

# PATHS OF ECONOMIC “WESTERNIZATION” IN THE LATE SOVIET UNION: ESTONIAN MARKET PIONEERS AND THEIR NORDIC PARTNERS

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## ABSTRACT

Estonia's path towards a market economy started in 1987, when Gorbachev's market-oriented reform course allowed for an unprecedented level of autonomous cooperation with capitalist countries. The developing networks with Western companies and economists, in particular from the neutral Nordic neighbours Finland and Sweden, played a key role in the process of implementing an increasingly radical pro-market agenda. Unrestricted by diplomatic constraints, Swedish and Finnish entrepreneurs, investors and advisors established numerous links to the evolving Estonian business environment, which was promoted as a bridge to the vast Soviet market. The Nordic connection facilitated the early transfer of market economy thinking and practices to Soviet Estonia and kicked off a long-term rearrangement of economic linkages across the Baltic Sea. Taking into account this transnational cooperation contributes to a new understanding not only of Estonia's economic transformation, but also of the emergence of a new regional economic order that accompanied the geopolitical changes.

*Keywords:* Soviet Estonian economy, perestroika, IME Proposal, market reforms, Swedish-Estonian relations, Finnish-Estonian relations

The so-called Four-Man Proposal, an appeal that promoted full economic autonomy as a viable option for the Estonian SSR published in the Tartu-based daily *Edasi* on 26 September 1987, marked a watershed moment in the perestroika process.<sup>1</sup> Drafted by an informal group of a dozen economists

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and planners, the proposal outlined a set of market-oriented reforms, calling for a public debate on how to adapt Mikhail Gorbachev's far-reaching economic reform agenda to local conditions. The document, which carried the signatures of the main initiator Edgar Savisaar, employed at the time as department head at the Soviet Estonian State Planning Committee, the economists Siim Kallas and Tiit Made, and the sociologist Mikk Titma, introduced a ten-point programme aimed at diminishing the negative effects of overregulation on the republican economy.<sup>2</sup> One of the key demands was the transfer of administrative and decision-making power over all industries in the territory of the Estonian SSR to the authorities in Tallinn. Moreover, all Soviet Estonian enterprises were supposed to operate according to the principles of self-financing and economic accountability. Trade between Estonia and other Soviet republics was to be based on free-market principles, facilitated by the introduction of a convertible rouble. The same applied to Estonia's developing autonomous business and trade relations with capitalist countries. As one of the signatories stressed, the latter aspect in particular was deemed crucial in view of potential direct investments from the West.<sup>3</sup>

By the time of the publication of the Four-Man Proposal, the political climate of the USSR had changed beyond recognition. Under the banner of perestroika, the Soviet leadership had introduced a number of radical market-oriented reforms expected to improve the efficiency and profitability of the industrial and agricultural sectors. Semi-private entrepreneurship, a taboo since the days of Lenin's New Economic Policy, was de facto legalized by the Law on Individual Labour and the Law on Cooperatives,

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<sup>1</sup> "Ettepanek: Kogu Eesti NSV täielikule isemajandamisele", *Edasi*, 26 September 1987. The term *isemajandamine* is usually translated as "economic autonomy" but as Erik Terk points out, it could also mean "economic independence". Erik Terk, *Privatisation in Estonia: ideas, processes, results* (Tallinn: Estonian Institute for Futures Studies, 2000), 23.

<sup>2</sup> Titma was not involved in the preparations of the draft, but agreed to sign the document. At the time of the appeal's publication, some of the members of the informal expert group were away on official trips, while others refrained from publically exposing their participation in the initiative, fearing political repercussions. Marika Lillemets, "Indrek Toome – igal ajal esimene", *Eesti ettevõtluse taassünd, 1987–1991*, ed. by Marina Kaas and Kersti Kraas (Tallinn: TEA, 2009), 12–13 (13).

<sup>3</sup> Interview with Tiit Made, Tallinn, 6 February 2015, in author's possession.

adopted in 1985 and 1986. The Decree on Joint Ventures, issued by the USSR Council of Ministers in January 1987, opened up the rather closed domestic market to Western investments, giving an additional impetus to the marketization of the Soviet economy. Against this backdrop, the proposal of the Estonian reformers fell in line with the ongoing Union-wide debates about necessary systemic changes that had been triggered by glasnost. The demand for republican autonomy was indeed a novelty in the USSR, but could be backed up by earlier criticism of Soviet economic centralism voiced by prominent scholars such as Abel Aganbegyan and Tatyana Zaslavskaya, both of whom counted among Gorbachev’s closest economic advisors.<sup>4</sup>

According to historian and former Prime Minister Mart Laar, it was the first large-scale demonstration against the Molotov–Ribbentrop Pact in Tallinn’s Hirvepark in August 1987 that emboldened the small group of planning officials and economists to publicly call for Estonia’s economic autonomy.<sup>5</sup> Other contemporary observers, by contrast, interpreted the Four-Man Proposal rather as a well-calculated manoeuvre to counterbalance the increasingly radical rhetoric of the nationalist opposition.<sup>6</sup> Indeed, the proposal played a seminal role in the evolution of the programmatic agenda of the Popular Front (*Rahvarinne*), which “to a great extent [was] a movement for the fulfilment of the IME project”, as the idea of full economic autonomy was labelled at the time.<sup>7</sup> The Popular Front promoted an alternative vision of Estonia’s nearest future, focusing on a path of systemic reform within the USSR that starkly contrasted with the maximalist agenda of secession, mainly represented by the Congress of Estonia, the political platform of the pronouncedly anti-Soviet faction. The evolution of the secessionist course from the first demands for greater political autonomy to the restoration of independence has been widely covered, but scholarly research has paid much less attention to the concept of economic autonomy. This neglect is surprising, as the lively public debates on economic decentralization and marketization significantly contributed to delegitimizing Soviet rule in the Estonian SSR. Moreover, the quick implementation of radical market reforms from 1988 onwards kicked off embryonic

<sup>4</sup> Toivo Miljan, “The proposal to establish economic autonomy in Estonia”, *Journal of Baltic Studies*, 20:2 (1989), 149–64 (154).

<sup>5</sup> Mart Laar, “Suurte muutuste aeg, 1987–1991”, *Eesti ettevõtlike taassünd*, 7–9 (8).

<sup>6</sup> Rein Taagepera, “Estonia’s road to independence”, *Problems of Communism*, 38:6 (1989), 11–26 (16); Viktor Niitsoo, “Eesti Rahvusliku Sõltumatuse Partei tegevus aastail 1988–1991, I”, *Akadeemia*, 12 (2000), 246–68 (247).

<sup>7</sup> Terk, *Privatisation in Estonia*, 23. IME, short for “Self-managing Estonia” (*Isemajandav Eesti*), also means “miracle” in Estonian.

processes of economic transformation that ultimately had a crucial impact on Estonia's post-1991 economic performance.

Estonia's rapid and relatively smooth transition towards a market-driven economy and the broad popular support for radical economic reforms have often been explained with reference to historic and cultural peculiarities. Still-living memories of the pre-war economy were doubtlessly an important factor that distinguished Estonians and their Baltic neighbours from the inhabitants of the Soviet heartland. Another frequently offered explanation refers to the Weberian connection between Protestant ethics and the spirit of capitalism, linking the country's Lutheran heritage to the dynamic evolution of private entrepreneurship in late Soviet Estonia.<sup>8</sup> Moreover, the thriving black market of Tallinn, a popular destination for Western visitors to the USSR from the mid-1960s onwards, is still present in Estonian collective memory as a kind of informal business school that brought up a first generation of entrepreneurs.<sup>9</sup> All these factors certainly mattered in rooting market economy thinking and practices in Estonia, although their impact is hard to measure. A much less discussed aspect of the Estonian path of transition, however, relates to the significance of early forms of cooperation between economic decision-makers in the Estonian SSR and investors and economic experts in capitalist countries.

The decentralization of the Soviet economy and the liberalization of the border regime created unprecedented opportunities for individual Soviet republics to establish autonomous business and trade relations with the West, and Estonia quickly became an uncontested pioneer in this field. Direct communication with Western investors and trade partners and regular consultation with foreign experts and advisors fostered the development of a thriving informal network with major nodes in both Western Europe and North America, offering Estonia's economic elites and a first generation of de facto private entrepreneurs a potpourri of different variants of market economy thinking. Due to the republic's geographic location and the close cultural and historical bonds to Northern Europe, however, the fundamental principles of Western economic thought and practices reached Estonia mainly via Finland and Sweden. Although the post-Soviet Estonian governments eventually rejected the Nordic model of a social market economy, the connection to the Nordic neighbour states

<sup>8</sup> The asserted "Lutheran work ethic" was a factor used to promote Western direct investments in Estonia already in the late 1980s. See, for example, Richard Gwyn, "Baltic state sings a song of freedom", *Toronto Star*, 24 September 1989.

<sup>9</sup> Jaak Leimann, "Mälestuskilde ettevõtluse ajaloost", *Eesti ettevõtluse taassünd*, 16–17 (16).

had a long-lasting impact on the earliest phase of Estonia’s economic transformation during the late perestroika era.

