



# **THE CENTENARY OF LATVIA'S FOREIGN AFFAIRS SCENARIOS FOR THE FUTURE**

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THE FUTURE

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## THE CENTENARY OF LATVIA'S FOREIGN AFFAIRS SCENARIOS FOR THE FUTURE

The Centenary of Latvia's Foreign Affairs: Scenarios for the Future” continues the series of publications on ideas, activities and personalities in Latvia's foreign policy. This book provides an assessment of the future international environment and future trends in Latvia's foreign policy in 10 years and in 30 years. The authors anticipate and examine the possible difficulties and advantages the Latvian state will face in the spheres of diplomacy, the economy, energy, security, the image of the state, and migration, as well as the choices it will have to make within the context of the globalization process, geopolitical challenges and communities of like-minded nations.

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This publication and public debates have been supported by  
the Saeima of the Republic of Latvia and  
the Ministry of Foreign Affairs of the Republic of Latvia.

The authors are solely responsible for the content of individual articles.  
The opinions expressed by the authors should not be construed as representing  
those of the Latvian Institute of International Affairs, project supporters  
or partners, other government institutions or entities.

Cover design: Kristīne Plūksna-Zvagule

Layout: Oskars Stalidzāns

Translations into English for selected articles:

Language learning and translation centre “Bābele”

English language editing for selected articles: Talis Saule Archdeacon

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# An Introduction to the Future?

VALTERS ŠČERBINSKIS, ANDRIS SPRŪDS,  
KĀRLIS BUKOVSKIS

The centenary of the Latvian state has fostered Latvian connection with their independence and given Latvia valuable experience with international relations. The Latvian foreign service has played an important role as a promoter of independence and statesmanship during this intricate period. The foreign policy process, the changing circumstances and factors, as well as national, regional, and global influence on an emerging new state, are all intertwined with the personalities and viewpoints of Latvian foreign policy makers. While preparing the Latvian Institute of International Affairs' first two books on the centenary, we have tried to point out some new aspects in the foreign policy process and provide innovative analyses of the events by looking at past and present successes and failures, as well as flaws. We have not only tried to find out how it happened, but are also focused on trying to understand the reasons why.

On the one hand, this third book on the centenary of Latvian foreign policy produced by the Latvian Institute of International Affairs is a logical continuation of two former books, ideas, and personalities, as well as work and personalities. On the other hand, this book could just as well serve as an addition to any attempt in telling the current and future stories of Latvia. It is always a challenge for scholars to talk about the future cautiously and using academic terminology. However, the reader will be able to compare the given prognoses with reality at the moment and in the years to come. More importantly, the reader will be able to receive a competent view of unfolding events as compiled by experts, or in several cases from the perspective of different potential scenarios. What is our country going to look like in both 10 and 30 years? Which tendencies make us think about certain courses of events, or possible difficulties and advantages? Finally, what is going to happen to Latvia in 30 years? The authors of 11 chapters in this book provide their points of view.

The authors of the book were attempting to give innovative analyses and provide a view as to how the international environment could look in both

2028 and 2048. Each and every author, based on their expertise and point of view, provides scenarios about a probable world into which Latvia is going to have to implement its foreign policy during the next decade, and well into the middle of the 21st century. This task required both ingenuity and an ability to foresee the development of upcoming events, and was carried out with the help of different disciplines and theories. Being aware of the difficulty of the task at hand, the authors were encouraged to stimulate readers philosophically and cast aside cautiousness so that the book would promote discussions, as well as warn decision makers and the Latvian society about possible negative scenarios.

In his publication, Ivars Ījabs gives a conceptual overview of Latvia's relationship with both globalization itself and potential further developments that result from it. The effect of globalization is obvious both individually and from the perspective of the state. The author states that "The fact that the effect is going to be substantial should not even be argued about". I. Ījabs focuses on economic, cultural (especially on matters concerning identity), and democratic factors. How are these notions transformed in terms of globalization, and what is their effect on foreign policy decisions in the world and in Latvia?

Kārlis Bukovskis is focusing on Latvia's future within like-minded communities, i.e. the European Union and the Euroatlantic partnership. The author proposes three scenarios: where like-minded communities are weakened and falling apart, where they continue to exist in a complex multi-speed condition, and where they continue an active and homogeneous integration. K. Bukovskis examines how Latvia can ensure its statehood and development as a result of intergovernmental and supranational interaction, which has always dominated not only processes of European integration, but also Euroatlantic relations.

Edijs Bošs examines the policy of Latvia and other regional superpowers by looking at the policy of Russia, the United States, China, Germany, and the rest of the European Union. He takes into consideration foreign policy and economic tendency developments and provides a future vision for Latvia. The presence of all world superpowers in terms of globalization, even in the Baltics, has become an important factor. Based on an analysis of current circumstances, E. Bošs provides both positive and negative foreign policy development scenarios.

The title of Māris Andžāns chapter, *The Security of Latvia in a Predictably Unpredictable International Environment*, steers the reader into a multiple dimension interaction in which the future is difficult to predict. The author



bravely provides his vision for the future, taking into consideration the rapid development of technology. The publication also provides two alternative future scenarios – an optimistic one and a less optimistic one. The author states the various factors that must exist for these scenarios to come true.

The chapter by Didzis Kļaviņš deals with changes in practical diplomacy, as well as its transformation in current circumstances and the foreseeable future. The author evaluates how digital technologies are affecting diplomatic forms of communication. He gives his point of view about the change in the *modus operandi* of diplomatic representations, the importance of trade development, as well as new technologies, e.g. the influence of artificial intelligence on ensuring diplomatic processes.

Daunis Auers writes about Latvia's international image today and in the future. The author analyzes the correlation between trade and state brand, looking at the influence of governments, values, history, tourism, innovation, and immigration on Latvia's image. D. Auers' publication adds to the future view on foreign policy by providing insight on how Latvia is seen by others.

An expert on migration policy, Agnese Lāce focuses her study on Latvia's reaction, its future prospects and threats if world migration is going to increase. Transnational and transcontinental migration policy is an important part of the current foreign policy. The author of the publication analyzes Latvia's situation and position, as well as provides an evaluation for Latvia's choice in favor of the Eastern, Western, or Northern model.

The study by Mārtiņš Āboliņš on the future of the world trading system and Latvia's role in it gives an insight on the effects caused by globalization. It describes what trading and investment future perspectives might look like, and more importantly, what Latvia's chances are in fierce global competition.

In his chapter, *A Smart-State's Future Foreign Policy: Technological Possibilities and Challenges in the Latvia of Tomorrow*, Mārtiņš Daugulis provides a general insight about the challenges and opportunities that Latvia is facing on the brink of its centenary. The author focuses on a new term, 'smart foreign policy', by giving an overview of the most essential technological development aspects. M. Daugulis gives his opinion on how the usage and protection of personal data, a model of new services, blockchain technologies, and perspective data analyses, is going to contribute to the future decision-making processes within foreign policy.

During the past few decades, energy policy has gradually become an indispensable part of foreign policy. Without a doubt, energy and its security

are critically important within the context of foreign policy, even in this book. The study by Reinis Āboltiņš on energy connectivity, energy security, and critical infrastructure gives an overview of the existing situation and provides a basis for the development of different scenarios within the implementation of energy policy. The author provides a general description of energy policy, as well as constructs various levels of energy development, and describes both Latvia itself and the place of its foreign policy in this scheme.

Finally, the former Council of Europe Commissioner for Human Rights, Nils Muižnieks, concludes the book by providing an overall view on the situation in which Latvia finds itself right now in terms of foreign and domestic policy. The author points out that the development of domestic policy, especially human rights, is linked to Latvia's foreign policy opportunities. He emphasizes that the task of the governmental institutions is not only to provide economic conditions and infrastructure, but also to educate people to make use of them, and to be an active part of social processes.

The third book of these scientific publications serves as a symbolic dotted line in the story about Latvia's foreign policy and its history. The creators and editors of these three books hope that the publications are going to give new and useful critical knowledge. The knowledge, ideas, and reflections that are present in these works are used in academic and professional fields. The authors of the book hope that it is going to be useful, even in practical decision-making process.

The Latvian Institute of International Affairs would like to thank the Latvian Saeima and the Ministry of Foreign Affairs of the Republic of Latvia for their support in publishing this book. This collaboration has provided a significant contribution for the scientific field of international relations and facilitated the idea of the foreign policy as such in our country. This significant partnership between legislative and executive power, and civil society representatives, is a core element needed to ensure conceptual, broad, and bold discussions.

# Latvia and Globalization

IVARS ĪJABS

This publication will deal with effects of globalization on Latvia's foreign policy in the next ten and thirty years. The subject is complex because the term globalization is too broad so as to mention all of its most important aspects even briefly. It comprises of aspects from fluctuation in world economy to global solutions for environmental problems. For this reason, the publication will focus on three mutually intertwined aspects of globalization which, to my mind, will be more frequent in the daily lives of Latvians in the near future. Rather visibly in the next ten years and in the next thirty years it will notably change our lives.

The aspects of globalization are as follows; firstly, the development of global economy and Latvia's place in it. The conclusion can be made that by its rapid integration into the Western economic area, Latvia has shown that it is not fully prepared to deal with challenges presented by the global economy. It has to do, among other things, with state's capacity to satisfy the needs of its citizens. The second aspect mentioned is cultural globalization. Since restoration of independence, Latvia's linguistic and cultural identity has been the center of our political life. The most notable evidence for this, is the Introduction to the Constitution (Satversme) in 2014, which, in the realm of political integration, strengthens these identity values on the constitutional level. At the same time it seems that the law and policy makers, e.g. within the fields of education or media policy, are not fully aware of the upcoming challenges to Latvian linguistic and cultural identity. Thirdly, this publication will look at potential effects that global crises of democracy could bring to Latvia. We are living in times when even our domestic security and stability is closely linked with external factors and with principles by which other countries act. This is the reason why the development of Latvian policy can be understood only by even closer connection with the fates of global democracies in the whole world.

## Conceptualizing globalization

The focus in this publication will not be on globalization and its effect on the international environment as a whole, which will undoubtedly have an effect on Latvia. The fact that globalization is going to have an impact on Latvia, should not even be argued about. When it comes to institutional integration, Latvia today is one of the most globalized countries in the world. There are only twelve other countries which show similar level of integration and membership in the UN, the EU, NATO, the WTO, the World Bank, the IMF, Schengen and last but not least OECD. It is rather obvious that the change in the international environment will have an effect on Latvia. However, this topic is focused on in detail in other publications. What we are going to focus on here is the effect of globalization on the relations between the Latvian society and the Latvian state in the next ten and thirty years, as well as the ways it could have an impact on foreign policy.

According to Anthony Giddens, the classic definition of globalization is as follows: “The intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many thousands of miles away and vice versa.”<sup>1</sup> Globalization comprises of many aspects, starting with creation of a capitalist world economy up to cultural and military aspects. In this publication we are mostly interested in statehood and the social content of it, i.e. the nation. The meaning of globalization has been a matter of dispute with the downfall of the Westphalian nation-state sovereignty principle. However, the nation-states keep existing, and the reason might be the fact that we have not come up with anything better. Furthermore, these states play a dominant role in world policy. That is the way the talks about the “extinction” of sovereign nation-states has been greatly exaggerated. It primarily has to do with the political sphere, because a state’s “sovereign” influence in other fields has been greatly diminished. We are not only talking about economy and culture in which the state’s sovereign say has become very relative. The past years are clearly showing that the state has a competition even in a field as common as monetary policy, i.e. having to do with *BitCoin* and other cryptocurrencies. However, this does not mean that the state will gradually cease to exist, rather, it will function in a different social environment in which many traditional responsibilities of the state will not be considered as self-evident anymore.

Despite some anarchic excitement, the “reduction” of these states is not a matter for optimism. First and foremost, the sovereign nation-states have been a bedrock of democracy, i.e. an opportunity for its citizens to have a say in collective decisions by means of free and fair elections. The state has been the main framework for social solidarity and justice. That is why the role of the state’s reduction should be perceived with mixed feelings. At the same time, globalization is not a conspiracy, but rather a fact; many positive economic, scientific, and cultural processes are more effective beyond the borders of nation-states.

The relationship between the nation-states and globalization is somewhat dialectic. Sometimes globalization rejuvenates the sense of belonging to certain national cultures. In this respect, globalization is not a one-way process. We could say that the growing interest about genealogy in the world is partly due to globalization. People are exploring their roots, their individual, local, national or, in other words, particular identities. It is more so in situations when people migrate and are making global careers, when the local cultural landscapes are changing, and when some of the countries and cities in the world are becoming more equal in accordance with so called “global standards”, e.g. it manifests itself as the same hotels everywhere show the same CNN channel on TV.

When we are looking at Latvia in the next ten and thirty years, we should do so carefully. The only thing we can do is to extrapolate today’s tendencies towards the future, or to look at some other similar cases when globalization causes certain processes in other, though possibly more developed, countries. No one is capable to predict Nassim Taleb’s “black swans” – unexpected, though crucial events, which completely change current tendencies as we know them.<sup>2</sup> Even globalization is not something unexpected and unstoppable. It is even based on the decisions made by certain people, and if these decisions will not be made or are made vice a versa, then globalization in its current form will stop. We should keep in mind the globalization wave before World War I, which to many people seemed unstoppable and comprehensive. However, the possibility of the *black swan* should not prevent us from making predictions. The fact of the matter is that we already see the tendencies now, which with a high probability, will affect our lives in the future, and we should not ignore them. Even if *the future as such cannot be predicted*, these predictions allow us to better understand the things happening at the moment, and exercise our imagination while designing future scenarios.

It can be done in three ways. Firstly, globalization is affecting Latvian society's relations with the State of Latvia. Latvian inhabitants look at the state as a thing of value and as a service provider. The latter is particularly important when it comes to globalization. Secondly, Latvian society has its national identity, which has been formed throughout the course of history and is rather sustainable, despite rapidly changing processes in the world. The aspect of national identity, its culture, and language, are worth exploring; taking into consideration migration processes and globalization tendencies. Thirdly, globalization is affecting Latvian citizens' views on Latvia's place in the world, its relations with other countries, as well as its values which Latvia is representing in the world of today, e.g. democracy, human rights, and European solidarity. Globalization in itself is not something humane, enlightened, liberal, or democratic. There are many authoritarian regimes that widely use the advantages of global trading, and the Internet is widely used also for human trafficking and other criminal activities. In this sense, Latvia's foreign policy has an important democratic dimension in the future globalized world. The Latvian state has regained its independence twice in the 20th century under the scope of global democratic optimism, and also lost it when even Europe's trust in free and democratic nation-states had lost all its influence. For this reason, it is logical that Latvia's fate in the future is connected to those core values that will expand globally in a certain era.

## **Economic development and capacity of the state**

In order to understand the future perspectives of the Latvian state and its society's relations in the next ten and thirty years, one has to explore current tendencies. It is important to point out, first of all, that the Latvian state is a thing of value for its citizens, which is a fundamental fact. The majority of Latvian inhabitants believe themselves to be patriots of Latvia, which is true not only amongst Latvians but also amongst people of other nationalities.<sup>3</sup> Even they, i.e. the mainly Russian speaking third of the Latvian population, feel they belong in Latvia. We should not underestimate this tendency.

However, statehood does not only mean values and belonging. It also entails certain expectations from the state as a specific service provider, which means that in ideal conditions, the state should provide the society with certain collective benefits which are expected by the society. There is not a place in the world where it works ideally, however Latvia's situation is

special. From 2012–2014, the Institute of Conservative Ideas “Populares,” in collaboration with a public opinion research centre SKDS, conducted surveys with the aim to find out different Latvian inhabitants’ attitudes towards the state, choosing between “social”, “conservative,” and “liberal” attitudes. Most of the Latvians (2014 – 53.4 percent) chose the social approach which is described as follows, “The state should take care of social justice and equality, it should take care of all inhabitants, and should ensure, without exception, a decent standard of living for all the inhabitants. The state should maintain control over strategically important sectors and, with the help of taxpayer money, should distribute wealth. The state should ensure the equality of all the members of the society.”<sup>4</sup> It is easy to conclude that this way of looking at the state implies high expectations – especially ensuring, without exception, a decent standard of living for all the inhabitants.

In reality, the Latvian state is very far from these expectations. Latvia as a state cannot be considered a “big” state in the general sense of the word. The general government revenue comprises of 36.4 percent from GDP (2016). It is not the lowest estimate neither amongst the OECD countries (In Mexico it is 24 percent), nor EU countries (Ireland – 27.4 percent). However, it is below the OECD average (38.1 percent), and substantially below EU average (44.7 percent). In short, although the state budget funds have had a tendency to increase during the past years in comparison with other countries, Latvia collects a relatively small amount from the GDP in taxes.<sup>5</sup> This creates a gap between the inhabitants’ expectations and the state’s capacity.

One of the manifestations of this gap is a rather low satisfaction rate with the governmental institutions. There are only 5-20 percent of inhabitants who are satisfied and 75 percent are constantly dissatisfied. The sectors in which the dissatisfaction is the highest have to do with benefits provided by the state to individuals, such as social allowances, education, and healthcare services. The important question is how globalization could affect this situation in the future. It is clear that in the upcoming ten years, Latvia’s capacity to ensure these benefits will improve gradually. On the one hand, the Latvian economy is growing and the tax revenue is also increasing. The reform process is taking place within the fields of education and healthcare, which cautiously allows us to hope that the situation is improving. At the same time the mobility and competition for skilled labour force is increasing due to further integration in European and global labour markets. The public service providers in Latvia need to compete for Latvian citizens with the developed countries.

It is important to note that the emigration factor is not only dependent on the economic development and salary dynamic factors in the future, but also on the capacity of the social sector.

We could suppose that the public services provided by the state at the moment could be taken over by private service providers in thirty years, due to the fact that the public sector is experiencing serious financial difficulties in the entire developed world. In this way, the state could transfer its functions to private service providers, as is already happening in many places, alongside with state financed healthcare, education, and old-age pension insurance systems, there are rather dynamic private providers. In this way, the inefficient use of resources due to bureaucracy and inability to identify society's actual needs would be prevented. The people could choose private service providers even more as opposed to state ones. However, it seems that Latvia would not be ready for this sort of scenario. Latvians mostly consider the state as the main provider of public services and are very suspicious about handing over these functions to private providers. That being said, it is very difficult to imagine how the liberal and anarchic scenarios, that you sometimes hear about, would play out, i.e. where the state would decline financing to the public services. To be more precise, it cannot happen as a result of democratic *normality*, but only as a result of substantial turmoil. This is one of the major challenges in the next thirty years, i.e. to insure adequate range of social services for the Latvian society, which would allow people to choose Latvia as a place for their family and their future. The free movement of labour is one of the globalization trends that can be felt already today, and its effect on Latvia is directly linked to the capacity of the state.

Many things in the future depend on Latvia's economic growth and state's capacity to provide public services. The prognoses for the future in this respect are not entirely clear. The average income for a Latvian inhabitant is around 65–70 percent of the EU average.<sup>6</sup> This means, that for Latvia to achieve the average EU level, it would need surpassing economic growth over a longer period of time, which would surpass the EU average growth ratio. In 2028, Latvia could move closer to the EU average in the case of economic growth by around 10 percent per year. This scenario is not very realistic. The same could be achieved by 2048 but by substantially more modest growth ratio; only around 3 percent per year. We should, however, take into consideration that these prognoses are rather abstract because growth ratio fluctuations in a longer run are influenced by many factors that are difficult to predict.



What does it mean for the relations of the Latvian state and society? First and foremost, taking into consideration the integration in the global economy, special integration into the EU with its free movement of labour, capital, and goods, Latvia has to play in *the big leagues*, even in the future, i.e. in the common economic area with much more developed economies. This will cause permanent stress, and its intensity will be directly dependent on Latvia's growth and capacity criteria. This stress will manifest itself as notable emigration, as a lack of financing for the public sector and social needs, and as a commonly expressed view on it lagging behind and being provincial on a global scale.<sup>7</sup> The slow convergence process could be amortized by various factors. Firstly, it is EU aid, especially if the Union's policy would develop in the direction of social political standards. Here, we are not only talking about financial aid, but also motivation to reform oneself and monitoring of the local decision makers by EU institutions. However, the main task and future challenge is Latvia's political leadership so as to not only invest financial resources in growth, but also political will; starting from purposefully attracting investment and prudent regional policy, up to having an education system adequate to the standards of the 21st century. This requires an ability to undergo reforms and reach a consensus on achievable goals.

## **Culture and identity**

When it comes to the effects of globalization on the daily lives of Latvians, not only is the state capacity important, but also the people's identity and cultural environment. Due to migration, global networks, and cultural pluralism, there is going to be a change in Latvian inhabitants' ethnic and religious values as well as their linguistic and cultural habits. The Introduction to the Constitution of the Republic of Latvia states that amongst its tasks is to maintain the Latvian language and culture throughout centuries. This means that the task of the state is to limit the effects of cultural globalization, e.g. in usage of language, in protecting the national media environment, preserving certain culture traditions, etc. The ability to carry out the task at hand is closely linked to the capacity of the state which was described in the previous chapter. Successful language policy and cultural policy can be carried out only if the state is able to effectively use allocated resources in order to achieve these goals. However, the attitude towards globalization has to do with society's attitude towards it. How do Latvian inhabitants perceive other

cultures and languages, when they accept immigrants in their own country and when they themselves go abroad and come in contact with people from different countries? It is clear that in the upcoming thirty year perspective cultural globalization tendency will become stronger. Even more Latvians will choose to spend at least a part of their lives abroad. The motivation for that will be either education, career, or life-style and leisure activities. Latvia itself, even if the economic growth ratio will not be substantial, will attract people from different cultures, including immigrants. So, what are the perspectives for the next ten years?

We have to admit that, on a political level, the mechanisms for immigrant integration in Latvia are tailor-made to suit a Russian-speaking immigrant profile from the Soviet era, and with integration problems specifically characteristic for this group.<sup>8</sup> In 2015, the migration crises challenged Latvia's preparedness to accept and integrate different kinds of refugees, them being rather substantially different from Latvians both in their religious beliefs, lifestyle choices, and language knowledge. In the medium term period until 2028, a massive wave of immigration is not expected neither from Northern Africa nor the Middle East, because the crises of 2015 have caused political turmoil in many European countries and that in turn has resulted in increased migration controls. However, in a more distant future, say thirty years from now around 2048, increasing migration will become a reality. In order to maintain Latvia's cultural identity, an effective and realistic migration policy should be in place. A policy that could ensure the people who have come here can speak Latvian, respect the core values of the Latvian state, e.g. freedom of religion, gender equality, etc. Up until now, these aspects have been lacking; an effective migrant integration policy has been substituted with ignoring the problem.

This has an obvious explanation due to the fact that the attitude in Latvian society towards immigration as a whole is dismissive. Immigration is mostly associated with possible threats, and it is more seldom considered an opportunity or something that can benefit the country. That is the reason why, when looking at the future, we should be prepared for a negative attitude towards immigration in society. This is something that the decision makers will have to take into account. Therefore, it is important to widely publicize the core elements of the immigration policy, strictly defining the framework and requirements, so that immigrants could become a part of the Latvian society in the future. It would also help to avoid possible criticism directed at the government concerning this issue.

While Latvian society in general is rather skeptical towards immigrants coming from other cultures, there is a variety of preconditions that could ensure a successful cohabitation and synergy. First of all, Latvia historically has been a multilingual society which maintains connections with various regions and cultures around Europe. Furthermore, Latvians consider knowing a foreign language an advantage, seeing the benefits of such skills in different fields such as business, culture, and personal development.<sup>9</sup> In this sense, the Latvian society has an enormous potential for being open and welcoming, which could be beneficial in the future. Latvian society is relatively tolerant when it comes to different cultural identities. The level of racially motivated crime is rather low. At the same time, the inability or unwillingness to stand for one's own cultural identity can be often observed; e.g. while talking to a foreigner, Latvians would most likely switch to a foreign language – such practice doesn't ensure the protection of the local culture. This is the reason why we can see that there is a desire to completely transfer the protection of the cultural environment over to a state whose policy, with regard to the usage of the language in Latvia, is rather restrictive. Due to globalization processes, the role of the state with regard to protection of the cultural environment will be reduced (e.g. the increase of anglicization in business communication, the increased influence of the Internet on various aspects of life). The protection of the cultural environment will be in the hands of the citizens themselves, and will depend on their ability to defend their cultural identity.

This has also to do with the relations between the Latvian state and Latvians living abroad. We can consider politically motivated remigration plans, however, we can be sure that there is going to be substantial number of Latvians living abroad in the future. What is more, if it was considered as something extraordinary in the recent past, in the future it will be something completely normal. The ones who will have chosen to move elsewhere will have to choose how to formulate their relationship with the Latvian language and culture. These choices will depend on various factors, however it is important for the political leadership to ensure maintenance of a positive connection with the Latvian language and culture, to promote language learning, and to stimulate cultural life. Some of these are things that are being done already.

An important question is whether the people who have chosen to leave Latvia will maintain connection with it as a childhood memory and a sentimental place of the past, or as a potential place for their personal and

family future. Substantial amount of people who have left the country feel alienated from the Latvian state and “betrayed” by it (whatever that might mean), and in the next ten-year perspective this tendency will continue.<sup>10</sup> The idea that people see Latvia as their cultural “homeland” will be closely linked with the possibility to implement the strategies of their personal lives in terms of education, career (including having highly qualified professions), lifestyle (e.g. the choice of family model), as well as long-term prospects of their choice. If that is not going to be possible, the connection with the country most often will be a nostalgic attachment without any practical consequences as to a potential place of life, career, or business. This is a very complicated task to deal with for the future Latvia in all fields of life; how welcoming the Latvian society really is towards those Latvians and Latvian citizens who have decided to return home after a longer period abroad.

We think of any nation not only as the community with certain cultural symbols, but also as a community of solidarity. That is why the existence of a Latvian nation in the globalized future depends on the ability of its members to make decisions and act in the name of their compatriots. The aspect of solidarity is crucial in the decision making of a person; whether it is worth sticking to being Latvian, Latvian culture traditions, and connection with Latvia. The lack of such solidarity can prove to be decisive for individuals’ Latvian identity in the globalized world.

The global prestige and attraction of being Latvian is just as important. Daunis Auers has taken a look at this aspect in his publication. The studies made, up until now, are painting a rather somber picture. Often enough Latvia is not well known in the world, and if it is known, it is usually in a negative sense.<sup>11</sup> The situation tends to gradually improve with Latvia’s integration into the world, however this process is very slow. Latvian and Latvian citizens’ desire to create a relationship with their country of origin is most of all connected to external evaluation and prestige amongst those who do not have any biographical connection to Latvia. In this respect, any remigration program will fail if the prestige of the country in question in the developed world will be negative. Here we are not focusing so much on a country’s role and importance in international politics, but rather on its socioeconomic model and its appeal, e.g. if Latvia is a county which could offer an attractive standard of living in the longer term. The next ten years will most definitely be characterized by economic growth, which will bring Latvia closer to the standard of developed countries. However, the task for the next thirty years,

is the change of the everyday mentality and culture, convincing ourselves and others that Latvia really is a modern and developed place with world class perspectives.

## **Democracy and the end of globalism**

When Latvia rapidly returned into the global world and made the main decisions on its global integration, it was the time of triumph for liberal democracy. After the end of the Cold War, as it was rightly noticed by Francis Fukuyama, the ideological alternatives for liberal democracy were gone. It is clear that nobody could hope for peace and prosperity in the whole world, however realistic, massively appealing, alternative regimes were non-existent in the world. No matter what the difference between the countries was, they all seemed to be moving towards the free market regime in which the political power could be exchanged in free and equal elections. Keeping that in mind, Latvia naturally chose to become a member of global and regional cooperation organizations, considering increasing integration in the world as its guarantee for security and peace. The regained sovereignty and statehood remained of great value, however it did not seem to be in conflict with membership in all possible Western organizations and a substantial readiness to delegate its sovereignty to supranational entities. Certain values like democracy, rule of law, as well as freedom of speech and consciousness were accepted as natural elements of the future. The leader of the “Free World” was still the US, a country with unparalleled economic, military, and cultural influence.

Looking at what is going on in the world today, it is safe to say that the next thirty years for Latvia will be different from the previous decades. Although the US is not losing its leading global role as a safeguard of the liberal, free trade order, advocating for close international integration, this role has been increasingly questioned. Not to mention the change in internal dynamics between the US and the Western countries. More often than not, there are players that come to the forefront and who sympathize with authoritarian competition, controlled democracies, and non-liberal democracies. The generation which sympathized with Ronald Reagan, Václav Havel, and Helmut Kohl are substituted by people who are sympathizing with Lee Kuan Yew, Augusto Pinochet, and Vladimir Putin. Second of all, the globalized West, more often than not, is facing growing internal dislike towards its globalized elite. The globalization, free trade and *the global value*

*chains* have improved living standards for so many, however today this growth has brought with it a growing inequality. Moreover, the traditional way of life after the war, which at its center had industrial employment, national culture, and a growing consumer standard, has disappeared: the average citizen's life in democratic countries is much less safe and he/she is living in a multicultural environment. The results are the so-called populist movements and their growing influence: anti-elitism and an unwillingness to represent the "common man" and take care of local, inborn interests. As a result, although the world is still largely globalized, the globalism as an ideology which pointed out the increasing integration of democratic world as a good thing, has lost its value nowadays.

These processes will have an effect on Latvia in the next ten and thirty years. Latvia's growth during the past decade has been based on an assumption about the sustainability of a liberal democratic consensus, i.e. liberal, democratic countries creating ever closer bonds for the sake of common safety and prosperity. However, today when the US President Donald Trump is questioning the necessity of NATO, we are talking about something much more important than just one of the international organizations and the disproportionate part that the US has to invest to finance it. We are questioning the very essence of the global liberal democratic consensus. Even the Americans have started to negotiate with others in terms of mutual benefits, not in a terms of common values. The same as it is in Europe where euroscepticism is growing, the benefits of globalization are thought to be self-evident. The thing that causes great dissatisfaction is the unequal distribution of the benefits and losses. Latvian society's reaction on the refugee crises in 2015 gives an example. We are very keen on traveling and studying in the West as well as accept EU subsidies, however it is rather difficult for many to understand why the refugee, who has just arrived in the country, should receive a larger benefit than the state set minimal pension.

It is likely that the localism and populism wave that we can see right now is just a correction of the course for global development, which will not substantially change the world order. It is true that if things are changing, it attracts more attention as opposed to if they stay the same. However, we cannot deny that Latvia's future in a wealthy Europe does not look so self-evident as ten years ago. Firstly, the neighboring Russian Federation has assumed a role as a criticizer of liberal democratic globalization. Despite its actions in Ukraine and Syria since 2014, it seems that Russia's global prestige

has not suffered much. Secondly, there are differences of opinion in all major political questions of the EU and the next ten years will most probably be devoted to preventing further division rather than to continue integrating. The future of Euro-Atlantic relations is also unclear. It is clear, however, that the current US Administration's focus on de-ideologization of its foreign policy can spread further. For a country to have beneficial foreign relations, they don't necessarily have to be based on loyalty to democracy and human rights; this is something that becomes obvious throughout the world.

Latvia has many reasons to look at this global development with concern. The independence of Latvia, at least from the regaining of independence, has been based on internationalizing its security issues and relying on collective security. The question will still be topical in the future; how responsive the international partners will be and will they be able to meet Latvia's security needs. We are not talking so much about someone leaving or betraying Latvia or some other country, but rather about internal problems which create new type of insecurity and weaken the existing structures of collective security. It is enough to mention the existing crises between the US and the member of NATO Turkey, or the refugee crises and the disagreements within the EU about the sanctions against Russia.

On the other hand, we can see in Latvia itself certain trends that suggest *tiredness from globalization* and a willingness to get payback against the globalized elite. Although the majority think that membership in the EU and NATO is a good thing, nevertheless the parties that were in favor of Latvia joining these structures are experiencing dismissal from voters. The country's Western foreign policy orientation still has value in the eyes of the people, however, the willingness to disobey Brussels and stay away from everything that is going on in the world is increasing. That is why in the next ten and thirty years Latvian foreign policy makers will not only have to energetically and consequently vouch for collective security institutions on the international level, but also constantly remind the Latvian society about the core values of European and Euro-Atlantic integration, and to defend them in domestic political discussions.

## Conclusion

The effect of globalization will strongly and diversely influence Latvia's growth in the next thirty years. These diverse social processes very rarely happen linearly. The economic globalization and country's integration in global and regional structures during the past twenty-eight years have largely been the precondition for Latvia's successful growth. However, we can see in many aspects the dialectic continuation or dismissal of the globalization tendencies, strive for localism, rising distrust in globalized financial and political elite, and the willingness to wind back the clock to the post-WW2 Western world with its clear values. It is difficult to imagine that these processes will not affect Latvia. The fact that we have become an integral part of Europe and the world, makes it unlikely for us to avoid these processes.

At the same time, it has its pros. Latvia's reliance on democracy and human rights, free trade, and the free movement of people, capital, and ideas was a precondition for our integration in the Western world's organizations. These principles, in accordance to which the global integration should have happened, were offered to us from the outside as a peculiar *entrance exam* into the Western world, which we successfully passed. However, today when the world does not look so simple anymore, we most likely will be able to see how our adherence to these principles will work autonomously. It is clear that there is no alternative to globalization nowadays. Even countries seeing themselves as a special "civilization", which does not need any interaction with the outside world, are gradually starting to see this. However, globalization can happen by different sets of rules – by those that were common in the world in the period of the collapse of the Soviet Union, or others. The most important question for Latvia is what principles of globalization, regional, and world integration principles in the future will we stand by? One of the possible answers would be self-evident; the ones which allowed Latvia to regain its independence and return in the circulation of the world as a free, democratic, and national state.

## Endnotes

<sup>1</sup> Anthony Giddens, *The Consequences of Modernity* (Stanford: Stanford UP, 1990), 64.

<sup>2</sup> Nassim Nicholas Taleb, *The Black Swan: the Impact of the Highly Improbable* (New York: Random House & Penguin, 2007).

<sup>3</sup> See: Jurijs Nikišins, Juris Rozenvalds and Brigita Zepa, "Democracy and the Political Culture" in *How Democratic Is Latvia. Audit of Democracy 2005-2014*, ed. Juris Rozenvalds (Riga: University of Latvia Advanced Social and Political Research Institute, 2014), 249–268.



- <sup>4</sup> "Pasaules uzskats: pašnovērtējums un realitāte. Latvijas iedzīvotāju ideoloģiskais portrets," Populares/SKDS, March 2014, [https://docs.wixstatic.com/ugd/Se1eac\\_93c37f75402c4d3f8ac0c38a8178285b.pdf](https://docs.wixstatic.com/ugd/Se1eac_93c37f75402c4d3f8ac0c38a8178285b.pdf)
- <sup>5</sup> "General Government revenue," OECD Data, 16 August 2018, <https://data.oecd.org/gga/general-government-revenue.htm#indicator-chart>
- <sup>6</sup> Morten Hansen, "Lettlands wirtschaftliche Entwicklung seit 1990: Ist das Glas halbvoll oder halbleer?" in *Lettland 1918–2018: Ein Jahrhundert Staatlichkeit*, Hrsg. Jan Kusber, Ivars Ijabs, Ilgvars Misans und Erwin Oberländer (Paderborn: Ferdinand Schoeningh, 2018), 202–218.
- <sup>7</sup> Aldis Purs, "The Unbearable Myth of Convergence. Episodes in the Economic Development of Latvia" in *Latvia – a Work in Progress?: 100 Years of State- and Nation-Building*, eds. Matthew Kott and David J. Smith. (Stuttgart: Ibidem, 2017).
- <sup>8</sup> See: "Migrant Integration Policy Index" Latvia, 16 August 2018, <http://www.mipex.eu/latvia>
- <sup>9</sup> See: Linda Lauze, *Valodas situācija Latvijā: 2010–2015. Sociolingvistisks pētījums*, ed. Gunta Kļava (Riga, The Latvian Language Agency, 2015).
- <sup>10</sup> See: Mārtiņš Kaprāns, "Latviešu emigranti Lielbritānijā: transnacionālā identitāte un attālinātā nacionālisma konteksti" from *Latvijas emigrantu kopienas. Cerību diaspora*, ed. Inta Mieriņa (Riga: LU FSI, 2015), 108–127.
- <sup>11</sup> See: Simon Anholt, *A Competitive Identity for Latvia. Interim Strategy Paper* (Latvian Institute, 2009) [http://li.lv/upload/S.Anholt\\_Final%20Strategy%20Paper%20Latvian%20Competitive%20Identity%20V.2.doc](http://li.lv/upload/S.Anholt_Final%20Strategy%20Paper%20Latvian%20Competitive%20Identity%20V.2.doc)

# Latvia in Like-Minded Communities: The European Union and the Euroatlantic Partnership

KĀRLIS BUKOVSKIS

*"Most of my life I was forced to live in the Soviet Union that is why I will vote for Latvia joining the European Union so that at least my grandchildren have a future."<sup>1</sup>*

The international situation in which Latvia finds itself at the moment is unique in the history of the country. A sovereign republic which is a fully-fledged member of a global military alliance, NATO, and a historic international organization, the European Union. In addition to that, Latvia is also one of the founding members of the Council of the Baltic Sea States, a member of the Organization for Security and Cooperation in Europe, the United Nations, and the Organization for Economic Cooperation and Development. Latvia uses and is involved in the decision-making process regarding the world's second largest currency, the euro. Thirty years ago, this would not have been imaginable for this small Baltic state. However, today it is difficult to imagine which foreign policy goals the country should still achieve.

The preservation of international law, regional security, the preservation of both close and distant neighbours, the preservation and boosting of the Latvian language, culture, and traditions, and the preservation of a favourable economic environment and economic growth are the issues that Latvia should address in the international arena. The most convenient, pragmatic, and cheapest way to do it is through securing the existing formats of cooperation, especially the European Union and the Euroatlantic Partnership.

That is why the goal of this publication is to evaluate three possible scenarios. What would happen to Latvia in the next 10 and 30 years 1) if the EU and the Euroatlantic structures weaken or disappear, 2) if the EU and the Euroatlantic structures transform into smaller entities, and 3) if the EU and the Euroatlantic structures further strengthen their cooperation. This publication will identify the most likely scenario within the period of 10 and 30 years.

## Which are the like-minded communities to Latvia?

In 1988, Latvia's independence was a hope, not a foreseeable or planned event. Membership in the European Union back in 1998 was a hope, but not a fact.<sup>2</sup> In 2008, Latvia's membership in the Eurozone was a hope, but because of the economic crisis, it was an unlikely scenario for the near future. It is not easy to plan, but it is easy to choose a plan and work towards implementing it. Even now, Latvia is facing certain choices; for instance, how to shape its foreign policy, and how to influence its closest neighbours and more distant partners so that the country can continue enjoying the opportunities that are available at the moment. Reinstating independence was not the only process characterized by effort and risk – so was returning to the West; i.e., integration in the European Union and the Euroatlantic security structures was not an easy process.

The choices that Latvia made after regaining independence were pragmatically based on its instinct of self-preservation in an anarchic international system. The choice in favour of a partnership with the most influential country in the world and the only existing superpower, the US, was not unrealistic, and that is why it was made. Another strategy for small states is the founding of international organizations which would allow the creation of a collective reactive force against superpowers, or tie them to international norms. This *realpolitik* calculation was a motivation to join the European Union. However, membership in the European Union was not only enacted because of a geostrategic calculation, it was also the fact that Latvia was joining a community of countries which have like-minded democratic systems and have a respect for human freedom. A society that had experienced oppression for more than half of a century not only wanted to be an independent country, but also wanted personal, political, economic, and social freedom, especially if the benefactors of those freedoms were all around in neighbouring countries. This was the reason that everything that had to do with the Soviet Union became old-fashioned and replaceable, whereas Europeanization was something positive and future-oriented. Latvia had to prove its right to be a part of the Western world. The society had to be patient and determined, whereas the politicians had to be composed and hold the state's interests at heart, especially when it came to foreign policy, so that Latvia could become a full-fledged member of the EU and NATO.

Just as the European project is not finished, Latvia's integration process in the European Union is still continuing. In response to each crisis, the member

states have tried to unify their resources and deepen their cooperation using the European Union's institutions as the aggregating and coordinating mechanism. During the pre-accession period, Latvia had to adopt the EU's legislation, comprised of 80,000 pages,<sup>3</sup> by incorporating them into its legislative system in a relatively short period of time. Latvia was able to do so because it was in a historically convenient situation, and when the change and transition from the Soviet system had to be made, the implementation of the EU norms was an efficient move in order to finalize the transformation. This historic coincidence, the convenience, and an ability to be goal-oriented prevented Latvia from sinking into reforms and getting swamped in a post-Soviet and pre-EU membership situation. Today, when we look back, we can see that in many other former Soviet republics this "transition" period has been longer and possibly has already become infinite.

After Latvia joined the EU, integration continued because there were still goals to reach. First of all, there was a need to finish implementing the remaining legal norms. However, the main goal was to gain the right to travel to most EU countries without border control. The physical freedom that was gained from joining the Schengen agreement was an important step both for Latvia becoming a more integral part of the EU, and for the old EU member states becoming more open to the new ones. Latvia joined Schengen zone on 21 December 2017.<sup>4</sup> Even today, there are some EU member states which have not been able to meet the criteria required to become a part of the borderless system. The inertia created by the integration process also ensured Latvia's visa-free agreement with Canada and, some time after joining Schengen, with the United States of America as well.

The euro-integration goal that was achieved is just as important for Latvia – meeting the economic criteria and joining the Eurozone in 2014. The most challenging administrative task for the country, which also showed maturity during EU integration, was the Presidency of the Council of the European Union, which was more about the political and institutional support that Latvia could provide to the EU. Latvia joined the Eurozone at a time when its confidence in the future still had not recovered from the economic and financial crisis. The Latvian Presidency of the Council of the European Union became somewhat of a final test for Latvia's integration in the EU, which the small and relatively recently renewed Baltic state successfully passed.<sup>5</sup>

This is an example of how Latvia has decisively moved closer to being in the core of the EU, or how Latvia has integrated and strengthened its

position in like-minded Euroatlantic communities. The more it seems impossible to imagine Latvia outside the Euroatlantic community and the European Union, the safer Latvian inhabitants can feel. Latvia has continued to promote the EU's integration projects, among other things, supporting economic coordination mechanisms,<sup>6</sup> monitoring banking systems<sup>7</sup> as well as European internal<sup>8</sup> and external security processes,<sup>9</sup> which are in the making at this moment. The EU is planning to finalize the Economic and Monetary Union by 2025. Defending Latvia's interests while argumentatively adjusting the initial proposals of the European Commission is a common practice that synergizes two ways of looking at matters, namely, the intergovernmentalist and federalist approaches. Latvia has always been cautious supporter of the EU integration project. It has always strived to find a position that could benefit the state's national interests in the longer term.

Both pragmatic and idealistic motivations guided the decision by the US and Canada to accept Latvia and the Baltic states as partners. The ability to implement the EU's norms and take over its core values at the turn of the millennium, alongside the historic moment and opportunities, has ensured Latvia's membership in the North-Atlantic Treaty Organization. One of the pragmatic motives for this is an unwillingness for Eastern Europe to become a grey area, as well as its geographic proximity to Russia. Historically, Baltic accession has also coincided with Russia's internal challenges and a period of self-searching which limited its foreign policy manoeuvres. Moreover, it also coincided with terrorism becoming a new mutual threat, which was an issue not only in the Western world, but also in Russia. Latvia's further integration choices and successes led to continuous support for Latvia from Euroatlantic partners the US and Canada. As a result, in US presidential speeches by both George Bush in 2002<sup>10</sup> and Barack Obama in 2014<sup>11</sup>, the US promised protection to the Baltic States in case of an attack. Military support from the US as well as the leading role of Canadian troops in multinational battle group in NATO's framework of extended presence, is an important safety guarantee. Meanwhile, this pragmatic involvement would not have been possible if Latvia's values wouldn't match with the values of the Western world. If Latvia would not have been considered a like-minded country and a part of the Western world, it would not have been worth paying attention to. From the perspective of the Western world, Latvia and the Baltic States are not sufficiently important geographically. If the values and principles would not be there, geography would not matter.

