

ECONOMIC AND POLITICAL TRANSFORMATION IN BALTIC STATES AND INDIA - BALTIC RELATION

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MASTER OF PHILOSOPHY

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DECLARATION

I declare that the dissertation entitled “**Economic and Political Transformation in Baltic States and India-Baltic Relations**” submitted by me for the award of **Master of Philosophy** of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other University.


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Abbreviations

BIPA	Bilateral Investment Promotion and Protection Agreement
BSR	Baltic Sea Region
CEE	Central and Eastern Europe
CEELI	Central and Eastern European Law Initiative Institute
CIS	Commonwealth of Independent State
CPSU	Communist Party of the Soviet Union
DTAA	Double Taxation Avoidance Agreements
EBRD	European Bank of Reconstruction and Development
EC	European Commission
ECB	European Central bank
EFTA	European Free Trade Association
ENIP	Estonian National Independence Party
EPA	Environmental Protection Agency
ERM	Exchange Rate Mechanism
EU	European Union
FDI	Foreign Direct Investment
FICCI	Federation of Indian Chamber Commerce & Industry
FTA	Free Trade Agreement
GDP	Gross Domestic Products
IBFCC	Indo- Baltic Federation of Culture and Commerce
ICAE	Indian Cultural Association of Estonia
ICCR	Indian Council for Cultural Relation

IMF	International Monetary Fund
ISKCON	International Society of Krishna Consciousness
ITEC	India Technical and Economic Cooperation
LDDP	Democratic Labour Party of Lithuania
MFN	Most Favoured Nations
MoU	Memorandum of Understanding
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Cooperation and Development
SDR	Special Drawing Rights
SLC	Study in Latvia Centre
UK	United Kingdom
UNSC	United Nations Security Council
UN	United Nations
USA	United States of America
USSR	Union of Soviet Socialist Republic
VAT	Value Added Tax
WTO	World Trade Organization

Chapter One

Introduction

The three Baltic States, Estonia, Latvia and Lithuania, are located at the north-eastern region of Europe, on the eastern shores of the Baltic Sea. The Baltic Sea bounds the three countries on the west and the north, which gave the region its name “The Baltic States”. The large number of ethnic Estonians, Latvians and Lithuanians live within the borders of their states, in all the three countries speaks the native tongue as their first language. The Baltic States are very small in area and also in population. Estonia, the northernmost part of the three, has a population of 1.4 million; which is half of them, live in the capital city, Tallinn. Latvia has a population of 2.3 million while Lithuania has a population of 3.4 million (Eurostat, 2007).

The Baltic States have had a difficult history, the collapse of the Soviet Union, which began in the late 1980s, was dream come true for the Baltic States. After World War I, the Baltic States declared independence, but within a few months, communists supported by the Soviet Union took control over the Baltic States. After short communist rule and freedom battles against both German and Russian troops, The Baltic States marked the Soviet Peace Treaty in 1920. Furthermore, Soviet Russia recognized the Baltic States as a free and sovereign country; twenty long periods of autonomy took after.

During the World War II, numerous nations endured as well the Baltic States. On August 23, 1939, the Soviet Union and Nazi Germany concluded the Molotov-Ribbentrop Non- Aggression Pact, which isolated various nations between the two states. The pact granted the three Baltic States to the Soviet Union. On the Basis of the Molotov- Ribbentrop Pact Soviet troops attacked and invaded all the three Baltic States in 1940.

Nazi Germany invasion in 1941, about 70,000 Jews were killed in the Holocaust with many Baltic peoples during the occupations. In 1944, the Red Army came back and again occupied the Baltic States, incorporating it into the Soviet Union as three (Estonia, Latvia and Lithuania) of its fifteen Union Republics. After World War II, The Baltic States’ politics and economy were completely under the Soviet Union. In the summer of 1940, the Soviet Communist Party came to the Baltic States

with the aim of restructuring Estonia, Latvia and Lithuania in accordance with the dictates of Marxism- Leninism the forced Sovietisation was justified as the basis of the Marxist theory of history and social development.

The Sovietisation of Estonia, Latvia and Lithuania necessitated the pursuit of two objects simultaneously, first, the dissembling of the bourgeois social and financial system and democratic, multiparty political system related with the war phase and second, the formation of new socio structure in that Soviet authority and communist party part were seen as authorized. Demolishing the pre-Soviet political and economic structures of the Baltic States was a very simple, according to Adolfs Slides, was such demolition achieved within two months (1987, P.194). The Soviet authorities nationalized the Baltic States' industrial, commercial and financial sector during the first period of occupation in 1940 and retook control of them after annexation. All Political parties other than Communist party were banned, and social laws and policies were approved by rubber stamp parliaments. The new constitution of Soviet Latvia was written within 24 hours (ibid.).

In the two years from 1945 to 1947, 180,000 non-Estonian nationals arrived in the northern Baltic republic, with the indigenous share of the population dropdown from 94 per cent in 1945 to 72 per cent by 1953. The situation was worse in Latvia, where 4000000 Russians and 100,000 other nationalities arrived between 1945 and 1959. In Lithuania, the economy was mainly agricultural and the rural labour pool provided the workforce for the new industrial projects. In the sphere of education, new textbooks, written in 1945 to replace those printed during the period of independence, were banned. The development of "Soviet school children as good citizens or 'builders of communism' began in primary school and continued thereafter, with political education implemented through instruction in all subjects" (Cary, 1974, p. 453).

Stalin's death in 1953 ushered in a period of greater relaxation in political, economic and cultural life in the USSR, and in the Baltic States specially. When Mikhail Gorbachev became general secretary of the CPSU in March 1985, he inherited a financial system on the verge of collapse; He launched Perestroika to bring economic and political system into modernization and Glasnost, which was aimed at democratizing and neutralizing the conservative Republican cadre institutionalizing

democracy and mobilizing society in order to stimulate popular participation in Perestroika.

Graham Smith identified the three stages in the development of nationalist politics in Estonia, Latvia and Lithuania; national reawakening and mobilizing in the period from 1986 to 1988, the creation of popular movement from 1988 to 1990, and broad-based institutional support for secession from 1990 to 1991 (1994, P. 129).

The collapse of Communist Party rule in the Baltic States allowed the nationalists to lay the groundwork for their ultimate goal of independence. This objective was first voiced by the more radical movements, the Latvian National Independence Movement, the Estonian National Independence Party, the Estonian Heritage Society and the Lithuanian Liberation League, which all held founding congress towards the end of 1988 and beginning of 1989 (Misiunas and Taagepera, 1993, p. 323).

In the Baltic States, the elections were essentially referendums for independence. The Lithuanian election took place first on 24 February 1990 and Sajudis won. The first session of the Lithuanian Supreme Soviet opened on 10 March with the leadership of Sajudis. The elections to the Latvian and Estonians Supreme Council were both held on 18 March 1990. By late 1990 many of the Soviet Republics had declared themselves sovereign that Gorbachev had lost control over the Baltic States. On 18 August Gorbachev was removed from power by right-wing forces, Estonia and Latvia declared their full independence on 20 and 21 August respectively. While Congress of Estonia declared itself to be the only legitimate representative of the Estonian people, it was agreed that would issue be the Supreme Council that issued the Declaration of Independence (Taagepera, 1994, p. 215).

On 21 August, Iceland became the first state to recognize the independence of all three Baltic States. On 27 August, the Balts received official recognition from the European Community, which declared that “the time had come for Latvia, Lithuania, and Estonia to occupy their rightful place among the peoples of Europe”. On the same day, the UK and France agreed to support the three Baltic countries’ application for full membership of the UN. By 6 September 1990, the independence of the Baltic States had been recognized by most of the international community including the Soviet Union and the USA.

In the final years of Soviet rule, hundreds of thousands of the Balts had been exiled or murdered or had fled to the West, thousand more faced abject poverties as a result of collectivization and manifestation of national identity were repressed. The Baltic peoples suffered worse treatment than other peoples of the Soviet Union.

After the regaining independence, all three Baltic countries faced many challenges like nation-building procedure, democratization, making of government institutions and the establishment of the legal base for the market economy. Simultaneously, Estonia, Latvia and Lithuania confronted grave financial issues, counting rapidly decreasing production, rising joblessness, insufficiencies of products phenomenal levels of developments. The Baltic States confronted overwhelming difficulties in the mid-1990s yet by and by figured out how to make changes that modified their political and financial scenes essentially. The Baltic nations were in the absence of sustainable development.

Since 1991 all the three Baltic States have had established a democratic political system with fair and free elections, active political competition and debate on liberal issues, and respect the freedom of peoples and human rights. The Baltic States are the only former Soviet Republic that was rated by Freedom House as “free” countries.

In International markets, all the three Baltic countries opened and liberalized their economy and also implemented many complex market-oriented structural reforms. By 1997, growth in the Baltics was amongst the fastest in transition economies. The Baltic countries are now on the track to sustainable growth.

During the last 25 years, the economy of the Baltic States has been developing in the conditions of sovereignty. The Baltic State have, by 2015, accomplished a high level of economy and the financial security. Economic growth, however, has been moderate after the global financial crisis and merging has backed off. None of less the Baltic States has encountered major social, economic and political changes. Since 1990, residents have taken part in parliamentary, city and in Lithuania two presidential elections. Multiparty system has been restored. For example, by 2000 in Lithuania a nation with 3.8 million occupants and around 2.5 million enlisted voters, there were 37 registered political parties. all the three countries have represented

national currency in 1993. Estonia, Latvia and Lithuania restored their membership in major International Organizations.

Fredrik Erixon and Julia Mezo both describe Baltics economic reforms and crisis management in the Baltics. Fredrik Erixon provides a crisis review of Baltic economic policy, particularly the reforms of the macroeconomy and trade policy and the privatization programme.

According to The European Commission paper “Cross - country study: Economic Policy Challenges in the Baltics” analyses the economic development and transformation process in “Estonia, Latvia and Lithuania” from the very beginning of the regained independence. Financial integration and budgetary and macroeconomic transformations, with the rest part of European, and to make the best development prospects, some mid-term challenges have been particularly analysed in this study.

Andres Kasekamp in his book “A history of the Baltic States” provides an overall situation of the Baltic States during the independent struggle, he describes their political and social situations. He also gives careful consideration to the 20th century, during which the Baltic States achieved independence, also describes how the Baltic States recuperated their statehood and changed themselves into the member of the European Union. Ole Nargaard, also describes in his book “The Baltic States after independence, how the Baltic progress from the Soviet Union’s political framework. He looks at the historical backdrop of these nations and the developments towards majority rules system, institutional changes and financial advancement during the post-socialist period. His book offers a special understanding of political, economic and social life in all the three countries Estonia, Latvia and Lithuania.

Richard C M Mole also provides an overview of the Baltic State’s political developments from the Sovietisation to the European Union. He describes many policies that all three countries Estonia, Latvia and Lithuania adopted to establish political institutions. Bengt Jacobson in his book “European Union and the Baltic States: changing form of the governance” describes how the Baltic States implemented European policies for westernization to the Baltic States. It focuses on the changes in the policies, governmental issues that have occurred after independence in Estonia, Latvia and Lithuania. Basically, he analyse the study that how the Baltic States move towards Europeanization in their nation-building process.

D. Auers in his book “Comparative Politics and Government of the Baltic States” describes the development and the transformation of the political institution, economic and social policies, civil society, foreign affairs, parties and electoral system of the three Baltic States “Estonia, Latvia and Lithuania”.

India- Baltic Relations

India conceded acknowledgment to the independent Baltic States on 7 September 1991, after formal approval of their independence by the past Soviet Union. India formed a diplomatic relation with all the three Baltic States by 1992. Since 1993, some high-level common visits have occurred and a few agreements have been marked among India and all the three Baltic States: Estonia, Latvia and Lithuania. India signed many trade agreements such as Trade and Economic cooperation 1993, Convention on Bilateral Consultations in August 1995, Agreement on Air Services 2001, after signing these agreements on various spheres, this opened the way to make strong relations in economic, diplomatic, academic and cultural space between India and Estonia, Latvia and Lithuania. The foundation of a different Centre of Indian Studies at Vilnius University in 1996 was one such step in this direction.

Besides, India’s relations with the Baltic States are from the ancient period. India’s former connection with all the three Baltic States gets dominantly from missionary activities. The University of Tartu built up in 1632 AD; it has a few publications in the Sanskrit language and literature. Estonian Buddhist assumed a critical part in spreading Buddhism in Europe. Another conceivable old association between the Indians and the Baltic States has to do with economic relations and trade, maritime trade in particular. The Silk Route and the Amber Road, two ancient trade routes, accepted the presence of the India and Baltic’s trade connection.

Europe has been appreciating Indian Idea and philosophy. This interest with India has been an inspirational power among the Baltic States as well. The Baltic States have great respect for and genuine interest in Indian thought and ideas. In their independence movement known as “Singing Revolution” and “The Baltic Way” the primary philosophy embraced was that of Non-Violence. The Baltic States have mostly acquired this thought from the political philosophy of Mahatma Gandhi.

Culture Interaction between India and the Baltic States

India and the Baltic States have similarities in culture, language, costumes and ancestry. Lithuanian language and Sanskrit languages have the close similarities also grammatically close. “Among the three Baltic States, linguistically speaking, Estonians are Baltic Finns and Latvians and Lithuanians are Balts. Latvians and Lithuanians speak Baltic languages while Estonians speak the Finno-Ugric language. It was after the World War I that the term the ‘Baltic States’ came into use to denote these three states as a single geopolitical unit. In the Soviet period, these states were known as ‘Pribaltika’. In the post- Cold War period a common Baltic Sea regional identity including these states has been evolving” (Andres Kasekamp, 2010).

According to the sources of the Estonian Embassy in New Delhi, in the cultural arena, the significance of Estonia-India relations is more in comparison with other areas. The first written work in Estonia that touched upon India was The “Puhhapaiwa Wahhe-luggemissed ‘Sunday Intermediary Readings’” of Otto W. Masing (1818) and various publications on Sanskrit language and literature were published at the University of Tartu. The Caste system, Religion, Yoga teaching and Indian Classical literature, these were some of the important issues discussed in those publications.

According to Prof K. B. Usha, mutual understandings are important deciding factors to promote international relations between the two nations and culture plays an important role in creating such understandings. By publishing articles about the Indian epic “Mahabharata”, drama and folk wisdom in “Oleuik” (“The Present”) in 1912, Author Andres Saal made a significant contribution. Cultural relations between India and Estonia continue to be very good.

According to the sources of the Ministry of Foreign Affairs, “Lithuanians have a great interest in Indian cultural traditions, including Yoga; there has been a special interest in Ayurveda. The Kaunas Ayurveda Centre arranges lectures on Ayurveda and the ISKON movement has a very active temple in Kaunas. The University of Latvia has established a ‘Centre for Indian Studies and Culture’ it is organizing yoga classes and Hindi classes as well as other activities to promote India”. K. B. Usha in her article “India-Lithuania Cultural Interaction- A Contemporary Perspective” describes the importance of culture to establish a strong relationship between two

countries. Cultural diplomacy is the instrument used by countries to enhance intercultural dialogue, cooperation and mutual understanding and to promote cultural diversity, and harmonize international relations. India and Lithuania also had a personal bond. According to Anil Nauriya and Shimon Lev, Hermann Kallenbach and Gandhi had a friendship and a personal bond. Audrius Beinorius also describes philosopher Vydunas as a Lithuanian Gandhi and Vydunas' contribution in the development of Lithuanian national culture. Antanas Poska, a Lithuanian journalist known for his journey to India. Diana Mickeviciene describes the views of Antanas Poska's views of India. Govardhan in his article "Influence of Gandhian principles of Non - Violence in the Singing Revolution of Lithuania" describes that how effective was Gandhian philosophy in Lithuania, and it plays important role in the independence movement of Baltic States. Also, Daiva Tamosaityte talks about Gandhisim and the similarities between India's British colonisation and independence movement and the Lithuanian independence movement of Soviet occupation.

