

The Impact of the European Union on Intra-Baltic Economic Cooperation

Ramūnas Vilpišauskas*

Introduction

Since the beginning of the 1990s, cooperation among Estonia, Latvia and Lithuania (further referred to in this article as intra-Baltic or sub-regional cooperation) has progressed relatively far. Intra-Baltic cooperation has occupied an important place in the agenda of the three countries' policy-makers. The three countries have established a number of trilateral inter-governmental institutions, including the Baltic Assembly, the Baltic Council of Ministers and the Baltic Council, and have signed a number of trilateral agreements ranging from economic to security matters. At the same time, membership in the European Union (EU) has emerged as the top foreign policy priority of the three states, and all three have signed bilateral agreements with the EU. They have all started implementing the pre-accession strategy, and Estonia has begun accession negotiations with the EU.

Intra-Baltic cooperation and the factors behind it have increasingly become an object of extensive studies of both local and foreign analysts. The adoption of trilateral cooperative or non-cooperative policies has been explained by employing security, geopolitical, cultural, historical or identity factors.¹ While not denying the importance of these factors, this article argues that the factors accounting for the *choice* of general cooperative policy orientation do not necessarily provide an explanation of the *dynamics* of cooperation, its timing and particular forms. The argument here focuses on the influence of a regional union, namely the EU, on neighboring countries and the sub-regional cooperative policies they pursue. The observation that the EU has been exercising an important effect on intra-Baltic cooperation is not new.² However, systematic analysis of this EU impact on intra-Baltic cooperation has been lacking. This article attempts to provide such an explanation based on the general framework of the impact that a large regional union exerts on neighboring countries.

The article adopts the definition of cooperation as it is widely accepted by scholars of international relations. It is suggested that cooperation "takes place when the policies actually followed by one government are regarded by its partners as facilitating realization of their own

* I am grateful to the Robert Schuman Center, European University Institute in Florence for the opportunity to do research in connection with the project "The Eastward Enlargement of the European Union Part II: The Case of the Baltic States" (January-April 1999), as well as to its head, Prof. Jan Zielonka, the members of the steering committee, and my colleagues associated with the project for their advice and critical comments. This text is a modified excerpt of a paper originally written in the course of the above mentioned project. I am also grateful to the American Information Center in Vilnius for its assistance in obtaining a Fulbright scholarship and facilitating my research at Columbia University in the fall of 1998. During the course of my research and discussions at Columbia, in particular with Dr. Walter Mattli and Prof. Glenda Rosenthal, I formed a preliminary concept of the factors and processes influencing sub-regional integration, some of which are presented in this article. Of course I alone am responsible for any inconsistencies and mistakes.

¹ See, for example, Pertti Joenemi, J.Prikulis(eds.), *The Foreign Policies of the Baltic Countries: Basic Issues*, (Riga: Center of Baltic-Nordic History and Political Studies, 1994); A.Lejins, Z.Ozolina (eds.), *Small States in a Turbulent Environment: The Baltic Perspective* (Riga: Latvian Institute of International Affairs, 1997); H.Rebas, "Baltic Cooperation – Problem or Opportunity?" *Perspectives (Review of Central European Affairs)*, 9, (Winter 1997/1998), 67-76, B.Hansen, B.Heurlin (eds.), *The Baltic States in World Politics* (Richmond: Curzon Press, 1998); T.Jundzis (ed.), *The Baltic States at Historical Crossroads* (Riga: Academy of Sciences of Latvia, 1998); Česlovas Laurinavičius, Egidijus Motieka, *Geopolitical Peculiarities of the Baltic States [presentation for the conference Baltic States: Cooperation and Search for New Approaches]* (Vilnius, April 24, 1998); R.Munich, *Baltic Cooperation – Prospects and Agenda [presentation for the conference "Baltic States: Cooperation and Search for New Approaches]*, (Vilnius, April 24, 1998).

² For example, it was suggested that "the Baltic free trade agreement of September 1993 was largely due to outside European pressures". (S.Lainela, P.Sutela, *The Baltic Economies in Transition* (Helsinki: Bank of Finland, 1994), p.11.)

objectives as the result of policy coordination.”³ This implies “that an actor’s behavior is directed toward some goal(s).”⁴ Therefore, analysis of cooperation requires understanding of how particular objectives are formed and prioritized. Regional cooperation might facilitate achievement of goals aimed at both an external environment and a domestic arena. Second, it implies “that actors receive gains or rewards from cooperation.”⁵ Thus, the issue is how distribution of gains is perceived by participating actors, and how cooperative measures influence the chances of achieving other objectives of governmental actors as well as the distribution of gains among domestic economic groups.

Analysis of intra-Baltic cooperation in this article is focused on cooperation in trade matters. The choice is based on several considerations: (1) it has probably been the most advanced area of intra-Baltic cooperation, in some aspects surpassing multilaterally accepted requirements for regional agreements⁶; (2) it is characterized by both successes and failures, which allows comparison of different outcomes of cooperation dynamics; and (3) it reflects the modes of the Baltic states’ integration into the EU. The variable of intra-Baltic cooperation comprises both agreements to cooperate and failures to cooperate, which include unilateral, competitive or conflicting behavior limiting benefits to other actors as well as inactivity⁷.

The argument attaches particular importance to the leadership role of the EU also acting as a “commitment institution” in solving coordination problems by providing common rules and side-payments.⁸ The EU, by virtue of the importance attached to it by Baltic leaders, has been playing the role of external coordinator in the process of intra-Baltic cooperation by providing rules for regional cooperation and domestic policy-making, often in close coordination with other suppliers of aid, trade or financial regimes. The EU’s role as an external coordinator helped to solve coordination problems of intra-Baltic cooperation when the three were all “vaguely and diffusely in favor [of cooperation], but their preference for forms and terms makes agreement on the specific cooperative enterprises difficult.”⁹ Coordination problems in particular hampered intra-Baltic economic cooperation during the early part of the decade. The prospect of EU membership, EU-provided rules guiding integration and the realization that sub-regional cooperation is likely to advance integration into the EU have all played a role in designing and implementing schemes for intra-Baltic economic cooperation.

Nevertheless the role of an external leader is limited since the provision and adoption of rules for sub-regional cooperation depend on the individual countries’ prospects of integration into the regional union. Furthermore, the analysis is extended to include transition related issues such as uncertainty, lack of resources and changes in political and economic institutions which impact on governments’ ability to cooperate. Finally, the decisions in favor of intra-Baltic cooperation are seen as a complementary rather than an alternative policy to integration into the

³ R.O.Keohane, *After Hegemony. Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984), p.51-52.

⁴ H.Milner, *Interests, Institutions, and Information* (Princeton: Princeton University Press, 1997), p. 7.

⁵ Ibid.

⁶ The main requirements for regional agreements set by the GATT include reduction of trade barriers between the constituent territories within a reasonable period of time and no increase of barriers to third countries. Trilateral agreements signed among the Baltic States have not foreseen any transition periods. Eventually liberalization was extended to trade in agricultural goods, which is usually exempted from similar agreements.

