

Estonia 2001: European Union, Full Speed Ahead

Nothing manages to rock the Estonia speedboat to reform in 2001

by Aksel Kirch

Estonia's main priorities for last few years have been European Union accession, NATO membership, and increased international business and trade cooperation. Estonia's final and historic placement in a united Europe calls for great efforts toward economic transition and changes in domestic and foreign policies. It is to that end that the country, Eastern Europe's poster child, expended the bulk of its 2001 reform and other efforts. And, aside from the surprising results of presidential elections and a shaky coalition, Estonia passed the year without rocking any major boats and setting its sails on positive economic growth and the closure of a great number of chapters in EU negotiations.

THE POLITICAL SCENE: STABILITY AND SURPRISE

Politically, 2001 was characterized first by relative stability, then by the unexpected results of presidential elections followed by quarrels and splits within the coalition. The first half of the year saw some progress with regards to reform. A coalition of three parties—Pro Patria Union, Reform Party, and Moderates—held the majority in parliament (**Riigikogu**) as well as in the Cabinet.

Much needed pension reforms were pushed through and expected to be implemented in 2002, for instance, but important administrative reforms were largely unsuccessful. At present, there are 247 separate municipalities, each with its own budget and financial administration. It has long been recognized that the system is expensive, unwieldy, and inhibits effective control over public spending. Accordingly, the government attempted in mid-2001 to propose a restructuring of the system of local government with the intention of substantially reducing the number of independent administrative units. However, that proposal was sunk before it hit parliament and attempts at reform are still underway.

As far as the political scene was concerned, it was undoubtedly the presidential elections that highlighted the year. Among the four candidates running, Arnold Rüütel--nominated by the opposition Estonian People's Party--was elected as Estonia's president on 21 September. His opposition victory took analysts by surprise. As a result, the ruling coalition began to disintegrate near the end of the year. Shortly after parliament passed the 2002 budget on 19 December, Prime Minister Mart Laar announced that he would resign from his post on 8 January 2002, following a political struggle in the Tallinn City Council where one member of the coalition—the Reform Party—withdrawed to form a new coalition with the opposition Center Party. Former opposition leader Edgar Savisaar was named mayor of Tallinn.

Politicians continued to talk about the possibility of extraordinary parliamentary elections. But President Rüütel expressed his belief that the new government would be formed by the Reform Party and the Central Party with Finance Minister Siim Kallas as prime minister. Negotiations began but political analysts remained skeptical about the stability of the new alliance, since the Reform Party and the Central Party held relatively antagonistic views about economic policy.

ECONOMICS AND THE EU ACCESSION OBSESSION

Estonian foreign policy is dedicated to ensuring the country's security and finding a worthy place for the country in the free world. In order to guarantee national security the government has focused strongly on nurturing the country's international image. Though recent Estonian foreign policy has focused more on economic issues, security for Estonian companies, and access to foreign markets, accession negotiations with the EU in 2001 were also extremely important, as was being able to address the needs of the public in understanding and following the negotiations.

The question of EU membership will be decided by popular referendum. According to the Applicant Countries Eurobarometer from October 2001, Estonian people have adopted a rather skeptical opinion about accession to the EU. [LINK \(http://europe.eu.int/comm.dg10/epo/aceb_en.html\)](http://europe.eu.int/comm.dg10/epo/aceb_en.html). A considerable part of the integration process is internal work, requiring significantly more attention and activity on the part of both the government and the parliament than has been the case so far. The former Coalition promised to guarantee Estonia's readiness to join EU by 1 January 2003.

The year also marked the first time that the state budget was being prepared according to the State Budget Act, in force since 1 January 2001. That increased the transparency of the budget process and the efficiency of fiscal policy.

Foreign investments, in turn, had a considerable impact on the technological basis of industry and reorientation to Western markets. In exports, the share of high-tech and higher value-added products was increasing; although the private sector's foreign debt also increased relatively fast, and its ratio to GDP remains modest. It was essential that Estonia's fiscal policy remained conservative. In view of the pension and health care reforms and the costs related to joining NATO and the EU, lowering the tax burden in the coming years is quite an ambitious plan; in order to lower structural unemployment it is important to constantly adjust the education system and liberalize the labor market.

