

**Life in Post-Communist
Eastern Europe after
EU Membership**

Happy ever after?

Edited by

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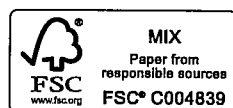
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6 Lithuania¹

Mindaugas Jurkynas

Introduction

James Joyce once wrote 'If Ireland is to become a New Ireland she must first become European' (Potts, 2000: 125). While not suggesting that Lithuania is just 'another' Ireland, one cannot turn a blind eye to certain parallels. Both are relatively young, economically dynamic, rapidly changing, small, Roman Catholic states, sometimes anxious about their neighbours. Both countries were late(r)-comers to the European Union and reached the peak of their socio-economic development while being EU members. A serious question remains – what was the extent of the European Union's role in the evolution of its member states. Notably, the Irish 'economic miracle' did not start in 1973: the country's achievements only flowered in the early 1990s – and yet nobody would deny the role of the European Union in fostering Ireland's development.

Lithuania, in turn, embarked on a road to a comprehensive transformation after the dissolution of the USSR. The meaning of Europe has never ever been questioned in Lithuanian mind mapping. Europe for Lithuanians was, to paraphrase Aldous Huxley (1929), a well gardened and a neat metaphysical system that resembles both a work of art and a scientific theory that Lithuanians wanted to become a part of (*The Economist*, 2010). Peaceful coexistence and high living standards were initial driving forces for post-communist states rushing towards the Fukuyamian 'end of history'. Gradual changes turned Lithuania into a democratic, liberal, and market-oriented European state that respected the rule of law.

However, just as capitalism needs capitalists, Europe needs Europeans. Do the Lithuanians consider themselves Europeans? In geographical and cultural terms they certainly do. In 2009 Lithuania commemorated the millennial anniversary of the first mentioning of the country's name in the Quedlinburg Annals in 1009. According to Samuel Huntington (1998) the great divide between the Orthodox East and (Catholic–Protestant) Western Christianity influenced and frequently determined differences in societal structures, ruling forms, applied technologies, economic development, and philosophy. Lithuania had culturally belonged to the West since Christianisation in the fourteenth century; however, the expansion

of tsarist Russia in the eighteenth century and the Soviet occupation between the 1940s and 1990 drew Lithuania into the Russian orbit. With communism came a feeling of bipolarity. Two worlds, two Europes, two Germanys, two Berlins and two lives – an official Soviet one and a private living-memory-saturated one – had become real-life experiences. Lithuania, along with the other Baltic States, ironically nicknamed the ‘the West of the USSR’ had faced the iron curtain for five decades. Simultaneously, many Lithuanians along with their émigré kin in the USA, Canada, Australia and elsewhere in the ‘first world’, dared to hope that one day their country would retake its place among the nations of Europe and the West.

The events of 1989–1991 in Europe became a turning point in history as the Cold War came to an abrupt end. The fall of the Berlin Wall ended bipolarity, virtually buried the communist ideology in Europe and facilitated the (re) emergence of new states. After the dissolution of the Soviet Union most Lithuanians wanted to side with the Western winners as did their counterparts throughout Eastern Europe. The collapse of the communist regimes facilitated the enlargement of the European Community (EC). German reunification also meant the expansion of EC jurisdiction, while the weakening of the Kremlin’s influence on non-aligned countries facilitated the membership of Austria, Finland and Sweden in 1995. Ten post-communist states followed the same path soon after.

The geopolitical situation with the close proximity of Russia and memories from the Soviet years continued to influence identity formation in the Baltic States. Lithuania sought to eliminate both the Soviet legacies and the political, economic and cultural influence of Russia. Exit from the communist bloc and integration into the institutional, economic and social-political networks of the West underpinned a belief in enhanced security, enlarged opportunities for Lithuania’s national interests and an increase of public benefits.

Assessing the impact of the European Union on Lithuania is not an easy task. Europeanisation in a narrow sense can be considered as a two-way approach of implementing EU rules, regulations, models of political behaviour, common norms, and good practices (top-down or ‘download’ perspective), while transmitting to the European Union Lithuanian experiences, values and national interests (bottom-up or ‘upload’ approach). Europeanisation is a ‘process of cultural, political and organisational change along European lines, within and beyond the borders of Europe’ (Flockhart, 2006: 86). Bulmer (2008) notes that Europeanisation encounters several problems, one of which is the methodologically flawed ascription of changes in nation-states to *ipso facto* Europeanisation. Moreover, others argue that ‘the present state of the debate cannot provide a veritable theoretical framework on institutional enlargement effects’ and offers to look ‘for a more inductive approach towards analysis and theory-building’ (Faber, 2009: 25).

Consequently, all the transformative effects in Lithuania should not be considered as a result of Europeanisation. Nonetheless, the importance of the

European Union, especially during the accession period, significantly altered the trajectory and pace of would-be members’ post-communist transition. The principle of subsidiarity² combined with the Lisbon Treaty provisions renders the European Union exclusive legislative powers in fields like the customs union, the common trade policy and competition, whereas areas like culture, education and industry or taxation, environment, transport and consumer protection belong to supporting, coordinating or complementary action and shared powers; the European Union cannot have an impact on all spheres of political, social and economic life. However, political, institutional, economic and social Europe is a milieu within which Lithuania has constantly and gradually been turning into something ‘new’. Research about Lithuania’s post-Soviet years and accession to the European Union is abundant; however, general evaluations of EU membership are barely nascent (Maniokas, 2005; Jurkynas, 2009; Vilpišauskas, 2009) and only a few articles scrutinise separate topics like the European Union’s policies towards the environment (Schmidt, 2005), competition law (Butkevičius, 2006), the party system (Jurkynas, 2005; Duvold and Jurkynas, 2006), structural funds (Maniokas, 2008), participation in the European Union’s internal market (Kolyta and Žeruolis, 2008), Lithuania’s role in EU institutional reform (Kuprys, 2009), competition (Žukauskas, 2009), energy policy (Vaičiūnas, 2009), Lithuania’s interests in EU external policy (Kasčiūnas and Grajauskas, 2009), European Union impact on public sector organisations (Nakrošis and Martinaitis, 2009) and EU effects on government–parliament relations (Trainauskienė, 2009). The main aims of this chapter are to evaluate Lithuania’s evolving relationship with the European Union. Accordingly, this following section will synthesise the political and socio-economic developments up to 2004, and the subsequent sections will take stock of shifts in the political landscape, economics and social life under the aegis of the European Union.

Political developments

Lithuania announced the re-establishment of its independence on 11 March 1990 and commenced the transition to democracy, market economy and nation- and state-building. The Constitution was adopted in a 1992 referendum, which as a political compromise prescribed a semi-presidential form of government.³

Years of Soviet annexation thwarted democratic evolution: killings, deportations, repressions and emigration to the West changed societal structures and functions. Lithuania could be characterised as a society without a politically relevant social stratification, passive political participation and shallow party penetration (Duvold and Jurkynas, 2004). Throughout the 1990s the moderately fragmented party system consisted, at least semantically, of: two left-wing parties – the ex-communist Democratic Labour Party (*Lietuvos demokratinė darbo partija, LDDP*) and the Social Democrats (*Lietuvos socialdemokratų partija, LSDP*); one centre party – the Centre Union (*Centro sąjunga, CS*); and two right-wing parties – the Christian Democrats (*Lietuvos krikščionių demokratų partija, LKDP*)

and the Conservatives (*Tėvynės sąjunga, TS*). In the period 1990–2000 the two main and opposing figures on the political scene were the Conservative and the ex-communist parties. The right-wing Popular Front (*Sąjūdis*) which later turned into the Conservative party dominated the first government, and initiated necessary structural reforms, such as the privatisation and liberalisation of the economy. However, increasing rows and splits within the Popular Front, political witch-hunting, legislative cul-de-sacs in parliament, decreasing living standards, rampant inflation and high unemployment resulted in snap elections, which yielded a four-year rule of the ex-communist LDDP. Their leader Algirdas Brazauskas won a decisive victory in the first presidential election of 1993. Despite its ex-Soviet background the Democratic Labour party spearheaded pro-capitalist and liberal socio-economic policies but failed to deliver its electoral promises, and was blamed for a series of bankruptcies in the banking sector, nomenclature-favoured privatisation and widespread corruption. Ironically, considering their communist past, LDDP policies were regarded as oriented towards big business and they did little to mitigate the increasing gulf between the rich and the poor. The only excuse the party offered was that the transition to the market economy and an inherited economic reformist programme was supported by international agencies. On the other hand, during the LDDP rule, a national currency (litas) and the Currency Board were introduced, and the litas was pegged to the US dollar at a rate of 4 to 1.⁴ Spiralling inflation was curbed, and from 1995 the economy began to expand. The Soviet military pulled out in August 1993 and Lithuania applied to join NATO the following year.

The bank crash in December 1995 was the final straw that broke the LDDP's back. The Conservatives surfed on a wave of voter discontent and came to power for the 1996–2000 period. However, the economic downturn following the 1998 financial crisis in Russia, squabbles within the party and the scandal surrounding the sale of the 'Mažeikių nafta' oil refinery struck a lethal blow to the Conservatives and initiated wide-ranging changes. Consequently, a liberal Lithuanian-American émigré, Valdas Adamkus, became President in 1998 and he set a deadline of five years for Lithuania to distance itself from its communist past and entrench its commitment to democracy, market economy and integration with the West (Lane, 2002: 148).

Pundits claimed that Lithuania's moderately fragmented party system had ossified throughout the first ten years of independence. However, the 'earthquake' elections of 2000 and 2004 introduced new parties. In 2000 the left-of-centre Social Liberals and the rightist Liberal and Centre Union ousted the Christian Democrats and the Centre Union to the political margins. In 2004 the populist leftist Labour, the national-conservative rightwing Liberal Democrats⁵ and the centre-left Agrarians entered parliament. Social cleavages across post-communist Central and Eastern Europe gradually took shape, and political issues started to influence voting patterns. The most visible political conflicts are rooted in opposition between centre and periphery, urban and rural areas, Soviet and anti-Soviet attitudes, and the 'winners' and 'losers' of post-communist transition.

Table 6.1 Inflation in Lithuania, 1993–2004 (%)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
410.2	72.2	39.7	24.6	80.9	50.1	00.8	20.7	30.7	50.7	10.9	40.5

Source: Statistical Office of Lithuania, <http://www.stat.gov.lt>.

Table 6.2 Foreign direct investment, 1997–2004 (million euros)

1997	1998	1999	2000	2001	2002	2003	2004
0.808	1.201	1.876	2.381	2.694	3.077	3.804	3.953

Source: Statistical office of Lithuania, www.stat.gov.lt.

The backing for right and centre-right parties emanate from urban areas, among educated, religious, Western-oriented, and better-off electors. Electors in rural and provincial areas, 'losers' in the post-communist transformation and those longing for social justice, tend to opt for leftist, protest and populist parties. Post-material issues did not lead to the formation of a successful 'Green' party and ethnic cleavages are not important on a national level, though a political party of Polish minorities traditionally musters overwhelming support in municipal elections in the south-eastern regions. Underdeveloped social cleavages and the personalisation of politics remain as the key challenges for political stability (Jurkynas, 2004).

The economy also underwent major changes. New democracies experienced the severe shocks of post-communist transformation from a command economy to liberal capitalism. When the Soviet Union collapsed Lithuania had no institutions or experience of reforms, let alone an understanding of how a market economy functioned. The Soviet occupation did not provide political or economic freedoms and very few understood how to remake the economy. In the first decade, the transition focused on liberalisation, stabilisation and privatisation. Later, economic policies focused on maximising economic growth and wealth. Economic liberalisation was not as fast or as radical as in the two other post-Soviet Baltic States. The government argued that a gradual approach would not turn people away from the reforms that would have been too painful had a shock therapy approach been implemented. The Soviet legacy left Lithuania with a high dependency on both markets and raw materials from the ex-USSR countries. Nonetheless, Lithuania had reoriented her trade by the mid-1990s: the share of exports to the former Soviet Union sank to 46.7 per cent, whereas the import share dropped to 50 per cent. Consumer price indices skyrocketed while purchasing power plummeted (see Table 6.1).

Foreign direct investment (FDI) helped to accelerate economic growth (see Table 6.2). Many state-owned companies encompassing major sectors such as banking, energy, telecommunication sectors and the processing industry were privatised. FDI came mainly from the West, in particular from the Nordic countries, and led to a

Table 6.3 GDP growth, 1991–2004 (%)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
-5.7	-21.3	-16.2	-9.8	3.3	5.2	7.5	7.6	-1.1	3.3	6.7	6.9	10.2	7.4

Source: Eurostat, <http://epp.eurostat.ec.europa.eu>.

Table 6.4 Gini index in Lithuania, 1988–2004

1988	1990	1993	1996	1999	2000	2001	2002	2003	2004
0.23	0.23	0.34	0.32	0.31	0.32	0.31	0.34	0.36	0.36

Source: World Development Indicators Database, <http://data.worldbank.org/data-catalog/world-development-indicators>.

rise in gross domestic product (GDP) per capita from 1,434 euros to 5,282 euros (see Table 6.3). During the same period, GDP per capita in terms of purchasing power parity (PPP) rose from 31 per cent to 50 per cent of the EU-25 average. However, unemployment increased from 0.3 per cent in 1991 to 11.4 per cent in 2004. In sum, Lithuania is regarded as a market economy by both the European Union and the USA, and scholars identified the country as one characterised by neoliberal capitalism during the last decade of the twentieth century (Norkus, 2008: 629). Despite rapid economic growth, institutional changes in Lithuania's social security system led to a post-communist welfare state with broad but meagrely financed social entitlements (Aidukaitė, 2006a, 2006b). Social policies did not eradicate inequality between the rich and the poor – in fact, it has been growing. The Gini index below shows an increase of social disparities from 0.23 in 1988 to 0.36 in 2004 (see Table 6.4).

The Lithuanian accession to the European Union brought benefits in terms of participation in the common market and the free movement of goods. Interest rates fell and credits became increasingly available. The highest risks have been connected to the free movement of labour force and correspondingly increasing emigration rates (EKT Grupė, 2006). Approximately 318,000 people left the country between 1990 and 2004 (Vilnius Statistikos departamentas, 2005).

Having achieved independence and international recognition after the failed putsch in Moscow in August 1991, Lithuania distanced herself from the Soviet past and legacy. The Constitution stipulated a ban on joining 'post-Soviet eastern unions', as mainstream political parties, especially the Conservatives, emphasised Lithuania's westward integration (Konstitucija, 1992). The westward orientation and integration into international organisations became the top priority across the political spectrum from the early 1990s. Lithuania became a member of a number of international and regional organisations: the Organisation of Security and Cooperation in Europe (OSCE) and the United Nations in 1991, the European Bank for Reconstruction and Development and the Council of the Baltic Sea States in 1992, the Council

Table 6.5 Opinion on Lithuanian membership of the European Union, 1999–2004

	1999 (Jan)	2000 (Mar)	2001 (Jan)	2002 (Mar)	2003 (Jan)	2004 (May)
For (%)	38	33	47	49	68	70
Against (%)	26	35	22	26	14	17

Source: UAB Vilmojus, www.vilmojus.lt.

of Europe in 1993, the World Trade Organisation in 2001 and finally the European Union and NATO in 2004, among 35 other institutions (Lithuanian Ministry of Foreign Affairs, n.d.). Lithuania, Latvia and Estonia developed well institutionalised inter-state cooperation, bolstered by the active assistance of the Nordic countries.⁶

Relations with the then European Community (EC) were officially inaugurated after the latter's recognition of Lithuania's independence in 1991. Already in 1992, Lithuania and the EC had signed the Agreement on Trade and Commercial and Economic Co-operation. A year later the EC decided to support Lithuania through the PHARE programme instead of TACIS, thus implicitly acknowledging that Lithuania should no longer be regarded primarily as a former Soviet country. A Free Trade Agreement between the European Union and Lithuania was concluded in 1994, and the Association Agreement was signed in 1995. Lithuania submitted an official membership application in December 1995 and the European Council decided to commence accession negotiations in 1999. Lithuania had to transfer over 80,000 pages of *acquis communautaire* into the country's legal system and 'do homework' in order to enter the European Union. Conditionality stimulated a domestic consensus and accelerated reforms (Kasekamp, 2010: 190–191), and yet it had its bitter price too. Lithuania was obliged to decommission the Ignalina nuclear power plant which supplied around 80 per cent of the country's electricity needs.⁷ Despite the postponed opening of negotiations Lithuania caught up and was among the first to close all the chapters by December 2002 (Maniokas *et al.*, 2004). Lithuania's progress corresponded to the Copenhagen criteria of democracy, market economy, and rule of law (Jurkynas, 2009: 18). Lithuanian–European Union relations in 1995–2002 can be described as a steering mechanism of compliance as the European Union's imposed institutional regulation and regulatory intervention triggered institutional and legal change in candidate countries – legally binding EU rules had to be implemented (Bauer *et al.*, 2007: 407–408).

The electorate have endorsed Lithuania's membership of the European Union since the early 1990s (see Table 6.5).

Before the referendum on Lithuania's EU membership held on 10–11 May 2003 an overwhelming majority of voters and parties were openly pro-European. On a turnout of 63 per cent, 91 per cent of those who cast a ballot supported the referendum (57 per cent of the electorate), the highest support for EU membership among all the candidate countries. The meaning of 'Europe' in the Lithuanian political discourse implied three things. First, it meant a secure route

for the 'return to Europe', while simultaneously distancing itself from the Soviet past and Russia and promoting European values in the Eastern neighbourhood. Second, the European Union enhanced security and modernisation (Pavlovaite, 2000), as it represented potential economic and social affluence and the participation in joint decision-making at EU level.⁸ Finally, integration into international structures also served as a way to suppress nationalistic views among right-wing politicians and to encourage the government to pursue reformist policies. The longing to return the country to the 'paradise' of the West and following policies to achieve this goal had been the *modus vivendi* in Lithuanian politics until 2004 (Jurkynas, 2007).

The penultimate enlargement of the European Union coincided with a snap presidential election and the first election to the European Parliament (EP) in June 2004. The electoral campaign downplayed EU issues and focused upon unemployment, salaries, and the strength of the economy, taxes, and social benefits. Six of the twelve parties contesting the EP election crossed the 5 per cent threshold and the winner, the Labour Party, received 30 per cent of the votes cast. One way to ascertain the level of Europeanisation amongst the political parties is to evaluate their relations beyond the domestic party system. The left-of-centre populist Labour Party opted for the Liberal faction at the EP, and both the Liberal Democrats and the Agrarians joined the Union for Europe of the Nations group. Social Democrats are part of the Party of European Socialists; the Conservatives belong to the European People's Party, and the Liberals and the Social Liberals to the European Liberal Democrats. The Labour Party opted for the centrist European Democratic Party and the Order and Justice Party for the European Free Alliance-Democratic Party of the Peoples of Europe (Duvold and Jurkynas, 2006).⁹

Seven parties crossed the threshold in the 2004 parliamentary election. The front-runner was, again, the Labour Party with 28.4 per cent of votes. Nearly half of the votes cast went to the new parties of Labour, Liberal Democrats and Agrarians. The parliamentary elections in autumn 2004 also revealed that foreign policy and the concept of Europe were hardly vote-winning messages. While pre-electoral unions of parties and mergers became widely practiced in Lithuanian party politics after 2000, there is little to suggest that the recent changes in the Lithuanian party system have much to do with the country's EU membership. On the other hand, the general election of 2008 went hand in hand with a consultative referendum on whether to extend the operation of the Ignalina nuclear power station against the binding EU accession treaty. But while the referendum proposal was approved by 88.6 per cent of those who cast a ballot it did not surpass the threshold of a 50 per cent turnout and was thus declared void. Voter volatility and the fragmentation of the party system declined (Jurkynas, 2009) (see Table 6.6). And Lithuania's party configuration can now be described as one characterised by moderate pluralism with centripetal competition. Party competition is based on a socio-economic left-right divide although discussions about moral liberalism/conservatism are also prominent.

