

# The Baltic Countries after Two Decades of Independence

## ACHIEVEMENTS, SETBACKS, INTERNAL CHALLENGES

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The three Baltic countries – Estonia, Latvia, and Lithuania – endured many hardships in the half century from 1939 to 1991: the initial Soviet occupation, mass deportations to the Gulag in 1941, the German occupation and wartime upheavals, the destruction of the Baltic Jewish communities in the Holocaust, the Soviet re-occupation and forcible annexation at the end of World War II, brutal counterinsurgency campaigns and new waves of mass deportations in the late 1940s, and several decades under harsh Soviet rule.



Since August 1991, however, the three Baltic countries have been independent and are arguably more secure now than at any time in their history. They have close ties to the United States and have been integrated into major Western political, military, and economic structures, including the North Atlantic Treaty Organization (NATO), the European Union (EU), the World Trade Organization, and the Organization for Economic Cooperation and Development. In addition, Estonia is a member in good standing of the Eurozone, one of the few members that have actually stayed within permissible budgetary limits. All three Baltic countries since 1991 have had democratic polities with free and meaningful elections, frequent changes of executive power, lively political competition and debate, and respect for civil liberties and human rights. The Baltic states are the only former Soviet republics that are rated by Freedom House as “free” countries. They also have market economies that were integrated relatively

smoothly into EU and WTO structures. Economic conditions vary among the three countries, but in each case the private sector has long accounted for the bulk of the economy.

Despite these and other major achievements, the Baltic states must overcome important internal challenges and problems if they are to remain prosperous, independent, and democratic in the years ahead. The two decades since 1991 have led to a spottier record than many in the region had hoped for. This policy memo highlights several key problems: demographic decline (shrinking and aging populations), the difficulty of full ethnic integration, economic vulnerability, and controversial questions of historical memory and national identity. Although the memo focuses on internal challenges, the Baltic countries also face an uncertain future in their relations with Russia.

### **Demographic Decline**

Like many countries in the former Soviet bloc, the three Baltic states since 1991 have been plagued by demographic decline. The populations of all three Baltic republics expanded every year from 1945 to 1990, the years of Soviet rule. In Latvia and Estonia, the population increases were driven almost entirely by a large influx of ethnic Russians (and smaller numbers of other Slavs), who were encouraged to move there by the Soviet regime. By far the largest influx of ethnic Russians occurred during the first five years after World War II, and declassified documents show that Soviet leaders viewed the population transfer as a means of tightening Soviet control. The number of ethnic Estonians in Estonia and of ethnic Latvians in Latvia increased by just a negligible amount after 1945. Only in Lithuania was the situation different. Relatively few ethnic Russians moved to Lithuania after World War II, and the number of ethnic Lithuanians significantly increased, accounting for most of the population growth in Lithuania during the Soviet era.

In the post-Soviet era, the demographic trends in the three Baltic countries have been uniform. As shown in Figures 1 to 3, the populations of all three countries have sharply and steadily declined. The decreases in Estonia and Latvia are partly accounted for by the departure of ethnic Russians, but the exodus of Russians was a significant factor only in the first half of the 1990s. Many ethnic Estonians and Latvians have also emigrated, more than outweighing the number who returned after the collapse of Soviet rule. Indeed, in just the ten years from 2001 through 2011, more than 200,000 Latvians emigrated. Beyond that, most of the population decline in the three countries is attributable to fertility and mortality trends. Total fertility rates in all three countries plummeted after 1990 and shrank all through the 1990s, reaching a low point in 1998. Even though fertility rates have risen somewhat since the end of the 1990s, they are still far below the replacement rates. Hence, the populations of all three countries have declined by at least 15-20 percent during the period of independence. Moreover, the central statistical bureaus in all three countries project further steady declines through at least the year 2050, resulting in a total demographic decline in the region comparable to the precipitous decline that occurred there during World War II.

These demographic trends have resulted in the gradual depopulation of rural areas. Urban populations have declined by a much smaller amount, though the push toward suburbs has changed the pattern of urbanization (a phenomenon common all over Europe). The Baltic governments have been deeply concerned about the demographic trends of the post-Soviet era, including the departure of young and highly educated Estonians, Latvians, and Lithuanians who take jobs in other EU countries or in North America. Although many of these young people have said they intend to return home someday, relatively few have.

In 1991 the newly independent Baltic states were already among Europe's smallest countries (only Lichtenstein, Iceland, Malta, and Luxembourg were smaller than Estonia). Projections of unremitting demographic decline through 2050 raise questions about their future viability as independent states.

