



# Estonia: Current Issues and U.S. Policy

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## Summary

After restoration of its independence in 1991, following decades of Soviet rule, Estonia made rapid strides toward establishing a democratic political system and a dynamic, free market economy. It achieved two key foreign policy goals when it joined NATO and the European Union in 2004. However, relations with Russia remain difficult. Estonia suffered cyberattacks against its Internet infrastructure in April and May 2007 during a controversy about the removal of a Soviet-era statue in Estonia. Estonian leaders believe the cyberattacks may have been instigated by Moscow. Estonia and the United States have excellent relations. Estonia has deployed troops to Iraq and Afghanistan, and plays a significant role in efforts to encourage democracy and a pro-Western orientation among post-Soviet countries. This report will be updated as needed.

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## Political Situation

In the more than 15 years since gaining independence, Estonia's political scene has been characterized by the creation and dissolution of numerous parties and shifting alliances among them. This has often resulted in politics resembling a game of "musical chairs." Estonian governments have lasted on average only slightly longer than a year each. Nevertheless, due to a wide-ranging policy consensus, Estonia has followed a remarkably consistent general course—building a democracy, a free-market economy, and integrating into NATO and the European Union (EU).

Estonia's current government, formed after March 2007 parliamentary elections, is led by Prime Minister Andrus Ansip of the center-right Reform Party. His coalition partners are the conservative and nationalist Pro Patria-Res Publica Union and the center-left Social Democratic Party. The government's priorities include cutting taxes, reducing business and labor regulation, and increasing spending on child care and education.

In September 2006, Toomas Hendrik Ilves was chosen as Estonia's President by an electoral college composed of members of the Estonian parliament and local government representatives. The result was a blow to the left-of-center Center Party and People's Union, which had aggressively campaigned for the re-election of incumbent Arnold Ruutel. Ilves was born in the United States.

After Estonia regained its independence in 1991, he moved to Estonia, and later served as Ambassador to the United States and Foreign Minister. In these posts he became known as an outspoken defender of Estonia's interests, especially against Russian encroachment. The post of President is largely ceremonial, but it plays a role in defining Estonia's international image, as well as in expressing the country's values and national unity.

### Estonia At A Glance

**Population:** 1.34 million (2007)

**Ethnic Composition:** Estonian 68.6%, Russian 25.6%, Ukrainian 2.1%, Belarusians 1.2%. (2002)

**Gross Domestic Product:** \$16.4 billion (2006)

**Sources:** Statistics Estonia website, Economist Intelligence Unit

## Economic Situation

Estonia has one of the most dynamic economies in central Europe, and indeed in Europe as a whole.<sup>1</sup> Its real Gross Domestic Product (GDP) grew by 11.4% in 2006 and 9.9% in the first quarter of 2007. Due to its use of a currency board that strictly ties Estonia's kroon to the euro, Estonia has pursued a stringent monetary policy. However, inflation remains significant, at a 5.5% rate in April 2007, on a year-on-year basis, a result of increasing energy prices and rapid wage growth. Unemployment in April 2007 was estimated at 5.3%, one of the lowest rates in the EU. The country is on target for a budget surplus of 1.9% of GDP in 2007, due in part to prudent fiscal policies and rising revenues fostered by economic growth. Estonia has a flat income tax rate of 22%. The new government has pledged to cut the tax rate by 1% per year until it reaches 18%

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<sup>1</sup> Sources for this section include Economist Intelligence Unit Country Report: Estonia, June 2007, "2006 Investment Climate Statement: Estonia," from the State Department website, <http://www.state.gov>, and "2007 Index of Economic Freedom," from the Heritage Foundation website, <http://www.heritage.org>.

in 2011. President Bush praised Estonia's tax system during a visit to the country in November 2006.

According to the State Department, Estonia's "excellent" business climate, along with its sound economic policies, have ensured strong inflows of foreign direct investment (FDI). Estonia was ranked 12<sup>th</sup> in the world in the 2007 Wall Street Journal/Heritage Foundation Index of Economic Freedom. The survey praised the country for the fairness and transparency of its business regulations and foreign investment codes, and the independence of its judiciary in enforcing property rights. Corruption remains a problem in Estonia, but significantly less so than in other countries in the region.

Total FDI inflows to Estonia in 2004 were \$850 million, a large amount for a very small country. Companies owned in whole or part by foreigners account for one-third of the country's GDP and over half of its exports. The country has a modern banking system, largely controlled by banks from the Nordic countries. It has developed an innovative technology sector. Estonians played a key role in developing software for the popular Skype Internet phone. Prime Minister Ansip gave President Bush a Skype phone during his visit to Estonia in November 2006.