Commercial ties between India and the Baltics

India established diplomatic relations with the Baltic States in 1992, after regaining independence from the former Soviet Union in 1991. According to Lithuanian statistics, "bilateral trade was €162 million in 2011, €49.2 million in 2012 and €55.53 million in 2013". An Indo-Baltic Chamber of Commerce (IBCC) was formed in Vilnius in 2009 while an India-Lithuanian Forum was inaugurated in September 2010. The India-Baltic Chamber of Commerce works towards fostering regional ties between India and the three Baltic States besides other European economies. India-Baltic Chamber of Commerce signed an MOU with the MVIRDC World Trade Centre Mumbai and All India Association of Industries to promote cross-border trade and investment between the economy of the Baltic States and India.

According to Estonian Foreign Minister Urmas Paet, the opening of the Estonian Embassy in New Delhi will help to develop economic relations between Estonia and India. Estonia offers Indian companies good access to European Union and Russian consumers. "Estonia is located in a strategically advantageous place and is a suitable base for business activity towards the Nordic countries, European Union countries, and Russia," (Urmas Paet, 2013). According to Dr. GSK Velu, India should invest more in technology to reap greater socio-economic growth. To begin with,

India's startups could join hands with the businesses in Estonia for greater synergies and further develop international relations and foreign policies. As in terms of technology innovation, Estonia has been in the lead since the beginning of the 21st century with its world-renowned inventions and startups that have been influencing other countries to join the development. Estonia is the country that has completely digitalized all government activities.

Manuela Tvaronavičienė, Virginija Grybaitė, and Renata Korsakienė described in their article "Foreign Capital Destinations: The Baltic States versus India" analyses the Baltic States have been contrasted to India, the emerging market represents and in the future main FDI one of the main landing place for the Baltic states. FDI inflows into those rather different countries started in approximately 1991, thus driving forces behind international capital movement serve as the object of scientific interest.

Bilateral ties and diplomatic understanding between India and the Baltics

India and the Baltic States have a strong political understanding since 1991. Diplomatic relations were established with the three Baltic countries - Lithuania, Estonia and Latvia in 1992. Since 1993, many bilateral mutual visits have taken place and several agreements have been signed between India and the Baltic States. Prof. K. B. Usha in her article "The evolving relations between India and the Baltics" describes the reestablishment of diplomatic relations; India has signed several important agreements with all three Baltic States

Furthermore, other institutional instruments have been set up to promote bilateral relations. The Centre for Latvian- Indian Culture in Riga 1994, Latvian-Indian Friendship Society 1998 and India- Lithuania Forum 2010, these institution helps to come together India and the three Baltic States: Estonia, Latvia and Lithuania. According to the sources of Ministry of External Affairs India and Latvia also have reached a reciprocal support arrangement whereby Latvia would support India's candidature to the UNSC non-permanent seat.

The Baltic countries - Estonia, Latvia and Lithuania share common features and a similar history. The Baltic States have improved their political and economic conditions after the regaining independence from the Soviet Union. The Baltic States have succeeded politically and economically in their aspirations to emulate Western

institutions since independence. The relation between India and the Baltic states have been culturally enriched since ancient time. Lithuanian language and Indian Sanskrit language are grammatically very similar. Indian dance, music, and yoga are very popular in the Baltic countries and also the Gandhian philosophy played a very important role during the Baltic independence movement. India and Baltic states have been significant trade ties. India-Baltic Chamber of Commerce has been established to improve the economic relationship between India and the Baltic region.

This research work has been divided into two parts. The first part analyses the economic and political transformation in the Baltic States like the new economic policies of the newly independent countries. It also describes the economic growth and the convergence in the three Baltic countries Estonia, Latvia and Lithuania. It also deals with the provides the citizenship policies of all the three Baltic countries and democratic institution building process like making of constitution and forming of political parties. The second part of the research work includes relations between India and three Baltic countries cultural interactions between India and the Baltic region and economic and political relations.

This study has emphasized the economic policies of the three Baltic States and the transformation of the Baltics States after the regaining independence and has also analysed the Political developments in all the three Baltic States and, their Political, Economic and Social connections with India. The study has also investigated and analysed the Economic and Political.

Research Question

The fundamental research questions for this study include:

- What are the Economic policies of the Baltic States after the independence?
- What are the economic growth and convergence in the Baltic States?
- What are the political changes in the three Baltic States over the last decades?
- What role did the Indian philosophy play in the Baltics independent movement?
- How can the Indo-Baltic relations help India and the Baltic countries to emerge as important geopolitical players?
- What are the contributing factors in the strengthening of Indo - Baltics relations?

This research study has been organized into five chapters. The first chapter discusses the brief history of The Baltic States and how they gained their independence from the Soviet Union. Further, it deals with the brief information about the Economic and Political Transformation in the three Baltic States. It also explains India and the Baltic region's relations in many spheres like cultural, economic and political relations. This chapter also includes the relevant research questions. It also deals with the theoretical framework, which will help, in analyzing the economic and political transformation in the Baltic States and India Baltic relations.

The second chapter while discussing the independence of the Baltic States provides the economic conditions of the Baltic States during the independence. It deals with currency reforms and the joining the Euro Zone of all the three Baltic States. Further, it also provides the economic policies like price liberalization and monetary policy Fiscal policy and the privatization process in the Baltic State. It also deals with Trade policies in the Baltic States after the independence.

The third chapters explore the political situation of the three Baltic States during the independence movement. It deals with the three Baltic countries' policies for political transformation like citizenship, making of the constitution and forming of the political parties. Further, it also describes the democracy-related problems in the region such as divided political communities, trust issues between citizens and the Baltic's political system.

The fourth chapter describes India and the Baltic States' relations. It provides the ancient cultural and language interaction between India and the three Baltic countries and the similarity between India ancient language Sanskrit and the Lithuanian language. Further, it describes the economic and political relations between India and all the three Baltic countries.

The fifth chapter will summarize the study and finding of the research questions and the hypothesis.

Chapter Two

Economic transformation in the Baltic States

The Baltic States Estonia, Latvia and Lithuania have made generous financial progress since the recaptured freedom in 1991. The countries confronted grave financial issues, counting rapidly decreasing production, rising joblessness, insufficiencies of products phenomenal development steps. The Baltic States confronted overwhelming difficulties in the mid of 1990s yet by and by figured out how to make changes that modified their political and financial scenes essentially. The Baltic nations were in the absence of sustainable development. They have now liberalized and opened their economies to the international market and have implemented a significant number of various and complex market arranged structural changes.

Regardless of the way that acknowledgment of all the three Baltic States' independence was a complex procedure. Baltic region figured out how to discover future joint effort accomplices in the initial period of independence. The economic condition in the Baltic States was in total fall after regaining the independence in the light of their withdrawal from the Soviet financial circle. The European community, which was One of the first to perceive all three Baltic countries in the worldwide framework, did accordingly in August of 1991. This was meant to be the start of a fast improvement in relationships between the European Union and Estonia, Lithuania and Latvia. The development of European Union and all these three countries' relations were done with the accommodation of application for membership of EU by Estonia, Lithuania and Latvia on Oct 27, Nov 24, and Dec 8 of 1995, individually. The European Union increase transaction process began in 2000 and the membership was gained in 2004. Since the influence of Russia was becoming effective, the Baltic States decided to join the European Union to move away from the sphere of influence of Russia.

The Baltic States shares common features and similar history. They show real similarities, as far as their geography, measure monetary structure, improvement and demography yet there were, additionally, a few differences. The adjustment to the market economy in the wake of recapturing independence took after a comparable

example and each of the three nations shared a common objective of the EU accession. The Baltic States have moderately small government divisions and liberal monetary policies. All the three nations insignificantly differentiate in their economic development and size. Estonia rises in economic terms as the most dynamic of all the three countries. Their agricultural part has a comparable size and was well over the EU average. What's more, regardless of their little market size, exchange inside the Baltic territory represents 10 to 30 per cent of every nation's exports and imports.

The Baltic States set as their overreaching financial target the change to a free market structure and re-introduction of their economies towards the west. At the point when Estonia, Latvia and Lithuania were internationally recognized as sovereign states, their economies were still integrated into the Soviet system. There had been advantages to the Soviet system, from the point of view of the workers: they had jobs for their life and received subsidized housing, childcare, food and consumer goods. The various subsidies placed a heavy burden on state finances; A huge amount foreign debt, inefficient stifling growth, rocketing inflation, constant shortage and continuous corruption were the describing factors of the economy of USSR before its collapse.

The post-soviet Baltic States were to be assured, adopting the western economic model was essential. However, the economic transition was also seen as an integral part of the state and nation building process (Norgaard and Johannsen, 1990, p. 109). The Baltic States, many of the policies adopted, with regard to the re-introduction of the national currencies, privatization strategies and choice of trading partners.

The three Baltic countries Lithuania, Latvia, and Estonia have repeatedly proved to be the most developed of former republics of USSR. These states have regularly been called Baltic Tigers because of their financial reforms, foreign investment and fast development of GDP, particularly in between of 2004 and 2007. In spite of the crisis of 2008-09, bringing in a deep recession, the past quarter of a century can surely be viewed as successful for Lithuania, Latvia, and Estonia. Moreover, since Estonia was considered the most developed and richest country of the Baltic States, it was termed to be referred as The Baltic Tiger specifically. A

detailed comparison of the Baltic States showed that Estonia, among the three, maintained the highest GDP per capita (International Monetary Fund, 2016).

Influence of the Historical background

While we Discuss Baltic's economic growth we must address the historical background and the factors affecting the Baltic's economic growth and development. In the Soviet Union, reconstruction and industrial development were high in the Soviet priority list in the Baltic States for various Economic and political reasons. Estonia and Latvia represented a skilled labour reserve unlike some other republic in the Soviet region. They also had a very substantial infrastructure, which had not been destroying during the war (Romuald Misiunas and Rein Taagepera, 1983).

On the verge of Perestroika in 1986, the fixed assets esteem rate was 5875 roubles per capita in the Soviet Union. This rate varied essentially between republics, from 8007 roubles in Estonia, 6923 in Latvia and 6111 in Lithuania. By the 1990s, the Baltic States' extent of the population with a salary more than 300 roubles was most elevated in the Soviet Union. If the Soviet Union normal extent was 8.8 percent, it was 19.8 per cent in Estonia, 14.5 per cent in Latvia, and 13.8 per cent in Lithuania. The poverty rate was the most reduced in the Baltic States. The extent of the population with a wage below 75 roubles did not exceed 1 per cent in Estonia and Latvia and 1.2 per cent in Lithuania. A country with the highest poverty rate in the Soviet Union demonstrated the highest level of despotism in the Post-Soviet period. (Nikolai M Mezhevich, 2015).

The Baltic States were in a better position than other former Soviet republics in 1991, in that they had been implementing economic reforms for the years by the time the USSR collapsed. Estonia, Latvia and Lithuania had begun taking steps to their economic sovereignty from Moscow as early as 1989. In March 1989, the Soviet government had promulgated a plan 'General Principle Plan- A Plan to restructure the leadership of the economic and social sphere in the Union republics on the basis of broadening their sovereign rights, self-management and self-financing' with the aim of increasing the economic autonomy of the republics (Gleason, 1990, p. 156). While the result of their efforts was the 'Law on the Economic Autonomy of the Lithuanian SSR, Latvian SSR, Estonian SSR' of 27 November 1989, it failed to meet Baltic politicians, demands for full control of banking, finance, foreign trade and all

enterprises, and ownership of all land and property (Kaufmann and Hardt, 1993, p. 140).

The economic reforms were intended as an important means of facilitating full political independence; it thus became clear that meaningful economic reform could not be implemented without full political independence. Any attempt by the Baltic republics to conduct foreign trade independently of Moscow was impossible as he later continued to exercise complete control over external frontiers. The Baltic States did have greater economic autonomy within their own borders, and in 1990 Estonia took the first step towards a market economy by introducing price Liberalization, but eventually removing subsidies on 90 per cent of all goods (Erixon, 1010, p.8).

The Baltic States had the best condition at the beginning for making a market economy among other Soviet-occupied regimes. The Baltic States had developed new innovative economic policies. In the past, in 1970 and 1980s, the Baltic States boasted the highest investment per capita rate. In Estonia, Latvia and Lithuania, many reforms were taken in 1991 and 1992. The Baltic States made a number of significant changes in various spheres, in their policies to make positive reforms for their economy like financial, housing and utility, medical and municipal were immediately carried out. Despite all the problems in the beginning, the Baltic States were now developed their economy in the worldwide.

Trade Policies in the Baltic States after independence

After regaining the independence, to originate for more significant economic integration, the first stage had been taken with signing the agreement of Free Trade between all the three Baltic countries Estonia, Latvia and Lithuania, which had a critical representative and reasonable importance for the participation of the Baltic States. Finally, Estonia, Lithuania and Latvia had formulated all necessary plans to combine with the European Union and collaboration of intra Baltic States with reason was viewed as an essential precondition to encourage Baltic membership in the EU. The Baltic nations, like every other small and open economies, were particularly reliant on foreign trade. The Baltic States placed trade liberalization of an early phase of the development process. The purpose of this central part of the liberalization of trade was related to both, i.e. the potential domestic monetary effect and external economic contemplations (OECD, 1994 pp. 15-16).

The other point of view stated that to enhance the national economy level it was required to liberalise the trade. It was believed that an expansion in exports could be achieved by the liberalization of trade while redirecting and broadening the imports. Moreover, the trade liberalization played the key role in competition approach and price change (Mikic, 1998, pp. 421). The Baltic countries were completely committed to a liberalized multination trade policy from the very beginning of the 1990s. In fact, they signed multiple agreements on MFN (Most Favoured Nation) status and FTA (Free Trade Agreements with various nations mainly to run their liberal trade approach. They coordinated their foreign trade policy with the EU trade policy and WTO (World Trade Organization) respectively.

Regaining their independence the Baltic states got occupied with the inter-industry trade. Their general exchange with Ukraine and Russia was of crude material, timber, metals and fuel for equipment and consumer goods. The provincial regional trade agreements between the Baltic States and the EU encouraged the advancement of trade of items like textile and hardware, which was the intra industry trade. In addition, liberal trade regimes had been implemented by every Baltic state just before the states joined the WTO, and in the meanwhile, the share of intra industry trade expanded.

The aggregate trade (both imports and exports) had been increasing until 1998 in all the three Countries. Where the imports increased faster than exports, aiming the increment in the trade deficit in all the three countries Estonia, Latvia and Lithuania. The foreign trade for all the nations, from the beginning of 1998, were not significantly increasing as before. This situation was caused by the financial crisis of Russia. The crisis which hit the economies of Baltic States very hard. The agricultural and other foodstuff export to Russia decreased by no less than 30 per cent in the ending quarter of 1998 as contrasted and the earlier year and in a few areas kept on falling altogether in the first half of 1999 (OECD 2000).

By the end of the 1990s, EU with Germany and Russia were the common and major trading partners with all the three countries. EU was the main trading partner amongst the three, however, Latvia mainly exported to Russia, Sweden and Germany; and Lithuania exported its production to Germany, Latvia and Russia; whereas the exports of Estonia went to Finland, Russia, Sweden and Germany. These exports were

stable for years before joining the EU. Despite the decline in absolute as well as relative terms, CIS remained one of the largest partners of trade for all the three States of Baltic.

