

In the Spirit of Perestroika? Swedish Involvement in the Soviet Baltic Economies, 1988-1991

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SUMMARY

In the literature on the Soviet Baltic republics' path to independence, Sweden usually figures among the rather cautious Western players. The social democratic government of Ingvar Carlsson did indeed tend to avoid any clear commitment to the Baltic cause due to concerns about its relations with Moscow and the credibility of Sweden's neutrality policy. Underneath the diplomatic level, however, a whole new infrastructure of Swedish-Baltic economic linkages emerged at the peak of perestroika, paving the way for the extraordinarily close trade and business cooperation between Sweden and its Baltic neighbors from 1991 onwards. Largely unrestricted by diplomatic constraints, Swedish entrepreneurs, investors and advisors established numerous links to the evolving Baltic business environment, which at the time was promoted as a bridge to the vast Soviet market. The reform-oriented Soviet Baltic governments, on their part, saw the emerging ties with Swedish enterprises, trade organizations and business schools as a way to gradually reintegrate the republican economies into the structures of Western trade and business. Cooperation with Swedish investors and economists, which to a large degree was orchestrated and coordinated by Swedes with Baltic roots, indeed played a key role in the process of implementing an increasingly radical pro-market agenda. The Nordic connection facilitated the early transfer of market thinking and practices and kicked off a long-term rearrangement of economic linkages across the Baltic Sea, securing Sweden's dominant position in the region for decades to come. Taking into account these emerging patterns of transnational cooperation thus contributes to a more nuanced understanding not only of the post-Soviet economic transformation, but also of the birth of a new regional economic order that accompanied the geopolitical changes.

KEYWORDS: Cold War, neutrality, Baltic independence, East-West trade, socialist economics, economic transition, regional markets

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Introduction

Following the disappearance of the geopolitical demarcation lines of the Cold War, the notion of the “New Hansa” became a frequently invoked catchphrase in debates on the opportunities of economic integration around the Baltic rim in the early 1990s, embodying the “hope for a new economic and cultural community from the North Sea to the Gulf of Finland.”¹ This recourse to centuries-old traditions of regional trade and exchange was an attempt to overcome the heritage of the “short twentieth century,”² during which commerce between the Baltic ports had hit a historic low. Maritime trade drastically declined after the First World War, which had left vast coastal areas devastated. The post-revolutionary Soviet regime strove for economic autarky, while the Baltic states inherited imperial Russia’s oversized industrial ports that were ill-suited for the small-scale export of agricultural products, the backbone of the Baltic interwar economies. The restored Republic of Poland, by contrast, which had gained access to the coast at the expense of defeated Germany, had yet to build up its merchant navy and a commercial port of its own. Both the Nordic states and the post-imperial economies along the Baltic shores thus reoriented their foreign trade towards Western Europe. The relevance of the Baltic Sea as a Northern European trading zone further decreased after the Second World War, when the harbors on the eastern and southern coasts turned into military outposts of the Soviet bloc and commercial shipping was significantly reduced. The smuggling of consumer goods across the Iron Curtain occurred unabatedly throughout the Cold War on cargo vessels and passenger ferries that cruised the Baltic waters, while the strictly regulated official trade relations between the blocs were highly dependent on the political climate. Moreover, as trading with socialist states required long-term profit planning and drawn-out negotiations in Moscow, Warsaw or East Berlin, only the largest Nordic corporations could afford to engage in East-West trade.

Regional trade experienced a significant upturn first after the collapse of the highly centralized command economies between Wismar and Vyborg. The economic comeback of the Baltic Sea Region as a showcase of post-Cold War regionalization has been extensively investigated by economists and political scientists alike. Yet, most studies on transformation processes in the region have neglected the dynamic cross-Baltic linkages that emerged already in the wake of perestroika, despite their significance for understanding the post-1991 boom of particularly Nordic-Baltic commercial cooperation. The aim of this article is to shed light on this still unexplored chapter in the eco-

¹ KRISTIAN GERNER, KLAS-GÖRAN KARLSSON: *Nordens medelhav: Östersjöområdet som historia, myt och projekt* [The Mediterranean of the North: The Baltic Sea Region as History, Myth and Project], Stockholm 2002, p. 9.

² ERIC HOBSBAWM: *The Age of Extremes: The Short Twentieth Century, 1914-1991*, London 1994.

conomic history of the Baltic Sea Region, investigating the impact of late-Soviet reform experiments on the evolution and organization of regional economic ties. While all trade-related matters had traditionally been handled by the Soviet Ministry of Foreign Trade in Moscow, Mikhail Gorbachev promoted a far-reaching decentralization of decision-making and the empowerment of the union republics as *de facto* autonomous economic units. From 1987 onwards, bilateral trade deals and business ventures could thus also be forged in the capitals of the Baltic republics, the uncontested pioneers of Soviet marketization. Not only republic-level ministries and departments, but also state enterprises and private cooperatives were authorized to enter agreements with Western companies and investors, which brought new types of actors to the fore of regional economic cooperation on both sides of the Iron Curtain.

Mikhail Gorbachev's economic reform policies aimed at introducing a "model of democratic socialism" into the bureaucratic structures of the Soviet command economy³, which was announced at a plenary session of the Central Committee of the Communist Party of the Soviet Union in January 1987 as part of a wider agenda of reforms aiming at a radical reconstruction of Soviet society. In contrast to the traditional dogma, according to which there were different roads to socialism, but not different models, the Soviet leadership now explicitly acknowledged that there might be alternatives to the idea of economic isolationism that had for a long time shaped Moscow's economic policies.⁴ Inspired by the mixed economy models that had been tested in more reform-oriented socialist states, the Kremlin decided to open up the Soviet economy to the West, hoping to obtain hard currency and to attract Western technological and managerial know-how to get the ailing economy back on track. The parallel transfer of decision-making power to local authorities actively encouraged the union republics to independently develop international contacts. This unprecedented opportunity to expand republican autonomy resonated in particular with the republican governments in Tallinn, Riga and Vilnius. However, attracting foreign capital investments and, thus, gathering convertible currency funds, a precondition for market-based trade, proved to be difficult due to the unstable market conditions and the swiftly changing legislation in the perestroika-era USSR. Turning their location at the Soviet periphery into an asset, Baltic reformers hence aimed at capitalizing on their historical and cultural links to the neutral Nordic neighbor states of Sweden and Finland, relying on informal networks and person-to-person mediation as gateways into Western markets. While Finland, the only Western state to trade with the USSR on barter basis, was a natural partner for the

³ OLGA PAVLENKO, PETER RUGGENTHALER: Recent Studies on the 1989 Revolutions in Eastern Europe and on the Demise of the Soviet Union, in: Contemporary European History 24 (2015), 1, pp. 139-150, here p. 150.

⁴ ARCHIE BROWN: Seven Years That Changed the World: Perestroika in Perspective, Oxford 2007, p. 106.

linguistically and culturally closely related Estonians, Sweden appeared as a strategic “window to the West”⁵ for all three Baltic republics, not least as the Swedish model of a social market economy at the time was widely debated throughout the Eastern bloc as a viable alternative to the socialist planned economy.

Examining the various facets of involvement of both the Swedish private sector and the state in the Baltic economies between 1988 and 1991, this study employs a broad definition of economic relations, following the approach of Anu Mai Kõll to Nordic-Baltic linkages in the twentieth century.⁶ It thus covers, on the one hand, investment schemes and trade-related issues, which were driven by Swedish commercial interest in the Baltics as a new transit zone for Soviet-Western trade. On the other hand, the essay investigates the largely non-institutionalized transfer of economic concepts and ideas, both regarding elementary skills of “entrepreneurial governmentality,”⁷ which enabled the first de facto private Soviet entrepreneurs to navigate in market environments, and Western legislative and organizational blueprints for Baltic market reforms. This mostly informal cooperation had, as is argued, a significant impact on the Baltic “transition from Communism,”⁸ which is usually interpreted as a primarily intra-Soviet affair in which external actors played a minor role.⁹

In the context of perestroika and the radicalization of Baltic separatism, Swedish involvement in the Baltic economies also gained political relevance, which sheds an interesting light on the complexity of Sweden’s Baltic policies in the late 1980s and early 1990s, a topic that still remains to be fully explored by historians. Stockholm’s official stance vis-à-vis the Baltic aspirations for sovereignty, which was based on the government’s de jure recognition of the Baltic states’ annexation as an act of voluntary accession in 1940, is still today subject to controversial debates. Few Balts have forgotten Foreign Minister Sten Andersson’s public statement that he did not consider the Baltic states to be occupied during his first official visit to Tallinn in fall 1989. This episode caused disconcertment among an increasingly pro-Baltic public opinion both at home and abroad, earning Sweden accusations of ap-

⁵ Sverige fönstret mot väst [Sweden as a Window to the West], in: Dagens Industri from 1990-02-19.

⁶ ANU MAI KÕLL: Marginal Markets and Friendly Peoples: Nordic-Baltic Economic Relations in the Twentieth Century, in: KALERVO HOVI (ed.): Relations between the Nordic Countries and the Baltic Nations in the XX Century, Turku 1998, pp. 53-80, here p. 53.