⁷ Milner, *Interests*, p.8. In the case of the Baltic States, the issue has often been framed in terms of cooperation versus competition, leading some to conclude that “we are economic competitors” (see, for example, V.Made, *Estonian Geostrategic Perspectives [presentation for the conference Baltic States: Cooperation and Search for New Approaches]* (Vilnius, April 24, 1998), p. 38). In many cases, Baltic policy-makers as well as analysts tend to extend the model of competing firms to the level of the three countries, often mixing the notions of company competition with states’ competition for status and prestige, as well as the competition for FDI - issues which could be an interesting matter of a separate analysis.

⁸ This general argument is elaborated in W.Mattli, *The Logic of Regional Integration. Europe and Beyond* (Cambridge: Cambridge University Press, forthcoming).

⁹ Kornelija Jurgaitienė, O.Waeber, “Lithuania”, *European Integration and National Adaptations* [ed. by H.Mouritzen, O.Weaver,H.Wiberg] (New York: Nova Science Publishers, 1996), p.215.

EU. The dynamics of sub-regional cooperation is directly conditioned by the prospects and prerequisites for integration into the regional union.

In the interests of simplicity the reader should imagine a situation in which outside countries for a number of reasons express their willingness to join a regional integration scheme. For a number of other reasons, the regional union finds it too costly (in more than just economic terms) to accept new members, but does not deny the possibility of doing so some time in the future. Meanwhile, the regional union encourages outsiders to cooperate amongst themselves and supplies models of market integration as well as financial support and leadership. It thereby acts as a push factor with regard to the outsiders' cooperation, which is also facilitated by certain conditions (the security situation, recent cooperative experiences, common objectives as well as the demands of actors who stand to benefit from integration), and is disturbed by other factors (divergent preferences for achieving policy objectives, protectionist demands of actors facing losses from market integration, etc.). This article addresses the impact of a regional union, which outsiders aspire to join, while the other factors are taken as given.

The impact of a regional union on the scope of sub-regional cooperation of neighboring countries can be assessed by examining the union's policy towards individual countries and the way that particular decisions addressed towards them as a group or individually affect sub-regional cooperation. The analysis would be incomplete, however, without examining responses by the sub-regional group and the means by which they translate into further sub-regional cooperation or lack of it.

This analysis establishes a clear link between sub-regional cooperation and the policies of a regional union. As was indicated above, sub-regional cooperation is perceived by participating actors not as an alternative but as a facilitator of individual integration into the regional union. For the purposes of this analysis, *integration* refers to the process of an independent state joining the regional union by way of removing barriers to free exchange of goods, services and movement of factors of production (negative integration), adoption of certain common rules and policies (positive integration), delegation of authority to supranational institutions and participation in common decision-making procedures. Thus, unilateral adaptation rather than joint decision-making is emphasized. The focus of analysis is on sub-regional actors, and their strategies vis-à-vis a neighboring regional union. Integration refers to a gradual process evolving in stages that can be identified for analytical purposes. The integration process includes (1) the establishment and intensification of diplomatic and economic relations, (2) the pre-accession stage in which the union explicitly acknowledges the possibility of eventual membership, and supplies schemes designed to prepare applicants for integration into the common market and accession, (3) the accession negotiations, during which individual applicants agree with the union on the (negotiable) conditions of membership, and further proceed with adoption of rules governing the common market and common policies, (4) the accession itself, after which new members acquire the right to participate in the decision-making procedures but may face transition periods in certain areas. The main proposition is that there is a link between integration of individual members of the sub-region into the union, and the dynamics of sub-regional cooperation. Participation in different stages of integration which imply divergent prospects of union membership is likely to act as a barrier to cooperation and encourage non-cooperative policies.

The EU and Intra-Baltic Economic Cooperation

A Period of Uncertainty. The early phase of relations between the EC/EU and the Baltic countries was marked by the EC/EU's preference for a group approach towards the three. This lasted from the establishment of diplomatic relations to the initiation of individual trade agreements, although the actual negotiations were conducted bilaterally. The group approach towards the Baltic states was reinforced by EU representatives' direct encouragement of intra-Baltic cooperation on various occasions. They have indirectly promoted this cooperation by

urging the strengthening of economic relations among transition countries in general. The economic cooperation of the Visegrad countries, and the EU's statements regarding the desirability of the transition countries' economic integration proceeding in parallel with their integration into the EU have provided Baltic policy-makers with a reference model to be followed. Once the prospects of EU integration became more certain, and the Baltic states' leaders realized that intra-Baltic economic cooperation was likely to maximize their chances of integration into the EU, they were willing and able to proceed with sub-regional cooperation. These developments are discussed below.

The EC recognized the independence of the three Baltic states on August 27, 1991, and in April of 1992 the Ambassador of the EU to the Baltic states started discharging his duties. During an early-September meeting with the foreign ministers of the Baltic states, EC representatives offered to include the three states in the Phare program, thereby differentiating them from the other former Soviet republics, and to start preparing trade and cooperation agreements similar to those concluded with the CEECs. The subject of intra-Baltic cooperation, particularly in the field of developing their relations with industrialized countries and the EC, was dealt with during the visit of Commission Vice President Andriessen.¹⁰ In September 1991, the negotiations concerning the "first generation" trade and cooperation agreements were started. The agreements were signed in May 1992, and came into force in early 1993. The agreements were supplied by the EU and their enforcement has upgraded the trading status of the Baltic states in the general "pyramid of preferences" of the EU by extending MFN status and GSP as well as abolishing specific import restrictions applied before to the state-trading economies.

The Baltic states' representatives raised the issue of EU association already during the negotiations on trade and cooperation agreements. Their aim was to conclude association agreements similar to the ones signed by the EU with the Visegrad countries, and thereby to be included in the same group that was recognized as composing prospective EU members. This hope was expressed by the foreign ministers of the Baltic countries during the signing of the trade and cooperation agreements in May 1992. Estonian Foreign Minister J. Manitski called the accords "our first step back to Europe", which would, he hoped, lead to full EC membership within a few years.¹¹ The acknowledgment that these agreements may lead to association was also included in the preambles of the agreements. The Baltic states again expressed their wish to join the EU in a conference on aid to the former Soviet Union held in Lisbon at the end of May 1992 and attended by representatives of 64 countries.¹² The negotiations of the Europe agreements and the question of eventual EU membership moved to the top of the agendas of the Baltic governments. However, the attitude of EU policy-makers was rather reserved. The importance of regional cooperation among the "new independent states"¹³ was emphasized by President of the Council Pinheiro and reiterated in the conclusions of the Lisbon conference. The development of the EU's relations with the Baltic states was not addressed. Later various proposals about possible forms of economic and political links with the Baltic states were debated, pointing to uncertainty about whether they could be included in the category of potential members¹⁴. The prospect of eventual membership was quite uncertain at best.

Despite the uncertainty concerning further development of relations with the Baltic countries, the EU assumed a leading role in supporting economic and political reforms in these countries. The Phare technical assistance program was extended to the Baltic states. The EU

¹⁰ Commission of the EC, *Bulletin of the EC*, 9 (1991), 44.

¹¹ "Baltics Sign Trade Deals with EC," *The Baltic Independent*, May 15-21 (1992), 4.

¹² "Balts Want Triangular Trade," *The Baltic Independent*, May 29 - June 4 (1992), 1.

¹³ Commission of the EC, *Bulletin of the EC*, 5 (1992), 80.

