

# **The Cornerstone of Economic Nationalism: National Self-image**

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**Fudan Journal of the Humanities and Social Sciences**

**ISSN 1674-0750 Volume 12 Number 4**

**Received: 25 January 2019 / Accepted: 25 July 2019 / Published online: 23 September 2019 © Fudan University 2019**

## **Abstract**

The focus of this article is Estonia's post-socialist economic transition and the reasons behind the liberal nature of the country's economic policies. I argue that the self-image of a nation plays a significant role in shaping its economic policies. Objectives associated with economic nationalism can be achieved through various means that can include strategies of economic liberalism as well. Thus, the concepts of economic nationalism and economic liberalism are not a dichotomy. I examine the construction of the Estonian self-image through the discourses of radical individualism and industriousness, historical suffering, desire for freedom and return to Europe and sense of abandonment. By showing how these discourses interact with the liberal paradigm, I claim that Estonian policy-makers chose liberal economic policies because they perceived them to most effectively serve their objectives. When economic policies are examined in view of the national self-image and motivation of policy-makers, the incongruence between economic nationalism and liberal policies disappears. **Keywords** Economic nationalism · Liberalism · Post-socialist transition · Estonia · Baltic · Central and Eastern Europe

## **1. Introduction**

Economic nationalism is on the resurgence. Donald Trump, President of the United States recently declared that he is a 'Tariff Man' to whom national interests always come first. Brexit has dealt a blow to the liberal trend in global trade (The Economist 18.05.2019). Although Brexit has a strongly nationalist character, it is not a uniquely British phenomenon. Economic nationalism has gained strength in various European countries as well (Hopkin 2017).

Even though both Donald Trump's policies and Brexit lead to the rise of trade barriers, economic nationalism does not have to mean protectionism. Traditionally, economic nationalism has been associated with protectionism and mercantilism that contradict liberal policies with their emphasis on free trade and a passive, non-interventionist state (Baughn and Yaprak, 1996; Nakano, 2004; Abbas, 2017). However, Shulman (2000), Helleiner (2002), Pickel (2003), Nakano (2004) and Johnson and Barnes (2015), and Reznikova, Panchenko and Bulatova (2018) all provide evidence that liberal policies can be compatible with economic nationalism.

The argument of this article is that the self-image of a nation is a crucial determinant of economic policy decisions. It defines the objectives as well as the strategies chosen. Depending on the objectives and the national self-image of policy makers strategies of economic nationalism can also include liberal policies. By using policy formulation in Estonia as a case, I show how Estonian national self-image has shaped economic policymaking in

post-socialist Estonia leading to policies manifesting features of both economic nationalism and economic liberalism. I analyse the construction of Estonian self-image through a set of discourses: radical individualism and industriousness, historical suffering, desire for freedom and return to Europe, and sense of abandonment. By demonstrating how these discourses interact with the liberal paradigm I argue that Estonian policy formulators decided to pursue liberal policies because they perceived them to best serve their objectives of regaining and maintaining their sovereignty, breaking away from the geopolitical, economic and cultural influence of Russia, and reorienting their economy towards Western Europe. To Estonian policy makers liberal policies were a tool to achieve their objectives of building a prosperous sovereign state.

The structure of the article is as follows. First, the concept of economic nationalism and its manifestations are discussed. Then an examination of the Estonian economy will be provided followed with a detailed analysis of the discourses of the Estonian self-image and a discussion of how policy formulators actualised these discourses when legitimating their pursuit of the liberal economic policies.

## **2. Economic nationalism**

### **2.1 Are economic nationalism and economic liberalism mutually exclusive?**

The drivers of globalisation – the advancement and diffusion of technology, the internationalisation of production, consumption, input and output markets, harmonisation of economic policies, and standardisation of laws and regulations across borders - all have a

significant impact on national policies and behaviours. The complexity of the world economy, the interdependence of national and regional economies through the extraordinary integration of the supply chain make it practically impossible to decouple a nation's economy from the global economy. Private capital through its locational decisions (i.e. where to invest) can considerably restrict governments in their policy choices. International financial and economic organisations have contributed to the homogenisation of economic policies with their policy recommendations (Pryke 2012; Crane 1998). Hobsbawm (1992, 191) argues that "nationalism is historically less important" and claims the "decline of the old nation-state as an operational entity" in view of the "new supranational restructuring of the globe". In other words, globalisation and the integration of national economies have been eroding the impact of nationalism.

It is nations through their representatives at various national and international institutions that shape economic globalisation. In today's interdependent world locational qualities – tax regimes, the state of the infrastructure, the economic, political and legal environment, spending on health care and education – are all largely determined by decisions made at national governmental level. "As states compete for global capital, we see intense efforts to play up the distinctiveness of local characteristics and competitive advantages" (True 2005, 202). Pryke (2012, 281) promotes the understanding of economic nationalism as a "set of practices designed to create, bolster and protect national economies in the context of world markets". He distinguishes between "nationalist motivation of economic policy" and economic nationalism. Indeed, it would be political suicide for any politician not to dress up economic policies as in the 'best interest of the nation'. As Hobsbawm (1992, 183) states,

“National economies... undermined by the transnational economy, coexist and intertwine with it”.

To Baughn and Yaprak (1996), Capling (1997) and Berend (2000) economic nationalism is equivalent to protectionism as well as neomercantilism. Berend (2000, 317) defines it as “guaranteeing the command of native investors instead of foreign entrepreneurs, thwarting foreign competition in the domestic market by high protective tariffs and other isolationist measures...” In Hall’s (2005, 124) summation, economic nationalism mostly includes policies that liberal economists ‘disapprove’. Economic nationalism emphasises “the anarchic nature of international affairs” highlighting the central role of state-building and the “moral superiority of one’s own state over all other states” (Gilpin 2001, 14) contradicting liberal economic theory which underlines free trade and an economically passive, non-interventionist state. According to Helleiner (2005, 308), liberal economists have referred to economic nationalism to “describe policies they did not like”. This narrative of economic nationalism contradicts liberal policies – the promotion of free mobility of inputs and outputs, and non-discriminatory access to resource and output markets, which involve the dismantling of all forms of trade barriers. Liberal theorists do not dwell on the concept of nation or nationalism but focus on the role of the self-motivated individual and the betterment of free society through proactive rational individual effort unhampered by government intervention.