In terms of the choice of trading partners, Estonia made the greatest effort to reorient its economy from the East to the west and to lessen its dependency on Russia. While in 1991 Russia and the other Soviet republics accounted for 94 per cent of Estonian exports and 84 per cent of its imports, these figures fell to 34.7 per cent and 40.1 per cent respectively within just 12 months (Raun, 2001, p. 32). All three Baltic States signed the free trade agreements with EFTA (European Free Trade Association), Estonia benefited the most due to its geographical proximity to and cultural affinity with the Finns. In July 1994 free trade agreements also were concluded between the Baltic States and Brussels, by 1997 the majority of Estonia's foreign trade was with the EU, as was also the case with Latvia and Lithuania.

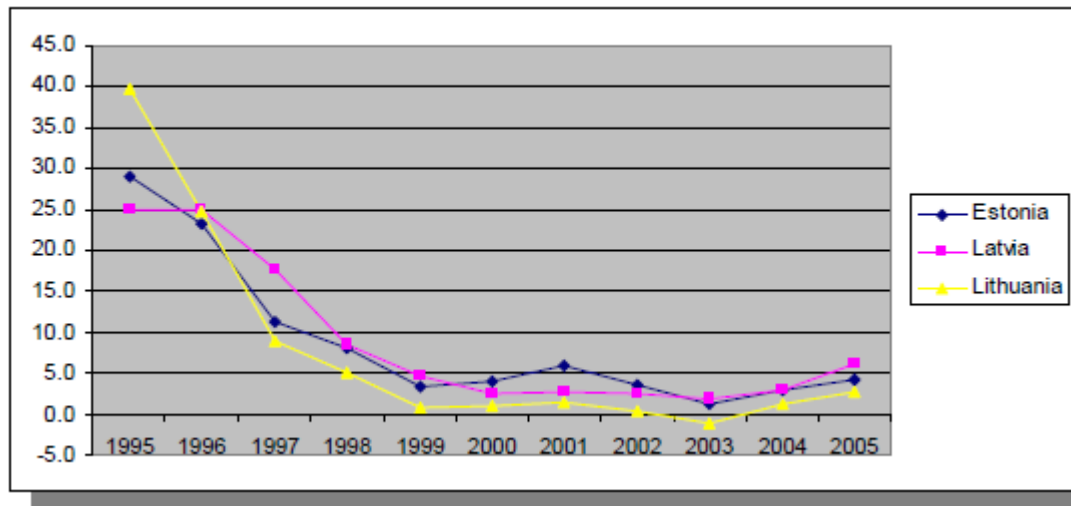
Exports to Russia and other CIS states was restricted for the most part to the agricultural sector, and only then because the latter had proved 'incapable of a quick reorientation to western markets' (Smith, D.J., 2001, p. 122). Russia remained the top destination for Latvian exports for most of the 1990s, although from 1996 its importance as a trade partner declined continuously relative to western states and, in particular, the European Union. By the time it was an EU member the share of Latvia's exports to Russia had fallen to just 8 per cent down from 30 per cent in 1993, while the EU accounted for more than three-quarters of its exports (Dombrovsky and Vanags, 2006, p. 99).

When Russia's financial crisis erupted in August 1998, the Baltic States had considerably reoriented their economies away from their large Eastern neighbour, with the latter accounting for just 8.3 per cent of Estonian exports and 8.5 per cent of its imports and 17.4 per cent of Latvia's exports and 13.6 per cent of its imports, although the figures for Lithuania were much higher, at 22 per cent and 24.4 per cent respectively (Norgaard and Johannsen, 1999, p. 121). By the time Lithuania joined the EU in 2004, Russia was the third most important export's destination, after Latvia and Germany and the source of almost 23 per cent of its imports, with the bulk of the imports relating to energy.

All three states remained highly dependent upon Russia for their energy needs, importing all their natural gas and most of their oil from their Eastern neighbor. Estonia has been less reliant on imports than Latvia and Lithuania, due to its smaller population, domestic production of energy from oil shale and increased use of renewables.

Price Liberalisation and Monetary Policy

All three economies of the Baltics figured out how to decrease expansion rates and accomplished a rather stable price level by the end of the 1990s (See figures 2.1). One of the essential measures taken to decrease unfavorable impacts of price liberalization was the introduction of their own monetary standards by all three Baltic countries. Estonia was the first to leave the rouble region in June 1992, Latvia and Lithuania went with the same pattern shortly after that in March and June 1993. Also, limits of the recently settled national bank in all three countries were generously upgraded after the Bank of England and had restored their gold deposits put there before the 1940s (Hiden and Salmon, 1994, pp. 192).



Source: EBRD database

Figure 2.1 : Baltic economies: Inflation Rates, 1995- 2005, (in percentage).

Estonia's rate was slashed from 953 per cent in 1992 to 35 per cent the following year, falling successively thereafter to 3.1 per cent in 1999, before nudging back up to a high of 5.6 per cent in 2001 on the back of rapid growth following the

recession of 1998 (Lainela and Sutela, 1997, p. 80). In the immediate run-up to EU accession, the Estonian inflation rate largely moved in tandem with the euro area, slightly higher level. Latvia's stabilization policies were equally if not more effective, with inflation cut from 959 per cent in 1992 to 35 per cent in just one year. Latvia continued to outperform its northern neighbour until 2003 when its overheated labour market began to push up wages (Vanags and Hansen, 2008, p. 8). Lithuania, on the other hand, struggled to keep price rises under control in the early years of transition. Price liberalization had been introduced in November 1991, but the government continued to set the price of transport, telecommunication, rent, energy and soon foodstuffs. By 1992, 85 per cent of prices were set by the depreciation of the currency and increased government spending (Lane, 2001, p. 167).

Practically managed exchange rates of the Baltic economies, either through a currency board in Estonia and Lithuania, or a fixed peg in Latvia helped to secure the stability of their currencies and domestic costs. This condition inferred, in addition to other things, genuinely tight fiscal discipline for their governments, so far, despite relatively huge current account deficits, the managed exchange rate policies have demonstrated a useful instrument in executing stabilization and restructuring approaches while at the same time seeking after long-term development technique.

The choice of the exchange rate regime relies on a variety of conditions. Getting from a goal of the Baltic economies to secure significant inflows of foreign investment and keep up obtaining intensity of their currencies, their decisions of inflexible exchange rate regimes appears to be conceivable in spite of expanding current account deficits. This kind of system appears to be feasible in given ideal condition in the Baltic States.

The Baltic economies, alongside other CEE nations, have so far profited incredibly from generally low labour costs. In any case, in the more extended time negotiate additionally cost and wage modifications were to achieve crumbling of this apparently permanent competitiveness. Under these conditions without automatic systems, for example, flexible exchange rate regimes, imbalances will be elsewhere in the economy, prompting underutilization of accessible assets, in a type of higher unemployment and greater output gaps. However, in the long run, discharging a hold on the exchange rate would appear a more conceivable alternative, since it would

empower to fill in as a preventive mechanism in perspective of likely imbalances originating from external sectors improvements.

Fiscal Policy

From 1992 monetary policy in Estonia was constrained by the legal requirement set out in the new constitution that the government maintains a balanced budget at all times. To facilitate this, a number of strategies were adopted to boost state finances. In 1992 VAT was raised from 10 per cent to 18 percent, and a flat rate of corporate tax of 35 per cent was introduced to replace the previous progressive tax, which had averaged 27 percent. After the highest rate of personal income tax was increased from 33 per cent to 50 percent, a more successful means of raising revenue was the introduction of a flat rate of 26 per cent in December 1993 (Hansson, 1992, p. 10).

In Latvia, VAT was introduced in January 1992 at a rate of 12 per cent but quickly raised to 18 per cent after the 1993 elections, by which time the expansion of the budget deficit was becoming increasingly apparent (Mygind, 1997, p. 36). In 1993 corporate tax was introduced, with different rates for different types of enterprises; 45 per cent on banking, insurance and trade; 35 per cent on fully and partially state-owned companies; and 25 per cent on private companies. In January 1994 the top rate of personal income tax and the loss of import and export duties, due to smuggling and corruption among Latvia's customs officers. In 1993 only 10 per cent of payable excise taxes and 28 per cent of customs duties actually made it to the government's coffers (*ibid.*, p. 109). The statutory requirement that all businesses switch to computerized cash registers made it easier for inspectors to assess more accurately the rate of sales tax due, while the increase in the number of collectors helped boost the inflow of government revenue.

Lithuania initially introduced a progressive personal income tax, before switching to the flat rate of 32 per cent in 1996. The VAT was introduced in 1994, at a rate of 18 percent. As in Latvia, Lithuanian corporate tax was graduated, but the tax collection system was highly inefficient. In general, it has been estimated that 10 per cent of Lithuanian tax revenue was not collected (*ibid.*).

One advantage that Estonia, Latvia and Lithuania had over the post-communist states in Central and Eastern Europe was that Russia assumed responsibility for all Soviet debt. In Latvia, 'the amount saved on interest and payments cushioned the collapse of most other governmental sources of revenue from 1991- 1995' (Pabriks and Purs, 2001, p. 97).

Privatization Process in the Baltic States

Being one of the central components of the entire reform package, substantial scale privatization was not consistently executed in the Baltic States. Naturally, proposed privatization plans were to be adjusted to the substances and requirements of the local economy (Gillies et al, 2002). The privatization process in Estonia Latvia and Lithuanian was politically charged, given the claims for restitution for property nationalized by the Soviet Union, the issue of whether to allow all residents or just citizens to benefit from privatization and the degree of foreign, in particular, Russian control of Baltic enterprises.

Legislation governing the restitution of property nationalized by the USSR in the 1940s was passed in Estonia shortly before independence, in June 1991. Under the terms of the 'Law on the basis of Property reform', the property would, if possible, be returned to the legal owners or their descendants. If this was not possible, the latter would receive compensation vouchers (Mygind, 1997, p. 43). In 1993 the 'Law on the Privatization of Dwelling Rooms' was passed, entitling adult residents, not just citizens to receive a number of privatization vouchers calculated on the basis of the number of years they had worked in Estonia. The vouchers were initially intended to be used towards the purchase of apartments, although the following year it was agreed that they could be put towards buying shares in commercial enterprises as well. By 1998 about 90 per cent of residential accommodation had been privatized (Smith, D.J., 2001, p. 129).

The transfer of state-owned or municipal commercial enterprises also began prior to political independence, with employees and managers in the three Baltic republics taking advantages of a 1989 Soviet law to lease 'small enterprises' with the right to buy out. In this early period, it was assumed that this would be the dominant model once full independence had been achieved. In Estonia, the advocates of this approach were challenged by those who argued that finding strategic investor should

be prioritized and 'efficient management should take precedence over a simple transfer of ownership' (Smith, D.J., 2001, p.127). As a result, the preference insiders had been given was removed in May 1992, and thereafter firms were offered for sale through public tender. This procedure was overseen by the state property Department and Estonian Privatization Enterprise, which manages the sale of small and large-scale enterprises, respectively before being merged to form the Estonian Privatization Agency (EPA) in 1993 (Purju, 1996, p. 11). The transfer of small enterprises to private hands was largely completed by the end of 1994; the privatization of larger enterprises started slowly but was more or less achieved by 2001, when the EPA was finally closed.

The Latvia privatization process largely similar to Estonia's in that workers' collectives in the late Soviet period made use of the opportunity to lease and then by state-owned enterprises and that, once independence had been achieved, preference was still given to insiders, under the terms of a Law, which was on the Privatization of Small Objects of Municipal Property in Catering, Trade and Communal Services of November 1991, before then formally removed in 1992. That year also saw the launch of the privatization vouchers distribution programme. The number of vouchers received depended on whether 'the recipient family had been living in Latvia prior to the Soviet occupation and on the numbers of years spent working for the Latvian state. Citizenship status and whether one had worked for the communist party or been subject to political persecution determined the number of vouchers received. The large group of Soviet-era immigrants without residence permit received no vouchers' (Norgaard and Johannsen, 1999, p. 140).

Privatization in Latvia was initially slower than in Estonia. From 1994 foreign investors were given the opportunity to purchase vouchers and thus participate in the privatization process. Not all state-owned enterprises were considered suitable for privatization, the monopoly status of Lattelekon, the telecommunication company, was protected by law for two decades, while the decision to sell off the Ventspils Nafta oil terminal and the Latvenergo utility company was highly controversial as they were considered to be too strategically important to be sold to foreign buyers (Davis, 1996, P. 3). Nevertheless, according to the IMF, Latvia eventually embraced

rapid mass privatization, and by 2001 almost all large-scale enterprises, including Ventspils Nafta had been privatized (Zile and Steinbuka, 2001).

Some managers and employees in Soviet Lithuania took advantage of the opportunity to lease state-owned enterprises than in Estonia and Latvia, the southernmost Baltic States did pass legislation on both small and large-scale privatizations before independence, in early 1991, adopting a voucher-based distributional model for the first state (Maldeikis, 1996, p. 3). Vouchers were distributed among all residents on the basis of age, with additional vouchers allocated to those who had lost property as a result of Soviet nationalization. As a result, some 92 per cent of enterprises were majority owned by employees by 1995 (Mygind, 1997, p. 143). By the end of the first stage of voucher-based privatization in July 1995, 30 per cent of all state-owned property had transferred to private hands. In the second stage, state property could also be bought for cash, which opened the way for foreign investors to participate.

The principal target of the entire privatization program was the foundation of an ideal cluster of possession forms that would empower to proficiently use accessible assets in an economy. Besides, this inferred, in addition to the other things, an overwhelming status of the newly settled private sector that was better suited to accomplish higher efficiency levels. In perspective of this, Jones and Mygind (2000) point to effectiveness gains the Baltic economies collected from the privatization process, the considerable increment of the private sector's share. In general, all three Baltic economies executed privatization at a somewhat fast pace, with Lithuania being the speediest, Latvia the slowest and Estonia faring in the middle.

Economic reform after the independence in The Baltic States

After independence, all the three Baltic State faces many challenges in economic reforms and for the establishment of the new market economy. Reduction of prices, relaxed taxes and duties, inflation control, economic stability, privatization and restructuring and institutional reforms were mainly focused in the transition process of the Baltic States (Anderson and Staehr, 2006). Liberalisation of prices and trade was the first major step in the transition process. Macroeconomic stabilization was necessary to ensure a predictable environment and balanced development.

There was an urgent need for important steps to be taken for the better economic conditions in the Baltic States. The Agreement of Free Trade between Estonia, Lithuania and Latvia was the first such step taken by these three Baltic Countries. Small countries like Estonia, Latvia and Lithuania were heavily dependent on foreign trade. Russia made the trade relations difficult for the Baltic States by implementing commercial restrictions on them and as a result, commercial relations of Baltic States with the other Soviet countries of that era were discontinued for some time. Despite their unfavourable, in the beginning, three Baltic nations managed to establish successful economic reforms in a period of a few starting years and restructuring their economies.

The Agreement of Free Trade among the Baltic States was signed in the month of September of 1993, which was implemented in April of 1994. One of its objectives was the creation of free trade zone between all the three Baltic nations Estonia, Lithuania and Latvia. In June 1996, the Agricultural Free Trade Agreement was signed between the three Baltic countries, came into force on January 1997. Another Agreement of Free Trade among the Baltic States was signed in November 1997 with the main goal of eliminating non- tariff barriers. This agreement was implemented on 1 July 1998. It took the Baltic nations a very less time (a few years) to liberalize the overall economies of their respective countries. Baltic States implement a high degree of free trade despite being very small economies. Estonia, in order to protect its agricultural and other commercial business interests, completely removed import duties in 1922. Lithuania, as well as Latvia, kept up a few certain defensive duties; however, the rates of taxes were very low. However, in 1992, The Baltic States faced fiscal instability and streaming yearly inflation that once touched the high of 1000 per cent in the three Baltic States.