¹⁴ As with the EC/EU's response to developments in the CEECs, the resulting policy constituted 'a curious mix of tradition and innovation' (U.Sedelmeier, H.Wallace, "Policies towards Central and Eastern Europe," *Policy-Making in the European Union* [ed. by H.Wallace, W.Wallace,] (Oxford: Oxford University Press, 1996), p.355), and 'more a conglomeration of discrete activities than the result of a well-developed coherent strategy' (H.Kramer, "The EC's Response to the 'New Eastern Europe' ," *Journal of Common Market Studies*, 31, 2, (1993), 221).

Commission acted in close coordination with the international financial institutions, for example, making aid conditional upon the adoption of the IMF economic recovery programs. A part of Phare funds and technical assistance measures were directed towards facilitating economic liberalization and supporting economic cooperation by improving the administration of trade and supporting the development of exports. Trade liberalization and sub-regional cooperation among the transition economies were encouraged as part of general support for economic transformation and democratic consolidation.¹⁵

The group approach towards the Baltic states was reinforced by support of intra-Baltic cooperation measures, which EU representatives encouraged on various occasions. During the July 1992 G-7 summit, G-7 leaders urged “all CEECs to develop economic relations with each other.”¹⁶ This was directed in particular towards the Visegrad countries. In their case the link between sub-regional economic cooperation and integration into the EU was very explicit. The Visegrad countries decided to create a free trade area only after signing the Europe agreements with the EU, and tuned reductions of sub-regional trade barriers in accord with those of the EC.¹⁷ Sub-regional integration among the Visegrad countries was strongly welcomed by the EC.¹⁸ At the same time, the “Visegrad example” provided a model that the Baltic states could emulate.

EU policy towards the Baltic states has been conducted in concert with other regional institutions, in particular the Council of the Baltic Sea States (CBSS). The CBSS was created in 1992 in Copenhagen with the participation of representatives of 10 countries and the EU Commission. It became an important institution for development of ties between the Baltic states and the EU, and another avenue of EU support for sub-regional cooperation. Its importance is underlined by the fact that it includes Germany, Denmark and the future Nordic members of the EU which have become the main supporters of the Baltic states’ integration into the EU.¹⁹ “The Baltic Sea Dimension” of EU policy was strengthened further after Sweden and Finland became EU members in 1995.

The situation in the Baltic states during the first years of transition was characterized by radical political and economic institutional changes, which imposed constraints on intra-Baltic economic cooperation. As policy-makers of one Baltic state acknowledged at that time, the “tense domestic situation” rendered advancing sub-regional cooperation impossible.²⁰ Uncertainty and lack of resources limited the abilities of governments to implement sub-regional cooperation projects. The work of one already established intra-Baltic institution – the Baltic Assembly – was hampered by a lack of financial resources, while the level of expertise for designing sub-regional market integration schemes was low.²¹ This was a period of learning, institutional imitation and innovation. The absence of a regional coordinator and supplier of cooperation rules made commonly acceptable agreement on the form and substance of economic cooperation more complicated, although various proposals, often based on references to the Benelux or other models, were discussed.

¹⁵ Although some observers have concluded that the emphasis on sub-regional cooperation reflected a lack of a clear strategy on the part of the EU with which to respond to the urgent needs of the region (see A.Inotai, *Correlations between European Integration and Sub-Regional Cooperation* (Budapest: Hungarian Academy of Sciences, WP No. 84, 1997), p. 15).

¹⁶ Commission of the EC, *Bulletin of the EC*, 7/8 (1992), 142.

¹⁷ H.W.Hoen, *The Transformation of Economic Systems in Central Europe* (Cheltenham: Edward Elgar, 1998), p. 39.

¹⁸ Commission of the EC, *Bulletin of the EC*, 10 (1992), 128.

¹⁹ Already during the founding meeting of the CBSS, German Foreign Minister H.D. Genscher declared that the Baltic States “must be offered association accords with the EU similar to those signed with Poland, Czechoslovakia and Hungary” (“Baltic Region Forms Council to Build Democracy and Speed Growth,” *The Baltic Independent*, March 13-19 (1992), 5)

²⁰ The Baltic Independent June 5-11, 1992, “New Strains on Baltic Unity”, 1.

²¹ Notably, Nordic diplomats reportedly expressed dissatisfaction with the level of preparation on the part of the Baltic States during the signing of the Nordic and Baltic States cooperation agreement of 1992 (“New Strains on Baltic Unity,” *The Baltic Independent*, June 5-11 (1992), 1).

The Baltic states established foreign trade regimes in 1992 and 1993, ranging from a very liberal one applied by Estonia to more protectionist ones, particularly in trade of agricultural goods, applied by Latvia and Lithuania. Introduction of market institutions, such as national currencies, created the necessary basis for sub-regional economic cooperation, although varying rates of progress in each of the three states posed temporary limits. Estonian officials referred to Lithuania's slow progress in introducing a national currency and instituting a visa regime for CIS nationals as an obstacle to a trilateral trade agreement.²² The willingness to proceed with trilateral economic cooperation on Estonia's part was also temporarily lessened by the formation of a left wing government in Lithuania as a result of a "protest vote" during the parliamentary elections of late 1992. Estonian right-wing government officials were quoted referring to the "anti-business policies" of the new Lithuanian government and the need to consider conclusion of a bilateral free trade agreement with Latvia instead.²³ These differences, however, proved to have only a temporary effect on intra-Baltic relations.

Prospects for intra-Baltic economic cooperation started changing in 1993, and the major push to advance it is attributed to EU policies. The first indication of changing EU policy towards the Baltic states - not without major efforts by the Danish government - was an invitation to participate in a conference organized in Copenhagen on April 13-14, 1993. The conference gathered representatives from the EU, EFTA and the CEECs to discuss European integration, and the final declaration acknowledged the aim of several participating countries (meaning the Baltic states) to become members of the EU.²⁴ The following months were characterized by developments in the EU and responses of the Baltic states to these developments that led to the intra-Baltic free trade agreement. Several days after the conference, the EU troika and Commissioner Van den Broek had a meeting with the Baltic foreign ministers, during which the issues of the EU's relations with the three and economic liberalization and cooperation within the Baltic region were discussed.²⁵ The Baltic states' representatives raised the issue of establishing a free trade area with the EU. However, the response from the EU, namely from Belgian Foreign Minister Claes, was that the three "should first improve cooperation among themselves."²⁶ He also indicated that the Baltic states could learn from the Benelux example.

Before going to their meeting with the EU representatives, the prime ministers of the Baltic states met in Vilnius to discuss their relations and common position towards the EU²⁷. The Baltic leaders met again at the beginning of June, before the EU summit in Copenhagen, and issued a joint document urging the EU to begin talks on association with the Baltic states.²⁸ Although the EU summit in June 21-22 did not recommend starting association negotiations, the decision to ask the Commission to develop proposals on free trade agreements with the Baltic states marked a step towards integration of the three into the EU. The conclusions of the Copenhagen summit also stated that acceleration of the process of opening EU markets to transition countries is expected "to go hand in hand with further development of trade between those countries themselves".²⁹ The same attitude was again expressed during the meeting of G-7

²² "Lithuania Seeks to Join Baltic Trade Deal," *The Baltic Independent*, August 20-26 (1993), 1.