The June 2009 EP election produced the lowest ever turnout. Only 21 per cent of registered voters came to the polling stations, which was the second lowest

Table 6.6 Electoral indices, 2004 and 2008

	2004	2008
Effective electoral parties	5.8	8.9
Effective parliamentary parties	6.1	5.6
Volatility (%) ^a	50.0	29.3
Wasted votes (%) ^a	9.0	20.7
Invalid votes (%) ^a	2.7	5.6

Source: Author's calculation.

Note:

a In multi-member constituency

Table 6.7 Opinion on Lithuanian membership of the European Union, 2004–2010¹⁰

	2004 (Oct)	2005 (June)	2006 (May)	2007 (June)	2008 (Oct)	2009 (July)	2010 (Dec)
For (%)	82	96	65	75	75	69	71
Against (%)	8	16	20	14	15	15	17

Source: UAB Vilmorus, www.vilmorus.lt.

turnout in the European Union. Elections to the EP are as a rule considered 'secondary', and a low turnout in all EU member states does not come as a surprise. People believed that their vote would change little, had insufficient knowledge about the EP, and did not consider it an influential body. Six parties crossed the 5 per cent threshold: the Conservatives (26 per cent of votes and four seats), the Social Democrats (18 per cent and three), the Order and Justice (12 per cent and two), Labour (8.6 per cent and one), followed by the minority ethnic party, the Lithuanian Polish Electoral Action, (8.2 per cent and one) and the Liberal Union (7.7 per cent and one). All parties adopted pro-European stances. Perhaps, the right-wing Order and Justice Party might be labelled as a proto-Eurosceptic party as it presents itself as an 'anti-elite, nationalist and morally conservative' party and views the European Union as an elitist entity (Kluonis, 2009). In the European Parliament this political party participates in the right-wing and Eurosceptic faction 'Europe for Freedom and Democracy'.

Voters seem to have remained in favour of the European Union (see Table 6.7). The Eurobarometer survey of spring 2008 indicated that 60 per cent of the population were in favour of Lithuanian membership of the European Union, surpassing the EU average of 52 per cent. Two-thirds believed that EU membership was beneficial in 2009. Euro-enthusiasm relies on a belief that the European Union is influential in providing higher living standards, new jobs, better relations with other countries, increased justice, and financial benefits. Half of the respondents believed the European Union helped to strengthen democracy. The European Union has never been associated with the difficulties of post-communist transition, dissatisfaction with democracy's socio-economic results or economic crises.

Eurosceptics, on the contrary, see the European Union as a threat to national identity, as run by big states, and as an incomprehensible and bureaucratized decision-making entity in which Lithuania can change next to nothing; for them, the European Union generates risks such as increased prices and emigration, and Lithuania has turned into a cheap labour locus. The Eurobarometer surveys of 2009 disclosed that 69 per cent of Lithuanians are in favour of future EU enlargement, though they prioritise Switzerland, Norway, and Iceland as potential candidates. Finally, 70 per cent are positive about the future of the European Union and the survey revealed that television is the main medium distributing information about the European Union, with 86 per cent of respondents receiving EU-related news from this source.

The year 2004 was a turning point in Lithuania's domestic and foreign policy. Transatlantic integration as a strategic goal has been achieved and, consequently, foreign policy objectives needed revising. Political elites envisaged Lithuania as 'a regional centre of cooperative initiatives' with Poland, the Baltic States and the Nordic countries (Paulauskas, 2004). Since 2004, the purpose of Lithuania's participation in the European Union was active participation in the EU decision-making process in order to enhance security, welfare and national culture. Mainstream political parties struck a new consensus on foreign policy for 2004–2008,¹¹ which foresaw the country as a pro-active centre of regional initiatives, by 'fostering the transatlantic relations of Lithuania and of the European Union and to strengthen co-operation with the North American states, and in particular with the United States of America' and 'supporting further integration within the European Union' (Agreement, 2004).

Lithuania became the very first EU country to ratify the EU Constitution in November 2004. The *Seimas* (Lithuanian parliament) wanted so eagerly to show 'political Europeaness' that some parliamentarians voted for the now defunct document without having read it. Political debates about the Constitution were virtually non-existent. During the Lisbon Treaty negotiations Lithuania argued for the inclusion of clauses on energy security and solidarity and equality of states. The 2007 Intergovernmental Conference discussed changes to the upcoming EU Treaty, and the Lithuanian President, Valdas Adamkus, along with the French President, Nicolas Sarkozy, vigorously brokered between reluctant Poland and presiding Germany. The weekly *European Voice* described Adamkus as pounding 'up and down the stairs at a European Council meeting in Brussels in order to help rescue the European Union's Reform treaty from what appeared to be a premature death' (Peach, 2007) and elected him as 'European of the Year 2007'. Relations between the European Union and the Russian Federation became more strained after the ten new post-communist democracies joined the European Union. These countries all brought with them their historical memories and experiences, which found their way into foreign policies.¹² The renewal of the European Union – Russian strategic partnership hit a bumpy road when the Partnership and Cooperation Agreement (PCA) expired in November 2007. Critics advertised the fact that Russia had not ratified the PCA's Energy Charter and Transit Protocol.

Furthermore, Poland blocked the negotiations for the renewal of the PCA in 2006 due to Russia's ban on Polish meat products. Lithuania and the European Union supported Poland, and the negotiations were postponed. Although Russia resumed Polish meat imports and Poland withdrew its veto, the Lithuanian government demanded that the negotiations should be supplemented with issues of energy security,¹³ legal cooperation with Russia and obligations for the settlement of 'frozen conflicts' in Georgia and Moldova. The European Council on Foreign Relations argued that the relations between Lithuania and Poland, on the one side, and Russia, on the other, were the most intense in the whole of the European Union, and called them the 'new cold warriors' (Euro.lt 2007). With the arrival of Barack Obama the US administration publicly 'reset' relations with Russia, as pragmatic engagement superseded the combative politics of containment. The European Union followed suit.

Lithuania presented itself as an active player and an exporter of European norms, which could transfer its experiences of post-communist transformation to the Eastern neighbourhood (Ukraine, Moldova, Belarus, Georgia). Arguably, pragmatic considerations have gone hand in hand with value-laden principles: the anticipated democratisation, strengthening of human rights, and increasing respect for the rule of law in adjacent countries can only help reduce the chances of negative socio-economic effects spilling over into the Baltic region.¹⁴ More optimistically, the Europeanisation of the European Union's Eastern neighbourhood might also contribute to positive changes within Russia's polity. Lithuania took part in the preparation of EU action plans for Ukraine, Moldova and the three South Caucasus republics, advocated visa liberalisation and better trade arrangements for these countries and arranged numerous high-profile visits in order to pull these countries closer to the orbit of the European Union. For instance, the birth of the European Union's Eastern Partnership, launched in 2008 was closely associated with Swedish, Polish, Lithuanian and Czech diplomatic efforts.

Lithuania's aim to enhance its European profile was mirrored in efforts to see the EU institutional footprints and public profile in the country. The European Union's Gender Equality Institute is now permanently stationed in Vilnius (European Capital of Culture for 2009). The country also became a member of the borderless and virtually customs-free Schengen area in 2007, but not without some effort. During the accession negotiations the European Union decided that the transit facility that allowed Russian citizens to travel through Lithuanian territory to and from Kaliningrad would not impede Lithuania's membership of the Schengen zone. During the preparations Lithuania *inter alia* cooperated closely with the Scandinavian countries, finalised the construction of a new airport terminal, and strengthened the control of border crossing points with Belarus and the Kaliningrad region.

Scholars have argued that the voices of small countries like Lithuania can be heard within the European Union (Vilpišauskas, 2011). Membership of the European Union has blurred the lines between domestic and foreign policies and

Lithuania's activities in the common decision-making process, and presented the opportunity for domestic experiences and concerns to be uploaded onto the European Union's political agenda. In practice, however, this has not thus far been a frequent occurrence due to the different motivations of EU-orientated diplomats on the one hand and national political elites wary of public opinion or the demands of economic interest groups on the other.

Economic developments

However, not all governmental efforts bore fruit: Lithuania's commitment to join the eurozone suffered a setback in 2006. All Maastricht criteria but that relating to the level of inflation had been fulfilled: the consumer price index had exceeded the norm by 0.1 per cent. Joaquín Almunia, EU Monetary Affairs Commissioner, noted that 'inflation in Lithuania was above, slightly above, the reference value and this is the only thing taken into account'.¹⁵ The refusal to accept Lithuania into the eurozone caused controversy, with dissatisfied analysts and politicians in Lithuania perceiving the refusal to accept Lithuania as an act of political hypocrisy.¹⁶ Subsequent Lithuanian governments retained their commitment to the euro, however. A budget deficit of 5.8 per cent for 2011 and a state debt which has risen from 15.6 per cent of GDP in 2008 to 38 per cent of GDP at the end of 2010 have postponed dreams of joining the euro until at least 2014.

The idea to participate in the monetary union is perceived as a fast-track approach towards the 'European nucleus' that will embed the country in Western networks. Lithuanian politicians would have subscribed to the words of the Estonian Prime Minister, Andrus Ansip, that 'the euro predominantly means security' (*Estonian Review*, 2011). Political elites, except the Order and Justice Party¹⁷ (*tvarka.lt* 2010), and business associations stressed the benefits of the euro. However, popular attitudes towards the euro for some reason have not been rosy. In 2005, 51 per cent of respondents were against the euro (*delfi.lt*, 2005) and only 40 per cent supported the common currency in 2008. Eurobarometer reported in 2008 that 'compared to previous years, attitudes towards the euro have become slightly more favourable. One of the main reasons why the Lithuanian population did not want the euro to be introduced was due to the fear of prices rising.' (*Eurobarometer*, 2008).

The country's integration into monetary and borderless zones was perceived as an important step in cementing Lithuania's position in the West. However, the deepening of Lithuania's integration into transatlantic political alliances, was followed by the no less important issues of energy security. All three Baltic states – Lithuania, Latvia and Estonia – are energy 'islands' and after legal and political accession, the integration of national energy systems into the EU energy structures remain among the top political priorities. Energy security is viewed as the sustainability of reasonably priced energy resources, either imported or locally obtained. The largest share of Lithuania's energy needs had been met by the Ignalina nuclear

power plant but that had been decommissioned in December 2004 as a condition of EU membership. The European Union, in turn, offered to partially absorb the social and economic costs of the Ignalina plant's closure and earmarked 320 million euros for 2004–2006, and 815 million euros for 2007–2013. After the shutdown of the old nuclear power plant, Lithuania, Estonia, Latvia and Poland agreed to build a new one in Lithuania by 2018–2020, as Lithuania simultaneously seeks to increase its energy independence and become an electric energy exporting country.

After the closure of the Ignalina station, Lithuania's dependence on imported energy materials, especially fossil fuels, from the only supplier, Russia, increased dramatically. The share of gas in total energy needs rose to 70 per cent. Moreover, the cost of gas to Lithuania became very expensive: the Russian state-owned company Gazprom raised gas prices in early 2011 to US\$400 per 1,000 cubic metres. Russia's earlier attempts to use energy exports as a tool for political pressure, increasing domestic demand for gas in Russia, and a gap between Russia's obligations to export and its ability to extract the required amounts of fossil fuels all put the sustainability of gas imports in question. In an attempt to identify alternatives Lithuania and Poland initiated a feasibility study in 2007 assessing the viability of connecting the Lithuanian and Polish gas networks, and Lithuania began to explore the possibility of building a liquid natural gas (LNG) terminal by the coast. The European Union prepared a plan for the integration of the energy systems of the Baltic States into the European one and foresaw that one regional LNG terminal could be financed by the European Union.

In terms of electric energy, the Baltic States aim to disconnect themselves from the Soviet IPS/UPS network and join the European Union for the Coordination of Transmission of Electricity (UCTE). The European Council included the Lithuanian–Polish electricity bridge among its priority projects in 2003, and in 2007 it sought to finalise the establishment of a competitive and integrated EU internal energy market without which the LitPol Link Baltic 'membership' in the UCTE is technically unviable. The LitPol Link is anticipated to start working at the end of 2015. Another step to integrate Lithuanian markets into the West was made in 2007 when Swedish and Lithuanian electric energy companies agreed to develop the NordBalt interconnection. The European Bank for Reconstruction and Development (EBRD) noted that the opening of the electricity exchange was 'an important step towards regional integration of the Baltic and Nordic power markets' (EBRD, 2010). The interconnection is anticipated to start operating in 2016 with the European Union contributing 175 million euros of the total 270 million cost.

The other issue in the energy sector has been the gas pipeline that seeks to connect Russia and Germany along the bed of the Baltic Sea (Nordstream). Although this project received the political blessing of the European Union, the Baltic States and Poland were among the most ardent opponents of Nordstream. First, the project does not increase diversification of EU energy imports: Nordstream will

Table 6.8 Consumer price index, 2004–2009 (%)

2004	2005	2006	2007	2008	2009
1.2	3.0	4.6	8.1	8.5	1.3

Source: Statistical Office of Lithuania, www.stat.gov.lt

constitute about 25 per cent of the projected growth in Europe's gas imports (Gupta, 2010). Second, the Baltic Sea is one of the most sensitive ecosystems in the world, as large amounts of weapons with chemical ingredients were dumped into the Baltic Sea during World War II. The Lithuanian government has also highlighted the benefits of an alternative gas pipeline route via land, keeping in mind the potential income from gas transit fees. However, Nordstream has already gained momentum and 70 per cent of the project had been implemented by the end of 2010.

Energy policies frequently go hand in hand with environmental ones and issues of climate change have become hotly debated topics on the EU agenda. In 2007 the European Union produced a series of energy and climate targets to be implemented by 2020 – that is, to reduce the European Union's overall CO₂ emissions by 20 per cent, to increase the efficiency of energy usage by 20 per cent and boost the share of renewable energy to 20 per cent. Lithuania generally supported these targets but argued that they should not negatively affect the competitiveness of 'catch-up' economies and that all EU states ought to share equally the burden of the emissions. The Lithuanian argument was based on evidence that the country had reduced its emissions by over 50 per cent since 1990¹⁸ despite a growing economy, that the Ignalina power station was about to be closed, and that Lithuania had no interconnections with the European Union's energy systems.

Econometric modelling studies reveal that between 2004 and 2006 the impact of EU membership on the Lithuanian economy had been rather significant. The European Union's financial support stimulated annual GDP growth by an additional 1 per cent. While membership of the European Union did not settle all problems it did open new opportunities for more active policies arising from the structural and cohesion funds. Due to the openness of the Lithuanian economy the share of exports in the GDP grew by 1.4 times compared with the pre-enlargement period. While EU integration did not directly affect inflation, it did so indirectly via stimulated economic growth that raised the consumer price index by 0.6 per cent between 2004 and 2006. The free trade and participation in the common European market increased the annual GDP by 1.8 per cent during the same period (EKT Grupė, 2006). Statistical office data report that GDP growth in Lithuania has been spectacular, reaching 28 per cent between 2005 and 2008. However, in 2009 the economic crisis brought a 14.7 per cent drop in GDP, with the GDP total value rising to only 26.5 billion euros that year. During the same period, inflation inhibited economic growth, as it peaked in 2008 at 8.5 per cent (see Table 6.8).

Foreign direct investment data reveal generous cash flows from the European Union into Lithuania. As of 30 June 2010, cumulative FDI in Lithuania amounted to 9.5 billion euros, double the 2004 figure.¹⁹ The largest investors were Sweden (11.4 per cent of total FDI), Poland (11.3 per cent), Germany (10.4 per cent) and Denmark (10.4 per cent). Foreign direct investment from the EU-27 amounted to 78 per cent of total FDI, while FDI from the Commonwealth of Independent States (CIS) countries barely rose to 7.4 per cent. The average monthly net salary has doubled from 241 euros in 2004 to 474 euros in 2010. Economic growth and emigration²⁰ reduced unemployment rates from 11.4 per cent in 2004 to 4.3 per cent in 2007. However, unemployment hit 14.4 per cent in January 2011. EU membership did not change the structural composition of the GDP; services comprised 69.1 per cent, whereas industry amounted to 26.7 per cent and agriculture 4.2 per cent in 2009.²¹ The share of the private sector in Lithuania's GDP is high and had reached 77 per cent by 2009. State-owned companies still retain controlling shares in the energy, transportation and postal services.

EU membership expanded export and import outlets. In 2003 the share of the EU-15 rose to 42 per cent of Lithuanian exports and 44.5 per cent of its imports, whereas the share of the CIS countries was 17 per cent and 25.3 per cent, respectively. As of 2010, exports and imports to and from the European Union were 61.7 per cent and 56 per cent and the CIS's share increased to 25.6 per cent and 36 per cent. As a result of the global economic recession Lithuania's GDP plunged by almost 15 per cent in 2009 and the unemployment rate rose above 18 per cent in the first half of 2010. The government proceeded with internal depreciation by introducing austere budget cuts, reducing salaries and pensions, and launching extensive borrowing. Critics noted that the interest rates that the Lithuanian government paid for loans exceeded nine per cent and suggested that borrowing costs might be reduced by addressing their concerns to the European Union and the International Monetary Fund (IMF), a view that found little support within the government. The public debt rose from 30 per cent of GDP at the end of 2009 to nearly 40 per cent by the end of 2010, while falling revenue from exports and domestic demand increased the budget deficit from 3.3 per cent of GDP in 2008 to 8.9 per cent in 2009. Lithuania, however, neither defaulted nor was its currency devalued. While membership of the European Union did not settle all problems it did open new opportunities for more active policies. This became evident during the first half of 2010 as exports recovered, and industrial production grew by more than 8 per cent. On the other hand domestic consumption remained relatively low.²² The EBRD noted that:

a tight fiscal policy, continuing wage adjustments, high unemployment and the weak supply of credit will continue to depress domestic demand and pose key risks for the recovery. However, the economy should continue to benefit from improving trade prospects, though this is largely dependent on the speed of recovery in the EU.

(EBRD, 2010)

Table 6.9 EU financial support for Lithuania

	2004	2005	2006	2007	2008	2009	2010	2011
Percentage of budget revenue	10	12.3	11.2	14.7	12.9	24.5	32.4	22
Sum (million euros)	400	585	626	1,000	1,000	1,700	2,290	2,000

Source: Ministry of Finance, www.finmin.lt.

Since accession in 2004, Lithuania's national budget has received generous EU financial support (see Table 6.9).

Lithuania is to receive 10.7 billion euros from the EU budget for the 2007–2013 period, a 55 per cent increase compared with the 2004–2006 period. Of this, 57 per cent is EU structural support and 24 per cent EU funds for the agricultural sector.²³ Redistribution of finances in Lithuania, coincidentally, has remained one of the lowest in the EU-27 despite the country's EU membership: the lowest implicit tax rates remained around 30 per cent between 2000 and 2010.

Social developments

Despite EU membership and relatively fast economic development, social disparities retain their salience: the Gini coefficient, which measures social inequality, remained steady at 0.36 during 2005–2010. The difference between the richest and the poorest increased from 5.9 to 6.3 times during 2009 and the level at which a person was deemed to be at risk of poverty, as defined by the Statistical office, rose from 209 euros in 2008 to 241 euros in 2009. The number of citizens on or below that poverty line, including those receiving social benefits, fluctuated between 19 per cent and 20.5 per cent between 2005 and 2009. The absence of such social benefits would have pushed the level of poverty risk to between 25.5 per cent and 29.5 per cent of the population. The poverty risk level in the five largest cities varied between 7.9 per cent and 10.5 per cent and in rural areas between 32.2 per cent and 34.6 per cent (Lietuvos statistikos departamentas, 2010a). Figures for the 2011 budget revealed that out of a total of 10.5 billion euros, over 40 per cent of revenue is spent on social security, 15.4 per cent on education and 12.7 per cent on health care. However, data suggests that spending for social policies in relation to GDP is among the lowest in the European Union. Lithuania, as mentioned earlier, can be called a post-communist welfare state with broad, yet scarcely financed, social security programmes. Pensions and social entitlements are low, and yet education and health care are universal (alfa.lt, 2011).

