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When nation building is at odds with economic reform and EU membership

Lars Johannsen and Karin Hilmer Pedersen

Abstract: *While small state logic and the imperative of a return to Europe by and large explain why the stringent EU requirements were adopted by the candidate countries prior to membership it, is not sufficient to explain why they did so to varying degree and at different speeds. Through a comparative analysis of four countries, it is argued that different choices in nation-building affected the countries' capacity to handle large-scale reforms resulting, in a 'go-go' process in the Czech Republic and Estonia and a 'stop-go' process in Slovakia and Latvia. Consequently, at present, as membership of the European Union is well underway, Slovakia and Latvia have already had their nation building discussions. The pending question is what the political consequences will be in the Czech Republic and Estonia if and when nation building finds its way back to the political arena.*

Keywords: ***Economic reform, EU, Nation building, Comparative method, Czech Republic, Slovakia, Estonia, Latvia***

January 1, 2004 saw the climax of more than ten years of negotiation between the Baltic and Central and East European states and the European Union. The process was neither smooth nor painless. Since 1998 it was closely monitored by the EU Commission, which required adherence to a set of political, economic, legislative and administrative conditions. The question is not why the countries accepted the stringent EU requirements, but why they did so to varying degrees and at different speeds.

Compared to global and regional powers, small states like those examined here, have substantially different options available when responding to the economic and cultural pressures of globalization. While the collapse of the Soviet Union heralded political freedom, it also exposed the economies of these countries to fierce competition from the world economy. Moreover, the opening of their economies was accompanied by price liberalization and transition from state to private ownership, causing an immediate deterioration of living standards and massive unemployment. Faced with these difficulties, membership of the European Union came to be the 'natural' destiny.

The European Union was, however, at first not very keen on welcoming the former communist countries. Although trade agreements were made in the early 1990ies and the rhetoric stressed Europe's moral obligation to 'heal the wound from 1945', the EU member states were reluctant to admit politically instable and economically poor countries to the community. At the same time, the post-communist countries claimed that the European trade agreements were more in favour of the EU members than their poorer neighbours. Thus, the negotiation process constituted a highly asymmetrical 'take it or leave it' relation, in which the current EU member states set the conditions and the 'outsiders' simply had to comply if they wanted to become full members of the EU (see, for example, Moravscik - Vachaudova 2003).

Why did the countries accept the conditions set by the European Union? First, a 'small state' logic posits that membership of a free trade zone reduces economic uncertainty by expanding the domestic market (Armstrong - Read 1998: 574). Second, participation in a free trade zone as a full member compared to a more loose construction consisting of trade arrangements changes the power relation, giving the smaller states a comparatively stronger voice in setting trade conditions and regulations (Vachaudova 2005). Following this, Schimmelfennig and Sedelmeier (2005) argue that EU membership was considered such powerful magic that domestic costs of the EU requirements were inconsiderable compared to the benefits to be gained by becoming full members. Finally, historical and cultural ties to Europe legitimized the choice of alliance and are often referred to as the main factor for compliance with EU requirements.

The small state logic, the similar exposition to world economic competition and the attractiveness of EU membership are arguments that the EU requirements were accepted. However, neither explanation can tell us why some states had greater difficulties in adopting the EU requirements than others. The Baltic and Central and East European states were challenged not only by political and economic transition. They also faced the necessity of rebuilding the state and reconstructing a nation. However, analyses of post-communist transitions have until recently tended to ignore the impact of nation building as well as the international context (Kuzio 2001). Although they increase the level of complexity, the inclusion of these aspects nevertheless enhances our understanding of the process.

The claim raised here is that the way national elites handled the burning issue of nation building provides additional insight into the process of political and economic change, and thus, the countries\ road to economic recovery and EU membership. This claim will be tested in a comparative study of four countries, Estonia, Latvia, the Czech Republic, and Slovakia. Our research design is discussed in the next section. Section two looks into the concrete identification of the variables, and thus the application of the research design to our four cases. In section three we look into the dependent variable: economic reform success. As all four countries can be described as successful in in having been accepted as EU member states, we attack the question of economic reform success from different angles and build up an argument that the four countries in fact took different paths to European integration. Section four analyses how the nation building process in each country is related to these paths. In the concluding section we discuss the possible political consequences of disregarding nation building in the pursuit of economic reform and Europeanization.

The research design

Estonia, Latvia, the Czech Republic, and Slovakia are selected in what we call a 2+2 comparative research design based on the principles of *a most similar systems design (MSSD)*. Within this design, a series of homogenous independent variables are identified and thus eliminated as possible causes of any given development. This design means that it is possible to neutralize the effect of one set of variables, while simultaneously underlining the importance of others (Landman 2000; Mahoney 2004; Lijphart 1971/1975). For example, the crucial role played by parliamentarism has been used to explain the success of democratic and economic transition in post-communist countries (Nørgaard 2000). By selecting these particular cases, which all adopted parliamentary democracy as their political system, we eliminate the effect of parliamentarism on their road to EU membership and investigate the importance of another factor, namely nation building. Thus, within the 2+2 design we search for explanations by studying parallel variations between the explanatory variable and the dependent variable.

