

# EBS REVIEW

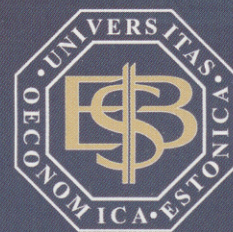
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## EUROPEAN UNION

- Estonian Foreign Political Options
- EU through Estonian Public Polls
- Estonia Cannot do without Euro
- Effect of the EU on Migration in Estonia
- Initial Aims of the EU
- EU: Economic Instruments for Political Aims
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## STUDENT RESEARCH

- Impact of Foreign Direct Investment in Estonia
- Corporate Governance: Discussion of the European Dimension and its Implications for Estonia
- Will Life in Countryside Die out?





## Dear Reader,

Integrating into the European Union represents the culmination of Estonian's road *back* to Europe and Estonia's road *forward* to its rightful place as a well-functioning, modern nation-state. There is no future in the byzantine ways of our former oppressors just as there is no future in the short-sighted, narrow-minded autarchism of our own past. A free and prosperous Estonia belongs in a Europe whole and free.



Toomas Hendrik Ilves





# EBS REVIEW

EESTI KÕRGENE KOMMERTSKOOL

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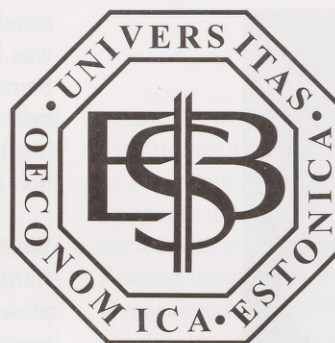
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**EDITORIAL BOARD:** Mari Kooskora - Editor-in-Chief,  
Vahur Made, Ester Eomois  
**TRANSLATOR:** Anne Timmermann  
**LANGUAGE EDITOR:** Duane F. Bruce  
**DESIGN AND LAYOUT:** DuoGraaf  
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ESTONIAN BUSINESS SCHOOL, LAUTERI 3, 10114, TALLINN

Phone: 372 665 1300, Fax: 372 631 3959,

E-mail: madis@ebs.ee, Internet homepage <http://www.ebs.ee/>



## DEAR READER,



You are already holding the tenth issue of the EBS Review in your hands. Since the spring of 1995 the Estonian Business School has released 2 issues of the university magazine each year. These years have brought along several important changes in the publication of the magazine – the Editorial Board has changed, the layout has been altered, and the language of the publication is now different. The first four issues were bilingual, Estonian and English, but since the 5<sup>th</sup> issue the magazine is released only in English. We have introduced this change because we would like our friends and partners outside Estonia also to get acquainted with our activities.

The essence of the magazine has still remained the same throughout the years. The EBS Review is first and foremost a magazine for our professors, students, alumni and the board of our university, which leaves space also for interesting contributions from outside, including from abroad. As to the contents of the magazine, the focus has been laid on subjects taught in our School and topical issues in economics.

We have covered several different fields in the ten issues of the magazine published so far. We have dwelt upon education and management, finance and banking, privatization, business ethics, etc., to sum it up, we have written about everything connected with business and the transition to a market-oriented economy.

The eighth issue of our magazine was dedicated to the 10<sup>th</sup> anniversary of the Estonian Business School. We ourselves consider important the issue dedi-

cated to business ethics (no. 9), which was linked with the First International Seminar on Business Ethics in Estonia held in spring 1999. Ethics, in our opinion, may become a key issue in integration into the European Union.

We have chosen integration into the European Union as the theme of the present issue, and throughout the magazine we shall try to elucidate different aspects of this process, which affect every one of us. Due to the rapid progress that our country has made, Estonia has been among the first newly independent states invited to accession talks. We still have a lot to do in order to become a truly equal partner for the highly developed European states. Changes should be introduced primarily on an ethical level, be it in environment protection, finance, or any other field of human activities. On the other hand, changes may cause fear. Many of us are not ready to give up the recently achieved freedom, the pride of our state – the Estonian Kroon, the way we organize our work and, at heart, our mentality. We are facing a situation where there is a gap between a successful official policy of the state and the support of the nation.

The membership in the EU brings to Estonia first of all new opportunities, and should be considered as being a part of normal development.

Estonia's attempts at Euro-integration, at the moment both into the EU and NATO, offer the possibility to preserve its security, economic growth and independence.

For the majority of Estonians, the borders have opened up, and that not only in a literary sense. More and more people have got the opportunity to visit European countries, seeing with their own eyes how people live in a stable democracy and in a functioning market economy.

Not only have we come closer to Europe – also Europe has come closer to us – through culture, music and art. Mutual understanding has emerged from the visits and exchanges. More and more

Estonians are communicating with European colleagues and have found a common language.

Membership in the EU makes our goods and services more competitive, because we are heading towards common standards; the EU is investing first of all in infrastructure and education. In a United Europe it's not important any more, whether you buy from the Netherlands, France or Estonia, the role of quality and price will be much more important than the production area. Also the personal business contacts are going to play a significant role in free trading.

Integration into the EU makes Estonia a positively multicultural country. And although the free labor movement between Estonia and the EU is not a reality yet, there is something to strive for.

Although all the positive aspects have been highlighted and explained to the public, the results of public polls, especially of the Euro-barometer carried out by the company Saar Poll, show that less than a half of the Estonian population would support joining the EU and the number of people with negative attitudes is about to increase. This is happening despite the improved access to information concerning the European Union in recent years. At the same time the nature of Estonians' Euro-skepticism has also altered to a more positive outlook when compared to previous years.

We would like to provide our readers at least a glimpse into relevant issues related to the future of Estonia and its prospective membership in the European Union. Hopefully, readers of this magazine will find answers to some of their questions, but what is even more important, a basis for further thoughts and discussions.

On behalf of the Editorial Board

**Mari Kooskora**  
Editor-in-Chief



# ESTONIAN FOREIGN POLITICAL OPTIONS AND THE EU ENLARGEMENT



**Vahur Made, PhD**  
Associate Prof. at EBS 1998-1999

In July 1997 the European Commission invited Estonia to the EU enlargement negotiations. For Estonia this decision opened completely new perspectives and possibilities. Now there was the solid ground for Estonian attempts to become a full-fledged member in the European integration process. Estonia tied itself to the foreign political goals of the Western European countries. It is now very important for Estonia to disperse the atmosphere of uncertainty, which has surrounded the Estonian (and Baltic) position in the system of European politics.

## Creating the image of stability: Estonia and the other candidate countries

Estonia is the smallest of the candidate countries. For many in the EU Estonia is still a *terra incognita*, "an unknown land", which is more often associated with Russia, than with neighbouring Nordic countries. It is obvious that most of the EU officials in Brussels do not have a lot of knowledge about Estonia. For many it seems surprising, that Estonia has managed to conclude with the EU an Association Agreement with no transition periods.

In the terms of economy Estonia has an image of a very small, but steadily growing country. At the beginning of 1998 Estonia accounted for 1 per cent of the total GDP of the Eastern and Central-

European region. In comparison: Poland accounted for 40 %, Czech Republic 15 %, Hungary 14 % and Slovenia 6 % of that GDP (1).

The economic crisis in Russia in the second half of 1998 showed how badly Estonia needs the European market. After Russia had suffered a severe financial set-back, many Estonian companies, which had previously actively traded with Russia, went bankrupt or had to diminish their business dramatically. The crisis went on to the banking sector as many small banks had to close their doors and two of the biggest banks, Hansapank and Ühispank, suffered heavy losses. Unemployment rocketed, wage levels and imports decreased. But by the end of 1998 and the beginning of 1999 the speed of the economic decline was slowing down and the overall situation started to improve. Eurostat estimated Estonian economic growth in the second half of 1998 at 5.7 percent and predicted that a 5-6 percent growth rate can be anticipated in Estonia also in 1999. The Estonian GDP was 37 percent of the EU average (in 1995 this figure was 23 percent) (2).

Some interesting differences can be found between Estonia and the other candidate countries when looking at the personalities whom the EU has appointed to lead the negotiation process. It is notable, that EU-negotiation partners for Poland, Czech Republic, and Hungary come from the countries, which have historically close cooperation ties to them. Mr. François Gaudenzi-Aubier from France is leading the EU negotiation delegation with Poland, Mr. Giorgio Bonacci from Italy with Hungary and Mr. Michael Leigh from Great Britain with Czech Republic. Estonia has a much more "distant" negotiation partner from the EU, Mr. Nikiforos Sivenas from Greece (3). Such allocation of negotiation partners does not necessarily mean that Estonia is somehow in an unfavourable position. It only shows, that this small Baltic country is a newcomer on the European scene. The "old" countries are somehow suspicious and want

to test the new prospective member of the European club. Certainly they want to be assured that Estonia would not bring into the EU too much trouble connected with economic problems and past Russian dominance.

If speaking about political problems with neighbours one can compare Estonia and Cyprus prior to entering the EU. Cyprus is divided between two conflicting communities: the Greek and the Turkish. Greece and Turkey are doing their best to incite this conflict and assure the continuation of the friction. Turkey considers the Cyprus problem as a possibility to lay stress on the EU in order to receive an invitation to membership. Accordingly Greece is opposing every Turkish move towards the Euro-integration road and is demanding from the EU total support for the Greek Cypriot community. It is highly doubtful whether the EU will manage to unite the split island. The negotiations have been so far fruitless and obviously only the Greek part of Cyprus will enter the EU.

Estonia has political problems with Russia. These originate out of the history of the past 50 years and from present Russian foreign policies. The main issue has been the border agreement. No final settlement has been reached, although in March 5, 1999 in St. Petersburg, Estonia and Russia agreed upon the technical details of the border (4). There is still no certainty, when the agreement will be finally signed and if the Russian Parliament will agree to ratify it.

The EU and its leading member countries have announced that the lack of a border agreement is not an obstacle for Estonian entry into the union. However, it seems that EU countries consider the Russian view legitimate that it has certain interests in the Baltic States, including Estonia.

Therefore the main issue for Estonian diplomats in the EU is to fight for the positive image of the Baltic States in Europe. These small countries are certainly not potential conflict spots on the edge of Europe, but a dynamically developing area of the new democracies.



The Finnish presidency of the EU, which began in June 1999 gives hope, that the five "outsiders" of the EU enlargement process - Latvia, Lithuania, Slovakia, Romania and Bulgaria - will be invited to the membership negotiations in the near future, maybe even in December to the European Council summit. For Estonia such a development is undoubtedly very suitable. This removes some emotional obstacles from the relations between the three Baltic States, which emerged in 1997. It also helps to build some kind of common Baltic Sea Area regional (and maybe even political) identity inside the EU. The Finnish Nordic Dimension-initiative may serve as a basis for such an identity building.

## The process of Estonian-EU enlargement negotiations

EU enlargement negotiations with the six candidate countries started on March 30, 1998. They started with the preliminary, so-called screening phase. In that phase the legislation of the candidates was compared with the *acquis communautaire* of the EU and possible problems were traced out. In November 1998 the negotiation process moved on. In seven areas the practical negotiations were started.

The speed of the negotiations has been temperate. In 1998 only easier issues (scientific research, telecommunications, education, cultural and audiovisual policy, small and medium size enterprises, common foreign and security policy, consumer protection etc.) were handled. These areas gave also no major problems to Estonia. In its position papers Estonia stated being ready to fully accept the *acquis* requirements without any significant transition periods. In 1999 more difficult areas have come under the consideration. Among them agriculture and environment protection will be the most complex matters to resolve.

The European Commission has pointed to several problems, which should be carefully considered in the negotiations with Estonia. In its opinion papers (*avis*), both in 1997 and 1998, the Commission has named three main problematic areas for Estonia: the agricultural

sector (which in the Commission's opinion needs very fundamental reforms), environmental protection (where Estonia simply lacks necessary financial resources for implementation of all *acquis* requirements and most certainly needs transition periods) and administrative capacity (especially the Estonian legal and domestic security system is considered to be of very low efficiency) (5). These problems can not be solved in a short period and they will influence the Estonian integration process for years to come.

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One problematic issue in the Estonian Euro-integration process is the case of the Russian minority. In "Agenda 2000" the Commission sees it as one of the main problems, which Estonia is facing. The Estonian Parliament (*Riigikogu*) changed the citizenship law in December 1998 enabling the children of stateless parents to become Estonian citizens in an alleviated way. These children, after reaching the age of 16, must pass an Estonian language test before receiving citizenship. This step was welcomed neither by Estonians nor by the Russian community. The first considered the law amendments too favourable for Russians. The latter argued, that the amendments did too little to change the position of Russians in Estonia. The EU seems to take the position that the new Estonian citizenship law is fully in accordance with international practices.

More amendments to their citizenship policy is very unpopular with Estonians. The events that occurred in Latvia in spring 1998 made Estonians careful. It is clear that Russia uses the Russian minority in the Baltic states for its political purposes. Actions by local Russian organizations, which took place in Riga and other Latvian towns, showed how well the Russian minority can be used as a weapon for Moscow. And not only for destabilizing the domestic policies in the Baltic States. If so desiring, Russia can show the EU that the minority issues make the Baltic States unstable and undemocratic countries.

It is obvious that the EU should not take up the Russian minority issue in the Baltic States. If this were done, it might achieve the opposite effect of what it was meant to. This can make Estonians extremely skeptical towards the EU. The public opinion polls, especially Euro-barometers, have already shown that Estonians are quite pessimistic about the European Union. Less than half of the questioned supported Estonian membership in the European Union according to the last (seventh) Euro-barometer in spring 1998 (6). The trend was much the same in 1999, although the skeptical side has not significantly grown (at the end of 1998 about 14 percent of those questioned were against the Estonian EU-membership and 34 had not yet made up their minds) (7).

At the moment this skepticism is mostly placated through such arguments like "losing the Estonian sovereignty", "too much Brussels regimentation and bureaucracy", "the tax increase when entering the EU", "too many foreigners coming to the Estonian labour market" etc. But if the Russian minority issue becomes a prominent one in the EU negotiation process, Estonians would start to fear for their ethnic identity and consider, therefore, the EU in an even more negative manner. This kind of development may "sink" a possible Euro-referendum prior to Estonia joining the union. The result of such a referendum can be negative, Estonians themselves may reject the membership. This can happen, even if the main political parties of Estonia support the EU and the referendum.





## Some conclusions

The remaining negotiation period will prove to be crucial both for Estonia and the EU.

Estonia has to concentrate on the *implementation* of the *acquis*. In the most difficult areas and policies the transition periods should be negotiated. The EU needs from Estonia a clear sign that the country is able to meet the membership obligations.

The EU has to invite Latvia and Lithuania to its membership negotiations. This would considerably stabilize Baltic-Russian relations and strengthen the Baltic-Nordic block inside the EU.

The EU must seriously consider what priority it has: bringing stability to Eastern Europe with its political decisions or stressing the implementation of the 1993 Copenhagen criteria.

The political decision means that the EU will negotiate with all applicant countries and even bring Croatia, Macedonia and Albania into the enlargement process. The applicants will meet membership in different timetables. It means

that Estonia would become a member in the second wave, after Poland, Hungary and Czech Republic, but together with Latvia, Lithuania and Slovenia. The third wave would include Slovakia, Romania and Bulgaria. The last wave will stabilize the ex-Yugoslav conflict spot in the Balkans. The whole enlargement process would last some 5-10 years.

If EU still follows the Copenhagen criteria, the enlargement process will develop at a much more moderate speed. One can expect that both the negotiations and the actual enlargement will take place in the same schedule. So Estonia may expect membership together with other five countries selected by the Commission in 1997. The other five countries and possible newcomers will enter the negotiation process step by step during the next 10-15 years.

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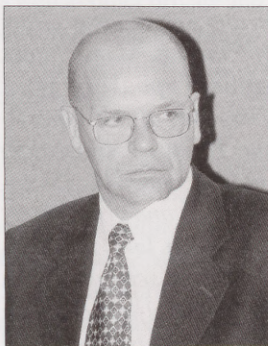
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# EU THROUGH ESTONIAN PUBLIC POLLS



**Andrus Saar, PhD**, Saar Poll  
Organiser of the international seminar  
"Harmonisation of tax system upon Estonia's  
possible accession to the European Union"  
organised by EBS

*This spring the Estonian Business School organised an international seminar "Harmonisation of tax system upon Estonia's possible accession to the European Union". The seminar was designed to discuss possible scenarios of development of Estonia's tax system*

*on the way to the European Union. Representatives of the Bank of Estonia, Ministry of Finance of Estonia, European Commission and business community were invited to participate in one of the discussions. The President, vice presidents and lecturers of EBS also took part in the discussion.*

## Lessons in Independent Thinking

This might be a brief formulation of the problems that Estonia faces in the process of accession to the European Union. However, for the time being we are short of such lessons where we could retrieve information.

Lack of information haunts people at almost all levels in Estonia. Entrepreneurs who intend to start or expand export

complain about information shortage. The information they need is there, however, they do not know where to look for it. That is why so much remains unclear, and that primarily in the field of taxation policy. Therefore the opinion of CEOs on the issue of the EU-accession remains somewhat halfway. As an attempt to alleviate this lack of information, an international seminar on the EU was held by the Estonian Business School in March of this year. Since a harmonious tax system is the very foundation of a healthy state and successful economy, "Harmonisation of tax system upon Estonia's possible accession to the European Union" was taken as the topic of the seminar. Participants were those who are developing Estonia's tax positions in the Ministry of Finance, as well as representatives of other ministries, Bank of Estonia, Delegation of the European Commission and Office of European In-



tegration of the Estonian State Chancellor. Estonian entrepreneurs and investors – actors in the new tax system – also took part in the seminar discussions.

## EU: in Favour or against?

On the one hand, a large number of Estonian CEOs supports Estonia's accession to the EU. On the other hand, the practical experience deters. Such a tendency has been revealed by a number of polls conducted by the company Saar Poll among entrepreneurs. Shortage of information is also revealed by the polls conducted among residents. About ¾ of people claim to have no sufficient information today that would allow them decide whether Estonia should or should not accede to the EU. Therefore only 40 per cent have their own opinion on the issue of the EU. 27 per cent are in favour of the accession, 13 per cent are not. Civil servants and politicians too are not quite on familiar terms with the entire set of issues. This results in problems that put on the brakes to the developing of Estonia's own accession concept. Unfortunately, a long-term foresight is not a characteristic feature of a society in transition. The entire society thinks and plans short-term because everything changes so fast. Most of the people in Estonia make their plans a maximum of one year ahead. Actually, the accession to the EU is a more distant prospect.

## EU as a Moving Target

EU is sometimes called a train on the move, or a moving target. In order to get on the train, or hit the target, one must know the essence of the target and the direction it is heading for. However, since the direction is inconstant, the correct moment for action must be determined. This can be defined only after Estonia has gained the so-called concept of accession. Whatever the concept is, it must answer one question: what is Estonia going to win and what is it going to lose with the accession.

This issue can be addressed at a wide variety of levels, such as internal affairs, foreign politics, security, economic development, personal security, welfare,

education, migration, human rights, national identity, etc. Yet the economic aspect is definitely decisive in terms of the current discussions.

## Estonia's Taxation Policy upon Possible Accession to the EU

Taxation policy and its harmonisation with the EU is one of the focal points in the discussions on economic affairs. Harmonisation is not simply a theoretic-

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cal and practical activity, but above all it has to be underpinned by economic calculations. And again, what is the price? The price might be an increased momentum of Estonia's evolution, however, an opposite result is also possible. The harmonisation of taxation policy is one of the most serious subjects during the accession talks. This reveals the level of maturity of the negotiating parties, because the conceptual side should not be overshadowed by technical work. Do we have to report right away that Estonia does not need a transitional period, that new excise rates suit us well, that we give up free trade agreements?

## Talks and Transparency

Talks are too important a subject to be left to officials. Talks must be transparent. That is why it is very important to

have both parties, representatives of Estonia and the EU, explain their concepts of taxation policy in public. Thereby positions crystallise, and there comes a more accurate understanding that, since under no circumstances can certain principles be revised, some buffer zones for negotiating may be found, etc. Most importantly, the discussions between professionals may give rise to the discussions among professionals and population alike. The Estonian Business School devised the seminar to trigger a discussion between the members of the working group, Office of European Integration, and entrepreneurs on the possible scenarios of harmonisation of Estonia's taxation policy with that in the EU. At the same time the engagement in a public discussion helps both parties – Estonia as well as the EU – put its milestones, which must be kept, and where zones of compromise can be found. At the result entrepreneurs and population will be better informed, and have a more motivated and informed opinion on the EU. The harmonisation of Estonia's taxation policy with that in the EU is not an issue for experts only, since this issue may be instrumental in harmonising the relations between the parties on the grassroots level.

*On behalf of the organisers of the seminar I would like to thank the speakers at the seminar - Peeter Lõhmus from the Bank of Estonia and Erle Kõomets from the Ministry of Finance. Many thanks to the international speakers Mark Stephen Gray, member of the supervisory body of the Treaty of Amsterdam and Alistair Sutton, counsellor for international companies and government agencies on European law and politics. Hopefully, the tax seminar of the Estonian Business School was a step in bridging the discussions between civil servants, politicians, and entrepreneurs.*







## ESTONIA CANNOT DO WITHOUT *EURO*



**Tiit Made PhD**

Professor at Estonian Business School

Preparing for the accession to the European Union goes smoothly in Estonia. Accession-countries – Estonia among them – put pressure on Brussels to make the accession possible in the next 3-4 years. Estonia is *ready for that* in terms of politics and economic policy. *Further regulation* is required in the field of legislation. A number of spheres of life need to be organised, the most problematic being environmental protection, reform of the system of statistics and reorganised relations with some of the current good trading partners. For the time being also the school of European officials presents serious difficulties – they are too few to pattern future life at home after that in Brussels, and have a say in the decision making in Brussels. In this respect, the Estonian Business School as well as other private and public higher education establishments that provide training of officials have an important role to play.

Concurrently with preparing for a full membership in the EU, Estonia has to prepare for joining the European Monetary Union (EMU). Part of the current 15 EU member states are ready to use *euro* widely and have decided to abandon their national currency. Since Estonia or any other European country may introduce *euro* before the accession to the EU and EMU, a discussion has been going on in the Estonian society for quite some time, cautious yet gathering momentum, about the rationality of such a step. The serious idea of an economic policy reform has somewhat unexpectedly found more proponents than opponents. Business, banking and trade circles, companies engaged in foreign

economy, tourism industry as well as a number of men in the street are ready to welcome the introduction of *euro* as soon as possible. Of course, there are opponents and very strong ones, especially in that very issue, coming from the ranks of key politicians and financiers. As to the governing coalition as a whole, it has reached no clear theoretical understanding of whether the undertaking is or is not beneficial. However, right now those shaping budget and taxation policies and the Ministry of Finance in particular meet the idea with slight pessimism and parry.

