

The background features abstract geometric shapes. A teal triangle is positioned in the upper left corner, overlapping a larger blue triangle that points upwards and occupies the right and bottom portions of the frame. The remaining space is white.

EUGENE ETERIS

# **Latvia in Europe and the World**

Growth Strategy  
for a New Centennial



EUGENE ETERIS  
**LATVIA IN EUROPE AND THE WORLD:  
GROWTH STRATEGY FOR A NEW CENTENNIAL**

**Scientific Editor:**

O. Sparitis, Latvian Academy of Sciences, President  
and section 2.4 in Part II

**Editor:**

I. Dovladbekova, RSU, European Studies Faculty,  
International Business & Economy Department, Head  
and section 3.5 in Part III

**Layout:** Oskars Stalidzāns

# CONTENTS

<b>Introduction: Latvian narrative for a new centennial</b> .....	9
<b>PART I. GLOBAL AND EUROPEAN CHALLENGES FOR LATVIAN SOCIO-ECONOMIC DEVELOPMENT</b> .....	15
<b>1.1. EU's political and economic guidance: EU-2020 strategy and European Semester</b> .....	15
1.1.1. Introduction .....	15
1.1.2. EU-2020 Strategy .....	16
1.1.3. European economic planning .....	17
1.1.3.1. Commission's annual working programmes: effect for the member states and Latvia .....	18
1.1.4. European economic integration: legal aspects .....	19
1.1.5. European guidance for the economic sectors: division of competence .....	20
1.1.6. Economic activity in the Baltics and Latvia: vital sectors .....	21
1.1.7. European Semester as an instrument in economic integration .....	21
1.1.8. Active financial support to SMEs in the Baltic States .....	23
1.1.8.1. European Investment Fund .....	24
1.1.8.2. Programme for Employment and Social Innovation .....	24
1.1.9. Financial perspectives for the EU and the Baltic States: EU's draft budget for 2021–2027 .....	25
Resume .....	27
Notes and references .....	28
<b>1.2. European Strategy for the Baltic Sea Region: effect for Latvia</b> .....	29
1.2.1. Baltic Sea strategy for 2030 (EUSBSR) .....	30
1.2.2. Baltic strategy for growth .....	31
1.2.3. Baltic Development Forum .....	31
1.2.4. Competitiveness in the Baltic Sea area .....	32
1.2.5. Nordic-Baltic cooperation .....	33
1.2.5.1. Latvian “economic breakthrough”: National Development Plan 2014–2020 .....	34
1.2.5.2. Coordinated growth efforts in Latvia .....	36
Resume .....	37
Notes and references .....	37
<b>1.3. OECD recommendations and assessments for Latvian development</b> .....	38
1.3.1. OECD: history and functions .....	39
1.3.2. OECD assessment and recommendations for Latvia .....	39
1.3.2.1. OECD assessment on Latvian growth perspectives .....	41
1.3.2.2. Attention to tax reforms in Latvia .....	42
1.3.2.3. On Latvian shadow economy .....	42
1.3.2.4. On rising tax revenues in Latvia .....	43

1.3.2.5. Latvian energy policy: contributing to green-growth and environment	43
1.3.2.6. OECD recommendations: effect for Latvian economic development	44
1.3.3. Baltic States' problems: the need to increase prosperity	45
1.3.4. Latvian feed-back issues	45
1.3.5. Growth patterns in other Baltic States and Latvia	46
1.3.6. Global economic outlook	47
1.3.6.1. Latvia in the global economy	48
1.3.6.2. Economic and financial conditions for growth	49
1.3.7. OECD Better Life Index and Latvian wellbeing issues	50
Resume	50
Notes and references	51
<b>1.4. UN sustainable development goals: implementation in Latvia</b>	<b>51</b>
1.4.1. Introductory notes on sustainability: 17 SDGs	52
1.4.2. Three UN sustainability dimensions	52
1.4.3. European Commission's strategic approach to sustainability	53
1.4.3.1. New European Consensus on development	54
1.4.3.2. EU's sustainability efforts on the global scene	55
1.4.4. Financing the SDGs' implementation	56
1.4.5. Sustainability in Latvia	57
1.4.5.1. Reducing city air pollution: fuel-cell transport in Latvia	57
1.4.6. Sustainable business: perspectives for growth	58
1.4.7. Quality teaching: global and Baltic Sea Region issues through SDG-4	59
Resume	61
Notes and references	61
<b>PART II. LATVIAN POLITICAL ECONOMY: TOWARDS MODERN NARRATIVE (INTERNAL CHALLENGES-I)</b>	<b>64</b>
<b>2.1. Introduction to Latvian perspectives: narrative for a new centennial</b>	<b>64</b>
2.1.1. Sweeping differences among the EU states	65
2.1.2. Eurobarometer: situation in the Baltic States	65
Notes and references	67
<b>2.2. Latvian narrative challenges: political, economic and social aspects</b>	<b>67</b>
2.2.1. Latvian political economy: background for a new narrative	67
2.2.2. Latvian external trade policy: perspectives	68
2.2.3. European labour market and Latvia: differences abound	69
2.2.4. EU guidance for competitiveness in Latvian political economy	71
2.2.5. Modern complex social problems: robotics, basic income and safety nets	72
2.2.6. Basic income's issue and low-wage	73
2.2.6.1. "Adequate wage" issue	75
2.2.7. EU "social standards" in Latvian political economy's narrative	75
2.2.8. European social rights' pillar as a background for a new EU "social union"	76
2.2.9. People's happiness as a socio-economic category in Latvian governance	77

2.2.10. European “leaders in happiness”: Baltic States can emulate the Nordic system .....	77
Resume .....	78
Notes and references .....	79
<b>2.3. Creating perspective national “economic-immunity” system: circular economy .....</b>	<b>81</b>
2.3.1. Introduction .....	81
2.3.2. EU’s circular economy strategy: effect on Latvian growth pattern .....	82
2.3.3. Four thematic areas in European circular economy .....	84
2.3.3.1. Production and consumption .....	84
2.3.3.2. Waste management and recycling .....	85
2.3.3.3. Secondary raw materials .....	85
2.3.3.4. Competitiveness and innovation sphere .....	85
2.3.4. Recycling as a priority in circular economy .....	85
2.3.5. Global/European aspects in sustainable and circular economy .....	86
2.3.6. End of fossil fuels and start of “clean energy” .....	87
2.3.7. Circular economy’s advantages for the Baltic States .....	88
2.3.8. Latvian perspectives in circular economy .....	89
2.3.9. Circular economy: changing business patterns .....	90
2.3.9.1. Waste management, renewables and circular economy in Latvian business .....	90
Resume .....	92
Notes and references .....	93
<b>2.4. Improving Latvian labour market: global and European trends .....</b>	<b>94</b>
2.4.1. European approach to employment .....	95
2.4.2. Structural reforms in the member states and EU’s assistance .....	95
2.4.3. Industrial transformations in Europe: effect on labour .....	97
2.4.4. Global aspects in labour issues .....	98
2.4.5. World Economic Forum on modern labour challenges .....	99
2.4.6. Education for growth and jobs .....	100
2.4.7. Modern “revolution” in employment .....	101
2.4.8. Helping farmers: workforce and agro-food quality .....	102
2.4.9. Latvian work force: comparison with Estonia and Denmark .....	104
2.4.10. Labour market and business in Latvia .....	104
2.4.11. Employment in the Nordic states: rules vs. cooperation .....	106
Resume .....	107
Notes and references .....	107
<b>2.5. Active role of science and technology: perspectives for Latvian growth strategy .....</b>	<b>108</b>
2.5.1. Introduction .....	108
2.5.2. Future and emerging technologies for Latvia: some flagships .....	109
2.5.2.1. Modern European research and innovation (R&I) directions .....	110
2.5.2.2. Perspective priorities .....	111
2.5.3. European semester and R&I .....	111

2.5.4. European R&I perspective priorities .....	112
2.5.5. European Research Area .....	112
2.5.6. Main European research themes .....	113
2.5.7. Innovation in the EU's networks .....	113
2.5.8. EU research and innovation bodies .....	114
2.5.9. Strategic directions in the European science and research .....	115
2.5.10. R&I importance for Latvia .....	116
2.5.11. European and Baltics perspective in R&I .....	118
Resume .....	119
Notes and references .....	119

## **2.6. Perspective Latvian economic trends:**

<b>business and entrepreneurship in national development</b> .....	121
2.6.1. Introduction .....	121
2.6.2. "Knowing entrepreneurship": challenges for the Baltics' authorities .....	121
2.6.3. Entrepreneurship and SMEs: European assistance .....	123
2.6.4. European strategic investments and business .....	124
2.6.5. Startups in Europe and Latvia .....	125
2.6.6. Industrial renaissance in the EU member states .....	126
2.6.7. Industrial path as a viable solution for growth .....	127
2.6.8. Increasing industrial competitiveness .....	129
2.6.9. European programmes for SMEs and startups .....	129
2.6.9.1. European innovative SMEs in progress .....	130
2.6.9.2. "Startup Europe Partnership" .....	131
2.6.10. Public trust and entrepreneurship .....	131
2.6.11. Digital agenda in the Baltics and Latvia: effect on business and trade .....	132
2.6.12. Latvian Diaspora: valuable asset for growth .....	135
2.6.13. Business in modern Latvian growth strategy: urgent issues .....	136
Resume .....	137
Notes and references .....	137

## **2.7. Latvian political economy: towards modern narrative**

2.7.1. Introduction .....	139
2.7.2. Narrative challenges: political, economic and legal .....	140
2.7.3. Creating Latvian growth pattern: national "economic-immunity system" .....	144
2.7.3.1. Sustainability's perspectives .....	145
2.7.4. Perspective Latvian economic development trends .....	146
2.7.5. EU suggestions for improving labour markets in the member states .....	147
2.7.6. National "economy-immune system": welfare issues in Latvia .....	148
2.7.7. Next generation of internet and skills .....	149
2.7.8. Latvia in the EU's future: a "threat of federalism" .....	150
Resume .....	151
Notes and references .....	152

<b>PART III. LATVIAN GROWTH PERSPECTIVES: FACING NEW CHALLENGES (INTERNAL CHALLENGES-II)</b>	153
<b>3.1. Introduction: Latvian political economy-2.0</b>	153
3.1.1. Politics and economics combined	153
3.1.2. The narrative's composition: Latvian options	156
3.1.3. European strategy for 2016–2020 and Latvian growth perspectives	157
3.1.4. European economy and Latvian growth perspectives	158
3.1.5. Effect of the EU-2018 budget on Latvian development	160
3.1.6. Managing European finances and investments	161
3.1.6.1. <i>Ex ante conditionalities, ExAC</i>	162
3.1.7. EU's financial issues and Latvian economy	163
3.1.8. EU roadmap's for the eurozone states	164
Resume	165
Notes and references	165
<b>3.2. Latvian way to a smart specialisation</b>	166
3.2.1. EU Smart Specialisation Strategy: recommendations for the Baltic States and Latvia	167
3.2.2. Smart specialisation strategy – 3S concept	167
3.2.3. Latvian S3 priorities and examples from Estonia and Lithuania	168
3.2.3.1. Other examples: Spain, France and Sweden	170
3.2.4. Modern European approaches to 3S concept	170
3.2.5. The European 3S pilot projects	172
3.2.6. Regional smart specialisation	173
Resume	174
Notes and references	174
<b>3.3. European industrial policy: effect for Latvian manufacturing and agricultural sectors</b>	175
3.3.1. Latvian industrial perspectives	176
3.3.2. European approaches to manufacturing	176
3.3.3. EU policy concerning member states' industrialisation	178
3.3.4. Startups and scale-ups in industrial growth	179
3.3.5. Latvian agro-sector: options for growth	179
3.3.5.1. Main ideas of a “new European CAP policy” for Latvia	180
3.3.5.2. CAP role in promoting rural prosperity	181
3.3.5.3. Future CAP in supporting farmers' efforts to protect environment	181
3.3.5.4. Startups, young farmers and generation renewal in agro-sector	181
3.3.5.5. Stimulating agro-investments and financial support for regions	182
3.3.6. Combining EU and Latvian efforts in agro-policy	183
3.3.7. Sustainable and smart manufacturing issues for Latvia	185
Resume	186
Notes and references	186

<b>3.4. Next generation of digital society and new skills</b> .....	188
3.4.1. Introduction .....	188
3.4.2. Challenges and problems .....	189
3.4.3. Towards “digital labour market”: skills in the digital society .....	190
3.4.4. “Blueprint” for sectoral cooperation on skills .....	191
3.4.5. Boosting skills intelligence and cooperation in economic sectors .....	191
3.4.6. Work-based learning and business-education partnerships .....	192
3.4.7. Modernising higher education: towards adequate skills .....	192
3.4.8. Digital public service: e-governance .....	193
3.4.9. Other management instruments in Latvian narrative’s implementation .....	194
3.4.9.1. Good governance and sound political decision-making (PAS) .....	194
Resume .....	195
Notes and references .....	195
<b>3.5. Modern European education policy: effect for Latvia</b> .....	196
3.5.1. Introduction: the EU supplementing educational instruments .....	196
3.5.2. The EU education policy: legal and management aspects .....	197
3.5.3. Social aspects in education .....	198
3.5.4. Main European long-term education and training targets .....	199
3.5.5. Education as an important political-economy sector .....	199
3.5.6. European Area of Education (EAE): main components .....	200
3.5.7. Administering EU’s educational assistance .....	201
3.5.8. Graduates in Latvia .....	202
Resume .....	202
References .....	202
<b>Conclusion: Economy and policies combined for the Latvian growth strategy</b> ...	203



# INTRODUCTION: LATVIAN NARRATIVE FOR A NEW CENTENNIAL

Latvian centennial is a good reason to think about the next 100-years period in the country's development, while trying to make some suggestions as to its perspective growth. During recent decade, Latvian GDP has been growing progressively, i.e. up to about €27 billion presently (with over 4 per cent growth rate in 2018), and state budget to about 9 billion. (1)

According to European Bank for Reconstruction and Development (EBRD), Latvian economy is showing “the steepest growth” in central Europe and the Baltic region. (2)

But there is no room for complacency; Latvia has to collect all the resources to make progress more sustainable, while being aware of existing external and internal challenges facing the country.

Therefore, the book intends to provide Latvian politicians, economists and the general public with a modern analysis of both the changes and challenges facing Latvian socio-economic development. The author sees these challenges being of a double nature: a) *external influences and challenges*, which are shown in Part I; they are stemming from the European Union side and from other “globalized sides” like UN process and OECD, and b) Latvian *internal economic and political challenges and factors*, which are covered in Part II and Part III.

The book consists of an introduction, three parts and a conclusion. Main idea of the book's **first part** is to show the effect of European and global challenges for Latvian socio-economic development. These challenges, which can better be called “pressures”, are from the international side and from the EU institutions; both are constantly challenging numerous economic and political aspects of Latvian growth. For example, internationally, Latvian development is subject to the UN guidelines (including UN Sustainable Development Goals, which are in effect from January 2016), as well as to implementation of OECD's recommendations and NATO's requirements. From the EU's side, there are “external managing and controlling mechanisms” of politico-economic effects stemming from the EU-2020 Strategy and the European Semester with some additional “influence” from a specific sub-regional EU's strategy for the Baltic Sea Region (EUBSRS). The EU's “effect” is generally much stronger for Latvian political economy than other “challenges”, as it is about certain “common aims”, inspired by the European Union's plans, strategies and sectoral policies. Quite special Union's strategy for the Baltic Sea Region (including 3 Baltic States) is having mostly advisory but nevertheless very important effect on Latvian growth strategy.

Important aspect of the book's first part is to show the ways the EU and international challenges are affecting Latvian political and economic decision-making process; the latter is subject to dynamic changes in order to make Latvian socio-economic development progressive in line with the EU and global sustainability requirements. Important in the EU's economic planning's effect on Latvia is the role of European legal instruments (e.g. regulations and directives) on Latvian economy: the share of the EU's laws in Latvian legislation is presently at the level of 60–70 per cent. It does not mean that Latvian decision-makers are losing initiatives; on the contrary, it means that European integration guidelines are playing greater role in the member states' development.

The EU-member states' economic integration during last 5–6 years has developed new coordinating efforts: the European Commission “constructed” specific political instrument in line with the 10-year “economic governance cycle” reflected in the EU-2020 strategy. It is called European Semester, as twice a year the EU institutions (mainly the Commission) checked all European states' economic development. The process is often called a “partnership”; however,

the EU efforts in coordinating Latvian development mean that political, economic and financial elites shall be more accountable to the EU institutions and national policies shall be in line with the “common European trends”.

As to the European Strategy for the Baltic Sea Region’s effect for Latvia (section 1.2 in Part I), which forms the Baltic-European sub-regional strategy, it has contributed during last decade sub-regional development in three main directions: 1) preventing the Baltic Sea pollution; 2) ensuring closer connections among states and communities in the region; and 3) increasing peoples’ prosperity. These priorities have had a positive effect on Latvian economy making national development compatible to other countries in the region. For example, Latvian trade is taking place mainly among the countries in the Baltic Sea area (BSA): thus, the country’s growth can gain from numerous BSA’s developmental directions: first, in *industry*, which has been the largest economic activity in Europe in terms of generating about 20% of the EU’s total added value. Second, in *defence, education, public health and social activities* with also about 19% of the EU’s aggregate, followed by *trade, transport, accommodation and food services* with 19 %, *real estate activities* with about 11%, and, finally, with *scientific and technologic activities* – at the level of 11%.

In September 2017, the OECD presented its first analytical analysis of Latvian economic development with about 200 pages in 2 booklets; these issues are analysed in section 2.3, Part I). Thus, according to the OECD’s accounts, there are both positive and critical assessments for Latvia; therefore, a lot is to be done by Latvian political and economic elites to deliver on these recommendations. Short review of Latvian economy from the OECD’s experts underlines necessary changes in national priorities. Besides, recent global economic outlook made by OECD group signifies the necessity of new approaches to political economy, i.e. through the active government actions in supporting the role of SMEs in national growth.

Section 1.4 in Part I, is dealing with the global/European sustainability issues and their effect for Latvian growth strategy. Politicians, economists and business community feel the need for changes and new approaches to development. Global competition for resources is increasing; at the same time, concentration of resources outside the EU states, particularly in critical raw materials, makes European industry dependent on imports, being increasingly vulnerable to high prices, market volatility, and political situation in supplying countries.

The author suggests that Latvian Sustainable Development Strategy for 2030, adopted by the Saeima in June 2010 and the Latvian National Development Plan for 2014–2020 shall be amended with a view to new United Nations and the European Union guidelines. Latvian executive branch, i.e. Cabinet of Ministers and legislative branch (concentrated in Saeima) shall review national strategy/plan to use all global and European “instruments and tools” to ensure that new Latvian policies’ guidelines would take into account the *three pillars of sustainable development, i.e. social, environmental and economic*.

There are two examples providing insights into practical SDGs implementation in Latvia: first, sustainable business, as sustainability principles are becoming closer connected to corporate strategies with new “modes of business” including present development needs with both “profitable” part of corporate activity and with *social and environmental* aspects. Second, quality teaching, which shall incorporate formulated global guidelines on optimal modern teaching issues in SDG-4.

The book’s other two parts are looking at some fundamental Latvian political economy’s issues through so-called *internal challenges* that would help to formulate a *new Latvian narrative* in a fruitful effort to reconnect the political ideas and government’s economic efforts (along the

lines of the “national accord” towards better lives of Latvian people). In this sense, a *narrative* means an account of events and experiences; a “national story description” that connects and explains a set of challenging events. Generally, the narrative is to show how existing country’s opportunities are transferred into common values, goals and interests. More specifically, how a determination to act together integrates into recognised and respected national strategy. Even more vital, how a “Latvian unity” can be achieved in order to level-up social processes that drive Latvian uniformity through a fruitful blending of differences, contrasts and tensions. A pluralist multilingual culture with a European and global outreach can be the basis of a new Latvian narrative.

The new national narrative would serve as solid background in forming a “combined” theory of a unified political and economic sphere of science (*Latvian political economy* in a modern centennial), which will be used by governing elites and the general public as a guideline for progress and growth. At the same time, the narrative would help citizens to closely identify themselves both with the national political and economic guidance.

In this way, a new Latvian narrative would become a long-standing political-economic “project” aimed at ensuring progressive social growth and prosperity for Latvian people. In the age of globalisation, Latvian political elites’ task is not only to sketch a new narrative (or a strategy) but make necessary steps for creating a stronger and socially oriented society for the next centennial. Some of these “steps and directions” are described in Parts II and III.

The narrative, inspired by Latvian culture and history, will stimulate new ideas and new paths that can help Latvians to rise to the challenges of the new globalized trends inspired by the 4<sup>th</sup> industrial revolution.

Behind the new Latvian narrative stand shared and constructive ideas that politicians can show through their promises to Latvian community and during the parliamentary elections. Hence, Latvian elites’ patriotism could be seen through love for its own people, while nationalism is a reflection of hatred to others.

Latvia is currently living through a time of sweeping transformations: a new generation of Latvians is appearing to shape new growth strategies; Latvian community has to “write its own new history” based on past and present achievements while oriented towards future. This is a unique and innovative path that Latvians should be proud of. The new narrative can play a good role in politicians’ choice for political parties and movements in selecting Latvian developmental priorities.

Latvian political theories and the perspectives of European integration are closely interconnected: e.g. by applying various EU funds to national strategy in dealing with concrete issues, such as defence, sovereignty, security and migration, to name a few. However, new approaches to changing traditional views on both the European and Latvian economic policies are needed: it is in own Latvian interest to actively participate in European integration with the elaborate and constructive views about Latvian “smart specialisation” programmes instead of previous short-sighted approaches.

Latvia’s ambitious course for the new centennial shall give a stronger message to Latvian ruling elites: to cherish Latvian legacy, i.e. what Latvians inherited from its past in culture and philosophy, in music, theater and art. That shall be coped with the new European trends in other broad issues, like design, digital society and innovation. Latvia must be open to Europe and the world. Global multi-nationalism has to find its way in the new Latvian narrative; Latvians with their “hearts and minds” would have to nourish those elements in Latvian culture that would be attractive for closer and more distant neighbours. Thus, fresh and innovative impetus is needed for progressive Latvian social development

The book's two other parts describe a couple of so-called "internal challenges", concentrating on, first, Latvian political economy's formation and, second, on the country's growth perspectives.

Thus, **the second part** of the book ("internal challenges-I") is about the "formation" of the Latvian political economy in view of the new narrative with its three main challenges: political economic and social. This part of the book includes also such issues as creating a perspective national "economic-immunity" strategy with circular economy at its core. Latvian labour relations are revealed with analysing labour market trends in Europe and in Latvia (section 2.3). Important role in perspective Latvian growth strategy belongs to science and technology (section 2.4), in which both European and Latvian development in research and innovations are analysed.

Business and entrepreneurship are vital parts in Latvian economy; hence attention to European and Latvian strategic business directions, start-ups and industrial/manufacturing perspectives in section 2.5. Finally, section 2.6 describes some impetus for the Latvian "young political economy" science, while showing some important narrative's components.

**The third part** of the book is about "internal challenges-II". Globalisation has brought enormous benefits and numerous opportunities for European states and Latvia. However, the benefits are unevenly spread among the states; certain stumbling blocks increase the "adoptive costs" among the EU countries. Therefore, the European Commission highlighted the necessity to take up the challenges of economic modernisation; at the same time, the EU member states need to empower their regions and help them create additional and competitive values.

Generally, it means embracing innovation, digitalisation, decarbonisation and developing perspective people's skills. To be competitive in the world, the Baltic States and Latvia have to develop their own so-called smart specialisation strategies or 3S; chapter 3.2 describes Latvian way to smart specialisation and effect of EU" industrial policy on Latvian manufacturing and agro-sectors (section 3.3).

Choosing "smart specialisation" (so-called 3S) becomes, first of all, an urgent Latvian political issue; although the 3S has been inspired by the European Commission, some practical steps in the member states in reaching 3S aims shall be made. Secondly, 3S is an important issue of Latvian perspective economic growth: only finding economy's competitive edge Latvia can secure its progressive future. Thirdly, Latvian 3S shall be based on creating more export-driven sectors, mainly through widely used manufacturing spheres (they are easy to structure and affiliate modern innovations). Finally, 3S in Latvia needs political and economic "national investments" in its future: to foster this process Latvia shall adopt adequate political decisions concerning, for example, reduction of taxes (to make export competitive), reform public services (to reduce bureaucracy) and transform education system.

According to the European Union's requirement, the member states' GDP shall be composed at least on 20 per cent by industrial production and/or manufacturing, as industry, in the EU's context, includes a number of manufacturing sectors too. Latvian industrial and manufacturing potentials greatly depend on national development strategy, available resources and political will to "design national industrial policy strategy". In such a strategy, attention has to be given both to traditional development spheres (e.g. agro-sector including eco-farming, which are still having important role to play in national growth), and some new ones, e.g. collaborative approach to new clean transport means, artificial intelligence and sustainable smart manufacturing. National industrial policy is Latvia's sole competence; it means that the EU institutions have only supplementing, supporting and coordinating competence in Latvia' industrial development. The EU's suggestion is that industrial sector in Latvia shall provide at least 20 per cent in the GDP. However, in the European context industrial production includes so-called second-level of production, which is often called manufacturing.

Besides, the EU's coordinating efforts include the Union-wide industrial policy, which consists of the whole spectrum of socio-economic issues, combining the Union's internal market (with its all "basic free movements", i.e. goods, services, workers and capital) as well as Latvian entrepreneurship and SMEs activity.

In all the present Latvian "burning" economic, environmental, social, technological, industrial and political issues the agricultural sector is still having a vital role for Latvian growth. Main objectives of the new CAP policy (such as fostering smart and resilient agricultural sector; bolstering environmental care and strengthening the socio-economic fabric of rural areas) are becoming the integral part of a Latvian agro-policy.

In order to fulfill the CAP objectives, Latvian agricultural sector and rural areas will need to be better linked to human capital development and research, while supporting and stepping-up all sorts of innovation. Support for knowledge, innovation and technology will be crucial to future-proofed Latvian agro-sector: schemes that aim at enhancing economic, social or environmental performance shall be linked to the government actions in providing knowledge, advice, skills and innovation. A good example in this regard is an award of the Latvian national prize for "Export & Innovation-2017" to an agro-cooperative LatRaps.

European and global challenges are forcing Latvian economy to be reoriented from previous approaches - though, often successful - to something new, inspired by the digital agenda, ICT, reforms in education and welfare system, as well as other trends in sustainable and "green growth". Latvia has to develop an economic model to be adequate to the new trends in the world: it means formation of a new national paradigm: i.e. a new narrative for growth and progressive development (these issues are covered in section 3.4 of the book's Part III). In approaches to a new narrative, all complex relations among political, economic and legal issues must be properly assessed. Only through new approaches to growth the Latvian "economic immunity system" can be created.

Latvian economic policy's guidelines for a new centennial include several aims and ideas: from stimulating wider public involvement in national issues, creating a "shared purpose" among citizens (and non-residents as well), activating cultural spheres, to increasing Latvian role in Europe and globally. In a fast-changing global economy, people shall be equipped with the right skills, and good-quality jobs are to be "supplied" by the states; this part of political economy can fulfill peoples' potentials being confident and active citizens. It is new skills that will to a great extent determine in future national competitiveness and the capacity to drive innovation. Section 3.4 describes the options to pull investment and make "catalyst drive" in the virtuous circle of job creation and increased growth. The new generation of digital society in Latvia is a vital factor in the general growth strategy and in social cohesion. Higher education institutions in Latvia need to ensure that they equip graduates with relevant and up-to-date skills.

Some issues under discussion in the book may appear several times in different political economy spheres, e.g. skills are dealt with in Latvian general growth strategy, in education/training policy, in digital society, etc. For example "innovation" appears in science policy, in entrepreneurship and in circular economy. These examples can go on and on...

The European Commission urges EU member states to do more both in modernising the national system for education and training and in overcoming inequalities in education systems. Education has a special role in building a fairer society by offering equal chances to everybody (section 3.5). Therefore, the Commission supports the EU states' measures in their education systems to deliver on the key EU targets in reforming and modernising education, with more efforts to achieve equality in education. As soon as education and training is within

the member states' sole competences, this policy becomes both an important part of Latvia's political economy in general, and the major "instrument" in delivering perspective growth and progress for the country. Following the EU's advises and recommendations, Latvia can make a national education strategy that would produce an added value to the country's efforts in delivering more jobs and new skills.

According to Latvian National Development Plan-2020 (NDP-2020), the government envisaged **three major national priorities**:

- 1) improvement in the education system's quality;
- 2) reinforcing "human securitability" (a cumbersome word is used in NDP to mean a sort of resilience): Latvian society has to be healthy and with a high level of well-being, where a spirit of security prevails making it capable of acting not only in the individual's best interest but also the common interest of society;
- 3) The third priority is of a double nature:
  - a) improvement of the "public transport infrastructure" (items 69 and 70 in the NDP-2020), and
  - b) "growth for regions", which implies effective use and targeted development of the geographic location, natural and other resources, linkage of the spatial structure with the emergence of a sustainable national economy structure and the attraction of high-quality investment.

The book's political-economic assumption (both practical and theoretic) suggests that an optimal balanced economy shall be based on the following "growth premises" (as % of GDP): *private consumption* about 50–60% of the GDP, *public consumption* about 20–25% and *private investments* at 20–25%. Available data concerning Latvian growth pattern are within this "balanced rules", i.e. € 14 billion out of about € 26 billion in Latvian GDP is presently in private consumption and about € 4 billion in public/government consumption, although with very low private investments. According to LIAA, private consumption (as % of GDP) was a little over "the limit" at 60.7 in 2017; public consumption still lower at 18,1 and government revenue at 37.2%. Balanced economy's pattern has to be implemented into the Latvian narrative as a sign of perspective national growth and prestige. (3)

A new narrative for Latvia will be a sort of catalyst that could trigger more intellectual contribution to country's progressive future formed with the shared European values and experiences. It aims to demonstrate the ways in which Latvia can empower its citizens through identifying its cultural values on the European platform of shared values in the European social market economy.

In the narrative, the Latvian socio-economic development is analysed, providing ground for re-assessment of economic and social progress, including such spheres as internal/external trade, competitiveness and reforms in the labour market.

Besides, perspectives in "social entrepreneurship", social standards and social rights can have a profound effect on Latvian strategic narrative. However, behind all the expected changes, there is a need to "make a united political ground", i.e. political will to prioritise Latvian budget's resources on most perspective growth directions, which shall aim at making Latvian people happy.

The book is based mainly on authors articles published in the international web-magazine "The Baltic Course", on latest Commission's press-releases and other EU institution's publication.

## References:

1. According to LIAA. In: <http://www.liaa.gov.lv/en/about/latvia-facts>
2. Citation from: <https://eng.lsm.lv/article/economy/economy/latvias-gdp-to-grow-fastest-in-ce-baltics-this-year-and-next.a256651/>
3. More on Latvian economic outlook in: OECD Economic Survey for Latvia, September 2017. Source: [http://dx.doi.org/10.1787/eco\\_surveys-lva-2017-en](http://dx.doi.org/10.1787/eco_surveys-lva-2017-en). LIAA statistics. In: <http://www.liaa.gov.lv/en/about/latvia-facts>



# PART I

## GLOBAL AND EUROPEAN CHALLENGES FOR LATVIAN SOCIO-ECONOMIC DEVELOPMENT

*Main idea of the book's first part is to show the effect of European and global challenges for Latvian socio-economic development; these "pressures" from the international side and the EU institutions correspondingly are changing economic and political aspects of Latvian growth. For example, internationally, Latvian development is subject to the UN guidelines (including UN Sustainable Development Goals, in effect from 2016), as well as OECD's recommendations (described in paragraphs 3 and 4 below) and NATO.*

*From the EU's side, there are "external controlling mechanisms" of politico-economic effects stemming from the EU-2020 Strategy and the European Semester (section 1) and additional "influence" from a specific sub-regional EU's strategy for the Baltic Sea Region (section 2).*

*The EU's "effect" is generally much stronger for Latvian political economy as it is about certain "common aims", inspired by the European Union's strategies and sectoral policies. Quite special Union's strategy for the Baltic Sea Region (including Latvia) is having mostly advisory but nevertheless very important supplementary effect for national growth.*

*Important aspect of the book's first part is to show the ways the EU and international challenges are affecting Latvian political and economic decision-making process; the latter is subject to dynamic changes in order to make Latvian socio-economic development progressive in line with the EU and global sustainability requirements.*

### **1.1. EU's political and economic guidance: EU-2020 strategy and European Semester**

*The European integration is based on strong coordination of member states' economic policies and specific legal instruments "supporting" such coordination. The latter takes the forms of traditional "planning structures" like multi-year strategies and a recent important coordinating instrument – the European Semester.*

*The EU's planning process provides for certain changes in the functioning of Latvian political elites: European "interests" are delivered yearly to Latvia by the Commission's working programmes, and strategically by a decade-long EU-2020 strategy. These EU coordination, guidance and planning arrangements are supposed to assist Latvian ruling elites to adopt national socio-economic plans in line with the European interests; the latter are presently closely coordinated by the Commission through the European Semester.*

#### **1.1.1. Introduction**

Numerous political and economic instruments available by the EU institutions are influencing growth patterns in the member states and Latvia. Most important among them are planning instruments and agendas, such as EU-2020 strategy, the latter provides for 10-year period for some vital directions in the member states' socio-economic development.

The EU political and economic strategies, since this century are having a 10-year period, beginning with the Lisbon Strategy for 2000–2010 and the present EU-2020 strategy. For some EU states, the European Commission has arranged specific, so-called sub-regional strategies,

e.g. for the countries around the Baltic Sea Area; these states (including Latvia) are subject to “programming and planning” through the EU Strategy for the Baltic Sea Region, EUSBSR described in section 2, Part I.

Besides, there are global dimensions in a modern state political economy, e.g. the United Nations’ coordination efforts: for example, the UN Millennium Declaration 2000, the UN 2030 Agenda and Sustainable Development Goals (SDGs) in effect from January 2016 (more on that in the fourth part of this chapter). In this regard it is well-worth mentioning some analytical “instruments” concerning so-to-say general global socio-economic development aspects, such as the Davos Economic Forum (2016), which revealed the accounts of the 4<sup>th</sup> Industrial Revolution.

All these factors are having deep effect on both the political agenda in the states, as well as on national economies’ competitiveness, including sectoral issues and structural policies: e.g. in education, health, regional and labour policies.

### 1.1.2. EU-2020 Strategy

European economic development has been guided by some general and sectoral economic policy’s directions through short term and long term “plans-strategies”; the same is in almost all other nations, using usually 5 to 8 or ten years’ periods.

Initially, it was the EU’s **Lisbon Strategy** making European “planning” for ten years (from 2000 to 2010) with an intermediate assessment during 2000–2005. This strategy was extensively prepared by the EU institutions and elites, with consultations with the member states long before 2000. Main “contributors” to the Lisbon Strategy (the member states’ governments, regional and local authorities, European political parties, consumer and business community, etc.) suggested main directions in the Union and member states’ growth by creating “the most competitive knowledge-based economy in the world” by 2010. The Lisbon Strategy aims were not fulfilled and, as it is widely acknowledged, have failed in reaching the desired aims. For example, the strategy’s two headline targets: of 70% employment and spending for research equivalent to 3% of GDP were both far from being materialized.

Then, in 2010 a new EU development and integration strategy for the next 10 years was adopted; it was called the EU-2020 Strategy. The strategy includes the following main aims:

- Making a successful exit from the crisis;
- Leading global efforts on climate action and energy efficiency;
- Boosting new sources of growth and social cohesion to renew the EU social market economy;
- Advancing “people’s Europe” concept with freedom and security, and
- Opening a new era for “global Europe”, which is in full compliance with the UN Millennium Development Goals.

The European “decade’s strategy” can be summarised in three main priorities, depicting so-called “European way of life”.

**First priority** is growth based on knowledge and innovation (so-called “smart growth”) and includes:

- Improving EU productivity by increasing R & D and innovation performance;
- Better exploiting the potential of ICTs and creating a digital single market;
- Raising education outcomes, and - promoting perspective work skills.

The **second priority** is *inclusive and high employment society*, which means:

- Empowering people through high levels of employment, using flexicurity;



- Modernising labour markets;
- Social protection, and
- Combating poverty, with a view to building a more inclusive society.

The **third priority** aims at “*green growth*”, which means:

- Building a competitive and sustainable economy;
- Tackling climate change;
- Accelerating the roll-out of smart grids and genuine EU scale energy and transport networks;
- Modernising the EU's industrial base, and
- Turning the traditional member states' growth into a resource efficient economy.

While recognising the need for greater interdependence of member states' economies and better coordination, still stronger economic coordination is the only way forward if the EU wants to proceed with the social dimension in economic development and establish a good basis for a strong European growth in the globalised world. Some national politicians are not in favour of a more coordinated approach in economic policy, turning to protectionism. One of the ideas is towards reinforcing the member states' industrial base and launching new common European projects (not just bilateral ones).

It is important to see the EU moves to efficient institutional coordination. The EU-2020 strategy aims can be achieved only with the help of strong European institutions; the Lisbon Treaty (in force since December 2009) made the necessary changes to strengthen the EU institutional framework. For example, the three main EU legislative institutions (Commission in drafting EU laws and two other adopting legislative instruments: the Parliament and the Council of Ministers) are forming so-called “EU's legislative triangle”. They are becoming now the major European institutions for both regional development and the member states' policies.

The Commission was assigned with special relationships with the European Parliament: under the so-called **Community method**, the two institutions acquire specific roles to identify, articulate and give reality to the **European interest**, with a particular responsibility to ensure that the EU is more than the sum of its parts.

All EU-28 member states have elaborated their own “strategies” for the period up to 2020; with some specific priorities, the EU states made their adequate responses to the “common EU strategic guidelines” in socio-economic development. Latvian development agendas are described in the second and third parts of the book.

### 1.1.3. European economic planning

Almost all modern states are having some kind of plans in socio-economic development, stretching from one-two years to multinational planning. At the EU level, there are yearly Commission's working plans, as well as “supporting” multi-annual financial planning. The EU's “economic planning” has influenced the member states' political process, as well as leaders to adopt their own plans for the national economic development in the years to come, following the EU's priorities. New national 10-year planning (or even more), is decisive for the European Union's future economic health: first of all to leave the recent recession behind, and chart a fresh course towards steady growth and job creation in all EU states. Decade-high unemployment, an ageing EU population and soaring budget deficits formed the backdrop for the new national planning.

The EU-2020 strategy may not differ radically from aspirations in the outgoing decade, although there is likely to be a considerably stronger emphasis on “green and smart growths”. The EU-2020 strategy's real difference with the previous one was actually around the definition

of targets to ensure the plan's broad themes, and in particular the need for mechanisms to enforce these targets. With the EU having supplemented competence in the relevant areas of education, social policy, employment, the Lisbon Strategy relied on peer pressure among states to ensure national governments met their agreed goals.

The EU member states in breach of the EU stability rules on permitted debt and deficit levels are issued with reports on how to rectify the situation by the European Commission, with the possibility of fines for non-compliance. According to the EU-2020 strategy, the Commission will co-ordinate the release of these reports with "scoreboards" on member states' performance in reaching EU-2020 targets, creating a greater link between the EU and the member states development (although some governments could easily protect their own interests).

The EU-2020 is the EU's growth strategy covering a decade period up to 2020. The strategy's main idea is that in a changing and globalised world, the EU member states' development has to be oriented towards **smart, sustainable and inclusive economy**. These **three mutually reinforcing recommended priorities** should help the member states deliver high levels of employment, productivity and social cohesion. Concretely, the Union has set *five ambitious objectives* – on employment, innovation, education, social inclusion and climate/energy – to be reached by 2020. Each EU state has adopted its own national targets in each of these areas; whereas concrete actions at the EU and national levels underpin the strategy. (1)

1.1.3.1. Commission's annual working programmes: effect for the member states and Latvia Compared with the previous two Commission's agendas (from 2009 and 2014), during which the Commission proposed an average of **over 130 new initiatives** in each annual Work Programme (WP). The present Commission is taking a different approach: e.g. in the WP-2015, **only 23 new initiatives** were presented, as well as in the WP-2016.

The WP-2017 contains **21 key initiatives**, reflecting the new priorities and focusing on implementing the proposals already on the table from the previous years. They are clarified in 5 annexes; plus **18 REFIT proposals** to improve the quality of existing EU legislation.

Commission's WP-2017 identified *34 priority pending proposals* already made in the past two years which shall be swiftly adopted.

#### EXAMPLE: COMMISSION'S 10 POLITICAL PRIORITIES FOR 2017

1. **New Boost for Jobs, Growth and Investment.** Motto: *A Europe that preserves our way of life and empowers our young.* Tasks include:
  - Youth initiative;
  - Implementation of the Action Plan on Circular Economy;
  - Financial framework beyond 2020.
2. **Connected Digital Single Market.** Motto: *A Europe that empowers its citizens and businesses.* Task: Implementation of the Digital Single Market Strategy.
3. **A Resilient Energy Union with a Forward-Looking Climate Change Policy.** Motto: *A Europe that takes responsibility for delivery on promises made.* Task: Implementation of the Energy Union Strategy: low-emission travel and mobility.
4. **Deeper and Fairer Internal Market with a Strengthened Industrial Base.** Motto: *A Europe that makes a strong contribution to jobs and growth and stands up for its industry.* Tasks include:
  - Implementation of the Single Market Strategy;
  - Fairer taxation of companies;
  - Implementation of the Space Strategy for Europe;
  - Implementation of the Capital Markets Union's Action Plan.

- 5. Deeper and Fairer Economic and Monetary Union.** Motto: *A Europe that protects our economies and ensures a fair playing field for workers and business.* Tasks:
- A strong Union built on a strong EMU;
  - European Pillar of Social Rights.
- 6. Trade: A reasonable and Balanced Free Trade agreement with the U.S.** Motto: *Europe that is open and trading with our partners while strengthening its defence instruments.* The task: Implementation of the EU's "Trade for All" strategy.
- 7. Area of Justice and Fundamental Rights Based on Mutual Trust.** Motto: *A Europe that defends and preserves our values of freedom, democracy and the rule of law.* Tasks:
- Data Protection Package;
  - Progress towards an effective and genuine Security Union. (2)
- 8. Towards a New Policy on Migration.** Motto: *Europe that protects our borders and delivers on a responsible migration policy.* Task: Implementation of the European Agenda on Migration.
- 9. EU as a Stronger Global Actor.** Motto: *A Europe that protects & also defends our interests beyond our borders.* Main tasks:
- Implementation of the European Defence Action Plan;
  - Implementation of the EU Global Strategy;
  - EU Strategy for Syria;
  - Africa – EU Partnership: renewed impetus.
- 10. Union of Democratic Change.** Motto: *A Europe that takes responsibility, listens and delivers.* Main tasks: Modernisation of Comitology procedures;- A more strategic approach to enforcement of EU law. (3)

#### 1.1.4. European economic integration: legal aspects

Being a EU member state, Latvia is subject to follow the Union's legislation; the latter cover most of Latvian legal order, mainly through EU regulations (which are becoming "automatically" the Latvian law) and directives, which are subject to subsequent Latvian laws and/or administrative regulations. Presently, over 60–70 per cent of Latvian legislation is, actually, stemming from the EU institutions; hence the public growing interest in the EU's legal and administrative activities.

Present EU basic law (Lisbon Treaty) consists of two parts – TEU and TFEU; both are guiding the Union's economic integration. The legal paths are the following: the Treaty of Rome (1957–58) has been several times amended since; it is renamed and included presently in the Lisbon Treaty, 2009 as the Treaty on the Functioning of the European Union, TFEU. Thus the EU is presently "founded" on two separate treaties: the principles of attributed powers, subsidiarity and proportionality are located in the TEU, whereas the provisions on exclusive, shared and complementary competences are placed in the TFEU.

The first Lisbon Treaty's part – TEU is a kind of "mission statement", including some basic Union's organising and developing principles; while the Treaty's second part – TFEU provides the legal bases for European economic integration and cooperative development of various socio-economic sectors in the member states.

According to the Treaty of the Functioning of the European Union, TFEU (art.1) the Treaty "**organises the functioning of the Union and determines the areas, delimitation of, and arrangements for exercising its competences**". TFEU contains certain **core principles** of economic integration, such as the various categories of Union competence.

Among nine points in TFEU's preamble, **five are exceptionally vital for Latvian economy:**

- 1) EU member states agreed to "**lay foundation of an ever closer union among the peoples of Europe**";
- 2) National policies in the member states shall have an "**essential objective**", i.e. to provide **for constant improvements of peoples' living and working conditions**;

- 3) The EU institutions are aimed at **strengthening the unity of the member states' economies** and ensuring their harmonious development by **reducing the differences existing between various regions**;
- 4) EU shall strengthen **common commercial policy** and abolition of restrictions to international trade;
- 5) The member states shall provide for a **wide access to education with its constant updating** (italics and bold are mine, EE).

In other key legal provisions for the member states are:

- **Social policy**, which is reflected in a European *social market economy*;
- **New areas of closer cooperation** (including climate change and energy efficiency);
- **Digital agenda**;
- **Innovative and banking unions**, etc.

Special attention the member states shall put on **human rights' issues**: the Treaty recognises the Charter of Fundamental Rights (the EU states signed it in 2000) as an integral and legally binding regulatory instrument alongside other European human rights conventions.

Faster and more efficient **decision-making** have been introduced in the Treaty with **ordinary procedure** (former co-decision) and a **special one**, both require the adoption, generally, by the Council acting by unanimity or qualified vote; besides a simplified Treaty revision procedure is envisaged. A *modernised EU institutional framework* was introduced in the new Treaty, e.g. permanent EU president and High Commissioner for external affairs, extended role of the European Parliament becoming a co-legislator together with the Council; division of competence between the EU and the member states, etc. The latter needs additional explanation as being an important “driving force” in more efficient national political economy.