## Latvia in like-minded communities in 10 years

Latvia has successfully used its historic chance by becoming a member of like-minded communities. If we were to compare a transnational system to a block of flats, Latvia has proved to be a good and trustworthy neighbour which you can depend on. The question still remains: if the country is able to maintain this image, then how will the cooperation models remain or be restructured in the next 10 and 30 years? The three core questions and scenarios are as follows:

- Will Latvia need to find new cooperation models, because the existing ones will collapse?
- Will Latvia need to make an effort to remain part of the like-minded communities?
- Will Latvia be able to continue using its opportunities, which are available now in a stable and sustainable system?

Both in the context of the future of the European Union and Euroatlantic relations, it is important to keep in mind the two main trends that are common in the Western world after World War II: a sovereign approach, i.e. intergovernmentalism, and a supranational approach, i.e. federalism. The first one believes that any cooperation with international institutions must be a continuation of a state's sovereignty and implementation of national interests, whereas the second believes that for the sake of preserving lifestyle and peace, reciprocal coordination and dependency must be strengthened. None of these approaches are destructive if the goal is to cooperate. There might be a problem, however, if any of these conscientious trends were to become extreme.

Let us start with the *first scenario* and take a closer look at the intergovernmental approach becoming extreme, which would lead to countries distancing themselves from one another. This trend of neo-sovereignism, which has been present in the world for a few years now, especially since the 2016 presidential elections in the US, is becoming a dominant force. In a worst-case scenario, in the upcoming decades the Western world could come to the same relationship model that characterized the period between both world wars, and mostly lead to World War II. A lack of mutual trust, resentment, irrational competition, and obsession with personal or national ambition can lead to this neo-sovereignist reality. Judging from today's perspective, firstly the estrangement of the US from Europe can be likely. It would affect NATO's further existence as a global alliance.

Cutting military ties would create political pressure, and it would reduce the availability of American goods in European countries. This could lead to new trade barriers or even sanctions, which would in turn make the European Union member states more inclined to create mechanisms that would substitute the existing global financial<sup>12</sup> and infrastructure system run by the US. The disintegration of Euroatlantic ties, due to growing intergovernmentalism, would lead to similar tendencies in the European Union, when some countries would not want to continue their economic policies with a joint monetary system. They would choose to leave the Eurozone, and due to the resulting economic difficulties and instability, they might also choose to leave the European Union altogether. Although it is difficult to imagine that in the next 10 years the EU, especially people of neighbouring countries, would start hating each other, the dislike, inability to understand each other, the existing negative stereotypes and openly egocentric and chauvinistic stances and rhetoric could lead to the disintegration of the EU.

Some examples are the radical solutions which initially were chosen during the migration crisis, including circumventing member states' unanimity principle, which has always been held in high regard. Shaming and blaming of member states by the European Commission or by other member states can lead to the collapse of the European idea of integration and its ideals and willingness to turn back to rhetoric about sovereignty. Substantial and serious economic problems within the EU would lead to a rapid reduction of the available financial resources. Less economic redistribution via waiving of cohesion funds and other instruments of solidarity could cause new anti-EU rhetoric, which could lead to the beginning of the exiting process for some member states in the next 10 years. The results of Brexit and the effect it will have on the UK's economy will play a significant role in the rhetoric of domestic politicians. Exiting the EU could also become an acceptable scenario in other member states.

In the case of this rapid disintegration scenario, Latvia as a country would not be able to ensure autarky in modern circumstances, and would have to look for partners. The greatest challenge will be to ensure military security, because when compared to other countries in the region Latvia's military capacity is rather limited. This could lead to an ultimatum from a larger power to create a foreign military base in its territory. In order to ensure Latvia's independence, the majority of the budget would have to be invested in

defence, so that it could boost its capacity and prepare the society. In addition to border protection, several areas such as the national currency, external trade, and any sector which is overseen by the EU at the moment, would need extra bureaucratic resources so that it could function. Foreign investment, both public and private, would substantially decrease due to unfriendly transnational relations, and this could even lead to the repatriation of capital. It would eliminate both savings and business models of Latvia's population and companies, especially in export sectors. It would in turn force people into economic and political exile, to countries which would still be willing to receive immigrants at that point. In this rather sombre scenario, the available solutions for Latvia would be very challenging at the beginning. The state's ability to recuperate would depend on coincidences of a variety of different circumstances, and the ability of people to mobilize when facing serious hardships. This scenario, where the existing partners and structures rapidly vanish, is something that Latvia would want to avoid, and Latvia should focus its resources as much as possible so that this neo-sovereignist scenario will not happen. There is hope, however, that due to cooperative inertia that has been around for decades, and due to the long-lasting mutual cooperation and integration between Europe and North America, this scenario could not fully materialize in the next 10 years.

Because of this, the *second scenario* has to do with the transformation of EU and Euroatlantic structures into smaller formations, and foresees a rather segregated multi-speed EU, based only on sectoral cooperation in the Euroatlantic area, i.e. NATO and CETA cooperation with Canada, and a bilateral sectoral agreements with the USA. Although this scenario is pessimistic, it is the most probable in the next 10 years. Although the EU has been recuperating from sovereign debt and the migration crisis, the latter has cast the shadow of doubt between the EU institutions and the member states. This is obvious when considering the international approach towards the European Union in Hungary and Poland, and most notably in the UK. The politicized way that Jean Claude Juncker has decided to run the European Commission has provoked a strong reaction in many EU countries, in some more than the others. Anti-EU sentiment is more common and more active than before. Although the driving force of European integration has always been marked by crises, each and every one of them has facilitated the creation of new and practical cooperation models – the Brexit crisis and a growing “rule of law crisis” in some EU member states, however, could cause a lasting effect



on a countries' willingness to cooperate in the first place. While countries like the Baltic States will want to be in EU's core, due to a lack of geopolitical options, other countries like Poland and Hungary can choose to stay out of strengthened integration mechanisms, including the Eurozone. There are also countries like Romania and Bulgaria which, since 2007, have tried and failed to become members of the Schengen zone.

It has become rather common that when representatives of the political elite in certain member states are offered a proposal for deeper integration, the attitude towards it is not favourable. Recent examples of this are the establishment of the European Public Prosecutor's Office, the financial transaction tax, European patent with unitary effect (EPUE), and even the Permanent Structured Cooperation (PESCO) on defence. Cooperation and strengthened integration has become a common model during the past 10 years because this cooperation principle, which is stipulated in article 20 of the Treaty on the European Union, and articles 326 to 334 of the Treaty on the Functioning of the European Union, is used to shape common policy. All of the former excuses made by member states show that homogeneous European integration is not possible.

A multi-speed Europe can retain a fragile European unity, satisfying the supporters of both intergovernmental and federalist approaches. It can aggregate various political forces, as well as the ambitions and needs of politicians in one temporary solution. An exception, and the fact that not all the member states would join straight away, is intended as transitional and temporary, also from the legal perspective. It has been joked that nothing is more permanent than a temporary solution, and this is why the EU will continue to be unpleasantly complicated. With growing differences and integration intensity, the EU will be less understandable and therefore also less acceptable to a wider society. It is already difficult to understand the European Union and its essence because of its complexity, which is reflected in the low turnout rate at European Parliament elections. The various cooperation models in the European Union during the next 10 years will be just as common for Euroatlantic relations, when bilaterally strengthened cooperation models between the EU member states, the US, and Canada will become politically acceptable. Examples of this include Poland's lobby to deploy a permanent US military base in its territory, or bilateral trade and other cooperation agreements between the UK and the EU after Brexit.

From Latvia's perspective, this scenario is complicated because it will increase the fragility of Euroatlantic structures. Yet at the same time, it gives Latvia a chance to strengthen relations and cooperation with Canada and the US in sectors which are fundamentally important to it – amongst others, in the fields of security and defence. In the case of a multi-speed Europe, Latvia should not always look for universal solutions and generally acceptable cooperation models. Additional bilateral or multilateral cooperation with North American countries, closer cooperation with the countries in the region outside the European Union, especially Norway, should no longer be viewed exclusively in a wider multilateral format. That being said, the main goal for Latvia is to remain in the first speed core of EU integration and be as present as possible in the decision-making process. This not only ensures a more effective decision-making process which benefits society, but also shapes a positive image of Latvia abroad – as a country which is willing to cooperate. The fact that Latvia shares European values and principles is a very important precondition for shaping the country's image in the upcoming decade. Judging from a practical perspective, Latvia should be focusing on completion of the Economic and Monetary Union in 2025, promoting the creation of a sustainable EU budget, the creation of the European Defence Union, as well as fully utilizing the financial resources available for infrastructure projects so that it can geographically de-marginalize the country and the region in the context of the European Union and the world. For example, using unique cultural objects in combination with premises and infrastructure to organize large-scale international conferences would create extra recognition for the country, as well as income for air carriers and those working in tourism industry and hotel business.

The *third scenario* is the most optimistic one, and it includes the homogeneous and speedy strengthening of European integration. The reason to think that this is at all possible is the fact that the EU and its members states have already experienced problems created by the economic cycles (e.g. in the 1970s) which have led to domestic and integration problems during initial periods. When economic growth and activity experienced a comeback, political integration processes and cooperation was restored. Similar challenges have been seen in Euroatlantic relations – e.g. the USA's unilateral exit from Bretton Woods international monetary system, which had a direct impact on European countries. However, if we look at the events back then and what happened afterwards, we can see that growth has continued

along with stronger EU integration, i.e. after an intergovernmentalism period, federalism becomes the main driving force.

This scenario, in which federalism could regain its leading position in the EU integration, is more likely in the next 30 years, not 10. In the upcoming 10 years, though the implementation of reforms is only possible in case of stronger integration, there are reforms that are supposed to be finalized by 2025.<sup>13</sup> In order for that to happen, the non-Eurozone member states would have to set a goal to meet the Maastricht criteria, which would also mean that the European social rights pillar would be practically implemented into the EU's rights, which would in turn mean finalizing work on the Economic and Monetary Union, including the establishment of the Banking Union and Capital Markets Union with the participation of all member states. It would also mean that Brexit would have to be stopped or postponed indefinitely and that the non-Schengen member states would join the system. Moreover, extra fiscal policy coordination amongst Eurozone countries should be in place, and a substantially larger multi-annual EU budget with significant resources, if not in the period from 2021 to 2027 then definitely from 2028 to 2034, would have to be agreed upon.

When it comes to Euroatlantic relations, this scenario would mean the extension of the EU and Canada's Comprehensive Economic and Trade Agreement (CETA), and going back to the Transatlantic Trade and Investment Partnership (TTIP), or to a similar agreement with the same name, which would create, as promised, the largest free trade area in the history of the world. It would also mean a permanent increase of US and possibly Canadian military and political presence on the Eastern border countries of Europe, as well as stronger NATO integration and possible supranational tendencies. In addition to this, there would be an increase of mutual investment, and close cooperation within the areas of foreign policy and anti-terrorism measures within UN and other international formats between North American and European Union countries.

This scenario is the most favourable for Latvia from the perspective of opportunities given to Latvian entrepreneurs and Latvian people which are created by peace and stability in the global environment. This situation would allow for the development of the country's image and would allow enterprises to become both global as well as recognizable in Europe and in the world. It would also allow the Baltics, Latvia, and Riga to become well-known places for information technologies and internet services. The leading information technology enterprises are working towards this goal. A stable and

sustainable environment in the next 10 years would allow Latvia to continue accumulating capital on a state and personal level, and for the artists and scientists to have a chance to compete both on a European level and globally. International and domestic stability would increase, as would opportunities to attract foreign investment. The savings in the state budget which would be the result of closer international cooperation would allow for the redistribution of resources from the administrative apparatus in favour of sectors which require reformation – including, among others, justice and home affairs. This would in turn serve as an investment to attract foreign tourists and entrepreneurs to the Latvian economy. This would also allow focusing on very ambitious foreign policy goals and strengthening Latvia's position in the world, such as Latvia's membership in UN Security Council as a non-permanent member from 2026 to 2027.<sup>14</sup> This third scenario would ensure Latvia's stable access to global capital and technology – two factors which, if lost, would stop Latvia's economic growth. Inventing new technologies, products, and services is of great importance in order to ensure Latvia's economic, political, and cultural sustainability on a world scale both in the next 10 and 30 years.

## **Latvia in like-minded communities in 30 years**

As of 2018, it appears as though the preservation of like-minded communities and Latvia's participation in them is just as challenging in the next 30 years as it is in the next 10. Taking into account the experiences of both the world and Latvia in the past 30 years, the range of possibilities for global change is wide. Although there is no longer a Soviet Union which could collapse, the expectation for change and progress among politicians and society is still there. Given a chance, the international policy landscape could change beyond recognition. Moreover, in the next 30 years, there is going to be at least one economic crisis, which will be marked by the end of the technological cycle. The world finds itself at the beginning of this cycle at the moment. The world's ability to adjust to digitalization, the automatization of production and services, as well as its ability to solve rising issues with inequality in the world and deal with challenges to living space and lifestyle caused by climate change, is already being addressed today through a push to find solutions to amortize future problems. Widespread internet usage and other modern technologies are changing personal as well as political relationships. In the next 30 years and more, the voices of protest would more often ask questions

about the relationship between globalization and the individual, and between the macro economy and individual's participation in it. More conservative voices will continue to point at ethnicity, religiousness, nationalism, and pan-nationalism as a common denominator to ensure governance.

The principles of states and their sovereignty in international relations are unlikely to vanish by 2048, because that sort of change would have to be caused by cataclysmic political turmoil. It is the most unlikely in the case of the *first scenario*, i.e. if the EU and the Euroatlantic structures weaken and disappear. In the worst-case scenario, 'neo-sovereignism' could lead to the creation of several new regional conflicts which would involve the countries currently belonging to Euroatlantic community. At the same time, it is unlikely that a global conflict could break out, because if we take into account all available technologies, then the losses would be substantial for all parties involved and could not be held within the borders of those countries. At the same time, the unilateral policy and the redistribution of geopolitical interests, which would be based on threats of military violence and ultimatums, cannot be excluded. In this situation, the regions and countries with more substantial resources would have a better chance of survival in case of anarchy or chaos. However, if Euroatlantic unity collapses and if a power vacuum is created, then chaos and the possibility of a global conflict is less likely than the redistribution of interests and areas of influence. That is why this scenario is likely only if the Euroatlantic world experiences a massive outflow of capital, economic recession, and a weakening of security structures.

Latvia's chances in this sort of international environment would have to do with its further development. If the country would manage to strengthen cooperation with the countries closest to it in the region – Estonia, Lithuania, Finland, Sweden, Norway, and Poland – then Latvia's chance of manoeuvring would be comparatively better than if there were severed ties. So, in order to avoid the most complicated situation, it is important to maintain continuous and mutually beneficial diplomatic ties. In the case of Latvia, sustainability will depend on the country's ability not to drive its people towards emigration due to failed economic leadership and socially conservative policies. If Latvia were to get stuck in long term economic stagnation due to the fact that it was not able to irreversibly anchor itself in global policy processes and make use of newest technologies, which is a driving force for the economy, its existence as a traditional nation-state would not be possible because of a lack of foreign policy instruments and international significance.

The negative scenario outlined above is more of a warning about the circumstances and aspects which should be taken into consideration in order for the situation not to come true. The *second scenario* is more plausible: that transnational relations and like-minded communities would retain their present inertia if the technological development and the change in economic relations that it creates will be controlled on a domestic scale in each country, i.e. if EU and Euroatlantic relations continue to exist, but are based on different economic and political principles. What this means is that the relations between the states would be based on cooperation only within pragmatic and necessary sectors and practical union of values would not exist, i.e. the European Union will go back to being the European Economic Community and would only retain economic cooperation on a market level, whereas some of the countries would be mutually more integrated.

This scenario is based on the interaction of various factors. First and foremost, the development of technologies, which was already mentioned, would lead to new social and political relations which would be solved differently in different countries. There would be new political forces which would promise to react to topical issues and challenges in society. The most important ones among them will be the future of a cheap labour force and a provision of means of subsistence. Secondly, the internal processes of the EU's integration will have created a superstate amongst different countries, while others will find themselves in the political and institutional periphery as a result of different integration models and their ability to undergo change. Thirdly, the countries' pragmatic cooperative calculations will not only be the maintenance of the free market but also cooperation in order to ensure global competitiveness of large corporations. The economic megaregions will be of fundamental importance. Fourthly, communication technologies and transport infrastructures will have created circumstances where geographic distance will not be so important any longer, which would increase the importance of environmentally healthier regions as a place of residence. Fifthly, Russia will gradually be in the process of partial democratization and liberalization. This will change not only Latvia's and the Baltics' political dynamics and opportunities, but also other Western countries' attitudes towards Russia and its importance in global competitiveness with China and India.

Latvia has to be a part of the core countries in this situation, with a goal to maintain its language, culture, and lifestyle, as well as economic growth.

The task for Latvia's foreign policy is to maintain the integration into the community of like-minded countries, because the country have spent a significant amount of resources in order to become a part of them in the first place. Cynical calculations and an ever-changing world will force Latvia to adjust its values towards a globalized yet divided world and EU. In order to retain investors' interest, Latvia will have to be open to different points of view; that is why an elastic foreign policy and tolerance in domestic policy will have to be a part of future development. In a smaller, more concentrated EU, Latvia's influence will increase, as well as its political role and economic opportunities. The biggest cooperative partners, be it the countries from the region (the Nordic countries, Poland, Germany, and France) will be essential in further cementing of Latvian foreign policy.

The *third scenario*, which would be the most successful one from the point of view of Latvia and the developmental perspective of its population, involves the strengthening of EU and Euroatlantic structures. Although it is the most favoured scenario, it is only possible if certain circumstances successfully align – in the case of an external threat, this would involve the whole Western world. If China and India would not only strengthen their positions economically but also militarily, then the Western world would need to maintain stronger, integrated Euroatlantic structures. In the case of close economic, military, and political ties between Euroatlantic agreement countries and integrated European Union, the upper hand will be given to large, resourceful corporations, which are going to be politically and diplomatically supported in the fight for access to third world markets and resources. Russia, in this positive scenario, will choose to be closer to its traditional partners in the West and will be not only democratic but also on a strong path of modernization. Competition for Russia's resources will still remain, especially when the world population will reach 9.7 billion in 2048.<sup>15</sup>

For Latvia, the state's task would be becoming an inseparable part of the Western world, which would ensure access to financial resources and technologies. Latvian enterprises, if they would not have created a unique product making them a global business actor, should be protected by the state and made stronger with all the available political and diplomatic resources. This is mainly because they have to become suppliers and producers in the megaregions of the West. In this situation, one of the Latvian foreign policy tasks would be to ensure Latvian citizens have an active presence in assuming posts in EU and global institutions. Latvia's

success should become an example and a point of reference while creating the state image. It could be the case that while looking back in history, Latvia's achievements back when it was a member of the Hanseatic League, will be substituted by its achievements as a global member of the EU and NATO.

## **Conclusion**

Latvia's membership in the EU and Euroatlantic security structures is mostly an achievement of 1990s-era society, politicians, entrepreneurs, civil servants, as well as other countries' support, and historic chance. Latvia's grounding in Western political, economic, and military structures is the achievement of the current century's politicians, society, and state administration. In the next 10 and 30 years the tasks of political, economic, and societal actors will be not only to retain the current opportunities and partnerships, but also use them in order to strengthen an independent Latvia and spread Latvia's name ambitiously on a world scale.

The negative scenarios included in this publication show that the relations and categorizations of state leaders and politicians are able to ruin any kind of initiative, even the EU. Based on historic examples, as well as European integration and International Political Economy principles, it is clear that the catastrophic scenario is unlikely and the ideal one will not happen. The most likely scenario, as was mentioned, is the complex one; a multi-speed EU development model in the next 10 years and the existence of a pragmatic, globally competitive, strongly integrated EU core in the next 30 years. Euroatlantic relations will be retained and it will be the result of an intergovernmental and supranational mixture of ideas. The US and Canada's presence in Europe and the Baltics will be based on sectoral cooperation, amongst that military cooperation, so that it could successfully compete with other global players. As long as the EU and Euroatlantic area are wealthy and successful, there will not be lack of supporters or competitors towards their cause.

Like-minded communities are changing, deforming, disappearing, being reborn, and adjusting. For Latvia's statehood, Latvian culture, and the preservation of its language, it is fundamentally important to create international circumstances in which there is a chance to focus on these values and their preservation, spreading, and focus on increasing welfare.



In order for Latvia to retain its right to decide on societal issues in both its own and in other countries, it needs to be among the decision makers. Technologies are helping determine social and political relations, which is why it is important not only for Latvia to retain access to them in the next 10 and 30 years, but also to learn how to lead the society and economy with these new technologies, which are rewriting the history of humankind. During the past 30 years, Latvian society, officers, and state officials have reoriented and made Latvia a part of the EU and Euroatlantic value community. As a result, Latvia has been given circumstances which are important on their own, but simultaneously are just an environment for the further growth of the state and society, as well as the preservation of the Latvian nation and culture – the maintenance of which is the core task of Latvia's foreign policy and Latvia's further survival.

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# Latvia and the Regional Great Powers: Towards 2050

EDIJS BOŠŠ

International relations is a contested field of study in the sense that there are fundamental disagreements as to what specifically needs to be analysed in order to make the most sense of the world. Political scientists, philosophers, historians, legal scholars and economists often vehemently disagree on what primarily explains the state of global affairs. Should we look, above all, at the individual preferences of policy-makers to account for what has happened in the past and what is likely to happen in the future? Political decisions are made by people, hence the personal convictions and psychological traits of decision-makers do matter. But to what extent and on which occasions? Clearly, the character of domestic political institutions and ideological doctrines also have an impact on foreign policy behaviour. A communist dictatorship may interpret its national interests quite differently than a democratic country with a free-market economy. Likewise, might there be signs that international affairs have become more orderly due to the development of international organizations and a framework of international law?

Indeed, there are many legitimate points of departure for the analysis of international affairs. One of the traditional yet still eminently informative ways to look at it is to acknowledge the significance of relative state power in international affairs. This approach to analysis is based on the age-old assumption that the basic parameters of any international system are defined chiefly by the number, characteristics and mutual relationships of the most powerful states within that system. To acknowledge the profound importance of the great powers does not mean that the lesser powers lack any autonomous capacity to act – it does mean, however, that the smaller powers' survival, status and well-being are not solely in their own hands.

## Of great and small powers

For the smaller states, the limits to what is achievable in their foreign policy are more clearly delineated, and these limits result from the configuration of great power relationships. A powerful state can try to isolate itself from the international game or attempt to alter its rules if it dislikes the way in which the game is played. Small states, on the other hand, generally cannot avoid participating in the game, and they have to do so within the constraints imposed by the environment.

The modern world might not be as ruthless anymore as Ancient Greece in 400 B.C., where the small-power Melians – shortly before their annihilation at the hands of the great-power Athenians – were told that “right... is only in question between equals in power, while the strong do what they can and the weak suffer what they must”.<sup>1</sup> The contemporary reality of international life is probably also less existentially dangerous to small states than the one prophetically described by Czechoslovakian Foreign Minister Edvard Beneš when he reflected in the 1920s that “the existence and role of the small states always depends... on the situation and policy of the large states”.<sup>2</sup> It remains the case, however, that in spite of the formal sovereign equality of states of all sizes, the overall makeup of the international system is still by and large defined by its most powerful actors. The effectiveness of international norms depend on whether they are supported by the critical mass of the great powers. In the hands of the powerful ultimately lay the big questions of war and peace. In many ways, therefore, the behaviour of the small states is, as put by one author, “governed by the policy of others”.<sup>3</sup>

Again, to observe that the policies of the great powers decisively influence the foreign policy behaviour of everyone else is not to say that the non-great-powers lack any control over how they act on the international stage. Except in extreme cases, even the smallest states usually have some room to manoeuvre and it is up to them to utilise opportunities that arise. As one scholar-practitioner of diplomacy aptly put it: “It is not suggested that a small country should exclude the possibility of taking an initiative [even on an issue of global importance] but only that it should be reserved for the right circumstances which a small country may recognize and be able to exploit but which it is unlikely to be able to create”.<sup>4</sup>

## Latvia in the landscape of great powers: the story so far

The capacity of any one state to be a great power is something that changes over time. International history is littered with examples of former great powers which, for one reason or another, have been eclipsed by new ones. The international order of the 19th century, for example, was based on Europe being the centre of global political influence. There were five European great powers which ran the world, while both the United States and Japan were still in the process of developing their great power attributes; China, despite its size and civilizational heritage, was progressively weak, disoriented and vulnerable. The European great powers of the 19th century were the main shareholders of the international system and, as such, they defined the system's basic parameters. Their ideas about the proper conduct of international affairs were dominant as long as they retained their status.

Latvia came into existence just as the old 19th-century Eurocentric world order was crumbling. Just like any other non-great-power, Latvia was profoundly influenced by the changing patterns of the great powers' relative strength and the trends in their conflicts and cooperation.

Great-power politics on the eastern shore of the Baltic Sea has traditionally been defined by the ups and downs of two regional centres of influence: Germany and Russia. In the wake of the First World War it was possible for a country like Latvia to come into existence in large part due to a temporary collapse of their power. The two great powers, having fought one another, rather unexpectedly both ended up on the losing side of that war. To be sure, it also took a huge national effort and a spirited military campaign to establish Latvia's independence, but, admittedly, the successful dislodging of both German and Russian overlords could only come at a juncture in which these regional great powers were at their weakest.

In the interwar period, the Baltic States' foreign policy-makers sought to involve other great powers to expand this perilously dyadic regional equation, but no other power deemed their interests to be profound enough to warrant a significant projection of power to the eastern Baltic. The regional landscape thus remained dominated by the interaction between revisionist Germany and revisionist Soviet Russia, which defined the broad limits of what was possible for the in-between countries to achieve in terms of their status and security as Europe approached the Second World War. Ultimately, deprived of opportunities to establish credible alignments with other centres

of international power, their options were limited to just two horrible alternatives: to fight an immeasurably stronger opponent or to surrender.

The Second World War resulted in a further reconfiguration of the global and regional power structure. The regional bipolarity in the eastern Baltic disappeared as Germany collapsed and Soviet power expanded far into central Europe. Not only had Germany lost the war – and, temporarily, its prerogatives as a great power – but its borders were also moved westward. As a result, there essentially was no one left to challenge Moscow's hegemony. This restricted Latvia's options even more severely than the predatory nature of German–Russian regional bipolarity in the interwar period.

In terms of the global balance of power, the end of the Second World War saw the emergence of the United States as the 'other' superpower opposing the Soviet Union. Their Cold War competition was fierce, and, in the Third World, sometimes it turned violent. As superpowers, the US and the Soviet Union defined the features of the international system during the Cold War. Grudgingly, even the European great powers had to accept the loss of their status in the global pecking order and face limitations to their capacity to act autonomously.

With the advent of nuclear weapons and the logic of 'mutually assured destruction' in the Cold War, the two superpowers also learned to exhibit a certain degree of respect for what was deemed to be the opposing superpower's vital interests. This again constrained the scope of what was geopolitically possible on the eastern shore of the Baltic. Even as the United States officially maintained a disapproving stance with regard to the Soviet domination of Eastern Europe, it was also made clear that the US had no vital interests there and Moscow's position in the region was not incompatible with Soviet–American coexistence, provided that ideological, political and military competition was manageable in more critical theatres such as Western Europe, the Middle East and the Far East. Moreover, the American policy of non-recognition of the legality of Russia's Baltic annexations during the Second World War, for all its tremendous emotional and legal value, was in practical terms a very passive policy. In other words, global bipolarity set extremely tight limits on what was feasible in the eastern Baltic. Soviet power was regionally unchallengeable and as such it was essentially incompatible with the re-constitution of Latvian, Estonian, Lithuanian statehood. Even a neighbouring country such as Finland, which in contrast to the Baltic States succeeded in preserving its statehood, had

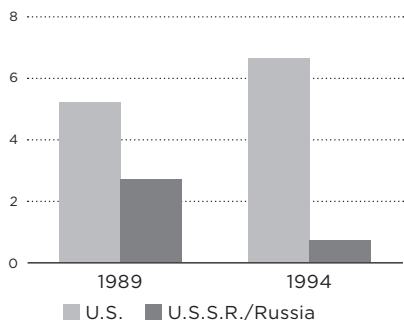
to develop a strategy during the Cold War that acknowledged the Soviet Union's regional pre-eminence.

Another period of profound Muscovite weakness was required to enable the Baltic States to return. From 1987–1991, Baltic independence movements certainly hastened the collapse of the USSR, but, importantly, they were themselves made possible by the mellowing of the Soviet regime, which in turn was a consequence of the dysfunctionality of the Soviet political and economic model. It is hard to counterfactually argue historical events, but the timing suggests once more a linkage between the rise of Latvia, Lithuania, and Estonia and a period of extreme endogenous weakness for Russia as a great power – arguably, there would have been very few chances for Latvia to regain statehood in any other circumstances. Again, none of this suggests that political outcomes for the smaller actors are preordained and entirely detached from their own ideas and actions. They clearly are not. It is still the responsibility of smaller powers to capitalize on opportunities even if the opportunities themselves result from processes largely beyond their reach.

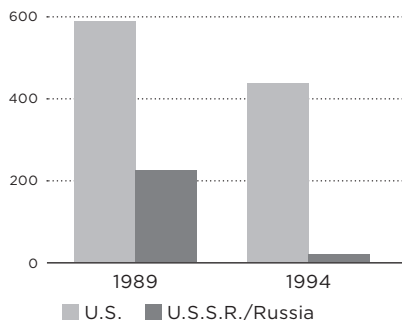
The post-Cold War period has generally been characterised as the United States' 'unipolar moment'. America had essentially won the Cold War, and its economic weight, military potential and ideological allure was unmatched by any other country. This gave the United States a large amount of wiggle room to decide what type of role it wanted to play in various regions of the world, where the desires and objections of other great powers could all of a sudden be disregarded relatively safely.

Unipolarity was also a game-changer in the eastern Baltic region, opening up geopolitical possibilities that otherwise would have been difficult even to imagine. In the 1990s, Russia remained a weak regional actor due to its domestic maladies and therefore it was temporarily unable to force anyone, least of all the United States, to respect what was once Moscow's widely acknowledged sphere of influence. The extent of the collapse of Russian power at the end of the Cold War was quite simply startling. By 1994 Russia's economy had become four times smaller than the Soviet economy was in 1989; the drop in Moscow's military expenditure was tenfold, and in 1994 the United States spent 20 times as much on its military as Russia.<sup>5</sup>

Invited by the Eastern Europeans, the 'West' expanded into this fortunate vacuum through subsequent waves of EU and NATO enlargement. Lead by and encouraged by the United States, the Western European powers also overcome their initial post-Cold War timidity and became entangled in



The post-Cold War collapse of (Soviet) Russian economic base (GDP trillion \$ in PPP). Data: CIA World Factbook 1990 and 1995



The post-Cold War collapse of (Soviet) Russian military expenditure (billions in constant 2016 US\$). Data: SIPRI

the Baltics. By enlarging NATO, the US made itself available as an alliance partner to the Baltic States, thereby effectively becoming a regional great power in the eastern Baltic. The fact that there was now such a commanding outside presence changed the regional power balance and increased the Baltic States' geopolitical options. That additional room for manoeuvring that was regained at the time still remains at least partially available now that Russian regional influence has been reconstituted.

Arguably, during the unipolar post-Cold War period, the regional arrival of the United States gave Latvia the opportunity to pursue a much more autonomous policy vis-a-vis Russia than otherwise would have been possible. That autonomy in the security realm was enhanced by the Baltic States' economic reorientation away from the Russian-dominated post-USSR space and towards the German-led EU common market, which was also something that in many ways was made possible by the post-Cold War collapse of Russia as both an economic and a military power.

## The perils of looking ahead

As the preceding observations hopefully make clear, the various phases in the rise and fall of global and regional great powers have been tremendously important for Latvia's international status. The basic framework of geopolitical threats and opportunities on the eastern shore of the Baltic Sea



has been defined by the ebbs and flows of Russian, German and American power. *Mutatis mutandis*, these countries will also be among the essential actors in this region's geopolitical future, which is the reason this paper primarily discusses the potential future trajectories of these three powers.

There is no reason to think that the future trends of conflict and cooperation among great powers will be any less existentially important for the countries of this region than in the past. That is the general (and rather easy) prediction, though. The difficulties start with trying to figure out exactly what those trends are going to be. This more specific kind of forecasting is a thankless task, especially with an extensive future time frame such as 10–30 years. As one recent treatise on the subject rightly concluded, “history tells us nothing about the future except that it will surprise us”.<sup>6</sup> One should therefore approach the task with extreme modesty. One should also bear in mind, for example, that even the brightest minds of 30 years ago would probably be unable to predict with any precision some of the most definitive realities of international life today.

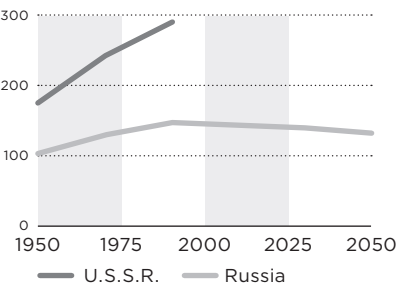
This is being written in 2018. In 1988 hardly anyone was planning for such an abrupt end to global bipolarity as that which occurred just a few years later. But, with hindsight, the momentary collapse of Russia's regional hegemony was precisely the kind of a historical ‘surprise’ which opened up a host of geopolitical opportunities for the small states on the eastern shore of the Baltic. In terms of the global balance of power, there have been a slew of other ‘surprises’ that could not have been foreseen 30 years ago but are absolutely critical today. The most important among them, of course, is the rise of China as a superpower, the probable effects of which will later be discussed in more detail. In 1988 the Chinese economy was Lilliputian compared to that of the United States. In a mind-bogglingly fast period of time, in 25 years, the Chinese caught up in this indicator, which is one of the most fundamental prerequisites to projecting state power internationally.

There are plenty of reasons to be humble about our ability to foretell, but that does not mean that one should refrain from it entirely. Even in a small country whose destiny is to adapt to rather than to shape the international environment, thinking ahead may contribute to developing a more nuanced foreign policy that is capable of adjusting – if necessary, rapidly – to various eventualities. And, after all, there are numerous recurrent big themes in Latvia's geopolitics that are unlikely to go away.

# Russia

One of those themes is surely the fact that Russia has been and will remain the great power that is geographically closest. As such, Russia will continue to be a powerful centripetal force affecting the smaller actors in its proximity, including Latvia, be it 10 or 30 years from now. The crucial question is how powerful that centripetal force is going to be and how best to deal with it.

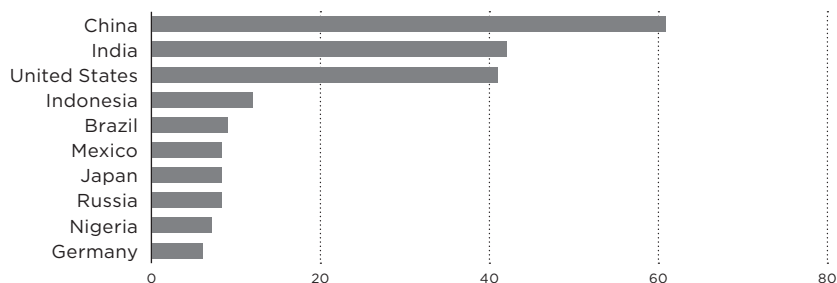
Great powers gain their status by virtue of their geographic features, population size, economic potential, military capacities and the coherence of their government structures. Long-term projections of many of those indicators are problematic for Russia. While in terms of sheer territorial size it is and will remain the largest country in the world, straddling both Europe and Asia, Russia will likely continue experiencing difficulties with exploiting that unique territorial advantage for the purpose of regaining decisive international influence. During the 21st century, Russia's population, for example, is projected to be in steady decline, which is the opposite trend to what Russia experienced during the peak years of Soviet power in the mid-20th century, and in terms of total population the Soviet Union in its heyday was twice as large as Russia is today.<sup>7</sup>



Historical and projected population of Russia (as part of the Soviet Union until 1991) in millions

The economy is the bedrock of national power in international relations, and demography is just one of the negative factors restricting Russia's potential future economic growth, the others being the limited effectiveness of Russian institutions, an aging industrial base and an over-reliance on the export of natural resources to generate government income. While Russia has developed a tradition of macroeconomic prudence over

the last 20 years, which has significantly increased the country's resilience in the face of fluctuating oil prices and Western sanctions over Russian aggression in Ukraine, it is probably unrealistic to expect a rapid and decisive modernisation of Russia's economy. In the meantime, the value of Russia's main export items – hydrocarbons – will in the long-term likely stagnate

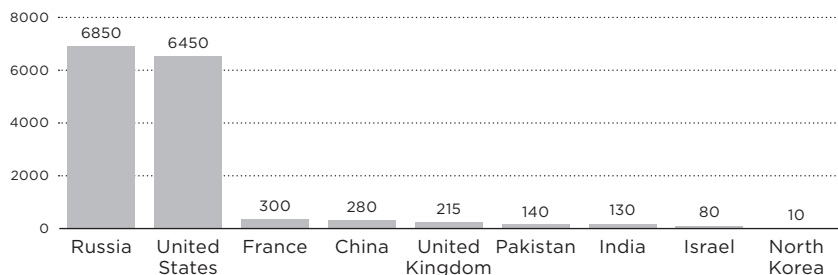


Projected GDP in 2050 at PPP 2014 USD in trillions. Data: PWC

as the global consensus is trending toward a low-carbon future. As far as long-term GDP forecasts are concerned, there is some disagreement among economists as to the most appropriate methodology for such calculations but, either way, it would be a remarkable achievement for Russia to find itself one of the world's top ten national economies in 2050.<sup>8</sup>

While being a decidedly second-tier economic power, Russia will likely continue being a near-peer-competitor to the leading global powers in terms of its military capacity, particularly its nuclear weapons<sup>9</sup> and its conventional forces in the European theatre.

Taken together, these indicators suggest that Russia in the 21st century will not be able to play anything similar to the superpower role the Soviet Union enjoyed on the global stage during the Cold War period. Importantly for the Baltic States, that role granted Moscow the default position of uncontested dominance in the eastern Baltic. On the other hand, there is also no good reason to think that Russia will somehow cease to have the capacity



World nuclear forces 2018: total warheads. Data: SIPRI

to exert a significant amount of global influence and an even more significant amount of regional influence. It is therefore of crucial importance the type of relationship Russia will choose to pursue as a declining great power vis-a-vis its near and far neighbours to the west, whose international standing, while collectively stronger than Russia's, will likely continue to be impaired by difficulties of collective action.

Notwithstanding these overall global trends, Latvia's focus on its 'Russian problem' will likely continue far into the 21st century. Any midget located in the immediate vicinity of a giant, even if it's a giant past its prime, will inevitably be preoccupied with developing a strategy of dealing with that giant. Imbalances of relative power will continue to be a threat to autonomy – and, as history shows, in extreme cases giants can also be a threat to the survival of smaller actors.

There are essentially three techniques that can be employed to neutralise the effects that stem from this disproportion. These options can be pursued separately or by developing some mixture of their elements. First, the weaker actor can adopt a policy of *internal* balancing which seeks to at least somewhat decrease the deficit of relative power by simply becoming stronger. Second, the weaker actor can pursue a policy of *external* balancing by attracting the help of allies. The third option is to *accommodate* the larger power and, in particularly desperate cases, to become its satellite in the hope of decreasing the great power's motivation to resort to coercion.

It is not the case that these three options are always equally utilised, nor are they always equally available. The first option – becoming stronger and more self-sufficient – is theoretically the most reliable because it avoids the inevitable risk that comes with relying on others. On the other hand, however, that probably is an option which, in its pure form, is more realistically accessible to middle-sized countries with untapped potential. Even if it has to go it alone, a mid-sized country like Poland, for example, can hope to achieve a much better balance vis-a-vis its great power neighbours than any of the Baltic States can with respect to Russia.

The second option – aligning with other centres of international power that are capable of providing a balance to the neighbouring great power – provides definitive benefits but comes with permanent concerns as to the reliability of the allies and the necessity to somehow compensate them. Crucially, this option also depends on the availability of such partners, which is something that the small power may not be able to influence. From the

Baltic point of view, the great-power environment of the last quarter century has been conducive to neutralising Russia's gravitational pull as a great power. This was done by acceding to the German-led economic space within the EU and the US-led security arrangement within NATO.

The third option – a policy of accommodation – in its pure form is the least reliable way of dealing with an adversarial great power because it makes the smaller power dependent on their opponent's good-will. Misgivings about their own capacities and the unavailability of allies led the leaders of the Baltic States to resort to a most desperate form of accommodation – appeasement – in 1939–1940 due to the seemingly unbalanceable threat posed by the Soviet Union. The outcome back then was tragic, but that does not necessarily mean that each and every element of accommodation should be regarded as appeasement and therefore should, as a rule, be out of the question.

Finland since the Second World War seems to have achieved the best results in dealing with the USSR/Russia by combining bits from all the three aforementioned options in variable doses at various periods according to changing circumstances. Going forward, this multi-optional approach will also be available to Latvia as it deals with the weakened and balanceable yet still powerful Russian giant. Overall, the purpose of Latvia's Russia policy should be to retain a focus on the first two options, which will hopefully minimize the necessity of resorting to the third.

## **The United States (and China)**

The first option – the increase of internal resilience through societal cohesion, growth of the economy and reasonably developed military capacities – is a matter of domestic policy. The second option – the cultivation of great power allies – is something that can be and needs to be worked on, but should nevertheless be recognized as something that is not entirely in the small power's own hands and depends first of all on whether the aligned great power's interpretation of its interests is commensurate with the small power's objectives.

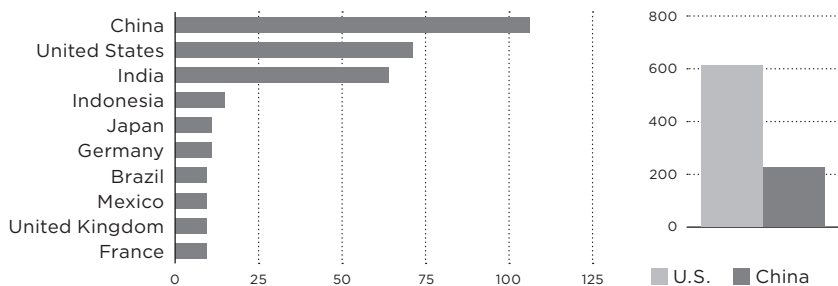
The United States' long-term availability in the eastern Baltic as the main component of a regional counterbalance to Russia is difficult to predict. This difficulty stems from the fact that the United States is a maritime power based on another continent, and as such it has relatively wide leeway in determining what type of relationships it will pursue with the various continental powers in

Eurasia and the smaller actors in the periphery of those powers. Moreover, even if America's 'unipolar moment' has passed, it will remain a formidable force far into the 21st century, which is an additional factor expanding the US's options.

America's overall approach to Eurasia has long been – and probably will remain – to encourage 'geopolitical pluralism' on the continent, which basically means opposing any one great power that could potentially achieve dominance in Eurasia or any of the continent's most critical locations, such as Western Europe, the Middle East or Southeast Asia. That can be achieved either through direct or indirect assistance to the adversarial great power's regional opponents whose interests align with those of the US. The objective to maintain geopolitical pluralism motivated the US's involvement in various war-time and peace-time alliances in Eurasia, be it the Big Three alliance with Great Britain and the Soviet Union against the Nazi German bid to dominate Europe or NATO and other Cold War-era alignments whose purpose was to contain the expansion of Soviet/Chinese power in both Europe and Asia.