⁷ ALEXEI YURCHAK: Everything Was Forever, Until It Was No More: The Last Soviet Generation, Princeton 2006, p. 297.

⁸ ARCHIE BROWN: Transnational Influences in the Transition from Communism, in: Post-Soviet Affairs 16 (2000), 2, pp. 177-200.

⁹ KRISTINA SPOHR READMAN: Between Political Rhetoric and Realpolitik Calculations: Western Diplomacy and the Baltic Independence Struggle in the Cold War Endgame, in: Cold War History 6 (2006), 1, pp. 1-42, here p. 1.

peasement towards Moscow and attributes such as the “sixteenth Soviet republic.”¹⁰ Focusing on the extent and repercussions of Swedish involvement in the Baltic economies, which oscillated between supporting Gorbachev’s perestroika and bolstering Baltic separatism, this article thus highlights the intrinsically ambiguous role of Swedish neutrality in the Cold War endgame and touches upon the rarely debated question of the impact of economic co-operation between socialist and capitalist states on processes of political change.¹¹

Baltic Ambitions and Structural Constraints: The Prospects of Swedish-Baltic Trade

In contrast to the Soviet Union’s major Western trading partners such as West Germany, Italy or Finland, Sweden focused its eastern trade on the satellite states, particularly Poland.¹² In the early post-war years, Sweden’s export-dependent industries had lobbied extensively in favor of exploring new markets in the Soviet Union, a demand that was supported by influential political and economic leaders in the country. However, in view of the upcoming Cold War and Western export control, which indirectly affected the trade policies of the neutral states as well, Swedish trade with Eastern Europe remained of secondary importance until the détente era.¹³ While the 1970s saw an upswing in economic cooperation with Soviet bloc states, Swedish-Soviet trade continued to stagnate, and it was only in February 1985 that Stockholm and Moscow signed a bilateral border trade agreement modelled on an earlier Finnish-Soviet treaty in an attempt to boost bilateral economic relations. Swedish companies could now directly negotiate with Lenfintorg, a foreign trade organization in Leningrad representing the European part of the USSR north of Moscow including the Baltic republics, Karelia and the Kola Peninsula. The idea of fostering regional trade evoked the commercial ties that had connected Sweden to the formerly independent Baltic states during the interwar period, when shiploads of agricultural products left Riga and Tallinn for Sweden’s trade harbors and Swedish industrial enterprises developed export markets for

¹⁰ THOMAS LUNDÉN, TORBJÖRN NILSSON (eds.): *Sverige och Baltikums frigörelse: Två vittnesseminarier om storpolitik kring Östersjön 1989-1994* [Sweden and the Baltic Liberation: Two Eyewitness Seminars on High Politics in the Baltic Sea Region, 1989-1994], Huddinge 2008, p. 140.

¹¹ SARI AUTIO-SARASMO: *A New Historiography of the Cold War?*, in: *European History Quarterly* 41 (2011), 4, pp. 657-664, here p. 662.

¹² *Sveriges handel med Östeuropa och Sovjetunionen—i ett svenskt och internationellt perspektiv* [Swedish Trade with Eastern Europe and the Soviet Union—From a Swedish and International Perspective], Stockholm 1990, p. 31.

¹³ BIRGIT KARLSSON: *Handelspolitik eller politisk handling: Sveriges handel med öststaterna 1946-1952* [Trade Policy or Political Act: Sweden’s Trade with Eastern Bloc States 1946-1952], Göteborg 1992, pp. 15, 120.

their manufactured goods in the young nation states across the Baltic Sea.¹⁴ Nevertheless, not least due to the general deterioration of Swedish-Soviet relations throughout the 1980s, the volume of Swedish exports to the USSR even decreased from one percent of Sweden's total exports in the early 1980s to 0.6 percent in 1987, mirroring a general trend in Soviet-Western trade.¹⁵ It was only with the onset of perestroika, which heralded a profound reorganization of the Soviet economy, that the tide slowly began to turn.

Perestroika was a brainchild of a group of pro-reform economists representing a Western-oriented current among the Soviet intelligentsia, who introduced a new pragmatism into Soviet economic thought by promoting a “‘third way’ [...] between the Scylla of the command system and the Charybdis of the free market.”¹⁶ Inspired by the Polish, Hungarian and Chinese attempts to reform the socialist economy, Gorbachev's expert advisors successfully argued for the legalization of cooperatives and the creation of first joint stock companies before approaching the Herculean task of decentralizing the foreign trade sector.¹⁷ The Law on Joint Ventures, which was passed in January 1987, aimed at creating a “parallel westernized economic structure” within the national economy, nurtured by Western investments. This innovation was hailed particularly by enterprise directors and managers who sensed the opportunity to earn and handle hard currency without the obligatory detour via the central agencies.¹⁸ In order to create conditions for Soviet-Western joint ventures to function within the command economy system, Oleg Bogomolov, head of the Institute of Economics of the World Socialist System in

¹⁴ HANS DAHLBERG: *Kampen om ett hav 862-1990* [The Struggle Over A Sea 862-1990], Borås 1990, p. 119. The export volume, however, remained at a low level throughout the interwar era, amounting to one percent of the overall Swedish exports and a bit below that figure in the case of the Baltic states' exportations. WILHELM M. CARL-GREN: *Sverige och Baltikum: Från mellankrigstid till efterkrigsår—en översikt* [Sweden and the Baltics: From the Interwar Era to the Post-War Years—An Overview], Stockholm 1993, p. 49. For a brief overview of the political, economic and cultural relations between Sweden and the Baltic states before the outbreak of the Second World War, see LARS FREDRIK STÖCKER: *Bridging the Baltic Sea: Networks of Resistance and Opposition during the Cold War Era*, Lanham 2018, pp. 4-6.

¹⁵ *Marknadsguide till Sovjetunionen* [Market Guidebook to the Soviet Union], Stockholm 1989, pp. 37-39.

¹⁶ MICHAEL COX: *Whatever Happened to the USSR? Critical Reflections on Soviet Studies*, in: IDEM. (ed.): *Rethinking the Soviet Collapse: Sovietology, the Death of Communism and the New Russia*, London 1998, pp. 13-31, here p. 24.

¹⁷ ANDERS ÅSLUND: *Gorbachev's Struggle for Economic Reform*, exp. ed., London 1991, pp. 137, 180.

¹⁸ Report “East/West Enterprise Exchange: Facilitating Joint Venture Formation with Eastern Bloc Countries”, drafted by Rein Peterson, Director of Enterprise York, York University, and Doug Johnstone, General Manager, February 1989, in: *Väliseesti Muuseum, Toronto (VEMU)* [Museum of Estonians Abroad], Tõnu Parming Collection (uncatalogued), folder “East-West Enterprise Exchange, Feb. 1989, York Univ. Toronto”, pp. 2-3.

Moscow, proposed free economic zones of the Chinese type, particularly in the Baltics, the Black Sea Region and the Soviet Far East. Granting individual enterprises and cooperatives the right to enter joint venture deals with foreign investors implied a major devolution of the powers of the Soviet Ministry of Foreign Trade, which was particularly welcomed by Baltic economists who had been debating the option of republican self-management since autumn 1987.¹⁹

Estonia, Latvia and Lithuania counted among the most industrialized parts of the USSR and had since the 1960s been a kind of Soviet laboratory for experimental reform in industry and agriculture. Due to their relatively high performance particularly in the light industry and food processing sectors, the Soviet Baltic republics traded with more than eighty states, whereas all commercial transactions were evidently conducted via all-union agencies in Moscow and Leningrad.²⁰ Republican foreign trade organizations opened up first in 1987 when Lenfintorg was dissolved in accordance with the new course of economic decentralization. Estimpeks, Interlatvija and Litimpex were commissioned to coordinate republican foreign trade relations autonomously, although the lack of hard currency initially limited trade capacities to barter deals.²¹ Meanwhile, the simmering Baltic discontent with Moscow's "colonial economic management"²² and its disastrous ecological consequences had, under the impact of glasnost, culminated in demands for full economic autonomy, jointly announced by the chairmen of the Planning Committees in Tallinn, Riga and Vilnius and the directors of the Economic Institutes at the republican Academies of Sciences in September 1988.²³ The Baltic foreign trade organizations appeared as a useful tool for fostering emancipation from the intra-Soviet barter trade system, a process in which particularly the Nordic states were to play a key role.

In February 1988, the chairman of Litimpex declared that Sweden and Finland topped the list of Lithuania's preferred trading partners²⁴, echoing ongoing Baltic debates on the region's "organic belonging" to the Northern

¹⁹ ÅSLUND, Gorbachev's Struggle (as in footnote 17), p. 145.

²⁰ ANDRES KÜNG: A Dream of Freedom, Cardiff 1981, pp. 22-23.

²¹ GÖRAN HAGLUND, ULF SANDMARK: Sweden and the "Finlandization" of the Baltic Republics, in: Executive Intelligence Review 15 (1988), 48, pp. 46-47, here p. 46. Lenfintorg's successor organization Rosvneštorg represented the entire Russian SFSR in border trade deals with the Nordic states.

²² Writers Raise Alarm about "Ecological Catastrophe," "Colonial Management" in Lithuania Denounced, in: ELTA Information Bulletin 4 (1988), 350, pp. 3-5, here p. 3.

