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**“Sandwiched between the EU and Russia: Politics, Economics and Energy
in the Baltic States”**

I would like to thank the Japan Institute of International Affairs for inviting me here today and both the Japan Foundation and the Japanese Ministry of Foreign Affairs for giving me the opportunity to come to Japan. Although the Latvian Institute of International Affairs, an independent research organization, is very closely associated with the Latvian Ministry of Foreign Affairs and Ministry of Defense, please keep in mind that my presentation today does not represent the official position of the Latvian government.

I have used the word “sandwiched” in the title, but the three Baltic states are, of course, already part of the EU and so not really between the EU and Russia. In a more philosophical and geopolitical sense, however, the Baltic states find themselves culturally, politically and economically between Brussels and Moscow. The three Baltic states have a variety of similarities. They are all small countries – Latvia has a population of 2.3 million, Estonia 1.3 million and Lithuania 4 million – and for that reason they have historically fallen victim to neighboring powers, they have suffered the legacy of planned economies, and they were particularly monitored by US in its following Soviet activities during the Cold War. The three Baltic states also share in common popular backing for NATO membership as well as an affinity for the East European countries of Georgia, Moldavia and Ukraine and support for their membership in the EU and NATO. At the same time, we also have our differences. Estonia, for example, intends to join the euro next year but Latvia and Lithuania will not likely do so until 2014 because they cannot yet satisfy the Maastricht criteria on fiscal deficits. The three Baltic states have been competitors in past EU membership negotiations and in the economic arena. There are strategy differences as well. Estonia sees its alliance with Finland as being of utmost importance; economically the country is enjoying an influx of highly transparent capital from Finland, Sweden and elsewhere, and the business cultures of these countries are being imported alongside this capital. By contrast, Latvia is in a

more divided state, while Lithuania had no choice but to opt for neighboring Poland as an alliance partner. Overall, economic competition among the three Baltic states in particular has had a positive influence.

The Scandinavian countries served as important role models for the development of the Baltic states, but this fact has also been pointed out as a cause for the economic crisis. For instance, 50% of the capital in Latvian banks is Swedish capital, and the Latvian Ministry of Foreign Affairs admonished Sweden when excessive credit expansion by Sweden led to a bubble (the 2006 surge in Latvia's real estate prices was the world's most rapid).

Let us now turn to the EU. The "return to Europe" played an extraordinarily large role in establishing the identities of the Baltic states in the early 1990s. The foreign policy platforms of all political parties advocated membership in NATO and the EU. Currently the Baltic states are confronting the more difficult questions of what roles they should play within the EU and NATO and what relations to build with Russia. Because we have to a degree compromised our sovereignty with membership in the EU and NATO, allowing many important decisions now to be made in Brussels, some have voiced the opinion that the empire's center has merely shifted from Moscow to Brussels. I myself am a Euro-supporter so, despite the negative aspects and risks of globalization apparent in the decline of the agricultural sector and the influx of European capital into the financial sector, I am optimistic that EU membership will give us the opportunity to catch up. In contrast to the absence of help during the 1930s crisis that led to our annexation into the Soviet Union, we received assistance during the latest crisis from the EU, the IMF and neighboring countries. Thanks to the Maastricht criteria, Latvia's and Estonia's fiscal discipline is also better than that of Spain, Italy and other long-standing member states. The EU has clearly surpassed Russia as a trade and investment partner for the Baltic states.

EU integration is closely tied politically and psychologically to NATO integration. In our relations with Russia in particular, the fact that we are members of NATO and thus enjoy the protection of the US is extraordinarily important in terms of security. The first NATO summit ever in a former Soviet republic took place in Riga in 2006. Overall we are pro-US, to the point that we have on occasion been termed "the US' Trojan horse in Europe." While the previous Bush administration focused its attention on a democratic and free Europe, the Obama administration has been emphasizing Asia, Africa, South America, Russia, etc., more than Central Europe, so relations between Central Europe and the US have become somewhat complex of late.

Relations with Russia are also complicated, and one public opinion poll shows that Russians rank the Baltic states alongside Georgia and the US as the countries most unfriendly to their own. The Baltic states' membership in NATO, the treatment of Russian-speaking residents within these states, and pipeline issues are among the influences on Russian public opinion. Nevertheless, the antagonism between the Baltic states and Russia might even be considered necessary for establishing our identities. In the 1990s, Russian-speaking residents whose ancestors had not lived in Latvia prior to World War II were not granted citizenship, even if they were born and raised in Latvia. This exclusion could be called undemocratic, but in my opinion there was no other choice in the 1990s. Now that we have achieved membership in NATO and are in more relaxed circumstances, relations with Russia have also improved. We established our national borders with Russia in 2007. At present, Russia has unresolved borders with two countries: Japan and Estonia. The Baltic states' policies toward Russia depend on circumstances, in particular EU-Russia relations, but the environment at present is of a second reset. The first came in the early 2000s when the Putin administration improved relations with the US. Relations subsequently chilled due to the political turmoil in Georgia and Ukraine, the Khodorkovsky incident, and the Georgian crisis. The situation changed once again in 2009 with the economic crisis, and Russia is now seeking investment from Europe to modernize its economy. Consequently, the reset policy has been motivated by a number of factors, including not only the emergence of the Obama administration but also the need for economic cooperation and circumstances within Russia. The Baltic states naturally have their own independent policies aimed at improving relations with Russia, but at the same time we should never forget the larger context.