Increasing emigration from Lithuania to Western countries has become a widely discussed phenomenon. Nearly half a million people have left Lithuania since 1990, comprising about 20 per cent of the country's workforce. Between 2004 and 2009 over 160,800 people emigrated (Verslozinios.lt, 2010) with the United Kingdom, Ireland, the USA, Germany and the Nordic countries being the most popular

destinations. Those in the 25–29 year age group are most likely to emigrate and constitute roughly 20 per cent of all émigrés (Lietuvos statistikos departamentas, 2010b). Opinion polls in 2008 reported that if people were forced to emigrate, 78 per cent of them would go the West and 14 per cent would opt for Russia. The Russian option is more attractive among the elderly, people with lower education and income, and inhabitants of small cities (delfi.lt, 2008a). According to the Eurobarometer of 2008, 13 per cent of people planned to travel to EU countries for employment. As most of those who leave are younger than average and often take their families with them, emigration fundamentally alters the age-group distribution within Lithuanian society. The numbers going in the other direction are comparatively small with only 39,000 immigrants taking up residence in Lithuania between 2005 and 2009.

The European Union in Lithuania has been positively viewed as a source of security, stability, democracy and economic benefits and a place to voice Lithuanian national interests and values. However, human rights became an area of disagreements in 2010. Dominated by the Order and Justice Party, Vilnius municipal authorities forbade a gay pride parade in 2008. A similar march, as one event in a five-day festival on the subject of equal rights for sexual minorities, took place in March 2010. The President, Dalia Grybauskaitė, supported the parade, yet extreme right and nationalist activists condemned the march and mobilised a large mob of protesters against the homosexuals and their supporters. The Catholic Church in Lithuania also publicly expressed a negative attitude towards the event. Three hundred people participated in a gay rally, including quite a few politicians and ministers from the EU countries (delfi.lt, 2010a).

Public opinion about the rights of minorities in 2009 was not inspiring: opinion polls suggested that 58 per cent of respondents did not support the parade, whereas merely 16 per cent were in favour (delfi.lt, 2009). Men, those with lower education, and inhabitants of villages and small towns were more likely to express negative attitudes towards homosexuals, whereas women, Vilnius dwellers and people with higher education tended to support the rights of sexual minorities. A substantial body of opinion held that homosexuality was a perversion (38 per cent) or an illness (28 per cent). Only 12 per cent supported an argument that homosexuality is a norm in diverse societies. According to opinion polls conducted in 2008 the most unwanted neighbours were Roma (69 per cent of respondents would not want them to live in their neighbourhood), homosexuals (56 per cent), Chechens (48 per cent) and refugees (43 per cent) (delfi.lt, 2008b). While the Liberals and the Social Democrats are supportive of the implementation of human rights the negative mood towards gays in society and in the Catholic Church restrains political parties from more open support for sexual minorities. Furthermore, the Lithuanian parliament under the Conservative leadership adopted a law in July 2009 protecting the underage (under 18 years) from negative information, which included 'promotion of homosexuality, bisexuality and polygamy'. International organisations like Human Rights Watch, Amnesty International, members of

the parliamentary assembly of the Council of Europe, the Lithuanian Liberal Union, and the Social Democrats criticised the law as one that violated human rights. The parliament introduced amendments in December 2009 by scrapping references towards homosexuality. The parliament is currently discussing a draft of the law proposed by an MP from Order and Justice. According to the draft, 'propaganda' of homosexual relations would incur financial penalties. The European Commission reacted in November 2010 with a statement that it would scrutinise the draft and fight against homophobia and discrimination against sexual orientation. Responsible EU institutions stressed that human rights come as a package and does not allow 'cherry picking'. Opposition to homosexuality in the country is mostly shared among right-wing parties.

Conclusion

The European Union has definitely created scope for change in Lithuania. It is, however, hard to pin down its exact effect, since many improvements may have happened without the direct involvement of the European Union. Nonetheless, participation in joint decision-making, let alone copious financial support and open markets, opportunities to freely travel, work, to do business and study across the whole continent left an indelible mark of Europeanness in the country's psyche.

It is emblematic that Europeanisation had become an inherent part of post-communist transformation across Central and Eastern Europe. New democracies considered European experiences as guidelines for political behaviour and socialisation. Parties in Lithuania adopted European names, and ideological profiles, models of party organisation, cooperation with ideologically akin institutions, and the patterns of competition resembled those in Europe. EU-related questions did not polarise politics and did not evoke any parties on anti-European lines. Indeed, very few voters are against Lithuanian membership of the European Union. Paul Lewis (2006) observed that issues of European integration animated only a very small number of, basically Eurosceptic, parties across Central and Eastern Europe, and that Lithuania was no exception. Party elites in the country established a consensus on maintaining a pro-Western orientation. Political life in Lithuania has become accustomed to day-to-day EU affairs.

On the other hand, once full-fledged EU membership became a reality, vapours of Euroscepticism could be traced. If in the future the EU downplays the role of small states and reduces support for countries in need, a Eurosceptic mood may surface. Plans to fulfil Economic and Monetary Union (EMU) membership criteria could trigger budgetary constraints and a drop in public expenditures, which would be far from popular after the economic downturn. Obviously, the EU issue might also tap into electoral resentment if it were seen to jeopardise Lithuanian security and zealously patronise with social and moral liberalism.

EU membership purports that Europeanisation is still a bedrock of the country's politics. The deeper amalgamation of Lithuania into the nuclei of

Western (primarily EU) structures is seen as a continuous process with added value the longer membership is maintained. The introduction of the euro, the diversification of energy imports, the deeper involvement in EU external actions and the avoidance of a two-speed Europe are primary aims for the time being. Concerns relating to national identity and security remain, while ongoing tensions with Russia, calls for a proper evaluation of communist atrocities and active involvement in the EU's Eastern Partnership demonstrate the power of living memories in Lithuania. Lithuania's current resources, its geopolitical situation and its small manifestations of soft nationalism and moral conservatism are flies in the 'happy ever after' ointment. Nevertheless, Lithuanians remain one the biggest enthusiasts for membership of the European Union, which is considered to have complemented increased democracy, prosperity and security.

Notes

- 1 The author is grateful to Professor Zenonas Norkus (Vilnius University) and the editors of the book for their valuable comments on the draft of this chapter. Thanks also go to Ms Vilija Gelažauskaitė for the technical assistance.
- 2 Subsidiarity is regarded as an organising principle: that the smallest or least centralised competent authority should handle affairs in respective fields and a central authority interferes in cases lower authorities cannot deliver. In the EU case, the European Union does not take actions unless they are more effective than actions taken at national, regional or local level.
- 3 Two mainstream political forces – the Popular Movement (*Sąjūdis*) and left-of-centre ex-communist Labour Democratic Party (LDDP) – clashed on the role of the president. *Sąjūdis* wanted to install a strong institution to fight post-communist legacies, whereas Democratic Labour feared authoritarian tendencies from the Right.
- 4 The national currency was pegged to the euro at a rate of 3.4528 litas to 1 euro in February 2002.
- 5 The Liberal Democrats renamed their party Order and Justice in May 2006.
- 6 The Baltic and the Nordic states have developed close political and economic cooperation. For instance, prime ministers and other high-ranking officials from these countries regularly meet each other at the margins of the EU summits and beyond to discuss an increasing number of issues of mutual concern (Jurkynas, 2007).
- 7 After the decommissioning of the second reactor by the end of 2009 (the first one has been switched off in 2005) Lithuania increased imports of electricity and gas from Russia and its dependency on its only supplier of fossil fuels rose considerably.
- 8 Some claimed the Western countries felt a certain post-Yalta collective guilt for the occupation and the Sovietisation of Central and Eastern Europe and thereof redeemed that psychological debt (Lašas, 2008).
- 9 According to the Head of Information Centre at the party, Romas Jankauskas, the Order and Justice Party did not belong to any pan-European party federation as of December 2010 (personal interview, December 2010).
- 10 The opinion poll carried out in December 2010 unveiled the fact that 70 per cent of respondents support Lithuania's EU membership and 60 per cent of respondents said they are interested in issues related to the country's membership; 61 per cent said they have enough information on membership – this number was barely 43 per cent in July

- the same year. The most popular topics about the European Union are the use of EU support (77 per cent), representation of Lithuania's positions (69 per cent), activities of Lithuanian members of the European Parliament (68 per cent) and the euro (68 per cent) (delfi.lt, 2010b).
- 11 In 2008 a similar agreement covering the period 2008–2012 was initialised. However, the Conservatives and the populist National Resurrection Parties did not sign it.
 - 12 The Lithuanian government supports the idea that Stalinist crimes should be properly evaluated at the European Union level. In 2010 Lithuania adopted a law imposing legal responsibility for persons denying Nazi and Soviet crimes.
 - 13 Energy has lately been an issue of concern, since Russia used its energy resources as a political leverage against Ukraine, Georgia, Lithuania, and Czech Republic by disrupting supplies and pushing out Western companies from the extraction of Russia's energy resources.
 - 14 For example, Vilnius has been hosting the European Humanities University, which has been expelled from Belarus, since 2005.
 - 15 In 2006, Slovenia got its euro go-ahead but Lithuania's inflation was considered too high (FT.com, 2006).
 - 16 They argued that the countries which had introduced the euro earlier (like Greece) did not then qualify for the European currency criteria. Moreover, a series of EU member states have been breaching Maastricht criteria, especially in the field of budget deficit, for years without any sanctions from the EU institutions.
 - 17 The leader of the Order and Justice Party has reiterated that the euro is not a goal *per se* and that 'Lithuanian people cannot be sacrificed for the sake of arithmetic [of narrow budget deficit]' (tvarka.lt, 2010).
 - 18 Since 1990, the EU-15 has reduced its emissions by 1.5 per cent.
 - 19 FDI comprised 33.2 per cent of GDP in 2005, 34.9 per cent in 2006, 36 per cent in 2007, 28.7 per cent in 2008 and 36.8 per cent in 2009.
 - 20 According to the Statistical Office, 155 000 persons emigrated from Lithuania between 2005 and October 2010; 3.25 million people were living in Lithuania by December 2010.
 - 21 The agricultural sector employs 14 per cent of the labour force, industry, 29.1 per cent and services, 56.9 per cent.
 - 22 Eurobarometer reports that in Autumn 2009, 55 per cent of Lithuanians were satisfied with their current situation, yet the feeling that the economic situation will worsen increased from 47 per cent to 55 per cent. Lithuanians have become the greatest pessimists in the European Union both in terms of their national economy and of their households' financial perspectives (Eurobarometer, 2009).
 - 23 Lithuania, in turn, paid into the EU budget 119 million euros in 2004, 214 million euros in 2005, 241 million euros in 2006, 269 million euros in 2007, 333 million euros in 2008 and 313 million euros in 2009, and intends to allocate 298 million euros in 2010 (Ministry of Finance, 2011).

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7 Latvia

Žaneta Ozoliņa

Introduction

A few weeks before the referendum on Latvia's accession to the European Union in August 2003, a clip appeared on television inviting potential voters to reflect on the possible consequences for the development of the country and its society. One door after another slammed shut before the viewers' eyes and after a few seconds a voice announced: 'That was for all those who want to be left behind closed doors. The rest of you may enter!'. Ten years after 'entering' those doors that TV clip invites various associations and conjures up several metaphors. In 1919, at the end of World War II, Latvia opened its doors to independence. Twenty years later Latvia had become a European country, not just in geographic terms but also from an economic, political and democratic point of view. Three occupations – by the USSR in 1940, Nazi Germany in 1941 and the repeated Soviet occupation in 1945, closed the door on Europe and on Latvia's sovereign development, subjecting the country's economic, political and social dimension to the logic of totalitarianism and the Cold War. With the collapse of the USSR the further process of events was very clear to the people of the Baltic States – the choice of opening the door to Europe again through the recovery of total independence and the adoption of democratic values.

It may seem that this historical digression has taken the reader a long way from the theme of EU integration, but to a large extent Latvia's path to the European Union and to becoming a member of this entity is based on conceptions and motives informed by the logic of historical development, which conceal the causes of the country's ambivalent attitude towards the European Union. From the very first days of independence Latvia's government has had a pro-European stance. Along with the first official documents signed after the renewal of independence on 4 May 1990 politicians and society began a discussion on Latvia's return to the transatlantic space without expressing official aspirations to join the European Union and NATO. Only after the departure of the Russian military forces in 1994 did the first strategic document appear, defining Latvia's foreign policy and strategic goal as membership of the European Union and NATO (Ministry of Foreign Affairs, 1995).

Latvia began to take practical steps towards the fulfilment of the Copenhagen criteria at the same time as Estonia and Lithuania. However, only Estonia was invited to commence talks on accession in 1998. Latvia was mainly hindered by

the slow pace of implementation of the Citizenship Law and the large number of non-citizens in the country. Secondary factors included insufficient anchorage in the market economy, establishment of democratic institutions, public administration capacity and high risk of corruption. The European Union did not consider the cooperation and mutual coordination that existed among the Baltic States as factors significant enough to allow all three states to be treated as a unit. This created a certain amount of confusion and discontent amongst the political elite in Latvia and Lithuania. Very soon this transformed into healthy competition among the three states and national mobilisation for the acceleration of the Europeanisation process. An increasing number felt the European Union did not fully appreciate the efforts taken to achieve integration into the organisation's political, economic and social structures and, consequently, a view that the European Union did not understand or adequately appreciate Latvia's interests took root in society (Sīmane, 2003: 111–114).

Heavily influenced by the country's history, Latvia's integration into the European Union can be characterised as a kind of love–hate relationship. On the one hand, the European Union is composed of democratic states that served as a role model both during the years of occupation and after the renewal of independence. This is also why the conditionality imposed by the European Union was accepted not only by the political elite, but also by a large segment of society, as a rule of the game and as a key to the irreversibility of independence. On the other hand, among sceptics this conditionality raised the question of national sovereignty and the extent to which it could be maintained within the framework of the European Union. These opposing views created a certain amount of ambivalence towards the European Union, which in turn provided fertile ground for the Euroscepticism that still remains a Latvian trademark. It is not without reason that the expression that Latvia's fate used to be decided in Moscow, but is now decided in Brussels, appears in the media when one or other unpopular directive has to be implemented.

Following accession to the European Union, various indicators demonstrated signs of rapid upward growth for Latvia. The country had the most rapid gross domestic product (GDP) growth rates (12 per cent), amongst the most significant increases in salaries (in some sectors they doubled or even tripled compared with the years immediately prior to accession). It is possible that the content, and context of this chapter would be very different if the world, the European Union and Latvia had not been hit by the global financial and economic crisis, for which, unfortunately, both the political elite and society were poorly equipped and unprepared to deal with. Thus Latvia went from being a success story to being at the bottom of various indexes. This has undoubtedly left its mark on society's attitude towards the European Union, because it raises the question of whether or not membership has restricted the country's room for manoeuvre during times of crisis.

The various levels of Europeanisation make the analysis of Latvia's EU membership all the more topical, because in truth this chapter is about the evaluation of a new experience. The transition from a totalitarian regime to a democratic one, combined with the limited experience of being an independent and EU member state, has complicated efforts to overcome the economic crisis triggered in

2008. Throughout the subsequent sections we will examine the role of the European Union in coping with Latvia's complexities.

Political developments

Changes in Latvia's political landscape took place immediately after the renewal of independence as part of the transition to democracy. In order to understand post-accession trends it is important to remember that the political system in Latvia had to be created almost from scratch. The majority of political administration structures used to be an integral part of the Soviet administrative machinery. Thus they were neither transformable nor adoptable to the needs of a new independent state. New institutional patterns working according to the democratic norms and Western standards needed to be developed. Latvia chose to base its political system on the 1922 Constitution, which is still in force and has been amended by only a few corrections that concern procedures for the ratification of international agreements.¹ When it came to the formation of all the other elements of the political system, including the legal structures, political parties and democratic institutions (such as civil society, free, fair and regular elections, enforcement of fundamental freedoms) EU member state systems, in particular those of Northern Europe, were chosen as models.

The rule of law and the judiciary have gained in strength since accession to the European Union, but there are still some examples that make one wonder what would have happened if Latvia were not a member state. In 2006, for example, the parliament and the ruling coalition proposed amendments to the National Security Law, which opened up the possibility for a wider circle of people, not connected with security issues, to influence decisions of strategic importance for Latvia.² Despite widespread internal and external criticism, including some from Latvia's allies, the amendments to the law were approved. However, the balance of power existent in Latvia's political system meant that on 10 March 2007, for the first time in the history of Latvia, the President, Vaira Vīķe-Freiberga, took advantage of paragraph 27 of the Constitution, and refused to proclaim the amendments and started procedures for a national referendum. European Union and NATO partners played a significant role in this matter, emphasising that the amendments could have an effect on the flow of confidential information and that restrictions could be imposed on Latvia. The President's position and pressure from the allies resulted in the withdrawal of the amendments to the above-mentioned law.

The independence of the judiciary is ensured by the Constitution and a succession of laws. However, financial dependence on parliamentary decisions remains. Guaranteeing independence of the judiciary was part of the debate on the necessity for reducing the national budget in 2009, which radically reduced the salaries of judges and public prosecutors. The decision was followed by a wide discussion composed of two main arguments. One was that members of the judiciary are part of society and should be treated in the same way as everyone else, and the other that the reduction of salaries is a means of putting pressure on the judiciary's independence by the parliament. In 2010 the constitutional court overturned the

decision and voted in favour of the judges. Trust in the judiciary is noticeably higher than for other branches of power. According to the Eurobarometer 26 per cent of inhabitants have confidence in the judiciary and 64 per cent do not (in the EU-27, 51 per cent have no confidence) (ECCDG, 2009a). Although there are signs of consolidation of the judiciary in the Latvian political system and society's trust is increasing, as the expert on international and European Law, Arturs Kučs (2007), notes, '... the attitude towards observing the principle of the rule of law is formal. It is manifested in attempts to adopt legal acts which would considerably advance the interests of certain groups of persons'.³

The political party system had to be created from scratch and the specific features of its development have left their mark on activities following accession to the European Union. For example, the large number of parties and their unclear ideological positions make it difficult for voters to make their choice. Enterprise Register data for 2010 indicates the existence of 57 parties (Register of Enterprises, 2010). Party fragmentation tends to create problems for the work of the parliament and the government, because traditionally a broad coalition has to be formed, making it difficult to reach agreements on important issues concerning national development. Towards the end of 2009 and the beginning of 2010, in preparation for the tenth parliamentary elections, a new trend began to appear – party consolidation. *Tautas Saskaņas partija* (TSP, The People's Harmony Party), *Jaunais Centrs* (JC, New Centre), *Latvijas Sociālistiskā partija* (LSP, Socialist Party of Latvia) and *Daugavpils pilsētas partija* (DPP, Daugavpils City Party) joined forces under *Saskaņas Centrs* (SC, Harmony Centre), which declared itself a socially oriented and responsible political force, standing in particular for inter-ethnic harmony. Another example is *Vienotība* (V, Unity), which has united parties claiming to be in opposition to the traditions established in the political system by the so-called oligarch parties. These are *Jaunais Laiks* (JL, New Era), *Pilsoniskā savienība* (PS, Civil Union) and *Sabiedrība citai politikai* (SCP, Society for Different Politics). In general, the trend towards consolidation can be looked upon as an indicator of maturity, because politicians have begun to think beyond the four-year political cycle rather than putting their hopes on the creation of new parties or the role of political leaders in the elections.

One of the characteristics of the Latvian political spectrum, which, unfortunately, indicates a different trend to that of other EU countries, is the small number of party members, making parties more like exclusive clubs rather than genuine platforms for the expression and implementation of the ideas of specific interest groups.⁴ In reality, political parties represent the interests of separate individuals and their 'buddies' as opposed to the interests of society. As a result, election campaigns are more a battle between PR companies than programmes and ideas. A significant number of undecided voters, characterised by the sociologist Aigars Freimanis as '45 per cent of malleable voters', will be won over to one or other party by these campaigns (Freimanis, 2010: 3). The small number of party members and parties geared towards individual personalities reflect society's low level of participation in politics and distrust in parties. According to the latest Eurobarometer results only two per cent of respondents in Latvia trust

political parties and 95 per cent express their distrust, which is the lowest indicator in the European Union (in the EU-27, 79 per cent distrust and 16 per cent trust parties) (ECCDG, 2009a).