As multidimensionality of the nation is a common theme in the literature on national identity (Crane 1998), it is not unreasonable to expect a broad range of policies adopted by economic nationalists, including liberal ones. Numerous economic liberals in the 19<sup>th</sup> century were nationalists claiming that liberal economic policies were in the best interest of the nation (Helleiner 2002). Liberalism does not mean that the government should withdraw from all economic matters; as Hayek (1960, 194) argues, “it is the character rather than the volume of government activity that is important”. “The consistent liberal is not an anarchist” (Friedman 1962, 34) but intervention in economic affairs must be evaluated carefully on a case-by-case basis. Liberalism and economic nationalism do not constitute a dichotomy.

There are numerous examples of economic policies bearing the hallmarks of both economic nationalism and liberalism. By examining the role of economic nationalism in the Japanese context of the ‘developmental state’ Hall (2005) argues that economic nationalism needs to be defined not in terms of policies but in terms of its goals and motivations. True (2005) analyses the interdependence between economic nationalism and globalisation in the case of the radical economic reforms that took place in New Zealand. She brings up the creation of Brand New Zealand, the successful marketing of the Chinese gooseberry as the kiwifruit of New Zealand around the world, and New Zealand’s defence of the America’s Cup yachting race as examples of proactive nationalist policies promoting openness and liberalism. Both examples underline the need to study economic nationalism in view of the goals and motives of policymakers.

## **2.2 Economic nationalism in Central and Eastern Europe (CEE)**

In the words of Timothy Frye (2010, 1) “(i)f the watchword of the communist era was conformity, the watchword of the post-communist world is diversity”. Post-communist transition has not followed the neoliberal model of linear transformation from centrally planned economy to free market economy but has gone ‘wild’ (Smith and Stenning 2006, 205) resulting in diverse transformations with uncertain destinations (Orenstein 2001). The countries of CEE have witnessed the emergence of a variety of capitalisms. However, applying the varieties of capitalism (VoC) approach to the transition countries of the CEE has been challenging due to the VoC debate’s focus on the highly developed economies. Regional variations of capitalism have been identified, such as ‘dependent market economies’, ‘patchwork capitalism’, or ‘hybrid capitalism’, which “describe the effect of changes but do not explain their causes or development in the wider sense” (Jasiecki 2018, 338).

The post-socialist reform packages devised for the countries of CEE in the early 1990s were largely undifferentiated with no regard to local conditions. These reform policies were based on the principles of the Washington Consensus, which rested on neoclassical competitive equilibrium models and on the four pillars of privatisation, stabilisation, liberalisation and internationalisation. Economic stabilisation meant the correction of imbalances in government budget, international payments and the money supply, and structural adjustment (Stenning, et al. 2010). To sum it up, post-communist transition mostly consisted of the “transplantation of Western institutions and “modernisation through integration” with the European Union” (Jasiecki 2018, 329).

Policy-makers and their advisors appeared to have an ideal outcome in mind, using phrases, such as ‘Western democracy’ and ‘open market economy’. However, despite the uniformity of policy advice, post-socialist economic transformations did not produce identical outcomes (Stenning et al. 2010, 39). On the one hand, the historical legacies of these countries “deserve attention as one of the important factors shaping developmental trajectories in post-socialist Eastern Europe” (Sokol 2001, 647-649). Berend (2007, 276) also emphasises the significance of “continuity and centuries-long legacies” and the diversity of “customs and values”, which state socialism inherited and which “became amalgamated into the socialist attitude and value systems under state socialism”. On the other hand, as Jasiecki (2018) points out, the impact of the global economic crisis and the different responses of the respective governments are likely to contribute further to the diversification of capitalism in the CEE. Globalisation and the integration of these countries with the European Union (EU) are two significant factors that have a major impact on the development of these economies.

Despite the diversity of economic transitions and outcomes, the countries of the CEE until 2010 were all moving in the direction of a market economy. However, recent developments, such as the electoral victory of populist far-right wing parties in Hungary and Poland, have underlined the revival of economic nationalism. In Hungary, the 2010 landslide victory of the right-wing Fidesz party with Prime Minister Viktor Orbán at its helm represented a drastic shift in the political and economic arena. Hungary, “once the forerunner of democratic performance” (Lugosi 2018, 210) has made a “U-turn” (Kornai 2015, 34). Having won the subsequent elections in 2014 and 2018, Orbán has “entrenched his vision of an



illiberal democracy” (The Economist 05.04.2018). His economic policy – ‘Orbanomics’ – contains numerous illiberal elements, such as increasing state-ownership of enterprises in the banking, advertising, and transportation industries, and introducing ‘super taxes’ on finance, telecommunications, insurance and household energy, and nationalising the formerly private pillars of pension schemes (Kornai 2015). However, Orbanomics also includes liberal economic policies, such as the introduction of proportional personal income tax of 16 percent (Lugosi 2018). Johnson and Barnes (2018, 537) label Orbanomics as ‘financial nationalism’, a “subset of economic nationalism that focuses on using monetary and fiscal policies as instruments to pursue a nationalist agenda”, which does not necessarily contradict economic liberalism. Indeed, Orbán has been happy to accept EU financial support and has been eager to keep the economy open to foreign investment, on which the Hungarian economy is heavily dependent (Götz et al. 2018, Financial Times 22.11.2018).

In Poland the nationalist Law and Justice Party (PiS) took office in 2015. Although Prime Minister Kaczynski has introduced illiberal reforms (The Economist 21.04.2018), the country’s economy is open to the inflow of trade and investment. Despite their illiberal rhetoric neither Hungary, nor Poland have “shaken the inflow of foreign capital” (Götz et al. 2018, 168). Both countries provide examples of the compatibility of economic nationalism and liberal policies.