Although the *MSSD* is widely used in political science, applying it is certainly not unproblematic. The first problem is related to the identification of *the explanatory variable* that may affect the outcome, thus eliminating every other possible independent variable. The most common advice here is to build your choice of explanatory variable on theoretical observations (Peters 1998). In our research design we claim that differences in how the political elites handled the minority question is a reasonable candidate in explaining why there were differences in especially the economic transformation. In our case, the theoretical basis builds on Roger Brubaker's (1996) analysis of the re-emergence of nationalism in Central and Eastern Europe. He argues that because post-communist states were re-established in accordance with the Westphalian view of the state, the founding principal was the existence of *one nation*. As the post-communist states constitute a patch-work of nationalities and minorities, anti-discriminatory policies may give rise to dissatisfaction in the 'titular' population because they feel that the state is not sufficiently attentive towards them. Such dissatisfaction provides fertile ground for populism based on nationalism, thus removing political attention from economic hardship.

The second problem is related to variable and case selection and thereby whether make generalizations are possible when claiming that the background variables are indeed similar. The challenge is to eliminate as many differences as possible by accepting the difference between *similar* and *same*. That is to say, even though the countries are *similar* on a number of parameters, they are not necessarily *identical* or *the same*. The discussion of transitology, area studies and comparative method between Bruce, Schmitter and Karl highlighted exactly this problem when they debated the extent to which transitions in Latin America and Southern Europe were comparable to post-communist transitions (Bunce 1995a/1995b; Schmitter 1994; Karl – Schmitter 1995). But even when looking at post-communist transitions, there are considerable differences in how and to what extent they were integrated in the Soviet political and economic system. Hence, even though the countries are *similar* in terms of a communist political and economic heritage, they are not therefore *the same* in relation to how that heritage will continue to affect their political choices and economic opportunities.

Acceptance of the limitations inherent in *MSSD* makes the careful selection of countries imperative, although comparability difficulties cannot be eliminated entirely. The four countries we gave selected have all been exposed to state ownership and planned economy. However, there are important differences in how closely they were integrated in the Soviet economic system; Estonia and Latvia were fully integrated as Soviet Republics, whereas the Check Republic and Slovakia had independent economies but were integrated through their membership of the Soviet trade organization, COMECON. This difference is the main reason why we talk about a 2+2 design. But even though we try to eliminate differences in economic (and political) heritage the countries within each group are still not the same – only more similar. Thus, if we move one step further in the discussion, Estonia and Latvia may have experienced the same level of integration into the Soviet economy, but Latvia was burdened with a large concentration of heavy industry, the Soviet dinosaurs that proved to be very difficult to reorganize and make competitive in a market economy (Nørgaard – Johannsen 1999: 144). In a similar way, the Czech Republic had an economic advantage over her Slovakian counterpart as most industry was placed in this region, while the Slovakian economy was primarily based on agriculture. These economic parameters most likely affected the potential for success in the reform period and when analyzing the cases, we will keep these differences in mind.

The limitations of *MSSD* are also its strength because a reduction in the number of cases enables a more in-depth examination of causal processes over time and a thorough study of combinations (Mahoney 2004). Thus, narrowing the focus to only four countries allows us to examine the reform processes over time. In addition, the choice of a 2+2 design means we can examine our explanatory variable in varying combinations of national political, economic, and international conditions.

Identifying the variables

The four countries were chosen because they exhibit a variety of comparable background variables (see table 1). First, economically and population wise they are all small, and hence the small state logic of seeking to become a member of larger economic entities should objectively be advantageous. Second, as commented upon earlier, all four introduced democratic parliamentarianism. Third and finally, all four countries faced the challenge of making the transition to democracy and market economy while in the process of reestablishing themselves as sovereign states, making it a triple transition (Offe – Adler 1991). On the one side we have Estonia and Latvia who, in their struggle for independence, contributed heavily to the final collapse of the Soviet Union, and on the other we have the Czech Republic and Slovakia, who decided to disband the Czechoslovakian federation shortly after the Velvet Revolution. The four countries we have chosen share a *similar* point of departure in relation to their Soviet political and economic heritage, that is, they were all communist and had planned economies. But in view of our earlier remarks about *similar* and *same* we have picked four countries that are pair wise the *same*. Unlike Estonia and Latvia, the Czech Republic and Slovakia (Czechoslovakia) were not integrated into the Soviet Union itself.

The last parameter that informed our choice of countries is the presence of national minorities. The importance of minorities in the countries examined here is greatest in Estonia, Latvia and Slovakia. A large influx of Russians in the Soviet era has led to massive problems with citizenship and integration, causing great difficulties for Estonia and Latvia in their state building processes. In Slovakia particularly the Hungarian minority played a role. Reinforced by fears of Hungarian irredentism led by conservative and national parties from Budapest, the Slovaks created a national identity as an us/them dichotomy. One may argue that on this parameter the Czech Republic differs from the three other countries as its population is quite homogeneous. However, that did not keep the nationalists at bay in the Czech Republic. The EU requirement that all new members had to comply with EU standards for national minority rights has had the – probably unintentional – effect that the Moravian minority in the Czech Republic has demanded that they be accorded formal status as a ’minority group’ and given regional autonomy, and the Romas have demanded recognition as a ’nation’ (Tesser 2003: 521).

The tension between state building and minority policy emphasizes the causality in our design. For although the four cases are pair wise *similar* in terms of political and economic legacy from the Soviet Union and the fact that they had to reestablish themselves as sovereign states, the varying political importance accorded to nation building had consequences for their ability to stay the course of economic reform. Our thesis is that the reasons for successful integration into the international economy are to be found here and their varying political capacity to maintain an Europeanization strategy. This thesis is theoretically supported by two arguments.