²³ TIIT MADE: Eesti ärkab ja võitleb [Estonia Awakens and Fights], Stockholm 1988, p. 112.

²⁴ Premiär för baltisk direkthandel [Première for Baltic Direct Trade], in: Dagens Industri from 1988-02-19.

European economic zone.²⁵ The reorientation of the Baltic economies towards the neutral neighbor states assorted well with Gorbachev's newfound enthusiasm for European social democracy, particularly its Nordic incarnation.²⁶ The Estonians were first to explore the possibilities of closer economic cooperation with the opposite coasts. Estimpeks could benefit from Estonia's earlier experiences in regional border trade, a field in which Latvia and Lithuania had been less active.²⁷ As the Finnish market had accounted for more than eighty percent of the turnover, the Estonian leadership mainly drew on already established business links to Finland. Finnish investors, on their part, used their long-term experience in the field of Soviet trade as a strategic asset that the Swedish private sector lacked. However, already in January 1988, Soviet Estonian Foreign Minister Arnold Green travelled to Stockholm together with representatives of the Planning Committee and Estimpeks to scour the market²⁸, determined to expand Estonia's economic ties with Sweden, which were considered politically significant. At Green's instigation, the Estonian Ministry of Foreign Affairs deployed several working groups tasked with issuing reports on the prospects of Swedish-Estonian cooperation, especially regarding the potential role of Estimpeks, the Planning Committee, the Industrial Committee, the Agro-Industrial Committee and the Soviet Estonian Chamber of Industry and Commerce in advancing bilateral relations.²⁹

Swedish economist Anders Åslund was a fervent advocate of economic cooperation with the Soviet Baltic republics. Their recent economic empowerment, he argued, gave Sweden a competitive edge, turning the country's geographical and cultural proximity to the region into a strategic advantage. Swedish investors should thus not miss the opportunity to step out of the shadow of Finland, which so far had monopolized border trade with the Soviet West.³⁰ Indeed, as can be inferred from the statistics, the turnover of

²⁵ Majanduslike välissidemete ja rahvusvahelise koöperatsiooni arendamine Eesti NSV rahvamajanduses [The Development of Foreign Economic Relations and International Cooperation in the National Economy of the Estonian SSR], Tallinn 1988, p. 9.

²⁶ BROWN, *Seven Years That Changed the World* (as in footnote 4), p. 108.

²⁷ Sotrudničestvo Finljandii i Švetsii s respublikami Pribaltiki [Cooperation of Finland and Sweden with the Baltic Republics], manuscript of a speech given by K. Seppälä, representing the Finnish Kansallis Bank at a seminar on Finnish-Soviet economic relations in Tallinn, from 1988-03-29 till 1988-03-30, in: Lietuvos Ypatingasis Archyvas, Vilnius (LYA) [Lithuanian Special Archives], sign. K-1, vol. 46, no. 827, p. 164.

²⁸ Minutes of a meeting of the Operative Committee of the Presidium of the Soviet Estonian Council of Ministers, 1988-02-01, in: Rahvusarhiiv, Tallinn (ERA) [National Archives of Estonia], sign. R-1970, vol. 1, no. 471, p. 9.

²⁹ Directive No. 6a, signed by Foreign Minister Arnold Green, 1988-10-17, *ibidem*, no. 468, p. 7.

³⁰ ANDERS ÅSLUND: Hur kommer perestrojkan att påverka Sveriges handel med Sovjetunionen? [How Will Perestroika Affect Sweden's Trade with the Soviet Union?], in:

Swedish-Baltic trade doubled in 1988. Swedish companies imported commodities and semi-manufactured goods amounting to 105 million Swedish crowns from the Estonian SSR, while Latvia and Lithuania accounted for imports valued at 30 million and 10 million crowns respectively.³¹ The envisioned export of Swedish machines and technological equipment, by contrast, remained limited due to the non-convertibility of the ruble and the Baltic foreign trade organizations' lack of hard currency funds.³² This was, however, not the only obstacle hampering the evolution of Swedish-Baltic trade. Despite the ongoing decentralization of Soviet economic decision-making, most Baltic industries remained under all-union control, which drastically reduced the range of exportable products. The only trading goods that the mayor of Riga, the industrial heart of the Baltics, had on offer for a Swedish business delegation visiting Latvia in fall 1988 were thus perfumes and traditional crafts.³³ The unclear division between republican and all-union competencies and the lack of experienced local staff explain why larger deals were still forged in Moscow.³⁴ Swedish investment rates in the region remained rather low as well, as the 1988 list of registered Soviet-Western joint ventures illustrates. Soviet legislation was highly protectionist and joint ventures were forced to operate outside the heavily subsidized supply system. Access to raw materials, energy and spare parts was thus a costly affair, as the companies had to turn to gray and black markets.³⁵ Even the lack of convenient traffic and telecommunication connections across the Baltic Sea deterred potential Swedish investors.

Bridge-Builders across the Baltic Sea: The Role of Non- and Semi-Governmental Actors

In the aftermath of the so-called Singing Revolutions of summer 1988, separatist moods gained momentum in the Baltics. The nascent Popular Fronts, however, which quickly developed into mass movements in all three republics, still adhered to the more moderate vision of economic sovereignty and an autonomous path of market reforms. In an effort to accelerate marketization

Öst och Väst: 7 experter om ekonomi, handel och vetenskap i perestrojkans tid, Stockholm 1989, pp. 69-90, here pp. 81-82.

³¹ The average exchange rate for 1988 was 6.14 Swedish crowns / US\$.

³² In 1988, Swedish exports to Estonia and Latvia amounted to 20 and 10 million crowns respectively, while Lithuania did not import any goods from Sweden that year. Dubblad handel vid sovjetiska gränser [Doubled Trade at Soviet Borders], in: Dagens Industri from 1989-01-05.

³³ Riga vill bli centrum för Sverige-handel [Riga Aims at Becoming a Center for Swedish Trade], in: Dagens Industri from 1988-10-18.

³⁴ Marknadsguide till Sovjetunionen (as in footnote 15), p. 47.

³⁵ KARI LIUHTO: Entrepreneurial Transition in Post-Soviet Republics: The Estonian Path, in: Europe-Asia Studies 48 (1996), 1, pp. 121-140, here p. 125.

and to boost republican trade with the West, the Baltic pro-reform governments turned to the diaspora communities for assistance.³⁶ Most Latvian and Lithuanian populations settled far from the Baltic shores, mainly in Great Britain and North America. A sizeable Estonian community, however, lived in nearby Sweden. The Soviet Estonian authorities thus combined their efforts to expand economic ties to the Nordic neighbors with a parallel initiative targeted at the diaspora. Leading experts employed at key institutions of the republican economy such as the Estonian Management Development Institute (Eesti Majandusjuhtide Instituut, EMI) had been lobbying for closer links to economists and business leaders of Estonian origin abroad as a potential channel for the transfer of Western economic know-how³⁷, which eventually induced the republican government to take action. In an attempt to overcome the ideological abyss by introducing a new type of “national diplomacy,”³⁸ the Council of Ministers of the Estonian SSR issued a special decree on cooperation with compatriots in the West in October 1988, encouraging organizations like Estimex to test the waters.³⁹ Most diaspora Balts rejected the idea of cooperating with Soviet institutions, whose very political legitimacy they denied. Others, however, endorsed a dialogue with the reform-oriented Soviet Baltic elites, arguing that they one day might become the political and economic leaders of three sovereign states.⁴⁰

Among the proponents of cooperation with the Soviet Baltic authorities was Toomas Kabin, a Swedish-born economist with Estonian roots who worked as an area manager at the Swedish Trade Council, a hybrid institution that promoted Swedish exports on behalf of both the private sector and the Ministry of Foreign Affairs. Kabin established first informal contact with Estonian economic experts on a family visit to Estonia in summer 1988.⁴¹ A

³⁶ Action plan for the Baltic communities in Canada, drafted by Janis Eichmanis, undated, in: VEMU, Collection of the Estonian Central Council in Canada (uncatalogued), folder “Baltic Federation in Canada. Minutes of meetings. October 5, 1983 to present,” p. 5.

³⁷ Letter from EMI to the Ministry of Foreign Affairs of the Estonian SSR, 1988-07-14, in: ERA, sign. R-2340, vol. 1, no. 283, p. 49.

³⁸ Postanovlenie CK Kompartii Ėstonii i Soveta Ministrov Ėstonskoi SSR o rabote po ėstonskoi ėmigracii [Resolution of the Central Committee of the Estonian Communist Party and the Council of Ministers of the Estonian SSR on the Work on the Estonian Diaspora], appendix to a circular letter distributed by the Ministry of Foreign Affairs of the Estonian SSR, 1988-06-01, *ibidem*, p. 32.

³⁹ Decree No. 504 issued by the Central Committee of the Estonian Communist Party and the Council of Ministers of the Estonian SSR, 1988-10-14, in: ERA, sign. R-1, vol. 3, no. 4175, p. 203.

⁴⁰ Report “Nepasiduosim! 50 Years and Continuing,” drafted by Juozas A. Kazlas, 1988-01-28, in: VEMU, Tõnu Parming Collection, untitled folder, p. 6.