Estonian policy makers also pursued an agenda of economic nationalism. However, their economic instruments were openly and unambiguously liberal. As demonstrated in the following sections, Estonian policy makers have chosen liberal economic policies in order to accomplish national goals: strengthening national sovereignty and advancing economic development.

### **3 Researching policy formulation in Estonia**

This article is an outcome of a research project aimed at uncovering the motives behind policy formulation in Estonia's post-socialist economic transformation. In this research a qualitative, interpretive approach has been chosen due to the challenges presented by attempting to decouple individuals' value systems and perception of reality. Through investigating the subjective realities of the respondents and presenting as well as interpreting the perspectives of their experiences (Creswell 2007), my aim has been deeper understanding of the causes and reasons of the policy choices of Estonia's leaders. Although there is ample literature (Smith 2001; Feldmann and Sally 2002; Feldmann 2013, *inter alia*) discussing Estonia's economic transformation, a critical qualitative evaluation of the motives behind the country's neoliberal transformation has not taken place.

In order to uncover the respondents' beliefs, attitudes and motives, the primary data collection method in this study was semi-structured, face-to-face interviews. As the objective was to understand the motives of Estonian policy makers behind their policy decisions, participants have been selected by purposive sampling using specific criteria from

a hard-to-reach, specialised population. The interviewees can be characterised as political and economic elites, individuals who were either key decision makers, and/or had a major influence on policy choices of Estonia's economic transition in the late 1980s and 1990s. The findings are based on twenty-three face-to-face, semi-structured interviews that took place in Tallinn, Tartu, London, Brussels and Riga between 2008 and 2015. The interviewees included every prime minister between 1991 and 1997, the President of the Estonian Central Bank who led the country's monetary reform, members of the Central Bank's Supervisory Board, economic and finance ministers, former dissidents and government advisors. A list of interviewees is attached in the appendix. The questions were based on thorough literature review, which enabled me to ask specific questions, to which the answers are not available in public. A well-informed interviewer is in a better position to check the accuracy of information received. The interviews lasted between one and a half and two and a half hours. The interviews were supplemented with alternative forms of data collection. Some of the best sources were the local media, such as daily newspapers. With two exceptions, all interviews were recorded with the permission of the interviewees.

Over thirty hours of recording has been transcribed and subsequently analysed with the aid of NVivo software, which proved useful to organise the interview content along the various themes that emerged and to locate information more easily. I did line-by-line coding, focusing on the emerging themes. The headings of the article are based on the main themes of the findings. In order to ensure trustworthiness of the findings, member checking, self-critical reflection and triangulation were used. The information gained from the interviews was compared and contrasted with documentary evidence and databases of national and

international organisations, such as the Statistical Office of Estonia, the Central Bank of Estonia, the European Union, pre-accession reports prepared by the EU and country evaluations carried out by the IMF, World Bank, the Organisation for Economic Co-operation and Development (OECD), United Nations Conference on Trade and Development (UNCTAD) and the United Nations Development Programme (UNDP).

Data collection and analysis were carried out following ethical research guidelines. This has been an overt and independent research project. Interviews were held with the informed consent of the participants. The interviewees referred to in this article have given their informed consent to be recorded and identified.

#### **4 The Estonian economy: ultraliberal economic policies**

Estonia's policies are markedly more liberal than of other transition economies. In Feldmann's (2017, 33) words, the country is "commonly viewed as a prime example of a liberal market economy". Firm belief in the virtues of the market, the supply-side orientation of economic policies, the minimalist and non-interventionist state are all a testament to the liberal nature of the Estonian economy. The current tax legislation, which is one of the most liberal tax systems in the world, places more emphasis on indirect, rather than direct taxation. All corporate reinvested profits are tax exempt. Personal income taxes are a flat rate of 20 percent (Estonian Investment Agency 2018). It has the most competitive economy in CEE (World Economic Forum 2018). In 2018, the country's economy had the highest ranking (15) in the CEE on the Index of Economic Freedom (The Heritage Foundation

2018). The OECD (2017, 10) praised the country's "excellent business environment", its successful integration into world trade, growth-oriented fiscal policies, "resilient" export performance and a public debt that is the lowest in the OECD. The organisation also highlighted inadequate social protection for the unemployed, low levels of unemployment benefits, and income inequality rates that are among the highest in the OECD. The response of the Estonian authorities to the recent economic crisis underlined the liberal nature of their policies. Despite the dramatic fall in GDP in 2008-09 and the sharp increase in unemployment, the administration implemented radical austerity measures. As the accession to the Eurozone was a strategic priority of the administration, currency devaluation was not considered (Feldmann 2017).

The ultraliberal nature of Estonian economic policies was demonstrated by the country's EU accession when international organisations, such as the World Bank and the EU, advised Estonia to 'de-liberalise' them. Estonia's adjustment to the EU *acquis communautaire* meant the de-liberalisation of its economy through the adoption of regulatory measures (Adam et al. 2009), such as introduction of trade barriers and labour market regulations. Interviewee 1 explained the process of de-liberalisation:

*"...when we started to negotiate joining EU suddenly we discovered that when we join EU, we should implement tariffs... Estonia is a unique country in the world. Joining the EU does not mean the growth of liberalisation of trade but the growth of protectionism against third countries."*

The country's economic priorities reflect policy formulators' national self-image, which has been shaped by the following discourses: radical individualism and industriousness, memory of historical suffering, desire for freedom and return to Europe, and sense of abandonment and self-reliance. These will be discussed in detail in the next section.

## **5 Discourses of the Estonian self-image**

### **5.1 Radical individualism and industriousness**

In the words of Pickel (2003, 122), “(e)conomic nationalism is not so much about the economy as it is about the nation – the economic dimensions of specific nationalisms make sense only in the context of a particular national discourse...” Estonia's post-socialist policy choices were mediated by their self-image, their views and memories of Estonian history and culture. In order to understand economic nationalism in a country, an examination of its specific context is essential.

