my own country. Indeed raising ethnicity above citizenship is a principle fraught with danger as

the US learned when it placed ethnicity higher than citizenship in the case of US citizens of Japanese descent during World War II. Making special claims on the Estonian population based on their ethnic background only makes life more difficult and tense for people like me.

This is not to say that Estonia doesn't have problems. Genuine ethnic tension did exist. Throughout the Soviet period, relations between Estonians and the Russian immigrant population were very bad, much as say the attitude of the French or the Norwegians toward the Germans in 1942. We could talk of real hatred here. Having lost a quarter of its population to Soviet deportations and W.W.n, Estonians harbored rather negative feelings toward the Russian population that was moved into Estonia. Estonians were second class citizens in their own country. Nor did the near complete proscription of the Estonian language in official life and the requirement that everyone speak Russian help much to engender inter-ethnic harmony.

Faced with this situation, we, Estonians and Russians who have opted for Estonia, have tried to overcome this legacy of fear and resentment. Estonia has in fact provided a model of how to deal with ethnic problems. Estonia has passed one of the world's most liberal citizenship laws: anyone who has lived in Estonia for two years can apply, and after taking what is the simplest of language tests, become a citizen. Ethnicity has no role in the law. Unlike Russia, Estonia provides schooling in minority languages up through secondary education. We are the first country in the world to take our laws to the Council of Europe and the CSCE for expert analysis before their enactment. The State department of the United States, the CSCE, and the UN all have looked at our situation and agreed that we are a normal European country. More to the point, read the news reports. Estonia is one of the few countries in Europe where you won't find street fights with an ethnic dimension; no one is burning houses, attacking immigrants, calling them names in the streets, phenomena one finds in all too many of the countries of "Old" or Western Europe, not to mention the kinds of horrors perpetrated in the former Soviet Union. Thus it is quite galling to hear Russian accusations that contradict not only our own but also international assessment of the situation, as well as the observations of ordinary visitors to my country. Indeed, virtually

all of Estonia's nervousness about Russian intentions regarding our country stems directly from the fact that Russia seems to disregard our efforts and instead continues to engage in old Soviet-style disinformation dissemination. The question people in Estonia constantly worry about is: since Russia has reverted to type in this arena, how far is it from reverting to type in other realms of international behavior? Please, draw your own conclusions about countries that continue the Soviet tradition of disseminating disinformation. Regarding the situation in Estonia, either in the area of the economy or ethnic relations, I urge people to come and visit and take a look yourself.

Ultimately of course, these issues will be resolved by economics. Russian businessmen are among the strongest supporters of the Estonian government. These people have no problems with our laws, indeed they are taking out Estonian citizenship at a rapid rate. They clearly see their future in an independent market economy as opposed to being a province of a socialist Russia. We might call this the Friedmanite version of the Marxist claim that class interests are more important than national ones. In sum, Estonia shows one possible solution to the problems faced by the post-communist world. It is a solution that works, as long as we are left alone by revanchists in Russia. S

"Every government degenerates when trusted to the rulers of the people alone. The people themselves therefore are its only safe depositories."

-Thomas Jefferson
