

2019

THE BALTIC RISK LANDSCAPE

BALTIC EXPERT ASSESSMENT OF RISKS AND TRENDS FACING THE BALTIC REGION
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EXECUTIVE SUMMARY

2019 offers the Baltic states and the European Union an opportunity to recalibrate their strategy of dealing with the complex changes affecting world politics. Since January, Estonia and Latvia welcomed new governments, Latvia and Lithuania elected new presidents, and the EU has selected new leadership. In the next political cycle, these policymakers will be challenged to provide creative and effective solutions to the overlapping geopolitical, societal, environmental, and technological risks facing our region.

Intended as a resource for this task, the present report provides a snapshot of how **the Baltic risk landscape** appears to the foreign policy experts in the three Baltic states. The survey results show what academics, analysts, and civil servants see as the most pertinent risks to the Baltic politics in the next 5 years, as well as their connections to the underlying long-term trends or patterns of global politics.

First, the report reveals a strong focus on increasingly sophisticated **hybrid and cyber warfare** strategies. The survey respondents identified foreign interference in domestic politics as the most pressing risk facing the Baltic states. Cyber-attacks on critical infrastructure, as well as data theft, also rank as the top risks in terms of perceived likelihood and expected impact. The survey results thus underscore the perceived importance of the **changing nature of conflict and security risks** on the future of Baltic politics. Somewhat surprisingly, however, the Baltic experts do not regard this trend as highly relevant on the global scale.

Second, the survey results also show serious concern about **global and regional economic risks**. Geoeconomic tensions are expected to increase as global power shifts from West to East, while increasing inequality and ageing populations at home are seen as **challenges to further economic growth**. Together with the deep uncertainty due to the possibly disruptive nature of the ongoing technological revolution, these trends warn of

multiple pathways to an economic crisis in the medium-term.

Third, the report suggests that the Baltic politics are expected to grow more fragmented and embattled over the same period. Experts from all three Baltic states view further spread of **populist agendas** among politicians and populations alike as extremely likely, though they are more ambivalent about its expected impact. At the same time, trends associated with the rise of anti-establishment agendas – contested geopolitical environment, hybrid warfare, and worsening polarization and inequality – are also associated closely with the twin risks of **loss of confidence in the EU and NATO**, which both received high expected impact scores.

These risks may require special attention, as experts from all three countries agree that **changing dynamics of Euro-Atlantic integration and cooperation** will be the trend most significantly shaping future Baltic politics. This process is strongly associated with all aforementioned risks, and it also boasts the highest overall count of risk-interconnections. Coupled with strong focus on changing nature of conflict and shifting global power relations, it is clear that the Baltic expert community is profoundly and primarily concerned about **deep geopolitical challenges** to the West.

Societal trends such as **ageing population, increasing polarization, rising inequality, and high migration** rank high as well. All three are associated with diverse sets of unique risks and are strongly interconnected with the top political and economic risks discussed above. There is also strong concern about **two-fold technological transformation**: experts consider both the accelerating pace of technological innovation and our rising dependence on new technology are among the top trends to affect Baltic politics, and economy and security in particular, in the next 5 years.

Despite the concern about economic uncertainty and political instability, increasing **civil unrest** was

viewed as the least important potential risk. Interestingly, the experts deemed violations of human rights and even a shift to authoritarian leadership as slightly more likely. Further, unlike hybrid or cyber threats, the threat of **military conflict** against any NATO ally was deemed highly improbable. The risk of other regional conflicts that could involve major powers received a less-than-average likelihood ranking. Finally, though rising mobility and migration are expected to significantly shape Baltic politics, the risk of a sudden spike in **crisis-driven or economic migration** received low likelihood and impact scores.

Finally, the survey respondents do not consider **climate change** among trends that will significantly affect Baltic politics in the foreseeable future – though they view it as a top global trend. Changing climate was associated with a relatively narrow set of economic and societal risks, while extreme environmental events received the lowest likelihood score of all risks to the Baltics considered. Only Latvian respondents expect that climate change will have considerable influence on Baltic politics in the next 5 years.

In Part I of this report, we interpret these findings in greater detail. We begin by discussing how the next five years will see multiple and overlapping **threats to Baltic political systems**. Hybrid warfare threatens the security and integrity of our political processes. Increasing polarization and the rise of anti-establishment politicians exacerbates risk of political fragmentation, posing a threat to efficient and timely policymaking just as weakening economic foundations restrict policy space. Together, these risks amount to a serious threat to

both **input and output legitimacy** of the Baltic governments and their current policy direction.

Additionally, in Part I we also investigate what the dominant risk perceptions among the Baltic experts reveal about the **role the Baltic states may play in world politics** in the next five years. We discuss areas in which the Baltics may develop global leadership – such as in dealing with new types of conflict and security risks – and the work required for this to happen. We also warn about the areas in which the Baltics may fall out of step with its international allies – such as in tackling climate change – and what can be done to prevent this. Staying relevant and effective in global politics will require **expansive horizons and active policy learning**, which is as much a challenge as an opportunity for the Baltic states. We finish Part I with a set of policy recommendations.

In Part II of the report, entitled **the Baltic View**, we present the results of a follow-up survey. In this part, we shift our focus to how the risks and trends that our respondents found the most important are already shaping the political agenda in the West. Based on the results of the risks assessment survey, we identify the key groups of challenges – geopolitical, geo-economic, and sociopolitical – and relate them to ongoing political debates on free trade, populism, European competitiveness, and the future of NATO. Taken together, Part II of the report presents an easily accessible snapshot of the range of opinion among the Baltic expert community on the questions the West – and thus the Baltic states – are likely to tackle in the next political cycle.

PART I: THE BALTIC RISK LANDSCAPE

The first part of our report discusses the results of the first Baltic risks and trends assessment survey, carried out in Spring 2019. The survey asked Baltic foreign policy experts and practitioners to rate and rank various potential risks to the Baltic states and evaluate which long-term trends may most pronouncedly shape Baltic, as well as global politics.

The survey results allowed us to generate to main takeaways. First, the Baltic expert community demonstrated significant concern for various short- and medium-term risks to the prevailing political systems in the Baltic states, ranging from the rise of anti-establishment agendas to persistent foreign interference. Second, the survey respondents demonstrated deep and broad concern about the multiple and overlapping transformations of the international political order, which will necessitate significant policy adjustments in the Baltic States if they wish to continue to successfully navigate global politics.

The two substantive chapters of Part I, entitled **Perilous Politics** and **Navigating the Global Transformation**, are dedicated to discussing the two observations considering their implications in greater detail. Before that, we provide a short overview of the general findings of the survey.

OVERVIEW OF FINDINGS

The survey findings reveal a complex picture of what trends and risks are expected to dominate Baltic politics in medium term. The first and most significant takeaway is that the **Baltic states are entering a period of diverse challenges to their political systems** that goes well beyond the threat of hostile Russian behavior that has traditionally preoccupied Baltic foreign policy. Indeed, the top quintile of the Baltic risk table (Figure 5 below) shows that the dominant risks are heterogenous in nature and include geopolitical, economic, and

sociopolitical risks. More broadly, the survey findings underscore the importance of interpreting risks in the context of broader and deeper geopolitical, societal, and economic patterns. All four risks that topped the final ranking had the highest counts of trend interconnections – that is, were most strongly associated with the trends the survey respondents expect to be the most important determinants of Baltic politics in the future.

It is also worth noting that the top risks are understood differently. Two dominant risks – foreign interference in domestic politics and loss of confidence in the EU – are closely associated with geopolitical trends: changing Euro-Atlantic cooperation and changing nature of conflict. By contrast, the risks of weak economic growth and the rise of populist agendas are associated with a diverse set of trends, ranging from demographic (ageing population) to societal (increasing polarization and inequality). In other words, while geopolitical threats traditionally associated with Russia remain strong drivers of some of the top risks, there are many other important factors shaping the overall Baltic risk landscape.

Naturally, not all long-term patterns are perceived as equally relevant to the Baltic states. The survey respondents expect that the aforementioned trend of changing nature of conflict will be more relevant to the Baltic states than to the international system at large. By contrast, the survey results show that the Baltic expert community does not expect climate change to have a significant impact on the Baltic states, even though they consider it a top global trend (see Figures 1 and 2). Such divergences between perceived Baltic and global priorities suggest that in the future, the Baltic governments will have a two-fold task of attracting global attention to their specific regional problems and expanding their own risk horizons to be better allies to their partners.