This essay aims to explore the entanglements between Soviet Estonia’s nascent business environment and the economies of the neutral Nordic states, adding a new dimension to the broad range of previous studies on Swedish and Finnish policies *vis-à-vis* the Baltic republics in the crucial period between 1987 and 1991. In the literature, Iceland and Denmark usually stand out as “keen advocates of the Baltic republics”, while the remaining Nordic countries, especially Finland, are commonly portrayed as cautious and less supportive of Baltic claims to independence.<sup>10</sup> The focus on personal and professional economic networks between Estonian key players and their Nordic partners poses a more nuanced reading of the Swedish and Finnish stance towards Estonia’s increasingly emancipatory course. In the midst of the so-called Singing Revolution, the governments in Stockholm and Helsinki indeed refrained from official communication with the anti-Soviet leadership of the secessionist camp, especially with regard to their diplomatic relations with Moscow.<sup>11</sup> Mid- and grassroots-level support of the economic reform process, by contrast, was, as will be shown, deemed much less controversial at the time.

Focusing on Estonian planning officials, economists and consultants, this essay explores the historic significance of the numerous cogs in the Soviet state institutions, agents who, according to Stephen Kotkin, played a more decisive role than the anti-communist opposition in bringing down the system.<sup>12</sup> The reconstruction of transnational elite networks is, however, not an easy task. In small and relatively isolated societies such as Soviet Estonia, networks generally developed in a highly informal way, leaving

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<sup>10</sup> Kristina Spohr Readman, “International reactions to Soviet disintegration”, *Europe and the end of the Cold War: a reappraisal*, ed. by Frédéric Bozo *et al.* (London: Routledge, 2008), 220–232 (224).

<sup>11</sup> The Finnish government’s obvious reluctance to support the Baltic independence movements was rooted in the specificity of Helsinki’s neutrality policy, which, due to numerous concessions to the Soviet Union throughout the post-war decades, generated the derogatory term “Finlandization”. However, even the Swedish government displayed a sceptical attitude towards the idea of Baltic secession, a phenomenon that has been comprehensively described in the autobiographical accounts of two Swedish diplomats engaged in Baltic issues in the late 1980s, see Dag Sebastian Ahlander, *Spelet om Baltikum* (Stockholm: Norstedt, 1992); Lars Peter Fredén, *Förvandlingar: Baltikums frigörelse och svensk diplomati 1989–1991* (Stockholm: Atlantis, 2004).

<sup>12</sup> Stephen Kotkin, *Uncivil society: 1989 and the implosion of the Communist establishment* (New York: Modern Library, 2009).

few documented traces.<sup>13</sup> Nevertheless, the available source material made it possible to get a glimpse of the bigger picture. A first series of semi-structured oral history interviews with key players among the economic elite of perestroika-era Estonia offered useful background information about early networking processes with Nordic partners. Further interviews and personal reminiscences have been published in a number of non-scholarly volumes on the economic history of late-Soviet Estonia, released on the Estonian book market in recent years.<sup>14</sup> Despite the subjectivity of most accounts, they give a general idea about the remarkable dynamics of marketization in the Estonian SSR. Other important primary sources included expert analyses, programmatic writings and official reports, some of which have been published, while others were retrieved from the archival collections stored at the Museum of Estonians Abroad in Toronto and the Labour Movement Archives and Library in Stockholm. Also the Estonian press of the late 1980s and early 1990s provided interesting information. *Äripäev* in particular, founded as a Swedish-Estonian joint venture and one of the first Soviet business newspapers outside Moscow in 1989, turned out to be a useful source for the reconstruction of the various forms of informal cooperation between Estonia and the Nordic states in the economic sphere.

### *The IME process: self-managing Estonia and the spirit of economic reform*

By the time Gorbachev entered office as General Secretary of the Soviet Communist Party in March 1985, the ruling elites in the Kremlin were already highly aware of the existential challenges posed by the superpower's flagging economy. The gross inefficiency of central planning strained the state budget to a much greater extent than the tremendous defence expenses and the subsidies for the satellite states.<sup>15</sup> Ever since the foundation of the Soviet Union, its leaders had been confronted with the inherent flaws of the command economy system. Hence, the economic history of the Soviet Union features a variety of attempts to balance the dysfunctional

<sup>13</sup> Li Bennich-Björkman, "The cultural roots of Estonia's successful transition: how historical legacies shaped the 1990s", *East European Politics and Societies*, 21:2 (2007), 316–347 (320).

<sup>14</sup> See, for example, Kaas and Kraas, *Eesti ettevõtlike taassünd*; Mati Laos, *Mainori lugu* (Tallinn: Mainor, 2014); *Jäljed. Meenutusi täiskasvanuhariduse lähiajaloo eestis*, ed. by Marika Seppius (Tallinn: SE&JS, 2000).

<sup>15</sup> Andrew Bennet, "The guns that didn't smoke: ideas and the Soviet non-use of force in 1989", *Journal of Cold War Studies*, 7:2 (2005), 81–109 (100).

system of production and distribution. Gorbachev was thus not the first Soviet leader to realize the urgent need to modify the economic policies of the USSR. However, due to his exceptional willingness to challenge ideological dogmas and to address the core of the Soviet Union’s miserable economic performance, his pragmatic approach to solving structural problems radically differed from the measures applied by his predecessors.

The roots of Gorbachev’s reform agenda reach back to the mid-1960s when the Soviet leadership started experimenting with decentralizing the industrial sector in order to improve its efficiency and profitability. Although the so-called Kosygin reforms eventually failed to reach the proclaimed goals due to considerable resistance among the Party nomenklatura, their implicit criticism of central planning had a long-lasting impact on economic thinking in the USSR. A new generation of economists developed a strongly critical stance towards the “extreme centralism” and the “lack of democracy in economic matters”, as was stated in a report compiled by the Siberian Institute of Economics in Novosibirsk, the flagship of reform-oriented economic thought.<sup>16</sup> The analyses of the reformist faction of Soviet economists made a deep impression on Gorbachev already during his time as a Party bureaucrat in Stavropol. Their impact on his take on economic issues was reflected in his programmatic speech at the 27th Party Congress in February 1986, during which the new Soviet leader called for a bolder course of marketization and an agenda of “radical economic reform”.<sup>17</sup> It was thus a combination of economic pressure and new currents in the field of economics that lay behind the drafting of the market-oriented reform programme which became the main pillar of perestroika.

The repercussions of the new reformist fervour could be felt across the USSR, especially in the Baltic republics where salaries and living standards were above the Soviet average. Since the late 1950s, the small republics at the western Soviet periphery had been among Moscow’s favourite settings for economic reforms. The northernmost of the Baltic republics in particular had acquired the status of pioneer in the field of experimental marketization, bringing “Soviet Estonia and her enterprise sector slightly closer to the market economy mechanism than other Soviet republics”.<sup>18</sup> A pilot project in the Estonian light industry sector had just been completed when

<sup>16</sup> Qtd. in Toivo Miljan, “Perestroika: an interim review of its objectives, programs and prospects”, *Journal of Baltic Studies*, 20:2 (1989), 109–126 (111).

<sup>17</sup> Anders Åslund, *Gorbachev’s struggle for economic reform* (London: Pinter Publishers, 1991), 26.

<sup>18</sup> Kari Liuhto, “Entrepreneurial transition in post-Soviet republics: the Estonian path”, *Europe-Asia Studies*, 48 (1996), 121–140 (121).

Gorbachev came to power. In line with Yuri Andropov's "demands for a perfection of economic management",<sup>19</sup> the decisional autonomy of leading managers employed at republican light industry enterprises significantly increased and a certain degree of self-financing was introduced. The outcome of the experiment was satisfactory and paved the way for additional innovative reform projects implemented on the republican level. With the establishment of the foreign trade association Estimpeks in March 1987, which allowed the republican government in Tallinn to coordinate its own imports and exports in specific branches, Estonia became the first Soviet republic to act independently from the Soviet Ministry of Foreign Trade in Moscow.<sup>20</sup> Also on the grassroots level, the pioneering role of the Estonian SSR as a hotspot of economic innovation was undisputed. A nascent boom of de facto private entrepreneurial activities could be observed throughout the Soviet Union, but already by mid-1987, Estonia topped the list with far more registered cooperatives per capita than any other Soviet republic.<sup>21</sup>

However, the first steps towards a gradual marketization of the Soviet economy were not uncontested. Especially in the Russian SFSR and parts of the Ukrainian SSR, popular resistance against the emerging class of private entrepreneurs gave a new impetus to anti-capitalist sentiments.<sup>22</sup> Similar attitudes prevailed among the masses of Estonia and Latvia's Russian-speaking industrial workers and leading managers at state enterprises, most of which were subordinated to all-Union ministries. The autochthonous population of the Baltic republics, by contrast, largely supported the central government's reform course, demanding increasingly radical steps. Gorbachev's ambition to fundamentally reform the Soviet political and economic system had triggered a "revolution of rising expectations",<sup>23</sup> encouraging not only oppositional forces, but also bureaucratic cadres and parts of the nomenklatura to publicly discuss the shortcomings of the status quo. In the Estonian SSR, glasnost and its promises of transparency and

<sup>19</sup> Åslund, *Gorbachev's struggle for economic reform*, 91.

<sup>20</sup> Raivo Vare, "Majandusreformid 1990–1992: subjektiivsed teesid", *Majandusreformid: taasiseseisvunud Eesti esimese valitsuse aeg 1990–1992* (Tallinn: Majandus- ja Kommunikatsiooniministeerium, 2006), 21–25 (21); Mehis Pilv, "Eesti Riikliku Välismaajandusameti kujundamisest ja Eesti välismaajanduse reformidest aastatel 1990–1992", *Majandusreformid*, 47–49 (47).