### **Ethnic Divisions and Problems of Integration**

One of the consequences of the post-1991 demographic changes is that all three of the Baltic countries are ethnically more homogeneous than they were at the end of the Soviet era. In Latvia during Soviet times, ethnic Latvians by the 1980s were barely a majority of the population (52 percent as of 1990), but in the post-Soviet era the proportion of ethnic Latvians in the population steadily increased, reaching nearly 60 percent as of 2011. The share of ethnic Russians in Latvia's population during this same period declined from 34 percent to 27.4 percent. Ethnic Estonians now make up 68.7 percent of Estonia's population, up from 60.1 percent in 1990. The proportion of ethnic Russians living in Estonia has dropped from 30.4 percent to 25.6 percent during that same period. As in Soviet times, Lithuania is far more homogeneous than either Estonia or Latvia. Ethnic Lithuanians now make up roughly 85 percent of the Lithuanian population, supplemented by small minority groups of ethnic Poles (6.6 percent) and ethnic Russians (5.4 percent).

Ethnic tensions flared up periodically in Estonia and Latvia in the 1990s over language requirements and citizenship laws, which many ethnic Russians perceived as discriminatory. The Russian government often sought to fuel the discontent, berating the Estonian and Latvian governments for their alleged misdeeds. Officials from the EU and the Organization for Cooperation and Security in Europe (OSCE) expressed concerns about some of the Baltic practices. In response, the Estonian and Latvian governments rescinded certain measures and adjusted legislation to bring it fully into conformity with OSCE and EU norms. The number of "non-citizens" in both Latvia and Estonia has dropped sharply over the past two decades (from 715,000 in 1991 to 290,000 in 2011 in Latvia, and from 340,000 in 1991 to 94,000 in 2011 in Estonia), but the persistence of that category is still a source of friction.<sup>1</sup>

Even though generational change will eventually eliminate this particular problem, the larger task of integrating ethnic Russians fully into Latvian and Estonian

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<sup>1</sup> It is worth noting, however, that some ethnic Russians have preferred to remain non-citizens because in that status they are entitled to travel visa-free both to Russia and to EU Schengen countries. By contrast, Estonian and Latvian citizens have to obtain visas to travel to Russia.

societies is less easily resolved. The ethnic tension is hardly unmanageable – ethnic divisions in Latvia and Estonia are no more acute than in many other European countries such as Belgium, Slovakia, Romania, Spain, and Bulgaria, not to mention Bosnia-Herzegovina, Kosovo, and Macedonia. However, it lends itself to exploitation by the Russian government, which has deliberately tried to inflame tensions (as in 2007 during the Bronze Soldier controversy in Estonia) in order to exert pressure on Latvia and Estonia and cause problems in their relations with the OSCE and the EU.

Even in Lithuania, where the minority populations are much smaller, some friction has arisen with the ethnic Polish community, mostly over language and orthographic issues, the status of Polish schools, and delays with restitution of Polish property in what became Lithuanian territory after 1945. Like the majority of European countries, Lithuania has established a single official language, and ethnic Poles living in Lithuania are required to use Lithuanian renderings of their names in official identification documents. Legislative proposals to permit Polish spellings have been rejected numerous times by the Lithuanian parliament, most recently in April 2012. The friction caused by this issue and by differences over restitution and schools has affected diplomatic relations between Lithuania and Poland. The Polish government has lodged official complaints and has occasionally slowed its cooperation with Lithuania on certain NATO activities, notably the Baltic Air Policing mission involving Poland and the three Baltic states.

### **Economic Vulnerability**

From the late 1990s until 2008, the economies of the Baltic states were among the fastest-growing in the world. The Estonian economy, in particular, increased by nearly 10 percent a year, and Latvia and Lithuania were not far behind. So robust was the growth in the region that the three countries became known as the “Baltic tigers.” That status came to an abrupt end in 2008. A combination of bad loans, real estate bubbles, and a large buildup of debt meant that the global economic downturn in 2008-2009 took an onerous toll in the Baltic states, causing the three economies to shrink more rapidly than at any time over the past century, including during the Great Depression. The impact in Latvia was so jarring that it sparked violent protests, precipitated the collapse of Prime Minister Ivars Godmanis’ government, and led to an emergency bailout of €7.5 billion from the International Monetary Fund in 2009. Output declines in Lithuania and Estonia in 2008-2009 were nearly as precipitous as in Latvia. Although the three countries have benefited enormously from their integration into the global economy since 1991, their dependence on foreign partners has left them vulnerable when economic trends in Europe go badly awry.