All three countries chose distinctive ways to deal with privatization. Estonia picked the most radical arrangement, which was to offer however many business enterprises as achievable to foreign investors. Latvia and Lithuania at first settled on complex coupon privatization plans for distribution of businesses to their citizens, yet these nations in this way sold numerous state claimed enterprises to foreign investors. Most of the banking sector was foreign-owned in all three Baltic countries (Karsten Staehel, 2007, pp. 79- 96).

The most prominent changes might be the introduction of the “flat tax”. Whereby all private individuals pay a similar level of their income over specific essential allowance. Estonia was the first to present a flat tax rate in 1994, Lithuania latter in 1994 and Latvia in 1995. Various other Eastern European nations have since embraced a similar model (Saavedra et al., 2007).

All the three countries in the Baltic countries traded mostly crude materials, timber, fuel and metals from Russia and Ukraine for consumer products. The Baltic States began to harmonize their legislation according to the EU guidelines; Baltic States signed the Regional Trade Agreements with the EU to build up the intra business trade such group of commodities as textile and equipment. All the three countries Estonia, Latvia and Lithuania implemented liberal trade regimes and joined the WTO, which additionally reduced the trade developments and the extent of intra industry trade expanded, for instance, the exports of textiles made of crude materials imported from the EU. Total trade had been growing until 1998, in all the three nations, both exports and imports (Erika Sumilo, 2006).

The Russian crisis, one of the most hard-hitting crisis for the economies of Baltic states, which reduced the export rate of products used in agriculture and foodstuffs by at least 30 per cent at the end of 1998 in comparison with the previous year and in some other sectors the export rate significantly and regularly fell in the mid of 1999 (OECD report, 2000). By the end of the 1990s, the main commercial partners of trading of the Baltic countries were EU and Russia while the CIS countries also regularly proved to be one of their greatest commercial partners of trade.

The Russian crisis also hit Baltics economies very hard. The export of Agricultural products and foodstuffs to Russia fell by at least 30% at the end of 1998 as compared with the previous year and in some sectors continued to fall significantly in the first half of 1999 (OECD, 2000). At the end of the 1990s, the three Baltic countries' main trading partners were EU and Russia and the CIS countries also continued to be one of the largest trading partners of the three Baltic nations.

Currency Reforms in the Baltic States

After regaining the Independence, all three countries continued using the Soviet rouble, also the other countries that gaining independence from the Soviet Union using their currency as Soviet rouble as well. As a result, inflation pressure

increased in 1991 and 1992. At the end of 1992, policymakers thought that the Baltic States had to stabilize their inflation rate and ensure autonomy in monetary policies. The policy makers considered that Soviet rouble should abandon. After abandoned Soviet rouble, the introduction of a new currency and the decision of the exchange rate regime were generally complex issues subject to complex trade-offs (Staehr, 2015). The Baltic nations, however, opted unique policies to some extent, apparently reflecting many different political leanings in the three Baltic Nations (Berengaut et al. 1998, Lainela 1993).

Estonia presented a new currency the “kroon” in June 1992. The exchange rate of Estonia, for each German mark, was specifically fixed at eight kroons; however, the currency board introduction proved to be the most outstanding element. Eesti Pank (the Central Bank of Estonia) was compelled to keep the full reserve cover of their domestic financial base. Latvia also came with a rather short-term currency in May 1992, called “The Rubles”, which circulate alongside the rouble. It became feasible for the Latvians specialist to issue currency, the temporary currency made it easy, yet since it was circulated alongside the rouble, the high rates of inflation were continuous. Therefore, in March 1993, Latvia had to come up with the Lats. The rate of exchange was 200 Rubles per Lat. In the early August of 1991, Lithuania also introduced a same kind of currency, a temporary currency called “The Talonas”, it was issued in the form of coupons that could easily be used with the Soviet roubles. In May 1992, Lithuania introduced a new form of Talonas and until September of 1992, this new version of Talonas circulated alongside the Soviet rouble. Now Talonas with the Soviet rouble, the two parallel currencies, made it easy for Lithuania to issue its own currency, whereas financial flows and commercial trade were still possible in roubles. In the next month i.e. October of 1992, Talonas was declared the only legal currency in Lithuania and finally, in June of the year 1993, Lithuania introduced its permanent currency the Litas (Karsten Staehr, December 2015, pp. 9- 18). After the introduction of the new currencies all the three Baltic States: Estonia, Lithuania and Latvia were successful in differently fixed exchange rate regime and inflation came down rapidly in all the Baltic nations.

The European economic crisis which started in 2008 brought some serious situations for every nation, especially developing countries. After independence Baltic States gained prominent economic growth from their economic developments. Many

economists agreed that the main reason for such imbalances was a structural weakness, and with these kind of internal problems countries were facing external commercial blows during the crisis and countries, the economic condition worsened.

During the monetary and financial emergency developing nations were impacted mainly by external blows. There were two critical channels of these blows, first, the exports which fell extensively and the other was the net capital flows which significantly declined. This announcement was valid for the Baltic nations since because of their small size these countries heavily dependent on international economic trends. (Blanchard et al. 2010). After joining the EU in 2004, Baltic nations improved their economic growth. After the economic crisis, Latvia and Lithuania's GDP fall in double-digit the crisis hit strongly in Estonia as well.

The declined inflation in 2009 was mainly caused by a significant fall in domestic consumption. The lower domestic consumption brought down food and energy costs. In 2010, the inflation rate in Lithuania and Latvia kept on declining, yet in Estonia, it expanded by 2.5 per cent in comparison with the earlier year. In all three countries, wage increment surpassed labour productivity development every year. These economic crises and unsustainable financial procedures together prompted the decline in economic developments of the Baltic Nations in 2009 (ECB report, 2010).

In 2009, Estonia, Latvia and Lithuania kept on raising their expenditures. In 2009 the revenue expanded notably in Estonia by 17.3 per cent compared to the previous year, somewhat in Lithuania, yet regularly decreased in Latvia (The European Commission report, 2010). Post-crisis, the Baltic countries managed to maintain their gross public debts less than the benchmark (i.e. 60 percent) managed by the Maastricht criteria. Estonia managed their public debt at 6.7 per cent of the GDP in 2010, whereas it was 38 per cent in Lithuania and 44.7 per cent in Latvia. The situation was worse in the labour markets. The rate of Unemployment went to 5- 6 per cent in the mid of 2008, and it started rising by the end of that year, before completing 2009, they crossed the 15 per cent mark in all the three countries Estonia, Latvia and Lithuania (U. Kaasik, 2009, pp. 82- 91).

At the beginning of 2009, the normal wages declined by 1.5 percent, and the employment rate got reduced by 6.8 percent. A decline of 1.9 per cent in Nominal wages was also noticed in Lithuania, yet the recession in Latvia began just in the

middle of the year 2009 (Purfield- Rosenberg, 2010). The foreign currency of the households and businesses was high in all the three Baltic countries, for one year i.e. from April 2008 to April 2009, as in Lithuania alone, the foreign currency loan share was 60-70 per cent of the total lending, while it was 80-90 per cent in Estonia and Latvia together (Y. Koyama, 2010, pp. 31- 35).

According to Masso and Krillo (2011), the cheap foreign loans fuelled essentially and lodging market in the Baltic countries, in this manner land costs rose, and the biggest job-making industry was the construction industry before the crisis, from 2005 to 2007 the employment sector in Estonia expanded by 68.2 per cent and in Latvia and Lithuania it expanded by 38.8 and 29.0 per cent respectively. Therefore, job losses because of the crisis were mostly detectable in this area, in 2009, 36- 42 per cent of people lost their employment came from the constructions. European financial crisis had a great effect on all the three Baltic countries. The radical drop in the growth rate of GDP of all Baltic regions was noticed while inflation rate and unemployment rate were touching new heights and expanded public debts and budget deficiencies were the main blows of the European financial crisis which hit the Baltic countries hard.

And also the Baltic States had been appealing for foreign investment from the time of accession to the European Union, FDI inflows, in 2008 and 2009, had declined in the Baltic States. In the management of this crisis, the Baltic States had to take steps, firstly internal steps, which were taken by the Baltic's administration and the national bank and secondly external steps, identified with the European Union, IMF (international monetary fund) and the other international organizations. After the recession, in 2010 the Baltic States had shown a favourable image, real accomplishment for the Baltic States, despite the heavy crisis, it figured out how to fulfil with the criteria of Maastricht Treaty and it could possibly join the Euro Zone

Joining the Eurozone

On 1 May 2004, the Baltic countries joined the European Union. Now the three countries needed to meet the criteria of the Maastricht treaty to become a member of the Euro Zone. Maastricht Treaty criteria were the lawful and financial merging criteria at the first spread of the Maastricht Treaty of 1992 (ECB report,

2006). The criteria covered government finances, exchange rate stability, price stability and interest rate convergence.

The Maastricht Treaty of 1992, economic criteria specify: first, a reference value of 1.5 per cent in addition to the normal inflation rate of the three EU countries having the best execution of price stability, could not be surpassed by the rate of annual inflation. Price stability needed to be sustained. And second the general budget deficit of the government could not surpass 3 per cent of GDP, and the debt of administration could not surpass 60 per cent of GDP or must have met this level at an acceptable pace. Third, the rate of exchange more likely than not been connected to the Euro through the membership of the rate of exchange instrument ERM II¹ for no less than the time of two years. Fourth, the long haul rate of could not surpass 2 per cent in addition to the average rate of interest of the three European Union nations with the best execution of price stability. In the Baltic States, each government declared during the negotiation that they were keen in getting the membership of the Euro Zone and they would seek it as soon as possible.²

The initial step all the three countries, Lithuania Estonia and Latvia, had to take was to join the ERM II, where the exchange rate was fixed generally close to the Euro. With Latvia joining ERM II in May 2005, Lithuania and Estonia also joined in June 2004. For Estonia, the enrolment of the ERM II was direct, which had recently secured the Kroon to the Euro, just following the newly introduced Euro in 1999. In January 2005, Latvia also changed its security from the SDR3 to the Euro fully expecting ERM II enrolment soon thereafter, while Lithuania had as of now replaced the Dollar in exchange of the Euro as its anchor legal currency in February 2002.

Income convergence ordinarily concurs with the genuine appreciation, since domestic prices rise faster than foreign prices estimated in common units of currency, a very stylised and famous fact known as the ‘Dynamic Penn’ impact (Ravallion 2010). The existence of the ‘Dynamic Penn’ impact on central and eastern European nations has been set up in various studies (Frensch and Schmillen, 2013; Staehr

¹ “ERM II entry was based on an agreement between the ministers and central bank governors of the non-euro area Member State and the euro area Member States, and the European Central Bank (ECB). It covers the following: A central exchange rate between the euro and the country's currency was agreed”.

² “Darvas and Szapary (2008), gives a general discussion of various Euro adoption strategies. Staehr (2014) discusses the challenges emerging from upward inflationary pressure in rapidly converging economies”.

2015). As the Baltic States had secured their financial standing to the Euro, the genuine gratefulness has appeared as high domestic inflation.³

The price stability criteria ended up being the primary hindrance for the membership of the Euro Zone. The entry of Baltic States in ERM II depends on the agreement between the ministers and the national bank governors of the non-Euro Zone member states and the Euro Zone member states and the European central bank. All the three Baltic countries saw a fast financial development from 2000 onwards and the income gap decreased rapidly with Western Europe during this period (see figure 2.2).

Lithuanian government looked to pick up admission to the Euro area in 2007, however, the European Commission and the ECB published convergence report in May 2006 and the report revealed that Lithuania did not break the price stability criteria. Lithuania was not able to be admitted to the Euro Zone. The inflation rate in the Baltic countries went up high in the year after the Lithuania application got rejected. By the end of 2008, the Estonian government chooses to set out on a program intended to carry Estonia into the Euro Zone.

The ECB and the European Commission in their convergence report of 2010 inferred that Estonia had fulfilled the majority of the criteria of Maastricht treaty, including the criteria of price stability. The finances ministers welcomed Estonia to be the part of the Euro Zone at a meeting held in June 2010 and as a result, Estonia embraced the Euro in January 2011. The convergence reports of 2013 observed that Latvia, being consistent with the criteria of Maastricht and Lithuania, joined the Euro Zone in January of 2014. The reports of 2014 also observed that Lithuania additionally fulfilled the criteria and hence the country participated in January 2015.

³ As an additional complication, the expected inflation reference value declined after the enlargement of the EU by 10 new EU members in 2004. The computation of the reference value includes the average inflation in the three EU countries with the best performance in terms of price stability. Lewis and Staehr (2010) show that the enlargement of the EU by 10 new countries in 2004 lowered the expected inflation reference value by 0.15–0.2 percentage point.

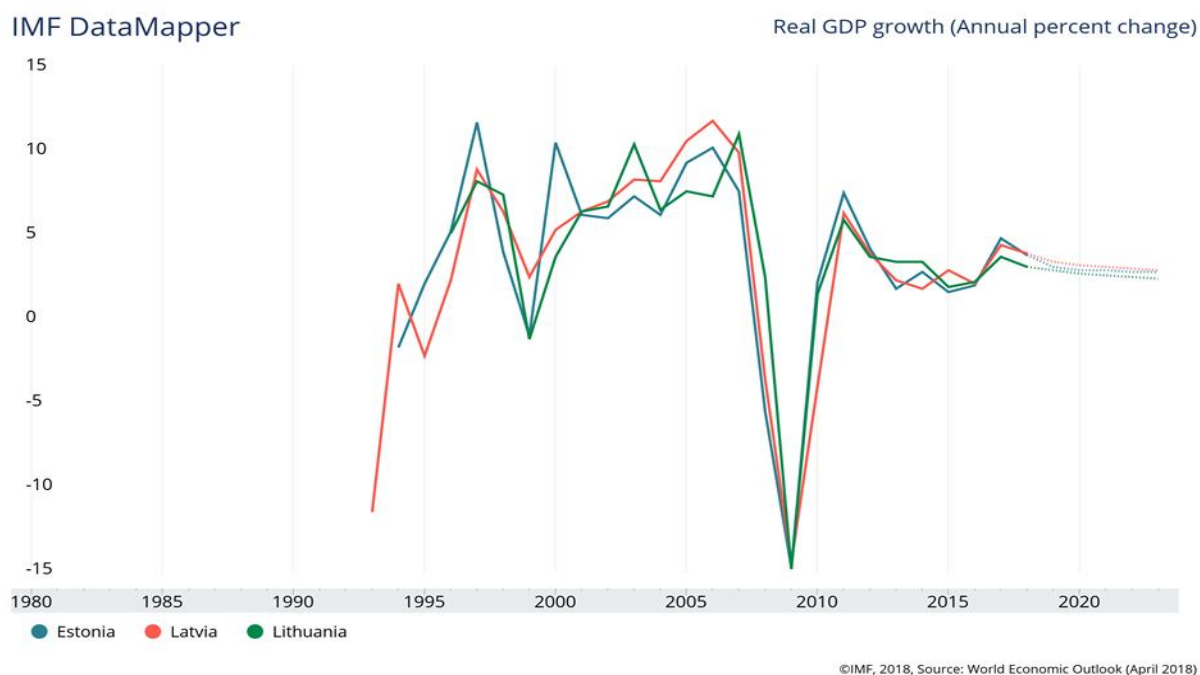


Figure 2.2 Annual GDP growth in the Baltic States

Membership of the Euro Zone was a critical step for the Baltic States in their decade-long procedure of integration into Europe. The three nations were currently completed associated with the ECB's decision-making process and the issues of the membership of the Eurozone and fulfilling the criteria of Maastricht overshadowed domestic policymaking following the Baltic States joined the European Union, and by the time they adopted the Euro, the focus of domestic policy-making moved to different issues.