<sup>21</sup> While in July 1987, the Soviet average featured one cooperative per 80,000 inhabitants, Estonia had one cooperative per 20,000 people. Liuhto, "Entrepreneurial transition in post-Soviet republics", 122.

<sup>22</sup> Åslund, *Gorbachev's struggle for economic reform*, 172–174.

<sup>23</sup> Archie Brown, "Perestroika and the end of the Cold War", *Cold War History*, 7:1 (2007), 1–17 (12).

openness triggered a critical public debate on controversial issues such as the heavy environmental pollution caused by expansive, centrally administered industries and the uncontrolled influx of a Russian-speaking labour force. The highly politically charged debates all arrived at a similar conclusion, pointing out Estonia’s lack of autonomy in political and economic issues as the root of the shortcomings of the system itself.

The Four-Man Proposal of September 1987 was thus a product of the prevailing spirit of the time and reflected Gorbachev’s vision of a society of active citizens participating in ongoing reform debates, not only, but particularly in the economic sphere.<sup>24</sup> Most of the experts involved in drafting the appeal held leading positions at some of the key institutions of the Soviet Estonian economy: the State Planning Committee, the Estonian Management Institute (*Eesti NSV Rahvamajanduse Juhtivate Töötajate ja Spetsialistide Kvalifikatsiooni Tõstmise Instituut*), responsible for the professional training of enterprise directors and managers, and Mainor, a development and consulting company subordinated to the republican Ministry of Light Industry that developed and promoted the idea of small enterprises in the USSR, thus becoming a forerunner of Soviet marketization. The institutional background of the reformers lent considerable substance to the proposed strategy of “re-establish[ing] the Estonian nation as master of the Estonian territory”, which soon became the topic of lively debates among leading economic experts of the Estonian SSR.<sup>25</sup> The Four-Man Proposal and its vision of full economic autonomy quickly gained wide public support, not only among the scholarly and administrative elites. Local Party organizations backed up the proposed reform agenda, as did members of the cultural elite and numerous researchers and students at Estonia’s institutions of higher education. The promotion and popularization of the proposal was reinforced by regular lectures on the topic organized throughout Estonia by the authors themselves, during which they discussed the possible implementation of the reforms with enterprise managers, students and work collectives.<sup>26</sup> Hence, the initial efforts of the Estonian Communist Party’s Central Committee and the head of the State Planning Committee, Valeri Paulman, to smother any open debate by publicly denouncing both the proposal and its authors eventually came to nothing.

<sup>24</sup> Stephen White, *Gorbachev and after* (Cambridge: Cambridge University Press, 1992), 31.

<sup>25</sup> Miljan, “The proposal to establish economic autonomy in Estonia”, 151. *Peremehetunne*, roughly translated as the feeling of being the “master of one’s own house”, became a much-cited catchword in the Soviet Estonian press from early October 1987 onwards.

<sup>26</sup> Interview with Made.

The discourse about the idea of economic autonomy grew into a full-scale public debate about Estonia's economic future that engaged large segments of Soviet Estonian society. Newspapers and television broadcasts provided a forum for vivid discussions that spread to universities and research institutes, eventually forcing the republican leadership to take action. At the 7th Plenary of the Central Committee of the Estonian Communist Party in December 1987, the Party's First Secretary Karl Vaino stated that the vision of full economic autonomy by itself was generally acceptable from an ideological point of view. The Council of Ministers in Tallinn ultimately agreed to the suggestion of the Academy of Sciences of the Estonian SSR to establish a task force of economic experts in order to determine the feasibility of the proposed reform agenda. The expert group, which operated under the roof of the Soviet Estonian State Planning Committee and the Academy of Sciences and was headed by economist Rein Otsason, started to assess the option of regional self-management. At least initially, the group carefully avoided the term "economic autonomy", focusing mainly on the task of making the existing economic system more efficient.<sup>27</sup> By contrast, competing think tanks including the so-called IME Council (*IME Probleemnõukogu*), led by Edgar Savisaar, one of the signatories of the Four-Man Proposal, developed alternative, more radical models of an autonomous Estonian reform path towards a market-based economy.

With the establishment of the Estonian Popular Front in April 1988, which, again, was an initiative of Savisaar, the Estonian economic reform discourse reached a new level. In its founding charter, the Popular Front indeed expressed its full support for Gorbachev's reform course in the framework of perestroika. Nevertheless, the document clearly stated that it was in the interest of "our country and people to proceed to the full economic autonomy of Estonia",<sup>28</sup> a goal which, strictly speaking, could only be reached by granting the Estonian SSR political sovereignty. This ambition was backed up by the vast majority of Estonia's population.<sup>29</sup> By the summer of 1988, slogans like "We believe in IME", "Made and Savisaar to the Central Committee", and even "We demand independence for Estonia" were common during the many public protests taking place throughout

<sup>27</sup> Miljan, "The proposal to establish economic autonomy in Estonia", 156–157.

<sup>28</sup> *Eestimaa Rahvarinne* (Tallinn: Eesti Raamat, 1988), 19.

<sup>29</sup> According to a survey conducted in March 1988, 80 percent of the population of the Estonian SSR supported the IME project. Rein Ruutsoo, *Civil society and nation building in Estonia and the Baltic states: impact of traditions on mobilization and transition 1986–2000* (Rovaniemi: Lapin Yliopisto, 2002), 210.

the republic.<sup>30</sup> Under the impact of the rapidly growing public support for full economic autonomy, the radical faction of reform economists got the upper hand. From mid-1988 onwards, several dozen economists worked, assisted by hundreds of experts in specialist fields, on drafting a comprehensive reform agenda under the roof of the IME Council, which demonstratively aligned itself with the political agenda of the Popular Front.<sup>31</sup>

In June 1988, Moscow eventually chose to replace hardliner Karl Vaino with Vaino Väljas who, after having been removed from his post in the Soviet Estonian Communist Party’s Central Committee apparatus due to alleged nationalist tendencies, had spent many years working as a Soviet diplomat in Venezuela and Nicaragua. In his first programmatic speech, the Estonian Communist Party’s new First Secretary declared his full commitment to the cause of expanding Estonian economic autonomy within the USSR, turning the issue into one of the official objectives of the Party programme.<sup>32</sup> With the appointment of Indrek Toome as Estonia’s Prime Minister, the key posts of republican leadership were entirely in the hands of the reform-oriented forces. In November 1988, the Supreme Soviet of Estonia adopted the Declaration on the Sovereignty of the Estonian SSR, which eventually created the legal basis for carrying out an autonomous reform agenda.<sup>33</sup> The Toome government immediately started to formulate a plan for implementing far-reaching market reforms drawing on a first conceptual programme (*IME kontseptsiooni projekt*) drafted by the expert groups of the IME Council, which had been published in the same month. That was “hour zero” of Estonia’s independent reform path from a command economy dependent on and strictly controlled by Moscow to a market-based, autonomous republican economy.<sup>34</sup> Early on in Toome’s time in office, his government adopted a range of new decrees and laws on the decentralization of industries and on the further development of private entrepreneurship.<sup>35</sup> Seen from a pan-Soviet perspective, the dynamics unleashed in Estonia under the new political leadership were revolutionary. With the decision to implement the idea of economic autonomy

<sup>30</sup> Karl Aun, “Perestroika ja Eesti”, *Meie Elu*, 11 August 1988.

<sup>31</sup> Kersten Saar, “Iseolemise meeletu vaev”, *Kesknädal*, 24 February 2010, <<http://www.kesknadal.ee/g2/uudised?id=14163>> (accessed 8 June 2016).

<sup>32</sup> Miljan, “The proposal to establish economic autonomy in Estonia”, 160.

<sup>33</sup> James Gillies, Jaak Leimann, Rein Peterson, “Making a successful transition from a command to a market economy: the lessons from Estonia”, *Corporate Governance*, 3 (2002), 175–186 (177).

<sup>34</sup> Saar, “Iseolemise meeletu vaev”.

<sup>35</sup> Laar, “Suurte muutuste aeg”, 9.

in all sectors except those connected to the military and transportation from January 1990 onwards, a decree that was issued jointly with a similar Lithuanian declaration in May 1989, the tiny Soviet republic took a giant leap towards full economic autonomy.

*The Nordic connection: investments, business cooperation and knowhow transfers across the Baltic Sea*

With the adoption of the Decree on Joint Ventures, Moscow hoped to be able not only to attract Western capital, and thus much-needed hard currency, but also to invigorate the Soviet economy via the influx of new technologies and knowhow in market-oriented business practices. Hence, the expansion of economic relations with the West soon became a central feature of reform discourses, especially in the Baltic republics. The Toome government displayed vivid interest in attracting foreign direct investments and strongly promoted the further development of autonomous business relations with capitalist countries. With the establishment of the Estonian State Department for Foreign Economic Relations (*Välismajandusamet*) in March 1990, time-consuming registration procedures via Moscow were successfully omitted. Moreover, the Estonian government raised the limit of permitted foreign shares set in the 1987 Decree on Joint Ventures from 49 to 99 percent, attracting a steadily increasing number of Western investors.<sup>36</sup> As a result of these measures, Estonia was far ahead of all other Soviet republics in terms of registered joint ventures per capita.<sup>37</sup> Tallinn was determined to use these channels to the West for the modernization of local industries and the increase of exports outside the Soviet market, which marked a significant turn away from the traditionally “export-averse but import-inclined” economic policies of the Soviet Union.<sup>38</sup>

<sup>36</sup> “Estland beginnt, die zentrale Kommandowirtschaft abzuschaffen”, *Frankfurter Allgemeine Zeitung*, 2 January 1990.