²³ Estonia even voiced doubts about the necessity of the Baltic Assembly ("Trade Row Highlights North-South Gap", *The Baltic Independent*, April 2-8 (1992), 1.; Jurgaitienė, Waever, *Lithuania*, 213).

²⁴ Rytis Martikonis, *Penkeri Lietuvos ir Europos Sajungos metai [Lithuania's and EU's five years]* (draft paper), 1997, p. 8.

²⁵ Commission of the EU, *Bulletin of the EC*, 4 (1993), 54.

²⁶ Cited in *The European Union and the Baltic States* [ed. by M.Jopp, S.Arnsward,] (Helsinki: Ulkopoliittinen instituutti, 1998), p. 50.

²⁷ "Politics or Economics", *The Baltic Review*, 2, 2, (March – June 1993), 9.

²⁸ J.Prikulis, "The European Policies of the Baltic Countries," *The Foreign Policies of the Baltic Countries: Basic Issues* [ed. by Pertti Joaniemi, J.Prikulis,] (Riga: Center of Baltic-Nordic History and Political Studies, 1994), p.106.

²⁹ Commission of the EU, *Bulletin of the EC*, 6 (1993), 13.

heads in Tokyo in July, who urged “stronger cooperation among the countries in transition themselves.”³⁰

These decisions strengthened the perception of the Baltic governments that their major objective - integration into the EU - is likely to be facilitated by sub-regional cooperation. This was very explicitly stated by the leaders of the three countries during their August 1993 meeting in Jūrmala, when the three presidents jointly declared their intention to integrate into the EU and their view that intra-Baltic integration was a step towards integrating the sub-region into the EU.³¹ The intra-Baltic free trade agreement was signed on September 13. It was modeled on the bilateral free trade agreements that the Baltic states had concluded about a year ago with some EFTA countries. The intention to proceed further by liberalizing trade in agricultural products was indicated in the preamble of the agreement.

The conclusion of the agreement was declared to be a major step towards the integration of the three into the EU. The intra-Baltic free trade agreement was clearly perceived by the Baltic leaders as maximizing their chances to integrate into the EU. As Estonian President Lenart Meri remarked, “we can’t reenter Europe through three doors and then get together there.”³² The instrumental value of the agreements was reaffirmed again during the meeting of the foreign affairs ministers of the three states in December, following the decision of the Commission to start discussions on Baltic free trade agreements. The ministers jointly appealed for prompt ratification of the intra-Baltic free trade agreement, and declared that this would pave the way for even more advantageous treaties with the EU in the immediate future.³³

Its was also positively evaluated by the EU Commission, which was at the time preparing bilateral free trade agreements with the Baltic states. A memorandum on the free trade agreement between the EU and Latvia, prepared in September, stated that the intra-Baltic free trade agreement, which provided for integration among the three, would assist in their future integration into the EU.³⁴ The preparation for talks on the Baltic states’ free trade agreements with the EU took place in the second half of 1993. At the beginning of December, the Commission presented to the Council its recommendations to negotiate free trade agreements with the three, “taking into account specific features” of the Baltic countries. The latter qualification probably referred to some remaining policy ambiguities concerning possible accession of these countries. The Commission also noted that conclusion of the free trade agreements will ensure that existing agreements between the Baltic states and the Nordic countries will be compatible with the EU’s *acquis* after accession of the latter.

On February 7, 1994, the EU Council confirmed the Commission’s mandate to negotiate free trade agreements with the Baltic countries. The Council and the Commission issued a declaration which acknowledged the importance of further strengthening integration between the Baltic states and the EU and declared that the free trade agreements would constitute an important step to this end. The declaration also stated that “the Council will take all necessary steps with the aim of negotiating and concluding Europe agreements as soon as possible in recognition of the fact that Estonia, Latvia and Lithuania are to become members of the EU through Europe Agreements.”³⁵ Thus, the EU explicitly acknowledged the aim of the Baltic states to become EU members. Although the Europe agreements were to become the main instruments of integration, the strategy of integration was still uncertain.

In the following months, bilateral negotiations on free trade agreements between the EU and the Baltic states took place. The three agreements were signed on July 18, 1994, and came into force in January 1995. The agreements, supplied by the EU and modeled on interim

³⁰ Commission of the EU, *Bulletin of the EC*, 7/8 (1993), 130.

³¹ Prikulis, *The European*, p.106.

³² “Baltic Leaders Give a New Lease of Life to Cooperation”, *The Baltic Independent*, September, 3-9 (1993), 1.

³³ , “Foreign Ministers Rebuke Russia on “Peacekeeping Forays”, *The Baltic Independent*, December 10-16 (1993), 1.

³⁴ Prikulis, *The European*, p.107.

³⁵ Commission of the EU, *Bulletin of the EU*, 1/2 (1994), 73.

agreements concluded before with other CEECs, resulted in different provisions concerning the speed and scope of liberalization. Their contents have been comparatively analyzed elsewhere, therefore it suffices to point out several features relevant to the analysis³⁶. First, the agreements explicitly recognized the need for continuing intra-Baltic cooperation, taking into account that closer integration between the EU and the Baltic states, and among the Baltic states themselves should proceed in parallel.³⁷ Second, the provisions of the agreements to a certain extent reflected differences in economic policies in each of the Baltic states, which were conditioned by domestic political economic processes.

These developments spilled-over into other areas of Baltic economic cooperation. The intensified intra-Baltic cooperation resulting from EU policies towards the three expressed itself in the March 1994 decision to extend the sub-regional free trade area to the Visegrad countries, and in the establishment of the Baltic Council of Ministers in June 1994 as well as the Secretariat of the Baltic Council of Ministers several months later.³⁸ Agreements on joint Baltic infrastructure projects financed by the EU were reached. However, earlier announced plans to extend the intra-Baltic free trade regime to agricultural goods and proceed with the establishment of an intra-Baltic customs union stalled. For some time, the Baltic states were actively involved in relations with the EU, which declared the Baltic region a “major focus” of its external policy.³⁹

Pre-accession and development of the group approach. In the period 1994-1996, the EU continued its group approach in bilateral relations with the Baltic states, although it gradually shifted its emphasis to individually evaluating the progress of each applicant in terms of future accession to the EU. The EU decided to start negotiating Europe Agreements with the three even before the free trade agreements came into force. In August 1994, negotiations were opened simultaneously with all three countries. Although they were conducted bilaterally, the agreements were all signed on June 12, 1995. They incorporated the free trade agreements, and added new dimensions to the Baltic states’ relations with the EU, including political dialogue and economic cooperation in a number of areas, and approximation of laws to the EU’s acquis.