The classic division of left- and right-wing parties is replaced in Latvia by the ethnic cleavage of Latvian and Eastern Slavic parties. Research shows that voting in Latvia to date has taken place according to the ethnic profile of parties. *Saskaņas Centrs* consolidated several parties representing the Russian electorate and as a result achieved a majority in the Riga City Council elections and the second biggest fraction in the 2010 parliamentary elections. The only party currently claiming to have overcome the ethnic division is *Latvijas Pirmā Partija/Latvijas Ceļš* (LPP/LC, Latvia's First Party/Latvia's Way).

EU matters occupy a very low profile on the agendas of Latvian political parties, in particular with regard to election campaigns. As in other member states, this is also because questions of EU integration are second-order for Latvia's inhabitants in national elections. The other reason is the contradiction between society's Eurosceptical mood, which political parties do not wish to provoke, and the realisation that after the elections politicians will have to take pro-European decisions. The question could be asked why, taking into account the Eurosceptical mood, is there no relevant Eurosceptical political party, or why do none of the existing parties try to cater to this constituency? The answer can be found in an event that took place in 1995, when, on the initiative of the then President, Guntis Ulmanis, parties elected to parliament signed a declaration supporting the nation's progression towards the European Union. By doing this, the President reduced the desire of political parties to play with matters concerning Latvia's long-term development in election battles and as part of the political process. In fact all the major parties have positioned themselves as supporting EU integration. Over the last few years there have been some attempts to take advantage of the Eurosceptical, Europessimistic or Eurorealistic mood of inhabitants to obtain more votes or get into parliament, but without success. One of the most vivid attempts to develop a Eurosceptic party was the *Brīvības partija* (BP, Freedom Party) before the eighth parliamentary elections in 2002. The entire election campaign was based on warnings about the negative consequences of EU membership. However, the party gained the support of just 2,075 voters, or 0.3 per cent of votes (CECL, 2002).

European Parliament (EP) elections provided the first real opportunity for Latvian citizens to send their representatives as members of the European Parliament (MEPs) as an EU member state, as well as the first occasion for political parties to express their attitudes towards European Union level political processes. The elections took place just one month after accession, on 12 June 2004, and the level of participation was relatively low – 41.34 per cent. The voter behaviour model in Latvia corresponded more to that of Old Europe and the European Union's North European neighbours, the Finns, Danes and Swedes (Euractiv, 2004). In Latvia's case, where voter activity is generally high (on average 67 per cent), the level of participation was interpreted as symptomatic of a lack of interest and faith by inhabitants that the EP could change the domestic political situation in the country, as well as a lack of comprehension of the EP's activities.

The elected MEPs drew attention to the responsible choice of voters, sending competent and experienced politicians to the EP. The nine Latvian MEPs included a former Prime Minister (Guntars Krasts), two former Foreign Ministers (Georgs Andrejevs, Rihards Pīks) and four other experienced ministers (Roberts Zīle, Inese Vaidere, Ģirts Valdis Kristovskis and Valdis Dombrovskis). The largest number of votes went to the *Tēvzemei un Brīvībai/Latvijas Nacionālās Neatkarības Kustība* (TB/LNNK, For Fatherland and Freedom/National Independence Movement of Latvia), which had relatively low ratings at the time (they were number seven in party ratings with just 5.5 per cent support) (MPORC SKDS, 2004), but as a result received four MEP mandates.

On the other hand, JL who were leaders in party ratings with 15.2 per cent support received just two MEP mandates and the *Zaļo un Zemnieku savienība* (ZZS, Union of Farmers and Greens), with 9.8 per cent support, received none (MPORC SKDS, 2004). Success was guaranteed by individual candidate involvement in the EU integration process, during which the successful candidates had been acknowledged as experts on European affairs. In fact, voting did not take place according to the principle of party affiliation, but according to the competence of specific candidates.

A similar trend also appeared at the following EP elections, which took place on 6 June 2009, although there was a greater level of participation (53.69 per cent).⁵ This can be explained by the fact that two elections, EP and local council, were organised at the same time. During these elections voters also gave preference to specific candidates rather than party popularity. Voters again chose candidates experienced in EU matters and the political field – Sandra Kalniete and Inese Vaidere (re-elected) from the PS, Alfrēds Rubiks and Aleksandrs Mirskis from SC, Tatjana Ždanoka (re-elected) from *Par cilvēka tiesībām vienotā Latvijā* (PCTVL, Human Rights in a United Latvia), Ivars Godmanis (LPP/LC ex-Prime Minister who had to tackle the first anti-crisis policies and became unpopular as a political leader, but was still elected for his experience in financial and economic matters). TB/LNNK, who could previously pride themselves with four seats, only obtained one MEP mandate – Roberts Zīle (re-elected). JL, one of the most popular parties at the time received one mandate for Krišjānis Kariņš.

The election of experienced politicians to the EP has meant that in Latvia's case its activities can be characterised by a string of successes. Latvia's representatives have taken top positions, which has promoted active involvement in the decision-making process. For example, Guntars Krasts had been Deputy Chair of the Committee on Economic and Monetary Affairs and Ģirts Valdis Kristovskis has held a similar seat on the Subcommittee on Security and Defence. Aldis Kušķis has been Deputy Chair for the Delegation for Relations with Belarus and Inese Vaidere has had a similar post on the Delegation for the European and Latin American Parliamentary Assembly. Latvia's deputies have had leading positions in various political groups; for example, Roberts Zīle was one of the Deputy Chairs of the 'Union for Europe of the Nations' and Georgs Andrejevs has been a member of the Executive Council of the 'Union of European Liberals and Democrats'. Ģirts Valdis Kristovskis was one of the Baltic Europe Intergroup

members who drafted the document 'Europe's Strategy for the Baltic Sea Region', which, in October 2009, became the 'EU Strategy for the Baltic Sea Region'. Even Tatjana Ždanoka, who was elected as a defender of the rights of the Russian minority and for the first few years actively took part in various campaigns aimed at the discrediting of the Latvian government's integration policies, gradually developed expertise in human rights matters and has worked on the preparation of several reports.

The question as to how high-level officials should be nominated for work in EU (and national) institutions periodically becomes an object of discussion in the Latvian media. One of the most important questions concerns the criteria for candidate selection and nomination, which is high on the agenda because of society's distrust of the political elite and the tradition of the distribution of political positions established in Latvia. In 2004, when Latvia had to announce its candidate for European Commissioner, the EU practice of candidates being nominated by the government and its leader created discontent, because, as mentioned earlier, the choice was disputable, the process non-transparent and not publicly discussed. The ruling coalition of the time did not even attempt to explain or initiate discussion about the principles of candidate nomination and approval, which not only created distrust in the candidate, but also increased distrust in political parties and democratic values and principles. There were no significant objections to the second candidate, Andris Piebalgs, because his previous experience in EU affairs (from 1998 to 2003 he was Latvia's ambassador to the European Union, was Head of the Office of the Acting Commissioner Sandra Kalniete, and during his time as Deputy State Secretary was responsible for relations with the European Union) and specific achievements left no doubt as to his professionalism. As a result, with his European Commissioner for Energy position, which became one of the most important posts in the European Union after 2006, Andris Piebalgs gained the reputation of an international level politician. The fact that since 2009 he has held the responsible and complex position of Commissioner for Development can be considered as approval of his previous activities. Moreover, his nomination for a second term did not create any debate on the domestic front.

In Latvia the debate on the democracy of the nomination of candidates continued in 2010 when, following the coming into force of the Lisbon Treaty, a European Council President and Minister for Foreign Affairs had to be chosen. The way in which EU member states and top level politicians managed the process was in contradiction to the very spirit expressed in the Treaty. It was not transparent, did not involve society, and no explanations were given about the motivation behind the choices and the process. This question received a great deal of media attention, because one of the candidates was the former President of Latvia, Vaira Vīķe-Freiberga, who had won international authority leading the country into the European Union and NATO, and for more than two years was directly involved in European level political debates and the definition of the direction of Europe's future as part of Manuel Barroso's specially established Reflection Group on the Future of Europe. Even though the chances of being approved for the position were slim, the discussion process itself had several side-effects. The lack of

democracy in the choice of candidates was highlighted, the matter of gender equality raised, as this is still observed in a purely formal and inconsistent way, new member states rallied round in support of Viķe-Freiberga, and a national level debate was initiated on EU governance and matters concerning the Lisbon Treaty.

In the field of international relations EU membership has brought a few new trends, but for the most part the same foreign policy priorities are on the agenda. As far as new trends are concerned, they generally concern foreign policy goals. Up to 2004 Latvia had one specific mega-goal, EU and NATO membership, and all resources were subject to this goal. As a result foreign affairs were managed in an atmosphere of high standards and exclusiveness. After accession a certain amount of confusion set in, because foreign affairs in normal conditions were something unknown. The other main challenge was the formulation of a position towards the European Union, because until 2004 the European Union meant foreign affairs, but as a member state it is practically impossible to separate EU matters from domestic affairs. The third challenge was connected with the Common Foreign and Security Policy (CFSP). The tendency was to rely on one or other unresolved question being transferred to EU level, but then it turned out that the CFSP is much more complex than at first seemed. And finally, membership in the European Union exposed those areas that required new priorities. Taking into account the experience and know-how Latvia had accumulated during the transition period, the government opted for the European Neighbourhood Policy as one of its priorities within the framework of the European Union. It was intended to lend a helping hand primarily to the countries previously sharing Soviet experiences with Latvia but now looking at the Baltic States as the role model, such as Georgia, Moldova and Ukraine. Policy documents, as well as members of political and academic circles, saw Latvia's contribution to the development of democracy in these countries taking the form of assistance in civil society building, strengthening the non-governmental sector, and the formation of governance structures, as well as the development of judicial institutions. Continuing policies include Baltic state cooperation, which is becoming increasingly important in coordinating EU issues. Baltic and Nordic countries' cooperation has also taken on a new perspective – the NB6 (Nordic–Baltic Six, three Nordic and three Baltic EU member states, namely, Denmark, Finland, Sweden, Estonia, Latvia and Lithuania) format for the coordination of positions before voting. It has become an integral part of Latvia's EU politics; Latvia has taken part actively in consultation processes within this framework. Moreover, successful cooperation experience in the Baltic Sea region has been transformed into the EU Strategy for the Baltic Sea Region, Latvia is an ardent supporter of the preservation of transatlantic relations, and, thanks to the EU context, relations with Russia are evolving in a more pragmatic tone.

Overall, when it comes to quality of democracy Latvia still has a lot to do, as proven by various democracy indexes. According to the UK-based think-tank *Demos*, Latvia, with 17.2 points, has one of the lowest ratings amongst EU member states (Sweden has 51.7 and Denmark 50.7), leaving behind only Portugal, Lithuania, Poland and Romania (Skidmore and Bound, 2008). The *Economist*

Table 7.1 Latvia's economic sectors as a percentage of GDP, 1990–2010

Sector	1990	1999	2004	2005	2006	2007	2008	2009	2010
Agriculture, forestry and fishery	21.9	4.0	4.0	3.0	3.0	3	2	3	3
Industry	36.4	20.0	16.0	15.0	14.0	13	15	16	17
Construction	9.7	7.6	6.0	7.0	8.0	10	10	6	3
Services	32.0	68.4	74.0	75.0	75.0	74	74	75	77

Source: Central Bureau for Statistics of Latvia, 2010b.

Intelligence Unit Democracy Index places Latvia at 46 with 7.23 points and classifies the country as a flawed democracy (Economist Intelligence Unit, 2008). Eurobarometer results show that only 9 per cent of respondents trust their government and 88 per cent give it a negative rating (in the EU-27, 65 per cent do not trust their government). The situation with the parliament is even more critical, with 92 per cent having no trust in it (compared with 63 per cent in the EU-27) (ECCDG, 2009a). The answer to the general question of whether or not the European Union fulfilled its promise of increased democracy is, however, in the affirmative. That said, it should not be forgotten that democracy is not about what the European Union may bring as a Christmas present, but rather what society and political parties learn, absorb, and adopt.

Economic developments

Latvia's economic development as a whole cannot be taken out of the EU context, because ever since the first days of renewed independence the main aim was to overcome unilateral dependence on the former USSR market and be incorporated into economic relations with Europe and the Western world. Latvia's economic structure was reorganised in a relatively short period, reducing agriculture and industry and increasing the services sector (see Table 7.1). The agriculture, forestry and fishery sector shrank most rapidly in the period 1990–1999, and since then it has steadily occupied a relatively insignificant position in the overall economic structure. Industry also experienced a downfall, though more gradual, and signs of slight recovery have appeared after accession. The service sector, by contrast, has expanded dramatically during the last two decades, reaching a peak in 2010. By the time of enlargement, all sectors had stabilised their position in the economic structure, and have experienced only minor fluctuations since then. Construction, which appeared to be very sensitive to the first symptoms of economic crisis, is an exception, and decay in this vital part of the economy has not yet been overcome.

The 'opening' of Latvia's economic doors produced noticeable results. From 2004 to 2007 foreign investments in the Latvian economy were four times higher than in the period 2000–2003 (Ministry of Economics, 2009: 58). The injection of investments into the economy almost doubled. According to Eurostat, the average rate of growth of investments in this period surpassed the average rate of growth of investments in EU member states almost four times. In 2004 investments per

employee were 3,000 euros (30 per cent of the average EU level) and in 2007, 6,000 euros (50 per cent of the EU average) (ibid.: 16). Currently 80 per cent of direct foreign investment is composed of EU member states investments (Balticexport, 2010). The largest investors in Latvia are Estonia (21.1 per cent), Sweden (18 per cent), Denmark (9.4 per cent), Germany (8.8 per cent) and Russia (4.6 per cent) (Ministry of Economics, 2010).

As in politics, the field of economics is full of contradictions. On the one hand there is no doubt that the European Union is one of the world's largest and most influential economic structures, which gave society hope that Latvia would be able to reach average EU indicators in a relatively short time. These hopes were strengthened by the flow of EU financing into the economy. From 2004 to 2006 the total available funding for Latvia in the framework of structural fund programmes was 625 million LVL (about 881.6 million euros) (Ministry of Economics, 2009: 77). Available funding from cohesion funds in the period 2000–2006 amounted to 710 million euros. By March 2009, project implementers had received a total of 474.9 million euros (66.8 per cent from CF funding) (ibid.: 78).

On the other hand, the Eurosceptic opinion that Latvia's economy is comparatively small, unstable and uncompetitive on an EU level, and that this will result in a takeover by foreign companies squeezing out local businesses and a sharp rise in prices was fairly widespread.⁶ It is very difficult to confirm or refute the truth in these assumptions, because Latvia's economic development trends and perspectives have been heavily affected by the global financial and economic crisis, as well as the country's own inability to react to external pressures and apply appropriate policies. Latvia went from being a 'success story' in the transition from state socialism to democracy and a free market economy, to being the country most hit by the crisis. Latvia has not had the opportunity to go through the 'normality' of EU integration, because four years after accession life under a 'crisis regime' began. However, Latvia can hopefully become a 'success story' again. This might come to pass with EU and other financial institution support, as well as strict and consistent government policies. If Latvia is to emerge from crisis, these policies must include developing an economic model that supports competitiveness, productivity and the allocation of state support to priority areas (those contributing to the growth in added value and exports, as well as those bearing potential for growth).

What made Latvia so vulnerable to global financial and economic fluctuations? The answer lies in both external and internal factors. The country's progression towards the European Union and NATO over ten years made it attractive to foreign investments, loans became available through banks, and the European Union offered significant resources for the implementation of various projects, all of which served as catalysts for rapid development. One of the criteria for reaching the average levels of EU indicators began to be fulfilled. If in 1999, when Latvia was invited to start talks on joining the European Union, the country had reached 39 per cent of the average EU-15 GDP per capita in purchasing power standards (PPS), then in 2004 this figure was already 46 per cent and in 2008 it reached its highest level at 57 per cent. In just a few years the growth of the GDP reached the highest level in the European Union, which in 2006 was nearly 12 per cent.

However, in 2009 the figure fell to 49 per cent and corresponded to the pre-accession period (Eurostat, 2009).

Unfortunately, little attention was paid to other important indicators, which signalled an over-heating of the economy and potentially negative consequences. These were a rapidly increasing inflation (4.0 per cent in 1999, 3.2 per cent in 2004, 6.5 per cent in 2007, 10.8 per cent in 2008, 14.7 per cent in 2009, and 2.2 per cent in 2010) (CBSL, 2010c), and a growing domestic consumption, fuelled by imports that contributed to a growing current account deficit, which in 2007 was 22.5 per cent of the GDP (about five billion LVL) (Bank of Latvia, 2009: 19). However, in 2009 the reduction of domestic consumption forced the government to initiate measures of export stimulation and for the first time since the renewal of independence the current account deficit was positive. It must be noted that this export is mostly directed to EU member states and not to Russia, whose market is sometimes cited as the one that will save Latvia from the economic crisis. Latvia's most significant partners have become Denmark, Germany, Lithuania, the Netherlands and Poland. In 2010, exports grew by 12 per cent compared with 2009 (CBSL, 2010d).

Changes in the creation of added value by types of activity indicated a disproportionately high increase in the growth of real estate transactions (from 13.7 per cent in 2003 to 20 per cent in 2009) (CBSL, 2010b). The rapid increase in salaries was not accompanied by an increase in productivity (Bank of Latvia, 2011). High levels of economic growth unfortunately created a feeling of eternal euphoria and budget planning was based on the average growth indicator of 6 per cent per year, not anticipating any savings and increasing public spending. In fact, Latvia greeted the 2008 global downfall completely unprepared, with no reserves and a string of domestic problems.

One of the important factors that affected the national financial situation was the financial difficulties of the second largest bank, the *Parex* bank⁷ and the government's decision to take over its management and debts. Given the rapid fall in economic growth, government funds injection in the salvation of the *Parex* bank, the increasing pressure of the burden of a growing budget deficit, concerns about social tensions, and the dwindling financial resources available to the government, Latvia was forced to seek support from international institutions, including the European Commission (EC) at the end of 2008. Agreement was reached that Latvia would have access to a loan of 7.5 billion euros from the EC, IMF, World Bank, and various EU member states. The largest portion, 3.1 billion euros, is from the EC.⁸ Six years after accession to the European Union, Latvia has thus returned to a position of conditionality. Regular cooperation takes place amongst international lenders and the loan is granted incrementally, following the evaluation of the implementation of agreement terms. The allocation of the loan has disciplined the government and forced it to return to recommendations made long ago concerning unpopular and therefore unimplemented decisions, such as budget consolidation and optimisation of the school network and the civil service, including an audit of functions and a decrease in the number of employees. Such steps were necessary from the perspective of the state's long-term interests, in

order to maintain the macroeconomic stability of the country and ensure an efficient functioning of the relevant sectors.⁹

As a result of the economic and financial difficulties, the introduction of the euro has been postponed until 2014. The anti-crisis measures implemented by the government were reflected in the decrease in inflation and the progress towards a non-deficit budget, and therefore make reaching this goal seem attainable. But if the political elite and the business sector are united in a positive attitude towards the euro, public opinion is not so unequivocal. According to the *Flash Eurobarometer* half (51 per cent) of Latvia's inhabitants think that the euro will not bring any economic benefit to the country, and 44 per cent would like the European single currency to be introduced as late as possible (ECCDG, 2009b). Only 36 per cent of Latvia's inhabitants consider the introduction of the euro a good thing for the country. It is significant that the increase (8 per cent) in the negative rating of the euro in the space of a year was the second fastest increase registered in the new EU member states, just behind the Czech Republic. This has occurred in part due to the worsening of the general economic climate during the last two years. There is also a high level of concern within society regarding the extra expenditure Latvia will be required to invest in processes connected with a transition to the euro (ECCDG, 2009b).