<sup>37</sup> The statistics of April 1989 show that Estonia featured one joint venture per 60,000 inhabitants compared to the Soviet average of one company per 800,000 people. Liuhto, “Entrepreneurial transition in post-Soviet republics”, 122.

<sup>38</sup> Philip Hanson, “The Soviet Union’s acquisition of Western technology after Stalin: some thoughts on people and connections”, *Reassessing Cold War Europe*, ed. by Sari Autio-Sarasmo and Katalin Miklóssy (London and New York: Routledge 2011), 16–32 (18). In the late 1980s, the economic exchange between Estonia and the countries of the European Community, for example, did not exceed 8 percent of Estonia’s exports. Alari Purju, “Makromajanduslik olukord Eestis aastatel 1990–1992”, *Majandusreformid*, 13–19 (13).

Although autonomous trade and business relations with the capitalist world played an increasingly prominent role in the Estonian economy, Prime Minister Indrek Toome remained sceptical of the agenda developed by the most radical faction of economists operating under the roof of the IME Council. Throughout his time in office, he supported a more cautious course of marketization promoted by the experts who had originally worked under the State Planning Committee and continued their activities under the leadership of the Committee’s former chairman Rein Otsason.<sup>39</sup> After the succession of Toome by Edgar Savisaar, who had served as Minister of Economic Affairs for a brief period in early 1990, the Estonian government staked out more ambitious aims. Savisaar’s government programme of May 1990 announced a “radical turn to the West” and a complex set of market-oriented reforms based on the maximalist vision of full emancipation from the Soviet domestic market.<sup>40</sup> In view of the obvious stagnation and the weakening of the reform spirit in most Soviet republics, Savisaar frankly admitted that he considered the USSR to be a “developing country” that hampered efficient innovations in the fields of production, trade and business and, thus, jeopardized Estonia’s economic future.<sup>41</sup>

The engineers of an autonomous Soviet Estonian trade policy focused first and foremost on developing closer relations with the Nordic neighbour states, especially with Finland. Already in 1988, Estonian economists stressed the significance and assets of Estonia’s geographic location, highlighting the republic’s “organic belonging to the Nordic regional economic complex”.<sup>42</sup> The Estonian SSR could indeed look back on more than two decades of autonomous trade and business relations with neutral Finland, a long-time “bilateral-settlement trade partner” of the Soviet Union.<sup>43</sup> Strong historic ties, similar languages, the traditionally compliant stance of the Finnish government towards Moscow and, above all, a regular ferry connection between Tallinn and Helsinki had facilitated the evolution of a lively

<sup>39</sup> Lillemets, “Indrek Toome – igal ajal esimene”, 13.

<sup>40</sup> Savisaar’s government programme, published as a brochure entitled “Peaminister Edgar Savisaare valitsuse programm”, Tallinn, 16 May 1990: Museum of Estonians Abroad, Toronto (Väliseesti Muuseum, hereafter VEMU), f. 12, box 19:4, p. 24.

<sup>41</sup> Edgar Savisaar, “Pööre Läände”, *Äripäev*, 19 February 1990. From 1988 onwards, Gorbachev took an increasingly “centrist” stance, moving closer to the faction of conservative communists as far as reforms in the economic sphere were concerned. Åslund, *Gorbachev’s struggle for economic reform*, 36.

<sup>42</sup> *Majanduslike välissidemete ja rahvusvahelise koöperatsiooni arendamine Eesti NSV rahvamajanduses* (Tallinn: Eesti Teadus- ja Tehnikainformatsiooni ning Majandusuringute Instituut, 1988), 9.

<sup>43</sup> Hanson, “The Soviet Union’s acquisition of Western technology after Stalin”, 18.

contact network across the Gulf of Finland. Since the late 1960s, Finnish companies had been involved in a number of major construction projects in the Estonian SSR, the most famous of them being the Viru Hotel in Tallinn. Later on, Finnish investors developed a pronounced interest in producing goods for the Finnish market in Estonia, such as textiles and footwear.

The multileveled cooperation between Estonia and Finland created a unique opening of the Soviet orbit to the capitalist world, a “window to the West” that gained even greater significance with the onset of perestroika. The increasing possibilities of cross-border economic cooperation triggered new forms of commercial ventures. Hence, it was no coincidence that the first Soviet-Western joint venture was an Estonian-Finnish company that had grown out of an earlier Finnish investment project.<sup>44</sup> These pre-existing contacts were also of vital importance for Finnish entrepreneurs. Due to their intimate knowledge of the Soviet market and upcoming investment opportunities, Finnish enterprises were well-prepared when the Soviet Union opened up for joint ventures with Western companies. It is thus hardly surprising that the economic reform discourse and the work of the IME Council was followed with considerable interest in Finland. Although the government, with good reason, refrained from officially supporting the increasingly radical economic claims of the Estonian reformers, Finnish media and business circles devoted much attention to the ongoing developments.<sup>45</sup>

Although the influx of Finnish investments ensured access to Western hard currency, the political establishment in Tallinn was aware of the fact that the close economic cooperation with Finland not always worked to Estonia’s advantage. The predominance of Finnish enterprises on the domestic market raised concerns about the lack of international competition.<sup>46</sup> “The traditional partner has been Finland, but that should not be the limit, as the Finns take large profits,” as Savisaar, at the time still serving as Minister of Economic Affairs, stated in February 1990. Estonia’s business and trade relations with capitalist countries, he added, should be significantly expanded, particularly with Sweden.<sup>47</sup> Not only Finnish, but also Swedish entrepreneurs had been following the unfolding events in the Baltic republics with increasing interest, not least due to the geographic proximity and Sweden’s close historical ties to the Baltic republics.

<sup>44</sup> Jaan Kabin, “Ühisettevõtete kaudu õppisime tegema nüüdisaegset äri”, *Eesti ettevõt-luse taassünd*, 130–131 (130).

<sup>45</sup> Interview with Made.

<sup>46</sup> Aimar Jugaste, “Majandussõnumid meilt ja mujalt”, *Edasi*, 26 January 1989.

<sup>47</sup> Heikki Talving, “Teel turumajandusele”, *Edasi*, 25 February 1990.

As Swedish Minister of Foreign Trade Anita Gradin told the press in autumn 1989, Estonia counted among Sweden’s “natural economic partners” together with her Baltic neighbour republics and the Leningrad oblast.<sup>48</sup>

By then, a number of Swedish-Estonian joint ventures had already been established. On the whole, however, Sweden lacked the structural advantage of pre-existing professional and personal networks which had helped investors from Finland to enter the Estonian market. Moreover, Finnish enterprises were better prepared for operating in Soviet-type economies due to their decade-long experience doing business with the USSR. Nevertheless, Swedish investors were determined to catch up and to gain a foothold in the Baltic republics, which were seen as a strategic bridgehead into the vast Soviet market. After the Estonian Sovereignty Declaration of November 1988, which asserted the supremacy of republican legislation over the laws of the USSR, the Swedish Trade Council began to search for suitable contacts among entrepreneurs, trade organizations and the state bureaucracy in Estonia.<sup>49</sup> For this purpose, the Trade Council, a self-governing institution that promoted Swedish exports on behalf of the government and national industries, established a special section. The “Business Group Estonia” delivered advisory services to potential investors, mediated between Swedish entrepreneurs and the emerging private business environment in Estonia and organized visits of business delegations in both directions. These activities were coordinated by a Swedish business consultant with Estonian roots, Toomas Käbin, who was also behind the establishment of the Trade Council’s communication point at the premises of the Swedish consulate in Tallinn in late 1989.<sup>50</sup>

The efforts to foster Swedish-Estonian business relations had visible effects, not least due to the pronounced interest of Estonian entrepreneurs in cooperating with Swedish partners.<sup>51</sup> Swedish direct investments and the number of Swedish-Estonian joint ventures increased exponentially,

<sup>48</sup> “Baltimaadel on jaksu”, interview with Anita Gradin, *Äripäev*, 9 October 1989.

<sup>49</sup> Internal working paper of the Swedish Foreign Ministry, Political Department (Pol 1), on Swedish support for the Baltic states, 15 August 1991: Labour Movement Archives and Library, Stockholm (Arbetarrörelsens arkiv och bibliotek, hereafter ARAB), fond 3164, box 2, p. 6.

<sup>50</sup> “Rootsi konsultant”, *Äripäev*, 11 December 1989. In this respect, the Swedes were ahead of the Finns. It was first in early 1991 that the Finnish consulate in Tallinn employed a trade secretary to facilitate communication between Finnish and Estonian enterprises. Seppo Kervinen, “Helsingis asutati Soome-Eesti kaubandusühing”, *Äripäev*, 12–18 December 1990.