The Europe Agreements marked a new stage of the Baltic states’ integration into the EU and upgraded their status to that of the other associated countries.⁴⁰ The agreements came into force only in February 1998, after the respective parliaments of the Baltic states, the EU member states, and the European Parliament ratified them. However, even before their conclusion, the EU decided that these countries could be included in the accession preparation strategy⁴¹ following the signing of the Europe Agreements. The Baltic states were invited to the Cannes summit in June 1995, during which the EU confirmed that the Baltic states could be included in the accession preparation strategy, which was defined in Essen.⁴² The pre-accession strategy included such instruments of integration as the Europe Agreements, the Phare program, the

³⁶ For example, Estonia has committed itself to free trade without a transitional period, Latvia has negotiated four-year and Lithuania six-year transition periods to gradually remove trade restrictions. For a legal analysis of these agreements see S.Peers, “The queue for accession lengthens,” *European Law Review*, 20, 3 (1995), 323-329, for an economic analysis, see P.Sorsa, *Regional Integration and Baltic Trade and Investment Performance* (Washington, D. C.: IMF, WP/97/167).

³⁷ Preamble of the free trade agreement between the EU and Lithuania.

³⁸ As the Prime Minister of Estonia noted during the opening of the Secretariat, “as we all move towards the EU we have to prove our capacity to integrate between ourselves” (“New Baltic structure opens in Riga”, *The Baltic Independent*, September 16-22 (1994), 1).

³⁹ EU Commissioner Brittan quoted in “Summit Pledges European Ties”, *The Baltic Independent*, May 27 – June 2 (1994), 2.

⁴⁰ Lithuania’s Prime Minister Šleževičius was quoted as saying that the “Europe agreement, no doubt, is the most significant Lithuanian international agreement this century” (“Baltic States Re-enter Europe”, *The Baltic Independent*, June 16-22 (1995), 1).

⁴¹ See the Conclusions of the Essen summit (Commission of the EU, *Bulletin of the EU*, 12 (1994)).

⁴² See the Conclusions of the Cannes summit (Commission of the EU, *Bulletin of the EU*, 6, (1995)).

structured relationship between the CEECs and the EU, and the White paper on integration into the internal market. In other words, the Baltic states were provided with the opportunity to further integrate their markets into the EU, participate in Council meetings together with other CEECs, and focus on adopting the EU's legal rules governing the internal market. In the latter case, the Commission suggested that each country should draw up its own timetable of legal approximation.

In parallel, the EU was using every opportunity to stress the need for advancing sub-regional cooperation. For instance, during the visit of Commission representatives to the Baltic states to discuss the Europe Agreements, they indicated that "it could be only in the Balts' interest to cooperate closely with each other."⁴³ The preambles of the Europe Agreements include the recognition of "the need for continuing regional cooperation among the Baltic states."⁴⁴ Similar statements were repeated by representatives of other EU institutions. In January 1995, a delegation from the European Parliament called for greater intra-Baltic cooperation stressing the importance of free trade among the Baltic states.⁴⁵ In May 1996, the president of the European Parliament suggested during his speech to the Estonian Parliament that the Baltic countries should "cooperate more closely in order to better their chances of EU membership."⁴⁶

These statements represented a shift from ad hoc encouragement to a more coherent EU policy towards sub-regional economic cooperation in the CEECs. This policy was most explicitly presented in the Essen summit conclusions, which stated that "being aware of the role of regional cooperation within the Union, the Heads of State or Government emphasize the importance of similar cooperation between the associated countries for the promotion of economic development..."⁴⁷ This statement was incorporated into the section on the accession preparation strategy, prompting some analysts to conclude that intra-regional cooperation had come to be seen as a requirement for EU membership.⁴⁸

The EU's policy of support for intra-Baltic economic cooperation found its expression and was constantly reaffirmed in a more general framework of EU policy towards the Baltic Sea Region. As was mentioned before, in 1994 the Baltic Sea region was declared to be a major focus of its external policy. On October 24, 1994, the Council adopted the Communication on Orientation for a Union Approach towards the Baltic Sea Region, which was presented by the Commission. It acknowledged that "the forthcoming enlargement of the EU and the move towards closer relations with the countries of the Baltic create a need for an overall Union policy for that region."⁴⁹ The EU's approach was based on the regional dimension of cooperation and, among other things, supported greater cohesion between existing regional initiatives and cooperation in trade and economic matters. It also foresaw financing regional (including infrastructure) projects under the Phare framework.

On May 29, 1995, the Council adopted its conclusions on EU policy towards the Baltic Sea Region, and reaffirmed its policy targeted to promote "initiatives to expand trade between Baltic Sea States which are not members of the Union by providing suitable assistance, e.g. in the customs field."⁵⁰ The Council also asked the Commission to prepare a report on the current

⁴³ "Way Cleared for Baltic Negotiations with EU," *The Baltic Independent*, August 5-11 (1994), 2.

⁴⁴ Preamble to the Europe agreement between the EU and Lithuania.

⁴⁵ "Euro-MPs Call for Baltic Integration," *The Baltic Independent*, January 13-19 (1995), 4.

⁴⁶ This referred in particular to the border disputes among the Baltic States ("Haench: Settle Quarrels, Then Think about EU," *The Baltic Independent*, May 9-15 (1996), 4.).

⁴⁷ Commission of the EU, *Bulletin of the EU*, 12 (1994), 13.

⁴⁸ M.Maresceau, *Enlarging the European Union. Relations between the EU and Central and Eastern Europe* (London: Longman, 1997), p.9. Although the importance attached by the EU to intra-regional cooperation was largely motivated by security reasons, economic cooperation was seen as an important part of it.

⁴⁹ Commission of the EU, *Bulletin of the EU*, 10 (1994), 53-54. The communication was adopted the same day when the Commission recommended that the Council authorize negotiations of the Europe Agreements with the Baltic States.

⁵⁰ Commission of the EU, *Bulletin of the EU*, 5 (1995), 66.

state of and prospects for cooperation in the Baltic Sea Region. At the end of November, 1995, the Commission presented its report in which financial contributions by the EU and other institutions and countries provided during the first half of the decade to the Baltic Sea Region were assessed and future projections presented.⁵¹ According to the Commission, over the period 1990-1994, a total of 206 MECU were provided to the Baltic states in the context of national Phare programs, most of which concentrated on economic stabilization and restructuring. Multi-annual Indicative Programs for the period 1995-1999 covering an estimated total of 430 MECU were under preparation for the three countries.⁵² These measures were expected to focus on pre-accession, medium-term restructuring, infrastructure investment and regional cooperation. The Commission concluded that the “scope for the development of such a specifically regional Union approach to the countries of the Baltic Sea Region exists, based upon a deepening of the Union’s own bilateral relationships and supported by the active encouragement and support of inter-regional and sub-regional cooperation.”⁵³

In December 1995, EU leaders requested that the Commission propose “a suitable regional cooperation initiative” to be presented during the conference of the Council of Baltic Sea States scheduled for May 3-4, 1996.⁵⁴ Following this decision, the Commission adopted a Communication on a regional cooperation initiative in the Baltic Sea region on April 10, 1996. It proposed “strengthening democracy, political stability and economic development in this region ... by taking full advantage of existing cooperation instruments”, and fostering regional cooperation.⁵⁵ This implied not only support for cooperation in the whole region but also for the sub-regional arrangements such as the intra-Baltic economic cooperation schemes. The position of the EU was then presented in the Visby conference of the Council of the Baltic Sea States on May 3-4, 1996, which was attended by the President of the Council and the President of the Commission. The declaration adopted in Visby called for more cooperation in several areas including economic development and integration, and stressed its support for the “early realization of a free trade area between Estonia, Latvia and Lithuania.”⁵⁶

Thus, the EU gradually developed a policy towards sub-regional cooperation, and intra-Baltic economic cooperation in particular, which consisted of (1) general support for intra-regional economic cooperation measures as an element of economic transition, (2) emphasis of sub-regional cooperation as an element of preparation for accession, (3) supply of rules for sub-regional cooperation based on the EU’s integration record and the individual situation of countries forming a sub-region, (4) financial support for sub-regional initiatives. It should be noted that financial support was targeted towards improvement of administrative capabilities, the promotion of exports and, increasingly, pre-accession measures. For rather obvious reasons financial assistance was not provided for redistribution purposes and side-payments for groups facing adjustment pressure resulting from liberalization and market integration as practiced inside the EU. Leaving aside questions regarding the sufficiency, efficiency and necessity of concrete support measures, the EU’s policy of support for intra-Baltic cooperation projects backed by the provision of rules and some resources seems to have played a major role in advancing intra-Baltic economic cooperation *insofar as* this was perceived by the Baltic leaders as maximizing their chances of integrating their countries into the EU.