Now, if the above interpretation of the overall American approach is correct and a similar logic can be expected to be replicated in the future, then that would suggest a gradual lowering of Europe's priority in America's Eurasian strategy. This stems from a number of considerations. First of all, Russia, in spite of the self-professed 'rising from its knees' in the Putin era, is not and will never again be the US's primary Eurasian competitor which, if left unchecked during the Cold War, could potentially have claimed Western Europe and the Middle East as its sphere of influence. As a disgruntled and revisionist great power, Russia does pose a challenge to countries in its vicinity, but it is no longer the first-rate Eurasian powerhouse. That powerhouse is now China, and its relative weight is projected only to increase. The rise of China and also that of India will, by 2050, probably eclipse whatever remains of the old Eurocentricity of global affairs.

Announced early in the Obama administration, the US's 'pivot to Asia' has so far been taking place painstakingly slowly. But that should not lull anyone into thinking that global trends are conducive to Europe retaining its privileged place in the American Eurasian strategy as a region that requires special nurturing and patronage. China has already overtaken the United States in terms of GDP calculated at PPP and, if China is able to maintain anything resembling its current trajectory of development, by 2050 it will also be far ahead of the United States in terms of the nominal size of its economy at market exchange rates.<sup>10</sup>



Top ten economies in 2050 at market exchange rates in trillion USD. Data: The Economist Intelligence Unit.

Military spending in 2017 in billion USD. Data: SIPRI

This will inevitably result in a tremendous increase in Chinese military capacities as well, the indicators of which have so far continued to show that American international dominance is relatively safe.<sup>11</sup> The future of geopolitics is in Asia, and America's priorities, military resources and diplomatic attention will likely gradually be redirected away from the Atlantic and towards the Pacific.

Surely, the tremendous rise of China will not be a concern for solely the United States, nor it will be another straightforwardly bipolar contest for supremacy. As a continental power, China has a number of great-power neighbours – such as India, Japan, and possibly even Russia – who will find China's growth increasingly concerning and will seek to balance it by creating countervailing alliances. It is difficult to predict exactly how all of these factors will combine to create the international scene 30 years from now. Overall, however, this does put a huge question mark over America's long-term ability and willingness to continue playing the role that Western Europe has grown used to since the Second World War and that the Eastern Europeans have gotten used to Americans playing since the end of the Cold War.

## Germany (and the European Union)

Once established, institutions can exhibit a tremendous amount of staying-power. It is quite likely therefore that NATO, as the embodiment of US-European security cooperation, will sustain itself far into the future. And as the best available great-power balancer against Russia, the United States'

presence in Eastern Europe needs to be encouraged and maintained for as long as possible. At the same time, Latvia needs to recognize the possibility that long-term changes in the distribution of global power will likely shift America's priorities and could gradually hollow out Euroatlantic structures even if they technically will remain in place. In such a scenario, how could Latvia pursue the above-mentioned second option? Could Germany potentially take on the US's role?

An economic powerhouse, Germany is the Western great power geographically closest to Russia in Europe. Prior to the Second World War, Germany had a border directly on the eastern shore of the Baltic and ethnic Germans were a significant minority population even in regions beyond Germany's historical borders. All of that, for better or worse, made it a direct great-power participant in regional geopolitics. Since the mid-20th century, however, Germany's geographic shift to the west has reduced its regional footprint and rendered its interests in the Baltics much more diffuse than the historical norm.

Now that the Baltic States are established member states of the EU and NATO, Germany has become clearly the regional centre of gravity for Latvia's economic model. In this regard, Germany's economic orbit performs the function of a major counterweight to Russia's economic orbit. In terms of defence and security, especially compared to Berlin's lukewarm view of its interests in the Baltics in the 1990s, the German approach also seems to have been revised somewhat. However, the idea that Germany, being as it is a third-rate military power, could by itself be capable or willing to play the role of a fully-fledged regional counterbalance to nuclear-armed Russia seems rather far-fetched. But could that potentially be the case 30 years from now?

The problem with all the former great powers of Europe – Germany, France and Britain – is that, taken separately, they can still be regarded as centres of international influence only in a very limited sense. Moreover, their inability to be great powers in the proper sense of the term will only be underscored by developments in the years to come. Only collectively will the European Union be capable of remaining a centre of global economic influence and stand its ground against future first-rate players such as China, India and the United States.<sup>12</sup> Also, in terms of demographics, the territory that is now EU-28 accounted for approximately 13 percent of the global population in 1965 – while the number of people living on



the territory of the current EU-28 will remain approximately the same at 500 million, their share in the global total is projected to fall to 5 percent by 2065.<sup>13</sup>

Since the Second World War, Germany in particular has been a neutered great power. It passively possesses some of the capacities of a great power which stem from its size and first-rate industrialized economy. However, due to historical traumas associated with German attempts at continental domination, particularly under the Nazi regime during the Second World War, Germany has been restrained by others and has restrained itself from both actively playing a major autonomous role in international affairs and from consciously developing the capacities required to do so. Germany remains subject to the limitations of its military capability and it is difficult to see how that could radically change, even in a long-term perspective. The country is expressly forbidden to develop nuclear weapons, for example, and at the level of government has not shown any signs of discontent with that regulation. While possessing reasonably well-developed conventional defence forces, Germany has effectively relied on extended deterrence and the US's nuclear umbrella for defence since the Second World War.

Moreover, from the point of view of the in-between countries, Germany's population remains overwhelmingly accommodationist with regard to Russia and a large portion of the country's political and economic elites also display similar Russia-first instincts. This trend was exhibited quite unambiguously by Berlin's initial indifference in the 1990s to the idea of the Baltic States' membership in the EU and NATO. Essentially, Germany deferred to the United States a leadership role in assisting the Baltic States with their post-Cold War extraction from Russia's orbit.

Going forward, it would seem that vis-a-vis the Eastern Baltic, Germany will be able to play a meaningful strategic role only if it continues to do so in a broader European framework, particularly by developing its partnership with France to the west and preserving at least a workable relationship with Poland to the east. The latter is crucial to ensuring Germany's geographic connectedness with eastern Baltic while the former – Germany's linkup with France – remains vital to the continued existence of the European Union and could also potentially provide a format in which Germany could safely contribute to developing Europe's military capacities to become worthy of a 21st-century great power.

Herein probably lies the most important factor of them all, as far as Latvia's place in great power politics is concerned – the continued existence of the European Union as an entity that provides a certain taming of German power and ensures that Germany perceives the eastern Baltic region as at least partially being its sphere of responsibility.

## Conclusions

In the period leading up to 2050, the rise of Asian great powers will significantly alter the world order. The new linchpins of global influence will arrive with their own perspectives on the proper way to conduct international affairs. These developments will further decrease Europe's global status. Considered narrowly from the Latvian perspective, this can be considered good news.

Past struggles for European and global supremacy by neighbouring great powers such as Germany and Russia will likely not be repeated, if only because both of these former centres of decisive international influence cannot be considered first-rate great powers anymore and future trends will not return them to that position. The clashes of 20th-century titans devastated Eastern Europe and the relative decline of these titans makes the geopolitical habitat on the Eastern Baltic relatively more secure for small states.

Yet north-eastern Europe's gradual descent into a backwater will also represent a challenge. The shift of global geopolitics away from Europe will likely decrease the level of engagement there by the United States, whose concerns about China's development into a fully-fledged peer-competitor will nudge the US's focus increasingly towards the Pacific at the expense of Euroatlantic affairs. Latvia should diligently continue working towards strengthening the grouping known as the "West", but this is likely going to be an uphill battle.

Going forward, perhaps the worst-case scenario for the eastern Baltic is the EU's disintegration coupled with a shift of America's focus away from the region, which could potentially leave the eastern Baltic without a constellation of powers capable of counterbalancing the centripetal forces still emanating from Russia. In this context, the European Union's future trajectory becomes crucially important. For the EU to exist, member states need to voluntarily give up portions of their sovereignty. For the EU to become a credible great power in its own right, member states will need to give up even more of it. On

balance, it may be the rational way ahead, but, for better or worse, nation states are stubborn entities, making the European Union an unusual beast whose future cannot be taken for granted. All in all, therefore, the next generation of Latvian foreign policy-makers, just like their predecessors, will have to pay close attention to the ever-shifting dynamics of great power relationships.

## Endnotes

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# The Security of Latvia in a Predictably Unpredictable International Environment

MĀRIS ANDŽĀNS

Looking back ten and thirty years ago, the achievements of Latvia on the centenary of its statehood would have seemed hardly imaginable. In the year 1988, there was only hope for the restoration of independence, whereas complete integration into Western political, economic, and military structures was a distant dream. Ten years ago, when Latvia was already a member of the North Atlantic Treaty Organization (NATO) and the European Union (EU), the Western allied “boots on the ground” was difficult to imagine in the Baltic states, and taboo in the West. The international environment was different as well – not only the distribution of power among the major powers, but also the state of development of military and civil technologies, along with other factors.

This publication begins with a general overview of the current state of security of Latvia. It is followed by an evaluation of potential tendencies in the future development of the security environment at large. Further, the key actors and factors in the context of the security of Latvia are assessed, as well as two hypothetical scenarios of the future development of the security situation in ten and thirty years – an optimistic one and a less optimistic – are outlined.

Although this publication focuses on the military security, other security issues that have or potentially can have a significant impact on the national security of Latvia, are also addressed.

## **Latvia in 2018 – more secure than ever**

Even though Latvia faces various problems (just like other countries), it is more secure than ever. In almost the three decades that have gone by since the restoration of independence, complete integration into Western political, military, and economic structures has been achieved. Latvia has

also been a member of the EU for more than half of the aforementioned time. Although membership in the EU has brought new challenges (for example, co-responsibility in resolving problems arising in member states), the EU membership has brought considerably more benefits to the development and strengthening of national security (for example, financial support in numerous sectors, Europeanisation of legislation, strengthening of the sense of belonging to the Western world).

Latvia has also been a member of NATO for fourteen years. Today, allied armed forces are stationed in Latvia on a rotational basis. Albeit their numbers are not large, their presence strengthens the assumption that Article 5 of the 1949 of the North Atlantic Treaty amounts to more than just empty words.<sup>1</sup> If up until the events in Ukraine in year 2013 and 2014 the national defense of Latvia was to a large extent neglected, in the light of the events in Ukraine, a reevaluation of the security situation and efforts to tackle it have taken place. As a result, a significant increase of defense spending, up to the two percent from the gross domestic product (GDP), has allowed improvement of the capabilities of the Latvian National Armed Forces (LNAF). In recent years, significant improvements have been made in different areas of home affairs, as well as in the strengthening of cyber-security in both state and private sectors. Nevertheless, it would be naïve to assume that Latvia, with its modestly sized armed forces and the military equipment at its disposal, would be able to defend itself against Russia in case of a direct armed conflict<sup>2</sup> (it is absolutely clear from strategic national security documents of Latvia that Russia is seen as the greatest risk factor to Latvian national security).<sup>3</sup> There is also place for further improvements in home affairs – not only in tackling risks related to Russia (for example, espionage or information operations), but also other actors (for example, organized crime or international terrorism).

Although many Latvians are justly discontent with the current economic situation (which is one of the key factors of national security in any state), in a global context Latvia is ranked among the developed countries.<sup>4</sup> Latvia's external trade vectors are diversified, and the largest trade partners are the Western countries.<sup>5</sup> There has been considerable progress made in the modernization of Latvia's energy market and the linking of it to other EU member states (for example, the liberalization of the natural gas and electricity markets, the establishment of external interconnections of the Baltic States' electricity grids to other EU countries, and the liquefied natural gas terminal in Lithuania). There have also been efforts made as to reunite

the Baltic States' railroad infrastructure with that of the Western European railroad system – although the “European standard gauge” project of *Rail Baltica* is yet to be constructed, it has already entered the designing phase.<sup>6</sup> Even though a lot has been done to improve the economic situation, as well as energy independence and linking transport infrastructure with the rest of EU (as well as the decreasing of dependency from Russia in the cargo transit sector<sup>7</sup>), there is still a considerable amount of work to be done.

The fragmented society of Latvia continues to be a significant national security risk. Although the proportion of the ethnic Latvians has increased and the number of non-citizens has dwindled since the restoration of independence<sup>8</sup>, still a large number of people in the non-Latvian population have a low proficiency level of the Latvian language<sup>9</sup>, plus, there often is a different outlook among them on significant historical issues and other contemporary issues as well. All of this is encouraged by the fact that language based fragmentation of education still exists in schools (which is going to change in the upcoming years as the Latvian language will become the principal language of instruction in secondary schools) and by the fact that there is a divided information space and extensive consumption of the mass media of Russia.<sup>10</sup> The cohesion of society, the development of civil society, and the quality of education will remain among the most significant challenges in the future.

## **The future security environment – between the predictable and unpredictable**

The number of armed conflicts since the beginning of the Cold War up until now has steadily increased from around twenty to approximately fifty (especially in Africa and The Middle East).<sup>11</sup> In the future, armed conflicts will continue take place. It is unlikely that the number of conflicts will be on the decline. Also in the future, conflicts will arise from quests for power, resources, and interests, as well as disagreements between ethnic, religious, and ideological groups. Although it is likely that intra-state conflicts will continue to be on the rise (in some regions, there will be growing tension caused by overpopulation and the related implications on the environment) between governmental and non-governmental groups (mainly terrorist organizations), also conflicts between countries and alliances will not come to an end (the potential of confrontation will be increasing in Arctica).

Warfare tactics will continue to evolve. It will become increasingly difficult to distinguish between the state of peace and that of war, as well as to identify the sides involved in conflicts (for example, in some places difference between police forces and armed forces could be reduced to a minimum, with the former becoming better equipped and able to execute a wider range of tasks).

Technological progress and globalization will bring the developed countries and their societies even closer together. As a result of the growing interconnection, direct and indirect costs of conflicts will rapidly increase in cases when great powers would face each other. For that reason, great powers will try to do their best to avoid direct conflicts. They will try to settle misunderstandings by non-military means or by testing the other's abilities and patience, but stopping right before the escalation of conflict. However, such interaction can unexpectedly lead to a conflict of uncontrollable scale.

Technological progress will significantly influence the everyday life and security of societies and states. An even greater part of everyday activities will take place in the virtual space, an increasing number of devices (for example, cars and kitchen equipment) will be digitalized and interconnected with each other and the Internet, and even more services will be available online (for example, elections and medical examinations). At the same time, the dependency on technologies will increase the risks and the number of conflicts in cyberspace. Risks (for example, the possibility of losing or altering large amounts of data and damaging critical infrastructure without any physical contact) will lead to a reevaluation of the proportionality between the opportunities and losses provided by digitalization. In addition, discussions about the balance between the privacy of individuals and the security of states will become more topical – specifically, how far can the public authorities go when taking care for the security of the state and society (for example, interception of messages and accessing the cameras on smartphones). It is possible that technological progress, at least in several sectors and countries, could be limited to keep the cons from outweighing the pros of the progress.

Regardless of how rapid the development of cyberspace will turn out to be, the significance of cyber-security will increase in national security. An increasing number of conflicts will take place simultaneously in both the physical world and cyberspace, or in cyberspace alone. Cyber-capabilities will become an integral part of national security and defense systems. Cyber units will be an indispensable component of the armed forces. The technologies designed for the conduct of attacks in cyberspace will become common in the

arsenal of armed forces. Their usage will vary, ranging from hidden surveillance and acquisition of information to interference in civilian services (for example, a state information system and mobile communication networks), damaging of devices and remotely taking over devices owned by others (for example, drones). Offensive capabilities in cyberspace will be used against both military infrastructure (for example, military communication networks and drones) and civil infrastructure (for example, information systems of banks and mass media). Anonymity and asymmetry aspects will remain significant in cyberspace – attacks will be conducted not only by countries, but also individuals and groups (for example, so called (h)activists), and it will not always be possible to establish and prove the identity of the perpetrator.

The wide availability of information and potential of spreading of it on the Internet will in turn cause the line between truth and lies to become even blurrier. Although technological progress will provide almost everyone with an opportunity to express themselves without limitations (mainly in democratic countries, though), technologies will also offer a wide range of possibilities to other countries (and non-governmental groups) to manipulate the residents of their and other countries. In the wake of the progress of information technologies, the following matters will arise – how can countries communicate with its residents more efficiently, and how to protect them against those expressions of freedom which are being used with a malicious intent.

Alongside the developments in the virtual environment, the conventional military environment and the arms used in it will continue to advance. The performance and usage of unmanned aircraft in surveillance, transportation of cargo, and in combat will increase, as well as the development of unmanned ground<sup>12</sup> and sea vehicles (both those which are remotely controlled by a human and those, which will be operating completely autonomously – such as autonomous coast guard motorboats or submersible water crafts, which will be able to stay underwater for long periods of time). The durability and destructive capabilities of autonomous systems will increase. Their abilities of being able to operate in coordinated groups will improve both when assisting the operations of armed forces, as well as carrying out tasks autonomously. The role of the artificial intelligence will be increasingly significant in the robotization, as well as in supporting the operation of conventional weapons. It is quite plausible, that in this field the technological progress will face legal and ethical dilemmas, i.e. how laws and their application can be aligned to the



technological progress, and to what extent autonomous devices can be relied upon when it comes to decisions about human lives.

The evolution of traditional weapon systems will continue as well. The power, operational distance, precision, and self-defense of offensive weapons will improve, as well as the abilities of defensive weapons. Alongside so-called smart ammunition, which will be able to destroy complicated targets with increasing precision, even smaller and deadlier laser weapons will be added to the arsenals of armed forces. Weapon systems will significantly change with the further development of quantum computers and artificial intelligence, resulting in an unprecedented range of opportunities to influence and outdo an opponent both in the physical and virtual battlefields. At the same time, the usage of low-tech weapons will also continue, especially in less developed regions.

A general abolition of nuclear weapons is highly unlikely. The majority of the nuclear powers will continue to work on advancing their nuclear weapons and the modernization of the technology linked to it. Although, it is possible that some of these countries might consider abolishing these weapons or might be forced to do so. New initiatives regarding a potential collective reduction of nuclear weapons are possible though.

Last but not least, the fifth warfare domain, namely space, will also continue to evolve (next to the land, sea, air, and cyberspace domains). Nevertheless, the number of countries which will be able to develop not only surveillance, but also offensive technologies in space will be relatively small. At the same time, the significance of cargo and tourism services in space provided by the private sector will grow in importance.

## **The most significant actors and factors of Latvia's security in the future**

For Latvia's security, both the regional and international systems will be crucial. The future development of the EU and the relative power of its most powerful member states, as well as the strength of the Euroatlantic link (the involvement of the US in the security of Europe, and thus the strength of NATO) will be of utmost importance.

It is likely that in the foreseeable future the US will remain the most powerful country in the world, while the power of other countries will continue grow. US support for Latvia and its security remain one of the most important factors in maintaining the independence of Latvia, particularly in

the case of fragmentation of the EU. One of the safest bets on the long-term security of Latvia would be a permanent US military presence, while one of the greatest risks would be a possible distancing of the US from participation in European security (the reduction or even withdrawal of its military from Europe). This could happen if the US would lean towards a more isolationist foreign policy, or if it would devote more efforts and resources to conflicts in the Middle East, Asia, and elsewhere.

If the Euroatlantic link would weaken, the future of the EU would have an even more crucial role. In the case of the security of Latvia, a powerful and cohesive EU with member states closely linked in political, economic, and societal spheres would be desirable. The development of the security and defense policy of the EU will be important as well – moving towards more integrated armed forces and a possible common permanent, or *ad hoc* force (for example, by developing the already existing EU Battlegroups). A close relationship with the rest of EU will also be crucial for Latvia's economic stability and development, as well as for the complete integration of its infrastructure with EU member states (although, as a result of new technological advancements, the importance of the current cargo and passenger transportation systems will decrease, they will still retain their importance in at least the following three decades). Further integration into the EU will also be significant for the evolution of the identity of Latvia and its society – for the societal links to the Western world and for Latvia becoming an indisputable part of the West. However, the weakening and fragmentation of the EU would be detrimental to further Westernization of Latvia. It would provide potential adversaries with an opportunity to endanger the security of Latvia without endangering the security of other EU member states.

On a regional scale, close collaboration with Lithuania and Estonia will be important, especially in the field of security. Preservation of a close relationship will not be a self-evident task, taking into account Estonia's inclination towards the Nordics and Lithuania's historical experience and its leaning towards the south. What is more, Latvia may come to decide whether to establish the next concentric circle of regional cooperation with the Nordic or with the Central European countries (Poland in particular). Another significant factor (also a possible risk) in the regional context will be the further internal and external development of Belarus – whether it leans towards the EU or towards Russia (and/or the People's Republic of China (PRC)), or it simultaneously balances different external powers.

Russia will continue to be the most significant source of external risk for Latvia in the foreseeable future. The Westernization of Russia is unlikely, as well as its alignment with the Western world. It is more probable that Russia will proceed with its own individual path, notwithstanding changes in political leadership. Although the PRC will most likely become the second superpower alongside the US, Russia will continue to be a significant regional player. The power of Russia will be limited by its economic potential, but strengthened by its military and diplomatic capabilities, as well as its vertical decision-making and a willingness to take more risks. Russia will try to preserve and boost its influence in the former territories of the Soviet Union and elsewhere. It will continue to take advantage of weaknesses in other countries and their societies. At the same time, the possibility that the gap between different ethnic groups and layers of society in Russia will grow cannot be fully excluded.

The risks to the security of Latvia will include other external factors as well – international terrorism, organized crime, global economic turbulences, global warming, natural disasters, etc. Though not all of them are currently posing direct risks to Latvia, but in the long run, any of these can have a significant impact on the national security of Latvia.

## **Latvia in ten and thirty years – an optimistic scenario**

In 2028, Latvia is more secure and resilient than ever before – in the military, as well as in other aspects of non-military security. Latvia continues to spend at least two percent or more of its gross domestic product (GDP) on defense, and it uses the available financial resources wisely. The national security system rests on a well-integrated set of resources from military and civilian institutions, as well as the private sector, the collaboration of which is provided by effective cooperation mechanisms. The Latvian National Armed Forces (LNAF) has improved its ability to both protect the territory of Latvia and to participate in international operations. The number of personnel in LNAF has grown, and more citizens have decided to partake in the defense of the state, which has been achieved by either improving the current voluntary participation mechanisms or by creating a modern conscription system. The LNAF has more and more up-to-date military equipment, including new armored fighting vehicles, new helicopters, new unmanned aircraft, and new air defense systems. As a part of the LNAF, a separate cyber-defense command has been established, where both defensive and offensive abilities

are being developed. NATO and EU allies continue to support Latvia's individual efforts in self-defense by having established an increased and permanent military presence in Latvia, including a permanent presence in the Baltic Sea, and long-range air defense systems.

The economy of Latvia has gradually continued to develop, with both GDP and GDP per capita increasing, thus in turn minimizing socio-economic risks. The construction of *Rail Baltica* in the Baltic States has been concluded and the establishment of an extension to Poland is underway. This allows a wider diversification of cargo transportation from the East-West corridor to that of the North-West, and to switch to more cargo of higher added value. Interconnections not only of electricity, but also of natural gas between the Baltic States and other EU member states have been completed. Energy efficiency has also improved, thus reducing the unnecessary consumption of energy resources. Further actions are taken to allow Latvia to obtain energy resources from more suppliers, which in turn means that Latvia has almost entirely become independent from Russia. The role of Russia has also diminished in external economic cooperation, including import and export, as well as investments.

The situation has improved in societal security as well. The decline of Latvia's population has almost come to a halt, and there a modest, but gradual, remigration of the Latvian diaspora taking place. Following the strengthening of the role of the Latvian language in the education system, along other measures, the language proficiency and loyalty among the non-Latvians has improved. The overall quality of education has increased, and in turn the resilience and global competitiveness of the Latvian society has increased. The influence of Russian mass media and fake news has decreased in the information space.

If the optimistic scenario continues, in the year 2048 Latvia has become an undisputed part of the Western world in virtually every sphere. Not only Latvia's society, but also the Western societies (especially Western and Nordic countries) view Latvia as an integral part of the Western world.

In thirty years, Latvia has further strengthened its individual defense capabilities, which are nevertheless still supported by the allied forces of NATO and the EU. As time goes on, even more military personnel look after Latvia's security in cyberspace and operation of automated defense systems. The protection of Latvia's borders and internal security increasingly relies on unmanned systems with the support of artificial intelligence.

At the same time, threats against the Western world have not decreased, particularly when it comes to ideologized international terrorism. Latvia takes on greater responsibility in promoting international security, with its armed forces actively engaged in peacekeeping, and the diplomatic service actively engaged in conflict resolution beyond the borders of Latvia. The positive image and hence the “soft power” of Latvia has experienced significant growth.

Finally, Latvia’s economic development places it among the most developed countries in the EU. Dependency on the economy of Russia has almost come to an end in every single field, with Latvia having reoriented and modernized its trade, energy, and transport vectors within the EU, while Russia having reoriented its external activities in towards Asia and the Arctic Ocean and dedicating more attention to internal challenges. Meanwhile, the society of Latvia has become more cohesive and resilient against internal and external turbulences.

## **Latvia in ten and thirty years – a less optimistic scenario**

In the case where a less optimistic scenario prevails, in ten years Latvia has not made significant progress in strengthening its internal and external security, and the international environment has become more unfavorable towards it. The unity of the EU countries has decreased (and in turn, the solidarity among member states) and the process of further integration is slow. Euroatlantic relations have become cooler, and the US places more attention and resources to resolve conflicts in the Middle East and to constrain the PRC. With this, the European countries have to take greater responsibility over the security of Europe and adjacent regions. Russia has decreased the number of provocative actions in the Baltic Sea Region and has normalized relations with the West. That has led to a decreased sense of threat emanating from Russia both in Latvia and the West at large.

Without the sense of any direct military threat coming from Russia, the presence of NATO allied forces in Latvia has been discontinued. Taking into consideration the seemingly positive security environment, Latvia has cut down its defense budget and is no longer making serious investments in improving its defensive capabilities. Instead, more resources are being used to resolve socio-economic issues. As a result, Latvia’s defensive capabilities are not able to keep up with technological developments, and in the case of a potential conflict are no match for the modernized armed forces of Russia. The failure to keep up with

the progress of cyberspace has made Latvia more vulnerable to threats coming from other countries, non-governmental groups, and individuals.

The economy of Latvia continues to progress, but not at a significant pace. The progress of the modernization of energy and railroad infrastructure is lagging behind expectations, which allows Russia to maintain influence mechanisms in Latvia, both in the energy and cargo transit sectors. The population of Latvia continues to shrink, and the integration process of the society remains slow. A significant part of non-Latvians still have low Latvian language proficiency and are subject to the influence of Russian media, which in turn maintains different views of history and topical issues. As a result, there has been no convergence of historical memory or current processes between Latvians and most non-Latvians.

Following a less optimistic scenario, in thirty years Latvia in many aspects still stands between the West and the East. The EU and NATO, if they still exist after almost a century since their inception, have weakened and are less cohesive. Internal and external events may have possibly led to changes in the foreign policy vectors of Latvia. Slower economic growth creates new security risks, which otherwise would not be issues. The failure to keep up with the progress of civil and military technologies and needs of territorial defense leads to significant risks to national security – in the case of an armed conflict, Latvia's abilities to defend itself have further decreased.

## **Conclusions and suggestions for the next ten and thirty years for Latvia**

Security is something that needs to be constantly thought of and cared for by every country – without peace, normal development and growth in any other field is not possible. The world has always been restless, and so it will remain. The destiny of each country will depend on both what it has accomplished and what it has not accomplished, as well as factors in and beyond their reach.

In the future, the line between the civil and military sectors, and between the state of peace and war, will become harder to distinguish. Conflicts will take place in all domains of warfare: land, sea, air, space, and cyberspace. With the continuation of globalization, interaction between states and societies will increase, whereas the distribution of the power of states will alter.

Neither the current achievements of Latvia, nor the seemingly unstoppable progress curve of national security, can be taken as self-evident. It is unlikely

that any of the aforementioned hypothetical scenarios will be fulfilled completely, and there will be a number of unpredictable factors and actors that will have an impact on future development. For the optimistic outlined scenario to materialize, the following suggestions are provided.

First is to maintain a broad approach regarding national security. Similar to the current approach of national security of Latvia, it is necessary to continue constantly identifying and minimizing the risks in every sector of security (whether they be economic or environmental), because the threats in one seemingly less significant sector can lead to threats in others. A further integrated national security system has to be created to provide synergetic and smooth usage of all state and private resources in case of a crisis. One should also not underestimate the seemingly remote risks, whether they are terrorist attacks, large scale catastrophes, or migration flows. The consequences of such risks can be even more significant compared to traditional ones. Special attention has to be paid to the information space, by creating a close and objective link between the state and society, and by protecting the latter from external negative influence. Technological progress does not imply that less attention can be devoted to traditional security issues. The personnel of the LNAF should be further increased, and new and effective ways to involve more citizens in defense activities must be sought after. The procurement of both modern and less modern military equipment has to continue.

Second is to keep up with technological progress. Higher technological advancement gives more benefits in armed conflicts. Technologies are especially important for smaller countries, which can compensate for their lack of resources with more advanced technological capabilities. The capabilities of cyber-defense have to be further reinforced by creating specialized units and integrating those abilities in all branches of the armed forces (not only for defense, but also for offensive tasks). The arsenal of unmanned aircraft should be increased, as well as the advancing the capabilities of unmanned ground and sea surveillance systems, at least when it comes to land and maritime border surveillance and protection. A lot more resources should be devoted to education and science, thus fostering both a smarter and more resilient society, and advancing and implementing new technological solutions.

Third is to foster alliances. Especially for small states such as Latvia, the support of allies will be crucial in the future. Latvia individually cannot and will not be able to defend itself against Russia. However, one should not ignore seemingly less important threats during situations in which

individual national capacities would not suffice. The central task of the next decade should be to achieve a permanent presence of allied armed forces in Latvia. If the allies fail to see sufficiently realistic threats, then the current rotational presence could be terminated within a decade. This entails that Latvia can end up in a “pre-Ukraine situation,” where the presence of allies is limited only to air policing and participation in military exercises. It should be taken into consideration that the support of allies in the future will not be unconditional. For this reason, allies have to be assisted in military operations abroad and with other activities.

Finally, it should be emphasized that the accomplishments across different fields will be paramount in the future. Accomplishments such as the strengthening of defense capabilities and internal security, national governance, diplomacy, cohesion of the society, civic society, economic development, energy independence, modernization of infrastructure, science, education, overall modernization, and others. The performance of Latvia will either reduce or increase the risks posed by internal and external actors and factors, but the latter ones will not be completely avoidable. The factors and actors mentioned and not mentioned in the publication will interact with each other and will influence the security of Latvia.

## Endnotes

- <sup>1</sup> More on the significance of the NATO Enhanced Forward Presence in Latvia: Māris Andžāns and Uģis Romanovs, “NATO Enhanced Forward Presence in Latvia – A Historic Confirmation of the Reliability of Article 5 of the North Atlantic Treaty” in *Latvian Foreign and Security Policy Yearbook 2018*, ed. Andris Sprūds and Ilvija Brūģe (Latvian Institute of International Affairs, 2018), 67–77.
- <sup>2</sup> More on the development of defense policy and military capabilities of Latvia (and Estonia): Māris Andžāns and Viljar Veebel, “Deterrence Dilemma in Latvia and Estonia: Finding the Balance between External Military Solidarity and Territorial Defence” *Journal on Baltic Security*, no. 3(2), (2017): 29–41. <https://www.degruyter.com/downloadpdf/j/jobs.2017.3.issue-2/jobs-2017-0005/jobs-2017-0005.pdf>
- <sup>3</sup> For example, the name of Russia is mentioned 43 times in the National Security Concept: “Par Nacionālās drošības koncepcijas apstiprināšanu,” Saeima, 26 November, 2015 <https://likumi.lv/ta/id/278107-par-nacionalas-drosibas-koncepcijas-apstiprinasanu>
- <sup>4</sup> For example, The World Bank places Latvia among “high-income economies”: “World Bank Country and Lending Groups,” The World Bank Group, 2018, <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>
- <sup>5</sup> For example, in 2017 Latvia’s export to other EU Member States reached 70,7 percent while export to the Commonwealth of Independent States (CIS) amounted only to 13,1 percent



- out of the total export: "AT020c. Eksports un imports pa valstu grupām pa ceturkšņiem (mlj. euro)". Central Statistical Bureau, 2018 [https://data1.csb.gov.lv/pxweb/lv/atirdz/atirdz\\_\\_atirdz\\_\\_isterm/AT020c.px](https://data1.csb.gov.lv/pxweb/lv/atirdz/atirdz__atirdz__isterm/AT020c.px)
- <sup>6</sup> More on *Rail Baltica*: Māris Andžāns and Kristiāns Andžāns, "Rail Baltica – the Railroad Back to Europe," in *The Centenary of Latvia's Foreign Affairs. Activities and Personalities*, ed. Andris Sprūds, Valters Ščerbinskis and Diāna Potjomkina (Latvian Institute of International Affairs, 2017), 251–264.
- <sup>7</sup> More on the external vectors of cargo transportation in Latvia: Māris Andžāns and Kristiāns Andžāns, "External vectors of the Latvian transport sector," in *Latvian Foreign and Security Policy Yearbook 2018*, ed. Andris Sprūds and Ilvija Brūge (Latvian Institute of International Affairs, 2018), 198–212.
- <sup>8</sup> For example, the percentage of ethnic Latvians has increased from 52 percent in the year 1989, to 62.2 percent in the year 2018. ("IRG100. Latviešu skaits un īpatsvars iedzīvotāju kopskaitā Latvijā un Rīgā gada sākumā". Central Statistical Bureau, 2018, [https://data1.csb.gov.lv/pxweb/lv/iedz/iedz\\_\\_iedzrakst/IRG100.px](https://data1.csb.gov.lv/pxweb/lv/iedz/iedz__iedzrakst/IRG100.px)), but the number of non-citizens has decreased from 670.5 thousand in the year 1996 to 214,2 in the year 2018 ("IRG120. Iedzīvotāju skaits pēc dzimuma, vecuma grupām un valstiskās piederības gada sākumā". Central Statistical Bureau, 2018, [https://data1.csb.gov.lv/pxweb/lv/iedz/iedz\\_\\_iedzrakst/IRG120.px/table/tableViewLayout1/?rxid=b3d22a9c-1fa0-47f7-a981-deec361add5f](https://data1.csb.gov.lv/pxweb/lv/iedz/iedz__iedzrakst/IRG120.px/table/tableViewLayout1/?rxid=b3d22a9c-1fa0-47f7-a981-deec361add5f)).
- <sup>9</sup> For example, according to a research about the participation of minorities in the democratic processes in Latvia, eight percent of non-Latvians admitted that they do not know any Latvian, 23 percent have basic language skills, but 25 percent estimate having mediocre Latvian language skills: *Mazākumtautību līdzdalība demokrātiskajos procesos Latvijā. Analītiskais ziņojums*, (Institute of Philosophy and Sociology, University of Latvia, 2017), 50, [https://www.km.gov.lv/uploads/ckeditor/files/Sabiedrības\\_integracija/Petijumi/Mazakumtautibu%20lidzdaliba%20petijuma%20zinojums%202017\(1\).pdf](https://www.km.gov.lv/uploads/ckeditor/files/Sabiedrības_integracija/Petijumi/Mazakumtautibu%20lidzdaliba%20petijuma%20zinojums%202017(1).pdf)
- <sup>10</sup> According to research about media literacy in Latvia, eighty percent of non-Latvians use Russian language sources, but among the twelve most trusted media/broadcasts in this group, half are "Russian state products": *Latvijas iedzīvotāju medijpratība, Kvantitatīvais pētījums*, (Latvijas Fakti, 2017), 7, 12, [https://www.km.gov.lv/uploads/ckeditor/files/mediju\\_politika/petijumi/Medijpratiba\\_petijuma%20rezultati\\_Latvijas%20Fakti\\_18\\_07\\_2017.pdf](https://www.km.gov.lv/uploads/ckeditor/files/mediju_politika/petijumi/Medijpratiba_petijuma%20rezultati_Latvijas%20Fakti_18_07_2017.pdf)
- <sup>11</sup> Comprehensive analysis of statistics of armed conflicts is provided by the University of Uppsala: "Armed Conflict by Region, 1946-2017", Uppsala University, 2018, [http://pcr.uu.se/digitalAssets/667/c\\_667494-1\\_1-k\\_armed-conflicts-by-region--1946-2017.pdf](http://pcr.uu.se/digitalAssets/667/c_667494-1_1-k_armed-conflicts-by-region--1946-2017.pdf)
- <sup>12</sup> More on the development of unmanned ground systems in military use: *Digital Infantry Battlefield Solution. Introduction to Ground Robotics. DIBS project. Part One*, ed. Uģis Romanovs, (Milrem, 2016), [http://liia.lv/en/publications/digital-infantry-battlefield-solution-introduction-to-ground-robotics-562?get\\_file=1](http://liia.lv/en/publications/digital-infantry-battlefield-solution-introduction-to-ground-robotics-562?get_file=1); *Digital Infantry Battlefield Solution. Concept of Operations. DIBS project. Part Two*, ed. Uģis Romanovs and Māris Andžāns (Milrem, 2017), [http://liia.lv/en/publications/digital-infantry-battlefield-solution-concept-of-operations-part-two-629?get\\_file=1](http://liia.lv/en/publications/digital-infantry-battlefield-solution-concept-of-operations-part-two-629?get_file=1)

# The Transformation of Diplomatic Practice

DIDZIS KĻAVIŅŠ\*

Since the end of the 20th century, diplomacy has experienced a notable change. Digital diplomacy (e-diplomacy), commercial diplomacy, and city diplomacy are only a few of types of diplomacy which are characterizing the scope and variety of change. Also the requirement to make use of the *whole of government* approaching foreign policy, synchronizing all ministries' departments' work, and promoting the cooperation of all governing bodies with the common goal of foreign policy, is clear proof of change and a tendency that diplomacy is currently experiencing. It might seem that sometimes diplomacy as a foreign policy tool and diplomatic practice has experienced the most important changes or is currently experiencing them, however the development tendencies and new access serve as a proof that the major changes are still in the future. The question is about each country's preparedness and ability to adjust to these changes, not only changing the long lasting and carefully elaborated practice of the Ministry of Foreign Affairs, but also creating a new means of cooperation and formats with other state and non-state players. While evaluating the current development of diplomacy and integrating the conclusions of leading researchers on this subject, this publication will try to shape some possible development scenarios for Latvian diplomacy in 2028 and 2048. Taking into consideration the multifaceted character of international relations, as well as understanding the rapid change of foreign policy and international events, dynamics, and even enforceability, the goal of this publication is to project the transformation of the diplomatic practice in Latvia in the upcoming ten and thirty years, focusing on questions such as the functional changes in the Ministry of Foreign Affairs of Latvia (hereinafter referred to as Latvian Foreign Ministry) central apparatus and

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\* The publication is a part of a project "Comparative research on foreign ministries in Baltic States and Nordic Countries (2012-2015)" (research application Nr.1.1.1.2/VIAA/1/16/082; research application agreement Nr.1.1.1.2/16/1/001), which has been co-financed from European Regional Development fund's resources.

diplomatic representations abroad, new cooperation formats in foreign policy, commercial diplomacy, technological and communication solutions and their influence, artificial intelligence, and strengthening of professional capacity. However at the end of this chapter, the main conclusions and suggestions will be presented as to how to best prepare for this diplomatic change.

## **Possible diplomacy development scenarios**

For the past centuries, diplomacy has been viewed as an evolutionary and vital component for a state to implement its national interest. However, the rapidly changing international environment nowadays has made us re-evaluate the meaning of diplomacy on a much wider scale and context. Various types and subtypes of diplomacy serve as an example for this. Although, the range of publications on various diplomatic trends and their influence on international relations is growing year after year, there are relatively few research papers which take an analytic look at how the Ministry of Foreign Affairs is dealing with these changes in the international system. The Ministry of Foreign Affairs historically has been the main implementer of basic diplomatic functions. Authors amongst whom are the Netherlands Institute of International Relations 'Clingendael' experts and associated researchers Jan Melissen, Brian Hocking, Shaun Riordan, Paul Sharp, Kishan S. Rana, including well-known academics such as Corneliu Bjola, Richard Langhorne, Gunther Hellmann, Costas Constantinou, Juergen Kleiner, Jozef Bátora and Noé Cornago, all of whom are some of the most visible researchers on transformation of diplomacy. They have focused specifically on researching the Ministry of Foreign Affairs. Based on the current change in diplomatic tendencies, and on conclusions of leading researchers on diplomacy, this chapter will deal with three possible scenarios of the transformation of diplomatic practices.

The first of the possible scenarios for diplomatic change is to a large extent similar to that of the "gatekeeper," widely known in diplomacy research, which is described in particular by Brian Hocking in his works.<sup>1</sup> Historically, the Ministry of Foreign Affairs has played the role of "gatekeeper;" as a controller of environmental and internal political transactions. According to the national *raison d'état*, the operational norms developed by the Ministry of Foreign Affairs over the centuries make us regard it as an exclusive public administration institution, whose monopoly status in foreign affairs is not questioned, and where the participation of other authorities in foreign affairs is not freely allowed.

However, since the end of the 20th century, the situation has changed, as the Foreign Ministry, although still the leading state authority in foreign affairs, is forced to count on the activities of other institutions and actors. Moreover, the diversity of participants and topics in foreign affairs has been further enhanced by globalization and the processes of information and communication technologies (ICT). Against this background, the first scenario incorporates lessons from the “gatekeeper” approach, which is complemented by relevant developments in the diplomacy of the 21st century. Namely, the foreign service serves the Ministry of Foreign Affairs and does not serve as a platform for other public administration institutions. Career diplomats, or generalists, are basically the only ones who work at the Ministry of Foreign Affairs. Diplomatic missions have a small number of local staff. The diplomatic support for exports and investment attraction is relatively minimal. Communication is provided through traditional channels of information exchange. The information circulation is predominantly vertical. Hierarchical information exchange limits the participation of other actors in communication processes. Diplomats are usually offered standard qualification upgrade courses. In addition to the Ministry of Foreign Affairs, there is no regular cooperation with non-governmental organizations. However, the most common types of diplomacy are bilateral and multilateral diplomacy.

The second scenario of diplomacy development, which can be described as an adaptation phase, is characterized by the following features. New forms of cooperation with other public authorities have been established. Close cooperation with certain sectoral ministries and their agencies is being implemented. Diplomatic missions are increasingly employing other government sector officials and local staff. Extensive cooperation with entrepreneurs and investors has been established. Commercial diplomacy activities are mainly carried out in major embassies. The transition to new communication and information exchange channels is taking place. Digital technology is used more, but not on a regular basis. The foreign service integrates some of the artificial intelligence solutions into its work, such as virtual assistants and machine learning. Foreign service staff are offered regular further training courses, but predominantly traditional diplomatic issues prevail. There is an expanded cooperation framework with non-governmental actors. In diplomatic practice, the importance of public, digital and commercial diplomacy is emphasized alongside bilateral and multilateral diplomacy issues.