⁴¹ Hindrek Meri, who at the time was working at the Planning Committee in Tallinn, recounts in his reminiscences that he arranged an informal meeting between Kabin and Ivar Raig of the Institute of Economics at the Soviet Estonian Academy of Sciences, who thoroughly explained the conceptual framework behind the Estonian vision of

few months later, he returned to Tallinn, this time in an official capacity, to organize a week-long crash course in Western economic thought and practice for Estonian enterprise directors and economists at EMI, sponsored by the Swedish Trade Council. The training scheme focused on marketing, management theories and production strategies, but was also designed to impart information on the peculiarities of the Swedish economy and potential areas of commercial cooperation.⁴² It was also Käbin who headed the first official Swedish business delegation to visit Estonia after an obligatory detour via Leningrad, on which the Soviet side had insisted.⁴³ Mainly due to his personal commitment, the Swedish Trade Council advanced its position on the nascent Baltic markets, encouraging small and midsize Swedish enterprises with no experience in Soviet trade to invest particularly in Estonia, the pioneer of Soviet marketization, where the Finns still held a monopoly position.⁴⁴

The establishment of the so-called Business Group Estonia was a joint effort of the Trade Council and the National Association of Wholesaler-Distributors to increase economic cooperation across the Baltic Sea. Headed by Toomas Käbin, the organization set out to mediate between the Swedish private sector and Estonian ministries and enterprises in close consultation with Estimpex. In fall 1989, the Business Group acted as the official host of the so far largest incoming Estonian trade delegation consisting of three ministers and thirty representatives of the light industry sector at the Swedish Trade Council's annual fair outside Stockholm. The guests decorated their information stand with the Estonian tricolor, the once banned pre-war flag that had been legalized by the Supreme Soviet of the Estonian SSR a year earlier, causing nervous reactions among Trade Council employees who insisted on the display of the Soviet banner next to the republican colors in order to avoid diplomatic trouble.⁴⁵ This little incident notwithstanding, the Estonian participation at the trade fair was considered successful. A public seminar on the Soviet Baltic economies and the current state of relations between Moscow and the union republics had been well-attended and nearly a hundred companies announced interest in investing in Estonia.⁴⁶ Encouraged by this experience, the Trade Council sent an official representative to Lithuania to scour the market in the southernmost and largest Baltic republic. The planned trip of an official Swedish business delegation to Vilnius was, however, post-

republican self-management to the visitor from Sweden. HINDREK MERI: *Tagasivaateid veerevast vagunist* [Looking Back from a Rolling Wagon], Tallinn 2010, p. 441.

⁴² *Estlands företag studerar världen* [Estonia's Companies Study the World], in: *Dagens Industri* from 1988-11-07.

⁴³ MERI (as in footnote 41), p. 441.

⁴⁴ *Estland intressant för svenska företag* [Estonia Interesting for Swedish Companies], in: *Svenska Dagbladet* from 1989-01-12.

⁴⁵ Interview with Toomas Käbin conducted by the author, Tallinn, 2016-02-26.

⁴⁶ *Baltikum tee nõukogude turule* [The Baltics—Gateway to the Soviet Market], in: *Äripäev* from 1989-11-13.

poned, mainly due to the lack of convenient traffic connections to the Lithuanian capital.⁴⁷

In the early phase of perestroika, Baltic reformers envisioned autonomous economic relations with the non-Soviet orbit primarily as a way to earn hard currency and, thus, to escape the constraints of barter trade with other union republics. Cooperation and exchange with the West, however, went beyond merely trade-related issues, particularly as overtly market-oriented policies gained foothold. The Soviet Baltic republics, as retired Swedish diplomat Sverker Åström put it in the conservative daily *Svenska Dagbladet* in November 1988, reached out for a kind of “‘market socialism,’ apparently meaning a system with features borrowed from Lenin’s NEP⁴⁸ policy and ‘the Swedish model’.”⁴⁹ Indeed, in the twilight of early transformation, the pro-market camp among Baltic economists was, to quote Ülo Pärnits, head of Estonia’s main economic think tank Mainor, determined to introduce the “same kind of socialism [...] as in Sweden” as a third way between plan and market.⁵⁰ Åström endorsed the idea of Swedish assistance in the restructuring of the Baltic economies, which, according to his assessment, would be unlikely to harm Sweden’s diplomatic relations with Moscow.⁵¹ The exchange of know-how had, after all, been inscribed into the Helsinki Accords and could be considered a constructive contribution to perestroika. Others, such as Rudolf Jalakas, former head of the Economics Department at the Swedish bank Handelsbanken and himself born in pre-war Estonia, considered it outright as Sweden’s “moral duty” to support the Baltic nations’ dream of social welfare and a free market.⁵² Jalakas and Ilmar Roostal, the owner of a successful consulting company, had accompanied Käbin on his first official trip to Estonia in fall 1988 and counted among a group of Swedish business and banking experts of Estonian origin who regularly lectured at EMI and Mainor in Tallinn. In late 1989, they were invited to form an unofficial advisory board to the pro-reform government of Indrek Toome. The Swedish experts accepted this invitation but were eager to stress that their contribution to ongoing legislative projects was of a purely professional and explicitly non-political nature.⁵³

⁴⁷ Švedijos prekybos taryba tiesia kelius į Lietuvą [The Swedish Trade Council Comes to Lithuania], in: *Gimtasias kraštas* from 1989-12-14 till 1989-12-20. While travelling to Tallinn via ferry from nearby Helsinki was fairly convenient, all trips to Vilnius or Riga required a time-consuming detour via either Moscow or Leningrad.

⁴⁸ New Economic Policy.

⁴⁹ Quoted in HAGLUND/SANDMARK (as in footnote 21), p. 47.

⁵⁰ *Inkörsporten till Sovjet* [Gateway to the Soviet Union], in: *Dagens Nyheter* from 1989-10-31.

⁵¹ HAGLUND/SANDMARK (as in footnote 21), p. 47.

⁵² *Vill realisera estnisk dröm* [He Wants to Realize an Estonian Dream], in: *Svenska Dagbladet* from 1989-09-28.

⁵³ Interview with Jaan Manitski, in: Äripäev from 1990-05-28 till 1990-06-03.

The unbureaucratic support offered by diaspora Estonians holding key positions in Sweden's private sector was, like the direct connection to Finland from Tallinn's ferry terminal, a strategic asset that benefitted first and foremost the Estonians. Nevertheless, there were other linkages that fostered the development of the first Swedish-Baltic joint projects. Particularly the twin town programs, launched from 1988 onwards, played a significant role. The Latvian capital of Riga, for instance, which early on aimed to become the Soviet center for Swedish trade, skillfully used the twinning arrangement with Norrköping, an industrial city south of Stockholm, to advance its interests.⁵⁴ The twin town agreement of November 1988 set the course for the close ties between the Latvian SSR and the Swedish province of Östergötland, which not only yielded deals between Latvian state enterprises and Swedish companies⁵⁵, but also paved the way for official negotiations about a direct ferry route between Riga and Norrköping.⁵⁶ A similar twinning project between the university towns of Tartu and Uppsala, signed a few weeks after the Swedish-Latvian agreement, had equally invigorating effects on the development of economic linkages across the Baltic Sea. On his first official visit to Estonia, Uppsala's vice mayor arrived with a delegation representing three Swedish construction companies, which immediately established cooperation with the Estonian authorities and invited local experts working in the construction sector over to Sweden for training purposes.⁵⁷ Also Soviet signature projects such as Tartu Science Park profited from the connection to the twinning partners in Uppsala, who facilitated contact with Swedish research institutions and enterprises.⁵⁸

The anticipated influx of technological and managerial know-how into the Baltics through joint ventures with Western partners stagnated due to the unfavorable investment climate caused by the tug-of-war between an increasingly restorative center and the reform-minded Soviet West. In the wake of the sovereignty declarations issued by the Supreme Soviets of all three republics between November 1988 and July 1989, the division of competences between all-union and republican authorities remained unclear, as did the legislative situation, which deterred many potential investors from entering the Baltic markets. The active involvement of Swedish professional associations and syndicates in the Baltic reform process was thus not so much a profit-oriented venture as an indication of the overwhelming goodwill among Swedish society towards the Baltic nations in general and Estonia in particu-

⁵⁴ Riga vill bli centrum för Sverige-handel (as in footnote 33).

⁵⁵ NaxTrade: Din partner i Baltikum [NaxTrade: Your Partner in the Baltics], insert in: Dagens Industri from 1989-11-15.

⁵⁶ HAGLUND/SANDMARK (as in footnote 21), p. 46.

⁵⁷ Elamuehitus Uppsala moodi [Building Houses the Uppsala Way], in: Edasi from 1989-05-17.