<sup>51</sup> Väinu Rozental, “Põhjamaa liberaalid Eestis”, *Edasi*, 25 March 1989.

turning Sweden into a serious competitor to Finland on the Estonian market.<sup>52</sup> One of the factors that lay behind this boom was the foundation of Estonia's first business newspaper, which had been established as a Swedish-Estonian joint venture. 51 percent of the business was in the hands of the Bonnier Group, the owner of Sweden's number one business daily *Dagens Industri*, while the rest of the shares belonged to the Estonian consulting and development company Mainor. The cooperation was based on the initiative of the Estonian émigré Tõnu Kerstell who had invited a delegation of Mainor representatives to Stockholm for consultations with Jacob Bonnier and Hasse Olsson, editor-in-chief of *Dagens Industri*.<sup>53</sup> From October 1989 onwards, the newspaper *Äripäev*, which appeared in the same layout as its Swedish template, turned into one of the major sources of information about the rapidly unfolding changes in Estonia's business environment and upcoming opportunities for cooperation with partners in capitalist countries, especially the Nordic states.

It was no coincidence that the earliest forms of Swedish-Estonian business and trade cooperation were established with the help of Estonian émigrés. Sweden was one of the major strongholds of the Estonian diaspora, hosting tens of thousands of well-integrated and economically successful war refugees and their offspring. The remarkable commitment of Swedish businessmen and economists with Estonian roots in promoting capital investment in Estonia certainly contributed to mitigating the initial reservations of potential investors from Sweden. However, the significance of émigrés for the history of Estonia's economic "Westernization" reached beyond their role as mediators.

The traditionally anti-Soviet Estonian community in the West had been vigilantly following the unfolding of an Estonian nationalist agenda from afar. The issue of economic autonomy was vigorously discussed in the émigré press. Nevertheless, there was a wide-spread consensus to avoid any direct communication with official representatives of the occupation regime, an attitude that persisted up to the end of the 1980s. Many émigrés were highly suspicious of the intentions of the reformers. Instead of supporting the course of the reform-minded Estonian government, a majority preferred to team up with the faction of radical nationalists who, led by former dissidents and political prisoners, promoted the restoration of pre-war

<sup>52</sup> By January 1990, 13 of Estonia's 80 registered joint ventures were companies established with the participation of Swedish business partners. Heikki Talving, "Murranguaasta", *Äripäev*, 15 January 1990.

<sup>53</sup> Ülo Pärnits, 'Mainor ja ettevõtlike areng Eestis', *Eesti ettevõtlike taassünd*, 18–23 (20).

sovereignty at an early stage. However, there were also more pragmatic attitudes towards the ongoing changes in Estonia among the ranks of the politically orthodox émigrés. Noteworthy in this context is a small transatlantic community of highly successful businessmen and entrepreneurs who had followed the reform discourse with great interest. They were aware of the fact that Prime Ministers Toome and Savisaar knew significantly more about economics than the front figures of the secessionist camp who, due to their dissident background, had never been able to gather expertise in the field.<sup>54</sup> A good dose of political realism induced them to actively support the economic emancipation from Moscow as a less radical and, as they assumed, more realistic path towards greater national autonomy.

The first embryonic networks between émigré experts and reform-oriented circles in Estonia were based on coincidental personal encounters, a product of the liberalization of the Soviet travel regime from 1988 onwards. The Swedish connection allegedly began at a basketball game, where Prime Minister Toome made the acquaintance of Swedish-Estonian business consultant Mart Nurk.<sup>55</sup> This encounter inspired Toome to establish an economic think tank drawing on the economic expertise of émigré advisors from Sweden. Nurk presented a list of potential candidates, among them prominent bankers, fiscal experts, entrepreneurs and engineers.<sup>56</sup> In 1989, the Swedish advisor group was officially established as the IME International Working Group and jointly led by Nurk and the banker Rudolf Jalakas. The émigré advisors were, as Nurk stated, eager to not present ready-made action plans. Instead, they aimed to provide the government and ministries with a variety of possible solutions which were developed in close consultation with colleagues and experts back in Sweden.<sup>57</sup>

The model of recruiting external advisors proved advantageous for the formulation of an autonomous reform path towards a market-oriented economy. Hence, Prime Minister Savisaar followed the example of his predecessor. Soon after his appointment, the so-called International Economic Advisory Board of the Prime Minister of Estonia commenced its work. The expert group was composed of Estonian émigrés not only from Sweden, but also from Canada, the United States, Australia, Germany, Belgium and Venezuela. At the first board meeting on Tallinn’s Dome Hill in

<sup>54</sup> Interview with Prof. Igor Gräzin, Tartu University, carried out by Prof. Toivo Miljan, Wilfried Laurier University, Waterloo, ON, Canada, 5 May 1990. VEMU, f. 12, b. 19:40, p. 8.

<sup>55</sup> Interview with Jaak Leimann, Tallinn, 9 February 2015, in author’s possession.

<sup>56</sup> Mart Nurk, “Ka rublaga saab palju asju korda ajada”, *Äripäev*, 4–10 June 1990.

<sup>57</sup> Kaupo Pollisinski, “Suur visiit: majandustohtrid patsiente vaatamas”, *Äripäev*, 1–7 May 1991.

May 1990, the advisors thoroughly screened the governmental agenda and discussed the most urgent law projects on taxation, privatization, customs, foreign trade and the introduction of an Estonian currency with Savisaar and his ministers.<sup>58</sup> A series of smaller seminars followed, tailored to the individual fields of expertise of the members of the Advisory Board.<sup>59</sup> Subsequent board meetings took place three or four times a year. They were organized by Minister of Economic Affairs Jaak Leimann and Mehis Pily, the director of the Estonian State Department for Foreign Economic Contacts.<sup>60</sup> Toome's expert group continued to operate, although most of its members were simultaneously active in the Advisory Board, which primarily dealt with theoretical questions, analysing economic legislation in various Western countries in order to formulate drafts for an Estonian legal framework. By contrast, the IME International Working Group focused on individual law projects, especially in the fields of taxation, finance and banking, and conducted macroeconomic analyses.<sup>61</sup>

Savisaar's Advisory Board significantly contributed to deepening the Estonian leadership's knowledge about the ways in which capitalist economies functioned in a global perspective. The Canadian faction in particular showed remarkable commitment to the cause of Estonia's economic transformation, especially Toronto-based businessman Ilmar Martens who, together with Madis Habakuk, director of the Estonian Management Institute, founded Estonia's first private business school in Tallinn in 1988.<sup>62</sup> On the other hand, due to their geographic proximity, the émigrés from Sweden were better connected among Estonia's economic elites, a fact that increased their direct and indirect leverage on the Estonian reform path. During his first months in office, Savisaar approached Rudolf Jalakas, who had already advised the Toome government on banking-related matters, with the request of recruiting a Swedish expert willing to assist the Estonian government in the development of a set of banking laws. Jalakas proposed Bo Kragh as a suitable advisor, the vice president of Handelsbanken, a major Swedish bank where Jalakas himself held a leading position. Kragh had worked in Moscow for several years and was also well-informed about Estonian issues due to an earlier cooperation with the Tartu Commercial Bank (*Tartu Kommertspank*), which had been established as the Soviet

<sup>58</sup> "Mitu pead on parem kui üks", *Äripäev*, 28 May – 4 June 1990.

<sup>59</sup> Interview with Leimann.

<sup>60</sup> Edgar Savisaar, *Peaminister. Eesti lähiajalugu 1990–1992* (Tartu: Kleio, 2004), 149.

<sup>61</sup> Mart Nurk, "Ka rublaga saab palju asju korda ajada".

<sup>62</sup> Ene-Liis Martens, *Ilmar: his story* (Collingwood, ON: McNulty Printing, 2014), 168–69; Paavo Kangur, "Ärikoolituse teerajaja", *Eesti ettevõtlike taassünd*, 166–168.

Union’s first commercial bank in autumn 1988. After a series of negotiations between Prime Minister Savisaar and Handelsbanken, the Swedes agreed to send Kragh to Estonia for a couple of months, covering the salary costs for the duration of his stay.<sup>63</sup> From the beginning onwards, the Swedish banker strongly supported the transfer of the entire banking sector into the hands of the Estonian government as a precondition for the creation of an independent economy. He supervised several expert groups working on this set of problems and related issues, such as the establishment of a foreign trade system, state deposits of foreign currencies and the introduction of the Estonian *kroon*.<sup>64</sup> As Savisaar claims, the contribution of Kragh was significant for the monetary reform process and had a long-term learning effect for the political elites in Tallinn. For the first time, the decision-making process proceeded, as Savisaar put it, in a “Western” way. Moreover, up to the restoration of independence in August 1991, Kragh remained the Estonian government’s only official Western advisor.<sup>65</sup>

The dynamics of Estonia’s autonomous economic cooperation with partners from capitalist countries illustrates the remarkable determination of the Toome and Savisaar governments to take advantage of the various opportunities that gradually opened up from 1988 onwards. Informal cooperation with Western investors and economic advisors developed into a widely ramified set of economic relations outside the Soviet Union. Joint ventures and import/export agreements were concluded with investors and companies from Finland, Sweden and Norway, but also from West Germany, Switzerland and Canada. Finland and Sweden were thus by far not the only Western countries with which Estonian state bureaucrats, economists and entrepreneurs cooperated. However, the tightly knit professional and personal networks across the Baltic Sea consolidated the

<sup>63</sup> Savisaar, *Peaminister*, 313.

<sup>64</sup> Aavo Kokk, “Svenska Handelsbanken on abitanud ka Leninit”, *Edasi*, 21 September 1990.