Once, due to our quick and carefully planned monetary reform we were able to take a much better economic post-socialist starting position, compared to Latvia and Lithuania. This snap decision gave Estonia clear advantages for a couple of years in terms of organising economic life, and enabled to carry out reforms faster than neighbours did. Thus we attracted a number of foreign businessmen, investors, tourists, and even adventurers and financial gamblers. Certain envy still feels in Riga and Vilnius. However, we are about to loose our initiative. Estonian decision-makers have grown more conservative and have no wish left to take moderate risks, so needed in business and economic activities. Latvia with its much large economic potential is already breathing down our neck. Even Lithuania seems to outrun Estonia in terms of taking current decisions. There are signs that they outsmart us here and there. The ideology of Estonia's open economy is good, yet in the context of our neighbours' policy of market protection our companies have suffered much more recently.

The Estonians have stated unequivocally that they want to be in the EU by the year 2003, that we shall be ripe and ready by then. We feel confident of being able to assume the honourable position of the defender and controller of the eastern border of the EU. These aims cannot be achieved without *euro*. Even the Finns, extremely conservative in terms of economic policy, have decided to replace mark with *euro*. Sweden, an-

other main partner country of ours is also considering joining EMU as soon as possible. Therefore the reform-minded and active position of our banking circles with regard to *euro* is most appropriate. From the economic policy viewpoint, the soonest possible introduction of *euro* is no doubt beneficial and the only right thing to do, considering our location in the Baltic economic space. Once again Estonia would be able to take the initiative among its economic competitors, which is so important in a cut-throat competition. That step would demonstrate modern economic thinking and quick action, and bring us closer to Brussels.

The arguments in favour of *euro* are convincing. International transactions would be simpler; prices can be compared that suits well both foreign tourists and Estonians who travel ever more in Europe; loans would become cheaper and their maturity longer; stable interest rates; no more threat that kroon might be devalued; advantages over main competitors, etc. And another revitalisation of the reputation of Estonia - a reasonable businesslike and forward-looking country - in international economic circles cannot be underestimated.

However, the abandonment of kroon involves some minuses. Certain circles feel nostalgia for kroon, because the desired own money is a symbol of independence. Yet one cannot risk nostalgia and leave Estonia a region on the outskirts of Europe and in economic isolation. Allegedly, the British do not want to give up their money either. That is true, but only now and because of the ongoing fight about the positions in the EMU. Allegedly, the Bank of Estonia would loose annually about 200 million kroons of issue premium. This is quite a sum yet not big enough to give up even major gains. However, the Bank of Estonia has been conservative in *euro*- issues, which is understandable. A major problem is that the Bank of Estonia would not be able to print money and control market at the time of economic depression. Yet due to the application of the Monetary Committee principles, money



printing is restricted today as well. The Bank of Estonia must give up active monetary policy – that is a serious argument. The Bank of Estonia has been keeping low profile also here and that has been good for the organisation of our economic life. Another minus is that commercial banks would probably lose part of their income earned from currency exchange. This is a weak argument since other fields accompanying Euro-banking can compensate for these earnings.

It is axiomatic that a country such as Estonia that depends on foreign trade and international economic communication has to be open also in terms of monetary policy. *Euro* comes to Estonia anyway. Which means that delay and dispute is pointless. The Government, its Ministry of Finance and the Bank of Estonia have an obligation to start preparing as early as in 2000. Preparations are paramount. The experience of Finland and other EU countries is a proof.

It is only appropriate that this or that trade organisation is introducing the dual pricing system so agreeable to the tourist. The producing of *euros* will take time and money, and must have a line in the budget. *Euro*, welcome to the Republic of Estonia!



## ESTONIAN LOCAL SELF-GOVERNMENT IN VIEW OF REFORMS IMPLEMENTED IN EUROPE



**Arno Almann PhD**  
Associate Professor, Acting Head of the Chair of Law and Public Administration, EBS

### General Regularities of Local Self-government Reform

There are many factors behind self-government reforms, e.g. economic, political, social, legal factors etc. They usually function together but certain general regularities can be detected. If during many centuries evolution of communal self-government was primarily caused by socio-economic factors, then after the French Revolution the significance of the political-legal factor increased and was the determining force behind nationalisation of local self-government. The political-legal factor supported by the theory of national self-government maintained its dominant position for about a hundred years and reached perfection in totalitarian states where local self-government became a part of the national political system.

After World War II, the socio-economic factor gained in significance; it was caused by rapid economic development and large-scale urbanisation. The accompanying new socio-economic phenomena contradicted the obsolete forms of community life and, thus, large-scale planning and implementation of reforms began. Under new circumstances the political-legal factor acquired a new role - it began to influence formulation of objectives, designing and regulating activities. Local self-government reforms were carried out not only in the West-European countries but, to a certain extent, restructuring of local authorities took place all over the world.(1) In Western Europe the local self-government reforms were influenced by a tendency towards economic integration and development of co-operation between states in the name of the common objectives uniting Europe. One of the objectives was **humanisation** of local authorities, i.e. widening their scope of authority and bringing the personality of people to the forefront. Another objective was **democratisation** of local authorities, since active functioning of local authorities is one of the most important principles of a democratic system of government and the guarantee of existence of society's democratic mechanisms. In an integrated Europe the sphere of activities of local authorities exceeds national borders.(2) The third objective was the **restructuring** of local authorities which required modernisation of their territorial basis, i.e. ad-

ministrative division. The above three objectives were closely connected and formed a whole; however, this did not exclude the possibility of working out models of reform reflecting the peculiarities of each state, and the emerging of various centres of influence. France and the United Kingdom developed into such centres leading to a distinction between the French or Continental local self-government system and the Anglo-Saxon system. Between those two distinctive local self-government systems there are the German and Austrian systems; the peculiarities of their reforms are determined by the solutions transferred from both the above systems.(3)

### Evolution of Estonian Local Self-government Reform

The background of the administrative reform planned to be implemented in Estonia in 1990-1994 was political - restoration of independence and the local self-government system. The objective of the reform was democratisation of state power, first and foremost, through decentralisation of state administration, since centralised local bodies had to be decentralised. As a result of the reform a two-level self-governmental administrative structure was to be established. Rural municipalities, boroughs and towns would have constituted the primary administrative level whereas counties and big towns with a status equal to





that of counties would have constituted the secondary level; the latter had to fulfill also the responsibilities of primary level local authorities. Restoration of local self-government was to take place mainly by way of self-regulation; the process was to be guaranteed by municipal councils which started functioning as representative bodies of local authorities. The county and big town councils started functioning as representative bodies of local authorities on the first of January, 1990. The representative bodies of primary level local authorities had to work out a socio-economic development programme in order to achieve the status of a municipal council; the above programmes were evaluated by the expert committee at the Supreme Council and the self-government status was granted by the Supreme Council Presidium. Implementation of the reform strategy lasted for two years. The new Constitution of 1992 stipulated a single level local self-government system; the legal basis of the system found expression in the Local Government Organisation Act adopted on June 2, 1993 and the subsequent legal acts regulating local self-government.(4)

Increasing administrative responsibility accompanying strengthening independence, development of relations characteristic to market economy, widening cooperation with other countries and beginning of integration into the European Union institutions has uncovered a low administrative capacity of the public administration organisation to bear effectively responsibilities of a developing and constantly changing society. That necessitated continuation of the public administration reform and proved development of public administration to be a continuous and time-consuming process. By 1999, the groups of specialists set up in 1997, worked out a public administration development concept and drew up a new draft of the Local Government Act but the Government that entered upon office after the parliamentary elections of 1999 has distanced itself from those plans and set up a new committee to work out new proposals for continuing the administrative reform.(5) Also the experts assessing the Estonia's preparedness for integration into the European Union institutions

have underlined the necessity to increase the state's administrative capacity.(6)

## Functional Solutions of Self-government Model

Reorganisation resulting from self-government reform has to do with organisational changes. Organisational forms, however, have to cover all the necessary responsibilities; this requires definition and systematisation of self-gov-

**Organisational forms, however, have to cover all the necessary responsibilities; this requires definition and systematisation of self-government responsibilities proceeding from the position of local authorities in society, and regulation of their relations with the state.**

ernment responsibilities proceeding from the position of local authorities in society, and regulation of their relations with the state. Determining the position of local authorities has to do with the boundary line between private and public sectors as well as with division of responsibilities between the central and local authorities.

## Role of Local Self-government in Market Economy

In most market economies the boundary line between the private and public sectors is not clearly determined - it depends on economic conditions, traditions and several other factors. The radical changes that have taken place in the Estonian economy since the country

regained its independence are the result of large-scale privatisation laying the foundations for market economy in Estonia, and of increasing significance of market economy factors. Construction of the local self-government functional model requires an answer to the question whether the market is the single regulative force of an economy or whether the state and local authorities have a possibility to intervene in the process or participate in it in the capacity of an owner. It is the question of balancing the private and public sectors and establishing optimum relations between them which, at a specific moment in time, enable the society to achieve the best economic results by exploiting the existing resources and conditions. The advantage of market economy lies in the fact that it supports reforms and structural changes and enables us to increase effectivity. The disadvantage of market economy lies in the fact that often economic interests dominate over the vital interests of individuals and the gained profit cannot always be looked upon from the general point of view of social and economic benefit. That is why interference of the state by means of legal regulation, improvement of working conditions, supervision, formation of tax policy, environmental protection, granting of benefits etc. is necessary. The state responsibilities undergo a change in market economy - immediate production and distribution are replaced by responsibilities directed at direction, coordination and regulation of economy. Countries accepting market economy have to be prepared for setbacks and crises with both local and global reasons. This increases the importance of reaching social agreements and relieving social results of an economic recession. It is possible to draw the following general conclusions concerning the role of local authorities based on the development tendencies of a market economy:

First, if we proceed from the production- and distribution-based relations in a society, we notice that the more significant role the state sector plays in a field the more insignificant is the role of local authorities and *vice versa*.

Second, in the changing and developing contemporary society the regulatory



responsibilities of the state and local authorities widen, but widening of state responsibilities has been more rapid.

Third, Estonia belongs to the North-European local self-government cultural sphere where local authorities are mostly institutions providing services to the citizens and the private sector of their area.

Fourth, under the conditions of social market economy, local authorities have to support entrepreneurship, but they also play an important role in socially balancing local life.

## Responsibilities of Local Authorities

In the case of the functional model, the central issue is the distinction between the state's and local authorities' responsibilities. Theory and practice recognise various groupings, but the most typical distinction is based on the following two principles of legal organisation: all is allowed that is not legally prohibited, and only that which is legally permissible, can be done. Both ways of regulation are interrelated and complementary to each other and domination of one or the other cannot be excluded. The permissive-prohibitive type of a legal organisation system is not exhaustive, although it is dominant. In addition to rights and prohibitions, law as a regulatory system also includes positive duties and prohibitive, obligatory and justifying norms that correspond to the three specific ways of legal organisation.

Division of responsibilities between the state and local authorities can be approached in a different way - it is possible to distinguish between responsibilities best fulfilled by the state institutions, responsibilities best fulfilled by local authorities and responsibilities best fulfilled in co-operation between the state and local authorities. Two-dimensional relations between the executive power and local authorities derive from such a division. The vertical dimension is characterised by laws regulating responsibilities in such fields as education, provision of services, health care etc. Those responsibilities function from

up to downwards and reach every single person. In certain cases local state institutions fulfill those responsibilities. The horizontal dimension is connected with local authorities, which co-ordinate responsibilities of state government, relate them to local conditions or fulfill them by agreement. Second, based on law, local authorities decide and regulate all community matters on their territory. The vertical and horizontal dimensions meet and, balancing each other, have to guarantee a stable society. Balance and stability cannot be mistaken for equality of dimensions - it means co-ordination of central and local interests in the interests of development of the society. Considering such regularities, responsibilities of local authorities could be grouped as follows: 1. facilitation of entrepreneurship, 2. guaranteeing of economic infrastructure, 3. provision of services to citizens, 4. relieving of social strains, 5. maintenance of public order and guaranteeing of social security, 6. stabilisation of public life, 7. development of environment/surroundings and planning for the future.

In addition to the above responsibilities characteristic to local self-government, fulfilled by means of local revenue, local authorities have to fulfill certain national responsibilities. Delegation of such responsibilities takes place either by means of law or by agreement. Delegation of responsibilities of the state to local authorities has objective reasons caused by changes in the society and emerging of new fields of activities. The number of responsibilities of the state increases more rapidly because of the general socialization process; this leads to reassessment and delegation of the former responsibilities to local authorities and private institutions. Fulfilling responsibilities of the state requires covering the corresponding costs from the state budget, therefore disputes over division of responsibilities and covering of costs are not exceptional. A research under a PHARE programme in Estonia analysed the duties imposed upon local authorities by the Local Government Organisation Act and how those duties have been clarified and their scope widened by other laws. Such modelling of responsibilities is necessary for estimating the costs their

fulfillment brings along.(7) It would be reasonable to proceed from the formal-legal criterion, i.e. all the responsibilities imposed upon local authorities by law, except by the Local Government Organisation Act, are considered to be responsibilities of the state and the financial resources necessary for their fulfillment are allocated from the state budget.

Delegation of the state responsibilities to local authorities can take place by agreement; the Constitution and the Local Government Organisation Act provide a general legal basis for such delegation. Agreement-based relations of the state and local authorities, as well as agreement-based relations between local authorities themselves requires theoretical analysis and legal regulation in the new Local Government Act because the existing experience is contradictory and not in correlation with real possibilities and needs. The Local Government Organisation Act stipulates that, among other things, local authorities decide and regulate issues that have not been given by law to any other institution to decide and deal with. Such responsibilities could be called voluntary responsibilities.(8) At the same time, the Constitution does not allow for legally unregulated decision and addressing of issues. Therefore there is no reason to talk about voluntary responsibilities of local authorities.

### Conclusion:

First, under the circumstances where the number of responsibilities and national duties of local authorities increases, and their responsibilities become more complicated, the functional capacity of local authorities increases and responsibilities of local importance begin to dominate over national responsibilities.

Second, local authorities' responsibilities related to facilitation of entrepreneurship, relieving of social strains and maintenance of public order become priorities.

Third, representation of local interests at the central level acquires more scope and the role of agreement-based relations between the state and local authorities gains in significance.





## Organisational Solutions of Self-government Model

Responsibilities of local authorities, borne and exercised by subjects determined by legal order, constitute the essence of local authorities' activities. The essence of activities is realized through the medium of a form. In jurisprudence the notion of structure denotes the category of form when the elements and parts of local self-government as a systematic whole and their relations are analysed.

### Internal Structure of Local Self-government

Local self-government structure is comprised of local authorities, included in the self-government model on the basis of their specific character. Clause 1 of section 155 of the Constitution recognises rural municipalities and towns as local authorities. There are 207 rural municipalities and 46 towns in Estonia as of August 1, 1999. The Constitution does not exclude the possibility of establishment of other self-government units within the limits of and following the procedures prescribed by the law. Historically, also boroughs and counties have been self-government units in Estonia. Since 1993, the counties have been state administration institutions where state administration is exercised by the County Governor and government institutions. The same year boroughs were granted the status of a rural municipality or town. Such a single-level self-government structure has two units with the same legal position, i.e. rural municipalities and towns. The analysis proves that in reality such a simplified self-government structure cannot sustain the emerged diverse differences. There are huge differences between former boroughs with the status of a town, rural municipalities and the capital Tallinn in terms of content and scope of responsibilities, but they belong to the same structural level with equal rights and duties. The public administration development concept does not propose significant changes to the ex-

isting system, except for the proposal to work out a local self-government organisation for Tallinn. The author draws a conclusion that the structural aspects of the local self-government system have not been paid enough attention to in the reform strategies; this allows for conceptual disagreements in the issues related to re-introduction of the secondary level of self-government and establishment of regional self-government.<sup>(9)</sup> The advantages of a two-level local self-government structural model are as follows:

**If the central issue of the Estonian local self-government reform was the structure, i.e. the number of levels, then in Northern Europe the issue of increasing the size of territory of local authorities dominated.**

first, two-level self-government is more citizen-centered and allows for a more effective application of the subsidiarity principle in self-government and decentralisation of state administration; second, the internal structural relations of two-level local self-government are more versatile: on the one hand, relations are more versatile horizontally since boroughs are included among local authorities, on the other hand, relations are more versatile vertically because of relations between primary and secondary level local authorities; third, versatility of structural relations allows for better consideration of peculiarities of a given area and is a significant precondition for speeding up the development of local self-government system.

This is in accordance with increasing regionalisation in the West-European

countries; the process becomes more and more oriented towards local authorities and is influenced by European integration. The characteristics of European integration are as follows:

first, gradual weakening of subordination relations between the central government and local authorities; second, widening of co-operation between state local institutions and bodies of secondary level local authorities with national and local interests being made compatible; third, decentralisation and democratization of the executive power brought along by regionalisation which manifests itself by introduction of characteristics of local self-government at regional level.

### Size of Local Authorities

If the central issue of the Estonian local self-government reform was the structure, i.e. the number of levels, then in Northern Europe the issue of increasing the size of territory of local authorities dominated. Especially radical changes took place in Sweden and Denmark, whereas in France territorial restructuring of local authorities was approached with care.<sup>(10)</sup> However, a general tendency towards increasing the size of territory of local authorities is recognizable since it increases their development potential. This is proved also by development of Estonian local authorities, especially rural municipalities. In 1871 the number of rural municipalities was 549; in 1899, in 1908, in 1921, in 1934 and in 1938 the respective numbers were 387, 359, 387, 369 and 365.<sup>(11)</sup> In the 1950s, during the Soviet annexation, the administrative division was changed to comply with the general system in the Soviet Union and, thus, rural municipalities and counties were abolished and 30 rural districts and 641 village communities were established. In May 1952, three provinces (Russ. *oblasts*) were established. Later a tendency towards decreasing the number of local authorities displayed itself. The reform started in 1989 proceeded from the understanding that approximately 200 rural municipalities and 15 counties, the result of an evolution, were the optimum number. The new public administration



concept proposes that the number of local authorities be lowered, suggestions have been made to lower also the number of counties. Compared to Western Europe where the process of amalgamation of local authorities was accompanied by further decentralisation and widening the scope of their responsibilities, our reform strategy is directed towards centralized local authorities that provide services.

## Financial Organisation of Local Authorities

A generally accepted principle applies in democratic countries that local authorities have the right to sufficient financial resources within the limits of national economic policy; this principle is recognised in constitutions of many countries and the European Charter of Local Self-government. The same principle is expressed in section 157 of the Estonian Constitution and the subsequent laws. The experience of European local self-government reforms shows that they started with functional and structural organisation and ended with changes to financial organisation. When we compare the percentage that local budgets constitute of Gross Domestic Product, and general state budget expenditure in Estonia and other Central and Eastern European countries we notice that Estonia's position is similar to others. At the same time the comparison shows a need for state subsidies to local authorities. The most wide-spread form of state subsidy is allocations from the state budget which fall into general subsidies and allocations for specific purposes. There are countries where state funds have been established for subsidising and equalising local revenues. In Estonia, all the above ways of allocations from the state budget are used.

Comparison of financial organisation allows the author to draw the following conclusions:

first, the legal basis of the Estonian local budgets is similar to that of other countries. Differences lie in the amount of local revenue. Considering the general economic situation, the significance of local taxes is minimal;

second, since 1993, when personal in-

come tax became the main source of local revenue, certain inertness can be detected in establishing stable sources of local revenue and orientation towards single allocations for specific purposes; this has led local authorities to borrow money. Legal organisation of local authorities' borrowings, however, has not been sufficient;

third, in a number of West-European countries the principle of continuity of local authorities' responsibilities and their fulfilment is valid; the instrument of the principle is financial planning. Fi-

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financial-political development of a local authority is based on such planning and it is used for drawing up advance revenues for several subsequent years at a time.

fourth, the direction of local self-government development requires widening the scope of responsibilities related to provision of services, increasing their own revenue and establishing reserves, rational utilisation of municipal property, implementation of the ideas of management by results, increasing significance of general allocations and more purposeful usage of loans.

## State Supervision of Local Authorities

The third instrument of directing and influencing activities of the local authorities besides legislation and fi-

nances is state supervision. As a form of state activity, it has been a widely used, but little studied phenomenon. Based on research conducted in Estonia(12), state supervision can be treated as a specific form of checking. Checking is an integral part of state administration and a means for maintaining legality. When we speak about state supervision, we have to distinguish between service supervision and state supervision.(13) Service supervision is based on subordination and it is exercised by service-wise superordinated bodies over legality and expediency/rationality of activities of bodies under them. State supervision is not based on subordination; it is exercised over the legality of activities of central and local administrative institutions and local authorities which function under the principle of decentralisation. Supervision over compatibility of legal acts of local authorities with the Constitution and laws, and over utilisation and command of state property transferred to their possession is exercised by the Legal Chancellor and the State Audit Office. In addition, County Governors exercise supervision over the legality of local authorities' legal acts. Scope of their authority in exercising supervision and forms of acting vary depending on whether acts they exercise supervision over are general or single acts. Thus, duplication of supervision can be detected in the activities of County Governors and the Legal Chancellor. Since World War II the role of courts in exercising supervision has increased. In addition to administrative courts, that period saw establishment of constitutional courts. Estonian local authorities do not have the right to appeal directly to the Supreme Court as the constitutional court, but they can do it when the Legal Chancellor or the courts issue a request.

### Conclusions:

first, local self-government bodies both in Estonia and in other European countries are under state legal supervision which can be treated as a national guarantee of public interest in local authorities' activities;

second, in the previous decades the development of state supervision in West-European countries has moved away from administrative means towards





implementation of judiciary means, from supervision of expedience/rationality and purposefulness towards legality and lawfulness, from pre-checking to post-checking and from direct influencing towards indirect ones. Those tendencies are reflected in the Estonian legislation, but insufficient legal organisation has not made their putting into practice fully possible.

third, effectivity of state supervision is determined by systematic and coordinated usage of means available to supervisory institutions;

fourth, widening the scope of responsibilities of primary-level local authorities and democratization of public life requires balanced relations between central institutions and local authorities. One of the balancing factors is state supervision over the activities of local authorities which has to find its proper place in the administrative reform strategy.

## Conceptual Issues of Local Self-government Reform

Working out the concept for continuing the local self-government reform requires:

**first**, formulation of clear objectives of the self-government reform; the self-governmental administrative organisation established as a result of the reform should follow the development tendencies of the society and meet the citizens' needs, be based on theoretically analysed and marshalled self-governmental administrative organisation, take into account the critically assessed experience of local self-government evolution in other countries and in Estonia and facilitate the state's administrative capacity under the circumstances of social changes;

**second**, approaching the task of working out the concept of local self-government reform from a methodological basis according to which state government and local self-government form an integrated and balanced public administration organisation, where delegation of responsibilities proceeds from the principle of subsidiarity, and structural organisation of administrative organisation proceeds from the principle of de-

centralisation with the view of increasing effectivity and influence of administration and decreasing the number of civil servants and their maintenance costs;

**third**, guaranteeing the right of local authorities to sufficient financial resources required for fulfilling their responsibilities as well as the responsibilities imposed upon them, and which they have the right to use autonomously under the financial organisation of relations between the state and local authorities;

**fourth**, developing of state supervision as a national guarantee of public interest in local authorities' activities characterised by systematic and coordinated usage of means available to supervisory institutions;

**fifth**, an effective public administration organisation is an integrated, interlinked and balanced system of different levels of administration and administrative institutions; the planned changes in their legal position cause changes in the whole system. This requires legal-theoretical analysis of legal acts regulating public administration organisation, analysis of legal content and meaning of concepts, and drafting and adopting a vast number of legal acts;

**sixth**, local officials play a significant role in effective fulfilment of responsibilities of local authorities and responsibilities imposed upon them; the legal framework of the body of local officials and their qualifications have to be in accordance with the changing role of local self-government in society;

**seventh**, implementation of the local self-government reform requires establishment of a leading and organising organisation with sufficient authority to make decisions and political compromises, if necessary, and with sufficient possibilities to include representatives of local authorities in the process of preparation and implementation of the reform;

**eighth**, taking more into consideration the background factors influencing the self-government reform, e.g. integration into the European Union brings along surrendering some of Estonia's sovereignty in the name of economic stability and guaranteeing its national security which is balanced by widening the scope

of activities of local authorities and, through that, strengthening the civil society.