First, a number of theoreticians have pointed out that rapid liberalization of economic institutions, the so-called 'Big Bang' method, will in the short term lead to loss of welfare, but also more quickly to economic growth than would occur if a more gradual and protracted approach is adopted (Przeworski 1991; Williamson 1993). Although the 'Big Bang' strategy would entail a steep J curve where reforms would certainly hurt, the economic pain would soon be alleviated. In contrast, the gradual reform process was predicted to cause a less severe economic contraction, but the bottom curve of the J would be extended and the economic downturn therefore severe. Consequently, if the reforms could be implemented fast enough, the electorate – who were most likely to feel the pain – would not have time to change the political agenda through the new democratic institutions (Balcerowicz 1994). The expectation that a 'Big Bang' reform process will lead to strong economic growth has largely proved to be correct even though the J curve turned out to be deeper and longer than anticipated (Firdmuc 2003). In addition, research shows that the choice of reform model is highly contingent on the result of the first free election (Fish 1998; Bunce 1999), where anti-communists who gained power instituted rapid reforms.

Second, it has been asserted that the irreversibility of the reform process and the certainty that changing governments will stay the economic course are essential for investors and the confidence of private business (Frye 2002: 315). Without credible commitment, which may occur if anti-reform forces gain power, uncertainty prevails and it becomes too risky to invest. Furthermore, Crawford and Lijphart (1995: 196) point out that international support for the liberalization entrepreneurs was very important in seeing through economic reforms. Thus, credibility is improved if there is consensus among the various elites who may come to govern to support EU membership as an independent, positive and necessary goal.

The flip side of the coin is that this top-down policy process tends to remove major areas of politics from the political debate. They thus essentially consitute evidence of elite constrictions on democracy (Grabel 2000). Relating this argument to our explanatory variable, nation building problems, and especially minority rights, require adaptation and readjustment processes based on inclusiveness because liberal democracy must be based on a political community and not on ethno-cultural mobilization and polarization (Kuzio 2001). We return to this aspect in the concluding section.

For our four countries the EU is a constant factor and conditions for entry were identical. The causes of differential success must therefore be found within each country. Even though the importance of initial choices neither can nor should be rejected, it does not explain why reforms are put on hold or why reform changes are put on the agenda. Before we move to internal explanations we will take a closer look at the dependent variable, that is, how the reform process actually played out, and identify differences and similarities between the four countries.

Table 1: MSSD-design for the Czech Republic, Slovakia, Estonia and Latvia

Control variables:	Czech Republic	Slovakia	Estonia	Latvia
Small economies	Approx. 1% of total EU GDP	Less than 1% of total EU GDP	Less than 1% of total EU GDP	Less than 1% of total EU GDP
Population (2003)	10.3 million	5.4 million	1.4 million	2.3 million
GDP/inhabitant, 2004,	15.880	11.970	11.020	9.530
Form of government	Parliamentary democracy	Parliamentary democracy	Parliamentary democracy	Parliamentary democracy
Communist, political and economic heritage	1948: Coup instigated by the national communist party. Integrated into the Eastern block economy (COMECO). 1968: The Prague spring crushed by armed forces from other communist states		1940: Soviet annexation and occupation. 1945-: Resistance continues, forced collectivization, deportations, immigration and integration into Soviet planned economy	
Reestablishment as sovereign states	1993 Czechoslovakian Velvet Divorce	1993 Czechoslovakian Velvet Divorce	1990 (in fact 1991) Collapse of the Soviet Union	1990 (in fact 1991) Collapse of the Soviet Union
National minorities (pct.)	Moravians: 3.7 Slovaks: 1.9 Others, including Roma: 4	Hungarians: 9.7 Roma: 1.7 Others: 2.8	Russians: 29.7 Others: 2.3	Russians: 37.5 Others: 4.3
Explanatory variable: Choices in nation building	Consensus: among the party elites to exclude ethnicity as a political issue	Politicized: Ethnicity form a political cleavage within the party system	Consensus: among the party elites to exclude ethnicity as a political issue	Politicized: Ethnicity form a political cleavage within the party system.
Dependent variables: Adherence to Europeanization program	Yes	Yes, but two periods: 1993-1998 1999-2004	Yes	Yes, but difficulties in sustaining political efficiency
Degree of economic success	High	Catching up	High	Lower

*Sources: * Eurostat and OECD figures quoted from Hix 2005*

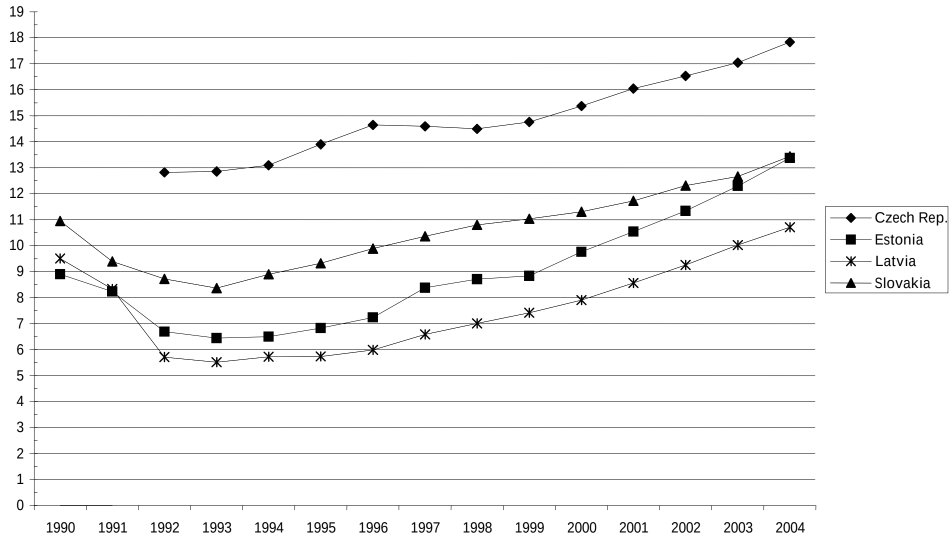
Economic reform – success at varying pace