### 1.1.5. European guidance for the economic sectors: division of competence

The Lisbon Treaty has made some fundamental changes in approaches to member states and the Union institutions' socio-economic competences through: **exclusive, shared and complementary categories**.

For example some of these competences, called **exclusive**, can directly affect member states' economic policies (without any national efforts), such as competition rules, foreign trade negotiations (including customs issues and international cooperation), and conservation of marine resources. The division of competences appeared in the EU's “integrative planning system” only after the present Lisbon Treaty entered into force at the end of 2009. This novice has made at last clear the structure of political and economic relationship between the EU institutions and the member states.

Most of the EU-member states competences are of a **shared nature**: these spheres include general issues concerning functioning of the EU single market (particularly in free movement of goods and workers), agriculture and fisheries (specific provisions are included in TFEU (art. 38–44); free movement of persons, services and capital (art. 45–66); transport sector (art. 90–100); taxation, economic and monetary policy's issues (art. 119–144); employment (art. 145), consumer protection (art. 169), social policy (art. 151), science, research and technology (art. 179); environment (art. 191), energy sector (art. 194), etc. (4)

The third sphere of EU-member states' competence is of the **EU's supporting and supplementary** nature: it includes education, vocational training, youth and sport (art. 165 TFEU); culture (art. 167), public health (art. 168), industry (art. 173), tourism (art. 195) and civil protection (art. 196 TFEU).

### 1.1.6. Economic activity in the Baltics and Latvia: vital sectors

National economies in the Baltic States are “rotating” around three 3 main sectors providing value added shares: **primary sector**, which include industry, agriculture, hunting and forestry, as well as fishing; **secondary sector** with manufacturing, transport, electricity, gas and water supply, construction, mining and quarrying; and a **tertiary sector**, which includes wholesale and retail trade, hotels and restaurants, storage and communication, financial intermediation, real estate, renting and business activities, public administration and defence; social security, education and health, other community activities and other services.

The combination of these sectors in national economy and their “share” in GDP often shows how “progressive a nation positions itself in EU and the world. In Estonia, for example: during last decade about 65% of the total value added was produced in the tertiary sector; 30% – in the secondary, and only about 5% in the primary sector. During last decade, however, the division has changed in favour of the tertiary sector, mainly the digital one.

In Latvia, primary sector produces 3.2 % of GDP, about 22% in the secondary and about 75% in services. (5)

Some other states in the Baltic Sea region are experiencing planning approaches to economic development. Thus, in May 2017 the Danish government presented a national economy plan for the next seven years, i.e. up to 2025. It looked as if the country didn't envisage economic problems: growth was predicted as a stable factor. The problem was of political nature: the government did not implement the policy adopted before in the “government coalition” adopted in 2016. In the new plan-2025 there were no measures to implement climate policy's obligations, to increase R & D spheres, to green and sustainable development.

The key objectives of the Danish development strategy have been expressed in the form of targets **in five areas**: employment, research & development (R & D), climate change & energy, education and poverty reduction, to be reached by 2020. These targets are closely connected to the EU; now they have been translated into national targets in order to reflect the situation and possibilities of each EU state to contribute to the common goal.

A set of nine headline indicators and additional sub-indicators provide an overview of how close the overall EU targets correspond to those in the member states. (6)

### 1.1.7. European Semester as an instrument in economic integration

In June 2011, with the first publication of the *country-specific recommendations (CSR)*, the Commission took a decisive step to speed up the member states efforts in delivering on growth and jobs. The idea at that time was mainly to put the whole EU economy back on track after 2008-crisis.

The recommendations were based on a thorough assessment of each member state's plans for sound public finances (*Stability or Convergence Programmes, SCPs*) and policy measures to boost growth and jobs (*National Reform Programmes, NRPs*). (7)

In order to streamline the EU's economic integration, the Commission “constructed” (within the new 10-years’ “economic governance cycle” in the EU-2020 strategy) a specific political instrument to coordinate the states’ economic and financial policies. It was called *European Semester*, as twice a year the EU institutions (mainly the Commission) checked EU-28 states’ economic development. However, the process is still called a “partnership” though some argue that it often restricts states’ sovereignty.

The European semester started in *January 2011* with the presentation of key EU socio-economic challenges by the Commission in its Annual Growth Survey (AGS) and the Joint Employment Report. (8)

Behind the main Semester's idea have been closer monitoring and coordination EU member states' economic policies. European Commission decided to publish each year at the end of February the annual analysis of the economic and social situation in the member states, i.e. the so-called country reports. Through these reports Commission intends closer coordinate and monitor economic policy reforms in the states, mainly through the *European Semester* process.

According to the Commission, the European Semester process is the key vehicle to focus the EU states' attention on their most important socio-political challenges. Gradually, the European Semester takes a more central role also in domestic policy debates on fiscal and macroeconomic challenges.

Main instrument in implementing economic coordination are the "country reports", i.e. country-specific recommendations. Member states' approach to "deeper coordination" is mixed, despite the fact that these recommendations go through a very thorough adoption process: recommendations proposed by the Commission are carefully screened by both the Council of Ministers and the European Council. Besides, and it's also important, that these recommendations are approved at the national level.

The role of the European Parliament and national parliaments in the EU and national "political economy" becomes crucial: the national parliaments would undergo "inner evolution" to become more intensively and more regularly involved in the national decision-making process and national practices. The Commission has had constant and detailed discussions with national parliaments, social partners and other "actors" in this regard.

EU states were requested to present **Stability or Convergence Programmes (SCPs)** on the situation of their public finances and **National Reform Programmes (NRPs)** presenting key policy measures to sustain growth and jobs and reach the goals of the EU-2020 strategy – at the end of April each year (to complete "the cycle" by June at the Council).

For the first time the Commission uncovered its plans *to "control" the member states' economic-monetary development policies* in the form of a "semester", in the fall of 2013. Initially, and still so far, such "control" has been called "partnership". (9)

Main "semester's instrument" in economic coordination is **country reports** (country specific recommendations, CSR), issued by the Commission. Initially, CSRs were issued in May; new structure makes CSRs available already at the end of February, i.e. at the initial stage of the member states' political decision process for a year to come. Thus, earlier CSRs would serve as the basis for the EU-wide economy "planning" to prepare National Reform Programmes (they were ready already in April 2016).

Thus, each March, the Commission holds bilateral meetings with the states on "country reports". Commissioners visit regularly the EU member states to meet national governments, parliaments, social partners, etc. In return, the EU states are required to present **in April** their **National Reform Programmes** and their **Stability Programmes** (generally, for euro area countries) or **Convergence Programmes** (for non-euro area states), covering the state of public finances.

Afterwards, the Commission presents its proposals for a new set of *Country-Specific Recommendations* – somewhere **in spring** – targeting the key economic and social priorities for each country.

Finally, also in March, the Commission makes decisions on the **Macroeconomic Imbalances Procedure** (MIP) category for each EU state covered by an **In-Depth Review**.

Thus, beginning with 2016, the Commission reduced MIP *from six to four categories* of macroeconomic imbalances:

- a) **No imbalances;**
- b) **General imbalances;**



- c) **Excessive imbalances**, and
- d) **Excessive imbalances with corrective action.**

European Semester process becomes a key vehicle to focus the EU states' attention on their **most important socio-political challenges**. Gradually, the European Semester takes a more central role also in *domestic policy debates on fiscal and macroeconomic challenges*.

The EU's approach to creating new economic progress is built on the 3-way approach: a) *boosting investment*, b) *pursuing structural reforms* to modernise member states' economies, and c) continuing *fiscally-responsible policies*.

Following the Annual Growth Survey in 2016 and the euro-zone recommendation, which set out the priorities at European level, the new Commission's measures shift the attention of the European Semester *to the national dimension*. The EU recommendations serve as the basis for discussion with the member states of their national policy choices ahead of their National Programmes in April, and would lead to the formulation in late spring of the Commission's Country-Specific Recommendations.

Early publication of the coordinating documents for the member states (so-called "country reports") is part of the efforts to streamline and strengthen the European Semester, in line with the Five Presidents' Report and other Commission steps to complete Europe's Economic and Monetary Union. (10)

Some of these steps were initiated in 2015 and this practice has been confirmed in 2016 and 2017, in order to allow for a real dialogue on European priorities, including euro area challenges, upfront at the start of the European Semester, and then giving more time for dialogue with the EU states at all levels to reflect on their priorities.

New aspects in the Semester also reflect the EU's greater focus on employment and social considerations which the Commission is bringing into the European Semester. (11)

However, the member states have a vital role in economic stability; most of all, the states need to implement policies that *support macroeconomic stability* and confidence. This includes efforts in some EU countries to address issues of high public and private debt and high external debt.

Recent improvements on the employment and social side in the states have shown a slight reduction in the disparities among the EU states in key social and labour market indicators. Some member states have been already successfully tackling structural shortcomings, but the pace is uneven because reforms are often slowing down as market pressures have eased.

A number of EU states still need to carry out genuine reforms in many areas to unlock Europe's growth potential and be better prepared for new challenges and risks. The EU economic policy coordination provides for coherence and continuity to the member states' actions. It was generally agreed that the economic policy directions in the member states should not be driven by market sentiment alone, but by a sense of what is good for both the member states and for citizens. (12)

### **1.1.8. Active financial support to SMEs in the Baltic States**

The European Investment Fund (EIF) and Swedbank agreed in March 2018 to provide financial support for about 5 thousand SMEs in Estonia, Latvia and Lithuania (the EU Programme for Employment and Social Innovation, EaSI participates too). The financial support is aimed at boosting employment in the Baltics and getting more people into jobs, especially the most vulnerable people on the labour market.

The European Investment Fund provides a guarantee which will enable Swedbank Baltic department to provide up to € 123 million financing to micro-businesses in the three Baltic

States over the next three years. The deal also benefits from the support of the European Fund for Strategic Investments (EFSI), the core element of the Investment Plan for Europe.

With the help of EU funding, Swedbank is increasing the access to finance in the Baltic States for SMEs and micro-enterprises, including young entrepreneurs and unemployed. This will benefit around 5000 small businesses in Estonia, Latvia and Lithuania.

Swedbank has presently totally about 7.5 million private and 622 000 corporate customers: 4.1 million and 337 000, correspondingly in Sweden and 3.3 million and 337 000 in the three Baltic States with 129 000 employees there. There are 50 bank's offices only in Latvia with about 1 million clients. (13)

According to the Swedbank's Head of Baltic Banking, *Charlotte Elsnitz*, providing needed investment capital for micro-enterprises to tens of thousands of companies in Estonia, Latvia and Lithuania, Swedbank has arranged the biggest EaSI guarantee support in the region. The guarantee provides both the financing on favourable conditions to more than 5000 small businesses in Baltic countries and expands access to financing to vulnerable groups such as young people lacking entrepreneurial experience or the unemployed. "This is a step needed to secure a sustainable economic development in the region", added Ch. Elsnitz.

The head of Inclusive Finance at the European Investment Fund, *Per Erik Eriksson*, underlined that the new EaSI guarantee agreement with Swedbank is going to represent a vital support for micro-entrepreneurs in the Baltic States. The EIF's guarantee will be instrumental in helping small businesses who are having difficulties in accessing financial support for business.

Financing under EaSI support for micro-enterprises is launched by Swedbank in March 2018.

#### 1.1.8.1. European Investment Fund

The European Investment Fund (EIF) is part of the European Investment Bank Group. Its central mission is to support European micro, small and medium-sized businesses (SMEs) by helping them access finance. EIF designs and develops venture and growth capital, guarantees and microfinance instruments which specifically target this market segment.

The Investment Plan for Europe has three objectives: to remove obstacles to investment; to provide visibility and technical assistance to investment projects; and to make smarter use of financial resources. Hence, the plan consists of three pillars:

1. First, the *European Fund for Strategic Investments* (EFSI), which provides European guarantees to mobilise private investment. In this regard, the Commission works together with its strategic partner, the European Investment Bank (EIB) Group.
2. Second, the *European Investment Advisory Hub* and the *European Investment Project Portal* which provide technical assistance and greater visibility of investment opportunities, thereby helping proposed investment projects become a reality. The Hub is a joint venture with the EIB Group.
3. Third, improving the business environment by removing regulatory barriers to investment both nationally and at EU level.

The EIF fosters EU objectives in support of innovation, research and development, entrepreneurship, growth, and employment. (14)

#### 1.1.8.2. Programme for Employment and Social Innovation

The European Commission's Programme for Employment and Social Innovation (EaSI) aims at supporting EU's objective of high level employment, adequate social protection, fighting against social exclusion and poverty and improving working conditions. The EaSI guarantee scheme was launched in June 2015 by the European Commission and managed by EIF.



EaSI provides support to financial intermediaries that offer microloans to entrepreneurs or finance to social enterprises. The objective is to increase access to microfinance for vulnerable groups who want to set up or develop their business and micro-enterprises, notably through loans of up to €25 000. In addition, for the first time, the European Commission is helping social enterprises through investments of up to €500 000.

The microfinance and social entrepreneurship support is presently implemented through the EaSI guarantee scheme, which enables financial intermediaries to reach out to micro-entrepreneurs and social enterprises that would not have been able to gain finance otherwise due to risk considerations.

The EaSI represent a EU-wide financing instrument aimed at promoting quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions. (15)

The Investment Plan for Europe (IPfE) is one of the EU's top priorities aimed at boosting investments and creating jobs and growth in the member states by removing obstacles to investment, providing visibility and technical assistance to investment projects, and making "smarter use" of existing and new financial resources.

With guarantees from the European Fund for Strategic Investments (EFSI), the EIB and EIF are able to take on a higher share of project risk, encouraging private investors to participate in the projects. From February 2018, the IPfE is expected to trigger more than € 264 billion in investment among the EU member states. (16)

### 1.1.9. Financial perspectives for EU and the Baltics: EU's draft budget for 2021–2027

The EU's draft for financial period 2021–2027 is planned at about €1.1 trillion, i.e. on average about €157 million per year, much is almost the amounts presently. First, good news: Brexit does not make the Baltic States worry about future EU's financial injections; second (sort of bad news), less money will be for structural reforms with R & D instead. This isn't actually bad news at all: just politicians shall re-orient perspective growth patterns.

The European Commission proposed the new MFF's draft in the beginning of May 2018. This "overall EU budget", so-called multiannual financial framework (MFF) of **€1.135 trillion** over seven years constitutes 1.11 per cent of the EU-27 states' gross national income (GNI). In fact, expressed in current prices and taking into account inflation, this would amount to a little bit more, i.e. **€1.279 trillion**. So, the actual member states' contribution to the "common purse", and consequently the expenditures from the states budgets will amount to €1.105 trillion or 1.08 per cent of each state's GNI over the whole budget period. The rest comes from VAT, customs duties, etc. For example, the Commission proposed a new MFF-basket of new own resources representing about 12% of the MFF. It combines a share of the Emissions Trading System revenue and the Common Consolidated Corporate Tax Base, as well as a levy on non-recycled plastics waste.

For example, Latvia is going to pay to the EU about **€300 million/yearly**, though getting back about four times more each year through different funds and supporting payments. But everything is relative: Latvian membership in OECD "costs" almost the same and participation in NATO is twice the EU's contribution.

There are some issues that the new MFF is going to solve; some questions remain as to the MFF's perspectives. Thus, the Commission proposed a mechanism to link payments from the EU budget and the member states' implementation of the EU's values, e.g. concerning the respect of the rule of law in a certain country. However, these states' governments will not be able to blame the EU of stopping funding projects; thus, individual funds' recipients cannot be

held responsible for deficiencies in the rule of law system of a respectful country. For example, states' would continue to be obliged to make payments to Erasmus students, universities, NGOs or any other final recipients of the EU financing.

The key issue of limiting the flow of money to any EU state concerning the "rule of law" will be the EU values formulated in the Treaties; however, behind this "punishment" is, in fact, an efficient and proper use of European taxpayers' money. Hence, a funding cut could be applied only in cases of "general deficiency" to the rule of law, or to "sound financial management" of the EU's funding. The ultimate decision process is quite difficult: the Commission would propose and Council adopts any funding freezing through reversed qualified majority voting in one of the Council's configurations; that means possible fines have to be approved by the national ministers unless a qualified majority overturns the decision.

It shall be mentioned that fines and sanctions mechanisms have never been used as "severe penalty" in the EU's economic governance rules.

Note: the "punishment part" of the draft is intended to put pressure, for example, on governments in Poland and Hungary over alleged democracy-violating local decisions in contrast to the EU values and the rule of law. On one side, it sends a warning signal to other EU states which might take the same measures; on another, it can exacerbate tensions between European east and west and raise opposition from those states that are against additional powers from Brussels.

However, it does not seem that these discussions and decisions will in any way affect the Baltic States. (17)

There are some European old and new budget's priorities: under the MFF, the EU funding will largely stay the same for most of "common EU policies", e.g. infrastructure, transport, energy, education, environment, etc. Big share of expenditures, i.e. in cohesion (structural funds) and agriculture will face cuts of about 5–7 per cent, which brings total volume of funds for these issues down to about 60 per cent of the MFF.

Numerous eastern EU states have been having lavish support in structural reforms for almost three 5-years' national planning (if there had been such!). For example, according to the Commission, such funding accounted for more than 70 per cent of government's investments on structural/cohesion issues in Lithuania, about 60 per cent in Poland, more than 55 per cent in Hungary and 45 per cent in Estonia in 2015–2017. (18)

Additional expenses are expected for defence, security, migration and general growth.

The MFF proposal foresees that the EU's coast and border guard will be several times the size of its current staff, increasing to 10 000 from present 1200. The budget provides €35 billion for border management, asylum and migration, as compared to €13 billion in the current MFF.

The European Fund for Strategic Investments, so-called "EU-invest programme" is expected to provide roughly €15 billion in guarantees on investment programmes in the states. Science and research programmes will get an increase of around 40 per cent; Erasmus+ funding will be doubled, as being a "best answer to populism and anti-European voices."

Drive for a more competitive EU is also in the new MFF: the Commission wants 64% increase in funding for research and development (R & D) to demonstrate the intention to boost the EU's position as a knowledge-based economy. However, given the limited size of the EU budget, the effectiveness of this policy will primarily depend on the EU's ability to link funding to comprehensive industrial strategies in the states. According to the European Policy Centre (EPC), the latter would spur productivity gains by ensuring that the share of R&D funding also rises in EU member states, reducing inconsistencies in the EU single market, and promoting a wider uptake of new technologies across the continent. (19)

Nevertheless, some EU states will contribute more: e.g. Denmark, Sweden, Holland and Austria (Danish politicians have already rejected country's increased share in the EU's budget). Other states, however, will see a reduced EU's paycheck, e.g. Poland, Hungary, Greece and Romania.

Finally, to be a reality, the MFF proposal – according to the EU Treaty – has to be approved by the EU member states' governments in the Council by a qualified majority voting (QMV) by the states representing at least 55 per cent of the EU states and 65 per cent of the total EU-27 population (if there would be no more member states at that time). It means that if some two-three states would be against the draft, the Commission would have to draft a new one. Besides, the proposal suggests that if the Commission wants to apply a “punishment measure” against a particular EU states, it needs again QMV to proceed with it.

## Resume

*Important messages to Latvia from the European Union include, among other things, have shown that Latvian development shall be planned: by 5, 10 and 15-years' periods in line with the European strategic guidelines. The EU-2020 strategy shows three main directions in Latvian growth patterns: **first**, growth based on knowledge and innovation (so-called smart growth), **second**, stimulating high level of employment, modernising labour markets with due social protection and combating poverty (so-called inclusive and high employment growth); **third**, is building a competitive, resource efficient and sustainable economy, modernising country's industrial base (so-called “green growth”).*

*There are some exceptionally vital for Latvian economy recommendations stemming from the European political and economic guidance. They include, for example such development strategies' sectors as national “measures towards constant improvements of peoples' living and working conditions”, strengthening the unity of Latvian economy with other member states and ensuring their harmonious development by reducing existing differences among regions; as well as providing for citizens' wide access to education with its constant updating.*

*Besides, the member states have to be active in the following development spheres: digital agenda, innovative and banking unions, energy security, etc. Special attention the member states shall put on human rights' issues: the EU Treaty recognizes the Charter of Fundamental Rights (the EU states signed it in 2000) as an integral and legally binding regulatory instrument alongside other European human rights conventions.*

*Important legal aspect of EU's economic planning is the role of European laws in Latvian economy growth: the share of EU's regulations and directive is presently at the level of 60–70 per cent. It does not mean that Latvian decision-makers are losing initiatives; on the contrary, it means that European integration guidelines are playing greater role in the member states' development.*

*The EU-member states' economic integration during last 5–6 years has developed new coordinating efforts: the European Commission “constructed” specific political instrument in line with the 10-year “economic governance cycle” reflected in the EU-2020 strategy. It is called European Semester, as twice a year the EU institutions (mainly the Commission) checked all European states' economic development. The process often is called a “partnership”; however, the EU efforts in coordinating Latvian development means that political, economic and financial elites shall be more accountable to the EU institutions and national policies shall be in line with the “common European trends”.*

## Notes and references

1. See more in: [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm). On the EU's planning process see: Publication series by E. Eteris "Modern EU policies: integration in action". Volume I. "EU's integration through modern European planning process", 20 July 2015. In: [http://www.baltic-course.com/eng/direct\\_speech/?doc=108419&ins\\_print](http://www.baltic-course.com/eng/direct_speech/?doc=108419&ins_print)
  2. See, e.g. "Towards an effective and sustainable European Security Union. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=125023&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=125023&ins_print)
  3. Besides, the EU institutions are strictly watching the socio-economic development in the member states; see more on the EU's "controlling mechanism", for example, in:
    - Closer monitoring and coordination of the EU member states' economic policies. In: [http://www.baltic-course.com/eng/analytics/?doc=117453&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=117453&ins_print)
    - EU's control over member states' economic policies. In: [http://www.baltic-course.com/eng/editors\\_note/?doc=16207&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=16207&ins_print)
    - Commission will correct the member states' budgetary strategies. In: <http://www.baltic-course.com/eng/analytics/?doc=118055>
  - Besides, optional reading for EU planning:
    - European's economy development plans for 2016. In: [http://www.baltic-course.com/eng/analytics/?doc=113588&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=113588&ins_print)
    - EU draft budget for 2016: stable payment at about € 143 bln. In: [http://www.baltic-course.com/eng/analytics/?doc=106766&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=106766&ins_print)
    - Commission's work programme for 2016. In: [http://www.baltic-course.com/eng/analytics/?doc=112360&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=112360&ins_print)
  - Main reading for the EU's planning process:
    - Modern EU policies: integration in action. Volume I. "EU's integration through modern European planning process". In: [http://www.baltic-course.com/eng/direct\\_speech/?doc=108419&ins\\_print](http://www.baltic-course.com/eng/direct_speech/?doc=108419&ins_print)
    - State of the Union-2015: analysing the EU and member states' problems. In: [http://www.baltic-course.com/eng/analytics/?doc=110499&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=110499&ins_print)
    - Towards Better Europe: 2016 State of the Union address. In: [http://www.baltic-course.com/eng/editors\\_note/?doc=17127&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=17127&ins_print)
    - Commission's work programme for 2017: facing main European challenges. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=125063&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=125063&ins_print)
  4. Note: The EU's "vision" of shared cooperation in these and other economic policy's sectors can be seen at: Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union. In: *Official Journal C 115, 09/05/2008 P. 0001 – 0388 (2008/C 115/01)*.
  5. Source: OECD Economic Surveys: Latvia, September 2017. In: [www.oecd-library.org](http://www.oecd-library.org), at: file:///F:/2017%20OECD%20Economic%20Survey%20of%20Latvia%20Full%20Survey.pdf1, p.8/. However, the general EU message is that industrial production shall increase to at least 20 % of GDP from the present 13–15% in the Baltic States and Latvia. It would be quite difficult to implement such politico-economic message in the Baltic States, and particularly in Latvia, where the internal consumption is the "sector" in the national economy providing for an increased GDP growth.
  6. See: Eurostat report. In: <http://ec.europa.eu/eurostat/documents/2995521/7566536/1-19072016-BP-EN.pdf/126e-6fa2-7412-43af-b0a2-2e7bf8a0747a>. (19 July 2016). Full text available on EUROSTAT website.
  7. See: Memo - 2011 Country-specific Recommendations FAQ.
  8. Reference: "Annual Growth Survey 2011: advancing the EU's comprehensive response to the crisis". In: COM (2011) 11, 12.1.2011, including the draft Joint Employment Report.
  9. Reference: [http://www.baltic-course.com/eng/direct\\_speech/?doc=108419&ins\\_print](http://www.baltic-course.com/eng/direct_speech/?doc=108419&ins_print)
  10. Note: For EMU's coordination see: Commission communication to the Parliament, the Council and ECB "On steps towards Completing Economic and Monetary Union", COM/2015/0600 final. In: <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1447860914350&uri=CELEX:52015DC0600>. Semester documents for Latvia. In: [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-your-country/latvia\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-your-country/latvia_en)
  11. See more in: Commission press release IP-16-332, "European Semester 2016: Commission publishes country reports". Brussels, 26 February 2016.
  12. Reference: European economy through the Semester and reforms. 18.02.2016. In: [http://www.baltic-course.com/eng/analytics/?doc=116918&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=116918&ins_print)
- Further reading for the European Semester:
- The start of the 2016 European Semester: The November European Semester package explained;
  - The EU's economic governance explained;
  - Alert Mechanism Report 2016;
  - Winter 2016 Economic Forecast;

Optional reading on European Semester:

- European semester: further coordination for growth:  
[http://www.baltic-course.com/eng/analytics/?doc=115457&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=115457&ins_print)
  - European economy through the Semester and reform:  
[http://www.baltic-course.com/eng/analytics/?doc=116918&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=116918&ins_print)
  - Closer monitoring and coordination EU member states' economic policies:  
[http://www.baltic-course.com/eng/analytics/?doc=117453&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=117453&ins_print)
  - EU's control over member states' economic policies:  
[http://www.baltic-course.com/eng/editors\\_note/?doc=16207&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=16207&ins_print)
  - Commission will correct the member states' budgetary strategies:  
<http://www.baltic-course.com/eng/analytics/?doc=118055>
  - Spring 2016 European Semester package: country-specific recommendations:  
[http://www.baltic-course.com/eng/round\\_table/?doc=121086&ins\\_print](http://www.baltic-course.com/eng/round_table/?doc=121086&ins_print)
  - EU economic development through the surveillance mechanism:  
[http://www.baltic-course.com/eng/analytics/?doc=122967&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=122967&ins_print)
  - European Semester in 2018: facing modern challenges.  
In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=138410&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=138410&ins_print)
13. <https://www.swedbank.com/about-swedbank/quick-facts/> and <https://www.swedbank.lv/about/swedbank>
14. More information on EIF's work under EFSI. In: [http://www.eif.org/what\\_we\\_do/efsi/index.htm](http://www.eif.org/what_we_do/efsi/index.htm)
15. More about the Programme. In: <http://ec.europa.eu/social/main.jsp?catId=1081>
16. About the Plan. In: [https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan\\_en](https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan_en)
17. See more in Politico's Lili Bayer and Andrew Gray article. In: <https://www.politico.eu/article/mff-commission-eu-budget-proposal-brussels-looks-to-link-eu-payouts-to-justice-standards>
18. More in: <https://cohesiondata.ec.europa.eu/Country-Level/-of-cohesion-policy-funding-in-public-investment-p/7bw6-2dw3/data>
19. See more in: "EPC analysts comment on the new MFF proposal". In: <http://www.epc.eu/>

## 1.2. European Strategy for the Baltic Sea Region: effect for Latvia

*Baltic-European sub-regional strategy during last decade contributed to regional development in three main directions:*

- 1) *Saving/protecting the Baltic Sea area;*
- 2) *Closer connections among states and communities, and*
- 3) *Increasing peoples' prosperity.*

*These priorities have had a positive effect on Latvian economy making national development compatible to other countries in the region.*

*Another vital coordinating body in the region, the Baltic Development Forum, strives to increase sustainable growth and competitiveness among the states, mainly, through public-private partnership. The Forum's yearly political and economic reports can help Latvian socio-economic development to be more Nordic-oriented.*

*In the conclusion, the Latvian perspective-development plan, NDP-2020 is analysed, providing the readers with a comparative Latvian and other regional states' developmental strategies.*

Due to specific integration development aspects in numerous European regions, the European Commission has taken during the last decade a new approach to such regions by making sub-European regional strategies. One of such sub-regions is the Baltic Sea area, which includes both eight EU member states (Denmark, Sweden, Germany, Poland, Finland and three Baltic States) and non-EU states – Norway, Island and Russia.

### 1.2.1. Baltic Sea strategy for 2030 (EUSBSR)

The origin of the Baltic Sea region's state dates back to 2008, when the first EU's sub-regional integration idea to closer sub-regional cooperation alongside the general Union's integration purposes. Thus appeared first in the European Union the sub-strategy for the Baltic Sea area (presently uniting eight EU member states); it has been called **the EU strategy for the Baltic Sea region** (EUSBSR). The "sub-regional forums" take place rather often; the strategy's seventh forum with a challenging and promising title: "**One Region, One Future-Vision 2030 for the Baltic Sea Region**" took place in Stockholm in November 2016.

Among eight EUSBSR are Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland and Sweden – with about **85 million people**. The strategy's main aim is to bring together initiatives in different socio-economic sectors (growth, communication, energy, digital, sustainability, etc.) as well as promoting cooperation between stakeholders in the Baltic Sea region.

Baltic Sea region's cooperation is a priority for all countries in the area: region's development shows that the countries keep their positions as the most dynamic region in the world. However, some opinions are voiced that it would be rather difficult for these countries to follow common actions as a central platform in perspective development due to growing growth differences.

The Baltic EU's sub-regional strategy contributes to an optimal regional development within three main objectives:

- 1) Saving/protecting the Baltic Sea area;
- 2) Closer connecting all countries and communities in the region, and
- 3) Increasing peoples' prosperity.

It has to be mentioned that the EUSBSR-strategy is one of many other EU "instruments" to support European progressive transition to a **more sustainable and low-carbon future**. With this in mind, the Commission approved "the saving EU project", i.e. so-called LIFE-programme, which is the form of the EU's financial instrument supporting environmental, nature conservation and climate action projects in the EU member states. However, to implement the "saving project" the member states must be more active! In fact, out of about 140 LIFE-projects from 23 EU states there are – unfortunately – only two from the Baltic States:

- One from Latvia (**LIFE CoHaBit/Carnikava Municipality**); the aim of the project is to conserve and restore vulnerable coastal habitats in Latvia's Piejura Nature Park.
- And one from Lithuania – **LIFEMagniDucatusAcrola/Baltic Environmental Forum Lithuania**. The project is to protect the aquatic warbler (*Acrocephalus paludicola*) as Europe's rarest migratory songbird and a globally threatened species.

Among eight EU states surrounding the Baltic Sea there are not very active participation in acquiring the EU' "saving project's funds": Germany, as the most active is having 11 projects, Sweden - 6, Poland – 4, Finland and Denmark with 1 each. It's a striking difference compared with 37 projects in Italy or 38 in Spain. (1)

The EU strategy for the Baltic Sea region (EUSBSR) explores a unified and common to all idea: "**one region, one future-vision 2030 for the Baltic Sea Region**"; it is focusing on the future of the Baltic Sea region's socio-economic development up to 2030.

There are other EU strategies: among other sub-regional coordination strictures are such strategies as, for example, strategies for Mediterranean region, for Alpine countries, for states along the Danube region, etc. (2)



### 1.2.2. Baltic strategy for growth

The strategy is very supportive for growth in both the EU and the whole Baltic Sea area. Thus, the Commission has already assessed that the following sectors were providing sources for growth: **industry** has been still the largest economic activity in the EU in terms of generated output accounting for **19.3%** of the EU total gross value added. Second in line was the defence, education, public health and social work activities with **19.1%**, followed by trade, transport, accommodation and food services with **18.9%**, real estate activities with **11.2%**, as well as scientific and technical activities -**10.9%**. (3)

Besides, the strategy produces some vital recommendations concerning coping growth with existing differences in developmental models in the EUSBSR eight states: apparently, the Nordic model is most promising, though quite complicated and difficult to implement in other states in the Baltics. (4)

There are some EUSBSR's flagship projects, including the "general" State of the Region report (with facts and analysis of economic performance, strengths and weaknesses), regional "political" report (providing political answers to modern Baltic's challenges) and the "specific" Digital Agenda report for the Baltic Sea region. Such reports are made almost each year since 2004!

The State of the Region Report for 2016 confirms that the region is doing well in many regards with positive growth and strong levels of consumption as indicators of a high level of prosperity and good quality of life. The report shows that –generally – the **Baltic Sea Region** (BSR) has overcome the crises of recent years: e.g. with unemployment receding and public finances in broadly good shape. The region also continues to rank high in international assessments of competitiveness and innovative capacity. (5)

### 1.2.3. Baltic Development Forum

Another organisation (originating in Denmark in 1998), to deal with the Baltic Sea issues is the leading think-tank and network for high-level decision-makers from business, politics, academia and media in the Baltic region called the **Baltic Development Forum** (BDF); it includes into its assessment structures more countries (some even outside the core region, so-called "semi-outsiders"). This larger membership includes non-EU states around the Baltic Sea area, e.g. Island, Norway and Russia.

BDF is having also close working relationships with other institutions and organisations dealing with the Baltic Sea regional issues: e.g. Baltic Sea Region Energy Cooperation, Baltic Sea Parliamentary Conference, Council of the Baltic Sea States (dates back to 1991), Nordic Council of Ministers, Northern Dimension Initiative, Union of Baltic Cities, to name a few.

Most urgent for BDF's analytical work is to increase the Baltic States' competitiveness in the world (and, of course in EU in general). For example, the three Baltic States' competitiveness level in the world reflects their quite modest socio-economic situation: according to the present global ratings, Estonia occupies 30<sup>th</sup> rank, Lithuania 35<sup>th</sup> and Latvia is on the 49<sup>th</sup> place among 138 states. These states governments and political authorities together with the EU institutions (as well as BDF as a think-tank) should approach such critical estimates as serious signal for making urgent steps to increase competitiveness. (6)

The **Baltic Development Forum** reports are aimed at sustainable growth and competitiveness in the Baltic area, mainly, through public-private partnership. The "state-of the region-2016" report is accompanied by a "political report", included the following important issues: the rift between Russian and the West; the role of "soft power" in resolving Russia-West conflict; energy cooperation in the BSR, and the states' positions towards Arctic issues. (7)

The report pays attention to such vital regional issues as economic development, the Baltic states' competitiveness, and "smart specialisation" in the region.

As to *economic situation*, the report postulate that the current BSR's economic outlook "remains in a fragile recovery driven mainly by domestic demand" (the citations are from the Report-2016, p. 4). Thus the growth through 2016–2017 is closer to 1.7 per cent (with the downside's risks). Private consumption is still the key driver of economic growth with extremely low interest rate in all BSR states with comparatively low level of public debt. However, the report predicts less growth in consumption followed by recovered investment levels and historically low refinancing costs.

External trade was not a great contributor to BSR's economic dynamism as global trade continued to perform poorly. Besides, the Brexit incurred only small direct effect on the sates in the region: trade with the UK is less than 3 per cent of region's capacity.

Although the unemployment rates in BSR are moving downwards, however most of the states continue to suffer from high youth unemployment. Thus, in several states, the youth unemployment is closer to 20 per cent and higher: Latvia, Lithuania, Poland, Finland and Sweden; even in EU-28 it is at level of 23 per cent (Report, p. 14).

As to *competitiveness*, the report argues that difference exist among Baltic states both in terms of overall prosperity (as well in labour market conditions and productivity) and labour relations. Basically, rate of prosperity growth in BSR is "significantly lower" than in the pre-crisis period (p. 17). However, GDP per capita (in US\$) has grown significantly in the Baltic states since 2000: from about 28 thousand to about 40 thousand, presently (ibid).

Labour productivity growth is expected to slow down to about 1% of annual productivity in major BSR's economic powers (Germany, Finland, Denmark & Norway). The OECD recent report acknowledged that "while globally leading companies continue to innovate at high rate, increasingly large other companies did not keep pace". (8)

#### 1.2.4. Competitiveness in the Baltic Sea area

Among measures underlying competitiveness in the Baltics, the BDF experts mention: a) relative quality of location as a place do business (compared to other locations), and b) the (in)-balances between prosperity/wages and competitiveness' fundamentals that can threaten prosperity and growth opportunities. Thus, Estonia is higher among 3 Baltic States in global competitiveness ranking of 30, while Lithuania and Latvia (as well as Poland) are between 45 and 50 ranks; while, for example, Germany, Sweden and Denmark are at 6–7 place (Report, p. 25).

Particularly important for competitiveness are "strengths in higher education, training & innovation": over the last decade the score for the region improved significantly. Thus, among top global 400 universities are Denmark (Copenhagen University with 69 place), Sweden (Lund University with 73 place), Finland (Helsinki University with 91 place and Norway (Oslo University with 113 place. Among the 3 Baltic States, only University of Tartu is among the top with 347 place in the list.

However, the Baltic Sea are states' performance in "doing business" is rather controversial: Denmark is number 3, Sweden – 8, Norway – 9, Finland – 10 and Germany – 15. Among the 3 Baltic States, the best performance is in Estonia (16), Lithuania (20) and Latvia (22); with average for the region at about 17.

As to "*clusters & smart specialisation*" in Baltic Sea region (BSR), they represent an important dimension of current specialisation patterns, "focusing on economic activities as measured by the economic geography of employment across groups of related industries" (Report, p. 32). Besides, so-called "smart specialisation strategies" add additional focus on



technological and scientific capabilities while outlining the directions in which the region will explore “the driving development”. Clusters include so-called *traded industries*, i.e. the type of economic activities that can be located far from the markets they serve and be placed in locations offering best conditions for profit. Therefore, strong clusters are associated with strong performance in terms of wages and job creation. There are about 280 strong clusters in BSR compared to 510 in the rest of central & eastern EU and to 1624 in the remaining EU’s western & southern parts (Report, p. 33). Strong clusters already occupy about 50% of employment and payroll in traded industries; Hamburg, Copenhagen and Stockholm have the highest absolute number of employees in strong clusters. The eight top BSR sub-regions (incl. Lithuania, Oslo, Helsinki, western Sweden and Pomorski) account for about half of all strong cluster employment.

The EU Interreg Programme finances cross-border measures; it has become the main funding instrument that directly aligns the BSR and EU Strategy for the Baltic Sea Region.

However, the BSR’s states are facing three different levels of challenges: **first**, the states’ economic policies have to be ready for both modern economic changes and for possible economic slowdowns in the future. **Second**, economic management in these states have to define the situation “after Brexit”, from summer 2019. **Third**, the BSR has to increase the opportunities for growth and economic integration through a macro-regional approach.

Generally, the BDF experts wittingly underlined that it was “unlikely that the region would make a central platform for common actions”; the experts rather argued that “national patriotism” will prevail (Report, pp. 42–43). (9)

The EU Baltic Region’s strategy is an integral part of the **Union’s regional and cohesion policy**; it is targeting all EU regions and cities in the member states in order to support job creation, business competitiveness, economic growth, sustainable development, and improve citizens’ quality of life. To reach these goals and activate numerous and diverse development needs in all EU regions, €351.8 billion – **almost a third of the total EU budget** – has been set aside for Cohesion Policy for 2014–2020.

The EU cohesion policy has become a catalyst for further public and private funding, not only because it obliges the member states to co-finance “cohesion aims” from the national budget, but because it also creates investors’ confidence. Taking into account national contributions and other private investment, the impact of Cohesion Policy for 2014–2020 is expected to be about €450 billion. (10)

### 1.2.5. Nordic-Baltic cooperation

The Nordic countries’ possibilities to take care of their common interests within the EU will be larger if they act together than when acting on their own. There is a continuous need for regional cooperation which could take the lead and show the way to cooperation and integration. To be able to do so, the Nordic cooperation have to be adapted and renewed continuously: it particular applies to areas in which the Nordic countries are good and strong in and where they can contribute to stability and peace such as crisis management, peace negotiations, development aid, the environment and climate change management. Nordic values such as gender equality, human rights, tolerance and openness should be emphasised even more strongly. To make Nordic positions heard in the Baltics, both sides have to make their steps towards mutual cooperation. (11)

The parliamentary component of Nordic cooperation, the Nordic Council (NC), is increasingly engaged in debates on highly political issues that exceed the official mandate of Nordic cooperation (security, migration and refugees). It recently has also become more engaged in EU affairs and opened a liaison office in Brussels in autumn 2017.

The Baltic Sea Region needs an intermediate level of cooperation between the Nordic and Baltic States for closer cooperation aiming at economic, social, and territorial cohesion in specified policy areas relevant to the people and for the people of the region. (12)

Nordic-Baltic Cooperation (NBC-8: 5+3) is not institutionalised; it is however of importance for the Nordic and Baltic governments and their parliaments; thus recently, cooperation has been tightened and extended, adding further policy areas to numerous social groups' activities. For example, in April 2017, NBC-8 ministers agreed on closer cooperation in the field of digitalisation, aiming at digitalisation of public services and within the business sector across borders as well as strengthening the development of a regional digital market, contributing to the EU's ambitions for a digitally integrated Europe. (13)

Specific features are depicted in the Latvian growth through internal-external factors. The latest report on Latvian economic development was prepared by the specialists from the Ministry of Economics and published in June 2016. (14)

The 2016 report provides an assessment of the country's economic situation and economic policy, as well as giving some forecasts for economic development's perspectives. The report has a general conclusion: Latvian growth rates are presently "**mainly driven by the development of the internal demand**"; it will be facilitated by wage growth and unemployment reduction.

Though investments are important for further development of economy, the dynamics of private investments is very moderate, while public sector investments are tightly linked to the cyclic nature of acquisition of the EU structural and other funds. (15)

Even though the economy of Latvia has been growing in recent years, the country's GDP is still by almost 5% lower than before the 2008 crisis; though, for example, in employment, there were good growth rates compared to 2008. (16)

#### 1.2.5.1. Latvian "economic breakthrough": National Development Plan 2014–2020

Latvian perspective-development plan, NDP-2020 was adopted by the Saeima in December 2012 and approved by the then Latvian Prime Minister, V. Dombrovskis.

The plan was developed by a group of experts in the Cross-Sectoral Coordination Centre (CSCC, see below) with the social and cooperation partners from the government, sectoral ministries, planning regions and local governments. (17)

It is the highest national-level medium-term planning document and is closely related to the Sustainable Development Strategy of Latvia until 2030 (Latvia-2030) and the National Reform Programme for the Implementation of the EU 2020 Strategy (so-called, NRP).

The NDP-2020 priority guideline "Growth of the National Economy" is a response to the macroeconomic challenges and provides some opportunities to secure the development of highly productive and internationally competitive entrepreneurial activity in different regions, together with new and progressive, as well as research- and innovation- based jobs.

Special attention on the plan is given to the creation of an **outstanding business environment** (NDP-2020, Item 67).

Quality of life index in Latvia (since the start of measurements in 2003) peaked in 2007 and was at its lowest point two years later. The NDP "blames" changes in the population structures: since 2000, the population has decreased by about 309 thousand, or by 13%. Besides, the average income per household in Latvia is among the lowest in the EU.

The quality of the health of the population is poor, and the retraining of people according to the availability of jobs is insufficient: there is a shortage of labour, but yet unemployment is not decreasing (NDP-2020, Item 68).

According to NDP-2020, Latvian government envisaged **three major national priorities**:

- 1) The first one is improvement in the *education system's quality*.
- 2) The second priority is reinforcing "*human securitability*" (in a form of resilience): Latvian society has to be healthy and with a high level of well-being, where a spirit of security prevails making it capable of acting not only in the individual's best interest but also the common interest of society.
- 3) The third priority is of a double nature: a) improvement of the "public transport infrastructure" (items 69 and 70 in the NAP-2020), and b) "growth for regions", which implies effective use and targeted development of the geographic location, natural and other resources, linkage of the spatial structure with the emergence of a sustainable national economy structure and the attraction of high-quality investment" (NDP-2020, item 71).

The mentioned Latvian government's specific guiding principle of "economic breakthrough" with three priorities ("national economy's growth", "human securitability" (a form of resilience) and "regional growth") are expected, as the programme confirms, to form a "mutually effective and unified system that fits a sustainable planning approach as well as the structure defined in Latvia-2030 and the NRP". These three priorities are interdependent; as the strategy postulates; they have to be implemented "in conjunction with each other"; only in this way the country's guiding principle on "economic breakthrough" can be implemented. (NDP-2020, Item 73). (18)

The "**Growth of the National Economy**" priority "acts as a fuel in the engine of Latvia's economic breakthrough"; and it is aimed at balancing the structure of Latvia's national economy, expanding the operations of the sectors focused on external markets, providing targeted support to businesses in the manufacturing sector and providers of internationally competitive services. (NDP-2020, Item 80).

This priority's direction has the following strategic objectives: "Highly Productive Manufacturing and Internationally Competitive Services with Export Potential", "Outstanding Business Environment", "Advanced Research, Innovation and Higher Education", and "Energy Efficiency and Production" (NDP-2020, Item 85). Share of industry in the national GDP shall increase from the present 15% to about 20% by 2020. (NDP-2020, p. 19).