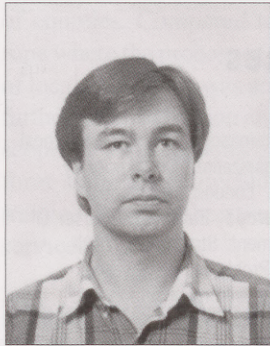
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# EFFECT OF THE EU ON MIGRATION IN ESTONIA



**Paavo Palk**, Lecturer, EBS  
Press counsellor for the Office of the European  
Integration and European Union Information  
Secretariat of the Estonian State Chancellery

*The article shows only the private views  
of the author.*

## Introduction

Free movement of people is one of the four fundamental freedoms underlying the internal market of the European Union. By offering that freedom, the EU has never aimed at achieving the same active movement as that of goods, services or capital, nevertheless, the effect of the accession on the population dynamics in Estonia deserves serious attention.

Firstly, after the accession to the EU, the legal framework affecting immigration and emigration undergoes a change. The crossing of Estonia's borders is going to be regulated mainly by the EU legislation. The latter give citizens of other member states an opportunity to come to live in Estonia and seek jobs in Estonia. Any citizenship-based discrimination of the employees of member states as regards their employment, remuneration and other working conditions is prohibited pursuant to the Treaty establishing the European Community. According to the same Treaty after the accession to the EU, Estonian citizens and permanent residents can move to other member states. Moreover, as a rule, visa requirements apply to the citizens of third countries in the EU, whose requirements have been almost fully harmonised by the countries - parties to the Schengen Convention.(1)

Secondly, the reputation of Estonia abroad will change – we are going to be progressively seen as a part of the prosperous and stable Western Europe, not as a former Soviet republic in transition.(2)

Migration is getting ever more attention in the EU, since as the result of migration the proportion of indigenous nations has significantly decreased in all

**Secondly, the reputation of Estonia abroad will change – we are going to be progressively seen as a part of the prosperous and stable Western Europe, not as a former Soviet republic in transition**

member states. The development of information and transport facilities continuously contributes to the migration from poorer countries to richer ones. The interest of the inhabitants of the Third World countries to immigrate into Europe is not going to diminish in the coming decades, since the fast growth of the population in Asia and especially Africa:

creates a human resource for migration obstructs efforts to rise living standards locally that leads to increased temptation to emigrate.

The EU member states, on the contrary, are characterised by a clearly negative growth of the indigenous population and therefore immigration may bring along major changes in the population of the EU member states. At the same time immigrants are a cheap source of labour, which forces the wages of indig-

enous employees to go down. This results in a decrease in the income of the majority of the population of the country, and profit from income is divided between employers and migrants. So it is natural that owing to the pressure created by the majority of the citizens of the EU, attempts are made to introduce more stringent rules to cut immigration. A more effective fight against unwelcome immigration was one of the major subjects at the EU summit in Tampere in 1999, where it was decided not to allow a migrant expelled from one member state to seek refuge in another member state. In future the weight of the problems related to the migration of population in the EU is going to increase rather than decrease.

There are no significant differences between the attitudes of the citizens of Estonia and of the current EU member states towards migration. In Estonia, immigrants are even more eared than in the EU, because due to the favoured immigration from other parts of the Soviet Union during the years of occupation, the survival of the Estonian nation came under a grave threat.

## Prospects of Migration into Estonia

First and foremost Euro-sceptics have pointed at the hazards to the preservation of the Estonian nation resulting from the accession to the EU, referring to an influx of immigrants.

The Euro-sceptics have named the migration of Russians from Russia, Latvia and Lithuania into Estonia as a potential source of hazard, should the latter become EU member states. Also the arrival of cheaper labour from developing countries via the EU is feared, especially of Turks.(3)

Migration scenarios are likely and may present a threat only if the following three criteria have been met:  
lack of effective physical barriers to prevent migration  
a demographic basis for migration





differences in welfare, primarily in employment opportunities and pay rates.

On the basis of the above examples let us first assess the probability of immigration from Russia. Upon Estonia's accession to the EU, physical barriers to the migration from Russia progressively increase and therefore a resettlement of a large number of people from there to Estonia is impossible. Russia's admission to the EU in the coming decades is unreal. The EU would not let its member states sign visa free travel with Russia and other CIS countries, and this blocks efficiently potential immigration from there. Therefore, the fact that Russia has a large demographic base for migration and welfare potentially available in Estonia does not play any significant role.

Latvia's and Lithuania's admission to the EU in the coming decades is likely. Therefore physical barriers would not exclude immigration from there, although resettling is continuously becoming easier for the citizens of the other Baltic States, compared to non-citizens. The latter can move to Estonia for a longer period only if they find a job here. However, although the number of Russians in Latvia and Lithuania is about equal to the population of Estonia, they do not form a demographic base that could threaten Estonia through emigration, provided that no catastrophes or upheavals occur.

Upon the accession of the three Baltic States to the EU, physical barriers between them disappear, yet the membership status gives a stability and development outlook that probably would limit the emigration. Considering the opportunities that come with the EU membership and the economic activity that is a prerequisite for admission, a marked difference in the living standards of Estonia and the other Baltic States is not likely. Thus non-citizens of Latvia and Lithuania would find a job shift to Estonia not that tempting. They cannot even expect their new wage to be that much higher as to cover the migration-related transport costs.

Potential emigrants are, as a rule, more educated people aged 18-35. More educated emigrants consider a win in terms

of their wellbeing more important than a strong own-language community in the target country. All the more so, because after the breakdown of the Soviet Union, the Russian communities in all former Soviet republics, including the Baltics, have distanced themselves from each other. Now they depend on local government and culture centres rather than on the former unified centre of influence - Moscow.

A possible migration into Estonia by EU migrant workers needs to be addressed

**Since the level of welfare is lower in Estonia than in the present member states, the migrants who pursue welfare in the EU have no motivation to come to one of the Baltic States.**

separately. There are tens of millions of former or current citizens from developing countries working in EU member states and they are a demographic base for immigration into Estonia, and most often there are no physical barriers excluding migration. However, it is important to keep in mind that physical barriers apply to those arriving from Asian and African countries into the EU illegally. Considering how few people with Asiatic or Negroid features there are in Estonia, the latter would find it very difficult to settle here illegally, because their appearance differs from that of the indigenous population, making them easy to identify.

Above all it should be kept in mind that in the next decades, the living standard of Estonia will probably remain under the EU average and therefore it is not useful to come and seek jobs here. Since

the level of welfare is lower in Estonia than in the present member states, the migrants who pursue welfare in the EU have no motivation to come to one of the Baltic States. In the same way, differences in welfare make a massive immigration by the indigenous inhabitants of the present or new member states of the EU unlikely.

At the scientific conference in Tartu in June 1999 Euro-sceptic Uno Silber referred to the density of population per unit of territory in Estonia, whose density is 3.6 times less than the EU average, and concluded that "an influx of people into Estonia is possible".(4) However, such an approach is based on nothing but the "communicating vessels theory" from school physics classes and has nothing to do with the causes for migration. If people had chosen their place of residence by density, cities would have never emerged.

Taking account of the migration experience so far, one may say that any suggestions about the increase in immigration into Estonia after the accession to the EU are insufficiently substantiated and incredulous. Considering the traditional factors affecting migration of people, an influx of immigrants into Estonia after the accession to the EU seems to be out of the question.

## Prospects of Emigration from Estonia

On the basis of the above three points a potential emigration from Estonia can also be analysed. Only in this case it is not that important to assess how large the migration may be, considering the existing demographic base. First of all, the effect of the migration on the **Estonian** demographic base shall be addressed.

After the accession to the EU, the barriers to emigration from Estonia for both citizens and permanent residents would come down. The latter can move to the current member states for job seeking. And since the level of welfare in the EU considerably exceeds that in Estonia, the temptation for emigration is there.



**Table 1**

If Estonia becomes a EU member, would you personally seek a job in another EU member state?

	All respondents	Estonians	Non-Estonians
Absolutely	11	8	16
Quite probably	20	18	25
Hardly	23	25	21
Definitely not	37	41	29
Difficult to say	9	8	9

Source: The European Union. Population monitoring. Saar-Poll, June 1999.

Research indicates that inside Estonia, primarily younger and more educated people are ready for a change of residence in the name of improved wellbeing.<sup>(5)</sup> The poll conducted by the opinion polling company Saar Poll in May 1999 showed that a similar trend can be observed in external migration. 31 per cent of the respondents answered that upon Estonia's accession to the EU they would definitely or quite probably seek a job in some other EU member state. Among the Estonians, 26 per cent had considered leaving, among non-Estonians – 41 per cent. People aged over 50 considered the prospect of seeking a job abroad extremely improbable.

The interests of Estonia and the EU overlap in population-related issues almost the same way as the attitude of indigenous people towards population processes. The EU cannot afford the migration of working-age population, because of the increase in the proportion of retirement-age people, and neither can Estonia. It is in Estonia's best interests to have its taxation base not decreasing, and the potential of immigration should be considered with a view to improving the situation.<sup>(6)</sup>

Conventional logic does not disapprove of going to work abroad because it is expected that upon remigration more skills and money be brought to the homeland. However, in-depth studies indicate the invalidity of such an approach. Most of the migrants do not have in their target country an occupation that enables them to learn much, and the money earned is spent with the least benefit for the economy of their country of origin.<sup>(7)</sup>

One can say that the hazards related to emigration have been overestimated,

because the poorer countries that have acceded to the EU earlier have had no

**It is emigration Estonia must fear after the accession to the EU, not immigration. The jobs of the Estonians are not at risk, rather there is a danger of loosing skilled labour.**

post-accession increase in emigration. Rather the opposite – today e.g. both Portugal and Spain have become migration target countries.

However, it is necessary to note that the differences in living standards and nominal wages between Portugal and Spain, and the EU average, are many times smaller than the differences between the latter and Estonia. There is a strong popular support for European integration in Spain and Portugal. The integration is seen as a chance for an improved living standard, and the fast local economic growth and rise in welfare generate optimism about the future of the homeland, which curtails emigration. And welfare in Estonia so much differs from that in the EU member states, so that one cannot expect that within a couple of decades from the accession to the EU the living standard of the present most well-off member states can be achieved.

Considering the ageing of the Estonian population and shortage of skilled labour, it would be a dire threat for us, even if only a tenth of the people competitive in the European labour market and ready to leave the country actually leave.

## Conclusions

With regard to migration, the situation in Estonia is similar to that in Malta and several other candidate states, where the majority of the population is afraid that the accession to the EU and opening of borders would bring immigrants in large numbers to the country.<sup>(8)</sup> Actually it is emigration Estonia must fear after the accession to the EU, not immigration. The jobs of the Estonians are not at risk, rather there is a danger of loosing skilled labour.

Upon accession Estonian authorities should monitor the migration flows very closely and prepare instruments which enable them to influence the movement of people.

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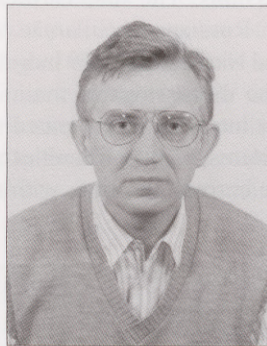
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# PEOPLE OF FOREIGN ORIGIN IN TALLINN AND EAST-VIRUMAA: CHANGE IN IDENTITY AND PROSPECTS FOR DEVELOPMENT



**Juhan Sillaste, PhD**  
Centre for Baltic Studies, EBS and Director of  
Institute for Socio-Economic Analysis of Estonia



**Aksel Kirch**  
Director of Institute for European Studies



**Marika Kirch**  
Analyst at the Institute for European Studies

## Changes in Identity, and Integration in the Process of Formation of an Integral Society in Estonia

Over the years people of very diverse ethnic origin have settled in Estonia. Among non-Estonians there are, as the largest ethnic minorities, Russians, Ukrainians, Tartars, Estonian Swedes, Finns from Ingermanland and many others. A new phenomenon of recent years is the arrival of westerners for work and longer stay in Estonia, among them Finns, Scots, Irish, people from Pakistan and Indonesia, etc. Certain integration is required to enable the entire population to participate in the society, its various structures and spheres as full and equals subjects. Such an ethnic mosaic of a small society may be interesting culturally, but in order to assure integration both differentiation and full unity are needed.

Estonian legislation does not draw a legal line between people of different nationalities. Nevertheless boundaries exist, namely language boundaries. A major part of the Estonian society operates on the basis of the Estonian language, and Estonian underlies central cultural and political infrastructures. Those who do not have command of Estonian can-

not be given the rights that presume a person to be politically informed, socially involved, etc., whose rights as a rule are gained by means of language competence. Therefore, lack of command of Estonian has become an obstacle to a fast integration for many of the non-Estonians living in Estonia. The problem is particularly acute among Russians and other former Soviet citizens from other regions of the USSR who communicate in Russian outside home. The experience that Germany and Finland have acquired by now in the acculturation of newcomers with the way of life in their new domicile (the so-called ethnic Germans and Finns from Ingermanland, respectively) proves that we have to do with a phenomenon that is not unique to Estonia. Adaptation to the Estonian way of life with no command of Estonian is possible, yet the 400 thousand-strong Russian population still maintains its isolation in Estonia.

By now the relationship of the Russians living in Estonia with the State of Estonia has become problematic. Citizenship of which state do the Russians living in Estonia associate themselves with? For instance, pronounced cultural differences between Russians in Russia and Russians in Estonia, as well as belonging to the body of Estonian citizens, underlie a yet new for today's Estonia ethnographic and cultural identity – *Estonian Russians*. Already in 1993 socio-

psychological surveys confirmed that Estonian Russians differ from the Great Russians of Russia.(1)

Significant changes in the identity of Russians have occurred in the years 1991-1998: they have grown way more focused on Estonia. Estonian Russians clearly set their attitudes and opinions against those of Russian Russians, and at the same time try to be close to the opinion of Estonians. Therefore, in general terms Estonian Russians do not identify themselves with the Russia, whence they come, but have formed a distinct group in today's Estonia with its defined local identity.

A survey of the elite of Ida-Virumaa being conducted by the Estonian Institute for Social-economic Analyses reveals that even the cream of local non-Estonians often fails to name a single local Estonian cultural personage. They know only those who personify political and economic power on the Estonian side.

Yet the survey by the Institute for Russia and CIS on the prospects of the eastern market titled "Assessment of the economic potential of Ida-Virumaa with corresponding risks. Future prospects in the direction of Russian and CIS markets" indicates that Estonian Russian entrepreneurs in Ida-Virumaa are rather sceptical about the potential of so-called eastern business. And nothing but cultural and civilisation-based differences



between Russian businessmen in Estonia and in Russia are given as reasons:

“We are spoilt because we have got used to work in a civilised atmosphere, being trusted, being given credits – commodities, money; we have got used to believe the word of a partner... There, in Russia, it is totally different... no chance that the money you put in returns to you. This unpredictability of the Russian market starting with the unpredictability of politics, laws, and taxes – all this dramatically affects how things go. Deep corruptness is a characteristic feature of Russian business. Here in a civilised atmosphere we have also got rid of that. We have rather strict laws in Estonia, but they can be understood, and it is enough if you simply abide by them. But in Russia...” This is an extract from an interview of a Narva construction entrepreneur with interviewers.

The group of indigenous Russians in Estonia numbers about 50 thousand, which is a tenth of Estonian Russians. Thus Estonian indigenous Russians form a distinct minority group and it is correct to call this group *Estonian Russians*. At the same time, they are not able to shape the ethno-cultural nature of the whole body of Russians among whom late immigrants dominate. For instance, of the Russians living in Estonia only up to 40 per cent are born in Estonia (by 1989 census – 38 %).

The barriers that have been set up either on the basis of historic memory, Great Russian culture or civilisation in a broader sense, and which date back to the former empire, are still a significant obstacle to integration. For example, the survey from December 1994 shows that about a quarter of the Russians surveyed still feels nostalgia. As a rule, these people do not consider Estonia their one and only homeland. To distinguish these people from the *Estonian Russians*, they could be called *Diaspora-Russians* (and less often compatriots living abroad, as they usually are called by politicians in Russia).

*Diaspora-Russians* seek to become somewhat like Estonians in terms of attitudes and assessments, yet due to the language barrier and lack of adequate

information they have no clear idea what the Estonian society is like, so to speak, insiders, understanding what attitudes and opinions Estonians really have. However, it should be noted as a positive point that the nostalgia for the Soviet time has considerably decreased among the Russians. The interviews conducted with Russians in Sillamäe, Kohtla-Järve and Narva early 1999 indicated that in the discussions of main social issues, the interviewed compared their social problems, and opportunities to influence the current situation, with

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that in the early period of Estonia regaining independence (1991-1992). Nobody compared the present time to the Soviet period. In a unique survey of Sillamäe, Klara Hallik has said the following: “It is not an impossible task to develop an original integration strategy for Sillamäe, given Estonia’s adapting to a new international political space and global cultural environment”.

In addition to the above two groups, there is a relatively large group with a rather clouded identity ethnically, culturally and with regard to the state. They recognise themselves as “Baltic Russians” or “Eestimaalased” (the latter term was much in use during the “Singing Revolution” of 1988-1989 and translates “the one living in Estonia”). In case a person does not clearly associate himself or herself with Estonia, the decision to apply for Estonian citizenship comes hard to many Russians. This slow-mov-

ing process rather indicates the reconciliation of many Russians to cope with the obscure situation.

The unchanged ethno-cultural identity of an ethnic minority living among another nation suggests that the population has undergone no integration. The change in identity is the yardstick that tells us that there has been integration (a partial change or shift in identity) and that e.g. there is no ongoing assimilation (a total change of identity). A partial change in identity is a process in the course of which the non-Estonians living in Estonia become more or less bi-(or multi-)cultural and bi-(or multi-)lingual (e.g. Estonian-Russian, Estonian-Ukrainian, etc.), and at the result of which process the significant barriers disappear that today prevent non-Estonians from participating in the life of Estonia.

Over the last decades, carriers of two new identities can be seen among the Russians living in Estonia – the groups known as *Estonian Russians* and *Diaspora-Russians* have been formed. Significant developments of the 90ies in the economic and political status of the Republic of Estonia have brought about pronounced trends in the identity of up to 120 thousand Russians.

Similar to neo-imperialist sentiments in Russia, we also may say that a part of the *Diaspora-Russians* in Estonia carries chauvinist and vengeful sentiments. The carriers of this ideology are not many – a couple per hundred Russians living in Estonia and their attitudes have sometimes received too much publicity in the Estonian media.

Many of the holders of the Alien’s passport (a total of 220 thousand people) do not associate themselves clearly with the Estonian State. That is why. Actually, the policy implemented by the state of Estonia in Ida-Virumaa should definitely contribute to a positive transformation of this obscurity. Therefore, “a stronger integration of Ida-Virumaa into the rest of Estonia” can be considered “a paramount task facing the Estonian State in the field of social policy, interior and foreign policy as well as an economic and ethno-cultural task”.

Through which changes in identity will the integration occur? This is an impor-





tant question also to Estonians. How much the Estonian language, culture, as well as conventions (daily customs and practices) will persist in the course of the integration process. The formation of the identity of Estonian Russians contains at least two important aspects: a) Estonian-Russian (Russian-Estonian) biculturalism and b) the sense of belonging to the body of Estonian citizens (state identity). Prof. Rein Taagepera has called this process the integration of language and mindset. Importantly, in the course of the integration process Estonians' own identity also undergoes a change – it is necessary to become aware of being a citizen of a country with ethnic diversity.

At the level of the Government great efforts are being made to integrate non-Estonians, primarily Russians, into the Estonian society. Here mention should be made of the adopted Governmental Programme, accelerated research, as well as extended teaching of Estonian to non-Estonians. Openness of the Estonian society, good communication and broader co-operation may contribute to mutual trust. It is obvious that the more one is integrated into the society socially and culturally, the more likely a person is to generate real loyalty to Estonia as "its own" society.

## Transformation of Economic Environment – Engine of Integration in Ida-Virumaa

Regardless of what has been done and what is being done in terms of the integration of people of foreign origin into the Estonian society, the following questions need an answer:

- As to the measures devised to integrate the people of foreign origin living in Ida-Virumaa into the Estonian society, have these measures been taken without necessary preconditions? Have the measures proved insufficient?
- Should new preconditions be created to promote the integration processes already in progress?

In order to assess how sufficient the

current integration preconditions are, the lessons should be learned from the period that lasted several decades, during which Estonia (and Ida-Virumaa in particular) were being integrated into a totally different background system. As everybody remembers, as early as in czarist times the central power in Moscow pursued the policy of forced switching of nationality in its border regions, in order to irrevocably fasten these territories to the metropolis.<sup>(2)</sup> In principle, the Soviet power continued the same thing, only slogans underwent a trans-

**The Regional Development Programme defines these new fields of economic activity that receive state support and, next to the economic sectors originating from the previous period of development, diversify the economic structure of the county.**

formation. The integration into the Soviet unified national economy complex became the key term, accompanied by reasoning and justification of the measures taken to achieve this goal. How effective that activity was, is proved by the difficulties that constantly confront the action undertaken in the field of integration.

Estonia's regained independence, the political will of the state to integrate people of foreign origin into the Estonian society, moral and financial support by western countries to the teaching of Estonian to the non-Estonian population – all this created essentially new preconditions for the ongoing social processes in Ida-Virumaa. These are necessary preconditions for the integration of the majority of Ida-Virumaa's inhabitants into the life of Estonia and Europe, yet insufficient preconditions.

Quite the opposite, many symptoms indicate increased self-isolation of non-Estonians (manifestations of separation). Therefore additional preconditions need to be found and created in order to give the integration processes in Ida-Virumaa an irrevocable character.

Co-operation based on common interests of the members of society can be the carrier of integration processes, expressed in a concentrated form in economy; and so is Estonia's entering the sphere of influence of global economy, accession to the EU.

The Government of Estonia recently adopted the Regional Development Programme of Ida-Virumaa. Formally, the time horizon of the Regional Development Programme is limited to 2003, however, the Programme has a long-term and perhaps a pivotal consequence for the integration processes in Ida-Virumaa, as well as provides these processes with an economic basis.

The Regional Development Programme defines these new fields of economic activity that receive state support and, next to the economic sectors originating from the previous period of development, diversify the economic structure of the county. They also compensate for and anticipate the negative effect on employment and living standards of the fallen-out links in the county.