Defining national identity is no easy task. To Hobsbawm (1992, 8-9) ‘nation’ refers to “any sufficiently large body of people whose members regard themselves as members of a ‘nation’”, an evolving social entity. His definition of ‘nationalism’ relies on Gellner, meaning a “principle which holds that the political and national unit should be congruent”. Anderson (1991) defines nationalism as a ‘cultural artefact’, a socio-cultural concept, “an imagined political community – and imagined as both inherently limited and sovereign”. Nationality is a community, “conceived as a deep, horizontal comradeship” (p. 6), an imagined fraternity, the roots of which lie in culture and for which people are willing to make serious sacrifices. Indeed, that imagined community may at times move people to “extraordinary political

action” (Crane 198, 55), as it manifested itself in the Baltic States in the late 1980s and early 1990s where the liberalisation movements were deeply embedded in the reawakening of national identity (Surzhko-Harned 2010).

The self-image of a nation has a clear influence over economic policies in post-socialist transition (Eichler 2005). In the words of the leading Estonian sociologist, Taagepera (1993, 6), national culture is a “murky field of inquiry that has no easy answers, but some quality in Estonians has enabled them to survive and develop with an extremely small population...” Estonian policy formulators categorise the Estonian people as individualistic and self-reliant, which they use as justification for the ultra-liberal model that they have chosen. Estonia’s policy choices were more than a mere economic dilemma. The lenses through which policy makers viewed their options were shaped and chiselled by history and more specifically by their national struggle for survival.

Geography played a significant role in the formation of the Estonian self-image. Estonians perceive themselves as Nordic or Finno-Ugric origins with close historical, cultural and economic links with Scandinavia reflecting European values of ‘civil society’ and a free-market economic orientation, which has been reconstituted following the collapse of the Soviet Union (Lieven 1993, Smith 2001). Estonia’s self-image is firmly rooted in its millennia-long relations with the Nordic countries, which left its imprint on architecture, culture and mentality (Piiramäe 1997). As Estonian Prime Minister Taavi Rõivas stated in March 2015 “We are a Nordic country in terms of culture, in terms of mentality” (Financial Times 02.03.2015).

Estonia is very scarcely populated; it is the second most sparsely populated country in Europe with an area of Denmark but only one-fifth of its population (Statistical Office of Estonia) leaving limited opportunities for socialisation. Their resilient and hard-working nature is coupled with egoism and a large dose of individualism (Lieven 1993) manifesting itself in their preference of technology over human contact. As Taagepera (2002, 254) puts it, “hope for technological-scientific solutions rather than cooperation with fellow humans naturally ties to the belief in hard but individual work”. As Interviewee 2 put it, they are a *“relatively individualistic nation”*. Their ‘radical individualism’ is illustrated in post-socialist Estonia in low levels of trade union membership. Despite the harsh social impact of liberal economic restructuring, Estonian trade unions have been very quiet, according to interviewees, contradicting the “simplistic” assumption that “the role played by the unions will mirror that of their western counterparts” (Herod 1998, 204). The same interviewee underlined the individualistic nature of Estonians that manifests itself in employer-employee relations.

*“They are trying to negotiate with their employer their terms and contracts individually and handle their problems on their own... Estonians rely on individual negotiation and individual dispute resolution rather than collective actions.”*

Industrial relations in Estonia are decentralised with the lowest unionisation rates in CEE. Collective bargaining is rare. In 2009, the drastic austerity measures were introduced by the authorities without a social dialogue (Feldmann 2017).



Norkus (2007) points to the Pietist cultural legacy as an important determinant of Estonian policies of the late 1980s and 1990s. The Pietist 'Herrnhuter' or Moravian Brethren movement - with their firm belief in piousness, values of temperance, personal hygiene, choral singing, self-education and hard work - spread its missions to Estland and Livonia in the 18<sup>th</sup> century. Although all three Baltic Republics experienced 'only' five decades of Soviet rule, as opposed to seventy years in other parts of the USSR, Estonia's economic performance surpassed those of Latvia and Lithuania. He goes as far as labelling Estonians 'Baltic Lombardians' to signify their industrious nature. Miljan (1989) points to the work ethic of Lutheran Estonians as a cause of the relative affluence of the Estonian Soviet Socialist Republic (ESSR) in the Soviet Union and contrasts it with the 'anti-Protestant work ethic in Russia', as the main obstacle to attempts championed by Mikhail Gorbachev, General Secretary of the Communist Party of the Soviet Union, to reform the Soviet economy in the late 1980s. The Economist (06.01.2012) praised Estonia's entrepreneurial record as the "best in the industrialised world". Interviewee 4 discussed the value system of Estonians:

*"...Estonians throughout the history have been quite down to earth, quite realistic, stubborn, and even, which I don't regard as a compliment necessarily, materialistic. Therefore, as it has always been, very important to Estonians to have safe, good home, why not a house, to have a car, etc. materialistic belongings, a good life."*

## 5.2 Memory of historical suffering

The representation of one's own nation victimised by other nations, which is a common theme across CEE (Verdery 1996), occupies a central place in the Estonian imaginary. Their 'memory of historical suffering' is rooted in their nation's and culture's survival despite foreign domination for over seven hundred years, most of which were spent in serfdom (Feldman 2000). The survival of the small Estonian nation, its culture and language in spite of centuries of foreign rule has instilled a strong sense of national identity, as illustrated by Interviewee 3: *"To be an Estonian is not just to belong to a certain nationality, it is a profession!"* Lieven (1993, 18) cites Enn Soosaar, writer and political analyst to sum up the Estonian self-image:

"For centuries, Balts have had only two choices: to survive as nations or to merge into larger nations. You could say that we decided, subconsciously but collectively, to survive. So for us, nationalism is a mode of existence... To survive, you must be nationalist."