<sup>65</sup> Savisaar, *Peaminister*, 545–546. Of course, Sweden was not the only source of economic knowhow for the Estonian government before the restoration of independence. Both Savisaar and Leimann repeatedly mentioned their numerous private consultations with Finnish entrepreneurs and economic leaders, and the North American connection also played a crucial role. The chairman of the Bank of Finland Esko Ollila, to mention one example, offered numerous useful advice to political key figures in Estonia, but figured, out of necessity, as a private citizen in his efforts to support the Estonian economic reform path, see Heikki Rausmaa, *Kultuuri sildi all saab üsna palju ära teha: Soome ja Eesti poliitilised suhted 1988. aasta kevadest diplomaatiliste suhete sõlmimiseni 1991. aasta augustis* (Tallinn: Argo, 2015), 170–171. Sweden’s Handelsbanken, however, was the only Western institution with which the Estonian government set up an official agreement in the field of expert consultancy before autumn 1991.

dominant position of the Nordic neighbour states in Estonia's nascent business environment at an early stage. The close cooperation with Finland and Sweden thus significantly accelerated the Estonian marketization process, not only via the influx of innovative technologies and Western capital through bilateral joint ventures. Knowhow transfers between the Nordic states and Estonia were equally important for the Soviet republic's early economic transformation, not only for the key decision-makers in Tallinn. For the most part, the economic elites at least had an idea about the mechanisms of market economies and Western business practices. By contrast, the new emerging cast of private businessmen who, as Estonia's first entrepreneurs, were supposed to play a key role in translating the transitional "changes in the macroeconomic environment into corresponding microeconomic behaviour",<sup>66</sup> were usually unfamiliar with virtually every aspect of managing a company and operating in an international, market-driven environment.

Even a planned economy had to care for the education of its managers and enterprise directors. The professional training of managerial cadres was thus not new to Soviet economists. In the Estonian SSR, the Estonian Management Institute and the consulting and development company Mainor had become central institutions in this field.<sup>67</sup> Due to Estonia's status as a laboratory for Soviet market experiments, since the mid-1960s, local economic elites had been able to establish limited academic exchange with foreign specialists. During the Brezhnev era, the Soviet Ministry of Higher Education sent hundreds of Soviet researchers and economists abroad for professional education. Among them were also several top economists from the Estonian SSR who were offered additional training both in the satellite countries and the capitalist West. Centres of specialized expertise in the field of managerial training thus developed more or less synchronically in both Moscow and in Tallinn.<sup>68</sup>

<sup>66</sup> Andrzej Kozmiński quoted in Liuhto, "Entrepreneurial transition in post-Soviet republics", 137.

<sup>67</sup> Laos, *Mainori lugu*, 87.

<sup>68</sup> In the Estonian SSR, there were four institutions where Western managerial practices were intensively discussed from the Brezhnev era onwards: the Tallinn Polytechnic Institute, the Estonian Management Institute, Mainor and the Department of Economics at Tartu State University. In the field of enterprise management, Estonia was thus ahead of most Soviet republics, including its Baltic neighbours Latvia and Lithuania, when Gorbachev's perestroika set in. Madis Habakuk, "Habakuk näitab uusi linnu", *Jäljed*, 150–164 (153, 159). It was certainly no coincidence that the first U.S.-Soviet joint conference on business management was coordinated by Mainor and held in Tallinn in 1977. Laos, *Mainori lugu*, 53.

The core tasks of enterprise managers in a Western market economy and a Soviet-type command economy were essentially not that different. However, the practices in the fields of accounting, financing and banking issues had to be fundamentally reformed in the transforming economy of late-Soviet Estonia, while marketing as a concept was still largely unknown.<sup>69</sup> Hence, managerial training and post-graduate education in Western business practices boomed years before Estonia actually became a fully-fledged market economy. Various Western business schools established cooperation programmes with Estonian institutions from 1988 onwards, such as the Hudson Institute in Washington D.C., the Trade Management Institute in Blackrock near Dublin, and Enterprise York at York University in Toronto. However, due to the geographic proximity and the quickly developing personal networks, Finland and Sweden turned into the major points of reference as far as the professional training of the first generation of Estonian capitalists was concerned.

Early on in the Estonian reform debate, leading economic experts pointed out the need to educate qualified managers in order to integrate Estonia’s developing entrepreneurial sector into international and global markets.<sup>70</sup> The importance ascribed to professional education was also reflected in Prime Minister Savisaar’s governmental programme, which clearly stated that “the government sees its major role in the support of schooling and training programmes for entrepreneurs and in facilitating the development of international entrepreneurial contacts”.<sup>71</sup> It was, again, the decade-long institutionalized cooperation with Finnish experts that significantly contributed to raising managerial training in Estonia to Western standards. “Learning from the Finns” had long been the motto of scientific-technical collaboration between Finland and the USSR, which already in 1955 signed an agreement on bilateral cooperation that covered twenty different areas of science and technology by 1970.<sup>72</sup>

As Madis Habakuk remembers, the director of the Central Committee’s Department for Science and Technology and the Vice-Chairman of the Soviet Estonian Council of Ministers first established contact with Mec

<sup>69</sup> Jaak Leimann, “Täiskasvanuharidus ja riigi areng”, *Jäljed*, 119–134 (121).

<sup>70</sup> *Majanduslike välissidemete ja rahvusvahelise koöperatsiooni arendamine*, 11.

<sup>71</sup> “Peaminister Edgar Savisaare valitsuse programm”, 18.

<sup>72</sup> Tatiana Androsova, “Economic interest in Soviet post-war policy on Finland”, *Reassessing Cold War Europe*, 33–48 (35); Sampsa Kaataja, “Expert groups closing the divide: Estonian-Finnish computing cooperation since the 1960s”, *Beyond the divide: entangled histories of Cold War Europe*, ed. by Simo Mikkonen, Pia Koivunen (New York and Oxford: Berghahn, 2015), 101–120 (104).

Rastor, one of Finland's leading consulting companies, already in the early 1970s.<sup>73</sup> Finnish experts in the field were well educated in American management practices, but had adapted them to local conditions and Finnish culture, which made their expertise very attractive for Estonia. Western concepts such as human resources, personnel and enterprise management thus reached Estonia at an early stage, in particular through Mainor. Mainor's academic director Jaak Leimann, who himself had spent almost a year in Finland in the mid-1970s and maintained contact with his colleagues across the Gulf, regularly organized joint seminars with Mec Rastor and management training centres such as the Porvoo-based company Lifim and the Ekonomiliitoo Koulutuksen Keskus in Kuopio.<sup>74</sup> These institutional contacts expanded with the formulation of an autonomous Estonian reform agenda. One of the major bilateral projects in the field of managerial training was the Finnish-Estonian joint venture MainorFin, established by Mainor and the Finnish consulting firm Omatulos in November 1988.<sup>75</sup> The company successfully trained a new generation of Estonian managers with Finnish money, while it simultaneously offered seminars on perestroika and Baltic economic reforms in both Finland and Sweden in order to inform potential investors about the ongoing developments.<sup>76</sup> Finnish enterprises, on the other hand, sent their employees to MainorFin in Tallinn for training purposes, hoping that direct personal encounters would generate valuable first-hand information on investment opportunities.<sup>77</sup>

State-sponsored and private consulting firms in Estonia also benefited from the connection to Sweden. From 1988 onwards, Swedish-Estonian economists, entrepreneurs and bankers were frequent guests at the Estonian Management Institute's lecture series, organized under the name EMI International by the institute's director Jaak Leimann, who had left his post at Mainor a year earlier.<sup>78</sup> A number of émigrés, among them the Stockholm-based businessman Ilmar Roostal, who later joined Savisaar's Advisory Board, started their own professional training programmes for Estonian entrepreneurs. In close cooperation with Mainor, Roostal's company Baltic Development Group AB frequently invited Estonian delegations

<sup>73</sup> Habakuk, "Habakuk näitab uusi linnu", 153.

<sup>74</sup> Laos, *Mainori lugu*, 88.

<sup>75</sup> Peeter Raidla, "Ärikoolituse annab Mainorfin", *Äripäev*, 13 November 1989.

<sup>76</sup> Pärnits, "Mainor ja ettevõtlike areng Eestis", 20.

<sup>77</sup> Laos, *Mainori lugu*, 228.

<sup>78</sup> Tiit Elenurm, "Eesti Majandusjuhtide Instituut", *Jäljed*, 183–189 (186–187); "Moodne majandusliku kontrolli ja juhtimise süsteem Rootsist", *Äripäev*, 26–31 March 1990; Interview with Erik Terk, Tallinn, 12 February 2015, in author's possession.

to Sweden in order to illustrate how Swedish enterprises functioned in practice.<sup>79</sup> Another example of émigré activity in the field was the Market Economy Centre, established in Tallinn in June 1990 by the prominent Estonian activist Andres Küng from Malmö and his Estonian business partner. The joint venture, which was partly financed by the Swedish state, was founded on the initiative of Swedish entrepreneurs and aimed at supporting the economic reform agenda in Estonia.<sup>80</sup> Together with its Swedish partner institutions, the Swedish Association of Free Entrepreneurs and the Commerce and Industry Fund, the Centre organized regular seminars and lectures by Swedish businessmen and politicians in Tallinn, as well as smaller events for entrepreneurs in the Estonian countryside. Moreover, the Market Economy Centre offered traineeships in Sweden and additional training for university lecturers in the field of economics at the Stockholm School of Economics.<sup>81</sup> From autumn 1990 onwards, the official cooperation with Swedish institutions significantly expanded when organizations such as the Swedish Institute for Corporate Development and the Swedish National Industrial Board started to invite Estonian ministry employees and business leaders to Sweden for training purposes.<sup>82</sup>

When the Nordic Council presented its official budgetary plan for supporting the Baltic republics in the fields of professional training and regional development in early 1991,<sup>83</sup> the informal cooperation between Estonia’s economic elites and their partners in Stockholm and Helsinki was already in full swing. From spring 1990 onwards, communication with Swedish ministries had been developing without any interference from Moscow. Estonia behaved like an independent state and the Swedish government did not show any inclination to hamper the official dialogue as long as it was restricted to economic and environmental issues.<sup>84</sup> It goes without saying that Finland was much more careful in handling the issue. Any form of economic cooperation with Estonia, which increasingly claimed not only economic but also political sovereignty, was organized via the Finnish Trade Council, consulting companies or business schools

<sup>79</sup> Interview with Mehis Pily, Tallinn, 11 February 2015, in author’s possession.