The Regional Development Programme is not an attempt to reflect the economic activity in every detail. The Programme primarily defines the measures that trigger new economic elements and processes (so-called key measures). The focus of the Programme is on the factors that facilitate and accelerate natural development and considerably change social, economic, cultural and technical environment. The goal is a multicultural region with a diverse economic and social structure, own distinct features and face, which region is successful and known all over Europe.

The Programme accommodates along with the existing ones, immediate resources (people, finances, organisations, etc.) creating the will to fully engage the potential contained in the likely



development of Ida-Virumaa and of the surrounding background system (particularly the EU and Russia). It is assumed that as the result of a purposeful activity, a pronounced political will provides the resources necessary for ensuring the development, which resources complement budgetary facilities and come from very different sources. It is assumed that the new elements introduced to the development of the county will win space for growth not by means of the existing administrative restrictions, but owing to vitality, superiority and better conformity with the needs of people.

The importance of industry, oil shale mining and power production, as the very foundations of the economy of Ida-Virumaa has not been questioned. However, the economy as a whole must undergo a significant transfiguration in Ida-Virumaa, in order to fundamentally change and diversify economic and social structures, social climate and human environment.

Taking this statement as a point of departure, there are three fields/complexes that form new structures and considerably change environment:

- Transport and transit
- Tourism and recreation industry
- Education.

These fields interrelate closely. Measures taken in the transport sector must be co-ordinated with measures in the tourism sector, since an well-organised transport creates preconditions for the development of tourism. Both, in turn, must be linked to the activity of vocational education establishments (and to further training and retraining of adults) so that staff is trained in due time.

However, one should be aware that transport, tourism and education are very capital consuming. Tourism and transport infrastructures, organisational and information structures as well as training of people cost a great deal. Anyway, what is being done for the promotion of transport and tourism also facilitates the development of the county and leads to increased levels of employment, economic turnover, local income etc.

Moreover, it gives a major impetus to the integration of the core of the county residents into Estonia and Europe.

A change in the working environment from the individual's viewpoint should be emphasised. The relationship: worker⇒product or worker⇒machinery that has ruled so long will be replaced by the relationship: worker⇒consumer (client, customer). It is the consumer of goods and services who is going to assess the worker instead of (or along with) the supervisor. An open work and com-

**It can be noted that the implementation of the Regional Development Programme of Ida-Virumaa, especially with the participation of a large part of population in the form of a continuing social dialogue, would create additional preconditions for deeper and accelerated integration processes.**

munication environment of small enterprises progressively replaces working in closed large-scale enterprises.

Given these circumstances, command of language(s) and ability to meet the requirements of a specific individual rather than the somewhat abstract State become one of the most important prerequisites of success. Therefore, the requirements established for the education of employee's rise dramatically.

The current somewhat one-sided approach, whereby the educational problems of the region are being reduced primarily to the learning of (the Estonian) language, should be replaced with/transformed into content-oriented instruction. Provided that regardless of the language of instruction (Estonian, Russian, English, etc.) and age of pupils, things that are being taught are focused

on Estonia i.e. directed to the (current or would-be) Estonian citizen. Focus on Estonia should not be limited to the subjects of history, nature, society etc. Since in various surveys the majority of non-Estonians indicate Estonia (Narva, Sillamäe, etc.) as their homeland or place where they live, this should also be reflected by what is being taught at school. However, student polls have revealed that students receive the least information about their county and hometown.

Introduction of the county and local component to the school curricula requires significant "investments in history and cultural heritage studies" (financial, intellectual and organisational). It seems expedient to have country-wide tenders in order to get teaching aids that address the history and formation of the county, towns, settlements faithfully, without Soviet-time distortions. Concurrently with the change in the content of the instruction, appropriate for Ida-Virumaa ways should be found to diversify the language environment and somewhat undermine the habit of big nations to live in a monolingual and monocultural environment. A progressive understanding that an ability to orient oneself and communicate elementarily in three or four languages is a regular practice in Europe, is instrumental in shaping such a resident of Ida-Virumaa who is able to integrate into Europe and maintain county identity at the same time. The position stated by a working group comprising Sillamäe school administration members and teachers that the Russian school should start the instruction of three languages already in the first and second grade should get support. Moreover, in the course of the formation of the school network of the county and attestation of schools the status of such schools should be highlighted, which give some subjects not only in Estonian and Russian, but also in English, German, etc. Such capabilities should particularly be emphasised and stimulated when young teachers are being employed.

By way of a conclusion it can be noted that the implementation of the Regional Development Programme of Ida-Virumaa, especially with the participation of a large part of population in the form of a





continuing social dialogue, would create additional preconditions for deeper and accelerated integration processes.

However, economic processes may cause a severe setback to the so far positive changes in attitudes and actual behaviour. Here we refer to the oil shale industry-linked economic sector. More specifically, reference is made to the lukewarm reaction of several State institutions to the ongoing processes, attempts to close eyes to the threats that have emerged, to say nothing of designing solutions.

True, Estonia has no practical experience in nationally solving problems of such scale and complexity, which we observe in the oil shale industry. Estonia is prepared neither organisationally nor methodologically, and government agencies are not tuned in accordingly (leaving aside the concept that "market economy is when you let things go the way they go").

Which does not mean there is no such experience in the world. Quite the opposite, large scale redundancies and the anticipation and mitigation of social tensions associated with these redundancies is nothing new to international organisations and the EU. The World Bank has been preparing projects addressing these issues and specifically with regard to closing down mines, in Poland, Rumania, Hungary and several CIS-countries. Consultations with the specialists from the World Bank indicate that so far Canada has gathered major experience in that field. As a rule, the World Bank operates in the given field in Europe in co-operation with the EU.

Due to their scale and weight, the problems facing the oil shale industry inevitably require state intervention. Confining oneself to guaranteeing redundancy payments under Eesti Põlevkivi Development Plan is nothing but evading real problems. With redundancy payments trouble starts rather than ends. Eesti Põlevkivi plans to pay EEK 40 million worth of redundancy payments with the close-down of the first mines, whereas the scope of social benefits to be paid to the families of jobless miners is estimated at about EEK 220-250 million an-

nually, and job creation costs EEK 1.3 billion.

Yet it would be unreasonable to solve the emerging problems with the resources of the state of Estonia only. The pre-accession period to the EU should be taken full advantage of, together with likely accompanying additional facilities, as well as routine financial and social technologies of the World Bank. Thus the problems that have emerged should be diffused both in time and space, as well as by population groups by age,

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nation, sex. That would allow buying more time and properly preparing for the restructuring of the oil-shale-related economic sector, and involving the facilities and experience of the EU and World Bank. The designed measures should be linked to the steps envisaged in the Regional Development Plan of Ida-Virumaa for the years 1998-2003 in the field of the reconstruction and expansion of transport and tourism infrastructures.

Since the problems referred to essentially include several agencies and manifest themselves primarily within one county, no time should be lost in drafting a corresponding territorial state programme, which by analogy with practice in the EU member states could be dubbed Social Plan of the County or Ida-Virumaa Employment Pact.

Partly with EU financing, 89 such territorial programmes (Territorial Employment Pacts) have been drafted by now to solve situations similar to that in Ida-Virumaa.

Concurrently, consultations with the World Bank should start in order to implement the practice adopted there (e.g. Labour Redeployment Programme for the miners of Rumania or Miners Social Package for the restructuring of the mining industry of Poland and Macedonia).

The experience acquired at the talks with NRG Energy on financing social problems resulting from privatisation should also be taken account of, and such practice should extend to all the terms and conditions of privatisation related to oil shale industry.

Considering the scale and social weight of the forthcoming activity, the authority of partners involved and the cost of the programme, also corresponding organisational solutions have to be found by the time of preparing, drafting and realisation of the programme. It probably cannot be imagined as a side-activity of a single ministry or the county government (besides other more important tasks), or in the form of a government committee meeting every now and then.

It would be expedient to form a special structure for that purpose (e.g. State agency), whose activity would include the period prior to the restructuring (employees to be dismissed would be in the sphere of influence of the agency at least half a year prior to the redundancy being designed).

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# INITIAL AIMS OF THE EU



**Alexandre Havard M.L.**  
 Director of the European Training Centre (Helsinki)  
 Cooperation Partner with Centre for Baltic Studies

Before speaking of the ethical challenges of European integration we must distinguish the initial aims of the European Union under the circumstances in which this powerful institution was born.

## Circumstances in which the EU was born

After the First World War many politicians and statesmen had been thinking of a solution which would exclude the possibility of military conflicts between the European nations. For that purpose they created the League of Nations, a system of traditional international cooperation which, as it was expected, collapsed in the 1930's. After the Second World War the US promoted a policy of unification of the democratic countries of Western Europe in order to protect Europe (and itself) from the Soviet Union which was, like people thought, on the way to take power all over Europe (creation of the Kominform in October 1947, the tentative of revolution in Paris in February 1948, the blockade of Berlin in spring 1949). Concretely in the beginning of 1950 the US put pressure on Robert Schuman, the French minister of Foreign Affairs, to find a solution as soon as possible in order to unite France and Germany.

Schuman had been thinking for years of a union between France and Germany (he was born and grew up at the frontier between these two states), but at that time it was extremely difficult to realise such a project because the French people in its majority considered Germany

as a potential aggressor: De Gaulle had signed two Treaties (in December 1944 with the Soviet Union and in March 1947 with Great Britain) in order to protect France from German aggression. Schuman understood that the French policy towards Germany had to change completely. Jean Monnet wrote in his "Mémoires": «"We lost the peace in 1919, I said to Robert Schuman, because we introduced in it a spirit of discrimination and superiority... We are repeating now the same mistake". Schuman agreed with me and we understood each other perfectly».

In the beginning of May 1950 Monnet gave to Schuman his project for unification of France and Germany. Monnet was at that time an independent technocrat. In 1945 De Gaulle entrusted him with the direction of the modernisation of the French economy. Monnet had an incredible capacity not to win, but to convince. There was in him a mixture of French and German idealism (he believed in «the idea») and Anglo-Saxon pragmatism and realism (he permanently adjusted himself to "the facts").

The project was clear and simple: the French government would propose to pool the production of coal and steel of both France and Germany, and put it under the control of an international Authority, which would be opened to the other European nations. Little by little the object of this new institution would be extended to other fields of activities. The project was kept secret till the last moment, because its main principles (equality between France and Germany, the binding character for the member states of the decisions of the international Authority) would not have been accepted by the majority of French politicians and statesmen if there would have been a possibility to discuss them.

The project of Monnet became the Schuman Plan. Schuman informed Konrad Adenauer of the project, the head of the German Government, who accepted it immediately. On the 9th of May 1950 at the session of the French Council of ministers Schuman explained the project to the members of the govern-

ment in such a way that they could not really understand all the meaning of it and its consequences for the future. The Government could not reject the project, knowing from Schuman that Adenauer supported it. The same day at 4:00 in the afternoon Schuman made a public declaration at the ministry of Foreign Affairs in the presence of Jean Monnet. This declaration would be known as the «Schuman Declaration». The European Union was born. One year after, the Treaty on the European Community of Coal and Steel was signed in Paris by six European states.

This French idea is one of the most interesting and powerful ideas that France has had during the two last centuries. "Why does France still hold the first position in Europe, asked Dostoievsky a century ago... Because this country is always the country of the first step, the first experimentation, the first idea" (Journal 1876, 103) The action of Jean Monnet as the President of the Committee for the United States of Europe till 1975 influenced significantly the further development of the European Union. For this enormous contribution to European integration, by a decision of the European Council, Monnet was made a citizen of Honour of Europe in 1975.

## Initial aims of the EU

The policy of the Soviet Union and the policy of the US after the Second World War are only historical circumstances, which helped the realisation of the European dream. The European Union was not founded in order to satisfy the requirements of the US, neither to resist the pressure of the Soviet Union. The objective of the European integration is constructive: «Our position is not an answer to the requirements of the US, neither an attitude of fear towards Moscow, but a constructive position which as such could have been taken whatever the circumstances would have been and without reference to the American or Russian positions: and this is the creation of Europe» (Jean Monnet, Mémoires).





Even if communism was a big threat for the European civilisation and for any kind of civilisation in general, it was not the "reason" for the creation of the EU. Was then the real aim of the EU to build a strong European economy and make Europeans rich? The fusion of national economies had certainly an important place in the initial project: «The political unity of tomorrow will depend on making the economic union effective in everyday activities» (JM, Mémoires). «Europe will not be achieved by a general construction: it will be made through concrete realisations and a de facto solidarity» («Schuman Declaration», 9th of May 1950). This "de facto solidarity" would be impossible without the fusion of economic interests. The history of the second millennium shows that it is not serious to think of the unification of Europe through an "idea", through culture. Europe means multiplicity of forms and diversity of traditions. The "European idea" is not the beginning of Europe, it will be the result of the European unity. Nevertheless, the fusion of economic interests is not the aim of the unification, but only a means of its implementation.

The aim of the European integration is moral: «The beginning of Europe is a political vision and even more a moral vision... The object of our efforts is the development of man... We don't put States together, we unite people», said Jean Monnet in his "Mémoires". «The United Europe is a prototype of the universal solidarity of the future», Robert Schuman wrote in 1960. The development of the man as a person, the solidarity between individuals, stable peace... these are the moral aims of the European integration.

It is not difficult to find in the initial aims of European integration a deep Christian dimension. The objectives of the European construction are freedom, human rights, democracy, solidarity and peace. These aspirations of Europeans are signs of maturity of our contemporary Christian civilisation: as such they mean a deeper understanding of the dignity of man. Europeans must rejoice in this development of human consciousness.

Integration, which means fusion of national interests, better than traditional co-operation, makes possible a real solidarity between citizens of Europe and prevent the development of national egoism: «We are here to achieve a common work and not to negotiate advantages. We are here to look for our advantage in the common advantage» (JM, Mémoires). «Co-operation between nations does not resolve anything. We must fuse the interests of the European nations and not only maintain the equilibrium of these interests» (JM, Mémoires).

**The objectives of the European construction are freedom, human rights, democracy, solidarity and peace. These aspirations of Europeans are signs of maturity of our contemporary Christian civilisation.**

In fact the Catholic Church since the Second World War has been very much in favour of the European construction through international co-operation (Council of Europe) and political integration (European Union). The Church could not be indifferent to the destiny of the European nations, which received from her baptism and spiritual life, but never stopped offending God by fighting one against another. Pope John Paul II himself wrote famous and important documents on the roots and destiny of Europe and gave many speeches on this topic in the European Parliament at Strasbourg or elsewhere. Without involving itself in political matters the Catholic Church has encouraged initiatives which could lead to peace and a better respect of the dignity of man.

Thus it is not surprising that the big majority of politicians and statesmen founders of the European Union were representatives of the Christian democratic or Christian social parties of that time: Robert Schuman, the French minister of Foreign Affairs and the first politician who proposed to create and created in fact the European Union, was one of the leaders of the Movement Republican Populaire, a social Christian party. Konrad Adenauer, the head of the German Government, was the chief of the Christlich-Demokratische Union. Alcide De Gasperi, the head of the Italian government, was the founder and chief of the Italian Christian Democracy. Other personalities, who played an important role in the foundation of the European Community, like Paul-Henri Spaak (the minister of Foreign Affairs of Belgium) and Joseph Bech (the minister of Foreign Affairs of Luxembourg and the chief of the Christian Social Party of this country) were devout believers. Many of these people had suffered personally the assaults of totalitarian regimes: De Gasperi was arrested by Mussolini in 1927, spent 2 years in jail and 14 years in exile. Schuman was arrested by the Gestapo in 1941, spent one year in jail and 1 year in exile in Germany from where he escaped. Adenauer was dismissed from his duties as mayor of the city of Cologne first by Hitler in 1933 and then by the British government in 1945. Schuman, de Gasperi and Adenauer had very strong Christian convictions and lived according to these convictions. In 1921 de Gasperi wrote to his fiancé: «The personality of the living Christ attracts me, subdues and comforts me as if I was a child». When Schuman was 20 years old he decided to dedicate his life to God's service in the midst of the world. Schuman considered politics as a service. Many politicians could learn from him.

It has been said that Jean Monnet, the philosopher and technician of the European integration, was an agnostic. In fact Monnet's ideas were closer to basic Christian moral principles than to principles of modern agnosticism. Modern agnosticism is relativistic: it does not recognise the existence of a natural moral law, which can be known by rea-



son. Monnet never accepted moral relativism. He believed in the capacity of reason to discover objective values and in the capacity of will to follow them. He believed in virtue. His way of thinking was very much influenced by his Christian education and environment (his mother and his wife were believers, his sister was a very famous catholic activist).

## "Decline of Europe" and new ethical challenges

The European Union was created in order to stop the "decline of Europe", if we want to use the famous expression of Oswald Spengler. Unfortunately the rapid development of agnosticism and atheism in Europe after the Second World War has considerably limited the human and spiritual benefits which could have been expected from European integration. Finally at the threshold of the third millennium Christians cannot be without asking themselves: is the European Union a difficult beginning of Europe or the brilliant end of European civilisation?

From the technical and institutional point of view the European Union is a miracle. Jean Monnet was a real genius. He left after him a spirit and a method, which really help to bring together people and nations. But later some attempts to use the European Union in order to take inhuman measures at the European level as been done: I mean the attempt to legalise euthanasia and declare abortion a human right.

Europe found in Christianity and in the Ancient Humanism of Greece and Rome the source of its inspiration: the spirit of initiative, dynamism, culture, the capacity of beneficial expansion to other continents. The Christian and humanistic roots of Europe are a deep reality from which we cannot depart. Unfortunately the most precious discovering of the Greek philosophy of Socrates, Plato and Aristotle are rejected by modern immanentism and subjectivism in philosophy, which reject the very possibility of knowledge of the transcendent reality and the objective truth. The main

principle of the roman legal mentality — the definition of law as "id quod iustum est" (what is just) is rejected by modern legal positivism, which considers Law as nothing but laws passed by the parliament or decrees taken by the government. If there is no possibility to know objective truth, if the laws must not have a definite ethical content, then Philosophy and Law are nothing but techniques of regulation of human relationships.

Europe is not only threatened by techniques without spirit and meaning, but also by the image of man the consumer, the "homo economicus", for whom power, money and sex are objects of adoration. This "horizontal man", this "man-mass" is the most pitiful product of modern agnosticism. Only faith in a living and personal God can give back to this freak of modern civilisation verticality, hope, and dignity. We said before that the fusion of economic interests is the means of the European integration. That is true, but without serious reflection on the human and spiritual values which must accompany this process, the European unity will be superficial and fragile, just as human constructions are fragile and superficial without spiritual foundations.

At the end of his life in the 1960's Robert Schuman was very much worried about the moral decomposition of Europe and gave important speeches on that topic. In fact by denying fundamental values, agnosticism and atheism are a big threat for European citizens, believers or non-believers. The temptation to "reengender" Europe on an agnostic and relativistic basis is historical, moral and spiritual suicide.

## Conclusions

1. The human and spiritual dimension of European integration can be discovered not only by studying the initial and fundamental aims of the institution of the European Community, but also by knowing the personality and life of the fathers of the European construction.

2. The rapid development of agnosticism and atheism in Europe after the Second World War has considerably limited the

human and spiritual benefits, which could have been expected from European integration. From the moral point of view Europe is paralysed. The urgent task of Europeans is to defend the initial aims of European integration, to give a new life and spirit to Europe. If we fail in this task this would mean not only the decline of Europe, but also the end of the European civilisation.

3. The "mission" of the European countries recently freed from communism is to contribute largely to reintroducing into Europe its "instinctive powers". This would mean that decades of humiliation, slavery and sorrow could be interpreted positively as a deep experience of the Cross and a preparation for the realisation of a historical task, which has a direct relation with the salvation of the European civilisation. I would not be surprised if in the future leaders of the EU would come from the eastern part of Europe.

## Thesis:

1. The objective of the European integration is constructive: the European Union was neither founded in order to satisfy the requirements of the US nor to resist the pressure of the Soviet Union.

2. It is not difficult to find in the initial aims of European integration a deep spiritual dimension. The objectives of the European construction are freedom, human rights, democracy, solidarity and peace. These aspirations of Europeans are signs of maturity of our contemporary civilisation: as such they mean a deeper understanding of the dignity of man. Christians must rejoice in this development of human consciousness.

3. The human and spiritual dimension of European integration can be discovered not only by studying the initial and fundamental aims of the institution of the European Community, but also by knowing the personality and life of the fathers of the European construction.

4. The European Union was created in order to stop the "decline of Europe", if we want to use the famous expression





of Oswald Spengler. Unfortunately the rapid development of agnosticism and atheism in Europe after the Second World War has considerably limited the human and spiritual benefits which could have been expected from the European integration. Finally, at the threshold of the third millennium one cannot be without asking: is the European Union a difficult beginning of Europe or the brilliant end of European civilisation?

5. Europe is not only threatened by techniques without spirit and meaning, but

also by the image of man the consumer, the "homo economicus", for whom power, money and sex are objects of adoration. This "horizontal man", this "man-mass" is a pitiful product of modern agnosticism. Only faith in a living and personal God can give back to this freak of modern civilisation verticality, hope, and dignity.

6. The "mission" of the European countries recently freed from communism is to contribute largely to reintroduce into Europe its "instinctive powers". This

would mean that decades of humiliation, slavery and sorrow could be interpreted positively as a deep experience of the Cross and a preparation for the realisation of a historical task, which has a direct relation to the salvation of Europe. I would not be surprised if in the future leaders of the EU would come from the eastern part of Europe.



## EUROPEAN UNION: ECONOMIC INSTRUMENTS FOR POLITICAL AIMS



**Meelis Kitsing**  
Lecturer on the History of Economic Thought,  
EBS

The institutions and economic policy ideas of the European Union are without doubt a product of a long-term evolution. However, to avoid going too deep into history this paper focuses on a few dramatic developments in the aftermath of World War II. Sometimes it is worthwhile looking back to analyse the ongoing in the light of the past. Mark Pattison, the British historian from the 19<sup>th</sup> century once said: "A man who does not know what has been thought by those who have gone before him is sure to set undue value upon his own ideas" (Pattison, 1885, p. 78)

Pattison's aphorism seems most relevant when we take those who guide the EU economic policy today placing too much value on their own ideas. On the other hand, people for whom the principle of public choice is their point of departure either directly or subconsciously, see everywhere the fruits of the labours of

stakeholders. The ideas of John Maynard Keynes, highly popular among Estonian lecturers, perfectly prove that an analysis of the social economics of the EU makes sense.

"A study of the history of opinion is a necessary preliminary to the emancipation of the mind. I don't know which makes a man more conservative, to know nothing but the present or nothing but the past," wrote Keynes (Keynes 1936, p. 277). Or let us recall what Keynes said in his "The General Theory": "Madmen... who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back (ibid, p. 383). And Keynes goes on to say that he is convinced that it is ideas and not vested interests which are, in the long run, dangerous for good or evil.

By the way, Keynes wrote the above when Hitler was in power in Germany. Germany, and the ideas about what to do with this country tormented by war, as well as the rest of Europe, are central to the design of economic policy for post-war Europe. By no means can we overlook the Marshall Plan - a major international effort undertaken by different countries for the purpose of restoring Europe.