Severe though the impact was in all three Baltic countries, it did not prove to be as debilitating there as in some other EU countries, especially Ireland, Greece, and Bulgaria. In 2010, both Estonia and Lithuania returned to economic growth, reaching 3.2 percent in Estonia and 1.3 percent in Lithuania, and Latvia’s economy stopped contracting. By 2011, Estonia was back to a brisk 8.1 percent growth rate, the highest in the EU. Lithuania achieved 5.9 percent economic growth, and Latvia experienced a

heartening return to 5.5 percent. The resumption of fast growth in the three Baltic countries, well ahead of the rest of the EU, was due in part to sharp internal devaluations, which the Baltic governments managed to implement despite strong resistance. In their ability to act, they stood in remarkable contrast to many of the leading EU countries, not to mention Greece, Italy, and Ireland, where the governments have been nearly paralyzed by popular unrest and political infighting. By showing resilience and political courage in the face of adversity and protest, the Baltic governments reaped the reward of a much prompter revival of fast growth.

Even though the crisis is now over in the Baltics and important economic safeguards have been introduced, the experience of 2008-2009 underscored the potential for major problems to reemerge if the EU fails to extricate itself from its current predicament. The Baltic governments hope that banks in their countries will behave more responsibly with lending in the future, but nearly all banks in the region are owned by Scandinavian or German banks, and hence there is no direct guarantee. The great benefits the Baltic countries derive from EU membership cannot be sustained indefinitely if the EU does not regain its vitality. The uncertain future of the Eurozone (which Estonia joined in early 2011, and which both Lithuania and Latvia are on track to join in 2014) ensures that some risk of a new crisis will persist in the future.

### **Historical Memory and National Identity**

After the Baltic countries regained their independence in 1991, they set up research institutes to undertake historical investigations of the five decades in which the region was under foreign occupation, from 1939 through 1991. The official names of these institutes included the words “genocide” and “totalitarianism,” indicating that the events they were studying – the subjugation of their countries to foreign rule – were tantamount to genocide. Researchers at the institutes have produced some exceptionally useful books, articles, and collections of documents, and the Baltic archives for the entire period have long been fully accessible, a degree of openness unmatched anywhere else in the former Communist world, with the partial exception of Germany and the Czech Republic. Research on the four-and-a-half decades of Soviet rule in the Baltics has made a great deal of headway, but explorations of the briefer Nazi occupation have been much more uneven. For example, no detailed study has yet appeared of the role of Lithuanians and Latvians in assisting the Germans’ annihilation of Baltic Jews. The impression one often gets, justifiably or not, is that the term “genocide” in the institutes’ names refers solely to the atrocities and crimes of the Soviet occupation and not to the actual genocide carried out against Lithuanian and Latvian Jews during the war.

The incompleteness of efforts to come to terms with the past has also been reflected in the perennial controversy surrounding Baltic veterans from World War II. During the Soviet era, a simplistic version of history was enforced depicting anyone who had fought against Soviet troops as a fascist and anyone who had joined the Red Army as a hero. Since 1991, this Soviet contrivance has rightly been abandoned, but in its place has come official sponsorship of annual marches by Baltic veterans of Waffen-SS units. To be sure, many who joined the Baltic Waffen-SS units were motivated solely by a

desire to help regain independence for their countries, but some who took part in these units were complicit in atrocities. By giving an official imprimatur to the veterans' marches, local Baltic governments are misconstruing the best way to counter the falsifications of the Soviet era. Undoing the pernicious legacy of the Soviet era will require a thorough reckoning with all the crimes of the past, not just those perpetrated by the Soviet regime.

Because only two decades have passed since the demise of the Soviet Union, the mixed record of the Baltic countries' historical reassessments is not at all surprising. Many of the long-established democracies, including the United States, have found it hard to make a full and candid reckoning with horrible events in their pasts. In most cases, several decades or longer have had to elapse before these countries have truly been able to face up to past abominations. The Baltic states in that sense are hardly unique.