The arguments that nation is not synonymous with country or state (Pickel 2005) and that national identity is not merely a representation of state interest (Crane 1998) are applicable to the case of Estonia, as present day Estonia had not taken its current shape until the early 20<sup>th</sup> century either as a unified nation or a single territorial administrative unit. Despite their long presence in Estonia's present territory, Estonia has been a 'self-aware nation' just over a hundred years. The country took its current territorial shape in February 1917 when the provisional government of Russia unified Estland and Northern Livonia into a single administrative unit in response to Estonian demands for increased autonomy. With the approval of the Estonian representative assembly, the Maapäev, the National Salvation

Committee proclaimed independence on February 24, 1918, whereby Estonia became an independent self-aware sovereign state. Up to 1918 there had never been an Estonian state; their national awareness was embodied in their constant struggle to nurture and foster the Estonian culture (Lieven 1993; Smith 2001).

The prosperous years of the First Estonian Republic proved the nation's ability to function as a modern European state, which had an instrumental role during the Soviet era in preserving Estonian culture (Lieven 1993; Taagepera 1993). The nation had an open economy with extensive investment and trade links with the West. Its speedy development was aided by foreign capital, mainly from the country's largest trading partners, Britain and Germany. Economic development was fast; the country's population enjoyed a relatively high level of well-being. By the end of the 1930s, Estonia had a well-developed infrastructure and a skilled industrial labour force with average earnings near Western European levels (Kahk and Tarvel 1997). Despite the authoritarian rule of the late 1930s, the First Republic is remembered as an era of political sovereignty and economic prosperity (Lieven 1993). It has enormous economic, political and social significance in Estonian consciousness, memories of which were kept alive in families throughout the Soviet era (Lauristin 1997). The 'living memory' of the First Republic is repeatedly referred to by Interviewees 1, 4 and 5 as a crucial factor in policy formulation, as it provided experience and self-confidence. The strong desire to 'catch up with the West' in the post-socialist era was significantly enhanced by the experience of the First Republic in the interwar era when life expectancy in Estonia was higher than in Finland (Vihalemm 1997).

The First Republic came to a sudden end when Soviet troops invaded in 1940. The independent Estonian Republic lost its sovereign statehood and became the Estonian Soviet Socialist Republic (ESSR), an integral part of the Soviet Union (Lieven 1993; Smith 2001). During the Soviet era standards of living in Estonia were much below those of Western Europe. The Estonian population did not benefit from their higher than Soviet average productivity rates and efficient agricultural production because the central authorities were constantly increasing export quotas, which Estonian producers had no choice but to fulfil. In essence, Estonian farmers were feeding other Soviet republics (Miljan 1989). To sum up the damage done to the ESSR's economy and the population's standards of living, "the income and consumption level of the Estonian population had dropped to the level of the year 1920; the living standards hardly ever reached the level of the late 1930s" (Kutsar and Trumm 1993, 130). If Estonia had been able to develop in a manner similar to Finland, its per capita output could have been four or five times its level at the turn of the 21<sup>st</sup> century (Klesment 2009) of €4,500 (Statistical Office of Estonia). The state of the Estonian economy in the early 1990s was dramatic; as Interviewee 5 recalled, *"we saw how poor we are", "we didn't have anything"*.

### 5.3 Desire for freedom and 'return to Europe'

Hale (2008, 2) frames ethnicity as a "powerful determinant of the strategies that people use to pursue the things that motivate them", in order to maximise their "life chances" (62). He lists materialism, security, power, self-esteem and status as motives in ethnic group behaviour. He argues that the desire for national independence is strongly associated with long-run economic expectations. Indeed, as Interviewee 6 recalls, the overriding objective of

Estonian policy makers was *“to increase living standards... I think a lot of it was just breaking from East to West... and moving towards Europe...”*

Khazanov (1995) points to the skewed Soviet economic development dominated by the Russian core as a major cause of economic nationalism in the former Soviet Union. Indeed, Soviet domination had a long-lasting adverse impact on its economy, polity, society and above all its national consciousness. Vihalemm (1997) argues that historically Estonia was able to survive and develop under foreign rule throughout the centuries until Soviet annexation because there was no mass immigration to Estonia from its occupiers. Soviet occupation changed that. Whereas on the eve of World War II 92 percent of the country's population were ethnic Estonian, it decreased to 74.6 percent by 1959 and 61 percent by 1988 (Khazanov 1995, 7). Taagepera (1993) argues that Russification of Estonia was close to the point of irreversibility. This view was echoed by Interviewee 3: *“There are so few of us, we sometimes think that we are like the Mohicans!”*

Lenin regarded nationalism as a “by-product of capitalism that would become irrelevant as socialism developed” (Hale 2008, 96). The Party Programme of 1961 referred to the peoples of the Soviet Union as ‘united into one family’ (Shaw 1995). Khrushchev spoke of a merger between the various peoples of the USSR ultimately leading to the emergence of *homo sovieticus*, the new Soviet citizen (Smith 2001). Soviet policy towards nationalities constituted the eradication of nationalistic and ethnic differences and the creation of a ‘new transcendent Soviet identity’, which Shaw (1995) describes as ‘federal colonialism’ and

Smith (2001) labels 'ethno-territorial federalism'. The federal republics of the USSR enjoyed cultural autonomy, which meant the ability to use their vernacular languages in administration, education and culture (Shaw 1995; Smith 2001), and certain autonomy in hiring preferences leading to the prevalence of minority nationalities at republic level. However, power remained with the central authority in Moscow and the Communist Party of the Soviet Union, which was reflected in the popular slogan 'nationalist in form, socialist in content' (Khazanov 1995). The cultural and social policy of the USSR was aimed at the assimilation of nationalities, Balts included, by shifting their national identification to Soviet. Russians were the dominant nationality in the USSR; they were the most populous ethnic group and occupied the most important economic and political posts (Beissinger 2002; Hale 2008). Russian language was promoted heavily squeezing out Estonian in public life and in the media. History was being rewritten to underline Estonia's 'close link' with Russia (Shaw 1995; Smith 2001). The objective of Soviet nationality policy was the "social, cultural, and linguistic unification of all nationalities in the USSR on the basis of Russian or, more accurately, Soviet-Russian culture". The line in a once-popular Soviet song "(m)y address is not a house or a street, my address is the whole Soviet Union" sums up this policy (Khazanov 1995, 12 and 88).