FIGURE 1: TRENDS SHAPING GLOBAL POLITICS

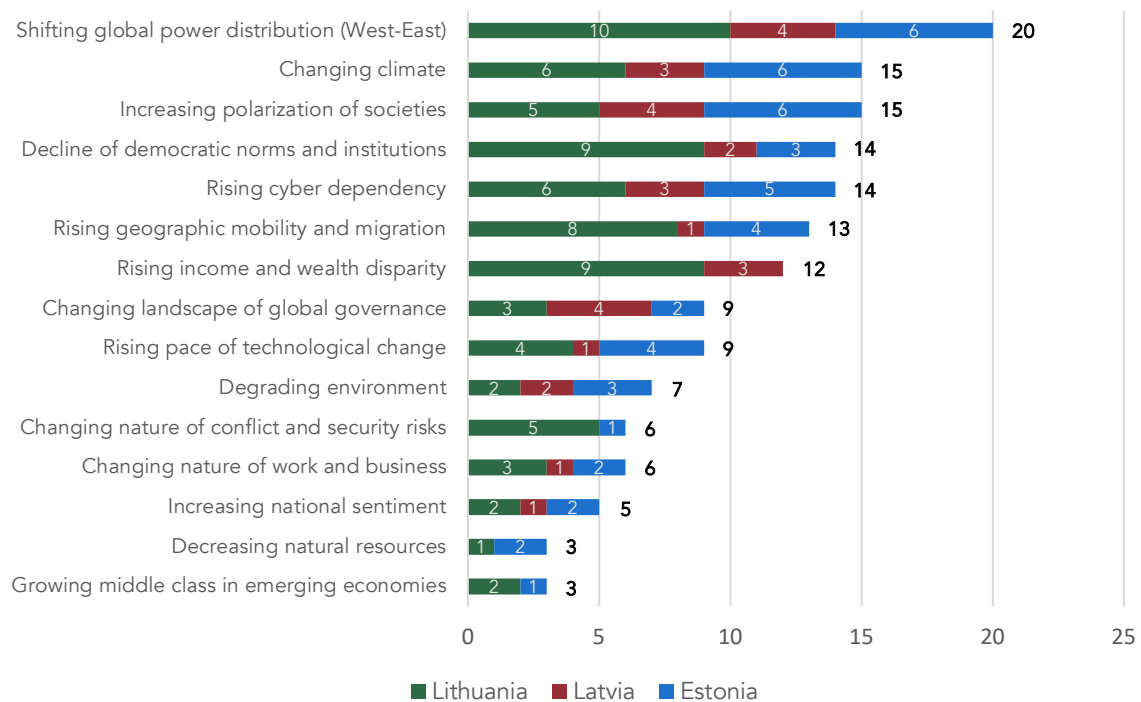
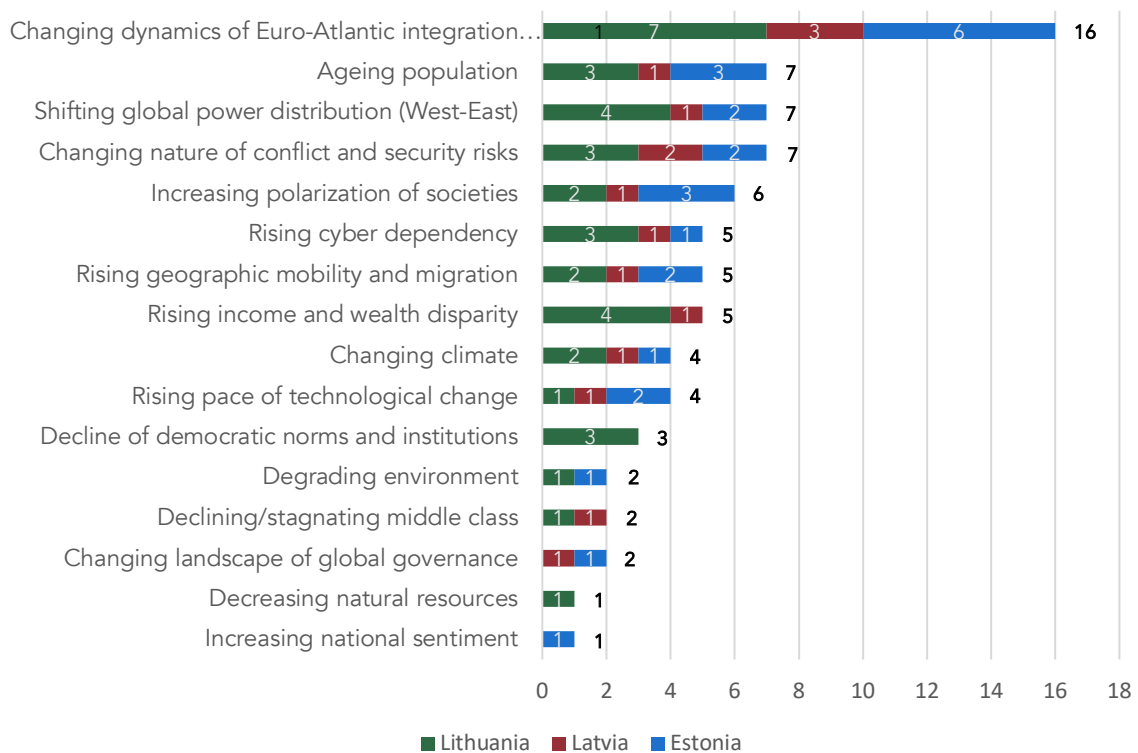
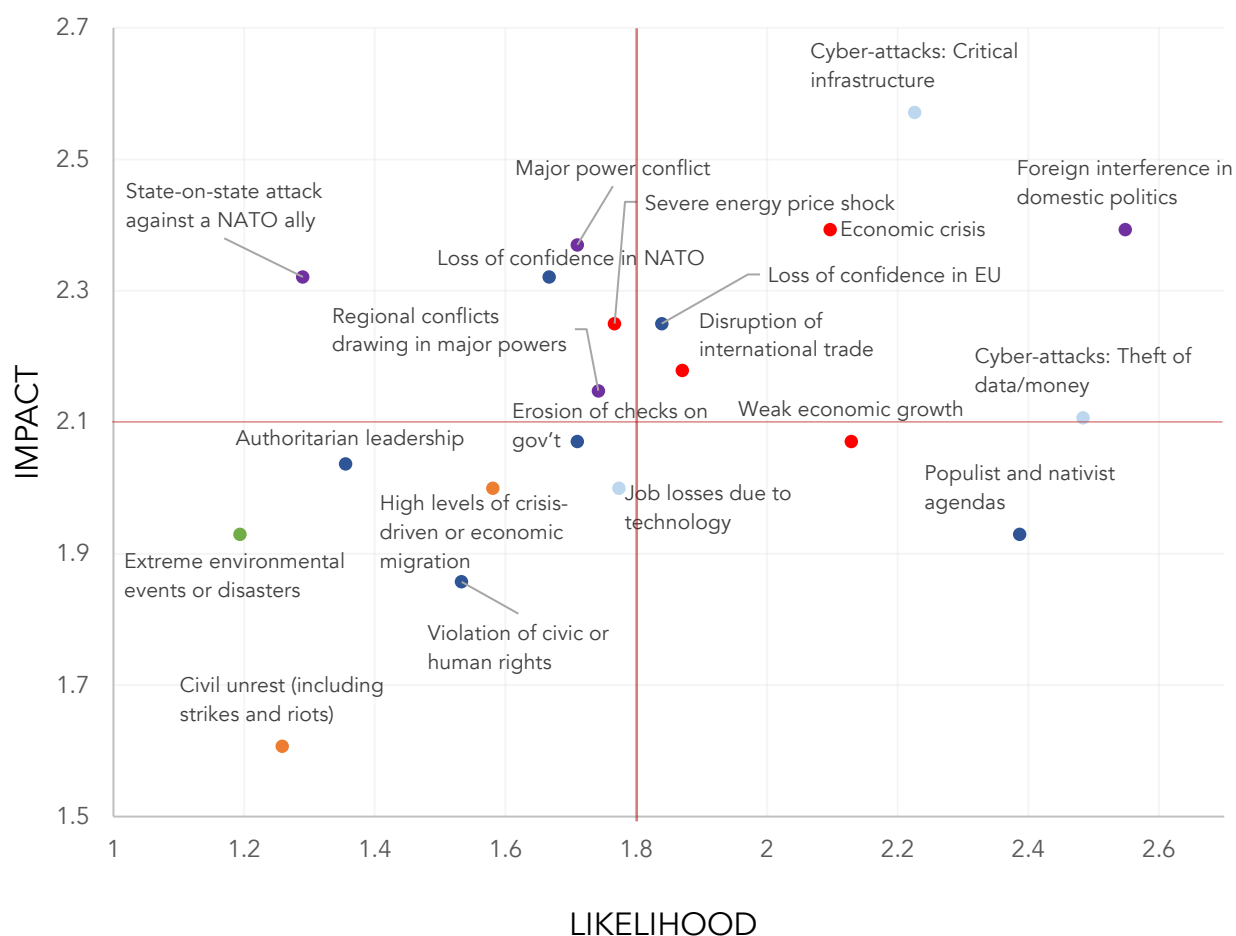


FIGURE 2: TRENDS SHAPING BALTIC POLITICS



NOTES: For Figure I, respondents were asked to identify 5 trends they thought would have most impact on global politics. For Figure II, respondents were asked to identify 3 trends they thought would have most impact on the Baltic region; two-region specific trends (changing Euro-Atlantic dynamics and aging population) were added to the list. Results are displayed by respondent country.

FIGURE 3: THE BALTIC RISK MATRIX



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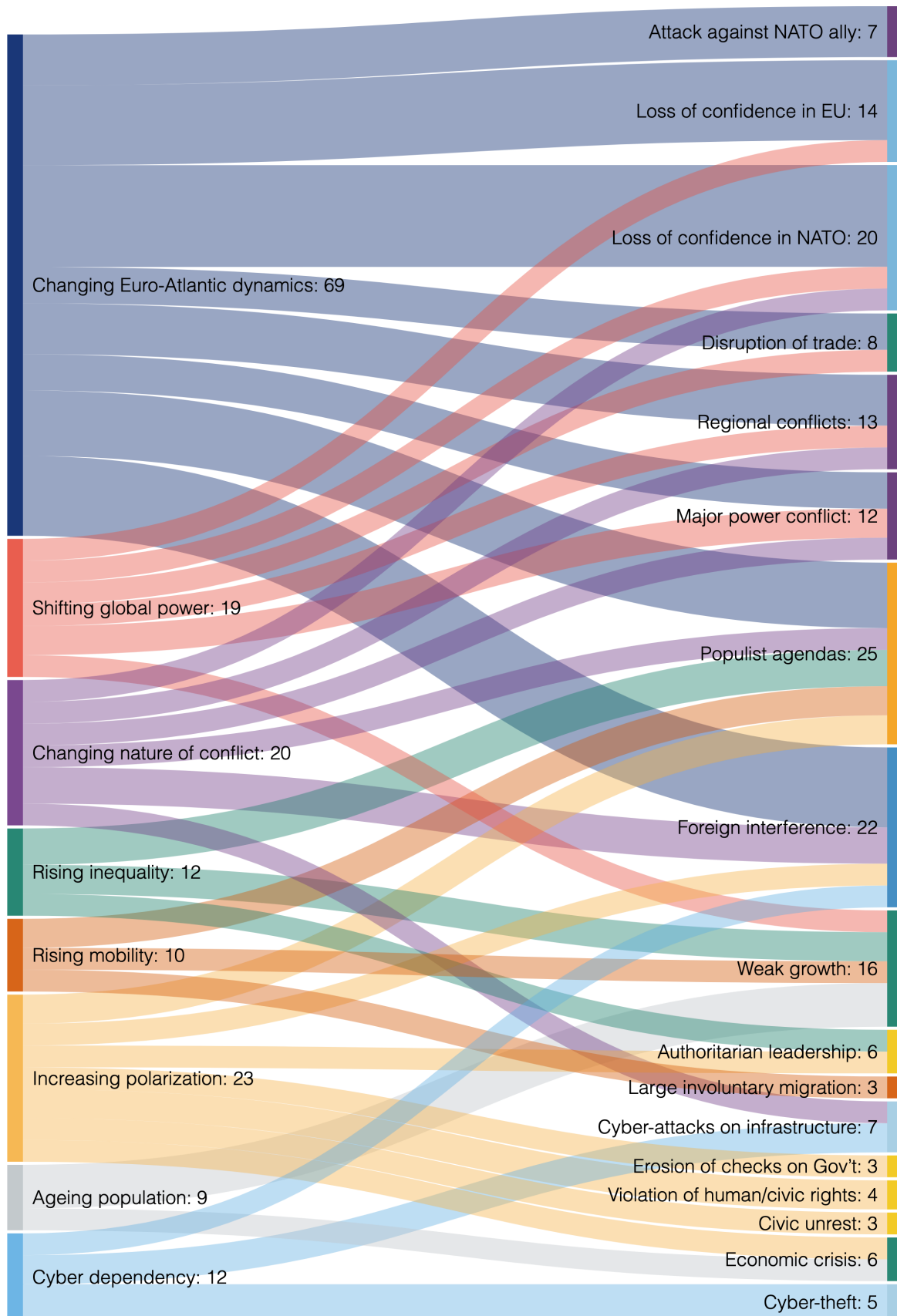
Foreign interference in domestic politics	2,548
Cyber-attacks: Theft of data/money	2,484
Populist and nativist agendas	2,387
Cyber-attacks: Critical infrastructure	2,226
Weak economic growth	2,129
Economic crisis	2,097
Disruption of international trade	1,871
Loss of confidence in EU	1,839
Job losses due to technology	1,774
Severe energy price shock	1,767
Regional conflicts drawing in major powers	1,742
Major power conflict	1,710
Erosion of checks on gov't	1,710
Loss of confidence in NATO	1,667
High levels of crisis-driven or economic migration	1,581
Violation of civic or human rights	1,533
Authoritarian leadership	1,355
State-on-state attack against a NATO ally	1,290
Civil unrest (including strikes and riots)	1,258
Extreme environmental events or disasters	1,194

IMPACT

Cyber-attacks: Critical infrastructure	2,571
Foreign interference in domestic politics	2,393
Economic crisis	2,393
Major power conflict	2,370
Loss of confidence in NATO	2,321
State-on-state attack against a NATO ally	2,321
Loss of confidence in EU	2,250
Severe energy price shock	2,250
Disruption of international trade	2,179
Regional conflicts drawing in major powers	2,148
Cyber-attacks: Theft of data/money	2,107
Weak economic growth	2,071
Erosion of checks on gov't	2,071
Authoritarian leadership	2,037
Job losses due to technology	2,000
High levels of crisis-driven or economic migration	2,000
Populist and nativist agendas	1,929
Extreme environmental events or disasters	1,929
Violation of civic or human rights	1,857
Civil unrest (including strikes and riots)	1,607

NOTE: For the Baltic Risk Matrix, the respondents rated the perceived likelihood and the expected impact of all provided risks from 1 (low) to 3 (high). The risks displayed on the Matrix are color coded: dark blue signifies political risks; red – economic; light blue – technological; green – environmental; purple – security; orange – societal.