After the independence, the initial period had been set apart by economic hardship, food storage and a high inflation rate. At the point when a newly formed government tried to change the economies and present market-based economy frameworks, a key target supported financial developments and raised standard of living nearly to Western Europe standards. The three Baltic nations Estonia, Latvia and Lithuania also had some influence from the Soviet past. All three Baltic States implemented the price liberalization and economic policies, fiscal policy and privatization process for the growth of all the three Baltic nations. After so many hardships to reform the economy the Baltic States manage to fulfil the Maastricht Treaty criteria and became a member of the Euro Zone. All three Baltic States have made great progress since the regaining independence.

Chapter Three

Political Development of the Baltic States

Estonia, Latvia and Lithuania reappear as independent states on 20 August 1991. The three nations had been constituent republics of the Soviet Union and subject to the limitations of Marxist and Leninist ideological discourse for more than half a century. Estonia Latvia and Lithuanian re-emerged as independent states on 20 August 1991. The three countries had been constituent republics of the USSR and subject to the constraints of Marxist and Leninist ideological discourse for more than half a century. All government decisions related to political and economic life had been justified with reference to Marxism- Leninism, with class, not with nationality, the source of political legitimacy.

After the independence in 1991, the Baltic States proves that they would capable of sufficient to reforms such as the democratic system and growing economy for integrating into The European Union. During their transition stage, prominent mobilization assumed an important role in all the three Baltic countries: Estonia, Latvia and Lithuania and they experienced comparable development into parliamentary democracies based, generally, on proportional portrayal, Lithuania is the special case, having selected a different system for the semi-presidential system. All three Baltic States have the multi-party system.⁴ Politically, it is worth mentioning that all three Baltic countries emphatically support a liberal economy,⁵ an economy forced amid the political elites' resolved efforts to qualify for EU membership, the EU membership was granted in 2004 to all the Baltic countries: Estonia, Latvia and Lithuania.

The Baltic countries have now experienced two decades of politics according to democratic principles. When three countries declared independence in the early 1990s, they were unprepared for the challenges of democratic politics. Building a

⁴ Lithuania at first presented a mixed system of comparable and majority voting, its constitution was intended to make a stronger presidency than accommodated by the other two states.

⁵ It has been accurately pointed out that of the three, Estonia was a vanguard, its economy was the first to be completely liberalized, utilizing the shock therapy strategies. Latvia and Lithuania have, however, not lingered a long way behind.

democratic society is very complex in the Estonia, Latvia and Lithuania. Estonia and Latvia inherited the very substantial number of immigrants from other parts of the Soviet Union. The ethnic divisions opened up a variety of issues related to nation building, citizenship and integration. Estonia and Latvia decided to restrict access to citizenship by insisting upon the gradual naturalization of Soviet period immigrants.

As a member of the European Union, the Baltic States can even be called certified democracies. Just a decade after the independence, the European Commission concluded that the Baltic countries were able to assume the obligation of membership. Despite continuous concerns over corruption (Latvia and Lithuania), the rule of law (Latvia) and the integration of non-citizens (Estonia and Latvia), the Baltic countries have serious problems with democratic consolidation according to the European Union (European Commission 2002). The criteria for EU membership known as the Copenhagen criteria include political, economic and legislative aspects. The Economic and legislative condition involves a function of a market economy and the ability to adapt to competitive pressures and market forces inside the Union. The Political criteria require that a candidate applicant nation has accomplished strength of establishment's strength of establishment ensuring democracy, the Rule of law, Human Rights and regard for the assurance of minorities.

According to the freedom in the world index, the three counties are deemed 'free', states they have enjoyed since the early days of independence. Estonia and Lithuanian and Latvia receive the best position on both political rights and civil liberties (Puddington 2012).

The Baltic States had faced many difficulties in establishing democracy their many factors that affecting to establish successful democracy. After the independence from the Soviet Union, the main task was the state and the nation building. The desired conceptualization of national identity and political community became primacy and to analyse the impact that this had on citizenship minority rights domestic politics and the socioeconomic transition.

Defining Demos and Ethnos and Citizenship

Democracy refers to 'rule by the people'. Taken from Ancient Greek, demos is understood to mean 'people' in the sense of a political community, as opposed to 'people' as a cultural community (ethnos). Theoretically, the demos and ethnos can be

congruent, but historically this has rarely been the case, even in the states emerging from the Habsburg, Prussian, Romanov and Ottoman empires, established on the basis of national self-determination, where the nation was defined in the ethnic rather than political terms, the demos also included the men of minority ethnicities and simultaneously excluded women of the dominant ethnic group. While defining the political community is an essential part of the democratic process, there is no agreement as to 'who ought to be a member of the demos' (Dahl, 1989, p. 4). In contemporary democracies, the demos are coterminous with the citizenry in that all citizens, with the exception of specific categories of individuals, have the right to vote and also to stand for public office. In the post-communist Baltic States, therefore, the definition of the citizen body was to have significant implications for the democratization process.

As Estonia, Latvia and Lithuania's national identities came to be expounded contrary to the other Soviet countries, the conflation of the soviet implied that the stabilization of the national identity in the Baltic States, and particularly Estonia and Latvia, involved the avoidance as far as possible of the Russian speaking minorities and Russian language and culture. To stabilize their national identities in their desired ethnic form the Estonians and Latvians thus needed to consolidate the Soviet constitutive outside, rendering illegitimate the Russian presence in their states. The perceived threat to the Estonian state posed by Russian speakers, many of whom had voted in favor of Estonian independence. The Lithuanians also began to discuss concrete ways of ridding their state of the vestiges of Soviet occupation. Lithuanian realizes the geographical proximity of Russia not so much as a threat to its nation's survival but rather as an opportunity to be exploited. So while national identity discourses in Lithuania was just as an anti-Soviet as in Estonia and Latvia, it was less anti- Russian (Richard C. M. Mole, 2012). The describing the demos was subsequently a crucial part of establishing democracy procedure in all the three Baltic States, in Estonia and Latvia defending the ethnos was viewed as a similarly.

After the independence, the ethnic situation of Estonia and also Latvia may appear like a debacle. The two nations are set apart by a few factors that effectively could prompt extreme pressures, between 30 and 40 per cent of the Estonian and Latvia population, individually, consider themselves Russian, Ukrainians,

Belarusians, about all immigrants came as internal migrants of the Soviet Union in the period the 1940s and 1980s or are relatives of these migrants, they enormous reside minimized urban zones, in the Soviet occupation period of the Baltic States, they delighted in specific benefits such as in language terms, most of them keep on identifying with the forcing neighbouring nations, to be specific, Russia. Altogether, some of them are part of the Russian Federation, while for larger numbers are not natives of any country. The Estonia and Latvia have implemented a one country model for modifying their national communities. In the meantime, numerous Estonians and Latvians people the view that not every Russian speaker cannot become cooperating or even faithful citizen.

Lithuania has the very small population of Russians and other immigrants, by the time independence was re-established in 1991, and the ethnic circumstance in Lithuania had standardized (Gaidys, 1994). Due to its small size, the Russian communities in Lithuania did not speak to a risk to Lithuania ethnic strength. Each resident of Lithuania who applied for the new Lithuania visa was consequently granted citizenship. In addition, broad social rights were reached out to ethnic Russians in Lithuania (Lakis, 1995).

The implementation of the ethnic control by the main national ethnic group continued through aims to set an 'ethnic democratic' system in both Estonia and Latvia. Citizenship laws were said that ethnic Russians restricted from participation in national governmental issues.⁶ Therefore, no ethnic Russians were chosen to the Estonian parliament in 1993 despite the fact that ethnic Russians constituted 33 per cent of the countries' population. In Latvia, just seven ethnic Russians were chosen, out of a hundred members of parliament, when the Russian population constituted near to half of the country's population (Smith et al., 1994).

As a response to disappointment, small however vocal associations of ethnic Russians in Latvia started to develop with the expectation of securing the privileges of ethnic Russians in this country (Terechov, 1993). In Estonia response to disappointment was considerably stronger. In the north-eastern part of Estonia,

⁶ In Estonia resident non-citizens, the overwhelming majority of whom were ethnic Russians were qualified to vote in local yet not in national elections. For more on policies of citizenship in Estonia, Latvia and Lithuania, see (Brubaker, 1992), (Bungs et al., 1992), and (Smith et al., 1994).

endeavours to confine rights to citizenship were met with the anti-government demonstration.

As ethnic tensions in the region were expanding, the Russian Federation, and in addition international organization, for example, the conference on security and cooperation in Europe, the Council of Europe, and the Helsinki watch on human rights started to put pressure on the Estonian and Latvian governments to alter their citizenship enactment. Under the effect of the protests of local Russians, international pressure and also pressure from the Russian Federation, citizenship laws in Latvia and Estonia were altogether modified. The two nations started to move towards majoritarian democracy.⁷ This altogether enhanced the ethnic circumstance in the country (Grishaev, 1995 and Raskazov, 1995). In spite of late positive political improvements, the disassembling of the 'ethnic majority rule government' in Latvia and Estonia remains a contention ridden and conflicting procedure (Kahar, 1997, Pettai, 1997 and Rikken, 1997).

The citizenship question was definitely emerging amongst the most defining decisions of newly independent Baltic State. The importance of citizenship in consolidation national identity had been stressed by the popular fronts well before statehood had been restored. In October 1988, at the founding congresses of the Popular Fronts of Estonia and Latvia and Sajudis in Lithuania, delegates signalled the need to redefine citizenship in order to safeguard the homeland and cultures of their indigenous peoples.

Latvian and Estonian authorities have moved toward the minority and citizenship issue in a similar way, despite the fact that there are contrasts on numerous crucial issues, even as far as execution. Lithuania decided on a citizenship law already before announcing independence and adopted on 3 November 1989. There had been no references made to saving the nation, as the non-indigenous population was

⁷In Estonia, all Soviet period pioneers, except for previous Soviet military staff, were qualified for citizenship, if they finished the language proficiency test and promised of loyalty to Estonia. In Latvia, the necessities for citizenship are more confounded and prohibitive. In any case, starting with the year 2003, all ethno political changes in previous soviet union 547 individuals who moved to Latvia during the Soviet period will be qualified for the citizenship, giving they pass a language proficiency test and promised of loyalty to Latvia (Smith et al., 1994).

not considered to constitute a threat to the former's continued existence. It was emphasized that the law on citizenship acknowledging the fact that the Republic of Lithuania was a restored and not a new state, despite the 'new state' model of citizenship adopted. Neither language nor residence requirements were set for those who had lived in a republic prior to the enactment of the law on citizenship. In October 1988, at the founding congresses of the popular Fronts of Estonia and Latvia and Sąjūdis in Lithuania, delegates signalled the need to redefine citizenship in order to safeguard the homeland and cultures of their indigenous peoples.

The first Estonian law on citizenship was come into force in 1992, as really an altered version of the pre-Soviet law. This was officially designated non-citizens as "aliens". These non-citizens were obliged to apply for the residence permit and inform public authorities about any adjustment in residence or business status. Russian speakers and Russia responded with outrage to the law, by calling it "ethnic cleansing". The reaction from the west was nor essentially extraordinary. Latvia introduced a law on non-citizens unlike in Estonia; non-citizens in Latvia did not need to apply for residency. It halfway clarifies the generally modest number of residence in Latvia who took Russian citizenship. Latvia did not pass a law on citizenship until 1994, like the Estonian law regarding principles and goals. Latvian lawmakers chose a strict quota system, which would extremely confine the number of new citizens. It ought to be specified that non-citizens in Latvia were not given the privilege to vote in the local election.

Lithuania's citizenship policies

Lithuania had a less brutal experience under the Soviet regime and having a more positive ethnic composition; Lithuania chooses distinctive strategies as far as citizenship than the Estonia and Latvia. Lithuania's citizenship approach has not made any sort of disturbed domestic circumstances like the Estonia and Latvia. The law of citizenship that was passed into the impact on December 5, 1991, entitled any individual who had been a citizen or a permanent resident of Lithuania before June 15, 1940, to automatically progress toward becoming citizens of the post-soviet occupation Lithuania. Lithuania made a citizenship policy which secured every ethnic Lithuania.

On other policy, Lithuania made before gaining the re-independence. This policy enacted on November 3, 1989, allowed citizenship to all permanent resident of

Lithuania independent of one's ethnic language, religion or business status. Keeping in mind that the main objective to obtain citizenship under this law, the permanent resident had to have been living in Lithuania for a long time, and must to make an oath of loyalty to Lithuania.

Acquiring citizenship through this law such a basic procedure, to the point that the law was seen as an automatic procedure that allows citizenship. The opportunity to gain citizenship through this basic procedure finished with the passing of December 5, 1991. The law indicated that a man may obtain citizenship either through the birth of then again naturalization. To be effectively naturalized an individual needed to pass a written and oral exam about Lithuanian language and have lived in Lithuania for no less than and have a permanent place employment or a consistent lawful source of income.

Lithuanian procedure of naturalization in principle is like that of both Estonia and Latvia, however practically speaking Lithuania has connected its naturalization procedure is significantly less stringent terms the Estonia and Latvia. Estonia and Latvia were primarily concerned with remaining anything that had to do with the around fifty years of past Soviet rule. One of the first things both Baltic States did following the end of the Soviet rule was to bring back the constitution that was in effect the Soviet occupation.

Estonia's citizenship policy

Estonia enacted an expanded version of its 1920 constitution, while Latvia restored its 1922 constitution. Estonia went on to reinstate, on November 1991, its citizenship law that it had originally enacted in 1938. According to this, Estonian citizenship was only extended to those who had already been citizens of Estonia prior to June 16, 1940. This law in effect automatically excluded from citizenship those who had immigrated during the Soviet rule and the descendants of these immigrants.

Citizenship would be automatically granted to those who had immigrated during the Soviet rule only if they could prove that they had been supportive of Estonia's struggle to become an independent state to prove that they had been supportive they had present to the authorities their congress of Estonia membership cards, the Congress of Estonia being the official name of the Estonian independence movement.

Estonia's 1992 constitution granted non-citizens a series of some social and political rights, by granting such rights to non-citizens Estonia helped to evade international criticism, but unfortunately, it goes unsuccessful in this regard. The non-citizens' right to vote in the local election did not amount to much by itself, because the election law, of May 1993, prohibited non-citizens from running for office in local elections. Non-citizens (the Russian minority) had to right to elect officials on a local level but did not have the right run for office on the same level.

In 1992, Estonia also enacted a new citizenship law. According to this law, non-citizens were required to pass a language examination. Those who failed to pass this exam were required to prove ten years of legal residency in Estonia. With the July 1993 law of Aliens, members of Russian minority who possessed Soviet passport were faced with another problem; they were required to apply for residency within one year. Estonia interprets the law in the most conservative sense.

In January 1995, Estonia passed a revised citizenship law which repeated what had been previously indicated by Estonia, this law laid down new rules for its naturalization process. One such condition was that dual citizenship was prohibited; therefore, members of Russia minority could not be citizens of Russia and Estonia at the same time. Lastly, the law of language, amended in December 1998, it's required that members of parliament and representatives in local government be proficient in the Estonian language.

Latvia's Citizenship Policy

Latvia follows the enactment of the 1922 constitution, Latvia went on to reinstate, on August 1991, its citizenship law that it had originally enacted in 1919. The law granted automatic citizenship to individuals who had been citizens of Latvia prior to 1940. The Russian minority in Latvia was suddenly made stateless with the passing of this citizenship law. Latvia was not given to non-citizens the right to vote or to be elected. In this case, Latvia was even more restrictive on the Russian minority than Estonia.