The third scenario of diplomacy corresponds to Brian Hocking's "boundary spanner" model; the idea of which was derived from a study by Christopher K. Ansell and Steven Weber. The role and importance of this approach are characterized by the variability of borders. Unlike the point of view and argumentation of globalization and regionalization, the two authors, drawing on organizational theory, drew attention to the fact that boundaries are volatile and eventual. Responding to external changes to the interaction result, members (boundary spanners) change their activities.<sup>2</sup> The "boundary spanner" model is based on the assumption of a transformed foreign ministry which, by abandoning its monopoly position in foreign affairs, places itself at the center of international relations. Unlike the traditional foreign ministry's "gatekeeper" approach, the "boundary spanner" partially delegates this role to other actors, and serves as a service provider for all those who need support in use of international mechanisms. In this case, both the support mechanism for other public administration institutions and the multidivisional support of various social groups, such as business and non-governmental organizations, can be discussed.<sup>3</sup> When it comes to providing support to other public authorities, it is important to talk about the use of the "whole-of-government approach" (WGA) in developing international issues and administering the public sector. It stipulates that the foreign ministry no longer fulfills the role of "gatekeeper" between foreign and domestic policies, but has instead become an assisting authority or platform for other national administration institutions. The types of support may vary, from the coordination of inter-institutional issues to the servicing of all government institutions. Although the model developed by Brian Hocking has not lost its relevance, the third scenario has been complemented by current trends in diplomacy and novelties. In general, the following features of the third scenario can be highlighted; the central apparatus of the Ministry of Foreign Affairs and all diplomatic representations serve as platforms for other public administration institutions or are part of the national diplomatic system<sup>4</sup>. The foreign ministry fulfills the role of the main coordinator in foreign policy issues. Experts from other fields work at the foreign ministry. Diplomatic missions employ a large number of other public administration staff as well as local staff. A network of mobile and shared embassies is widely used. There is great emphasis on commercial diplomacy. The state has developed a long-term commercial diplomacy development plan. There is use of innovative technological solutions in foreign affairs. The information and

communications technology system of the Ministry of Foreign Affairs is integrated with other state institutions' ICT systems. There is great emphasis on artificial intelligence solutions in foreign affairs. There is diverse and regular use of social media in foreign affairs. Foreign Ministry staff are offered a wide range of training and interdisciplinary training courses, including training on the use of new technologies and artificial intelligence. In addition, close and diverse cooperation with non-governmental actors has to be highlighted. In general, foreign affairs, along with bilateral and multilateral diplomacy, are dominated by economic and commercial diplomacy, public, digital, and cultural diplomacy, as well as science and innovation diplomacy. More detailed descriptions of the all three diplomacy development scenarios are given in Table 1 in the annex to this publication. In the next sub-chapters, however, the most likely scenario of the development of diplomacy in Latvia after ten and thirty years is analyzed.

## **Diplomacy in Latvia after ten and thirty years (2028 and 2048)**

### **Cooperation with other public administration institutions**

In the 21st century, it is impossible to find a central government authority that is isolated or, as Jeremy Greenstock puts it, internationally secluded.<sup>5</sup> Even though today, each ministry and agency to a greater or lesser extent directly cooperates with other state administration institutions, in the future it is expected that the Latvian Foreign Ministry will be even more involved with coordinating foreign policy issues and involving other state institutions in foreign affairs. Also, the authors, including Kishan S. Rana, Brian Hocking, Jan Melissen, Shaun Riordan, and Paul Sharp, particularly highlight the importance of inter-institutional cooperation and the future role it plays.<sup>6</sup> This suggests that the Latvian Foreign Ministry will also expect closer cooperation with other sectoral ministries and agencies in the next decade. On the other hand, in the next thirty years it is expected that a clear border between foreign affairs and home affairs will no longer exist. During this time, a great deal of emphasis will be put on the use of WGA in international matters. It will anticipate that the foreign ministry will no longer be conceived as a “gatekeeper” between foreign policy and internal policies, but instead will seek to act as a support institution or as a platform for other

public administration institutions. Regarding the types of support, they will vary from the coordination of inter-institutional issues to the servicing of all government institutions. The Latvian Foreign Ministry will not be an exception and it is expected that the diverse agenda issues will dictate the active involvement of the foreign service, and will require structural changes both in the diplomatic service and in the work of the consular service.

These changes, which will not yet be apparent after ten years, but clearly marked in the years to come, will be attributed to a common cultural transformation in the government or, more broadly, to changes in public administration as a whole. The Latvian Foreign Ministry will also have a central role in the implementation of a united and coordinated foreign policy within the framework of these discussions. First of all, the departments of the Latvian Foreign Ministry will have to be able to carry out regular cooperation with other ministries and institutions subordinate to it. The framework for cooperation will be more explicitly addressed, including areas of responsibility and the responsibilities of the institutions involved. Nowadays, this aspect is often not precisely defined in practice, and there is overlapping of functions. Second, the Latvian Foreign Ministry in the context of the WGA will have to become a platform for other public administration institutions. By providing regular support to other Latvian institutions in resolving foreign policy issues, the foreign service will be able to better publicize the vital role of diplomacy. In general, both the ministry's central apparatus and diplomatic missions will be able to talk about the government's priorities. It is expected that after thirty years, the Ministry of Foreign Affairs at the central level will focus on coordination of foreign policy issues between the institutions involved, which is in line with the nature of the national diplomacy system,<sup>7</sup> namely, the Ministry of Foreign Affairs as part of a much wider system of government in the implementation and coordination of foreign policy issues.

## Framework for the activities of diplomatic missions

If, after the end of the Cold War, changes in the international system and diplomacy had created confusion about the role of diplomatic missions, then in recent years the researchers' view of the importance of embassies and other diplomatic missions and their further development is rather unified. David M. Malone, describing the role of diplomatic missions, lists a number of key functions of the embassies: building political relationships, creating a positive

image; solving economic issues and trade issues, ensuring financial diplomacy, promoting trade relations, ensuring development cooperation, solving migration and visa clearance issues, developing consular relations, solving security issues and gathering information, and promoting other fields such as specialized economics.<sup>8</sup> Although nowadays one part of the country already has all of the above mentioned functions, it is still too early to generalize these responsibilities to all countries. In any case, this situation will vary considerably after ten years, when along with career diplomats, more diplomats at embassies and representations will have many more employees appointed by other public authorities. It can also be expected that more local staff will be employed in major Latvian embassies. From the perspective of today, there is nothing to suggest that the role of embassies and representations could be diminished. On the contrary, over the next decade, the role of the country's representation abroad will increase, which will be largely determined by the increasing migration of citizens, international trade, global economic centers and new market outlets, as well as diverse agenda issues in foreign affairs. Although the functions and duties of diplomatic missions, as stipulated in the 1961 Vienna Convention on Diplomatic Relations, will remain largely unchanged, it is expected that new national diplomatic missions will be mandated in the national laws and practices of each country. Already, national diplomatic missions, in addition to the functions set out in the Vienna Convention, are fulfilling many other responsibilities.

Looking at the possible development of diplomacy after thirty years, it is possible to anticipate such development of Latvian embassies and representations. First of all, employees in diplomatic missions abroad, like the employees of the Latvian Foreign Ministry, will have to work on a wider range of topics, which means new and diverse knowledge acquisition is required (for example, the use of the latest communication technologies in shaping the state image, the use of artificial intelligence to enhance the country's competitiveness, science and development of innovation diplomacy). Second, important emphasis will be placed on the implementation of the WGA, which in turn means that employees from other ministries and agencies of the Republic of Latvia will work at embassies and representations. Foreign service staff will coordinate cooperation between the foreign embassy institutions abroad. It can also be expected that the functions of the ambassadors will be expanded, as the activities of the representatives of other Latvian institutions and the activities in the host country will be supported along with the new



issues of the foreign affairs agenda. To quote Kishan S. Rana, the ambassador will play the role of “national team leader” abroad.<sup>9</sup> One of the main reasons for extending the mandate will be the implementation of a coherent and consistent policy in the host country. Third, diplomats abroad will have to become even more active in shaping the image of the state through innovative communication solutions, including artificial intelligence technologies. The role of public diplomacy will be even more important. Fourth, the Latvian diplomatic corps will be forced to further promote economic and commercial diplomacy, including the promotion of cooperation between companies in Latvian regions and potential partners in the host country. In order to facilitate export growth and investment attraction, the foreign service will be forced to use contacts accumulated by the representatives of the Latvian diaspora more actively. Fifth, Latvia together with Lithuania and Estonia will have established a network of joint embassies. Similarly to the Nordic countries which, according to Thorvald Stoltenberg’s 2009 report, raised the issue of a common agenda for the establishment of joint embassies. Such cooperation between the Baltic foreign ministries will facilitate joint intergovernmental institutional dialogue. Moreover, one of the main reasons for the opening of joint embassies will be saving money.

In the future, all the listed activities of the diplomatic service are expected to be more deeply integrated with the government’s performance management and performance reporting models. Similar to the current situation in the Nordic countries, in particular the Danish Ministry of Foreign Affairs, the annual reports of the Latvian foreign service, including the subsequent years of the Foreign Minister’s annual reports on the accomplishments and intended activities of the country’s foreign policy, will reflect qualitative and quantitative data on the progress made in foreign policy and the welfare of the country. If, in 2028, the activities of the Latvian foreign service would be in line with the second stage of the diplomacy transformation scenario or adaptation phase, then in 2048 diplomacy missions are expected to be in the new transition phase to the third scenario. Though representations will be positioned as a platform for government interests after thirty years, there is a high probability that in a limited funding environment, only large embassies will have a broad framework for cooperation with public administration institutions, as well as staff from other Latvian institutions working there.

## Support for enterprises in foreign markets

Diplomacy support for operators in foreign markets will continue to grow in the coming years, which is one of the main goals of commercial diplomacy. It is expected that the Latvian Foreign Ministry, together with the specialized economic development institutions, in particular the Latvian Investment and Development Agency (LIAA), will continue to promote commercial diplomacy, which includes support to enterprises in foreign markets, promotion of trade, networking and cooperation partners' search, as one of the main priorities, attracting new investors, promoting tourism, and creating a national image. The function of commercial diplomacy will also be the provision of up-to-date and reliable information to business people, as well as the organization of regular trade missions and seminars, after ten and thirty years. At the same time, with the increasing tendency of foreign affairs services of the countries to become increasingly involved in export promotion activities, the added value of commercial diplomacy in providing services compared with the opportunities offered by the private sector will be a topical issue. Like other countries, Latvia will be forced to reconsider the range of services offered by commercial diplomacy and look for ways to be better visible among Latvian and foreign entrepreneurs. The new technologies and communications solutions will be used more often in addressing Latvian entrepreneurs to use the offered opportunities for commercial diplomacy abroad, as well as polishing the image of the state to attract new investments.

In assessing that during the economic crisis, with rapidly reduced funding, Latvia was able to restart commercial diplomacy in a relatively short period of time<sup>10</sup>. By establishing close institutional cooperation, it is expected that within the next ten years, the LIAA under the direction of the Ministry of Economics, in cooperation with the Latvian Ministry of Foreign Affairs will expand the network of the Latvian foreign economic representation in major markets. It is also expected that the diplomatic service will intensify cooperation with the Latvian Chamber of Commerce and Industry (LTRK) and the Employers' Confederation of Latvia (LDDK). Even after ten years, the foreign service will work more actively with regional entrepreneurs on the opportunities offered by commercial diplomacy in foreign markets, but this dialogue is likely to be irregular. Moreover, a long-term development plan will not be fostered at the government level. Generally, in 2028, the support for companies in the foreign markets will correspond to the characteristics of diplomatic practice of the second, or *adaptation* scenario.

Being aware of the victory of commercial diplomacy nowadays and modeling its future development, it can be envisaged that, if not in 2028, then in 2048 for sure, a comparatively large number of commercial diplomats will be employed in the Latvian foreign service, which by using Michel Kostecki and Olivier Naray's classifier, will correspond to the type of business promoter. Namely, commercial diplomats, i.e. public servants with good knowledge and practical experience, will have as their main priority the support of Latvian entrepreneurs in foreign markets. Unlike two other types of commercial diplomats by Michel Kostecki and Olivier Naray – a civil servant and generalist who have no interest or skill in creating commercial diplomacy – for the one who promotes entrepreneurship, it will be important to see the result of his/her work and get praise from the entrepreneurs.<sup>11</sup> It is expected that the main task of Latvian commercial diplomacy in 2048 will be to provide proactive advisory services to companies through the extensive network of contacts and information gathered by the foreign service on business development opportunities and demand for goods and services. These business diplomats, business promoters, will be expected to be well versed in the principles of business formation and culture. It is also expected that the foreign service will have regular cooperation with entrepreneurs in the country's regions, in accordance with the guidelines of the long-term commercial diplomacy plan. Also, the network of the Latvian foreign economic representation in 2048 will be much wider, determined by the need to increase the growth of Latvian exports. In general, commercial diplomacy activities in 2048 will correspond to the third possible scenario for the development of diplomacy.

## Use of technological and communication solutions

In the future, new technological and communication solutions will significantly change the nature of diplomatic communication. Operative circulation of information and its availability will change the dynamics of diplomatic work by requiring a much faster response from the Latvian foreign service. In seeking a closer dialogue with the public, the Latvian Foreign Ministry will, like the foreign affairs institutions of other countries, will be forced to reduce the time for coordination of positions, documents or decisions. Equally, more attention will be paid to selecting information and checking the facts using the latest technological solutions. After ten years, the

foreign service is likely to pay more attention to digital diplomacy, although it is unlikely that it will be possible to talk about the systematic use of digital technologies. The growing number of mobile phone and smartphone users will also encourage the Latvian Foreign Ministry to create new mobile applications. Taking into account that the introduction of new technological and communication solutions at the Ministry of Foreign Affairs will require large financial resources, including the integration of the foreign service IT infrastructure with the IT systems of other institutions, by the year 2028 the second scenario of the development of diplomatic practice will prevail.

One of the most significant changes in the Latvian Foreign Ministry will be the artificial intelligence solutions, which today experience success and are increasingly being used to improve public administration. Over the next ten years, the use of artificial intelligence in foreign affairs will have a significant impact on the work of the diplomatic and consular service, not to mention the impact it will have after thirty years. Already, the current solutions of artificial intelligence suggest that this change will be revolutionary. Machine learning, neural networks, virtual assistant, or bots, will not be strangers to foreign policy and diplomacy, as confirmed by research published last year, and prognoses.<sup>12</sup> First of all, it is important to emphasize that one of the main preconditions for artificial intelligence is *big data*, which in smart combination with machine learning, helps to make data-based decisions and solutions. Thanks to innovative methods and algorithms that efficiently process large volumes of data and ensure efficient speed, one of the main benefits of artificial intelligence is process automation. This in turn means that the use of deliberate artificial intelligence can facilitate the work of the public sector, including the Latvian Foreign Ministry and the private sector, since it does not have to spend as much resources on a specific job. Although at the moment artificial intelligence does not appear to be on the agenda of foreign policy, this situation will change rapidly in the near future, and artificial intelligence will be one of the central elements in shaping foreign policy, including the modernization of diplomatic practice. Given the current trends and technological developments, it is possible to predict that in 2028 the Latvian foreign service will already use one of the solutions of artificial intelligence. In the first ten years, the item of artificial intelligence will also increasingly appear in Latvia's foreign policy and diplomatic negotiation topics in bilateral and multilateral cooperation formats (e.g. the European Union, NATO, UN, Organization for Economic Co-operation and Development).

In turn, after thirty years, it can be predicted that a wide variety of artificial intelligence solutions will be used in the diplomatic and consular service. It is highly probable that the first artificial intelligence solutions will be used for consular service, commercial diplomacy or public diplomacy. For example, information on the work of the consular service, assistance in emergency situations abroad, safe travel, export opportunities abroad or the creation of a national image with the help of a virtual assistant or chatbot. It can not be ruled out that one of the solutions artificial intelligence offers might be related to crisis management. Being aware of the current development of artificial intelligence, it is important not to postpone the subsequent issues of how artificial intelligence could be better integrated into the foreign service needs. In general, rapid technological development and diverse innovations will require a more rapid response and action from the Latvian Foreign Ministry. Namely, the possibilities of communication technologies will allow the public and mass media to demand from the ministry and the government, a faster and more decisive foreign policy, including a more operational foreign service.

## Strengthening professional capacity

In the future, training courses and seminars for foreign service staff will become one of the essential preconditions for successful foreign policy development in the long term. Apart from their own *savoir faire* to adapt to any situation, diplomats will need to gain interdisciplinary knowledge and pay great attention to developing professional capacities in line with the requirements of the 21st century.<sup>13</sup> According to Lichia Saner-Yiu and Raymond Saner, the traditional training system was characterized by the training administration. In the present situation, however, this approach is no longer so effective, therefore we must strive to move to a new system – training management.<sup>14</sup> It is based on the approach that the unit responsible for the training process supervises the organization and assesses the extent to which the newly acquired skills contribute to improving the work process in the ministry's central apparatus and diplomatic missions. Unlike course administration, in this approach the training center not only carefully selects courses with high added value, but also monitors the usability of acquired skills when performing routine daily tasks. Relevant feedback and detailed feedback on the content of the courses and the applicability of the acquired knowledge in accordance with the requirements of 21st century diplomacy

is particularly important when conducting the training. Furthermore, recognizing that the practical utility of the acquired knowledge is directly related to the overall improvement in the operation of the Ministry of Foreign Affairs' central apparatus and diplomatic missions, the quality of training standards will be an important issue. In addition to training, the issue of attracting and motivating foreign specialists will be equally important. For example, one of the permanent challenges in the future will be the recruitment, retention and training of artificial intelligence specialists in the foreign service.<sup>15</sup>

Taking into account that training will be considered more and more as one of the most important components for successful diplomacy provision in the future, it can be envisaged that the Latvian Foreign Ministry will strive to move on to the training management system. It can also be predicted that the idea of integrating experts in the work of the Latvian Foreign Ministry will also become very popular in the future. This in turn will require the Latvian Foreign Ministry to extend the range of courses offered to employees. Although in the first ten years the foreign affairs service is unlikely to reach this goal due to a lack of funding, it will correspond to the description of the second diplomacy scenario, in 2048, though the approach to the third scenario may be foreseen. However, it cannot be ruled out that an unforeseen reduction in the annual budget of the Latvian Foreign Ministry may lead to adjustments regarding the strengthening of professional capacity in accordance with the principles of the training management system. Often, training is one of the first budget lines that is rejected in the event of a reduction in funding.<sup>16</sup>

In summary, it should be concluded that the increase of qualification in 2048 will become a *sine qua non*, or an essential precondition for the Latvian foreign service to develop an effective diplomacy which responds to the requirements of the 21st century. While in times of traditional diplomacy, diplomats were not considered to require training because they are already born as diplomats; the 21st century international environment shows that there will also be a need for continuous requalification courses covering diverse topics after ten and thirty years.<sup>17</sup> Both a systematic and structured approach to training, as well as continuous enhancement of qualification improvement courses, will be essential prerequisites for improving the quality of work of the Latvian Foreign Ministry.<sup>18</sup> Already today, training is described not only as "the key word for reform in the Foreign Ministry", but as a "foundation for modern diplomacy".<sup>19</sup>

## Conclusions

The current trends in diplomacy clearly show that the future activities of the Latvian Foreign Ministry will correspond to the model of “boundary spanner” as described by Brian Hocking, and will be based on the assumption of a reformed foreign policy that, by abandoning a monopoly on foreign affairs, fulfills vital functions of the coordinator on state foreign affairs. Unlike the traditional position of the Ministry of Foreign Affairs, the so-called “gatekeeper” model, conceptually based on the paradigm of a school of realism, where the Foreign Ministry, as the exclusive state administration authority in foreign affairs, controls the state’s interaction with the external environment, the “boundary spanner” delegates a part of functions to other actors and serves as a service provider for all those who need support in using international mechanisms. Here, we can talk about both a support mechanism for other public administration institutions and a variety of support for the various social groups. It is also important to note that the central apparatus of the Latvian Foreign Ministry and diplomatic missions abroad will serve as a platform for other institutions of the Latvian state administration. In addition, officials from other ministries and institutions subordinated to them will be seconded to diplomatic posts in Latvian embassies. The number of local staff in diplomatic missions will also increase, which will be reflected in the wider allocation of functions.

In general, inclusive diplomacy of diverse themes and functions will be dominant, which in scientific literature is described as *integrative diplomacy*.<sup>20</sup> If in 2028 the dominant types of diplomacy in Latvia would be bilateral and multilateral diplomacy, commercial diplomacy, public diplomacy, and digital diplomacy, then after thirty years it can be envisaged that innovation and science diplomacy will be actively pursued alongside the aforementioned types. Studies at the Clingendael Institute<sup>21</sup>, the Oxford Digital Diplomacy Research Group<sup>22</sup> and EL-CSID research projects<sup>23</sup> confirm the great potential of digital, innovation, and science diplomacy in the future. Propagating the transformation of diplomatic practice in Latvia in the coming years, one can foresee that the staff of the Latvian foreign service will be likely to participate in diplomatic hackathon workgroups, or provide broad support in sciences for attachés. Even though in the coming years the definite, unchanging question will be about available foreign affairs funding, the current changes in diplomacy will imply that the Latvian Foreign Ministry

will have no choice but to pursue the transformation and requirements of diplomatic practice. The demand for a proactive foreign service and WGA implementation will contribute to structural and functional changes in the diplomatic and consular services. Given that the foreign service will become much wider, it cannot be ruled out that one of the innovations will be the creation of specialist ambassadors; for example, the Tech Ambassador of Denmark, or the appointment of a Special Ambassador for life sciences to facilitate the successful entry of Latvian companies into the traditional and emerging export markets, and to attract new investors to Latvia. It can also be expected that freelance experts in the field of strategic communication and the formation of nation branding will be more involved.<sup>24</sup>

To ensure that the Latvian Foreign Ministry can prepare itself for the future challenges of diplomacy transformation, one can highlight a number of tasks to be accomplished. First of all, in cooperation with other sectoral ministries and invited experts, it is important to develop a medium-term and long-term plan for the Ministry of Foreign Affairs to more effectively provide support to other institutions, and be a vital part of the national diplomacy system. Taking into account that after ten and thirty years, the issue of financing in foreign affairs will be topical. In the debate on the state budget and for the purposes of informing the public, it will be essential to highlight the importance of the foreign affairs service in qualitative and quantitative terms, serving as a platform for other public administration institutions and implementing integrated diplomacy. This in turn means that one needs to know the methodology on how to calculate it most accurately and soon as possible. It is also important for the Latvian Foreign Ministry to find out how to adapt artificial intelligence solutions to the needs of the foreign service. According to Ben Scott, Stefan Heumann and Philippe Lorenz, every foreign ministry already has to think seriously about integrating artificial intelligence into a forward-looking foreign policy.<sup>25</sup>

To conclude, the efficiency in the circulation of information and its availability, which will continue to be promoted by innovative information and communication technologies, will significantly change the development of diplomacy and the dynamics of its work. Though after ten and thirty years diplomacy will continue to be characterized by key characteristics such as representation, negotiation, and communication, it is undeniable that significant changes will be observed in both the central apparatus of the Latvian Foreign Ministry, and in diplomatic missions abroad. The rapid



circulation of information, which will further minimize the importance of previously developed policies, will require urgent foreign affairs solutions from the Latvian diplomatic and consular service. The role of foreign affairs in the coordination of foreign policy issues will be considerably increased. The ability to form the WGA in foreign affairs by synchronizing the work of all ministries' units, and promoting cooperation between all administrations in pursuing and achieving common political goals will be considered as an essential factor in modernizing the work of foreign ministries and meeting the requirements of diplomatic practice in the 21st century. Greater emphasis will be placed on a wider use of policy tools in practice and work beyond the central apparatus. In response to various agenda issues, the balance between career diplomats and specialists will be redefined at the Latvian Foreign Ministry. Along with traditional diplomats, more and more professionals will be employed, who are experts in one of the other policy areas. In assessing the increasing importance of knowledge management, the foreign service will focus on building and using expert databases for the foreign service. Diplomatic representations abroad will also be more diverse and will be forced to reorient their activities to more specific tasks and functions. The number of mobile and shared embassies will also increase. Considering that the number of social media users will increase in the coming decades, the Latvian foreign service will have to devote much more effort to expeditiously explain Latvia's foreign policy. In addition, Latvian diplomats will have to work more actively with the media, explaining current issues in international relations, and preventing the public from making hasty conclusions about one decision or the other about the events in foreign affairs. If the foreign policy agenda was more controllable or predictable in the past, current trends in international relations confirm that future challenges will determine the Latvian Foreign Ministry to be even more flexible. Taking into account the above mentioned tendencies and challenges of the diplomacy observed in recent years, it is possible to predict that the Latvian Foreign Ministry will not choose to formulate foreign policy according to the first or "gatekeeper" diplomacy scenario. If, after ten years, the activities of the Latvian Foreign Ministry will correspond to the second development scenario of diplomatic practice or the adaptation stage, then in 2048 the foreign service, with a few exceptions (e.g. the framework for the activities of diplomatic representations), will correspond to the third diplomacy development scenario, which is consistent with the "boundary spanner" model and the basic principles of the integrative diplomacy.

## Annex

Table 1. Diplomacy Development Scenarios in Latvia in the next Ten and Thirty Years (2028 and 2048). Data source: Table created by the author.

Scenarios Charac- terisation	I	II	III
Cooperation with other public administration institutions	<ul style="list-style-type: none"> <li>• “The gatekeeper” principle prevails in the foreign policy.</li> <li>• Foreign service ensures the need of the MFA.</li> <li>• Mostly formal cooperation with other public administration institutions based on <i>ad hoc</i> principle.</li> </ul>	<ul style="list-style-type: none"> <li>• New regular cooperation formats with other public administration institutions are made (e.g. ministries and agencies).</li> <li>• Foreign services provides service only for a couple of public administration institutions and does not function as a part of national diplomacy.</li> </ul>	<ul style="list-style-type: none"> <li>• The MFA is a platform for solving issues.</li> <li>• Proactive work with all public administration institutions.</li> <li>• Correspondence with basic functioning national diplomatic systems principles.</li> <li>• Foreign services assumes the role of a coordinator in various foreign policy questions.</li> </ul>
Diplomātisko pārstāvniecību darbības ietvars	<ul style="list-style-type: none"> <li>• Diplomatic missions serve the MFA.</li> <li>• Diplomatic representations (e.g. embassies, permanent and special representations) mostly employs staff from the MFA.</li> <li>• Diplomatic missions employ only some local staff.</li> </ul>	<ul style="list-style-type: none"> <li>• More and more, the diplomatic representations provide service to other public administration institutions.</li> <li>• New cooperation frameworks are made.</li> <li>• Alongside career diplomats, the Embassy and the representations employ more and more other staff from other public administration institutions.</li> <li>• The number of locally employed staff increases in diplomatic missions.</li> </ul>	<ul style="list-style-type: none"> <li>• Diplomatic representation services all main public administration institutions.</li> <li>• The representations are being positioned as platforms, providing for the government's interest and services.</li> <li>• Diplomatic missions employ a substantial number of other staff from public administration institutions, as well as local staff. The MFA entrusts more tasks to local staff.</li> <li>• There is a wide and mobile representation network, including shared representation with other countries.</li> </ul>

<div>Scenarios</div> <div>Charac- terisation</div>	I	II	III
Support for enterprises in foreign markets	<ul style="list-style-type: none"> <li>• Minimal MFA support to enterprises in the external markets.</li> <li>• MFA staff corresponds to the generalist type.</li> <li>• There are a small number of export and investment agencies represented in diplomatic representations.</li> <li>• There is no long term development plan on how to promote export and attract investment.</li> </ul>	<ul style="list-style-type: none"> <li>• There is increasing support for enterprises in external markets and attraction of foreign investment.</li> <li>• MFA staff corresponds to the civil servant type.</li> <li>• Commercial diplomatic activity is taking place only in the larger embassies.</li> <li>• There is irregular dialogue with entrepreneurs about the support of foreign services in the external markets.</li> <li>• There is a short term commercial diplomacy plan in place.</li> </ul>	<ul style="list-style-type: none"> <li>• The MFA insures varied and regular support to entrepreneurs in international markets.</li> <li>• There is active work and attraction of investment.</li> <li>• MFA staff corresponds to the business promoter type because he/she provides active support in all diplomatic missions abroad.</li> <li>• There are active dialogues with entrepreneurs in the regions about the benefits and opportunities of commercial diplomacy.</li> <li>• There is a long term development plan for commercial diplomacy.</li> </ul>

Scenarios Charac- terisation	I	II	III
Use of technological and communication solutions	<ul style="list-style-type: none"> <li>• The existing technologies and solutions are used in everyday work.</li> <li>• The traditional information channels are used for communication.</li> <li>• Vertical information circulation takes place.</li> <li>• There is hierarchic information exchange limits other actors' participation in the communication process</li> </ul>	<ul style="list-style-type: none"> <li>• The transition to new communication and information channels is taking place.</li> <li>• Digital technologies are used non-systematically</li> <li>• MFA's information and communication technologies (ICT) infrastructure is separate from systems used by other public administration institutions.</li> <li>• Certain aspects of artificial intelligence are integrated in the work of the MFA (e.g. machine-learning, neural networks, virtual assistants or bots).</li> </ul>	<ul style="list-style-type: none"> <li>• There is wide diversification of types of communication and introduction of new information technologies.</li> <li>• There is emphasis on the usage of digital technologies.</li> <li>• There is regular work with social media.</li> <li>• MFA's ICT is closely connected to other countries' ICTs.</li> <li>• Substantial information circulation flow happens horizontally, i.e. between institutions.</li> <li>• Artificial intelligence has become an integral part of MFA's work.</li> <li>• AI solutions are widely used for consular services.</li> </ul>

Scenarios Charac- terisation	I	II	III
Strengthening professional capacity	<ul style="list-style-type: none"> <li>• Traditional requalification courses are offered (e.g. introductory course for new employees, language course for diplomats before being posted in diplomatic representations and after coming back).</li> <li>• MFA has not introduced quality management system.</li> </ul>	<ul style="list-style-type: none"> <li>• There are regular requalification courses both in central apparatus and for staff at the diplomatic representations.</li> <li>• Refresher courses are mostly for career diplomats.</li> <li>• There are relatively few interdisciplinary courses.</li> <li>• The course administration approach dominates.</li> <li>• Sometimes, the courses offered by the MFA are attended by others, e.g. from other ministries and agencies; professionals.</li> </ul>	<ul style="list-style-type: none"> <li>• The MFA staff is offered a wide range of courses, e.g. strategic communication, advanced courses of AI, leadership courses, social media use, lectures on diplomacy types of the 21st century, e-learning courses for career diplomats, experts, and local staff members at the representations.</li> <li>• The course governance approach dominates.</li> <li>• Requalification courses are attended by employees from other institutions.</li> <li>• The quality management system is in place.</li> <li>• Webinars are regularly organised.</li> </ul>

## Endnotes

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- <sup>6</sup> Kishan S. Rana, *21st Century Diplomacy: A practitioner’s guide* (London: Continuum, 2011).; Brian Hocking, Jan Melissen, Shaun Riordan, and Paul Sharp, “Futures for Diplomacy: Integrative Diplomacy in the 21st Century,” *Clingendael Report*, no. 1 (2012).; Brian Hocking, Jan Melissen, Shaun Riordan, and Paul Sharp, “Whither Foreign Ministries in a Post-Western World?” *Clingendael Policy Brief*, no. 3 (2013).
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- <sup>10</sup> Didzis Kļaviņš, Toms Rostoks, and Žaneta Ozoliņa, “Foreign Policy “On the Cheap: Latvia’s Foreign Policy Experience from the Economic Crisis,” *Journal of Baltic Studies* 45, no. 4 (2014), 435–456, <https://doi.org/10.1080/01629778.2014.942675>
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- <sup>14</sup> Lichia Saner-Yiu and Raymond Saner, “Training of Diplomats: Guarantee Training Effectiveness through use of the Quality Assurance System (ISO 10015),” in *Foreign Ministries: Managing Diplomatic Networks and Optimizing Value*, eds. Kishan S. Rana and Jovan Kurbalija (Malta: DiploFoundation, 2007), 312.

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# Who Are We? Latvia's International Image Today and Tomorrow

DAUNIS AUERS

*"Most people either know nothing about [Latvia] or harbour half-formed and negative perceptions."*<sup>1</sup>

Some nations project a far more positive image than others. The Nordic states are among the world's most advanced countries (development theory often uses the phrase 'getting to Denmark' to refer to the process of building a stable, peaceful and prosperous society) while the Balkan states have to deal with darker perceptions of the region.<sup>2</sup> Other nations have positive images in a specific area – for example, German-engineered goods, Belgian beer, British culture and Korean electronic products.<sup>3</sup> All these things frame a mental set of impressions, beliefs and opinions that then feed into a nation's image and make it more attractive for potential investors and tourists. These impressions can also be used as instruments for political leverage.

The role of communications and branding professionals in shaping and crafting these images has developed rapidly over the last half-century. Initial efforts in this regard were undertaken by state institutions and are known as 'public diplomacy'. Initiated in the USA around the time of the Second World War, this entailed using international information programmes to extoll the values and policies of the state (such as the Voice of America and Radio Free Europe/Radio Liberty broadcasts during the Cold War), as well as educational and cultural exchanges (such as the Fulbright programme or support for exhibits and cultural tours of American artists and musicians) and more controversial political actions (such as the US government's support for democracy promotion through initiatives such as the National Endowment for Democracy). Big states institutionalised this activity through the creation of agencies (such as the USIA, the British Council, and the Confucius Institutes) dedicated to popularising a favourable image of the nation.<sup>4</sup> Beginning in the



late 1990s, the new business of ‘nation branding’ (the promotion of a state, typically done by contracted marketing, advertising and PR professionals and also known as ‘place branding’ or ‘country branding’) quickly spread around the world. The key purpose of this was to promote exports and tourism and attract foreign direct investment in an increasingly open, but also competitive, globalised world. This chapter considers possible development directions for Latvia’s international image and national brand. Each of the six empirical parts considers three different development scenarios – negative, *status quo* and positive. However, the chapter begins by setting out the key dimensions of nation-branding followed by a brief review of the history of nation-branding in Latvia, with a particular focus on two key reports, written by international consultants in the first decade of the 21st century, that outlined potential strategies for Latvia.

## Approaches to nation-branding

Simon Anholt, the father of nation-branding, has defined it as “the process of designing, planning and communicating the name and identity [of a nation] in order to manage the reputation”.<sup>5</sup> Anholt later decried the overly commercial direction in which the business travelled and now prefers to refer to it as the process of developing a ‘competitive identity’, which means:

“mobilising the strategies, activities, investments, innovations and communications of as many national sectors as possible, both public and private, in a concerted drive to prove to the world that the nation deserves a different, broader and more positive image.”<sup>6</sup>

Multiple factors combine to shape a nation’s image. This includes government actions (commercial nation-branding, foreign policy and public diplomacy), private influences (famous personalities, businesses and products, culture, and sporting performance) as well as history and geography.

Two major comparative indexes – the ‘Anholt-GfK Roper Nation Brands Index’ and the ‘Futurebrand Country Brand Index’ – evaluate and rank nations according to their perceived attractiveness.<sup>7</sup> Nations’ international reputations have proved to be rather inflexible and change little year on year (although the US did experience a fall of six places in 2017, mostly as a result of unfavourable opinions of the new US president, just as it had experienced a similarly sharp climb in 2009 after the election of Barack Obama).

These indexes use six broadly similar dimensions of attractiveness. The Anholt-GfK Roper Nation Brands Index has six key variables: (i) exports, (ii) governance, (iii) culture and heritage, (iv) people, (v) tourism, (vi) investment and immigration. The Futurebrand Country Brand Index also examines six dimensions: (i) the value system, (ii) quality of life, (iii) business potential, (iv) heritage and culture, (v) tourism, and (vi) ‘made in’ (the quality and reputation of a nations goods and services). Table 1 pairs these dimensions. Latvia’s future development scenarios, and thus its national branding potential, will be examined across these six dimensions in sections three through eight. First, however, the next part will provide a review of Latvia’s nation-branding experience since the 1990s.

Table 1. Comparing nation-branding dimensions. Source: The Anholt-GfK Roper Nation Brands Index: <https://nation-brands.gfk.com/> and the Futurebrand index: <https://www.futurebrand.com/country-brand-index>

Anholt-GfK Roper Nation Brands Index	Futurebrand Country Brand Index
Exports	'Made in'
Governance	Value system
Culture and heritage	Heritage and culture
People	Quality of life
Tourism	Tourism
Investment and immigration	Business potential

### A brief history of recent efforts to brand Latvia

There are good reasons to construct a favourable international image for Latvia. As a small, relatively new state located on the north-eastern periphery of Europe, Latvia is relatively unknown beyond (and sometimes within) Europe. It would benefit from more foreign direct investment, tourism and international recognition.

Concerted efforts to construct an international image began in the 1990s as Latvia competed with other post-communist states for investment, tourism and accession to the European Union and NATO. This is not to say that there were no efforts to build a favourable image of Latvia in the inter-war era (when such efforts were needed for primarily economic reasons) or even in the Soviet era, when Latvia was marketed to other parts of the Soviet Union (albeit more for the political aim of establishing Latvia as an integral

part of the Soviet Union rather than to attract FDI or tourism to the region). However, the intensity of image-building efforts was far higher from the late 1990s onwards.

The key player in the 1990s was the Latvian Institute (LI), which was specifically created to craft Latvia's international image. The LI's first director, from 1998–1999, was Vaira Vīķe-Freiberga (who left the institution after being elected to the Latvian presidency). She was followed by Ojārs Kalniņš from 1999–2010, who oversaw the first major efforts to develop a brand for Latvia in the first years of the 21st century (and who also eventually went into politics, as a deputy in the Latvian parliament).<sup>8</sup> The first decade of this century saw two major nation-branding reports on Latvia – a 2003 Oxford Said Business School report and a 2007 strategy report paper written by Simon Anholt. Both were commissioned to address the problem, as page 3 of the Said report puts it, that “most people either know nothing about the country [Latvia] or harbour half-formed and negative perceptions.”<sup>9</sup>

The Oxford Said Business School report discusses a number of potential brand scenarios for Latvia before settling on what its authors consider the best vision.

“[Latvia is the] place within Europe that best understands Russia; the keystone of the Baltic region; an environmental, natural place; an authentic peasant nation; and Latvia's new dawn has come... Although there is much future potential for a brand identity that draws from Latvia's links with Russia, this angle would likely be unacceptable to many internal audiences... With these positives and negatives in mind, we propose that Latvia should position itself as the ‘keystone of the Baltics’.”<sup>10</sup>

The Said report clearly encourages Latvia to build on its Baltic (rather than a potentially Nordic or Central European) identity, its natural environment and its history of economic and cultural relations with Russia, emphasising that Latvia is the most ‘Baltic of the Baltics’.<sup>11</sup>

Simon Anholt's 2007 report was even harsher than the Said Business School analysis on the state of Latvia's international image at the time, arguing that it is a country that few people have heard of and that there is a general perception that it has ‘zero’ to offer in terms of heritage and culture, technology, natural assets and tourism.<sup>12</sup> Indeed, rather than building a national brand, Anholt suggested that Latvia should adopt a strategy involving:

“a massive and sustained investment – of funding, innovation, creativity, energy, talent, political will and good marketing – into the key areas of *culture* (a term which embraces elite and popular arts, education and sport), *technology* (encompassing academia and business, with a particular emphasis on the environment) and *tourism* (which should cover both leisure and business visits).”<sup>13</sup>

Anholt goes on to suggest that the city of Riga, rather than Latvia, could be the main target of the branding campaign, because it is a well-known and important European city and because “it is infinitely easier to promote a weakly positive image than [combat] a strongly negative one”.<sup>14</sup> The economic crisis that engulfed Latvia from 2008 onwards, and the austerity politics of the subsequent years (which hit LI’s budget particularly hard), meant that the Anholt strategy became economically unrealistic and was consigned to the bureaucratic dustbin.

Both reports stressed that Latvia was little known internationally and that the best way to raise its international profile was to focus on existing geographic advantages (Latvia’s location at the heart of the Baltics, or the city of Riga as the major metropolis in the region). The clear conclusion was that Latvia’s culture, history, businesses and corporate brands, and people could not be usefully utilised in raising awareness about the country without, in the case of the Anholt report, significant government or private investment and development in these sectors. The following six sections will examine whether anything has changed over the last decade and sketch out three different potential development trajectories for each of the six paired dimensions.

## Exports and brands

Famous brands enhance the image of the country from which the brand originates.<sup>15</sup> The US, for example, has always been closely affiliated with its major brands, which, for better or worse, have typically been connected to innovation – whether it is modernisation in the hospitality business (McDonalds), new mobile technologies (Apple), social media (Facebook, Google and Twitter) or computing (Microsoft and Dell). In the same way, Germany’s image of solid, sober engineering is reflected through its car industry – BMW, Mercedes and Volkswagen – and other highly engineered technical products. There can be little doubt that Estonia has hugely benefited

from actively associating itself with Skype and developing its image as an Information Communication Technology (ICT) innovator, much as Finland did with Nokia in the 1990s when it put itself on the ICT innovator map. This, in turn, helps the country to market these services and products internationally. Thus, a food product from France will have more prestige (and a heftier price tag) than a similar product from Latvia. Tourists pay a premium to summer in Spain or Portugal or the South of France in comparison to similar resorts in Bulgaria, Turkey or the pleasant (if meteorologically unpredictable) beach resort of Jūrmala in Latvia.

Latvia has no transnational corporations and very few brands that are even regionally respected. The 2018 Latvia brand index (*zīmolu tops*) saw Google, YouTube and Facebook as the most popular brands in Latvia, with the only Latvian brands in the top 10 being Inbox (number 4), Elektrum (number 6), and the Food Union gourmet ice cream brand Ekselence (number 10).<sup>16</sup> No Latvian brand makes the top 30 in the 2018 Baltic Brand Index.<sup>17</sup> While there seems to be no great affection for Latvian brands in Latvia or in neighbouring states, perhaps there are major exporters whose goods or services could potentially grow and build Latvia's international reputation. The biggest Latvian manufacturing exporters in 2017 included businesses engaged in wood processing (Latvijas Finieris), routers and wireless systems (Mikrotiks), glass fibre manufacturing (Valmieras Stikla Šķiedra) as well as a few pharmaceutical companies (Grindeks and Olainfarm).<sup>18</sup> Latvia's major exporters in the services category are in transport and logistics (Air Baltic and the road hauler Kreiss) and ICT (Accenture). While the export of financial services has been a major sector in recent years, the liquidation of ABLV Bank and the accompanying crack-down on non-resident banks in early 2018 has resulted in a rapid contraction of this sector's share of service exports. While these manufacturing and services brands are all successful businesses, they primarily operate in niche areas that fail to excite consumers.

What of the three development scenarios? In the negative case, continuing and perhaps even tightening sanctions against Russia leaves the eastern market largely closed to Latvian exports. The strain of Brexit and continuing migration pressures, as well as Trump-inspired economic nationalism in the USA, might see the reintroduction of tariffs and other barriers to global and European free trade, which hit Latvian exporters, particularly in the transport and logistics category, especially hard. A dearth of domestic ICT graduates

and stringent immigration conditions sees ICT companies migrate to Estonia and Belarus in search of a better pool of talent. This is hardly fertile ground for major international brands to emerge.

In the *status quo* scenario, Latvia continues its modest economic development and continues to only gradually converge with EU average levels of income. At the same time, its Baltic neighbours, Estonia and Lithuania, continue to economically pull away from Latvia – it is worth remembering that in 2017 the GDP per capita in PPS of the EU-28 average in Estonia was 77 percent, in Lithuania was 78 percent, and in Latvia was just 67 percent. In Romania it was 63 percent and in Croatia 61 percent – in this respect, Latvia is more of a *Balkan* than a *Baltic* state.<sup>19</sup> As is the case today, in this scenario Latvia has no international brands or well-known exporters associated with the state.