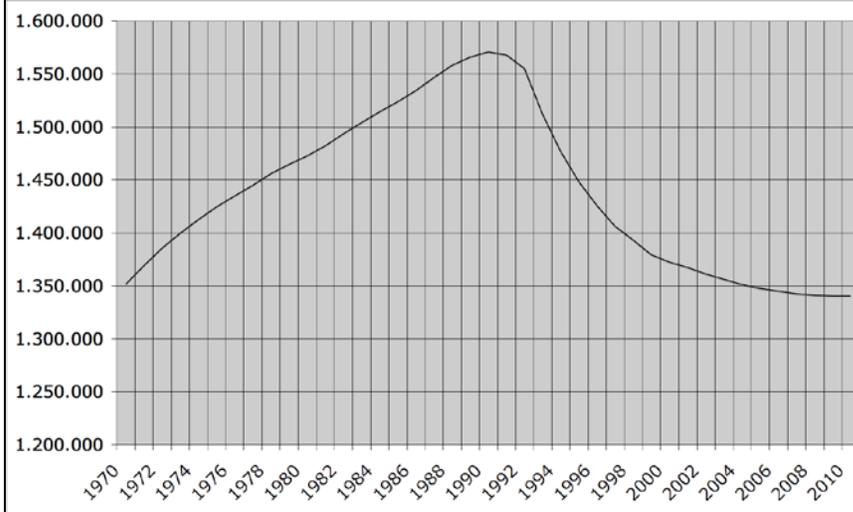
For now, historical memory and national identity in the Baltic countries are being shaped mainly by a sweeping (and entirely justified) rejection of Soviet rule. The passage of additional time will undoubtedly permit a more thorough reassessment of the wartime years as well. Such a result will be salutary for the three countries' democratic development by ensuring that unsavory episodes will not come back to haunt them.

### **Conclusions**

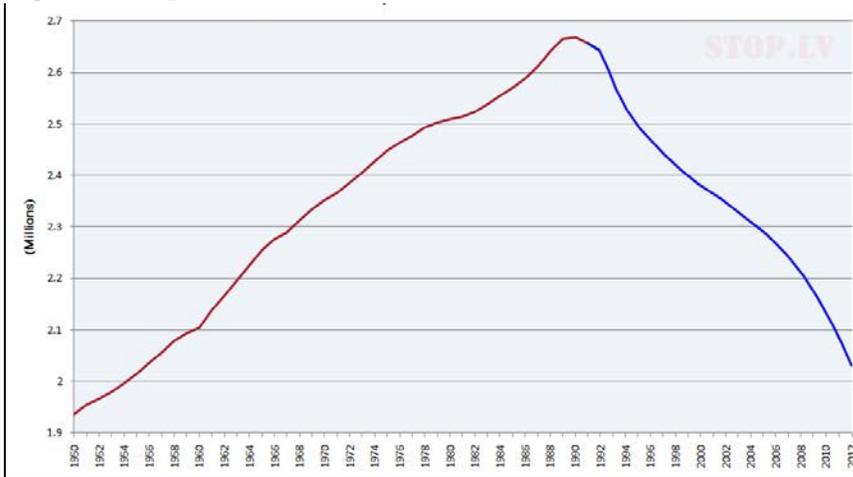
The many successes achieved by Estonia, Latvia, and Lithuania since 1991 are of immense historical importance, and the future of the Baltic states is brighter now than anyone could have imagined 25 years ago, not to mention 60 or 70 years ago. Nonetheless, the three countries have experienced some major problems over the past two decades, and formidable challenges lie ahead. Like other small states, the Baltic countries do not fully control their own destinies, not least because their "neighborhood" has been an inhospitable one most of the time over the past century. External developments are bound to have a far-reaching impact on the three countries' internal prospects.

Yet, even if daunting setbacks occur in the years ahead, the Baltic states thus far have demonstrated a remarkable capacity to overcome them. There is no reason to believe they will be any less resilient in the future.

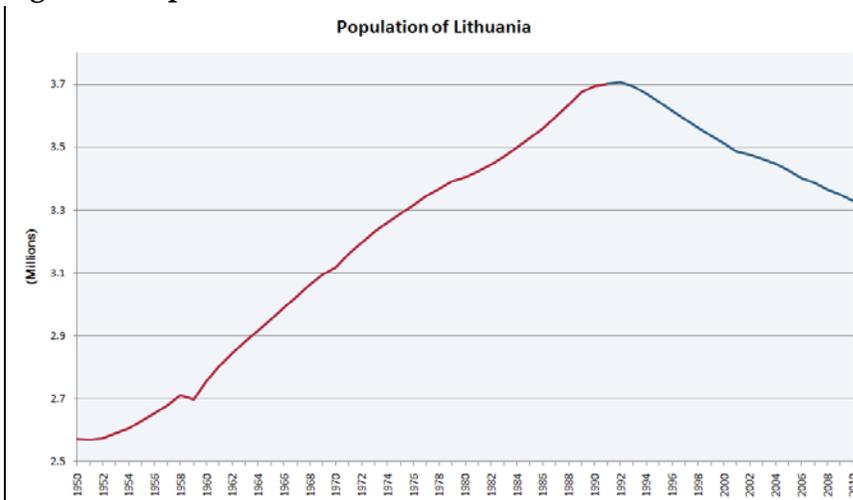
**Figure 1. Population Trends in Estonia**