## **Estonia's Foreign Policy**

Estonia achieved its two key foreign policy objectives when it joined NATO and the European Union in 2004. Estonia continues to try to bring its armed forces up to NATO standards, and has maintained defense spending at over 2% of GDP. Estonia was perhaps the best prepared of the candidate states in central and eastern Europe to join the EU, due to its successful economic reforms. However, Estonia still lags behind most EU members in many areas, and receives substantial EU funding to address such issues as border security, public infrastructure, and the environment. Estonia has had to put off plans to adopt the euro as its currency until 2011, due to an inflation rate above the EU's strict criteria for euro zone membership. Estonia enjoys a close relationship with its Baltic neighbors and the Nordic countries. It has acted as an advocate for democratic and pro-Western forces in Belarus, Ukraine, Moldova, Georgia, and other countries bordering Russia.

Estonia's relations with Russia remain difficult. Russia claims that Estonia violates the human rights of its Russian-speaking minority, which makes up about 30% of the country's population. While international organizations have generally rejected these charges, many Russian-speakers remain poorly integrated into Estonian society, despite Estonian government efforts to deal with the problem. Some 130,000 Russian-speakers in Estonia are stateless, about 10% of the population. Over 100,000 more have adopted Russian citizenship. They are denied Estonian citizenship by Estonian law because they or their ancestors were not Estonian citizens before the Soviet takeover of Estonia in 1940 and they have not successfully completed naturalization procedures, which require a basic knowledge of the Estonian language. As a result, a significant portion of Estonia's population cannot vote in national elections and lack some other rights and opportunities accorded to citizens. In addition, at least part of the Russian-speaking population suffers from higher unemployment and lower living standards than ethnic Estonians do, due to a

variety of factors, including inability to speak Estonian, which is required by Estonian law for many jobs.<sup>2</sup>

Russia has also expressed irritation at NATO's role in patrolling the airspace of Estonia and the other two Baltic states, and Estonia's failure to join the Conventional Forces in Europe (CFE) treaty. The role of Estonia in the transit of Russian oil through its ports, once key to Estonia's economy, may be reduced by the decision by the Russian government-controlled Transneft oil transit company to expand the use of its own port facilities at Primorsk in Russia. Estonia is heavily dependent on Russia for oil and natural gas supplies. Estonia and other states in Central Europe have expressed concern about the Nord Stream natural gas pipeline which, when completed, will link Germany directly with Russia via the Baltic Sea floor. In addition to environmental concerns, they fear Russia will gain additional political and economic leverage over the region once Russia has an alternative to key energy infrastructure that runs through their territories.

## **“Bronze Soldier” Controversy and Cyberattacks on Estonia**

Russo-Estonian relations deteriorated sharply in April 2007, when Estonia moved “the Bronze Soldier,” a World War II-era statue of a Soviet soldier from a park in the capital, Tallinn, to another location, along with the bodies of Red Army soldiers buried nearby. The move provoked a furious reaction among some ethnic Russians in Estonia, and from Russian government leaders, who viewed the action as dishonoring Red Army soldiers who liberated Estonia from the Nazis. For their part, many Estonians see the “liberation” as the exchange of Nazi domination for a Soviet one, and not worthy of prominent commemoration.

In addition to harsh verbal attacks from Moscow, harassment of Estonia's ambassador to Moscow by youth groups with close ties to the Kremlin, and violent demonstrations by hundreds of ethnic Russians in Estonia, Estonia's Internet infrastructure came under heavy attack from hackers in late April and early May. Estonian officials said some assaults came from Russian government web servers, although many others came from all over the world. These cyberattacks were particularly damaging to Estonia, which has integrated the Internet into public life perhaps more than almost any country in the world. Estonia has asked for Russia's cooperation in investigating the origin of the cyberattacks. The Russian government has denied involvement in the attacks. At the invitation of the Estonian government, NATO cyber experts visited Estonia in the wake of the attacks to assess their scope and discuss with their Estonian counterparts how to deal with possible future attacks. Estonian officials have called for greater cooperation in the EU and NATO to find practical ways of combating cyberattacks. They note that the EU and NATO have yet to define what constitutes a cyberattack and what the responsibilities of member states are in such cases.