FIGURE 4: BALTIC TREND-RISK INTERCONNECTIONS



NOTE: Figure 4 illustrates the top trend-risk interconnections for the eight highest-ranking trends in terms of expected impact on Baltic politics. Only interconnections that were mentioned 3 times or more are displayed. The numbers next to the trend and risk labels indicates the overall number of strong interconnections.

FIGURE 5: TOP BALTIC RISKS

RISK	RISK SCORE	TOTAL CONNECTIONS	UNIQUE CONNECTIONS	COMBINED WEIGHED SCORE
Foreign interference in domestic politics	6,098	33	11	0,636
Populist and nativist agendas	4,604	37	13	0,576
Weak economic growth	4,410	28	13	0,383
Loss of confidence in EU	4,137	30	13	0,369
Economic crisis	5,017	20	12	0,282
Cyber-attacks: Critical infrastructure	5,724	15	7	0,103
Disruption of international trade	4,076	16	9	0,094
Regional conflicts drawing in major power(s)	3,742	20	8	0,090
Loss of confidence in NATO	3,869	24	6	0,073
High levels of crisis-driven or economic migration	3,161	14	9	0,043
Major power conflict	4,053	15	6	0,042
Cyber-attacks: Theft of data/money	5,234	11	5	0,027
Erosion of constitutional and civil society checks on gov't	3,541	11	7	0,025
Violation of civic or human rights	2,848	13	7	0,018
Job losses due to technology	3,548	9	6	0,013
Severe energy price shock	3,975	7	6	0,008
Authoritarian leadership	2,760	10	6	0,008
State-on-state military conflict or incursion against a NATO member state	2,995	11	3	0,000
Extreme environmental events or disasters	2,302	5	3	0,000
Civil unrest (including strikes and riots)	2,022	11	7	0,000

NOTE: The combined weighed score was calculating by multiplying the normalized count for overall trend interconnections, the normalized count of unique interconnections, and the normalized risk score (see Methodology for more information).

PERILOUS POLITICS

The Baltic risk survey results indicate multiple and interlinked **threats to Baltic political systems**. Among the top ten risks in **Figure 5**, seven could quickly and severely increase political contestation, restrict policy space, or subvert political processes. The rise of anti-establishment political actors may destabilize or hinder policymaking, which is also exposed to various persistent foreign interference activities. Weak economic growth, meanwhile, not only constrains long-term economic governance, but also threatens a loss of output legitimacy of the political establishment.

Further, **Figures 2 and 3** reveal that the trends expected to have the most impact on the region are all strongly connected with risks to Baltic political systems. As shifting global power relations transform the West, the public confidence in the EU and NATO may be tested, while rising Chinese influence can further penetrate the Baltic governments. Increasing societal polarization and rising inequality fuel political parties and movements that promote and pursue anti-establishment agendas, often expressed in anti-globalist or nationalist rhetoric. Thus, even if risks of outright failure of current Baltic political systems – massive civil unrest, violation of human rights, or

authoritarian leadership – are perceived as unlikely, the **broader political indicators suggest challenging times ahead**.

Certainly, the risks provided below are not related to the political process in the same way, nor are they considered equally important by the experts surveyed. For a better understanding of the possible impact of these risks to Baltic politics, we group them into three conceptual categories: **threats to capability**, **threats to integrity**, and **threats to legitimacy**. In the following discussion, we will consider which top Baltic risks and their interconnections produce which threats and consider how impactful they can be on Baltic politics in the medium term.

THREATS TO INTEGRITY:

external subversion of state functioning

In general use, integrity refers to the condition of being undivided, unimpaired, and internally consistent. Below, we argue that the top risk to the Baltic states based on our survey – **foreign interference in domestic politics** – poses a threat to

FIGURE 6: RISKS AND TRENDS



government integrity on all these criteria. Whether through extensive election meddling, intensifying espionage activities, or large-scale cyber-attacks, foreign actors have the ability to penetrate, corrupt, or subvert the basic institutions of Baltic political systems.

The first subset of the broader risk is the **persistent external interference in the democratic processes** of the Baltic politics in attempt to discredit the prevailing political and constitutional order. Most notably, these include the long-established practice of funding and supporting pro-Russian non-governmental organizations, as well as mobilizing public opposition to select policies through informational campaigns.¹ However, a significant share of Russian influence activities attacks the public sphere itself – by overloading it with discordant narratives and false information aimed to radicalize civic discussions. Moscow funds NGOs whose representatives spread misleading information about the mistreatment of Russian ethnic minorities in the Baltics to various international organizations in effort to discredit the Baltic governments and sow discord between them and their partners.

In all three Baltic states, government integrity is further threatened by **external influences that leverage domestic veto groups in key economic sectors** to subvert or restrict government policy. For example, a recent study on the Kremlin's expansion networks targeting the rail transport sector in the Baltic States and leveraging the connections with various economic agents in the field in attempt to affect specific policy decisions and political appointments.² As this analysis highlight, even if many attempts to outright influence politics are thwarted, there are enough examples of corrupt Russian business activities penetrating the Baltic states and hindering efficient

and transparent work of public institutions: the recent Danske bank money laundering scandal is case in point.

Finally, the integrity of the Baltic governments is threatened by **intensifying espionage activities, including cyber-intelligence operations**. The Estonian security services annual report for 2018 notes that there have been recurrent attempts of both Russian and Chinese special services to recruit public officials with a view to using them for obtain confidential information about Estonian government policy.³ Sophisticated cyber-intelligence operations that hack into the informational systems of both public and private institutions are a regular occurrence in all three Baltic states; the Lithuanian national security agency also reports on Russian attempts to disrupt or hijack critically-important **industrial control systems**, including repeated attacks on the Lithuanian energy networks in 2018.⁴

Our survey results strongly suggest that such threats to government integrity will persist in the medium term. The risk of foreign interference is closely associated with two trends expected to most significantly shape the regional security environment: changing dynamics of Euro-Atlantic integration and the evolving nature of conflict. While NATO seeks to adjust to new kinds (traditional geopolitical, hybrid, cyber) and sources of threats (Russia, China, Iran, non-state), the United States and many European countries view each other with significant distrust; the US and the EU are also involved in tense trade stand-off. Certainly, external influence activities will aim to exploit this situation to stall Transatlantic cooperation and sow further discord and distrust within the West. Indeed, in the survey results, foreign interference appears connected to the loss of confidence in NATO and the EU. Increasing

¹ Re:Baltica. "Kremlin's millions: How Russia funds NGOs in Baltics." *Delfi*.en, 2015. <https://en.delfi.lt/politics/kremlins-millions-how-russia-funds-ngos-in-baltics.d?id=68908408>

² Laurinavičius, Marius. "Lithuanian Railways: Attack from the East. How the Kremlin carries out geopolitical expansion under the guise of businessmen in the Baltic States." *Vilnius Institute for Policy Analysis*, 2019. http://www.vilniusinstitute.lt/cm4all/uproc.php/0/Lithuanian%20Railways%20Attack%20from%20the%20East.pdf?_=16bacd6691d&cdp=a

³ "Estonian Internal Security Service Annual Review 2018." *Estonian Internal Security Service*, 2019. https://www.kapo.ee/sites/default/files/public/content_page/Annual%20Review%202018.pdf

⁴ "Grėsmių nacionaliniam saugumui vertinimas 2019." *Lietuvos Respublikos valstybės saugumo departamentas, Antrasis operatyvinių tarnybų departamentas prie Krašto apsaugos ministerijos*. 2019. <https://www.vsd.lt/wp-content/uploads/2019/02/2019-Grėsmes-internetui-LT.pdf>

competition between partners and falling trust in institutions create an environment in which foreign interference into domestic and regional politics can be especially effective.

THREATS TO CAPABILITY: fragmented politics and weak governments

In this section we discuss various threats to the government's ability to legislate and execute effective and timely policy solutions to present and future policy problems – **government capability**, in short. As crafting and negotiating collective solutions with other states is increasingly required by the global or regional nature of most contemporary policy issues, the ability to pursue effective international cooperation also falls under the definition of government capability used throughout this section.

We primarily associate the threats discussed below with the rise in **populist and nativist agendas**, which ranks as the second top risk and is the most interconnected risk of all. The rise of populist platforms is considered the top risk by the Estonian respondents, third in Lithuania, and fourth in Latvia. The risk label denotes political platforms that assert exclusive moral representation of 'the people', defined as a unitary and benevolent group in contrast with the cosmopolitan and corrupt establishment. In the contemporary West, populist platforms also employ a moral distinction between the native-born citizens and immigrants, in which case they may be defined as nativist.

Because they operate on irreconcilable moral distinctions, the rising presence of populist or nativist platforms in national politics **complicates the process of coalition-building and government formation**. Increasingly, finding strong and stable governing coalitions with traditional allies is becoming increasingly hard for the establishment parties. However, as their designated moral opponents, the political mainstream has a direct electoral incentive not to form coalitions with the populists – though, of course, the pressure of practical politics often trumps ideological divisions.

Indeed, all three Baltic states confronted this two-way pressure in the last year. Latvia in particular saw the longest government formation process since 1990, as mainstream parties wishing to avoid a coalition deal with the Russian minority-focused Harmony party had to include the populist "Who Owns the State?" (KPV) party, which ran a sharply critical campaign against the corrupt and ostensibly harmfully pro-European establishment. The prolonged discussions resulted in the Riga government starting 2019 with only a temporary budget, precluding the financing of any new government activities. In Estonia following the 2019 parliamentary election⁵, the Center Party invited the nativist Conservative People's Party (EKRE) to the ruling coalition after two failed attempts by the winning Reform party to form the government, causing much outcry among its electorate and international partners. In Lithuania, the refusal of any mainstream party to work with the ruling, self-described anti-establishment Peasants and Greens Union, meant the latter working with an unsteady coalition of weak and declining parties.

In sum, due to the simultaneous decline of mainstream parties and the rise of anti-establishment platforms, forming effective coalitions takes longer, comes at a higher price (both at the negotiation table and in the eyes of own electorate), and exposes governments to greater risk of impasse or mistakes of inexperienced political actors. Taking these risks into account, the rise of populist or nativist platforms constitutes a sustained threat to timely, effective, and sustainable government activity – or, put simply, government capability.

The survey results suggest that this threat will remain strong in the medium term, as the Baltics navigate the changing dynamics of Euro-Atlantic integration – the trend most strongly associated with rising populism. However, the risk of rising populist and nativist agendas is also associated with a diverse set of long-term societal trends: increasing polarization of societies, rising inequality, high migration, and ageing population.

⁵. BNN "De Facto: failure to form a government in Latvia forces use of mechanism not used in decades." BNN. 3

December 2018. <https://bnn-news.com/de-facto-failure-to-form-a-government-in-latvia-forces-use-of-mechanism-not-used-in-decades-194573>

Importantly, the interconnections between these trends and populism are relatively even, meaning that **populism has multiple equally important drivers** – social, cultural, and economic alike.

It is worth noting that the risk of populist and nativist agendas is associated with the same long-term societal challenges as **weak economic growth**. Given that weak growth fuels public anxiety about future wellbeing, it may lead to more radical political expectations populists tend to exploit. For example, Baltic anti-establishment parties have already exploited the recent banking scandals to buttress their political narratives of elite corruption, contrasting them with those people who did not reap the fruit of the last decade of economic growth. Simultaneously, the aforementioned ways populist politicians restrict government activity may constrain the ability of the state to craft and sustain growth-inducing policies. As such, the two trends could be interpreted as complementary.