After the signing of the 1993 free trade agreement, plans for extending the scope of intra-Baltic market integration and common trade policies remained in the preparatory stage for several years. Support for extending the scope of intra-Baltic economic cooperation was

⁵¹ See Commission of the EC, *Report on the Current State and Prospects for Cooperation in the Baltic Sea Region* (Brussels, COM (95) 609 final, 29.11.1995).

⁵² Commission of the EC, *Report*, p.3-4. Statistics of financial support provided to each of the Baltic States bilaterally by EU members and Nordic countries illustrated quite clearly the priorities of different countries.

⁵³ Commission of the EC, *Report*, p. 1.

⁵⁴ Commission of the EU, *Bulletin of the EU*, 12 (1995), 96.

⁵⁵ Commission of the EU, *Bulletin of the EU*, 4 (1996), 69.

⁵⁶ “The Visby Summit: Baltic Europe and the EU”, *The Baltic Review*, 10 (Summer 1996), 3.

frequently expressed by the leaders of the three states. For example, during the February 13, 1995 conference of the three prime ministers, the heads of government set a target for an intra-Baltic customs union, which was to come into force starting January 1, 1998. There was also discussion of free trade in agricultural products with Estonian representatives, who stressed the difficulty of aligning their liberal agricultural trade policy with that of the other two states, which were more protectionist.⁵⁷ These differences also became apparent during the negotiations on bilateral agreements between each of the three Baltic states and the EU. Despite constant EU support for intra-Baltic economic cooperation, the next measure on extending the scope of intra-Baltic market integration was agreed on only in June 1996, after the change in the government in Latvia.

The intra-Baltic agreement on free trade in agricultural goods was signed on June 16, 1996, after several months of negotiations. It came into force at the beginning of 1997. The preamble of the agreement stated the intention of the three states to participate in the European integration processes, and the agreements were seen as a means towards this objective. It was reported that the agreement was drafted taking into account the goal of the Baltic states to join the EU.⁵⁸ The significance of the agreement as an instrument towards the integration of the three into the EU was stressed by the three Baltic presidents in Vilnius at the end of May, after the text of the agreement was finalized. The joint declaration of the three presidents stated that the creation of a free trade area for agricultural products would create “an important precondition for integration of the Baltic states into the EU internal market.”⁵⁹ The following agreement on extending the scope of intra-Baltic economic cooperation – this time in the area of non-tariff barriers - was taken after more than a year. This period was marked by changes in individual integration of the Baltic states into the EU, which impacted on further dynamics of intra-Baltic economic cooperation.

Differentiation and accession negotiations. The change in EU policy towards the Baltic states (and applicant countries in Central and Eastern Europe in general) became apparent with the announcement of the Commission’s Opinions on the applicant countries in July 1997. The group approach was abandoned in favor of an individual approach towards integration of the applicant countries into the EU. Although the proposal to start accession negotiations with some countries, and not others created new groups of “ins” and “pre-ins”, to use the terminology of the Commission, the result in the case of the Baltic states was their differentiation. This change of EU policy produced a change in intra-Baltic relations, although the EU continued emphasizing the importance of sub-regional cooperation. However, the potential benefits of intra-Baltic economic cooperation in terms of maximizing their chances of EU membership decreased for some of the Baltic governments, and the Estonian government in particular. At the same time incentives for other targets of cooperative efforts were strengthened (for example, Lithuania’s economic relations with Poland).

Signs of changing EU policy towards the prospective members appeared before the presentation of the Opinions. The Copenhagen accession criteria represented a major shift in evolving Union policy of integrating candidate countries into the EU. The definition of membership criteria, however vague and broad, for the first time indicated that each country would be assessed in terms of its development and ability to meet the criteria. At that time, however, the concrete strategy of integration, especially in the case of the Baltic countries, was far from clear. Simultaneously the EU was constantly encouraging sub-regional cooperation as a way to prepare for accession (or as a sign of the lack of a clear integration strategy, depending on one’s point of view). With the prospect of membership negotiations becoming clearer, however, the emphasis gradually shifted from the group approach towards individual readiness for

⁵⁷“Despite Customs Plans, Tone of PM Summit is Subdued”, *The Baltic Independent*, February 17-23 (1995), 1.

⁵⁸ *Together in Europe*, 90, June 1 (1996), 3.

⁵⁹ Cited in Agency Europe, Brussels, 30.05.1996.

accession. In November 1995, the Commission presented its interim report on the effects of EU enlargement on its policies, which stressed that the countries “will accede on an individual basis in the light of their economic and political preparedness and on the basis of the Commission’s opinion on each applicant.”⁶⁰ This approach was confirmed at the 1995 Madrid EU summit, which adopted the position that each country was to be treated separately. The Madrid Council also asked the Commission to “expedite preparation of its opinions on the applications made so that they can be forwarded to the Council as soon as possible after the conclusion of the intergovernmental conference.”⁶¹ By that time, all three Baltic states had presented their EU membership applications.⁶² Early in 1996, the Commission started collecting the necessary information for preparation of the Opinions, which were to assess the state of the applicant countries on the basis of membership criteria. The Opinions were presented in July 1997. They recommended opening accession negotiations with Estonia, among other countries, but not with Latvia and Lithuania. After intense debates inside the EU during the second half of 1997, the European Council in Luxembourg confirmed the differentiation of the applicant countries, although in a somewhat “softer” form of “ins” and “pre-ins”, and new multilateral arrangements including all candidates⁶³. At the same time, the Council declared that “each of the applicant states will proceed at its own rate, depending on its degree of preparedness.”⁶⁴