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<sup>2</sup> For a positive assessment of Estonia's human rights record, see the Estonia entry in the State Department's Country Reports on Human Rights Practices 2006 at the State Department website, <http://www.state.gov>. For a more critical view, see Amnesty International, “Linguistic Minorities in Estonia: Discrimination Must End,” December 2006, at Amnesty International's website, <http://www.amnesty.org>.

Russia also appears to have imposed unannounced economic sanctions on Estonia; Estonian railway officials reported a sharp drop in freight traffic from Russia, and Russia limited traffic over a key highway bridge between the two countries. Russia attributed these actions to repair work and safety concerns. Observers have noted that these actions fit a pattern in Russian foreign policy toward neighboring countries of interrupting energy, transportation, and other links under various pretexts to punish these countries for perceived anti-Russian behavior.

U.S. officials have expressed concern about Russia's statements and actions surrounding the statue's relocation. On June 14, Assistant Secretary of State Daniel Fried said that "threats, attacks, [and] sanctions, should have no place" in Russo-Baltic relations and that warned that the Baltic states "will never be left alone again, whether threatened by old, new, or virtual threats..."<sup>3</sup>

## **U.S.-Estonian Relations**

The United States and Estonia enjoy excellent relations. The United States played a key role in advocating NATO membership for Estonia and the other two Baltic states, against the initial resistance of some European countries, which feared offending Russia. U.S. officials have lauded Estonia's support in the U.S.-led war on terrorism, including its deployments in Afghanistan and Iraq. Estonia has deployed 105 soldiers to Afghanistan, as part of the International Security Assistance Force, a significant force for a small country. Two Estonian soldiers were killed there in June 2007. There are 40 Estonian soldiers deployed in Iraq. Two Estonian soldiers have died in Iraq.<sup>4</sup> Estonia also contributes troops to EU and NATO-led peacekeeping missions in Bosnia and Kosovo.

In November 2006, President Bush visited Estonia. He praised Estonia as a "strong friend and ally of the United States" and expressed appreciation for Estonia's contributions in Afghanistan, Iraq, and in training young pro-democracy leaders in Georgia, Moldova, and Ukraine. Addressing perhaps the most difficult issue in U.S.-Estonian relations, he pledged to work with Congress to extend the U.S. Visa Waiver program to Estonia and other countries in Central and Eastern Europe. The program, in which 27 countries (mainly from western Europe) participate, allows persons to visit the United States for business or tourism for up to 90 days without a visa. In order to join the program, a country must have a visa refusal rate of no more than 3% a year, and must also have or plan to have tamper-resistant, machine-readable passport and visa documents. Estonia does not currently meet these standards, although it is attempting to do so. Some believe that Estonians should enjoy visa-free travel to the U.S., in part due to their country's status as an EU member and to their troop contributions in Iraq and Afghanistan.<sup>5</sup>

After a meeting in Washington, DC with President Ilves on June 25, 2007, President Bush said that Ilves had "pushed him very hard" on the visa waiver issue. President Bush added that he would continue to seek Congressional action on extending the Visa Waiver program to Estonia. President Bush said that the two leaders had also discussed the cyberattacks on Estonia and that

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<sup>3</sup> Remarks by Assistant Secretary Fried at a reception celebrating 85 years of U.S.-Baltic relations, from the State Department web site, <http://www.state.gov>.

<sup>4</sup> Agence France Presse wire service dispatch, December 5, 2006, and Regnum wire service dispatch, December 11, 2006.

<sup>5</sup> Transcript of President Bush's press conference with President Ilves, November 28, 2006, from the White House website <http://www.whitehouse.gov>.

Ilves had suggested that a NATO “center of excellence” be based in Estonia to study cybersecurity issues.<sup>6</sup>

Estonia “graduated” from U.S. economic assistance after FY1996, due to its success in economic reform, but the United States continues to provide other aid to Estonia. In FY2006, Estonia received \$5.8 million in U.S. aid, mainly in Foreign Military Financing (FMF) and IMET military education and training funds to improve Estonia’s interoperability with U.S. and other NATO forces in peacekeeping and other missions. The Administration requested \$4.1 million for the same purposes for FY2008.<sup>7</sup>



Source: CRS Graphics Map Resources

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<sup>6</sup> Transcript of statements by President Bush and President Ilves, June 25, 2007, from the White House website <http://www.whitehouse.gov>. For more on the Visa Waiver Program, see CRS Report RL32221, *Visa Waiver Program*, by (name redacted).

<sup>7</sup> FY2008 Congressional Budget Justification for Foreign Operations, from the State Department website <http://www.state.gov>. Amounts obligated for FY2007 are not yet available.





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