One of the economic sectors around which intense debate has taken place regarding the role of the European Union is agriculture. The debates have gone through various cycles of development. Before accession the leading theme was linked with the possible eradication of this sector, brought about by low competitiveness and insufficient financing. This sector really did suffer from the transition, because by 1999 animal production had decreased by 66 per cent and crop production by 32 per cent (CBSL, 2010a). The stringent sanitary, hygienic and quality requirements demanded additional expenses, which were too much for the small farms that constituted roughly 85 per cent of the total number of farms in Latvia. However, with the introduction of SAPARD (Special Accession Programme for Agriculture and Rural Development) and other funding for rural and agricultural development, farmer support for the European Union increased and consolidation and modernisation of the sector commenced. Following accession the debates began a new cycle, assessing decisions already taken and predicting future progression. Latvia continues to receive financing and, according to data from 2004 to 2008, it received 907.4 million euros from the Common Agricultural Policy (CAP) (ECARDDG, 2009), which is particularly important in times of crisis when national support decreases. Despite the fact that the period after accession to the European Union marked the beginning of a steady increase in national expenditure for agriculture, discontent with inequalities in the distribution of EU funds remains. Latvia receives the lowest direct payments for land used for farming. In comparison with countries with the highest indicators, such as Greece (441 million euros), the Netherlands (405 million euros) and Belgium (380 million euros),¹⁰ Latvia receives just 63 million euros.¹¹

The European Union never promised to increase prosperity, but it did pledge to provide the legal framework, knowledge and financial resources for modernising national economies and constructing them in accordance with the requirements of the club of countries Latvia had intended to join. In many respects Latvia is on the

right path. Its economic structure, for example, corresponds to the model of post-modern states, marked by a growing emphasis on interventionist measures in economic and financial policy, which anticipate security based on transparency, mutual openness, interdependence and mutual vulnerability, as well as seeking export stability and being open to investment and growth. However, investment in a knowledge-based and technology-intensive economy has not taken place sufficiently. Agriculture is on the way to modernisation, but has to face a very difficult choice – farming as a component of national identity or agriculture as a competitive business. Even if during times of crisis it is difficult to evaluate certain EU promises, they certainly contributed to the feeling of security and provided the basis for the belief that when the current economic crisis is over, steady recovery will take place.

Social developments

Social integration was one of the key issues before enlargement and many problems in this field still remain unresolved, although they have been acknowledged in various documents of policy planning, thus still identifying it as a priority. As already mentioned, Latvia is a unique state in many respects, and one of its distinguishing factors is its ethnic composition, resulting from decades of Soviet occupation. Over the last 60 to 70 years dramatic shifts have taken place with long-term consequences. In 1935, 75.4 per cent of the population belonged to the indigenous Latvian ethnic group, but in 1989 this figure has decreased to 52 per cent. On the other hand, during the same period, the East Slavic population increased from 13 per cent to 42 per cent. Transformations in the ethnic composition have left a deep mark on the use of the Latvian language, way of life, and the place and role of national culture in the life of society.

Following the restoration of independence, given the large number of non-Latvians in the country one of the main concerns was the legal alignment of citizenship status. Latvian citizenship was attributed to all Latvian inhabitants who were born in Latvia up to 1940 and their descendants. Those inhabitants that entered Latvia later, after occupation, were granted the possibility of becoming citizens through naturalisation, as determined in the 1994 Citizenship Law.

Issues such as ethnic integration and citizenship rights were high on the EU integration agenda. On a wider scale, this is a matter of social inclusion and respect for democratic principles. Even though the Copenhagen criteria for accession were not directly related to these themes, the European Union was concerned about the legal status of 670,478 people (about 27.2 per cent of total population) in 1996, because EU legal enactments do not provide for non-citizens, and had the potential to create difficulties with issues such as the free movement of workers, border crossing, and so on. This is why the European Union, alongside the Organization for Security and Cooperation in Europe (OSCE) and the United Nations (UN), supported a number of projects stimulating the integration of society and providing motivation for the acquisition of citizenship.

While at the beginning of the 1990s one-third of inhabitants were non-citizens, in 2010, out of 2.3 million inhabitants 344,095 were non-citizens (15.6 per cent of total

population) and 50,341 (2.2 per cent) citizens of other countries, of which 31,590 (1.4 per cent) were Russian citizens. The pace of naturalisation has been relatively slow: since 1995, when naturalisation began, 132,870 people have become citizens. The largest number of applications (21,000) was in 2004, due to Latvia's new status as an EU member state and the motivation of non-citizens to become EU citizens. After that the number of applications gradually began to drop again. In 2008, for example, 2,600 people applied for citizenship, and in 2009, 3,470 (OCMAL, 2009). One of the main reasons for the decrease in numbers is that since 2006 Latvia's non-citizens can travel within the European Union without visas, enjoying the same privileges as EU citizens. At the same time, maintaining their non-citizen passports means they receive preferential treatment when it comes to travelling to Russia.

One of the unresolved questions concerns the right of non-citizens to vote in local elections. Non-citizens denied this right have argued that as they have spent much, if not all, of their lives in Latvia they should be allowed to voice their political will while still remaining non-citizens, a right that does not apply to citizens of other EU member states. This question periodically appears on the agenda, only to be withdrawn again, as the ruling coalition fails to come to a consensus on the matter because of the ethnic division of parties.

Human migration, whether it is within the European Union or beyond is a sensitive subject in Latvian politics and society, rooted in the Kremlin-sponsored flood of workers into Latvia after the end of World War II.¹² This negative experience that has threatened the existence of the indigenous population has resulted in a cautious attitude towards the terms 'mobility' and 'free movement of labour', because they are perceived as shielding potential threats to the national identity, stability of the labour market and independence. Accordingly, the inhabitants of Latvia generally expressed negative attitudes in research carried out before accession. In 2002, for example, a survey on perceptions of security in Latvia suggested that a considerable amount of fear is caused not by domestic threats to security but are connected to processes from abroad. Over two-thirds (67 per cent) feared that foreigners would buy up land in Latvia, 70 per cent that foreign manufacturers would squeeze out locals, 58 per cent feared an influx of refugees to the country, and 64 per cent feared that Latvian producers might lose their market share in other countries (Sīmane, 2003: 25). A similar trend was confirmed by a 2001 European Commission survey, which indicated that amongst the five biggest post-accession threats perceived by Latvians was an influx of guest workers (European Commission, 2001). On the other hand, when the European Commission came out with proposals to restrict the movement of workers from the new member states, this was perceived as discrimination towards Latvia, a manifestation of an unequal attitude, lack of solidarity and the establishment of a second-class country status. In other words, the inhabitants and the political elite of Latvia do not hold a consistent stance towards EU policies so far as migrants and migration are concerned.

However, the reality concerning migration Latvia had to face was quite different to previous predictions. An unexpected challenge was the revelation that the number of Latvian inhabitants leaving for Ireland and the United Kingdom was increasing at a rapid pace. In the beginning the reaction to this phenomenon was to

consider it a short-term occurrence to do with people's desire to earn higher salaries. Previous enlargements had demonstrated similar trends. This is why the political elite and society were of the opinion that once the standard of living improved in Latvia people would return, because, as shown by various surveys, national identity and a sense of belonging are more important than material values. By the eve of 2006, it was clear that this was no temporary problem and that it entailed several far-reaching consequences. First, the sheer number of migrants was alarming. According to official data, 50,000 people had left the country during the previous year, including 20,000 to Ireland (LCSA, 2007: 14). According to unofficial figures, between 80,000 and 100,000 people (between 3.5 and 4.35 per cent of the total population) have left the country since 2004. During the most active periods the numbers reached 600 people a month. To put these figures into perspective, Latvia's smallest town has 400 inhabitants. Second, the rapid economic growth coupled with migration figures gave grounds to justified anxieties about an imminent lack of a labour force. Third, the departure of inhabitants created a string of social problems; for example, families were left behind, the number of children not attending school increased, etc. Fourth, as it turned out, the return to Latvia was not happening as expected and despite individual cases, the trend is far from consistent.

As a result, following accession to the European Union, Latvia had to develop a new policy, not for the development of relations with Latvians exiled after World War II, but with migrants of a new generation. The latter's attitude towards events in Latvia is that of disinterest and even negative, because the country is held partially responsible for out-migration (*ibid.*: 14). Moreover, due to such sentiments among people leaving Latvia, the sense of belonging to the country vanishes, and the breakdown of their ethnicity is possible. The results of the research carried out by the Latvian Language Agency (2009) indicate that the threats to Latvian identity are real, as the migrants themselves admit. First and foremost, there are concerns about the prospects of the Latvian language being maintained abroad as its sociolinguistic functions wane. Being located in different linguistic environments, those who have left Latvia, naturally speak Latvian only within the family, and thus problems with syntax and lexicon arise as Latvian is brought more under the influence of the English language. The negative attitudes towards Latvia mentioned above hold parents back from teaching Latvian to their children, as many of them wish to break ties with the country, accommodate themselves to the new circumstances and integrate into their new communities as soon as possible (Latvian Language Agency, 2009). If around 2008 the number of people leaving the country had started to decrease, following the economic crisis it began to rise again. According to the Irish Ministry for Social and Family Affairs, in July 2010, 332 Latvian citizens were issued with personal public service numbers. Since the beginning of 2010, 1,977 citizens have received these numbers (DSFAI, 2010).

The concern that Latvia would be overtaken by hordes of immigrants has proved unfounded. Between 2002 and 2008, residence permits were issued to 8,474 people; 39 per cent of these were in order to reunite families, 20 per cent for employees and 14 per cent for employers (Zepa and Šūpule, 2009: 20–21). Most were from former Soviet countries (Russia, 3,299; Ukraine, 1,653; Belarus

852, Moldavia, 292; Uzbekistan, 171; Georgia, 143), and a small number from other Eastern countries (Turkey, 106; India, 121) (ibid.: 22). However, irrespective of the current situation, the workforce question will be on the agenda because of Latvia's negative demographic indicators. The birth rate coefficient¹³ is 1.45, resulting in a 0.4 per cent yearly population increase. The proportion of dependents is 33.8 per cent and that of old people (60 and above) is gradually growing, currently at 22.3 per cent (Rozenvalds and Ijabs, 2009: 207).

Latvia will enter EU history as the first new member state to lodge a complaint with the European Court of Justice (ECJ) about discrimination in the labour market. Latvia has in fact become an expression of the Europeanisation process in the opposite direction. Following accession the Latvian company *Laval* received a contract for providing construction services in Sweden. Swedish trade unions invited the company to sign a collective agreement based on Swedish regulations, which the company refused to follow, and in the end it became the target of the political actions of trade unions. A long string of political and legal actions followed and as a result it was declared that the Swedish position contradicted the principle of the free movement of services, as well as Directive 96/71/EC. In 2007, the ECJ decided that Swedish trade unions had violated the Community Law and that it is not permissible to demand a larger salary from a foreign company than the minimum wage, as a prerequisite for the provision of services. The ECJ agreed with Latvia's proposition to consider a collective agreement signed in one country as being binding in another EU member state (European Court of Justice, 2007).

The number of unemployed persons rose rapidly during the economic crisis, substantially increasing the level of poverty in Latvia. According to Ministry of Welfare data, in 2008, 26 per cent of Latvia's inhabitants were living under the poverty line (of 191 LVL, or 267 euros per month) (Ministry of Welfare, 2010) but according to Eurostat calculations, 60 per cent of the country's inhabitants are on the poverty risk line (Ministry of Welfare, 2010). However, this trend cannot be directly linked to consequences created by the European Union, because immediately after accession unemployment began to rapidly decrease and went from 8.6 per cent in 2003 to 4.9 per cent in 2007 due to constant economic growth, only to increase again to 16 per cent in 2009 (Bank of Latvia, 2004–2010). The European Union does have a significant role in providing a social cushion, as a great deal of the EU financial aid has prioritised poverty reduction programs. The practical measures taken include the distribution of food parcels to the needy, allocation of benefits, implementation of training courses and the support of micro and small businesses.

The ambivalent attitude towards various EU policies and processes mentioned several times in this chapter is reflected in public opinion. Latvia can be placed in the group of most Eurosceptic member states, alongside the United Kingdom. What are the reasons for this?¹⁴ Before Latvia joined the European Union, the EC carried out extensive research on Latvian people's values, system of beliefs and perceptions, as well as expectations (European Commission, 2001). One of the most significant conclusions was that on the scale of values people place national identity and independence at the top. On the other hand, amongst the greatest concerns were fear of the external environment and its influence on the country,

and worries about the possible domination by outside players and the restrictions they might place on domestic governance. The lack of conviction about the opportunities provided by membership of the European Union created another circle of fear. The report relates the concerns expressed by Latvia's inhabitants, as:

... consequences of the opening-up of the country with an economy that is regarded as very fragile, negative social and societal implications and ... loss of sovereignty through the inclusion of a very small and ill-equipped country in a powerful organisation that would de facto dictate how it acts. At the same time, at a rational level, they are aware that for the country to develop, in future, membership of the EU is inevitable. ... When they are invited to take a stand ... most appear to come down timidly in favour of membership. (European Commission, 2001)

Shortly before accession the ambivalent character of public opinion fully manifested itself. On the one hand, there was fear of the European Union and the ability to compete with the old member states, which contributed to a feeling of insecurity. On the other hand, inhabitants gave a positive rating for EU achievements in the fields of democracy and welfare. This dual attitude left its mark on the fluctuations of public opinion, which depend on government performance and the domestic issues on the agenda. As a result most inhabitants have a neutral approach to the European Union. Over the last ten years the figure has vacillated around 45 per cent for respondents with a neutral attitude, while those with a positive or a negative opinion have been split in equal parts. One of the lowest levels of support for the European Union was in November 2009, when survey results showed that only 23 per cent of inhabitants were positively disposed, 35 per cent negatively disposed and 38 per cent remained neutral (MPORC SKDS, 2009). It is significant that around this time the aggravation of the crisis had been arrested; in this case the negative attitude towards the European Union was a reflection of the negative assessment of the government.

The negative assessment of processes taking place in Latvia also influences the assessment of the country's membership in the European Union. At the beginning of 2009, asked whether EU membership was a good or a bad thing for Latvia only 23 per cent gave a positive response (EU-27, 53 per cent) and 24 per cent a negative one (EU-27, 15 per cent). In this respect only UK inhabitants, with 30 per cent, surpassed Latvians in their negative assessment. Amongst all member states Latvia demonstrated the highest negative opinion indicators regarding the benefits of membership; 55 per cent of respondents considered that they have not gained anything from membership. Moreover, 77 per cent of people in this category were of the opinion that the European Union did not take Latvia's interests into account. Only 37 per cent admitted to certain benefits that Latvia has gained thanks to the membership of the European Union (MPORC SKDS, 2009). If only 7 per cent (EU-27, 30 per cent) of inhabitants thought that the country is heading in the right direction, 79 per cent (EU-27, 47 per cent) said it was heading in the wrong direction (ECCDG, 2009a). However, despite the negative rating of

membership in the European Union, Latvia's inhabitants are more positive about the progression of the European Union itself, with 37 per cent marking it as positive (EU-27, 40 per cent) and only 25 per cent (EU-27, 28 per cent) as negative (ibid.).

Besides the attitudes inhabitants voice towards the European Union, its related processes and issues, attention also has to be paid to what people really do, how (if at all) their habits have changed after accession to the European Union, and how their sentiments manifest themselves through actions. Analysing the logic of phenomena in this respect, it is hard to identify a direct impact of EU membership. However, certain trends of the last two decades are worth mentioning.

Shortly after regaining independence, the features of consumerism became more and more manifest in society. The free flow of information and new possibilities to travel contributed to the spread of this general feature of Western societies to Latvia. The peak of this trend was reached during the years of rapid economic growth. What were previously merely fantastic desires were increasingly transformed into possibilities, as leasing and lending for consumption was made more and more available. However, at the same time (2005–2006) an opposite tendency was also observed; inhabitants sought to invest in their self-education and gain new individual experiences, for instance, by visiting foreign countries. More open travel, learning and study opportunities were also among the most valued benefits resulting from EU membership, as revealed by various public opinion polls (ECCDG, 2004). Instead of stressing 'citizenship of Europe' as in the years prior to accession, a more profound appreciation of Latvian culture also took place.

The quest for establishing the uniqueness of Latvia was undertaken at a national level by a plethora of projects and largely popularised through the media (brands of Latvia were highlighted; model Latvian citizens were praised in special campaigns). Latvians became increasingly interested in national traditions and values. What distinguishes these developments from the times of the 'singing revolution'¹⁵ is that nostalgia for icons of culture, music and art of the Soviet period, is also present. As the data of European Tendencies Network, DDB SignBank (2006) indicate, some elements of Soviet culture attract a large portion of the population not only because many grew up surrounded by it, but also because it was non-commercialised and thus more genuine than the contemporary (DDB SignBank, 2006).

On the crucial issue of cultural integration, it is noteworthy that, although on the political level tensions between Latvian and Russian communities exist and are maintained, this is generally not the case on the level of cultural consumption. This tendency manifests itself in the fact that 'Russian' seems to project a negative connotation to a lesser extent than it used to in the nineties when Latvian ethnographic, and later Western, culture dominated school curricula, as well as popular media and society as a whole. Again, this can be explained by the decline of euphoria stemming from the 'return to Europe' (DDB SignBank, 2006). On the other hand, EU membership and the return to Western cultural, as well as political and economic space, may have contributed to the formation of a comfort zone, with the result that the repudiation of things associated with Russia is not as emotionally or rationally necessary as during the immediate post-independence period.

In many respects Latvia's accession to the European Union has contributed to the establishment of a more just society. The judicial base has been put in order,¹⁶ international commitments are observed, inhabitants have greater access to the defence of their rights through specialised agencies,¹⁷ knowledge about the mechanisms for the defence of rights has grown, social inclusion has improved, and a significant rise in the accumulation and use of social capital has taken place. However, a string of problems still persist. The risk of poverty is high, especially for families with children, and the insufficient financing of social policies makes the implementation of specific measures and raising the level of welfare very difficult. Social questions have not become a priority on the political agenda. But it is difficult to draw conclusions regarding the post-integration period because of the economic downturn that Latvia has experienced, which has left the deepest mark on the social condition and welfare of society. This is why the social sector will become the key indicator of Latvia's recovery and development over the coming years.

Conclusion

The post-integration period in Latvia has resembled a roller coaster ride. From head-spinning growth rates, which ranked it in the category of the fastest growing economies, to a status characterised as the country most hit by the crisis and the most rapidly growing indicators of recession, Latvia is a country that has found itself at the highest and lowest points of various indexes during this period. Full integration into EU structures will only occur when the country reaches a state of normality, closer to the EU-27 average indicators.

Latvia's membership of the European Union was linked to the adoption of democratic values not only in the structure of the political system, but also in its functioning. Many of its elements actually demonstrate considerable progress, to use the jargon of EU institutions. Fields such as the rule of law and the judiciary show not just formal, but real improvements, and society's trust is reflected in opinion polls. Latvia's representation in EU institutions is notable and both officials and parliamentary deputies have been involved in the development of European level politics. Unfortunately, the tradition established by political parties of defending the interests of small groups or individuals has created a great deal of mistrust in the national parliament and government. This resulted in the decision made by the President of Latvia, Valdis Zatlers, to call an extraordinary election, which, on 2 June 2011, brought him defeat and resignation.

Despite the effects created by the global and local crisis Latvia's inclusion in the European Union has been successful and recovery from the crisis is stable thanks specifically to the opportunities provided by membership status. The national economy has achieved a stable structure, similar to those characteristic of open countries geared towards competitiveness. The progression towards the euro has disciplined the country's fiscal policy, which can only help stimulate economic development. The modernisation and concentration of agriculture is gradually consolidating, with the result that this sector has become a successful

source of exports. For the moment these examples are offered as proof of Latvia's transition from the intoxication of borrowing and spending to the path of economic stability. How successful this path will be depends on various factors, such as a rebound of the global crisis, whether or not the government will be capable of consistently honouring its economic and fiscal commitments, whether it will continue to take steps to support and promote business activities, whether the business environment will be favourable for entrepreneurship, and whether the economy will be focused on intensive, long-term activities.