⁵⁸ Põhjamaade liberaalid Eestis [Nordic Liberals in Estonia], in: Edasi from 1989-03-25.

lar.⁵⁹ One of the key actors in the field of agricultural cooperation was the Federation of Swedish Farmers (Lantbrukarnas Riksförbund, LRF).⁶⁰ In spring 1989, the LRF received an invitation to Estonia, where the transition from collective to private farming already had been set in motion. Following this first visit, the LRF immediately proceeded to action, launching a fund-raising initiative for the purchase of agricultural machines adapted to small-scale farming, which was supported by the Swedish Trade Council and the West Sweden Chamber of Commerce.⁶¹ In order to support private farming, a committee consisting of representatives of the LRF, the Swedish University of Agricultural Sciences, the Royal Swedish Academy of Agriculture and Forestry and the Ministry of Agriculture launched a project entitled “Family Farms for Estonia.” The initiative, which was designed as a pilot scheme for the Baltic republics, offered theoretical and practical advice, organizing seminars in Estonia and training opportunities for Estonian agronomists and farmers in Sweden.⁶² Similar efforts were undertaken by the Swedish Association of Free Entrepreneurs, which together with the Swedish Pensioners’ Association and the Senior Experience Foundation elaborated an advisory scheme in economic and technological issues in close cooperation with the Estonian government⁶³, and the National Association of Wholesaler-Distributors, which also promoted the idea of sending retired Swedish businessmen to Estonia to educate a new generation of entrepreneurs.⁶⁴ Also local initiatives could make a difference, such as the invitation of Lithuanian entrepreneurs to Sweden issued by a development fund in the Scanian town of Kristianstad.⁶⁵ Over time, this contact evolved into a dense economic network between Kristianstad County and Lithuania mirroring the strong trade and business linkages between Riga and Östergötland County.⁶⁶

⁵⁹ The historical and cultural links to Estonia, home to a Swedish-speaking minority up to the Second World War, were closer than those to Latvia or Lithuania. Moreover, the Estonian community in Sweden was several times larger than the Latvian one, while the Lithuanian diaspora was insignificant in numbers.

⁶⁰ DAG SEBASTIAN AHLANDER: *Spelet om Baltikum* [The Game Over the Baltics], Stockholm 1992, p. 75.

⁶¹ *Ge Estland ett handtag!* [Give Estonia a Hand!], in: *Dagens Industri* from 1989-06-06.

⁶² Motion 1989/90:U237 to the Swedish Riksdag by Ingemar Eliasson (Liberal Party) et al., 1990-01-25, URL: <https://data.riksdagen.se/fil/C794DD20-1750-439C-927F-145B63D8C15D> (2019-07-22).

⁶³ *Öka samarbetet med Estland* [Expand Cooperation with Estonia], in: *Dagens Industri* from 1989-01-13.

⁶⁴ *Ärimehed-senioorid tulevad sünnimaale* [Senior Businessmen Visit the Homeland], in: *Äripäev* from 1990-01-29.

⁶⁵ AHLANDER, *Spelet om Baltikum* (as in footnote 60), p. 138.

⁶⁶ Internal working paper of the Swedish Ministry of Foreign Affairs, Political Department, First Unit (Pol 1), 1991-08-15, in: *Arbetarrörelsens Arkiv och Bibliotek*, Stockholm (ARAB) [The Labor Movement’s Archive and Library], sign. 3164, vol. 2, p. 6.

The State Steps in: Swedish-Baltic Economic Ties on the Eve of Baltic Independence

Up until the wave of revolutions that swept away the old order in the satellite states in fall 1989, the Baltic republics considered themselves as the vanguard of reformers not only among the union republics, but in the entire Soviet bloc.⁶⁷ Censorship had been abolished, the long-denied secret protocols of the Molotov-Ribbentrop-Pact were a matter of heated public debate and the liberalization of the once restrictive travel regime enabled Baltic leaders to establish new alliances around the globe. The Supreme Soviet of the USSR had finally given in to Baltic demands, warranting economic autonomy for the three republics, which meant full control over trade, industries and resources as well as the right to conduct the local economies on a free-market basis. The Law on Economic Autonomy, which was to become effective in January 1990, remained vague and ambiguous and has been denigrated as a part of Moscow's "propagandistic game" vis-à-vis the Baltic republics.⁶⁸ Nevertheless, in retrospect, it marked a major milestone on the path towards the break-up of the USSR.⁶⁹ Estonia retained its position as the uncontested pioneer of market reforms. Having finished the preparatory work on a budget, pricing, tax and enterprise law as well as on the establishment of a two-tier banking system and the introduction of a convertible separate currency⁷⁰, Estonia was, as an observer put it, "about to plunge into the free market as deeply as, and much more quickly than, Hungary."⁷¹

The emergence of three sovereign economies on the opposite coast offered unprecedented opportunities to Swedish industry and commerce that should not be wasted, as an editorial in Sweden's largest financial newspaper *Dagens Industri* argued, particularly as the geographical and cultural proximity to the region constituted an invaluable strategic advantage. The Baltic republics, which were already talked about as Europe's future "tiger economies," were now, the editorial stated, becoming an attractive alternative to East Asian

⁶⁷ JOHN JEKABSON: Economic Independence Is Not Enough for Lithuania, Estonia and Latvia, in: WILLIAM M. BRINTON, ADAM RINZLER (eds.): *Without Force or Lies: Voices from the Revolution of Central Europe in 1989-90*, San Francisco 1990, pp. 350-366, here p. 360.

⁶⁸ ČESLOVAS LAURINAVIČIUS, VLADAS SIRUTAVIČIUS: *Lietuvos istorija. Sąjūdis: Nuo "persitvarkymo" iki kovo 11-osios* [The History of Lithuania. Sąjūdis: From "Perestroika" to March 11], Vilnius 2008, p. 409.

⁶⁹ SEIJA LAINELA, PEKKA SUTELA: *The Baltic Economies in Transition*, Helsinki 1994, p. 9.

⁷⁰ Eesti NSV majanduspoliitikast 1990. aastal [On the Economic Policy of the Estonian SSR in the Year 1990], manuscript of a speech given by Edgar Savisaar, chairman of the Planning Committee of the Estonian SSR, undated, in: ERA, sign. R-973, vol. 5, no. 3806, p. 10.

⁷¹ Baltic State Sings a Song of Freedom, in: *Toronto Star* from 1989-09-24.

contract manufacturers.⁷² As a majority shareholder of a Swedish-Estonian joint venture that edited *Äripäev*, Estonia's first business weekly, *Dagens Industri* itself actively contributed to fostering economic relations across the Baltic Sea by offering a forum for Swedish companies advertising their interest in forging business deals with Baltic partners.⁷³ Another factor that played a pro-active role in trade facilitation was the Tallinn branch office to the Swedish General Consulate in Leningrad, which opened in December 1989. While the Baltic republics were still a terra incognita to most Western diplomats stationed in Moscow or Leningrad, Sweden's recognition of the annexation of 1940 enabled the Swedish Consul General and his staff to operate on the spot, which facilitated the establishment of efficient communication between Stockholm and the Estonian capital. Soon after the opening of the first direct flight route between Stockholm and Tallinn in November 1989, Scandinavian Airlines (SAS) reported that all tickets were sold out up until May 1990, which was ascribed to the rapid increase in business travelers.⁷⁴ Traveling from Stockholm to Estonia via the ferry between Helsinki and Tallinn, which was mainly frequented by Finnish weekend trippers and so far had constituted the only direct traffic link to the Baltic republics from the West, took up to thirty-six hours. The cooperation between SAS and Aeroflot thus marked a major improvement and was a strategic asset for the expansion of Swedish-Estonian business ties, an advantage that Latvia and Lithuania still lacked.⁷⁵

Questioned about the prospects of Swedish-Baltic commercial ties, Swedish Minister of Foreign Trade Anita Gradin expressed cautious optimism, stating that Sweden was a "natural trade partner" for the Baltic republics. Gradin also held out the prospect of state-financed programs aimed at the vocational retraining of Soviet managers and entrepreneurs. Her vision of regional economic cooperation, however, explicitly included the Leningrad and Murmansk oblasts.⁷⁶ This allusion to the broader geographical scope of pre-perestroika border trade clearly signaled that the Swedish government viewed any form of assistance to the Baltic republics in the context of the union-wide effort of getting the Soviet economy back on track. The vast majority of government officials in Stockholm still considered secessionist claims to represent a marginal extremist camp and assumed the Baltic repub-

⁷² Baltikum i fokus [The Baltics in Focus], in: *Dagens Industri* from 1990-03-07.

⁷³ ÜLO PÄRNITS: Mainor ja ettevõtluse areng Eestis [Mainor and the Development of Entrepreneurship in Estonia], in: MARINA KAAS, KERSTI KRAAS (eds.): *Eesti ettevõtluse taassünd, 1987-1991*, Tallinn 2009, pp. 18-23, here p. 20.

⁷⁴ Aken Europasse [Window to Europe], in: *Äripäev* from 1989-12-11.

⁷⁵ Initial negotiations to establish a flight connection between Stockholm and Riga failed, according to SAS due to the lack of suitable infrastructure in the Latvian capital: Uued laevad teel Tallinna: Tallinn-Arlanda juba novembris? [New Boats to Tallinn: Tallinn-Arlanda Already in November?], in: *Äripäev* from 1989-10-09.