	2014	2017	2020	2030
Number of companies	67 000	75 000	80 000	90 000
Position in the Doing Business Index	20	17	13	11
Position in the Global Competitiveness Index	60	53	45	Over <40

Source: NDP-2020, p. 26.(18)

In the NDP's priority "**Human Securitability**" (a form of resilience), the strategy underlines that: *Latvia is an open economy that is increasingly exposed to a globalised world. This means that it is important for the country to strengthen human securitability – or the people's ability to adapt to changing conditions.*

There are the following strategic objectives in this priority: "Decent Work", "Stability for Demographic Growth", "Development of Competencies", "Healthy and Fit for Work", and "Belonging to Latvia: Cooperation and Culture" (NDP-2020, p. 36, Item 216).

Priority "**Growth for Regions**" aims at creating "preconditions for sustainable and balanced economic development in the cities and regions of Latvia". Latvia is a small country with a great

diversity of natural and human resources. The proposed strategic objective provides for smart and efficient management of the available resources, the use of opportunities for territorial development and the minimisation of threats (NDP-2020, Item 344, p.55).

There are the following priorities in the “regional strategy”: “Promotion of Economic Activity in the Regions: Unleashing the Potential of Territories”; “Availability of Services for Creating More Equal Work Opportunities and Living Conditions”, and “Sustainable Management of Natural and Cultural Capital” (NDP-2020, Item 354, p.56).

#### 1.2.5.2. Coordinated growth efforts for Latvia

Latvian national cross-sectoral coordination center, CSCC is the leading institution in the national development planning and coordination; it is under direct authority of the Latvian Prime Minister. CSCC is responsible for developing and monitoring the most important national development planning documents: National Development Plan of Latvia for 2014–2020 (NDP-2020), Latvian Sustainable Development Strategy until 2030 (so-called, Latvia 2030), and implementation of the EU legal and advisory instruments/documents in the national development planning structures.

For the last two years, the CSCC has been responsible for the coordination of corporate governance in state-owned enterprises (SOEs) operating in a partially centralised SOE governance coordination model: leaving the rights for direct governance of SOE in the hands of sectoral ministries. (19)

The EU globalisation adjustment fund provides a “helping hand” for socio-economic development in Latvia. The Baltic States and Latvia can use this and other EU financial resources to increase growth and reduce unemployment. The 10<sup>th</sup> European Globalisation Adjustment Fund’s report showed the EU’s solidarity with workers falling victim to mass lay-offs caused by globalisation. During just two years (2015–2016), about 9 thousand workers have been adjusted to changing trade patterns and consequences of the economic and financial crisis. In the Baltic States, however, only Estonia has used the EGAF financial assistance. (20)

More open global trade (commonly called globalisation) has led to certain benefits for growth and employment; however, the process caused loss of jobs, particularly in vulnerable sectors and among lower-skilled workers. European Commission set up already in 2007 a special fund to help those adjusting to the consequences of changing trade patterns for redundant workers.

During more than ten years, the fund received 147 applications; some €600 million has been requested to help about 137 600 workers and 2944 not in employment, education or training (so-called NEETs).

During 2015–2016, the fund provided assistance to about 20 thousand redundant workers and 1251 young people in NEETs. The EU contribution amounted to more than €70 million and was matched by another €48 million from national resources. Some 11 EU states requested assistance from the fund: Belgium, **Estonia**, Finland, France, Germany, Greece, Ireland, Italy, Poland, Spain and Sweden.

The tenth anniversary of the Globalisation Adjustment Fund signifies the EGF’s importance in helping redundant workers and those with difficulties to find new jobs. The EGF’s achievements are evident. The labour market situation in some EU states was particularly challenging in recent years: massive lay-offs occurred in states already suffering from unemployment. Many supported workers were low-skilled or had other disadvantages as jobseekers. The EGF made a difference, especially for the most vulnerable people in the member states. Besides, employability and self-confidence of the workers concerned had visibly improved thanks to the Globalisation Adjustment Fund assistance and services.

The Baltic States and Latvia shall use the EU's assistance, particularly the EGAF which provides funding for concrete measures to help dismissed workers to improve their employability and find new job opportunities. It finances measures tailored to the specific circumstances of each worker concerned, such as:

- Intensive, personalised job-search assistance;
- Various types of vocational training, up-skilling and retraining measures;
- Temporary incentives and allowances for the duration of the active measures;
- Support for business start-ups, and
- Mentoring throughout the process.

The Baltic States shall be more active in reducing unemployment with the help of EGAF: only Estonia has been using the EU's financial assistance through "globalisation adjustments". (21)

## Resume

*Latvian development is taking place mainly among the countries in the Baltic Sea area: hence the attention to the Baltic EU's sub-regional strategy, which contributes to an optimal regional development within three main objectives: a) protecting the Baltic Sea area (BSA), b) closer connecting all countries and communities in the region, and c) increasing peoples' prosperity.*

*Latvian growth can gain from the following BSA's developmental directions: first, in **industry**, which has been the largest economic activity in Europe in terms of generating about 20% of the EU total added value. Second in **defence, education, public health and social activities** with also about 19%, followed by **trade, transport, accommodation and food services** with 19%, **real estate activities** with about 11%, and, finally, with **scientific and technologic activities** – at the level of 11%.*

*Latvian coordination efforts and EU globalisation adjustment fund are closely connected towards perspective Latvian growth. Lately, the CSCC has been responsible for the coordination of corporate governance in state-owned enterprises (SOEs) operating in a partially centralised SOE governance coordination model: leaving the rights for direct governance of SOE in the hands of sectoral ministries.*

*According to Latvian NDP-2020, the government envisaged **three major national priorities**: 1) improvement in the education system's quality; 2) reinforcing "human securitability" (in a form of resilience): Latvian society has to be healthy and with a high level of well-being, where a spirit of security prevails making it capable of acting not only in the individual's best interest but also the common interest of society. The third priority is of a double nature: a) improvement of the "public transport infrastructure" (items 69 and 70 in the NAP-2020), and b) "growth for regions", which implies effective use and targeted development of the geographic location, natural and other resources, linkage of the spatial structure with the emergence of a sustainable national economy structure and the attraction of high-quality investment.*

## Notes and references

1. See more on EU's LIFE/Environment programmes in: <http://ec.europa.eu/environment/life/news/newsarchive2016/november/index.htm#pr>
2. See more on the 7<sup>th</sup> Strategy Forum of the EUSBSR "One Region, One Future - Vision 2030 for the Baltic Sea Region" in: [www.strategyforum2016.eu](http://www.strategyforum2016.eu)
3. More in the Eurostat report "Weight of EU economic activities" in: [http://europa.eu/rapid/press-release\\_STAT-16-3555\\_en.htm?locale=en](http://europa.eu/rapid/press-release_STAT-16-3555_en.htm?locale=en)
4. On the Nordic model see: Nordic economic model for the Baltic States to emulate. In: [http://www.baltic-course.com/eng/editors\\_note/?doc=16348](http://www.baltic-course.com/eng/editors_note/?doc=16348)

5. More on 18<sup>th</sup> Baltic Development forum. In: [www.bdforum.org/18BDFsummit2016](http://www.bdforum.org/18BDFsummit2016)
6. See: Baltic States' problems: the need to increase prosperity, in: [http://www.baltic-course.com/eng/editors\\_note/?doc=17220&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=17220&ins_print)  
Note: After 20 years since establishment, BDF closes its activities at the end of July 2018. <http://www.bdforum.org/bdf-to-cess-activities-by-31-july-2018/>
7. Ketels, Christian & Pedersen, Helge J. 2016-State of the region report. The top of Europe – doing well today, feeling worried about tomorrow/. Denmark, Copenhagen, 2016. – 46 pp.
8. See the web-link at: <http://www.oecd.org/eco/the-future-of-productivity.htm>
9. General references to the web links: State of the Region Report-2016 and EUSBSR Policy Area Innovation: Strategy Guide, 2016–2020.
10. On the European regional policy and investment. In: [http://ec.europa.eu/regional\\_policy/en/policy/what/investment-policy/](http://ec.europa.eu/regional_policy/en/policy/what/investment-policy/)
11. Source: Dagfinn Hoybraten, 'Nordens tid er nu', October 2016, in: <http://www.norden.org/en/nordic-council-of-ministers/the-nordic-council-of-ministers/the-secretary-general/the-secretary-generals-blog/nordens-tid-er-nu>
12. See more information in the BDF political report for 2017. In: [http://www.bdforum.org/wp-content/uploads/2017/06/2017\\_PoliticalRep\\_LAPAS-web.pdf](http://www.bdforum.org/wp-content/uploads/2017/06/2017_PoliticalRep_LAPAS-web.pdf)
13. More in the "Norden Booklet": <http://www.norden.org/sv/aktuellt/nyheter/norden-och-baltikum-ska-samarbeta-kring-digitalisering>
14. Note: first such economic report was published already before Latvia entered in the EU (in September 1994); after 1995, these reports were published regularly twice a year – in June and December.
15. See more on Latvian economic analysis in: "OECD Economic Report for Latvia-2017" in the book's paragraph 1.3.
16. Source: Latvian Development Plan. In: [https://www.em.gov.lv/en/economic\\_development/report\\_on\\_the\\_economic\\_development\\_of\\_latvia/](https://www.em.gov.lv/en/economic_development/report_on_the_economic_development_of_latvia/)
17. More on the plan: [http://www.nap.lv/images/NAP2020%20dokumenti/NDP2020\\_English\\_Final.pdf](http://www.nap.lv/images/NAP2020%20dokumenti/NDP2020_English_Final.pdf)
18. Note: The citations used are from the official document. In: [http://www.nap.lv/images/NAP2020%20dokumenti/NDP2020\\_English\\_Final.pdf](http://www.nap.lv/images/NAP2020%20dokumenti/NDP2020_English_Final.pdf)
19. Source: <http://www.valstskapitals.gov.lv/lv/par-mums/pkc-koordinacijas-institucija/>
20. On the global adjustment fund see web link at: <http://ec.europa.eu/social/main.jsp?catId=326&langId=en>
21. More information in the following link: EGF website; General references are at: [http://europa.eu/rapid/press-release\\_IP-17-4244\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-4244_en.htm?locale=en); and Latvian version in: [http://europa.eu/rapid/press-release\\_IP-17-4244\\_lv.htm](http://europa.eu/rapid/press-release_IP-17-4244_lv.htm)

### 1.3. OECD recommendation and assessments for Latvian development

*In September 2017, the OECD presented its first analytical analysis of Latvian economic development with about 200 pages in 2 booklets. According to the OECD's accounts, there are both positive and critical assessments: hence, a lot is to be done by Latvian political and economic elites to deliver on these recommendations. Short review of Latvian economy from the OECD's experts underlines necessary changes in national priorities.*

*Besides, recent global economic outlook made by OECD group signifies the necessity of new approaches to political economy, i.e. through the active government actions in supporting the role of SMEs in national growth.*

Latvian political and economic elites are having a good outside source of assessment in national development through OECD's analytical reports. The OECD is a kind of global "think-tank" and "economy-monitoring" group of experts in numerous sectors: e.g. fostering economic development, combating poverty and inequality, ensuring sustainability, in environmental protection and analysing impact of growth for general social progress. The OECD experts are also dealing with such broad issues as raising standard of living, expansion towards global trade networks and promoting economic stability. These OECD reports have become more important for Latvia since the country joined that organisation in 2016 and acquired a first assessment of Latvian economic development for 2017. (1)



Latvia has become an OECD member In July 2016; Estonia joined the organisation in December 2010. These two Baltic States' contribution to OECD is 1.4% of GDP (Lithuania is not a member). (2)

### 1.3.1. OECD: history and functions

The Organisation for European Economic Co-operation (OEEC) was established after World War II in 1948, to mainly administer the US-funded G. Marshall Plan for post-war European reconstruction. It emphasised the importance of working together for economic development, with the goal of avoiding any more European warfare. The OEEC was instrumental in helping the European Economic Community (EEC), which has since evolved into the European Union, in establishing a European Free Trade Area.

In 1961, the United States and Canada joined the OEEC, which changed its name to OECD to reflect the broader membership with numerous countries that joined the OECD since.

The OECD's main "products" are officially published economic reports (global, regional or national in orientation), statistical databases, analyses and forecasts on the outlook for economic growth around the world and in the member states. A group of experts analyses and reports on the impact of social-economic growth, and makes policy recommendations.

OECD consists of 34 member countries with the main purpose of discussing and providing the member states with economic reviews on national politico-economic development while supporting open market economy growth.

OECD is the global leader in tax issues: it maintains a so-called "black list" of nations that are considered uncooperative tax havens. It led a two-year effort with the Group of 20 nations (G-20) to encourage tax reform worldwide and eliminate tax avoidance by constructive corporations. The recommendations included an estimate that such avoidance costs the world's economies between \$100 billion and \$240 billion in tax revenue annually. (3)

Besides, OECD provides consulting assistance and support to nations in Central and Eastern Europe in implementing market-based economic reforms.

### 1.3.2. OECD assessment and recommendations for Latvia

The yearly membership in the organisation for each of the two Baltic States (Lithuania is not a member) is 1.4% of their GDP; hence for Latvia it is about €250–300 million. The two booklets of the OECD analysis with a total of about 200 pages, seems to be the most expensive economic survey Latvia has got: over one million euros per page!

However, depending on the national economic power, other membership in OECD for other states (as a share of GDP) is much bigger, e.g. 5.4% for France, 7.4% for Germany, 4.1% for Italy, 3% for Spain and 5.5% for the UK (the US share is the largest – 20.6% of GDP).

Quite notable: Latvian contribution to OECD is much bigger than, for example, for the European Union, which is about 1%. As these expenses are well worth for Latvia, seem to be seen later...

The OECD economic survey for Latvia consists of survey booklet (139 pages) and a general overview (55 pages). Latvian economic situation was initially reviewed in May 2017 and an agreed report was presented in June 2017; the survey's presentation in Latvia occurred in mid-September. A previous survey was issued by OECD in February 2015.

OECD's Latvian survey consists of:

- a) Country's economy assessment with some recommendations and
- b) Evaluating progress in Latvian structural reforms.

Besides, there are two thematic chapters:

- 1) Analysis of Latvian potentials in globalisation (global value chain) and
- 2) Analysis of country's economic and social infrastructure. Survey is richly equipped with numerous tables and figures.

OECD experts say that Latvia has maintained a robust expansion and shall continue reforms to achieve income convergence and more inclusive growth. Successful implementation of economic reforms has boosted the Latvian economy, leading to strong growth, rising wages and solid public finances. Further policy action is now needed to accelerate productivity growth, create jobs, drive down poverty, improve living standards and ensure that everyone benefits from more inclusive growth, according to a new report from the OECD.

The latest OECD-2017 economic survey for Latvia points to the excellent performance of the Latvian economy, which is expected to grow by around 4 per cent this year and next. It lays out a range of policy options that will help it sustain the current expansion and push forward income convergence with more advanced economies. Improving access to economic opportunities for all will be a key endeavor.

The Survey, presented in Riga by OECD Secretary-General Ángel Gurría in 2017 identified priority areas for future action, including policies to help Latvian firms better integrate into global value chains and actions to ensure improved access to the health services, housing and jobs that will make growth more inclusive. "Economic reforms are driving Latvian growth and helping raise living standards," Mr. Gurría said. "The pay-off from reforms has been impressive, but there is still more to be done for Latvia to achieve speedier income convergence with its richer EU partners and ensure that everyone shares in the benefits."

The Survey says that boosting future growth will hinge on improving export performance, notably through greater participation in global value chains and diversification of exports away from low value-added, natural resource-intensive products. Stronger integration into the global economy will boost productivity (currently at less than 50% of the top half of OECD countries), employment and wages in Latvian firms, as well as living standards for everyone.

Government policies that improve access to vocational and higher education, particularly for young people from low-income households, and widen access to credit will help Latvian firms seeking to enter global value chains. Further steps to promote tighter cooperation between businesses and research institutions will strengthen the capacity of Latvian firms to engage in more knowledge intensive activities. More investment in energy efficiency and steps to exploit the country's potential for wind energy will help achieve strong growth and meet greenhouse gas emission targets.

The Survey recommends that Latvia make stronger efforts to drive down poverty (high at 16.2%, as compared to the OECD average of 11.5%) and ensure that growth is more inclusive. Better access to affordable housing – and particularly rental housing – in areas with good employment opportunities would encourage mobility and help workers get better and more productive jobs. Improving legal certainty would boost the supply of rental housing, as would simplify administrative procedures for granting of building permits. Better transport could also improve access to economic opportunities.

Access to health services needs to be improved through the reduction of out-of-pocket expenses especially for the low-income population, while operating costs in the compulsory private pension system could be reduced by introducing a low-cost fund as the default choice.

Fiscal policy needs to support these structural reform priorities. Steps to move undeclared economic activity to the formal sector are critical for the government to raise revenues for needed upgrades in housing, education, health and transport. The recent tax reform lowers the tax burden on employment, especially for workers with low pay, which



is welcome. Efforts to generate more revenue from taxes on property and energy and by removing exemptions in business taxation could make room for further reductions of taxes on low salaries, the Survey said.

### 1.3.2.1. OECD assessment on Latvian growth perspectives

Showing some positive aspects in Latvian growth, e.g. GDP increase by 20% since 2010, rising wages, solid fiscal position (with balanced government budget and public debt near 40% of GDP with EU's limits at 60%) and strong financial market confidence, to name a few.

Riga metropolitan area has been a key economic growth driver, contributing about 69% to national GDP. It is good for the metropolitan region but shows a drastic discrepancy with the rest of the country, e.g. *Latgale* and *Zemgale*, where unemployment and risk-of-poverty rate are higher. Thus, although peoples' income convergence "may have resumed" argued OECD experts in the "Economic Survey for Latvia", growth shall be more inclusive: Latvians are still less satisfied with their lives (according to OECD's Better Life Index, which is described at the end of this paragraph).

Latvian relative weakness areas are: little access to well-paid jobs, problems in health care system and the housing market, poverty being among the highest in the OECD, low availability of affordable quality housing, 15% of dwellings lack basic facilities, life expectancy is six years below the OECD level, etc. (4)

Latvian economic growth has been for long a consumption based; for example, continued robust household consumption is supported by strong real wage growth. However, exports are still largely low value-added, reported the OECD experts. Still, the share of exports going to Russia remains the third largest after Lithuania (18%) and Estonia (12%). Latvia's goods exports still largely consists of raw materials and natural-resource-intensive products: "in the medium-term the transit of exports from Russia is expected to continue declining but still contributes substantially to service export revenues" (OECD Economic Survey, p. 17).

There is much to do in the export sector: Latvia's export is concentrated in activities with relatively small "quality upgrading and product differentiation", argued the survey and further loss of cost competitiveness (partly due to strong wage growth, higher than in other two Baltic States) can undermine country's export performance. As a small open economy, Latvia is exposed to trade with main partners – the EU and Russia; exports to the UK will diminish and Brexit will lower emigrants' remittance, which amounts to 0.8% of GDP, and possibly could boost return migration.

High structural unemployment (instigated by local differences) raises the risk of poverty, underlines the survey: these two features are much higher in the East (particularly in *Latgale* region) than in the Riga municipality and *Pieriga area*. Thus, 72% of vacancies are registered in the latter, while 45% of the unemployed were registered for a year or longer, mostly in Eastern rural areas. Besides, unemployment benefits are reduced by half after six months and expire after nine months (OECD Economic Survey, p. 22). And unemployment rate is almost five times higher for workers with low education; unemployment rate of workers aged 55–65 is close to 10%, which is among the highest in the EU. The hourly earnings gap between men and women (about 17%) also contributes to inequality.

The survey notes difficulties in credit growth while depicts supportive monetary policy. Thus, the three largest banks (two are owned by Nordic banks) are directly supervised by the ECB. Besides, Latvia benefits from the Single Resolution Mechanism (SRM), which provides an EU-wide framework for resolution of large banks. Other Latvian banks are supervised by the states' Financial and Capital Market Commission (FCMC); the latter implements national

macro-prudential policies as well together with the Bank of Latvia and Ministry of Finance. Foreign deposits in Latvian banks amount to around 43% of total deposits at the end of 2016; they are mostly related to business links with Russia (source: OECD Economic Survey/Latvia, p. 27).

However, stricter anti-money laundering and other controlling finances' rules would be further tightened to withstand large shocks.

### 1.3.2.2. Attention to tax reforms in Latvia

Latvian Parliament approved during 2016–2017 reforms of personal and corporate income tax in line with the country's general idea of broader tax reform. Reforms are reducing the basic personal income tax rate from 23 to 20% for incomes up to €20 thousand per year starting in 2018. Corporate tax rates are increased from 15 to 20% with the exception that non-distributed corporate tax income will be fully tax exempt, which turns such tax into a tax on distributed profits, as it is in Estonia where firms have responded to the tax system largely by accumulating cash rather than investing in fixed assets. Corporate tax reform could encourage investment by boosting retained earnings, which is the main source of finance for business investment. However the current corporate tax rate is already low and accelerated depreciation allowances are generous.

It is clear that lower personal income taxes reduce the taxation of labour; this is why the OECD notices that “in view of high poverty, targeting these tax reductions to low-wage workers may be preferable” (OECD Economic Survey, p. 30).

Present micro enterprise tax system in Latvia exempts small companies from income tax and social security contributions: instead they pay a low turnover tax. This novice encourages firms to remain small (on one side) or to keep part of their activity in the informal sector (on the other) in order to benefit from low taxation. Young start-up firms financed with venture capital pay a low lump sum tax per worker, which the OECD report sees as “regressive”. The employees in the start-ups are not covered by unemployment or pension insurance; the report notices that such tax breaks should be abolished. There are also generous tax credits and exemptions for four Latvian special economic zones, mostly in the port areas.

Latvian government has taken steps, as recommended by OECD three years ago to lower labour taxes on low-income earners raised and increase excise and environmental taxes.

The labour tax wedge is still high; reducing it on low income earners further (presently at about 42%, with 32% as OECD's average) could have particularly large benefits and reduce unemployment and undeclared employment and could damp emigration of young workers with low wages. Recent forms have increased the basic income tax allowance for low-income households. This tax allowance now diminishes as income rises.

The solidarity tax levied on high salaries progressivity in the personal income tax system could be a good thing in view of high income inequality.

The tax reform, argue OECD experts, foresees setting tax rates on capital income received by households (such as interest income) at 20%, at the same rate as other household income. Capital income received by households (such as interest income) is currently taxed at lower rates than other household income. Low taxes on such income tend to favour high-income households, making the tax system less inclusive. The tax reform could also reduce administrative costs to some extent.

### 1.3.2.3. On Latvian shadow economy

It is difficult to capture the exact size of the country's informal sector (shadow economy), it was estimated in 2015 to amount to more than 20% of GDP (OECD Economic Survey, p. 32).

Latvian government has made considerable effort to improve tax collection by, for example, intensifying tax audits on individuals and firms operating in sectors where informal activity is widespread.

Besides, Latvia introduced criminal sanctions against employers paying undeclared wages; it strengthened general controls, added resources and co-ordination among relevant tax authorities, labour inspectors and customs. At the same time, the government has raised fines and increased personal liability of company's board members in tax-fraudulent activities.

These steps helped increase tax revenues, which are estimated to have reached 31% of GDP in 2016, up from 29% in 2015.

#### SIZE OF SHADOW ECONOMY IN THE THREE BALTIC STATES, IN % (5)

	Estonia	Lithuania	Latvia
The size of shadow economy (% in GDP)	15	17	20
Underreported corporate profits (% of actual profit)	8	12	18
Underreported wages (% of actual wages)	16	15	18

#### 1.3.2.4. On rising tax revenues in Latvia

The following measures are envisaged by the Latvian government to raise tax revenues: to provide essential social services and lower the tax burden on low income earners; to make better ICT-use for tax law enforcement; to require electronic record keeping in cash registers; to combat tax evasion in electronic commerce and to enable electronic exchange of information between credit institutions and tax authorities. Presently, tax revenues collection in Latvia is one of the lowest in the EU-28: about 30%, with about 42–47% in other Baltic Sea region's states (e.g. Sweden, Denmark and Finland). Surveys show that company owners and managers accept "informal activity" as a result of their strong dissatisfaction with business legislation. Compared to Estonia and Lithuania, Latvian businesses display lower trust in the government: this trust is at the level of 20% compared to over 40% on OECD's average and about 60% in Denmark (OECD Survey-2017, p. 34).

Therefore increasing trust in public governance helps improve tax morale more direct political participation possibilities for the population's willingness to pay taxes.

Latvian main corruption prevention and combating bureau budget (KNAB) is formed by a proposal from the Council of Ministers with parliament's annual approval, which is weakening its independence. Full bureau's independence is necessary for investigating corruption cases properly. As is the case for competition authorities, budgetary independence should be reinforced by mechanisms reducing government discretion, such as fixed multiannual budget allocations and allocation of fixed revenue sources.

#### 1.3.2.5. Latvian Energy policy: contributing to green growth and environment

Latvia's primary energy supply is still dominated by fossil fuels, in particular oil and gas (see table below), which is mostly imported from Russia, as well as by locally generated renewables.

Renewable energy consumption is growing; it largely reflects use of hydropower and bio-mass (mostly fuel-wood).

Latvia's implicit tax rate on energy is among the lowest in the EU; though taxes for heating are much lower than for transport and the difference is bigger than in other EU countries. There is a possibility, according to OECD, to gradually align tax rates according to the carbon content of the taxed fuels. Carbon taxes on heating and transportation fuels exist in a number of EU

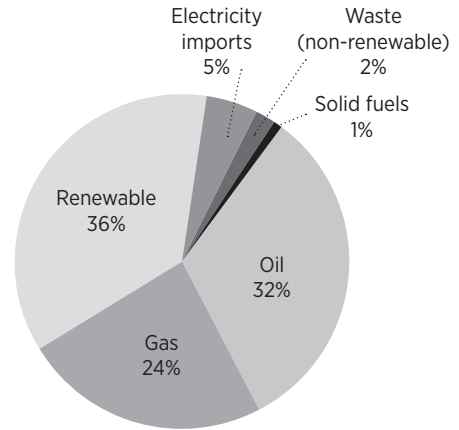
states; however, higher taxes on heating fuels would need to be accompanied with measures to ensure that the real incomes of low-income households are protected. This can in part be achieved through policies to improve energy efficiency.

Energy consumption in residential buildings in Latvia is 7–10% higher than in the EU states.

In the three **general executive summaries** experts in the OECD's survey have been "honestly positive":

- a) Latvian economy has grown robustly but not enough for strong convergence in living standards;
- b) Boosting growth requires better export performance, and
- c) Better access to housing, jobs and health care would boost inclusive growth.

**GROSS LATVIAN ENERGY CONSUMPTION BY SOURCE, 2014**



Source: Eurostat

#### 1.3.2.6. OECD recommendations: effect for Latvian economic development

The following are the OECD recommendations on some vital Latvian economic sectors:

**In improving access to low-cost housing**, the following measures are recommended by OECD:

- Improving legal certainty in rental regulation and encourage out-of-court procedures.
- Simplify the administrative process for obtaining a building permit.
- Provide more funding for low-cost rented housing in areas of expanding employment.
- Expand the mobility programme, which provides temporary support for relocation and transport.
- Create a nation-wide registry that allows eligible persons to apply for housing assistance where they expect better job opportunities.
- Require housing developers to allocate a proportion of their dwellings as affordable units.

**In improving access to health services:**

- Reduce out-of-pocket payments especially for the low-income population.
- Develop key service quality and performance indicators for health care providers at national, local and provider-level.
- Deliver preventive care more effectively by expanding the activities nurses and pharmacists are allowed to carry out, notably in rural areas where health services are scarcer.

**In improving transport infrastructure:**

- Apply the same cost-benefit tests to large national projects as are applied to EU funded projects.
- Introduce incentive regulation for the prices of monopoly services set by the infrastructure manager and the incumbent rail service operator.
- Set wages of managerial staff in the railway regulator independently from the Transport Ministry.
- Make use of the latest technologies to favour demand-responsive collective road transport services tailored to the needs of customers in rural areas.

- Raise the priority of investment in safer road infrastructure. Improve maintenance of rural roads, Raise the quality of the most densely trafficked roads with investments in motorway sections and develop pedestrian-friendly infrastructure in urban areas.

**In strengthening energy policy:**

- Gradually raise and harmonise the taxation of fossil fuels in transport and heating according to their carbon content.
- Encourage energy efficiency investment in the building sector through tax-lien financing and utilities' on-bill financing.
- Support the deployment of wind energy through competitive tendering.

**1.3.3. Baltic States' problems: the need to increase prosperity**

Baltic States' competitiveness level in the world reflects socio-economic situation in these countries. In the present global ratings, Estonia occupies 30<sup>th</sup> rank, Lithuania 35<sup>th</sup> and Latvia is on the 49<sup>th</sup> place among 138 states. Government authorities and parliaments should treat such critical estimates as serious signal for urgent steps to increase competitiveness.

Recent Global Competitive Index (2016–2017) has shown the level of best performing economies among 138 world states. GCI shows that productivity and growth are not picking up in advanced economies, and the consequences of low and even negative productivity growth in many emerging economies are now evident.

On one side, the last “great recession” of 2008 forced many advanced economies to implement loose monetary policy, which in turn fueled a global commodities boom that masked many of the competitiveness challenges of commodity-exporting emerging markets.

On another side, vulnerability to commodity price fluctuations in emerging economies and the promises of the *Fourth Industrial Revolution* underscore the importance of innovation as a source of competitiveness and economic diversification to reignite growth. (6)

The GCI underlines that:

- 1) monetary stimulus is not enough to reignite growth if economies are not competitive;
- 2) an increasingly important element of competitiveness is creating an enabling environment for innovation, and
- 3) innovation in turn goes hand in hand with openness and economic integration.

These critical estimates allowed, however, some Baltic Sea Area countries occupy leading position in the world. (7)

**1.3.4. Latvian feed-back issues**

Latvian confederation of employers (LKR) sees the most serious problems in the negative effect of taxes on the stimulus for the work and investment, in state's inability to draw and to retain talents, accessibility of scientists and engineers, low level of new technologies in the public procurement, as well as in low share of technological innovations in the corporate entities.

LKR President, V. Gavrilov underlined recently that “the government's measures were not ambitious and the measures aimed at strengthening Latvia's competitive ability were not realised”. He added that even in the National-2020 plan the very modest task was included: to “reach 45<sup>th</sup> rank in the global competitiveness index by 2020”. Though LKR's aim is to reach at least 30<sup>th</sup> rank by 2020! (8)

It is clearly seen, argues Mr. Gavrilov that Latvian government during last years “made incorrect decisions”. And if some measures have had a negative effect, they must be corrected without delay, he emphasised. Latvian finance minister, Dana Reizniece-Ozola considers

Latvia's drop in the GCI as a warning for government officials from political decisions negatively influencing economic growth.

Among most urgent measures in some priority areas, the LKR sees the following:

- **First**, to increase labour market efficiency (the country is on 34<sup>th</sup> place in global rating);
- **Second**, to introduce more innovative solutions (on efficiency - on 42<sup>nd</sup> place);
- **Third**, to improve technology in production and manufacturing (in investments and infrastructure, it occupies respectively 64<sup>th</sup> and 51<sup>st</sup> place);
- **Fourth**, to increase the effectiveness of the commodity market (49<sup>th</sup> place); and
- **Fifth**, to reform the system of higher education and training (39 rank).

Carrying out these nationally important tasks, argues LKR, the country can outstretch its neighbours, Estonia and Lithuania in the global index of competitiveness. Russian Federation is on the 43 place.

### 1.3.5. Growth patterns in other Baltic States and Latvia

Latvia in the Global Competitiveness Index (GCI) in 2017 descended to the **49<sup>th</sup> place** in comparison with 44<sup>th</sup> in the past and as before it lags behind Lithuania and Estonia. Lithuania is located in the index on **35<sup>th</sup> place**, which is higher by one place than a year before.

**Estonia** remained on the **30<sup>th</sup> place** among 138 countries under global index assessment.

Among other Baltic Sea Area states the GCI's ratings are the following: Germany – number 5, Sweden – 6, Finland – 10 and Denmark – 12. These countries' development models could be the "examples to emulate" for Latvian government. (9)

Recent *World Bank Report on "Doing Business"* issued at the end of 2017, signifies a modern approach to political economy, i.e. through the actual effect of a government policy on development, which is based on support for business. *Doing Business* measures governments' regulatory aspects affecting numerous areas of "*the ease of doing business*". Ten of these areas are included in 2017 year's ranking on:

- 1) Starting a business;
- 2) Dealing with construction permits;
- 3) Getting electricity;
- 4) Registering property;
- 5) Getting credit;
- 6) Protecting minority investors;
- 7) Paying taxes;
- 8) Trading across borders;
- 9) Enforcing contracts, and
- 10) Resolving insolvency. (10)

Latvia has dropped five positions on the Doing Business index in 2017, taking 19<sup>th</sup> place among 190 countries covered by the World Bank's annual survey; in 2016, Latvia was ranked 14<sup>th</sup> best in the world for doing business. Meanwhile, Lithuania has climbed to 16<sup>th</sup> place from 21<sup>st</sup> place, while Estonia remained in the same 12<sup>th</sup> place.

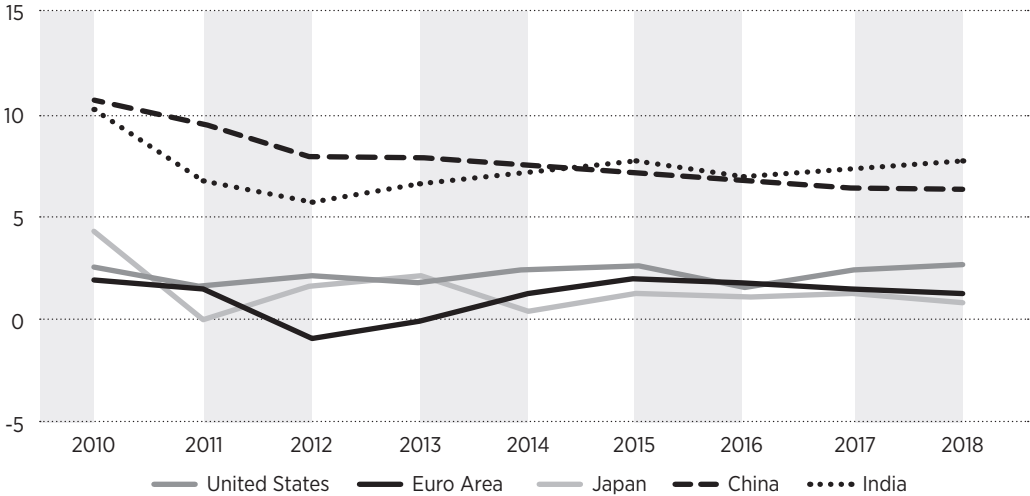
As to the opportunities of starting business in Latvia, the country's index has climbed to 21<sup>st</sup> place from the 22<sup>nd</sup>. Latvia has also managed to increase its ranking in other business spheres: for example, it climbed to 13<sup>th</sup> place from the 15<sup>th</sup> place in paying taxes index and to 20<sup>th</sup> place from the 23<sup>rd</sup> place in the enforcing contracts index. (11)



### 1.3.6. Global economic outlook

Global economic growth is expected to pick up modestly in 2018 to around 3.6 % from a projected 3.3% in 2017 but risks of rising protectionism, financial vulnerabilities, potential volatility from divergent interest rate paths and disconnects between market valuations and real activity have been underlined in the OECD's 2017 outlook.

#### GDP GROWTH IN MAJOR GLOBAL ECONOMIES (%)



Source: OECD March 2017 Interim Economic Outlook

The projected improvement largely reflects continuing and expected combined fiscal and structural initiatives in the major economies – notably China, Canada and the United States – together with a slightly more expansionary stance in the euro area, which could be more ambitious. Such policies are needed to catalyse private demand to boost global activity and reduce inequalities.

The global economy portrayed by the “*Interim Economic Outlook*” remains dependant on variations in GDP growth and high inequality in various regions, calling for policy responses that advance inclusive growth in the context of increased economic integration. (12)

The OECD's global economic outlook underline that possible risks could derail existing modest upturn in global growth, still about 2 per cent-points lower than it used to be (about 5 per cent). Among these risks of rising protectionism that would hurt global growth and impact the large number of jobs that depend on trade. The rapid growth of private sector should be seen as a positive sign; whereas a relatively high level of indebtedness could present a key risk in a number of emerging markets, above all in China. Besides, housing valuations are a matter of concern in some advanced economies.

The strength of financial market valuations appears disconnected to the outlook for the real economy, where the growth of consumption and investment remains subdued. There is also a risk of global financial market tensions as interest rates adjust and diverge across the major economies. The social cost of the crisis and the increased inequalities need to be addressed to make growth more inclusive and to reduce pressures for protectionism and other populist responses.

According to OECD Chief Economist, Catherine L. Mann, “pick-up in growth from countries taking fiscal initiatives is broadly welcome, but the danger that the recovery gets

knocked off tracked by policy errors or financial risks and vulnerabilities cannot be ignored". Coherent and committed policy actions are needed to simultaneously raise growth rates and improve inclusiveness. (13)

### 1.3.6. 1. Latvia in the global economy

OECD also makes analysis and predictions about **global economic issues**. Thus, the OECD Ministerial Council Meeting (MCM) in June 2017, attended by ministers from 35 member states (including 3 Baltic States), recommended for states economic policies that could deliver in a more inclusive globalisation and to avoid globalisation's negative aspects.

Thus, MCM underlined the need for inclusive growth in the member states with efforts to improve well-being for all in open, digitally advanced economies and defining more people-centred approach. It highlighted the importance of continuing countries' focus on developing more integrated, and inclusive economies and societies.

Besides, the MCM coped with the pledges of the UN-2030 Agenda for Sustainable Development to "Leave No One Behind"; in fact, the MCM's main message was making globalisation work for better lives for all.

Another central focus was on "bridging divides and differences"; this issue, being apparent presently in the world and in numerous regions, was addressed on a number of fronts. Among main challenges are: increasing populism and nationalism, historically low levels of trust and rapid pace of technological development. Having a disruptive impact on societies and countries' economies, these challenges make countries' governments to use opportunities of economic integration and – domestically – conduct policies ensuring people, firms, regions and cities to develop open and digitalised approaches to growth while building in inclusive globalisation and international trade. (14)

Modern economic situation in some world countries is volatile: on one side, it seems pretty good. In the US, still the biggest economy in the world, domestic demand is set to strengthen, helped by gains in household wealth and a gradual upturn in oil production. GDP growth is expected to pick up to 2.4–2.8% in 2018, supported by expected fiscal expansion, despite higher long-term interest rates and a stronger dollar. Reduction of corporate taxes at the end of 2017 has made American growth and export more attractive; the tax differences between the US and Europe has been already about 10 per cent in favour of US, now the cliff is being even larger.

On the other side, moderate pace of growth is expected to continue in the euro area but is being held back in some EU countries by high unemployment and underemployment (particularly of youth) as well as by banking sector weakness. In Japan, fiscal easing and improvements to women's labour force participation has helped GDP growth pick up in 2017 to 1.2% from 1.0% in 2016. Prospects will depend on the extent to which labour-market duality is reduced and wage growth picks up. Growth in China is projected to slip further to 6.5% in 2017 and to 6.3% in 2018 as the economy makes a necessary transition away from a reliance on external demand and heavy industry toward domestic consumption and services.

OECD experts say that governments have to be cautious about possible risks, while enhancing economic resilience and strengthening those sectors that boost growth, with improvements in both productivity and inclusiveness. Focusing on policies that build structural elements into fiscal initiatives would reduce the burden on monetary policy in the advanced economies and help to boost trade, investment, productivity and wages. (15)

### 1.3.6.2. Economic and financial conditions for growth

The OECD's economic outlook's forecasts and accompanying analyses are conditional on a consistent set of assumptions about policies and underlying economic and financial conditions, such as fiscal and monetary policy settings, exchange rates, commodity prices and international financial indexes.

- **As to macroeconomic policies:** these policies are typically assumed to be “unchanged” over the last year and on the basis of current fiscal and monetary policies. This does not mean that the OECD necessarily assumes that governments will – or should – achieve their stated objectives, or that policies themselves may not adapt to differing economic circumstances. Rather the OECD forecasts represent the likely outcomes for growth, inflation, employment and other key economic variables for given unchanged policy settings.
- **On fiscal policies:** fiscal policy assumptions are based as closely as possible on legislated tax and spending provisions. Where government plans have been announced but not legislated, they are incorporated if it is deemed clear that they will be implemented in a shape close to that announced. Otherwise, in countries with impaired public finances, a tightening of the underlying primary balance by a certain percentage of GDP is built into the projections.
- **On domestic monetary policies:** the monetary policy assumptions take into account a range of monetary and financial indicators, including policy announcements with respect to the choice of monetary targets, associated target ranges and policy instruments, by the national authorities. Policy controlled short-term interest rates are typically assumed to be set in line with the stated objectives of the relevant monetary authorities, conditional upon the OECD projections of activity and inflation, which may differ from those of the monetary authorities. The resulting interest rate profiles should therefore not be interpreted as a projection of central bank intentions or market expectations thereof.

The resulting paths of short-term interest rates are assumed to feed into long term interest rates in a manner consistent with the usual expectations hypothesis of the term structure of interest rates, by which long-term interest rates are an average of future short-term rates. In addition, account is taken of the “*premium-term*”, i.e. the extra amount of yield that investors in longer-term bonds in each economy require as compensation for the risk of capital losses and/ or lack of liquidity.

For countries with government gross debt exceeding 75 per cent of GDP, the term premium is assumed to rise with the level of debt.

- **On exchange rates:** nominal exchange rates against the US dollar are set by technical assumption to remain constant over the projection period, at levels prevailing on a pre-specified cut-off date. The corresponding profiles of nominal and effective exchange rates beyond the current year are therefore typically constant for all countries and regions.

There are two reasons for using such a simple technical assumption. Firstly, specific exchange rate forecasts continue to be politically and market sensitive for many countries and areas. At the same time, short-term exchange rate movements are typically quite difficult to predict and, in practice, a naive random-walk model – one assuming nominal rates to remain broadly at current levels - is often found to be no less accurate than predictions based on more complex econometric or statistical relationships.

Nonetheless, to the extent that underlying economic conditions or associated risks may at times suggest possible systematic upward or downward pressures on major currencies, the wider

economic consequences of such movements are routinely explored as alternative scenarios, based upon macro-econometric simulations.

- **On oil and non-oil commodity prices:** the price of a barrel of Brent crude oil is assumed to increase during 2018 at a rate of \$5 per year (\$1.25 per quarter) from its 2017 level; non-oil commodity prices are assumed to be constant for the time being. (16)

### 1.3.7. OECD Better Life Index and Latvian wellbeing issues

The *Better Life Index*, BLI compares well-being through analysis of 11 topics the OECD has identified as essential, in the areas of material living conditions and quality of life. The *OECD Better Life Index* (made in 2011 after a decade of work, has been the first attempt to bring together internationally comparable measures of well-being in line with the recommendations of the Commission on the measurement of economic performance and social progress (also known as the *Stiglitz-Sen-Fitoussi* Commission).

Commission's recommendations sought to address "better life" concerns that standard macroeconomic statistics like GDP failed to give a true account of people's well-being. Wellbeing or wellness refers to interconnected dimensions of physical, mental, and social life patterns that extend beyond traditional definition of health. Thus, it includes such "additional" indices as employment satisfaction, social support, democratic public institutions, job security, social satisfaction, a sense of accomplishment, and personal fulfillment.