### Marshall Plan

Every now and then there are voices in Estonia, and these were particularly loud

at the beginning of the 90s, that in order to quickly overcome the breakdown of the Soviet Union, a new Marshall Plan is required. Well, one may say that in a way such a plan has been launched. Russia, although failing, has been receiving billions in aid from global state finance institutions once created by Keynes, and these billions disappear in the banks of Switzerland, New York, Cyprus, and other banks all over the world.

Incidentally, similar thought patterns were familiar to the Russian head-of-state-level leaders more than fifty years ago. The US Secretary of State George C. Marshall met with Stalin in 1947, at the time when the Soviet Union was tightening its grip on Eastern Europe and sought to increase its power in Western Europe. Marshall came to the conclusion that Stalin's political agenda was to economically cut off Western Europe. Two months later in a commencement address at Harvard University, Marshall proposed that the Europeans launch a unified programme to restore Europe. This programme was open for everybody and the Soviet Foreign Minister Molotov accompanied by his 100 counsellors attended the first meeting with the intention to present the Americans a bill, assuming that the Americans would pay it without further questions (Yergin, 1999).



However, US requirements for the allocation of funds did not meet the assumptions the Soviet side had made, so the Soviet Union did not participate in the 17-billion-dollar assistance programme, named after US Secretary of State Marshall. Western Europe received various commodities from the United States, ranging from corn to tractors. The monetary policy of the countries of Western Europe stabilised, trade revived, trade restrictions disappeared and industry took off.

From US domestic politics aspect, it is important to note that the Marshall Plan had links with both political parties. President Truman tried to ensure that the Plan got support from the Republicans and Democrats alike. Today we see that many steps taken by President Clinton on the international arena, e.g. trade policy towards China, or the Kosovo crisis settlement, may arouse sharp criticism by the Republicans.

Back then people at both sides of the Atlantic were very much frightened because of the atrocities Europe had been through, and a common goal to restore Europe brought the Americans and Europeans together. The fear of the USSR trying to take advantage of the dissatisfaction and instability in Europe was even more important. Policy makers from the US Foreign Department warned: "The margin of safety in Europe, both from an economic and political viewpoint, is extremely thin" (Yergin, 1999)

Actually, the Marshall Plan was not just the hand-over of American assistance. In order to receive that assistance, the Europeans themselves did a rather great job to create and launch the programme. Even under these relatively hard conditions, governments stood for open economy, liberal trade policy, and a united Europe. This approach was facilitated by the ties the European culture and institutions had with market economy, ties which had not been totally severed during the years under the rule of Hitler. The progress of the assistance programme was assessed by particular criteria. And although Europe was ruled by the "black market", and was swarming with all sorts of traffickers, corruption was no problem under the

Marshall Plan. This made the essential difference, compared to the assistance being given to Russia today.

One of the major reasons why the Marshall Plan was a success, was the fact that the Plan was a fragment of a bigger picture. European governments did not sit back and wait until the aid put their states back into order. Economist Jean Monnet gave a strong impetus to the modernisation of French statehood. Germany, however, presented a major challenge to the success of the Plan.

## Prosperity for All

In June 1948, Ludwig Erhard of Germany took a most drastic step by lifting price restrictions in Germany overnight. It was then that General Lucius D. Clay, representing the Allied Forces, said to Erhard: "Herr Erhard, my advisers tell me that what you have done is a terrible mistake. What do you say to that?" Erhard replied: "Herr General, pay no attention to them! My own advisers tell me the same thing" (Yergin, 1999).

Erhard was right. Germany's economy became a functioning economy. "Black market" vanished. Goods returned to the counters. This marked the beginning of the economic miracle of western Germany.

Market economy ensured that the Marshall assistance was not only used for the survival of the community, but also led to the growth of public well-being.

Prosperity for all was the goal of Erhard's activity. The economic policy ideas of Ludwig Erhard were greatly influenced by the Freiburg school whose ideas much overlap with those of the Austrian school, with scholars such as Ludwig von Mises and Friedrich August von Hayek. Ludwig Erhard made himself clear: "Für mich ist die Freiheit ein Ganzes und Unteilbares. In meinem Blickfeld stellen politische Freiheit, wirtschaftliche und menschliche Freiheit eine komplexe Einheit dar. Es ist nicht möglich, hier einen Teil herauszureissen, ohne nicht das Ganze zusammenstürzen zu lassen."\*

However, it was more complicated in real politics. Yet these were the principles that guided Erhard when he was in office as the Economics Minister in late 40s-50s and carried out radical reforms. At the same time his name is associated with the birth of the social market economy that tries to find a third way between socialism and capitalism. Which is not surprising since Erhard was the Economics Minister from the Christian Democrats whose doctrine was the market economy, and who later became the Chancellor of Germany after the death of Konrad Adenauer.

## Christian Democracy

Christian democracy as a political ideology developed in its major part in the wake of World War II. As a high-principled movement and an influential force in daily politics, Christian democracy should be addressed in this paper in order to understand the social economics of the EU.

After World War II, any right-wing politics was considered as more or less linked to the Nazism or Hitler's puppet governments in Continental Europe. Therefore, it made no sense to the politicians of the Ludwig Erhard-type who supported free market economy positions themselves as right-wingers - even if they supported values such as personal freedom, government with limited powers, patriotism and voluntary co-operation. Mainly two groups offered Hitler resistance: left wing and churches. Subsequently, these were Christian Democrats who gained popularity with certain strata in the society after WWII, because they were seen as the political representation of churches and carriers of anti-socialist sentiments. (Hannan, 1995).

This generalisation applies both to Germany and Italy. In that sense, Great Britain had remained untouched, and no Christian Democrats emerged. And due to de Gaulle's influence traditional right-wing parties remained rather strong in France.

The forerunners of Christian Democrats were the religious parties of the 19<sup>th</sup> century. In Italy and Germany there was a direct connection between the political



movements that the Catholic Church supported and propagated among the workers as an alternative to the socialist movement. The doctrine of Christian democracy includes principles such as consensus, solidarity, moderation and social market economy. Christian Democrats seek support from employers and trade unions alike. Their economic policy ideas originate directly from the *Rerum Novarum* of the Pontiff, 1892, where the rights and duties of workers and employers were determined to achieve harmonious industrial relations. The materialisation of that idea after an economic shock therapy inevitably brought about a welfare state guided by *Zeitgeist* of increased state control and interference of socio-political aims in personal freedoms. Thereby a most important system affecting the evolution of the EU was created, a system which has been introduced into the EU institutions and policies of today.

## Left Wing

The Marshall Plan was mainly dictated by security considerations, and so were the Christian Democrats of Continental Europe seen as the only powerful non-socialist opposition to Communism. At the peak of the Cold War the European left wing was considered to be a potential Trojan horse. Christian democracy was the ideology able to support continued defence expenses and NATO. Moreover, it was a happy mean to keep workers from inclining too much towards the Left.

When the first aspirations to the creation of the EU emerged in the 1950s, the only forces against the idea were the communist and fascist parties of Continental Europe. All other politicians, the socialists among them, supported the idea of the integration of Europe. For the left wing, a united Europe meant an opportunity to create shared employment conditions and social standards. A single European minimum wage was set as a goal. That "Social Europe" would have been non-competitive in the world scale, but European left centrist parties believed that the size of Europe would allow Europe to enclose in a capsule, and nevertheless have a strong

position at trade negotiations. Global competition in the form of lowly regulated and much more efficient labour elsewhere is the worst problem that stands in the way of left-wing socio-political aims. The latter believe that the European integration is able to solve the problem.

## Ilves Plan

So one may say that in the light of the above landmarks in the history of European integration current problems seem

**The EU's success will depend on the EU's ability to reform itself, reduce bureaucracy and control, liberalise economy and privatise businesses, as well as decentralise decision making machinery.**

to result from natural evolution. Problems such as excessive subsidies, inflexible labour markets, unreasonable social costs, politically dictated attempts to create a unified monetary system, and general damping down into a rather closed system of one's own. The increased state intervention during the Cold War can certainly be explained with security considerations. Back then, the share of state in GDP considerably increased in the United States, as well as in other Western countries - non-members of the EU. Nevertheless, the state intervention in the USA never rose to the levels of that in the EU. In the United States, state share in GDP has been somewhere around 30-35 per cent at all times, whereas in the individual member states of the EU this figure has reached an average of 50 %. Now that we have put the Cold War behind us, it is ever

more difficult to substantiate that large share of the state with security-considerations.

The Marshall Plan increased faith in assistance programmes, yet this support was pegged to very firm criteria as shown before, and concurrently attempts were made to introduce a number of free market economy-based political solutions. This can no longer be said about the current numerous EU assistance programmes, with the most conspicuous example being the using of about a half of the EU budget to subsidise agriculture.

Yet as we can see, in terms of their goals Christian democracy and moderate Euro-socialism do not differ that much. That might have looked differently during the Cold War, when the word "socialism" made decent people have nightmares. However, a reformed left wing bearing the name of Neue Mitte, New Labour or the Third Way is similar to, rather than different from Christian democracy. Both try to find a compromise between "social", not to say "socialist", ideas and free market economy. A difference may result from different ways of state intervention or the ultimate scope of the latter, but this is a technicality, differing by state according to tradition. The high level of Germany's social expenditure has its roots in the Prussia of Bismarck of the 19<sup>th</sup> century and has inevitably lead to an inflexible labour market. French pursuit of equality can be traced back to the times of the Great French Revolution, etc. One may pursue nostalgic ideas, but in order to survive in global economy, it would be worthwhile looking for ideas also outside the EU.

The EU's success will depend on the EU's ability to reform itself, reduce bureaucracy and control, liberalise economy and privatise businesses, as well as decentralise decision making machinery. Whereas 50 years ago the United States supported Europe with a programme of tangible assistance, today the EU might very well need a programme of spiritual assistance. In terms of open economy and trade liberalisation, Estonia could probably assist the EU, together with the United States and



other countries with larger economic freedoms. An article published in the Wall Street Journal Europe in May this year titled "Estonia Should Join EU and Lead It" (Sally, Varblane, 1999) was a start made by a lecturer of the London School of Economics Razeen Sally and lecturer of the University of Tartu Urmas Varblane. Should the Minister of Foreign Affairs Toomas Ilves be able to find real support to such a programme of spiritual assistance and launch it, it could be dubbed the "Ilves Plan" by historical analogy.

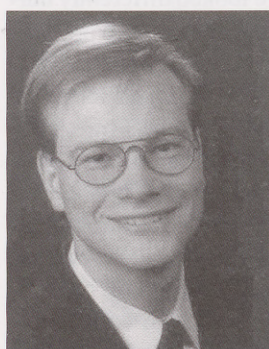
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• *For myself freedom is integral and indivisible. In my view, political freedom, economic and personal freedom comprise an integrated whole. It is impossible to tear out one part without the whole collapsing.*



# THE MARKET ZONING OF AN ECONOMIC UNION



**Klaus Bruns**  
Business Lecturer, Business Administration School in Vienna, Partner University of EBS

The market zoning of an economic union will be first looked upon in theory. Secondly the monetary co-operation in practise will be discussed. Thus conclusions about the market zoning can be made.

## Monetary Co-operation in Theory

### The theory of an Optimum Monetary Union According to Mundell

In accordance to the theory of Mundell the optimum monetary region is not restricted to national borders. Its rather the extent of the spatial mobility of the factors of production that determines the dimension of a monetary region. Inside a monetary region a large mobility of fac-

tors of production is predominant, whereas within those zonings virtually no mobility is noticeable.

The spatial mobility of productive factors in a way adopts the function of an exchange rate and in this respect, the differential development of the economies concerned.

This adjustment may as well be necessary within an economy, thereby providing the possibility of the existence of several currencies within national frontiers. However, the spatial mobility of the factors of production does not remain steady and irremovable for all time, as it is subject to the surrounding conditions in terms of economic policy. In a way, favourable prospects tend to promote the concentration of productive factors.

Moreover, the factor labour is inhomogeneous in itself. As the labour force is educated differently, they must therefore be considered in a more differentiated manner. Furthermore, a currency has an important significance from a psychological point of view as it frequently represents the ego of a nation.

### The Criterion of the Economic Dependence According to McKinnon

The goods of an economy can be dis-

tinguished between negotiable and non-negotiable goods. The ratio thereof determines whether the particular economy acts openly or rather isolated. Basically, relatively small economies are involved more intensely in the exchange of goods than relatively large economies. Correspondingly a relatively high specialisation of the small country in the manufacture of goods is to be associated therewith. The small economy possibly avails itself of numerous externally produced goods, in order to achieve the satiation of its own wants. McKinnon correspondingly focuses on the economic dependence that should be drawn upon for the determination of the optimum currency area. A one-sided alteration of the monetary parities, initiated by the small economy, will not entail a thorough-going consequence. The economic frame data will barely be alterable, as the manipulation of the exchange ratios will scarcely affect the large economy.

Due to the strong dependence of the small economy on the exports of the big brother, an insignificant alteration of the exchange rate will barely influence the scale of the imports. Thus the optimum monetary region passes lightly over the boundaries of the small economies.

Additionally, the political will to sustain an encroaching economic policy is a significant prerequisite that must exist. The monetary union should, in addition to



this, presuppose uniform inflation rates among the economies involved, since in a monetary compound system sound economies would otherwise be confronted with the necessity to accept high inflation rates in virtue of the weaker economies.

## The Criterion of the Pattern of Production According to Kenen

Kenen argues that a diversified pattern of production manifests the economic independence of the particular economy. An external shock in form of a demand shortfall with regard to a specific export commodity doesn't necessarily have an impact on the economy then - the production volume remains relatively secured. The demand shortfall can be recouped by the other numerously extant export commodities; an altered relation of the exchange ratios is not required therefore, in order to digest the external shocks. Diversified economies should consequently submit to a sturdy exchange rate union. A recession, which normally entails a general decline of exports, cannot be averted though by a diversified pattern of production.

Here a realignment of the relative prices by means of altered currency parities will still be necessary. Differential economic cultural backgrounds of the several economic nations could furthermore suggest particular co-operation forms.

## Monetary Cooperation in Practice

### The Cooperation on the Level of the European Community

From 1944 until 1973 the *Bretton Woods - System* prevailed in the Western hemisphere. For every participating currency existed a more or less fixed parity to gold since the US - Central Bank had committed itself to guarantee for the exchange of US-\$ into gold at a fixed rate whenever necessary (1 ounce of gold

equalled 35 US-\$). Due to the increasing budget deficit of the US the Bretton Woods - System dissolved. Nevertheless the EC Council of Ministers interceded themselves for a reinforced European co-operation (in terms of monetary policies). The concept of the "snake in the tunnel" emerged at that time among the participating countries (initially Germany, the Benelux, France, Sweden and Norway). Their currencies were subject to specific fluctuation margins (mostly  $\pm 2,25\%$ ) while floating against the dollar in a group. On condition that the al-

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lowed exchange rates, respectively, were overstepped, the European central banks concerned were subject to an intervention liability.

On March, 13, 1979, the *European Monetary - System* (EMS) was inaugurated. It was based upon mutual conviction having for object to promote the integration process by means of intensifying the work in terms of monetary policy. Ultimately the ECU (European Currency Unit), a unit of account, in which the national currencies were represented in accordance to their economic importance, should be embodied in the community. The ECU unified specific reserves of the member states. Correspondingly its value fluctuated in compliance with the fluctuation of the underlying reserves (gold, dollar) so that an adjustment occurred every three months. By the year 2002, the Euro will now become the single currency.

The *Treaty of Rome* laid the foundation of the co-operation with regard to the common monetary and economic policies. The relevant articles 103 - 109 emphasised in this connection the political determination namely to intensify the integration regarding factual issues. In the sequel, two directions eventually crystallised, the respective representatives of which entertained different conceptions referring to the procedures that were to follow. The *Monetarists* were represented by Belgium, Luxembourg and France. They advocated a premature fixation of exchange rates, which would have generated an economic compulsion to adjustment. The *Monetarists* endorsed the policy of the institutionalisation of extensive aid programs; however, just a few competencies should have been conceded to the organisations within the community. The *School of Economists* was represented by Germany and the Netherlands. They interceded for an immediate liberalisation of the movements of capital, the exchange rates, however, were to remain floating for the time being. The economists placed the political determination to contribute actively to the harmonisation into the foreground. The Werner-report of 1970 took both sides into consideration. The political willingness for further integration endeavours was lacking however at that time.

In a monetary union budgetary problems can no longer be resolved by a money supply expansion, a credit in-take is possible, however, provided that the monetary union is not accompanied by a fiscal union. As a matter of fact the deficit-ridden situation of single economies within the EMS aggravated, whereas some rapprochement occurred on the monetary terrain (e.g. inflation rates). A monetary union obviously does not lead automatically to an equivalent economic situation in the particular economies. A European central bank system should provide help in so far as to achieve a stronger integration on all levels. Its support could help contribute to the embodiment of an improved expenditure discipline. In fact, the whole community profits hereof, as continual capital requirements of single economies eventually have a retroactive effect on the level of interest rates throughout the



entire community. The establishment of such a system, additionally provides a platform in which a joint approach to the solution of national problems is facilitated.

The formation of a European central bank was decided in 1990. The Delors Report of 1989 precisely defines the procedure of its implementation in 3 phases. The first phase implies a fundamental harmonisation of all economic sectors and the compact institutionalisation of the EMS. In addition to this, several controls on the movement of capital are to be abolished gradually. Such controls prevent the uncontrolled outflow of a weak currency, thus delaying a devaluation, hence a (for prestigious reasons) realignment of parities. A conceivable alternative with regard to such controls is a deliberate high interest policy, though this policy cannot be pursued autonomously in the perimeters of a monetary union as via the market forces in addition there is a general levelling of the interest rate level - the concerned state loses control of monetary target figures. The compliance with specific macroeconomic variables is demanded by the Delors report in the second phase. For this phase it also scheduled the formation of a common central bank. The third phase is finally supervised by the uniform currency.

Finally, it can be concluded that the monetary co-operation within the EMS basically was successful. A stability-oriented policy was established by the harmonisation of inflation rates and the alleviation of erratic exchange rate fluctuations. The aimed gradual abolishment of controls of capital movement emphasises the intention to complete the integration.

## The Cooperation on the Level of the Council of Mutual Economic Aid

In the community of states of the Council of mutual economic aid several economic-related activities were subject to government supervision. A planning

board adopted the function of the market and in so far provided the marketability of economic matters. The planning board correspondingly defines which commodities are intended for export, the surplus quantities being the decisive factor. The trade balances of the particular states could therefore be equilibrated continually. Basically, the failure of the erection of a debtor position is attributable to the fact that no creditor could be found. The potential creditor couldn't have known for certain how (by means of what) a credit was serviced. On the other hand the governmentally sanctioned forecasted costs failed to cover the production costs of the particular commodity. Uncontrolled trade activities on the basis of these particular prices did therefore not comply with the interest of the state. This explains why the currencies weren't convertible. As a matter of fact there were situation-wise varying exchange rates between similar currencies. In 1963 the Bank for Economic Co-operation (IBEC) was founded.

This decisive step should have contributed to the intensification of the economic relations and also to the promotion of the exchange of goods between the CMEA-states. For this purpose the Transfer-Rubel - an encroaching unit of account - was introduced. However it failed to establish itself as the reserve currency, because it was unable to substantiate a direct claim for payment. Credit balances, that were denominated in Transfer-Rubel, couldn't be converted into dollars that easily; they even couldn't guarantee the procurement of goods. The dominant capacity of action of the IBEC was paralysed by the policy, that every participating (socialist) government was equally entitled.

The political ideology that determined the formation of the CMEA i.e. IBEC prevented a long-range intensification of inter-governmental trade. The Transfer-Rubel first of all served the Soviet Union, since it was no currency system based on mutuality.

## Summary

The theoretical advantages of a monetary union are first of all to reinforce trade relations and - especially in the European Union - to promote political integration. As we can see from the historical experience made so far those advantages will unfold as long as the political idea underlying is honest and the economies of all participating countries are able to benefit equally from the monetary union. Though the political integration must not vitally be connected with the erection of a monetary union, it still backbones the process. And as we have learned from the prerequisites mentioned and the attitudes discussed, when to establish a monetary union, economic co-operation on a broad scale beforehand seems to smoothen the introduction of a single currency in every way.

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# IMPACT OF FOREIGN DIRECT INVESTMENT IN ESTONIA



**Kadri Ugand**, EBS Graduate of 1999,  
Executive Officer  
EU Integration Department  
Ministry of Economic Affairs

## Statistical Background

Foreign direct investment (FDI)<sup>1</sup> is without a doubt one of the factors speeding up the process of development in the countries in transition. Besides new capital inflow that is obtainable also by other means (i.e. portfolio investments), foreign direct investment enables the host country to benefit in various other ways. Among the Central and Eastern Europe Estonia is not one of the first countries attracting FDI because of its size, but the per capita measure of FDI has re-

mained in the top three over the years. In 1997 Estonia held the third place, but according to the "World Investment Report 1999" Estonia climbed to the top in 1998. With \$407 per capita Estonia held the first place followed by Lithuania with \$251 and the Check Republic with \$247 (World Investment Report 1999).

The largest amount of investments has traditionally been directed to the manu-

facturing, and wholesale and retail sectors with the exception of 1998 when the financial sector boost to 54% of total FDI due to the acquiring of large shares in Estonian Ühispank and Hansabank by Scandinavian banks. The favourite destinations for foreign investors are the capital Tallinn and Harju County around it. It is expected that with the development of the infrastructure, the flow will also be directed elsewhere.

**Table 2.** FDI by source countries  
Source: Bank of Estonia

	1993	1994	1995	1996	1997	1998
Finland	32	24	9	35	33,4	21
Sweden	29	23	43	9	22,2	58
USA	0	6	9	28	8,1	3
Russia	3	12	0		5,4	
Denmark	0	0	3	10	4,2	5
Singapore	0	0	14		4,1	1
Great Britain	0	3	8		3,4	5
Austria	0	2	3	3	3,2	
Germany	2	2	0	4	2,5	3
Holland	6	0	0		2	1
Others	28	28	11	11	11,5	3

**Table 1.** Sectoral location of FDI  
Source: Bank of Estonia

	1993	1994	1995	1996	1997	1998
Manufacturing	45	51	45	24	42,8	19
Wholesale and retail	26	15	24	36	25,9	13
Transport and communications	0	21	11	3	14,2	1
Agriculture	0	3	5			1
Finance	8	2	7	27	7,3	54
Real estate and business services	7	3	0		3,4	5
Energy, gas and water	0	0	0			1
Others	14	5	8	10	6,4	6
TOTAL	100	100	100	100	100	100

<sup>1</sup> A foreign direct investment is considered to be an investment by a resident of one country that comprises at least 20% of the capital stock of an enterprise in another country. Direct investment as reflected in the Balance of Payments by the Bank of Estonia is divided into the following components: increase in capital stock, re-invested income, long term loans, and short term loans. The increase in capital stock can be both investments into an existing company or establishing a new one. Reinvested income is the portion of profits that are undistributed and remain under the control of the enterprise in the host country.



Scandinavian countries have been the main source countries, comprising over 50% of the FDI every year. The number of the countries that have investment position in Estonia is quite limited and that could have negative effects in the future.