Finally, in the positive scenario, Latvian policy-makers actively support Latvia's most competitive exporters and – thanks to Riga airport and seaport, a new conference centre, the new north-south links of 'Rail Baltica' and engagement with China's Belt and Road initiative, as well as the continuing growth of Air Baltic and road and rail haulers – Riga emerges as a major commercial and passenger hub for north-south as well as east-west flows. Innovative cross-disciplinary education programmes, made possible by new university campuses constructed on the left bank of the Daugava river that concentrate the overwhelming majority of Latvia's higher education and research institutions in one place, bring together students in the natural sciences, ICT and the social sciences. This enables Latvia to build on its existing strengths in training medical students and the pharmaceuticals industry, and Riga emerges as a major centre for the health services export industry – a renowned place for Europeans to seek private medical care. A new internationally competitive ICT school attracts students from Estonia, Lithuania and other surrounding countries (much as the Stockholm School of Economics in Riga did in the 1990s), as well as young Latvians who have been taught ICT programming skills since the first year of primary school, ensuring a plentiful supply of well-trained ICT experts for the Latvian economy and resulting in a vigorous ICT and start-up scene. While no single major recognisable export brand emerges, Latvia, and the city of Riga in particular, develops as a celebrated hub of innovation and high-quality services. The 'Made in Latvia/Riga' label adds value to both products and services.

## Governance and values

This dimension refers not just to the core form of government in a state – liberal democracy, procedural democracy, competitive authoritarianism or authoritarianism – but also to the domestic and foreign policies enacted by the state, and the values that these policies communicate.

Latvia is a liberal democratic European state. However, it is torn between intensive elite-level political cooperation with the Nordic states – in, for example, the NB8 and NB6 groupings within the European Union – and occasional domestic policy alignment with the illiberal Visegrad states.<sup>20</sup> This position of being between the Nordic and Visegrad states is also reflected in other international rankings. In the 2018 Freedom House Freedom in the World rankings, the only three states to have a top 100/100 aggregate score were Finland, Norway and Sweden, followed by Denmark (97), Iceland (95), Estonia (94), the Czech Republic (93), Lithuania (91), Latvia (87), Poland (85) and Hungary (72).<sup>21</sup> The 2017 Transparency International Corruption Perceptions Index tells a similar story, with the Nordic states leading the rankings – Denmark in 2nd, Finland and Norway in joint 3rd place, Sweden in 6th and Iceland in 13th – and the Baltics/Visegrad trailing behind with Estonia in 21st place, Poland in 36th, Lithuania in 38th, Latvia in 40th, the Czech Republic in 42nd and Hungary in 66th.<sup>22</sup> Latvia does not have much of an international presence. Latvia's development assistance budget for 2018 was 443,813 EUR (the same as in 2017), which is just over 0.1 percent of Latvia's Gross National Income (GNI) and well below the United Nations' target recommendation of 0.7 percent of GNI spending on development assistance.<sup>23</sup> Thus, Latvia's contemporary values converge more with the Visegrad states than its political aspiration of converging with the Nordic states.

In the negative scenario, Latvian government abandons the Nordic aspirations it has held for the last quarter century and moves towards the illiberal model of government adopted by Hungary and Poland in recent years (in an even more negative situation, Latvia would become a competitive authoritarian state along the lines of neighbouring Russia or Belarus). There is a centralisation of political power in the executive branch, a politicisation of the courts and the security services, and a weakening of commitments to European integration. This scares off international investors, results in a loosening of political ties with the Nordic states, and leads to a negative public

image in western democratic states (although a more positive one in other illiberal or more authoritarian states).

The *status quo* scenario sees Latvia drift along as it has over the last quarter century, talking up its Nordic credentials but *de-facto* remaining more of a Visegrad state in terms of domestic policy, corruption and commitment to liberal democracy. The public remains disaffected with government policy, tax evasion continues to be a problem, the government under-invests in education and welfare, and populist politicians and parties continue to attract a significant share of votes in elections, scaring international investors.

In contrast, the positive scenario sees the Latvian electorate and political class wholeheartedly embrace liberal democratic values and anti-corruption policies. Good governance leads to less tax evasion as the public sees their taxes put to good use by politicians who invest in high-quality education, infrastructure and healthcare. This results in rising productivity, affluence, and a rapid convergence with income levels in the older European Union member states. Latvia is effectively seen as a Nordic state in all but name and accrues significant amounts of international tourism, investment and political capital.

## Culture and heritage

Culture, particularly art, architecture, music, film, sport, literature, heritage sights (both places of natural beauty and places of historical interest), bring international attention, appreciation and shape perceptions of a country. For example, the pyramids and beaches of Egypt continue to attract tourists despite continued terrorism risks, political upheaval and poverty.

Latvia is not recognised as a major cultural or heritage centre despite spending a large share of the government budget on cultural activities. Eurostat data for 2015 reveals that Latvia spent 3 percent of the government budget on culture, compared to an average of 1 percent in European Union member states overall.<sup>24</sup> Around 73 million EUR of EU funding has been spent on constructing three regional concert halls, in Liepaja, Cesis and Rezekne. Funds have also been spent on supporting Latvia's unique cultural heritage, with the song and dance festivals as the central national cultural celebration (and key to Latvian national identity). The song and dance festivals are truly unique to the Baltic region and have helped to ensure that Baltic choirs – especially Latvia's 'Balsis', 'Gaudeamus' and 'Latvian



Voices' – are acknowledged leaders all around the world. Latvia also has an extensive network of art and music schools (147 accredited institutions in 2015) that produce a steady supply of talent, such as Ēriks Ešenvalds, Andris Nelsons and Sonora Vaice, to name just a few. Latvia fairs less well in the contemporary music category (excepting its 2002 victory in the Eurovision song contest, which is a mixed blessing at best), with Latvian artists failing to gain international recognition anywhere except the former Soviet territories. The story is similar for Latvian film and literature, which has historically been more successful in the domestic market than abroad. In terms of sporting success, Latvia is a world leader in the winter sports of bobsleigh and skeleton (largely because of the world-class track built in Sigulda in the Soviet era) and has a reasonably strong national ice-hockey team. Latvia also currently has two successful female tennis players (Jeļena Ostapenko and Anastasija Sevastova) and in 2004 the national football team qualified for the European Championships. However, the national football teams current ranking is 129th in the world (behind Sudan, Taiwan and even Tajikistan), which is more representative of the haphazard organisation and funding for sport in Latvia than the occasional excellence and brilliance of individual athletes.<sup>25</sup>

In truth, Latvia also has little unique heritage to offer. Riga is undoubtedly a beautiful mid-sized city and a fine place for a weekend tourist, but it lacks the history, size and drama of major European cities. The same could be said for the Latvian countryside, which is largely flat, forested and boggy and is interesting for niche eco-tourists but lacks the (guaranteed) sunny beaches and mountains that can attract large numbers of free-spending tourists.

In this area, the negative scenario sees financing for Latvia's culture fall as other budget priorities – especially health, pensions and social spending – take priority over spending on music schools and support for folk-dancing groups. This would lead to fewer people being trained in singing and dancing and a long-term decline in the prominence of the song and dance festival (where organisers already complain about a declining pool of talent). Popular music and films would remain a niche domestic product and Latvia's existing comparative sporting advantage in bobsleigh and skeleton (as well as ice hockey) will gradually wear away.

The *status quo* scenario sees public support for arts and sport maintained at the current level and a continuing steady supply of talented Latvian classical musicians and internationally successful choirs. Latvia also continues to produce medal-winning winter athletes and have a moderately successful

national hockey team. Riga remains a small but interesting northern European city and the rest of Latvia is essentially a large nature reserve.

In the positive scenario, Latvia builds on its classical and choir musical heritage by constructing an architecturally striking, dedicated concert hall in the heart of Riga that is a symbol of Latvia's culture in the way that the Sydney Opera Hall is a symbol of that city. Alongside the Latvian National Opera and Ballet, Latvia becomes a major destination for students and lovers of classical music. Scholarships (both public and private) attract up-and-coming composers, musicians and singers, who relocate to Riga. Concentrated funding for winter sports sees the Sigulda winter sports base develop as a global sporting centre for bobsleigh and other technical winter sports. Latvia becomes a centre for winter sport innovation, much as the UK has become the centre of cycling technology over the last two decades.

## People

Favourable opinions of a nation's people are tied to impressions of their level of education, friendliness, openness, welfare and general quality of life. Alas, (in painful contrast to Estonia) Latvia is not internationally renowned as an education innovator. In a 2015 PISA assessment, Latvia scored below the OECD average in all three categories of math, reading and science (by contrast, neighbouring Estonia was in the top 10 in each of the disciplines).<sup>26</sup> Latvia has neither a leading regional university nor even a university with a long history (such as Tartu in Estonia or Vilnius in Lithuania). It is rather difficult to measure the comparative openness or friendliness of a nation (there is an Expat Index that attempts to quantify these dimensions, but Latvia is not featured<sup>27</sup>). However, in the World Economic Forum's 2017 Travel and Tourism Competitiveness Index, Latvia scored 41st (of 136 states) in terms of its 'international openness'.<sup>28</sup> At the same time, it should be noted that Latvia appears to take pride in the introverted nature of its people (see the 'I am introvert' campaign for Latvian writers<sup>29</sup>). Latvia also has little to boast about in terms of welfare and quality of life, with 28.5 percent of the population at risk of poverty or social exclusion in 2016 (above the EU average of 23.5 percent) and an average life expectancy of 74.9 years in 2016 – more than six years less than the EU average of 81.<sup>30</sup> Latvians also tend to be less trusting of their national political institutions, with just 19 percent of Latvians trusting parliament (compared to a European average of 34 percent) in 2018.<sup>31</sup>

In the negative scenario, Latvia experiences even faster negative demographic growth than hitherto seen in the 21st century, leading to a sharp reduction in the tax base (resulting from a rise in the dependency ratio, which measures the proportion of dependents to the working-age population) and an inevitable decline in the quality of education and welfare provisions. This is hardly likely to make people happier.

The *status quo* scenario is hardly any better, as current trends would also see the population shrink, the average age of the population increase, and the dependency ratio continue to rise.

Only vigorous economic growth, in the positive scenario, accompanied by increased salaries, will see the demographic decline halted and then reversed, as people re-migrate to Latvia and the rising tax base is accompanied by investments in education and welfare. Latvians may well remain introverted but they will be richer, happier and more trusting, much like their compatriots in the Nordic states.

## Tourism

Tourism brings money into a state and also helps build soft power (assuming that tourists enjoy their visits). Alas, Latvia is far from being a major tourist destination. According to Eurostat data, only Luxembourg had fewer nights spent in tourist accommodation establishments in 2016 (3 million compared to Latvia's 4.4 million. In contrast, Estonia had 6.2 million nights and Lithuania had 7 million).<sup>32</sup> Tourists also spent relatively little money in Latvia – an average of 66 EUR a day compared to 137 EUR a day in neighbouring Estonia in 2015.<sup>33</sup> Almost half of international tourists in Latvia arrive from neighbouring states (in 2015 17 percent of tourists were from Lithuania, 14 percent from Estonia and 13.8 percent from Russia<sup>34</sup>) and they mostly visit only Riga. Rural eco-tourism is primarily enjoyed by Latvians and neighbouring Estonians and Lithuanians.<sup>35</sup>

In the negative scenario, tourism from Russia dries up as sanctions and travel restrictions tighten. As their economies grow, Estonians and Lithuanians choose to travel further afield to more exotic locations. These trends hit tourism in Latvia's regions particularly hard and hasten rural depopulation.

The *status quo* scenario sees the tourism industry continue to be dominated by low-spending tourists from neighbouring states, largely visiting just Riga. Rural depopulation continues at the current pace.

Finally, in the positive scenario, there is an understanding that Riga will never be as attractive as London, Paris or even Copenhagen. However, the Riga airport and the rail system (as well as the Riga seaport) develops the city into a major transit hub. Air Baltic offers the standard option of overnight stays to transit passengers. The high-value-added tourist business is developed by the construction of a large, modern conference facility in Riga and the city joins Frankfurt, Milan, Vienna and Barcelona as a European conference hub (the medium size of the city making it ideal for rapid city transfers and for exploring over a few days). Latvia's rural regions benefit from the spillover of increased occasional tourist travel outside of Riga.

## **Investment and immigration**

Latvia has not been very successful in attracting major foreign direct investment projects over the last quarter century. The biggest manufacturing investment in Latvia was made by Cemex, which invested 288 million EUR in the construction of a new building materials manufacturing plant in Broceni. Lursoft data shows that there are only eight other foreign direct investors in Latvia that have invested over 100 million EUR, and these are predominantly in real estate, construction and financial services.<sup>36</sup> This should not be surprising, as the biggest manufacturing investments in Europe over the last few decades have gone to states with large workforces. Latvia's greatest weakness has long been its fast-shrinking population. It bears repeating that Latvia's population has shrunk by more than 700,000 people since 1990, from 2.67 million to just over 1.9 million (it lost more than a quarter of the population). This is the result of low fertility coupled with migration away from Latvia (primarily to Russia in the 1990s and then to European Union countries in the 21st century, with sharp spikes after accession to the EU in 2004 and again following the acute economic recession in 2008 and 2009).<sup>37</sup> Latvia has simultaneously experienced an acute rural depopulation, with people leaving Latvia's regions to seek greater opportunity and bigger salaries in the capital city or abroad (the suburbs of Riga are the only parts of Latvia with a growing population in recent years). This growing shortage of motivated labour is turning investors away from Latvia's regions, leading to even more of the workforce decamping to Riga or abroad, while the continued demographic downturn scares potential investors away from Latvia and towards more labour-rich states such as Poland. Nevertheless, one positive

sign has been Latvia's increasing attractiveness for international students, with just over 7,500 international students studying full-time for a degree or diploma in the 2017/2018 academic year.<sup>38</sup>

In the negative scenario, this demographic downturn accelerates. It drives away investors in the financial and construction sectors, as well as in manufacturing. Latvians from the regions stop heading to Riga and simply go abroad to seek employment opportunities. Latvia becomes a greyer society and the dependency burden in the 2020s (the ratio of young and old dependents to the working age population) rises to 1:2, significantly worse than the projected 1:3. Tax rates rise in order to pay for the pensions and the healthcare of Latvia's pensioners, who are living ever longer, as well as the school system. Pensioners are Latvia's most active voters and successive governments maintain expensive rural roads and services that primarily serve the (actively voting) older generation that has remained in the countryside. The higher education system suffers from a downturn in financing as money is redirected to the welfare system, and Latvia becomes less attractive to international students.

The *status quo* scenario sees the Latvian economy continue to grow at a reasonably vigorous pace, leading to a gradual reduction in the number of Latvians moving abroad (as salaries rise and new professional opportunities appear). Modest foreign direct investment continues, primarily in and around Riga, and the labour force is bolstered by an annual 20 percent growth in the number of international students in Latvian higher education (which has been the trend in recent years). While the Latvian population continues to age because of low fertility rates, the rapid demographic decline seen in the first two decades of the 21st century is halted.

The positive scenario sees a fast-growing Latvian economy provide job opportunities and higher salaries that bring an end to high emigration. Indeed, Riga's development into an air, rail and sea transit hub and a regional centre of the ICT industry inspires émigré Latvians to return home. Investments in developing university campuses on the left bank of the Daugava River result in an ever-greater number of international students from all over the world coming to study in Latvia. The steady supply of a young, international, talented labour pool attracts increasingly more high-value-added investment to Latvia, particularly in the fast-growing ICT and medicine fields. European funds are invested in building road and (especially) rail connections between Latvia's regions and Riga. Investment flows to Latvia's regions as, for example,

a high-speed train journey from Cesis to Riga takes just 30 minutes (rather than two hours, as is the case at the moment). Incomes in Latvia quickly converge with Estonia and Lithuania, then with the EU average, then with the Nordic states.

## Conclusions

This chapter has identified several trends that will shape Latvia over the short, medium and long-term. Changing demographics is perhaps the most important trend. Rural depopulation makes it hard to build a positive narrative about Latvia's regions. Population flight to other European Union counties makes it impossible to attract major foreign direct manufacturing investment and will put great strains on the education and infrastructure development parts of the national budget, as a growing number (and percentage) of actively voting pensioners have ever greater health and pension demands. Nevertheless, an examination positive future scenarios highlights various steps that can be taken to turn the tide. As Simon Anholt pointed out in 2007, seizing on the competitive advantages of Riga will bring benefits to the whole country. Developing higher education will bring in ever more international students, creating a talent pool that will develop local businesses as well as attract foreign investment, especially in the ICT and health-export sectors. Latvia's unique song and dance traditions need to be maintained and institutionalised through a modern concert hall, and steps should be taken to establish Riga as a northern European centre for classical and choral music. The rest of Latvia would benefit from these trends with the help of enhanced transport links to the capital. These trends would lead to a fundamental change in Latvia's image.

If it takes the right steps, then by 2028, a decade into the future, Latvia will reverse the negative trends of the last quarter century. It will be seen as a small country which punches above its weight in the world of culture and has a big, dynamic capital city that is a north European transit hub and as a growing centre of education and ICT and health innovation. In practical terms, this entails ensuring that the 'Rail Baltica' project is completed and that the cohesion funds received between 2021–2027 are invested in raising Latvia's national competitiveness and not just withered away on municipal bicycle paths and tiny rural museums that attract few, if any, visitors.

By 2048 these trends will have been institutionalised and Latvia will have achieved what Ireland did in the 1990s – staunching the emigration flow and turning around decades, even centuries of stagnation, to create a dynamic new economy and accompanying national brand. The left bank of the Daugava river in Riga will be recognised as a north-European centre for research and higher education. Decades of cooperation between the ICT field and medical researchers will result in Riga being a major global healthcare destination for complicated, cutting-edge medical procedures. Thanks to high-speed trains, Riga's airport will be transport hub for Estonians and Lithuanians as well as Latvians, and will overtake Helsinki as the third-busiest airport in the Nordic–Baltic region. Latvia is a country of contrasts – great, environmentally protected nature reserves coupled with a dynamic, 21st century capital city. A cultural hub of traditional and classical song and dance, as well as a country with innovative universities, hospitals and ICT businesses.

The negative and the *status quo* scenarios outlined in this chapter – which feature depopulation, as well as economic and political stagnation – would be disastrous for Latvia's future and would not provide the basis for building a positive narrative for Latvia. As Anholt pointed out in 2007, Latvia has great potential – but that potential needs to be activated, not neglected. A positive national image must reflect the reality on the ground. Latvia cannot be branded as an innovative state if researchers, universities and businesses do not innovate. Riga cannot be a successful north-European city if young people are not attracted to settle there. Nevertheless, the potential is here. Latvia *does* have a fast-growing airport, significant sea-ports, upcoming connections through 'Rail Baltica', a fast-growing number of international students, a developing higher education hub in Pardaugava and great cultural traditions and infrastructure. These are all things that can be further developed to make Latvia more dynamic and more competitive, and to build a positive national image. Words simply need to be backed up with action.

## Endnotes

- <sup>1</sup> Spencer Frasher, Michael Hall, Jeremy Hildreth and Mia Sorgi, *A brand for the nation of Latvia* (Oxford Said Business School, 2003), 2, [http://li.lv/upload/Final\\_Pilot\\_Branding\\_Report.pdf](http://li.lv/upload/Final_Pilot_Branding_Report.pdf)
- <sup>2</sup> One recent book on the Nordic states was titled *Almost Nearly Perfect People. The Truth about the Nordic Miracle* (2014).
- <sup>3</sup> In the 1980s the British electronics retailer christened its own brand of electronic products *Saisho* in order to cash in on the positive image created by high quality Japanese consumer electronics products.
- <sup>4</sup> Alas, this is not a public diplomacy model that is available to Latvia. The cost of creating and maintaining such an institutional network is well beyond the capacity of Latvia's government budget (even the UK has been cutting back on its network of British Council offices over the last decade) and, in any case, the demand for Latvian language training and general interest in Latvian culture would obviously lag well behind demand for English, French and Chinese training.
- <sup>5</sup> Anholt has worked with over 50 governments in branding their nations and has even played a role in creating a scholarly journal that examines developments in the field – *Place Branding and Public Diplomacy*. Since 2015 there has even been an International Place Branding Association.
- <sup>6</sup> Simon Anholt, "The importance of a national reputation," in *Engagement: Public Diplomacy in a Globalized World*. (London: Foreign and Commonwealth Office, 2008), 30–43.
- <sup>7</sup> The Anholt-GfK Roper Nation Brands Index, first developed in 2005, was most recently (2017) based on more than 20,000 interviews in 20 different countries across the world. <https://nation-brands.gfk.com/> The Futurebrand index is published more irregularly but was also first developed in 2005. <https://www.futurebrand.com/country-brand-index>
- <sup>8</sup> Spencer Frasher, Michael Hall, Jeremy Hildreth and Mia Sorgi, *A brand for the nation of Latvia* (Oxford Said Business School, 2003), [http://li.lv/upload/Final\\_Pilot\\_Branding\\_Report.pdf](http://li.lv/upload/Final_Pilot_Branding_Report.pdf)
- <sup>9</sup> *Ibid*, 2.
- <sup>10</sup> *Ibid*, 3.
- <sup>11</sup> *Ibid*, 19.
- <sup>12</sup> Simon Anholt, "A Competitive Identity for Latvia." Earthspeak prepared for the Latvian Institute (2007).
- <sup>13</sup> *Ibid*.
- <sup>14</sup> *Ibid*, 8. Anholt even suggest using the logo "Riga, the new north star.", 12.
- <sup>15</sup> Candace L. White, "Brands and national image: An exploration of inverse country-of-origin effect," *Place branding and public diplomacy*, 8, no. 2 (2012): 110–118.
- <sup>16</sup> "Latvijas Zimolu tops 2018", <https://www.zimolutops.lv/miletakie-zimoli/latvijas-tops/>
- <sup>17</sup> "Baltijas Zimolu tops 2018", <https://www.zimolutops.lv/miletakie-zimoli/baltijas-tops/>
- <sup>18</sup> "Latvijas lielākie preču eksportētāji," Delfi.lv, 20. maijs 2018, [http://www.delfi.lv/bizness/ekonomika\\_skaitlos/infografika-latvijas-lielakie-precu-eksportetaji-latvijas-finieris-mikrotikls-un-citi.d?id=S0037083](http://www.delfi.lv/bizness/ekonomika_skaitlos/infografika-latvijas-lielakie-precu-eksportetaji-latvijas-finieris-mikrotikls-un-citi.d?id=S0037083)
- <sup>19</sup> "GDP per capita in PPS," Eurostat, 2018, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00114&plugin=1>
- <sup>20</sup> The NB8 format entails regular meetings of political leaders of the three Baltic states and the five Nordic states. The NB6 features regular meetings between European Union member-state Nordic and Baltic prime ministers and foreign ministers prior to European Council



and General Affairs/Foreign Affairs Council meetings. Recent examples of greater values alignment with the Visegrad states include the protracted debates on signing up to the Council of Europe's Istanbul Convention on Prevention and Combating Violence against Women and Domestic Violence as well as government divisions on the relocation and resettlement of non-EU asylum seekers.

- <sup>21</sup> "Freedom in the World," Freedom House, 2018, <https://freedomhouse.org/report/freedom-world-2018-table-country-scores>
- <sup>22</sup> "Corruption Perceptions Index," Transparency International, 2017, [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017](https://www.transparency.org/news/feature/corruption_perceptions_index_2017)
- <sup>23</sup> Spending was 50,269 Lats in 2012 and 2013, 213,813 EUR in 2014, 413,813 EUR in 2015, 451,400 EUR in 2016 and 463,813 EUR in both 2017 and 2018. See Latvian Ministry of Foreign Affairs, Latvia's Development Assistance Policy, <http://www.mfa.gov.lv/arpolitika/attistibas-sadarbiba/latvijas-attistibas-sadarbibas-politika>
- <sup>24</sup> Eurostat. 2018. Government expenditure on recreation, culture and religion. [http://ec.europa.eu/eurostat/statistics-explained/index.php/Government\\_expenditure\\_on\\_recreation,\\_culture\\_and\\_religion](http://ec.europa.eu/eurostat/statistics-explained/index.php/Government_expenditure_on_recreation,_culture_and_religion)
- <sup>25</sup> FIFA.2018. FIFA/Coca-Cola World Mens Ranking. 16 August 2018. <https://www.fifa.com/fifa-world-ranking/ranking-table/men/index.html>
- <sup>26</sup> "PISA Programme for International Student Assessment," OECD, 2018, <http://www.oecd.org/pisa/>
- <sup>27</sup> "Expats Index," Internations, 2017, <https://www.internations.org/expat-insider/2017/ease-of-settling-in-index-39187>
- <sup>28</sup> "Travel and Tourism Competitiveness Index," World Economic Forum, 2017, [http://www3.weforum.org/docs/WEF\\_TTCR\\_2017\\_web\\_0401.pdf](http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf)
- <sup>29</sup> "Latvia to be introduced in the London book fair as a nation of introverts," Latvian Literature, 2018, <http://www.latvianliterature.lv/en/news/latvia-to-be-introduced-in-the-londonbook-fair-as-a-nation-of-introverts>
- <sup>30</sup> "Database," Eurostat, 2018, <http://ec.europa.eu/eurostat/data/database>
- <sup>31</sup> "Standard Eurobarometer 89," European Commission, 2018, <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/index?p=1&instruments=STANDARD>
- <sup>32</sup> "Tourist accommodation establishments 2016," Eurostat. European Commission, 2018, [http://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Tourist\\_accommodation\\_establishments,\\_2016.png](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Tourist_accommodation_establishments,_2016.png)
- <sup>33</sup> Aija Van der Steina and Ilze Medne, Tūrisma konkurētspējas ziņojums 2016 (Rīga: Domnica Certus, 2016), 13.
- <sup>34</sup> Centrālā statistikas pārvalde, 2016, [http://data.csb.gov.lv/pxweb/lv/transp/transp\\_\\_ikgad\\_\\_turisms/TU0110.px/tabletableViewLayout1/?rxid=cdbc978c-22b0-416a-aacaa650d3e2ce0](http://data.csb.gov.lv/pxweb/lv/transp/transp__ikgad__turisms/TU0110.px/tabletableViewLayout1/?rxid=cdbc978c-22b0-416a-aacaa650d3e2ce0); Another 9 percent came from Germany, 5.8 percent from Sweden and 5.3 percent from Finland.
- <sup>35</sup> Aija Van der Steina and Ilze Medne, Tūrisma konkurētspējas ziņojums 2016 (Rīga: Domnica Certus, 2016), 59.
- <sup>36</sup> "Lielākie ārvalstu tiešie investori Latvijā," Lursoft, 2018, <https://www.lursoft.lv/lursoft-statistika/Lielakie-investori&id=7>
- <sup>37</sup> Daunis Auers un Sergejs Gubins, *Latvijas demogrāfiskais portrets šodien... un rīt* (Rīga: Domnica Certus, 2017). [http://certusdomnica.lv/wp-content/uploads/2017/05/Certus\\_LatvijasDemografiskaisPortrets\\_2017\\_LV-1.pdf](http://certusdomnica.lv/wp-content/uploads/2017/05/Certus_LatvijasDemografiskaisPortrets_2017_LV-1.pdf)
- <sup>38</sup> "Pārskats par Latvijas augstāko izglītību 2017. gadā," Izglītības un zinātnes ministrija, 2018, [http://www.izm.gov.lv/images/statistika/augst\\_izgl/AII\\_2017\\_parskats.pdf](http://www.izm.gov.lv/images/statistika/augst_izgl/AII_2017_parskats.pdf)

# Migration Trends and Latvia's Foreign Policy: Can We and Do We Want to Learn from the Experience of Other Countries?

AGNESE LĀČE

Migration and asylum are issues that are now more politicized than ever before. These are processes that allow us to assess a country's stability as well as its willingness to fulfill international and humanitarian commitments, which put pressure on national integration policies, relations with neighboring countries, donors, supporters, and opponents on the international scale. International migration, by its nature, creates an expected or unexpected interaction between countries in economic, political, or cultural terms. This chapter is an attempt to understand how the chosen migration policy can contribute to or hinder the achievement of Latvia's foreign policy goals.

## **Interaction of migration policy and foreign policy**

Migration policy is often viewed as an integral part of domestic policy, since the regulation of migration is governed by internal affairs and judicial structures. Although the international treaties ratified by Latvia and the conditions arising from membership in the European Union (EU) must be taken into account, the planning of migration policy is a national competence. The EU and the OECD are calling for the planning of migration policies in line with the needs of the state at the present time and in a future perspective – if and what kind of human resources will be needed, for example, for economic growth or the provision of health services. At the same time, alongside the analysis of migration as a social or economic process, it cannot be denied that migration is closely linked to international politics. Events on the international scale are one of the drivers of migration, such as refugee flows due to national conflicts, or specific categories of migrants due to colonial heritage. Migration can be a tool for achieving national interests, such as the

historic population exchange between Greece and Turkey, or the mobilization of a diaspora to lobby for the interests of the country of origin. Regulation of migration at a national level has consequences in international relations. For example, the closing off of Hungary and Poland during the 2015–2016 refugee crisis has a major impact on their position in the EU.<sup>1</sup>

The institutional fragmentation of migration policy and the presence of various interests – humanitarian, economic, security, and ideological – make the link between migration policy and foreign policy a complex and multifaceted one. The prevalence of one interest group results in a division between policy-makers, policy-implementers, and the general public.<sup>2</sup> From the point of view of policy planning, this implies a well-known truth that the state, when defining the desired policy outcomes, must be able to balance the different interests and identify ways in which decisions and actions in one sector can contribute or hinder development in another.

What unites national foreign policies and processes of international migration is the understanding of interdependence in the international political environment.<sup>3</sup> The international migration regime, or the refugee regime, which relates to values, norms, laws, and decision-making procedures agreed upon by several actors in the international arena, defines the rules of the game which each country must take into account.<sup>4</sup> The free movement of labor and the Dublin Convention are some of the regime's terms that Latvia agreed to upon joining the EU. However, several dimensions of migration and asylum policy are to be determined at the national level, taking into account the existing regime and its elements. One country's decision to admit or not to admit a particular group of people not only exacerbates pressure on another country with a limited choice, such as the comparative challenges facing Greece and Italy in processing asylum applications as the EU border countries. Such decisions can also cause a *spill-over* into other areas of policy, such as joining the EU Blue Card system<sup>5</sup> and favoring one group of migrants in line with the needs of the national labor market.<sup>6</sup> Similarly, emigration can be viewed as a *national resource*,<sup>7</sup> by reducing the burden on the labor market during economic instability, or by mobilizing diaspora to achieve foreign policy goals.

A country's chosen migration policy can also trigger a response from the country of origin or, on the contrary, the migration policy can be the answer to tensions between countries,<sup>8</sup> such as when US President Donald Trump called for entry restrictions for Turkish citizens following the detention of a US consular officer in Istanbul, and Turkey almost immediately imposed

visa restrictions on US citizens. Historically, US relations with Cuba, Haiti, and the Dominican Republic have had an impact on the US migration policy towards the citizens of these countries, for example, by introducing a specific immigration status, or by slowing down the processing of visa applications.<sup>9</sup> Similarly, decisions regarding the limitation or facilitation of migration flows clearly indicate the objectives of the foreign policy.<sup>10</sup> Examples are entry bans for those involved in the so-called Magnitsky case<sup>11</sup>, and Turkey's action which initially introduced an "open door" policy for asylum seekers from Syria to reaffirm its position as a regional superpower and the country which ensures order in the Middle East.<sup>12</sup> Finally, the link between migration policy and security policy must undeniably be highlighted. Enhanced border controls, identity checks, and cooperation with transit countries are tools to mitigate the risks of migration, including any perceived risks of terrorism.

Although this has not happened frequently, countries of origin can purposefully encourage the emergence of migratory flows that destabilize their foreign policy rivals. Greenhill calls this a smaller and relatively weaker national strategy, which can shake the internal stability of the target country, without citizens agreeing on the admission of refugees or overwhelming the absorption capacity of the state. It can also have an impact on a country's legitimacy and reputation internationally, namely, if the target country refuses to admit asylum seekers, despite the ratification of international agreements, it directly affects its position in international negotiations.<sup>13</sup> And, even if initially it is not intended by the country of origin, such domestic and foreign policy outcomes are possible if any country faces a more intense immigration flow than is customary.

Foreign policy can influence migration policies and processes, and migration policy can influence foreign policy choices and opportunities. It should be noted that in both migration and foreign policy, it is important not to underestimate the long-term impact of the decisions made.<sup>14</sup> Frequently, short-term arrivals in the framework of labor immigration programs become permanent, and lead to the emergence of a migration network as a result of family reunification practices or by becoming attractive to new migrants who are seeking to join a specific migrant community. This is exactly how the category of new foreign policy actors – diaspora groups – emerges. In turn, the successful implementation of development aid policies aimed at job creation and the improvement of infrastructure and administration can lead to a reduction in the potential migration flows from developing countries in the long run.

However, foreign policy experts are not always knowledgeable of migration processes, whereas migration policy planners are often unaware of its impact on the position of the state regarding international politics.<sup>15</sup> In what follows, while trying to define possible scenarios for policy development in the near and slightly distant future based on the experience of other countries, a modest suggestion is presented on how to reduce the barrier between foreign policy and migration policy experts.

## **Migration in Latvia: status quo**

After the restoration of Latvia's independence, the migration balance has been negative, i.e. more people leaving the country every year than arriving. Emigration along with negative natural population growth is one of the main reasons for a rapid population decrease in Latvia. Emigration has been driven by both economic fluctuations and the opportunities for work and study mobility that emerged with accessing the EU. According to various estimates, the Latvian diaspora abroad reaches from 250 000 to 370 000 people, which includes both Latvian nationals (citizens and non-citizens) and those who associate their origin and identity with Latvia (mainly the descendants of the Second World War refugees). So, up to 15 percent of all nationals live outside of Latvia. The major diaspora host countries are the UK, the US, Germany, Ireland, Sweden, Canada, Australia, and Russia.<sup>16</sup>

In recent years, most emigrants are educated young people, aged 15 to 34, who go abroad with their families, including school-age children.<sup>17</sup> This creates additional pressure on Latvia's labor market, where a significant shortage of labor force has already been identified and is foreseen in the future as well. However, only about one third of emigrants plan on returning, and the available data does not allow one to determine the true amount of return migration at the moment. Even today, in a situation where the income is rising and lack of labor force is becoming more pronounced, emigration still continues.

The first attempt to address those who left and to facilitate return migration was included in the 2013 Return Migration Support Plan, which was implemented until the end of 2016, however, its effectiveness is highly criticized. At the moment, in the autumn of 2018, the Latvian Parliament adopted the Diaspora Law in the 2<sup>nd</sup> reading, which aims to "strengthen the diaspora's belonging to Latvia as an integral part of the Latvian society,

to provide the diaspora with the opportunity to freely form, maintain, and expand ties with Latvia, to promote the maintenance of the Latvian language, culture, and affiliation with Latvia, and to develop and implement systematic and continuous support policies and measures for diaspora and return migrants, providing favorable conditions for cooperation and return migration".<sup>18</sup> The authority coordinating diaspora policy will continue to be the Ministry of Foreign Affairs, and relations with the diaspora have been one of the priorities of foreign policy since the restoration of independence.

Indeed, the role of the diaspora in Latvia's foreign policy has been significant both during the accession process in NATO, when the World Federation of Free Latvians (PBLA) carried out a lobby campaign, continued to actively defend the interests of Latvia in the US, and always urged the Latvian government to fulfill its commitment, i.e. allocate 2 percent of the state budget to defense. The European Association of Latvians (ELA) also participates in discussions on EU internal security issues, even though the ELA's priority is to promote political and civic participation of the diaspora in Europe, helping the Foreign Ministry address the representatives of the diaspora. Diaspora organizations are also active in intensifying economic cooperation between Latvian businessmen and the diaspora, promoting networking and information exchange.<sup>19</sup>

If diaspora and return migration policies have been high on the political agenda in recent years, immigration and asylum policies have been largely non-existent, and immigration in Latvia has been relatively insignificant and slow. In 2015, the OECD countries' average immigration volume amounted to 0.7 percent of the population, while in Latvia it was only 0.3 percent.<sup>20</sup> At the beginning of 2018, about 92 thousand citizens of other countries (both EU and third-country nationals) were residing in Latvia, accounting for about 4.7 percent of Latvia's population.<sup>21</sup> The number of issued residence permits is gradually increasing each year – in comparison with 2014, this number has increased by about 10 thousand.<sup>22</sup> The main countries of origin – Russia (almost 60 percent), Ukraine, Lithuania, Belarus and Germany.<sup>23</sup> The main reasons for immigration are employment, family union and reunification, real estate investments and studies.<sup>24</sup> The previously expressed concerns about Latvia becoming a transit country for irregular migrants have not materialized, and accession to the EU has not significantly increased the volume of immigration.<sup>25</sup> The newly renovated detention center for foreigners in Mucenieki is in fact uninhabited.

In the informative report from the Ministry of Economics on the labor market's medium and long-term forecasts says that the demand for a medium and highly-skilled labor force will increase significantly, inter alia, in the engineering, manufacturing, and construction sectors, as well as in the information and communication technologies sector. The forecasted amount of return migration is too high compared to the current rate of return migration.<sup>26</sup> Taking into account emigration data, return migration data, and labor market forecasts, it is expected that labor immigration will be necessary for the growth of the Latvian economy.

Latvia's development planning documents – Latvia 2030 and the National Development Plan 2020 – have identified the need for a targeted immigration policy, by stimulating both return migration and controlled labor immigration. So far, there has not been a targeted immigration policy at the national level aimed at attracting certain categories of immigrants. Latvia's immigration policy is rather restrictive and rigorous. The exception is the promotion of the so-called investor visa after the 2009 crisis with the aim of raising additional financial resources, which resulted in an increase in the issuing of an investor visa during the period from year 2010 to 2014.<sup>27</sup> Investments during this period reached nearly 1.3 billion euros.<sup>28</sup>

The concept of immigration policy was stuck in the corridors of various ministries for a long time, mainly due to the politicization of this issue, until it was finally approved at the beginning of 2018,<sup>29</sup> but the improvements provided, for example, updating the administrative procedures and the processes for retaining foreign students in Latvia, although necessary, are not sufficient and are not yet incorporated into the Immigration Law. Amendments to the Immigration Law in 2017 and 2018 provided facilitated conditions for immigration for highly qualified third-country nationals and for those who are planning to develop innovative products, while amendments to the residence permit regulations facilitated the receipt of the so-called *startup* or new entrepreneur visa.<sup>30</sup> However, employers still face a variety of difficulties with regard to attracting foreign labor force, due to the administrative obstacles, society's attitudes, as well as the requirements for employment and integration. Full-time foreign students still face challenges when trying to stay in Latvia, even after completing their studies.

The *de facto* asylum policy in Latvia did not exist until the end of 2015, when the Latvian government, after joining the EU resettlement program, approved an Action Plan for Movement and Admission in Latvia of Persons

who Need International Protection, for which the Ministry of Internal Affairs and Ministry of Welfare are responsible as implementation coordinators. Subsequently, amendments were made to the Asylum Law, mainly in relation to the amount of monthly payments and the schedule of payments, as well as the support measures provided during the processing of the asylum application. Before 2015, an average of 20 people received the international protection status (refugee or subsidiary protection) annually. However, the number of asylum applications has increased, as 367 asylum seekers from Greece, Italy, and Turkey were relocated to Latvia in the framework of EU relocation program, and as the number of persons crossing the border arbitrarily grew. In 2017, 395 asylum seekers asked for international protection, the highest number of requests since the adoption of the Asylum Law in 1998. International protection was granted to 298 persons; refugee status to 39, and subsidiary protection status to 259 persons. In 2017, asylum seekers came mainly from Syria, Vietnam, Russia, Eritrea and Kazakhstan.<sup>31</sup>

Joining the EU relocation program was decided through intense political discussions,<sup>32</sup> and there is still a largely negative attitude in society towards immigration from third countries and asylum seekers; more than 80% of the population do not support it.<sup>33</sup> In recent years, the EU's asylum policy has also been reflected on in the Annual Foreign Policy Report, with emphasis on reducing migration risks through cooperation with migrant transit countries, strengthening the external border of the EU, and encouraging those benefiting from international protection to return home as soon as it becomes possible. It is strongly emphasized that "in the context of the reform of the European Common Asylum System, it is essential to find a solution acceptable for all Member States. It is important for Latvia that any mechanisms for relocation of asylum seekers within the EU and their resettlement from third countries should be based on voluntary participation."<sup>34</sup> In June 2018, EU leaders agreed on a common search for solutions for managing asylum flows, for example, through the introduction of regional disembarkment platforms,<sup>35</sup> but no consensus has been reached on specific solutions or the division of responsibilities.

Speaking about Latvia's foreign policy over the next 100 years, Ivars Ijabs points out that foreign policy issues are becoming increasingly topical during the election process, and Latvia's position on the EU's common migration and asylum policy, as well as diaspora and return migration policies, are among them.<sup>36</sup> Although Latvia's confidence in its role in international politics is



growing, and it no longer follows everything the EU says, the fact that Latvia has entered the EU mobility system makes foreign policy decisions more complicated, especially with regard to migration issues. The policy trends expected in the next 10 to 30 years will be discussed in the paragraphs that follow.

## **Migration trends for the future: where do foreign policy and migration policy meet?**

Migration is an ongoing process; it can be safely asserted that emigration and immigration will continue in Latvia, and that asylum seekers will continue knocking on Latvia's door. The volume of emigration has decreased, but it is still relatively stable. However, immigration continues to grow steadily, even if slowly, especially for employment and study purposes. Taking into account Latvia's geographical position on the EU's external borders, and the increasingly tighter controls of the sea route to the EU, means that the number of people arbitrarily crossing the land borders, including the number of asylum seekers, could increase; but it should be noted that refugees represent only a small part of the total volume of international migration. However, it is not possible to accurately predict the extent of these different flows of migration, as it is influenced not only by Latvia's policies and the country's growth, but also by other countries and regions, e.g. labor force shortages in other EU countries, economic stagnation elsewhere, lifestyle migration tendencies, climate change that can make certain regions uninhabitable, military conflicts or regime changes that endanger the safety of citizens, etc.

Despite the fact that migration volumes cannot be foreseen, every country has the opportunity to define the priorities of its migration policy and establish an infrastructure for proper migrant reception and diaspora policies, appropriate for its own interests, both domestic and foreign. The fact that emigration is still ongoing, and that the diaspora reaches up to 15% of Latvian nationals in the world, will keep diaspora policy high on the foreign policy agenda, further developing diaspora and return migration policies. Their structure will be largely determined by the Diaspora Law, which is expected to be approved by the Latvian Parliament in autumn 2018.<sup>37</sup> Diaspora's role in foreign policy will only increase because the experience and capacity of the diaspora organizations allows them to respond to changes in the administrations of their countries of residence. PBLA and North

American Latvian communities will be an important partner for Latvian diplomats and for representation in the NATO, continuing to defend Latvia's interests in the Alliance.<sup>38</sup> The intended support for those who wish to return may result in more intensive return migration than has been experienced so far, thus reducing the need to promote labor immigration, but not completely eliminate it. Even if return migration will be more intensive, it will not be possible to expect the whole diaspora to return to Latvia. Therefore, it is important to ensure the continuity and sustainability of diaspora policy to develop new cooperation mechanisms, recognizing the challenges for preserving the link in an era characterized by ever more intensive mobility. Currently, active politicians are in agreement on the importance of diaspora politics, so even in the next 30 years no special change is to be expected.

Political choices for other forms of legal migration are less clear and provide more possibilities for predictions and interpretations. Migration researchers have always noted that the greater the opportunities for legal migration, the easier it is to control and respond to migration flows, and the less insecurity is associated with migration. Taking this into account, there are three possible scenarios of development, i.e. the Eastern, the Western, and the Northern models. These scenarios are identified on the assumption that Latvia will not engage in military conflicts and will not become country of origin for refugees itself, and that economic growth will be stable while taking into account demographic forecasts and identified labor market needs. These scenarios are generalized, highlighting the unifying trends in countries or regions specifically for this volume of articles.