While membership of the EU can be regarded as the ultimate success criterion, a deeper look into the success of the countries economic reforms and their ability to adapt to a free and global market can be assessed by looking at a number of economic indicators. This section examines variation in the dependent variable by looking at the period between the initiation of reform and EU membership in 2004.

The development in gross domestic product (GDP) per capita provides us with the general view on the economy. Figure 1 shows that after the first few years of contraction, as predicted by economists, the GDP has grown steadily. Economic growth got underway later in Estonia and Latvia than in the Czech Republic and Slovakia, which underlines the challenges these countries faced as former republics of the Soviet Union. Estonia soon pulled ahead of Latvia and had by 2004 almost caught up with Slovakia. Latvia has managed since the low point in 1993 to nearly double its GDP, but it is still the poorest of the four countries. Compared to the others the Czech Republic is the wealthiest.

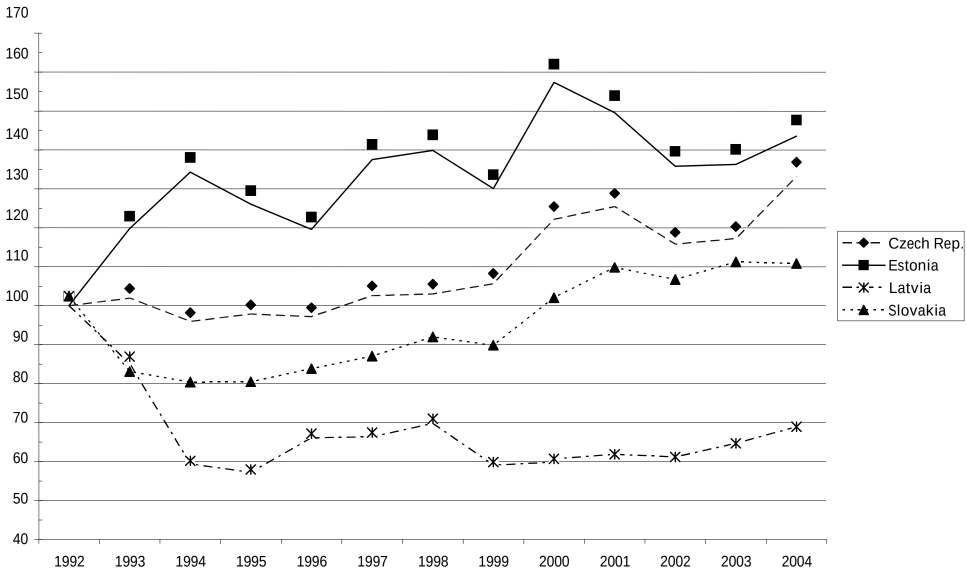
In extension of figure 1, the indexed development in international trade in relation to GDP provides insight into integration in the world economy and also serves as a clear illustration of the differences in economic transition.

Figure 1: GDP per capita, PPP (2000 international, in $ 1000)



Source: World Development Indicators database.

Figure 2: International trade (percent of GDP). Index: 1992=100



Source: World Development Indicators database

For the period 1992-2004, with the possible exception of Estonia, Figure 2 in general showsthe difficulties in adjusting to global competition and trade during the first decade. The east bloc trading system COMECON had fallen apart, and particularly in Latvia and Slovakia the contraction in trade is even greater than that of the overall economy. This is clearly shown in the case of Latvia, where trade relative to GDP drops by more than 40 percent during the first years of tradition. When we simultaneously consider the dramatic Latvian drop in GDP during the first years, it is evident that Latvian trade had almost come to a standstill (see figure 1). Except for the return to the base line by year 2000, Slovak developments are similar to the Latvian experiences. In the Czech Republic changes in GDP and trade are largely parallel until around 1999. After 1999 the index shows a more active trade development. This indicates that the Czech trade in early phase was perhaps not at a complete standstill, but certainly did not fuel the economy. The case of Estonia shows a quite different picture. Here trade was of central importance from the very beginning, and total growth in trade exceeded that of GDP by 40 percent in 2004. In 2004 integration into the international economy through trade was important in three of the countries, albeit at different levels as trade has the most impact on the Estonian economy and the least impact on the Slovakian one. All in all, trade was a less important factor in the Latvian economy in 2004, indicating that country's greater dependence on domestic production.

Developments in and the magnitude of foreign investments give an indication of the openness and attractiveness of an economy and can therefore be used as a measure of the extent to which a country is integrated in the world economy. According to the theoretical argument put forward earlier, it further gives a rough indication of how foreign investors evaluate the reform process. Foreign investment in the countries in relation to GDP for the period 1992–2004, cumulated foreign investments and investments abroad made by each country are listed in Table 2.