There are the following BLI's indices concerning: **Housing:** housing conditions and spending (e.g. real estate pricing), **Income:** household income and financial wealth; **Jobs:** earnings, job security and unemployment; **Community:** quality of social support network; **Education:** education and what you get out of it; **Environment:** quality of environment (e.g. environmental health); **Governance:** involvement in democracy; **Health;** Life Satisfaction: level of happiness; **Safety:** murder and assault rates, and **Work-life balance.** (17)

Quite notable that none of the 49 countries around the world analysed by the BLI qualified as having "good life". For example, OECD experts asset Latvian BLI (in 2016) as quite satisfactory in *education, environment, work-life balance, safety and jobs opportunities*; while such parameters as *housing, income, general "life satisfaction" and "civic engagement"* have been quite inadequate. (18)

### Resume

*Numerous OECD reports are making independent but quite important recommendations for Latvian perspective growth strategies. For example, government budget's priorities could be formulated around two main directions: **first, general ones** (which need complex, long-standing public-private efforts), like increasing productivity and reducing income gaps between high-earning and low-earning population groups, facilitating export diversification while concentrating on high-value-added activities, reducing long-run unemployment and emigration, which contributes to skill shortage, etc. As to the quality of life in Latvia, life expectancy at birth is 74 years, six years below the OECD average.*

***Second,** Latvian economic strategy can focus of **some specific priorities**, e.g. like making more attractive vocational training/education, reducing problems in health care system and housing market (as availability of affordable quality housing is low), increasing trust in public institutions and law enforcement.*

*Besides, positive global growth development are sending good signs to Latvian companies; with sufficient help from government they can reap sufficient benefits from digital aspects in corporate activities.*

## Notes and references

1. More on OECD's activities and analytical reports see in: <http://www.investopedia.com/terms/o/oecd.asp> and in OECD website: <http://www.oecd.org/about/whatwedoandhow/>
2. More on OECD in: Organisation for Economic Cooperation and Development (OECD) and in: <http://www.investopedia.com/terms/o/oecd.asp#ixzz4u3jEyoln>
3. On OECD activities concerning tax havens see in: <https://www.investopedia.com/terms/t/taxhaven.asp>, and on tax avoidance in: [https://www.investopedia.com/terms/t/tax\\_avoidance.asp](https://www.investopedia.com/terms/t/tax_avoidance.asp)
4. OECD Economic Survey for Latvia, September 2017, p. 15. All citations are from: [www.oecd.org/eco/surveys/economic-survey-Latvia.htm](http://www.oecd.org/eco/surveys/economic-survey-Latvia.htm)
5. Source: OECD Economic Survey for Latvia-2017, p. 94–95. In: [www.oecd.org/eco/surveys/economic-survey-Latvia.htm](http://www.oecd.org/eco/surveys/economic-survey-Latvia.htm)
6. On the 4<sup>th</sup> Industrial Revolution, see: [http://www.baltic-course.com/eng/book\\_review/?doc=119559&ins\\_print](http://www.baltic-course.com/eng/book_review/?doc=119559&ins_print)
7. Sources: <http://www3.weforum.org> and = Full Report/The Global Competitiveness Report.
8. Citations from: [http://www.baltic-course.com/rus/opinion/?doc=124479&ins\\_print](http://www.baltic-course.com/rus/opinion/?doc=124479&ins_print)
9. References: <https://www.cia.gov/library/publications/the-world-factbook/docs/notesanddefs.html#2004> and the EU legal system in “L-section”.
10. See more in: <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf>
11. Short summaries of Doing Business-2017 on business regulation reforms. In: <http://www.doingbusiness.org/reforms>. The list of countries with good practices can be seen in: <http://www.doingbusiness.org/data/good-practice>
12. On Interim Economic Outlook-2017 see: <http://www.oecd.org/economy/economicoutlook.htm>
13. All source and citations in this part are from: [www.oecd.org/economy/economicoutlook.htm](http://www.oecd.org/economy/economicoutlook.htm)
14. See more in: <http://www.oecd.org/general/oecd-week.htm>
15. The Interim Economic Outlook and additional information. In: [www.oecd.org/economy/economicoutlook.htm](http://www.oecd.org/economy/economicoutlook.htm)
16. More on commodities' perspectives in: <http://www.oecd.org/eco/economicoutlook.htm>
17. EU's Eurofound issued at the end of 2017 fourth *European Quality of Life Survey* (conducted in 2016); it showed “life quality” in three “quality areas”: in society, in public services and in general quality of life. See more in: [https://www.eurofound.europa.eu/eqls2016?utm\\_source=crm\\_newsletter&utm\\_medium=email&utm\\_campaign=corporate&utm\\_content=20171211&\\_cldee=ZXVnZXRAAW50ZWdyaW4uZGgs%3d&recipientid=contact-8a108b8d4f54e411941100505682489a-3fa12660ea4249e7983496b75858b2b4&resid=bc11c3af-86de-e711-94-58-00505682489a&urlid=3](https://www.eurofound.europa.eu/eqls2016?utm_source=crm_newsletter&utm_medium=email&utm_campaign=corporate&utm_content=20171211&_cldee=ZXVnZXRAAW50ZWdyaW4uZGgs%3d&recipientid=contact-8a108b8d4f54e411941100505682489a-3fa12660ea4249e7983496b75858b2b4&resid=bc11c3af-86de-e711-94-58-00505682489a&urlid=3)  
See references on “wellbeing” in: <https://en.wikipedia.org/wiki/Well-being>; new OECD-2017 data on well-being see in: <http://www.oecd.org/newsroom/new-oecd-data-expose-deep-well-being-divisions.htm>. There is a EU programme, Horizon 2020 which conducts research on societal challenges and wellbeing, which can be seen at: <https://ec.europa.eu/digital-single-market/en/news/info-days-horizon-2020-health-demographic-change-and-wellbeing>
18. See more on country's BLI ranking in: [https://en.wikipedia.org/wiki/OECD\\_Better\\_Life\\_Index](https://en.wikipedia.org/wiki/OECD_Better_Life_Index)

## 1.4. UN sustainable development goals: implementation for Latvia

*Politicians, economists and business community feel the need for changes and new approaches to development. Global competition for resources is increasing; at the same time, concentration of resources outside the EU states, particularly in critical raw materials, makes European industry dependent on imports, being increasingly vulnerable to high prices, market volatility, and political situation in supplying countries.*

*Global community headed by the UN has made a valuable impetus in resolving these challenges by suggesting sustainable development goals (SDGs), which have become an integral part of all EU states and Latvian decision-making process as well.*

Natural resources in the EU member states are often used unsustainably, causing additional pressure on raw materials, environmental degradation and threats to ecosystems. These trends are dangerously increasing with changes in world population, in structural patterns of economic growth and growing nationalism (a kind of “America-first” type). Besides, changes

are envisioned in the traditional economic model, which has been using the old-aged linear principle in economics: “take–make–dispose”. Disadvantages of the linear principle have been clear long ago; however production in most parts of the world continued with massive use of natural resources and consequential damages to climate changes and environmental degradation. Hence, it becomes clear that the linear model cannot survive modern challenges and a new model is being suggested striving for a *sustainable* or “*circular economy*”.

#### 1.4.1. Introductory notes on sustainability: 17 SDGs

New sustainability concept is multi-polar and aims at: keeping the value of the materials and energy used in production for as long as possible, while minimising waste and resource use; maintaining an optimal duration of materials in products; minimising waste and resource use; preventing losses of value from materials flows; and creating economic opportunities and competitive advantages on a sustainable basis.

Initially, the concept of sustainable development was developed by United Nations World Commission on Environment and Development in the report “Our Common Future” dated back to 1987. The concept has been widely used since, i.e. mostly at the UN Conference on Environment and Development (Rio de Janeiro, 1992) and recent Paris-agreement on climate change in December 2015, to name a few events.

Sustainable development has become the idea for all states wishing to “meet the needs of the present generation without compromising the ability of the future ones to meet their own needs”, declared the UN Summit at the end of 2015.

The global framework to achieve sustainable development by 2030 was fixed in the UN-2030 Agenda for Sustainable Development in a set of 17 Sustainable Development Goals (known as SDGs); the agenda was adopted by the international community at a special UN Summit in September 2015. More than 150 nations approved the global sustainable goals; the EU supports sustainability, which provides policy’s orientation also for the Baltic States.

The UN agenda sets out tools, policies and resources that need to be put in place to ensure that SDGs can be implemented. Thus, the 2030 Agenda for Sustainable Development responds to global challenges by following the UN *Millennium Development Goals (MDGs)* ideas on sustainable development and financial instruments for such development.

Sustainability has been recognised as a priority in the EU member states development policies too and this trend in development has been approved by the Latvian government as well, making it one of the priorities for perspective growth. (1)

#### 1.4.2. Three UN sustainability dimensions

The new 17 Sustainable Development Goals and 169 associated targets integrate and balance the *three dimensions of sustainable development: environmental, economic and social*. It means that strict requirements of environmental protection and high economic indicators are not in conflict with each other, that economic development is interdicted to degrade the environment and it ensures high quality of life at a time.

Sustainability concept is covering numerous areas (see Table below): such as poverty, inequality, food security, health, education, sustainable consumption and production, growth, employment, infrastructure, sustainable management of natural resources, oceans, climate change, but also gender equality, peaceful and inclusive societies, access to justice and accountable institutions.

The 2030 Agenda is a universal agreement; its implementation require action by all countries, developed and developing; it will be underpinned by a Global Partnership,



mobilising governments and all stakeholders (citizens, civil society, private sector, academia, etc.) at all levels. Quite notable, e.g. that a Declaration on UN-2030 Agenda underlines: “We acknowledge the role of the diverse private sector, ranging from micro-enterprises to cooperatives to multinationals, and that of civil society organisations and philanthropic organisations in the implementation of the new Agenda” (point 41).

There are totally 59 points in the Declaration. (2)

#### UN SDGs FOR EUROPE AND THE WORLD



Source: <https://sustainabledevelopment.un.org/post2015/transformingourworld>

#### 1.4.3. European Commission’s strategic approach to sustainability

There are the following *main elements of the Commission’s new, strategic approach to sustainability*:

- The European approach to the 2030 Agenda’s implementation includes:
  - a) making the SDGs as part of the European policy framework, and
  - b) to analyse a European longer term vision of the EU’s sectoral policies after 2020.
- The Commission will use all the instruments at its disposal, including better regulation tools to ensure that existing and new policies take into account the **three pillars of sustainable development: social, environmental and economic**.
- To create a dynamic space bringing together the different stakeholders of the public and the private sphere, the Commission will launch a **multi-stakeholder Platform** with a role of follow-up and exchange of best practices on SDG implementation across sectors.
- The Commission will provide regular reporting of the EU’s progress towards the implementation of the 2030 Agenda from 2017, and will launch reflection work on developing further a longer term vision with a post-2020 perspective.

Important in the SDGs implementation in the member states is that in order to implement the 2030 Agenda and SDGs, the Commission is using *the principle of subsidiarity*, which means that practical actions will be made according to the national decision-makers.

However, the EU institutions’ response to the UN-2030 Agenda proceeds along **two directions**: **the first** is to include the SDGs in the European policy framework, i.e. into the Commission and member states’ priorities; **the second** is to launch reflection on further

developing the SDGs perspectives with the focus of sectoral policies after 2020, preparing for the long term SDGs implementation in the member states.

Sustainable development requires a holistic and cross-sector policy approach to ensure that *economic, social and environmental challenges* are addressed together. The First Vice-President will play a coordinating role in taking forward the Commission's work in actively implementing the 2030 Agenda.

The Commission intends to include sustainable development in all EU policies, using such tools as, e.g. impact assessments to evaluate environmental, social and economic development, so that sustainability is duly considered. Besides, ex-post evaluations of legislation will be also included into all three dimensions in an integrated approach. It is essential to keep track of progress in a systematic and transparent way: the EU, in coordination with the states, is committed to play an active role at all levels, to maximize progress towards the SDGs and to ensure accountability.

The UN Statistical Commission prepared already in 2016 **a framework comprising 230 indicators as a practical starting point for global monitoring**. At national level, the EU states are asked by the United Nations to put in place systems for measuring progress and reporting. The Commission will contribute by monitoring, reporting and reviewing progress towards the sustainable development goals in the European context.

First EU's overview of the SDGs implementation can be found in the Eurostat publication issued in parallel with the Commission's Communication (see numerous web links in references). From 2017, the Commission is carrying out a detailed regular monitoring of the sustainable development goals while developing a European reference indicator framework and drawing on the wide range of ongoing monitoring and assessment across EU institutions and the states. (3)

#### 1.4.3.1. New European Consensus on development

The EU has realised that the UN guidelines on SDGs is going to transform all aspects of national policies in the coming years. With this in mind, in November 2016 the Commission issues a communication's proposal for a new European Consensus on Development called "*Our World, our Dignity, our Future*". A condensed document of just 27 pages reflects the EU's vision of global challenges, the SDGs and the EU-member states' responses. (4)

The new European Consensus on Development (ECD) reflects a paradigm-shift in development cooperation under the 2030 Agenda, responding to the more complex and interconnected challenges the world presently faces. The ECD puts forward shared vision and framework for action for all EU Institutions and all member states, with particular emphasis on cross-cutting drivers of development, such as equality, youth initiatives, sustainable energy and climate action, investment, migration and mobility. The Consensus' aim is to increase the credibility, effectiveness and impact of EU development policy, based on shared analysis, common strategies, joint programming, joint action and improved reporting. The new Consensus should frame all development policy activities in the member states in the years to come.

The EU intends to organise "a renewed partnership with the world" in order to help build peaceful, stable, well-governed, prosperous and resilient states and societies to deliver on sustainable objectives in multilateral deals addressing global challenges. The aim is to agree with the African, the Caribbean and Pacific countries (ACP states) on an "umbrella approach", which would go together with regional tailored partnerships, while addressing the specific regional opportunities and challenges. (5)

New European Consensus on Development is the EU's response to an increasingly interconnected and challenging world. The EU needs "a genuine consensus", he argued, under

the shared ownership of EU Institutions and all member states that will help spearhead global action to implement the SDGs.

Together with the EU proposals for future partnership with the African, Caribbean and Pacific countries, the ECD confirms the EU's readiness to engage with partners across the world to build a better common future. Sustainable development aims to achieve a continuous improvement in citizens' quality of life and well-being. This involves the pursuit of economic progress, while safeguarding the natural environment and promoting social justice. For these reasons, sustainable development is a fundamental and overarching EU's objective (so-called new EU brand). Since 2005, Eurostat, the EU statistical office produced biennial monitoring reports of the EU sustainable development strategy, based on the EU set of sustainability's indicators. (6)

#### 1.4.3.2. EU's sustainability efforts on the global scene

The EU's sustainability efforts are having definite global dimension as well: the following is a sketch of the EU institutions' efforts to integrate sustainability into the Union's internal and external policies:

- As part of the Agenda for Change, with the view of increasing the impact of EU Development Policy, the EU refocused its aid to ensure that it goes to those countries which need it most. In this prospect, the EU has unilaterally recommitted to a specific ODA target of 0.20 % ODA/GNI for Least Developed Countries (LDCs), between 2015 and 2030.
- Gender equality is fully integrated in development cooperation programmes or allocating funds to ensure environmental sustainability as a core pillar of development policy as a prerequisite for lasting socio-economic development and poverty eradication. The EU will implement its new Gender framework to promote gender equality, as well as girls' and women's empowerment.

The EU will help developing countries to mobilise more domestic resources, for example with EU budget support programmes that will continue to improve their management of public finances.

- Through cooperation and partnerships with the private sector the EU will leverage more development funding. Working together with partner countries, it will invest in key sectors such as infrastructure, energy and support to small and medium-sized enterprises (SMEs). EU action will focus on promoting an enabling business environment and responsible business practice.
- The EU remains the world's most open market. The **EU Generalised System of Preference (GSP)** and **GSP+ schemes** for developing countries are among the most comprehensive, accessible and valuable schemes in the world. The EU provides duty free and quota free market access to Least Developed Countries (LDCs), with total LDC exports to the EU currently worth over €35 billion annually. In addition, the EU is the biggest provider of Aid for Trade.

Horizon 2020, the EU Framework Programme for Research and Innovation (€77 billion) is open to researchers from developing countries. The EU will allocate at least 20% of its ODA to human development in the period until 2020, to areas such as education and health.

- The EU will support the **'New Deal for Fragile States'** adopted by the international community in 2011, including through funding its implementation. Moreover, over half of the EU's bilateral development funding will continue to go to fragile and conflict affected states.

With regard to environment and climate, the EU leads the efforts for a sustainable world. 20% of the EU's assistance, about €14 billion up to 2020, will address climate change objectives.

In addition, at least 25% of European Investment Bank (EIB) financing operations shall support climate change mitigation and adaptation in order to further the promotion of the Union's climate goals on a global scale. The EU will invest €1.3 billion specifically for environment and climate-related global public goods and challenges by 2020, including, for example, €154 million on forests and €81 million on water.

#### 1.4.4. Financing the SDGs' implementation

The EU budget complements national budgets and the wide set of EU policy and regulatory instruments to tackle challenges both at European and at international level. The Commission has already largely incorporated economic, social and environmental dimensions, which are at the heart of the SDGs, into the EU budget and spending programmes. The performance framework of EU spending programmes for 2014–2020 already contains relevant elements to report on the three dimensions. The *EU Budget Focused on Results* (BFOR) initiative also aims to ensure that every euro of European tax payers' money spent contributes as much as possible to improving our future. Looking ahead at the Multiannual Financial Framework beyond 2020, the Commission will explore how EU budgets and future financial programmes can best continue to adequately contribute to the delivery of the 2030 Agenda and support EU states in their efforts.

The EU's implementation of the UN-2030 Global Agenda follows two "work-streams": **the first** is aimed at integrating all pertinent SDGs both into the European policy framework and into current Commission priorities. The **second "work-track"** will be aimed at launching a reflection work on further developing the EU's longer-term vision and will focus on SDGs implementation in the sectoral policies after 2020.

The European Commission approved in October 2017, an investment package of €222.7 million from the EU budget to support European transition to a more sustainable and low-carbon future. The EU funding will spur additional investments leading to a total of €398.6 million to be invested into 144 new projects in 23 member states; two projects are from the Baltic States: Latvian and Lithuania. The support comes from the LIFE programme for the EU Environment and Climate Action. The projects illustrate the Commission's ongoing commitment to its flagship circular economy package.

The EU will provide up to €1 billion for biodiversity and ecosystems, including wildlife conservation. The EU shares experiences, runs strategic dialogues and implements projects with a number of partner countries on biodiversity, ecosystems and natural capital accounting, providing support of €170 million.

The EU has foreseen €50 million of multilateral support specifically for the sound management of chemicals and waste as this mismanagement primarily affects the poorest.

There is another EU's financial instrument supporting environmental, nature conservation and climate action projects in EU states called LIFE (since 1992, LIFE has co-financed some about 4.3 thousand projects in the member states. For the 2014–2020 funding period, LIFE will contribute approximately €3.4 billion to the protection of the environment and climate.

With relatively little funding, LIFE-funded projects are having a great effect on creating profitable "green businesses" that deliver on the transition to a low-carbon and circular economy. With the Paris Climate Agreement which entered into force in November 2016, the EU and the member states must focus on delivering on the promises. Hence, LIFE-projects would create the right conditions to promote innovative solutions and spread best practices in reducing emission and adapting to climate change across the EU member states. (7)

### 1.4.5. Sustainability in Latvia

Sustainable Development Strategy of Latvia (SDSL) until 2030 was adopted by the national parliament (Saeima) in June 2010, long before the UN initiative.

The basic idea of sustainable development invites to satisfy the needs of the present generation, balancing public welfare and environmental and economic development interests and concurrently ensuring the observation of the environmental requirements and the preservation of natural diversity in order to avoid the reduction of possibilities to satisfy the needs of future generations (Strategy, point 6).

The sustainable development strategy of Latvia was developed, starting with an analysis and survey of changes related to global processes:

- a) Demographical changes – decrease in the number of inhabitants and their ageing;
- b) Globalisation in economics and development of innovation economics;
- c) Dynamics of the labour market and demand for new competences and skills;
- d) Climate changes, threats to the biological diversity and nature as the environment of life;
- e) Increasing demand for energy resources and energy safety;
- f) Crisis of democratic representation institutions and emerging of new public participation forms;
- g) Global development of the middle class and increase in relative poverty risks; and
- h) Urbanisation, spreading of cities, regional positioning (Strategy, point 7). (8)

Hence, main strategy's components are:

- Culture and creative society;
- Human capital;
- Formation of the middle class;
- Quality of education;
- Innovative and eco-efficient economy;
- Renewable and safe energy (Strategy, pp. 3–4).

However, pursuant to the Parliament's version of sustainable plan from June 2010, there is another "Sustainable Development Strategy of Latvia until 2030" adopted by the Latvian Ministry of Regional Development and Local Government in November 2010. (9)

It has to be underlined that the main strategic materials for Latvian sustainability (by both the Parliament and the Ministry) have been adopted in 2010, i.e. that was done without taking into consideration the UN-2030 strategy adopted in 2015. Therefore, it is high time for Latvian political and economic community to make a new and feasible sustainability strategy, which would include all new trends and concepts for national development sectors. Besides, the government shall include sustainable development into all national socio-economic policies, using, for example, such instrument as impact assessments to evaluate environmental, social and economic factors on any development project. (10)

#### 1.4.5.1. Reducing city air pollution: fuel-cell transport in Latvia

In the last 15 years, fuel cell buses have improved greatly and hydrogen fuel efficiency has increased threefold (e.g. refueling times have more than halved to less than 10 minutes); however, only about a hundred fuel cell buses are operating in Europe.

Fuel-cell buses are an attractive solution for public transport: they can travel long and minimise transportation's environmental and health impacts; trials are starting in Riga too. Hydrogen-driven or fuel-cell buses (FCEB) can use presently cost-effective shifts before being refueled quickly at bus depots; they are quiet and produce no carbon or particulate emissions, thus minimising their environmental and health impacts.

The buses are powered by electro-chemical cells that combine hydrogen stored in high pressure tanks with oxygen from the air to generate electricity, heat and water. Performance compares use more established diesel, trolley (tram) and battery bus technologies, turning them into FCEB-like buses. Managers for some transport projects, e.g. Fuel Cells and Hydrogen Joint Undertaking (FCH JU), which is a public-private partnership that is funding research and demonstration projects, are seeking to enable the commercialisation of fuel cell technologies. (11)

These buses are clean, smooth and easy to drive. Thus, a fuel cell bus can drive for 300-450 kilometers before it needs to be refueled. This gives the technology an edge over most established battery buses, which have more limited ranges. And as they carry enough fuel on board for a full shift, the buses need very little route infrastructure, unlike trolley buses and some battery buses.

Existing interest from bus operators could expand Europe's fleet to over 500 buses, with a potential European market worth €1.5 billion. Some predict that fuel cell buses could catch up to battery bus production and technical levels in 5-10 years. Europe has achieved a leadership status worldwide because of bringing the demand and supply sides together. These efforts could be the first step in developing a fully competitive market using hydrogen-based zero-emissions urban transport; the implications are enormous in terms of the environment, job creation and economic development.

Fuel cell buses are not used widely in the EU cities; part of the reason is that they are still a young technology. But bus fleet operators are reluctant to invest in the new vehicles without concrete evidence of the risks and returns involved, while low demand makes them expensive to build and limits post-sales support.

To address these barriers, small-scale demonstration trials of fuel cell buses have been taking place in commercial fleets around the world and in the EU. These provide data on costs and good operational practice improve economies of scale and supply chains, give operators a say on how to develop bus models, and raise public awareness of the technology.

Key trials based in Europe include:

- CUTE. The first EU-funded trial, having started in 2003. It tested fleets of three buses in nine European cities over three years.
- This project extended small-fleet demonstrations to 10 cities on three continents, funding a total of 47 buses.
- High V.LO-City, HyTRANSIT and 3Emotion. These FCH JU-funded projects are trialing bigger fleets of around 20 buses.

These demonstration projects have been successful with operators and passengers alike. For example, as part of CHIC, a small fleet of eight fuel cell buses in London (UK) has operated along a busy route popular with tourists. It has performed so well that the participating transport company now intends to expand its hydrogen fleet. (12)

Trials in cities around the world have demonstrated that fuel-cell passenger buses can cut emissions and noise pollution while providing good quality public transport. New EU-funded projects could double Europe's fleet of hydrogen buses – reducing vehicle and infrastructure costs per bus to boost take-up of the technology. (13)

#### **1.4.6. Sustainable business: perspectives for growth**

Sustainability principles are becoming closer connected to corporate strategies: new “modes of business” include present development needs with not only “profitable” part of corporate activity but with **social and environmental** aspects. One of these aspects is Corporate Social Responsibility (CSR), having become an integral part of the EU-2020 strategy for **smart, sustainable, and inclusive growth**.



Sustainability, as a principle for development, has been promoted in the global agenda since the contemplation of global complexity and the challenges that globalisation poses to governments, the business sector and society at large have moved to the forefront. Recent economic and financial crises have proved that corporate social responsibility plays an important role in a business's ability to react in a changing environment, as well as to reshape and innovate for new solutions, incorporating wider stakeholder groups. There is no longer the question of 'if' CSR is important for business operations, rather, how can CSR integration in core business strategy be implemented.

Thus, modern corporate policy shall be oriented towards **economic, political, social and human sustainability's aspects**:

- New understanding of modern sustainable development (SD) as a general prerequisite for modern economic theories and practice;
- New aspects in economic growth patterns embodies in, for example *circular economy* concept;
- New business models, based on SDGs' approaches;
- New forms of long-term of developmental "responsibilities" for both **social** (e.g. for share-holders) and **environmental nature** (e.g. ecological liability, human right for clean environment);
- Assessment of new "approaches" to **energy & resources**: both **natural**, e.g. energy efficiency and **managerial**, e.g. new forms of governance (European "federalism" and European Semester);
- New approaches to national developmental model's structures, through BDF economic and political initiatives in the Baltic Sea Region.

A successful business transition towards a circular economy requires action at all stages in the value chain: from the extraction of raw materials to material and product design, to production, distribution and consumption of goods; to repair, remanufacturing and reuse schemes, and to waste management and recycling.

Bottom-line: Such business policy strategy shall include: intelligent product design, reuse and repair of products, stronger markets for secondary raw materials, recycling, sustainable consumption, waste policy, etc. Moving towards a "sustainable business path" can promote competitiveness and innovation by stimulating new business models and technologies as well as facilitating social innovation.

#### **1.4.7. Quality teaching: global and the Baltic Sea regional issues through SDG-4**

Quality education (QE) is one of the global goals that the world community sees as the vital aspect in progressive socio-economic development. SDG-4 has become already an integral part of all countries' policies, including the Baltic States providing additional important elements in modern education and training to streamline job creation.

It goes without saying that qualified and experienced work force has to be, first of all, "qualitatively taught". That means the whole education process and teaching methods have to be up to the modern time requirements. Therefore it is important to see the global goals and national efforts to implement these goals; one of the SDGs is that of quality education (SDG-4).

With global and European growth challenges while looking into future, it has to be acknowledged that teaching and – probably – the whole teaching process must evolve. All education will need to be oriented both towards growth and sustainable development. Teaching students has to be environmentally oriented, while training "deep-thinking" to create deeply moral leaders, ready to face unprecedented challenges.

Training and education is to explore traditional areas of progressive education including such spheres as nature-based learning and systems thinking, new essential topics including corporate social responsibility and the importance of political economy.

Among the targets in **quality education** adopted by the global community as SDG-4, the following are crucial for both primary and secondary education, including universities:

1. By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to ***relevant and effective learning outcomes***.
2. By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education.
3. By 2030, ensure equal access for all women and men ***to affordable and quality technical, vocational and tertiary education, including university***.
4. By 2030, ***substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship***.
5. By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations.
6. By 2030, ensure that all youth and ... adults achieve literacy and numeracy.
7. By 2030, ***ensure that all learners acquire the knowledge and skills needed to promote sustainable development, including, among others, through education for sustainable development and sustainable lifestyles, human rights, gender equality, promotion of a culture of peace and non-violence, global citizenship and appreciation of cultural diversity and of culture's contribution to sustainable development***.

As is seen (in bold/italics) that at least four out of seven targets have very close connections with the quality university education.

Besides, there are **three sub-targets** in quality education:

- 1) Build and upgrade education facilities that... provide safe, non-violent, inclusive and effective learning environments for all.
- 2) By 2030, substantially expand globally the number of scholarships available to developing countries... for enrolment in higher education, including vocational training and information and communications technology, technical, engineering and scientific programmes.
- 3) By 2030, substantially increase the supply of qualified teachers, including through international cooperation for teacher training in developing countries... (14)

Actually, all three sub-targets have strong impact for the university education as well. Above mentioned issues affect “teaching sustainability” concept as sustainable aspects in growth have been recognised in the EU already during formulating the present 10-year strategy plan for 2020. So-called “green growth” was one of the three main aspects in strategic development policies both in the EU institutions and the member states. In the second EU’s strategy aim (“smart growth”), some R & D aspects are closely connected to sustainability as well. The “green growth” aspects in sustainability are taught at the university level in the masters and bachelors courses on EU economic policies and EU economic integration. Besides, some vital aspects of sustainability in growth are included into circular economy development. Both green growth and circular economy issues form an integral part of general EU economic policy’s guidelines.

## Resume

*Most of the problems that Latvia is presently facing can be resolved by implementing global and European suggestions (often in both recommendation- and legal-form) on choosing optimal and progressive growth paths. One of such “suggestions” stems from a set of the UN sustainable development goals (SDGs), another from the EU’s efforts to implement the UN- 2030 Agenda.*

*The latter includes: a) making the SDGs as part of the European and member states’ policy framework, and b) to analyse a European longer term vision of the EU’s sectoral policies.*

*Latvian decision-makers shall analyse the new 17 Sustainable Development Goals and 169 associated targets in view of a balanced three dimensions of sustainable development, characterised by the interrelated environmental, economic and social actions. It means, for example, that environmental protection requirements and economic growth are not in conflict with each other, that new “clean technologies” assist to elevate country’s environment and ensures high quality of life in Latvia (Fuel cell buses in Riga is a good example).*

*European Consensus on Development (ECD) reflects a paradigm-shift in development cooperation under the 2030 Agenda, responding to the more complex and interconnected challenges the world and the member states are presently facing. The ECD shows a EU-states’ shared vision and framework for action for EU Institutions and the states, with particular emphasis on cross-cutting drivers of development, such as equality, youth initiatives, sustainable energy and climate action, investment, migration and mobility. The ECD is to increase the credibility, effectiveness and impact of EU development policy, based on shared analysis, common strategies, joint programming, joint action and improved reporting.*

*That means, Latvian Sustainable Development Strategy for 2030, adopted by the Saeima in June 2010 and the Latvian National Development Plan for 2014–2020 shall be amended with a view to new UN and the EU guidelines. Latvian executive (Ministers’ Cabinet) and legislative (Saeima) branches shall review national strategy/plan to use all global and European “instruments and tools” to ensure that new policies’ guidelines would take into account the mentioned **three pillars of sustainable development (social, environmental and economic)**.*

*There are two examples providing insights into practical SDGs implementation in Latvia: first, sustainable business: sustainability principles are becoming closer connected to corporate strategies with new “modes of business” including present development needs with both “profitable” part of corporate activity and with **social and environmental** aspects. Second, quality teaching, which shall incorporate formulated global guidelines on optimal modern teaching issues in SDG-4.*

## Notes and references

1. More information on sustainable development at:
  - EuropeAid’s website: [https://ec.europa.eu/europeaid/home\\_en](https://ec.europa.eu/europeaid/home_en)
  - European Development Days 2016 official website: <https://www.eudevdays.eu/>
  - Factsheet: European Commission welcomes new 2030 United Nations Agenda for Sustainable Development in: [http://europa.eu/rapid/press-release\\_IP-15-5708\\_en.htm](http://europa.eu/rapid/press-release_IP-15-5708_en.htm)
  - Factsheet: Sustainable Development Goals and the Agenda2030 at: [http://europa.eu/rapid/press-release\\_MEMO-15-5709\\_en.htm](http://europa.eu/rapid/press-release_MEMO-15-5709_en.htm). General source at: [http://europa.eu/rapid/press-release\\_IP-16-2175\\_en.htm](http://europa.eu/rapid/press-release_IP-16-2175_en.htm)
2. Note: the UN Agenda “Transforming our world: the 2030 Agenda for Sustainable Development” and the Declaration text can be see in: <https://sustainabledevelopment.un.org/post2015/transformingourworld>
3. More in the Commission DG on environment in: [http://ec.europa.eu/environment/sustainable-development/SDGs/implementation/index\\_en.htm](http://ec.europa.eu/environment/sustainable-development/SDGs/implementation/index_en.htm)
4. More on Consensus’ communication in: [https://ec.europa.eu/europeaid/sites/devco/files/communication-proposal-new-consensus-development-20161122\\_en.pdf](https://ec.europa.eu/europeaid/sites/devco/files/communication-proposal-new-consensus-development-20161122_en.pdf)
5. More information on Consensus and sustainability in the following links:
  - 2030 Agenda for Sustainable Development;

- MEMO/16/3886: Next steps for a sustainable European future – European action for sustainability: Questions & Answers;
  - MEMO/16/3885: Towards a renewed partnership with African, Caribbean and Pacific countries after 2020;
  - MEMO/16/3884: A proposal for a new European Consensus on development;
  - Communication on the next steps for a sustainable European Future;
  - Communication on a renewed partnership with African, Caribbean and Pacific (ACP) countries;
  - Communication on a new European Consensus on development;
  - Staff Working Document on European action for sustainability;
  - Assessing the 2006 European Consensus on Development and accompanying the Initiative “Proposal for a new European Consensus on Development”. Eurostat report on sustainability;
  - Synopsis Report summarising the main results of the consultation on the new European Consensus on Development;
  - EU’s implementation of the Sustainable Development Goals (SDGs). General reference: [http://europa.eu/rapid/press-release\\_IP-16-3883\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-16-3883_en.htm?locale=en)
- Optional reading for EU efforts in SDGs:
- Press release: European Commission welcomes new 2030 UN Agenda for Sustainable Development. In: [http://europa.eu/rapid/press-release\\_IP-15-5708\\_en.htm](http://europa.eu/rapid/press-release_IP-15-5708_en.htm)
  - Factsheet on what the EU has achieved with the MDGs. In: [http://europa.eu/rapid/press-release\\_MEMO-15-5709\\_en.htm](http://europa.eu/rapid/press-release_MEMO-15-5709_en.htm)
  - Brochure on Financing Global Sustainable Development after 2015: Illustrations of key EU contributions. In: [https://ec.europa.eu/europeaid/financing-global-sustainable-development-after-2015-illustrations-key-eu-contributions\\_en](https://ec.europa.eu/europeaid/financing-global-sustainable-development-after-2015-illustrations-key-eu-contributions_en)
  - Infograph on Financing Global Sustainable Development after 2015: Illustrations of key EU contributions. In: [https://ec.europa.eu/europeaid/sites/devco/files/post-2015-development-infograph-final\\_en.pdf](https://ec.europa.eu/europeaid/sites/devco/files/post-2015-development-infograph-final_en.pdf)
  - 2030 Agenda for Sustainable Development: <http://www.undp.org/content/undp/en/home/mdgoverview/post-2015-development-agenda.html>
  - Source: European Commission, fact sheet “Sustainable Development Goals and the Agenda2030”. In: [http://europa.eu/rapid/press-release\\_MEMO-15-5709\\_en.htm](http://europa.eu/rapid/press-release_MEMO-15-5709_en.htm)
6. Citations and references from: [http://europa.eu/rapid/press-release\\_STAT-16-3901\\_en.htm?locale=en](http://europa.eu/rapid/press-release_STAT-16-3901_en.htm?locale=en); Full text available on EUROSTAT website in: <http://ec.europa.eu/eurostat/news/news-releases>
  7. On LIFE-funded projects see: <http://ec.europa.eu/environment/life/index.htm> and [http://europa.eu/rapid/press-release\\_IP-17-3922\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-3922_en.htm?locale=en)
  8. On Latvian strategy see: Sustainable Development Strategy of Latvia until 2030, adopted by the national parliament (Saeima) in June 2010. In: [https://www.cbs.nl/NR/rdonlyres/B7A5865F-0D1B-42AE-A838-FBA4CA31674D/0/Latvia\\_2010.pdf](https://www.cbs.nl/NR/rdonlyres/B7A5865F-0D1B-42AE-A838-FBA4CA31674D/0/Latvia_2010.pdf)
  9. See: <https://eesti2030.files.wordpress.com/2011/01/point-7-latvian-sustainable-development-strategy-until-2030.pdf> (41 pp).
  10. Note: Reference documents for Latvian/Riga region sustainable development
    - For Latvia:
      - Sustainable Development Strategy of Latvia until 2030, adopted by the national parliament (Saeima) in June 2010 (71 pp). In: [https://www.cbs.nl/NR/rdonlyres/B7A5865F-0D1B-42AE-A838-FBA4CA31674D/0/Latvia\\_2010.pdf](https://www.cbs.nl/NR/rdonlyres/B7A5865F-0D1B-42AE-A838-FBA4CA31674D/0/Latvia_2010.pdf);
      - Sustainable Development of Latvia. In: [http://www.varam.gov.lv/eng/darbibas\\_veidi/sustainable\\_development\\_of\\_latvia/](http://www.varam.gov.lv/eng/darbibas_veidi/sustainable_development_of_latvia/) and
      - “National Development Plan of Latvia for 2014–2020”.
    - For sustainability in Riga municipality region see:
      - Sustainable Development Strategy of Riga Planning Region until 2030;
      - Spatial (territorial) Plan of Riga Planning Region;
      - Development Programme of Riga Planning Region for 2014–2020 (municipality basically ensures the observance of the principle of sustainable development or balance among economic, social and natural environment aspects);
      - Sustainable Development Strategy of Riga until 2030;
      - Riga City territorial Plan; and
      - Development Programme of Riga for 2014–2020. References to sources on Latvian and Riga SDGs plans. In: [http://www.rdpad.lv/wp-content/uploads/2014/11/ENG\\_STRATEGIJA.pdf](http://www.rdpad.lv/wp-content/uploads/2014/11/ENG_STRATEGIJA.pdf)
  11. See, e.g. <http://www.fch.europa.eu/>, and the next FCHJU “summit”. I: <http://www.fch.europa.eu/event/hydrogen-and-fuel-cells-energy-summit>
  12. See in: <http://highvelocity.eu/>
    - Note: About Highvelocity. The High V.LO-City project aims at accelerating the integration of a new generation of FCH buses (14 FC buses will be operating in Scotland (UK), Liguria (IT) and Flanders (BE)) in public transport fleets by demonstrating the technical and operational quality.

As FCEB technology has matured, the industry and transit operators are increasingly seeing economics, as well as air quality, as drivers for deployment. As some say, “we are not talking about sustainability anymore; we are talking about saving money”. U.S. Department of Energy shows that the average fuel economy of fuel cell electric buses is 1.4 times higher than conventional diesel buses. At the same time, political will is vital, as regulations and incentives are essential to accelerate the momentum for FCEB deployment.

See more in: <http://blog.ballard.com/top-4-myths-about-hydrogen-powered-buses>

13. See: <https://ec.europa.eu/programmes/horizon2020/en/news/cleaner-urban-transport-hydrogen-buses>. Other useful links on the issue:

- CHIC CORDIS;
- High V.LO City CORDIS;
- HyTransit CORDIS;
- 3Emotion CORDIS;

See also: The Fuel Cells and Hydrogen Joint Undertaking (FCH JU), and “Environmentally friendly, efficient electric motion - 3emotion”. In: <http://www.3emotion.eu>

14. Reference to: <https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals#>

## PART II

# LATVIAN POLITICAL ECONOMY: TOWARDS MODERN NARRATIVE (INTERNAL CHALLENGES - I)

*Main idea of the book's second part is to provide Latvian politicians, economists and the general public with a modern analysis of the changes and challenges facing Latvian contemporary socio-economic development, so-called **internal challenges**.*

*This part addresses fundamental Latvian political economy's issues through such internal analysis of these challenges that would help to formulate a **new Latvian narrative** in a fruitful effort to reconnect the political ideas and government's economic efforts. The national **narrative** needs as an account of events and experiences in perspective national development, as a "national story description" that connects and explains a set of challenging internal events.*

### 2.1. Introduction to Latvian perspectives: narrative for a new centennial

Some major instances of Latvian narrative shall be mentioned first; generally, the narrative is to show how existing opportunities are transferred into common values and interests. More specifically, how a national determination to strive "for better life" integrates into a popularly recognised and respected national strategy. Even more vital, how a "Latvian unity" can be achieved by a "leveling process" that drives Latvian uniformity through a fruitful blending of existing differences, contrasts and tensions in the society. The basis of new Latvian narrative is a pluralist multilingual culture with a European and global outreach. Latvian elites' patriotism could be seen through love for its own people, while nationalism is a reflection of hatred to others.

The main outcome of the new Latvian narrative is a "combined" theory of a unified political and economic paths (so-called Latvian political economy in a modern centennial) to be taken by governing elites for the benefit of all people. This narrative would help citizens to closely identify themselves both with the political rulers and national general economic guidance.

Hence, a Latvian narrative is becoming a long-standing political-economic "project" aimed at ensuring progressive social growth and prosperity for Latvian people. In the age of globalisation, Latvian politicians' task is not only to sketch a new narrative (or a strategy) but make necessary steps for creating a stronger and socially oriented society for the next centenary.

The narrative, inspired by Latvian culture and history, will stimulate new ideas and new paths that can help Latvians to rise to the challenges of the new century and globalisation's challenges.

Behind the new Latvian narrative stands shared and constructive ideas that politicians can deliver on their promises to Latvian community at the vital events in national development, e.g. regional, local and/or parliament/Saiema's elections.

Latvia is currently living through a time of sweeping transformations: a new generation of Latvians is appearing to shape the new narrative: Latvian community has to "write its own new history" based on past and present achievements while oriented towards future. This is a unique and innovative path that Latvians should be proud of. The new narrative can play a good role in politicians' choice for political parties and movements in selecting Latvian developmental priorities.



### 2.1.1. Sweeping differences among the EU states

People in most European states think that life is generally fair; however, they have some concerns over income inequality, justice and political decisions.

The Commission's science and knowledge service together with the Joint Research Centre (JRC) produced its first *Fairness Report* in 2017. It analysed data and statistics on income inequality, on the impact that family background and geographical location have on opportunities in education, health and the labour market, and on people's perceptions and attitudes. The JRC also launched a Community of Practice on Fairness, connecting EU policy makers with academics and researchers working on fairness related issues. (1)

The JRC is going to use the survey data and the latest scientific research to provide support for the EU states' policies in creating a fairer society. In 2019 it will publish a series of policy briefs as well as the second edition of the Fairness Report.

The new special Eurobarometer 471 "*Fairness, inequality and inter-generational mobility*" was conducted through face to face interviews in December 2017; more than 28 thousand people were interviewed in 28 EU countries.

The results of the Special Eurobarometer survey published in Brussels (23 April 2018) showed EU citizens' approach to some wider issues including unfairness in employment, education, health, political decisions, etc.

The Commission has put forward a series of legal and policy initiatives including a proposal to increase gender equality by improving the balance between private and professional life for working parents, as well as proposals aiming at creating more predictable and transparent working conditions and access to social protection for all. It was all envisaged by the *European Pillar of Social Rights*, adopted by the EU states at the end of 2017. (2)

Besides, to harness the full potential of education and culture in boosting social fairness, participation and economic growth, the Commission is working towards a European Education Area by 2025, proposing a series of initiatives on education, youth and culture. Its first package of measures presented in January 2018 included a proposal on strengthening inclusive education to promote quality education for all pupils.

Fairness is a crucial part of building a more resilient and cohesive Europe. Therefore the Commission's initiatives is based on sound evidence while taking into account Europeans' values and perceptions. The JRC's work is helping to increase politicians' guidance in the member states in contributing to a better European future.

### 2.1.2. Eurobarometer: situation in the Baltic States

According to the Eurobarometer, a majority of Europeans think that most things that happen in their lives are fair and that they have equal opportunities to get ahead. Nevertheless, they are less convinced that justice and political decisions are applied in an equal and consistent way in their countries regardless of people's social status, wealth and connections. The vast majority also feel that income inequalities are too great and that governments should address them, while fewer than half believe that equality of opportunity and their social status have improved over time.

The main findings of the Eurobarometer survey cover education, income, social status and inter-generational mobility. They also address perceptions of migration and globalisation, the former being one of the drivers of rising inequalities and the latter being a proxy for political preferences which are among the determinants of attitudes to fairness and inequality. Situation in the Baltic States is often both "common" and specific, as well.

Main findings show that:

- More than half of respondents think that **people have equal opportunities to get ahead** (58%). However, this figure hides substantial regional disparities, with 81% agreeing in Denmark, but only 18% in Greece. In the Baltic States: **in Latvia – 51%, in Lithuania – 55% and in Estonia – 58%**.
- Respondents are less optimistic about fairness in specific fields. Only 39% are confident that **justice always prevails over injustice**, while the most states disagree: e.g. **in Latvia – 64%, in Lithuania – 59% and in Estonia – 41%**. Even more pessimistically, only 32% of Europeans agree that political decisions are applied consistently to all citizens and 48% disagree (in this category are the 3 Baltic States: **in Latvia – 63%, in Lithuania – 56 and in Estonia – 45%**). Overall, people are more likely to perceive things to be fair if they are better educated, younger, and better-off.
- The overwhelming majority think that **income differences are too great** (EU's average 82%), ranging from 96% in Portugal and 92% in Germany to 59% in the Netherlands. In the Baltic States: **in Latvia – 89%, in Estonia – 87% and in Lithuania – 92%**.

In all countries except Denmark more than 60% agree that governments should take measures to reduce differences.

- For **getting ahead in life, good health and quality education** are regarded as essential or important by 98% and 93% of respondents respectively. **Working hard and knowing the right people** are also deemed essential or important by more than 90%. Coming from a wealthy family, having political connections, being of a specific ethnic origin or birth gender are seen as less important.
- Over 80% of Europeans think that it is **governments that should take measures to reduce differences in incomes**; in the Baltic States: **in Latvia – 91%, in Lithuania – 93% and in Estonia – 76%**.
- Fewer than half of respondents (46% the EU' average) believe **that opportunities to get ahead have become more equal compared to 30 years ago**, with more than 70% agreeing in Malta, Finland and Ireland, but fewer than 25% in Croatia, France and Greece. In the Baltic States the corresponding figures are on the EU's level: **in Latvia – 43%, in Estonia – 49% and in Lithuania – 39%**.
- Totally, 47% of Europeans think that globalisation is a good thing and 21% disagree; as to migration, 39% think migration into their country is a good thing while 33% do not. (3)

The general level of welfare among the EU member states differs drastically. Comparing GDP per capita, the figures ranged between 45% of the EU average in Bulgaria to 263% in Luxembourg; only in eleven EU states the level of GDP per capita is above the EU average.

As to households' material welfare, in six EU states the indices are 30% below the Union's average.

As to the households' material welfare (measured by actual individual consumption indices), the Baltic States are more than 30% below the EU average; Lithuania is a little bit better, i.e. about 20% below.

Implementation of the EU treaties' provisions is not an easy obligation for the member states.

In its monthly package of infringement decisions, the European Commission describes legal action against the states for failing to comply with their obligations under EU law. These Commission's actions (covering various sectors and EU policy areas), aim to ensuring the proper and unified application of EU law among European states.

In monthly "reviews", the Commission also closing numerous cases in which the controversies with the member states have been solved without the Commission's further legal actions. (4)

Bottom-line: people in most European states think that life is generally “fair”. However, in numerous states citizens have some concerns over income inequality, justice, political decisions, etc. Particularly different opinions are among the citizens in the Baltic States; there are reasons to believe that politicians in the Baltics would take European analysis seriously.