Finally, when experts considered risks associated with the changing Euro-Atlantic integration, they **concurrently mentioned loss of confidence in the EU and the rise of populist agendas**. This affirms the broader pattern of contemporary populists being generally anti-European. It also suggests that weakening public support for the EU will empower populists to seriously challenge dominant pro-European stance of the Baltic governments and restricting their capability of developing coherent, let alone proactive, national European policy.

THREATS TO LEGITIMACY: **exposed politics and weak economy**

When considering political legitimation, it is useful to distinguish between **input and output legitimacy**. Input legitimacy denotes the perception that the established system of governance involves those being governed. Input legitimacy means is strong when the public perceives the established political system to effectively and fairly involve them in the decision-making process, and vice versa. Output legitimacy, meanwhile, denotes the perception that the established system of governance is effective for those being governed. Strong output legitimacy means high public satisfaction with the

performance of the current political system, and vice versa.

Interpreting the survey results, we find considerable challenges to both input and output legitimacy of the Baltic political systems. While no specific risk of those discussed above automatically constitutes a threat to legitimacy, taken together, they can prompt a **widespread erosion of trust in the existing political-economic order**.

Presently, the main challenge to perceived input legitimacy is the persistent foreign interference in domestic politics. External influence activities can erode the perception of governance by the governed by overloading the public discourse with false and discordant information, making it harder to meaningfully participate in collective decision-making. Any instances of high-visibility election meddling or corruption may further erode public trust in the overall fairness of contemporary electoral politics, already often seen as subject to the influence of money and special interests.

However, if the rise of anti-establishment platforms further fragments politics, the Baltics may confront a new challenge to input legitimacy. Specifically, if elected parties cannot form governing coalitions without complicated deals with ideological opponents, or if they purposefully exclude certain parties from government, the public may perceive the democratic voice to be abandoned during the process of government formation. The **perceived gap between election outcomes and resulting government** would likely erode the trust in both.

For obvious reasons, weak governments also pose a serious threat to output legitimacy. The inability to legislate and execute effective policy solutions due to internal divisions or strong veto players within the government may lead to broader dissatisfaction of democracy and views that other forms of government may be preferable. Global public attitude surveys show both trends rising in the last decade; in Latvia and Estonia, the belief that democracy is preferable to any other kind of

government already does not have majority support.⁶

Expectedly, the perceived effectiveness of democracy strongly correlates with the perceived state of the economy. In this light, the high-ranking risk of **weak economic growth** becomes especially relevant (weak growth ranks as the third most significant risk overall and the second for Lithuanian respondents). The prospect of rising material prosperity and associated quality of life has been foundational to the legitimacy of modern liberal states of the postwar West. It is thus hardly surprising that in many Western democracies, the Great Recession and the following Eurozone crisis mobilized broad opposition not only to the incumbent parties at the time, but also to the underlying political-economic regime. More than a decade later, the legitimacy of the prevailing socio-economic order continues to be seriously questioned, especially among the younger generations in the West, many of which experienced prolonged periods of unemployment in wake of the crisis.

Weakening economic growth would likely exacerbate these tendencies and strengthen anti-capitalist or anti-neoliberal movements across the West. To the extent these ideologies are associated with the EU, slowing growth may also end the so-called 'permissive consensus' for deeper European economic integration in the Baltics. Further, as weak growth restricts policy space for national governments (i.e., some policies become economically infeasible), it may further strengthen the perception of ineffectiveness of current political systems. Lastly, any substantial reform to spur growth risks high political fragmentation and concentrated backlash in the medium-term. Thus, weak economic growth would further exacerbate the risk of weak governments, threatening a vicious cycle of damage to output legitimacy in the Baltics.

In short, the top perceived risks to the Baltic states and the major trends expected to shape Baltic politics in the next 5 years can seriously upend the legitimacy of the established democratic, capitalist, and European orientation of the three governments. Certainly, shifts in public legitimation take time, nor are they unidirectional processes. However, given that the immediate threats to government integrity and capability also have negative repercussions on public trust in government, while broader challenges to government legitimacy – weak governments and weak growth – are associated with multiple long-term trends affecting the region, Baltic political systems are facing tough years ahead.

It is worth observing that experts from each Baltic state differ slightly in how they rank the most pertinent risks to Baltic politics. Lithuanian respondents rank foreign interference higher than any other risk, while for Estonian experts, populist agendas, constitutes the most pressing risk. Latvian respondents are more even in their assessment of top risks, viewing loss of confidence in EU and NATO as well as the rise of populist agendas as highly pressing risks, but they regard foreign interference as only of average importance.

However, trying to prioritize one particular risk over others is not necessarily productive. As the preceding discussion shows, the three threats to Baltic politics, emanating from overlapping risks, are closely interlinked. Weak governments find systemic economic reforms difficult to carry out; they are also an easier target for external influence activities. The spread of corrupt practices distorts the market and makes sustainable and equitable economic growth harder to achieve. Weak economic growth incentivizes the search for new political heroes, often as far away from the political establishment as possible. Navigating the increasingly perilous politics of the Baltic states, then, will require policy responses sensitive to the highly interconnected Baltic risk landscape.

⁶ See, for example, Pew Research Center, "Divided views on the state of democracy." *Pew Research Center*, April 30, 2019. https://www.pewresearch.org/global/2019/04/29/dissatisfaction-with-performance-of-democracy-is-common-in-many-nations/pg_2019-04-29_global-views-of-democracy_1-02/ or

Pew Research Center, "Religious Belief and National Belonging in Central and Eastern Europe." *Pew Research Center*. May 10, 2017. <https://www.pewforum.org/2017/05/10/religious-belief-and-national-belonging-in-central-and-eastern-europe/>

NAVIGATING THE GLOBAL TRANSFORMATION

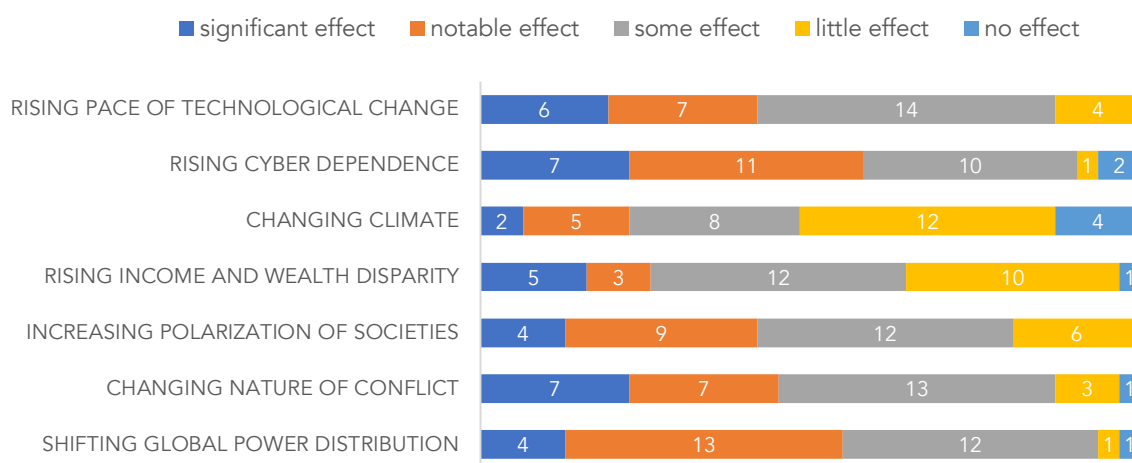
If the preceding chapter discussed some likely or expected threats to current Baltic political systems, this chapter analyzes the threats to the broader international order in which the Baltic states are embedded. More specifically, we will discuss two challenges to the postwar international institutions to which the Baltics, as well as the greater political West, are part. We will also consider what obstacles or opportunities these challenges pose to the continuing role of the Baltic states as subjects within the changing international order.

In the discussion below, we conceptualize the **postwar order** as having three constitutive and distinguishing elements: the postwar multilateral institutions (UN, IMF, EU), the norm and propensity toward multilateral action, and the core group of like-minded and closely cooperating states.⁷ As members of all major postwar institutions, open economies, and Western liberal democracies, the Baltic states as subjects within the postwar order.

The survey results suggest that the postwar order faces two inter-related challenges to its sustainability. First, **shifting global power relations put revisionist pressure on key components of the postwar order**. China and Russia have long opposed the propensity to multilateral action and the normative content of cooperation that defines the postwar, or so-called liberal, order. While the activities of Beijing and Russia differ in scope and kind, both pursue regional alternatives to the postwar institutions, seek to expand the use of unilateral activity in the existing order, and seek to expand their influence within the core group of the postwar international order, whether through political, economic, or hybrid power instruments.

The second challenge is internal: the risk of **failure to manage the interconnected destabilizing forces of polarization, inequality, as well as technological and climate change**. The processes of economic liberalization, high mobility of citizens, and open exchange of information that the postwar order has enabled in its constitutive states all had severe

FIGURE 7: EXPECTED EFFECT ON THE BALTIC STATES



NOTE: Figure 7 lists the top 6 global trends and displays the breakdown of scores the respondents gave to each of the six trends. Each trend received 31 unique score.

⁷. We follow the conceptualization employed by Michael J. Mazarr and Ashley L. Rhoades of the RAND corporation. For an example of how they use this understanding of the postwar

order, see <https://www.weforum.org/agenda/2018/04/measuring-the-value-to-the-us-of-the-postwar-international-order/>

distributional effects on these countries' societies. Today, disruptive technologies developed and distributed by a relatively restricted set of companies threaten to upend whole sectors of economy (from transportation to accounting); economic and societal effects of climate change also do not distribute equally.

In the last several years, millions of people across the core countries of the postwar order have voted for candidates who openly oppose the current functioning of the international order or its constitutive elements. However, no substantial reforms have been achieved in areas putting most strain on societies, including trade, migration, or international climate cooperation (indeed, the most significant actions have been restricting, rather than reforming – for example the cuts to UN funding). Instead, in ways discussed above, the emergence of new political actors has increased political fragmentation and weakened governments. The risk of failing to manage forces that are destabilizing the core group of the postwar order, thus, remains high.

The two challenges to the postwar order are highly relevant to the Baltic states. Persistent Russian interference in Baltic politics, discussed above, is a part of Moscow's broader, multi-front revisionist strategy. Indeed, successful Russian influence activities in Baltic strategic allies (for example, mobilizing veto groups in European states against increasing defense spending) may ultimately have more significant effect on Baltic security than equivalent activities in Vilnius, Riga, or Tallinn. Similarly, the societal problems plaguing the Baltics – such as high flows of outward migration or significant socioeconomic inequality – depend profoundly on global or regional economic arrangements to which the Baltic states are subject. Further, massive social disruptions in any other core group state – or their attempts to deal with painful social cleavages – are likely to significantly affect Baltic politics and economy (as, for example, the ongoing Brexit negotiations have done).

It is thus worth considering **what opportunities the Baltics have and what obstacles they may face as**

they cooperate with other states in the core group seeking to manage the two threats to the postwar order. These opportunities and obstacles, of course, are determined largely by the strategic position the Baltics occupy in the postwar order. As small states, they are endowed with limited and relatively concentrated resources and depend profoundly on cooperation with allies with which they often have asymmetrical power relations. While postwar institutions have helped small states manage interdependence with their more powerful allies, instances where small states exert significant influence on the overall functioning of the order are relatively rare.