<sup>80</sup> Kalev Vilgats, “Tallinna Turumajanduse Keskus avatud”, *Edasi*, 21 June 1990.

<sup>81</sup> Peeter Luksep, “Rootsi ärielu asutas Tallinna turumajandusinstituuti”, *Äripäev*, 4–10 July 1990.

<sup>82</sup> Aivi Ross, “SIND alustas Eestist”, *Edasi*, 8 November 1990; Aivi Ross, “Õppiv ja õpetav Rootsi”, *Edasi*, 29 November 1990.

<sup>83</sup> Tõnis Arover, “Põhjamaade Baltikumi programm”, *Äripäev*, 20–26 March 1991.

<sup>84</sup> Interview with Terk.

and not the ministries.<sup>85</sup> However, these were only formal issues. Cooperation in the fields of business and trade, educational exchange and a large variety of smaller, regional cooperation projects between Estonia on the one hand and Finland and Sweden on the other flourished by the turn of the decade. The lively networking activities of the crucial period between 1987 and 1991 thus illustrate the fundamental difference between formal and informal policies, shedding light on the ambiguity of the Swedish and Finnish stance *vis-à-vis* the Baltic struggle for greater autonomy and, eventually, independence.

### Conclusion

Summing up the progress of the disintegrating Soviet Union's attempts to fundamentally reform the planned economy system half a decade after Gorbachev's appointment as General Secretary of the Soviet Communist Party, Swedish economist Anders Åslund did not mince his words. The senior advisor to Boris Yeltsin's reform government dismissed perestroika as a "miserable economic failure".<sup>86</sup> This verdict might indeed be appropriate to describe the failed attempts of implementing market-oriented reforms in most Soviet republics, not least in Russia proper, where attempts to reform the ailing economy were stifled by the harsh ideological resistance among broad sections of society and the Party nomenklatura. Estonia, by contrast, is a textbook example of how the incentives created by Gorbachev's ambitious agenda of far-reaching systemic transformation could be translated into a set of coherent and path-breaking market reforms. The establishment of sovereign economic institutions and the development of an innovative economic legislation on the republican level triggered what in hindsight turned out to be early state-building processes that largely predetermined Estonia's post-1991 economic performance. The restoration of sovereign statehood in August 1991 was thus far from being an "hour zero", at least in economic terms. Indeed, it was only one of the milestones in the evolution

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<sup>85</sup> Heikki Rausmaa illustrates the cautious attitude of Finnish ministries in his rich and fascinating account of informal Finnish-Estonian relations in the years prior to the restoration of Estonia's independence. From spring 1989 onwards, the Association of Finnish Agriculture played a central role as a donator of technological and financial help aimed at supporting agricultural reforms in Estonia. The Ministry for Agriculture and Forestry was well informed about the regular donations and the traineeship programmes organized for Estonians on Finnish farms, but carefully avoided to make its support for this type of bilateral cooperation official. Rausmaa, *Kultuuri sildi all saab üsna palju ära teha*, 63.

<sup>86</sup> Åslund, *Gorbachev's struggle for economic reform*, 1.

of a series of “inter-related, focused policies planned by individual Estonians and enacted by various Estonian governments since the mid-1980s”.<sup>87</sup>

First cautious experiments with self-management and semi-private forms of entrepreneurship marked the beginning of a process that developed into what comes close to an economic revolution. Nevertheless, the dynamic reform agenda was ultimately unable to fundamentally transform the basis of late-Soviet Estonia’s economy. Up to the restoration of independence in August 1991, Estonia was still largely stuck in the structural limitations set by the planned economy system. It was mainly the lack of macroeconomic stabilization that hampered the efficient implementation of the detailed action plans that had been drawn up by the economic task forces established by the subsequent governments of Toome and Savisaar. During the last years of Soviet rule, the Estonians thus rather lived, as one of the Swedish émigré advisors put it, “in two systems at the same time”.<sup>88</sup> Nevertheless, the crucial “stage of reconstruction in the sense of constructing a new system”, described by historian Archie Brown as the “transition from Communism”,<sup>89</sup> had already been reached when Estonia eventually re-entered the community of independent states. The groundwork of hundreds of economic experts and advisors, accomplished between 1987 and 1991, turned out to have a long-lasting impact. In fact, the majority of the laws and decrees on Estonia’s transition to a market-driven economy were adopted before August 1991, paving the way for the quick and efficient marketization of independent Estonia’s trade, business and economic policies.<sup>90</sup> Much of Estonia’s impressive post-1991 economic performance, which earned the small republic the name “Baltic tiger”, can thus be traced back to “Savisaar’s vision of an economically prosperous independent state” that guided Tallinn’s economic policies in the last years of Soviet rule.<sup>91</sup>

Estonia’s exceptional exposure to Western influences, which was rooted in the resumption of autonomous cultural and economic relations with neutral Finland in the mid-1960s, turned into an invaluable asset that

<sup>87</sup> Gillies, Leimann, Peterson, “Making a successful transition from a command to a market economy”, 175.

<sup>88</sup> Pollisinski, “Suur visiit: majandustohtrid patsiente vaatamas”.

<sup>89</sup> Archie Brown, “Transnational influences in the transition from communism”, *Working Paper*, 273 (The Helen Kellogg Institute for International Studies, 2000), 3, 6.

<sup>90</sup> Some experts even argue that the government of Mart Laar, which was established in October 1992 and took most of the credit for Estonia’s remarkable economic success, did not introduce a single economic reform that was essentially new, see Aavo Kokk, “Esimese valitsuse programm”, *Majandusreformid*, 27–29 (27).

<sup>91</sup> *Historical dictionary of Estonia*, ed. by Toivo Miljan (Lanham et al.: Rowman & Littlefield, 2nd edn, 2015), 409.

influenced nascent marketization processes before 1991 to a significant degree. Gorbachev's policy of economic decentralization and his willingness to turn to Western models for inspiration paved the way for dynamic cross-border transfers of knowhow in the fields of macroeconomics, entrepreneurship and management. "Economic linkage" to the West, as political scientists define cross-border flows of investments, credits, bilateral and multilateral aid and trade relations,<sup>92</sup> was thus established before the restoration of independence provided the structural preconditions for Estonia to become a fully-fledged market economy. Estonian state bureaucrats, scholars and entrepreneurs displayed a remarkable ability to forge alliances with Western partners and advisors, drawing in particular on the structural advantages of pre-existing networks and the vital interest of potential investors in nearby Finland and Sweden. The Estonian case thus reaffirms the significance of geographic proximity as the "most important source of western linkage".<sup>93</sup>

The Nordic connection was a factor that accelerated the process of Estonia's economic "Westernization" at an early stage and significantly contributed to cementing the Baltic republic's pioneering role among the transforming economies in post-socialist Europe. However, it should be noted that the transfer of knowhow and economic ideas via numerous bilateral cooperation projects did not develop along the lines of imitating specific patterns of economic governance. In contrast to the assumption that cultural kinship and the heritage of shared histories facilitate the transfer of political and economic models in transformation and state-building processes,<sup>94</sup> Estonia's path to capitalism eventually featured a radicalism that is much closer to North American patterns. Indeed, the Nordic package of market socialism and extensive government intervention was considered an ideal to strive for by Estonia's political and economic elites prior to the secession from the USSR.<sup>95</sup> However, in view of Sweden and Finland's aggravating economic crisis caused by stagnating production, budget deficits and double-digit consumer inflation in the early 1990s, the Nordic economies quickly lost their role model function, not only in

<sup>92</sup> Steven Levitsky, Lucan A. Way, "Linkage versus leverage: rethinking the international dimension of regime change", *Comparative Politics*, 38:4 (2006), 379–400 (383).

<sup>93</sup> *Ibid.*, 384.

<sup>94</sup> Stephen Shulman, "National identity and public support for political and economic reform in Ukraine", *Slavic Review*, 64:1 (2005), 59–87 (67).

<sup>95</sup> Tiit Pruuli, "Andres Küng Eesti poliitikutega saunas", *Edasi*, 23 November 1989.

Estonia, but throughout post-socialist Europe.<sup>96</sup> This, however, does not contradict the hypothesis that the early transnational linkages with Finland and Sweden were decisive for Estonia’s successful reintegration into Western markets and transformation into a functioning market economy after the restoration of independence.