Table 2: Incoming FDI (1992-2004) and cumulated FDI (2000)

		Czech Republic	Slovakia	Estonia	Latvia
FDI, Net inflow (% of GDP)	1992	0	0	2.1	0.6
	1993	1.9	1.5	4.2	1
	1994	2.1	1.7	5.4	4.2
	1995	4.6	1.2	4.6	3.4
	1996	2.3	1.7	3.2	6.8
	1997	2.3	0.8	5.4	8.5
	1998	6.1	2.5	10.5	5.4
	1999	10.7	1.7	5.5	4.8
	2000	9	9.5	7.1	5.3
	2001	9.3	7.6	9.1	1.6
	2002	11.5	16.9	4	2.8
	2003	2.2	2	10	2.6
	2004	4.2	2.7	9.3	5.1
Cumulated FDI (% of GDP, year 2000)	Inward	42.6	25.6	53.2	29.5
	Outward	1.5	2	5.2	3.4

Source: World Development Indicators database; UNCTAD WID Country profile: Czech Republic (World Investment Directory online, www.unctad.org); UNCTAD WID Country profile: Slovak Republic (World Investment Directory online, www.unctad.org); UNCTAD WID Country profile: Estonia (World Investment Directory online, www.unctad.org); UNCTAD WID Country profile: Latvia (World Investment Directory online, www.unctad.org).

Over the period examined here Estonia and the Czech Republic have been considerably more successful in attracting FDI than Slovakia and Latvia. However, Table 2 also shows that foreign investments in Slovakia increased considerably at the turn of the millennium. Hence, table 2 is ample illustration that Slovakia has had serious difficulties in attracting foreign investments in the 1990s, and that the situation turned around after a new government took office in 1998, which was accompanied by a more positive evaluation by the EU in relation to membership. In Latvia we find no positive change in attractiveness to foreign investors. Table 2 also shows the positions of the four countries in the European economy as foreign investment is of a much greater magnitude than outward investments by their companies and citizens abroad.

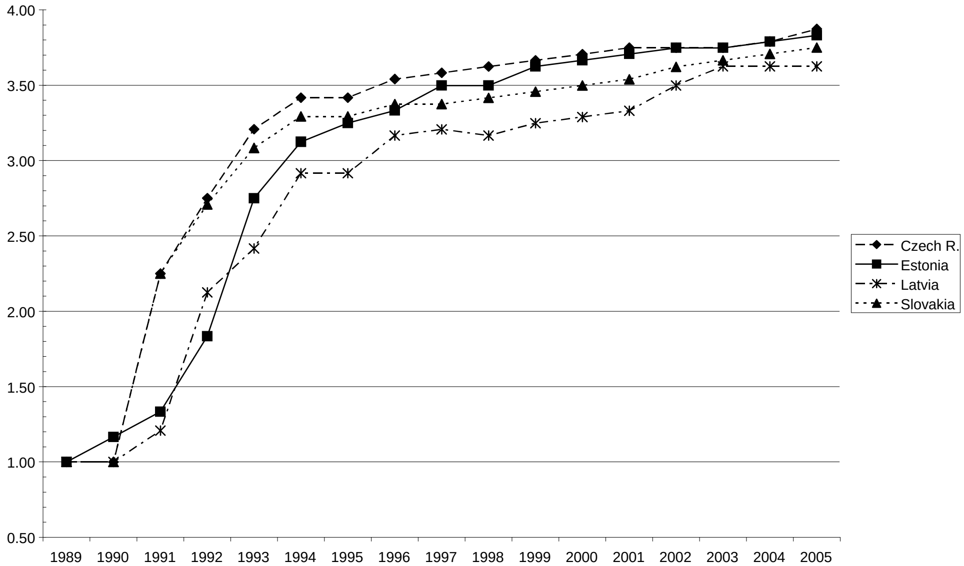
In addition to the general picture of foreign investments it is important to note that the relatively large influx of foreign capital primarily stems from EU countries. There are, however, differences based on historical and geographical contingencies. For instance, the two Baltic countries tend to orient themselves toward Scandinavia, whereas foreign investments in the Czech Republic and Slovakia mostly originate in Austria and Germany (UNCTAD, various countries, 2004). Corresponding to the pattern of FDI, trade relations are also oriented towards the EU with more than 50 percent of all trade going to EU countries (EU Commission 2004). This pattern supports our initial argument that for the small new EU countries, response to globalization pressures is to a large extent equal to Europeanization and EU membership.

Generally the four countries are examples of successful transitions to market economy, and based on indicators such as growth, foreign trade, and direct foreign investments, they handle global competition quite well. But there are major differences between the two groups of countries. First, if we look at trade deficits, the Czech Republic and Slovakia manage to stay right below 3 percent of GDP, while the Estonian and Latvian deficits are about 20 percent of GDP (EU Commission 2004). This difference may be related to each country's level of integration into the Soviet planned economy, giving these countries a less fortunate point of departure. Second, unemployment is also relatively high. The Czech Republic did best with an unemployment rate of only 8.2 percent, followed by Estonia at 9.7, Latvia at 10.3, and Slovakia with the highest rate at 16.5 percent (ibid.). The overall evaluation, then, is that success can be differentiated between the Czech Republic and Estonia as the most successful, Slovakia as less so, and Latvia as the weakest. In relation to our 2+2 design this gives a variation in the dependent variable within each selected subset.