"If a state loses sovereignty, it has not survived as a state; if a society loses its identity, it has not survived as itself" (Wæver 1995, 405). The relocation of ethnic Russians served not only the purpose of meeting the demands of industrialisation for labour but also facilitated the assimilation of the peoples of the Soviet Union and the creation of a 'Soviet urban proletariat'. The Soviet authorities distrusted non-Russian nationalities and regarded

Russians as the pioneers of socialism (Mettam and Williams 2001). The majority of the Soviet leadership were Russians, who encouraged the migration of Russians to non-Russian areas in order to “create or increase loyal and reliable groups of the population in these areas” (Khazanov 1995, 6). The loss of the country’s indigenous population followed by the repatriation of large numbers of workers from other parts of the USSR permanently altered Estonia’s ethnic scene (Kukk 1993). The onslaught of Soviet ideology and culture threatened the very survival of Estonian national identity. In Taagepera’s (1993, 68) view, the Soviet annexation of Estonia was nothing short of Estonia’s colonisation, an “unmitigated disaster”. Interviewee 7 labelled the Soviet era as a “*huge distortion*”.

Fifty years of collectivist and paternalistic Soviet rule is construed as domination by an alien culture over a country of ‘European values’ (Kalmus and Vihalemm 2006). Estonia’s declaration of independence on 20 August, 1991, is not regarded as the birth of the Third Republic – the second one being the ESSR - or the Second (independent) Republic but signifies the end to Soviet power in Estonia and the restoration of the Estonian Republic along the ‘principle of legal continuity’. In effect, it is a restitution of the First Republic (Lieven, 1993). Holding Independence Day celebrations on February 24, the anniversary of the birth of sovereign Estonia in 1918, instead of August 20, which marked the declaration of independence from the USSR in 1991, underlines the continuity of the Estonian state and its strong links with the First Republic.

Freedom is a central theme of Estonia's transition, as attested by many respondents. *"The first goal was to become free and independent and the second very important issue was to live in a free country and free society"* (Interviewee 5). Under communism Estonians had neither economic nor political sovereignty (Lieven 1993; Taagepera 1993; Smith 2001).

Interviewee 8 explains:

*"This idea of personal freedom and freedom for the nation, these were the most important things. Now when we take this idea of freedom, I guess in many cases for many people it was just carried over to economic freedom."*

Interviewee 8 labelled the Soviet system as *"feudal"*, upon the collapse of which *"people felt total freedom. You can see it even now in our society. Total freedom means that my freedom is not restricted by your freedom"*. Soviet domination strengthened their desire of establishing a free-market economy based on the unrestricted 'total freedom' of the individual placing neoliberal theory in a favourable light. According to Interviewee 9, the paradigm to *"take care of yourself... went to the extreme"* and *"at this time it was very popular to be very right wing"*.

*"National sentiment became a form of anticommunism"* (Verdery 1996, 82) and *"anticommunism has an affinity for liberal reform"* (Frye 2010, 50). Economic liberalism held immense appeal to Estonian policy makers, as expressed by this interview excerpt below:

*"There is also, some kind of a background feeling in Estonia that if I am going to be a protectionist, then I make myself as some outstanding fool. The main*



*line is liberal and now behave like that and I am not like some Frenchman who is fighting for government and statehood.” (Interviewee 1)*

Interviewee 7 explained the rationale behind their pursuit of liberal policies:

*“Friedman and such kind of freedom was very popular here. It is understandable because we had so regulated system for a long time, so regulated from Moscow. So we decided to go from this ‘very regulated’ to ‘minimum regulated’... It was easier to chop this other world. Even such kind of half-regulated was, for us, too regulated.”*

To Estonian policy makers economic liberalism is a form of ethnic policy that reduces the geopolitical and economic uncertainties surrounding their nation and maximises the chances of their nation’s prosperity. Estonia’s ‘return to Europe’ progressed through ultra-liberal policies, which were unparalleled among the transition countries, as clearly stated by Interviewee 4:

*“Usually, the IMF or World Bank seem very radical on reforms. Not for us. For us they were always too mild.”*

Whereas uncertainty is a “feature of all post-communist transformations” (Orenstein 2001, 134), in Estonia it was significantly aggravated by the presence of Russian troops on Estonian soil until 1994 and the unpredictability of Russia’s policies jeopardising Estonia’s will to return to Europe. Although Russia was fast in its recognition of Baltic independence (Lieven 1993), Russian foreign policy quickly hardened, reminding some of a Russian version

of the Monroe Doctrine. The protection of the rights of Russians living in the former Soviet Union outside Russia became a popular tool in the hands of Russian politicians to build political capital (Khazanov 1995). The relative success of the extreme right in Russia's parliamentary elections in December 1993 further exacerbated an already sensitive situation, in which Russian politicians, including Defence Minister Pavel Grachev, linked the issue of troop withdrawals to the condition of Russians living in Estonia (Raun 1994). In 1994, Russian foreign minister Andrey Kozyrev stated that "the countries of the CIS and the Baltics – this is a region where the vital interests of Russia are concentrated... We should not withdraw from those regions which have been the sphere of Russia's interest for centuries" (Khazanov 1995, 87). In spring 2005, Russian President Vladimir Putin, whom the Financial Times (22.09.2014) labels the "most dangerous nationalist in Europe" called the collapse of the Soviet Union the "greatest geopolitical catastrophe of the 20<sup>th</sup> century" in his state of the nation speech. He described it as a "real drama" which left millions of Russians outside the Russian Federation (BBC News).