Early entrance into the Estonian market turned out to be an invaluable asset for both Finnish and Swedish investors. Their advantage over competitors from other parts of Western Europe and overseas was rooted not only in geography, but also in the “bilateral openness and trust” that characterized their professional networks with Estonian partners.<sup>97</sup> Long-established personal and professional bonds between economic experts on both sides of the Gulf of Finland and pre-existing business relations between Finnish and Estonian companies cemented Finland’s dominant position among Estonia’s foreign trade partners. Up to early 1989, Estonia’s economic cooperation with capitalist countries was de facto limited to Finland, whereas the links to Sweden had only started to develop.<sup>98</sup> The Swedish connection lacked the decade-long personal networks which considerably facilitated economic cooperation between Finland and Estonia. Nevertheless, this strategic disadvantage could be compensated for in part by the kin networks of mutual trust established by Estonian émigrés. They played a crucial role as mediators between Swedish institutions and potential investors on the one hand and Estonian cooperation partners on the other, which triggered a rise in Swedish economic activity in the small Baltic republic. While Sweden accounted for 9 percent of all foreign direct investment in Estonia in January 1991, the Swedish share had risen to 32 percent only ten months later.<sup>99</sup> The pioneering engagement of Finns and

<sup>96</sup> John F. L. Ross, “Sweden, the European Community, and the politics of economic realism”, *Cooperation and Conflict*, 26:3 (1991), 117–128 (123).

<sup>97</sup> Ainius Lasas, “External engagement: the Baltic experience”, *Journal of Baltic Studies*, 35:4 (2004), 360–377 (373). According to sociologist Tõnu Parming, it was especially soft factors such as historical and cultural ties that rendered “business investments, foreign formal aid [and] people-to-people assistance” from Finland and Sweden far more efficient than in the cases of Latvia and Lithuania. Tõnu Parming, *The Baltic countries: between a rock and a hard place*, typed manuscript, 1993. VEMU, f. 48, b. 12B:30, p. 23.

<sup>98</sup> Aimar Jugaste, “Majandussõnumid meilt ja mujalt”, *Edasi*, 26 January 1989. However, only one year later, the situation had changed. In late 1990, only 117 out of 228 registered Estonian-Western joint ventures had been established with Finnish companies. Rausmaa, *Kultuuri sildi all saab üsna palju ära teha*, 237.

<sup>99</sup> The Finnish shares were 25 and 22 percent respectively. Kari Liuhto, *The entrepreneurial and management cultural transformation in independent Estonia*, dissertation (University of Glasgow, Institute of Russian and East European Studies, 1996), 283, <<http://theses.gla.ac.uk/2075>> (accessed 8 June 2016).

Swedes in the nascent business environment of the Estonian SSR secured both countries an uncontested position among independent Estonia's trade and business partners, which was reflected in the fact that 75 percent of all foreign direct investment came from these two countries in 1993.<sup>100</sup> Even in the field of foreign trade and business relations, the "micro foundations of the new economic order" had thus been laid before secession from the USSR became a realistic political option.<sup>101</sup> Hence, when the first consultants of the International Monetary Fund arrived to Estonia in November 1991, the political and economic elites of the newly independent country were neither novices to the mechanisms and practices of market economies, nor did they lack professional and business networks in the West.

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*KOKKUVÕTE: Majanduse integreerimine Läände: Eesti turumajanduse käivitajad ja nende Põhjamaade partnerid Nõukogude Liidu lõpuaastatel*

Nõukogude Liidu kokkuvarisemisele eelnenud nn laulva revolutsiooni perioodi on käsitletud arvukates humanitaar- ja sotsiaalteaduslikes uurimustes. Põhiline tähelepanu on aga seni keskendunud Balti riikide

<sup>100</sup> Ivo Vanasaun, *Majandusreformid Eesti turumajandusele ülemineku perioodil: seaduspärad ja eripärad*, research paper (Tartu University, Faculty of Economics, 1997), 14, <<http://kodu.ut.ee/~marko/Failid/Kursatoo2.doc>> (accessed 8 June 2016). It should, however, also be taken into account that many Western companies that had already made substantial investments in countries like Hungary, Poland or Czechoslovakia from 1989 onwards might have had fewer incentives to expand their financial interest to areas like the Baltic states. Philipp Ther, *Die neue Ordnung auf dem alten Kontinent* (Berlin: Suhrkamp, 2016), 107.

<sup>101</sup> Michael Burawoy, Katherine Verdery, "Introduction", *Uncertain transition: ethnographies of change in the postsocialist world*, ed. by Michael Burawoy, Katherine Verdery (Lanham: Rowman and Littlefield, 1999), 1–17 (6).

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iseseisvumispuudluste poliitilistele aspektidele. Põhjalikult on uuritud rahvusliku liikumise esiletõusmisega seotud sündmusi, nagu näiteks kalendridemonstratsioonid, mis vallandasid arutelu 1940. aasta anneksiooni ebaseaduslikkuse üle, ja iseseisvust pooldava poliitilise massiliikumise kujunemine. Paralleelselt arenesid aga protsessid, mille roll riigi ülesehitamisse oli tagantjärele vaadates samuti väga oluline, kuid mida on siiani palju vähem uuritud.

Balti teadlased ja eksperdid arutasid elavalt majandusliku iseseisvuse kontseptsiooni, mis tugines vabariigi isemajandamisele, Nõukogude Liidu siseste kaubandussuhete ulatuslikule reorganiseerimisele ja avanemisele välisurgudele, juba aastaid enne, kui poliitilise eraldumise võimaluse üle avalikult kõnelda sai. Majanduslike ümberkorralduste plaanid, mida arendati ja testiti, olid välja kasvanud perestroika uuendusmeelsusest, kuid olid kohandatud kohaliku tööstuse ja põllumajanduse nõuetele ning võimekusele. Pole kahtlust, et käsitlused majandusliku suveräänsuse ning liiduvabariikide ressursside ja riiklike ettevõtete kohalikust haldamisest valmistasid ette pinnast, millelt said tuge ka kasvavad poliitilise autonoomia nõudmised.

Moskva jõupingutused reformimaks Nõukogude majandust võeti vastu entusiastlikult, eriti Eesti NSV-s, mis oli olnud Kremli lemmikuks katsejäneseks erinevate majanduslike eksperimentide läbiviimisel juba hilisest Hruštšovi ajast. Eesti kujunes peagi Nõukogude Liidus turumajanduse üle peetavate debattide suunajaks. Eestlaste ideed said märkimisväärse poliitilise mõõtmepärast nn IME-ettepaneku avaldamist ajalehes Edasi 1987. aasta septembris. Väljend "peremehetunne" sai Nõukogude Eesti ajakirjanduses sageli esinevaks juhtmõtteks ning mõjutas ka Vaino Väljase ja Edgar Savisaare valitsuste majanduspoliitikat, mille raames töötati välja üha radikaalsemaid turumajanduslikke programme. Eesti juhtivate uuendusmeelsete majandusteadlaste "radikaalne pööre Läände" ei jäänud tähelepanuta ka Lääne investoritele ja ettevõtetele, kes nägid Balti vabariikides sissepääsu ääretule Nõukogude Liidu turule.

1987. aasta määrus välismaiste partneritega ühissetvõtete loomise kohta lõi uusi koostöövõimalusi Nõukogude Eesti ettevõtete ja Lääne investorite vahel. Sellele järgnenud väliskapitali ja haldus- ning ettevõtetuslase oskusteabe sissevool oli stardipaiguks viljakale koostööle ühelt poolt Eesti reformijate ja teiselt poolt Lääne ärimeeste, konsultantide, majandusteadlaste jt vahel. Kuigi piiriülene koostöö arenes algselt juba toimivate sidemete tõttu naaberriigi Soomega, laienesid peatselt majanduslikud kontaktid ka muu läänemaailmaga ja seda paljuski väliseesti majandusteadlaste ja ettevõtjate

abil. Viimased mängisid võtmerolli ka suhtevõrgustiku arendamisel üha enam rahvuslikult meelestatud Eesti NSV eliidi ja Rootsi investorite ja ekspertide vahel. Emigrandid tegid edukat lobitööd Rootsist investeringute saamiseks ja juurutasid turumajanduslikku mõtlemist, olles nõuandjateks nii Eesti valitsusele kui ka organiseerides vajalikke koolitusi esimeste Eesti ettevõtjate väljaõpetamiseks. Nende kaasamine moodustas tugivõrgustiku selgroo, mis hoogustas märkimisväärselt nõudmisi riiklikuks iseseisvumiseks ja valmistas ette pinda efektiivse desovetiseerimise agenda tekkeks pärast 1991. aastat.

Rekonstrueerides vastasmõjusid ja protsesse vastärganud ärikeskkonna ning Rootsi ja Soome majanduse vahel, anname senistele Põhjamaade Balti poliitika käsitlustele uue dimensiooni. Majandus on oluline aspekt, mõistmaks neutraliteedipoliitikat ajavate Põhjala riikide mõju Balti riikidele kriitilistel 1987.–91. aastatel. Kuigi Eesti heitis lõpuks Põhjala sotsiaalturumajandusliku mudeli kõrvale, oli Läänemereülestel võrgustikel pikaajaline mõju riigi majanduspoliitika kujunemisele. Makroökonoomika-, ettevõtluse- ja juhtimisalaste teadmiste maaletoomine aitas kaasa kiirele majandusreformide läbiviimisele ja suunas Eesti poliitilise ja majandusliku eliidi kindlalt turumajanduse kursile.