## Notes and references

1. See: <https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/what-makes-fair-society-insights-and-evidence>
2. On the Pillar, see: [https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights\\_en](https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights_en)
3. More information on countries’ situations in:
  - Eurobarometer, Report and Country Factsheets in: <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/survey/getsurveydetail/instruments/special/surveyky/2166>
  - Joint Research Centre Factsheet;
  - Joint Research Centre Fairness Report 2017;
  - [http://europa.eu/rapid/press-release\\_IP-18-3427\\_en.htm](http://europa.eu/rapid/press-release_IP-18-3427_en.htm)
  - Latvian version in: [http://europa.eu/rapid/press-release\\_IP-18-3427\\_lv.htm](http://europa.eu/rapid/press-release_IP-18-3427_lv.htm)
4. More on the EU infringement procedures consult the register in: [http://europa.eu/rapid/press-release\\_MEMO-18-1444\\_en.htm?locale=en](http://europa.eu/rapid/press-release_MEMO-18-1444_en.htm?locale=en)

## 2.2. Latvian narrative challenges: political, economic and social aspects

*In the years to come, Latvia has to find out the ways to integrate the EU political and economic priorities into national growth strategies, designing so-called sectoral narratives. Such integration into national development structures should cope with the available resources (natural, human and financial, particular in view of possible reduced EU’s financial assistance) and new achievements in global and European science, technology and innovations.*

*In the narrative, the Latvian socio-economic development is analysed, providing ground for re-assessment of economic and social progress, including such spheres as internal/external trade, competitiveness and reforms in the labour market.*

*Besides, perspectives in “social entrepreneurship”, social standards and social rights can have a profound effect on Latvian strategic narrative. However, behind all the expected changes, there is a need to “make a united political ground”, i.e. political will to prioritise Latvian budget’s resources on most perspective growth directions, which shall aim at making Latvian people happy.*

### 2.2.1. Latvian political economy: background for a new narrative

Among new approaches to Latvian political economy are main strategic principles with added managerial techniques. Such principles, would take into account European/global trends and challenges with careful evaluation of available national resources (both human and natural) in view of improving sustainable development possibilities.

Thus, **first** *Latvian political economy’s principles should be oriented towards human capital as the most vital national resource. Creative human activity is going to become an essential impulse in development, referring both to cultural/artistic professions and those in socio-economic spheres.*

Future Latvian growth is based on all sorts of “creative activities” aimed at creating commercial goods and services with substantial added value based on new science, technology and innovations. Together with the EU’s “corrective directions”, the effect of *globalisation* is going to be even more profound for Latvian development. Already apparent advantages of

globalisation – due to free trade, reduced isolation, growth of investment flows, faster expansion of employment opportunities, etc. – are seen to be generally beneficial for Latvia. Besides, the EU-2020 strategy has made already some orientations for Latvian development towards smart, inclusive and sustainable growth.

Latvian political economy, in the form of a new narrative, is aimed at resolving another important task: to adapt Latvian development to the European/global challenges while analysing long-standing effects of the 4<sup>th</sup> industrial revolution, e.g. mostly including digitalisation.

**Second**, *Latvian political economy's principles* should be oriented towards creating “**combined integrative solutions**” involving economic, environmental and social aspects in national development. Two lines of cooperation shall be taken into account in this regard: a) *horizontal cooperation*: among cities, public institutions and civil society to solve jointly urgent problems; and b) *vertical cooperation*: among national-wide, regional and local authorities providing opportunities for more efficient decision-making with better solutions. To ensure flexible and prompt response to new challenges, all institutional, entrepreneurial and academic circles shall participate in creative cooperation.

**Third**, *Latvian political economy's principles* shall be aimed at creating a more **active public participation** from all walks of society in finding optimal solutions, like a specific “policy advisory system – PAS”.

**Fourth**, *Latvian political economy's principles* shall be directed towards increased role of **education** as a fundamental part in creating an **innovative, sustainable and efficient economy**, for example in implementing renewable and safe energy solutions. In some spheres of socio-economic development, Latvia is already on a better “average position” among other EU states: thus green gas emissions are lower than in the EU, the share of renewables in Latvian gross final energy consumption is almost double the EU's average, the level of education in Latvia is higher than generally in the EU, etc. Latvia has adopted the country's strategy to 2030, with the guiding principles towards diversification in development, in science and culture; it has just to be amended according new tendencies. (1)

### 2.2.2. Latvian external trade policy: perspectives

Latvian global trade position has slightly declined recently with a drop by five positions in global competitiveness (from 44 to 49); this situation does not really attract foreign investors. (2)

In another – “global complexity” index – Latvia occupies 38<sup>th</sup> place out of 82 countries in the world ranking. (3)

Latvian Central Statistical Bureau showed at the end of 2017 that the country's foreign trade turnover reached € 2.31 billion, which was 10.3% more than in 2016; with the increase of exports of goods by 9.7% and imports of goods by 10.9%. However, balance of trade is still negative: Latvia exported goods by about € 1.07 billion, and imported goods in the amount of about € 1.24 billion. (4)

Quite notable that in *four main export items* during 2016–2017, there were substantial increases:

- 1) In export of base metals by €28.9 million or 43.3% (it seems that export growth is due to re-export of metals from outside Latvia);
- 2) In export of manufactured foodstuffs by €32.9 million or 37.8%;
- 3) In export of sawn wood and articles of wood by €27.4 million or 18.8%; and
- 4) In export of chemical products and allied industries by €12.7 million or 18.2%; however, exports of vegetable products was down by €21.8 million or 17.8%. (5)

Changes in import during 2016–2017 have been also significant showing dependence of Latvian economy from outside supplies in *four main categories*:

- 1) Import of chemical and allied goods was up by €28.3 million or 28.1%;
- 2) Import of prepared foodstuffs up by €24.7 million or 23.7%;
- 3) Import of machinery, mechanical appliances and electric equipment up by €18.9 million or 8.0%; and
- 4) Import of base metals by €13.1 million or 13.7%; however, imports of vehicles, aircraft, vessels and associated transport equipment was down by €6.0 million or 5.7%.

Main Latvian export partners are countries in the EU: *Lithuania* (16.0% of total exports), *Estonia* (11.3%), *Germany* (6.7%) and *Sweden* (6.2%), whereas the main import partners are: *Lithuania* (18.3% of total imports), *Germany* (11.4%), *Poland* (8.9%) and *Estonia* (7.4%). Russia is still the main partner in trade with outside EU states: its share in total Latvian exports accounts for about 10 per cent and imports for 7.4%.

Big share of machinery in Latvian export shall not be deceiving, i.e. it is generally re-export while collecting VAT. Quite worrisome is still growing share of wood export (presently at over 17% of total export), which just represent an export of natural resources without creating additional value. In order to allocate financial support for Latvian perspective growth, there are for the 2014–2020 period two main sources: national (about €1,27 billion) and European – about €5.63 billion). It is up to Latvian political economy's decision-making to prioritise available resources. (6)

New aspects in labour issues are going to affect Latvian growth strategy. Changes in the labour market structures in the western world, both in the US and EU need to be taken into consideration in modern political decisions. Old labour market model with constant individual employment for years has apparently gone for good. Thus, about half the jobs created in Europe during last decade are in the category of “time-limited”, which means that employment is either flexible and/or for certain project or “problem-solution”.

Besides, it is becoming vital for new job-seekers to have either a very special (needed at that period) or general higher-grade education certificate. But even the latter is not a remedy for finding a good-paid job, which has been a certain thing for employees some decades ago. For example in the US and other western states so-called “freelance-employment” has been already a common place for decades as a so-called “new normal”. (7)

It is worrying that long-standing combination of fast-employment and necessary high education is fading away: the social stability is disappearing slowly with damaging consequences for already weak trade unions and shrinking middle-class. Thus, the whole welfare “construction” in a western society is becoming quite vulnerable. Then, there are approaching “threats” of robotics and artificial intelligence, which most probably would reduce the existing workforce even further on and in its turn would only multiply social uncertainties. (8)

### 2.2.3. European labour market and Latvia: differences abound

In 2016, average hourly labour costs in the whole economy (excluding agriculture and public administration) were estimated to be €25.4 in the EU-28 and €29.8 in the euro area.

However, average figures only hide significant gaps among the EU states: thus, *lowest hourly labour costs* recorded in *Bulgaria* (€4.4), *Romania* (€5.5) and *Lithuania* (€7.3); *highest* are in *Denmark* (€42.0), *Belgium* (€39.2), *Sweden* (€38.0), *Luxembourg* (€36.6) and *France* (€35.6).

Job remuneration is still 4–5 times lower in the Baltic States than in the Nordic States. (9)

Hourly labour costs between 2015 and 2016 increased by 1.6% in the EU-28 and by 1.4% in the 19 states of the eurozone states; within the euro-zone area, the largest increases were recorded in the Baltic States: **Lithuania** (+7.5%), **Latvia** (+6.4%) and **Estonia** (+5.6%). The only decrease was observed in *Italy* (–0.8%), while hourly labour costs remained nearly stable in *Malta* (+0.0%), the *Netherlands* (+0.1%) and *Belgium* (+0.2%).

For other EU states (outside the eurozone) in 2016, the largest rises in hourly labour costs were registered in Romania (+12.7%) and Bulgaria (+7.8%), and the smallest increases in the United Kingdom (+1.5%) and Denmark (+1.9%).

There are some wages' differences in economic sectors: in industry, labour costs per hour were €26.6 in the EU-28 and €32.6 among the 19 euro area states, in services €25.8 and €28.7 respectively and in construction €23.3 and €26.1.

In non-business economy (excluding public administration), labour costs per hour were €26.6 in the EU-28 and €29.7 in the euro area in 2016. Labour costs are made up of wages & salaries and non-wage costs such as employers' social contributions. The share of non-wage costs in the whole economy was 23.9% in the EU and 26.0% in the euro area, ranging from 6.6% in Malta to 33.2% in France.

For the EU's richest eight states and 19 euro-zone countries, labour costs in the business economy accounts for about 76% of the labour costs of the whole European economy. These labour costs can be further broken down into:

- **Industry**, which includes: mining and quarrying; manufacturing; electricity, gas, steam & air conditioning supply; water supply, sewerage, waste management and remediation activities. Industry accounts for around 22% of the whole economy.
- **Construction**, which accounts for around 6% of the whole economy.
- **Services**, which include: wholesale and retail trade, repair of motor vehicles & motorcycles; transportation & storage; accommodation and food service activities; information and communication; financial & insurance activities; real estate activities; professional, scientific and technical activities; Administrative and support service activities. Services account for around 48% of the whole economy.

The mainly non-business economy (except public administration) for the EU and euro area accounts for about 24% of the labour costs of the whole economy. It includes: education; human health and social work activities; arts, entertainment and recreation, etc. service activities.

*Wage and salary costs* include direct remunerations, bonuses, and allowances paid by an employer in cash or in kind to an employee in return for work done, payments to employees saving schemes, payments for days not worked and remunerations in kind such as food, drink, fuel, company cars, etc.

*Non-wage costs* include the employers' social contributions plus employment taxes regarded as labour costs less subsidies intended to refund part or all of employer's cost of direct remuneration. (10)

Unstable labour market's conditions already present great concern for politicians, i.e. in the changing electorates; in most states present constituencies are mainly composed of the 50-after age groups, which are under growing employment pressures. The effect of such "political uncertainty" for governing elites has been seen in the outcome of completely "unpredictable" national elections, e.g. in the US, France, etc. However, they have been unpredictable only for those who ignored the changes in the modern labour markets: it has been evident for many the political effect of reducing middle class as a result of globalisation.

The problem for Nordic states seems even more acute and socially dangerous: the welfare model is being built – among other factors – on the middle class "accord" with the elites in sustaining high tax policy situation. But changes in the middle class structures, which are inevitable, might reduce the "accord" while leading to social unrest and growing nationalism.

Ways out are numerous: for example, in "creating" new and courageous politicians with a good vision of far-reaching consequences of present decisions: first of all, in education and training to provide a future work force for mostly unknown to politicians sectors of economic



development that are expected to provide growth in 20–30 or 50 years to come. The main problem for modern politicians is the appearance of a “new generation”, which is the outcome of a wide-spread digital revolution. The new political agenda concerning labour market will need a strong public support: hence the policy has to be very clearly and simply explained to the wide-public.

And so are the challenges for business community: labour market is presently split into two main parts – private and public “business”. Taking aside the procurement issues, the division is constantly in favour of a “public” part, in line with the EU “social market economy” model; in the Nordic states it has become already “very public”.

However, generally unknown trends in future national “structural policies” (i.e. those industrial and services’ sectors that would provide growth in future) do not entail security in the future employee-employer relationship, which is fundamental for social stability. Future labour force (present students in colleges and universities) should know where and how they are going to be employed; so far youth unemployment is the greatest headache for politicians in the EU and the Baltic States.

#### **2.2.4. EU guidance for competitiveness in Latvian political economy**

European Commission, in its Directorate General (DG GROW) for economic growth has formulated the “common” European growth priorities for the member states; there are presently two main priorities:

- 1) **Digital Single Market** with such ideas as:
  - a) Removing existing online barriers that deteriorate consumers’ cross-border opportunities in trade;
  - b) Supporting European standards for ICT and improving the quality and affordability of parcel delivery services across the EU; and
  - c) Facilitating legislative proposals for establishment of free flow of data within the Digital Single Market.
- 2) **Resilient Energy Union with a forward-looking sustainability policy** with:
  - a) Helping European businesses and consumers in transition to a stronger and more circular economy where resources are used in a more sustainable way;
  - b) Turning waste into opportunities, creating new markets, boosting competitiveness and innovation and improving products’ energy efficiency;
  - c) Contributing to the European-wide Integrated Strategy on Research, Innovation and Competitiveness; and
  - d) Managing the European Innovation Partnership (EIP) for raw materials to support innovation and jobs. (11)

As to the member states industrial development, the EU legislation (e.g. art. 173 TFEU) stipulates that the Union and the member states shall ensure that “the conditions necessary for the competitiveness of the Union’s industry exist” with coordinated measures. For that purpose, in accordance with a system of open and competitive markets, the EU-member states’ actions shall be aimed at:

- Speeding up the adjustment of industry to structural changes;
- Encouraging an environment favourable to initiative and to the development of undertakings throughout the Union, particularly SMEs;
- Encouraging an environment favourable to cooperation between undertakings;
- Fostering better exploitation of the industrial potential of policies of innovation, research and technological development, and

- Benchmarking and exchange of good practices are proposed as specific activities undertaken by the Union within its competences.

EU's coordinating activities in the member states' economies is delivered by the DG-GROW; in its areas of competence the DG co-ordinates such policies as that of the single market, industry, competitiveness, SMEs, industrial sectors and services, professional qualifications, entrepreneurship, intellectual property rights, public procurement, corporate social responsibility, enterprise innovation policies, space, defence and raw materials. The Commission's DG also reviews economic performance of the EU states and formulates country specific recommendations in the European Semester, including the Annual Growth Survey.

During 2014–2020, the DG GROW will use about **€16 billion** to implement the following programmes:

- For **Competitiveness of Enterprises and SMEs** (so-called COSME), which has a budget of **€2.3 billion** to help enterprises access finance and markets, to promote entrepreneurship, and to support favourable conditions for business creation and growth;
- For **Research and Innovation** (so-called Horizon 2020 programme), which includes activities for space, raw materials, and innovation in SMEs, with a budget of **€2.3 billion**;
- For **Satellite Navigation and Galileo/EGNOS**; the programme has a budget of **€7.1 billion**;
- For **Global Earth Observation** (so-called Copernicus programme), with a budget of **€4.3 billion**.

Already in 2015, the Commission launched a *specific investment plan*, so-called European Fund for Strategic Investments (EFSI), with the aim of mobilising at least €315 billion up to 2020. The plan is already helping businesses in the member states in investment and economic growth. A preliminary analysis of investment obstacles in each EU state confirms that there is a great deal of diversity in investment patterns and barriers to investment. The structural reforms in the European Semester's Country Reports and Country Specific Recommendations contribute to improve the investment environment by fostering structural reforms.

### **2.2.5. Modern complex social problems: robotics, basic income and safety nets**

EU states and global economies are already facing labour problems: in various states angry workers denounce both a shortage of jobs and low wages. Being able to replace millions of humans, robots already appear to be a threat to workers. Then, there is an issue of the basic income: the idea attracts attention while providing potentials for a universal social safety net.

European "Social Summit for Fair Jobs and Growth" (November 2017, Sweden) concluded the second stage of European states' efforts to find a solution to urgent labour market's issues. For example, in 2016, just below 40% of employed people in the EU were in non-standard employment or self-employed, half of whom are at risk of not having sufficient access to social protection and related employment services. (12)

In the modern changing labour market, new forms of work are emerging and people change more frequently between jobs and employment statuses. The share of *non-standard employment* and self-employment is increasing in the labour market, especially among young people. Due to their employment status, persons in non-standard employment and self-employment have insufficient access and are, as a consequence, exposed to higher economic uncertainty and lower protection against social risks. Making the most of the present trends, European Commission addressed social partners in the member states to cooperate in wider public consultations towards necessary changes in the work of public authorities, in corporate management, in self-employed people's protection, in the role of trade unions, etc. (13)

Leading economists in the world have already noticed all sorts of robotics and automation's threats to employment. Global political elites at the 2016-Davos Economic Forum underlined in the 4<sup>th</sup> industrial revolution's analysis that robotics, big data and artificial intelligence would have a tremendous effect on socio-economic models.

Already at the end of last century, robotic become a major issue: thus, studies in the US have "quantified" large, direct and negative effects of robots used in manufacturing. According to the US researchers, for every robot per thousand workers, up to six workers lost their jobs; wages already presently fell by about three-fourths of a per cent. The researchers argued that it was likely that increased automation would create new, better jobs, so employment and wages would eventually return to their previous levels. Just as cranes replaced dockworkers but created related jobs for engineers and financiers, the new technology has created new jobs for software developers and data analysts. The effect of industrial robots in local labour markets in the US has shown that robots have led to about 670 000 lost manufacturing jobs between 1990 and 2007; and that "lost figures" would rise because industrial robots are expected to quadruple. (14)

### 2.2.6. Basic income's issue and low-wage

As a concept, basic income has been discussed for centuries, gaining adherents across a strikingly broad field of ideological spectrum, from the British philosopher Thomas More and the American revolutionary Thomas Paine to the civil rights' combatant Martin Luther King Jr., and the liberal economist Milton Friedman, to name a few. They all would agree both on a "small version" and general ideas of basic income.

Besides, recently even the International Monetary Fund, which is far from any utopian ideas, explored the basic income's issue as a potential instrument to reduce economic inequality. (15)

The globalisation reality shows that bargaining rights for workers (as well as collective agreements in numerous states) are reducing with great advantages for corporations. In a new global economic order, working people are at the mercy of their employers, as trade unions are losing influence and attraction. Companies in growing numbers are relying on temporary and part-time workers while deploying robots and other forms of automation: it allows them to produce more without paying extra.

Globalisation has intensified competitive pressures among various parts of the world, e.g. connecting factories in Asia to customers in Europe and North America. However, in the Northern European states, e.g. in Norway and Germany, modest pay raises are the results of "coordinative bargaining" between labour unions, governments and employers to keep costs low to bolster industry. That has put pressure on Italy, Spain and other EU states to keep wages low so as not to lose orders.

This trend also reflects an influx of dubious companies staffed by immigrants who receive wages well below prevailing rates, undermining union power.

Attractive Nordic development model places social harmony first where jobs that require specialised, advanced skills are growing along low-paying and low-skill jobs with the positions in between being under perpetual threat. New approaches to social market economy in EU are expected to accelerate adjustments, i.e. the restructuring away from *goods producing jobs* and more into the *service sector*; as many of those who lost jobs and went back to work landed in jobs that pay less. (16)

The idea of universal basic income is gaining attention in many countries as part of the ideas to "soften the edges" of capitalism. The details and philosophy vary from state to state; but the general notion prevails, i.e. governments send regular checks to everyone, regardless of income or whether people are working at all ensuring that food and shelter is available for all (without expensive public support services).

In some countries economists' position is that basic income is a way to let market forces "work their ruthless magic" in delivering innovation and economic growth, while laying down a cushion for those who fail. In others, basic income is approached as a means of liberating people from wretched, poverty-level jobs, allowing workers to organise for better conditions or devote time to more creative works. Some still see it as the required response to an era in which work can no longer be relied upon to finance basic needs.

Advocating universal social safety net, it is important to see that basic income gives increasing precariousness of employment with the workers decreasing their willingness to work. However, the universal basic income's idea is gaining momentum: e.g. in 2017 Finland started a two-year national experiment in basic income. (17)

Examples are numerous: Canadian province Ontario is enrolling participants for a basic income trial; several cities in the Netherlands are exploring the results of establishing unconditional "handing-cash-out" grants to people already receiving some form of public support. (18)

There are opponents to the basic income idea: conservatives fret that handing out money free of obligation will turn people into dole-dependent slackers. Thus, in the US, any talk of a universal basic income collides with arithmetic: giving every American \$10 000 a year (a sum still below the poverty line for an individual) and the national economy's losses would run to \$3 trillion a year, which is about eight times what the US now spends on social service programmes.

Labour-oriented economists in the US are saying that the national social safety programmes have been significantly trimmed in recent decades, with welfare, unemployment benefits and food stamps all subject to a variety of restrictions. If basic income were to replace these components as one giant programme it might beckon as a fat target for additional budget trimming and tens of millions of poor people would likely end up worse off, said experts from the US Center on Budget and Policy Priorities. But the US political culture is not like the one in Western Europe, they argue; hence the universal basic income's idea has no real possibility in the US. (19)

The general presumption is that people want to work, they do not want handouts; thus some experiments with the basic income in various countries are trying to encourage people to work while limiting their options to public assistance. For example, Finland is trying to give jobless people the same amount of money they were already receiving in unemployment benefits, while relieving them of bureaucratic obligations. The idea is that people will use time to train for better careers, start businesses, or take part-time jobs rather than wasting time in submitting paperwork.

Basic income in modern time is being advanced not as an option to slip from employment but as a means of enhancing the forces of creative nature in human soil: once primary necessities are at place, the companies can be use their capital and talented jobs for more productive ventures.

The trials in the Netherlands, conducted at the municipal level, are similarly geared to paring bureaucracy from the unemployment system. Silicon Valley has embraced basic income as a crucial element in enabling the continued rollout of automation. While engineers pioneer ways to replace human labourers with robots, financiers focus on basic income as a replacement for paychecks. (20)

Note: one key element of the basic income push is the assumption that poor people are better placed than bureaucrats to determine the most beneficial use of aid money. Rather than saddle recipients with complex rules and a dizzying array of programmes, better to just give people money and let them sort out how to use it. (21)

From a political standpoint, basic income idea appears to have found its momentum. On one side, there is an anxiety to “combine working poor” with those of the wealthy; on another, still growing inequality on all fronts giving the elites some potentials of “wielding pitchforks”.

Interest to the basic income’s issue is exploding all over the world; the expected outcomes seem to be extraordinarily fertile for new approaches to universal social safety net ideas, which could be important for the Baltic States and Latvia too. (22)

#### 2.2.6.1. “Adequate wage” issue

Economists in the world are worried about persistently weak wage growth: even in reach Norway, global forces are exposing growing numbers of workers to new forms of competition that limit pay. The threats are evident: immigrants from Eastern Europe are taking jobs while temporary positions are increasing; theoretically, Norwegian workers are insulated from such forces: under Norway’s system of wage negotiation (which is common to all Nordic states), trade unions, which represent more than half of the country’s work force, negotiate with employers’ associations “collective agreements” on general tariffs to cover average pay across industrial sectors. As companies become more productive and profitable, workers capture a proportionate share of the spoils.

Employers are supposed to pay temporary workers at the same scale as their permanent employees. In reality, fledgling companies have captured slices of the construction industry, employing Eastern Europeans at sharply lower wages. Some firms pay temporary workers standard wages but then have them work overtime without extra compensation: trade unions complain that enforcement is patchy. (23)

Some experts warned about impossibility stopping “an entangled” global structures. They argue that people are not simply connected; they are entangled and their lives are intertwined. Events occurring in distant global corners in China or Indonesia, the things that happened in India, in Europe, in Americas, in Africa and Latin America will affect all people in the world, often in dramatic new ways. Thinking that people can forge their future in an insular way is a fantasy. Hence, governments need to make socio-political “choices” to ensure that globalisation and connectivity are sustainable and that they can find solutions to intractable problems that are worrying them. (24)

#### 2.2.7. EU “social standards” in Latvian political economy’s narrative

Commission’s new ideas of “social standard union” have been discussed for about three years with the member states’ trade unions and employers’ organisations, which showed support to social protection for people in various employment schemes and self-employed. That means, a new – “social standards union” – is under establishment with certain consequences for Latvian social issues as well.

Present Commission has made a priority of creating a fairer and more social Europe: the intention was reflected in the political guidelines of July 2014. Then in September 2015, Commission President in his first State of the Union underlined that the EU and the states had “to step up” work for a pan-European labour market. The European Pillar of Social Rights was supposed to be an integral part of these efforts to take into account the changing EU’s social realities and global labour situation. The Commission’s Pillar of Social Rights (in a form of recommendation), became effective from April 2017.

Presently, the EU states’ national social systems remain diverse and generally separate; therefore, in order to avoid social fragmentation and social dumping in Europe, the EU member states should adhere to the European Pillar of Social Rights’ principles.

It is a necessity that corresponding EU social institutions and bodies, as well as those in the member states should work for a unique *European Social Standards Union*, in which the states and EU institutions agree on what constitutes a socially fair EU, involving all employment structures. (25)

### **2.2.8. European social rights' pillar as a background for a new EU "social union"**

In order to make a new "social standards union" a reality, the member states and Latvia have to take practical steps in implementing European Pillar of Social Rights, proclaimed at the Social Summit in Gothenburg in the autumn of 2017.

The new system of labour relations is aimed at providing protection for workers regardless of the type of jobs involved. In the new "world of work system", all workers need to have access to social protection, whether they are employed with standard contracts, new types of contracts or self-employed. European Commission wanted the member states to establish sustainable, adequate and fair social protection systems.

It is the EU states' obligation to cover every worker with some social protection schemes often based on workers' contributions. Such a system is important to make sure that the social protection systems is adequate, sustainable and in respect of inter-generational fairness in the EU states. The "world of work system" is changing fast: suffice it to say that already in 2016, about 40% of employed people in the EU were in non-standard employment or self-employed; however, half of them were at risk of not having sufficient access to social protection and related employment services.

Present situation in the labour market is characterised by quick changes, by new forms of contracts and working conditions are emerging, people move and change more frequently their jobs- and employment-statuses. The share of non-standard employment and self-employment is increasing in the labour market, especially among young people. Nowadays, due to their employment status, persons in non-standard employment and self-employed are not sufficiently secured; as a consequence, they are exposed to higher economic uncertainty and lower protection against social risks.

The Commission supports access to social protection on the basis of contributions from all people in line with the relevant principles of the European Pillar of Social Rights. The Pillar is making the European "social market model" adequate to social needs and future-proof for inter-generational fairness. (26)

Common efforts of all EU states in implementation of the European Pillar of Social Rights are based on the presumption that social issues are *the shared responsibility* between the EU institutions and the member states. From the side of the EU, the Commission presented several legislative proposals to implement the Pillar, including a recent proposal to improve the work-life balance of working parents and relatives. The Commission also launched two social partner consultations: one to modernise the rules on labour contracts, and another one on access to social protection for all. During April-June 2017, social partners have had the occasion of expressing their views on both topics. Then, during September-November 2017, a second stage on modernising the rules on labour contracts went on.

The ideas of the European-wide social rights' pillar and a new "social union" are quite perspective: the EU integration definitely forms a background for social protection for all kind of "workers". Social security network involves all citizens and wide population in the member states. Besides, the idea of implementing "social union" in the member states shall include both political and economic decision-making. For Latvian government it could provide some problems. On the *political side*, it is about adopting the national development model with the



trend to social security; on the *economic side* – the desire and real intention to devote a bigger share of national budget for social needs and ultimately, for people’s wellbeing.

In this regard, “common efforts” are simply not quite enough: the main stumbling block is still there, i.e. existing big differences in wages among the member states. For example, Latvian doctors lose incentives to stay in the country as wages in Germany are 4–5 times higher. Besides, unemployment benefits are inadequate among the member states: e.g. having a residence status in France, a Latvian worker can get 3–4 times higher remuneration than at home.

Thus, the idea of creating a new “social standards union” might sound good enough, but there are quite a few existing conditions to deliver. Member states need good expert advice on practical introduction of such “standards” in so different – in the quality of life – EU member states. (27)

### **2.2.9. People’s happiness as a socio-economic category in Latvian governance**

Happiness is becoming an important factor in socio-economic development, as it is determined by such factors as personal income, employment, quality education, health and family life, etc. World Happiness Report-2017 makes analysis of 155 countries’ development by referring to a specific “happiness index”, which – as a new dimension in economic policies – includes such determinants as freedom, generosity, honesty, education, health, income and good governance.

In this way, the *World Happiness Report*, *WHR* provides a landmark survey of the “state of global happiness”.

The *WHR-2017*, which ranks 155 countries by their happiness levels, was released at the end of March 2017 at an event celebrating International Day of Happiness. The report, the fifth since 2012, continues to gain global recognition as governments, organisations and civil society increasingly use happiness indicators to inform their policy-making decisions. (28)

The head of the UN Development Program (UNDP) once argued against so-called “tyranny of GDP”, mentioning instead the importance of “quality of growth” in national strategies. Therefore, paying more attention to happiness should be part of Latvian efforts to achieve not only sustainable but socially adequate and happy growth. Decision-makers in Latvia have to deal with one vital question: how do happiness’ factors, in particularly, income inequality, fit into national narrative and growth strategy? In this regard, the “life satisfaction” factor has to be the leading parameter in national plans followed by income issues, employment and partnership, physical and mental health. Remarkable, that Thomas Jefferson in 1809 underlined that “the care of human life and happiness ... is the only legitimate object of a good government”. (29)

### **2.2.10. European “leaders in happiness”: Baltic States can emulate the Nordic system**

The ultimate aim of any country’s economic and social development is make its citizens happy. During last five years advanced states have taken “happiness index” as a vital parameter in national growth. There are six key variables in approaching to happiness being different among countries and through time; they are: income, healthy life expectancy, having someone to count on in times of trouble, generosity, freedom and trust, with the latter measured by the absence of corruption in business and governance.

Happiness can be both *social and personal*; the 2017-Report emphasised the importance of the social foundations of happiness, i.e. through “public aspects” in happiness. Among these foundations, on one side, are: generosity, a sense of freedom, and freedom from corruption; on another side, GDP per capita and healthy life expectancy.

The *WHR-2017* acknowledged that most of the variance of happiness occurs within the countries: in richer countries internal differences are mainly explained by differences in mental and physical health and personal relationships rather than by income inequality, with the

biggest single source of misery as mental illness. In poorer countries income differences matter more; however, mental health was a major source of misery too alongside having good jobs.

Work is a major factor affects happiness all over the world; unemployment causes a major fall in the perception of happiness; even for those in work the quality of work can cause major variations in happiness. Still, major *six* “*happiness-factors*” are: GDP per capita, healthy years of life expectancy, social support (measured by having someone to count on in times of trouble), trust (measured by a perceived absence of corruption in government and business), perceived freedom to make life decisions, and generosity (measured by ability of donations). (30)

Among happiest countries in the world are Nordic states with Norway on the first place (being on the fourth in 2016), followed by Finland, Denmark and Sweden. The WHR-2017 delivers a vital outcome: to reach high rank in happiness, a country needs high levels of mutual trust, shared purpose, generosity and good governance; these factors helped Norway and other “top-happy states” at the high level in happiness rankings. All other countries in the top ten also have high values in above mentioned six key variables used in progressive governance. There has been some shuffling of ranks among closely grouped countries: in the WHR-2018 rankings Finland is placed on 5<sup>th</sup> place, followed by the Netherlands, Canada, New Zealand, Australia and Sweden covering the first ten states. These countries were having almost the same positions during 2014–2016. Thus, three Nordic states – Norway, Denmark, Finland and Sweden are among the 10 best in the world: good example in governance to emulate for the Baltic States and Latvia! (31)

There are some social and personal aspects in “happiness”: global analysis emphasised the importance of the social foundations of happiness, which can be seen by comparing the life experiences between the top and bottom ten countries in 2017-happiness rankings. There is a four-point happiness gap between the two bottom-top groups of countries, of which three-quarters is explained by the six variables, half due to differences in having someone to count on, generosity, a sense of freedom, and freedom from corruption. The other half of the difference is attributed to GDP per capita and healthy life expectancy, both of which also depend importantly on the social context.

However 80% of the variance of happiness across the world depends on countries’ policies: in richer countries the differences are not mainly explained by income inequality, but rather by differences in mental and physical health and personal relationships: the biggest single source of misery is mental illness. Income differences matter more in poorer countries, but even there mental illness is a major source of misery.

Work is also a major factor affecting happiness: unemployment causes a major fall in happiness, and even for those in work the quality of work can cause major variations in happiness. The USA is a story of reduced happiness: in 2007 the USA ranked 3<sup>rd</sup> among the OECD countries; in 2016 it came at the 19<sup>th</sup> place. The reasons are declining social support and increased corruption and it is these same factors that explain why the Nordic countries do so much better. (32)

## Resume

*Most important growth pattern in the Latvian narrative is about socio-economic factors. Revealing main Latvian political economy’s principle makes it understand the basics of progressive national development aimed at:*

- a) Creative human activity;*
- b) Combined integrative solutions involving economic, environmental and social aspects in national narrative;*

- c) *Active public participation from all walks of society in national decision-making, and*
- d) *Creating an innovative, sustainable and efficient economy strategy.*

*Implementing these principles would contribute to positive balance in Latvian trade and increase competitive potentials in Europe and around the world.*

*The EU assistance for supporting Latvian competitive sectors is huge: thus during 2014–2020, the Commission would use about €16 billion to implement some innovative programmes: e.g. SMEs' competitiveness (so-called COSME program), with a budget of €2.3 billion to help enterprises access finances and markets, to promote entrepreneurship, and to support favourable conditions for business. Another EU programme is for research and innovation, so-called Horizon 2020 programme including innovations in SMEs, with a budget of €2.3 billion. Latvian authorities can use these opportunities to facilitate national competitiveness.*

*Important aspect in the narrative is Latvian labour market analysis: labour issues already present great concern for politicians: i.e. the appearance of a “new work-force generation”, as an outcome of a wide-spread digital revolution and flexible employment agreements. Reforms in education shall involve evolutionary trends in the labour market.*

*Another issue is social standards and social rights: Commission's recent ideas of “social standard union” means that a new “union” would have certain consequences for Latvian social issues too. In the new system of labour relations protection for workers regardless of the type of jobs involved is vital. In the new “world of work system”, all workers need to have access to social protection, whether they are employed with standard contracts, new types of contracts or self-employed.*

*Hence, Latvia has to establish sustainable, adequate and fair social protection system.*

*Finally, important part of social issues in the new national “centennial narrative” shall be the introduction of happiness index in Latvian growth strategy.*

*It is generally recognised that the GDP per capita index do not reflect the real growth in a country: against so-called “tyranny of GDP”, the importance of “quality of growth” in national strategies is taken into account. Therefore, paying more attention to happiness should be part of Latvian efforts to achieve not only sustainable but socially adequate and happy growth. Decision-makers in Latvia have to deal with a vital issue: including happiness' factors, in particularly, income inequality, into national narrative and growth strategy.*

*In this regard, the “life satisfaction” factor has to be the leading parameter in national plans followed by income issues, employment and partnership, physical and mental health.*

## Notes and references

1. LV 2030. In: [http://www.pk.gov.lv/sites/default/files/image-legacy/LV2030/LIAS\\_2030\\_en](http://www.pk.gov.lv/sites/default/files/image-legacy/LV2030/LIAS_2030_en)
2. More on global competitiveness index see: <https://www.weforum.org/reports/the-global-competitiveness-report-2016-17-1>
3. Additional information is in the following web-links: <http://atlas.cid.harvard.edu/ranking> and <https://atlas.media.mit.edu/en/profile/country/lva/>
4. Source: <https://atlas.media.mit.edu/en/profile/country/lva/>
5. “Statistics-Latvia”. In: [http://www.baltic-course.com/eng/analytics/?doc=135825&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=135825&ins_print)
6. More on trade statistics see: [http://data.csb.gov.lv/pxweb/en/atirdz/atirdz\\_\\_isterm\\_\\_atirdz/?rxid=cdbc978c-22b0-416a-aacc-aa650d3e2ce0](http://data.csb.gov.lv/pxweb/en/atirdz/atirdz__isterm__atirdz/?rxid=cdbc978c-22b0-416a-aacc-aa650d3e2ce0)
7. See comments in the Danish daily editorial: “Politiken”, 20 February 2017.
8. See the consequences of the 4<sup>th</sup> industrial revolution in e.g. “Davos proclaims the “fourth industrial revolution”. In: [http://www.baltic-course.com/eng/editors\\_note/?doc=16003&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=16003&ins_print)
9. The EU data cover enterprises with 10 or more employees. Total labour costs cover wage and non-wage costs less subsidies. They do not include vocational training costs or other expenditures such as recruitment costs, spending on working clothes, etc. Therefore, lowest labour costs are in Bulgaria and Romania, while the highest are in Denmark and Belgium.

10. Statistics and references to: Full text available on EUROSTAT website at: <http://ec.europa.eu/eurostat/documents/2995521/7968159/3-06042017-AP-EN.pdf/6e303587-baf8-44ca-b4ef-7c891c3a7517>; and [http://europa.eu/rapid/press-release\\_STAT-17-892\\_en.htm?locale=en](http://europa.eu/rapid/press-release_STAT-17-892_en.htm?locale=en). Brussels, 6 April 2017.
11. More on the EU's growth priorities in: [https://ec.europa.eu/info/departments/research-and-innovation\\_en](https://ec.europa.eu/info/departments/research-and-innovation_en)
12. On social protection in: <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=9001&furtherNews=yes>
13. More on social summit in: <http://www.socialsummit17.se/>
14. On US scientists' argumentation (D. Acemoglu from M.I.T. and P. Restrepo from Boston University) in: [https://www.nytimes.com/2017/03/28/upshot/evidence-that-robots-are-winning-the-race-for-american-jobs.html?\\_r=0](https://www.nytimes.com/2017/03/28/upshot/evidence-that-robots-are-winning-the-race-for-american-jobs.html?_r=0)
15. See the IMF position in: <http://www.imf.org/en/Publications/FM/Issues/2017/10/05/fiscal-monitor-october-2017>
16. On changes in labour market in: [https://www.nytimes.com/2017/10/07/business/unemployment-wages-economy.html?\\_r=0](https://www.nytimes.com/2017/10/07/business/unemployment-wages-economy.html?_r=0)
17. See Finland's experiment in: <https://www.nytimes.com/2016/12/17/business/economy/universal-basic-income-finland.html>. The US experiment in: <http://www.nytimes.com/2007/08/13/us/13stockton.html>
18. See more in: <http://www.nytimes.com/2007/08/13/us/13stockton.html>
19. The US discussion on basic income. In: <https://www.cbpp.org/poverty-and-opportunity/commentary-universal-basic-income-may-sound-attractive-but-if-it-occurred>
20. See more: <https://economicsecurityproject.org>
21. References: <https://www.nytimes.com/2017/11/15/business/dealbook/universal-basic-income.html>
22. References to: Commission Staff Working Document: 'Analytical document' accompanying the Consultation document: 'Second phase Consultation of Social Partners under Article 154 TFEU on a possible action addressing the challenges of access to social protection for people in all forms of employment in the framework of the European Pillar of Social Rights'.
23. Source: *The New York Times*, 7.10.2017, at: [https://www.nytimes.com/2017/10/07/business/unemployment-wages-economy.html?\\_r=0](https://www.nytimes.com/2017/10/07/business/unemployment-wages-economy.html?_r=0)
24. Note: globalisation and development professor at Oxford University, Ian Goldin's opinion. In: <https://www.nytimes.com/2017/01/18/business/dealbook/world-economic-forum-davos-backlash.html>
25. See more in the: Website on the European Pillar of Social Rights.
26. References and additional estimates in:  
Commission Staff Working Document: 'Analytical document' accompanying the Consultation document: "Second phase Consultation of Social Partners under Article 154 TFEU on a possible action addressing the challenges of access to social protection for people in all forms of employment in the framework of the European Pillar of Social Rights". The Commission intends to present practical steps for the member states during 2018.
27. More information in: MEMO: Delivering on the European Pillar of Social Rights, and. Reference to: Commission press release "Moving forward on the European Pillar of Social Rights: Commission seeks to promote social protection for all", 20 November 2017. In: [http://europa.eu/rapid/press-release\\_IP-17-4709\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-4709_en.htm?locale=en); Latvian version in: [http://europa.eu/rapid/press-release\\_IP-17-4709\\_lv.htm](http://europa.eu/rapid/press-release_IP-17-4709_lv.htm); and Lithuanian version at: [http://europa.eu/rapid/press-release\\_IP-17-4709\\_lt.htm](http://europa.eu/rapid/press-release_IP-17-4709_lt.htm)
28. Presenting the WHR-2017 report, world leaders recommended "redefining national growth narratives to put people's well-being at the center of governments' efforts". See more in the Report in: <http://worldhappiness.report/ed/2017/>
29. The first happiness report was published in April, 2012, in support of the UN High Level Meeting on happiness and well-being. Since then happiness was considered as a proper measure of social progress and the goal of public policy. In June 2016 the OECD committed itself "to redefine the growth narrative to put people's well-being at the center of governments' efforts".  
In February 2017, a full-day World Happiness meeting was held, as part of the World Government Summit. On the World Happiness Day in 2017 (every year, on 20<sup>th</sup> of March) the World Happiness Report was published: <http://worldhappiness.report/ed/2017/>
30. See more in the WHR-2017 executive summary in: [https://s3.amazonaws.com/sdsn-whr2017/HR17-ESv2\\_updated.pdf](https://s3.amazonaws.com/sdsn-whr2017/HR17-ESv2_updated.pdf)
31. Full report can be seen in: <http://worldhappiness.report/wp-content/uploads/sites/2/2017/03/HR17.pdf>
32. Source: Executive summary in: [https://s3.amazonaws.com/sdsn-whr2017/HR17-ESv2\\_updated.pdf](https://s3.amazonaws.com/sdsn-whr2017/HR17-ESv2_updated.pdf)

## 2.3. Creating perspective national “economic-immunity” system: circular economy

*In modern changing times, Latvian political and economic structures have to adapt to present challenges: the need to reduce unemployment and social inclusion, combat economic inequality, modernise education system, reduce “shadow economy”, etc. Besides, important trends are as well in Latvian perspective directions for growth towards sustainable and “green growth”, in circular economy patterns and in innovative industrial and manufacturing sectors.*

*These directions are in line with the EU institutions’ requirements for Latvia: therefore it feels pressures from the EU’s imposed obligations and rules concerning circular economy. Quite often these obligations are difficult to implement; however, under any circumstances, Latvian economic policy through a new narrative has to “accommodate” national growth to new trends and make national economy resilient to any future crisis while paving the way to future progress.*

### 2.3.1. Introduction

The EU “internal market, industry and SMEs” webpage refers to 32 different economy and industry sectors that are somehow regulated and/or coordinated by the EU institutions. Each of these sectors includes some kind of sustainability approaches and suggestions to “circular” policy’s guidelines. Suffice it to say that circular economy in general is within the shared EU-member states’ competence. (1)

Circular economy (CE) is mostly about saving, sharing and re-using those products and/or materials in real economy in order to economically dispose/process various kinds of wastes. Such approach is definitely good for environment, but even more for progressive economy with fewer resources involved.

CE as a new directions in economic development is, generally, good for both healthy environment and rational use of existing resources. Besides, it provides good opportunities for business, gaining profit and competition advantages, as well as for growth and export. Experts say that “mother nature” needs 1.5 years to recover “the burden” that the global economy imposes during a year; some countries are using simply too much... For example, according to British think-tank Ellen MacArthur Foundation, if states would follow the presently prevailed linear economic methods, average European family would lose about 11 per cent of income by 2030 and the whole EU’s economy will shrink by 7 per cent. (2)

Thus, changing old growth patterns into circular economy is going to increase EU member states’ economies; that means the Baltic States and Latvia need to change existing economic paradigm.

A modern state shall re-think (i.e. while changing existing development paradigm) the ways it designs, produces and consumes along circular economy lines; and the sooner the better!

Most challenging are CE’s issues for small countries, like the Baltic States with educated work force and limited resources. Main perspective is closer cooperation between public and private sectors along new CE methods and decisions with new investment opportunities. Certainly, business community and politicians have to be adequately informed along new “circular way of life”. (3)

A circular economy (CE) aims to maintain the value of products, materials and resources for as long as possible by returning them into the product cycle at the end of their use, while minimising the generation of waste. There are some other advantages: fewer products are discarded, less primary materials are used in production and safe are the nature and environment.

This CS’s process starts at the very beginning of a product’s lifecycle: with smart product design and production processes, with saving resources’ strategies, efficient waste management and, consequently, in view of creating new opportunities for business.

In European Commission publication (made by the Eurostat) on the monitoring framework in the circular economy process (with accompanying working documents), the Eurostat, the EU statistical office, has launched a new website section dedicated to circular economy reporting all the indicators of the monitoring framework, updated with latest data, as well as supporting visualisation tools. (4)

### **2.3.2. EU's circular economy strategy: effect on Latvian growth pattern**

Most of the European Union member states are at the forefront of the global transition towards a low-carbon and circular economy. This direction is a perspective opportunity to transform European and member states' economies while making them more sustainable, creating more jobs and generating competitive advantages.

The European Commission adopted a "Circular Economy Package" in December 2015; already a year later, in January 2017, it proposed an "European Action Plan" containing measures that cover the entire product life cycle. This Action Plan established concrete and ambitious programme of actions for the member states, with a timeline in its annexes by when these actions should be completed. (5)

European circular economy principles have been gradually integrated in industrial best practices, green public procurement, the use of cohesion policy funds, and through new initiatives in the construction and water sectors. The EU action plan, to be followed in the member states, covers the full lifecycle of products: from production and consumption to waste management and the market for secondary raw materials.