In July 1994, Latvia enacted a new citizenship law. The law repeated what had been stated before. The law also contained special provisions to encourage ethnic Latvians living abroad to return back to Latvia. Additionally, unlike the Russian

minority, ethnic Estonians and ethnic Lithuanians who had immigrated to Latvia during the Soviet rule were made eligible for citizenship. This law also laid down the rules for naturalization. Lastly, Latvia passed its language law in July 1999; the law prohibited the use of Russian language both in the public sphere and in private business.

Both Estonia and Latvia in principle give chances to people to end up citizens through their naturalization procedure. Yet in practice, this procedure has turned out to be problematic for Russian minority living in Estonia and Latvia. Estonia's and Latvia's activity with respect of their citizenship approaches made a negative impact on the Russian minority living in Estonia and Latvia.

Constitution Framework of the Baltic States

During the communist era, constitutionalism did not exist as the structures of the CPSU and of the state were so intertwined that limiting the power of, or affecting a balance of power among, the branches of government was impossible. In this context, the Soviet constitution was simply a political document used to set out the goals of the regime and legitimize its rule. Reinstating constitutionalism was an important step in re-establishing democratic government after independence in 1991.

Post-Soviet countries of Europe and USSR republics, which gained independence, drafted and adopted a new constitution. This extent of constitutional creative activity led to the conclusion that a new wave in the development of constitutionalism has arrived. After regaining national independence, some countries decided to restore the functioning of their previous constitution. The decisions of the legislator of Lithuania and Estonia to restore the constitution were of a rather symbolic and political nature, the constitutional legislature of Latvia refused to draft the new constitution, the constitution of 15 February 1992, was considered fully relevant to the modern constitutional reality.

Lithuania: In Lithuanian, work on a new constitution began before the resumption of the state sovereignty had been internationally recognized. The 1938 constitution was the force when Lithuania was occupied by the Soviet Union in 1940 and was immediately restored. The two key forces, Sajudis and the post-communist Lithuanian Democratic Labour Party (LDDP), agreed on the need for a new

constitution they disagreed sharply about the form the new constitutional structure should take.

In the making of the constitution of Lithuanian Republic, the first draft of their constitution was presented on March 7, 1991. On January 21-25, It was discussed at the first constitutional workshop of Lithuania, which was attended by American members. The makers of the constitution made a strong exertion to bring fundamental standards of western constitutionalism into the Lithuanian framework, which affected the making of the Lithuanian drafts. Division of judicial review and powers, democratic and representative government and sovereignty of the people could be considered as main instances for that. One of the members of the workshops, Professor William Wagner, after analysing the second draft of Lithuania, wrote that “in many ways (the draft) reflects a far deeper and more natural grasp of the principles of constitutional democracy that has been the case in some other constitutional drafts emerging in East and Central Europe” (CEELI March, 1992).

The 1992 draft set up endeavours and a parliamentary system to make balanced governance among the three important branches of the legislature. The entire thought of dividing powers is, however, composed apathetically. When on one side, the draft provides that "full and absolute power may not be concentrated in any one State institution;" on the other side, it declares, "the Seimas (the legislative organ) is the supreme and sole organ of state power representing the Lithuanian People."

The formal presidency foundation turned out to be one of the major issues for the Lithuanians. On May 23, 1992, an important referendum held on this issue, neglected to help protected amendments to a provisional basic law, March 11, 1990, intended to bound the drafters of a final constitution. Indeed, 69.5 per cent of those voting was in support, however just 57.5 per cent of qualifies voters turned out, in this way denying the choice the important approval of 50 per cent of the whole electorate.

This topic of presidential powers was put on the poll in the parliamentary decision which came on October 26, 1992. Another constitution, which was setting up the presidential organisation, was approved by the voters, however, the independence movement, Sajudis the representatives of which arranged the draft constitution was defeated in the elections. A furious triumph of the communists who were led by

Algirdas Brazauskas, Lithuania's former communist party leaves the points of interest of a new constitution open to additional debate.

Estonia: Independence of Estonia had been proclaimed in March 1990 and on August 20, 1990, the country got completely isolated from Moscow, after the coup endeavour in Russia. Shortly after some time, to draft the new constitution, a constitutional commission of sixty members, called the Constituent Assembly, was framed. The commission was made out of thirty members of the Supreme Council and thirty members from the Congress of Estonia.

The Assembly thought of making four drafts and generally talked about the possible utilization of Constitution of Estonia of 1938 as a model for the new fundamental law. Similar to other nations of the previous Soviet Union, as there also, the consideration of the drafters was centered on two major problems first was the points of presidential powers and the mechanism of electing the president. Initially dismissing drafts which mainly supported the presidential framework, the Assembly centered around the proposition of the Estonian National Independence Party (ENIP) to reactivate the constitution of 1938, and on two other new drafts. The Constitution of 1938 created some consideration as it accommodated the president elected by the parliament, and supported by the Assembly as the Assembly had to compromise because of the pressure of the people who favoured the president election. The first President was to be elected famously by his followers and to be chosen by the Parliament. The debate of the Assembly on presidential election model concluded that the Assembly obviously would support a parliamentary framework. At long last, all draft proposing a very strong presidential power, including the one in view of 1938 constitution was rejected. A changed Adam's draft which imagined Estonia as a parliamentary republic was chosen by the Constituent Assembly to put before the electorate.

The Estonian constitution additionally accommodates another procedural system, the motion of confidence, that appears to be acquired from the French Constitution. This system gives that the legislature can make the section of a specific bill a matter of confidence, which means it might stake its life on a specific bill.

The court framework had contained rural courts as well as city courts, district courts as well as the State court which seemed to be of the intensity of judicial

enforcement of the constitutional provisions. It was instructed to all the courts by the constitution that they should not apply laws or legitimise measures in the course of their procedures if there was any conflict between them and the constitution. The state court has the ability to invalidate any unconstitutional legal act. In fact, any further detail regarding the foundation of judicial review in Estonia was not given by the constitution.

Latvia: The Soviet of the Latvian SSR gave a declaration on the renewal of the Latvian Republic independence of May 1990 which envisaged the adoption of a new constitution. Conditioned by the historical continuity discourse, the pre-communist constitution was simply reintroduced on 6th July 1993 to provide 'a political term of reference for Latvians, and to exclude immigrants from political influence' (Norgaard and Johannsen, 1999, p. 62).

The present political economic and social situation in Latvia's is taken into consideration only in the sense that the political elite, unhappy with the multi-ethnic character of the state, revised constitution to declare Latvians to be the sole state language so as to anchor the hegemony of the indigenous ethnic nation and its culture. Latvia's constitution structure is similar to that of Estonia in that parliament (Saeima) has constitutional authority over the president, who has little power and plays a largely ceremonial role.

In spite of the fact that there is no preamble to define the identity of Latvia in its constitution, in many kinds of literature Latvia has been presented as a democratic party, a democratic party which is based on the rule of law, which guarantees the various fundamental human rights rejected by the Soviet regime. The constitution clearly gave priority to the language and culture of indigenous people and introduced citizenship laws, which deprive a major population that speak the Russian language.

Political Parties in the Post-Soviet Baltic States

There are many characteristics, which are common in all the three States of Baltic that one can see the similarities in their system of politics. However, the system of Political Parties has transformed into multi-party systems, possibly based on the electoral systems, whereas lines of partisan conflict and single individual parties are different. Important changes have been witnessed in the party systems of all the three

states having occasional as well as a little longer stability from time to time at different events.

From the very beginning, the Post-Soviet states, excluding the Baltic states, presented the political development and transformation as the choice of the political leaders who received a vote of confidence and not as the choice of the new politics or as a choice of transition to democracy of Western-style.

The political parties, which were in power, could lose the elections, a great feature of democracy, was observed by Przeworski who wrote about it in the year 2000. Lipset described democracy in complex plural society as a political system that constitutionally creates chances to change the rulers, and socially makes as large a group of the people as possible aware to identify the effects of important political decisions by means of election on certain key political posts from certain competitors (Lipset, 2006, p. 15).

Estonia held the first democratic election, post-Soviet election in the Baltic States on 20 September 1992, when voters went to the polls to elect on the new basis of the new proportional representation system. As a result of the new citizenship law, however, the electorate was cut from 1.14 million to around 630,000 and non-indigenous population was entirely unrepresented in parliament (Metcalf, 1992, p. 226). In Estonia, the actual post-communist party Vasakvoimalus (Left Opportunity) managed only 2 per cent in the 1992 election and failed to enter the parliament.

The failure of the 1992 elections to return even one Russian speaker cast doubt on Estonia's democratic consolidation and conscious of the desire to be seen to the outside world as western, liberal and democratic, the government sought to ensure closer representation of the general population on local councils (Linz and Stepan, 1996, p. 35).

The Baltic States: Divided Trust of Citizens in Democracy

There are several reasons to claim that Estonia and Latvia together with Lithuania have established themselves as democracies, but there are other ways in which those decisions call into question their democratic credentials.

There are many ways in which democracy can be measured. Democracy Internal opposition and external Buttresses: There are no significant political forces

that are trying to undermine the current regimes and replaced them with a different form of regime. There are, for that matter, also no external threats to the regimes. Russia might wish to dominate them, but it has much less scope to do so in the three EU and NATO members. As members of the EU, the Baltic States concern even is called 'certified democracy', just a decade after independence and the European Commission concluded that the Baltic States were able to assume the obligation of membership.

Despite continuous concerns over corruption in Latvia and Lithuania, the rule of law in Latvia and the integration of non-citizens in Estonia and Latvia, there is little to suggest that any of the Baltic countries have serious problems with democratic consolidation according to the EU's yardstick (European Commission, 2002). The EU membership has been vital in terms of safeguarding democracy in the Baltic States. According to the Freedom in the World Index, the three countries are deemed 'free' - a status they have enjoyed since the early days of independence. On a scale frame One to Seven, Estonia and Lithuania receive one on both political rights and civil liberties, Latvia, though, receives two on both accounts, a worrisome drop since the previous decades (Puddington, 2012).

Based on sixty indicators grouped into five different categories. Such as electoral process, civil liberties, the functioning of government, political participation and political culture, The Economist Intelligence Unit, 2012 offers yet another comparative perspective on the state of democracy. In the 2012, ranking 167 countries are categorized into four-regime type: full democracy, flawed democracy, hybrid regimes and authoritarian regimes, of these 25 countries are considered full democracies. All the Nordic countries belong to this group. Estonia, Latvia and Lithuania are classifying as flawed democracies. Describing flawed democracy generally and Central and Eastern Europe in particular, the Economist Intelligence Unit report points out that formal democracy is in place, but that it lacks substance. Low levels of trust and participation, together with Fragmented party landscape.

On the other hand, The Baltic States are far ahead of the other post-soviet countries. The chief difference between democracy and a hybrid regime is that. In the latter, an election is not free and fair, government exercise under pressure on opposition parties, the rule of law is weak, with biased and corrupt courts, and the

media freedom are curtailed. Lithuania, Latvia and especially Estonia are doing rather well in terms of democracy building. They are politically free and they have well-functioning market economies, functioning states and an adequate legal system. However, Estonia is evidently edging ahead of its Southern logging behind and even appears to be backsliding along some dimensions.

The ethnic composition of Estonia and Latvia may appear like a recipe for deep social problems both countries are marked by factors that could easily lead to severe ethnic tensions. Between 30 per cent and 40 per cent of the two populations count themselves as Russian, Ukrainians, Belarusians and others. There are significant obstacles on the road toward building coherent political communities in the Baltic States, particularly in Latvia and Estonia. First, the minorities fail to identify much with Estonia and Latvia most of them identify primarily with Russia. Infact few of them identify with their county of residence even as their second choice. Second, it is also quite clear that the history of the Soviet Baltic republics is understood very differently among native Baltic citizens (Silova, 2006).

The ethnic mix in Lithuania differs from the Estonian and Latvian patterns. The majority groups are considerably smaller and divided between Russian and Polish speakers, Furthermore, minorities were grateful access to Lithuania citizenship rights from the beginning. Nevertheless, Lithuania too has some stateness issues. In particular, the polish minority invokes a complex and historically traumatic relationship between Lithuania and Poland, particularly concerning the historical status of Vilnius and the surrounding region (Budryte 2005 and Duvold, 2010, Popovski 2000, Synder 2003).

Tensions between polish minority leaders and the government in Vilnius continue to flare up from time to time. The electoral action of Lithuanian Poles, a longstanding party representing Polish minority interest in Lithuania, has not always proved to be particularly cooperative and accommodating towards the Central government in Vilnius.

Corruption remains, as already discussed an issue of grave concern in the Baltic context, above all in Latvia and Lithuania it obviously has several implications for the functioning of political institutions. Certain institutions suffer from very low levels of trust, when it comes to political institutions, such as parties and parliament.

In fact, trust in politicians, MPs and political parties virtually absent in Latvia and Lithuanian. Lack of trust in the court system and the police are arguably more serious than distrust in the political class. A decade after independence, around the half the respondents in the three countries expressed a lack of confidence in these core institutions (Duvold, 2010 and Rose, 2001).

A distinct pattern of Baltic s democracy involves the nature of representation via the political parties and party system (Lipset and Rokkan, 1967). Parties' play key intermediary functions between citizens and elites. In the Baltics democracy like other democracies in the region, the political class is essentially elected by the voters via political parties. Hence, parties act as platforms for elite recruitment and government information. They also set the political agenda and mobilize voters during elections. But there is nevertheless good empirical evidence for clamming the political parties in the Baltic States, as in much of the wider post-communist region, do not function adequately as intermediaries between state and society, particularly in terms of interest aggregation social representation and integrating citizens in the body political (Tavits, 2008 and Kitschelte et al., 1999). It would be rather premature to claim that parties in the west have lost their rationale. They are still at the forefront in terms of mobilizing citizens around certain issues, and to act as large aggregators of broad demands (Dalton et al., 2011).

The Baltic States have now experienced two decades of successful democracy. After the regaining independence, all three Baltic States experienced the failure of the government institutions. The Soviet Baltic countries had been deeply influenced by the system of the Soviet Union. The Baltic countries set up a democratic institution although building a democratic society is not an easy thing to do, adding to that, Estonia and Latvia had the very drastic issue of the immigrants from the other countries of the Soviet Union. The nation divided into citizens and non-citizen minorities. The ethnic division was the major issue for building the nation's identity. Although Estonia and Latvia give citizenship, through the naturalization process for the Soviet period immigrants.

Chapter Four

Indo – Baltic relations

India granted recognition to the independent Baltic States on September 7, 1991, formally accepting their independence by the erstwhile Soviet Union. India established a diplomatic and strategic relationship with the Baltic States by 1992, mainly because of several high-level mutual visits and many mutual agreements which were marked amongst India and the States of Baltic since 1993

There is a historical role in the establishment of a relation between India and the States of Baltic. India's relations with the Baltic nations are rooted in history from missionary activities. The first Estonian missionaries to come to India were A. Nerling and J. Hesse they came in the mid-19th century and the first person with Estonian origin who visited India was E. Eckhold at the end of the 17th century. The University of Tartu in Estonia, which was established in 1632 AD, has many publications in the Indian Ancient Sanskrit language and literature.

Buddhism also played an important role in the Baltic States. There are some other former links between India and the three Baltic States were also rooted in economic and trade relations through the "Silk Route" and the "Amber Road". Language has also played an important role in India's relations with the Baltics history. It acknowledged that Lithuania language and Indian Sanskrit language have grammatically very similar is another possible way to close relations with the Baltic States.

The Baltic States have been a fascination with Indian thoughts and philosophy. This interest in Indian philosophy has been inspired in The Baltic States independence. The "Singing Revolution" and "The Baltic way" are the two independence movements that adopted non-violence ideology. The ideology of the Non-violence is said to have been borrowed from the political philosophy of Mahatma Gandhi. In modern times India and the Baltic States, one slowly but surely enlarging their relationship in many areas such as like economic and diplomatic relations through signing many agreements.