### Costs and Benefits of FDI

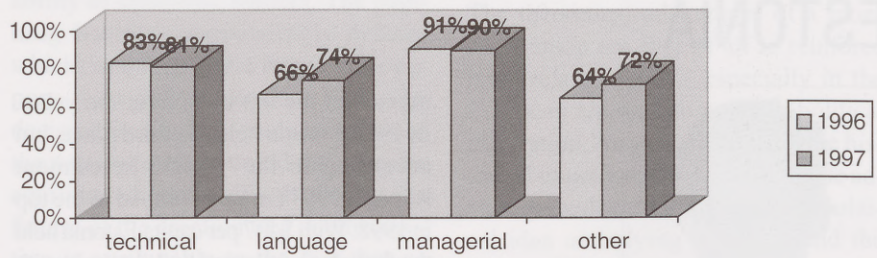
In recent years, a number of developing and transition countries have enjoyed a large inflow of foreign capital that have eased their financing constraints. Despite their obvious benefits- increased efficiency and better allocation of capital, with the associated transfers of technology- the inflow has aroused concerns because of their potential effects on macroeconomic stability, the competitiveness of the export sector, and external viability (Haque, Mathieson, Sharma, 1997).

There are many different ways how foreign direct investment can affect its host nations economy positively and negatively. In many cases the outcomes can be completely opposite depending on the objectives of the investors.

The main benefit of foreign direct investment to the host country is considered the transfer of resources, that includes technology, capital and labour skills. Technology transfer is most successful if the technology is adapted to the local environment, local circumstances (Borensztein, Gregorio, Lee, 1998). In the case of Estonia the majority of the technology transferred is adapted and the percentage is growing.

According to studies by the Estonian Statistical Office, the technologies transferred to Estonia have in the majority of cases been adopted to the local conditions as 68% and 75% of transferred

Figure 1. Training in companies with foreign shares  
Source: Estonian Statistical Office



technology was modified in 1996 and 1997, respectively. FDI allows local partners easier access

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to foreign capital markets through the parent company. Multinational investors cannot stabilise the local environment, but they are better positioned to cope with uncertainty. Firstly, they may have experience of operating in a variety of environments. This aids them and their local partners to develop better forecasts, or scenarios, of the future of

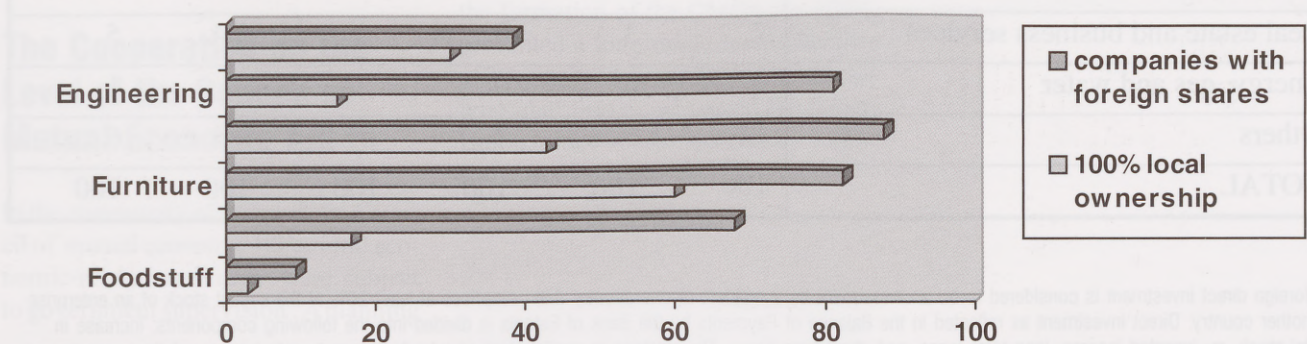
the local environment, and market demand in particular. Secondly, multinationals can diversify the investment risk because their new project would be a part of an investment portfolio... Most important, multinational investors have access to international capital markets which allows them to raise capital at lower costs (Meyer, 1997).

On the other hand if the investors rely on the local resources, they are likely to get preferential treatment before the local companies because of higher credibility. This may lead to crowding out and fading of the local entrepreneurship. Other objects of transfer, capital and labour are also present in Estonia. Companies with foreign shares train more than half of their employees and the training in the most needed area, managerial skills, is conducted with about 90%.

Of the trained employees about 30% leave their original position and thus become an asset to another (possibly local) company, becoming a part of the spillover effect (Aber, 1999).

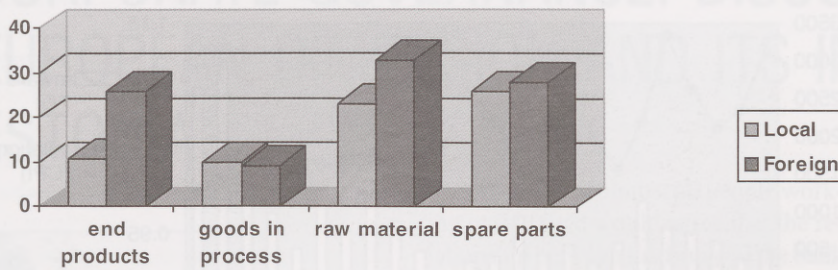
The potential for spillovers from multinational enterprises derives from the fact that foreign firms have a multi-market presence. MNEs are a natural conduit for information about foreign markets; foreign consumers and foreign technol-

Figure 2. Export share of net volume  
Source: Estonian Statistical Office





**Figure 3. Sources of inputs**  
Source: Estonian Statistical Office



ogy and they provide channels through which domestic firms can distribute their goods. To the extent that MNEs directly or indirectly provide information and distribution services, their activities enhance the export prospects of local firms (Aitken, Hanson, Harrison 1997). When entering the Estonian market, foreign direct investors may either create or reduce the number of local employees. The effect depends on a lot of factors, most obvious if we are dealing with a greenfield, brownfield or acquisition. The investors may reduce jobs for locals by bringing in foreign experts. As the percentage of foreign employees in Estonia is less than 1%, it is safe to say that FDI increases more than reduces jobs for locals.

Foreign companies export considerably

more than locals, improving the trade balance. Companies with foreign shares engage in exporting up to 5 times more than local companies in the same industry. In the second quarter of 1999 the trade balance deficit had decreased by 40% compared to the same quarter in 1998.

This effect has two sides as the same companies create deficit by importing inputs, especially raw materials and end products.

The effect on the balance of payment includes the same kind of a controversy. At first the original inflow improves the balance of payments, but the effect occurs once, as the repatriation of profits may occur every year. In Estonia there has not been massive profit repatriation yet, which refers to the continuing faith of the investors in the profitability of

investments to Estonia as they reinvest the profits.

As a large part of the investments is coming from the same region, the risk of economic imbalances increases. A large part of FDI to Estonia is coming from the Scandinavian region and should a crisis occur there, consequences would be apparent in Estonia as the business cycles would be multiplied.

More positive than negative effects have resulted from FDI in Estonia and the contribution to the economic growth has been considerable. As Estonia is still a country in transition, the labour costs here are lower, the market is to some extent pure, etc. but as those incentives fade, the effects may be quite different (a topic of further research).

### Analysis

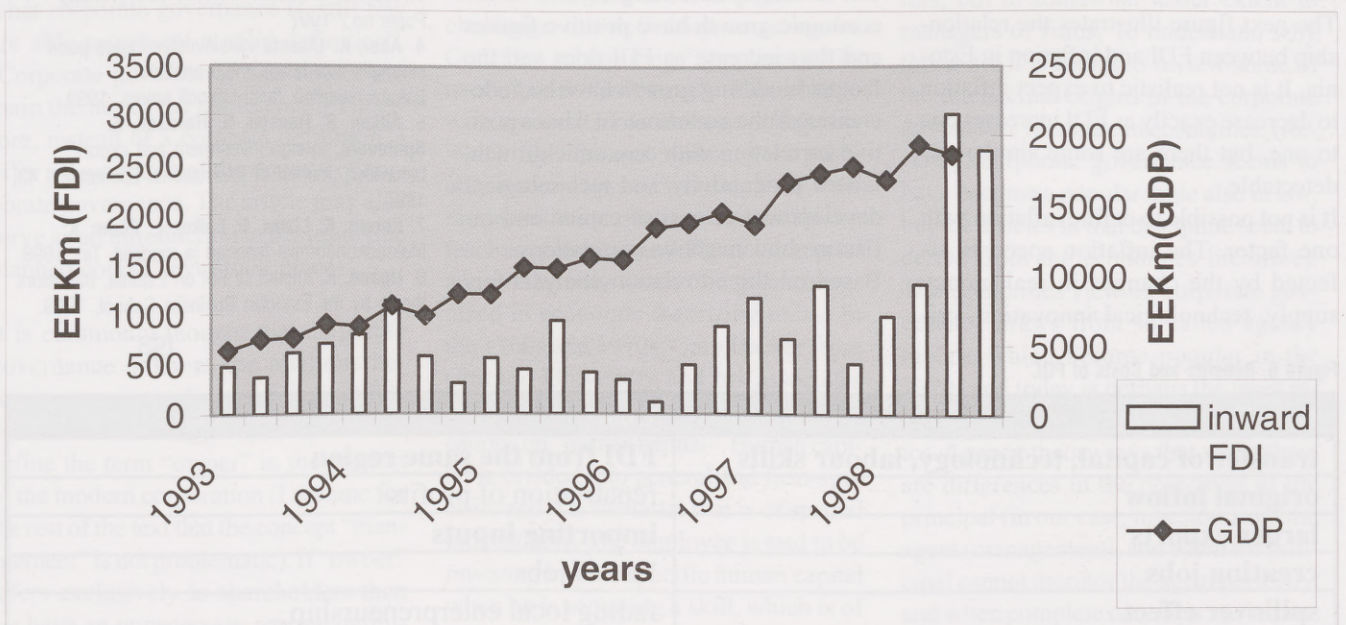
Proceeding to a more statistical level the correlation between the different factors of the Estonian economy and inward FDI is calculated in order to find any statistical dependency between the endogenous and exogenous variables.

The table below shows the correlation of the factors with inward FDI. Correlation indicates to what extent are the factors moving along similar paths. If the

**Table 3. Correlation of economic indicators with inward FDI**

	Economic growth	Labour productivity	Cost of capital	Inflation
Correlation with FDI	0,55	0,53	-0,17	-0,43

**Figure 4. GDP & FDI**





correlation coefficient is 1, the paths are identical, if -1 the exact opposite of each other. With a correlation of 0, no similarities whatsoever can be detected in the fluctuations.

There are two aspects of correlation analysis of importance. First, whether the correlation is positive or negative shows in what direction the factor in question fluctuates in comparison with inward FDI. Besides the direction of correlation there is also the extent to what the two factors move in the same or opposite directions.

The first two factors have positive correlation with FDI, which means that to some extent the figures move in the same direction. So with a larger inflow of FDI, economic growth and labour productivity increase.

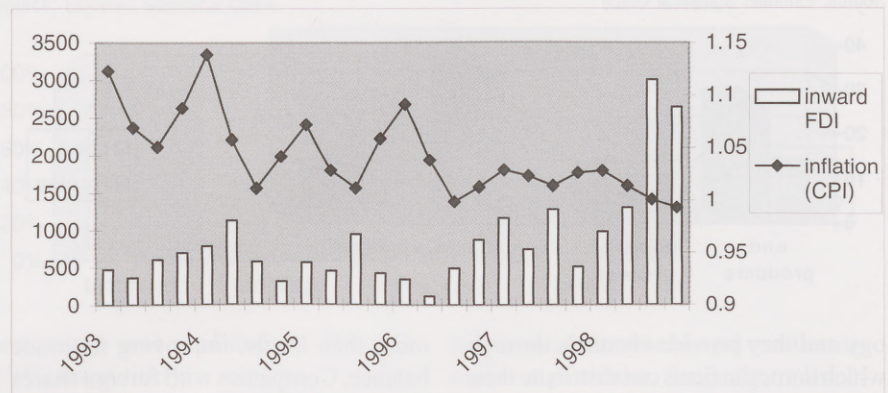
The last two factors have a negative correlation with FDI. This shows that as more foreign direct investments are injected into Estonia, the cost of inputs decreases.

The factor to have the largest correlation with FDI is economic growth with 0,55. This means that with an increase in the stock of FDI economic growth rose the most. Labour productivity has the second largest correlation, 0,53 and as can be seen from the table. Correlation figures show how strong is the bond between the two factors. As the figure is marginal in the case of cost of capital, no conclusions may be drawn there, but in the case of economic growth and labour productivity, a bond can be detected.

The next figure illustrates the relationship between FDI and inflation in Estonia. It is not realistic to expect inflation to decrease exactly as FDI increases one to one, but there are some similarities detectable.

It is not possible to define inflation with one factor. The inflation speed is affected by the changes in real money supply, technological innovation, pri-

Figure 5. Inflation & FDI



vate sector expectations, different domestic and international economical disruptions and other changes in real economy [Kerem, Listra, Luiker, Pöder, 1998].

From all this a conclusion can be drawn that the FDI made to Estonia increases productivity, lowers the growth rate of costs and thus speeds economic growth.

### Conclusions

Theoretically, FDI can have many different effects on the host economy depending on the existence and size of the benefits and costs. The table below summarises the main benefits and costs of FDI, with the factors being clearly present in Estonia in bold shrift.

The analysis has confirmed empirically, the conclusions that FDI has indeed been a considerable source of growth for the Estonian economy.

The correlation analysis shows clearly that all the contributing factors to the economic growth have positive figures and thus increase as FDI does and the factors hindering growth have been decreasing at the same time. FDI has a positive correlation with economic growth, labour productivity and technological development as cost of capital and inflation show negative correlations.

Based on the correlation analysis for-

eign direct investments have had the largest impact on economic growth via labour productivity as the correlation exceeded 0,5.

However, foreign investors are attracted to locations where they can earn more returns than possible at home and where they have an advantage in their cheap foreign capital. From that point of view, Estonia may reach a stage where certain investors may choose not to invest here, for their capital can no longer rise above the advantage of local market knowledge.

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Figure 6. Benefits and Costs of FDI.

Benefits	Costs
<b>transfer of capital, technology, labour skills</b>	<b>FDI from the same region</b>
<b>original inflow</b>	repatriation of profits
<b>larger exports</b>	<b>importing inputs</b>
<b>creating jobs</b>	loss of jobs
<b>spillover effect</b>	fading local entrepreneurship



# CORPORATE GOVERNANCE: DISCUSSION ON THE EUROPEAN DIMENSION AND ITS IMPLICATIONS FOR ESTONIA



**Panu Kalmi**  
Ph.D. student  
Center for East European Studies  
Copenhagen Business School  
Exchange PhD student at EBS

## Looking For a Definition

I feel that it is necessary first to clarify what this article is about. When I came to the Estonian Business School in late September 1998, I had planned to give a course on corporate governance. When I told about this plan, the usual reaction was a question: "But, what is corporate governance?" I found that I was unable to give any short and exact answer. I should have expected that: Just a few weeks earlier I had attended a conference, where an eminent American professor said: "Most of us think they know what corporate governance is, still few are able to present a solid definition". (Corporate governance was one of the main themes of the conference.) Therefore, instead of a compact definition, I offer a description of the domain of corporate governance. The article may also serve as an introduction to the topic (the planned course never took place).

It is commonly thought that corporate governance is about the relations between owners and management. This definition has the problem of how we define the term "owner" in the context of the modern corporation (I assume for the rest of the text that the concept "management" is not problematic). If "owner" refers exclusively to shareholders then we have an unnecessary narrow defini-

tion. I think that almost all people working in this field would agree that the relationship between the firm and the bank belongs to the domain of corporate governance. One might feel that the definition given by two authoritative scholars, Andrei Shleifer and Robert Vishny, would be better and sufficient. They argue that "Corporate governance deals with the ways in which suppliers of finance to corporations assure to themselves of getting a return on their investment" (1997, p. 1). "Suppliers of finance" include both the shareholder and the creditors, which include in addition to banks also e.g. bondholders and lessors. This immediately generates another question: Do all "suppliers of finance" have equal rights and if not, then why not? The most important distinction between the ownership rights of shareholders and creditors is that shareholders have a right to vote, which the creditors do not have. This question has received a lot of attention and an interested reader may consult e.g. the above-mentioned article by Shleifer and Vishny.

However, in everyday thinking this fact is seldom questioned and does not give rise to any great policy-oriented discussions. A more interesting line of thought (at least in my opinion) to pursue is to challenge the definition once again. Consider substituting "suppliers of finance" with "investors". This change with innocent looks makes a difference, which Shleifer and Vishny were probably aware of, when wording their definition. As the modern economic theory teaches, physical and financial capital are not the only forms of capital recognized in economic theorizing today. In the 1960s and 1970s, Gary Becker from Chicago University and his associates developed a theory and empirical applications on "human capital". Human capital is divided into general and firm-specific, and it is the latter that is of special interest here. The employee is said to be *investing* in firm-specific human capital when he is acquiring a skill, which is of

no comparable use outside the particular firm. For acquiring this skill, he usually gives up time and may have to do financial sacrifices as well. The investment is also risky, since the employer may fail to compensate this investment fully and may even terminate the employment contract. To encourage optimal amount of investment to firm-specific human capital, it might be wise to give workers control over certain decisions (see Blair, 1995). Thus, from the point of view of investment employees may also be viewed to have a legitimate right to control. This argument may be easily extended to communities, for instance: It is often the community which provides the necessary infrastructure for firms, and who suffers if the firm decides to leave the town. The discussion on who has the right to participate in governance is most heated on the topic and one where the current disagreements in European legislation concentrate upon.

## Intellectual Origins and Limits of the Literature

The literature of corporate governance has important implications for legislators, but to somewhat lesser extent to managers of firms. To understand why this is so, it is useful to review some of the intellectual origins of the corporate governance literature in economics. (Recently, corporate governance seems to have become a popular topic also in law, but the articles in that discipline seem to derive from the economics literature). The economics view on corporate governance draws from so called agency theory, which became popular in the 1970s and today is perhaps the most influential theory of managerial economics. Agency theory says that when there are differences in the objectives of the principal (in our case, investors) and the agent (management), and when the principal cannot monitor the agent perfectly, and when complete contracts are impos-



sible to write, we observe agency costs (Jensen and Meckling, 1976). When there are agency costs involved in the exchange, we should expect also that there are *institutions*, which are designed to minimize these costs. The most important of these institutions is company law, which defines the authority of and relations between supervisory board (*nōukogu*), management board (*juhatus*), and shareholder meeting (*aktionäride üldkoosolek*). Much of the literature on corporate governance has described how to best monitor the managers who, when left uncontrolled, might not do the best work for the owners, or still worse, might squander the investment of owners. I would like to call this a conflicting view of corporate governance, because the focus is on the conflict between different interest groups. I go on to state that the usual economics view on corporate governance misses an important aspect, namely co-operation. I still admit that the conflicting view is highly useful. For instance, it gives a strong rationale for independent supervisory boards, which control larger transactions by managers. But I find it surprising that the subject has become increasingly popular in management science and even in consulting, though *presently* it has practical implications mainly for legislators and to some extent to owners, but is only of limited use to managers. I think there is a good possibility for further advancement of the theory. This said, let us focus now on the problems of international corporate governance.

### Two Models of Corporate Governance: Exit and Voice

In different places of the world, there exist an enormous variety of different

ownership structures. However, three prototypes have been identified, which are named the Anglo-American model, the German, and the Japanese model. In reality, there exist considerable differences in the organization of corporate governance between the USA and UK on the one hand, and Germany and Japan on the other hand, but in one dimension the systems clearly differ: Anglo-American is based on *exit* and both German and Japanese on *voice*.

In the Anglo-American model, large

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companies are held by a large mass of individual investors. None of these investors participates in the management of the company. Moreover, in the Anglo-American system there is no equivalent of a supervisory board: instead, there is a board of directors, which combines the task of management board and supervisory board. (Being precise, in US companies there is only one board, in UK there might be two boards, although law does not mandate a two-board struc-

ture). Individual investors have no real possibility to influence the nominations of the board (they have the right to vote in shareholder meetings, but not to nominate the candidates for the board). The lack of two-tier board structure is a straightforward consequence of the position of the individual shareholders in a US company: It is not intended that they should have a formal voice in the decision-making. Instead, they have the right and opportunity to exit. When a large number of shareholders get dissatisfied with the performance of the company, they sell their shares, which causes a fall of the price of the company stock, which should alert the board to act and possibly dismiss the management. Moreover, the under-performance of management gives opportunities for *take-over raiders* to buy the undervalued shares, increase their value and sell with profit (Fama and Jensen, 1983).

In contrast, the German and Japanese models are based on large holdings by large institutional investors, in the case of the Japanese often on cross-shareholdings. These ownership structures are typically illiquid: A large owner cannot start to sell its large holdings in a firm, since this would be interpreted as a sign of the troubles of the company. In these cases, the option to use is voice. A large owner can through its ownership position and representation in the supervisory board monitor the management directly. Moreover, the large financial stake it has in the company forces it to do so.

The table (See Table 1) attached gives us the percentages owned of the outstanding common stock in publicly traded companies in the US, Germany and Japan in 1990. One notices immediately that the ownership by individuals is by far the greatest in the US. The own-

**Table 1** Ownership of common stock in 1990 in the USA, Japan and Germany

	United States	Japan	Germany
<b>Banks</b>	<b>0</b>	<b>18.9</b>	<b>10.0</b>
<b>Other financial companies</b>	<b>30.4</b>	<b>29.1</b>	<b>12.0</b>
<b>Non-financial companies</b>	<b>14.1</b>	<b>24.9</b>	<b>42.0</b>
<b>Individuals</b>	<b>50.2</b>	<b>22.4</b>	<b>14.0</b>
<b>Foreign</b>	<b>5.4</b>	<b>4.0</b>	<b>14.0</b>
<b>Government</b>	<b>0</b>	<b>0.7</b>	<b>5.0</b>





ership by banks in the US is zero, since the banks are not allowed to hold common stock by law. Instead, the US pension funds play a very important role as owners, and the majority of common stock by financial institutions is in the position of pension funds. Pension funds have a reputation of being passive owners. Instead, in Germany the real power of banks is understated by the ownership figure, since banks usually control (through proxies) large voting stocks in the companies.

A question typically asked in the literature of corporate governance is: Which system is best? An evolutionary view argues that different corporate governance structures have evolved as responses to different institutional environments, the supremacy of systems is dependent on context, hence, no single system can be deemed as the best solution in all circumstances (Roe, 1993). However, from comparative corporate governance we can still learn useful lessons, discussed below. And while no system was singularly best, there surely are systems that are inferior to others (e.g. systems based on the deception of shareholders).

The greatest advantage of concentrated shareholding has long been recognized to be the increased ability of owners to monitor the management. However, there are downsides to concentrated ownership as well. Large shareholdings in one company may expose even a solid shareholder to large risk, as occasionally noted during banking crises. Moreover, the large shareholder may not always promote the interests of small shareholders. In fact, the dominating position of large owners or a coalition of owners (in Japan) has been argued to hinder the development of stock markets.