Woo-Cumings (2005) brings up security concerns, the threat of extinction to a nation, as powerful contributors to nationalist economic policies in the East-Asian context. Historical precedents and current political events have significantly amplified Estonian security concerns. Numerous interviewees highlight the manipulation of ethnic Russians by the Kremlin further enhancing Estonians' sense of insecurity, which was aggravated by the 'War of Monuments' during 2004-2007 that peaked in the April 2007 riots following the relocation of the Bronze Soldier from Tallinn city centre to a cemetery. The subsequent cyber-attacks on Estonian government websites and the blockade of the Estonian embassy

in Moscow (Smith, 2008) where demonstrators waved placards with the slogan “Wanted the ambassaDor of eSStonia” (Judah 2014, 110) further intensified Estonian anxiety. According to a survey carried out by Levada Centre, a Moscow-based non-governmental research organisation, Russians regarded Estonia as the country ‘most unfriendly and hostile to Russia’ in 2007. In the second half of 2014, Estonia still ranked among the top 5 countries on the same list. Russia’s annexation of the Crimea in 2014 significantly aggravated Estonian security concerns (Eesti Päevaleht 2014). In September 2014, Estonia’s Defence Minister questioned the credibility of Russia’s will to find a political solution to its conflict with Ukraine and called on EU and American leaders to increase the presence of NATO forces in Eastern Europe (Estonian Ministry of Defence).

Estonia’s post-socialist economic policies underline Tsygankov’s (2005) findings that a strong sense of national identity may increase support for liberal policies. In Estonia it served as a strategy to move away from the Russian sphere. The will of “*no way to return to the Soviet Union*” and to “*get as fast and as far away as possible*” (Interviewee 10) led to a situation where “*everybody wanted liberal policies*” (Interviewee 11). Another respondent ironically summarised an apparently common Estonian perception of relations with Russia: “*The relations with Russia cannot be improved unless we rejoin mother Russia*” (Interviewee 4). Such sentiments add more pressure to the country’s post-socialist efforts to distance themselves from the Soviet past and Russia by joining international organisations, particularly the EU and NATO, and greatly contribute to their speedy implementation of reforms in order to quickly reorient the country’s economy from east to west. As Interviewee 4 explained, “*we were enormously hurried*”.

It is not a coincidence that independent Estonia pursued the policy of ‘bandwagoning’, which Lamoreaux and Galbreath (2008) call the joining of a small country with a strong nation or alliance in order to protect its sovereignty. Integration with the European Union served their economic and security interests. Fifty years of Soviet domination, which ended the country’s brief independence, made Estonians very sensitive to Russian policies.

Estonians, Latvians and Lithuanians alike consider Russia a very real threat to their sovereignty (Lamoreaux and Galbreath 2008) greatly enhancing their sense of insecurity.

Similar to other countries in CEE, EU accession has economic as well as political and national security significance.

History and the country’s ambivalent geopolitical situation instilled a collective memory of injustice in Estonians leading to a self-image of individualism and self-reliance. Half a century of Soviet totalitarian domination left them with strong anti-statist attitudes resenting dependence on a ‘nanny state’. Estonians proactively discarded the legacy of central planning in favour of a free market economy emphasising values compatible with liberalism, such as individual initiative, self-reliance, accountability, and a minimalistic state.

Unlike in Poland, where the ultraliberal “big bang” reform (Sachs 1999, 48) lasted about one and a half years due to popular opposition caused by a sharp decline in the living standards of the majority of the population (Orenstein 2001), in Estonia the radical reforms of the successive administrations “enjoyed broad national consent” (Lauristin and Vihalemm 2009, 9). Estonia’s population was willing to make serious sacrifices and waited patiently for the

fruits of shock therapy to materialise providing the new administration with plenty of room to manoeuvre. People gave the new *“government plenty of breathing space”* (interviewee 9), despite the costs of transformation from a paternalistic command economy to a free-market, which were significant, as Interviewee 1 points it out: *“I think, people sacrificed quite a lot in the standard of living... It gave room to the policymakers to make unpleasant decisions.”*

#### 5.4 Sense of abandonment and self-reliance

Estonia's aspirations to sovereignty over their own affairs have withstood the indifference, and on occasions outright hostility, of the major geopolitical powers. For over seven hundred years they found their own destiny shaped by external forces, gradually forming a sense of abandonment and self-reliance. History has instilled a need to 'go it alone' in the Estonian self-image strengthening their resolve and awareness of abandonment and self-dependency reflecting the neoliberal emphasis on the responsible individual. Their sense of abandonment was awakened by the ambivalent attitude of the western powers regarding Estonia's status as an independent nation three times in one century in 1918, 1940 and 1991. On all these occasions the major geopolitical powers ignored the will of the Estonian people (Piiramäe 1997).

Although the Allied powers after World War I were in favour of self-determination, they were reluctant to recognise the independence of the Baltic states as they perceived the matter to be part of Russia's internal affairs. They only recognised Estonian and Latvian independence in 1921 (MacMillan 2001). Estonia found its interests overshadowed by the

West's 'Russia first' policy in 1940 when Soviet invasion led to the incorporation of the Baltic States, including Estonia, into the USSR ending its sovereignty. Although "three member states of the League of Nations suddenly vanished from political existence and came under foreign occupation" (Lange 1994, 233), western concerns to maintain the anti-Nazi alliance with the Soviet Union during World War II and to preserve the status quo during the Cold War precluded any active support for the Baltic States, including Estonia (Lieven 1993; Piiramäe 1997; Smith 2001).

This sense of abandonment and of being let down by the international community has fed a sense of the need to 'go it alone', an emotion that was to be resurrected again in the late 1980s when Western leaders' main concern was to support Gorbachev. Estonian officials came to the realisation that the Western powers viewed Baltic aspirations for sovereignty as jeopardising Gorbachev's reforms (Raun 1991; Lange 1994). Whereas according to Judt (2005) the West paid very little attention to the domestic affairs of the USSR, Beissinger (2002, 444) states that "until fall 1991, when the disintegration of the Soviet state became a fait accompli, Western leaders did everything in their power to keep the USSR from falling apart". As late as summer 1991, George Bush Sr. in his "chicken Kiev" speech (444) advised that "freedom is not the same as independence" (Khazanov 1995, 43). The cool western reaction to the Baltic independence movements was echoed by Interviewee 5: *"Frankly speaking, not everybody in '89 until '91 supported our independence. Sometimes they were not looking at us very friendly."*

Estonian politicians consider Western reaction to the riots in Tallinn and the subsequent cyber-attacks on Estonian government websites in 2007 as lukewarm. Interviewee 3 commented:

*“The events in April (2007)... showed clearly that we don’t necessarily have the international support and understanding to the level we might expect... we were left out in the cold.”*

Estonia’s aspirations to sovereignty over their own affairs have withstood the indifference, and on occasions outright hostility, of the major powers. For over seven hundred years they found their own destiny shaped by external forces with their own agenda, gradually forming a sense of abandonment and self-reliance - values, which had a key role in the construction of economic policies.

