By Andrew Ward in Tallinn and Peter Spiegel and Joshua Chaffin in Brussels

With its winding, cobbled streets leading up to an onion-domed cathedral and limestone castle, Tallinn's old town looks much like it has for centuries.

But peer across the city from the battlement walls and the skyline is dominated by gleaming office towers and business hotels that testify to Estonia's rapid economic development since independence from Moscow in 1991.

The transformation from Soviet satellite into one of the European Union's most vibrant young members reaches another milestone on January 1, when Estonia is due to become the 17th nation to join the euro.

To outsiders, it may look a strange moment for the eurozone to be admitting new members when the single currency is embroiled in what some observers consider to be a battle for survival. Yet, Estonia's eagerness to join despite the crisis provides a reminder of the euro's appeal to some countries on the eastern fringe of Europe eager to cement their place in the west. While the debt crisis has sparked renewed debate over the merits of monetary union, Andrus Ansip, Estonia's prime minister, says Europe must not lose sight of the bigger picture. "Every-one in Estonia understands that the European Union started as a peacekeeping project and that the common market and the euro is a continuation of that," he says.

"So it is crucial for integration to continue."

Jürgen Ligi, finance minister, says the economic case for the euro remains intact, particularly for a country of just 1.3m people. "We are simply too small to have our own independent monetary policy," he says. "There were always questions about whether we might devalue no matter how often we said we wouldn't. Joining the euro will attract more trade and investment by putting

that uncertainty to rest."

But even Mr Ligi admits that "at least half" the motivation is purely symbolic – a signal to the international community that Estonia is now a fully fledged member of the European club six years after joining the EU and Nato. Neighbouring Latvia and Lithuania are also pressing for euro membership, with a target of joining in 2014. The three Baltic states were among the first countries struck by the global financial crisis when a regional credit bubble burst in 2008. But they are being hailed as a model for more recently crisis-hit EU members, such as Greece and Ireland, after pushing through deficit cuts while also returning their economies to growth.

Estonia is leading the recovery, with year-on-year growth of 5 per cent in the third quarter and public finances that put most of Europe to shame. Its budget deficit is projected to be among the lowest in the EU at about 1.3 per cent of gross domestic product this year – easily within the 3 per cent limit for euro entrants.

Meeting euro entry conditions was a painful process involving heavy budget cuts during a deep recession, yet Estonia managed to avoid the social unrest seen elsewhere in Europe – something Mr Ligi attributes to bitter memories of the Soviet era. "We are still allergic to socialist ideologies," he says. "This makes us less susceptible to the protest movements of southern Europe."

Not all Estonians are thrilled about joining the euro. Polls show only a narrow majority in favour less than a month before the switchover. Many believe euro adoption is to blame for rising inflation, which reached 5.3 per cent last month, even though the government insists high food and commodity prices are the culprits. There has also been a burst of nostalgia for the kroon as a symbol of Estonia's hard-won independence and concern that Estonians could be forced to help bail out profligate eurozone members.

Toomas Hendrik Ilves, Estonia's president, says Tallinn will align itself with other smaller, northern nations such as Finland and the Netherlands, who have been pushing for stronger measures to impose fiscal discipline: "The only way the small can survive is following the rules and insisting that everyone follow the rules."

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