## The Eastern or Visegrad Model

When the unpredicted flow of asylum seekers shook the EU in 2015, it reflected more the disagreement among the Member States on the effectiveness of the existing Common Migration and Asylum Policy, and the lack of solidarity when a number of countries refused to participate in the EU relocation program. The most vociferous voices against the "imposed quotas" came from the so-called Visegrad four: the Czech Republic, Hungary, Poland, and Slovakia. This decision was based on security concerns, the public's negative attitudes towards asylum seekers and immigration in general, significant differences in culture and values, as well as the expected challenges during the refugee integration process. Although these countries' emphasis<sup>39</sup>

on strengthening the EU's external borders and addressing the root causes of migration is something all Member States agree upon, these measures do not address the continuing pressure on Greece and Italy to review asylum requests and to ensure dignified temporary living conditions for asylum seekers. Their proposal to consider asylum claims closer to refugee countries of origin could be supported (this approach is actively used by Canada and also formerly by the US), but it is unclear from the statements made by national leaders of the Visegrad four if they are ready to financially support the creation of such centers outside of the EU and to welcome refugees who have passed the asylum procedure in such a manner. So far, the political rhetoric of these countries' does not reflect that.

In 2017, the European Commission (the EC) launched infringement procedures against Poland, the Czech Republic, and Hungary, due to their refusal to accommodate the number of refugees allocated to them by the legally binding EU relocation program.<sup>40</sup> In addition to this infringement procedure, the EC initiated another one against Hungary regarding its recently adopted law, which provides for the sanctioning of organizations that allegedly assist migrants.<sup>41</sup>

Similar to Latvia, these countries have received significant financial support for the development of various sectors from the EU structural funds. EU officials and leaders from other Member States have proposed to associate participation in solidarity programs, e.g. the EU relocation program, with the amount of funds received. Namely, if the country does not participate, then it would not receive such funding. Also similar to Latvia, these countries have been important countries of origin for labor migration within the EU but are not open to immigration from other EU Member States or from third countries.

At the same time, it is not in the interest of these countries to leave the EU, nor to weaken it. According to the Latvian Foreign Policy Report, a strong EU is one of the central foreign policy interests of the country. However, the issue of asylum and the difficulty of agreeing on a common solution have weakened the trust in the EU and thus also hindered a unified response to other challenges, including the EU's common security and defense. Latvia could create a number of difficulties for achieving its foreign policy goals in the near future, especially in the field of security, if it chose to separate from the EU Common Migration and Refugee Policy and introduced a restrictive and rigorous immigration policy, also at the national level, without promoting newcomers' integration. The European security community is characterized

not only by its capabilities, interests, and regulatory frameworks, but also by common identity and values.<sup>42</sup> The example of the Visegrad countries shows that by refusing to participate in solidarity measures for the reception of refugees and implementing a very rigorous immigration policy, respect for values such as the rule of law, humanity, human rights, and openness to diversity are being called into question. As such, one of the most fundamental principles of a united EU – a common value space – is threatened, which can lead to fragmentation or even destabilization of the EU as a whole.

Thus, *the Eastern strategy* in the planning of migration policy would be to continue to participate in the free movement of labor within the EU and to implement an active diaspora policy, but distance oneself from other forms of legal migration, despite the demographic and labor market challenges, and to call for an EU asylum policy that prioritizes the strengthening of the external borders of the EU and the processing of asylum applications outside the EU, as well as assistance to the countries of origin, without clearly declaring involvement in the implementation of such an EU policy.

By choosing this approach to a migration policy, using public sentiment and nationalistic arguments to implement strict and even restrictive immigration regulations, without taking into account labor market realities or humanitarian considerations for the development of asylum policy, Latvia's growth and stability in 10 and 30 years is threatened. Latvia will be seen as one of the Visegrad block countries in terms of EU values. Possibly, when planning the EU budget, these countries will be given more stringent criteria for future support from different funds, thus entwining solidarity principles with mandatory participation. This means that the Latvian government will have to choose how to support asylum and relocation procedures – with administrative or financial resources, or by determining the number of refugees to be admitted annually according to the capacity for admission and integration. Strengthening the external border, taking into account the geographical location of Latvia, is an integral part of this policy, which has so far been supported by the EU, but by choosing the Eastern model, this support may not be unconditional in the long term. The most worrying factor about the Eastern model from the perspective of Latvia is the potential to create instability in the EU, because a stable and strong EU is also at the heart of Latvia's stability. Finally, without supporting a targeted legal immigration policy, economic growth will be inhibited because it is quite impossible to promote growth without attracting labor force from abroad.

Thus, the choice of this model may be the most costly for Latvia. It would be financially costly, as Latvia would lose co-financing of EU funds, its economic growth would slow down or delay, and it would require self-investment to strengthen its borders and support the asylum procedure outside of Latvia. It would be politically costly, as it would also create instability in the EU. Latvia is not self-sufficient enough in comparison with the countries of the Visegrad region to afford such costs.

## The Western European Model

In the second half of the 20<sup>th</sup> century, Germany, the Netherlands, and Belgium experienced a significant labor shortage, which was seen as a major impediment to the growth of their respective national economies. Special guestworker programs were developed, attracting the labor force mainly from Turkey and Morocco. However, these guest workers were considered as temporary migrants – they were expected to return to their country of origin after completing their task. Consequently, there was no support for their integration into the host society. Only 20 years after the start of the guestworker program, a comprehensive integration program was launched. Today, the integration programs in these countries are positioned as examples of good practice, and the outcome of the integration of immigrants from the second and third generations is to be regarded as successful when looking at the different dimensions of integration: language skills, employment, education, naturalization, etc. However, addressing the integration of newcomers so late means that there are groups which are in a relatively disadvantaged position when compared to both other immigrants and the host society.

One of the important considerations for civic and political participation of immigrants is the extent to which they feel heard by policy-makers, and if there is a sense of belonging to the host society.<sup>43</sup> In addition, one-and-a-half, or second, or even the third-generation immigrants, given the opportunities due to their legal status in the society, often represent the first-generation immigrant experience and emotional stance in their civic and political activities. In other words, if at the time of their initial arrival in the host country, newcomers have felt excluded, discriminated, or undesirable, then this experience may be reflected in the political choices of their children and grandchildren.

As a result, today in the Western European countries' migration and integration policies, as well as in foreign policy, there are several trends. First, the representation of interests of migrant communities in the host country, which is also often supported by the respective countries of origin. The Turkish community living in Germany is still a reliable partner to the Turkish President R.T. Erdogan, and the Turkish diaspora policy encourages the representatives of the diaspora to actively participate in host country's politics, including defending the interests of their country of origin.<sup>44</sup> Second, the ongoing and planned terrorist attacks point to radicalization in the local community, the so-called "home-grown terrorism". Not only does this necessitate continuous and intensive control mechanisms, it also creates mutual distrust in society and an increase in anti-immigrant sentiments. Even if immigrants or refugees who have recently arrived are successfully involved in integration programs as well as in society, these examples call into question the effectiveness and legitimacy of the policies introduced. Third, a reaction to the previous two is the growing popularity of the extreme right-wing populist, anti-immigration political powers. The Freedom Party (*Partij voor de Vrijheid*) in the Netherlands, Alternative for Germany (*Alternative für Deutschland*) and the Flemish Interest (*Vlaams Belang*) in Belgium, are not only expressing a negative attitude towards immigration and refugees, but are at the same time Euro-skeptical and see membership in the EU as one of the threats to national identity. Finally, such internal policy dynamics affect the legitimacy of these countries in the EU, trying to convince other Member States of the principles to be observed in the EU Common Migration and Asylum Policy. Angela Merkel has been repeatedly confronted with complaints that she calls for Europe to be open to refugees but is unable to deal with the aforementioned tensions in Germany.

Thus, *the Western strategy* in the planning of migration policy would be to respond to the needs of the labor market, as well as to continue hosting students and asylum seekers, while hoping that all newcomers will soon leave Latvia, and therefore paying little attention to integration support mechanisms. It must be said, that if Latvia opted for the Western model, the current *status quo* would not change much. Despite the slow but steady growth in immigration dynamics, the support available for the integration of citizens from other countries is insufficient, fragmented, and largely dependent on EU funding.<sup>45</sup> Moreover, given that most of the recent and also expected immigrants are from Russia, Belarus, and Ukraine, and that there is already

a significant Russian-speaking community in Latvia, this is a particularly significant challenge. Many Russian speakers have long been living in the territory of Latvia before the start of any integration support activities, and we can already draw parallels with the situation in Western Europe, i.e. a strong diaspora, efforts to ensure representation of interests in the country, and the settling communities in Latvia up against each other, hinders the cohesion of the society, and is already influencing Latvia's foreign policy priorities.

By adhering to the Western strategy as immigration grows, without prompt, comprehensive, and accessible integration support, newcomers will easily become absorbed into the Russian-speaking environment and information space, thus widening the already existing division of Latvian society. In addition, Latvia will continue to receive criticism from international organizations regarding the insufficient support for integration of both national or ethnic minorities and newcomers. This approach will satisfy the needs of employers for the next 10 years, and we will also see the impact on economic growth or higher education exports. However, the fact that newcomers will not become a part of the local community in the long run can lead to tension in society and obstacles to societal cohesion, as the society's negative attitude towards immigration will remain, despite clearly seeing its added value to the growth of the economy. Such a situation is not conducive for achieving Latvia's foreign policy priorities, because the country will be more sensitive to reprimands from Russia about the discrimination of the Russian-speaking population, its international image will be linked to a non-cohesive society and not, for example, with manifestations of European identity and values, or with business, study, or tourism opportunities.

## The Nordic or Swedish Model

The Swedish migration balance has been positive nearly continuously since the end of the World War II. However, upon identifying the increasing need for labor force, in the early 1970's a targeted labor immigration policy was implemented despite the negative attitudes in society, which had not recovered from the admission of refugees after the war. Along with the labor immigration program, a comprehensive integration policy was developed that focused on the acquisition of language, culture, as well as society's founding principles and values. Sweden is still ranked first in the Migrant Integration Policy Index (MIPEX),<sup>46</sup> a step ahead of other Western countries in terms

of support and opportunities for newcomers. The public sentiment has also changed dramatically over the past 50 years. Sweden is currently ranked first in the EU according to society's openness indicators. More than 80% of Swedish people see the economic benefits of immigration, appreciate the role of immigrants in the development of innovation, and see diversity as enriching the society.<sup>47</sup>

Of course, the pressure on the Swedish immigration, asylum, and integration system in recent years cannot be denied after the peak in asylum applications; more than 162,000 people sought asylum in Sweden in 2015.<sup>48</sup> However, Sweden agreed to host another 2,800 asylum seekers in the EU relocation program. At the same time, temporary restrictions on immigration were introduced such as restored border control at EU internal border crossing points in order to reduce secondary movement, as well as reduced support for beneficiaries of international protection while maintaining minimum standards for support set by the EU. It cannot be denied that Sweden also faces some of the challenges described when talking about Western European countries, for example, the growing support for right-wing political forces.

Despite this temporary tension, Sweden continues to reaffirm its principles for migration and asylum policy planning: "The Government's objective is to ensure a sustainable migration policy that safeguards the right of asylum and, within the framework of managed immigration, facilitates mobility across borders, promotes demand-driven labour migration, harnesses and takes account of the development impact of migration, and deepens European and international cooperation."<sup>49</sup> Sweden is also one of the few EU countries implementing a resettlement program, examining applications for asylum before the arrival of the asylum seekers in the country. Sweden's long-term targeted immigration and integration policy has brought both domestic political stability and social cohesion, and the credibility of Sweden as an international partner. Short-term policy changes as a response to the crisis are accepted without calling into question Sweden's status as an open country.

*The Northern Strategy* therefore implies the introduction of targeted and planned immigration policies in line with labor market demand and reception capacities (including short-term restrictions if necessary), the implementation of a humanitarian asylum policy, including the design and implementation of resettlement programs, as well as participation in the implementation of the EU Common Migration and Asylum Policy and international partnerships to fight the root causes of migration. The challenges of this strategy involve complex



political decisions at the early stages of its implementation, possibly contradicting society's attitudes. It also involves the costs associated with implementing a comprehensive and sustainable integration policy and international cooperation. These challenges in the current political climate in Latvia seem insurmountable, however, recognizing demographic and labor market forecasts in the long run, unpleasant or costly political decisions will have to be made, including with regard to migration policy. This strategy has unequivocal foreign policy benefits, such as the assurance of European ideals and values, and strengthening the role as a trustworthy and reliable partner. Risks are related to domestic tensions, but that already characterizes Latvia today, and the existing integration policy has not been able to successfully untangle them.

By adhering to the Nordic model, a clear strategy for migration policy will be developed over the next 10 years, which will be in line with national priorities for the promotion of national economic growth, and the implementation of international commitments at the EU level. More funds will be allocated to a targeted integration policy, which will benefit both newcomers and groups of citizens of other countries already living in Latvia. As a result, the divisions in the society will no longer produce such a fertile soil for foreign influence, and this in turn will strengthen the stability of Latvia internationally. Although Latvia will still need EU support as the economy grows, Latvia will strengthen its role as a strong member of the EU which respects the EU's core values. Only in 30 years will it be possible to see the true impact of such a policy, since the effects of both migration and integration policies take time to show, but the trends marked in the first 10 years will be strengthened, this policy will be linked to the image of Latvia, and the society's attitude will gradually become more positive.

## **Conclusion: migration, foreign policy and public cohesion**

Michael Teitelbaum points out that "Foreign policy problems attached to international migrations will arise whether we plan for them or not. But planning can sharply reduce the costs, both in political terms and in terms of human suffering."<sup>50</sup> As it has been mentioned several times, it is difficult to predict migration flows. However, by creating a migration and asylum policy that is in line with national and foreign policy interests, a responsive policy infrastructure is produced that adapts to the ever-increasing mobility

conditions. This requires a clear definition of objectives and the estimation of potential benefits and costs, as well as *long-term* policy planning.

The strategies described are based on the experience of other EU Member States in order to reflect the long-term impact of certain migration and integration policy decisions on the country's foreign policy and position on the international scale, as well as on its internal political stability. Regardless of which strategy will be chosen by Latvia's statesmen, thus influencing Latvia's foreign policy in both 2028 and 2048, all strategies highlight two significant elements; societal cohesion and the reputation of the state. Societal cohesion is one of the cornerstones of state security. Any strategy chosen must be in accordance with national security interests. In turn, the reputation of the state internationally, both in addressing partners, diasporas, and potential newcomers, is linked to the legitimacy of its promises and partnerships. Therefore, one should be aware of the long-term impact of the chosen strategy, not just the immediate result of solving domestic or foreign tensions.

Both the Western and the Eastern models for immigration policy do not take into account the impact of migration policy on foreign policy in the next 10 or 30 years. The Eastern model responds to tension in the society, uses it for a certain internal political agenda, disregarding the tensions in the immediate region or the EU. In addition, often the migration policy implemented in the Eastern model is in conflict with the EU's core values. The Western model responds to the needs of the economy, especially the ones that need to be resolved as quickly as possible, often without taking into account the medium and long-term effects the migration process has on society, and the impact of these changes in the society on foreign policy interests – whether it is a stable EU or good relations with immigrants' countries of origin.

The mid-term and long-term perspectives are the most significant advantage of the Nordic model; to see the potential benefits of planned immigration and targeted integration policies, even in a situation where it seems that one primarily should react to existing domestic or foreign tensions in order not to create additional problems. This model involves complex choices at an early stage, yet better interaction between migration policy and foreign policy in meeting the country's priorities. In the policy planning documents of Latvia, the following priorities have already been set and those are economic growth, a cohesive society, membership in a stable EU, security and a positive reputation of the state. A planned, targeted immigration policy with a long-term perspective is one of the key elements in reaching these priorities.

## Endnotes

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- <sup>4</sup> Betts Alexander, "The Refugee Regime Complex." *Refugee Survey Quarterly* 29, no. 1 (2010), 12–37.
- <sup>5</sup> The EU Blue Card system was created with the directive 2009/50/EC, which "sets out the entry and residence conditions for highly-qualified non-EU nationals wishing to work in a highly-qualified job in an EU country (other than Denmark, Ireland and the United Kingdom), and for their families.": "EU Blue Card – entry and residence of highly qualified workers," <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM:l14573>
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# The Future of the World Trade System and Latvia's Prospects

MĀRTIŅŠ ĀBOLIŅŠ

Since the restoration of independence, Latvia's economic development model has been the attraction of foreign investment and the close integration of export development into Western economic structures. This period also coincided with one of the fastest periods of globalization in the history of the world economy, and overall this has brought significant economic benefits to Latvia. At present, the big goals have been achieved, Latvia's economy is growing, and gradually the convergence with the European standard of living continues. But the world is changing, and the current world trading system is unlikely to be the ultimate stage in the development of the global economy. Since the global financial crisis, the contradiction between technological progress leading the world economy towards closer integration and the growing political opposition to the globalization of the economy is becoming increasingly controversial. This means that the long-term sustainability of the existing trading system will become more and more difficult, and that neither further integration of the economic systems nor the return to national economic models and globalization of the world economy can be ruled out.

Latvia has a small and open economy, and it allows us to adapt to any changes in the global economy. This publication is an attempt to analyze what significant changes for Latvia in the global economic system would be and how to prepare for these changes. To do this, we will look at the global economic process that has taken place in the world economy, analyze what it has meant for Latvia, and what factors have pushed it forward. This will allow us to shape future development scenarios for the next ten and thirty years and understand what these scenarios mean for foreign trade in Latvia as well as investment.

## **Trade and investment as part of Latvia's foreign policy**

In today's globalized world economy, promoting foreign trade and attracting foreign investment is one of the economic priorities of almost every country, and Latvia is no exception. The development of export industries and attraction of foreign investments in the manufacturing sectors are amongst the most important goals of the Latvian economic policy.<sup>1</sup> The low local level of savings and low purchasing power after the restoration of Latvia's independence meant that it was not possible to ensure sufficiently rapid economic development with local resources only in order to move towards the welfare level of developed countries in the foreseeable future. Therefore, the promotion of foreign trade and attraction of foreign investments also became one of the priorities of the restored Republic of Latvia and its foreign policy.<sup>2</sup>

The emphasis on reaching this goal was mainly based on integration into the developed economic systems of the Western countries and joining various economic organizations. After becoming a member of the International Monetary Fund (IMF) and the World Bank (WB) in 1992, Latvia joined the World Trade Organization in 1999. In 2004, Latvia became a member of the European Union (EU), and in 2014, it joined the European Monetary Union and also introduced the euro. Finally, since 2016, Latvia has joined the Organization for Economic Co-operation and Development (OECD), thus completing its integration into the economic structures of developed countries.

All these steps have helped Latvia to achieve significant economic results. The greatest benefit for the Latvian economy was entering the EU single market, which provided Latvia with free access to the world's largest market. Thus, from 1996 to 2017, exports of Latvia's goods and services have grown almost 4 times, and Latvia's GDP has increased 2.3 times. This in turn has provided a significant improvement in living standards and GDP per capita based on purchasing power parity, increasing from 30 percent of the EU average in 1996 to 67 percent in 2017. In addition to access to the world's largest market, Latvia's ascension to the EU and expectations of rapid economic convergence with the level of the EU's economic development, contributed to the improvement of credit ratings and contributed to a significant inflow of foreign direct investment in Latvia. In the period from 2000 to 2017, foreign direct investment in Latvia increased from 1.8 billion to over 14 billion euros.

Initially rapid development turned out to be very unbalanced, and the excessive inflow of foreign funds contributed to a very strong increase in lending in the period from 2004 to 2007. As a result, a real estate bubble was formed in Latvia, followed by a very painful landing. During the global financial crisis, Latvia experienced one of the biggest economic downturns in the world, a sharp rise in unemployment and significant emigration. However, since the financial crisis has been overcome, the Latvian economy has returned to growth, and its development has been much more balanced.

Despite these shocks, the growth of foreign investment and export development have played a very important role in the development of the current Latvian economy. However, global investment flows and the development of Latvia's exports do not depend solely on the policies implemented by Latvia, but are to a large extent affected by global trends. The period since the restoration of Latvia's independence, and especially before the global financial crisis in 2008, coincided with the very rapid globalization of the world economy. With the conclusion of the Uruguay Round in 1995, the World Trade Organization (WTO) was established, which led to a significant increase in cross-border trade and investment, and many countries began to compete to become export platforms attracting foreign investment. As a result of this process, world trade in the global economy increased from less than 20 percent in 1994 to 30 percent in 2007, while the share of cross-border direct investment in the world economy almost tripled from 11 percent to 30 percent during this period. Along with these processes, the liberalization of the financial sector and the integration of global financial markets were also increasing<sup>3</sup> resulting in a rise in the amount of global banks from 774 in 1995 to 1334 in 2009.

In fact, at least in part, the development of the Latvian economy since the mid-nineties can be regarded as a jump in the high-speed globalization train, and in the period from 1995 to 2017, Latvia has been one of the fastest growing economies in the world, even despite the major economic downturn after the 2008 crisis. In this period, Latvia's GDP per capita has grown as fast as South Korea from 1988 to 2008. This allows us to claim that Latvia has generally been a major benefactor of world economic globalization. Therefore, Latvia's current policy on trade and investment can be considered successful enough.

However, on the centenary of the Latvian state, having entered into all of the leading economic organizations of the world and participating in the



EU single market provides not only economic opportunities, but also limits the possibilities of Latvia's policy. The foreign trade policy of the EU is being created at the level of the entire union, and strict state aid requirements must be met in the field of investment. This raises the question of what to do next? What could be the development of Latvia's foreign trade and investment in the next ten and thirty years? To answer this question, one first needs to look at the globalization process of the world economy so far, understand what factors affected it, and predict how they might change in the future and what factors could complement them.

## **Integration of the global economy – political decisions, technological development and economic benefits**

The ever closer integration of the global economy and globalization have not only significantly influenced the development of the Latvian economy, but also significantly changed the world economy compared to the first decades after the World War II, when the national economies were sufficiently isolated from each other. There have been many different causes for the globalization of the world economy, but political consensus is that political decisions to reduce trade barriers, promote transport and communications technology development, as well as the liberalization of the financial sector, are amongst the most significant ones.

Political decisions on reducing trade tariffs and other barriers are definitely some of the key factors contributing to the ever-increasing integration of the world economy over the last decade. The start of these political decisions can be seen as the Bretton Woods Consensus after the World War II and the General Agreement on Tariffs and Trade (GATT). It together laid the foundations for the modern rule-based system of the world economy and started the gradual reduction of trade tariffs and barriers. The purpose of these first steps was not the close integration of the world economy, but the desire to avoid the mistakes made during the interwar period, when protectionism intensified the Great Depression.

As a result of these decisions, for example, the USA's average import tariff for goods subject to taxation decreased from 29 percent in 1945 to 5 percent in 1990,<sup>4</sup> and similar tariff reductions were implemented in other developed countries. This period in the liberalization of trade coincided with the unprecedented rapid growth of the world economy, and during the period

from 1960 to 1990, the world economy grew by an average of 4.2 percent per year. From the point of view of economic theory, the benefits of free trade are based on the use of a comparative advantages and specialization in the production of certain products, which increases overall economic efficiency. However, economic research has also shown benefits in situations where countries produce and sell equivalent goods.<sup>5</sup> This kind of competition ensures cheaper prices and more varied choice for consumers as well as optimal allocation of resources between companies and industries. Research has shown that reducing trade tariffs can explain 23–26 percent<sup>6</sup> of world trade growth between 1960 and 1988.

However, global economic integration remained relatively small during this period. Capital movement between countries was limited and significant parts of trade, such as agricultural commodities, were still subject to very high tariffs. However, the positive effect of the reduction of the initial trade tariffs has led to arguments in favor of free trade and formed the preconditions for political support not only for further tariff reductions but also for the elimination of other trade barriers.

Thus, the liberalization of trade, investment, interest rates, and exchange rates, along with privatization, deregulation, and strict fiscal discipline, known as the Washington Consensus,<sup>7</sup> gained much support from the IMF and the WB at the end of the 1980s, which recommended it to its Member States. Consequently, the GATT Uruguay Round, which led to the creation of the WTO, already included not only further tariff reductions for industrial goods, but also reduced subsidies for agriculture, lifted restrictions on foreign investment, started the liberalization of financial services, and also included the protection of property rights. The Washington Consensus combined with the WTO, as well as the creation of the EU, formed a set of political decisions that contributed to the rapid globalization of the global economy from the early 1990s to the global financial crisis of 2008.

Less directly related to trade, however, the liberalization and deregulation of the financial sector has played an important role in the globalization of the world economy. A more integrated financial system, which has been directly integrated, has contributed to a cost reduction in international trade, but the major impact on the financial sector has to do with free-flowing capital and a sharp increase in cross-border investment. This change was based on the result of informed policy decisions, and it was significantly different from the post-war period. Open economies, in economic theory, have a choice between

free capital movement, independent monetary policy, and fixed exchange rates, from which countries can achieve only two goals at the same time.<sup>8</sup> The post-war Bretton Woods system was characterized by fixed exchange rates, an independent national monetary policy, and a limited movement of capital; but when economic paradigms changed, countries abandoned fixed exchange rates in favor of a free movement of capital. In turn, countries in the Eurozone abandoned an independent monetary policy at the national level in order to implement the single currency and maintain a free movement of capital.

In the beneficiary countries, foreign investment brought about significant economic benefits, as this contributed to the development of foreign trade, technology transfer, increased competition, and the development of local business. It allowed developing countries, including Latvia, to have faster economic growth, which would not have been possible using only local resources. By contrast, developed countries have generated higher returns from their own resources than would have been possible within their own country. But the Asian crisis of the 1990s and the 2008 global financial crisis have shown that short-term capital flows and large financial sector integration can also have a destabilizing effect.

Apart from political decisions, the development of transport and communications technologies has also played an important role in globalization of the world economy, which has helped to reduce trade costs and thus contribute to trade development. In addition to the increase in trade, the reduction in transport costs has also contributed to the concentration of production, as it is beneficial for manufacturers to be close to each other due to the scale of the economic benefits. However, the impact of transport technology development on the development of international trade was much more important in the first period of globalization in the 19<sup>th</sup> century, when rail technology evolved and the transition to steam technology took place. From the point of view of transport technology, the biggest change during this period was containerization, which greatly increased the range of goods traded between countries, created opportunities for tracking the flow of goods and organizing global production chains. However, the rise in oil prices in the 1970s meant that maritime transport prices did not significantly decrease compared with the previous period, and prices fell only in air transport.<sup>9</sup>

While discussing technological factors, one could separately discuss communication technologies. The rapid development of information technology has made the exchange of information much faster and cheaper,

which promotes both trade and the creation of global production chains with precise deliveries. At the same time, the impact of these changes on macroeconomic indicators is difficult to quantify, in particular to traditional trade, but innovation in the field of information technology has opened up new opportunities for providing services remotely. It has expanded the tendencies of globalization of economic processes to service industries, which were not tradable between countries before. Various outsourcing industries have developed rapidly in Latvia in recent years.

## **The future of the globalization of the world economy**

Under the influence of political, economic, and technological factors from the beginning of the nineties until the year 2008, the world economy has been moving very rapidly and in a linear direction towards an ever closer integration. However, macroeconomic trends since 2008 suggest that after the global financial crisis, economic integration processes in the world have become slower. In the decade after the crisis, global trade has not grown faster than the global economy as a whole, and its share in the world economy has remained at around 30 percent of GDP. Meanwhile, cross-border investment continued to grow, but significantly slower than in previous decades, and foreign direct investment in 2015 was 34 percent of world GDP, compared with 31 percent in 2007. Changes in investment flow have been affected not only by economic factors but also by the regulation of the financial sector, which has become considerably tighter after a long deregulation period. Therefore, in order to look at trade and investment trends over the next ten and thirty years, it must be understood whether the past ten years in the global economy are transient, or whether fundamental changes in the political, economic, and technological factors that have led to the ever closer integration of the world economy are to be expected.

Of all the factors affecting the globalization of the world economy, so far the most important have been political factors, and it must be assumed that they will also play a decisive role in the next ten and thirty years. The importance of political factors and their considerable dominance over other factors characterizes the end of the first era of globalization at the end of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century, which despite the economic benefits, ended with World War I. While taking into account political considerations, the fact that free trade and the close integration of the

world economy generate not only total economic gains and promote overall welfare, but also have negative side effects. They are basically related to the redistribution of income resulting from free trade, especially in the developed countries, and not all who work can benefit from these processes. As a result of offshore outsourcing, the well-paid jobs in manufacturing have moved from developed or developing countries, while new jobs have been created in other areas and elsewhere, and require different sets of skills.

In the process of liberalizing world trade and investment, economists often reject these negative side effects as transient, which will in time be offset by faster economic growth and the benefits of cheaper goods that will be provided by increased trade.<sup>10</sup> But in practice, this view seems to have turned out to be too optimistic. Research in recent years shows that while the income of people living in almost all developing countries increased significantly between 1988 and 2008, the average income of developed countries has grown relatively slowly during the period of world economic globalization.<sup>11</sup> Economically depressed regions emerged in developed countries as a result of deindustrialisation and offshorisation. These processes were particularly intensified by China's accession to the WTO and the subsequent relocation of jobs to this country. This, coupled with the global financial crisis of 2008, the rise of inequality in developed countries and slow growth in the post-crisis period have created significant political opposition to the further globalization of the world economy.

The second major block of political choices is related to cross-border investments and the global integration of the financial sector. As global economic development since the 1990s and the global financial crisis of 2008 show, deep globalization of the financial sector can bring significant economic benefits and create great volatility, even leading to global crises. Of course, the liberalization of the financial sector and global integration were not the only cause of the financial crisis, but in the history of the world economy, the periods with a free global capital movement have coincided very closely with international banking crises not only since the nineties, but also during other periods of history.<sup>12</sup>

Since 2008, the regulation of the financial system has been significantly strengthened, but despite the global standards developed within the framework of the Basel Committee, the approaches to regulation of the financial system has been significantly different in the world's major economies. As a result, cross-border lending in the world has diminished, and

in the banking sector there has been a general trend towards deglobalization.<sup>13</sup> This trend is also reinforced by a stronger fight against money laundering and terrorism financing, as well as the use of financial sanctions to achieve geopolitical goals. As a result, correspondent banking relations have diminished in the world, and access to international financial markets has become difficult for certain jurisdictions. In fact, in the financial area, there is a choice between a less globalized financial system or a more globalized one. However, if the choice is in favour of the less globalized financial system, then the question is whether and to what extent there will be a very free movement of goods. An example in China shows that this is possible, but the free movement of goods requires a highly repressive financial policy, and capital flows cannot be fully limited.

Over the last decades, global economic integration has brought clear economic benefits, but the closer the global economic integration is, the more global governance rules are needed to regulate this economic system. This means delegating power to supranational institutions, which in turn limits national preferences to national economic policies. These restrictions are not essential in times of prosperity, but since the global financial crisis they are increasingly conflicting with the democratic process, because international commitments limit the ability of countries to respond to economic shocks or to protect the losers of the globalization process even if they have the support of voters.

From the political point of view, further integration of the world economy would require closer cooperation in areas such as tariffs, free movement of capital, intellectual property protection, labor law, environmental protection requirements, financial system regulation, and fiscal legislation. However, this would further limit the possibilities of national economic policies, and it is difficult to imagine the support from voters in developed countries for such steps. Therefore, the political factors in the near future will be against the further globalization of the global economy, and the most likely scenarios are maintaining of the current level of integration or de-globalization. History shows that it is possible.

Without political factors, the future of trade and investment flows in the world will also depend on technological factors and, in particular, on the development of transportation systems. Transport costs are a limiting factor in trade, and therefore the question is whether the development of transport technologies can provide significant further reduction of transport costs; it

will depend on energy prices and technological development. Forecasting oil prices is very difficult and it depends on the future balance of demand and supply. However, the development of renewable energy, electric motors, batteries, autonomous cars, and drones, is likely to have the potential to significantly change transport systems and reduce their costs, including reducing the number of required labour. Lower transport costs mean greater benefits for the economies of scale, and hence the development of these technologies could contribute to further global trade growth.

From technological factors, the communication technology has a potential to further develop globalization of the world economy. The world economy is increasingly digitizing, and according to the OECD, cross-border trade in services has grown significantly faster over the last twenty years than trade in goods. This is also evident in Latvia, and, for example, since 2010 the export of information technology and computer services has increased on average by more than 20 percent per year, significantly outpacing the development of other sectors. In addition, the development of information technology has not only facilitated the cross-border integration of service sectors, but also significantly increased the exchange of information across the globe, creating a single global information space.

However, as with the trade in goods, cross-border trade in services means movement of jobs between countries and redistribution of income. Politically, this aspect of economic globalization has so far not received so much attention as a change in production, but political resistance to trade in services can turn out to be only a matter of time. The development of information technology has so far been extremely rapid, and there is still a significant IT skill deficit at the global level, so there is a huge number of winners in the field from globalization, and relatively few negative side effects. However, as the IT industry reaches saturation and its pace of development becomes slower, political considerations may change, and protectionism can affect the service sector.

Together with the creation of a global information space, the political capacity to halt the integration of services is likely to be much more limited than in the physical goods sector. However, China's large firewall shows that controlling information flows is technically feasible, even if it is unlikely to be acceptable in a democratic society. At the same time, fragmentation of the information space is possible in other ways. For example, differences in data protection laws, offers to regulate social networks and other IT services in individual countries, as well as geographic restrictions on data storage already

create a certain fragmentation of the Internet, even in developed democracies. Therefore, the development of IT and communications technology is not fully protected from political factors.

Most likely, the biggest unknown factor for investment and marketing trends in the future is related to the development of new technologies. For example, the development of artificial intelligence, 3D printing, and automation, together has the potential to fundamentally change the production system, the functioning of the economy, and the labor market, particularly in the services sector. This will certainly have a major impact on the globalization of the world economy, as the wage gap and benefits of a scale economy have been one of the main driving forces of offshoring up until now. However, if the technological development significantly reduces the need for the labour force in general, then the benefits of a scale economy can diminish, and proximity to consumers may become more important than the proximity to suppliers.

The potential of automation technologies to mitigate the globalization of the world economy is already indicated, for example, by *Adidas* which opened a factory in 2017 in Germany and uses the latest automation technologies, including 3D printing, to produce footwear. This step is also significant because of the fact that shoe manufacturing has almost completely been offshored to low-wage countries in Asia before, but being closer to the consumer allows faster response to changes in demand. The technological development of the new factory allows it to employ only about 160 people instead of thousands that would have been needed in the traditional manufacturing process, and such a shift in production systems can have a huge impact on the global economy.

However, despite such examples, the revolutionary potential of information technology and automation is now more like a promise than reality. According to economist Robert Gordon, the digital revolution is seen everywhere, apart from economic indicators. The most evident is the development of the USA's economy, which grew by an average of 2.8 percent per hour worked per year between 1920 and 1970, but since 1970, the world's most advanced economy's growth has reduced sharply, with an average annual increase of only 1.6 percent. Although during the IT revolution in the initial period from 1996 to 2004, the USA's economic growth rate had almost doubled compared with the period from 1972 to 1996, since 2004, the USA's economic growth has again slowed down significantly, despite notable IT



technology development since 2004.<sup>14</sup> On the one hand, it is possible that the positive effects of the digital revolution on the economy will only be apparent over time, just as after the invention of the electricity and internal combustion engine. Decades had passed until the global economic structures changed significantly. However, it is also possible that these innovations are significant in a relatively narrow area and their potential impact on the economy is small, hence their ability to significantly change the globalization trends of the world economy is diminished.

## **Trade and investment in the next ten and thirty years**

What do all these factors mean for world trade and cross-border investment for future development? Will the global economy continue to move towards closer integration, or does Latvia need to prepare for a period of de-globalization? The main drivers of economic globalization even in the future will surely be economic benefits, the development of transport and communications technologies, which will make the world more interconnected and smaller, thus contributing to the further integration of economic systems. At the same time, political factors could instead hinder further integration of the world economy, and further development of artificial intelligence as well as automation can create the potential for the de-globalization of production chains. Taking these factors into account, three broad scenarios for the development of world trade and cross-border investment in the next ten and thirty years can be proposed: (i) global federalism; (ii) *the status quo* (the situation so far); (iii) the globalization of the world economy.

Global federalism would mean further close integration of the global economy not only in trade and investment, but also in other areas related to the economy. This would entail the abolition of all trade tariffs, the reduction of non-trade barriers, the harmonization of commodity standards, the liberalization of service sectors, unrestricted capital flow, regulation of global financial sectors, and the harmonization of a certain tax system. Not all areas need full political convergence, but the realization of this scenario surely requires the conclusion of a new, ambitious WTO negotiating round that would actually create a single market in the world. Such a level of integration in so many areas would also create a need for a global judicial system that would ensure the application of the rules, for example, a substantially stronger current WTO appeal court. Global federalism would entail the transfer of

important national functions to various supranational organizations such as the UN, the WTO, the OECD. Consensus on the issue of global federalism seems unlikely, but it becomes possible if the world's leading economies, such as the G20, agree on the following steps. Then it would be difficult for other countries to avoid it.

There are definitely technological factors and expected economic benefits in favor of closer integration of the world economy. According to the IMF estimates<sup>15</sup> only abolishing trade tariffs could increase productivity by 1 percent in developed countries, and the benefits to developing countries would be higher. Greater benefits can be expected from the elimination of non-tariff barriers and the integration of other areas, but these potential benefits are unlikely to be sufficient to overcome political resistance. Further substantial integration of trade, investment and other economic sectors would mean not only benefits, but also substantial redistribution of income, and not all people, especially in developed countries, would benefit from it.

The move towards global federalism would require a significant abandonment of national sovereignty from countries on issues related to the economy and subordination of its economic policy to the functioning of the global market. This would greatly limit the ability of countries to pursue independent economic policies and respond to country-specific shocks. The experience of the EU shows how difficult it is to combine and delegate economic policy issues at transnational level to even relatively similar countries. The global economic crisis, followed by relatively weak economic growth, has already created political opposition to further globalization of the economy, which would create a major democratic deficit at world level, and the functioning of such a system would most likely also require greater freedom of movement for people. Therefore, from all development scenarios, global federalism seems to be the least possible in the long run.

An alternative is to maintain the status quo in the world trading system. This means that there is no new global agreement on reducing tariffs or trade barriers, but the existing world trading system is being retained. In some cases, new tariffs are possible while other bilateral and regional trade agreements provide for further integration of trade and investment at regional level. The services sector generally continues the offshoring process, while in the financial sector, with increasing regulatory differences, there is likely to be some degree of fragmentation in regional units, but global capital flows will remain sufficiently free.

The main argument in favor of the status quo of the existing world trading system is the current economic benefits from the scale economy and technological progress that drive the global economy towards further globalization, despite the growing political opposition. The less obvious is whether the current system of trade and investment in the world is at a steady state, which can be remain unchanged in the long run. This will most likely depend on the political capability to create sufficient economic opportunities for those who have lost in the world economic globalization process, to ensure stable economic growth in developed countries, and to limit the negative side-effects of free trade and investment flows in the future.

The global federalism and status quo scenarios for Latvian investment and trade foreign policy do not actually mean the maintenance of the current policy rate. The conditions of the EU single market already do not allow countries to implement an independent trade policy. When attracting investments, the countries must comply with EU state aid conditions. In the case of global federalism, these restrictions would move to a global level, which would mean a lesser chance to influence the situation. This in turn means that, Latvia should be more active while defending its interests through the EU.

The most radical scenario for the development of the global trading and investment system is de-globalization, where cross-border trade and the integration of the financial system are drastically reduced and countries return to closed economic models. Naturally, globalization is not a single scenario, but rather a process where different levels of globalization are possible in different areas, and the formation of regional groups of countries is rather credible. But in general, the result would be quite similar to the Bretton Woods system, which would allow countries to develop a highly independent economic policy, globally restrict capital movements, and smaller cross-border capital flows would entail fixed or very stable exchange rates.

However, it is difficult to imagine de-globalization as a smooth and organized process, especially in the context of a trade war, where each country's attempt to protect its producers with trade tariffs leads to response action in other countries, which in turn leads to new trade tariffs. It is likely that it would significantly change the institutional framework of the current economic governance. Organizations that provide international economic cooperation, such as the WTO, would lose their influence and could possibly be eliminated over a longer period. Therefore, a de-globalization scenario may

lack the necessary institutional framework to regulate transnational relations and reduce the risks of geopolitical conflicts, since countries would at least have to trade in resources. Assuming that the development of transport technology and the Internet is irreversible, it is also unclear whether a global information space and closed economic systems can exist at the same time.

The de-globalization scenario would entail significant economic losses for the global economy, slower potential economic growth, and more expensive goods for consumers. However, de-globalization, like the globalization process of the economy, will affect not only the overall macroeconomic indicators, but also generate significant revenues, both within and between countries. It is precisely this redistribution and the fundamental reorganization of production systems around the world that are necessary for de-globalization, which could bring enough benefits for politically influential groups to make this scenario more politically possible. For example, the development of automation technologies could encourage the return of labor-intensive industries to developed countries, thus creating jobs, while developing countries are more likely to become the major losers of the de-globalization process. This, of course, can lead to a new wave of migration, thus reinforcing the negative mood of globalization and the protectionist tendencies in developed countries.

According to the IMF's estimates,<sup>16</sup> a 10 percent increase in global tariffs would reduce world's GDP by 2 percent and world trade by 16 percent in the long run. In turn, in the case of a trade war, the global average tariff rate could reach 60 percent.<sup>17</sup> Such a scenario would mean a very significant reduction in world trade, and in fact the situation in world trade would be similar to that in the 1930s. However, global production systems have now reached unprecedented levels of integration, and if the system would have to be changed, it would bring much more short-term damage than the formal estimates for impact assessment are willing to admit. In fact, it can be compared to an airplane engine change during a flight, where any failure can become catastrophic.

Of these world economic trade and investment development scenarios for the period until 2028, the most likely scenario is the preservation of the status quo. The main argument in favor of maintaining the status quo is the preservation of existing production and supply chains, the creation of which has taken a long time. Investments have been made, their periods in which they can be defrayed are long enough, and the transfer of production capacity

between countries is not easy. The development of information technologies is likely to continue to push the direction of further integration of the world economy, especially in service sector. However, technology development will continue in the direction of greater automation, which could return part of the total production capacity back to the developed countries.

Depending on the overall economic situation, the current political resistance to further trade liberalization and closer global economic integration still may turn out to be either temporary or permanent, especially if growth in developed countries remains low. This means that the next ten years will mark the further development of world trade and investment. But even if the political resistance to closer integration continues to grow, de-globalization without such huge economic or geopolitical shocks in such a short period of time is unlikely.

By the year 2048, preserving the status quo of the global trading and investment system is likely to become more and more difficult. Without resolving the fundamental contradiction between close economic integration, which greatly undermines the ability of countries to influence the economic processes in their own country as well as the democratic political system, political resistance to globalization processes of the economy is likely to continue to grow. Of course, it is possible that the current political resistance to closer global economic integration is part of the transition process and that, with the stabilization of the trading system, technological and economic benefits will prevail. Therefore, in 2048, the status quo seems to be the most likely scenario, but the probability of its implementation would be only around 50 percent.

At the same time, moving towards global federalism in the next 30 years seems unlikely. It would require a substantial renunciation of sovereignty in the field of economic policy and greater economic policy coordination than would seem politically possible. Similarly, 30 years of global federalism is a very short time, as shown by the EU integration process, which has been going on for over 60 years. Therefore, the probability of implementing this scenario is unlikely to exceed 10 percent.

This means that the contradictions between the trade and investment system and between economic gains, and countries' ability to implement independent economic policies, can lead to a de-globalization scenario, which has 40 percent chance to come true in the next 30 years. Of course, it will be difficult to return to the national economic structures with a global

information space, but historic precedents show that the process of global economic integration is not irreversible. One option is the gradual increase of trade barriers and the limitation of investment flows, as well as the partially coordinated transformation of production systems within national borders. An alternative is the rapid de-globalization caused by another financial crisis or a major geopolitical conflict. Economically and socially, such a scenario would certainly have much more negative effects, but even with the more optimistic scenario, given the diminution of cooperation in trade and investment, it is difficult to imagine coordinated action in other areas, such as climate change mitigation. Climate change, along with countries' leaning towards greater independence in all areas, can lead to a struggle for resources and to geopolitical conflicts.