This transition is supported financially by the European Structural & Investment Funds (ESIF) with €5.5 billion for waste management. Additional support is provided by Horizon 2020 (EU programme for research and innovation) with €650 million directed at investments in the circular economy at the member states' level.

The aim of the circular economy package is to give clear signals to economic operators and society about the way forward. Actions on the EU level might drive investments at national level, create a level playing field and remove existing obstacles in the single market. The proposed actions should contribute to 'closing the loop' of product lifecycles through fostering more recycling and re-use and shall bring benefits to both, the environment and the economy.

This EU Action Plan is also accompanied by "monitoring instruments" to assess progress towards the circular economy in the member states. For this purpose, an indicator framework was developed: it will mostly use data which are already being collected, while undertaking necessary steps to improve the quality of these data. This indicator framework complements the "Resource Efficiency Scoreboard" and the "Raw Materials Scoreboard", which were developed in recent years by the Commission. (6)

The European Commission through the Circular Economy Package (2015) wanted to assist member states' businesses and consumers in transition to a stronger and more circular economy where resources are used in a more sustainable way. The proposed actions will contribute to "closing the loop" of product lifecycles through greater recycling and re-use, and bring benefits for both the environment and the economy. The plans will extract the maximum value and use from all raw materials, products and waste, fostering energy savings and reducing GHG (Green House Gas emissions).

The proposals cover the full lifecycle of products: from production and consumption to waste management and the market for secondary raw materials. This transition is supported



financially by the European Structural & Investment Funds (ESIF), which include €5.5 billion for waste management. In addition, support will be provided by €650 million under Horizon 2020 (the EU funding programme for research and innovation) and investments in the circular economy at national level. (7)

The Commission supports transition in the EU states to “circular economy” with a broad set of measures to maintain the value of products, materials and resources for as long as possible, while minimising the generation of waste. The aim is to give clear signals to economic operators and society on the way forward. Action at EU level can drive investments, create a level playing field, and remove obstacles in the single market.

The EU currently loses a significant amount of materials that are discarded instead of being reused or recycled. The circular economy package includes specific proposals to amend the EU’s waste legislation and turn waste into valuable resources.

The EU’s circular economy policy provides incentives and tools to reach the end goal of less waste production, whilst boosting the European economy and creating jobs.

Among main aspects of the European “circular policy” are the following:

- **Boosting economy and creating jobs.** A number of crucial raw materials are finite, and can be difficult or expensive to acquire in Europe. The circular economy will retain the value of the resources we use in products, returning them into the product cycle at the end of their use. New jobs will be created in innovative design and business models, research, recycling, re-manufacturing and product development.
- **Reducing environmental damage.** Less discarded products and materials are better for environment. Long-term targets and measures to optimise waste management will boost recycling and reduce landfill.
- **Main benefits.** Circular economy offers an opportunity to reinvent member states’ economies while making it more sustainable and competitive. Besides, it will bring benefits to businesses, industries, and citizens alike. Thus, the new “circular plan” will make states’ economies more sustainable and more competitive; it will deliver on national measures to cut resource’s usage, reduce waste and boost recycling. Besides, the policy will preserve resources that are increasingly scarce and subject to mounting environmental pressure or volatile prices, and reduce costs for European industries. It supports a new generation of European businesses which make and export more efficient and sustainable products and services around the globe, and create innovative, more resource efficient ways to provide services or products to customers.

Circular policy will help in creating jobs for European citizens and opportunities for social integration and cohesion: it can create more than 170 000 direct jobs by 2035 through the measures on waste management alone. Consumers are provided with more durable, sustainable and less toxic products that save money and increase quality of life.

The policy will continue to deliver on EU and member states’ plans on energy efficiency for products, which by 2020 will bring savings of €465 per year per household on their energy bills. Circular economy will contribute to preserving the environment, bring a substantial cut in carbon emissions and preserve threatened resources. Adequate measures will reduce greenhouse gas emissions by more than 500 million tons between 2015 and 2035.

It also increases competitiveness of key industry sectors including manufacturing, waste management and recycling, as well as reducing the dependency of the member states on raw material imports. Through long terms targets on waste and landfill, backed by clear Commission’s supportive measures, it creates incentives for action by the member states while providing investment certainty for businesses.

Bottom-line: the “circular economy”, is a win-win situation, which provides:

- Savings of €600 billion for EU businesses, equivalent to 8% of their annual turnover;
- It will create about 580 000 jobs in the member states, and
- Provide reduction of EU’s carbon emissions by 450 million tons by 2030. (8)

The strategic perspectives in the EU circular policy are clear: from the initial Commission’s action plan, which established a concrete and ambitious programme of action (with measures to be carried out during 2016–2020) to some specific actions support the circular economy progress. The latter include recommendations for each step of the value chain: from production to consumption, to repair and remanufacturing, to waste management, and to secondary raw materials that are fed back into the economy.

Action on the circular economy are closely related to a number of other EU priorities, including jobs and growth, the investment agenda, climate and energy, the social agenda, industrial innovation and with global efforts to secure sustainable development. (9)

### 2.3.3. Four thematic areas in European circular economy

The Commission’s monitoring framework is a key tool to measure progress and cover the different phases of the circular economy in the EU member states and, as a result, show if the existing policy initiatives are successful in delivering the expected outcomes and identify areas where more action is needed. It is an essential contribution to the EU’s efforts to develop a sustainable, low carbon, resource efficient and competitive economy.

The framework is structured into four broad areas, covering ten specific indicators for each area in circular economy:

- 1) Production and consumption;
- 2) Waste management;
- 3) Secondary raw materials, and
- 4) Competitiveness and innovation. (10)

Generation of municipal waste in Latvia: 410 kg per capita in 2016; with 376 in Estonia and 444 kg in Lithuania. (10)

#### 2.3.3.1. Production and consumption.

These are two main spheres to “organise” circular economy patterns: all economic sectors (mainly, however, industry and construction), as well as households should decrease the amount of waste they generate. In the long-term, such approach would contribute to reduction of raw materials/resources used in production. Eurostat statistics shows volumes of generated and recycled wastes in the EU states.

In *production and consumption* area the following four spheres are addressed:

- 1) Self-sufficiency of raw materials for production in the EU;
- 2) Green public procurement, as an indicator for financial aspects;
- 3) Waste generation, as an indicator for consumption aspects, and
- 4) Food waste.

Monitoring the production and consumption in transition to circular economy by households and numerous economic sectors should decrease the amount of waste. This strategy in the Baltics can change “consumption behaviour” turning it from a linear to circular economy while increasing self-sufficiency of selected raw materials for production. (11)

### 2.3.3.2. Waste management and recycling.

Recycling materials and products used in production is a vital step in transition to CE. In *waste management sector*, the development indicators focus on:

- a) The share of waste which is recycled in relation to the whole economy, and
- b) Specific waste streams, such as packaging waste, bio-waste, e-waste, etc.

Statistics show a better situation in various states concerning waste management. (See Table I below). This area focuses on the share of waste which is recycled and actually returned into the economic cycle to continue creating value. (12)

Managing wastes is becoming a priority in all EU states: for example, average Danish household produces about 600 kg of wastes a year; it is much smaller in other EU states, e.g. in Germany. Worst is that only small share of wastes is utilised, most is incinerated: less than half of the wastes is processed or/and managed in Denmark while about 65% in Germany. Total wastes’ “burden” in Denmark is almost constant at the level of 11 million tons/year during 2013–2015, while household wastes increased from 40 to 46 per cent; however, about 72% of industrial wastes is additionally used for something valuable. Thus, perspective is clear – non-waste production, as waste is always an important resource: examples are numerous, from recycling plastic bottles to re-used textile wastes for isolation; to re-using old PCs, tablets and smart-phones, to various sorts of renewables...

Bottom-line: modern political economy needs a new impetus based on circular economy’s approach. Scientific communities have to make adequate advises to governments for introducing circular economy’s guidelines.

In Latvia, every year 275 cub m of various wastes is damped in nature: in the forests, along the roads, in the lakes, etc. (13)

### 2.3.3.3. Secondary raw materials.

Recycled materials are used instead of newly extracted natural resources while creating new products. The **secondary raw materials’** area comprises two indicators:

- a) Measuring contribution of recycled materials to raw materials’ demand, and
- b) Trade in recyclable raw materials among the EU states and with the rest of the world. (14)

### 2.3.3.4. Competitiveness and innovation sphere

As to the general “**competitiveness and innovation**” sphere, there are measures:

- a) To stimulate private investments, jobs and gross value added, and
- b) Patents related to recycling and secondary raw materials as proxy to innovation and circular economy achievements.

## 2.3.4. Recycling as a priority in circular economy

There is a new Eurostat website section on circular economy in which one can discover, for instance that the circular economy sectors created around €141 billion of value added in 2014, which represents an increase of 6.1% compared to 2012.

However, on average, recycled materials satisfy only around 10% of the EU demand for materials, in spite of a steady improvement since 2004. For a number of bulk materials, secondary raw materials satisfy over 30% of total demand for materials (e.g. copper and nickel). Furthermore, the EU is a net exporter of several major recyclable waste streams such as plastics, paper and cardboard, iron and steel, copper, aluminum and nickel.

Eurostat data also show that the recycling rates for packaging waste have increased in the EU states from 62% to 66% between 2008 and 2015. For plastic packaging, the average recycling rate in the EU is significantly lower, at 40%, even though there have been improvements in recent years.

**RECYCLING RATES IN DIFFERENT WASTE'S SOURCES (15)**

<b>All wastes</b> (excluding mineral wastes)	55% recycled	in LV
Construction & demolition wastes	88 % recovered	over 90%
Overall packaging	40% recycled	about 54%
Municipal wastes	46% recycled	about v29%*
Plastic packaging	40% recycled	about 35%
E-waste	32% recycled	about 23%

\* Comparative table on the EU and Baltic States' municipal waste is seen in: [http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=cei\\_wm011&plugin=1](http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=cei_wm011&plugin=1)

Source: <http://ec.europa.eu/eurostat/web/circular-economy/indicators/monitoring-framework>

**2.3.5. Global/European aspects in sustainable and circular economy**

Economic growth and industrialisation – together with a rising number of consumers caused by population growth – often lead to unsustainable consumption of natural resources. Climate change impacts are putting additional pressure on ecosystems, societies and economies, especially in developing countries. As a consequence, new environmental and climate-friendly development paths are needed, as well as socially sound forms of economic development that generate broad-based employment and income and contribute to the reduction of poverty.

Green Economy as defined by the UNEP as “an economy that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities”. It is a holistic concept, ensuring a balance between social, ecological and economic dimensions while promoting economic growth and employment.

Green economy as one of the key themes of the UN and the EU efforts on sustainable development and the related concepts of “green growth” and “low-carbon development” have received significant international attention over the last decade as a vital tool to resilient growth.

The intervention areas addressing a green economy are manifold and include agriculture, forestry, fisheries, industry, tourism, transport, waste, energy and water. Supporting factors which play a role in the key intervention areas cover institutional and human capacity development (green skills) and the development of adequate basic conditions (e.g. finance mechanisms).

There are several EU directions in assisting Latvian green economy. On the pathway to green economy, integrated solutions are required on the basis of combined expertise and technical know-how in various intervention areas. The European *Green for Growth Fund* (GGF) is a structured fund (public private partnership) providing financing and technical assistance for energy efficiency and renewable energy. It provides refinancing for investments in energy efficiency and renewable energies to small and medium sized enterprises (SMEs) and households, primarily via local financial institutions.

The fund helps to promote energy efficiency and renewable energy financial loans, which will further contribute to reducing energy consumption and diversifying the energy mix. This will decrease dependence on energy imports and enable the countries to improve the competitiveness of their industries, especially in the SME sector.

The GGF is also expected to contribute to the development, transfer and promotion of technologies and know-how in the directions of green economy development. The financing of pilot projects and marketing campaigns will help to create awareness and understanding of the profitability of energy efficiency and renewable energy investments for banks, local companies and the broader public. (16)

Among some “*green developmental perspectives*” for Latvia could be, for example, the beverage carton packaging machinery market, which is an important sector for business as Latvia is a growing beverage producer. The packaging market is estimated at \$ 746.9 million in 2017 and is projected to reach \$ 840.7 million by 2022. The growth of the beverage carton packaging market is attributed to an increase in the consumption of personal care and hygiene products in emerging economies and rise in the number of production facilities of beverage carton packaging machinery. Key players operating in the beverage carton packaging machinery market include Langfang Best Crown Packing Machinery (China), ACG Worldwide (India), KHS (Germany), Kronos (Germany), GPI Equipment (US), Bosch Packaging Technology (Germany), Econocorp (US), Jacob White Packaging (UK), Bradman Lake Group (UK), and Mitsubishi Electric (Japan). These players have adopted various growth strategies to expand their global presence and increase their market share. Mergers and acquisitions, expansions, and new product launches are some of the major strategies adopted by key players operating in the beverage carton packaging machinery market. So, the room for Latvian developers is good; it needs just adequate political will and management skills. (17)

### 2.3.6. End of fossil fuels and start of “clean energy”

Recent gas supply for Lithuania goes in sharp contrast with what other Nordic region states are doing. Thus according to the US embassy in Vilnius, the gas supply contract between *Lietuvos Duju Tiekimas* (Lithuanian Gas Supply, or LDT) and the US *Cheniere Energy* was going to stay and being commercially feasible. Besides, Lithuania also receives LNG from Norway's *Statoil* and another American supplier, the US *Koch Supply & Trading*.

Gas shipment to the Baltics will go on: the market situation and its development, according to Lithuanian officials, is showing “expected increase in amount of these shipments” said Lithuanian Energy Minister Z. Vaiciunas. Thus, more shipments of liquefied natural gas (LNG) from the US are expected to follow after the first-ever LNG cargo was delivered to Klaipeda from across the Atlantic in August 2017.

Both Energy Minister Vaiciunas and *Lietuvos Energija* CEO D. Misiunas said that US LNG is currently cheaper than Russian Gazprom gas, but they do not predict that Russian gas will be forced out of the market. At the same time, there is a visual increase for Russian gas supply in Central and Western European states: export has increased by over 16% in Germany, by about 75% in Austria, by about 27% in Slovakia and the Czech Republic. As to the Baltic States, the demand for gas increased, correspondingly, by 90% in Estonia, 75% in Latvia and by 125% in Lithuania. (18)

Some experts say that the “alarming situation” is due to so-called over-contracting in European gas supply: i.e. more supply offers than the real consumption. Thus, before 2008 (i.e. before the crisis), gas consumption exceed the available supply offers; hence future supply contracts were done in line with the predicted extensions. Presently, most countries are re-assessing their gas supplies and needs with changes in structural energy mix and renewables. (19)

Oil prices have started to recover after an extended downturn, strengthening profit of major oil producers in 2017–2018, which opened the door to more mergers in the sector. Big energy companies like BP, Chevron and Total have wrestled in recent years with a sharp decline in oil prices: a barrel of crude now sells for around \$52, less than half its peak in early 2014.

As the price of oil fell to less than half of what it was at its recent peak, so did the oil industry's cash flows. But after much adjustment by oil companies, and even a complete reworking of their businesses, the first quarter of this year saw a return to positive cash flow. Over the last two and a half years, the oil industry has experienced its deepest downturn since at least the 1990s.

If history is any guide, after every oil bust comes a recovery, if not a boom; this time a recovery has been tentative, at best.

The oil companies in the Baltics and around the world initially sought to bolster earnings by cutting jobs and investment, but have since gone further by embracing new technologies and construction methods. As a result, operating costs have fallen and cash flows have firmed. As recently as 2015, it cost \$97 for big energy companies to break even on a barrel of oil, after expenses, investments and shareholder dividends, according to an analysis by RBC Capital Markets, an investment bank. That figure has now nearly been halved. Such adjustments have ensured that if oil prices rise, profits at major oil and gas companies will rise too. The shift was borne out in the latest batch of results, with Chevron, Exxon Mobil, Royal Dutch Shell and Total all reporting much healthier earnings.

Nevertheless, the Danish container shipping company A.P. Moller-Maersk agreed to sell its oil and gas business to the French energy giant Total for about \$5 billion. Maersk often said that it planned to spin off or sell its oil business as it focused on its transport and logistics services operations. Besides, the Danish energy policy is based on renewables: by 2050 the country will end up using any fossil fuels.

Chairman and chief executive of Total, *Patrick Pouyanné*, said in August 2017 that the company would “take advantage of the low-cost environment” to start new projects and seek acquisitions.

The proposed deal with Maersk values the Danish company’s oil and gas business at \$7.45 billion, including debt. (20)

“This transaction delivers an exceptional opportunity for Total to acquire, via an equity transaction, a company with high quality assets which are an excellent fit with many of Total’s core regions,” said Total’s boss.

Under the terms of the deal, the Danish company would receive 97.5 million Total shares, or about 3.8 per cent of the French company. Total would also assume \$2.5 billion in debt as part of the transaction.

Maersk’s main shareholder also has the possibility of a seat on Total’s board of directors. The deal is subject to regulatory approval and to a consultation process with Total’s employees. It is expected to close in the first quarter of 2018; as part of the transaction, Total would also assume decommissioning obligations of \$2.9 billion. The Danish company would seek to return a “material portion of the value” of the shares it received from Total in the form of extraordinary dividend, share buyback or distribution of Total shares by 2019.

The French company said the purchase of a Danish oil/gas producer in a relatively safe part of the world was part of “balancing of country risks” just months after Total signed a deal with Iran to lead a natural gas project in the Persian Gulf. (21)

There is a special programme for transition to *clean energy*. In November 2016, the European Commission presented a package of measures to keep the member states competitive as the clean energy transition changes global energy markets. The Commission wants the EU states to lead the clean energy transition, not only adapt to it. For this reason the Commission has committed to cut CO<sub>2</sub> emissions by at least 40% by 2030 while modernising the EU’s economy and delivering on jobs and growth in all European states. The proposals have three main goals: putting energy efficiency first, achieving global leadership in renewable energies and providing a fair deal for consumers. (22)

### **2.3.7. Circular economy’s advantages for the Baltic States**

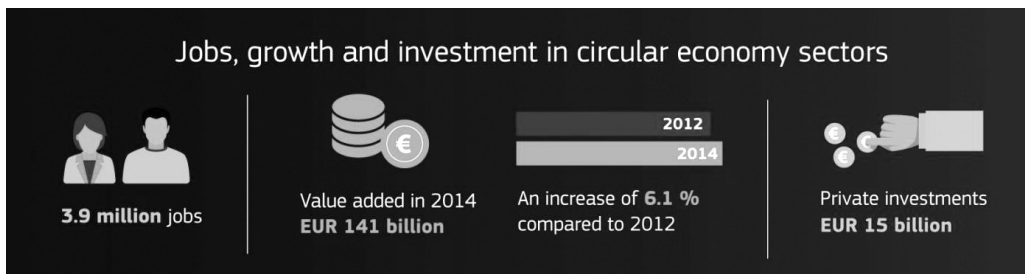
Realizing governments’ efforts towards transition to more circular economy in the Baltics brings greater opportunities for national economies, in economies’ transformation from linear to more sustainable direction.



This transition enables: a) businesses to make substantial economic gains and become more competitive; b) national economies to deliver important energy savings and environmental benefits; c) regionally, creating local jobs and opportunities for social integration. Generally, circular economy’s trends are closely interlinked with key Baltic States priorities on jobs and growth, investments, the social agenda and industrial innovation (see Table II below).

In supporting business activity in circular economy, both the EU and member states’ efforts are vital. For example, at the end of 2015, the Commission adopted a Directive on online sales of goods. The proposal aims to strengthen guarantees for consumers to better protect them against defective products and contributes to the durability and reparability of products. This prevents products from being thrown away, and contributes strongly to the circular economy. (23)

#### EUROPEAN CIRCULAR ECONOMY: JOBS, GROWTH AND INVESTMENTS (24)



Source: <http://ec.europa.eu/eurostat/web/circular-economy/indicators>

#### 2.3.8. Latvian perspectives in circular economy

Political, economic and business circles need sufficient resilience in modern time facing increasingly changeable, uncertain, and unpredictable challenges; more than that, the countries have to manage these challenges properly through adaptive approaches to national political economy structures.

The circular economy’s most basic principle is to replace the current dominating wasteful linear economic model. Instead of policies relying on finite resources, the new rational policies shall conduct sustainable economy’s patterns and business.

Circular approach provides new kind of renewable resources: waste is removed at every stage of production and/or manufacturing, from sourcing to recycling. In this way “circularity” helps to create a development policy and business models that restore and regenerates, rather than depletes and throw away available resources.

In short, circular approach analysis the ways the new products are made, who makes them, and where, as well as how those products are recycled and sustainably used.

According to *Latvijas Zaļais Punkts*’ study (25.04.2018), majority of Latvians in selecting consumer goods pay attention to goods’ ecology, as well as producer’s attitude to environmental protection and participation in green initiatives. More than half (56%) of Latvians acknowledged that they would willingly choose brands which correspond to nature protection.

Approximately half Latvians (51%) argued that they would not accept goods, whose production was connected to environmental pollution. More than third people (39%) are ready to pay more for the goods, whose packaging is subject to processing and repeated use. Some 62% agree to buy more expensive products if they are made from clean and natural resources. Latvian ecologists conclude that there is close connection between citizens’ “ecological response” with an increase in their welfare. (25)

**2.3.9. Circular economy: changing business patterns**

The role of business within this new reality is changing profoundly: businesses have been playing a critical role in helping solve the mentioned challenges providing optimal services and solutions. In fact, businesses that do not adapt their models run the risk of eroding trust and ultimately, forfeiting customer loyalty. (26)

Contemporary managerial models are facing with numerous uncertainties: from critical national agendas, to declining natural resources, to the changing skills required for employment. These and plenty of other challenges make forward-thinking leaders and politicians a task, according to *Fortune Magazine*, to “adopt *conscious capitalism* through the incorporation of key elements like trust, collaboration, and stakeholder orientation into day-to-day business practices”.

Most important is that companies wishing to be competitive need to adapt to the circular economy principles and new sustainable orientations. And it is going to be a profitable orientation: for example, the *Accenture* research shows a potential \$4.5 trillion reward for achieving sustainable businesses by 2030. (27)

In fact, adopting a circular economy model is not simply about products and services but also about the ways a country’s business community is functioning. In this way “circularity” can present an opportunity to move beyond simple sustainability standards towards solutions that are able to transform traditional business models into approaches that can create a competitive advantage in Europe and the world. (28)

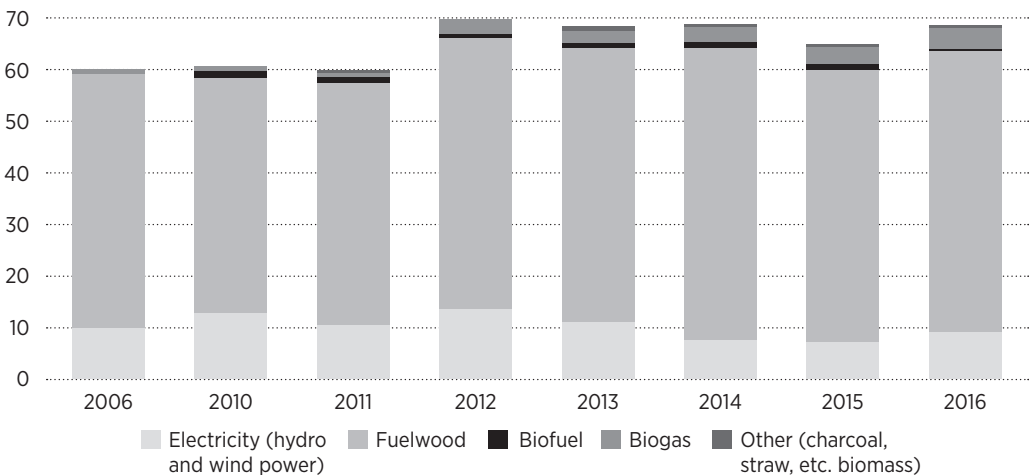
**2.3.9.1. Waste management, renewables and circular economy in Latvian business**

Latvian Central Statistical Bureau (CSB) data has shown that gross consumption of renewable energy resources in Latvia (2016) constituted 68.7 petajoules (PJ), of which about 50 PJ is fuelwood. Compared to 2015, the consumption of renewables has risen by 5.7%, whereas over the past ten years – by over 14%.

As the gross consumption of renewable resources (mainly formed by domestic energy resources) increased, Latvian dependence upon imported energy resources reduced – from 66.7% in 2006 to 51.2% in 2015; see Table below. (29)

Significant increase was recorded in consumption of biogas (landfill gas, sewage sludge gas, other biogas) – 12.7 times during the decade, reaching 3.8 PJ in 2016.

**CONSUMPTION OF RENEWABLE ENERGY RESOURCES IN LATVIA, PJ**

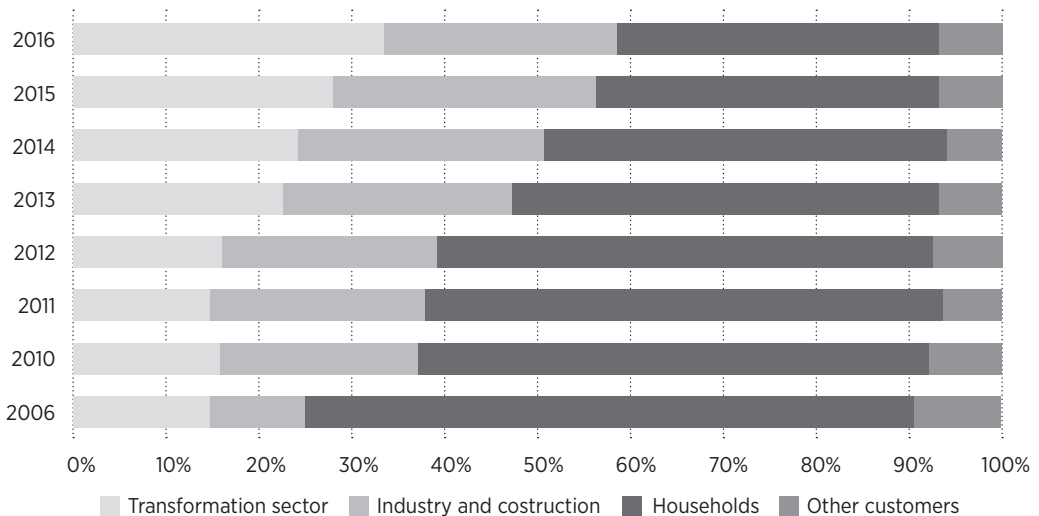


Over the decade, the gross consumption of fuelwood has increased by 9.3%, reaching 54.3 PJ in 2016, whereas compared to 2015 it has gone up by 3.2%. In 2016, the share of fuelwood in the gross energy consumption accounted for 29.4%, which is 0.8 percentage points more than in 2015.

During the same time, the exports of fuel wood rose: in 2016, Latvia exported 37.9 PJ of fuelwood, which is 12.6% more than in 2015. Wood pellets constituted 29.3 PJ of the total volume of fuelwood exported in 2016, which is 4.7% more than in 2015, whereas the volume of wood chips exported rose by 79.4%.

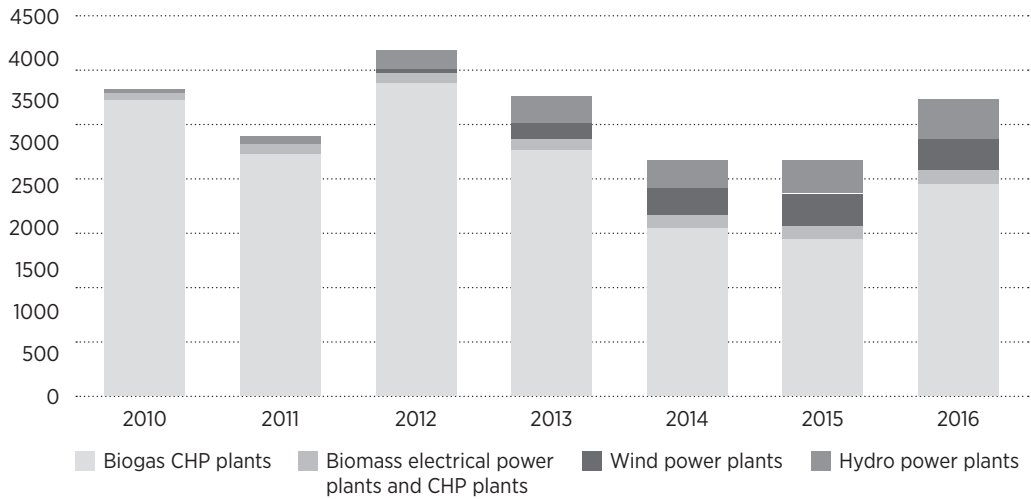
The highest consumption of fuelwood (see table below) was recorded in household sector; however it has declined by 41.6% during the decade, constituting 34.6% of the gross consumption of fuelwood in 2016. Compared to 2006, in 2016 the volume of fuelwood consumed in industry and construction has risen 2.7 times (in 2017, fuelwood consumption in the sectors constituted 25.4% of the gross fuelwood consumption).

#### CONSUMPTION OF FUELWOOD IN LATVIA, %



During the last decade, the share of renewable resources consumed for the production of electricity and heat in transformation sector has grown by 18.6 percentage points, in 2016 reaching 33.1% of the gross consumption in this sector. Compared to 2015, the consumption of fuelwood in transformation sector has gone up by 22.0%. From 2006 to 2016, fuelwood consumption in transformation sector has risen 2.5 times, reaching 18.0 PJ last year. The largest share (88.2%) of the consumed fuelwood is taken by wood chips that reached 15.9 PJ in 2016. It may be explained by the growing number of *combined heat and power* (CHP) plants and share of renewable sources in the transformation sector and reduction of the share of natural gas.

In 2016, 3 482 GWh of electricity were produced from the renewable resources (see table below); compared to 2015, the volume has risen by 25.4%. In 2016, due to the higher inflow of rivers the volume of electricity produced in hydro power plants constituted 2 530 GWh – 36.0% more than in 2015. Over the decade, the volume of electricity produced in wind power plants has increased from 46 to 128 GWh or 178.3%, the volume produced in biomass electrical power plants and CHP plants has risen from 7 to 427 GWh, and the volume produced in biogas CHP plants – from 36 to 397 GWh.

**ELECTRICITY PRODUCED FROM RENEWABLE ENERGY RESOURCES, GWh**

The EU Directive 2009/28/EC on promotion of the use of energy from renewable sources stipulated that the share of renewable sources in gross energy consumption in 2020 should comprise 40%. Latvia has the third highest share of renewables in the energy consumption in the European Union (the highest share was recorded in Sweden (53.9%) and the second largest in Finland (39.3%)); in 2015, Latvian indicator constituted 37.6% (EU average – 16.7%). Moreover, State in 2020 each Member should ensure that the share of energy from renewable sources (biofuel, biogas, electricity produced from renewable sources and consumed in transport) comprises at least 10% of the final energy consumption in transport; in 2015 Latvia reached 3.9%. (30)

**Resume**

*Latvian socio-economic situation has been closely connected with the EU strategy, OECD recommendations and UN sustainable development goals. All these “external” factors play a decisive role in forming Latvian government’s approaches to “political ingredients” in development.*

*During last two decades, it has become clear that the “liberal economic order” (both in Europe and globally) is not any more a sufficiently inclusive, productive and resilient to work as a stable framework for national growth. Internationally, numerous states (China and Russia, the US and the UK, to name a few) has shown authoritarian moves thus abdicating a century old liberal principles such as free-trade, multilateralism and even liberal democracy itself. From a European perspective, a number of modern challenges (including the refugee crisis, rising populism, Islamic terrorism and autocratic tendencies in Eastern Europe) threatens to undermine newly-born liberal order in Latvia. Therefore, national political and economic potentials shall be used more actively in such spheres as e.g. “green” and circular economy, more active use of digital/ICT solutions and supporting progressive SMEs. It is these public/government efforts that shall be decisive in defining progressive specialisation sectors in Latvian socio-economic growth. It is these sectors that are going to form Latvian economic “immune system”, with Latvian industrial renaissance including all spheres of manufacturing and green economy. Besides, Latvian firms shall be more active in taking part in the EU’s External Investment Plan (EEIP), which provide good opportunities for Latvian companies to compete in other parts of the world using EU financial support.*

## Notes and references

1. DG GROWTH. In: [http://ec.europa.eu/growth/sectors\\_en](http://ec.europa.eu/growth/sectors_en)
2. Source: Danish daily *Politiken*, *Kroniken Section*, 25.06.2017.
3. See more: Eteris E. Circular economy: new political economy guidelines. In: [http://www.baltic-course.com/eng/editors\\_note/?doc=18227&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=18227&ins_print)
4. Source: the new Eurostat website on EU’s circular economy. In: <http://ec.europa.eu/eurostat/web/circular-economy>
5. Source: The Action Plan and the “implementation report”, i.e. Commission report to the Parliament, the Council, the Economic and Social Committee and Committee of the Regions on the implementation of the Circular Economy Action Plan, 26.1.2017 COM (2017) 33 final. In: [http://ec.europa.eu/environment/circular-economy/implementation\\_report.pdf](http://ec.europa.eu/environment/circular-economy/implementation_report.pdf)
6. Main reference: <http://ec.europa.eu/eurostat/web/circular-economy/policy-context>  
On resource efficiency, see: <http://ec.europa.eu/eurostat/web/europe-2020-indicators/resource-efficient-europe;information-on-raw-materials-use> see in: [http://ec.europa.eu/growth/content/raw-materials-scoreboard-0\\_en](http://ec.europa.eu/growth/content/raw-materials-scoreboard-0_en)
7. More on priorities and financing in: [https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/towards-circular-economy\\_en](https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/towards-circular-economy_en)
8. Reference to the EU factsheet on circular economy: [https://ec.europa.eu/commission/sites/beta-political/files/circular-economy-factsheet-general\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/circular-economy-factsheet-general_en.pdf)
9. Related Commission’s web-links:
  - Circular Economy Strategy;
  - DG Environment;
  - Circular Economy public consultation results;
  - Business, industry and the Circular economy – DG Internal Market, Industry, Entrepreneurship and SMEs;
  - Environment and resource efficiency; and
  - Cohesion policy support for the circular economy.
 More in: [https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/towards-circular-economy\\_en](https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/towards-circular-economy_en)
10. Source: Eurostat date. In: <http://ec.europa.eu/eurostat/cache/infographs/circulareconomy/>
11. Latvian statistics on wastes. In: <http://ec.europa.eu/eurostat/web/circular-economy/indicators/monitoring-framework>
12. Source: <http://ec.europa.eu/eurostat/web/circular-economy/indicators/main-tables>
13. See more in *Latvijas Zaļais punkts* and in [www.zalais.lv](http://www.zalais.lv)
14. Trade in recyclable waste. In: <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>
15. General reference: Eurostat press release “How is the EU progressing towards the circular economy?”, 16.01.2018. In: <http://ec.europa.eu/eurostat/documents/2995521/8587408/8-16012018-AP-EN.pdf/aaaa8f4-75f4-4879-8fea-6b2c27ffa1a2>
16. See: [https://ec.europa.eu/europeaid/blending/green-growth-fund-ggf-extension-nif-eastern-region\\_en](https://ec.europa.eu/europeaid/blending/green-growth-fund-ggf-extension-nif-eastern-region_en); On green growth, eco-innovations and “green jobs” (integrating EU environmental and employment policies) see: [https://ec.europa.eu/environment/ecoap/events/green-growth-green-jobs-integrating-environmental-and-employment-policies-eu\\_en](https://ec.europa.eu/environment/ecoap/events/green-growth-green-jobs-integrating-environmental-and-employment-policies-eu_en)
17. <https://www.marketsandmarkets.com/top-market-reports.asp>
18. Source: [http://www.baltic-course.com/rus/good\\_for\\_business/?doc=132272](http://www.baltic-course.com/rus/good_for_business/?doc=132272)
19. Reference: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=132403](http://www.baltic-course.com/eng/good_for_business/?doc=132403)
20. Reference: [https://www.nytimes.com/2017/08/21/business/dealbook/total-maersk-oil-gas.html?emc=edit\\_mbe\\_20170822&nl=morning-briefing-europe&nid=81778027&te=1](https://www.nytimes.com/2017/08/21/business/dealbook/total-maersk-oil-gas.html?emc=edit_mbe_20170822&nl=morning-briefing-europe&nid=81778027&te=1)
21. Source: <https://www.nytimes.com/2017/07/03/business/energy-environment/>
22. See more in: <https://ec.europa.eu/energy/en/news/commission-proposes-new-rules-consumer-centred-clean-energy-transition>; and “The EU’s transition to a low-carbon era is taking shape”, 11.05.2017. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=129603&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=129603&ins_print)
23. See Directive in: <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52015PC0635&from=EN>
24. Source: <http://ec.europa.eu/eurostat/web/circular-economy/indicators>  
More on EU CE strategy, see: “Circular economy: new political economy guidelines”, 04.08.2017 in: [http://www.baltic-course.com/eng/editors\\_note/?doc=18227&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=18227&ins_print)
25. Source: *Latvijas Zaļais Punkts*, 25.04.2018.
26. Source: <http://fortune.com/2017/10/23/the-circulars-world-economic-forum-nike-method-sustainability/>
27. Source: <https://www.accenture.com/gb-en/insight-creating-advantage-circular-economy>
28. Note: optional reading for circular economy-business connections:  
Circular economy: opportunities for business. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=131904&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=131904&ins_print)  
Circular economy: new political economy guidelines. In: [http://www.baltic-course.com/eng/editors\\_note/?doc=18227&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=18227&ins_print)

Delivering on European Circular Economy Action Plan: the EU's results for 2017. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=133112&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=133112&ins_print)

New stage in EU circular economy: Commission's extended Ecolabel scheme. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=123550&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=123550&ins_print)

29. Note: Energy dependence is calculated as follows: net energy imports (imports minus exports) divided by gross inland energy consumption plus fuel supplied to international maritime bunkers.

Source: Statistics Latvia, September 2017, in: [http://www.baltic-course.com/eng/analytics/?doc=132906&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=132906&ins_print)

30. Note: More information on energy sector, including on renewable energy resources, is available in the Latvian CSB website section "Energy-Key Indicators": <http://www.csb.gov.lv/en/statistikas-temas/energy-key-indicators-30736.html>

Optional reading on circular economy and sustainability:

- Sustainable development: implementation through the EU and UN efforts. In: <http://www.baltic-course.com/eng/analytics/?doc=122153&underline=Sustainable+development>
- Climate Action in Support of a Sustainable World. 21.09.2016. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=124211&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=124211&ins_print)
- Sustainable and low-carbon future in the Baltics. 14.11.2016. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=125467&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=125467&ins_print)
- Sustainability becomes the Union's priority. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=125742&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=125742&ins_print)
- Health for all at every stage of life: SDGs in practice. 22.02.2017. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=127808&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=127808&ins_print)
- Circular economy: new political economy guidelines. 04.08.2017. In: [http://www.baltic-course.com/eng/editors\\_note/?doc=18227&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=18227&ins_print)
- Delivering on European Circular Economy Action Plan: the EU's results for 2017. 12.09.2017. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=133112&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=133112&ins_print)

## 2.4. Improving Latvian labour market: global and European trends

*Labour market in Latvia is subject to numerous challenges too, including the government's overwhelming task of creating jobs, providing growth, activating investments with the ultimate view towards optimal competitiveness perspectives. Together with the EU institutions, Latvian government shall develop measures contributing to enhancing the country's analytical capacity in labour reforms, including for example, systematic collection of data needed for policy design purposes, new IT systems, and analytical tools to assess and predict labour market developments. Some countries in the Baltic Sea Region have already showed changes in the labour market, e.g. Estonia and Denmark.*

According to the division of competences among the EU institutions and the member states, delivering on such issues as employment, social affairs and inclusion is to be "shared" between the EU and the states. As to the EU, the European Commission's "shared" responsibility for policy in these fields consists of such actions as:

- a) Coordination and monitoring the member states' labour policies (including modernised Europass);
- b) Promoting and sharing the best in the EU practices in fields of increasing employment, reducing poverty and social exclusion and increasing pensions; and
- c) Drafting legislation in social development affairs and monitoring their implementation in the states in such areas as the employment regulations and coordination of social security schemes. (1)

But the member states have to implement their own "reforming labour" policies.



### 2.4.1. European approach to employment

Employment and labour market issues occupy a specific place in the EU's activities. There is a special web link covering the EU's employment strategy, which dates back to 1997, when the EU states for the first time established a set of common objectives and targets in European-wide employment policy aimed at creating more and better jobs in the continent. (2)

Besides, there is a special Employment Committee (EMCO), which was created by the Council decision in 2000 (on the basis of art. 150 TFEU) and is presently operating within the policy framework of the European Employment Strategy.

EMCO is the main advisory committee for Employment and Social Affairs Ministers in the Employment and Social Affairs Council (EPSCO) in the employment field. EMCO meets regularly throughout the year, and holds regular discussions with the European social partners (trade unions and employers). It also meets regularly with other related committees (especially the committees for Economic Policy, Social Protection, and Education) to discuss issues of joint interest.

EMCO has two sub-groups: the policy analysis group, which provides evidence based advice to underpin EMCO work and debate, and the so-called "indicators group", which carries out the technical work on the indicators which are used in monitoring the EU employment strategy.

However, main regulatory and implementing strategy's aspects are seen through four main European Semester's activities:

1. Commission drafts employment guidelines providing for common priorities and targets in the member states' employment policies (adopted by the EU Council). At the end of 2017, the Commission adopted some amendments to the guidelines. (3)
2. The Commission publishes and the Council adopts the Joint Employment Report (JER), which is based on:
  - a) assessment of the employment situation in the member states;
  - b) the implementation of the guidelines, and
  - c) assessment of the member states' key employment and social indicators. (4)
3. National governments submit national reform programmes (NRPs), which are analysed by the Commission as to their compliance to the EU-2020 strategy aims.
4. Based on the assessment of the NRPs, the Commission publishes "country reports", in which it analysing the EU states' economic policies and finally issues "country specific recommendations".

Special attention recently has been given to the youth guarantee and long-term unemployment issues. The Commission proposed recommendations to EMCO on monitoring the implementation of the Youth Guarantee and the Long-Term Unemployment. It does so through a combination of reviews of the progress of individual states towards objectives of the guarantee and an agreed indicator framework for both youth and long-term employment issues. (5)

### 2.4.2. Structural reforms in the member states and EU's assistance

The Commission created the *Structural Reform Support Service (SRSS)* in 2015 to support the EU states in the preparation, design and implementation of institutional, structural and administrative reforms. The SRSS manages a concentrated support programme (so-called Structural Reform Support Programme, SRSP), with a budget of €142.8 million during 2017–2020; the programme entered into force in May 2017. The support provided through the programme is available to all EU states upon their request and requires no co-financing.

As part of its proposals to deepen EU's Economic and Monetary Union (EMU), the Commission proposed to increase the SRSP budget until 2020 by €80 million. The increase is

expected to come through voluntary transfers by the EU states from their technical assistance component under the European Structural and Investment Funds. This would increase the available budget for support activities to €300 million until 2020, thus allowing the SRSP to respond to the greater than expected demand for technical support and to provide support for reforms in non-euro-area EU states on their way to joining the euro.

In 2018, the SRSP provided technical support to 24 EU states to carry out more than 140 projects; this comes in addition to more than 150 projects selected in 2017.

It is essential for the EU member states to successfully implement the structural reforms coordinated by the Commission. The support programme (SRSP) offers interested member states support to carry out reforms, but ultimate decisions on design, structure and implementation of the reforms in question belong to the EU member states.

Thus, it is up to the states benefitting from the EU technical support to make the best use of the structural support provided to them. (6)

Although presently the European economy is on the steady growth path, still further structural reforms are needed to make the member states' economies more stable, inclusive, productive and resilient. The SRSPs will enable continued support to the EU states to prepare, design and implement growth-enhancing reforms.

Based on the EU states' requests and in line with the Commission priorities, the SRSPs will support labour market reforms too. The improvement of the functioning of labour markets remains a key issue both for the EU and the member states.

Despite positive developments in the EU in recent years, unemployment remains far too high in many EU states and a prolonged period of high unemployment is having a socially negative effect. In this regard, investments in high quality education, training, labour productivity growth and active labour market policies are crucial for empowering people and integrating them in the labour market, which remains the best vehicle to reduce poverty and social exclusion. However, the EU states should also help to create supportive conditions for greater labour market participation, better quality jobs and a better working environment by reducing undeclared work, promote effective training and up-skilling.

The support measures are also expected to contribute to enhancing the analytical capacity of various EU states in the labour market area, including:

- a) systematic collection of data needed for policy design purposes,
- b) new ICT systems, and
- c) analytical tools to assess and predict labour market developments.

The SRSP-2018 Annual Work Programme sets out the priorities, objectives, expected results, and outlines actions to be implemented through the programme. In 2018, technical support for example is provided to help the states in reforming budgetary systems, modernising public administration and enhancing the quality and efficiency of national judicial systems, as well as assisting the states in combating fraud, corruption and money laundering. Numerous states are getting support to implement reforms of healthcare and social welfare systems, to develop capital markets, to reform insolvency frameworks and strengthen the banks' ability to deal with non-performing loans.

In 2018, the EU states' requests for technical support exceeded five times the available amount and the number of states applied for SRSPs has increased substantially compared to 2017. To be able to accommodate more requests, the Commission suggested increasing the funding available for technical support activities.