Culture Interaction between India and the States of Baltic

Culture also played an important role in strengthening relations between India and The Three Baltic States. There is a rising interest in The Baltic States for Indian dance and music, Yoga, Ayurveda and the works of Mahatma Gandhi and Rabindranath Tagore. Indian religion is also popular in Baltics. The International Society for Krishna Consciousness (ISKCON) movement and Sai Baba had devotees in Lithuania.

India and the Baltic States have similarities in culture and language. According to Prof. K B Usha, in international relation culture is an important part of the mutual understandings between the states. The Baltic States had a strong impact towards India's culture. The Baltic States also had a very nostalgic and emotional feeling towards Indian culture and people, also Indian language, religion and spirituality.

“Culture is defined not in the narrow sense of art, painting, poetry, etc. but in a much broader sense reflecting the values, habits and accumulated more of a society. It includes a people's past history, religion, philosophy, law, interest, language and all other capabilities acquired by an individual as a member of the society” (R P Anand, 1981, pp. 16).

To understand India and the Baltic States cultural relations, similarities in Indo Baltic background is one of the main factors. There are many cultural and linguistic similarities between India and The Three Baltic States and the other that helps to connect India and The Baltic region is Indian ideology, Political Philosophy of Mahatma Gandhi was used in The Baltic States' independence movement.

Indian writer Suniti Kumar Chatterji, wrote about the India and background of Europe focusing on the Balts and the Aryans, in 1960s: Analysing the writings of Chatterji, It may be noticed that by the end of 19th century, the People of Baltic States, mainly the Latvians and the Lithuanians started developing an impractical and a rather emotional thought that the people of Baltic state migrated from East, Asia and from India as well, Such ideas significantly developed when they started understanding the literature of their nation (dainas) and began to expose themselves to a consciousness of their Indo-European heritage by studying it from the Sanskritists of German, who played the leading role in the establishment of the “Aryan” called Indo-Germanic as

well as Indo-Europeans bases describing the culture of the people of Europe. The writers and the poets of Baltic states like Andrejs Pumpurs, the poet of Latvia who had composed the Latvian national epic of Lacplesis in 1888. This composition was based on “Latvian ballads and myths and legends”. Another national poet of Latvia, Janis Rainis (1865-1929) and other writers of Lithuania described the same thought in glowing ways that the origin, wisdom and culture of the Balts were originated from the Asian part of the East i.e. India itself. In 1856, Fr. Malbergis, the writer from Latvia, significantly wrote that the Latvians of Russia and Germany originally migrated from the Banks of river Ganga. According to Latvian Literature and traditions, the Burtnieks, has its own importance in bringing all science, technologies and knowledge from India to Latvia. The Vaidilutes, another very of priestesses of Lithuania, used to tend the religiously sacred fire as part of the old European religious right of the Balts, as one of the modern Lithuanian poets suggested, “arrived in Lithuania from the Banks of India” (K. B. Usha, 2012, pp. 95).

Cultural relations between Estonia and India continuously proved to be very strong and diverse. India and Estonia had an ancient connection. E. Eckold was probably the first person of Estonian origin who arrived in India in the 17th century. It acknowledged that the renounced seafarer A J Van Krusenstern was in Madras and Calcutta in 1797. The “Puhhapaiwa Wahhe – Luggemissed” (“Sunday Intermediary Readings”) of Otto W. Masing (1818) was the first written work in Estonian to touch upon India. In 1837, the teaching of Sanskrit began at the University of Tartu. At the University of Tartu, several publications on the Sanskrit language and literature were published (Estonian Embassy, 2014).

In the mid-19th century, there were missionary activities between India and Estonia. A. Nerling (1861- 1872) and J. Hesse (1869- 1873) were first missionaries came to India from Estonia. Because of these missionary’s activities, Indian culture became popular in Estonia and in the meanwhile numerous books and articles describing the Caste System, Religion, Yoga teaching, Ayurveda and the Indian classical literature were published. Andres Saal, a writer, made a significant contribution by publishing longer articles about the Indian epic “Mahabharata” drama and folk wisdom in “Olevik” (“The Present”) in 1912.

India and the three Baltic States have been engaged in trade and sharing their social and cultural influences. India and Lithuania have similarities in their languages and also had a personal bond.

India and Estonia's relations are most significant in the cultural. India and Estonia's relation are growing in terms of culture. India already offering many scholarships through the ITEC programme (India Technical and Economic Co-operation programme). Over 25 Estonians, having a major interest in the programme, joined and participated in the programme in a year. Likewise, the National Library and Oriental Studies Centre at the University of Tartu in Estonia started sharing books which describe history and culture of India. Sanskrit has been taught in two of the great universities of Baltic States i.e. the University of Tartu and Humanitarian Institute at the Tallinn University. Hindi, History, philosophy and Indian culture is also taught in Tallinn University. Estonian films also made an appearance in Indian film festival and participated in the same. India music and dance have also been introduced in Estonia.

ICAE (The Indian Cultural Association of Estonia) was also established in 2003 which began its functioning in 2004; as a result, a lot of musicians got a chance to perform in Estonia. On March 2012 the Hindi- language translation of the Estonian epic poem "Kalevipoeg", "Kalveputra" was unveiled during a Book Fair in New Delhi.

There is a great interest in Latvia for India's culture, the system of Education, Music, Yoga, Dance and Films. India and Latvia signed a cultural exchange programme in 2006 during the visit of Latvian cultural minister Helena Demakova to India. Several ICCR (Indian Council for Cultural Relations) sponsored Indian cultural troops have performed in Latvia in recent years. There is a small section on Indian art facts in the Museum of foreign arts in Riga.

The University of Latvia has established a "Centre for Indian Studies and Cultural" it is organizing yoga classes and Hindi language classes. Seven Universities came together to open a Study in Latvia Centre (SLC) in Chennai in February 2014.

There is a history of people who have personal links to India. Hermann Kallenbach, Antanas Poska and Wilhelm Storostas-Vydunas have their personal attachment with India and Indian people. Hermann Kallenbach (1871- 1945) is of enduring importance in the life of Mahatma Gandhi (1869- 1948). He was one of the key European figures who assisted Gandhi in his activities and struggle in South Africa. Hermann Kallenbach's was so active in the Indian struggle in South Africa that he was himself arrested for his participation in the Gandhi led passive resistance campaign. Mahatma Gandhi and Hermann Kallenbach also had a close personal friendship and Kallenbach also acted as secretary of the European Committee which organized a reception for Gopal Krishna Gokhale (Anil Nauriya, 2017, pp. 11- 36).

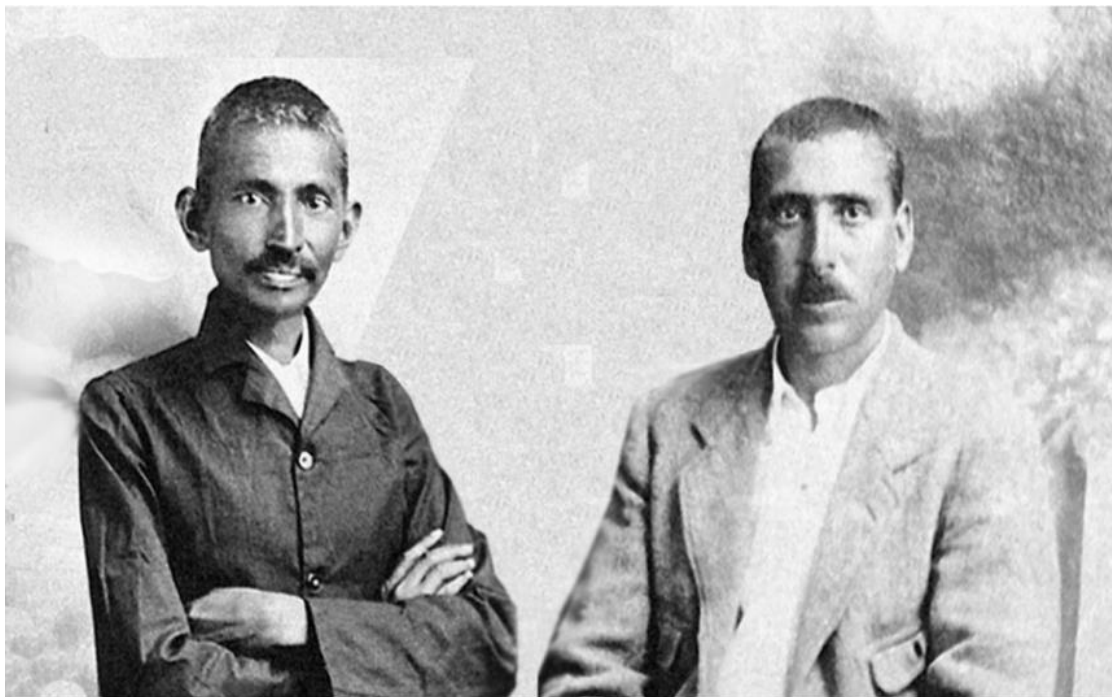


Figure 4.1: Mahatma Gandhi and his friend Hermann Kallenbach.

(Source: https://www.baltictimes.com/gandhi_sculpture_unveiled/)

Mahatma Gandhi and Hermann Kallenbach were intimate soul mates, who were busy with spiritual growth in the moulding period of their lives.

Their friendship was described by their mutual efforts and understandings in developing the moral and personal spirituality and their mutual extending commitment to the Indian struggle. The story of Gandhi and Kallenbach is deeply intimate and personal story. Their friendship has historical and academic importance

as well. This story is fascinating for yet another reason, as it proves and emphasizes the possibility of cross-cultural influences and was manifested in Gandhi's impact on the world's history (Shimon Lev, 2012).

Lithuanian Philosopher Wilhelm Storostas- Vydunas called as "Lithuanian Gandhi". He promoted a universal worldview of humaneness, much like those in ancient Vedic philosophy. The relationship of Vydunas with Vedantic ideas is somewhat similar. On basis of the Vedantic concept of man and being, the concept of culture was developed by Vydunas to constitute one of the most unique and distinctive parts of the culture of the Lithuanian philosophy

In Indian philosophy, Vydunas seems to have found the answer which were particularly close to his own spiritual investigations and which, in his opinion, were best suited for his nation, each school of Indian philosophy has a specific way of addressing the problems of ontology, epistemology, and spiritual liberation; also, nearly all of them are closely connected to the religion. This seamless interweave of the ethical and the religious pursuit was indeed very close to Vydunas, a man of deeply religious upbringing. Under the influence of Indian philosophy, Vydunas started the cultivation of the notion of a nation's moral revival as the favoured way to re-establish itself in the 20th century. Vydunas and Gandhi were two contemporaries united by their struggle against foreign oppressions and a struggle that evolved in a similar situation (Audrius Beinorius, 2017, pp. 53- 70).

Antanas Poska was Lithuanian; he came to India in 1931. Antanas Poska was a traveller; He travelled to India on Motorbike most unusual way of travel in the early 20th century. His main purpose when he came to India was study. He stayed in India for six years and studied in University of Bombay and Calcutta. Poska also interacted with Mahatma Gandhi and Rabindranath Tagore (Diana Mickeviciene, 2017, pp. 81-100). Poska made it to India, an active Esperantist in this country. There are plenty of commercial products whose brand names have been taken from the Esperanto languages like watches and clocks called *Movado*, *Rado*, a soft drink called *Mirinda*, and cars called *Cielo*, *Baleno*, and buses called *Volvo* (Probal Dasgupta, 2017, pp. 71-80).

Baltic States' independence movement and Gandhian ideology

The people of Baltic States had waged several violent and non-violent struggles at different phases of Soviet occupation. People's non-violent aspirations for the restoration of their freedom are voiced through the national cultures and patriotic folk songs, which were banned earlier under the Soviet occupation. The movement is widely known as the "Singing Revolution". Its non-violent methods resemble Mahatma Gandhi's principles of *Satyagraha*. Two aspects help to better understand Gandhi's influence on the ideas and strategies of non-violent struggle in Lithuania: common cultural and linguistic background of India and the Baltic States and the intellectual discourse on non-violence during the time of Singing Revolution. India culture and philosophy have been popular among the Lithuanian cultural elite since the late 19th century (Goverdhan, 2015, pp. 146- 156).

The Singing Revolution was the fight for the independence in the three Baltic countries of Estonia, Latvia and Lithuania in the late 1980s. The Baltic States achieved their independence from the Soviet Union but using non-violent resistance in their movements. Although people of the Baltic States drawn non-violent inspiration from many different sources, but, the influence of Gandhian principles of non-violence philosophy had been the major impact in the articulation of non-violent methods in their independence movements. The events of awakening were frequently accompanied by patriotic songs sung by the participants in the movement. The singing of patriotic songs was very similar to the Gandhian method of prayer that he used to sing to strengthen and spiritual and moral aspects of *Satyagraha*.

Diana Mickeviciene, a Lithuanian Scholar and a diplomat noted, "The 19th century was, by and large, the century of Indian influence in Lithuania, when recently discovered linguistic affinities impelled the thoughts of larger spiritual relations between our nations."⁸

Prof. Vytis Ciubrincas of the Centre for Oriental Studies at Vilnius University, in his lecture on the Lithuanian Singing Revolution, adds that "the ideology and strategies of India's freedom struggles were carefully examined and discussed while

⁸ Diana Mickeviciene, Relations between Lithuania and India.... In 2011- 2014, Mickeviciene served as the minister Counsellor of the Embassy the Republic of Lithuania in New Delhi, India.

designing Lithuanian's own independence campaign during the last years of the Soviet Union".⁹



Figure 4.2: A glimpse of “Singing Revolution” in Estonia

(Source: <https://imgur.com/gallery/BjIbU>)

Bilateral Relations between India and the Baltic States

By 1992, India had established diplomatic relations with all the three Baltic States: Estonia, Latvia and Lithuania. Since then many high- levels mutual visits have taken place and several agreements have been signed between these three Baltic States (K. Bhaskaran Usha, 2012, pp. 83- 109). There are many agreements signed between India and the Baltic States to strengthen the economic and political relationship. India and the Baltic States also have strong cultural and social connection through many agreements.

The recent visit by the Minister of State for External Affairs M J. Akbar to Estonia, Latvia and Lithuania in May 2017, indicates India is raising interest in the region. There are many important recent mutual visits between India and the Baltic States, on 3-8 February 2014, Minister from Estonia, Mr. Juhan Parts (the Minister for

⁹ Vytis Ciubrinksas, the Non- Violence Singing Revolution of Lithuanian, the lecture delivered at Jawaharlal Nehru University, New Delhi, 2012.

Economy and Communications) visited New Delhi. In the 2012-13 session, Another Minister Mr. Urmaz Patil (The Foreign Minister made his visit for the inauguration of the Estonian Embassy in New Delhi. From 13 to 16 October 2013, Mr. Jaak Aaviksoo, -Minister of Research & Education, Estonia, visited the country to attend a conference on Cyber Security. While on 9-11 December of 2013, Mr. Hanno Pevkur, Minister for Justice H.E. made his visit to India. In the meanwhile Several ministers from India too made their visit to the Baltic States to strengthen the relations with them, a few of them were, Shri Sachin Pilot, a Minister of State for Corporate Affairs, made his visit to Baltic Nations on 15-16 April of 2013, Minister of State for Petroleum, Smt. Lakshmi Panabaka, and Minister of State for Environment and Forests, Smt. Jayanthi Natarajan, both of them visited Estonia on 14-16 June and 20-22 September of 2013 respectively. Ravi Shankar Prasad, Minister of Law & Justice and Electronics & IT visited Estonia on 11-15 September 2016 (Ministry of External Affairs, October 2017).