⁷⁶ Interview with Anita Gradin, *ibidem*.

lics would continue their mission as the spearheads of perestroika.⁷⁷ Already in March 1990, however, the Lithuanian leadership gave proof of its determination to restore sovereign statehood by issuing an independence declaration, which indeed lacked international recognition, but foreshadowed the pan-Baltic consensus on secession. Estonia, where the newly installed Popular Front government announced a “radical turn to the West” in economic issues⁷⁸, chose the more cautious path of an unspecified “transition phase toward independence,”⁷⁹ setting an example that was followed by Latvia. But even the Estonian leadership understood that the restoration of state sovereignty was an indispensable prerequisite for achieving full economic autonomy. As the Swedish government set up a large-scale program of economic assistance for the Baltic republics, designed as a support for Gorbachev’s perestroika and, thus, as politically uncontroversial⁸⁰, the neutral country thus in fact assumed an active role in early state-building processes on the opposite coast. The state-sponsored assistance scheme not only contributed to accelerating the Baltic path of marketization, but also paved the way for Sweden’s dominant position on the Baltic markets after the dissolution of the USSR.

While most early trade and business ties between Sweden and the Baltic republics so far had grown out of person-to-person initiatives, Swedish state institutions now stepped in to coordinate and institutionalize the networking processes across the Baltic Sea. The turn of the decade marked the onset of a Swedish “assistance offensive,”⁸¹ which incorporated and reframed many of the already established support schemes. In January 1990, the National Industrial Board (Statens Industriverk, SIND), a state agency for regional entrepreneurial development operating under the Ministry of Industry, established first contact with the Ministry of Economic Affairs in Tallinn, formerly the Planning Committee of the Estonian SSR, and the think tank Mainor. The cooperation resulted in a joint educational project, which was partly financed by the Swedish government and promoted small entrepreneurship as an alternative to Soviet “big factory thinking” and a possible future basis for the Estonian economy. SIND planned to expand the training scheme to Latvia and

⁷⁷ DAG SEBASTIAN AHLANDER: Eesti 1990-ndate algul [Estonia in the Early 1990s], in: *Majandusreformid. Taasiseseisvunud Eesti esimese valitsuse aeg 1990-1992*, Tallinn 2006, pp. 9-10, here p. 9.

⁷⁸ Peaminister Edgar Savisaar valitsuse programm. Tallinn, 16. mai 1990 (Government Program of Prime Minister Edgar Savisaar. Tallinn, 16 May 1990), Tallinn 1990, in: *VEMU*, sign. 12, vol. 19, no. 4, p. 24.

⁷⁹ ROMUALD J. MISIUNAS, REIN TAAGEPERA: *The Baltic States: Years of Dependence, 1940-1990*, exp. ed., London 2006, p. 334.

⁸⁰ AHLANDER, *Spelet om Baltikum* (as in footnote 60), p. 51.

⁸¹ *Sverige lär upp baltiska bönder till företagare* [Sweden Trains Baltic Farmers to Become Entrepreneurs], in: *Dagens Industri* from 1990-03-27.

Lithuania in case the outcome would turn out satisfactory.⁸² Meanwhile, the Ministry of Employment prepared an educational program for Baltic state employees and professionals, drawing on the experiences and practical advice offered by the LRF which since spring 1989 had been supporting the agricultural transformation in Estonia.⁸³ Eventually, in June 1990, the Swedish government officially launched a centrally administered traineeship program financed through the Swedish International Development Authority (SIDA), a central hub for development aid operating under the Foreign Ministry. Up to the restoration of Baltic independence in August 1991, several hundred Estonians, Latvians and Lithuanians thus gained valuable work experience in Swedish state authorities and institutions, but also in private companies and agricultural holdings.⁸⁴ The government also co-financed private sector initiatives such as the Market Economy Center in Tallinn, a Swedish-Estonian joint venture that brought Swedish experts to Estonia to help foster a first generation of private entrepreneurs.⁸⁵ In support of the program, the Swedish Association of Free Entrepreneurs and the Stockholm-based free-market think tank Timbro established the so-called Swedish-Estonian Development Fund, which partly relied on state subsidies to finance the education of promising young economists from the Baltic republics at the renowned Stockholm School of Economics.⁸⁶

In an effort to coordinate the assistance efforts, the government charged the Swedish Agency for International Technical and Economic Cooperation (Beredningen för Internationellt Tekniskt-Ekonomiskt Samarbete, BITS) with the elaboration of a centralized funding scheme. While BITS covered a broad range of Baltic aid projects including training schemes in the fields of state administration and pollution control, market economy schooling was one of the main pillars of Swedish state-funded support⁸⁷, involving a variety of partners including Baltic ministries and economic think tanks, the LRF, the

⁸² SIND alustas Eestist [SIND Started from Estonia], in: Edasi from 1990-11-08; SIND jätkub [SIND Continues], in: Postimees from 1991-01-16.

⁸³ Sverige lär upp baltiska bönder till företagare (as in footnote 81).

⁸⁴ Internal working paper of the Swedish Ministry of Foreign Affairs (as in footnote 66), p. 5.

⁸⁵ MART RAUDSAAR: Viktor Siilats—pole tähtis millega tegeled, vaid kellega koos tegeled [Viktor Siilats—It Is Not Important What You Are Doing, but with Whom You Are Doing It], in: KAAS/KRAAS (as in footnote 73), pp. 143-146, here p. 145.

⁸⁶ Rootsi ärielu asutas Tallinna turumajandusinstituudi [The Swedish Business Sector Establishes a Market Economy Center in Tallinn], in: Äripäev from 1990-07-04 till 1990-07-10.

⁸⁷ Letter from Sweden's Prime Minister Ingvar Carlsson to Edgar Savisaar, Prime Minister of Estonia, 1990-06-27, in: VEMU, Elmar Tampõld Collection, vol. 7 (uncatalogued), folder "Abi Eestile uute majandusseaduste väljatöötamisel Eestile, I 1990–10.VIII 1990," pp. 1-2.

Stockholm School of Economics and private consulting companies.⁸⁸ At the same time, the government took concrete measures to expand Swedish-Baltic trade. In spring 1990, the Foreign Ministry's trade department commissioned a group of independent economists with the task of issuing a first comprehensive report on the Baltic economies similar to the country studies compiled by the World Bank, which was elaborated in close cooperation with the governments in Tallinn, Riga and Vilnius.⁸⁹ Moreover, the Swedish Trade Council opened a branch office in the premises that the Swedish General Consulate in Leningrad rented from the Estonian Ministry of Foreign Affairs in Tallinn⁹⁰, which considerably facilitated communication with Estonian authorities and enterprises.⁹¹ Most of the numerous Swedish-Estonian joint projects launched in 1990 were conceptualized as testing balloons for future cooperation schemes with Latvia and Lithuania, but already in June, one month after the Swedish General Consulate had established a second Baltic branch in Riga, Latvian Minister of Economic Affairs Jānis Āboltiņš warned the Swedes of the danger of missing the boat. Sweden was indeed, by then, Latvia's most important trade partner outside the USSR.⁹² Nevertheless, similarly as in the case of Lithuania, West German, British and U.S. companies, many of them owned by diaspora Latvians, were rapidly advancing into the Latvian market, and a first Latvian trade representation had already been inaugurated in Hamburg.⁹³

In summer 1988, as the team leaders of the working group commissioned by the Swedish Foreign Ministry stated in a report dating from June 1991, "virtually no links existed" between Sweden and the Baltic republics. Only three years later, however, Swedish-Baltic economic cooperation was flourishing in all sectors.⁹⁴ Neighboring Finland maintained close cooperation with Estonia, particularly in politically less charged areas such as environmental protection, while Denmark was preparing its own assistance scheme aimed at fostering democratization and marketization processes. Sweden, by contrast, was, by early 1991, considered the uncontested spearhead of international

⁸⁸ Draft of a list of project proposals for BITS, compiled by Erik Terk, Estonian Deputy Minister of Economic Affairs, 1990-04-17, *ibidem*, pp. 2, 7.

⁸⁹ AHLANDER, *Spelet om Baltikum* (as in footnote 60), p. 166.

⁹⁰ Exportkontor i Tallinn [Export Office in Tallinn], in: *Dagens Nyheter* from 1990-09-14.

⁹¹ Internal working paper of the Swedish Ministry of Foreign Affairs (as in footnote 66), p. 6.

⁹² *Nyckeln heter privatisering* [Privatization Is the Key], in: *Dagens Industri* from 1990-06-07.

⁹³ Report "Latvia: An Economic Profile for the Foreign Investor," drafted by the Department of Foreign Economic Relations at the Council of Ministers of the Republic of Latvia, 1991, in: Immigration History Research Center, University of Minnesota, Minneapolis (IHRC), sign. 1143, vol. 8, no. 7, p. 3.