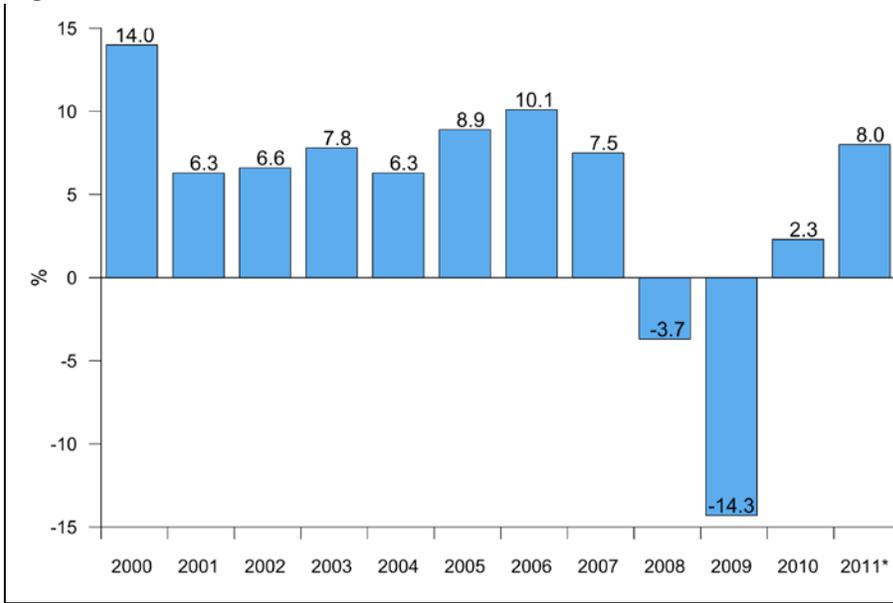
**Figure 2. Population Trends in Latvia**



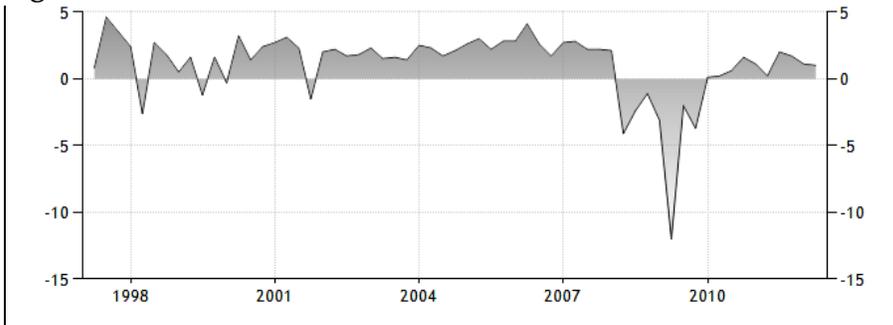
**Figure 3. Population Trends in Lithuania**



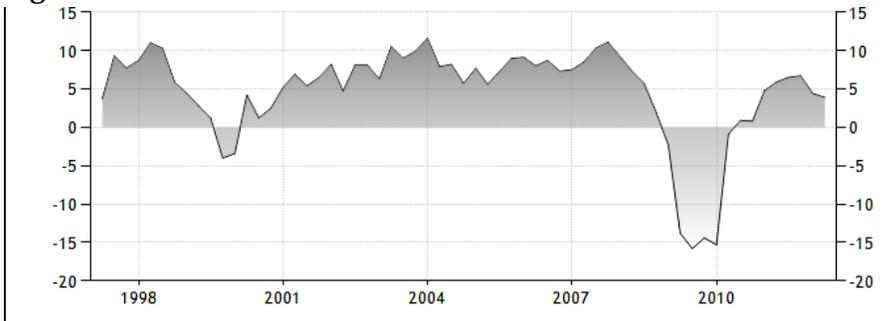
**Figure 4. GDP Growth in Estonia**



**Figure 5. GDP Growth in Latvia**



**Figure 6. GDP Growth in Lithuania**



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