The ambiguity of the EU group approach during the period leading to the explicit differentiation of the Baltic states in 1997 was reflected in the attitudes of Baltic policy-makers assessing to what extent “preparedness” of their countries for accession could be advanced by intra-Baltic cooperation. This was in particular evident in Estonia’s policy. As early as November 1994, the Foreign Minister of Estonia declared during a conference in Tallinn that Estonia prefers admission to be decided “on individual countries rather than groups”, and “should any of the Baltic states meet the admission criteria, its admission should proceed immediately”⁶⁵. Similar statements followed in 1995 and 1996, although they were usually followed by joint declarations of the Baltic leaders that accession negotiations should be started at the same time with all three Baltic countries. An example of such an ambiguous policy was the statement made by Estonian President Lennart Meri in March 1996, during his visit to the Commission, that “each of the applicant countries must be dealt with separately, namely, on its own merits.”⁶⁶ This statement prompted criticism from the other Baltic states, namely Lithuania. Several months later the Presidents of the three countries declared that the three countries are going to integrate into the EU together, “making a show of their common front” as some have commented.⁶⁷ In October 1996, the Estonian President reaffirmed his support for the intra-Baltic customs union during his meeting with the Latvian President in Riga.⁶⁸ The ambiguity of Estonia’s policy towards intra-Baltic cooperation was also reflected in the negotiations of bilateral free trade agreements with the EU, which the EU and the Baltic Assembly encouraged to coordinate among the three. The Estonian attitude was expressed by a statement of a Foreign Ministry official who remarked that “had we agreed [to coordinate negotiations] it would have been similar to tying bombs to our feet, waiting for the others to catch up.”⁶⁹ However, before

⁶⁰ Commission of the EU, *Bulletin of the EU*, 11 (1995), 69.

⁶¹ Commission of the EU, *Bulletin of the EU*, 12 (1995), 18.

⁶² Latvia applied on October 10, 1995, Estonia on November 24, 1995 and Lithuania on December 8, 1995. In general the timing was related to the forthcoming EU summit in Madrid, although in the case of Latvia the domestic situation also played a role.

⁶³ For reactions of the member states and applicant countries to the Commission’s Opinions see G.Avery, F.Cameron, *The Enlargement of the European Union* (Sheffield: Sheffield Academic Press, 1998), p.121-139. For reaction of the Baltic States in particular see contributions to M.Jopp, S.Arnswald, (1998).

⁶⁴ Cited in Avery, Cameron, *The Enlargement*, p.135.

⁶⁵ “The Baltic States and EU Integration,” *The Baltic Review*, 6 (Winter 1995), 12.

⁶⁶ Agency Europe, Brussels, 27.03.1996.

⁶⁷ “Baltic Presidents: We go West Together,” *The Baltic Times*, May 30-June 5 (1996), 1.

⁶⁸ “President Meri Makes State Visit to Latvia,” *Estonian Review*, October 21-27 (1996), 3.

⁶⁹ “Estonia Skips EU Transition Period,” *The Baltic Independent*, March 3-9 (1995), 1.

the actual differentiation of the Baltic states, intra-Baltic economic cooperation was perceived by all three countries as an important instrument for individual integration into the EU, especially in the background of intensive support for sub-regional cooperation expressed by the EU. The agreement on free trade in agricultural products should be seen in this light. As Estonian Foreign Minister Kallas declared after signing the agreement, “we are going to build our relationship in such a way as to further integrate into the EU.”⁷⁰

Although the subsequent agreement on abolishing non-tariff barriers to intra-Baltic trade was signed in November 1997, i.e. after the announcement of the Opinions, its conclusion can also be largely attributed to the “EU effect”. The agreement illustrates both the potential scope of intra-Baltic economic cooperation and its future limits, taking into account individual integration of these countries into the EU. The preamble of the agreement explicitly stated that the final objective of the parties to the agreement is EU membership. Thus, the agreement was instrumental in their integration into the EU. Moreover, EU rules were taken as a reference for the provisions of the agreement, thereby illustrating most clearly the role of the EU in solving the coordination problem of choosing the appropriate framework for cooperation. Besides, the costs of economic cooperation measures were minimized as each of the Baltic states was in the process of approximating domestic legislation, including norms governing veterinary and technical product standards, as part of their integration into the EU internal market.

The coordination problems also explain the failure to advance positive intra-Baltic market integration, extending it beyond the scope of integration into the EU, namely the failure to implement the intra-Baltic customs union in 1998. Divergent trade regimes of the three countries and estimated costs related to their alignment, unclear potential benefits as well as the method of sharing the customs duties among the three proved to be an obstacle that policy-makers of the three countries were unable to overcome in the absence of a leader who could supply the rules and side-payments for the disadvantaged. The EU role in positive integration, extending beyond the scope of integrating candidate countries into the EU, is limited. Any economic arrangement among the Baltic states exceeding the scope of their integration into the EU has rather unclear prospects, particularly in view of the fact that one country had already started accession negotiations. Differentiation of the Baltic states further reduced the incentives for intra-Baltic economic cooperation, as policy-makers of these states are provided with new opportunities (or constraints) for achieving their main objectives.

To sum up the analysis presented above and discuss possible future developments of intra-Baltic economic cooperation, the linkages between EU policy and intra-Baltic economic agreements are suggested in the following table. The scheme is based on the categorization of integration stages presented in the introductory section.

Table 2. Linkages between EU Policy and Intra-Baltic Economic Cooperation

EU policy towards the Baltic states	Policy characteristics	The Baltic states' integration into the EU	Intra-Baltic economic cooperation
Establishment of diplomatic and economic relations; search for policy	Group approach; ad hoc support for sub-regional cooperation	Negative market integration (trade and cooperation agreements; free trade agreements)	Agreement on free trade in industrial goods

⁷⁰ “Estonia, Latvia Talk Security,” *The Baltic Times*, July 18-24 (1996), 2.

options (1991-1995)		supported by financial assistance (Phare)	
Pre-accession (1995-1998)	Group approach with increasing emphasis on individual development; strengthened support for sub-regional cooperation	Negative market integration supplemented by unilateral aligning of regulatory policies (Europe agreements, White book), political dialogue and continued financial assistance	Agreement on free trade in agricultural products; agreement on abolishing non- tariff barriers
Accession negotiations (1998-present)	Differentiation; some support for sub- regional cooperation	Positive integration complemented by continued financial assistance; opening of accession negotiations with Estonia	Failure to implement customs union; possible agreements on free movement of production factors
Membership and transition periods (200? - ...)	Initial differentiation; formation of issue sub-groups	Positive integration; delegation of authority, participation in joint decision-making	Possible coalitions inside the EU on certain policy issues (regional policy, etc.)

Source: compiled by the author

Several remarks need to be made concerning these linkages between EU policy and intra-Baltic economic cooperation. Although it is possible to attribute changes in EU policy to concrete decisions or agreements - the signing of the Europe Agreements or the actual opening of accession negotiations - the categorization of stages masks the fact that policy changes occur gradually, and trigger responses from outsiders, sometimes even during the preparatory stages. Another feature of this scheme is the emphasis on the adaptive policy of the Baltic states based on responses to the development of EU policy. The EU acts as a policy-maker while the Baltic states' governments respond by assessing opportunities and constraints for integration into the Union. In the area of intra-Baltic economic cooperation, Baltic policy-makers cooperate when it is likely to increase their chances of membership, which in turn is facilitated by being a part of the same group in respect to the EU.