Our point of departure was the expectation that swift implementation of a reform course and close adherence to it contribute to explaining the differences in success criteria, and that cleaving to the course depended on the will and ability to persevere. Figure 3 provides an image of ability to stay the course of economic reform. The figure shows a simple average of the reform process in eight essential areas as evaluated by the European Bank of Reconstruction and Development (EBRD). The scale goes from 1 to 4+, 1 designating planned economy and 4+ a fully functional market economy. Figure 3 shows that all four countries have applied the 'Big Bang' strategy, in that they all implemented massive reforms in the early 1990s.

However, the figure also reveals the partitioning into two pairs. After the dissolution of Czechoslovakia the Slovakian tempo decreases, nearly grinding to a halt in the years 1994-1998. Already in 1997 Estonia, which implemented reforms over the shortest period of time, thus overtook Slovakia. Like the other countries where reforms were begun with the 'easiest' ones first, Latvia shows a leap in the development in reform processes and a hiatus between 1996 and 1998.

Figure 3: Economic reform course. Average of EBRD indicators. 1989-2005



Source: Own calculations based on EBRD (http://www.ebrd.com/pubs/econo/6520.htm). The figure shows an unweighted average of the score for 1) large scale privatization, 2) small scale privatization, 3) enterprise restructuring, 4) price liberalization, 5) trade and foreign exchange system, 6) competition policy, 7) banking reform and interest rate liberalization, and 8) securities markets & non-bank financial institutions. The scale is 1.0 (planned economy) to 4+(fully functional market economy)

Similar studies of the development of economic freedom (for instance from the Fraser Institute. See Gwartney - Lawson 2005) show the same picture. Estonia and the Czech Republic have consistently maintained a fast reform pace, while Latvia and Slovakia took a break in the mid-1990s, and then resumed reforms in the last years of the decade. Furthermore, Merlevede (2003) actually identifies reform reversals in Slovakia in 1997 and in Latvia in 1998.

The capacity of the state to formulate and stick to political strategies and to implement reforms ('governance') shows a similar picture. State capacity can be demonstrated by using the World Bank measure consisting of six different indicators (Kaufmann – Kraay – Mastruzzi 2005). The six indicators include, among other items, assessment of the quality of the rules adopted (ability to regulate), constitutional state (rule of law) and corruption control measures. The interactive module (World Bank 2006) shows that over the period from 1995-2004 the four countries have generally had better state capacity than the regional average. Whereas we expected the countries to have diverged because of the difficulties encountered by the two former Soviet republics, it turned out that by 2004 Estonia scored the highest on all indicators. Latvia, despite remarkable results winds up at the bottom of the pile, barely surpassed by Slovakia and with the Czech Republic as the country that best measures up to Estonia over the period. An interesting difference shows up between the Czech Republic and Slovakia. While the relative position of the Czech Republic has been consolidated, also under pressure from the progress in recent years in the other countries, Slovakian developments clearly demonstrate the problems encountered in the late 1990s, after which positions change, in fact so much that by 2004 Slovakia scores better than the Czech Republic on three of the indicators.

On the face of it, resumption of reforms in Slovakia coincided with their being rejected in 1998 for negotiations over EU membership along with several other countries. The recommencement may be interpreted as a result of increased pressure from the EU because it reinforced the impression that membership was possible only insofar as reforms were completed and the acquis fully implemented (Schimmelfennig - Sedelmaier 2005). Outside pressure may help explain why the pace was stepped up, but not why the reform process in some cases could be characterized as ‘stop-go’, while in others it was continually ‘go-go’. Ability to institute reforms thus oscillates along with the success criteria, indicating that the pauses in the reform process are not due to economic conditions or general state capacity but most likely stem from internal political contexts. Something else must therefore contribute to the explanation. In the following we proceed with our thesis that nation building choices have a causal effect on the ability and determination to stick to an Europeanization strategy.

Europeanization strategy and nation building

At the implosion of the Soviet system not much was known about how a transition could be made and the costs it would entail (Nørgaard – Johannsen 1999:107). All countries went through a period of extraordinary politics (Balcerowicz 1994), in which the governments were free to implement almost any reform they wanted, as normal channels of political influence – parties, organizations and parliament – were still not fully developed, and the governments had a mandate for change. As shown in Figure 3 above, the pace of reforms was very high in all four counties for the first few years, but then they went their separate ways.

The Czech Republic and Slovakia

The Soviet military crackdown in Prague in the spring of 1968 gave rise to an orthodox communist regime in Czechoslovakia. In contrast to Hungary, where they in the 1980s had experimented with private ownership of smaller companies and businesses in the service sector, Czechoslovakia had made absolutely no attempts to liberalize the economic system. The system was finally changed after the huge demonstrations in Prague and Bratislava in 1989 that paved the way to the presidency for Vaclav Havel, co-founder of *Charter 77*, and the first free elections were held in the spring of 1990.

The general view expressed by the Czechoslovakian opposition was that incorporation into the East bloc in 1948 was based on an historical injustice that moved the boundary between Western and Byzantine culture several hundred kilometers west (Mason 1992: 39–40). Czechoslovakian Europeanization policy was therefore begun under the slogan ‘Return to Europe’, and it precipitated early contacts with international organizations, including membership of the OECD and application for membership of NATO and the EU. Neo-liberal economic reforms were soon set in motion by the Czech Prime Minister, economist Vaclav Klaus.