In those instances when they do, small states often achieve this by **leveraging their unique role, function, or expertise** in the international order. Sweden, for example leveraged its expertise in conflict prevention to shape the EU Common Security and Foreign Policy framework, while Norway enshrined sustainable development, a paradigm in development policy in which it had national expertise, in the UN framework as early as 1970s.⁸ Of course, small states need to build and maintain strong relations with multiple allies to buy-in their support for policy initiatives small states propose. As such, **active and constructive membership** in the international cooperation formats is a necessary precondition for small states to shape the broader dynamics of the international order.

UNIQUE LEVERAGES

Among the multiple challenges to the postwar order, the Baltics experts seem to be particularly concerned with the way revisionist powers utilize new instruments and modes of conflict to subvert the postwar order. Indeed, experts from all three countries agreed that the two trends to most significantly shape Baltic politics is changing **Euro-Atlantic dynamics** and **increasing cyber-dependency**. Respondents associated both trends with hybrid warfare-type risks: foreign interference, cyber-attacks, or cyber-theft.

⁸. Ingebritsen, Christine. "Norm Entrepreneurs: Scandinavia's Role in World Politics," *Cooperation and Conflict: Journal of*

the Nordic International Studies Association 37, no. 1 (2002): 14.

The respondents' answers reflect the broader experience and expertise of the Baltic states. The region was the first to experience a large-scale and high-visibility Russian cyber-attack against the West, specifically, the 2007 cyberattacks on Estonia.⁹ The focus on cyber and hybrid warfare also reflects in the ongoing Baltic international activities, such as Lithuania's leadership in developing EU cyber rapid response teams and the broader EU strategy on combatting hybrid threats¹⁰, or Estonia's operation of the NATO Cooperative Cyber Defence Center of Excellence.

To an extent, then, the developed expertise in combatting cyber threats can and already has enabled the Baltic states to set multilateral standards and craft collective policy solutions in the field. And yet, with the increasingly widespread appreciation of hybrid and next-generation threats, the comparative advantage the Baltics have today will likely decrease in the future. Should Baltic politicians wish to further pursue leadership in cyber and hybrid security, they will require **further policy innovation** (a similar note could be made about the self-declared Baltic expertise on Russian/Eastern Neighborhood questions more broadly).

The Baltics, certainly, may also focus on other areas in which they play a unique role and boast unique expertise. Today, individual Baltic states have made significant inroads in developing notable expertise in e-governance (Estonia) or fintech (Lithuania). Survey respondents from Latvia and Estonia also demonstrate high appreciation for and diverse understanding of the impact the **rising pace of technological change** is likely have on Baltic politics. For both sets of respondents, this trend ranks among the top three and is connected with various economic, societal, and security risks (by

contrast, increasing cyber-dependence is primarily through the security lens).

Whether they choose to further develop their hybrid and cyber capabilities or expand their focus to different fields, the Baltic states stand to benefit from international cooperation. As continuous policy innovation requires new inputs, seeking diverse international partnerships can greatly augment the policy instruments currently employed by the Baltic states. For example, should the Baltic governments focus on the trend of ageing population (among the experts surveyed, it ranked as the most important trend in the Baltic region), they could consult the expertise and experience of Japan, which has recently developed an ambitious strategy of tackling the transformation into **a digital society for an ageing population**.¹¹

ACTIVE AND CONSTRUCTIVE MEMBERSHIP

Unique expertise alone is not sufficient for small states to shape the international order with the use of postwar institutions – there is a difference between being a one-issue state and the leader on the issue. Small states must simultaneously be active and constructive partners to other members of the core group of the postwar order. As their institutional innovations need the assent and backing of greater powers to have any tangible effect, fostering stable and productive partnerships with key allied powers to secure their buy-in is a necessary tactic for small states.

As preferences of their key allies evolve in response to overlapping global trends, the Baltic states will need to adjust the scope and content of their strategic partnerships. Here we must take note of the noticeable discrepancy between how experts

⁹. Ottis, Rain. "Analysis of the 2007 Cyber Attacks Against Estonia from the Information Warfare Perspective." *Cooperative Cyber Defence Center of Excellence*. 2018. https://ccdcoe.org/uploads/2018/10/Ottis2008_AnalysisOf2007FromTheInformationWarfarePerspective.pdf

¹⁰. For the analysis of the former, see Mickus, Justinas. "Lithuanian Grand Strategy and EU Defence Integration." *Vilnius Institute for Policy Analysis*. 2018. <http://www.vilniusinstitute.lt/cm4all/uproc.php/0/J.-Mickus->

[Lithuanian-Strategy-and-EU-Defence.pdf?_id=169021197d9&cdp=a](#)

¹¹. See "Japan: Promoting Inclusive Growth for an Ageing Society" report by the OECD (<https://www.oecd.org/about/secretary-general/BPS-Japan-EN-April-2018.pdf>) or "Toward realization of new economy and society," an outline prepared by the Japanese Business Federation, accessible at http://www.keidanren.or.jp/en/policy/2016/029_outline.pdf.

surveyed for the report rated the global and the regional importance of **climate change**. Climate change was the second choice for the most important trend in global politics; it was a distant 9th for the Baltic region. The majority of respondents expected climate change to have little to no effect on the Baltic states in the next five years. If climate change indeed comes to dominate politics in the great powers while the Baltics remain preoccupied with what they perceive as more relevant policy issues, it may restrict the ability of the Baltic governments to be active and constructive members of postwar order.

Indeed, current political developments within the core group states within the postwar order point to precisely such a prospect. The concern about the potential climate catastrophe is increasingly defining the political mood in the West and has already translated into political change (most notably in Western Europe, where green parties have made steady gains in national and European elections) and ambitious policy proposals, such as the Green New Deal in the US or full Carbon Neutrality by 2050 in the EU.¹² While such proposals are largely aspirational at this time, the recent decision of Estonia to reject the goal of a carbon-neutral EU by 2050 – a goal to which 23 other member states commit – suggests that diverging assessments of appropriate climate policy can affect collective policymaking on the European level.¹³

If the commitment to carbon neutrality by 2050 was mostly symbolic, **the increasing focus on environmental topics in the West will soon create tangible policy dilemmas over sensitive issues to the Baltic states**. France, for example, has been adamant about including strict climate stipulations

into all future EU trade deals (which may obstruct signing an agreement with the US, of great interest to the Baltic states).¹⁴ Germany's national discussions about abandoning its long-term commitment to balanced budgets, in part to finance an ambitious climate program, may inspire wider debates about the future of EU fiscal rules (something the Baltics, as well as the Nordics, generally oppose).¹⁵ If the Baltics do not develop a constructive climate policy, negotiating the complex trade-offs on such questions may prove difficult, leaving the Baltic states in the position of passive or even obstructive members of the postwar institutions.

In addition to recalibrating Western politics, **climate change is also transforming the behavior of Baltic strategic rivals**. Most pertinently, the thawing Arctic encourages Russia to more aggressively develop the Northern Sea route, seeking to keep it open for longer than the three months, which is the current window of operation. Maintaining the route open is in great interest to Moscow and doing so successfully would greatly enhance its regional and global economic power, which would likely affect Russian strategic relations with the Baltic states as well.¹⁶ Though a robust policy of protecting the Arctic commons could manage the rising Russian activity in the Arctic, the Baltic states currently have neither the expertise nor the instruments of influence to hold Moscow accountable. Joining the Arctic Council -- the multilateral organization dedicated to managing the Arctic commons -- as individual observer states or through the EU could thus be considered a tactical priority for the Baltics.

Remaining passive on climate change can make the Baltics out-of-sync with their allies and open to new strategic threats from their rivals. Climate change,

¹². Stearns, Jonathan. "Von der Leyen Vows \$1.1 Trillion Green Deal in Pitch to EU". *Bloomberg*. 16 July 2019.

<https://www.bloomberg.com/news/articles/2019-07-16/von-der-leyen-proposes-green-deal-in-bid-to-clinch-eu-s-top-job>

¹³. Teffer, Peter. "Four states block EU 2050 carbon neutral target." *EUobserver*. 20 June 2019.

<https://euobserver.com/environment/145227>

¹⁴. Schreuer, Milan. "France and Belgium Refuse Support for New Trade Talks With the U.S." *The New York Times*. 15 April 2019. <https://www.nytimes.com/2019/04/15/business/eu-us-trade-talks.html>

¹⁵. Chazan, Guy. "Germany: rethinking the national ideology of balanced budgets". *Financial Times*. 23 August 2019.

<https://www.ft.com/content/d89d9404-c586-11e9-a8e9-296ca66511c9?desktop=true&segmentId=d8d3e364-5197-20eb-17cf-2437841d178a#myft:notification:instant-email:content>

¹⁶. Astrasheuskaya, Nastassia and Foy, Henry. "Polar powers: Russia's bid for supremacy in the Arctic Ocean." *Financial Times*. 28 April 2019. <https://www.ft.com/content/2fa82760-5c4a-11e9-939a-341f5ada9d40>

of course, is not the only area. As shifting global power relations intensify geopolitical tensions, the risks of **major power conflict** or **regional conflict involving major powers** rise as well. As some such conflicts may occur outside of the Baltic region (i.e., the Middle East, Southeast Asia), the Baltics will face the challenge of constructively contributing to their allies' missions without overextending their resources. Here, deeper involvement in multilateral instruments designed for this task – i.e., the European Intervention Initiative – may prove an effective solution for the Baltic states.

EXPANDING RISK HORIZONS

The underlying argument of this section is that, to secure their ability to influence changing global politics, the Baltic states will must continuously and creatively **expand their risk horizons and policy toolkits**. As small states, the Baltics need to both seek leadership on select globally relevant issues and ensure that they do not fall out-of-sync with their key allies. The preceding discussion, based on the survey results, suggest that leveraging their current expertise on cyber issues may be the best strategy for the former task. Updating their state strategies to better account for the multiple effects of climate change on global and regional politics appears to be the main challenge to the Baltic states the second task.

RECOMMENDATIONS

The Baltic Risk Landscape report provided a snapshot of the prevailing risk-perceptions and trend analysis among the Baltic policy expert community. Based on the discussion in Part I, analyzed the survey results and discussed their implications, we wish to provide the following policy recommendations:

On managing threats to government integrity

1. Closely monitor Russian and Chinese influence activities in key economic sectors in the Baltic states and their allies and take collective measures (i.e. EU-wide investment screening and robust trade policy) to tackle any illegal or harmful activities.
2. Invest in cyber-security systems and instruments to protect critical infrastructure and sensitive data.

On managing threats to government capability

1. Promote inter-party and inter-institutional agreements on key strategic priorities of state policy to ensure policy continuity.
2. Invest in continuous policy learning and analysis to maintain government responsiveness and efficiency. Increase funding for policy analysis centers; within government departments, make regular the practice of "red teams" that make cases of alternative interpretations of information and data on which policy is constructed.

On managing threats to government legitimacy

1. Combat pervasive socioeconomic inequality by implementing the European Commission and OECD recommendations. Strengthen government social services to increase social inclusion, particularly in childcare, education, and senior care.
2. Establish more avenues of participatory governance to increase political inclusion, trust in government and democracy.

On developing and maintaining unique leverages in the changing postwar order

1. Engage more strongly and vocally in norm advocacy in the realm of international law.
2. Invest into international institutions with expertise and political power
3. Strengthen regional cooperation with the aim to speak in common voice on matters relevant to the region as well as global developments.

On maintaining active and constructive membership in the changing postwar order

1. Develop comprehensive climate policy strategy and incorporate the paradigm of sustainability to all major national strategic documents.
2. Organize institutional information-sharing between the Baltic states to evaluate each other's risk and trend perceptions and, where appropriate, integrate or align their approaches to maximize the potential for coordinated/joint problem solving.
3. Support and pursue EU membership in the Arctic Council.