The current differentiation of the Baltic states by the EU is likely to reduce the possibilities and incentives for increasing the scope of intra-Baltic economic cooperation. The issue is perceived not so much, or not only, as how the development of intra-Baltic economic cooperation can facilitate the three countries' integration into the EU. Rather, the question currently is being phrased differently: how differentiation is likely to affect intra-Baltic economic agreements implemented so far. This change of position was rather clearly illustrated by the declaration made by Estonian Foreign Minister T. Ilves upon the opening of accession negotiations with the EU at the beginning of April, 1998. He stated that "we shall seek to ensure that the existing political, cultural and economic relations with our neighboring countries are preserved."⁷¹ The future status of Estonia's trade regime with the other two Baltic states was to become one of the first negotiation subjects at the beginning of 1999. It is likely that the current market integration measures will be secured, although the prospects for further intra-Baltic economic cooperation are uncertain. Still, the possibility of extending it to include the areas which are harmonized on the basis of EU rules remains.

After the official decision to differentiate between the Baltic states in terms of their accession-status and abandon the group approach, the EU continued its support for intra-Baltic

⁷¹ Agency Europe, Brussels, 01.04.1998.

economic cooperation, although it seems that the emphasis shifted to avoiding the negative consequences of differentiation for sub-regional relations. It was reiterated during the meeting of the CBSS in Riga in January 1998 and during the meetings of Association Councils that took place after the Europe Agreements came into force in February 1998. On these occasions EU representatives “welcomed the Free Trade Agreements” that came into force between the Baltic states.⁷² In July 1998, Commissioner van den Broek visited Latvia and Lithuania. During his talks with policy-makers of the two countries he encouraged them to intensify regional cooperation.⁷³

The Baltic leaders continued to occasionally declare their solidarity, although differentiation had clearly impacted on intra-Baltic economic cooperation. Before the Luxembourg summit, the three presidents agreed on a joint declaration stressing the importance of “full-fledged participation of the Baltic states on an equal footing in the European Union enlargement process.”⁷⁴ The joint position towards integration into the EU was abandoned after the Luxembourg summit as were the plans for the intra-Baltic customs union, although the latter issue was brought up in May 1998 by the Latvian Minister of Agriculture, who referred to the need to protect the intra-Baltic market.⁷⁵ The political tensions resulting from differentiation found expression at the end of April 1998, when the Estonian President was quoted as saying in his interview by a Polish newspaper that “Estonia can introduce a visa regime for Lithuanians and Latvians if the European Union requires it.”⁷⁶ “Baltic unity” was reaffirmed in May 1998 in a joint statement of the three presidents, who also encouraged “the establishment of a more unified economic area, particularly in the fields of transportation, border crossing and the free movement of people, services and capital.”⁷⁷ Although the plans for trilateral agreements on free trade in services and labor were discussed during the routine meetings of the Baltic Council, no decisions have been taken so far and do not seem to be very likely in the near future.

Differentiation created incentives for new cooperative dynamics among sub-groups formed by members participating in the same stage of integration. The meeting of five prospective “ins” in Prague before the Luxembourg summit to discuss their integration strategies, and in February 1999 to jointly urge the EU to speed up internal reforms and alter its export policies in regard to CEECs, signals new cooperative efforts.⁷⁸ Another sign of new cooperation dynamics is an increasing number of bilateral meetings between Latvian and Lithuanian authorities in 1998 and 1999. However, it is very unlikely that cooperation inside new groups of “ins” and “pre-ins” will be extended beyond coordination of their policies towards the EU. Possible changes in group structure reflecting divergent integration rates of individual candidates, limited benefits that could be derived from stronger economic coordination and concentration of resources on accession-related measures all reduce the incentives and opportunities for extending the scope of sub-regional cooperation.

Conclusions

The analysis presented above supports the argument that intra-Baltic economic cooperation to a large extent has been determined by the “EU effect”. The main findings could be summarized as follows. (1) The EU has acted as the supplier of sub-regional cooperation rules and as the indirect “supervisor” of sub-regional cooperation. The EU has also provided financial assistance, although restricted to administrative aspects and pre-accession measures. (2) The initial EU strategy of parallel and uniform treatment of the Baltic states and its emphasis on sub-

⁷² DG1 news site, http://www.europa.eu.int/comm/dg1a/daily/02_98/pres_98_48.htm

⁷³ DG1 news site, http://www.europa.eu.int/comm/dg1a/daily/02_98/pres_98_671.htm

⁷⁴ “Presidential Hat Trick Promises Baltic Unity,” *The Baltic Times*, November 13-19 (1997), 2.

⁷⁵ “Atgimsta Baltiliukso idėja [Revives an Idea of Baltilux],” *Verslo žinios*, May 8 (1998), 2.

⁷⁶ “Meri’s EU Aspirations Irk Lithuania,” *The Baltic Times*, May 7-13 (1998), 1.

⁷⁷ “Baltic Unity Remains Undivided,” *The Baltic Times*, May 14-20 (1998), 8.

⁷⁸ Daily *Lietuvos rytas*, February 12 (1999), in <http://www.lrytas.lt/19990212/eko12pva.htm>.

regional cooperation as an informal precondition for membership has gradually changed with the evolution of enlargement politics and the emphasis on individual achievements of applicant countries. The group approach towards the Baltic states has facilitated intra-Baltic economic cooperation, while differentiation proved to discourage it. (3) The issue of intra-Baltic economic cooperation has been high on the three countries' agenda since before and after the re-establishment of independence. However, after the establishment of relations with the EU, it has become instrumental for advancing integration into the EU. After the EU's decision to invite Estonia to start accession negotiations, the issue has become not so much how sub-regional cooperation affects integration into the EU, but how the latter might affect the former. Lack of resources, most of which have been mobilized for EU oriented policies, has set further limits on intra-Baltic cooperation. (4) Therefore, the scope of intra-Baltic economic cooperation is influenced by how individual Baltic countries are situated in a gradual process of integration into the EU. Participation in different stages might discourage further sub-regional cooperation. (5) Intra-Baltic market integration has been limited largely to negative measures. When harmonization was agreed upon, it was based on references to the EU rules. Sub-regional rules, common economic policies and administrative structures have not been agreed upon because of coordination problems, high costs and unclear potential benefits.

It still remains to be seen how the further integration of the Baltic states into the EU is likely to affect trilateral cooperation. The opening of accession negotiations with Latvia and Lithuania which is likely to be agreed upon by the European Council in December 1999 will place them in the same position as Estonia. However, the dynamics of membership negotiations is likely to be the main factor behind the sub-regional cooperation initiatives. The aligning of regulations will rather take place on the basis of unilateral adoption of the EU acquis rather than result from intra-Baltic cooperation. It is also unclear what effects the possible accession of one Baltic State are likely to have on sub-regional economic cooperation. The impact to a large extent will be determined by membership negotiations. The economic and political impact of enlargement in stages on sub-regional economic cooperation is difficult to estimate. Possible trade and investment diversion resulting from differentiation might reduce the market pressure for sub-regional integration and strengthen demands for protection. However, the negative economic effects are likely to be insignificant, taking into account continuing integration of the three into the EU. The other issue is to what extent the sub-regional approach can be maintained when the Baltic states become EU members. It is doubtful that the Benelux example of close trilateral coordination inside the EU will be followed by the Baltic states. The dynamics of intra-Baltic relations does not seem to provide evidence for the bargaining power argument. The bargaining positions in the Council might be coordinated depending on the policy area. However, the willingness to coordinate positions on economic policy issues is going to a large extent to be determined by domestic political economic forces.