The switch to euro currency in the beginning of 2001 was smooth. All banks were ready to exchange national currencies into euros since their first working day in 2001. In bigger supermarkets prices were promptly given in Estonian kroons as well as in euros. Foreign direct investment amounted to 8.1 percent of gross domestic product (GDP) in 2001, up from 5.9 percent in 1999. Since 2000, re-invested profits have been free from corporate taxation. This encourages investments and stops an outflow of capital from the country.

The government expected real GDP to rise by 5 percent in 2002, as it did in 2001. Economic growth would continue to be export-led, with investment expected to become the second engine of growth. Barring further unforeseen external price increases, the rate of average consumer price inflation was expected to remain between 4 and 5 percent in 2002. According to prognosis, with economic growth, the rate of unemployment should continue to decline somewhat from its present high level of 13-15 percent. However, that was predicted by most experts to be a gradual process, as the rapid transformation of the economy would continue to lead to dangerous closures of labor-intensive enterprises.

Throughout the year, Estonia maintained a very liberal external trade and payment regime. Land privatization was making slow but steady progress. Privatization was moving along slowly due both to slow administrative processes and the lack of demand in some areas. As a

result, the land market is only slowly emerging. Big enterprise privatization was well advanced by the end of the year. And in February 2001, authorities decided to close down the Privatization Agency.

As regards the oil-shale industry, privatization of the Narva Power Plant--which represents most of country's generation capacity and controls parts of the domestic oil shale industry--has been launched, resulting in the decision to sell 49 percent to a private U.S.-based company, NRG Energy. Due to certain circumstances, however, the agreement wasn't signed in 2001 and the privatization of the Narva Power Plant remains hanging in the balance. One of last decisions made by Minister's Cabinet was to terminate the negotiations with NRG Energy for the privatization of Narva Power Plant. After six years of relatively unsuccessful negotiations, such a move was accepted by a large part of the public, but irritated U.S. investors from NRG Energy. The president of NRG Energy, Dave Peterson, gave an interview in Estonian media where he related Estonia's perspective in the NATO accession process to the privatization of the Narva power station by NRG Energy. Railway privatization, on the other hand, has taken remarkable steps forward with the sale of 66 percent of the shares of Estonian Railway.

In August 2001 the international rating agency Fitch upgraded Estonia's long-term foreign currency rating or sovereign rating to A-, short-term foreign currency rating to F1, and long-term local currency rating to A+. Estonia's previous sovereign rating was BBB+ and the A-category rating was assigned to the country for the first time. Fitch considers the strength of the Estonian economy to be smoothly functioning with a largely foreign-owned banking system, extensive foreign investments, consistent economic policy, and good progress made in accession talks with the EU. The rating agencies Moody's and Standard & Poor's have assigned Estonia similar ratings--BAA1/BBB+. In January 2001, Moody's Investors Service, in its 2000 report, estimated Estonia's rating outlook to be "stable." Among Central and East European countries the same rating has been assigned to Poland and the Czech Republic, while the ratings of Hungary and Slovenia are one notch higher. In its report Moody's positively evaluated Estonia's market economy reforms, but expected the results of several ongoing reforms--pension reform, creation of a unified financial supervision authority--and clarity in the timeframe of EU accession. The end of the year indeed brought more clarity, and by January 2002, Estonia had closed 20 chapters in EU accession negotiations. (15:46 15.11.2001)

According to ratings (published in Estonia in April 2001) -- given by reputable institutions Heritage Foundation and The Wall Street Journal -- Estonia is considered one of the most liberal economies worldwide. This rating placed Estonia's economy to the fourth place (together with Ireland, Luxemburg, Netherlands and USA). Only Hong-Kong; Singapore and New Zealand were considered more liberal.

CIVIL SOCIETY AND MEDIA: STAGNATE BUT OPEN AS EVER

Statistics concerning civil society in Estonia were still incomplete in 2001, making it impossible to draw any wide-reaching conclusions. Survey data showed mostly that the majority of registered organizations are relatively weak and inactive, the strongest being religious and sports associations. LINK (<http://www.undp.ee/nhdr99/en/2.2.html>). The low number of associations responding to poll reveals that the current potential of civil initiative in Estonia is significantly lower than the number of officially registered associations would indicate. Unfortunately, there is no reliable data on Russian-language civil associations.