## **Foreign trade and investment foreign policy of Latvia in 2028 and 2048 – conclusions**

By 2028, the most credible scenario in the global trading and investment system is the preservation of the *status quo*, which would generally mean unchanged economic foreign policy for Latvia. The main emphasis will still be on attracting foreign investments to promote export capacity, but with a greater focus on changing domestic factors and identifying the type of investment that Latvia needs. In Latvia, the volume of domestic deposits in commercial banks in 2018 has reached the level of internal loans, which means that there is no general lack of capital. Therefore, knowledge transfer will be more important in terms of investments rather than only attracting funds to equity investments.

The negative demographic trends will affect Latvia's investment and trade policy. According to *Eurostat* forecasts, in the period up to 2028, the number of working age population could decrease by as much as 80 to 100 thousand people, which means that the current model of economic development with relatively cheap labor force and attraction of foreign investments is beginning to lose its footing. It is necessary to increase productivity more rapidly for further successful economic development. In terms of investment policy, this means prioritizing attraction of automation and robotics technologies, as well as their development in Latvia. Otherwise, as the labor force shrinks, wage growth may surpass the entrepreneurial ability to earn, and Latvia can get into the so-called middle income trap, where, at a certain level of development,

the economy loses its competitiveness and is unable to continue economic convergence with the world's most developed countries. At the same time, the services sector will increasingly play a role in global trade; therefore, the development of services areas, attracting investors and protecting Latvia's interests in cross-border trade in services will have to become one of the priorities of Latvia's foreign policy.

Also, until 2048, the most likely scenario for world trade and investment development is *the status quo*, which would mean relatively small changes in Latvia's foreign policy as compared to today's situation. Therefore, over a 30-year perspective, it is more interesting and useful to analyze what a de-globalization scenario would mean for the Latvian foreign policy, which is definitely the most challenging of all possible options. Complete de-globalization and the return of economic systems within countries borders is, of course, an extreme case, and there may be less degrees of de-globalization possible, such as the division of the world into large, relatively isolated economic blocs, which is somewhere in-between the complete de-globalization and the preservation of the status quo.

Therefore, the first key issue for the de-globalization scenario for Latvia's foreign trade and investment policy is the future of the EU. If the EU maintains its unity, Latvia's trade and investment policy will not significantly differ from the current situation, but the emphasis will be on the EU's common challenges. This means investing in energy independence and shifting the industry to local consumption as well as replacing imports from the outside world. This would definitely open up opportunities for investment in Eastern Europe and develop the production of consumer goods in sectors that are currently dominated by low-cost developing countries, such as consumer electronics and consumer goods, light industry, as well as certain machine-building industries. Consumers will generally face the fact that everything will become more expensive and the variety of products will decrease, but there is limited overall impact on economic development in this scenario. The main task of foreign investment planners would be to use the restructuring of production chains in the world in order to make Latvia more involved in European-level production chains.

On the other hand, if de-globalization leads to a split in the EU, this would mean a very substantial upheaval for the Latvian economy. The share of foreign trade in Latvia is about two times higher than in the world on average, and if we assume that the average world tariff rate would increase

to 60 percent, then this would mean up to 20 percent of GDP decrease for Latvia. Such a shock would be equivalent to the crises experienced in 2008 or the beginning of the 1990s. The priority in trade policy, in such a situation, would definitely be to ensure access to the necessary natural resources, regional energy cooperation and the providing of market outlets for our natural resource industries i.e. wood processing and food production. Restricted export options will require the restricting of imports, and will most likely require the restoration of our national currency. In practice, this would mean to introduce a similar policy as was introduced in the thirties of the last century.

At the same time, the main focus for the investment sector will be to ensure necessary investment and technology solutions for redirecting production into substitution of imports. In this scenario, the ability to identify key technologies and gain access to them will be even more important in order to ensure the production system necessary for the functioning of the Latvian economy.

In addition, Latvia's investment policy needs to take much into account the need to adapt to climate change, as globally coordinated foreclosure is becoming much less credible. Therefore, the emphasis on investment varies from change to adaptation, and a certain dimension in this regard could also be suited for foreign policy, especially for cooperation at a regional level.

These challenges will be made more difficult by the aging population of Latvia and the decrease in the number of those able to work, as well as structural problems in the labor market. At present, Latvia's economy is highly dependent not only on exports of goods but also on services, and a large number of working population is employed in ICT as well as in other outsourcing sectors. With the change of economic model into a much more closed economy, the offered skills would exceed the demand of the local economy, as it happened with engineers after the collapse of the great Soviet industry. Consequently, the economic reorientation to a local market will be very complicated, economically expensive, and socially painful.

Of course, such a de-globalization scenario is very radical and de-globalization is also possible on a smaller scale, but in the next 10 and 30 years, there are certainly situations and factors that can lead to a significant shift in the trade and investment system of the world. This means that Latvia's approach to external markets and emerging technologies can be severely restricted, and therefore current free trade cannot be taken for granted.



We cannot be completely prepared for such a scenario, and it seems to be unnecessary as it would require large resources, which are more valuable if invested in the current economy.

De-globalization processes can happen in many different ways, therefore, Latvia's priority is to maintain the widest possible range of trade relations, at least in the region closest to itself. This means that in the current investment and trade policy, we cannot completely rely on the EU and other international institutions, but we need to build and develop bilateral economic relations with our closest neighbors. Such a relationship is not only an addition to existing policies, but it is in fact also a backup option in the context of a significant change in the system of world trade and investment. Latvia has a small and open economy, which is why it is very important for us to remain able to adapt to any changes. This requires understanding of global economic processes, strong relations with neighbors, and the ability to quickly formulate goals in changing external conditions.

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# Foreign Policy of a Smart State: Technological Opportunities and Challenges in Latvia of Tomorrow

MĀRTIŅŠ DAUGULIS

*"The past cannot be changed, but much can be done to not damage the future."<sup>1</sup>*

Smart Latvia's foreign policy and its future are directly dependent on the challenges and established developmental trajectories of Latvia today. Already, smart solutions are entering public administration today; in individual sectors where the regulation is at its best and, from today's experience, it is understandable that the state, with its core values, is and remains at the center of the development – smart solutions are only an effective extension. The opportunities offered by technologies in tomorrow's Latvia are the strengthening elements of today in terms of their availability and diversity, which are also discussed in this publication. At the same time, it must be remembered that smart solutions are never an end in itself, but a means to achieve strategic goals, including those within public administration and foreign policy.

At the same time, the smart state's future foreign policy is also directly related to the challenges of tomorrow's Latvia. Challenges that embody national threats come in a wide variety of forms and through the use of information and communication technologies in the information and digital space. This is an unequivocal threat, which is equivalent to rapid advances in technology and it also has the potential to evolve faster than we had expected. Resisting and protecting the state, while safeguarding foreign policy is possible, in essence, only through intelligent solutions that are at the disposal of the state. Therefore, the author in this publication looks at the future of smart foreign policy through these two points of reference – the opportunities and risks that, of course, overlap, similarly to smart states' development

vectors, and to reinforce the existing model of action and strengths against the need to think *about the future* so that the smart opportunities could protect that very same future from threats.

## **The future determines the present**

It is said that there is nothing simpler and more complicated than talking about the future. Looking into the future is tempting in order to understand which road to choose today. Future divination, as a custom, is characteristic for all peoples in their history; from coffee tasseography to molybdomancy, and it is even not so foreign in the modern (maybe even postmodern) 21st century. Only now we call it differently – forecasts, calculations, development scenarios, plans, and so forth. Today, it is possible to buy the future in the stock market, by basing the value of security only in the belief of a certain future economic growth. Unlike our ancestors, who had been modestly trying to find out what the new year might bring on New Year's Eve, countries are trying to predict their place in the world for half a century, and on the basis of these projections, governments make their *demos* accept today's policy. It is all done in the name of the future.

To some extent, British philosopher Alan Watts, who, while preaching Buddhist and Daoist thoughts in the Western world, said that the present in the life of the average Londoner is equally determined by his past and future – because of all the present actions the average Londoner applies to his ideal future.<sup>2</sup> Such a thought, just in scientific terms, is also justified by the theoreticians of the constructivist school of international relations. In his work, *The Mightie Frame: The Epochal Change and the Modern World*, Nicholas Greenwood Onuf, the father of constructivism in international relations, speaks of a “mightie frame” – the vision that (as of yet) is formulated by the developed Western world – the future development point for everyone to reach. The mightie frame is a rule above the rules, a law above the law, a future dream over the inconvenience of the present; a dream of the future, which is worth fighting for today.<sup>3</sup> Followers of Onuf who keep to the concept and significance of conflict in international politics in the best traditions of neo-realism, point out that the struggle for *the right future*, and the proof of it being correct on a daily basis, step by step, is the spirit of an era that dictates the dynamics of inter-state relations.

In this perspective, the Cold War with two visions (two ideal futures) and their struggle is a good example, but... it is far from being over. It has become more fragmented, yet more sophisticated where the vision of the world order, the right to states' existence in the areas of influence, and setting of rules on the international scale, is determined by lobbying their future model around the world, and in various themes – in religious ideals, economics and others.<sup>4</sup> The path to which the state is heading towards is just as important as its past, although it is not included in school curricula and mentioned very little in the speeches of statesmen. Here we can speak about the direction of behaviorism, where the thoughts of nations and peoples are equated with the psychology of an individual thinker, and one of the definitions of depression is the inability to construct the future.<sup>5</sup> Convince the country and the people that they do not have a future, and they will give up on their present, trying to find justification for the failures of their past. On the other hand, when an individual (nation, state), gathers its strengths today (in the present), by doing so is restoring its faith in the future. This is an appropriate time to mention Zigmunds Skujiņš's quote, "The past cannot be changed, but much can be done to not damage the future."

By drawing parallels with this topic and those of technological development, as well as their place in Latvia and its foreign policy in the next century, the subject of this publication becomes even more complicated and inconceivable. Quantitatively speaking, the development of technology is exponential, and it's hardly possible to describe precise tools and solutions today. However, it is possible to describe the trends in technology in the world, as well as the environment in which such technologies have a place to develop. Namely, referring to the aforementioned, it is important to determine what kind of environment the state wants to strengthen and what kind of functional goals does it want to achieve already now; what does the state need today, what technological trends would allow it to achieve its goals, knowing that certain instruments and tools will *solve themselves*, as well as keeping in mind the pace of progress. The future begins today. Foreign policy and foreign affairs are happening at this moment. Future technologies and smart technologies are only a means to intensify the developments that we have deemed to be good, today. The author of this publication will also look at the technological trends in the *exponential future*, in line with the challenges of today's foreign affairs and possible future vision.

Being aware of these digital tendencies, it should be noted at the same time that alongside those, there are others which cannot be described or predicted. However, in the case of a state, it is responsible to look at future trends by building an open future today. In order to understand the open future and what kind present should be built today, in the next chapter, the author will contemplate what kind of foreign policy foundation should be formulated during the next 100 years, while the final part of the publication combines foreign policy and technological aspects.

## **Smart state. Smart foreign policy. From today into the future**

Speaking of a smart state or smart foreign policy, the Latvian language has an advantage in the rich meaning of the term “vieds,” which means smart or wise. Accordingly, the translation of *smart solution* into Latvian, which is related to technological progress, is called smart or wise solution (*viedais risinājums*), is more promising than if one would just say an intelligent solution. Smart state and smart foreign policy allows one to discuss the intent, the cause, the bigger picture, and not only the technological functionality. At the same time, technological opportunities are organically integrated into the main tasks. As was pointed out in the World Congress of Latvian Scientists, organized as one of the events for Latvia’s centenary, the smart state is based on the ability to cooperate, and on a person who can both create and use information technology in the name of a better future.<sup>6</sup>

It is no coincidence that Latvia’s centenary and a smart state are linked. The information and communication technology sector in particular, sees a link between Latvia in the next hundred years and the development of the status of the smart state. The ICT sector’s vision of development has been repeatedly mentioned, i.e. a smart state with the potential of already highly developed functioning technologies, on which the further development of the economy and society is based. According to the data of the World Economic Forum, Latvia is ranked third in Europe as the source of new business ideas in new or existing companies, and information and communication technologies have an important place in the Latvian export balance.<sup>7</sup> Actually, the paradox lies in the fact that in the development of the economy, taking into account the global trends, there is really no development scenario other than smartization, which in this case includes a number of components such

as research, innovation, technology transfer, technological development, and high value-added economics. It is impossible to keep Latvia's growth at its current pace if we are not able to use the smart state's potential in a fast and efficient manner. If we understand how it works in the private sector, and the society recognizes the need for the economy to grow wisely and smartly, what are the prospects for the state administration, especially in foreign policy?

The following question arises while looking at smart foreign policy in the context of a smart state. In which areas can we make foreign policy smart? First, in areas that need to be strengthened and only afterwards focusing on technological means. In order to determine what kind of smart foreign policy we want and can see for the future, we need to understand what kind of foreign policy we want at the moment. There are two answers here. First, it is possible to determine the main foreign policy priorities, which are long-lasting in the history of independent Latvia and in the view of the Ministry of Foreign Affairs itself, as well as to match them with technological possibilities. Second, the foreign affairs of Latvia are part of the Western governance model in terms of state administration, and we can clearly see the values, among other things, in the context of good governance and better regulation.

When it comes to long-lasting values, they are based on democratic values and international justice. It is expressed in the Foreign Minister's annual report on the accomplishments and intentions of the country's foreign policy, and issues of the European Union year by year; in different words, but keeping the same idea. Latvia's independence and sustainable security is based on the international order, which in its turn is based on universal values and international justice. Since re-gaining its independence, Latvia has been advocating for the observance of international law and human rights. The defense of these principles and fundamental values was necessary for restoring Latvia's *de facto* independence both historically, and in implementing the transition to a democratic and legal society, because they serve as the daily routine for shaping the international image of Latvia in the turbulent times of today's international relations and global challenges. It is in the best interests of Latvia to promote the observance of international law, even though Latvia could rely on the protection afforded by it, limiting the arbitrariness of other states or their groups in their geopolitical interests as much as possible. When quoting Foreign Minister Edgars Rinkēvičs,

“At a time when we face the challenges posed by hybrid danger to Latvia’s security, respect for international law and human rights is also a matter of Latvia’s security and stability. The level of respect for the rule of law has a direct impact on the country’s potential growth ...”<sup>8</sup>

At the same time, it is very important to emphasize that in the context of today’s and future Latvia’s foreign policy and defense, the threat is no longer merely military. The country’s sustainability versus external influence is directly dependent on the critical thinking skills of the society; media literacy at one end of the spectrum of challenges, and at the other end, the infrastructure for the transmission and storage of critical information. There is a certain paradox though, which is the fact that the justice of the state, its fundamental values, and their daily routine, can be distorted from the outside in the information space and thrown back into a general consumption of information by the unsustainable society, destroying the country from within through human minds and, ultimately, their hearts. New technologies and approaches to their use in a national context allow the use of hybrid offensive structures in an unprecedented way up until now, linking the interests of organized crime, third-countries, and stakeholders, in an undivided hub with an anti-state and anti-Western attitude.<sup>9</sup>

Although it would be best not to get involved in dealing with this issue but rather leave it alone, the character of smart challenges is also defined by their high degree of detail and fineness. What this means is that the state, its foreign policy, and defense institutions, have no alternative but to slowly and consistently provide state protection at all levels; e.g. every day, gradually, with the support of international partners, and by reacting flexibly to *ad hoc* cases.

Here is also the first concrete vision of how to use technology in smart foreign policy. The challenge of foreign policy in the next 100 years will be to develop technologies that counteract technology-based threat to the state. It means that technologies as foreign affairs’ and state’s self-defense are an integral part of a smart state. In this case, the development of technological excellence in smart foreign policy involves aspects such as monitoring the information environment in the context of foreign affairs, adequately responding to the dissemination of false information, false news and hybrid threats, and technological protection for critical infrastructure.

As the technological aspect includes both the field of information and communication technology, the aspect of the information space is also something that needs to be taken into account from a proactive perspective



of the foreign sector; namely, strategic communication as a separate sector for *keeping information in the field of truth* and correct presentation of information. This, in turn, means expanding the channels of communication, and at the same time personalizing it so that any citizen in Latvia and in the world can have access to nationally relevant information. Here, the Foreign Ministry has a crucial role to play in communicating with Latvian citizens abroad, offering correct, true, and up-to-date information on the processes taking place in the country, which is essential for each individual citizen.

It is essential to apply the same technological protection mechanisms not only to protect Latvia's information space and critical infrastructure, but also to take into account that Latvia is a part of the European Union and that any attacks on its core values are an indirect threat to Latvia. The report of the Ministry of Foreign Affairs firmly states what European values are,

“...the European Union is not only a union of European countries based on legal principles and agreements. First of all, it is a common space of Western values, based on a common cultural heritage and a vision of the world. It is important for Latvia to stand for European Union's values such as strengthening of equality, the rule of law, human rights, including minority rights, pluralism, tolerance, justice and gender equality...”<sup>10</sup>

Along with the foreign sector and its fundamental values, which are the core for attracting technologies only as means of strengthening these values, foreign affairs are also formed by the principles of universal good governance, which its implementation and advocacy also have the potential of smartization. There are many definitions and interpretations of good governance, thus confirming the theorist in political science John Graham's thesis that “governance” in itself opens up a new intellectual space<sup>11</sup> a particular industry, especially in the century of digital overload. According to the European Council, good governance<sup>12</sup> is responsible public service and responsible management of state resources. More specifically, the recommendation of the European Council of Ministers to the member states on good administration, which defines certain principles that should be observed in relation to natural or legal persons with a goal to achieve good administrative governance. The principles for good governance are as follows: 1) Justice; 2) Equality; 3) Objectivity; 4) Proportionality; 5) Legitimate expectations; 6) Observance of Reasonable deadline; 7) Participation; 8) Compliance with Privacy (Data Protection); 9) Transparency.<sup>13</sup>

These principles are focused on ensuring process quality in decision making. Their connection with the concept of a smart state was, content-wise but not focusing on technology, introduced by Iveta Reinholde already in 2013, explaining to the Latvian audience the distinction between smart management and regular *good governance*. If *good governance* is defined by the principles, which should be followed during the process of developing policy and regulatory acts, assuming that if the policy-making process has been appropriate and open, then the result will be one that will satisfy the public; then, smart governance implies that attention must be paid equally to both the process and the achieved result. Smart governance is based on the assumption that, while designing policies, regulations and any administrative framework, one must take into account the expected outcome, which is received by the end-user and not by other governing bodies.<sup>14</sup> Smart governance offers a wider perspective on problem solving; a more inclusive approach. In the digital age, smart management does not make technologies as a panacea, but it includes them in solving its potential problems as one of the most accessible resources.

As it is said by I. Reinholde, intelligent management focuses on solving complex problems that cannot be solved with bureaucratic, routine-like methods, but new approaches and forms of institutional cooperation must be sought, while contemplating both the rationality of the problem solving process and the usefulness of the expected outcomes for the people.<sup>15</sup> This, of course, opens not only a field of universal opportunity, but also a field of sufficiently universal challenges. Openness to constant change, and the need to devote serious resources to technological progress, must be a common norm so that policy makers and decision-makers in public administration are able to see the technological possibilities for smartization. In addition, smart politics cannot have a fragmentary nature because then it will contradict smart policies of other government departments. The biggest challenge for a smart-state as well as smart foreign policy is a unified approach to data and a unified view of their usability and capabilities. This, in turn, means that the smart-state must be a priority at all decision-making levels; yet this is not enough.

Increasing digital and strategic communicative competences affects all administrative policies from the staffing policy to the organization of internal processes. There are no exact formulas in this case, there are only permanent searches for form and content to effectively adapt to external challenges. It is essential to see digital / informational competencies, not as

an additional functional sector with its own distinct field of action, but as a universal competence that accompanies any decision or activity.<sup>16</sup> Such a view, although simply understandable, is a challenge both from the points of view of form and content. From the point of view of form, one must be aware that each institution, whether governmental or non-governmental, has its own internal hierarchical structure, delegation of functions and responsibilities. Usually, these are public relations and communication departments, as well as IT departments that manage the institution's external communications and provide for its technological needs. There are two risk factors in this situation: first, all resources of the organization are not used, as would be possible if strategic communicative competence and understanding of IT opportunities were shared among all of the members of the organization. Second, in response to technological hazards, understanding how to act and consequences of these actions are also not something that can be delegated to a specific department. While technically it might not cause any problems, at the level of understanding, it would mean that everyone involved in the administration must understand the ongoing process, at least in the context of the guidelines.<sup>17</sup> For this to happen, it is necessary to have a common, consistent awareness-raising understanding at the value level, making the recipients into participants in strategic communication. Consequently, smartization of an administration includes not only the already existing understanding of values and the horizontal expansion of new competences – the gradual transformation from “being alone” to “coexistence” in each field and industry, but also deepening the concept; knowing that the smart-state also requires long-term homework on the preparation of all groups of society, strengthening of values, explanation, and involvement.

## **Technology trends across borders and a country**

The impact of technology on public administration, as compared to the impact of technology on the economy, the service sector, and the flow of information, is essentially a topic that is still scientifically new. Therefore, it may be logical to observe that the predictions about the future and about technology by the world's leading forecasting companies often do not mention countries or borders.<sup>18</sup> Technological progress is essentially the highest point of globalization because it has no nationality. It sees differences in national laws as a hindrance yet digital language is universal and supranational. Countries,

to some extent, have to adapt to the pace of technology development and the challenges they face, just as large and static enterprises must in a changing and flourishing business environment. This is also the reason why different uses of language for future technology trends are used, and not always with positive sentiments. The English term “disruption” serves as a good example.<sup>19</sup> It is used to describe today’s and future environments’ convergence in the area of technology and business; the so-called *great breakage*. Progress breaks existing patterns of action, because technology affects every field of life, and does it so meticulously that it is impossible to calculate it; only suspecting that it exists.

While summarizing a series of audit companies, as well as technology futurologist analyses, it is possible to outline trends that will manifest themselves in various, and currently unpredictable, functional solutions. These are the following development tendencies that must be taken into account.

## Focus on opportunities created by artificial intelligence

The opportunities offered by artificial intelligence for the near future have brought about significant changes in business thinking. In 2017, tech giants including *Google* and *Microsoft*, focused on the “first artificial intelligence” strategy, which has created certain kind of cult status in the way of thinking about future solutions.<sup>20</sup> The most advanced companies, in their activities as well as in the strategic guidelines, demonstrate the desire to use artificial intelligence and related tools such as process automation, *freeing* administrative resources, and simplify data collection, arrangement, and accumulation, likely without a clear vision of how exactly to use this data. The arrival of artificial intelligence in the economy opens up discussions on national data processing, a country’s Big Data, and factors such as labor availability/mobility, the shift in qualification focus and other approaches to organize wide range of processes.

In this case, the possibilities of foreign policy, in connection with Big Data and the use of artificial intelligence, directly relate to maintaining links with citizens abroad, as well as real-time online communication, if necessary. Any field monitored by the Ministry of Foreign Affairs in its area of competence can be subdued to smartization, e.g. bringing citizens, processes, and information closer together. The use of Big Data and artificial intelligence, of course, raises the question of the scope of oversight and accountability of

the Ministry of Foreign Affairs. However, there is also a clear tendency here, which suggests that public administration institutions, instead of separating themselves from new responsibilities, should instead serve as a united platform for previously unrelated processes.

However, there are also significant risks. The opportunities created by artificial intelligence and Big Data work only in case of a high level of data protection. The cyber security aspect is a cross-sectional element of all technological capabilities, which are mentioned in this section. However, when it comes to Big Data and its security, cyber defense is of paramount importance. The author in this case will permit himself to be radical in his opinion, when saying that only by developing cybersecurity and defense capabilities, or by being able to protect the resources, e.g. the data needed to provide technological capabilities, the smart-state should be allowed to take steps towards any further digitization.

## Personalization and customization

To identify precisely what an individual needs, and to offer tailor-made services, has become a trend in any industry. It has also gradually changes consumers' way of thinking by requiring an increasingly personalized approach to any service, while at the same time unreasonably increasing costs or surplus resources such as waste or emissions.<sup>21</sup> Personalization has become a major customer requirement that companies need to provide in order to remain competitive. The personalization of the service in the provision of public administration services, judging by this trend, is not only a possibility, but also a matter of necessity.

Should foreign policy become closer to the citizens of the country? It is clearly known that technological opportunities offer this chance. Each and everyone would have a personal Ministry of Foreign Affairs, from the point of view of usage or from an information accessibility point of view, according to personalized needs and settings, as well as the transfer of more accurate information to citizens from the Ministry of Foreign Affairs, if necessary. This is an aspect where, in all its splendor, the potential of social networks for reaching the segmented and targeted population is revealed.

The risks of personalization and customization are relatively small and, by their very nature, the only risk is the overactive migration to personalized and customized platforms, leaving behind the existing ones. The amount of people

who still do not use smart technologies should be taken in consideration here. Although this number is steadily decreasing, real personalization and customization also include the preservation of more traditional platforms, adding smart technologies to existing communication networks, rather than replacing them completely.

## Data platforms for personal data valuation and protection

Personal data has become an economic advantage. However, the lack of consumer knowledge about what is used directly, and how much it really is worth, can lead to unwillingness to share data. Personal data valuation platforms will help to inform people about the value of their data by managing a range of new products and services, designed to help consumers gain ownership over their personal information.<sup>22</sup> The role of the state in such circumstances is related to the correct application of data protection law e.g. the case of the General Data Protection Regulation (GDPR), and proactive action in communicating with people about their data and its applicability. The challenges of data exchange in a transnational context will, in this case, be the direct competence of the foreign affairs sector.

The protection of the data at the disposal of the state should not even be a subject of discussion, but rather an obvious priority. The competence of the Ministry of Foreign Affairs in this case is not only the introduction and clarification of the regulation in the context of the GDPR within its field of competence alongside other ministries, but, at the same time, the promotion of public awareness in the field of data security, also outside the national and transnational context.

In turn, the risks posed by personal data validation and protection platforms can only be related to data leakage or unreasonable data collection, which means that the data collection and maintenance policy has a particularly important role to play. The risks to cyber space and the informative environment in the context of the threat of a hybrid dangers are definitely worth mentioning, both in case of this and other challenges. The introduction of a single EU Data Protection Platform is a separate risk, but at the same time a possibility. For example, when it comes to migration control measures, which, from the current point of view is only a theoretical concept, but can in practice become the reality of the next decade. In this

case, the Ministry of Foreign Affairs of Latvia will have to be integrated with other state institutions in order to connect to the common data system, which means that today's systems should be as adaptive as possible or, to put it simply, with regard to the future, in order to avoid additional barriers in case of harmonization.

## Service platform model

Changes in both business and consumers' needs have led to the growth of the service business model, with the ability to transfer a large part of the resources to an external service provider or, on the contrary, developing a platform that assumes an unlimited number of service providers. Companies, as mediators of services, change the structure of national economies around the world in principle, by making them more cost effective and using ever more efficient platforms on the web for a wide range of needs. By 2020, the global *XaaS* (anything as-a-service) is projected to grow by 40% <sup>23</sup> every year. This aspect also puts the public administration on the forefront of unprecedented challenges such as maximizing resource efficiency through outsourcing public service delivery.

In a sense, the *XaaS* model, judging from the perspective of public administration, is a theoretically more complicated, although technologically lighter, outsourcing model; only in this case, in context of the 21st century, a so called *übereconomy*. It is not currently discussed that the state or its separate body could become the holder of the *XaaS* platform, although it would be a business-boosting model. However, the issue of ministry participation in these platforms is still under consideration.

The risk in any service platform model lies in the quality of the service, data security and cost control, as well as the inclusion of the system itself in the existing regulatory framework, e.g. on tax issues. All these matters are significant for a state, and the ideological basis for the discussion is how far the state can go in delegating part of its function to this kind of service platform, while at the same time being sure about the achieved result.

## Sustainability becomes the key feature of innovation

The sustainability factor for offering new services and products to customers is one of the key elements that emerges at all levels of innovation. This desire has come at the same time as an official mandate, such as the efforts

of national governments and collective international organizations such as the United Nations. The UN's ambitious sustainable development goals will increasingly be reflected in enterprise innovation programs.<sup>24</sup> In developing their policies and providing services to its people, states should not only take into account the sustainability criteria, but also fulfill the essential function of the informer and the communicator; to publicize these criteria in society as well as inform about the progress of their implementation.

In the author's opinion, the aspect of sustainability, and the criteria related to it, is one of the greatest opportunities for the Ministry of Foreign Affairs in the context of a smart-state. The UN sustainable development goals are a key element in the processes taking place in society; highlighting and rewarding more sustainable enterprises, linking public diplomacy and soft power with the progress towards achieving sustainability criteria, and developing skills and competences to help other countries reach them, are the ways which the foreign sector can be fully realized, all combined with technological innovation.

In the context of sustainability, the risks are associated with a failure to reach or retreat from the sustainability criteria. In the technological perspective, the individual risk is the informational deprivation of the business environment and the state as a whole from the demand of a globalized society for sustainability-enhancing products and services.

## Blockchain technologies

Experiments with blockchain technology have become a distinct trend in the world of technology, focusing on building trust networks, improving process transparency, and cutting costs. It is essential to be aware of the fact that blockchain technology encompasses not only obvious financial applications, but also innovative solutions for energy, trade, marketing, healthcare, security, and other aspects.<sup>25</sup> The national legislation in the case of blockchains, as well as open mindedness, without linking the blockchain aspect to the cryptocurrency discourse, can be tied to any country's aspect, including the next *Nokia*.

The closest thing to reality in foreign policy is the introduction of blockchain technology in the context of information security, e.g. verifying or pinpointing fake news, as well as in the context of the verification of multi-stage processes. The transit sector can be mentioned as an example.



An essential element in the application of blockchain technologies is to use the window of opportunity, i.e. to consider technological solutions as soon as they appear in the market in use by other countries. Quite definitely, as technological advances continue to tally with attempts to influence elections and politics, blockchain technology could be one of the solutions in electoral processes. Of course, before speaking about it, the Latvian public should come to a consensus on the introduction of electronic voting (as it is in Estonia), although this does not significantly increase the number of voters, yet the electronic opportunity to vote reflects the public's confidence in *digital governance*, and serves as a credibility tool rather than functional need.

The risk of blockchain technology, of course, relates to the financial sector and its unpredictable nature. Recognizing that blockchain technology in the context of cryptocurrency cannot be relatable to foreign policy, at the same time there is a risk that decision-makers at both the political and the civil servant level associate this technology directly with the cryptocurrency, thus preventing even other types of blockchain technology from becoming a potential subject of discussion.

## Prescriptive data analysis would improve decision-making process

*Prescriptive Analytics*, or analysis of smart data in a current moment, is the processing of large amounts of data for simulation and decision-making processes, as well as for making new conclusions from already available but unprocessed data.<sup>26</sup> This area also relates to the analysis of volumes of data not yet included for the needs of a particular industry, such as mobile phone traffic analysis for road infrastructure measurement, etc. In accordance with the above-mentioned tendencies in technological progress, the use of unprecedented access to data analysis, in particular by simulating pending policy initiatives and their effect on public and economic processes, can be used to improve the efficiency of national services and the application of new services.

Real-time data analysis, or so-called *digital twin*, is not yet widely discussed in popular media or society, but is one of the most compelling aspects of technological progress, unfortunately, even in the field of state security and defense. Digital twin is a simulation model that can test the impact of the external environment on a particular subject, thus making decision making

process more effective.<sup>27</sup> Digital twins will enable companies to respond to change, improve and test activities that have not been possible so far.

In the context of foreign policy and the hybrid war, the simulation of situations is not only an issue of technological development, but can be seriously used to find out the true defense capacity of a country, as well as openly discredit a country by announcing the results of such a simulation, for example by disseminating information on winning a war before the war began. This aspect is closer to the science fiction world, but in the fragmented form also needs the most attention from the state, as it primarily affects the defense sector.

## Convergence

As new technologies and new business models transform, sectors, lines, categories, and divisions converge in a variety of ways. Sectoral convergence opens up huge opportunities for organizations to develop by offering new products and services. For example, automotive companies invest in app development while working on mobility solutions, while banks are approaching financial engineering solutions *fintech* to reach consumers more effectively.<sup>28</sup> Of course, the convergence aspect changes the thinking of the consumer (in the case of a state – a citizen), public services providers are expected to provide services they did not previously provide, the resources and uses of organizations and institutions are publicly assessed, seeing convergence potential in resource saving. Typically, the pressure created by the convergence trend of the commercial sector in parallel creates another factor – a so-called one-stop-shop effect,<sup>29</sup> or customer's desire to get the entire service through a single point of contact, whether it's in the corporate or national context.

By merging previously segregated industries, the gap between the client and the service provider will be reduced; the same applies to a citizen and a country. Of course, in the course of development, the demand for quality information/product/service is going to increase. In this context, the greatest challenge for the foreign affairs sector and, at the same time, the greatest possibility, will be to smartly expand its monitoring areas and, in so doing, become a one-stop-shop for citizens in Latvia and abroad, *delivering* answers to any questions that people associate with intercultural relations. With increasing information noise in the international media space, the timely and

focused view and explanation by the Ministry of Foreign Affairs of loud and differently reflected events in the world, in accordance with national values and interests, is also a chance, which, if not utilized, may pose a risk.

The pressure on the need for convergence is directly linked to the risk of an increase in the burden on the administrative apparatus, which in turn is a significant threat to the quality assessment of political activities in the public eye. Consequently, in order to address such risks, the functional convergence aspect should be carefully considered together with the reduction of administrative burden. In the case of the introduction of technological innovations, although initially innovations will work alongside with the usual operating models, their goal should be resource efficient development.

## **Conclusions for tomorrow. Smart centenary in Latvia**

As for a smart-state and the development of world technologies, it is clear that a smart-state does not begin with technology, but with a clear sense of value and where it is heading, with technology being merely a means to achieve this. Of course, simultaneously, in the context of technological progress in the world, there are new opportunities for safeguarding national values and achieving goals, as well as new threats. Public threats and national security, as one of the points of view on the issue, lead to a simple conclusion: the smart-state's foreign policy and defense policy must be able to respond adequately to the challenges and threats posed by technology. This means that cybersecurity areas and the proactive ability to identify the direction of danger in cyberspace is a smart-state's top priority. The future pillar of a smart-state is its ability to ensure security.

Second, technological pressures on the national economy, i.e. the breakage in the usual management models, undoubtedly also put pressure on the country as a service provider for its clients i.e. citizens. The ability of the nation to respond to the needs of citizens as quickly and efficiently as private sector service providers can, is no longer an option, but an opportunity in the context of the growth of ubiquitous quality standards. This in turn means that the smart-state must be able to reconcile the data systems at its disposal, make full use of the data already in its possession, and correctly collect new data, while ensuring its protection. The future pillar of a smart-state is the quality of service.

Third, the smart state's characteristics also can be seen without technologies, namely, in the context of its internal good and smart

governance. Of course, technological solutions are also undoubtedly a tool, in good and smart governance, but primary consideration here is the principles and values. In spite of the fact that smart governance in its manifestation is the overriding goal, according to author's point of view, Latvia still has the potential for achieving good governance goals, but at the same time already strategically incorporating the principles of smart governance. The future pillar of a smart-state is smart governance.

Finally, it is important to understand *when* a smart-state begins. This is not a future perspective, because considering it as a future perspective, there is a risk of a smart-state moving away from the horizon. A smart-state must be accepted as a present, present-day priority at all levels of administration, knowing that we are moving towards it day by day by making every decision. Any normative act which, without a reason, prevents the possibilities of open technological solutions or, quite the opposite, mistakenly accepted, posing a threat to the national information space, is a step back, a step away from a smart-state. However, any decision taken in the form of *smart governance* is a step closer to a smart-state, as we all imagine it, with all the possibilities for a prosperous Latvia. A smart-state is not the ultimate goal; a smart-state is the path to everyday politics that has begun right now.

All of these aspects are directly linked to foreign policy. In the author's view, with the merging of the global informative space and strengthening hybrid threats, the Ministry of Foreign Affairs will undoubtedly be facing a challenge to become the "authority," or the voice of true and explanatory information when interpreting foreign policy domestically, and upholding the image and principles of Latvia beyond our borders. At the same time, without losing its current operating principles and form, only expanding them to the realities of the 21st century.

Smart foreign policy in perspective of ten years is linked to a complete transition of the state to Western structures, principles, and value space, with a great emphasis on the development and preservation of the basic principles in every aspect of public policy and governance. A thirty-year perspective in the context of technology is like an open book, and the future perspectives will not only depend on the existence of technologies, but more importantly, on the readiness of the state to adopt them with an open mind, in order to implement its strategic objectives.

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# The Energy Sector in Latvia: The Kind We Are Not Yet Familiar With

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Are you ready for the future in the energy sector? The future might look different from today. The main components of it are smart and very complex energy systems, energy production, and consumer and computer system security experts. This publication will look at the two, in my mind, most plausible scenarios for the development of energy sector until the years 2028 and 2048, by trying to forecast what the energy sector in Latvia will look like when the first-graders of 2018 will have become, first of all, active and conscious energy users and after that, the driving force of the Latvian national economy by forming an economically active part of society. In the following pages I offer you a look at a plausible development of the Latvian energy system in a thirty year timeframe. In the publication, I do not give detailed mathematical calculations; a detailed analysis and modelling would require too many resources both from the performer of analysis and from the reader, and would risk losing the reader already in methodological descriptions at the beginning. The aim of this publication is to give a high level evaluation of how the energy sector in Latvia might look after ten and after thirty years.

Today's first-grader will live in a society where he or she will [hopefully] be told about the various options and the logic and meaning behind the choices and responsibilities of energy use, while still studying in the final year of school. Since the energy user of the future will have to get to know the adult life early, so that the new participant of an economically active society, with full responsibility, would be able to participate in the process of the energy system as an energy accumulating and producing consumer, who is able to understand and appreciate the logic of introducing smart technologies in all things. Because today's first grader will be thirty-seven years old in 2048 and will be ideologically convinced that fossil fuel is history, renewable and

inexhaustible energy resources and effective use of energy is both for today and for the future. The thirty-seven year old responsible energy consumer will be certain that increased opportunities for even better energy systems can be provided by using even more data, even more information, and that the biggest threat to energy system is not sun that is too hot or winter morning that is too cold, but some similarly aged individual in Latvia or from abroad with excellent knowledge in computer technology and who is ready to use these skills to destroy the balance in the energy system, to cause outages or create emergency situations. Tomorrow's programmer is future's power engineer. Today's first-grader after thirty years will not ask questions about whether or not an open energy market is good and what its benefits are. Or, why the use of fossil fuel for energy production is not a sustainable solution from a point of view of energy usage or environmental interests. In the publication I will explain what kind of energy system and sector and why today's first-grader will be looking at it in the seemingly distant year 2048.

## **Why are interconnectivity, energy security, and critical infrastructure important for Latvia?**

The functioning and development of the energy sector is crucial for all countries. No modern economy can function without energy and energy infrastructure, a state cannot fulfil its functions, and citizens cannot live a fulfilling life. The energy sector is characterized by a need to plan for long-term development, and it refers to both infrastructure and investment. The power sector is also one of those industries whose operations and development, because of its importance and impact, is broadly assessed from the viewpoint of risks.

Why are interconnections, energy security, and critical infrastructure important for Latvia after all? Interconnections provide connectivity, the physical possibility to import electricity when the domestic production cannot generate the needed amount, or when domestic production costs more than importing it, or the local production capacity for whatever reasons is not available. Latvia has two electricity interconnections with Estonia, one with Russia, and four with Lithuania. The Infrastructure of gas transmission that connects gas transmission systems between countries, and gives an opportunity to provide gas supply through pipelines from one country to another, also has to be considered an interconnection. However,



the concept of interconnectivity has to be looked at in a wider sense, also applying it to the terminals of liquefied natural gas (LNG). Latvia has one interconnection with each – Estonia, Russia and Lithuania. In a regional context, interconnection gets another value – Klaipėda in Lithuania also has an LNG import terminal, which provides certain flexibility options, when organising gas supply for the region. In a situation when a decision about the connection of gas transmission systems in the Baltic States and Finland will be taken, we can speak about even broader opportunities of gas supply for Latvia, if the need occurs.

Critical infrastructure is a term, which is used to describe infrastructure objects, their systems or parts that have crucial importance for implementing important functions of society, also for providing protection of human health, security, economic or social well-being of people, and it would significantly affect the implementation of State functions in the case of destruction or disruption of it.<sup>1</sup> The notion of critical infrastructure is used to identify infrastructure in the European Union that is important for the functioning of society. With reference to European Union Council Directive 2008/114/EC of 8 December 2008, which provides for identification, designation, and protection of critical infrastructure also on the scale of the EU, the National Security Law of Latvia implements a rule that states what infrastructure objects can be regarded as European critical infrastructure. The main criteria is defined as a hypothetical situation, when reduction of operational capabilities or destruction of specific critical infrastructure would significantly affect at least two European Union member states. The significance of such impact is assessed with transdisciplinary criteria, including consequences that result from the dependence of several sectors on other types of critical infrastructure.<sup>2</sup> Energy sector infrastructure objects clearly are a part of that category of infrastructure objects, which qualify as elements of critical infrastructure.

The energy security term is the broadest of the three because it includes elements that refer to the capability of state to produce a sufficient amount of energy so that in a situation of crisis it would be possible to supply energy to the most important consumers, maintain cross-border connections of energy systems, diversify energy supply sources, types, and suppliers, increase the capability to provide physical security to critically important energy system infrastructure objects, and increase capability to provide energy supply to consumers at an affordable price. Decision making that is important to the

sector is also considered energy security – the ability to forecast and plan the sector's policy and regulations to provide uninterrupted and quality energy supply to end consumers, is the basis for the sector's development.

As the development of the energy sector is planned in long term, a more plausible analysis of development scenario is made both easier and more complicated. It is easier because it allows making relatively easier prognoses of necessary investments in infrastructure in a longer period, and identification of specific needs and recognising them as priority means a stable development trajectory. Decisions in energy sector are carefully thought out, evaluating their long-term impact on the sector itself and also the national economy. Long-term planning makes the analysis of scenario more difficult practically because of the same reasons – a prognosis can be made, looking from today's perspective, about the most reliable scenario of development, but even one decision about an issue related to the sector can significantly change the scenario of development.

In this analysis I will look at two, in my opinion, of the most plausible scenarios of how the energy sector in Latvia could develop after ten and after thirty years, or in years 2028 and 2048 respectively. It has to be taken into account that in both scenarios the situation after thirty years, to a large extent, will depend on decisions that will be taken in the next ten years. Of course, it cannot be stated that the development of scenarios can be only linear – each of scenarios about the situation after ten years can have also two or more scenarios for the situation after thirty years.

When evaluating the most plausible scenario, one has to primarily look at how the situation will have developed in the main areas of the sector – electricity and gas supply, and electricity generation. Each of the two mentioned larger areas of the sector play a role in energy security – starting from the necessity to produce energy and ending with energy supply to consumers, whether they are industrial consumers or households. Not to be misleading, that energy efficiency is not mentioned as one of the main branches of sector, it must be underlined that an optimal and efficient use of energy resources and saving of transformed energy is a factor that relates to all possible scenarios – energy efficiency is an absolutely important, so called, horizontal factor in the energy sector, and it has a significant role in improvement of energy security and in the circulation of energy resources.

Similarly, the situation in Latvia has to be looked at in a regional context of the Baltic States, Baltic Sea States, and even European Union.