The Anglo-American system has problems of its own. First of all, it puts much faith in the stock markets. But why should we think that the stock market is an unbiased indicator of the performance of the company? (Most people would argue that it is not, but many would say it is still the best there is). In particular, why would the stock market have information, which the supervisory board

does not possess? The stock markets have been criticized as being *myopic*. This argument says that since stock market analysts focus on short-term indicators, like quarterly financial reports, the management is forced to concentrate on short-term returns. Since good short term performance does not always indicate good long term performance (e.g. good results may have been achieved at the expense of foregone investment opportunities, which would have paid off slowly), this argument says that short term oriented owners may under-

**Estonian firms do not have the problem of weak owners and dispersed ownership, because virtually all of the large and successful companies are under the control of core owners. At the same time it is clear that the Estonian governance system will be based on the German type of control.**

mine the competitive ability of firms relying on stock markets.

## Towards Harmonization?

However different the systems might be in the US, Germany and Japan, one thing they share in common: All systems are developed as a response to the regulatory environment they have faced, and in all of these three countries the political authorities have been shaping the governance practices purposefully (Roe, 1993). Therefore, it is nonsense to claim that the corporate governance structures now existing are solely a result of competitive pressures. The governance structures are a product of regulation, and the question is rather what type of regulation we want, not whether we want it or not.

One dividing line in Europe seems to be in what extent to blend social policy and labour protection into corporate governance. Already more than 25 years ago, there has been a proposal for so called fifth directive of European company law, which in its original form would introduce two-tier board structure for all European companies and grant employees in companies with more than 500 employees (later changed into 1000 employees) a right to elect their representatives to the supervisory board. The latter point is a modification of the German codetermination law, which grants the employees the right of electing from 1/3 up to 1/2 of the members of supervisory boards in companies with over 500 employees. These points have been subsequently modified so that a two-tier system is no longer required, and an independent board would suffice, and that there could alternatively be formed a worker council instead of board representation. (The difference in board structures does not depend on whether there is formally one or two boards, but whether there is a supervisory body which is independent of the executive body. The two-tier system always meets this condition formally, but the one-tier system usually does not.) Because of the difficulties of getting the fifth directive forward, a proposal for the European Company was introduced. It has basically the same content as the proposal for the fifth directive, but whereas the fifth directive would be compulsory in nature, the European Company would be a form of business organization that the firms might adopt if they so wish. This issue still awaits its resolution by the European commission.

## What Does this Mean to Estonia?

The privatization policy Estonia to which it committed itself has largely shaped the future of Estonian corporate governance. Unlike many other transition economies, Estonian firms do not have the problem of weak owners and dispersed ownership, because virtually all of the large and successful companies are under the control of core owners. At the same time it is clear that the Estonian governance system will be based



on the German type of control rather than the Anglo-American system. In this regard, the Estonians did wisely in taking German Company law as the basis for their own legislation. It is almost certain that if there would be a harmonization of European legislation on these issues it will not be too different from current German legislation.

When it comes to the proposed employee representation, one should note that there is currently only a handful of companies in Estonia which have more than 1,000 employees. Even so, it might be an odd idea to mandate representation in a supervisory board in a country where employee representation is underdeveloped compared with most of the other EU countries. A better idea might be to develop worker councils, since this could serve for a variety of other useful tasks, such as improving the communication between employees and management.

### Some Notes for Managers

I conclude this article by suggesting some alternative ways of looking at corporate governance. There has been recently a lot of discussion on "best governance practices", which have been exemplified by several public documents encouraging to enlighten corporate governance, e.g. the report of the Cadbury Commission (1993) or OECD (1997). These documents usually endorse such things as independent boards, democratic ways to elect boards (so called cumulative voting), abolition of non-voting shares, extensive financial disclosure, outside auditing, special protection for minority rights etc. Law might mandate some of these issues, but even those, which are not, may usually be introduced by management. Common to these measures is that they limit management discretion and thereby management power, but paradoxically they may also improve management's well being, if these measures invite serious investors to participate. It is often believed that bad managers fear corporate governance reforms more than good managers, who are able also to reap benefits from the changes.

I mentioned before that the current theo-

ries on corporate governance do not pay sufficient attention to the co-operation at the firm level. I make here no attempt to develop such a theory, but notice that recently some management writers have taken up this issue (e.g. Conger, Finegold and Lawler 1998), and even some economists writing on the Japanese firm have theorized on the issue (Aoki 1990). Though the monitoring role of the board is surely important, the value adding capacity of the board may be greatly enhanced by taking into the board specialists who have some private

**Though the monitoring role of the board is surely important, the value adding capacity of the board may be greatly enhanced by taking into the board specialists who have some private information and knowledge the management does not necessary have. For instance, it might be a good idea to invite to the board a member from a bank, auditing company, and other specialists.**

information and knowledge the management does not necessary have. For instance, it might be a good idea to invite to the board a member from a bank, auditing company, and other specialists, according to the particular needs of the firm, and then make sure that the talents of these persons are utilized. And even when employees would not have any special rights to participate in governance processes specified by the law, it might be a good idea to improve the communication between employees and management and possibly also voluntarily increase the employee participation in decision-making, because such measures have been demonstrated usually to lead into improvements in productivity (Levine, 1995).

Finally, it is clear that such a short article may not do full justice to such an interesting and important topic, and I

would suggest starting further reading by the references of this article. The reader should then not be surprised to find that many of the articles given have opposite viewpoints. There is no one "Truth" here, and the reader is strongly encouraged to form his own, well-informed opinion.

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# WILL LIFE IN OUR COUNTRYSIDE DIE OUT?



Aare Ets, EMBA Student, EBS  
Harju County Government, Counsellor.

In March 1998, Estonia embarked on the accession negotiations with the European Union (EU), expected to result in the accession of Estonia to the EU early next millennium. Submitting the application for the EU membership, Estonia undertook to transpose the entire *acquis communautaire*, i.e. the body of law of the EU, policies, etc. of the Union, among them the Common Agricultural Policy (CAP) - "the cornerstone of the EU that was particularly requested in the Treaty of Rome. This was the first political plan developed by the first six member states as early as 1960. By now it has become the most developed, most complicated and most expensive EU policy" (1). Yet we have no specific idea today what would be the consequences of the accession to Estonia's agriculture. The reason for that is, on the one hand, the lack of decision within the EU on the specific nature of CAP in the next century. On the other hand, there is no detailed enough accession-related cost-benefit analysis in Estonia for the sector of agriculture. The following is an attempt to review the likely consequences of Estonia's accession to the EU and its CAP. Since the Chapter on Agriculture is divided into 7 parts, the scope of this paper does not allow addressing each part. That is why I shall focus primarily on the future of Estonia's agriculture and rural life in the EU, and leave out complicated scenarios and terms such as CAP1996 market and Agenda 2000+comp, net value added, threshold price, etc. Those interested in these terms and scenarios may, for example, study the homepage of the Ministry of Agriculture of Estonia

## Economic Aspects

It is obvious that membership in the EU would raise Estonia's international credibility in the eyes of potential investors, whose investments here would support the development of economy, create jobs, pay taxes and thereby add to the prosperity of the population. Market expansion is not insignificant for Estonian entrepreneurs, agricultural producers among them. In principle, an entrepreneur can sell his or her goods in all EU member states without any restrictions. On the other hand, market expansion means that entrepreneurs must be able to deal with a much stiffer competition in the future, because any EU entrepreneur may participate in economic contests in Estonia.

In order to be able to join CAP, Estonia has to transpose the EU quality standards and health protection norms. These norms regulate the quality of foodstuffs, their chemicals or additives content, hygiene conditions in the production, etc. However, the implementation of the EU quality and health protection norms calls for significant investments, and over a rather short period of time. Costs would also grow due to the rising prices of raw materials after the accession, especially in the sectors with a considerable input from the EU's own agricultural production (e.g. animal husbandry). At the same time, prices on a level with the EU would also be paid for agricultural products produced in Estonia, that would considerably increase the earnings of our farmers and enable them to find money for investments - a prerequisite of paramount importance for the continuation of agricultural production.

All these requirements are aimed at providing consumers with a healthy quality product. Under present circumstances, Estonia's main challenge is to bring the production (facilities, technologies) up to the norms established by the EU, and that will take time and investments, and leave many entrepreneurs with the choice: to continue or not to continue.

Paradoxically, Estonia's accession to the EU would increase the share of Estonia's own agricultural production on the Estonian market. This is primarily due to the fact that the EU producers no longer would be able to export foodstuffs with supported prices to Estonia - in contrast to the situation today when the EU covers the price difference of all the surpluses sold in Estonia as a EU non-member state. With subsidies gone, the competitiveness of production of the current member states would suffer substantially, compared to Estonian competitiveness.

"At the same time guaranteed high prices on agricultural production would lead to a rise in prices for consumers, who must pay up the rise. Prices of the goods imported from the EU would also go up since the goods no longer can be exported to Estonia with supported prices. Moreover, prices of the goods imported from outside the EU would rise since the EU import duties become effective (as opposed to the current zero-tariff). The latter category covers primarily tropical fruits and Estonia must start observing the EU preferences as regards their country of origin." (2).

## Financial Aspects

### Effect on Budget

As the funds that Estonia would receive from the EU budget would be mainly channelled through CAP and rural policy, it is worthwhile comparing these incoming funds with the costs Estonia has to bear in connection with the EU member status.

The EU gets its budgetary resources mainly from customs duties, and a certain percentage of VAT collected in the member states. In case the funds collected by these instruments turn out to be less than 1.2 per cent of country's GDP, the country has to pay the extra difference. "Estonia's GDP is about 65 billion kroons, which means that our total annual allocations into the EU budget would amount to app. 800 million kroons. If we accede, 90 per cent of the customs duties imposed on the goods imported



from third countries, incl. agricultural products, would go directly into the common EU budget. Moreover, 1.4 per cent of domestic VAT and 1.2 per cent of GDP shall be sent to the common treasury.

At the same time, the funds that Estonia would start receiving from the EU would be limited to 4 per cent of GDP, due to the fear that no country can absorb a bigger sum.

4 per cent of Estonia's GDP is about 2.6 billion kroons, which is much more than the above 800 million kroons. It is rather certain that a substantial part of the 2.6 billion kroons would reach Estonia through CAP and rural policy. So a mere analysis of budgetary costs and benefits brings to a conclusion that in terms of EU accession, Estonia's agriculture would benefit more from opt in than opt out." (3).

The precise size of the budgetary funds to be channelled into the budget of Estonia and to Estonian farmers would depend on three circumstances:

What is CAP like at the moment of Estonia's accession

Animal production in Estonia (animal husbandry receives substantially more support compared to e.g. crop production)

To what extent is Estonia entitled to receive CAP compensations (4).

Agricultural subsidies and the development of rural life in general are the two fields that would receive in total about 70 % of the money to be returned to Estonia some day out of Estonia's payments into the EU budget. Another thing is, how much access to the CAP-pie will Estonia have from the very moment of accession.

It has to be taken into consideration that during the pre-accession period, certain restrictions are imposed by the agreement with WTO, which agreement does not allow the implementation of all EU measures (export refund, minimum price), or puts restrictions on the scope of implementation (customs). Due to the interplay of these partly contradicting requirements Estonia risks having applied a transitional period by the EU, during which period the EU market would re-

main closed for Estonian products, neither would CAP-support extend to Estonia. Choices of agricultural policy are affected by the results of the negotiations with WTO, where Estonia has undertaken obligations in relation to customs duties ceilings, support levels and export refund.

**Export Refund**

"Export refunds (in all sectors) compensate for higher domestic market price compared to world market price of the products being exported from the EU.

**In the year 2000 the EU is going to launch SAPARD – the program of agriculture and rural development for pre-accession countries, whose program provides EEK 8 billion annually for the 10 Central and Eastern European Countries (CEEC).**

For instance, meat and meat products are granted export refund in all meat sectors in the EU: pork, beef, mutton, poultry meat and eggs. In the dairy sector, export refund is granted mainly to butter, powders and some cheeses. With the respective regulation, more often than once per year, the list of products subject to export refund and the size of refund is fixed. The refund is devised to compensate for the difference of prices between the EU and the rest of the world, thereby making it possible to market products outside the Union. Export meat and meat products must comply with certain veterinary, quality, physical and chemical indicators. There is an established procedure for handling export licenses. It is planned to reduce export refunding in the EU in the future" (5).

It is appropriate to address here structural funds, although they fully open up

to Estonia only after the accession to the EU. "Since the operation principles and procedures of structural funds vary for accession countries, the European Commission has proposed to establish pre-structural funds for the implementation of these procedures and principles." (6).

**Pre-structural Funds**

In the year 2000 the EU is going to launch SAPARD – the program of agriculture and rural development for pre-accession countries, whose program provides EEK 8 billion annually for the 10 Central and Eastern European Countries (CEEC). According to current speculations, Estonia's share might amount to 3-4 per cent that would be 350 million kroons, or twice the sum the Estonian State pays farmers as support today. "In the first years of the programme (it would be) less because the existing system and experience would not allow to use up the entire sum so quickly, according to the procedures" (6, Mändmets, Kokovkin, Padrik, 1998).

The assistance money will be channelled into farm efficiency improvements, processing and wholesale network development, quality improvements, veterinary and sanitary control, soil quality improvements, further training, diversification of rural life, environment and forest protection, land infrastructure improvements, etc. The programme generates so-called co-financing which means that Estonia must add to the assistance received under the project its own resources in the amount of no less than 25 per cent of the cost of each project. Estonia has been allocated for the Special Preparatory Programme (SPP) ECU 3 million, the sum of which is divided between institutional development and pilot projects.

Along with SAPARD, the program PHARE also continues into the next millennium and some 10 per cent of the assistance received under the project will be channelled into agriculture, namely training and e.g. construction of veterinary laboratories. Indirectly, rural development will also benefit from a new initiative – the infrastructure development programme ISPA, under which the participating countries will receive about 16





billion kroons annually.

### Regional Policy

In addition to market instruments, the EU agriculture and rural community get support within regional policy or rural policy. This means primarily support to less developed or for agriculture regions less suitable to maintain their agricultural production. Albeit inefficient, the maintaining may serve various purposes, such as social (maintained employment and living standards), be beneficial to nature and landscape reserves (grass "mowing" by cattle in mountains), or culture reserves (maintaining farming as life-style). For instance, the isles and/or southern part of Estonia might form such a region.

In addition to supporting less-developed regions, the instruments of rural policy are directed towards the regions dependent on agricultural production. In these regions attempts are made to diversify economic activity by promoting production in different sectors or services (e.g. farm tourism). Retraining is organized and support is given to those who start business in a non-agricultural sector, etc. Since Estonian rural regions predominantly live off agriculture, such support would be most needed.

## Administrative and Social Aspects

### Administrative Aspects

In order to deal with the complicated CAP, the number of civil servants has to grow considerably compared to that of Estonia's little regulated liberal system today. According to the assessments of the Ministry of Agriculture, at least 400 more civil servants need to be employed by the time of accession. Yet only a tenth of them would go to work for the Ministry of Agriculture, the rest would be needed in central administration (Intervention Agency, Rural Development Agency) and regional administrative and control bodies. After having been employed, the civil servants need training in CAP that again calls for additional resources. A step-by-step establishment and improvement of the institutions would depend on the strategy, subject

to political agreement. The question is not whether Estonia should or should not act in the given direction, but the question is how? Administration restructuring costs will rise anyway, and should be considered as an inevitable investment accompanying the accession to the EU.

It should be emphasized that administrative delays in agriculture would at least postpone the receiving of CAP funds, if not hold back the entire accession process. (3).

**It can be said that with the accession to the European Union, Estonia's agriculture has more to gain than to lose. Increased income of farmers and agriculture as an economic sector back on its feet, the development of rural regions in general – these are the main benefits from the accession.**

### Social Aspects

Since the earnings of people engaged in agriculture would increase after the accession to the EU significantly, the agricultural sector as a whole would develop, which means creation of new jobs. This is an important aspect because unemployment presents an especially acute problem with the rural population.

However, improved employment may somewhat add to the problems. Firstly, it may upset the balance of the system because better income chances encourage people to go to work in the agricultural sector. Yet the access would be limited since the EU would seek to reduce the number of farmers in CEEC as it is simply impossible to support too big an army of farmers. A milk quota also places limits, a quota which will probably be set close to Estonia's current produc-

tion, meaning that in order for new producers to start, a certain number of present producers have to cut or give up their production.

### Summary

It can be said that with the accession to the European Union, Estonia's agriculture has more to gain than to lose. Increased income of farmers and agriculture as an economic sector back on its feet, the development of rural regions in general – these are the main benefits from the accession. As to the negative aspects, mention should be made first and foremost of the price rise for consumers and increased costs related to bureaucratic regulation.

The analyses of rural issues might not be detailed enough or clear to the community, nevertheless, positive consequences seem to outweigh negative ones, and in the end joining CAP would be beneficial for agricultural producers and the entire population alike. However, as long as the average ordinary Estonian associates the EU with nothing but complicated bureaucratic machinery, the attitude is not likely to improve.

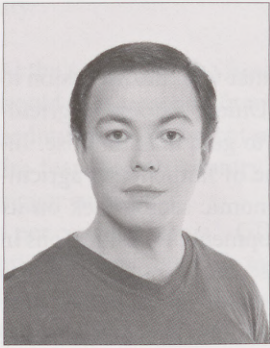
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# WHO CAST THE CLOUDS OVER THE EU BROADENING?



**Marek Krugol**  
EBS, BBA 2-nd year student

## Overall globalisation

As of the historical dates of November 28<sup>th</sup>, 1995, when the government of the Republic of Estonia submitted the application to join the EU, and the signing of the Association Agreement on June 12<sup>th</sup>, 1995, all efforts and moves have been well calculated and necessarily adjusted to meet the minimum requirements posed for new EU member-candidates. However, there is diversity of opinions among scientists, politicians, experts as well as the Estonian community itself.

There are many pros and cons about whether or not Estonia should join the EU. Nonetheless, most likely overall globalisation and historical trends of development in the world lead to the inevitability of embroadening into stronger and larger geopolitical and economical union.

Integrating our Republic, which is one of the five first-wave newcomers, who are already well-known — Poland, Hungary, the Czech Republic, Estonia and Slovenia - plus Cyprus, which the EU has selected as “fast-track” applicants — the most market-oriented, well-run and democratic, — requires some determined changes to undergo in legislation, economy, etc.

## How big is big?

Europe’s political map is being redrawn

at last. It took a long time for the EU to get ready to open their doors to newcomers from the east. Concerns of EU member countries are real; enlargement will come, if ever, at a cost. But, if on balance, it will be one worth paying for. EU members should admit them or they risk undermining both their broader interests and the reforming efforts of the would-be members themselves.

Instead of opening their markets to freer trade with the east, EU governments have chosen to form a tighter huddle among themselves. Monetary union, not enlargement, has been the EU’s project of the 1990s. And instead of making all applicants feel wanted, the EU has spent a lot of its time telling us just how hard - even impossible - it will be to join. Not that enlargement was ever likely to be a simple affair: it means changing the balance of power among existing members, reforming the way the EU is run, and direct subsidies away from some of the poorer regions in Europe’s west to even poorer newcomers from the east. Thus, entry talks are likely to drag on for years yet.

But I wonder how far can the EU sensibly grow before it is too big in size, too loose in structure and, therefore, too small in purpose for its economic and political vision? Almost everyone in the EU has been rude about proposed reforms to the CAP and the regional funds. But the loudest squawks are about money. One exaggerated fear is that cheaper, unemployed workers from the east will flood across the EU, pushing millions of people out of jobs. Some migration is bound to take place. EU wages are, on the whole, higher than in the applicant countries but probably less than the pessimists fear. Unemployment in Estonia is lower than the EU average. When Greece, Spain and Portugal joined the EU; the expected mass rush of job seekers to the richer north did not materialise. The plainly wrong-headed fear is for the common agricultural policy, the 40 billion-Euro-a-year (\$48 billion) cushion for West European farmers. Enlarge-

ment will certainly undermine that: the EU cannot afford to subsidise East Europe’s farmers, still a sizeable part of the workforce there, in the way it has subsidised those further west. This might well lead to the collapse of the Common Agriculture Policy.

Enlargement to the east will require, moreover, a basic overhaul of the institutions and finances of the EU itself. The present system, suitably tweaked, can cope with up to 20 countries - i.e., five more yet. But enlargement beyond that number will trigger an inter-governmental conference to rewrite the EU’s constitutional rules.

## Security first

Estonia’s desire to be a member of the EU is chiefly a matter of security. The Russians are making EU membership harder for all the Balts by clucking about the treatment of Russian minorities.

Estonia and Latvia would have to learn to rub along with Russians, both within our borders and across them; Russia would then generally feel less neurotic about Nato’s expansion; and then the EU would happily widen to the east.

The Baltic Sea region, Estonia the first amongst its Eastern Shore, the biggest, most complicated, is envisaged as the most promising piece of the new Europe. The Baltic Sea is home to Europe’s subtlest geopolitical puzzle, especially Estonia. If Russia loses its temper with the West the Balts will probably be the cause - and the first to suffer. The Baltic is also crucial to the economic prospects of half the continent. It is the gateway to Russia, and the best chance of linking Russia solidly to Europe.

## The Chechen Crisis

Escalation of militarisation in Russia may perform a great danger for Estonia, and possibly other Baltic States, to join the



EU in the near future as the process can be unpredictable and jeopardise the hardly stable political balance in Europe. As Russia remains our neighbour of strategic importance number one, we may not disregard recurrent political changes and economic processes in the Russian Federation. Development of political (in-) stability in the region will have an immense impact on how soon Estonia can join the EU. However, it appears that inner problems of Russia are causing more tensions inside the state rather than reprimanding “naughty” neighbours. Although, such a lovely slice of cake, like the Baltics, Estonia in particular, have been always a good reason to rebuke for their political misbehaviour.

## Council of Europe

Nevertheless, during my last visit to Strasbourg in April 1999, where I attended one of the international conferences on continuity of organisations arranged by the Council of Europe, I had the impression that membership of Estonia in the EU is envisaged as very welcome as a highly respected newcomer. Therefore, it seems that on a personal level, Estonia has a relatively high reputation and a great chance to become one of the EU family.

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# THE PEOPLES OF BALTIC – THE NEW APPROACH TO THE BALTIC REGION



**Kaire Kroos, M.A.**  
Lecturer at EBS

With the fall of communism, a new era started in Europe. Many comparative social sciences assumed a new dimension, as there wasn't anymore a need to differentiate between the east and west, between the communist regimes and democracies. For the fifty years before, it had been customary for the historians, economists and sociologists to look at Europe in two different regions and realms according to the political division between the East and West. The same was true in the small Baltic sea region. In many instances it was overlooked that we had had a common past, that there were cultural, social and historical similarities. Not that the both sides had lost interest to find out about each-other, on the contrary: it was crucial to know about everything what was happening across the border, but nevertheless it was not very easy. The social scientists

on both sides developed unique methods to find out what was happening across the line. So it happened that the Western scholars looked from the distance to the Soviet system and tried to count how many warheads the Soviet Union had based on air photos or tried to assume who was ranked higher in the Soviet power hierarchy based on where one was standing on the podium during the 1<sup>st</sup> of May parade. At the same time the socialist social science analysed the fall of capitalism based on long-distance observation and the understandings of Marxism.