The support provided by the Commission for structural reforms is closely linked to the European Semester framework, as the SRSP is also intended to improve the implementation of reforms highlighted in the country-specific recommendations and country reports. (7)

### 2.4.3. Industrial transformations in Europe: effect on labour

European industrial sector urgently needs transformations in order to become a future-oriented sector with additional risk-proof facilities. Increased competition over natural and human resources, volatile prices for energy and raw materials, climate change, digitalisation and automation are affecting businesses across industries in the EU member states. At the same time, rising mercantilist practices take the form of dumping strategies or restricted access to public procurements under the umbrella of industrial flagship initiatives (e.g. ‘Made in China 2025’, ‘Make in India’, ‘America First’, etc.).

Citizens and governments across Europe often feel they lack the tools to respond to these challenges. Beyond the opportunities it provides, digitalisation has also led to the emergence of new, cyber-threats which have raised a number of issues linked to data security and data protection. As populism prospers on people’s fears of globalisation and technological change, EU member states are under pressure to support their industrial champions and protect local jobs. However, the resurgence of uncoordinated industrial policies across Europe could distort the single market and undermine the EU’s competitiveness and prosperity.

While the EU aims to promote industrial competitiveness across sectors and policies, arguably more could be done to coordinate member states’ action to ensure successful industrial transformations. This requires addressing the possibilities and challenges related to innovation, digitalisation and sustainability across industrial value chains.

Influential think-tank “European Policy Centre”, EPC has launched already in 2014 a task force to develop a *pan-European “Industry Action Plan”*. Building on these activities, the EPC published recommendations aimed to identify the transformations that are required for a modernised and sustainable European economy and propose a revamped strategy for the European Industry. (8)

The EPC reviewed through seminars in various European states and regions and workshops held in Brussels, the member states’ perspectives on industrial policies and identified possible areas for EU action. The EPC analysed existing EU regulatory and financial tools in assisting and implementing common Europe’s industrial transformation strategy. The task force special attention was to the role of the single market, investments, trade, competition policy, taxation, R & D and innovation, education and the skills agenda, as well as digital instruments.

The EPC presented the Action Plan in several EU member states as well as to senior EU and national policymakers at a high-level. The Action Plan proposes concrete policy recommendations for action at EU and member state level. (9)

Another important issue in labour relations is that of “minimum income”. In the light of ongoing socio-economic transformation and the emergence of new forms of work, the question of how to provide basic social protection to citizens has risen to the top of the European Union’s agenda. Among the various initiatives on the table at EU level, the idea of a minimum income and equal access to social protection is gaining increasing traction.

In October 2017, the European Parliament adopted a resolution calling on the EU states to introduce adequate minimum income policies as a tool for fighting poverty and social exclusion. At the same time, alternative solutions, such as a *Universal Basic Income* (UBI), have also been under discussion.

Interesting example provided Finland in resolving UBI’s ideas in the country. Thus, an experiment took place in Finland during 2017–2018, when about 2 thousand unemployed fins aged 25–58 could get €560 a month (without tax) from the government. Quite notable that all those getting “basic income” were free from various checks and even could keep “the income” in case of having occasional jobs. Usually, those under social support schemes have

produce periodical reports about their activities of seeking employment as well as report on any additional income (which would be deducted from the unemployment benefit).

Finish “basic income” is at the level of regular social benefit for unemployed, but is free from any additional bureaucratic checks. So far, the Finish example proved valuable; some other EU states wished to emulate the Finish model.

Industrial transformation includes changes in energy policies in the EU states, which will affect divisions in labour market. For example, France will shut down all coal-fired power stations by 2021; the President Emmanuel Macron’s idea is “to make France a model in the fight against climate change,” as one of five pillars in his plans to reform the national economy.

“That is a huge advantage in terms of attractiveness and competitiveness. Talent will come where it is good to live. We can create a lot of jobs with such a strategy,” he said.

The “economic tide” in the European Union is already turning against coal power: more than half of the EU’s 619 coal-powered plants are economically inefficient: a combination of rapidly falling prices for renewables and air pollution laws are pushing them out of business. Thus, thousands of workers in old-aged industry will be redounded and have to be re-trained.

#### **2.4.4. Global aspects in labour issues**

New American administration since 2007 is taking the pace of cancelling global trade agreements (which is damaging the employment stability around the world), while other major powers are trying to conclude new ones. It seems that the US administration headed by D. Trump believes that the trade agreements would come to a halt as soon as the US withdrew from them. However, the modern global situation has changed drastically: the US is no longer a “great super power”; America is not any more able almost single-handedly govern global development: there are various other blocks and economies that can compete with the US. There are other world economy’s “players”, such as the EU, China, Japan, India, South America, etc. as well as numerous regional associations.

The US President wanted to show to global elites the country’s understanding of a new reality: at the 2018-Davos WEF Forum he acknowledged that “America First” policy was not the same as “America-Only” policy. He noted that the US, though under certain conditions, could consider taking part of the so-called TPP-trade agreement of 11 Pacific countries (which has been just concluded), from which the US pulled out with one of the first D. Trump’s official acts. One thing is certain: the American business community fears the consequences of American protectionism.

For example, two US wheat producers, i.e. U.S. Wheat Associates and the National Association of Wheat Growers (NAWG), warned recently that TPP agreement, which besides Japan include other large countries such as Australia and Canada, poses a serious threat to the U.S. wheat exports. Japan imports each year 3.1 million tons of wheat from the United States. But when the TPP agreement is fully implemented, the price of Canadian and Australian wheat will decrease by 65 dollars per ton, or nearly a quarter of the world market price. Hence, American farmers, ranch owners and dairy producers demanded a conclusion of the new trade agreement.

These global trade issues can have a lasting effect on world division of labour and availability of jobs. (10)

Japanese economy minister stated conversely, that the TPP agreement could be a driving force in combating protectionism in the world. It is to be remembered that the agreement (still expected to be signed) originally was based on a US initiative: the country, so to speak, has gone from being a driving force to neglecting factor; the EU leaders are of the same opinion.

Negotiations on a new and large-scale trade agreement with South America goes according to plan entering its last phase, when the EU meets with representatives of the so-called Mercosur cooperation with Brazil, Argentina, Paraguay and Uruguay.

The EU has also concluded trade agreements with Canada and Japan, as well as China is also trying to develop its trade agreements. According to the World Trade Organization (WTO) there currently negotiated about 35 regional and bilateral trade agreements, of which the US is only partly participating; e.g. a comprehensive US–EU trade agreement has been also has put on hold. Similarly, the US administration is threatening to pull out of the North American Nafta trade agreement with Canada and Mexico, if not to achieve better conditions for American corporations. Finally, the US administration launched in the beginning of 2018 an “a mini trade war” with China and South Korea, with punitive tariffs on their solar panels and washing machines.

The US protectionist policy is contrary to the World Trade Organization (WTO), which regulates and settles disputes in the international trading system. US administration raised customs duties to steel and aluminum (by 10–25%) while leading a “veritable war of attrition”, where the US has blocked the appointment of judges to the WTO appeal authority, which determines global trade disputes.

The “blockade” means that the number of judges of the appeal authority now is down to four of the usual seven judges and thus approaching the three, at least to the appellate authority may maintain its function. The US is of the opinion that WTO has constantly harmed American interests, while failed to confront Chinese protectionism. According to Japanese researchers, the accusations are groundless: the US won more often in several appellate cases (78 per cent from 69 per cent), and the WTO appeal authority has taken the US side in 35 per cent of the cases, while others were successful in only 30 per cent of the cases against the US.

Some facts on global workforce and world trade would make the overall picture more clear:

- Growing protectionism was blamed for deepening the 1930s depression;
- After 1945, the trend has gone in the direction of more free trade via the so-called GATT-rounds talks from 1948;
- After 1995, global trade agreements and disputes have been institutionalised within the present World Trade Organization, WTO. (11)

#### **2.4.5. World Economic Forum on modern labour challenges**

Since its inception about 50 years ago, the World Economic Forum in Davos has evolved into a vital platform for business, government and civil society to discuss global, regional, business and industry agendas. The WEF-2018 served as an important connection for global/European political elites and business communities to activate efforts in transforming ideas into actions.

Executive Chairman of the World Economic Forum, Klaus Schwab expressed his optimism about European future, as the member states have managed the financial crisis and returned to strong economic growth. However, he argued, the EU was both “stuck in a social crisis” and that Europe was still “living in a fractured world”.

There is a need for a “social contract”: forum’s general message was that in modern circumstance economic growth without restoring “the social contract” is not sustainable. This social contract that already served many countries to progress seemed being damaged and broken; but a “citizens’ compact” that is wildly talked about in the EU states presently looks to many as an “anti-social contract” with businesses as “the sole winner”. Forum showed worries concerning severe strains in the foundation of the European “social relationships”. The social problems in the member states (often called a crisis) are threatening the EU’s prospective future,

as the financial crisis did a decade ago. Social issues required equally concerted attempts from all sides of states' political economies in order to avert more serious problems. (12)

As in the financial crisis, it has been national governments that had lead rescue efforts, working with all parties and sides involved, together with central banks, political elites and financial oversight bodies. It is important presently to devise the recovery efforts in the social spheres and labour policies: "this time business, with its global span and influence, should take the lead".

Business is a major stakeholder in the health of the global economic, social systems and labour reforms. Thus, business leaders must play a leading role in repairing broken "social contract".

In this sense, the governments must work to fundamentally improve the system for those who have been left behind by focusing more on the "quality of economic growth" rather than on the size of traditionally measured GDP. To facilitate this, the WEF has launched the Inclusive Development Index, which would provide "an alternative metric of national economic performance".

However, business shall not bear the sole responsibility for the critical social issues; as Pope Francis argued: "the entrepreneurial world has enormous potential to effect substantial change by increasing the quality of productivity, creating new jobs, respecting labour laws, fighting against public and private corruption and promoting social justice, together with the fair and equitable sharing of profits". Therefore, both governments and the civil society must be fully engaged partners in truly multi-stakeholder efforts to resolve the social issues.

Most European governments are freeing entrepreneurs' business activity: in attracting capital, in providing guarantees to investments and to rewarding all sorts of production. The national growth includes both the production of goods/services, etc. and all kinds of "social capital's" activities, which provide for national values devotion to the country. (13)

Another major issue on which the WEF has pointed out has been the digitalising economic growth and effects on jobs. For example, Germany – European largest economy – currently enjoying strong growth and record low unemployment, acknowledged serious challenges due to strong efforts to "grasp digital shift". Presently all sort of data can become "the raw material of the twenty first century", bringing with it complex challenges, both in economic growth and labour relations; hence the EU's shift towards "common digital market and society".

#### **2.4.6. Education for growth and jobs**

The future of work is going to look very different, as automation and artificial intelligence make many manual, repetitive jobs obsolete. According to the McKinsey Global Institute, robots could replace 800 million jobs by 2030, while the World Economic Forum suggests a "skills revolution" could open up a raft of new opportunities. "If we do not change the way we teach, 30 years from now, we're going to be in trouble," said Jack Ma, the founder of Alibaba Group, China's e-commerce giant. The knowledge-based approach of "200 years ago", would "fail our kids", who would never be able to compete with machines. Children should be taught "soft skills" like independent thinking, values and team-work. (14)

According to M. Shafik, Director of the London School of Economics, "anything that is routine or repetitive will be automated"; besides, he added, it is important to see perspectives of "soft skills, creative skills, research skills, the ability to find information, to synthesise it and making something of it." (15)

Some scientists (e.g. F. Gianotti, the Director General of CERN) while mentioning the importance of *STEM skills* (Science, Technology, Education and Mathematics), somehow underline that music is as important as maths. It in reality, that often people put science and



the humanities, or science and the arts, in different silos. They are the highest expression of the curiosity and creativity of humanity, while the optimal view should be towards cross-sectoral education and skilling, which can play much bigger role in preparing people for jobs in the future.

#### 2.4.7. Modern “revolution” in employment

The Fourth Industrial Revolution (4<sup>th</sup> IR) is the greatest transformation human civilization has ever known. As far-reaching as the previous industrial revolutions were, they never set free such enormous transformative power. The 4<sup>th</sup> IR is transforming practically every human activity: the way we make things; the way we use the existing resources; the way we communicate and interact with each other as humans; the way we learn; the way we work; the way we govern; and the way we do business.

The 4<sup>th</sup> IR's scope, speed and reach are unprecedented: just 10 years ago, there was no such thing as a smartphone; today, billions of people do not imagine life without it.

However, enormous power entails enormous risk; getting the 4<sup>th</sup> IR right, digitalisation will benefit about 10 billion humans in the world by 2050. But getting it wrong, societies will be divided into winners and losers, social unrest and anarchy will arise, the glue that holds societies and communities together will disintegrate, and citizens will no longer believe that governments are able to fulfill their purpose of enforcing the rule of law and providing security. (16)

The 4<sup>th</sup> IR is more than just technology or business; it's about society. Nevertheless, it is humans define the algorithms that govern machines and are writing “the codes” that will shape nations' collective future. For example, in manufacturing the present trend (called *Industrie 4.0*) enables manufacturers to create digital tools for the entire manufacturing process: from lab to factory floor, from showroom to services. Manufacturers can design, simulate, and test sophisticated products in the virtual domain before making the first physical prototype, before setting up production lines, and before starting actual production.

Digital tools can assist in optimising all processes and tasks in so-called cyber-physical systems: once everything works in the virtual world, the results are transferred to the physical world, and then they close the loop by reporting back to the virtual world. This integration of the virtual and the physical worlds in the cyber-physical systems is the modern time's giant achievement: 4<sup>th</sup> IR will eliminate millions of “old jobs” and create millions of “new jobs”. For example, presently, manufacturing accounts for 70% of global trade, becoming a kind of “the wealth of nations” according to Adam Smith. That raises the question: what can we do to make sure as many citizens as possible benefit from the Fourth Industrial Revolution?

In modern time, the 4<sup>th</sup> IR can assist politicians and economists to lay the conceptual foundation for an inclusive society. In the middle of the 20<sup>th</sup> century, some economists like Alfred Müller-Armack developed the so-called *social market economy*, which was a backbone idea of Germany's successful development model. (17)

The ideas of uniting the free market principles with that of the fair distribution of “produced prosperity” are becoming popular presently as a way of coping together capitalism and sustainable economic and social well-being.

Hence, the apparent increase of corporate social responsibility and sustainability, which is becoming a standard way of running business. Business is not just for profit and the shareholder value alone should not be the yardstick; instead, there should be “social values” that define any company's performance.

Presently, customers, shareholders, suppliers, employees, political leaders and society as a whole, rightfully expect companies to assume greater social responsibility, for example, by protecting the climate, fighting for social justice, aiding refugees, and training and educating

workers. Actually, the ultimate “role of business” shall be in creating value for society, or “business to society”; in the EU and globally it is called “corporate social responsibility”.

As soon as the 4<sup>th</sup> IR is based on knowledge, the whole system of education and training shall be modernised. This is not a task just for education ministers; both government and business must join forces to provide workers with the skills and qualifications they need to participate in the digital economy.

Besides, all forms of encouraging innovations shall be in place: e.g. digital technologies enable both completely new business and new social models; one of these is the sharing economy. It challenges one of the fundamental precepts of western economic order: the prominent role of property, which ultimately can be “shared”.

The 4<sup>th</sup> IR makes political economy to figure out both the opportunities and risks of the “new industrial revolution” can bring, with considering priorities in globalised and interconnected world. That makes the national leaders in politics, business, science, art, diplomacy, etc. to discuss global/European issues to advance prosperity, security and peace.

#### **2.4.8. Helping farmers: workforce and agro-food quality**

Concerns about food fraud and food quality undermine consumer confidence and damage the whole food supply chain in Europe, from farmers to retailers. Recent cases of food fraud included olive oil, wine, honey, fish, dairy products, meat and poultry. In addition, consumers may be exposed to unfair commercial marketing practices, especially regarding food products with significant differences in composition offered in different markets but under a similar package.

The established “knowledge center” is a network made up of experts in and outside the Commission; it will support EU policymakers and the member states’ authorities by providing access to, and sharing up-to-date scientific knowledge on food fraud and food quality issues.

Food quality has become issues of great concern in the member states. Responding to consumers’ demands, the European Commission started to assess problematic issues. The EU has started with administrative measures: it launched a “Centre for Food Fraud and Quality”, which will complement the EU Food Fraud Network by providing an interface between science and policy-making.

About 38% of MFF (multi-year EU budget) is still devoted to supporting farmers in the member states. The CAP is financed through two funds, i.e. the *European Agricultural Guarantee Fund* (EAGF) and the *European Agricultural Fund for Rural Development* (EAFRD). The EAFRD is part of the Common Strategic Framework<sup>5</sup> (CSF) for Cohesion Policy 2014-2020, where Rural Development (RD) priorities translate and feed into the CSF thematic objectives. Some tasks and activities related to promotion of agricultural products are entrusted to the Consumers, Health, Agriculture and Food Executive Agency (CHAFEA). (18)

With the concern of adding value with the CAP’s “Quality schemes through quality policy”, the EU provides a number of measures to help farmers’ production to be built on the high quality reputation of European products to sustain competitiveness and profitability.

A key tool in this is the register of more than 1300 protected food names which are classified according to three main categories:

- 1) **Protected Designation of Origin (PDO, totally 1291);**
- 2) **Protected Geographical Indication (PGI, totally 459), and**
- 3) **Traditional Speciality Guaranteed (TSG-55).**

These indicators most actively were developed during 1992–2011. (19)

PDO covers agricultural products or foodstuffs that are produced, processed and prepared in a specific geographical area, using recognised know-how. PGI covers agricultural products

or foodstuffs closely linked to a geographical area; at least one of the stages of production, processing or preparation occurs in that area, while the raw material used in production can come from another region. Finally, TSG covers agricultural products and foodstuffs that are produced using traditional raw material or traditional production methods, or that have a traditional composition, with no restriction as to the product's geographical origin. (20)

In 2006, the EU Regulation No. 509/2006 was adopted, creating a regulatory framework of the TSG label for agricultural products and foodstuffs. The latest regulation No. 1151/2012 on agro-food quality certification schemes came into force on 3 January 2013. Applications to use any of those schemes are generally managed by a group of producers, through the national food authority's communication with the European Commission; the latter analyses applications, in order to guarantee the right to use the respective label. However, regulation 1151/2012 is not applied to wine products, except for wine vinegar, since those products require specific control rules, according to Regulation No. 1234/2007; wine products can benefit from the PDO and PGI labels but not from TSG.

The production of these registered quality products contributes to diversity, development and growth in the rural areas where they are produced; besides, producing quality-recognised agro-food can protect local culinary and farming knowledge, skills and jobs.

For example, France presently has 233 food products registered, of which 98 as PDO (e.g. Roquefort or Beurre d'Isigny), 134 as PGI (e.g. Saint-Marcellin, Sel de Guérande/ Fleur de sel de Guérande or Melon de Guadeloupe) and one as TSG (Moules de Bouchot). (21)

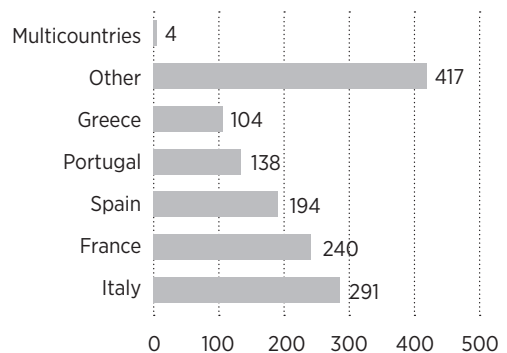
Southern European countries present the greatest number of PDO, PGI and TSG registrations. Italy and France stand out, having a long tradition of protecting and promoting products nationally, followed by Spain, Portugal and Greece. PGI is the principal certification scheme, followed by PDO and TSG, although the last named has a low number of registrations. "Fruit, vegetables and cereals", and "cheeses", are the product types with most registrations, although "meat products", "fresh meat", and "oils and fats" are also important.

In the Baltic States the situation is different: one single reason is that applying for quality products need "approved historic records" of producing original or geographic quality products; such periods can be of several years and/or even decades... (22)

In the new sphere of agro-business, i.e. bio-economy the new work-force as well as other workers and businesses must be supported in the new business environment through re-skilling, skills upgrading and lifelong learning. Already at the end of 2012, at a conference on "New skills for a European bio-economy", investment in people, in their skills and knowledge has been prioritised. That meant, among other things, enabling closer collaboration between industry and the education sector and adapting higher education and vocational training to create a better match between the demand and supply of skills.

A long-term and cross disciplinary approach to skills will help in creating bio-economy, ensuring that European states will have the right skills to make full use of new and emerging opportunities. And while it is vital to develop new skills, existing local-knowledge and best practice should not be forgotten...

**NUMBER OF REGISTRATIONS IN SOUTHERN EU STATES, DATA FROM 2017**



### 2.4.9. Latvian work force: comparison with Estonia and Denmark

Comparing Baltic States and the Nordic countries provide a good example to emulate in “organizing” both labour market and labour relations.

#### SECTORAL EMPLOYMENT IN THE THREE BALTIC ARE STATES, IN THOUSANDS

	Latvia		Estonia		Denmark	
	2009	2016	2009	2016	2009	2016
Total employment	<b>903.7</b>	<b>886.3</b>	<b>576.6</b>	<b>624.7</b>	<b>2 854.0</b>	<b>2 877.0</b>
Agro, forest, fisheries	76.3	67.4	22.5	24.5	72.0	68.0
Industry, energy	141.7	141.0	126.6	131.0	346.0	315.0
Manufacturing	117.8	118.9	110.5	118.7	317.0	289.0
Construction	72.8	60.2	49.8	45.6	184.0	180.0
Trade, transport, food	262.5	245.3	146.7	156.5	707.0	739.0
ICT	19.6	30.7	14.6	27.6	99.0	104.0
Finances & insurance	19.3	16.5	11.4	10.9	90.0	79.0
Real estate	21.3	22.1	9.0	11.7	41.0	46.0
R & D	58.5	77.5	37.2	45.1	270.0	306.0
Public admin., Education, Health	191.1	181.9	133.7	138.7	895.0	887.0
Other services	40.5	43.7	25.1	33.1	150.0	154.0

Source (23)

#### EMPLOYMENT IN THE THREE BALTIC AREA STATES, IN THOUSANDS

	Latvia		Estonia		Denmark	
	2009	2016	2009	2016	2009	2016
Total population	2142.0	1959.3	1335.7	1315.9	5523.0	5729.0
Total employment, due to seasonal changes	903.7–910.3	899.9–886.3	596.1–576.6	647.3–624.7	2813.0–2854.0	2841.0–2877.0
Total employees	797.5	770.5	527.7	565.2	2666.0	2698.0
Total self-employed	106.2	115.8	48.7	59.5	189.0	179.0

Source (24)

The “mission” to streamline and predict Latvian labour market seems “complicated” due to two main reasons: ineffective trade unions (in some sectors even non-existent), weak employers’ organisations and inactive state/regional authorities in guiding the labour market’s evolution.

### 2.4.10. Labour market and business in Latvia

Businessmen from the different economy sectors and Latvian regions say that it is becoming problematic to find appropriate workers: about 60% of the Latvian Chamber of Commerce members recognised that as a “systematic problem”; still many consider that the problem would be even more serious. (25)

One of the possible solutions could be the search for Latvian internal reserves, such as more intensive attraction to the market older-age people, so-called seniors. Some say, for example, that there isn’t a shortage of work force in Latvia; it is simply the question of “adaptable age issue”.

Another “systematic problem” is that of disconnection between supply and demand on the labour market: as is known, average wage in the country is quite low compared with other EU states: it is presently about one thousand euro (before tax); so “in the pocket” it is even less, said Council chairman of Latvian Chamber of Commerce and Industry, Jānis Endziņš. However, people’s expectations about wages are considerably above the average level.

Researchers from the Latvian state university asked Latvian Diasporas abroad and concluded that about half of them would want and even ready to return, if the wage is one thousand euro after tax; almost three fourth are ready to return, if Latvia’s wage level will be about €1500 after tax. So, the difference between expectations and actual wage for those wanted to return is not very big.

However, “people’s exodus” continues; it seems strange: on one side, employers cannot find needed workers, at the same time workers cannot find good work and leave. From a wage’s point if authorities wouldn’t “deliver” on an average €1500 after tax, then exodus would, unfortunately, continue. The fact that wages are increasing is definitely good (it happens everywhere), but that is only good and perspective if labour productivity rises adequately. That is, when business is innovative and flourishing, it is quickly expanding products outside the country and generally economically sustainable to increase salaries, the situation is good and rational. There is perspective is such a balance between growth in production and growth in wages. But, if productivity remains at the previous level but wages are still increasing, then the “bubble” is formed.

Already presently, according the Latvian Chamber of Commerce, productivity growth lags behind an increase in wages. Similar situation once took place in Latvia; it was “before-crisis” when the main driver in economy was the construction sector. At that time qualified workers moved to the construction sector to carry out even simple works, because wages were adequate to the workforce required. It is known that the situation ended sadly, which gives an important lesson: company must keep abreast with the growth of his own enterprise.

Latvian government employment agency (NVA) organised courses for redounded people; however it is doubtful whether companies are willing to employ such “new workers”. It would be good if these courses were closer integrated with the real needs of the business sectors. And again, it would be good to emulate, e.g. German practice in the sphere of professional re-training: they started to experience with so-called “dual training” which includes professional training based on a perspective work opportunities.

The German’s idea was such that professional training takes quite a short time at a technical school – most time he/she is a trainee at a “real company”. This approach gives both theoretical knowledge and very practical skills in real business environment. Besides, it is often quite important to acquire new skills but also to understand whether a particular worker will fit into the “business climate”.

It was for the first time in 2017, when there were fewer people entering the Latvian labour market than those that left it: in this way, actually, occurred a “negative labour break”. Unfortunately, the present trend in Latvian labour market is such that the number of “working age” people is constantly decreasing whereas the number of people of pension age increases. It would be wise to think how to nevertheless return them to employment: it would be better for additional workers with additional money earned and it would be good for the national economy in general.

Another problem of so-called “divided society” has also its effect on labour relations; it is both about Latvian-Russian “divide” and “diversification” in the society in general. Some see it, that the Latvian society has become “sufficiently diverse”: social stratification occurred in the country making the “stratification of society”.

“Monitoring Leta” portal (referring to Latvian sociologist scientist, A. Zobena) underlines that Latvians continue to leave the country in search of the better life. There are less people that returned back to Latvia than those for whom life is so bad that there is nothing left but to leave. Comparing present situation with one about 15 years ago (when Latvia entered the EU), when many people already have been abroad: they studied and worked there; when they returned they could see that life in Latvia was not that bad after all. At the same time, there are plenty of those that have had no other options but “go West”, as their life is becoming so terrible...

The sociologist’s opinion coincides with the EU’s Eurobarometer data: about 58 per cent of Latvians generally evaluate the overall situation in the country as poor.

Most skeptically Latvians evaluate the country’s economic situation: about 70% consider it as “unsatisfactory” and only 25% as “pretty good”. The working conditions are “stable” for 58% of the respondents in Latvia and 23% as “negative”. Family’s financial position is considered “good” by 64% of Latvians and “poor” by 33%. About 66% of respondents are dissatisfied with the employment situation in the country: they say that if there is a “worthy alternative” then about 90% of respondents were ready to move to other country. (26)

#### **2.4.11. Employment in the Nordic states: rules vs. cooperation**

In the Nordic states labour relations are generally administered by the collective agreements among the three “partners”: *employers* (represented by the business/corporate organisations), *employees* (mostly represented by the “sectoral” trade unions) and *government’s representatives* (from central, regional and local administration).

These agreements are taking place once in 4–5 years and usually called 3-party’s agreements. They are, however, not covered by any clearly defined and elaborate legislation. The “model” for defining labour relations in the Nordic states (such as Sweden, Norway, Denmark and Finland) is based on the involvement of all three parties in a kind of “cooperative agreement”, which includes coordination of interests from all sides of labour relations in these states.

In fact, such 3-party’s agreements exist in both *private* and *public sectors*: in the former, it is about employment conditions in a certain economy sectors (such as hourly wage, unemployment benefits, paternal leave’s support, holidays’ duration, etc.) within a one trade union’s area; in the latter, it is about more complicated spheres in the public sector, which covers, e.g. in Denmark alone over 750 thousand civil servants dispersed among central, regional and local administration offices.

The 3-party’s agreements in the public sector are complicated also because they cover several trade unions’ interests: teachers and doctors, nurses and drivers, cleaners and community services people, to name a few. To coordinate various interests is becoming often so complicated that the process could cover one-two months.

Coordination, generally, include three main issues (with some issues of minor importance as well): yearly wage increase by at least 8% versus about 7% in the private sector; workers’ time (most difficult it is for teachers and nurses with over-time hours), and – strange enough – about paid lunch time to be included into “public service’s time”.

Most active in such cooperative agreements are, on one side, various public services’ trade unions, such as medical nurses’ trade union; they have to show that they are really taking care of workers’ interests in the public sector. On the other side, there are various government representatives, as most of the issues under agreements are those to be covered by additional injections from the budget.

As a rule, such agreements, though often very tough and lengthy in discussions, end up in a compromise, showing satisfaction to all sides of the “collective agreements”.



## Resume

*The EU's general task is that of delivering the new jobs, providing growth and implementing an investment programme, which will mobilise up to €300 billion in additional public and private investment in the member states' real economy up to 2020. In this regard the Commission stretches a "strong helping hand" to the member states through coordination of the mid-term reviews in the EU-2020 strategy and through country specific recommendations in the European Semester. For the Latvian government it means just to "get this hand" properly.*

*Pursuing structural reforms in the EU states, the Commission insists that the European economic policy coordination shall take into account the social impacts of reforms. Besides, economic coordination shall help to improve the member states' business environment to make Europe a more attractive place to work and invest.*

*The EU capital markets union shall be completed by 2019 together with the social dialogue and labour reform issues. Maximising the benefits of capital markets and non-bank financial institutions shall be the primary aim for structural and general economy's reforms with the purpose of particular assistance to SMEs. In this way Latvian government can ensure that financial markets shall be properly regulated and supervised so that they are stable, competitive and transparent, for the benefit of employment and future growth.*

*The task to both streamline, regulate and predict Latvian labour market structures seems "complicated" due to three main reasons: ineffective trade unions (in some development sectors even non-existent), weak employers' organisations and inactive state/regional authorities in guiding the labour market's evolution.*

## Notes and references

1. Social aspects in the division of competences. In: <http://ec.europa.eu/social/main.jsp?langId=en&catId=1>
2. On the strategy consult the web link: <http://ec.europa.eu/social/main.jsp?langId=en&catId=101>
3. See more on employment guidance in: <http://ec.europa.eu/social/main.jsp?catId=101&intPageId=3427>
4. On JER see web link: <http://ec.europa.eu/social/main.jsp?catId=101&intPageId=3427>
5. See more in the following web links: <http://ec.europa.eu/social/main.jsp?catId=115&langId=en> and <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=9087&furtherNews=yes>
6. See annex to Regulation No. 2017/825 (May 2017), on the establishment of the Structural Reform Support Programme – Work Programme for 2018 in: [https://ec.europa.eu/info/sites/info/files/srsp2018\\_annual\\_work\\_programme.pdf](https://ec.europa.eu/info/sites/info/files/srsp2018_annual_work_programme.pdf)
7. More information in the following web-links:
  - Factsheet: Structural Reform Support Service;
  - Press release: European Semester Winter package;
  - Memo: European Semester Winter Package;
  - Country Reports;
  - Structural Reform Support Service;
  - Structural Reform Support Programme; general reference. In: [http://europa.eu/rapid/press-release\\_IP-18-1582\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-18-1582_en.htm?locale=en); Latvian version: [http://europa.eu/rapid/press-release\\_IP-18-1582\\_lv.htm](http://europa.eu/rapid/press-release_IP-18-1582_lv.htm)
8. See more in: [http://www.epc.eu/pub\\_details.php?cat\\_id=2&pub\\_id=4995](http://www.epc.eu/pub_details.php?cat_id=2&pub_id=4995); and EPC paper on "New industrial policy for Europe" in: [http://www.epc.eu/documents/uploads/pub\\_3819\\_ppt\\_a\\_new\\_industrial\\_policy\\_for\\_europe.pdf](http://www.epc.eu/documents/uploads/pub_3819_ppt_a_new_industrial_policy_for_europe.pdf)
9. More on the EPs' action plan in: [http://www.epc.eu/program\\_forum.php?forum\\_id=80&prog\\_id=2](http://www.epc.eu/program_forum.php?forum_id=80&prog_id=2)
10. More on these issues, in the U.S. President Donald Trump's speech "America First does not mean America alone". In: <https://www.weforum.org/agenda/2018/01/president-donald-trumps-davos-address-in-full-8e14ebc1-79bb-4134-8203-95efca182e94/>
11. Citations from: M. Jarlner "Slaget om verdenshandlen", -*Politiken*, 29.01.2018, p. 2.
12. See more in the WEF's website at: <https://www.weforum.org/agenda/2018/01/>
13. More in the WEF's reports on: <https://www.weforum.org/reports>
14. References to: "Towards a Reskilling Revolution: A Future of Jobs for All" provides a valuable new tool that will help individual workers, companies, and governments to prioritize their actions and investments. In: <https://www.weforum.org/reports/towards-a-reskilling-revolution>

15. Quotations from: <https://www.weforum.org/agenda/2018/01/top-quotes-from-davos-on-the-future-of-education/>
16. Source and citations from: <https://www.weforum.org/agenda/2018/01/the-world-is-changing-here-s-how-companies-must-adapt/>
17. On social market economy's origin: [https://en.wikipedia.org/wiki/Alfred\\_M%C3%BCller-Armack](https://en.wikipedia.org/wiki/Alfred_M%C3%BCller-Armack)
18. See EU's agro-files: [https://ec.europa.eu/info/sites/info/files/agri\\_sp\\_2016\\_2020\\_en.pdf](https://ec.europa.eu/info/sites/info/files/agri_sp_2016_2020_en.pdf)
19. On protected food schemes: web source: [https://ec.europa.eu/agriculture/quality/schemes\\_en](https://ec.europa.eu/agriculture/quality/schemes_en)
20. Reference: <https://www.sciencedirect.com/science/article/pii/S0963996917306440#bb0155>
21. For example, quality products in the UK: <https://www.gov.uk/government/collections/protected-food-name-scheme-uk-registered-products>
22. More on agro-food quality in: [https://ec.europa.eu/agriculture/quality/schemes\\_en](https://ec.europa.eu/agriculture/quality/schemes_en); more information on farmers-workforce in:
- Knowledge Centres of the Joint Research Centre;
  - The Joint Research Centre. EU policy-making based on facts (PDF).  
General reference: [http://europa.eu/rapid/press-release\\_IP-18-1744\\_en.htm/12.03.2018](http://europa.eu/rapid/press-release_IP-18-1744_en.htm/12.03.2018); Latvian version: [http://europa.eu/rapid/press-release\\_IP-18-1744\\_lv.htm](http://europa.eu/rapid/press-release_IP-18-1744_lv.htm)
23. National accounts of OECD countries, 2018. In: [https://www.oecd-ilibrary.org/economics/national-accounts-of-oecd-countries-volume-2018-issue-1\\_na\\_ma\\_dt-v2018-1-en](https://www.oecd-ilibrary.org/economics/national-accounts-of-oecd-countries-volume-2018-issue-1_na_ma_dt-v2018-1-en)
24. Ibid.: [https://www.oecd-ilibrary.org/economics/national-accounts-of-oecd-countries-volume-2018-issue-1\\_na\\_ma\\_dt-v2018-1-en](https://www.oecd-ilibrary.org/economics/national-accounts-of-oecd-countries-volume-2018-issue-1_na_ma_dt-v2018-1-en) (March 2018), pp. 71, 75 and 123.
25. See more in: <http://monitorings.leta.lv/item/P3F8EF9CD-BFBF-4C1B-8FCD-431F8A0DA6F8/c/10AA86A7-D697-11D6-AEC6-0070CA111E26/1239/>
26. Note: all citations in this paragraph are from *Eurobarometer* and Latvian *Leta news agency*: <http://monitorings.leta.lv/item/PEE89D7DF-FC6C-4055-A703-568ADE0D012B/c/10AA86A7-D697-11D6-AEC6-0070CA111E26/1239/>  
See also employment situation according to OECD research in: [https://www.oecd-ilibrary.org/economics/national-accounts-of-oecd-countries-volume-2018-issue-1\\_na\\_ma\\_dt-v2018-1-en](https://www.oecd-ilibrary.org/economics/national-accounts-of-oecd-countries-volume-2018-issue-1_na_ma_dt-v2018-1-en)

## 2.5. Active role of science and technology: perspectives for Latvian growth strategy

*Numerous combined and coordinated efforts among the EU institutions and the member states exist in order to gain fore-front science and innovation positions in the world. Modern European decisions are directed towards creating optimal, progressive and pioneering member states' positions in global science and technologies. Main ideas in these decisions are on "future and emerging technologies", so-called FET, which supposed to represent elaboration of long-term research directions in the still uncharted areas in broad science and technology fields.*

*Active role of science, research, technology and innovation's development belongs to the member states. It's not only the rate of investment in science which has to be on the level of 3% of national GDP; the national science policy has to be reviewed in a way corresponding to both European-wide policy guidelines and the national growth strategies.*

### 2.5.1. Introduction

Significant changes have already occurred in approaches to science, technology and research policy in the European Union institutions and the member states. It has to be noted that the main shift in European science policy is from the previously vital direction towards **research and development** (so-called, R & D) to a new one aimed at fruitful combination of **research, innovation and investments** (so-called, R & I).

In order for the European research and innovation sector to be successful in the coming years, the member states need funding. The EU is now considering funding and priorities for its next budget period, including new financial programming or FP9, the successor to Horizon 2020, which is presently the EU's research and innovation programme up to 2019. A good deal of preparation is already done, for example, contributions from the expert group chaired by

Pascal Lamy on maximising the impact of EU research and innovation. The group suggested R & D priorities in both EU and national budgets; then, the EU's post-2020 budget research should be doubled. (1)

However, serious funding is required to maintain European excellence in scientific research and turn scientific discoveries into a greater number of industrial applications. Several countries have already done so: for example, China has overtaken the EU in terms of R & D spending as a share of GDP; South Korea, Japan and the United States are at the top of the scientific research's ranking.

The EU's policy support facility, which emerged from 2015 from the Annual Growth Survey, the Commission identified research and innovation (R & I) as one of the seven priorities for the member states' structural reforms to boost investment and growth. It highlighted reforms in the EU states to increase the impact of public funding through improved R & I strategies, programmes and institutions, as well as reforms to ensure an investment-friendly environment to stimulate business innovation. (2)

Then, in the *Horizon 2020 Policy Support Facility* (PSF), which was launched in March 2015 as a new instrument that could give the EU states associated to Horizon 2020 practical support to design, implement and evaluate reforms that enhance the quality of their R & I investments, policies and systems. Such reforms concern, for example, the stimulation of stronger and closer links between science and business or the introduction of performance-based funding of public research institutes. (3)

To do so, the PSF provides the EU member states with access to independent high-level expertise and analyses through a broad range of services such as peer reviews of the national R&I systems, support to specific reforms or project-based mutual learning exercises. In addition, the PSF offers a Knowledge Centre via its website. (4)

### **2.5.2. Future and emerging technologies for Latvia: some flagships**

The EU's trend is to move from research and development (R & D) to research and investment (R & I), showing the importance of investment in science to make people see the results of EU funding. European recommendations are particularly relevant concerning future and emerging technologies (so-called, FET flagships):

- One is to stimulate European approach to more mission-oriented and impact-focused research addressing global challenges. In this regard, European FETs provide the insight in changing the traditional mindset and show how R & I is changing industries and wider society, i.e. how new science applications and devices are bringing major practical implications and benefits for citizens.
- The other is to improve combined European and national R & I issues can provide for additional "European value" to scientific achievements and projects conducted together; thus, better coordination between EU and national research programmes is becoming important.

It was already mentioned that the competences of the EU institutions in the area of research and technological development are shared with the member states. Specifically, in Article 4.3 of the TFEU, it is mentioned that: "... in the areas of research, technological development and space, the Union has competence to carry out activities, in particular to define and implement programmes; however, the exercise of that competence shall not result in the member states being prevented from exercising theirs".

Although Horizon 2020 is Europe's largest single research and innovation programme, it accounts for only a very small proportion of the public research and innovation efforts in Europe.

The headline indicator of 3% R&I expenditure fixed in the Europe-2020 strategy is made up of 1% public expenditure (of which Horizon 2020 is a minority), and 2% private expenditure.

To have any chance of progressing to this goal, efforts therefore need to go well beyond the effective implementation of the EU financial framework programme. This is also needed to address the challenges of ensuring a competitive industrial and technological base, and an effective coordination of the member states scientific policies. (5)

### 2.5.2.1. Modern European research and innovation (R & I) directions

In “Future and Emerging Technologies” (FET), the Commission underlined some projects of particular importance. For example, *graphene* and the *Human Brain Project* are clear signs of being on the right track to identify and develop practical applications that will make a positive difference to people’s lives, to social and economic progress.

As to graphene project, scientists theorised about graphene for years. It had been unintentionally produced in small quantities for centuries, through the use of pencils and other similar graphite applications. It was originally observed in electron microscopes in 1962, but it was studied only while supported on metal surfaces. The material was later rediscovered, isolated, and characterised in 2004 by Andre Geim and Konstantin Novoselov at the University of Manchester. Research was informed by existing theoretical descriptions of its composition, structure, and properties. This work resulted in the two winning the Nobel Prize in Physics in 2010 “for groundbreaking experiments regarding the two-dimensional material graphene”. Graphene as a composite material is a transparent and flexible conductor that can be used in various material/device applications, including solar cells, light-emitting diodes (LED), touch panels and smart windows or phones. For example, graphene-based touch panel modules produced by a China-based company (2D Carbon Graphene Material Co., Ltd) have been sold in volumes to cell phone, wearable device and home appliance manufacturers. Other commercial uses of graphene include fillers such as a graphene-infused printer powder; graphene super-capacitors serve as energy storage alternative to traditional electrolytic batteries. Among advantages are fast charging, long life span and environmentally friendly production. Graphene super-capacitors produced by Skeleton Technologies have been commercially available since around 2015 and were first used in some specialised applications instead of traditional batteries. Thus, industry interest for graphene properties is huge: for example, graphene-based sensor for collision detection systems, which combines visible and infrared light to avoid collisions even in fog; in sensors in a band around the arm to detect electrical signals from muscles in order to move a robotic hand. (6)

The EU’s other direction, the *Human Brain Project* tackles one of the greatest scientific challenges of our time: to understand the human brain and its diseases. This project should revolutionise neuroscience. Understanding and emulating some of the brain’s computational capabilities should also lead to major advances in robotics, artificial intelligence, big data analytics and new computing architectures. (7)

Among other perspective directions are *quantum technologies*: its ramp-up phase begins in 2018 and will proceed up to the end of the EU’s Horizon 2020 programme. The quantum project aims to turn Europe’s excellent research results into industrial leadership; it should place Europe at the forefront of one of this century’s most promising technological developments. The first quantum revolution expanded scientific horizons to an amazing extent with lasers and transistors, which are used in computers, mobile phones and internet, the applications and technologies making the mainstream advantages. The second quantum revolution has just started: it is based on the growing ability to manipulate and sense quantum effects in customised

systems and materials. This will mean totally new concepts for devices with the following real practical impact in:

- Ultra-precise synchronisation and enhanced sensitivity devices;
- Guaranteed data privacy and communication security;
- Unprecedented computing power that goes beyond anything now envisaged at the high-end of computing technology.

However, while Europe has many world-class scientists in quantum, so far there is little industrial take-up or commercial exploitation. In order to develop a strong quantum industry, the EU and the states should coordinate this work, which is one of the main objectives of the *Quantum* flagship research. Commission vice-president underlined that the future and emerging technologies discussion in the member states presently reflect a worldwide race for technology and talents; however, there is not yet a coherent pan-European strategy.

### 2.5.2.2. Perspective priorities

Europe is home to 1.8 million researchers working in thousands of universities, research centres and world-leading manufacturing industries. By working together across borders, sectors and disciplines, the EU and the member states can push the boundaries of science towards developing practical applications that can make difference to people's lives.

The Commission regards that the rationale of political and financial commitment to future and emerging technologies consists of the following priorities:

- Develop a dynamic environment for research and innovation;
- Allow ideas to progress smoothly from laboratories to market;
- Attract and retain world-class talent; and
- Make sure that Europe remains a global science leader. (8)

### 2.5.3. European semester and R & I

The Commission introduced in 2011–2013 the European Semester mechanism as a yearly cycle aimed to facilitate, control and coordinate the governance of the member states' economic policy. There are two main aspects in the Semester: Commission's each states' analytical economic assessment (with a "country report", analysing states' economic situation and possible reform agendas), and Commission's proposals with the "country-specific recommendations" for every EU state providing tailor-made policy advice in areas deemed as priorities for the next 12–18 months.

In the Semester's context, there are important research and innovation aspects; economic policy tools in the states are not yet fully perceived by the national policy-makers. Thus, it is essential that the member states ensure an adequate integration of R & I aspects in the above mentioned two types of Semester documents.

The Commission's DG Research and Innovation develops a comprehensive evidence-based approach targeting at:

- a) Identification for each EU state of its main R & I policy challenges, i.e. the key bottlenecks impeding the full contribution of R & I to smart, sustainable and inclusive growth; and
- b) The assessment of the adequacy of the policy response to the identified challenges.

In the "thematic R & I fiche", three broad types of R & I policy challenges are considered: first, fostering the quality of the public R & I system; second, leveraging business R & I through public-private cooperation; third, ensuring a business environment supportive of private R & I investments and the emergence of fast-growing innovative SMEs. (9)

### 2.5.4. European R&I perspective priorities

Europe is home to 1.8 million researchers working in thousands of universities, research centres and world-leading manufacturing industries. By working together across borders, sectors and disciplines, the EU and the member states can push the boundaries of science towards developing practical applications that can make difference to people's lives.