Social developments remain complex in Latvia, particularly those concerning the ethnic composition of the population, migration and post-accession demographic issues. On the one hand, enhanced levels of inclusion and mobilisation can be observed along with the establishment of social networks. EU support of the preservation and development of Latvia's national culture and language are appreciated, and EU support for education and science cannot be overestimated, especially during times of crisis when financing is dramatically reduced at a national level. On the other hand, high levels of emigration, the drop in demographic indicators, unbalanced regional development,¹⁸ high risk of poverty, and the low profile of social policies on the agendas of political parties leave Latvia exposed to a wide range of economic and social risks.

One of the key threads of this chapter, which characterises Latvia's attitude towards the post-integration period, is ambivalence, which, in turn, puts society in an 'in-between' position. The footprints left by history frame the understanding of the European Union and its integration policy, sometimes allowing negative attitudes to dominate. Concerns voiced to a lesser extent about sovereignty and threats to national identity after accession are quite understandable in this respect. At the same time, human and material investments into European integration that have been committed by Latvian society in the last two decades inevitably will bring the country closer to the core of the European Union.

Notes

1 In connection with Latvia's accession to the European Union an amendment was made to paragraph 68 of the Constitution:

Upon entering into international agreements, Latvia, with the purpose of strengthening democracy, may delegate a part of its State institution competencies to international institutions. The *Saeima* may ratify international agreements in which a part of State institution competencies are delegated to international institutions in sittings in which at least two-thirds of the members of the *Saeima* participate, and a two-thirds majority vote of the members present is necessary for ratification.

(Saeima of the Republic of Latvia 1922, with amendments enacted on 5 June 2003)

2 According to the amendments, the role of the prime minister was increased but those of the president and the parliament diminished. *Valsts Drošības iestāžu padome* (The Council of state security organs) was politicised, as professionals (the executives of security organs) were replaced by politicians. The members of the Information Analysis Service were given

the highest category access to state secrets, previously being within the exclusive competence of the *Satversmes aizsardzības birojs* (Office of Constitution Defence).

- 3 Two of the most blatant recent cases include the above-mentioned amendments concerning the laws on state security institutions, as well as the amendments initiated in parliament in March 2007, which proposed the repeal of restrictions on election campaign spending (Kučs, 2007: 21).
- 4 According to various research sources party membership figures for parties represented in parliament are the following: *Tautas Partija* (TP, People's Party) – 1,700; SCP – 820; LPP/LC – 4,000; JL – 1,500; ZZS – 2,180; TB/LNNK – 2,000; PS – 570; *Par cilvēka tiesībām vienotā Latvijā* (PCTVL, For Human Rights in a United Latvia) – 450. The largest party outside parliament is *Latvijas Sociāldemokrātiskā strādnieku partija* (LSDSP, Latvian Social Democratic Workers' party), which has 2,500 members.
- 5 The average EU-27 figure is 43 per cent.
- 6 An ironic confirmation of this argument was the rapid increase in fuel prices on the morning of May 2004 when accession celebrations were taking place.
- 7 Problems with the *Parex* bank surfaced in autumn 2008, establishing shortcomings in risk management, liquidity and the provision of necessary solutions. Inhabitants had already experienced bank crises in 1995 and 1998, when they lost a great deal of their savings. As the financial global crisis supplemented these negative experiences, the first signs of no confidence in the Latvian banking system started to appear. The Swedish government had made an announcement supporting their banks, which strengthened the positions of SWEDBANK and SEB, but reduced confidence in local banks. Resources began to rapidly flow away (e.g. on 29 October around 14 million LVL were taken out) and the deadline for the return of two considerable syndicate loans (500 and 27 million LVL) was looming. On 8 November 2008, in order to avoid the bank's collapse and a third bank crisis, the government decided to take over the *Parex* bank, the second largest bank in Latvia in terms of asset volume. Its assets formed 13.8 per cent of the total assets of Latvia's banks and it was third according to the number of customer current accounts, customer loan transfers and bank card payments.
- 8 The IMF will allocate 1.7 billion euros, Nordic countries 1.8 euros, and the World Bank 400 million euros.
- 9 The Commission of Functions' Audit of Latvia identified possibilities to save state budget funds in many spheres, such as Social Order and Security, State Defence, Economic activities planning, Health, and Education and Science. It was also found that the functions of several ministries overlap. Accordingly, it was advised to undertake measures to achieve optimisation of resources. (CFAL, 2010).
- 10 The figures are for the period 2007–2013.
- 11 Extracted by the author from the Eurostat database.
- 12 During the years of Latvia's occupation several waves of labour forces flooded into the country. One such wave took place after the end of World War II and was connected with the stationing and accommodation of Soviet military forces and their families. The second wave started in the 1960s and 1970s as a stimulator of industrialisation. This wave was in part politically motivated and was poorly founded from an economic point of view. It changed not only Latvia's economic structure, but also created major changes in the ethnic and social structure in comparison to the pre-war situation. At the beginning of 1990 only 52 per cent of inhabitants indicated 'Latvian' as their ethnicity, 16 per cent belonged to the historical minorities of Latvia, whereas 32 per cent were emigrants from other republics of the USSR. The latter were mainly Russians, Belorussians and Ukrainians, most of whom would use Russian as their language of communication in Latvia (Dribins, 2001: 318–319).

- 13 Number of births per 1,000 inhabitants.
- 14 Even though Eurobarometer and national public opinion surveys consistently reflect a Eurosceptic tendency in Latvian society it is important to look at the reasons why this attitude has developed and continues to exist.
- 15 The 'singing revolution' is a commonly used term to describe the string of events leading to the restoration of independence of the three Baltic states, and was characterised by the active engagement of large segments of society in non-violent protest forms. These processes precluded the third Latvian National Awakening. The term was originally coined after the mass night singing, which spontaneously followed the official part of the Tallinn (Estonia) Song festival in 1988.
- 16 New laws were adopted and sectors such as, *inter alia*, industry, environment, health care and protection of consumer rights, were required to work according to the substantially modernised rules.
- 17 The establishment in 2007 of the European Union Agency for Fundamental Rights is among the newest EU initiatives in this field.
- 18 These include the concentration of the population and businesses in the central region of the country, the allocation of budget resources based on clientelist principles often favouring political networks over the needs of regions, unevenly spread high rates of unemployment, and the rapid pace of ageing in Latvia's eastern region, Latgale.

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8 Estonia

Viljar Veebel and Ramon Loik

Introduction

The modernisation of Estonia started during its first period of independence between 1918 and 1940. It offered not only the experience of democracy-building and the development of a market driven economy but also the voluntary transition back to an authoritarian regime after experiencing democracy. This first period of Estonian independence was followed by almost 50 years of Soviet occupation, which has had both a strong cultural and demographic influence upon the country.

Estonia's transition after its re-independence in 1991 has been fast and radical in terms of both choices and results: by choosing liberal economic reforms and decisive political independence, Estonia, together with Latvia and Lithuania, played an important role in reforming the Soviet Union and encouraging other republics towards modernisation and independence. Further prospects of membership in Western organisations such as the European Union and NATO were the main motivators for decisive social, economic and political reforms framed by the 1993 Copenhagen criteria. Estonia has been in some aspects more successful than its Baltic neighbours, as it managed to join the OECD in 2010 and the eurozone on 1 January 2011. Multilateral partners played an important role in choosing the transition strategy and implementation methods after the collapse of the Soviet Union in 1991. In the beginning the process was guided by the Organization for Security and Co-operation in Europe (OSCE) and by the Council of Europe and at a later stage by the European Union and NATO. It is also important not to underestimate the impact of the USA and Scandinavian neighbours in helping build-up the appropriate bases for the successful transition from a post-communist legacy towards a Western-type democracy and a functioning market-economy.

The European Union's role in Estonia's transition process during 1991–2004 was central, as the European Union itself was ready to supervise and advise in more structural and effective way than ever before in its history. The clear promise of membership if accession conditions were fulfilled was seen as the main 'carrot' for accelerated transition and modernisation processes. Fulfilling the accession conditions and obligations was clearly seen as Estonia's own responsibility, whilst the European Union could only provide some technical and financial assistance. The European Union was also seen as an altruistic or friendly actor by

the Estonian public and elite. Strict EU rules, evaluations and conditions were also seen as a normal part of the accession partnership.

Accession to the European Union and NATO has also triggered high expectations of fast progress in welfare and security in Estonian society. Public attitudes towards integration into the European Union and NATO were quite non-committal and sceptical at the beginning of the accession process with around only 50 per cent of the population in their favour. Among other causes, this situation might also be explained by the European Commission's cautious attitude and rather slow interest towards the Baltic States during the first half of the 1990s, when its decisive support was much needed. During the accession process public support grew steadily and reached 66 per cent before the accession referendum in 2003. Public support towards EU membership continued to grow after gaining membership, reaching almost 80 per cent in 2008, and starting to drop slowly after that (Standard Eurobarometer, 2009). In 2003–2004 most of Estonia's strategic goals were connected to achieving membership of the European Union, NATO and the OECD or improving its status by joining the Schengen agreement and the eurozone.

The Estonian political elite appreciated the clear and structural approach of the Copenhagen criteria and the AGENDA 2000 evaluation method. Pre-structural and structural support funds were seen as useful by Estonia's target groups, even when late in reaching the end-users. EU interference has efficiently stabilised the national currency, but has had mainly a negative effect on employment rates and social security. The impact on general macroeconomic development has also been positive. In the period 2004–2006, in total 371.4 million euros from the EU structural funds and 428.2 million euros from the cohesion fund were allocated to Estonia. In the period 2007–2013, more than 3.4 billion euros from the Structural Assistance Fund will be allocated to Estonia. The latter will be mainly channelled to energy saving, entrepreneurship, administrative capability, the information society, education, environment protection, regional and local development, and research and development, as well as to health care and welfare, transportation and the labour market. It was and still is evident for both the European Union and Estonia, that continuous transition without appropriate and sufficient financial as well *know-how* assistance, combined with calculated pressure for reforms, would only prolong the overall modernisation period.

Political developments

After the collapse of the Soviet Union on August 20, 1991 the Resolution on the National Independence of Estonia was adopted. Diplomatic relations with other states were re-established, and the Constitutional Assembly was formed for drafting the constitution. The Republic of Estonia was re-established as a parliamentary democracy on the basis of the Constitution adopted in June 1992. The principle of legal continuity was one of the central constitutional debates during the beginning of the 1990s. This is still the case as Russia's and Estonia's perspectives on the country's joining of the Soviet Union in 1940 are still divergent. While the first

sees it as voluntary, the second considers it to be a result of its violent occupation by the Red Army following the secret protocols of the Molotov–Ribbentrop pact.

Estonia's single-chamber parliament, the *Riigikogu*, has 101 deputies. The elections are universal, uniform and direct and they are conducted every four years. In 2010 the possibility of electronic voting was introduced in parallel to traditional voting. Members of the parliament are not permitted to be employed in any other governmental nor non-governmental institution.

The legislation process is based on simple majority voting in the *Riigikogu* after three readings. Supported legislative acts are presented to the President of the Republic for proclamation, who may use the right of veto if needed and return the draft of the law to the *Riigikogu*. If the parliament does not amend the draft of the legislative act, the President also has the right to advise the Supreme Court to declare the indicated law unconstitutional (*Riigikogu*, 2011). This system should guarantee the balance of power, as well as coherence with the Constitution in terms of every legal act.

In the election process, only those with Estonian citizenship can vote in general elections, whilst in local and European Parliament elections people with permanent resident status can also participate. The minimum age for voting in elections is 18, and 21 for running as a candidate. Candidates can be nominated either on candidate lists of some political parties or as independent candidates. The election results are based on the principle of proportionality.

After its independence Estonia faced several political challenges, such as international recognition, having 30 per cent of its population (mostly the Russian-speaking minority) without Estonian citizenship and trying in this situation to rebuild a sustainable parliamentary democracy. The Soviet legacy in the political system, a corrupted bureaucracy and a regulated economy made rapid reforms even more complicated.

Between 2004 and 2010 political changes in Estonia were the result of the joint efforts of the local elite, a supportive electorate, and multilateral donors and partners assisting the whole process. Integration in the European Union changed Estonia's political culture both in terms of institutions and power division. Probably the biggest political change has been to accept sharing sovereignty with EU institutions. Political and administrative changes in the mid-1990s were accepted in exchange for much sought-after economic growth and additional security (Laar, 2002: 360), as there was broad societal agreement on the benefits of EU membership and Euroscepticism was not widely prevalent in Estonia (Standard Eurobarometer, 2009).

After Estonia's independence, its central foreign policy goal was to join the European Union and NATO. The first important landmark in gaining EU membership was on 28 November 1995, when Estonia submitted an official application for accession, based upon the unanimous decision of the parliament approving the Europe Agreement between Estonia and the EU member states from August 1995. The European Community's Madrid summit in 1995 mandated the European Commission with the task of compiling reports on the candidate countries. At the 1997 Luxembourg summit it was decided on the basis of the Commission's

reports to start accession negotiations with five Central and Eastern European (CEE) countries – Estonia, Poland, Slovenia, the Czech Republic and Hungary, as well as with Cyprus (also known as the Luxembourg Group).

Negotiations with the European Union were held from 30 March 1998 until 11 December 2002 and were based on Estonia's readiness to adopt the *acquis communautaire*. In order to facilitate the negotiations, the EU legislation, consisting of approximately 12,000 legal acts, was divided into 31 chapters covering 5,000 pages. Most of the EU *acquis communautaire* was screened and negotiated by the Estonian government and the European Union by autumn 1999. Estonia signed the Accession Treaty on 16 April 2003. It was followed by the constitutional referendum on EU accession on 14 September 2003. The referendum on the constitutional changes demanded by EU membership was supported by 66.83 per cent of the voters, while 33.17 per cent voted against. Consequently, on 1 May 2004 Estonia became an EU member state, together with Cyprus, the Czech Republic, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The next major step forward came on 21 December 2007 when Estonia joined the Schengen visa area. Finally, on 1 January 2011, Estonia also joined the eurozone.

The first European Parliament (EP) elections in Estonia were held in June 2004. The turnout was surprisingly low (only 26.8 per cent), much lower than for example the 64 per cent in the EU accession referendum in 2003, but not so low when compared with the rest of the Central and Eastern European states. Turnout increased substantially for the second European Parliament elections (7 June 2009) when the level of participation surged to 43.2 per cent. It was also the first time for Estonian voters to vote via the Internet during the week immediately before polling day, using the same procedure as in general elections. Of all voters, 14.9 per cent used this new opportunity. Apparently the e-voting system played an important role in increasing the participation rate slightly above the EU average (National Electoral Committee, 2009).

In both EP elections Estonians elected six members to the European Parliament. The 2004 elections were won by the Social Democratic Party (*Sotsiaaldemokraatlik Erakond*), receiving three seats, while the highest personal score was received by later Estonian President, Toomas Hendrik Ilves. The remaining three seats were divided equally between the national conservative ProPatria and Res Publica Union (*Isamaa ja Res Publica Liit*), the liberal Reform Party (*Eesti Reformierakond*) and the left-centrist Centre Party (*Eesti Keskerakond*).

As a result of the 2009 EP elections the Estonian Centre Party gained 26.1 per cent of votes with two seats while the leading governmental party, the right-liberal Estonian Reform Party secured 15.3 per cent of the vote and one seat. The three members of the European Parliament (MEPs) from both parties belong to the Alliance of Liberals and Democrats for Europe (ALDE). The Pro Patria and Res Publica Union collected 12.2 per cent of votes and received one seat, later joining the European People's Party (EPP). The Estonian Social Democratic Party collected one seat with 8.7 per cent of the vote and their elected member belongs to the Progressive Alliance of Socialists and Democrats in the European Parliament. The Estonian Greens (with 2.7 per cent of votes) and Estonian

People's Union (2.2 per cent of votes) failed to gain any seats in the EP (European Parliament, 2011). The biggest surprise of the elections was the score of independent candidate Indrek Tarand who, with 25.8 per cent of the vote, gained the best personal result of the election. The success of liberals was not surprising as at the time of the elections both the position of prime minister (Reform Party) and that of mayor of the national capital (Estonian Centre Party) were held by them.

Estonia started its participation in the European Union in 2000–2005 with attempts to actively influence the European Future Convention and the accession negotiations. However, during recent years Estonia's participation has become more passive and collaborative as Estonian representatives prefer to support the majority opinion when possible. Estonia ratified the Lisbon Treaty and is a strong supporter of the European Stability Mechanism (ESM) without displaying any close public debate on the issue.

Accordingly, Estonia also prefers policies supporting competitiveness and sufficient economic growth, continuing the deregulation and liberalisation of the internal market, which enables member states to maximise the use of resources for the creation of more competitive conditions for both enterprises and citizens (Veebel, 2010: 8). Since 2010, Estonia has supported the build-up of the European Stability Mechanism to finance the assistance to Greece, Portugal and Ireland, based on the ideas of solidarity and a 'common family', which differs diametrically from previous positions of 'own responsibility' and 'market rules'. The government is often using the rhetoric that 'this is the price we have to pay to be in the union' and no unnecessary in-depth debates seem to be needed.

There have been three main priorities for the Estonian government since accession. First, continuing the liberalisation of the internal market and improving the competitiveness of the European Union, where market values and signals must be economic guidelines and the role of subsidies must decrease. The second priority is carrying out the action plan for the Growth and Stability Pact in order to build a sustainable economic basis for the European Union. The third priority is keeping the euro area stable and growing, even when joint efforts and solidarity are needed. On the other hand, the everyday participation of Estonia's government is filled with questions of energy security, cyber security, the ESM, and EU–Russian relations.

The gas crisis that hit Europe in January 2009 indicated the need to increase EU member states' readiness to handle gas supply disturbances. In 2009, developments continued for increasing the European Union's energy security, which began with the Second Strategic Energy Review. Estonia's official position is that in order to increase the European Union's energy security it is necessary to develop a functioning internal market and establish additional energy connections. In order to increase the energy security of the Baltic region, it is necessary to establish new energy connections and develop a common Nordic–Baltic energy market. Therefore, the most important achievement for Estonia is the approval of the Baltic Energy Market Interconnection Plan (BEMIP) by the European Commission. Estonia has also been a supporter of the European Union's climate package development, even when for the most part it creates additional obligations and cost to Estonia given its colder climate.

Estonia considers enlargement as one of the European Union's most successful policies, which will improve the European Union's competitiveness and security, as well as increase its role in a globalising world. Enlargement must be based on transparent rules, where the countries wishing to join must fulfil all the prescribed criteria, and the European Union should not turn back from its accession promises. Estonia is also interested in long-term stability and the accession perspectives of the Western Balkans. Keeping Turkey on the reform path is one of the priorities but it is essential to explain the benefits of enlargement more clearly to the public. Influenced by the passive attitude of other member states, Estonia has also been changing to less supportive positions towards Turkey's accession after 2010. It is also a priority to give additional momentum to the European Union's cooperation with its close southern and eastern neighbours through the European Neighbourhood Policy's (ENP) regional initiatives, such as the Eastern Partnership and the Mediterranean Union. In the case of the Eastern Partnership, Estonia supports developments towards concrete and comprehensive policy instruments that motivate partner countries to get closer to the European Union, including association agreements, economic integration, visa freedom, and practical cooperation in energy and transport matters. It is also essential that financing for the Eastern Partnership is allocated equally between the southern and eastern interest areas of the ENP. In the area of development cooperation, Estonia continues its cooperation with its priority partners Georgia, Ukraine and Moldova.

Estonia welcomed the conclusions of the European Council in 2007 calling on the European Commission to develop a Strategy for the Baltic Sea Region. A corresponding resolution was approved in the EP a year earlier. The main goal of this new EU initiative is to merge previous policies to address the specific needs of the Baltic Sea region, particularly areas that impede the region's development. The statement prepared for the Commission in June 2009 outlines the topics that the strategy addresses with four primary points – the environment, competitiveness, infrastructure, and the safety of the maritime environment.