But suddenly, everything collapsed. As all the information, which had been difficult to access before became suddenly public, the old analysing methods became obsolete. It took a while to recover from that shock before a new comparative social science was born. For the first time in years, the time was ready to analyse the whole region as one rather than divided between East and West. Naturally, the universities, both in the previous West and East, had to make changes in their teaching methods. Moreover, there was a need for new subjects to be incorporated into university curricula. In that respect, EBS has taken a step forward; since the Fall semester 1999 there is a new set of subjects about the Baltic region in the International BBA program. The first one to become a real-

ity from plans to classroom is a course called “Peoples of the Baltic“. As the authors state, “it is a study of its peoples, cultures and history and deals with questions of democracy, minority rights and security“. The course was developed at the University of Uppsala, Sweden thanks to whom the whole course is supported by video tapes and booklets and held simultaneously in over forty universities in the Baltic sea region. It is a course, in which the word Baltic has attained a broader meaning, analysing the people from Scandinavian countries to North-West Russia. As it covers a wide spectrum of subjects and ideas, from minority rights to the new security realms, it puts high demands on the students as well as on the lecturers. Moreover, the participants of the course are all very fortunate to have many of the regions nations represented in the classroom, which makes the course interactive and realistic, giving to all a unique opportunity to learn from each other and become better acquainted. Who could have imagined fifteen or even ten years ago that Estonian, Finnish, Russian, Swedish, Lithuanian and Danish students would sit in the same classroom in Tallinn and learn about their common past, present and future. Hopefully a new understanding will develop out of the course, both for the students and for the region as a whole.



# BUSINESS ETHICS ACTIVITIES AND PROJECTS AT THE ESTONIAN BUSINESS SCHOOL



**Mari Kooskora**  
EBS Project Manager of Business Ethics  
EMBA student, EBS

Business ethics is an important topic in academic research as well as in business discussions. Unfortunately, due to the current situation in Estonia as well as in other post-Socialist countries, ethical behaviour is not so common in business activities.

In order to take the understanding of business ethics to the business society of Estonia and with that achieve general business ethical behaviour, the Estonian Business School is actively participating in research and schooling programs on business ethics.

**We have designed a long-term schooling program for Estonian university students, business people and the field of general business ethics.**

Several steps have been taken to publicise the problems and introduce training on the subject of business ethics at our university since last summer.

The first step taken was a series of business ethics seminars organised for the faculty.

The goal of the seminars was to provide participants with experience in the field of business ethics and opportunities to include business ethics in their course lectures.

However during business ethics seminars, practical case studies are solved. Also the first bachelors and masters degrees have been completed on the subject of business ethics.

The spring 1999 issue of EBS Review is

mostly dedicated to business ethics. We began discussing the topic of business ethics in our last issue and saw that it was a topic that had to be discussed more in a broader audience. So we decided to dedicate the whole issue to that important topic.

With the goal of improving the Estonian

**In order to take the understanding of business ethics to the business society of Estonia and with that achieve general business ethical behaviour, the Estonian Business School is actively participating in research and schooling programs on business ethics.**

business climate, schooling business people and informing larger the public, Estonian Business School organised the First International Business Ethics Seminar in Estonia.

**The seminar "Creating a Sense of Business Ethics in Estonia" was held on May 25-26, 1999 in Tallinn, at EBS.**

The goal was to enhance the understanding of business ethics and to acknowledge the importance of an ethical business environment on our way to the EU.

With organising the seminar EBS took the initiative to connect different viewpoints of business ethics among different sides of business, academic and public societies. We tried to develop the discussion about the topic, which has received relatively small attention until now.

We started the wide discussion on the present situation of the business climate in Estonia today and about the future perspectives in the international arena. 22 speakers made their presentations on the topics of business ethics, among them leading and active businessmen from Estonia and the USA, the representatives of the Estonian public institutions and media, the business ethics professors from Estonia, USA, Finland and Russia. The speakers made their speeches about the topical problems of ethics in various areas. Ethical problems in business, conflicts within Estonian companies and in the society as a whole, problems of ethics in a rapidly changing society, the ethical competence of managers in solving conflicts, organisational culture as a repository of business ethics, business ethics and its trends in the U.S. and Europe

The seminar consisted of a series of presentations by Estonian experts who have insightful facts relating to recent instances of mismanagement and ethical improprieties within the Estonian business community. The Bentley faculty presented papers which reviewed the development and functioning of the CBE (Center of Business Ethics) and the role and impact of business ethics in the American business community.

We believe that it is wise for Estonian entrepreneurs who wish to be stable and competitive in a global sense, to form their business based on the principle of honesty and trust.

We hope that the seminar helped participants gain a better understanding of the relatively new field of business ethics and also helped business ethics to achieve a wider response in Estonian society as a whole.

We got good feedback from the public and all the speakers stressed the importance of business ethics to the whole society of Estonia. So we know that we are going in the right direction.

The next step we plan to take in order to increase the awareness of ethical issues is the founding of a business ethics cen-





tre at EBS.

The centre will be involved with not only research work and the schooling of faculty and students, but considers its task to be the training of businesses as a whole. It will act as a source of information and advisor on the subject of business ethics and is scheduled to have close ties with business people. EBS has received support for the founding of the centre from the staff of the Center for Business Ethics at Bentley College.

We are also planning to organise schooling and courses for Estonian business people to be given in the Business Ethics Centre.

Straight after the seminar with the help of our partners from Bentley College and

their Center of Business Ethics we organised intensive training, a so-called Gadfly Project for the faculty members. The aim of that innovative work-shop based programme was to integrate (business) ethics into the main courses around curricula taught at our university, and through that to integrate ethical concepts into students' thinking and to develop analytic and problem-solving ethical skills. We consider that ethics needs to be taught as an integral ingredient of the entire course, something through which everything is filtered. We think that ethical considerations are not only important and permissible in the classroom, but students are expected to analyse business issues and problems wearing both business and ethical

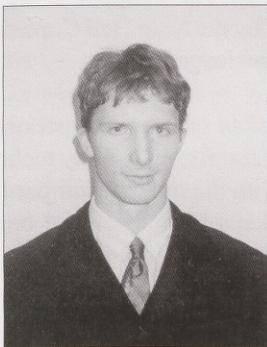
glasses. Besides our own faculty members we extended the possibility to attend the training to our state universities business ethics lecturers.

\* \* \*

Here I want to give my thanks to our partners from Bentley College for very useful and important training for our faculty members. We gained a lot of new ideas and saw how business ethics are taught in practice.



## CAREER AND COUNSELLING CENTRE



**Erki Nukk, BBA student, EBS**  
Manager of Career and Counselling Centre

Currently, Estonia has an about 10 per cent unemployment rate. Is that much or little? Much, I believe. One consolation is that no EBS graduate has officially registered himself or herself as an unemployed person. This in itself is a wonderful result, considering that our School has existed for 10 years.

In order to assist our students in career planning, EBS Career and Counselling Centre was established in February 1999. The Centre opened its doors in October in the rooms of the Open University, ground floor. In addition to counselling, the Centre is aimed at strengthening the relationship between the University and local and foreign companies.

We offer undergraduates' free training in the form of seminars and lectures, as well as individual counselling and information on vacant jobs and trainee positions. We also give information on grants and funds, and student exchange.

There is a plan to create a database of undergraduates seeking job or/and practical training, so that companies can select their potential employees with matching profile from among our students. We conduct preliminary interviews at request to reduce the workload of companies and improve the result. We offer to hold information days to allow companies introduce themselves and their career opportunities.

On the current year Career and Counselling Centre is organising a lecture called: "Successful career planning and to find suitable job". Lecture contains of six different seminars, of which the first two of them have already been held:

1. Career planning and management
2. How to write a proper CV in English and Estonian
3. How to find the suitable job and which kind of employee the employer needs

4. How prepare and how to act at a job interview
5. Working in international job market – how to be successful
6. The laws and documentation of job market

All seminars are free for EBS students.

One week after the seminars, all EBS students are welcomed to look at the summary of the lectures at our home page.

Information about seminars and vacant jobs will be available on the notice board of the Career and Counselling Centre - on the right-hand side when you enter the main entrance to go to the first floor. The e-mail address of the Centre is [career@ebs.ee](mailto:career@ebs.ee) and home page at [www.ebs.ee/career](http://www.ebs.ee/career). Information on the office hours and seminars will be up on the notice board and Internet.





# EBS SUMMER DAYS



**Marju Raadik**  
EBS student, the member of the Organizing Committee for Summer Days

On 2 July 2 1999 in the afternoon Radio Sky+ announced “Police at the Paunküla Reservoir!” and a few moments later “A traffic jam at the Paunküla Reservoir!” Actually, only the latter was true because it was then that we started to gather for EBS Summer Days.

A number of top businessmen have made their most important contacts in students’ construction “brigades” and at reunions. Today students do not have this opportunity. Which does not diminish us one little bit. For the fourth summer running, at the first weekend in July, EBS students and alumni gather around some body of water to hold Summer Days and get to know each other better. In company, acts of beauty and power are performed, ranging from body painting to tug of war.

This time the fantastic summer weather itself was a great joy – we had the luxury

of 24-hour swimming and that was taken full advantage of. Those more courageous could put themselves to the test and swim to the isle. Some said it was more a peninsular type of island! But we came here to relax rather than to put up fierce competition. In order to facilitate that relaxation, the band Singer Vinger, as good as ever, was invited to play on the first evening. Many of our students knew the words! Singer-vingering smoothly grew into an open air disco. That was the first night —getting into the spirit and preparing for forthcoming ordeals, as well as enjoying the tender summer night and good company.

Whether one had had time to sleep or not, 9 o’clock waking applied to everyone. The most exhausted were woken by chants at the tent-side, whatever time it took to make them realise the futility of their continued attempts to sleep. EBS Summer Days were declared open! We were honoured by the presence of the School President who made a welcoming speech. In order to avoid too grand a scale of the event, only 16 teams were allowed to compete. This year not only individual groups and the alumni K-Club participated, but so did a mixed team composed of the EBS mixed choir Heli Copter.

Volleyball and tug of war trial matches started in the atmosphere filled with emotions. Heated support added to competitors’ motivation. The final match was

the dainty morsel left for the last day. Thanks to the hot weather, water games could be held. This time the cooling competitions were: triathlon, lifting weight out of water for 1 minute and relay race through water. After that, dried out, we had to hold a relay competition on dry land. Boys had to eat up a banana against time and say quickly the name of the group. Girls had to drink down a bottle of beer, whereas the smartest guys were waiting like birdies for their share under the chin, thus contributing to the victory.

With dinner devoured, brain flexing followed muscle flexing, namely the generation of ideas for body paintings. The cello painted on the body of the K-Club and presented with a perfect accompaniment of classical music was a real masterpiece. KB31 also stood out as original: their body painting was a copy of their group-shirt. The chopper – the mascot created by the team Heli Copter – was the acknowledged victor.

The band Untsakad received a superior welcome and a real Estonian party took off. Together with the mixed choir performance and karaoke, music went on until 2 a.m. Partying continued well into the morning.

The best team was determined next day. For the third year running the cup was taken by the alumni K-Club, BBA IV was second and Heli Copeter was third. The top three were generously praised and were awarded a Cup and a big cake with the School logo. Many thanks to the organising committee who did a great job!

Formerly one said: if you ain’t lived in the dormitory or failed an exam you ain’t been a student. A revised version: you ain’t been a student if you ain’t been to your school’s summer days.





# THE LAST SEMESTER OF THIS CENTURY IN FULL SWING



**Ester Emois**, EMBA student  
PR Manager of EBS

1,800 students are currently studying International Business Administration, Public Administration, Entrepreneurship and Office Management in EBS. On 1 September 536 freshmen came to attend lectures at Lauteri 3. Under the Erasmus exchange programme, 23 EBS undergraduate students study at the leading universities of Europe, whereas 5 exchange students from Scandinavia and Germany study at EBS. We may proudly say that EBS is the oldest and largest private university in the Baltic Countries that provides education in economics and business.

During the 11 years of activity the School has evolved rapidly. As from this autumn, Office Management can be taken along with already familiar programmes. International Business Administration expanded in terms of specialisation: in addition to Management and Accounting undergraduate students can major in Tourism Management and Hotel Management, Service Management and Trade. Under the International Bachelor of Business Administration programme (IntBBA) students can major in Baltic Business. IT was introduced to the Master Degree programme.

In addition to a wider range of courses to choose from, the technological basis of EBS improved too. This autumn several bright lecture rooms were opened on the fourth floor and computer classrooms were renovated. EBS Library linked up to the ABI/INFORM GLOBAL computer system that enables EBS students and teaching staff to read over

1,500 European publications on the Internet.

Early this summer the Foundation Tallinn Universities was established that unites the City of Tallinn, Estonian Confederation of Employers and Industry and universities of Tallinn – Estonian Business School, Tallinn Pedagogical University, Tallinn Technical University, Estonian Academy of Music and Estonian Academy of Arts. The Foundation Tallinn Universities is aimed at promoting co-operation in the field of curricula and research as well as contribute to the development of Estonia by an efficient utilisation of resources

On the initiative of the Foundation, the Basketball Club Tallinn Universities – A.le Coq was founded this autumn to support student sport activities. The first basketball matches have been held and fan clubs at the universities have been created.

At the end of September there was a presentation of modern teleconferencing equipment - a present of the State of Germany to the Estonian Business School. The equipment cost DEM 14,700 and the gift is a token of EBS establishing good international relations with Germany. Today EBS has bilateral agreements with Stralsund, Rosenheim, Berlin, Pforzheim and Augsburg *Fachhochschulen*. 4 EBS undergraduates are studying in Germany. The teleconferencing equipment contributes to a broader international co-operation and makes it possible to bring the best European lecturers to the students of EBS. The Ambassador of Germany gave a salutatory speech.

Prof. Enn Tõugu from the Royal Institute of Technology of Sweden delivered the opening lecture "Role of IT in Training" by means of the equipment given to EBS. Prof. Tõugu is one of the developers of a new programme in EBS – IT Management. Prof. Tõugu emphasised in his lecture that it was the number of specialists educated in IT that showed

how a country developed in terms of IT; it was and is not the number of the users of the Internet. So Estonia has plenty of leeway. We need people who have the knowledge of both IT, and management and business... Led by Prof. P. Lorents and T. Täht, the Estonian Business School is developing a new speciality – IT Management – enabling to take a Bachelor Degree that combines business knowledge with skills in the field of the architecture, creation and administration of IT systems. Enrolment in the programme Bachelor Degree in IT Management starts in autumn 2000.

At the beginning of October, the international seminar-conference "Role of Economic Education in Promoting Enterprising Spirit of Young People" was held jointly by the Estonian Business School and Junior Achievement Estonia. The conference was designed to make people aware of the role of economic education in society, and realise the potential of co-operation in the field of education, business, culture, etc.. 50 Estonian, Latvian and Lithuanian school directors, teachers of economics, pupils, and representatives of educational institutions participated in the conference (see Joint Communiqué).

In September EBS continued with the tradition of public lectures. Prof. Tiit Made gave the opening lecture on the economic and political situation in the Republic of Estonia. In October, Peter Manning, Honorary Professor at EBS (USA) delivered a lecture on the prospects and challenges of entering into a new century.

Much is going to happen in EBS in November and December before the turn of the century: opening of the Nobel lecture hall, participation of the School in international fairs, an alumni conference and the traditional School Anniversary Ball.

I wish you an active participation in the life of the School and let's keep fingers crossed for the end-of-term examinations.



# GRADUATES OF FULL-TIME, EVENING AND DISTANCE STUDIES SPRING 1999



## Graduate of Full-Time Studies (BBA) CUM LAUDE

1. Lenno Oja                      Economics Theory    Commercial Paper - Alternative Way of Financing in Estonia

## Graduates of Full-Time Studies (BBA)

1. Ülle Aamer	Business	Understanding and Anticipating Customer Needs: Conjoint Analyses as one of the Most Effective Proactive Research Tools to Attain Customer Information
2. Priit Aarma	Business	Enterprise E-Commerce: Enabling Virtually Integrated Supply Chains
3. Marit Aas	Business	Social Marketing in Non-profit Organisations
4. Kirsti Anipai	Law	Types of Commercial Undertakings, Their Foundation and Management
5. Mart Eigi	Economics Theory	Pension System Design Experiences and Estonian Pension Reform
6. Irja Erm	Business	The Root Principles of Internal Marketing and the Appliance of these in ASBIG ELEKTROONIKA
7. Eteri Harring	Economics Theory	Probability of Financial Crises: an Estonian Case
8. Kätlin Järma	Business	Organisational Buyer Behaviour
9. Maiko Kalvet	Management	Payment by Result Executive Pay (confidential)
10. Marina Kamneva	Business	The Role of Marketing of the Estonian Tourism Market
11. Karin Kanepi	Business	How Tallinna Kaubamaja Ltd's Customer Database Can Be Used More Effectively (confidential)
12. Marge Kask	Business	Media Planning as Essential Part of Marketing Communication Process
13. Ave Kelder	Economics Theory	Securitisation of Residential Mortgages: Introducing Mortgage Pass-Through Securities into Estonian Market
14. Erkki Kibbermann	Economics Theory	Securitisation and Possibilities to Use it in Estonian Economy
15. Kirke Kirsme	Business	Saayos Balti Environmental Analyses and Marketing Operation Study in the Baltic Market
16. Kalev Klaar	Accounting	Accounting for Business Combinations. Consolidation Procedures under Purchase Accounting Method
17. Gerli Küttis	Business	Public Relations in Theory and Practice (Based on Estonian Experience)
18. Sirly Lall	Business	Ethics in Labour Relations in Estonia: Current Situation and Possibilities of Improvement



19. Tarmo Lehtmet	Economics Theory	Informational Efficiency of Tallinn Stock Exchange
20. Ellen Liigus	Business	Strategic Knowledge Management for Estonia
21. Mirjam Liiv	Economics Theory	Facilities of Pension Schemes and Pension Funds in Estonia
22. Signe Liivak	Business	Peculiarities of Multi-Level Marketing and Factors Fostering its Dispersal
23. Aivar Lipp	Business	The Internet Website Marketing Concepts
24. Kristina Mickeviciute	Business	Ethics in Labour Relations in Estonia: Current Situation and Possibilities of Improvement
25. Madis Müller	Accounting	Benefits of Implementing Value-Based Management
26. Jüri Orgusaar	Business	Using Communication to Beat Competitors - Kanal 2 Point of View
27. Marika Orula	Management	Research about Management Styles in Estonia Based on Situational Leadership Theory
28. Jelena Ovtinnikova	Business	The Significance and Impact of the Corporate Image and Identity on a Company's Success and Stability
29. Andrus Palts	Economics Theory	Resource Sharing of Cellular Telephony Operators in Lithuania by Implementing Obligatory National Roaming Service (confidential)
30. Liisi Praks	Business	New Trends in Selling in the Context of Relationship Marketing
31. Triin Pruuli -Soro	Business	Tallink and Its Competitors of the Gulf of Finland: Competition Analyse
32. Siim Raie	Business	Promotion of Domestic Goods in Media Campaign "Head Eesti Asjad" Process and Influence on Consumer Behaviour
33. Piret Rajasalu	Law	The Role of Arbitration and the Legal Bases of Settling Commercial Disputes in Arbitration in Estonia
34. Sirli Rebane	Accounting	Activity Based Costing and its Implementation Design
35. Kristin Reino	Business	Analysis of Catalogue Marketing Based on Example of Hobby Hall
36. Viivika Remmel	Economics Theory	Payment Systems' Design and Risks
37. Kaia Riives	Accounting	Prognosticating and Causes of Company Failure
38. Jana Rikber	Business	Marketing Communication an Example of Hansa Brand
39. Kadi Roovik	Business	Marketing in Retail Trade, Based on the Firm Veneetsia Kaupmees Ltd
40. Halliki Saar	Accounting	Financial Accounting contra Tax Accounting
41. Anna Sheremeta	Business	Greenhouse Gas Emissions Trading
42. Merle Siimsen	Accounting	Bankruptcy Predicting Models
43. Maris Zernand	Management	Why Do People Resist Organisational Change: Research in Estonian Companies
44. Kadri Ugand	Economics Theory	Impact of Foreign Direct Investment on Estonia
45. Kaia Vähk	Economics Theory	Lease Financing and Lessor's Risks



### Graduates of Evening Studies (ÕB)

1. Priit Ader	Business	AS Hansab-T: Prospects of Development*
2. Kaisa Gerndorf	Business	Mail-order Sales in Estonia and Development Prospects of the Company Miss Mary of Sweden*



3. Kaarel Karu	Business	Marketing to Children. Marketing Communication of Fast Moving Consumer Goods to Children in Estonia
4. Kristjan Tiik	Business	Analyses of Estonia's Entertainment Industry for Piletilevi OÜ*

### Graduates of Distance Studies (KB)

1. Mari-Anne Helme	Management	Study of Effecting Changes (Case of Liviko Kaubanduse AS)*
2. Liana Mantsik	Business	The Economic Impact of the Advertising Industry in Estonia
3. Mait Mengel	Economics Theory	Opportunities of the Global Private Banking Market
4. Mirjam Mäesalu	Economics Theory	About the Effects of Computer Environment on Auditing Activity*
5. Peeter Narusk	Business	Real Estate Price Formation and Dwelling Market Analyse
6. Hannes Oja	Economics Theory	Economic Aspects of the Year 2000 Problem
7. Kadri Palu	Business	Consumer Focused Marketing as a Key to Successful Business. Case: Estonian Soft Drink Business in the Nineties
8. Marge Pill	Business	Services and Quality of Services: Example of Optiva Pank*
9. Helen Põdra	Business	Microsoft Marketing Campaign in CHS Estonia
10. Pille-Helina Rohumaa	Business	Pricing Policies and Strategies in Cosmetic Business - L'Oreal Products in Estonian, Latvian, Lithuanian Market
11. Aet Rätsepp	Economics Theory	Prospects of Development of Securities Management Services (Example of Hansapank)*
12. Signe Sall	Management	Managing Organisational Behaviour. Employee Attitudes, Motivation and Organisational Support Analyses in FEB
13. Malle Shaffrik	Accounting	Credit Management in Wholesale Company and Ways to Improve It*
14. Katre Ulmas	Management	Comparative Study of Work Stress Factors in Organisations of Different Type*
15. Anu Vilkk	Business	Development of Gambling and its Regulatory Mechanisms



### EMBA Graduates in International Business

1. Ülo Kasema	Evaluation of Companies Value on the Bases of Waste Management Enterprise Ragn-Sells Eesti AS
2. Katrin Kaurit	The Effectiveness of Teamwork and a Method of Measuring It
3. Meeli Puusepp	Cash Versus Accrual Based Accounting and Analyses
4. Juta Tikk	Distance Education and Economy of Education



## Graduates of Evening Diploma Studies

1. <b>Lea Endrikson</b>	Management	Organisation and Structure of Optiva Pank*
2. <b>Monika Pertel</b>	Management	Differences between Management of Small Enterprises and Management of State Institutions Administered by State Administrative Agencies *

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(as at 28 September 1999)

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