Numerous visits from Latvia to India took place since the establishment of diplomatic and strategic relations between the two countries, The Latvian president also made a successful visit to India in 1997. There were other high-level interactions between the two countries in the recent past. The Latvian President Raimonds Vējonis met Hon'ble Vice President Hamid Ansari on July 16, 2016, on the sidelines of 11th ASEM Summit in Mongolia.

A most recent visit from India to Latvia was by Minister of Electronics & IT and Law & Justice Shri Ravi Shankar Prasad from September 13-16, 2016. This was the highest ever political visit from India. The Minister of State for Health and Ayurveda, Yoga, Naturopathy, Unani, Siddha, and Homeopathy (AYUSH), Shripad Yesso Naik, who visited Riga from May 15-18, 2016. This was the first Ministerial-level visit from India to Latvia since March 2011 and gave a boost to bilateral relations (Ministry of External Affairs, December 2017).

The first political contact between India and independent Lithuania took place in June 1992, when the then Prime Minister of India Shri P.V. Narasimha Rao, met Mr. Vytautas Landsbergis, the first President of Lithuania, during the Rio Earth Summit. A recent important visit from India is MOS for Agriculture; Mohanbhai Kundariya visited Lithuania in October 2015 to unveil a sculptural composition of

Mahatma Gandhi and his Lithuanian friend Hermann Kallenbach. While some previous visits from India include, In August 1995, External Affairs Minister Salman Khurshid, In October 2005 another Minister External Affairs Mr. Rao Inderjit Singh and in March 2007 it was Anand Sharma from External Affairs (MOS).

Citing some important visits from Lithuania which took place recently including, Linas Linkevicius (Foreign Minister of Lithuania) who visited India for the purpose of attending the 11th ASEM Foreign Ministers' meeting which held in New Delhi from 11-12 November 2013. On the sidelines of ASEM FMM11 Linkevicius met EAM on 10 November 2013 (Ministry of External Affairs, January 2016).

Important Agreements Signed between India and the Baltic States

Estonia: India has signed a number of agreements with Estonia. Declaration of Principles of Cooperation between the Republic of Estonia and the Republic of India signed on October 15, 1993, agreement on Trade and Economic Cooperation signed on October 15, 1993 and later came into force on October 24, 2004, agreement on Economic and Technical Cooperation signed on October 14, 1993, and came into force on March 13, 2000, The agreement on Cooperation in the Spheres of Culture, Education, Science, Sports, Arts, Mass Media, Tourism and Youth Affairs signed on October 15, 1993, came into force on November 11, 1999 agreement on Cooperation in the Fields of Science & Technology signed on February 5, 1999, came into force on August 6, 1999 The agreement for the Avoidance of Double Taxation and Prevention of Fiscal Evasion (DTAA) was signed on September 19, 2011, MoU on Cooperation in the field of Biotechnology and Higher Education was signed in October 2013, and another an MOU on Cooperation on Capacity Building and Other Related Areas in the Field of E-Governance signed in February 2014, and recent agreement on Transfer of Sentenced Persons was signed on 15 November 2016 and became effective on 1 March 2017 (Ministry of External Affairs, October 2017).

Latvia: Since the beginning, India and Latvia have also signed many agreements to promote trade relations, to grow bilateral relations and to improve cultural relations. Some of these are: Declaration of Principles and Directions of Cooperation between India and Latvia was signed in September, 1995 MoU for Cooperation in the fields of Culture, Arts, Education, Science, Mass-Media and Sports was signed in Sept 1995 The agreement on Economic and Technical

Cooperation between Latvia and India signed in Sept 1995 The Air Services Agreement was signed in October 1997 in New Delhi, Cultural Exchange Programme was signed during the visit of Latvian Cultural Minister, Helena Demakova, in May 2006 in New Delhi, an agreement on Inter-Governmental Commission on Trade, Economic, Scientific, Technological and Cultural Cooperation was signed in Riga, Latvia in June 2001, Bilateral Investment Promotion and Protection Agreement signed in February, 2010, Cooperation agreement between Indo Baltic Federation of Culture and Commerce (IBFCC), Latvia with FICCI signed in February 2010, an agreement on Prevention of Double Taxation and Tax Evasion signed in September 2013 (Ministry of External Affairs, June 2015).

Lithuania: There are many important bilateral treaties and agreements signed between India and Lithuania to develop a stronger relationship between two nations. Some important agreements are: Economic and Trade Co-operation which were signed in July 1993 and on 10, November 1999, an MoU (Memorandum of Understanding) on Air Services signed between the Governments of India and Lithuania in New Delhi. on 20th February 2001, another Air Services were signed in New Delhi. On 20 October 2001, an agreement of Technical and Economic Cooperation was signed in New Delhi after the agreement of 20 February 2001 which was signed on Cooperation in Spheres of Culture, Science and Education in New Delhi. The BIPA Agreement (Bilateral Investment Promotion and Protection Agreement) was signed between the countries in March 2011. On July 26, 2011, the DTAA (An agreement on Avoidance of Double Taxation) was signed while on November 10, 2013, an important agreement on the exemption from visa requirements for diplomatic passport holders was signed in New Delhi (Ministry of External Affairs, July 2015).

Indian- Baltic Chamber of Commerce was established in 2009, to assist Lithuanian and Indian businessmen to established strong business connections. IBCC is a public non- profit enterprise, it aims to further improve the business relation with India and to enhance to the Political relation with India and promote trade and investment, promotion of export/import and development of tourism. On May 13, 2013, the Indian- Baltic Chamber of Commerce inaugurated its branch office in Gurgaon. This is the first Lithuanian business office in India.

Commercial relations between India and the Baltic State

Economic relations between India and the Baltic States are good, but they could be better and diverse, considering the size of India and its rapidly developing economy. There are two important factors that could be effecting in positive terms is the European Union (EU) and the Baltic Sea Region (BSR). EU is one of the main trading partners of India and India has a good relationship with some BSR countries. India's trading is increasing with the Baltic States.

The Baltic States were forced into the global economy while in the process of globalisation and Europeanization. Whether it was Russia to reach western markets or the goods from China, Between the East and the West, it were the Baltic states which remained the major transit center. In an attempt to increase trade, the States of Baltic extended diplomatic relations and established commercial links to other different parts of the world, India was one of those, for instance, Mr. Artis Pabriks, former Foreign Minister of Latvia, had keenly encouraged such commercial and diplomatic relations with India and China. (David J. Galbreath et al., 2006, pp. 144- 145).

One major reason for establishing an Estonian Embassy in India was the development of economic relations. Bilateral trade between India and the Baltic States stands at US\$200 million in 2016-17, which is almost at the same level as trade in 2015-16. Currently, Estonia is India's 25th largest trading partner in the EU (Ministry of Commerce & Industry, Government of India 2017).

Similarly, for Estonia, India is their 31st largest trading partner globally and the 5th largest in Asia (Statistics Estonia 2017). Major items of export to Estonia from India, include machinery and equipment, garments, knitwear, articles of leather; saddles and harness, travel goods, handbags, coffee, tea, spices, footwear and pharmaceutical products. Major Estonian exports to India include Iron and Steel, fertilizers, electrical machinery, paper and paperboard; paper pulp, veneer etc. (Ministry of External Affairs, August 2017).

Bilateral trade stood at about US \$ 141 million 2015-16. Major Indian exports are tea, coffee, tools, pharmaceuticals, chemicals, garments, iron & steel etc. Considering major imports, India mainly imports machinery, steel and iron, fertilizers and chemicals etc. there seems to be a scope of development in industries like pharmaceuticals, chemical dyes, gems and jewellery, agricultural products and textiles

as well (Ministry of External Affairs, December 2016). The bilateral trade stood at Euro 162 mn in 2011, while it was Euro 49.2 mn in 2012 and it stood at Euro 55.53 in 2013, according to the statistics of Lithuania.

India majorly exported some food products and daily use products to Lithuania mainly vegetable extracts and saps, fish meat and fillets, rice, essences, extracts and concentrates of tea, coffee and mate, footwear, carpets, ferro-alloys. Whereas Lithuania mainly exported products to India like chemical and mineral fertilizers, dried leguminous vegetables, potassic, vegetables, waste and scrap of nickel, wadding of textile material, shelled, laboratory or diagnostic reagents, machzono like therapy appliances (Ministry of External Affairs, August 2013). As EU members, the Baltic States could exploit several areas of India- EU “strategic partnership” in order to expand their relations with India.

India and the Baltic states have to grow their relations in terms of cultural, political and economic. In 2015 a monument to India’s liberation leader Mahatma Gandhi and his friend Hermann Kallenbach, an architect born in Lithuania Minor, has been unveiled in the town of Rusne, western Lithuania. India and the Baltic States celebrated the 25th anniversary of their diplomatic relations in 2017. India and the Baltic States have to also look into the developments of Tourism and Cooperation in the field of Education. Cultural interactions between the Baltic States and India are a very important factor to improve their mutual understandings.



Figure 4.3: Statue of Mahatma Gandhi and Kallenbach in Lithuania

(Source: <https://www.dreamstime.com/editorial-stock-photo-statues-mahatma-gandhi-hermann-kallenbach-was-open-year-rusne-island-lithuania-image61274793>)

Chapter Five

Conclusion

This research has been organised in two parts firstly the Economic and Political Transformation in the Baltic States and the secondly India's relations with all the three Baltic countries: Estonia, Latvia and Lithuania. The first part of this study focuses on the economic developments in the Baltic States after regaining the independence, in the initial period of their after independence the Baltic States faced many challenges to improve their economy, all the three Baltic States managed to grow their economy by implementing new economic policies. When the new government set out to change the economies and present market-based economy frameworks a key target was supported financial developments and raise living standards towards levels in Western Europe. All three Baltic States implemented the economic policies such as price liberalization, fiscal policy and privatization process for the growth of all the three Baltic nations. After so many hardships to reform the economy the Baltic States manage to fulfil the Maastricht Treaty criteria and became a member of the Euro Zone. All three Baltic States have made great progress since they regaining independence.

The financial situation in all the Baltic nations was completely collapsed after the regaining the independence on account of their move from the Soviet Union's economic sphere. all the three Baltic States decided to join the European Union. After joining EU, the Baltic States was sufficiently appealing to confirm that they will defeat their economic crisis, for building up present-day, to look like the western style of living standards. The Baltic States joined the European Union in 2004, expecting that EU would help all the three Baltic States to come out from the Sovietisation impact and their integration in Eastern Europe helps in the living standard of the Baltic peoples. This study found that the Baltic States also have success in growing their economy in the international field. Joining the Euro Zone proves that all the three Countries have achieved all kind of progress in the financial sector, from currency reforms to foreigner trades. Consolidation into various worldwide organizations NATO, UN, offered a far reaching approach set- up for expanding their, security and strength in all the three Baltic States. Accession and the cooperation of

the foreign trade partners also help in the growth of the economy of the Baltic States in the worldwide area.

The foundation of democratic government in all the three Baltic States occurred from experienced developed and successful democracies in all the western countries. After joining the European Union all three Baltic States implicit that in only a few years the Baltic States built up successful government institutions. Estonia and Latvia adopted a parliamentary form of government while Lithuania adopted semi-presidential government.

This study shows that how all the three Baltic States have built successful government in the parliamentary form. The Baltic States had faced many difficulties in establishing democracy, there were many factors that effected the establishment of a successful democracy. After the independence from the Soviet Union, the main task was the state and the nation building. The desired conceptualization of national identity and political community became primacy and to analyse the impact that this had on citizenship minority rights domestic politics and the socioeconomic transition.

The defining the demos was subsequently a crucial issue of the democracy procedure in all the three Baltic States, in Estonia and Latvia shielding the ethnos was showed in a similar way. Lithuania was no doubt liberal with all the minority groups. After defining the ethnos and demos, came the issues of citizenship and non-citizens. The citizenship question was a major issue in the newly independent countries. Estonia and Latvia implemented similar kind of citizenship policies and Lithuania had a very liberal view towards the non-citizens. Estonia and Latvia decided to restrict access to citizenship by insisting upon the gradual naturalization of Soviet-era immigrants.

This study also observed that the question of the Russian minority in all the three Baltic States was a very crucial issue. The Russian Federation, and in addition International Organization, for example, the Conference on Security and Cooperation in Europe, the Council of Europe, and Helsinki watch on Human Rights helped the Estonian and Latvian governments officials to amend their citizenship law.

This study also observed that the post-soviet Baltic States, which regained independence, also drafted and adopted new constitutions. This extent of

constitutional creative activity led to the conclusion that a new wave in the development of constitutionalism has arrived. After regaining national independence, some countries decided to restore the functioning of their previous constitution. The decisions of the legislator of Lithuania and Estonia to restore the constitution were of a rather symbolic and political nature, the constitutional legislature of Latvia refused to draft a new constitution, the constitution of 15 February 1992, was considered fully relevant to the modern constitutional reality. Latvia's constitution does not have a preamble to define the identity of the state in a similar way such as Estonian and Lithuanian Constitution. Many literatures showed that Latvia has a democratic political system based on the Rule of Law, Fundamental Human Rights. The research has also discussed about the politics of the main leading political parties' post-soviet period. This study also deals with discusses the various shades of the erroneous democracy in the three Baltic States: Estonia, Latvia and Lithuania. The Baltic States have now experienced two decades of political according to democratic peoples.

Needless to say that democracy alone cannot solve all problems of a society. When three states declared independence in the early 1990s, they were unprepared for the challenges of democratic politics. To set up a democratic institution is one thing; to build a genuinely democratic society is an infinitely more complex and time-consuming process. The ethnic issues still remain unresolved in the Baltics. Estonia and Latvia had inherited very substantial number of immigrants from other parts of the Soviet Union. The ethnic division opened up a variety of issues related to nation building, citizenship and integration. Consequently, Estonia and Latvia decided to restrict access to citizenship by insisting upon gradual naturalization of Soviet era immigrants.

The second part of this research is about India and the Baltic States relations. History plays important role in the relation between India and the Baltic states. India's relations with the Baltic States are rooted in history from missionary activities. This study observed the how the Baltic States growing their relationship in various spheres. The cultural interaction between India and all three Baltic States provided the foundation for a political and economic relationship to flourish.

The Baltic States has been a fascination with Indian thoughts and philosophy. This interest in Indian philosophy has been inspired in The Baltic States

independence. “Singing Revolution” and “The Baltic way” these two independence movements adopted non-violence ideology. The Non-violence ideology borrowed from the political philosophy of Mahatma Gandhi. Mahatma Gandhi’s political philosophy and practice of non-violence and non-cooperation were those dominant influences in shaping the ideas, principles and policies of Singing Revolution of the Baltic States.

In a view of growing relations with India, the Baltic States has to strengthen social, cultural, political, economic and diplomatic ties with India. As India and Baltic states celebrating the 25th anniversary of their diplomatic relation in 2017, this is the right time to move the relationship forward. In sum, there is a need to work for the institutionalisation of Indo-Baltic relations in terms of Trade and investment; Promotion of cultural relations; Development of tourism; Cooperation in the field of education.

India and Baltic states must explore the potential of their historical links. On the cultural front, the Baltic States and India share a common heritage, which must be explored. For example, several generations of Lithuania have been raised with the idea of that, their language comes from Sanskrit. Moreover, the centre of Indian Studies and culture at the University of Latvia or recently inaugurated centre of Baltic culture and Studies at the Dev Sanskrit University in Haridwar are examples of how these ties are being revitalized. In this context: India can prove to be a window of opportunities for exchange of ideas/experience on functioning democracy and democratic institutions. India is a potential market for the Baltic States to diversify their trade relations.

By exploring the potential across these various sectors, a stronger partnership between India and the Baltic states will naturally also uncover a common democratic identity and a shared commitment to principles such as the rule of law and multilateralism to foster global governance and security.

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