Estonia was an active supporter of the strategic EU justice and home affairs policy for the years 2010–2014 (the Stockholm Programme) approved at the end of 2009, and is primarily interested in cyber security and the fight against cyber-crime, including effective personal data protection. Attention was also given to migration questions and to the principle of voluntary acceptance and equal distribution of asylum seekers. However, the most important factor in the Stockholm Programme was the creation of an IT agency for justice and home affairs, which will be partly located in Estonia.

Estonia will receive 4.5 billion euros from the EU budget during the budgetary period 2007–2013, of which close to 3.3 billion will go to regional aid, about 0.6 billion to rural life, and about 0.5 billion to agriculture. During the same time the country will contribute about 0.9 billion euros to the EU budget over seven years. Additionally, as negotiated at the beginning of 2011, Estonia will actively participate in the creation of the European Security Mechanism. The country is ready to become proportionally the biggest payer to the ESM by contributing 9.6 per cent from its gross domestic product (GDP) (1.5 billion euros). Whilst being a net

receiver, Estonia supports reducing the importance of subsidies in the EU economic strategy and introducing more market principles to increase competitiveness and export ability (Government of Estonia, 2007).

The government's approach towards the EU foreign and defence policy tends to be passive and can be described as a 'potential policy taker'. As a small new member state, Estonia has been constantly adopting the main political lines of the European Union. As both the actions and threats relating to Estonia's external affairs have strong connections with Estonian–Russian relations, the European Union is wishfully seen as the main political counterbalance to the Russian influence in the CEE countries. The main pillar of Estonian security policy is its active membership in multilateral defence alliances, among which NATO is the most important. In the political rhetoric of the Estonian political elite, the European Security and Defence Policy (ESDP) has also often been seen as an unreasonable ambition and its institutional structures only duplicating already existing NATO structures. Thus, Estonia has used its military capacity mainly for NATO missions, leaving only a little for those of the ESDP. However, this does not mean that Estonia is negatively inclined towards European defence initiatives. While the enlargement of NATO and the European Union proceeded in parallel, there was no conflict of interest between supporting both the EU and the US policies. A change of attitude in this matter is positive as in its first membership years Estonia was more critical towards the EU security policy developments, as it saw these as competing with its role in NATO. More active participation in the Common Foreign and Security Policy (CFSP) and in ESDP will offer additional opportunities to contribute to European regional security. In 2011 Estonia is a supporter of both central initiatives of CFSP: the development of the External Action Service and European Defence Agency. Estonia is also actively participating in the Battlegroup formation by joining the Nordic battle group (Veebel and Kasekamp, 2007: 19).

Economic developments

Estonian economic developments after the EU accession have consisted of several radical choices, producing equally radical results. Indeed, after having the highest economic growth in the European Union in 2007 (15 per cent) Estonia also had the highest decline in 2009 (–15.6 per cent).

During the last seven years the Estonian government and political elite have been focusing on economic growth in liberal terms, such as economic freedom, inflation, governance cost, GDP dynamics and external trade, and have tried to avoid considering social categories like the Human Development Index (HDI) or unemployment. The Estonian government economic policy has mostly been procyclic by supporting both the growth and decline of GDP.

As the last elections in 2011 indicated, the majority of voters continued to support the liberal economic policies mixed with some conservative components offered by the ruling coalition of the Reform Party and Pro Patria Res Publica Union. Medium-term expectations for the Estonian economy are optimistic, although the risk of a long-term slowdown has increased (Veebel, 2011). The

precondition for continued long-term growth involves maintaining productivity growth. The long-term aim of Estonian economic policy is to raise the income level close to the level of the old EU member states. The Prime Minister's long term goal and main election promise is to see Estonia among the five wealthiest economies in Europe in the year 2020.

Radical economic reforms in Estonia actually started even before independence was recognised in 1991. In 1987–1988 Estonia started to consider a possible mixed economic model and economic autonomy inside the Soviet Union. Although it did not result in any deep changes in the economy, it prepared public attitudes for subsequent debates about political independence from the USSR. The most influential economic reforms were launched in 1992 consisting of privatisation and currency reform. The main starting condition of the Estonian economy was the high concentration of industry in certain geographical locations and the production-dependence of the Soviet planned economy. Estonia, while being economically one of the most developed Soviet republics together with Lithuania, lagged behind the most advanced CEE countries. At the beginning of economic reforms in 1992 the GDP PPP per capita was only 31 per cent of the EEC average. In parallel, in the same year, unemployment was only 3.7 per cent and inflation reached 24.9 per cent. As a result of radical and decisive structural reforms, changes in the statistical system, currency devaluation and the growing underground economy, the decline of economic production after the collapse of the Soviet Union was one of the greatest among the former Soviet bloc countries (Veebel, 2009a).

The Estonian economy, while being statistically quite comparable with Greece or Portugal after their democratisation, was functionally not effective in open market conditions. The dominant heavy industry was deeply integrated into the Soviet Union's economy, as its demand logic and production chain depended on central planning. At the same time the agricultural sector was employing almost half the population but with very low efficiency. The consumer industry and the service sector needed complete restructuring or rebuilding in order to meet market economy demands. Rapid privatisation at the beginning of the 1990s also caused a sharp decline in industrial production as buyers of privatised companies were often interested more in market-share, materials or buildings, rather than in actual production and development.

In June 1992 the first step towards radical reforms was taken to attract foreign investors, as Estonia introduced its own currency the Estonian *kroon* (EEK). Currency reform also established the Currency Board system, where the exchange rate was fixed to the German mark (later euro) and was fully covered by reserves (Bank of Estonia, 2007). Key choices for Estonian economic reforms were high-speed privatisation, pro-cyclic economic policies, a liberal trade policy, fixed exchange rate currency and an annually balanced state budget. The liberal economic agenda of the ruling coalition also involved the acceptance of above average inflation and unemployment (Laar, 2002). The privatisation process in Estonia was considerably faster and more far-reaching than in most other post-socialist countries. Foreign investors were warmly welcomed due to the undervalued local currency exchange rate (Terk, 2000).

Table 8.1 Scores on Copenhagen criteria in 1997 (AGENDA 2000)

<i>The Luxembourg Group</i>		<i>The Helsinki Group</i>	
Hungary	33	Slovak Republic	23
Poland	32	Lithuania	19
Czech Republic	29	Latvia	18
Slovenia	25	Romania	13
Estonia	24	Bulgaria	10

Source: House of Commons, 2000.

The most vital economic reforms were completed in order to fulfil the accession criteria for the forthcoming EU membership. Estonia's social and economic progress was rated as the fifth best among enlargement applicants, as measured in 1997 by the European Commission in the AGENDA 2000 evaluation (see Table 8.1). In 1997–1998 the Estonian economy was hit by the global crisis, causing an intensive restructuring process and reorientation towards EU partners instead of Russia. The service sector started to grow quickly and the agricultural sector, in contrast, began to decline (Government of Estonia, 2003).

Rapid economic growth started in 2000–2001, as foreign economic actors started to invest in greater numbers, the better to grab a share of the market before EU accession. The growth was largely fuelled by loans from Nordic banks pumped into the Estonian real estate sector, by the interest of foreign investors in buying agricultural enterprises and also by pre-structural funds from the European Union.

Estonian economic reforms after EU accession were mainly influenced by three ideological groups. First, there were liberal integration supporters ready to face any cost and any conditions (Ilves, 2003) with the sole aim of becoming quickly integrated into the European Union and NATO. This group also included believers in (neo-)functional integration, who followed the idea that complete obedience to the European Union and NATO rules would lead to faster changes and social development. This first group supported any type of reform tools and compromises without close criticism and questioning, and even announced openly that they were ready to do more. The second group were the national conservatives who tried to find some balance between attracting foreign investors and keeping their popularity among the conservative part of the electorate, by asking for more barriers against foreign ownership. This group bargained as much as possible when liberals attempted to establish a fully open market economy. The third group consisted of utilitarian pragmatists and agreed with both competing groups so long as it was rationally substantiated and looked sustainable. The most recent elections have been most rewarding for the coalition of economic liberals and political conservatives.

The economic boom that started in 2002 caused the rise of labour and rent costs and ended with an economic slowdown in 2007, a small recession in 2008 (a fall of –3.6 per cent GDP) and extreme decline in 2009 (–15 per cent). This process was mainly caused by labour cost dynamics, which started to grow faster than productivity, and was assisted by the real estate bubble as well as by the international financial

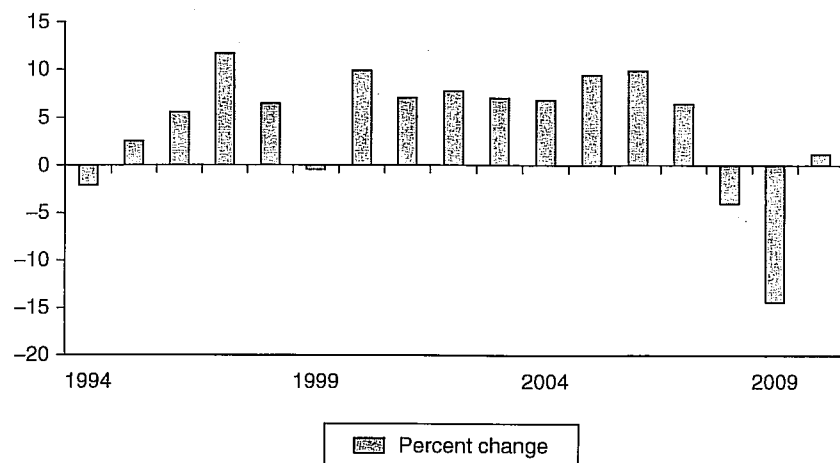


Figure 8.1 Estonia's annual GDP evolution, 1994–2010.

Source: Estonian Central Office of Statistics, 2011.

crisis. Accordingly, Estonia temporarily lost some of its competitiveness, until 2009 when wage growth stopped and productivity on the other hand started to grow again. Economic decline has caused a rising budget deficit and absorbed most of the government's reserves, and additionally led to growing unemployment, which reached 15 per cent in 2009 (Government of Estonia, 2009). In 2011, when the economy started to grow again, Estonia's economic structure was focused on services and subcontractual industrial production, mainly for Nordic and German companies. Innovation has been quite low compared with the EU average and has been dropping during 2004–2010. Production has focused on textile products, transport means, paper products, wood products and computer software.

At the EU level Estonia supports continuing the deregulation and liberalisation of the internal market, particularly initiatives aiming at removing the remaining obstacles to the functioning of the internal market, including the free movement of persons (Veebel, 2009a: 9). Estonian governments have also stressed the importance of creating a fully integrated financial market, consolidating the existing EU legislation, and minimising regulatory differences. Figure 8.1 shows Estonian GDP growth rate dynamics.

The central line of the Estonian government's economic policy after the EU accession has been radical reforms and pro-cyclic economic policy, combined with low level interference and a low level of public debt. Ruled during the last five years by Prime Minister Andrus Ansip, the Estonian government has prioritised keeping the economic and fiscal environment as simple and as liberal as possible. The main instruments of Estonian fiscal policy have been the simplicity of the tax system and zero taxation of commercial reinvested profits. Private income tax is flat (21 per cent), motivating earning and the declaring of higher incomes, but

fuelling increased social inequality (Government of Estonia, 2008: 56). Due to the size of its economy, its openness to the global economy and the government's pro-cyclic economic policy, fast growth alternated with shocks in the years of global crisis, 1997–1998 and 2008–2009 (Bank of Estonia, 2009: 110–123). Willingness to fulfil the Maastricht criteria and join the eurozone was a central motivator of budgetary policy in the years 2008–2010, which led to strong budget discipline combined with pressure on salaries to reduce inflation.

The government's fiscal policy concerning expenditure has also been pro-cyclic. During the best growth years in 2004–2006 the state budget grew by approximately 20 per cent per annum. Due to the crisis and the need to meet the eurozone criteria, the government budget was cut by 10 per cent in 2009 (Bank of Estonia, 2009). The central budget has also been in deficit by approximately 3 per cent in recent years, but is becoming balanced in 2011.

The Estonian government has also been able to collect special stabilisation reserves to prevent the need for public loans in crises years. Collection of these reserves started in 1997 and peaked in March 2009 when reserves reached 470 million euro. The idea of the reserve was introduced after the stock market crash in 1997. By the end of March 2009, the reserve stood at a market value of 7.33 billion EEK (468 million euros), but in April 2009 the government decided to use about 3.5 billion EEK of the reserve in order to balance increased expenditures and decreased revenues resulting from the economic recession, mainly to reduce risks and to pay salaries, pensions and benefits without delay. The collection of reserves will start again in 2013, when the first annual budget without deficit is planned.

In the area of public debt, Estonia scores one of the best results in the European Union through 2009 to 2011. By the end of 2007, the public debt to GDP ratio dropped to 3.5 per cent, but in 2008 the indicator increased again to 4.3 per cent, which still remained rather small compared with most of the European Union. In 2008–2009 the rise in government lending was motivated by the co-financing needs for the EU structural funds' investments. Higher borrowing levels were planned after joining the euro for the fiscal years 2011 and 2012. By the end of 2010, public debt had reached 7.2 per cent of GDP. Public sector foreign loans have been mainly used for investments into infrastructure and public enterprises (Government of Estonia, 2009). At the same time general debt (public, private and commercial debt all together) has grown to one of the highest levels per capita among CEE countries, reaching 135 per cent of GDP in 2010 (Estonian Central Office of Statistics, 2011). As both the economic growth and the lending boom have been initiated by Nordic banks that offered cheap credit and thus fuelled internal consumption, they are also partly accountable for the crises.

One of the main long-term strategies of Estonian governments' economic policy has been to attract foreign direct investments (FDI) at almost any cost. It was initiated by radical privatisation and currency reform in 1992. Dramatic inflation before the currency reform and selected exchange rate made local investors and property holders mostly unable to buy the local enterprises. Accordingly Estonia reached one of the highest levels of FDI per capita among CEE countries in its

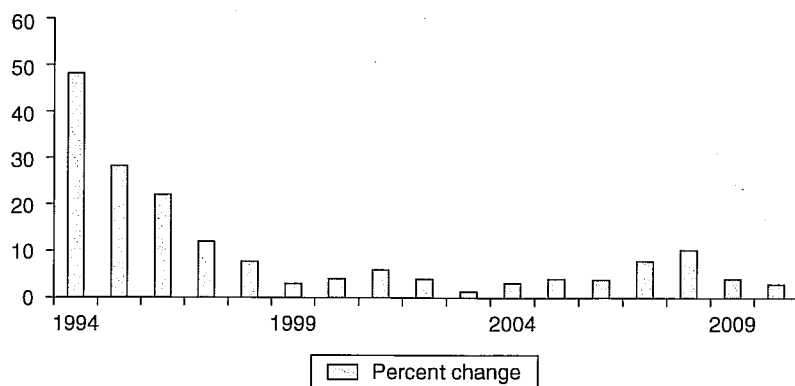


Figure 8.2 Annual average inflation rate in Estonia, 1994–2010.

Source: Estonian Central Office of Statistics, 2011.

transition period. As a result, all commercial banks, telecoms and main industrial producers are fully foreign owned.

Joining the eurozone has caused some additional changes. The Currency Board system was terminated and replaced by a more credible international currency (the euro), also distinguishing Estonia from its Baltic neighbours who have not managed this far to meet the Maastricht criteria. General official (Bank of Estonia) expectations are positive: bigger investments, lower interest rates and the creation of new jobs are hoped for in the near future. In terms of European fiscal and taxation initiatives, Estonia has been against any tax harmonisation initiatives at the EU level. This especially concerns corporate taxation, which has been seen by Prime Minister Andrus Ansip as the cornerstone of Estonian attractiveness to foreign investors. The first influence of euro area membership has been in taming inflation to around 5 per cent annually and reducing unemployment levels. The third main concern is the Estonian share in the ESM, which still needs open public debate.

High inflation was one of the reasons for radical reforms in Estonia during the 1990s. Due to the difficult experience with high inflation in Soviet times and during the first years of independence, this question started to be one of the main benchmarks for the electorate in assessing the government's economic success or failure.

Accordingly, social, labour or educational policies were often sacrificed in order to fulfil the electorate's inflation expectations (Masso and Paas, 2007). The result was, however, remarkable (Figure 8.2). From a high of 1,076 per cent in 1992, inflation dropped to 8 per cent in 1998 and to 1.3 per cent in 2003. The EU accession caused a new rise in inflation that reached 3 per cent in 2004, 4.4 per cent in 2006 and 10 per cent in 2008. In 2009 Estonia managed to push inflation under 3 per cent to fulfil the Maastricht criteria and join the eurozone. If we compare Estonian inflation with its Baltic neighbours during the period 2004–2008 then in general terms the developments have been quite similar. Even after the accession,

Estonian inflation has been problematic (quite often higher than 5 per cent annually), as it started to drop during the global financial crisis of 2009–2010, but to grow again after entering the eurozone.

The Estonian economy is quite open and thus dependent on the global economy; foreign trade has reached around 80 per cent of Estonia's GDP during 2004–2010. In general, Estonian trade has been growing fast. During 1994–2006 both Estonia's exports and its imports increased almost eight-fold. Moreover, their annual growth rates reached double-digit numbers in most years during this period (Saks, 2008: 21).

The main partners of Estonian foreign trade before the EU accession were Russia and Finland. While Russia dominated at the beginning of the 1990s, Finnish shares went up at the end of the 1990s. Sweden and Latvia have been its next most important trade partners. In general, Estonia's external trade deficit was situated at approximately 20–25 per cent of its trade. Latvia is the only big trading partner offering a stable positive trade balance for Estonia. The deficit in the trade balance has been covered by surpluses in FDI (Saks, 2008: 18). After the accession to the European Union, Estonian foreign trade has been more balanced, as Finland's share has decreased from 21 per cent in 2004 to 15 per cent in 2009. Russia's share has remained relatively consistent (at around 10 per cent), while Latvia's and Lithuania's importance has been growing slightly and Germany's share has decreased. During the growth years of 2004–2008 Estonian imports were growing faster than exports, increasing its trade deficit to around 25 per cent of its trade volume. The largest deficits were with Finland, Germany and Russia (Bank of Estonia, 2009).

EU membership has changed import and export flows mainly in agricultural products, due to the EU system of subsidies. On the one hand, support to the agricultural sector increased several times due to the Common Agricultural Policy (CAP) of the European Union, but on the other hand, Estonia had to stop importing food products at world market prices from non-EU countries (Tamm and Varblane, 2004: 28–29).

The European Union has had a generally positive effect on Estonian economic developments. After Estonia acceded to the European Union, Estonian companies got the opportunity to access the European Common Market. Both exports and imports grew by 24 per cent on average annually through 2004 to 2006. In 2008 the weight of the EU-27 in total Estonian goods export turnover was to the tune of 70 per cent, while that of the Commonwealth of Independent States was only 13 per cent. Moreover, 80 per cent of total import turnover was with the EU states.

One of the most important resources for reforms and development are investments from EU structural funds, as 798.8 million euros from the EU structural funds and cohesion fund were allocated to Estonia during 2004–2006. Various fields were supported during these years, such as education and employment, business, updating infrastructure, environmental preservation, and the sustainability of farming. Also more than 75,000 Estonians participated in training sessions financed by EU structural funds. In order to raise the competitiveness of enterprises and develop employment, the aid was granted to almost 9,000 companies. Between 2007 and 2013 Estonia will get around 3.4 billion euros from the

structural funds, which will be mainly channelled to energy saving and production technologies, entrepreneurship, administrative capability, education, information society, environment protection, regional and local development, research and development, health care and welfare, transportation and the labour market.

Social developments

While Estonia's economic transition has been both radical and in many ways effective, its social developments have been less guided and reformed by its mostly right-liberal governments. In parallel to rapid economic changes, social reforms have been conducted mostly on the basis of liberal economic needs.