Several actual situations have to be taken into account in the analysis of scenarios. First, up until now Latvia has been a member of wider energy system on the basis of the so called Belarusian, Russian, Estonian, Latvian and Lithuanian or BRELL collaboration platform. Second, Latvia, just as Estonia and Lithuania, has become a member of the Baltic Sea region's strongest power exchange, *Nord Pool*.<sup>3</sup> Third, a decision has already been adopted about the synchronisation of the Baltic States' power grid with the European system and disconnecting from the power grids of Russia and Belarus.<sup>4</sup> Fourth, with active support of the European Commission, the new Baltic Energy Market Interconnection Plan (BEMIP) has become an important framework for the development of the Baltic States' energy system. Its primary objective is to improve and strengthen Estonian, Latvian, and Lithuanian energy security by developing mutual interconnections between the Baltic States, and also interconnections with other EU member states. Thus, the very important conditions for energy system development have already been clearly outlined, however, variation possibilities still exist. In the following chapters the factors affecting power grid development scenarios will be examined in detail and possible development scenarios will be analysed.

## **Factors affecting pattern of scenarios**

Decision making about transmission system development is affected by the need to provide an uninterrupted, secure, and quality power supply for all electricity consumers, and in the case of natural gas – for consumers of natural gas. Moreover, energy must be supplied for a price that consumers can afford to pay. Energy security term is closely linked to development which is sustainable not only for the energy sector, but also for the environment and the climate. In its most important documents about energy and environment, the European Commission also points out that power supplies must be secure, energy should be affordable for consumers, and it should be climate-friendly.<sup>5</sup>

The way how one or the other development scenario will form is related to factors that are affecting primarily these very aspects – continuity of supply, security of supply, quality, and commercial affordability. Energy production and supply sources are needed to ensure continuity of supply. Transmission infrastructure, different sources, ways and types of supply,

are needed to provide security of supply. Systematic investment into the maintenance and development of infrastructure, and also a good sectoral and infrastructure management system, which excludes or decreases to the minimum the risks associated with energy security, are needed to ensure quality of supply.

When analysing the most plausible development scenarios, information in the official sources (laws, regulations, initial reports), processed information from other sources, third-party reports, researches, news, sector news, and also correlations and logic related to energy sector development, were all taken into account. The main role, however, is played by primary sources of information affiliated with the energy sector – annual reports, special reports and official announcements.

The most important information of the sector when creating a scenario can be obtained in the transmission system operator (TSO) ten-year network development plan or, to be more precise, plans; in evaluating historical and current annual reports and forecasts about power demand and availability of energy producing sources, certain trends appear that allow the drawing of conclusions about the development of the situation in a more distant future. Significant information for making conclusions is also given by ENTSO-E (in case of gas transmission system – ENTSO-G) ten-year development plans, which combine projects from national TSO development plans. Several significant activities in the TSO development plans are related to Latvian interconnection infrastructure development, and also to the strengthening of domestic networks, which is related to Baltic electricity transmission system stability and security, and development and strengthening of a well-functioning Baltic electricity market.

Ten-year development plans are also of importance because strategically important infrastructure projects can obtain EU Connecting Europe Facility (CEF) funding only if they are included in the ten-year development plan of infrastructure and are approved as projects of common interest (PCI). It means that each project that wants to qualify for EU co-financing has to go through a careful planning and evaluation process. Every few years, the list of PCI is updated, taking into account the changes that have occurred or new conditions, which require supplementing or changing the list of EU CEF financed projects.

Electricity TSO's annual report on the operation and development of the transmission system includes the assessment of supply and consumption

compliance in the reference period, and forecasts for at least the next ten years, as well as an analysis of the available power sources to cover the demand. This assessment serves as a guide in decision making about the need for both new electricity generation and transmission capacity. However, one must bear in mind that forecasts, even in a relatively precise sector like energy, are not carved into stone.

For example, in 2007, a TSO report estimated that electricity consumption of 10 TWh per year could be achieved by 2016, and a 2000 MW demand in 2020. Only one year earlier, in 2006, it was forecasted that a 2000 MW demand of power could be achieved in 2017.<sup>6</sup> Looking at this forecast, it should be concluded that it was very optimistic about the growth of electricity consumption. Three years later, in 2010,<sup>7</sup> TSO's forecast for peak load in 2017 was already much more moderate – 1504 MW – and closer to the figure recorded as fact in the 2016 report – 1332 MW, predicting annual electricity consumption to reach 7.97 TWh. In turn, the 2016 report contained a moderate growth approach, predicting that the maximum load limit of 1500 MW could be reached in 2023, reaching 1624 MW in 2027. It is worth noting that at the time of drafting the 2007 TSO report, there was a perception in the political environment that in the near future there would be a definite lack of electricity production capacity in Latvia, therefore, it is necessary to invest in a new large-scale power plant. This view is illustrated by publications in the media and wider public rhetoric at the time.<sup>8</sup>

It can be said that in the energy sector, development decisions are based, in principle, on rational considerations and calculations about how much and what kind of energy consumers will need at a given time in the future, how much the investment will cost, how to get the money back, and whether the chosen solution or solutions will be least exposed to the various risks related to energy security. However, the most important decisions affecting, for example, critical infrastructure and national security, are taken politically; ideally taking into account rational considerations. It should be noted that forecasting and development planning is influenced by the available information on technological progress – technological development and innovation play an important role in deciding on the development of the industry over the medium and longer term.

There are a number of important specific issues in the energy sector, about which decisions are made politically. For example, decisions about support for energy production using specific resources or technological solutions,

tax decisions or incentives for energy sector companies, decisions about market opening or market limitations, decisions on the conditions for aid for specific consumer groups, decisions on state participation in energy projects, decisions on investment or acquisition of control in strategically important energy companies. In Latvia, some of the best-known examples include state aid to large gas-fired power plants (Riga CHP-2) and energy production using renewable energy resources, or the OIK (feed-in tariff) system, and the decision to redeem shares from a private gas operator in the transmission system operator Conexus Baltic Grid through the state ownership of the electricity TSO.

Similarly, the decision to synchronize the Baltic electricity grids with the power grid of continental Europe was up to the Baltic States, but it is imperative to note the clear interest of the European Union in such a decision, which will strengthen the single EU energy market and reduce the risks associated with the electricity supply of the Baltic States. The leaders of the Baltic and Polish governments have shown their commitment to such a roadmap by also ceremonially signing a political roadmap for the synchronization of the Baltic electricity grids<sup>9</sup> with the continental European network, identifying this project as a very important political priority for the Energy Union.

Another example of political decision-making is the almost intentional inability to liberalise the natural gas market in Latvia (making it impossible to adopt a decision is also a decision-making method), thus hindering the creation and effective functioning of a common regional Baltic gas market. The history of the opening of the gas market is a good illustration of the fact that making decisions can be easily manipulated by the lack or limited access to information, a lack of understanding, a lack of transparency and openness, and reluctance to go into detail. In this particular case, it is important that the decision was finally adopted at all; the gas market was opened, and now, after April 2017, already with rational decisions, a single Baltic gas market will be created, which will improve and strengthen the energy security of the Baltic States and will make the operation of the Klaipeda LNG import terminal and the Polish-Lithuanian pipeline interconnection, which is under development, rational in the Baltic regional context.

## Scenarios

The publication discusses two possible scenarios that the author considers most likely. It should be emphasized that these scenarios do not show the situation as it should be ideally. There can be a range of theoretical scenarios for the energy sector in Latvia from the point of view of interconnections (interconnectivity), energy security, and critical infrastructure. In addition, if a 30-year perspective does not undertake important decisions within the next 10 years, then the number of scenarios and uncertainty of development increases. The fact that a situation can be predicted from the point of view of three mutually interacting factors makes it easier to create scenarios, but the conceptual content of these three factors is essential.

The simplest is the concept of connectivity – interconnections are energy infrastructure elements that provide the possibility of transporting physical energy, and it applies equally to both electricity and gas. In the gas sector, infrastructure objects such as LNG terminals provide additional possibilities, which enable the import of natural gas through pipelines to be replaced by imports using LNG tankers as the primary mode of transportation (i.e., until gas is delivered to the Baltic region)

Ten years in the energy sector is not a long time neither for project planning, implementation, nor payback. Therefore, the 10-year perspective scenarios are similar; only the nuances differ. Significant differences in forecasts are estimated by the probable development of the situation after thirty years. The disparity of thirty-year perspective scenarios is largely determined by the decisions to be made over the next ten years, which are based first on the decisiveness of supporting the production of electricity from renewable energy sources, which should gradually replace fossil fuels over time, and second, decisions of a regional importance on further additional interconnections between the Baltic and Scandinavian countries.

From an engineering point of view, development scenarios are influenced by the evolution of technology and the changing technological solutions for energy production, supply, and accumulation. Both power generation, as well as transmission and accumulation technologies are developing very rapidly, and solutions that are considered theoretically experimental today are likely to be everyday solutions after twenty years. A few typical examples should be mentioned for the sake of illustrating this.

One notable development direction is related to the influence of the Internet of Things (IoT) on energy consumption habits, i.e. new opportunities the analysis and use of information generated by large data provides, creating a mutually interactive system of energy supply and consumption. Another example is the development of low-power wide area network (LoRaWAN) technologies,<sup>10</sup> which will provide infrastructure solutions to the already mentioned Internet of Things. The development of such technological solutions will provide opportunities for the creation of highly flexible energy systems, where energy can be produced in a pronouncedly distributed way, reducing the distance from the production site to the place of consumption. Energy consumers will increasingly become energy microgenerators, or at least energy accumulators, allowing the power system to recoup energy from consumers in moments when the system needs it most.

### **Scenario A – cautious use of RES, smart networks, and a gradual switch away from natural gas**

*The year 2028.* Electricity consumption has reached 7.6 TWh and the maximum load of 2000 MW. The third overhead high-voltage AC interconnection with Estonia has been constructed, is operational, and both original Latvian-Estonian overhead lines have been rebuilt. Transmission interconnection capacity with Estonia is sufficient to permit the import or transit of a sufficient amount of electricity in an electricity shortage situation in Latvia or Lithuania. Interconnections between Latvia and Lithuania have also been improved, and the physical flow of electricity between Estonia, Latvia and Lithuania is unobstructed; it is easy to compensate for the shortage of electricity in Lithuania and, if necessary, in Latvia. As Lithuania has a pronounced deficit of electricity, the ability to meet the demand for electricity in Lithuania is critically important for price levelling in the region. At the moment, Lithuania's electricity shortage is regularly causing a rise in electricity prices both in Lithuania and in Latvia, adversely affecting the competitiveness of energy-intensive businesses in the region.

The NordBalt High Voltage Direct Current (HVDC) interconnection between Lithuania and the south of Sweden is technically improved so that unplanned disconnections do not occur, or occur very rarely. Stable interconnection has aligned Nord Pool prices so that there is no or almost no difference between price areas in Sweden, Finland, and the Baltics. The price



fluctuation corridor is small and has no significant impact on the planning of production processes. Prices fluctuate synchronously in all price areas around the Baltic Sea – if the factors affecting the price of the electricity market cause price hikes, the price rises equally in all price areas.

The share of RES in the final consumption of energy (excluding transport) has increased slightly, as governments have pursued a conservative energy policy for the beginning of the next decade, creating a disadvantaged legislative environment for wider use of RES, in response to a negative public reaction to information on state aid for energy production in cogeneration (including using natural gas), and using renewable energy sources, thus choosing the simplest way to influence the impacts of rising electricity charges politically and administratively.

A well-functioning and unified Baltic gas market has been created, where Gazprom is still one of the three largest suppliers.<sup>11</sup> Competition on the use of gas infrastructure has become more equal with the departure of Gazprom from infrastructure companies and, in particular, from the transmission and storage system operator, where it still retains its share<sup>12</sup> after the opening of the gas market and unbundling of the transmission system operator. In Latvia, the gas TSO has been certified, demonstrating its independent management of decision making. The Baltic and Finnish gas TSOs and energy regulators ensure a stable and transparent operation of the regional gas market. Gas traders compete effectively for customers, gas trading has become part of a portfolio of electricity traders or other service providers.

Since 2018, the smartification of energy systems continues – the installation of automated systems, using i.e. large data to optimize energy production, as well as supply and consumption management. Critical Infrastructure objects such as major production, transmission, and distribution capacities, are connected into a common grid with significantly less critical sources of energy production, such as prosumers or just a number of micro-generating sources, thus creating new, mainly cyber-security, challenges for the management of the energy system.

*The year 2048.* Electricity consumption has stabilized at 8.6 TWh and reached the peak load of 2200 MW. Electricity use in the transport sector, especially in the urban environment, plays a major role in increasing electricity consumption. Electrification of rail freight has taken place and diesel locomotives have been replaced by modern electric locomotives. In

total, commercial and private electric transport has raised annual electricity consumption by about one TWh, as compared with 2028.

There are almost no differences in electricity spot prices in the Nord Pool Electricity Exchange markets around the Baltic Sea. Around 2030, a decision was made to create another HVDC interconnection (e.g. NordBalt-2) between Sweden and the Baltic States, this time through Latvia, increasing the total Swedish-Baltic interconnection capacity to 1400 MW. The electric grids around the Baltic Sea are interconnected in such a way that production outages or deficits in one price area do not cause price rises, because the shortage is fully offset by the import opportunities and the use of indigenous resources in distributed generation, mainly, from wind farms on land that have become commercially advantageous to operate without special state aid since the year 2030. The integration of wind parks into the power system and the efficient use of wind energy has served as one of the important arguments for the Baltic and Swedish electricity TSOs to decide on the construction of a new (additional) submarine cable connection.

Electricity price fluctuations are minimal, they are mostly seasonal, and more significant fluctuations occur only in the case of climatic abnormalities; for example, in those countries of the Baltic Sea region where a large share of electricity is generated by large hydroelectric power stations, if there is a prolonged low water period and water reserves are depleted. Even overnight, the electricity price is not markedly up and down, as the intelligent consumption management system allows a significant reduction in electricity consumption during traditional high demand periods. Transmission and distribution system operators of the Nord Pool area have technically smartified transmission and distribution networks, and have deployed a consumer management system that allows real-time tracking of consumption, responding to demand peaks and interacting not only with large, but also household-level electricity users, getting access to their energy sources, for example, by allowing access to accumulative energy sources (electric cars and so on), power walls, or energy accumulating devices, or to disable consumption sources at a time when there is high energy demand in the power system. Moreover, the electricity market has evolved so that companies and households that participate in the consumption management system profit from not consuming electricity at times of high demand. The SME and household customers in the consumer

management system have become members of the electricity market, selling the energy they have not consumed.

Changes have also occurred in the natural gas sector. The company “Latvijas Gāze” already predicted in 2013 that by 2030 natural gas consumption in Latvia would decrease by about 50%, which will take place at the expense of energy efficiency and fuel switch.<sup>13</sup> Possibly, looking from the 2018 positions, when the gas market in Latvia has been open for only a year, but the competition conditions have already produced a favourable change for consumers, which is reflected in the reduction of natural gas prices, the forecast of a 50% reduction in natural gas consumption is exaggerated and will be revised, as consumers will not be motivated to change natural gas technologies at low gas prices in favour of, for example, biomass technologies, and as a result, technological change will be significantly slower than forecasted.

In Latvia, the energy performance of buildings is poor by 2020, and in the next 28 years there has been a significant change both in the treatment of energy saving or more efficient use, and in the legislation governing energy efficiency requirements in the construction sector, as well as in residential and public buildings. In the period from 2020 to 2030, normative acts have been adopted in regulatory enactments that envisage energy efficiency measures. Low-energy building owners pay a reduced real estate tax on the building. On the other hand, for buildings that continuously waste energy, the tax is gradually increased, with part of the tax going into a national energy efficiency fund used to implement energy efficiency measures for buildings.

Starting around 2030, the situation has become more favourable for the use of RES for both electricity and heat production, as the obstacles to the use of renewable resources, which are specifically created by 2020 with the aim of regulating the price of electricity, are coming to an end. Efficient use and production of heat energy by using renewable energy sources, including electricity production using RES, as well as well-developed electricity supply network both in Latvia and through interconnections in the Baltic Sea countries/ Nord Pool region, has reduced natural gas consumption in Latvia to 700 million cubic meters per year. This small amount of natural gas, comparable to gas consumption in Estonia in 2018, is mainly used to cover the heat demand of cities on particularly cold days during the heating season.

Another factor contributing to the decline in natural gas demand is that the electricity market works well, providing enough electricity at an affordable price; since interconnections between the Baltic and Scandinavian countries are operating, it is more profitable to import electricity than to burn gas for electricity generation during the minimum heat load season. Natural gas serves mainly as a reserve energy resource for a situation of crisis. In the household segment, natural gas is used primarily in private homes; apartments use mainly electricity, having given up natural gas because the maintenance costs of the infrastructure are too high and have become disadvantageous for end-users. Individual heating solutions have rapidly developed heat pump technology, providing high efficiency and low power consumption.

The consumption of natural gas for individual use in small volumes has decreased significantly. At the same time, gas consumption in maritime transport has increased, as ships have switched from diesel to LNG for the purpose of engine operation, with the aim of significantly reducing the environmental impact of shipping in the Baltic Sea. Under the liquid global market for LNG, liquefied natural gas accounts for around 20 percent of the consumption of natural gas in the Baltic and Finnish regions, successfully competing with pipelines, especially in spot markets, where gas prices are mitigated by lower consumption in so-called prime markets in eastern Asia. Such a global pattern of LNG market and price patterns has remained in place since 2018, as demand for natural gas is still high due to the replacement of the last coal-fired power plants with technologies using natural gas in China, India, Brazil, and other large consumer markets.

The biggest challenge facing the energy sector still remains the complete abandonment of fossil fuels in favour of local renewable resources and certified energy produced using RES. The production of heat utilizes local biomass, having developed a functioning market which ensures that biomass is not primarily exported to Western Europe and Scandinavia, but basically remains in Latvia, because the price is high enough to make it more profitable to sell biomass on the domestic market rather than to export. The movement of agricultural resources is also organized so that agricultural waste can be effectively used for energy production, mainly in biomass cogeneration for the production of heat and electricity, but also in the production of biogas for both biogas cogeneration and transport, as the use of diesel fuel has significantly decreased, replaced by internal combustion engines using biogas.

Critical infrastructure security risk management focuses on the cyber security of the energy system, as energy system management and interaction of elements within the system is possible only in a well-connected and highly computerized environment, but with the major risks associated with software and computer vulnerabilities also stemming from this same environment. Intelligent transmission and distribution networks with a high level of consumer engagement are used, i.e. in large data or data lakes that allow for complex analytical operations in order to most efficiently interconnect and interact with the energy system participants in real time. In such circumstances, all participants of the system must be endowed with a high level of responsibility and a sense of security risk mindfulness, even if countless automated systems control activities which are performed by complex algorithms developed and operated by those responsible for the system infrastructure and data. The main concerns of the physical protection of energy infrastructure are related to the risks of irresponsible or targeted use of remotely controlled aircraft in the context of highly regulated conditions for the use of such aircraft.

## **Scenario B – optimism about RES and algorithm victory**

*The year 2028.* Electricity consumption has risen to 7.6 TWh, reaching a peak load of 1800 MW. The 3rd interconnection with Estonia has been constructed, is operational, and both Latvian-Estonian overhead interconnecting high-voltage power lines have been rebuilt. The transmission interconnection capacity with Estonia has been improved by eliminating the bottleneck effect in electricity transmission from Estonia to Latvia. Interconnection capacity is sufficient to enable the import or transit of sufficient quantities of electricity in a situations of electricity shortage in Latvia or Lithuania. The NordBalt DC interconnection between Lithuania and Sweden, Nord Pool market area 4 (SE4), is technically advanced, while transmission disruptions take place, but are relatively rare. Stable operation of interconnections has balanced Nord Pool region prices, the difference between price areas in Sweden, Finland, and the Baltic States are minimal, and the price fluctuation corridor is small. Prices fluctuate synchronously in all price areas around the Baltic Sea; if the factors affecting the price of electricity are causing a rise in prices, the price goes up substantially in all price areas, except when several electricity shortages coincide at the

same time in a price area (unplanned and planned production constraints, transmission capacity limitations, etc.).

A single Baltic and Finnish gas market has been established and is functioning well. Although Gazprom is the dominant supplier, the liberalization of the gas market has made Gazprom try to keep its natural gas prices below the prices of other suppliers, thus ensuring genuine competition in the market. Dozens of small suppliers are actively trading and competing for consumers, mainly in SME and private or low-rise building (LRB) segments, since under free market conditions the price of gas has dropped for buyers to such a level that motivates them to choose gas-fired solutions in competition with biomass-based ones (in private houses and in the LRB segment mainly pellets are used, while in the SME segment and in the local district heating system segment wood chips are used). Since the demand for biomass has risen, its price has risen. From another perspective, higher biomass prices have reduced its exports, and there is enough biomass in the domestic market.

The situation regarding the critical infrastructure in the energy sector has evolved since 2018, similar to scenario A, with the growing importance of so far less influential factors – cybersecurity has become one of the most important challenges for the future development of the energy system.

*The year 2048.* Electricity consumption has stabilized at 8.2 TWh and reached the peak load of 2100 MW. Electricity use in the transport sector, especially in the urban environment, plays a major role in the increase of electricity consumption, which is not as big as in scenario A. The forecast of lower growth in electricity consumption is associated with a slower entry of electric vehicles into private use. However, in scenario B, rail transport electrification has also taken place, and diesel locomotives have been replaced by electric locomotives. In total, commercial and private electric transport has increased its annual electricity consumption by about 0.7 TWh.

The share of RES in energy end-use has grown by 14 percent at the expense of rising energy production, thanks to changes in decision-making favouring sustainable energy and, therefore, a more favourable sector-policy for RES.

Regarding the use of natural gas, scenario B fulfils the 2013 forecast in that, by 2030, natural gas consumption in Latvia will halve, mainly due to energy efficiency and fuel switch. After 2020, there has been a significant change in the regulatory environment and in the treatment of energy savings,

or, more efficient use of buildings in order to improve energy efficiency and reduce heat loss. Legislation has become stricter for energy efficiency requirements in the residential and public sectors.

As in scenario A, the decline in natural gas consumption has been caused by the efficient production and use of heat, including through the use of renewable energy resources. A well-developed electricity supply network both in Latvia and through interconnections in the Baltic Sea countries, in particular in the Nord Pool region, has reduced natural gas consumption to 500 million cubic meters (mcm) per year, which is mainly used to cover heat demand on particularly cold days during the heating season in Riga and Daugavpils. A larger reduction than in scenario A is due to the introduction of more rigorous energy efficiency policies and energy efficient construction of buildings.

The electricity market works well, providing sufficient electricity at an affordable price, with interconnections running, including a new one between the Baltic and Scandinavian countries, and it is more profitable to import electricity than to burn gas at thermal power stations in condensation mode during the minimum heat load. Greater interconnectivity of energy systems makes it possible to compensate for the fall in production capacity, as well as in situations where the rivers with hydroelectric power plants have a long low water period, which coincides with the season of heating and weaker natural light.

The cybersecurity of energy infrastructure has become an enforceable value by default, reducing the role of special regulation, as energy sector infrastructure elements are so closely interconnected that increased non-compliance with safety requirements and failure to set up an enhanced security system in each new infrastructure project would pose a threat to the energy grid or its wide range of elements. Compared to Scenario A, the use of computing technologies in the management of energy systems has been accelerating and has led to a narrow and specific computer technology education – energy technology programming – boom, leading to increased demand for in-depth knowledge and technical thinking. The new trends in the development of the energy sector are those, which succeed in changing the structure of educational content, and start to dominate the demand for engineering.

## Conclusions and recommendations

The overall conclusion is that the energy sector will develop in a stable and dynamic manner simultaneously for the next thirty years, and this conclusion can be attributed to the two scenarios considered. Stable, due to the long and thorough preparation of energy development decisions by at least the industry, and the implementation of infrastructure projects requiring a long time and considerable resources, and which can only be repaid to consumers in the long term without creating excessive burden. Dynamically, due to the rapid development of technology, which will affect the ways and means of building, managing, and developing energy systems in a way that is as flexible as possible, able to predict the balance of energy consumption and supply, and able to react to atypical events such as a sudden drop in demand or unpredictable and rapid increase in energy demand.

In both scenarios A and B, the development of events is similar, with distinct nuances. For example, scenario A suggests a relatively more conservative renewable energy resource policy, while in B, or in the second most credible scenario, the presence and integration of RES is in line with this optimistic approach to this type of resource.

The predicted development in scenarios A and B is at least partially in line with the theses on the development of the energy sector in Latvia until 2030, which was included in the report prepared by the Ministry of Economics in 2013 for the Cabinet of Ministers; “Informative Report: Long Term Strategy of Latvia’s Energy 2030 – Competitive Energy for Society”.<sup>14</sup> The strategy includes indications for both distributed energy production and the integration of RES in micro-generation solutions in new and renovated buildings, as well as stimulating measures for the growth of electric transport.

The prediction and assessment of the most probable scenarios essentially excludes the need for recommendations, as recommendations and the analysis of their rationale would serve as a basis for the realization and achievement of these and other scenarios. However, there is a need to refer to some universal principles that should be taken into account when pursuing a better future for the energy sector and users of its products and services. First of all, today’s decisions can have potentially long-lasting consequences, which can be difficult or impossible to change, so decisions that will affect the development of the energy sector in decades to come should be taken



thoughtfully and even with some kind of vision and ideals about what the energy system should ideally look like. Second, if decisions are taken that threaten to diverge significantly from the ideal solution, then there must be some flexibility and the possibility of changing the wrong decisions so that, say, the three most likely scenarios arising from today's decisions will not be significantly different from the ideal solution. Thirdly, the principles of sustainable development can prevent the implementation of remotely conceivable, but completely undervalued risks, eliminating the need to deal with emergency situations and the spending of resources to prevent situations that could have been foreseen in the past. An example can be the inclusion of a sufficiently underestimated future CO<sub>2</sub> price, which can have a very significant impact on both the energy sector, industry, and large energy consumers.

Finally, it is worthwhile to think about how today's first-grader will look at the energy sector and the energy system in 2048 with the knowledge and experience of an adult. His/her parents and grandparents (today's decision-makers) are the ones who, with the decisions of today and tomorrow, will begin to build it. This perspective helps to assess the future costs of each of today's decisions more accurately and with more empathy.

*Thanks to Reinis, Agate and a first-grader Dāvis for their patience and compassion while seeing their father less frequently than would have been fair, even if in the name of the future scenarios of the energy sector.*

## Endnotes

<sup>1</sup> *National Security Law*, Section 22.2 (2) Critical Infrastructure, 2000, <https://likumi.lv/doc.php?id=14011>

<sup>2</sup> Ibid.

<sup>3</sup> Almost all the BSR countries are members of the Nordic and Baltic electro energy market, Nord Pool, and the ones who are not have an important role when it comes to the energy security of the Baltic States.

<sup>4</sup> "Energy Union: Synchronization Of The Baltic States' Electricity Network With The European System Will Strengthen Solidarity And Regional Security Of Supply," European Commission, 22 March 2018, [http://europa.eu/rapid/press-release\\_STATEMENT-18-2142\\_lv.htm](http://europa.eu/rapid/press-release_STATEMENT-18-2142_lv.htm)

<sup>5</sup> "The Energy Union gets simplified, robust, and transparent governance: Commission welcomes ambitious agreement," European Commission, 20 June, 2018, [http://europa.eu/rapid/press-release\\_IP-18-4229\\_en.htm](http://europa.eu/rapid/press-release_IP-18-4229_en.htm)

<sup>6</sup> "Gerhards: there should be only one priority – a solid fuel power plant in Kurzeme", Tvnet.lv, 20 October 2008, <https://www.tvnet.lv/4777616/gerhards-par-prioritaru-ir-jaatzist-tikai-viena-cieta-kurinama-elektrostacija-kurzeme>

- <sup>7</sup> "Annual Report of Transmission System Operator," Table 3, 2, [http://ast.lv/sites/default/files/editor/PSO\\_zinojums\\_2010.pdf](http://ast.lv/sites/default/files/editor/PSO_zinojums_2010.pdf)
- <sup>8</sup> See: "There is lack of base-load electricity", Delfi.lv, 30 January 2007, [http://www.delfi.lv/bizness/biznesa\\_vidē/latvija-trukst-elektroenerģijas-bāzes-jaudu.d?id=16734190](http://www.delfi.lv/bizness/biznesa_vidē/latvija-trukst-elektroenerģijas-bāzes-jaudu.d?id=16734190)
- <sup>9</sup> "The European countries' solidarity in the energy sector: Synchronization of the Baltic States' electricity network with the European system will strengthen regional security of supply," European Commission, 28 July, 2018 [https://ec.europa.eu/latvia/news/eiropas-valstu-solidarit%C4%81te-ener%C4%A3%C4%93tikas-jom%C4%81-baltijas-valstu-elektrot%C4%ABklu-sinhroniz%C4%81cija-ar\\_lv](https://ec.europa.eu/latvia/news/eiropas-valstu-solidarit%C4%81te-ener%C4%A3%C4%93tikas-jom%C4%81-baltijas-valstu-elektrot%C4%ABklu-sinhroniz%C4%81cija-ar_lv)
- <sup>10</sup> "What is the LoRaWAN™ Specification?," 30 May 2018, <https://lora-alliance.org/about-lorawan>
- <sup>11</sup> If Russia will liberalize its energy market, and there will be another enterprise exporting natural gas, then there is a chance that Gazprom is not going to be the only exporter of natural gas from Russia.
- <sup>12</sup> Conexus Baltic Grid stakeholders' structure 20 August, 2018: AS Augstsprieguma tīkls – 34.36%, PAS Gazprom – 34.10%, Marguerite Gas I S.a r.l. – 29.06%, other shareholders – 2.48%.
- <sup>13</sup> Adrians Dāvis, author's conversation, 21 January 2014.
- <sup>14</sup> *Informative Report Long-Term Energy Strategy of Latvia 2030 – Competitive Energy for the Society*, 16 May 2013, [https://www.em.gov.lv/files/energetika/EMZino\\_160513\\_STRAT\\_378.doc](https://www.em.gov.lv/files/energetika/EMZino_160513_STRAT_378.doc)

# Latvia Facing an Uncertain Future

NILS MUIŽNIEKS

As Latvia marks its centenary, it has never been so prosperous and secure. However, the medium and long-term future looks more uncertain than ever. This has to do with the crises facing the various global and regional organizations of which Latvia is a member, the looming instability in the immediate region to the east and the unaddressed challenges within Latvia. For a scenario that can in any way be deemed 'optimistic' to come about in the medium- to long-term, Latvia will have to be vigilant and creative in its foreign affairs. Moreover, some hard thinking lies ahead about ways to strengthen national resilience to the vagaries of the fluid international context.

As a small state, Latvia has benefited greatly from its membership in global and regional institutions, which have helped Latvia punch above its weight, mitigated power asymmetries and risks with neighbours such as Russia, and facilitated economic development, ethnic harmony and political stability. However, the global and regional context is more turbulent than it has been in years and all the major multilateral organizations are at a crossroads, if not to say mired in crisis. Let us briefly examine the turbulence plaguing each of these organizations and how it may affect Latvia, then turn to the potential impact of changes in the immediate neighbourhood.

Membership in the United Nations (UN) has been important for Latvia in several ways. First and foremost, membership in the UN is a mark of independent statehood, and the UN is virtually the sole platform in which a small state such as Latvia can interact with partners outside of its home region. The UN (along with the OSCE) was an important player in helping Latvia to manage its relations with Russia in the 1990s and, through its agencies, promoting the social integration of Russian-speakers. Latvia benefited enormously in the 1990s and early 2000s from the presence of the United Nations Development Programme, which coordinated foreign assistance and pushed flagship initiatives such as the National Programme for Latvian Language Training (now the Latvian Language Agency) and the creation of the National Human Rights Office (now the Office of the Ombudsman).

However, the UN and its myriad agencies face extremely serious challenges in the coming years. These challenges run the gamut from military/political to financial to existential. From Latvia's perspective, politically and militarily, the role of the UN Security Council as guarantor of peace and security has been seriously compromised due to its helplessness in the face of Russia's annexation of Crimea. Financially, the gap between growing humanitarian needs and serious budgetary shortfalls has become more acute as the United States under President Trump has scaled back American contributions. Existentially, one wonders what fate awaits the UN as a whole, as it has long been sustained by enlightened American self-interest. What is the probability that China will replace the US as the core supporter of a rules-based liberal system? In the short term, the UN seems likely to stumble along, but in the long term, the diminishing role of the US and the rise of China does not bode well for Latvia's interests in a rule-based international order without great power spheres of interest.

A second important organization for Latvia has been the Organization for Security and Co-operation in Europe (OSCE), which played a key role in the management of Latvian-Russian inter-state relations and the promotion of minority integration in the 1990s and early 2000s. Though it is much resented by nationalist Latvian politicians, the OSCE High Commissioner on National Minorities (HCNM) and the OSCE Mission to Latvia were critical in helping to push for the liberalisation of important laws, such as the Law on Citizenship and the State Language Law, which were essential preconditions for subsequent membership in the European Union (EU) and the North Atlantic Treaty Organization (NATO). Moreover, the OSCE is the one European organization in which both the US and Russia are members, an important characteristic in the eyes of many in Latvia. There is a widespread view in Latvia that only the US, not other European countries, can serve as a counter-weight to Russia.

However, the OSCE has been in a prolonged period of crisis. The US seems to have been losing interest in the organization over many years, which is not surprising given the 'pivot to Asia' that began under Obama in addition to successful EU and NATO enlargement. After the 'big bang' enlargement of the EU in the 2000s and the stalling of enlargement thereafter, the OSCE has lost its role as the 'gatekeeper' for those seeking EU membership. Like the UN Security Council, the OSCE is still reeling from the crisis in and around Ukraine, where it has been subjected to the indignity of having its monitors

taken hostage or fired upon. The OSCE has seen its clout decrease elsewhere as well, as it was unceremoniously kicked out of some countries and never let into others.

The broader political crisis affecting the organization is compounded by its dysfunctional internal procedures, whereby any single member state can block the adoption of a budget or the election of an official to head one of its institutions. The adoption of a budget has been blocked numerous times in recent years. Moreover, the only way the organization could recently fill vacant top posts was to agree to treat them as a package in which the Secretary General, the director of the Office for Democratic Institutions and Human Rights (ODIHR), the HCNM, and the Representative on Freedom of the Media were all elected at once after much horse-trading behind the scenes. Thus, the OSCE is arguably becoming more and more political, and less and less important in US–Russia relations.

Latvia's membership in another pan-European organization, the Council of Europe, has helped it strengthen democracy, the rule of law, and human rights. By slowly transposing the jurisprudence of the European Court of Human Rights into domestic law and practice and subjecting itself to the scrutiny of numerous human rights monitoring mechanisms, Latvia has consolidated many of the democratic gains it made in the 1990s. Recently, the Council of Europe's anti-money laundering body MONEYVAL has had a huge impact in drawing attention to the shortcomings in Latvia's banking system and the oversight thereof, which render it more vulnerable to instability and corruption. While membership in the Council of Europe is no guarantee of sustainable democratic progress, it has undeniably helped Latvia carry out important reforms.

This organization is also at a crossroads. The biggest challenge involves the core of the system – the European Court of Human Rights, which has seen a selective implementation of judgements by certain member states, long delays in implementation, and outright challenges to its authority not only from relatively new member states, but also from 'older' member states, where there is intense dislike of the Court's jurisprudence on issues such as migrant family reunification, limitations on states' abilities to deport alleged terrorists, and the accountability of states' armed forces for human rights violations in far-away conflicts. On top of that, recent years have witnessed serious democratic backsliding in some member states, throwing into question whether it is still a 'club for democracies'. Finally, here too, the Ukraine crisis has taken its toll,

as the Russian delegation to the Parliamentary Assembly was deprived of its voting rights after the annexation of Crimea and as a result Russia stopped paying part of its annual contribution, leading to a looming budget crisis and a divisive debate about Russia's future membership.

European Union membership has arguably had the greatest impact on Latvia. Membership conditionality fostered reforms in many areas, the transposition of the *acquis communautaire* transformed the entire legislative base, and structural funds have led to enormous improvements in Latvia's infrastructure, environmental standards, and more. Cooperation, deal-making and the search for consensus on various issues with representatives of 27 other member states has become a daily facet of life not only for diplomats in the Ministry of Foreign Affairs, but also for civil servants throughout the public administration. The free movement of people has permitted many inhabitants of Latvia to travel, study or work across Europe for the first time.

As is well known, the EU has been in crisis mode for several years. While the Eurozone survived the financial crisis and the threat of Grexit, the underlying weaknesses have not been addressed and Italy is fast moving to displace Greece as the 'sick man of Europe'. A second signal achievement of the EU – the Schengen visa free travel area – is also under threat, as many countries introduced 'temporary' border checks during the height of the migration policy crisis and constructed a network of fences not only on their external borders, but on borders with EU neighbours as well. The lack of solidarity and cooperation in dealing with migration has generated enormous rancour across Europe. On top of these challenges, Europe is currently witnessing two 'rule-of-law' crises among member states (in Hungary and Poland), with a third (Romania) about to erupt. Finally, of course, there is Brexit.

All of these crises have a large impact on Latvia. As a member of the Eurozone, Latvia is directly implicated in any failure to address the zone's weaknesses. While Latvia has been a 'team player' in European refugee relocation, a complete breakdown of solidarity in this issue area would mean that Latvia would be alone in dealing with any future migration crisis on its immediate borders (e.g., from Russia or Belarus). Brussels's failure to cope with challenges to the rule-of-law in some member states will only hasten the unravelling of Europe as a community of values and embolden those with authoritarian leanings elsewhere, including in Latvia. Brexit is seen as a tragedy by the Latvian political elite, which looked to the UK to defend

liberal free trade, dilute the dominance of the Franco-German 'motor' and help strengthen Europe's Euroatlantic vector.

While membership in the EU has been transformative, many members of the Latvian elite have viewed membership in NATO as even more important, as it holds the promise of resolving once and for all existential security threats to Latvia's independence. Recent years have witnessed formal membership gain new substance, as Latvia has received the 'assurance' it has long craved in the form of contingency planning, regular NATO military manoeuvres, and an enhanced presence of allied troops. In addition to this, Latvia has become the host of a NATO Strategic Centre of Excellence on Strategic Communications, the importance of which has exploded in recent years.

However, with a few remarks questioning America's commitment to NATO and the sacrosanct nature of Article 5, President Trump has rekindled traditional existential fears in Latvia. While a number of countries, including Latvia, have increased military spending, cooperation on procurement within Europe and the joint production of weapons systems remains in its infancy. At the same time, Turkey – which has the largest land army in Europe among NATO members and the only bases hosting American tactical nuclear weapons – is veering away from the rest of Europe. Not only has it taken a severe authoritarian turn, it has also begun buying Russian weapons systems. For Latvia, Turkey has been not only an allied country with a large military, but also an important player in helping Europe diversify its energy supplies away from Russia. The more Turkey cooperates with Russia in various realms and snubs its traditional European and American allies, the more insecure Latvia will feel.

Thus, the entire spectrum of international and regional institutions in which Latvia is a member are in flux and are unlikely to survive in their current forms in the medium- to long-term – that is, through 2050. This will deprive Latvia of the guideposts and assistance from which it has benefited since the restoration of independence. It also means an unravelling of the network of commitments, checks and pressures that have restrained Russia's international behaviour and sought to channel its development in the direction of becoming a market democracy based on the rule-of-law. Indeed, it is undeniable that Russia has become less predictable in its international behaviour and less bound by international norms in recent years.

To darken this already sombre picture, in the coming years Latvia's other non-EU, non-NATO neighbour Belarus and Russia are both likely to enter

a period of even greater instability and unpredictability, as the long reigns of Vladimir Putin and Aleksandr Lukashenko are entering their twilight years and succession struggles loom. Instability in Russia and Belarus could have a direct impact on Latvia. Latvia shares a long external border with each, meaning there is a potential risk of migratory flows originating within these countries themselves or passing through these countries. Latvia does a substantial amount of business (including transit, finance, agricultural products, fish, and tourism) with the two countries, meaning instability would have important economic repercussions within Latvia. Moreover, the 'information spaces' of both these countries (less so of Belarus, except in border areas) extend into Latvia, meaning Latvian society is strongly subject to ongoing media and cultural influences from its neighbours.

While the most important medium-term uncertainties emanate from Russia, domestic challenges are mounting as well. The Latvian transit sector reduced its dependence on oil transit from Russia as a result of Russia's reorientation of exports to go through its own ports in the early 2000s. The Latvian financial sector now faces a similar challenge in weaning itself from non-resident clients, including opaque off-shores, which have been a lucrative source of income but carried a high corruption risk. If it does not do so, Latvia will face serious consequences in the international financial world, in particular from the US Treasury.

Lithuania has forged ahead with initiatives to decrease its dependence on Russian gas, including by creating an LNG terminal. Latvia has yet to do so – when and if it tries in earnest, one can expect a flurry of lobbying and other efforts by strong transnational interest groups. Cooperation with Lithuania in this and other areas has been under strain recently due to different approaches and colliding interests in the implementation of the biggest infrastructure project in the Baltic region, 'Rail Baltica'.

Another domestic challenge in Latvia is ethnic cohesion. Notwithstanding significant progress on issues such as the naturalisation of non-citizens and their acquisition of the Latvian language, the gap in values and attitudes between Latvians and Russian-speakers on issues such as history and geopolitics remains deep and persistent. Tensions are likely to erupt surrounding new efforts to Latvianize the education system in the coming years. In the longer-term, a greater threat to social cohesion will probably be posed by depopulation. Latvia has thus far avoided recourse to significant migrant labour, but it is difficult to imagine sustaining this course



in the face of continued out-migration and low fertility rates. Needless to say, due to the traumatic history of Soviet-era migration, Latvia is unlikely to make a smooth transition to becoming a country of immigration.

That said, Latvia and its Baltic neighbours, in contrast to Central Europe, have been active participants in European refugee relocation, sending a strong message of European solidarity. In the broader field of human rights, Latvia and its Baltic neighbours stand in strong positive contrast to some of their Central European counterparts, where democratic backsliding has seen governments encroaching on the independence of the judiciary, undermining the independence and pluralism of public service media, and exerting strong pressure on NGOs. However, there remains much to be done before Latvia and its Baltic neighbours can aspire to a Scandinavian-type association of the 'national brand' with human rights.

Latvia and its neighbours have to deal with the lingering Soviet legacy of separate institutions for children from 'risk families' and persons with disabilities. Close to 30 years after the restoration of independence, Latvia has to stop granting the status of 'non-citizen' or 'citizen of the former USSR' to children born in Latvia. Latvia is lagging behind much of Europe in its reluctance to ratify the premier instrument for combatting domestic violence, the Istanbul Convention, and in its refusal to grant legal recognition to same sex partnerships. In the end, the question must be asked: is the human rights profile of the Baltic States becoming more Scandinavian or more Central European? For now, we are seeing a hybrid or amalgam profile.

One area where Latvia and the Baltic States could make a more visible imprint in international affairs is on issues related to the Internet. All three Baltic States boast high-speed Internet and many government services are available on-line. All three host NATO Strategic Centres of Excellence in related areas. All three could play a more active role in pushing for human rights-based solutions to challenges such as information warfare, risks to privacy associated with e-services, digital literacy, and more.

While there is a strong potential in the digital field to enhance Latvia's foreign policy profile, there is also an urgent need to strengthen institutionalized knowledge of foreign affairs in the country and engagement with Latvia's development partners. Latvia continues to spend very little on development assistance, meaning it is neither a player where it should be, nor is it creating a domestic expertise on countries where it has a strong stake. While the work of various Latvian foreign policy institutes – independent,

university-affiliated, and government-linked – has been extremely prolific in recent years, government funding remains paltry. Moreover, there is a need to promote more systematic cooperation between all the players with a stake in Latvia's foreign affairs: the Ministry of Foreign Affairs, the Ministry of Defence, the Parliament, the bank of Latvia, local governments, the private sector, NGOs, and academic institutions. Given the challenges awaiting Latvian foreign policy in the coming years, Latvia will need to take advantage of the full intellectual potential available in the country to maximise the probability of a positive scenario in both the short- and long-term.

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