⁹⁴ Economic Survey of the Baltic Republics, draft version written by Brian van Arkadie and Mats Karlsson, 1991-06-17, in: IHRC, sign. 1143, vol. 49, no. 10, p. 314.

support.⁹⁵ The impact of the Swedish presence in the region was most visible in Tallinn, where Toomas Kabin now supervised the activities of the Swedish Trade Council and served as deputy chairman of the International Economic Advisory Board to the Prime Minister of Estonia, which had been established by Edgar Savisaar in May 1990 as an expert council consisting of Western economists and business representatives of Estonian origin.⁹⁶ One of them, the retired Swedish banker Rudolf Jalakas, received an invitation to supervise the establishment of the Estonian Central Bank and the introduction of an Estonian currency, the *kroon*. Due to his advanced age, Jalakas declined, but used his professional connections to recruit Bo Kragh, one of the chief officers of Handelsbanken who had earlier worked in Moscow and assisted reform projects in Africa, for the job. From September 1990, Kragh served as Savisaar's official advisor in banking and financial issues as an emissary of Handelsbanken.⁹⁷ Kragh's employer fully financed his salary for the duration of his seven-month stay in Tallinn, which was a contribution that was considered both a donation and a long-term investment.⁹⁸ As *Dagens Industri* reported in spring 1991, the Swedish banker managed to sustain the resistance of competing factions among Estonia's economic decision-makers and to push his own draft version of a Currency Act through the Estonian Supreme Council.⁹⁹

By the end of 1990, it was beyond question that perestroika, as it was originally envisioned, was over. The Kremlin's rejection of the so-called Shatalin Plan, named after Gorbachev's economic advisor Stanislav Shatalin, which was drafted in summer 1990 and envisioned a radical agenda for the rapid marketization of the Soviet economy combined with a far-reaching empowerment of the union republics, marked a pivotal turn. Meanwhile, factual political power increasingly passed into the hands of the republican leaders,

⁹⁵ Majandusabi ja selle kasutamine [Economic Support and Its Usage], in: Äripäev from 1991-03-20 till 1991-03-26.

⁹⁶ The Board, which continued former Estonian Prime Minister Indrek Toome's consulting scheme and gathered two dozen experts from Sweden, West Germany and Belgium, but also from states like Canada, the United States and Venezuela, regularly convened in Tallinn to discuss provisional law drafts with Estonian state officials and the ministerial staff. ENE-LIIS MARTENS: Ilmar—His Story, Collingwood 2014, p. 169.

⁹⁷ Bo Kragh during a roundtable discussion at the workshop and eyewitness seminar entitled "In the Spirit of Perestroika? Informal Networks and Grassroots-Level Cooperation between Sweden and the Baltic Republics, 1988-1991," which was organized by the author at the Uppsala Center for Russian and Eurasian Studies, Uppsala University, 2016-12-13.

⁹⁸ Svenska Handelsbanken on abistanud ka Leninit [Svenska Handelsbanken Has Also Helped Lenin], in: Edasi from 1990-09-21.

⁹⁹ Svenskar ska lyfta Estlands ekonomi [Swedes Supposed to Boost Estonia's Economy], in: Dagens Industri from 1991-04-24. In 1993, Kragh returned to the Baltic states, serving as one of three deputy chairmen of the Estonian Central Bank and advising the Latvian government in financial issues.

particularly in the Baltics.¹⁰⁰ Estonia, Latvia and Lithuania now started “acting as if they were sovereign states,”¹⁰¹ setting up customs frontiers along their borders in fall 1990. Earlier visions of a federalized USSR consisting of economically autonomous republican units were overtaken by the events and Estonia and Latvia were now determined to follow the Lithuanian example, setting course for the restoration of their lost state sovereignty.

As the conflict between the independence-minded Baltic republics and Moscow deepened, the Swedish government adhered to its traditional “‘Soviet first’ policy,”¹⁰² carefully avoiding any step that could be interpreted as a pro-Baltic statement. However, while the Finnish government declared that it would refrain from providing economic assistance to the Baltic republics as that might be mistaken as political action¹⁰³, Swedish state agencies working in proximity to ministries and state authorities continued their cooperation with the Baltic governments. Any official contact at the ministerial level, by contrast, was averted. Hence, when Estonia’s Minister of Economic Affairs Jaak Leimann visited Sweden in January 1991, following an invitation of the Federation of Small Businesses which coordinated the managerial training of Estonian municipal policymakers on behalf of SIND and BITS, he was not received by any governmental official.¹⁰⁴ Nevertheless, contact could be established informally, as Leimann recalls, for instance with the help of Estonians employed at the Soviet Embassy in Stockholm¹⁰⁵, which is confirmed by Estonian Foreign Minister Lennart Meri’s accounts of his visits to the Nordic capitals at the time.¹⁰⁶ First in the aftermath of Moscow’s bloody crackdown on protesting civilians in Vilnius and Riga in January 1991, which unleashed a wave of international manifestations for the Baltic right to independence, Sweden’s Baltic policies underwent a profound transformation. As the government launched an official training scheme for prospective Baltic diplomats in early summer 1991¹⁰⁷, Stockholm did not make any attempt to con-

¹⁰⁰ STEFAN HEDLUND, NICLAS SUNDSTRÖM: *Rysslands ekonomiska reformer: En studie i politisk ekonomi* [Russia’s Economic Reforms: A Study in Political Economy], Stockholm 1996, p. 29.

¹⁰¹ STEPHEN KOTKIN, with a contribution by JAN T. GROSS: *Uncivil Society: 1989 and the Implosion of the Communist Establishment*, New York 2009, p. 136 (emphasis in original).

¹⁰² CLYDE ARCHER: *Nordic Swans and Baltic Cygnets*, in: *Cooperation and Conflict* 34 (1999), 1, pp. 47-71, here p. 52.

¹⁰³ Suhtumine Baltimaadesse [The Attitude towards the Baltics], in: Äripäev from 1991-01-16 till 1991-01-22.

¹⁰⁴ Rädd att Moskva tar över [Afraid That Moscow Takes Over], in: *Dagens Industri* from 1991-01-10.

¹⁰⁵ Interview with Jaak Leimann conducted by the author, Tallinn, 2015-02-09.

¹⁰⁶ MERI (as in footnote 41), p. 446.

¹⁰⁷ LARS PETER FREDÉN, *Förvandlingar: Baltikums frigörelse och svensk diplomati 1989-1991* [Transformations: Baltic Liberation and Swedish Diplomacy 1989-1991], Stockholm 2004, p. 147.

ceal its active support of the ongoing state-building processes on the opposite coasts.

Amidst the turmoil of the attempted coup d'état in Moscow in August 1991, Estonia and Latvia proclaimed independence as Lithuania had done a year and a half earlier, which was followed by an avalanche of recognition worldwide. The Swedish government was not among the first to recognize Baltic independence. However, maintaining consular branches in Tallinn and Riga that were already operating as informal embassies, Sweden was first to open diplomatic missions in all three Baltic capitals in late August, which was followed by the signing of bilateral trade agreements only two months later. A governmental financing scheme aimed at increasing Baltic export capabilities, drafted in early summer 1991, was swiftly implemented and enabled the Swedish Trade Council to expand its activities to Riga and Vilnius within a few weeks.¹⁰⁸ As the race for shares in the nascent Baltic markets intensified, the numerous informal Swedish-Baltic interrelationships proved to be a profitable commercial advantage. Being far ahead other Western states in terms of first-hand insight into local conditions and having established close cooperation with key political and economic actors, the Swedes could consolidate their regional economic power, not least due to the “bilateral openness and trust”¹⁰⁹ that had built up preceding the restoration of Baltic independence. However, despite Sweden’s strong and early presence in the region, the post-Soviet successor states eventually discarded the Swedish model of a strong welfare state and a large public sector in favor of free-market structures, not least due to the looming crisis of the Nordic social market model.¹¹⁰ Notwithstanding the Baltic states’ neoliberal turn, assistance in the transition from plan to market remained the central pillar of Swedish ideational support not only for Estonia but for Latvia and Lithuania as well,¹¹¹ leaving “distinctively Nordic hallmarks” on the legislative and normative regulations of the new democracies and market economies on the opposite coast.¹¹²

¹⁰⁸ Baltikums export får stöd [Baltic Export Receives Support], in: *Dagens Industri* from 1991-09-21.

¹⁰⁹ AINIUS LASAS: External Engagement: The Baltic Experience, in: *Journal of Baltic Studies* 35 (2004), 4, pp. 360-377, here p. 373.

¹¹⁰ JOHN F. L. ROSS: Sweden, the European Community, and the Politics of Economic Realism, in: *Cooperation and Conflict* 26 (1991), 3, pp. 117-128, here p. 123.

¹¹¹ KRISTER EDUARDS: Sveriges stöd till de baltiska ländernas omvandling 1990-2003 [Sweden’s Support for the Baltic States’ Transformation 1990-2003], SIDA, Stockholm 2004, p. 48, URL: https://www.sida.se/contentassets/50b4250e6fe247de9b16411184d38e5c/sveriges-st246d-till-de-baltiska-l228ndernas-omvandling-1990-2003_921.pdf (2019-07-22).

¹¹² ANNIKA BERGMAN: Adjacent Internationalism: The Concept of Solidarity and Post-Cold War Nordic-Baltic Relations, in: *Cooperation and Conflict* 41 (2006), 1, pp. 73-97, here p. 73.