As far as the Estonian media is concerned, 2001 offered nothing too exciting, and by all counts, the country's media has remained independent. There were visible changes in the popularity rating of media channels, but that was in no way related to issues of freedom. Radio and daily newspapers have lost some of their previous popularity, while the popularity of television, journals, and the Internet has grown significantly throughout the year. There are still three Estonian television channels with different Estonian-language programs, although the private TV1 went bankrupt half way through the year.

According to a survey conducted by EMOR in 1993, 78 percent of the population read at least one daily newspaper regularly (<http://www.emor.ee/arhiiv.html?id=821>) LINK. In August 2001 the corresponding number was 73 percent. In 1993 there were nine nation-wide daily newspapers issued in Estonian, today there are only six.

CORRUPTION AND LAW: A SHINING EXAMPLE

Corruption is relatively limited problem in Estonia, and 2001 was no exception. The legislative framework has been further strengthened by the new Penal Code adopted in June 2001 in line with EU standards for anti-corruption measures, particularly as regards the criminal liability of officials with respect to funds received by third parties.

In addition, Estonia ratified the Convention on Laundering, Search, Seizure, and Confiscation of the proceeds from Crime. In December 2000, Estonia had already ratified the Council of Europe's Civil Law Convention on Corruption. However, as of the end of 2001, the Criminal Law Convention on Corruption, though signed, was not yet ratified. Estonia has been participating in the Council of Europe's group of states against corruption (GRECO). Jointly with its two Baltic neighbors, Latvia and Lithuania, Estonia has also been participating in the Baltic Anti-corruption initiative, supported by the secretariat of the Organization for Economic Cooperation and Development (OECD).

The government also made some progress in relation to social issues that worked to further conform domestic legislature to EU standards in 2001. In the area of labor law, Estonia decided to implement the *acquis* by single independent legal acts, instead of using the earlier planned Labor Code. Key legislation adopted during the time of writing included the Working and Rest Time Act, adopted in January 2001, and the Holidays Act, adopted in April 2001. Both were to be implemented in January 2002. Those acts served to align Estonian legislation with a number of EC labor directives. Furthermore, the Unemployment Insurance Act of June 2001 covers provisions on collective redundancies and insolvency of the employer.

Progress was also made in regards to equal treatment for women and men. An amendment to the Wages Act adopted in May 2001 promised introduce the principle of equal pay for work of equal value into Estonian legislation. The amendment was to be implemented in January 2002. The Holiday Act mentioned above also contains important provisions on paternal leave.

Estonia continues to promote social dialogue on a tripartite level, as well as on a bipartite level. Tripartite negotiations are actively held by the government, the trade unions (Estonian Employees Unions Association and Estonian Central Union of Trade Unions), and the representatives of employers (the Estonian Confederation of Employers and Industry). Those

consultations have mainly focused on the minimum wage, income tax, unemployment benefits, and social security reform.

The Social Welfare Act was amended to extend the right to social services, social benefits, and other assistance to Estonian permanent residents, aliens lawfully living in the country, and refugees. The amendment, adopted in June 2001, was to be entered into force in January 2002. The implementation of the National Program for Disabled People has likewise continued. The Social Benefits for Disabled Persons Amendment Act entered into force in January 2001. The act establishes new types of social benefits for disabled persons, compensating them for supplementary expenses resulting from their special needs, and so facilitating their integration into society.

A GOOD REPORT CARD

Estonia has indeed taken leaps forward in the transition process, and most international ratings agencies, as well as human rights groups and international nongovernmental organizations recognize that this small Baltic country is a shining example of the post-Soviet transformation and the process of integration into the EU. On nearly all fronts, Estonia continued to advance their progress during the year 2001. Economically, Estonia has demonstrated adequate flexibility in successfully and relatively quickly overcoming the recession that resulted from the world economic crisis. And radical reforms, a growing friendly business climate, well-developed infrastructure, and a skilled workforce continued through 2001 to serve as a catalyst for attracting important foreign investment. Though there are still a few kinks to work out of the chain of Estonian reform—its small economy's dependence on the external environment, a large current account deficit, high unemployment and regional inequality, costly environmental damages, and political tension with Russia—over all, the country's report card for 2001 can be seen as nothing short of a success, with all predictions pointing to further second for 2002.

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