Although the Czech and Slovakian parts of Czechoslovakia followed the same path of reform, the negative consequences were far less severe in the Czech part (see figure 1). Vladimir Meciar, leader of the Slovakian reform movement, therefore argued that a more gradual economic reform pace was needed. In consequence he proposed a looser federal arrangement with the Czech part. Prime Minister Vaclav Klaus fiercely rejected the proposal, arguing that Slovakia in case of different paces of economic reform would harvest the gains of sheltering behind a thriving Czech economy without sharing the burdens. The consequence was the ‘Velvet Divorce’ and a split in economic reform policy as well as in Europeanization strategy in which the Czech Republic adhered to a neo-liberal economic reform and Europeanization strategy under the heading ‘EU is the only option’ (Mudde 2004), while Slovakia changed towards a gradual economic reform and adopted a zigzag course towards the EU (Pridham 2002b: 209).

The dissolution of the Czechoslovak federation meant that in addition to political and economic reform they each had to confront a nation building process. The Czechs soon agreed to base their statehood on citizenship. This implies that all inhabitants of the Czech Republic were automatically accorded citizens’ rights, symbolizing the polity. The Slovaks, on the other hand, chose to define their project in terms of nationality, that is, the Slovakian state was to belong to the Slovakian people, thus emphasizing an ethno-cultural divide. This difference in the principles of state building is rooted in the fact that there was a large Hungarian minority in Slovakia. In addition, the Czechs were loath to revive Czech-Bohemian rivalry, strengthening their resolve to design a citizenship policy that removed the issue of nationality from the debate (Tesser 2003).

The Europeanization strategy in the two new countries also diverged. Even though Klaus found that the Czech Republic was a natural part of the EU, he claimed that the EU is founded on the sovereignty of the members, and that Brussels might learn a great deal from the Czech Republic. Minister of foreign affairs, Jan Zieleniec, clarified the issue by warning the EU against developing a non-transparent bureaucracy along Soviet-communist lines (Fawn 2004: 31–32), and also Klaus has criticized the EU monetary union and its approach to social policy (Pridham 2001: 63). However, that has not changed the consensus over EU membership as the only and necessary foreign policy strategy.

In contrast to the Czech Republic 'Europe as an idea' was less prevalent in Slovakia and the nationality issue became a crucial factor. The first Slovak election in 1992 thus brought Vladimir Meciar to power on a heavily populist and nationalist rhetoric, which was reinforced when the Hungarian elite toyed with irredentism as part of the political agenda (Tesser 2003: 509, 512). In addition, the coalition agreement with a nationalist party meant that the domestic political costs of complying with international standards for minority rights, agreed to when Slovakia was part of Czechoslovakia, were much too high for Meciar's government (Sadurski 2004: 379). Under Meciar, the rights of the Hungarian minority were thus of a formal nature, while the actual conditions for Hungarians deteriorated, in part because of language laws that circumscribed the right of the Hungarian minority to use their own language (Tesser 2003: 513). Meciar's policies came under severe criticism from the international community, including the EU, which in its first report on Slovakia found that the country did not comply with the political criteria of the Copenhagen agreement. In addition, Meciar's political overtures to Russia did anything but mollify the EU and estranged the governing Slovakian elite from their European colleagues (Pridham 2002b).

Structural explanations like growing economic interdependence between EU and Slovakia, criticism by EU and reluctance to grant Slovakia negotiation status were utilized by Mikulas Dzurinda and were probably at least indirect reasons for the election result and change of government in 1998 (Vachudova 2005: 140). The change of government, moreover, also – at least temporarily – closed the nationality because the Hungarian minority party was invited to participate in the governing coalition. Strong political disagreements between the Hungarian minority party and the rest of the governing coalition indicate that the inclusion was a strategic and tactical step by

Dzuinda, and he most likely went to such lengths to convince the EU Commission about the earnestness of Slovakian minority policy (Pridham 2002a: 964).

A comparison of the two countries indicates that a coherent Europeanization strategy and the nationality question go hand in hand with reform process and state capacity. In the Czech Republic the political determination to join EU and a disclosure on the question of minority rights point to the overall determinant 'go-go' policy in the economic area, in contrast to Slovakian indicators.

Estonia and Latvia

Estonia and Latvia were fully integrated in the Soviet economy when they achieved independence in August 1991. They had to set up new institutions and stabilize their economies. The problems seemed insurmountable as illustrated by the fact that money was still printed in Moscow and inflation running rampant.

But both countries had strong resources at hand. There was consensus that a market economy was the solution: market economy not only as a negation of the Soviet system, but also as means to prosperity, developments that had had been halted by the Soviet occupation (Nørgaard – Johannsen 1999: 107). Both countries thus implicitly draw on their historical experience of the 'golden era', that is, independence in the interwar years, when their economic wealth corresponded to that of Finland (Hiden – Salmon 1991). On a similar note, the desire for reunification with Europe was an important political and cultural driving force. In their struggle for independence the European values of the rights of the individual were in stark contrast to the Soviet collective with its Byzantine traditions of authoritarian solutions (Lauristin – Vihalemm 1997).

Here the paths diverged, however. Estonia kept up the pace of reforms, whereas Latvia after 1992 saw a slowdown (see figure 3). Martin Paldam (2002: 170) tries to explain the Latvian stop-and-go policy with the frequent government reshuffles and changes. But Estonia has had about the same number of changes as Latvia, but still managed to keep reforms on track.[1] The explanation of the different reform policies and Latvia's 'stop-and-go' policy was as being due to domestic policies, in that the nationality issue came to dominate far more in Latvia than in Estonia, leading to problems in the reform process.

