

██████████

this year, tax levels remain low at 26%, there are no tariffs, and the government is puritanical about balancing the budget and keeping down foreign debt. The banking system is free from the Latvian and now Lithuanian disease. All this underlies the Estonian boast that they are up with the Czechs and Slovenes at the top of the central European economic league.

ESTONIA, THE EU AND NATO

6. Estonia's Free Trade Agreement (containing no transition periods at all) came into force in January. By February they had negotiated a full Europe Agreement, signed and ratified, unanimously, by August. Meri attended the Cannes Summit, and Vahi and successive Foreign Ministers made all the right noises about getting on with the tasks of implementing the White Paper. A ministerial post for European Reform was introduced. The Estonians formally applied for EU membership in November, and have learnt how to lobby current and future Presidencies, and how to capitalise on the support of their Nordic friends (Finnish and Swedish entry mean that Estonia is doing 65% of her foreign trade with the Union). Estonian officials say they are prepared for the competitive pressures of the single market, that laws are all already drafted to conform with EU requirements, and that the country is 'ready for Europe'. But they lost precious time in mid-year, as the cranky Euro-minister Lippmaa resisted his officials' attempts to get a proper inter-ministerial co-ordination system going. Estonia's attitude of effortless superiority over her Baltic neighbours - for whom she is not prepared to hang about waiting - both irritated them and looks less convincing than it used to. The dire Soviet legacy will take more than half a decade to eliminate. But Estonia is relatively well-prepared for membership, its leaders do realise what needs to be done, and its agricultural sector can be absorbed without busting the European bank.

7. The main impetus towards Europe is political. The Estonians see ever-increasing integration as crucial to their security, and see no Russian objections to their EU hopes. By mid-year the realisation had set in that they are not likely to be in the first wave of NATO enlargement, despite the soothing words here of Gore and Perry. They accepted the results of the NATO enlargement study with more realism than I had expected. But one of the mantras of successive Estonian Foreign Ministers all year has been the need to avoid at all costs 'grey zones of security'. They are trying to earn their passage to NATO one day by contributing to the future Baltbat peace-keeping unit, by volunteering a contingent for IFOR, by developing a coherent defence concept, and building up their fledgling forces. As Kallas says, "we don't want to be only a consumer of security, but also a producer". This was belied by the painfully public sacking of Einsein, for whom there is no satisfactory successor.

RUSSIA

8. Relations were dominated by the border issue and the treatment of the substantial ethnic Russian minority. The Estonians started the year by getting