PART II: THE BALTIC VIEW

In the second part of our report, we present the results of a follow-up survey, designed and carried out after receiving and analyzing the answers to the initial trends and risks assessment questionnaire. After the initial survey, we noted the emphasis our respondents place on two broad issue areas: (1) new security threats as shifting global power distribution transforms the dynamics of Euro-Atlantic integration and (2) deep socioeconomic divisions exacerbated further by disruptive technological change. We then examined the ongoing political discussions on potential solutions to specific problems in these issue areas, selecting six that were most relevant to the results of the initial survey.

This allowed formulating six questions about the preferred course of action in areas of security, economy, and political strategy. The selected questions cover the preferred management of transatlantic security cooperation, consider alternative economic strategies for the EU, and ask whether the political mainstream should accommodate anti-establishment parties and populist platforms. We hope that the pages below can help capture the range of expert opinion on what will likely be the key items on the Baltic political agenda in medium-term and help structure productive discussions on these questions.

OVERVIEW OF FINDINGS

The follow-up survey results indicate several trends in the thinking of the Baltic expert community. First, the results show a broad consensus for further deepening the Euro-Atlantic economic cooperation through an ambitious free trade agreement similar to the failed Transatlantic Trade Partnership agreement. Expert opinion was both the strongest and the most united on this question (all but five respondents answered with “strongly agree”). By contrast, two economic strategies widely discussed within the EU and intended to reduce socioeconomic inequality and foster

European competitiveness – social Europe and European champions, respectively – divided the experts. Though both propositions received more support than opposition (13-7 for social Europe and 12-5 for European champions), many were neutral (7 for social Europe and 10 for European champions). In sum, while the **free-trade consensus seems to hold strong among Baltic experts, there are fewer strong opinions on the collective solutions to pressing economic challenges at the EU level.**

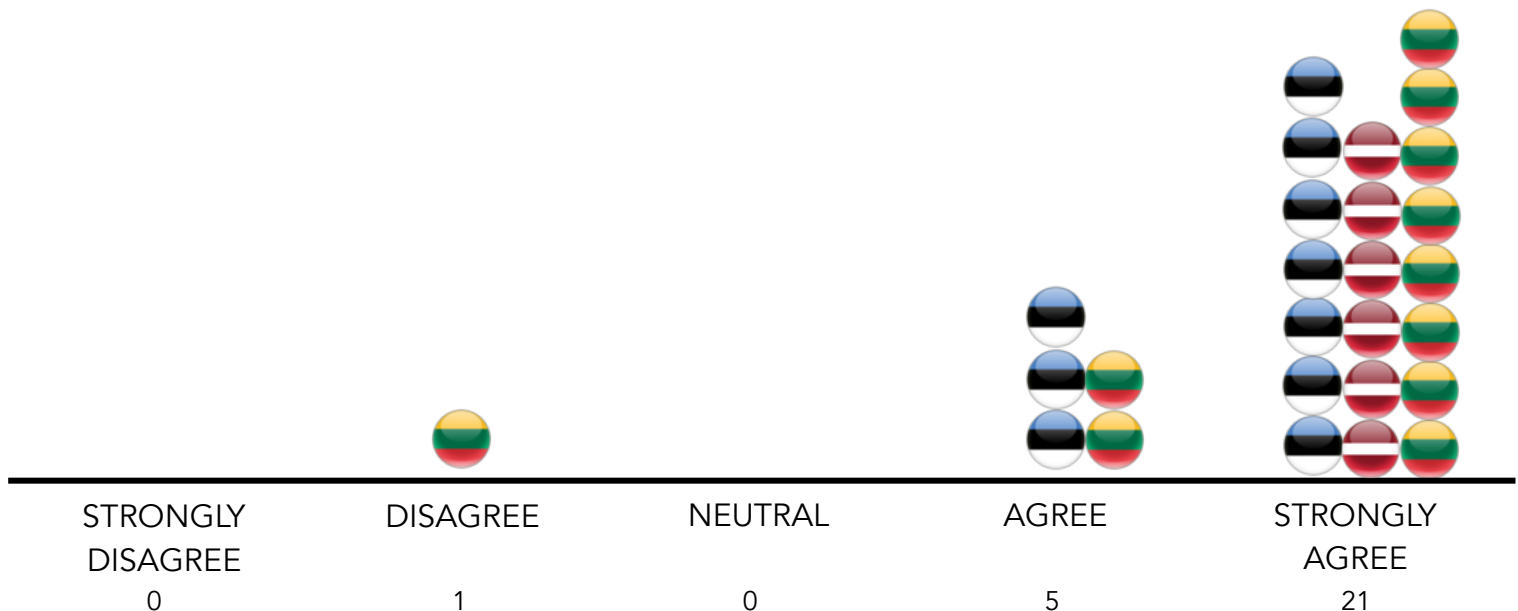
Second, the responses to the two security-related questions further confirm the **strong Atlanticism** within the Baltic expert community. There was no opposition to the proposal to ban China from participating in Western 5G networks – a policy strongly promoted by the US but viewed with serious reservation in Western Europe. While multiple respondents expressed doubt about the efficacy of bans as a policy tool, even they chose to be neutral, rather than outright oppose the proposal. While most respondents agreed with the proposition that European NATO members should fulfill their NATO obligations through deeper EU defense integration, many added that strong US leadership should remain the core of NATO activity. Notably, there was also a significant number of neutral (9) and negative (6) responses.

Lastly, the experts surveyed were **strongly opposed to welcoming populist platforms into government** across the West. 14 respondents disagreed. 8 were neutral; of the 5 positive answers, 2 were supplemented by an explanation that the respondent thought this to be the best way to neutralize or discredit populists. The strong rejection of cooperation with populists may be more broadly typical of policy expert communities, but the relatively large number of neutral responses invites further discussion on the topic.

The complete answers for the six questions, along with select written explanations for the response, are provided below.

FREE TRADE

THE EU AND THE US SHOULD PURSUE A COMPREHENSIVE FREE TRADE AGREEMENT



Amidst the changing dynamics of Euro-Atlantic integration and cooperation and the broader shift in global power distribution from West to East, concerns about the sustainability and the prosperity of the transatlantic economic area run high. Still, despite the failed TTIP negotiations and despite the ongoing trade disputes between the United States and the European Union, on 15 April 2019, the European Council approved mandates for the Commission to resume trade negotiations with the US which are to be centered around eliminating industrial tariffs.

In light of these news, we asked our survey respondents whether the EU and the US should pursue a comprehensive free trade agreement in the near future. The full range of responses is presented above; select answers are provided below:

"Free trade and economic inter-dependency promote stability and mutual support between signatories. The transatlantic relationship remains vital to Europe's security and this kind of agreement can strengthen the relationship. Of course, the US and EU need to be equal partners; the EU should not accept domination by US multinational companies."

Tony Lawrence, Estonia (agree)

"If the West wants to secure its economic and technological supremacy, this is the only way."

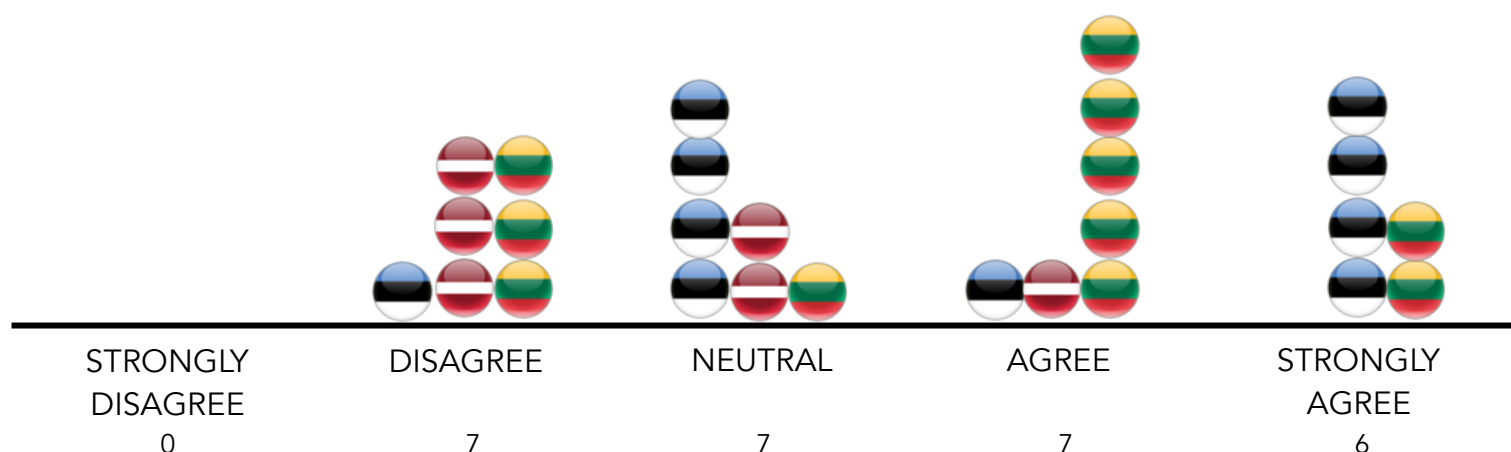
Nora Vanaga, Latvia (strongly agree)

"The eventual free trade agreement should be complemented by a separate package on sustainable development (environmental concerns), which are hugely neglected by the current US president"

Irmina Matonytė, Lithuania (disagree)

SOCIAL MARKET

THE EU SHOULD PURSUE AN AMBITIOUS AGENDA FOR SOCIAL EUROPE



Significant divergence in income and wealth between and within EU member states, as well as rising concerns about the increasing share of elder citizens in most European societies, continue to provoke discussions about whether European capitals should do more at the EU level to promote socioeconomic equality and inclusion. Lackluster growth and the difficult legacy of austerity politics in some European countries further amplify the concern that the current European social model is ill-prepared for the future. Recently, prominent European leaders, including President Macron, have voiced support for an EU-wide minimum wage, as well as other instruments to ensure greater equality between and within Member States.

In light of these developments, we asked our respondents whether the EU member states and institutions pursue an ambitious agenda for social Europe to achieve upward social convergence between and within Member States. The full range of responses is presented above; select answers are provided below:

"Harmonization of social policies is important but at the present moment it is too premature since the level of economic development is too diverse in the EU."

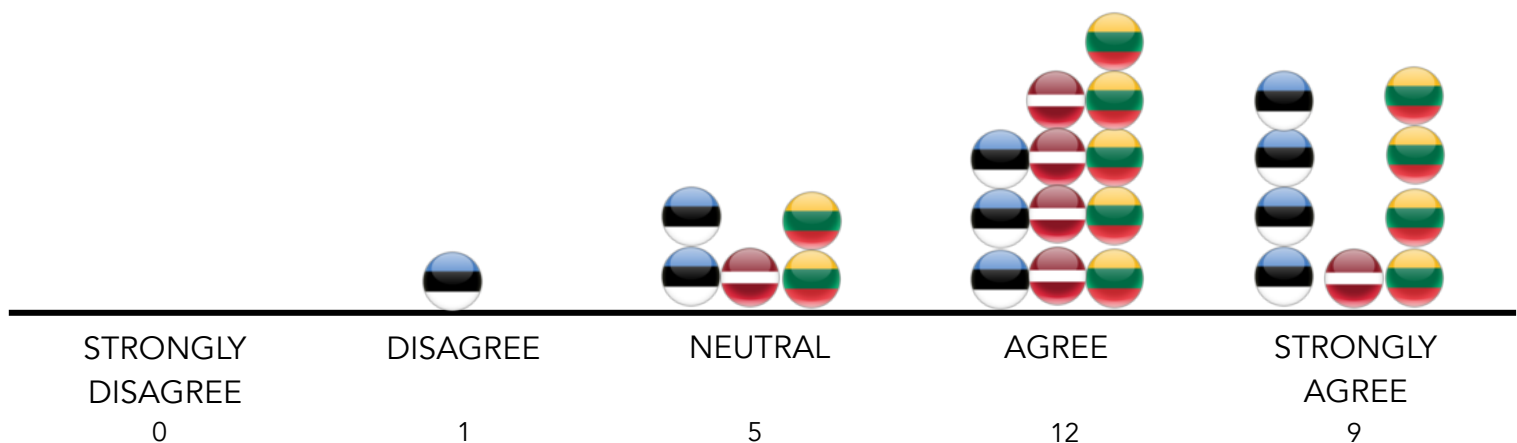
Žaneta Ozoliņa, Latvia (neutral)

"Ideally, social converge should help cement member-state solidarity. However, the increasingly nationalist governments in the east are unlikely to respond well to instruments which could be construed as impinging on their sovereignty."