The most successful has been the reform of the pension system, which has been fundamentally transformed to consist of three pillars: a low fixed state pension pillar, a income based second pillar and a voluntary contribution option.

The health care system is still completely state-financed and based on a flat social tax contribution (Masso and Paas, 2007). The educational system has gone through some reforms, mainly in the area of higher education (the complete transfer to the Bologna higher education system, for example), but still needs additional reforms at the basic and high-school levels.

The system of 'parental pension' or 'parental salary' has been introduced, which, by providing a monthly payment from the state for the same amount as the salary earned before the birth of the baby, allows young parents to stay at home with their baby until the infant is one and a half years old. EU interests in the social policy of Estonia mainly concern the treatment of minority groups and the inclusion of less well-off groups.

Health care, unemployment, social protection and non-discrimination questions have been developed gradually in most cases and still rely on some Soviet legacies. Low prioritisation of social security is also reflected in Estonia's position in the Human Development Index (HDI). The best ranking (36) achieved in 2002 has not been surpassed and the last report in 2009 ranked Estonia only 40. This position is better than its Baltic neighbours or Poland, but lower than the scores for Slovenia and the Czech Republic (Eesti Koostöö Kogu, 2009). While GDP growth and literacy have been the main contributors to Estonia's HDI growth, life expectancy and the health care system have been the main causes of its slow progress. Indeed, social security, health care and education expenditures per capita are among the lowest in the European Union.

With a Gini coefficient of 36 points (higher than the EU average of 30–31) Estonia has one of the highest levels of inequality in the European Union. Estonia also has one of the highest rates of HIV and tuberculosis in the European Union. Gender differences in Estonia are still important, with the average life expectancy of Estonian men at 67.5 years (which is in world ranking comparable with Mongolia and East Timor), while the average life expectancy of women is 78.5 years (which is higher than in Denmark or Ireland). The pension age for men is 63 years of age and for women between 58 and 63.

Educational reforms have also been influenced by political turbulence at ministerial level. The most debated question has been the necessity and scope of state-funded education and the role of private schools and universities. Reforms in the educational system have mainly focused on higher education to follow the Bologna standards. The number of students has been growing from 39,000 in 1997 to 69,000 in 2009, but the number of publications and successful doctoral promotions has been dropping.

One of the long-term social problems also receiving broader attention has been the integration of the Russian-speaking minority. Apart from the ethnic Estonians, Estonia is also home to substantial minorities of Russians (25.6 per cent), Ukrainians (2.1 per cent) and other nations (4.5 per cent). The official position of Estonian governments has been that most of this Russian-speaking minority are migrants, as they arrived in Estonia after the beginning of Soviet occupation (Estonia was quite mono-ethnic before 1940). Accordingly, they can apply for citizenship, but only after quite complicated examinations (language, Constitution and culture).

During Estonia's 20 years of independence, the OSCE, the Council of Europe and also the European Union have made attempts to convince its governments that at least part of that minority deserves privileged treatment regarding the question of citizenship, as they have been living in Estonia for more than 50 years. In practice, the integration has been slow but peaceful, the only open protest having been caused by the removal of the statue of the 'Bronze Soldier' (the symbol of Soviet domination in Estonia) from Tallinn's city centre in 2007. On the positive side, the permanent residents of Estonia have from the very beginning had access to education, pensions, unemployment and other subsidies equal to Estonian citizens. The hottest debate has been caused by the question of the future of the Russian-language schools. According to the official 'Estonian Integration Strategy 2008–2013' the government's priority is to increase the number of citizenship holders by relaxing some Estonian language requirements and offering free language training.

The population dynamics of Estonia is characterised by two central tendencies that have become especially influential in recent years, with both necessitating reforms in the social security system. First, the population decrease which started in the 1990s continues (Figure 8.3) and, second, the population is ageing. By the beginning of 2009, the Estonian population had decreased to 1.34 million, i.e. approximately 32,000 fewer people than in 2000. In 2008, the rate of people aged 65 or older was 25.3 per cent when compared with the working-age population (aged 15–64) and this indicator has continuously increased since 2000. The ageing of the population has a very strong effect on the labour market. Considering the proportion of people aged 5–14 and people aged 55–64, it can be estimated that more people will leave the labour market than enter it in the forthcoming decade.

The natural increase of Estonia's population continues to be negative. Mortality has decreased and the average life expectancy has increased both for men and women. While in 2008 the life expectancy of Estonian women at birth was 79.2

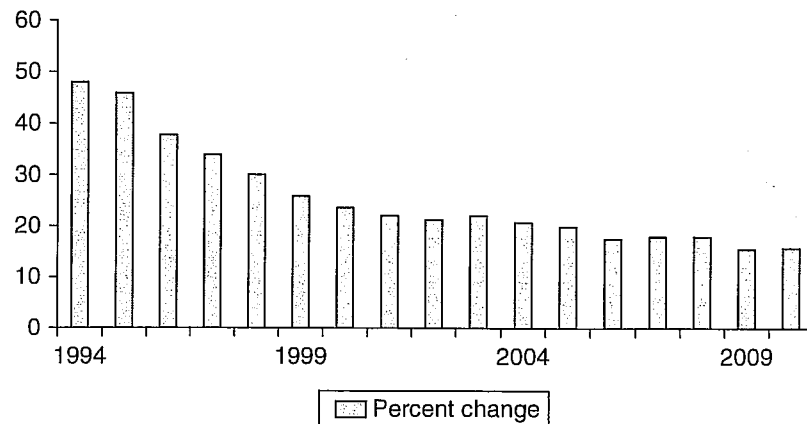


Figure 8.3 Estonia's population evolution, 1994–2010 (million persons).

Source: Estonian Central Office of Statistics, 2011.

years, for men it was 68.6 years. The mortality rate of men aged below 65 is almost three times higher than the mortality rate of women. Another characteristic trend in birth and partnership indicators is that a decreasing number of children are born to married parents. While 45.5 per cent of the children were born to parents in a registered marriage in 2000, this figure dropped to 40.9 per cent of the children in 2008 (Estonian Ministry of Social Affairs, 2009). In 2009, new financial motivators were introduced for mothers that led to a growth in the birth rate; 2010 saw the first positive birth rate after 1993 as 15,881 children were born, while 15,847 people died.

During the years 2004–2010 social services and priorities in Estonia have been seen in a liberal perspective: the state is offering only the minimum level needed. Accordingly, pensions and unemployment assistance are lower even when compared with CEE member states. Social services and benefits in Estonia are mainly financed from the state budget and local government budgets, as well voluntary pension and insurance funds. Social expenditure includes pensions and pension supplements, state family benefits and parental benefits, benefits for disabled persons and other benefits and allowances payable to families financed from social taxes. According to the data of the Estonian Ministry of Social Affairs (2009), 78 per cent of the state social budget expenditure is dedicated to pensions. In 2008, child and family benefits, including the parental benefit, formed another 15 per cent and the portion of social support for disabled persons was 3 per cent.

The percentage of social insurance expenditure in GDP has increased slowly over the period 2001–2008. While in 2001 the expenditure on state social insurance constituted 7.9 per cent of GDP, this level increased to 9.2 per cent in 2008. However, in the same year, the share of social insurance expenditure in the state budget has also decreased by 3.4 per cent (to 25.7 per cent in 2008) (Estonian Ministry of Social Affairs, 2009). The trend, however, is towards higher social protection costs, caused by the ageing of the electorate and growing welfare expectations.

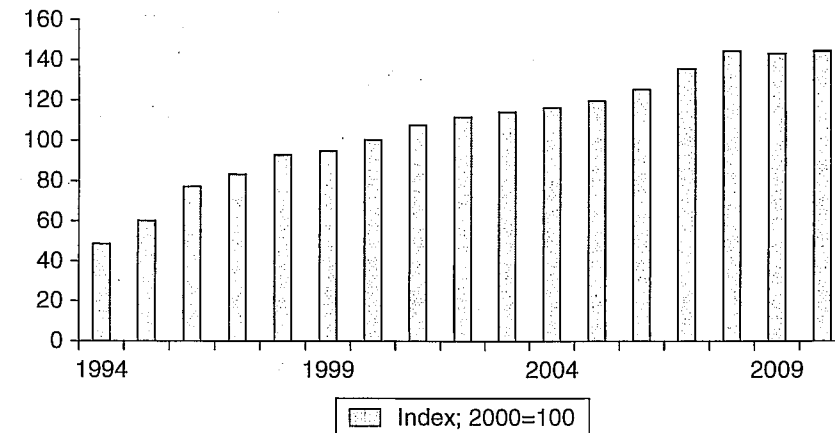


Figure 8.4 Development of the consumer price index in Estonia, 1994–2010.

Source: Estonian Central Office of Statistics, 2011.

Estonia has managed to adhere to the minimum standards of the European Code of Social Security, whereby the average pension should amount to at least 40 per cent of the average gross wages of an unskilled production worker. In 2006, an average pension formed 44 per cent of the average gross wages of an unskilled male production worker. A positive trend in the period 2000–2007 was the reduction in the gap between the average disposable income in Estonia and the average disposable income of households in rural areas.

In 2004, the absolute poverty rate in Estonia was almost 15 per cent. By 2007, the proportion of poor households had decreased by around two and half times (2.39), dropping to 6.2 per cent of all households living under the absolute poverty line. In Estonia as in the other EU member states, the relative poverty line is considered to be at 60 per cent of the median income. Even though the threshold value of relative poverty almost tripled between 2000 and 2007, the general rate of relative poverty in Estonia only changed by 1.2 percentage points, increasing from 18.3 per cent in 2000 to 19.5 per cent in 2007. In comparison to other EU member states, the Estonian relative poverty rate in 2007 was close to the average level of the EU-27 (17 per cent), similar to those of Lithuania and the United Kingdom, but twice as high as in the Czech Republic, the Netherlands and Iceland (Estonian Ministry of Social Affairs 2009).

The dynamics of the consumer price index and inflation has been important topic in political debates and election campaigns: first, because of the high inflation of the rouble before the introduction of a national currency; and second, because it is one component of the Maastricht criteria to join the euro area. The Estonian government has taken active measures to control inflation and consumer price index to meet the eurozone criteria in 2009–2010 (Figure 8.4).

At the EU level the Estonian government is not supporting common social security initiatives, seeing it as an additional cost to budget for, and also as a barrier to

maintaining national competitiveness. The only supported initiative is the idea of a common European pension age, as it would be higher than the existing Estonian pension age and would therefore help the government to cut social costs even further.

Labour supply and flexibility play a crucial role in Estonia's long-term economic development. Problems are caused by a negative birth rate, an ageing population, and the migration of young skilled workers. Moreover, Estonia's productivity was only 47.8 per cent of the EU average in 2008, when adjusted per purchasing power. It is comparable only with Latvia and Lithuania and bypassed by all other EU member states (Eamets and Paas, 2007). Labour supply in Estonia has also been constantly decreasing since independence. The reasons for this are both the negative birth rate and the quite high level of labour migration to other EU member states. This process has been increasing during 2004–2008 and decreasing in 2009 due to higher levels of financial support provided for child-birth (Estonian Central Office of Statistics, 2010). The Estonian employment structure is close to the structure prevailing in other developed countries in Europe. The role of the agricultural sector is even lower than the EU average, and the share of industry has remained rather high. The share of employment in the service sector is one the lowest in the EU (Eamets and Arro, 2000: 122).

The Estonian labour market has been highly unstable. At the end of 2007 unemployment was less than 5 per cent, but reached more than 15 per cent at the end of 2009. The low level of official unemployment has been caused by low unemployment benefits at only 16 per cent of the minimum salary in 2004, and 23 per cent of minimum salary in 2008. The official unemployment rate in Estonia has never reflected real unemployment very well. Labour surveys have in some cases even showed unemployment levels to be twice as high as the official rate (Arro *et al.*, 2001: 20). The government's official policy has also been to stay quite passive on the question of labour market stability no matter how low or high the unemployment levels are.

In 2008, Estonia's level of unemployment was still lower than the EU average, but at the beginning of 2009 Estonia joined Spain, Latvia, Lithuania and Ireland in the group of the EU member states with the highest level of unemployment. Expenditure on active labour market measures has increased, thanks to the implementation of the European Social Fund. After the joining the eurozone in January 2011, unemployment started to gradually decrease.

Less than 25 per cent of the members of the Estonian parliament have been women during the re-independence period. In 2007 the percentage of women among MPs was 24 per cent, which is the largest proportion since 1992. An important prerequisite for women's election into parliament is their representation among election candidates. The 2007 general elections indicated a positive shift, as in comparison to the general elections of 2003, the percentage of women among election candidates increased from 21 to 27 per cent. Among civil servants in the ministries the balance between genders is quite the opposite, where, because of low salary levels, more than 77 per cent of civil servants are female (Toomla, 2011).

Men and women in Estonia are also employed in different fields of activity and occupations. Women are traditionally dominant in those fields and occupations

somehow less valued in society, for instance as child-minders, teachers or social workers in welfare services (but also as civil servants as mentioned before). Men on the other hand dominate criminal statistics with 94 per cent of prisoners and 89 per cent of criminals being men (Estonian Ministry of Social Affairs, 2009). The difference between the average hourly gross wages of men and women in Estonia is larger than the EU average. According to 2007 data the wage gap between men and women in Estonia (30.3 per cent) was the largest in the European Union.

Education is also an important resource that is accessed differently by gender. The majority of school dropouts in Estonia are boys, who may or may not continue their education and whose future in the labour market is therefore problematic. Accordingly, in 2009, a majority of students (66 per cent) were female. In 2008/2009 female students were dominant in the fields of education (92.2 per cent), and health and welfare (88.8 per cent), while the proportion of female students was lowest in the field of technology, production and construction (Estonian Ministry of Social Affairs, 2009).

Conclusion

Successful EU membership and being 'the best pupil in the class' has been seen as the first priority both for the political elite and the electorate in Estonia during the first six years in the Union. European integration has been seen as a best possible hope for building up the welfare state and guaranteeing social security. Copying the existing EU legal solutions and other member states' political systems was often seen as being better than rebuilding and developing Estonia's own unique approach. Accordingly, Estonia has been quite effective in the harmonisation process of EU legal acts.

Considering historical circumstances and the comparative progress of its Baltic neighbours, Estonia's transition process is internally seen a success story, at least in the opinion of local policy-makers and also by most of the electorate. On the other hand, Estonian transition choices have been quite specific, including a radical currency reform, fast privatisation and 'shock therapy' during the pension reform. As a result, Estonia finds itself at the top or at the bottom of most scoreboards where fastest economic growth is combined with the weakest social protection. According to the human development (HDI) scoreboard in 2009, Estonia finds itself at the same place as 15 years beforehand (ranked around 40). The same effect appears in terms of purchasing power, as Estonian purchasing power is approximately 68 per cent of the EU average, but the gap has not closed during the last four years. In parallel with GDP growth, the total debt of the private and public sector had grown to 120 per cent of GDP in 2010. The main question concerning Estonia's long-term economic prospects is if innovation and export ability actually start to grow with EU support to provide sustainability. Compared with other CEE countries, Estonia did well in institutional integration, achieving political stability and economic liberalisation, but has been lagging behind in social development.

While Estonia headed towards the *thin* liberal state after its independence, accession to the European Union in 2004 changed it in many aspects. At first, a

fast labour migration started, pushing the salary levels higher and, combined with the real estate boom, reduced Estonia's export competitiveness. In parallel, the economy turned more towards internal consumption and became less innovative. On the other hand, the importance of the agricultural sector and food production started to grow again due to EU subsidies. EU regulative aspects and support measures also influenced regional development and external trade. At the same time the government kept its original approach of limited government interference and budget stability during the initial EU membership years.

In the year of its accession Estonian society was one of the most polarised among EU member states. This difference has been lowered during Estonia's EU membership, mainly due to EU regional and agricultural supports but not following structural changes in the Estonian legal or economic system.

There has been no significant development in terms of participation and democracy since the EU accession in 2004. Public debate on important EU matters is decreasing and the government is dominating the policy-making process. For example, a public debate on the Lisbon Treaty was found unnecessary as there had already been a debate on the Constitutional Treaty. Voters also feel that the European Union's and civil servants' role in policy-making is growing, while the parliament's role is actually decreasing. Mandatory relations matter less and less every year and legislation becomes more anonymous. The European Union has also re-created a tradition of guided debates, where some criticism of new EU initiatives is allowed and sometimes also funded, but not the direct opposition of states' pro-Europe policies.

The balance between the pressures of Europeanisation and the challenges of internal politics is still under discussion in Estonia. For instance, most concerns towards the accession criteria and evaluation were related to political criteria, especially the question of the treatment of minorities. While EU criticism was seen impartial in many aspects, it was deemed to be subjective when the local Russian-speaking minority was categorised as a minority by the European Commission, but as migrants by the Estonian government. These different points of view are understandable due to 50 years of Soviet rule and the policy of the Russification of Baltic territory. In 2011, when questions of minority treatment have lost most of their importance, the Estonian public and media wonder with concern whether they really have the active power to influence the European Financial Mechanism build up and energy relations between the European Union and Russia. On the other hand, Estonia would like to see the European Union as a unified security and economic partner, especially in relations with Russia, hoping that this trilateral partnership will be beneficial for all sides.

But what is Estonia's role today as a member state? According to the researches conducted by Tartu University (Veebel, 2009b, 2010), the majority of civil servants participating in committees and council workgroups see the Estonian state as a 'policy taker', 'potential policy taker' or 'conditional policy supporter'. In rare cases was Estonia also seen as a potential 'policy opposer' if its vital interests were not met, for example in energy policy, or a 'policy killer' in areas where some new rules are seen to be against liberal market principles,

such as tax harmonisation proposals. Estonia is a 'policy driver' in only a very few cases, mainly concerning integrating, setting up electronic databases or pushing its so-called common e-market initiative.

In conclusion, most of the Estonian population and elite sees the country's accession to the European Union as a very successful project which has fulfilled its goals. There has been less analysis about what price was paid for developing Estonia's welfare state, as well as if the growth is sustainable. The Estonian government is also often pointing to the need to have solidarity with the ESM and the Euro Pact. At the same time, popular support for EU membership and pro-European governments also seems to remain strong, according to reports from 'Estonia Today' (2008), an official poll by the Press and Information Department, Estonian Ministry of Foreign Affairs.

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9 Romania

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Introduction

Since joining the European Union, Romania has been plagued by political instability brought about by an ever more polarised political elite and serious social problems resulting from the migration of thousands of workers into more prosperous EU member states. The economic growth registered in 2008 has been largely offset by deep economic recession and a financial crisis that will continue to erode the purchasing power of the Romanians, whose earnings lag behind other EU citizens. Although it joined the Union four years ago and has undergone post-communist transition for more than 20 years, Romania is not yet a consolidated democracy where state dignitaries serve the common interest, acts of corruption are prosecuted even when committed by high-ranking politicians, the rule of law is strictly observed, basic freedoms are respected, and citizens meaningfully participate in the political decision-making process between elections. With respect to almost all socio-economic indicators, Romania still lags behind other EU states, and the overall progress it has registered since 2007 remains modest.

This chapter discusses Romania's difficult road to EU membership, which ended on 1 January 2007, three years after most other post-communist countries became members. While Romanians have enthusiastically supported enlargement, EU officials and citizens remain sceptical of the country's ability to meet Union standards and to consolidate democracy and the market economy. The chapter then presents the political, social and economic developments since January 2007, paying attention to the way in which EU membership has shaped reality in the country. Based on evidence collected from a variety of sources, it is argued that it is still too early for EU membership to have meaningfully influenced the country, as the European Union's overall influence on the country has been negligible since 2007, and Romania has even registered some regress after gaining EU membership, due to the global financial crisis that started to affect the country in 2009. While the country's regress was not rooted in EU policies, Romanians have been quick to notice that the benefits of EU membership were unable to offset the effects of the global financial crisis. This could explain why Romanians have dampened their enthusiasm for EU integration and EU citizens have remained sceptical of the country's chances to match European standards in the near future.

At the time when Central and Eastern Europe democratised, Romania faced significant challenges that placed it at a disadvantage relative to its neighbours. The