Notwithstanding Estonia’s Scandinavian ties and self-perceived Nordic identity, Estonian leaders did not emulate their economic policies. Interviewee 12 offered an explanation as to why the Scandinavian social-democratic system with its strong welfare state was not followed: *“with Friedman as an apostle it became a bit ridiculous comparing ourselves with the Nordic countries and others”*. Estonian policy makers emphasised the need for *“minimum government regulation and control of business activity by the state”*. As echoed by many interviewees, Scandinavia seemed *“too socialist”* with *“awful”* tax regimes, an *“unaffordable”* welfare system and *“over-unionised”* industries. Such narratives support Orenstein’s (2001) argument that potentially good policy alternatives were ignored in the transition of the CEE, as they lay outside the ideological range of policy makers.

The goal of Estonian leaders was the creation of an active society based on personal initiative, which overlaps with liberal notions of self-reliance and individual accountability. To them economic liberalism constitutes an effective strategy for securing their national interests.

## **6 Conclusion**

Economic nationalism is contextual. It is a versatile strategy that can be used to push back against the forces of globalisation or work with them depending on what those in charge of policymaking deem the most effective method to achieve their national objective. The objectives and choice of economic policies are strongly affected by the national self-image of policymakers. Whereas in certain cases economic nationalism consists of illiberal elements, such as protectionism, in other cases it can include explicitly liberal policies, depending on the context and the objectives of policy makers. The national self-image is a crucial determinant of economic policy decisions.

Economic models can approximate the outcomes of economic policies but they are of not much use when explaining the objectives of policy makers and their choice of economic policies. Economic models can explain the 'how' but not the 'why'. Despite the uniformity of economic reform packages provided to the CEE in the era of post-socialist transition by Western financial and economic institutions, we are witnessing a startling diversity of outcomes. The role of national self-image in policy formulation and subsequently in economic development is crucial deserving further investigation.



Estonia's economic trajectory provides strong evidence that economic nationalism and liberalism are not incompatible concepts. The country's post-socialist transformation has been a sum of historical, social and cultural factors affected by the common experience of successful as well as unsuccessful efforts of gaining and preserving statehood. The Estonian self-image has been constructed through the discourses of radical individualism and industriousness, historical suffering, desire for freedom and return to Europe, and sense of abandonment. Estonian policy formulators proactively discarded the legacy of central planning in favour of a free market economy by emphasising liberal values, such as individual initiative, self-reliance, accountability, and a minimalistic state, that they claimed were the view of the good life that Estonians widely shared. In post-socialist Estonia, liberal policies form an integral part of economic nationalism.

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## Appendix: List of interviewees

Interviewee 1	Prof. Urmas Varblane Member of the Supervisory Board of the Bank of Estonia Interview in Tallinn, Estonia, 2008.
Interviewee 2	Egle Käärats Deputy Secretary General on Labour Policy, Ministry of Social Affairs Interview in Tallinn, Estonia, 2011.
Interviewee 3	Dr. Margus Laidre Represented the Republic of Estonia as Ambassador to Sweden, Germany and the UK, 1991-2014. Interview in London, UK, 2008.
Interviewee 4	Mart Laar Prime Minister of Estonia 1992 - 1994 and 1999 – 2002 Interview in Tallinn, Estonia, 2008.
Interviewee 5	Tiit Vähi Prime Minister of Estonia 1990-1992 and 1995-1997 Interview in Tallinn, Estonia, 2009.
Interviewee 6	Dr. Ardo Hansson Lead Economist, World Bank Advisor to the Estonian government 1991 – 1997 Telephone interview, 2008.
Interviewee 7	Prof. Jaak Leiman Minister of Finance 1991-1992, 1996-1999 Interview in Tallinn, Estonia, 2008.
Interviewee 8	Prof. Enn Listra Member of the Supervisory Board of the Bank of Estonia President of the Eastern Economic Association Interview in Tallinn, Estonia, 2008.
Interviewee 9	Prof. Erik Terk Deputy Minister of Economy 1989 – 1992 Director of Estonian Institute for Future Studies Interview in Tallinn, Estonia, 2009.
Interviewee 10	Prof. Rein Ruutsoo Former dissident, member of the Estonian Popular Front in the late 1980s and early 1990s Interview in Tallinn, Estonia, 2010.

Interviewee 11	<p>Siim Kallas</p> <p>Vice President, European Commission 2010-2014</p> <p>Prime minister of Estonia, 2002 – 2003</p> <p>Minister of Finance, 1999 – 2002</p> <p>Minister of Foreign Affairs, 1995 – 1996</p> <p>President of the Bank of Estonia, 1991 - 1995</p> <p>Chairman of the Central Union of the Estonian Trade Unions, 1989 – 1991</p> <p>Chairman of the Central Authority of the Savings Banks, 1979–1986</p> <p>Specialist at the Finance Ministry of the Estonian SSR, 1975 – 1979</p> <p>Interview in Brussels, Belgium, 2009.</p>
Interviewee 12	<p>Andres Tarand</p> <p>Prime Minister of Estonia, 1994 – 1995</p> <p>Member of the Estonian Parliament 1992 - 2004</p> <p>MEP for the European Socialist Party</p> <p>Interview in Tallinn, Estonia, 2009.</p>