Ahto Lobjakas, Estonia (strongly agree)

MANAGING RISING CHINA

THE WEST SHOULD BAN CHINA FROM PARTICIPATING IN 5G NETWORKS



Recently, Western governments began actively considering whether the Chinese telecommunications technology giant Huawei, as well as other Chinese technology companies, should be allowed to participate in Western 5G networks due to perceived risks to national security. On May 16, Washington banned Huawei from US government systems and those contracting with the government, while American diplomats have repeatedly urged its European allies to do the same. The European Commission, meanwhile, maintained banning Huawei from 5G networks is unnecessary and tougher regulation would suffice.

Following these discussions, we asked our respondents whether the Western countries should ban China from participating in their 5G networks. The full range of responses is presented above; select answers are provided below:

"Bans are the ultimate way of doing things. In the case of China and Chinese companies, there should be solid evidence on whether they are a real threat; otherwise, opportunities of cooperation might be missed, including in terms of Western influence on China."

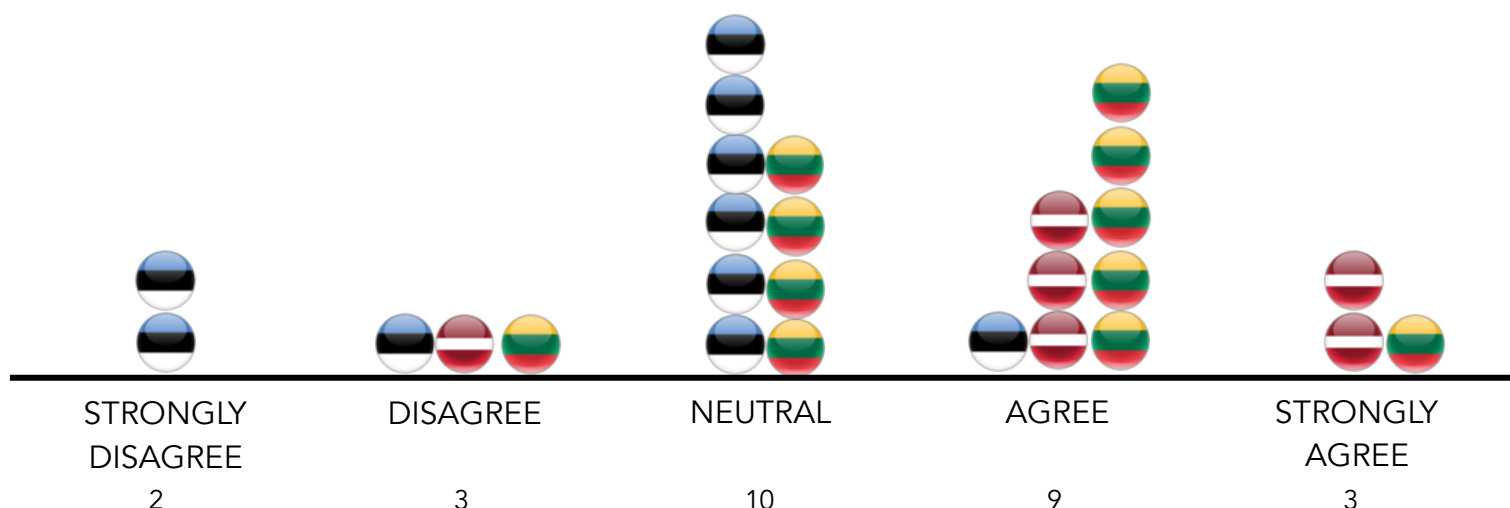
Lithuania (neutral)

"Dependence on a critical technology sourced from a state that is the West's geopolitical opponent, uses malignant influence strategies and might become a military adversary is reckless."

Tomas Jermalavičius, Estonia (strongly agree)

ENSURING EUROPEAN COMPETITIVENESS

THE EU SHOULD RELAX ITS COMPETITION RULES TO ENABLE CREATION OF EUROPEAN CHAMPIONS



The rising economic and technological rivalry between the US and China, as well as the broader dynamics of the so-called 'superstar economics', raise concerns about the future competitiveness of the European economies. These concerns are further exacerbated by the largely unfavorable demographic trends across the old continent. In light of these developments, multiple EU member states, led primarily by France, called for reform of the European competition policy to better protect European companies from unfair competition from third parties, to relax state aid rules, and to foster conditions for the emergence of globally competitive European champions.

As these calls have recently been formally included into the EU strategic agenda for 2019-2024, we asked our respondents whether they agree that the EU should its competition policy. The full range of responses is presented above; select answers are provided below:

"Some reform is necessary, but small open economies such as the Baltics need to be very wary about restrictions to free trade and competition, within the EU and outside."

Krist Raik, Estonia, (neutral)

"EU is losing its position in the global market and China's expansion towards and in Europe only make things worse. I think it is mandatory to have an adequate competition policy."

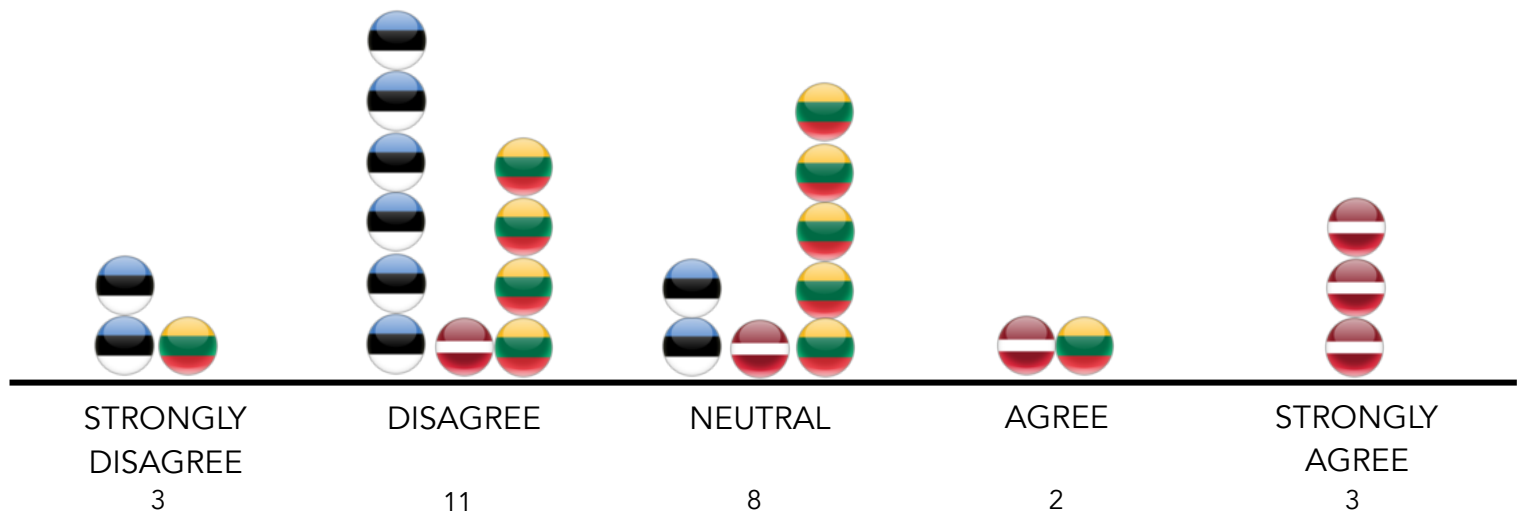
Nora Vanaga, Latvia, (strongly agree)

"Yes, but only in selected domains (IT development and green economy)"

Irmina Matonytė, Lithuania (agree)

RESPONDING TO RISING POPULISM

MAINSTREAM POLITICAL PARTIES IN THE WEST SHOULD COOPERATE WITH POPULISTS



Recent years have seen a broad rise of non-mainstream parties and politicians, many of whom embrace populist rhetoric and radical policy positions. Since the election of Donald Trump, whose campaign relied heavily on populist and anti-establishment imagery, prominent Democrats have embraced various economic populism, often coupled with ambitious calls for climate transformation. Simultaneously, openly nationalist parties have made significant electoral gains all across Europe. Across the continent, the mainstream political parties have chosen different ways to deal with the newly-powerful parties: some seek to keep them away by forging grand coalitions, others – from Austria to, recently, Estonia – invited them to government.

Focusing on Europe, we asked our respondents whether mainstream political parties should cooperate with so-called populist parties and include them in government. The full range of responses is presented above; select answers are provided below:

"The best way to "destroy" populists is to give them couple seats in the government, they are forced to "calm down" and choose for the moderate ways. They lose their extreme element. The existing Austrian government proves it once more."

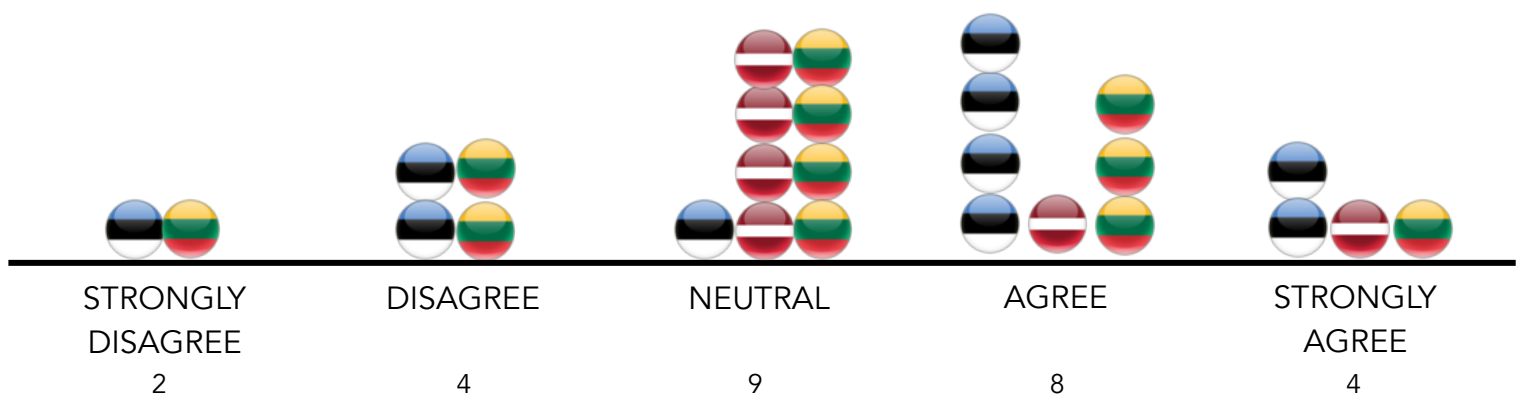
Nora Vanaga, Latvia (strongly agree)

"This does not seem to significantly alter the behaviour of the political actors bound to erode the rule of law, undermine independent institutions and capture the states. Ideologies representing danger to the rule of law, democracy and open societies should be actively marginalised, not legitimised."