Estonia and Latvia both experienced massive immigration of Russophones in the Soviet era, and by the census in 1989, Estonians and Latvians constituted

[1] Between about 1990 and 2002/2003 Latvia and Estonia have each had 10 different governments and 8 to 9 prime ministers respectfully (Johannsen – Stålfors 2005: 33-36). In fact it is only the Czech Republic where a stable government from 1992 to 1997 has carried out radical, neo-liberal reforms (Hellman 1998: 123). However needless to say that this stable government was forced to step back due to economic scandals.

respectively 61.5 and 52.0 percent of the populations (Nørgaard et al. 1996: 172). In Estonia practically all non-Estonians were immigrants from this period, which made it politically feasible to label them 'colonizers' and deny them citizenship on that basis. Consequently, the Estonians were able to reconstruct the nation and gain legitimacy by 'satisfaction in the titular population' (see above) at a time when the bottom of the J-curve had not yet been reached. In contrast, Soviet era immigrants in Latvia amounted to just half of the non-Latvians. The rest of the Russian-speaking minority were descendants primarily of ethnic Russians and Byelorussians who had citizenship in the interwar republic. They and their descendants were therefore granted citizenship automatically. They used voting rights to form their 'own' parties, which made the citizenship question a potent fault line in the Latvian party system (Smith-Sivertsen 2004). The citizenship question meant that the nation building process continued to occupy the political agenda, and as late as October 1998, the nationalist parties tried in a referendum to repeal a law that, on the behest of the EU, was to simplify the process of granting citizenship (Nørgaard – Johannsen 1999: 84-85).

The Latvian process of defining and building the nation also impacted the unofficial economy and led to the formation of a left wing alternative to the neo-liberal approach to the reform process. Minorities were over-represented among industrial workers and they were hit hard by the economic reforms. But unlike those in Estonia, the Latvian minorities had political clout, and although the reform course could not be veered from, their influence sufficed to delay the process, leading to a legal vacuum for spontaneous privatizations, and a thriving unofficial economy (Nørgaard – Johannsen 1999: 150).[2]

While the ethnic cleavage nurtured (or arose concurrently with) the development of a left-right dimension in Latvia, the Estonian parties sought consensus on the major objectives of economic reform, EU and NATO membership. The national movement in Estonia was based on a network that originated among students at the University of Tartu (Bennich-Björkman 2006). Under Mart Laar's leadership, the young and inexperienced activists of the movement in the guise of the *Pro Patria* party (*Rahvuslik Koonderakond Isamaa*) won the first free election in 1992. They were inspired by neoliberalism and reforms were initiated and maintained despite changing governments. This consensus over reform strategy developed to the point where the concept 'left wing' became a derogatory term used against the Estonian

2 In Latvia the unofficial economy is estimated to comprise 35.3 percent of GDP in 1995, whereas the corresponding figure for Estonia was a modest 11.8 percent (Åslund – Boone – Johnson 2001). This points to yet another layer of explanation such as the one provided by Havrylyshyn - Odling-Smee (2000), who argue that the actors in the informal economy might have an interest in seeing to it that economic reforms are stuck midstream until their profits become large enough that they may be presumed to become more interested in legal protection of their holdings.

Center Party (Bennich–Björkman 2005). A liberal market economy had gained status as a fundamental idea in Estonian society to such an extent that a few liberal members of parliament questioned Estonian membership of the EU because it meant that Estonia, as part of the customs union, was to implement barriers against third countries.

The elites, nation building and the European project

The underlying reason for the reform breaks in Latvia and Slovakia is that the political project and the political agenda came to reflect the problems of nation building, while the elites in Estonia and the Czech Republic managed to keep these issues off the agenda and upheld their consensus about the necessity of Europeanization. The Czech Republic and Estonia thereby exemplify the criticism raised by Grabel (2000) about elite–driven reform projects. The implication is not that Latvia and Slovakia are more democratic. Rather, the specific constellation between four simultaneous transitions spheres – economic and political reforms, state and nation building – politicized the question of minorities and set the stage for debates that has yet to be addressed in the Czech Republic and Estonia.

The Estonian debate has recently revolved around elite democracy and social exclusion in the wake of economic reforms. Estonian researchers from the social sciences have warned that power is now so far from the people that we may speak of two 'Estonias', one comprising a self-centered political elite that was never held accountable, and one consisting of a socio-economically marginalized population, warning that 'the individualism of early capitalism now needs to be tempered by a principle of solidarity (Pettai 2005: 33), a criticism that Prime Minister Mart Laar refuses to accept.

In the Czech Republic the divide in policy on Europe turned out to run between Klaus' party, which finds the EU to be insufficiently liberal, and a left wing – including an unreformed communist party – who thinks the EU is not social enough. In addition, even though the question of nationality was eliminated very early from Czech politics, the Europeanization strategy has forced the Czechs to adopt all international demands for minority rights and to live up to EU standards in that area. The issue resurfaced, in part because the EU has recognized the Roma as a *national* minority and not an *immigrant* population, which is how the Czech government sees them (Tesser 2003). This distinction is essential for the status and rights of Romas in the Czech Republic and has recently resulted in Roma demonstrations in Prague.

The accession process has provided a framework for the political debate in the nation building process. Now the fundamental asymmetry, the right of the EU to refuse membership if a country fails to comply with the Copenhagen Agreement (Grabbe 2001; Schimmelfennig – Sedelmeier 2005) has disappeared, the pending question is how and if nation building will find its way back to the political arena and what the domestic political consequences may be.

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