Conclusion

Despite the relatively high living standards in Estonia, Latvia and Lithuania, which earned them the reputation of a “‘socialist’ West” in less developed union republics¹¹³, the Balts tended to view the Nordic states as a kind of natural “reference group,” which fueled their economic frustration.¹¹⁴ Hence, as the Soviet economy opened up to the West, Baltic reformers naturally resorted to cooperation first and foremost with their Nordic neighbors. As soon as Moscow greenlighted the establishment of autonomous foreign trade relations, Sweden in particular appeared as a strategic shortcut to Western markets, while also cultural similarities and kinship ties played a role, as the post-1991 development of Nordic-Baltic cooperation has confirmed.¹¹⁵ Swedish involvement in the Soviet Baltic economies initially emerged out of person-to-person encounters and individual commitment, which highlights the significance of non-state actors as mediators and bridge-builders, launching grassroots initiatives that from 1990 onwards were elevated to the state level. The early commitment of the Swedish private sector and state institutions to assist the Baltic republics in entering global markets and to foster the economic training of future elites capable of accomplishing the radical turn towards the free market in the early 1990s not only illustrates the often-overlooked impact of external actors on processes of disintegration in the late USSR. It also sheds new light on the dynamics that created the conditions for the redrawing of borders and the reorganization of markets and market relations in the Cold War endgame.

The dream of a “New Hansa” did not materialize around the Baltic rim, not least due to the German connotation of the term and the widespread but, as it turned out, unfounded fear of German economic hegemony in the region. The Nordic-Baltic ties, by contrast, have fostered the development of a financially and commercially closely integrated regional market with Sweden being the dominant player. Taking a look at the Swedish-Baltic cooperation schemes that emerged prior to the dissolution of the USSR, however, we can observe a sharp North-South asymmetry, which is mirrored by the statistics on Swedish capital investments in the region.¹¹⁶ By spring 1991, the governmental funds flowing into Swedish-Estonian joint projects amounted up to seven million Swedish crowns and thus accounted for twice the sum spent on Swedish-Latvian initiatives, while similar cooperation schemes with Lithuania were

¹¹³ ANNE E. GORSUCH: From Iron Curtain to Silver Screen: Imagining the West in the Khrushchev Era, in: GYÖRGY PÉTERI (ed.): *Imagining the West in Eastern Europe and the Soviet Union*, Pittsburgh 2010, pp. 153-171, here p. 156.

¹¹⁴ BROWN, *Transnational Influences* (as in footnote 8), p. 187.

¹¹⁵ ZENONAS NORKUS: Võrdlev pilguheit Eesti, Läti ja Leedu postkommunistlikule arengule [The Post-Communist Development of Estonia, Latvia and Lithuania in Comparison], in: *Eesti inimarengu aruanne 2010/2011*, Tallinn 2011, pp. 22-31, here p. 29.

¹¹⁶ LAINELA/SUTELA (as in footnote 69), p. 129.

only established after the restoration of diplomatic relations.¹¹⁷ This regional imbalance can be explained by a set of structural conditions.

Firstly, as most early linkages developed out of informal initiatives, the existence of a sizeable Estonian community in Sweden benefitted particularly the Estonian SSR. “Diasporic loyalties” were a key factor of Swedish-Estonian commercial ties, forming “cross-border patterns of trust and protection”¹¹⁸ that were indispensable for operating in insecure markets. Upon closer examination, it turns out that diaspora Estonians were pulling the strings of most Swedish-Estonian joint endeavors, be it the business weekly *Äripäev*, the Market Economy Center in Tallinn or Handelsbanken’s involvement in the nascent Estonian banking sector. Secondly, infrastructure played a crucial role. While the direct flight route between Stockholm and Tallinn boosted Swedish-Estonian cooperation, a trip to Riga could still take up to two days in the fall of 1990.¹¹⁹ Also the agreement between the Estonian Communication Ministry and the Finnish and Swedish branches of Telecom International, due to which northern Estonia was incorporated into the Nordic Mobile Network in early 1991, marked a crucial watershed.¹²⁰ A phone call from Sweden to Estonia was now as easy to make as a national call, whereas it still could take an hour or more to establish a landline connection to Riga or Vilnius.¹²¹

Thirdly and finally, the scope of bilateral cooperation depended much on the republican reform paths. While the Estonians early on focused on Nordic partners in their ambition to build a modern market infrastructure, the dominance of Moscow-loyal, Russian-speaking cadres in Latvia considerably delayed the establishment of commercial ties with the West.¹²² Even Lithuania followed a more cautious path of marketization. Vilnius, as Lithuanian economist Kęstutis Glaveckas stated in October 1991, had done too little to attract foreign investments and to make use of the economic know-how offered by Western actors.¹²³ As far as cooperation with Sweden was concerned, the lack

¹¹⁷ AHLANDER, *Spelet om Baltikum* (as in footnote 60), p. 163.

¹¹⁸ MICHAEL BURAWOY, KATHERINE VERDERY: Introduction, in: IDEM, (eds.): *Uncertain Transition: Ethnographies of Change in the Postsocialist World*, Lanham 1999, pp. 1-17, here p. 8.

¹¹⁹ Rootsi ärimehed käisid 10 lennukiga Riias maad kuulamas [Swedish Businessmen Traveled to Riga in Ten Airplanes to Scour the Market], in: *Äripäev* from 1990-10-03 till 1990-10-09.

¹²⁰ Baltic Business Report, April 1991, in: IHRC, sign. 1143, vol. 51, no. 15, p. 3.

¹²¹ FREDÉN (as in footnote 107), pp. 126-127.

¹²² In the Latvian SSR, 85 % of all industry executives did not speak the local language. MARC R. BEISSINGER: *Elites and Ethnic Identities in Soviet and Post-Soviet Politics*, in: ALEXANDER J. MOTYL (ed.): *The Post-Soviet Nations: Perspectives on the Demise of the USSR*, New York 1992, pp. 141-169, here p. 161.

¹²³ Užsienis padės: O mes patys? [Foreign Countries Will Give a Hand: And What About Us?], in: *Gimtasias kraštas* from 1991-10-17 till 1991-10-23.

of a consular office was an additional impediment¹²⁴, as the Tallinn and Riga branches proved efficient in forging linkages with the Swedish private sector and channeling much of the governmental funding administered by BITS and other state agencies.¹²⁵ However, although Estonia was the uncontested epicenter of Swedish assistance, even Latvia and Lithuania profited from the Swedish-Estonian linkages, both directly, as many initiatives were designed as pilot projects that eventually were implemented throughout the region after August 1991, and indirectly, as Riga and Vilnius frequently adopted innovative Western economic ideas and concepts that reached Estonia from 1988 onwards.

While Stockholm's Baltic policies are usually framed in a narrative of appeasement, Sweden's multileveled assistance to the three emerging states stands out as "probably the most successful contribution to systemic change that Sweden has ever made."¹²⁶ The pro-active role played by Swedish individuals, non-governmental organizations and public institutions highlights the stark contrast between official and unofficial policies vis-à-vis the rebellious Soviet Baltic republics. In an effort to grasp the complexity and contradictions of the Swedish government's stance in Baltic issues, Lars Peter Fredén thus coined the notion of the "duck policy" for Sweden's involvement in the region: "smooth and unruffled on the surface but paddling like hell underneath".¹²⁷ The full dimension and significance of international support for the Baltic cause is still waiting to be fully explored¹²⁸, not least as most of the relevant archival sources are still classified. It is thus still difficult to assess to what degree the Swedish government actually understood the political underpinnings of Baltic economic reform debates during perestroika, which from the beginning onwards were closely linked to nationalist discourses about Soviet "colonialism" and the vital ecological threat posed by the centrally administered command economy. Whether the Swedish supporters of Baltic

¹²⁴ Lithuania had declared its independence in March 1990 and thus formally demanded bilateral relations to be elevated to the intergovernmental level. The establishment of a local branch of the Swedish General Consulate in Leningrad would thus have reaffirmed Lithuania's status as an integral part of the USSR.

¹²⁵ AHLANDER, *Spelet om Baltikum* (as in footnote 60), p. 162.

¹²⁶ DAVID ISAKSSON: *Utvecklingens drivkrafter* [Driving Forces of Development], in: IDEM (ed.): *Baltikum-Sverige: Möten över havet* [The Baltics and Sweden: Encounters Across the Sea], SIDA-Baltikum rapport, Stockholm 2004, pp. 211-229, here p. 211, URL: <https://www.sida.se/contentassets/535b4ace1bd64e04bed86050df45e0ec/13973.pdf> (2019-07-22).

¹²⁷ *Svensk Baltikumpolitik* [Sweden's Baltic Policy], promemoria written by Lars Peter Fredén, head of the Riga branch of the Swedish General Consulate in Leningrad, 1991-02-12, URL: <https://www.regeringen.se/49b76b/contentassets/d846d81cf8ae4720aba6d97e895b5a12/vol.4-1990-09-20---1991-02-12> (2019-07-22).

¹²⁸ For an overview of ongoing research on the topic, see: KAAREL PIIRIMÄE, LOUIS CLERC et al. (eds.): *Baltic Independence in the Twentieth Century*, Special issue, *The Estonian Historical Journal* (2016), 3-4.

marketization fully grasped the consequences of their actions and how they located their contribution between the poles of perestroika and Baltic secessionism thus remains a question that requires further research into the complex nexus of the inter- and transnational political and economic processes that led to the break-up of the USSR and the end of the Cold War.