Tomas Jermalavičius, Estonia (disagree)

NATO AND EU DEFENCE INTEGRATION

EUROPEAN NATO MEMBERS SHOULD FULFIL THEIR NATO OBLIGATIONS THROUGH DEEPER EU DEFENCE INTEGRATION



Burden sharing within NATO has been one of the most contentious issues currently affecting the dynamics of Euro-Atlantic cooperation. Currently, all but 5 EU members who are NATO allies fail to meet the 2% defense spending target, while the US spending represents 67% of the total NATO defense spending. EU leaders and institutions have long maintained that the best way for European allies to fulfil their NATO obligations is through deeper defense integration within the EU. Notably, this reasoning informed the most important recent developments in EU defense policy, such as the European Defence Fund or leading PESCO projects. However, concerns that such European initiatives may not be enough or may even duplicate or delink NATO capabilities remain prevalent, especially in the Baltics.

We asked our respondents to contribute to this discussion. The full range of responses is presented above; select answers are provided below:

"A more integrated European defence should remove wasteful duplication, encourage economies of scale, promote closer shared strategic culture, and encourage better performance through peer pressure."

Tony Lawrence, Estonia (agree)

"More integrated European military equipment production and innovation is welcome, but practical military issues should de facto fall under the USA leadership."

Matas Maldeikis, Lithuania (disagree)

METHODOLOGY

The Baltic Risk Landscape report was prepared based on the results of two surveys conducted in Spring 2019. The surveys were issued to foreign policy experts and practitioners, representing the major research universities, foreign policy think tanks, and relevant civil service institutions in the three Baltic States. A total of 70 potential respondents were selected by the authors of the study with consultation with their institutions. When selecting potential respondents, institutional quotas were applied (no more than 5 respondents per institution), as well as quotas in terms of areas of expertise (minimum 10 respondents for each of the following categories: international security, international political economy, EU politics, Baltic politics, Russia and China).

31 respondents participated in the first survey (response rate 44%). Of the respondents, 10 were from Estonia, 6 from Latvia, and 15 from Lithuania.

THE FIRST SURVEY

DEFINITIONS AND DESCRIPTIONS

The first survey asked respondents to consider what trends and risks will most significantly affect Baltic politics in the next five years. The report uses the following definitions of “risk” and “trend”:

Risk: an uncertain event or condition that may have a severe negative impact on states or societies

Trend: an evolving long-term pattern that has an indirect impact on states and societies by amplifying risks

To determine the set of risks and trends to include in the questionnaire, we referred to such established risk perception surveys as the annual World Economic Forum Global Risks report, adjusting or omitting certain less-relevant items (for example, the WEF study included the risks of *food crises* and *water crises*, which were dropped for the present survey; the WEF study listed *large-scale cyber-attacks* and *critical informational infrastructure breakdown* as two separate risks, which were merged into one in the present survey). The final selection consisted of 20 risks and 18 trends.

The complete set of risks, with brief descriptions, is provided below:

Weak economic growth	A period of flat or declining growth of the overall economy or its key sectors. Economic growth is persistently below the ideal 2%-3% target.
Economic crisis	A sudden and severe downturn to the overall economy brought on by a financial or financial crisis.
Severe energy price shock	Significant energy price increases or decreases that place further economic pressures on highly energy-dependent industries and consumers.
Extreme environmental events or disasters	Major property, infrastructure, and/or environmental damage as well as loss of human life caused by extreme weather events.
Disruption of international trade	A bilateral or multilateral economic dispute between states (e.g. trade/currency wars, resource nationalization).
Major power conflict	A bilateral or multilateral dispute between major powers that involves economic, cyber, societal, or other modes of conflict.
Loss of confidence in NATO	A sharp drop in public confidence in and support for NATO and transatlantic security cooperation in general.
Loss of confidence in EU	A sharp drop in public confidence in and support for the EU and European integration and cooperation in general.

Regional conflicts drawing in major power(s)	A bilateral or multilateral regional economic, diplomatic, or military dispute that formally involves major powers.
Foreign interference in domestic politics	Persistent external influence activities in various elements of domestic politics (election meddling, informational attacks, etc.)
State-on-state military conflict or incursion against a NATO ally	A direct military attack on a NATO member state by another state.
Erosion of constitutional and civil society checks on government	Formal erasure of constitutional checks and balances or <i>de facto</i> suppression of various civil society checks on government, the free press, universities, NGOs, etc.
Violation of civic or human rights	Severe restrictions on civic (voting, assembly) or human rights of the population / select groups within the population.
Populist and nativist agendas	Political movements and parties that claim exclusive moral representation of “the people” or “the nation”.
Authoritarian leadership	The concentration of decision-making power in the hands of an individual leader and its immediate circle.
High levels of crisis-driven or economic migration	Large-scale involuntary migration induced by conflict, disasters, environmental or economic reasons.
Civil unrest (including strikes and riots)	Major social movements or protests (e.g. street riots, social unrest, etc.) that disrupt political or social stability, negatively impacting populations, and economic activity.
Cyber-attacks: Theft of data/money	High-impact instances of wrongful exploitation of private or official data, as well as expropriation of money through cyber technologies.
Cyber-attacks: Critical infrastructure	Large-scale cyber-attacks or malware causing on the key civil and state infrastructure (banking, telecommunications, energy networks, etc.)
Job losses due to technology	Intended or unintended adverse consequences of technological advances such as artificial intelligence or automatization that cause massive layoffs across industries and economic sectors.

The complete set of trends, with brief descriptions, is provided below:

Growing middle class in emerging economies	Growing share of population reaching middle-class income levels in emerging economies
Rising geographic mobility	Increasing mobility of people and things due to quicker and better performing means of transport and lowered regulatory barriers
Rising income and wealth disparity	Increasing socioeconomic gap between rich and poor in major countries or regions
Changing nature of business and work	The rise or decline of certain industries, economic sectors, or types of labor, as well as the changing relationship between labor and capital, often associated with technological advancements.
Changing climate	Change of climate, which is attributed directly or indirectly to human activity, that alters the composition of the global atmosphere, in addition to natural climate variability
Degrading environment	Deterioration in the quality of air, soil and water from ambient concentrations of pollutants and other activities and processes
Decreasing natural resources	Decline in the availability of natural resources such as oil, precious metals, gas, livestock, etc., as well as public resources (such as clean
Changing dynamics of Euro-Atlantic integration and cooperation	Changing pace, form, or intensity of integration and/or cooperation in the EU and NATO
Changing landscape of global governance	Changing landscape of global institutions (e.g. UN, IMF, WTO, etc.), agreements or networks
Shifting global power distribution (West-East)	Shifting power from the West to China, as well as from developed to emerging markets and developing economies
Changing nature of conflict and security risks	The rise of new modes and theatres of conflict (cyber, informational) due to geopolitical and technological changes
Increasing national sentiment	Increasing national sentiment among populations and political leaders affecting countries' national and international political and economic positions
Increasing polarization of societies	Inability to reach agreement on key issues within countries because of diverging or extreme values, political or religious views

Deconsolidation of democracy	Widespread weakening of democratic institutions and norms; increasing suppression of opposition political forces, free press; constitutional changes restricting democratic control of the government
Ageing population	Ageing populations in developed and developing countries driven by declining fertility and decrease of middle- and old-age mortality
Rising chronic diseases	Increasing rates of non-communicable diseases, also known as "chronic diseases", leading to rising costs of long-term treatment and threatening recent societal gains in life expectancy and quality
Rising cyber dependency	Rise of cyber dependency due to increasing digital interconnection of people, things and organizations
Rising pace of technological change	Intensifying advancement in disruptive technologies (AI, IoT next-generation networks, bio-technology), causing broader societal, economic, and political transformations.

RANKING GLOBAL AND BALTIC TRENDS

Top global trends (**Figure 1**) were determined by asking the respondents to identify 5 trends they thought would have the most impact on global politics (in no particular order). Top Baltic trends (**Figure 2**) were determined by asking respondents to identify 3 trends they thought would have the most impact on the Baltic region. To obtain more specific answers, two-region specific trends (changing Euro-Atlantic dynamics and aging population) were added to the list provided with this question.

The effect of different trends on Baltic politics was further assessed by asking respondents to rate each trend from 1 (no expected impact) to 5 (significant effect expected). The results informed the discussion in the second chapter and are displayed in **Figure 7**.

The three trend-related questions as they appeared in the survey are provided below:

- (1) Select 5 trends that will most significantly affect global politics in the next 5 years
- (2) Please select 3 most important trends that will affect the Baltic States in the next 5 years
- (3) Rate how each trend will affect the Baltic States in the next 5 year

RANKING RISKS TO THE BALTIC STATES

For the initial risk assessment (displayed as the Baltic Risk Matrix in **Figure 3**), respondents rated the perceived likelihood and the expected impact of all provided risks from 1 (low) to 3 (high).

Further, risks to the Baltic states were assessed in terms of their interconnections with broader trends affecting global and Baltic politics. Here, the respondents were asked to identify 3 trends expected to have the most significant effect on the Baltic region and identify up to 5 risks most strongly associated with each selected trend. The overall count of trend-interconnections and the count of unique trend-interconnections were recorded for each risk.

For the final (combined) Baltic risk ranking displayed in **Figure 5**, the three indicator scores – the count of overall trend interconnections, the of unique interconnections, and the risk score (likelihood x impact) – were normalized and multiplied to obtain the final score.

The three risk-related questions as they appeared in the survey are provided below:

- (1) Please indicate the probability of each of the following risks
- (2) Please indicate the expected impact of each of the following risks
- (3) Please select up to 5 risks associated with the selected trend

THE FOLLOW-UP SURVEY

The follow-up survey was sent out to all 31 respondents who completed the initial survey. Of the 31, 27 (87%) respondents also participated in the follow-up: 10 from Estonia, 6 from Latvia, and 11 from Lithuania. The follow-up survey respondents were asked to identify the extent to which they agree with each of the 6 policy propositions presented (the possible answers ranged from *strongly disagree* to *strongly agree*). Each respondent was also invited to provide additional written comments to explain, contextualize, or elaborate on their response.

To select the 6 propositions that were presented to the respondents, a two-step method was applied. First, the initial survey results were analyzed to identify the most frequently cited trends and risks. The authors then grouped the most frequent trends and grouped into three conceptual categories: geopolitical challenges to the West (changing Euro-Atlantic integration and new security threats), geoeconomic challenges (shifting global power distribution and weak growth), and sociopolitical challenges (increasing polarization and inequality, rising populist agendas). The authors then examined the ongoing policy debates in the political West to identify several questions on the present policy agenda that relate substantially to the aforementioned groups of challenges. The six questions identified cover geopolitics (future of NATO, managing China); geoeconomics (EU-US free trade agreement, European champions), and sociopolitical issues (social Europe, inclusion of populists into government).

RECOMMENDATIONS FOR FUTURE SURVEYS

Given the significant effect of the trend-interconnection variables on the final ranking of the top risks, policy experts and practitioners should develop tools that allow to evaluate risks in the context of long-term patterns shaping global and regional politics and, especially, to carefully weigh the importance of specific trend-risk (as well as risk-risk) interconnections.

Given that this survey uses a relatively restricted sample of academics, policy analysts, civil servants, and technocrats, further stakeholder surveys on risk and trend perceptions should be conducted to augment the current findings with perspectives of business and civil society representatives.

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ACKNOWLEDGEMENTS

The authors wish to thank all respondents who participated in the survey, as well as their colleagues in VIPA and ICDS/EFPI for providing advice and feedback during the writing of the report.