The European Commission described the rationale of political and financial commitment to future and emerging technologies, consisting of the following priorities:

- develop a dynamic environment for research and innovation;
- allow ideas to progress smoothly from laboratories to market;
- attract and retain world-class talent; and
- make sure that Europe remains a global science leader. (10)

The European approaches in R & D and R & I follow four main principles: from initiatives to new technologies, and from innovations to solutions. Main European research themes are concentrated on the following directions:

- **new technologies and business models**, which could make digital economy/society more inclusive (generally, by using collaborative solutions to reduce inequality);
- innovations, that could empower people to **fully participate in digital agenda** and gain from employment;
- initiatives that support active labour market and creating appropriate skills to shape knowledge economy through creativity;
- solutions to protect and support low wage/skilled workers in the evolving labour market.

Research activities in the Nordic countries are subject to intensive cooperation: modern R & D are becoming so expensive that single countries cannot afford conducting full-scale research in the needed fields. For example, New Opportunities for Research Funding Agency Co-operation in Europe (NORFACE) is a collaborative partnership of national research funding agencies from 18 European countries in the area of social and behavioural sciences.

NORFACE offers unique opportunities for participating funding agencies by developing common research funding instruments, thus creating opportunities for facilitating and building new networks of research collaboration in the social sciences.

Launched in January 2004, the NORFACE network is the result of a successful bid for funding to the European Commission 6<sup>th</sup> Framework Programme under the ERA-NET scheme. Since 2004 the NORFACE network has proved itself as a successful coordinated common action of currently 18 national research funding agencies. (11)

### 2.5.5. European Research Area

One of the European Union's objectives is that of achieving a European Research Area (ERA) in which researchers, scientific knowledge and technology circulate freely (art. 179 TFEU). Commission's DG Research and Innovation (DG R & I) supports the EU member states efforts and research organisations to implement the policies and reforms needed to achieve this objective.

According to the European Council decisions in 2011–2014, the Commission intended to create all conditions necessary for the states and other sciences' organisations to complete the ERA up to 2018–2019. However, the completion of ERA, much like the EU single/internal market, is a gradual process and further implementation efforts are needed. Every year the Commission issues the so-called ERA Monitoring Mechanism, which assesses progress in the implementation by the EU states and research organisations the Commission's set of ERA actions.

Horizon 2020, together with the national public research funding available in the EU states, is an important financial pillar for delivering ERA. The existence of recognised world-level



research infrastructures allows Europe to remain at the forefront of top-class scientific and technological development and innovation.

DG R&I actively participates in the European Strategy Forum on Research Infrastructures (ESFRI), which supports the development of a European policy for research infrastructures. In particular, the ESFRI roadmap identifies new pan-European research infrastructures or major upgrades to existing ones. DG R & I supports the member states and associated countries in coordinating their efforts to identify new European research infrastructures to be included in the ESFRI Roadmap as well as to fully implement and ensure sustainability of infrastructures' operations.

European **Innovation and Networks Executive Agency**, INEA is the successor of the Trans-European Transport Network Executive Agency (TEN-T EA), which was created by the European Commission in 2006 to manage the technical and financial implementation of TEN-T programme in transport.

However, it needed about seven years for INEA to start its present activities (actually, from January 2014); nowadays, it implements the following EU programmes: **Connecting Europe Facility** (CEF), **parts of Horizon 2020** (i.e. smart, green and integrated transport, plus secure, clean and efficient energy), and other **transportation programmes from previous years**, such as TEN-T and Marco Polo functioning during 2007–2013.

INEA's main objective is to increase the management efficiency of the technical and financial aspects in the EU numerous transportation programmes. (12)

### 2.5.6. Main European research themes

The European approaches in R & D and R & I follow four main principles: from initiatives to new technologies, and from innovations to solutions. Main European research themes are concentrated on the following directions:

- **New technologies and business models**, which could make digital economy/society more inclusive (generally, by using collaborative solutions to reduce inequality);
- Innovations, that could empower people to **fully participate in digital agenda** and gain from employment;
- Initiatives that support active labour market and crating appropriate skills to shape knowledge economy through creativity;
- Solutions to protect and support low wage/skilled workers in the evolving labour market.

Based on the Commission's White Paper on the future of Europe (June 2017), EU Commissioner for Research, Science and Innovation organised a conference in July 2017 "Research & Innovation – shaping our future", which discussed the role of research and innovation for Europe's future. (13)

### 2.5.7. Innovation in the EU networks

European **Innovation and Networks Executive Agency**, INEA is the successor of the Trans-European Transport Network Executive Agency (TEN-T EA), which was created by the European Commission in 2006 to manage the technical and financial implementation of TEN-T programme in transport.

However, it needed about seven years for INEA to start its present activities (actually, from January 2014); nowadays, it implements the following EU programmes: **Connecting Europe Facility** (CEF), **parts of Horizon 2020** (i.e. smart, green and integrated transport, plus secure, clean and efficient energy), and other **transportation programmes from previous years**, such as TEN-T and Marco Polo functioning during 2007–2013.

INEA's main objective is to increase the management efficiency of the technical and financial aspects in the EU numerous transportation programmes. (14)

### 2.5.8. EU research and innovation bodies

Latvian science, research and innovation policy (R & I) aims at launching new strategic path for the country towards the next level of ambition needed to tackle modern issue in finding Latvia's "specialisation" niche in global and European competitiveness.

As soon as the member states science and research activities is a shared competence between the EU institutions and the member states, the main EU's activities in this sphere is concentrated in the hands of a Commissioner for Research, Science and Innovation; in 2014–2019, *Carlos Moedas*, Commissioner. (15)

The "shared" nature of the EU's science and innovation makes the complicated the whole R & D system. There are numerous components/spheres in the EU's science, research and innovation policies. (16)

The so-called "working arm" of the Commissioner for Research, Science and Innovation is the *Directorate-General for Research and Innovation, DG RTD*. It defines and implements European Research and Innovation (R & I) policy with a view to achieving the goals of the Europe 2020 strategy and its key flagship initiative, the Innovation Union. DG RTD develops and carries out the Commission's policies on research and innovation (R & I); this new title reflects a change from the previous R & D, as research and development.

This DG contributes to the European Semester by analysing national R & I policies, by assessing their strengths and weaknesses, and by formulating country specific recommendations where necessary. The DG also monitors and contributes to the realisation of:

- a) Newly established EU's Innovation Union initiatives, and
- b) The completion of the European Research Area.

It funds excellent research and innovation works in the member states, taking a strategic programming approach. (17)

There are other EU agencies, councils and bodies in the scientific sphere:

- *The Commission's European Research Council Executive Agency, REA* coordinates and develops the following spheres of the member states activities with a general view to formulate the EU policy: *Transport, Energy and Digital economy and society*. Besides, REA manages the following EU programmes: *Connecting Europe Facility (CEF)*, some elements in the EU Horizon 2020 and Trans-European Transport Networks (TEN-T); during 2007–2013, it managed the Marco Polo programme. (18)
- *The European Research Council, ERC* has the mission of encouraging the highest quality research in the member states through competitive funding and supporting investigation-driven frontier research across all R & D spheres, on the basis of scientific excellence. The ERC complements other EU funding activities, such as the national research funding agencies, some "flagship components" of the Horizon 2020 programme and the EU's Research Framework Programme for 2014–2020. Being "investigator-driven" and "bottom-up" in nature, the ERC approach allows researchers in the member states identify new opportunities and directions in any field of research, rather than being led by priorities set by politicians. This ensures that funds are channeled into new and promising areas of research with a greater degree of flexibility. (19)
- *The European Institute of Innovation and Technology (EIT)*. It was established in 2008 with the idea of bringing together leading education institutions in the member states, research labs, etc. to form a "dynamic cross-border partnership", so-called knowledge & innovation communities or KICs. (20)

One of the main added values of the EIT is to integrate the education dimension into the innovation web, as it has often been absent from the more traditional research-business

partnerships. The EIT supports the creation of tomorrow's entrepreneurs and promotes a real change of mindset towards an entrepreneurial culture and attitude. By investing in the EIT, Europe invests in the talent of tomorrow who will not only create new start-ups but also contribute to innovation in existing companies, thus becoming a source for growth.

With this perspective, the KICs have developed their own education programmes that have a very strong focus on the delivery of entrepreneurship and innovation skills, and that are more tailored to the needs of the European innovation system.

KICs' higher education partners focus on developing innovative curricula that provide students, entrepreneurs and business innovators with the knowledge and skills necessary for a knowledge and entrepreneurial society. These innovative programmes are based on partnerships between different universities, companies and research centres that collaborate closely and offer double degrees, international and cross-sectorial mobility experiences, as well as applied innovation and entrepreneurship education. (21)

Additional "R&I-sectoral" approach is through another EU's institutional arm under supervision of the Commission vice-president, the *Directorate-General for Communications Networks, Content and Technology* (DG CONNECT), which conceives and implements the EU policies required to create a *digital single market* for more *growth and jobs*, for social spheres, citizens, businesses, and public administrations.

The DG assists member states in "driving" the digital transformation of the *EU member states' industry* and *public services* through the use of innovative digital technology and support for the development of digital skills. Besides, the DG assists in developing a long-term vision investing in *potential technology breakthroughs and flagships*, which can improve peoples' lives and to increase the competitiveness of the member states' economies in general and in key sectors. (22)

### **2.5.9. Strategic directions in the European science and research**

Discussion future and emerging technologies, the Commission underlined that combined and coordinated efforts among the EU institutions and the member states are needed towards gaining fore-front positions in the world. Some new directions have been mentioned, e.g. "human brain project", which provides additional understanding of the human brain and its diseases, as well as graphene and quantum research projects.

EU's future and emerging technologies (FET) are directed towards European perspective and pioneering positions in global science and technologies. FET flagships projects represent challenging and long-term research directions into uncharted areas that stretch the boundaries of science and technology.

There is a fundamental shift from research and development (R & D) to research and investment (R & I) in the European science policy. In order for European research and innovation to be successful in the coming years, the member states need funding. The EU is now considering funding and priorities for its next budget period, including FP9, the successor to Horizon 2020, which is present EU's research and innovation programme. A good deal of preparation is already done, e.g. contributions from the expert group chaired by Pascal Lamy on maximising the impact of EU research and innovation. The group suggested R & D priorities in both EU and national budgets; then, the EU's post-2020 budget research should be doubled. Serious funding is required to maintain European excellence in scientific research and turn scientific discoveries into a greater number of industrial applications.

Several countries have already done so: China has already overtaken the EU in terms of R & D spending as a share of GDP; South Korea, Japan and the United States are at the top of the ranking.

The EU's trend is to move from research and development (R & D) to research and investment – R & I, showing the importance of investment in science to make people see the results of EU funding. Two P. Lamy's recommendations are particularly relevant (concerning FET flagships):

1. One is to fine-tune scientific community's approach to more mission-oriented and impact-focused research addressing global challenges. Here, the EU flagships provide the power to change how the world sees whole industries and wider society: e.g. applications and devices that are developed based on their results in bringing major practical implications and benefits for everyone.
2. The other is to improve how EU and national R & I issues can be combined in order to add "European value" to scientific achievements and projects conducted together with the EU states; thus, better coordination between EU and national research programmes is important.

For example, European industry interest for graphene properties is huge: it could be graphene-based sensors for collision detection systems, which combines visible and infrared light to avoid collisions even in fog; sensors in a band around the arm can detect electrical signals from muscles in order to move a robotic hand. (23)

Among other perspective directions are *quantum technologies*: its ramp-up phase begins in 2018 and cover last three years of the EU's Horizon 2020 programme. The quantum project aims to turn Europe's excellent research results into industrial leadership; it should place Europe at the forefront of one of this century's most promising technological developments. The first quantum revolution expanded scientific horizons to an amazing extent with lasers and transistors, which are used in computers, mobile phones and internet, the applications and technologies making the mainstream advantages. The second quantum revolution has just started: it is based on the growing ability to manipulate and sense quantum effects in customised systems and materials. This will mean totally new concepts for devices with the following real practical impact in:

- Ultra-precise synchronisation and enhanced sensitivity devices;
- Guaranteed data privacy and communication security;
- Unprecedented computing power that goes beyond anything now envisaged at the high-end of computing technology.

Europe is home to 1.8 million researchers working in thousands of universities, research centres and world-leading manufacturing industries. By working together across borders, sectors and disciplines, the EU and the member states can push the boundaries of science towards developing practical applications that can make difference to people's lives.

European and the member states' rationale of political and financial commitment to future and emerging technologies consists of the following priorities:

- Developing a dynamic environment for research and innovation;
- Allowing ideas to progress smoothly from laboratories to market;
- Attracting and retaining world-class talent; and
- Making sure that Europe remains a global science leader. (24)

#### **2.5.10. R & I importance for Latvia**

In the current debate on the future of Europe, the EU authorities want to create a real momentum for research and innovation (R & I). European research cooperation is a success story, an example of collaboration between countries, people and their ideas, with a clear 'added-value' for Europe and the whole world. Recent statements by the High Level Group on Maximising Impact of EU R & I, acknowledged increase investments in research and innovation.

However, the EU remains far from achieving its 3% target on R & I investments that was set already in the EU-2020 strategy; hence, there is an urgent need for renewed political commitment towards this ambition. If the EU states want to seize societal and economic development opportunities in a post-2020 world, as well as achieve its political ambitions, there is need to reaffirm R & I investment as a clear priority, also in the budget.

R & I make a remarkable contribution to job creation and boosting European economies, as every €1 invested under Horizon 2020 is estimated to result in a GDP increase of between €6 to €8.5, projected to benefit Europe by up to € 600 billion by 2030. The overall impact and value of R & I is much wider, bringing long-term and transformative benefits to society, most notably through educated and competent people and improvements to our everyday lives.

The Tallinn Call for Action 2017 clarified the present situation and argued for a significant increase in national as well as EU research and innovation funding. All interested parties and organisations have to identify immediate key steps to increase public and political support for R & I. The “Tallinn Call for Action” was presented at the high-level conference “European Research Excellence – Impact and Value for Society”, held under the Estonian Presidency of the EU Council on 12 October 2017. (25)

Among the Tallinn Call for Action’s priorities, including a general message to act to ensure broad political commitment for increasing R & I funding), a clear indication was for the impact of these investments and public trust:

- R & I give a real chance to build a better future; R & I is critical to achieving the European political vision and values and is vital to realising the UN SDGs. Research would deepen understanding of changes in societies, while increasing human ability to master uncertainty and to embrace change.
- Investing in research and innovation is a necessity for competitiveness, not a luxury. Intelligence, creativity and the capacity to act are Europe’s main strengths and source of wealth. Europe will not become the forerunner in creating excellent ideas and applying new knowledge if public R & I investments are cut or stagnate.
- Excellent research is the basis for education and future innovation. There is too much pressure for public funding to focus on R & I activities that produce short-term outcomes, neglecting the many contributions of research to society and the economy, including equipping people with the skills they need to thrive in future jobs.
- Stronger efforts are needed to make the benefits of R & I visible and understandable by all and to achieve wide citizen involvement. Increased public trust in scientific knowledge, as well as engaging people in shaping our common future, are the foundations for ensuring greater impact of R & I.
- R & I is an essential element for uniting Europe. European research collaboration forges strong links across borders and helps to build trust and tolerance between societies. (26)

Estonian government’s initiative to increase investments to research and innovation sets great example: budget allocations for research and development will increase in 2018 by 11% with an estimated 0.8% of Estonian GDP, which is already above the EU’s average. Estonian scientific community actively communicates the impact of their work in building public confidence in research; their expertise and scientific advice made heard by policy makers and businesses. Universities and research institutions are promoting research and innovation in ecosystems that support co-creation, interdisciplinary collaboration and knowledge exchange which encourages mobility and career development. Estonian government is of the opinion that increased and more stable funding should be guaranteed for universities and research institutions. (27)

### 2.5.11. European and Baltics perspective in R & I

As is seen, significant changes have already occurred in approaches to science and research policy in European states and the world. Main shifts in European science policy are from *research and development* (R & D) to *research and investment* (R & I).

In order for European research and innovation to be successful in the coming years, the member states need funding. The EU is now considering funding and priorities for its next budget period, including FP9, the successor to Horizon 2020, which is present EU's research and innovation programme. A good deal of preparation has been already done, e.g. contributions from the expert group chaired by *Pascal Lamy* on maximising the impact of EU research and innovation. The group suggested R & D priorities in both EU and national budgets, according to which the EU's post-2020 budget expenses on research should be doubled.

Some new directions have been mentioned as well: "human brain project", which provides additional understanding of the human brain and its diseases, as well as graphene and quantum research projects.

However, serious funding is required to maintain European excellence in scientific research and turn scientific discoveries into a greater number of industrial applications.

Several countries have already done so: China has already overtaken the EU in terms of R & D spending as a share of GDP; South Korea, Japan and the United States are at the top of the ranking.

Three main actions of EU institutions and the member states are mentioned towards "improving R & I" situation in the European "Strategic Plan for Research & Innovation for 2016–2020"

These concerted actions are aimed at achieving:

- **Open innovation**, i.e. helping member states to capitalise on the results of research and innovation reached at the European level, and create shared economic and social value by bringing more actors into the innovation process. "Open innovation" also can boost investment, maximise the impact of innovation and create "the right innovation ecosystems".
- **Open science**, i.e. supporting new ways of doing research and diffusing knowledge among the member states by using digital, technologies and new collaborative tools, to ensure excellent science and open access to data and results, so that EU states can benefit from digital technologies to drive innovation. "Open science's" particular importance can be seen in the member states circular economy policies (the EU Circular Economy Package includes an Action Plan and legislative proposals on waste recycling targets adopted in December 2015). Circular economy is a clear example of both "open science" and "open innovation": for circular economy business models to be effective, there is a need for open data (for primary and secondary raw materials and for products on land and the sea), for collaboration among different stakeholders along the value chain, for use and combination of different knowledge bases, and for end-users as drivers of innovation. The Commission's DG Research and Innovation has been supporting innovation as an essential element of the Circular Economy Package. Other actions in this area include ensuring effective Horizon 2020 investment, the use of financial instruments, and coordination with the EU states, awareness raising and review of the Commission's 2012 Bio-economy Strategy.
- **Open to the world**, i.e. fostering international cooperation so that the EU's strengths in research and innovation help the member states tackle global societal challenges effectively, create business opportunities in new and emerging markets, and use science diplomacy as an influential instrument of external policy.



The EU and Latvian future depends on how efficient policy makers would use present momentum for investing in research and innovation in progressive science and research ideas in progressive ideas. National authorities in the EU member states have already confirmed the attractiveness of the Union's research programme "Horizon 2020" as a well-performing agenda and a key investment instrument in safeguarding progressive future. European continent has been for centuries a home to leading global companies, top universities with frontier research and technology centers.

However some questions remain to be answered in order to face future challenges: how to capitalise on these strengths in order to face up to the challenges of a changing world and rapidly evolving innovation dynamics? How to best seize the existing opportunities in research and innovation capital to create solutions for the future? What is the role of the European research and innovation potentials in a global context? How can research and innovation shape future of European citizens? (28)

## Resume

*Combined and coordinated efforts among the EU institutions and the member states are needed in order for the European Union to gain fore-front positions in the world. Hence, modern European science and technology policy, presently better known as "research & innovation" policy (R & I) is directed towards facing European/global challenges in order to gain perspective and pioneering positions in world-wide science and technologies. Some ideas in these policies could be emulated in Latvian growth strategy, e.g. those on "future and emerging technologies", so-called FET. European FETs represent challenging and long-term research directions into uncharted areas that stretch the boundaries of science and technology. This is what the Latvian science policy shall be aimed at.*

## Notes and references

1. European science priorities. In: <http://ec.europa.eu/research/index.cfm?pg=events&eventcode>
2. See: Annual Growth Survey in COM (2014) 902 of 28 November 2014.
3. [http://ec.europa.eu/europe2020/pdf/themes/2015/research\\_innovation\\_20151126.pdf](http://ec.europa.eu/europe2020/pdf/themes/2015/research_innovation_20151126.pdf)
4. See more in: <https://rio.jrc.ec.europa.eu/en>
5. More in: [https://ec.europa.eu/info/sites/info/files/strategic-plan-2016-2020-dg-rtd\\_march2016\\_en.pdf](https://ec.europa.eu/info/sites/info/files/strategic-plan-2016-2020-dg-rtd_march2016_en.pdf) (p.4).
6. See more in: <https://en.wikipedia.org/wiki/Graphene>
7. See on human brain project in: <https://www.humanbrainproject.eu/en/about/overview/>
8. Reference to: Commission press release in: [http://europa.eu/rapid/press-release\\_SPEECH-17-4383\\_en.htm?locale=en](http://europa.eu/rapid/press-release_SPEECH-17-4383_en.htm?locale=en), Brussels, November 6, 2017.
9. See more in the EU-2020 website: [http://ec.europa.eu/europe2020/pdf/themes/2015/research\\_innovation\\_20151126.pdf](http://ec.europa.eu/europe2020/pdf/themes/2015/research_innovation_20151126.pdf)
10. Reference to: Commission press release in: [http://europa.eu/rapid/press-release\\_SPEECH-17-4383\\_en.htm?locale=en](http://europa.eu/rapid/press-release_SPEECH-17-4383_en.htm?locale=en), Brussels, November 6, 2017.
11. Note: the NORFACE Network Board is currently developing two new research programmes: *Dynamics of (In) equality during the Life Course* (DIAL) and *Transformations To Sustainability* (T2S). Both Estonia and Lithuania are NORFACE's members. More on Nordic R&D cooperation in: <https://www.norface.net/about-norface/>
12. More on the INEA's web site: <https://ec.europa.eu/inea/>
13. See more in: [https://ec.europa.eu/commission/white-paper-future-europe-reflections-and-scenarios-eu27\\_en](https://ec.europa.eu/commission/white-paper-future-europe-reflections-and-scenarios-eu27_en)
14. More on the INEA's web site: <https://ec.europa.eu/inea/>
15. See: [https://ec.europa.eu/commission/commissioners/2014-2019/moedas\\_en](https://ec.europa.eu/commission/commissioners/2014-2019/moedas_en)
16. See, e.g. the following web-links: Science and New Technologies, European Innovation Council, European Research Area, Horizon 2020, Policy Support Facility, Innovation Union and Scientific Advice Mechanism. As to the "scientific themes", there are the following: Bio-economy, Energy, Environment, Frontier research (ERC), Health, Information & Communication Technologies (ICT), Innovation, Key Enabling Technologies, Marie Skłodowska-Curie Actions, Nanotechnology, Research Infrastructures, SMEs, Science with and for society, Security, Social science & humanities, Space, Synergies with Structural funds and Transport. More on the web-sites mentioned above in: <http://ec.europa.eu/research/index.cfm?pg=sitemap>

17. More in the web-site: <http://ec.europa.eu/research/index.cfm?pg=dg>

Related links:

- Research Executive Agency (REA);
- European Research Council;
- Innovation And Networks Executive Agency (INEA);
- Executive Agency for SMEs (EASME);
- European Institute of Innovation and Technology (EIT).

See more: [https://ec.europa.eu/info/departments/research-and-innovation\\_en](https://ec.europa.eu/info/departments/research-and-innovation_en)

18. On EU executive agencies in science and research in: [https://ec.europa.eu/info/departments/innovation-and-networks-executive-agency\\_en](https://ec.europa.eu/info/departments/innovation-and-networks-executive-agency_en)

19. More in the web-site: <https://erc.europa.eu/about-erc/mission>

20. See more: <https://eit.europa.eu/activities>

21. See: <https://eit.europa.eu/activities/education>. Additional information in: <https://eit.europa.eu/contact>

22. On DG Connect see: [https://ec.europa.eu/info/what-we-do-communications-networks-content-and-technology\\_en](https://ec.europa.eu/info/what-we-do-communications-networks-content-and-technology_en)

23. Source: <https://en.wikipedia.org/wiki/Graphene>

24. Reference: [http://europa.eu/rapid/press-release\\_SPEECH-17-4383\\_en.htm?locale=en](http://europa.eu/rapid/press-release_SPEECH-17-4383_en.htm?locale=en) (6 November 2017).

25. See more in: [https://www.hm.ee/sites/default/files/tallinn\\_call\\_for\\_action\\_2017.pdf](https://www.hm.ee/sites/default/files/tallinn_call_for_action_2017.pdf)

26. See research & innovation (R&I) priorities in: [https://www.hm.ee/sites/default/files/tallinn\\_call\\_for\\_action\\_2017.pdf](https://www.hm.ee/sites/default/files/tallinn_call_for_action_2017.pdf)

27. More in: [https://www.hm.ee/sites/default/files/tallinn\\_call\\_for\\_action\\_2017.pdf](https://www.hm.ee/sites/default/files/tallinn_call_for_action_2017.pdf)

Optional reading for science and research spheres in EU and Latvia (published in 2017):

a) On general EU development issues:

- Modern EU reforms: effect for Baltic States. 03.03.2017. In: [http://www.baltic-course.com/eng/editors\\_note/?doc=17655&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=17655&ins_print)
- Commission's vision on the EU's future by 2025. E. Eteris, RSU, 03.03.2017. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=128015&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=128015&ins_print)
- State of the Union-2017: charting direction for the EU's future. 14.09.2017. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=133186&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=133186&ins_print)

b) On sustainability, science and research:

- The EU's transition to a low-carbon era is taking shape. 11.05.2017. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=129603&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=129603&ins_print)
- End of fossil fuels: warning to the Baltic States. 23.08.2017. In: [http://www.baltic-course.com/eng/analytics/?doc=132480&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=132480&ins_print)
- Fuel-cell buses: solution for city air pollution. 19.09.2017. In: [http://www.baltic-course.com/eng/baltic\\_states/?doc=133314&ins\\_print](http://www.baltic-course.com/eng/baltic_states/?doc=133314&ins_print)
- Circular economy: opportunities for business. By Eugene Eteris, RSU, 04.08.2017. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=131904&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=131904&ins_print)
- Circular economy: new political economy guidelines. By Eugene Eteris, 04.08.2017. In: [http://www.baltic-course.com/eng/editors\\_note/?doc=18227&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=18227&ins_print)
- Delivering on European Circular Economy Action Plan: the EU's results for 2017. 12.09.2017. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=133112&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=133112&ins_print)

c) On financial issues and investments in research:

- Investment funds in euro area: supporting business. 01.06.2017. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=130111](http://www.baltic-course.com/eng/modern_eu/?doc=130111)
- EU Budget after 2019: funding more with less. By Eugene Eteris, 04.07.2017. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=130891&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=130891&ins_print)
- European funds and cohesion policy after 2020. By Eugene Eteris, 09.08.2017. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=132044&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=132044&ins_print)

d) On smart specialisation and scientists' role:

- Smart specialisation and innovative-led growth in the EU states. 21.07.2017. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=131478&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=131478&ins_print)
- Facing globalisation: EU assists Baltic States in smart specialisation. 30.09.2017. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=133683&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=133683&ins_print)
- EU new industrial policy: investing in a smart, innovative and sustainable industry. 19.09.2017. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=133328&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=133328&ins_print)

28. References to: <http://ec.europa.eu/research/index.cfm?pg=events&eventcode>, and <http://ec.europa.eu/research/index.cfm?lg=en&pg=programme>

## 2.6. Perspective Latvian economic trends: business and entrepreneurship in national development

*Latvian political economy is at a new stage: during first 100 years of its existence, Latvia went through numerous “ups & downs” in development. New stage signifies complex efforts from political and economic side to face new challenges, which make the whole politico-economic system function in a new way. These new realities impose changes in the political and economic elites’ approaches to entrepreneurship and business. There are presently four main national economy’s spheres in Latvia: trade (external and, mostly, internal), services (mainly in finances and ICT), industry (including agro-sector and manufacturing) and construction. These spheres have to be inspired by new entrepreneurship culture with appropriate business and SMEs assistance. Otherwise, Latvian economic trends have to be altered...*

### 2.6.1. Introduction

Most important growth pattern in the Latvian socio-economic development are connected with entrepreneurship and business’ factors. Revealing main Latvian political economy’s principle makes it understand that the basic aspects in progressive national development aimed at:

- a) Creative human activity;
- b) Combined integrative solutions involving economic, environmental and social aspects in national narrative;
- c) Active public participation from all walks of society in national decision-making, and
- d) Creating an innovative, sustainable and efficient economy strategy.

Implementing these principles would contribute to positive balance in Latvian trade and increase competitive potentials in Europe and around the world.

The entrepreneurship and business issues are of shared competences among the EU institutions and the member states; the latter shall be more active in promoting “national business”, which in fact is somehow more European and global.

There are numerous instruments and organisational/managerial structures from the EU side to assist the member states in “activating” entrepreneurship (in this chapter these instruments are revealed in full). Thus, during 2014–2020, the Commission would use about €16 billion to implement some innovative programmes: e.g. SMEs’ competitiveness (so-called COSME programme), with a budget of €2.3 billion to help enterprises access finances and markets, to promote entrepreneurship, and to support favourable conditions for business. Another EU programme is for research and innovation (so-called Horizon 2020 programme), which includes innovations in SMEs, with a budget of €2.3 billion.

However, there are still several instruments in the member states’ internal agendas that can be of importance in promoting business activity. Latvian authorities can use the EU support to facilitate national competitiveness. Important aspect in the new narrative is Latvian labour market analysis: labour issues already present great concern for politicians: i.e. the appearance of a “new work-force generation”, as an outcome of a wide-spread digital revolution and flexible employment agreements. Reforms in education shall involve evolutionary trends in the labour market and perspective business trends.

### 2.6.2. “Knowing entrepreneurship”: challenges for the Baltics’ authorities

There at least two global “resources” for understanding the way entrepreneurship develops:

- 1) The World Bank’s yearly reports “on doing business”, and
- 2) The OECD regional/national analytical studies.

For already eight years the *Amway reports* are becoming popular as well. These reports make policy-makers better understand the ways to assist and develop business.

*Amway-Global-2018 report* is another effort to facilitating both people's general understanding of entrepreneurship intentions and governments' assistance to business.

Together with the World Bank (see web-link below) and the OECD analytical reports, these global community's "efforts" are aimed at stimulating public authorities in making better decisions concerning peoples' intentions to start a business carrier and/or enter entrepreneurship. More entrepreneurs mean more realised peoples' opportunities, more economic growth, more prosperity and more happy citizens.

*Amway* is an \$8.6 billion business based in State Michigan, USA; global sales in 2016 made Amway the No. 1 in "direct selling business" in the world.

First *Amway's report* was launched in 2010 as the Amway European Entrepreneurship Report, and then expanded worldwide with the 2013 AGER's report, encompassing 24 countries.

Its 2018-report covers 44 countries, with in-person and telephone interviews conducted with nearly 49 000 people aged 14–99.

Amway's President argued that "knowledge of entrepreneurship" can help business and public authorities to make decisions and take actions in order to help more people start their own businesses. More entrepreneurs in any states mean more opportunities, more economic growth, more prosperity and more happy people. When asked what kind of business people would imagine starting, most of them – 75 per cent of respondents – chose "*serve customers personally*" compared to only 25 per cent for "*serve customers digitally*." That was a surprising finding in a world where technology and selling via social networks seem to be proliferating every day.

This finding was consistent among even the under-35 demographic group, countering the common perception that modern people prefer virtual interaction over interpersonal and indicating that personalised service is still highly valued around the world.

Besides, the Amway's results indicate that *reducing risk and financial burden and investing in personalised services* are those aspects of entrepreneurship that may force public authorities to further investigate "the environment" in which the policymakers, businesses community and individual entrepreneurs are living in.

Highlights of the Amway-2018 report reveal that *the risk of failing* and the *prospect of raising money* are the key obstacles for potential entrepreneurs.

The results of the survey conducted among 49 thousand people in 44 countries have shown that:

- About 47 per cent were willing to take the risk of failing when it comes to starting a business;
- Another 38 per cent said that theoretically they knew how to raise money for a business idea (though that did not help them in getting financial support); and that
- *Raising money* was respondents' number one choice for what would most help them start a business; this priority outranked such issues as: help in dealing with finances, taxes and regulations; identifying customers and marketing products and services; hiring the right people or setting up a business idea.

When it comes to starting a business, "the fear of failure and the ability to raise funds" are of major concerns for people being involved in entrepreneurship, argued Amway's Chairman and continued: "this may explain the rise of the sharing economy or gig economy, where people are increasingly looking for alternative ways to work and to be their own bosses". These aspects are critical to the governments in removing barriers and making the feeling of entrepreneurship accessible widely. (1)

### 2.6.3. Entrepreneurship and SMEs: European assistance

It is important to mention that the EU institutions specifically support “smart” projects in SMEs. From January 2018, the EU’s modernised investment strategy is going to provide financial guarantees for “smart” projects in the member states, while removing existing barriers for investments. A new plan for enhancing the European Fund for Strategic Investments (EFSI) in its new version called EFSI-2.0, will make it easier for businesses in Latvia to get financial support.

When the EFSI was established, it met with some skepticism; during last 2.5 years things changed and presently the EU together with the European Investment Bank (EIB) wants to activate existing financial resources for “strategic growth” in the member states.

Commission’s Investment Plan for Europe focuses on boosting investments to create jobs and growth by making smarter use of new and existing financial resources, removing obstacles to investment and providing visibility and technical assistance to investment projects. The European Fund for Strategic Investments (EFSI) is the central pillar of the Commission’s Investment Plan for Europe, which provides financial guarantees and allowing the EIB to invest in more, often riskier, projects.

This final step for EFSI’s further active involvement follows the approval reached by the European Parliament and the Council at the end of 2017. (2)

The European Fund for Strategic Investments (EFSI) is the central pillar of the Commission’s Investment Plan for Europe. It aims to tackle the lack of confidence and investment which resulted from the economic and financial crisis, and to make use of liquidity held by financial institutions, corporations and individuals at a time when public resources are scarce.

The Commission works together with the European Investment Bank (EIB) Group and supports strategic investments in key areas such as infrastructure, energy efficiency and renewable energy, research and innovation, environment, agriculture, digital technology, education, health and social projects. It also helps small businesses to start up, to grow and to expand by providing risk finance.

The EFSI as an EU-budget guarantee instrument provides the EIB Group with a first-hand analytical support; this means that the EIB Group provides financing to higher-risk projects approved by the Commission. Then, an independent EIB’s Investment Committee using strict criteria decides whether a project is eligible for EFSI support. There are no sectors or/and by country quotas: financing is purely demand-driven. (3)

In line with the Commission’s ideas, the EFSI extends its duration and capacity to boost further investments: in this way, the so-called “EFSI 2.0” was born. The idea is to extend the initial three-year period with a target of €315 billion with more than a trillion euros in investments by 2020. It also seeks to place a greater emphasis on additionality, cross-border projects and those helping to achieve the climate change support for SMEs and enhancing the EFSI’s geographical coverage.

A kind of “double approach” to support business by both EFSI and EIB shall be mentioned. Thus, the **European Fund for Strategic Investments, EFSI** is going to provide financial support for approved projects (see Table I below) while mobilising over €250 billion in investments and support for some 528 000 SMEs in the EU states. According to the EIB estimates, by 2020 the EFSI will help creating 700 000 jobs and add 0.7% value to the EU GDP.

Whereas the **European Investment Bank (EIB)**, as the EU’s long-term lending institution “owned” by the member states would make long-term finances available for strategic investment in the EU-wide economic policy areas. The European Investment Fund (EIF) is part of the European Investment Bank group; its central mission is to support European SMEs by helping them to access finance.

### 2.6.4. European strategic investments and business

The procedure to get EFSI's funding, is going through the EIB approval procedures, so-called *EIB standard due diligence*. It helps the bank to verify application projects for EIB financing.

The bank's "operational department" approval is then backed by EFSI and finally presented to the independent *Investment Committee* to decide on the use of the EU-guarantee.

Following a positive outcome of the due diligence process, projects are submitted for approval by the relevant EIB Group Governing Bodies. (4)

All projects applied for EFSI financial guarantees have to fulfill certain *basic criteria* (see Table I below). Thus, the projects have to be:

- a) Economically and technically sound;
- b) In accordance with the EFSI development sectors (so-called EFSI eligible sectors), as defined in Article 9 of the EFSI Regulation;
- c) Contributing to the EU's development objectives, including sustainable growth and employment;
- d) Mature enough to be bankable; and
- e) Priced in a manner commensurate with the possible risks. (5)

#### EFISI'S PROJECT CYCLE



The EFSI 2.0 Regulation enters into force in January 2018. While extending the timeline from mid-2018 to the end of 2020, and increasing the investment target from €315 billion to at least €500 billion, the new and improved EFSI has the following features:

- **Increased transparency.** Under the new EFSI, the Investment Committee will publish their decisions online, showing the reasons why they chose a project to receive support from the EU budget guarantee. The scoreboard of indicators will be published after the signature of each EFSI project. The new Regulation also gives a more detailed definition of what makes a project eligible for EFSI support, so-called "additionality".
- **Larger proportion of sustainable projects.** At least 40% of EFSI infrastructure and innovation projects will aim to contribute to climate action in line with the Paris Agreement. EFSI 2.0 also explicitly targets new sectors: sustainable agriculture, forestry, fisheries and aquaculture.
- **Greater focus on small projects.** Given the success of the EFSI in supporting small companies, with 528 000 SMEs already set to benefit as of November 2017, the extended EFSI will increase the proportion of the guarantee for SMEs from **26% to 40%**. The new EFSI also encourages the EIB Group to help national promotional banks set up investment platforms to bundle several small-sized projects by theme or by region in order to attract investors.



- **More technical support at the local level.** The European Investment Advisory Hub, which is jointly managed by the Commission and the EIB, is proving a useful resource for businesses in need of technical support to get their project off the ground. In EFSI 2.0, the work of the Hub will be enhanced by providing more tailor-made assistance on the ground and working in close cooperation with national promotional banks. (6)
- **Improving the business environment in the EU.** Commission's Autumn Forecast and the EIB's investment report have shown that investment levels in the EU are gradually increasing. However, they are still not at pre-crisis levels. The euro area economy is growing slowly (in 2017, at its fastest pace in a decade), with real GDP growth forecast at 2.2%. This is substantially higher than expected in spring 2017 (1.7%). The EU economy as a whole is also having a robust growth of 2.3% in 2017, up from 1.9% in spring. Thus, according to autumn 2017 forecast, Commission expects growth to continue in both the euro area and in the EU at 2.1% in 2018 and at 1.9% in 2019; previous spring forecast for 2018 was 1.8% in the euro area and 1.9% in the EU-28. (7)

In the Work Programme for 2018, the Commission suggested to carry out a full assessment of efforts to improve business environment and bring down investment barriers, both at EU and the states' level. (8)

### 2.6.5. Startups in Europe and Latvia

One of the goals of the *Startup Europe (SE) Initiative* of the European Commission is to “reinforce the links between people, business and associations who build and scale up the startup ecosystem”. Under this objective several initiatives and networks have been promoted such as the Web Investors Forum, the Accelerator Assembly or the Crowd funding Network, just to name a few.

Under the same idea but with a clear focus on aggregating and leveraging regional support for startups, a new network has been created at the end of 2016 in Brussels, at an event held at the Committee of Regions: the “*Startup Europe Regions Network (SERN)*”.

As it has happens with the other networks and initiatives sponsored by SE, the goal of SERN is not of replacing or duplicating other networks that may build on similar players or have (partially) overlapping objectives. The main SERN's goal is that of contributing to fill a gap clearly felt by EU startups in terms of startup funding, while also addressing other relevant barriers to startups' growth, such as harmonisation of policies and regulations, access to talent and to major research infrastructures. (9)

SERN gathers EU regions committed to startup support and offer a “virtual interconnected space” for startups to scale up, aiming to leverage private investments with European and regional ones so as to create critical mass. The primary focus for final beneficiaries will be already established startups, and the target will be companies that have already achieved first results, possibly with support from regional programmes, and are now aiming to grow global, while still having less than 5 years of existence. For this, the network will invest in new instruments and pilot schemes, in line with the priorities defined by the European Commission and the Committee of Regions and for the benefit of European startups. (10)

For the SERN to be created, regions must be strongly behind it and committed to participate. The creation of SERN must follow a true bottom-up approach and reflect the engagement of a minimum critical mass of regions that are willing to act as founding members and as steering committee of this new network.

It is expected that about 6–10 regions will endorse the creation of SERN and will benefit from a status of “founding members”. Running operations, including management, communication and hosting will be ensured by INOVA+ in Belgium. (11)

### 2.6.6. Industrial renaissance in the EU member states

The EU main regulatory instruments concerning industrialisation in the member states are included in Commission's communication, e.g. from October 2010, on *integrated industrial policy for the globalisation era*, in which the need for placing industrial development at the centre of growth and progress in the member states was underlined. The Commission's core message was that the industry must be placed at the centre of the member states' development in order to remain competitive in the world. With this aim, both some coordinated European policy responses and the member states' efforts needed to concentrate on the so-called *whole value chain* approach, i.e. from infrastructure and raw materials to after-sales service.

In October 2012, the Commission adopted an update in the EU Industrial Policy for a "stronger European industry for growth and economic recovery". This initiative started a new partnership between the EU, member states and industrial sectors while focusing on four pillars:

- 1) Investments in innovation with a focus on six priority areas;
- 2) Better market conditions with special reference to goods, entrepreneurship and Intellectual Property Rights protection;
- 3) Access to finance and capitals; and
- 4) Human capital and skills.

Thus EU industrial policy evolved from initial industrial policy communications during the last decade (from 2010 to 2018) emphasising the need to assure policy's effective implementation through well coordinated efforts among the member states and the EU institutions. Quite notable, that one of the Commission Communication was called "For a European Industrial Renaissance" (January 2014) and asked the member states to boost growth and modernisation with *at least 20% of industry in national GDP's*. (12)

In this way the EU sends a strong signal for decision-makers in the member states' enterprise policy: in the global economy, where many businesses can choose where to operate and produce their goods, it is essential that the EU and the member states draft regulations that promote rather than hinder the enterprises' development.

The EU is committed through its treaties to create the best conditions for industrial competitiveness and to nurture the growth of businesses, especially SMEs. These objectives are more important than ever as Europe seeks to compete in a globalised economy, not only with established economic superpowers such as the USA and Japan, but also with emerging nations like India, China and Brazil. Among other objectives are:

- Promoting entrepreneurship: encouraging business creation, supporting companies, especially SMEs, during their start-up and development phase;
- Contributing to the design, implementation and improvement of a flexible regulatory framework providing access to the single market;
- Opening-up of and guaranteeing obstacle-free, fair access to the markets of non-EU countries;
- Promoting European competitive performance (encouraging businesses to adapt to structural change and maintaining a high and consistent level of productivity growth);
- Ensuring a proper coordination between industrial, energy and environmental policies in order to foster consistency in policy and legislative initiatives;
- Taking account of the specific characteristics and needs of the different industrial sectors;
- Promoting innovation: following up technological developments, new product designs and developing new ways of marketing products (e.g. e-business);
- Promoting better access to funding, support networks and programmes;
- Promoting simplification of the regulatory and administrative environment.

### 2.6.7. Industrial path as a viable solution for growth

The European Commission is investing in EU industry for a modern, clean and fair economy. The EU policy is aimed at promoting industrial competitiveness through numerous initiatives to empower citizens, revitalise regions and creating best technologies for the smart, innovative industry of the future. Industry is the engine of innovation, productivity growth and exports and it offers quality jobs to Europeans.

Member states' industrial structures are undergoing deep transformation driven by digital and other new technologies, as well as by new business models. Therefore modernised efforts are required to ensure that member states' industrial sectors stay competitive in European and/or global markets. Both – the EU institutions and the member states – must embrace technological change, integrate products and services, develop technologies that use less energy, reduce waste and avoid pollution while investing in a workforce with the right skills.

In September 2017, the Commission outlined a renewed industrial policy strategy that brought together all existing and new horizontal and sector-specific initiatives into a comprehensive industrial strategy. (13)

Industrial sector in the EU's member states has to be stronger and more competitive; therefore the new European *industrial policy strategy* (adopted in September 2017) is going to help national industries become world leaders in innovation, digitisation and decarbonisation.

The renewed EU Industrial Policy Strategy brings together all existing and new horizontal and sector-specific initiatives into a comprehensive industrial strategy. It also clarifies the tasks ahead for all actors involved and sets out the cooperating “floors” by e.g. annual *EU Industry Days* (started from February 2017), and a *High-Level Industrial Roundtable* to allow particular industry and civil society to steer industrial policy actions in the future.

In this way the EU authorities wants the member states embrace technological change, convert research investments into innovative business ideas, and continue pioneering low-carbon and circular economy towards smart, innovative and sustainable industries. (14)

*Note: Industrial policy's short history.* Europe's industry is strong and has retained a leading position in many sectors in global markets. Industry accounts for two-thirds of the EU's exports and provides jobs for 32 million people, with 1.5 million of these jobs created since 2013. But to maintain and reinforce its competitive advantage, an important modernisation effort is required. That is why all Commission policies are geared to empower industry to create jobs and boost Europe's competitiveness, foster investment and innovation in clean and digital technologies and defend Europe's regions and workers most affected by industrial change.

New production technologies are changing Europe's industrial landscape and play an increasingly important role in determining the ability of European business to compete globally. They will create jobs through a number of channels, and technologies delivering higher productivity can benefit the wider economy. They may also have a deeper impact on the nature and availability of work. The future of Europe's industry will depend on its ability to continuously adapt and innovate by investing in new technologies and embracing changes brought on by increased digitisation and the transition to low-carbon and circular economy. At the same time, global competition is higher than before and the benefits from globalisation and technological progress are unevenly spread across our societies. The Juncker Commission wants to address this.

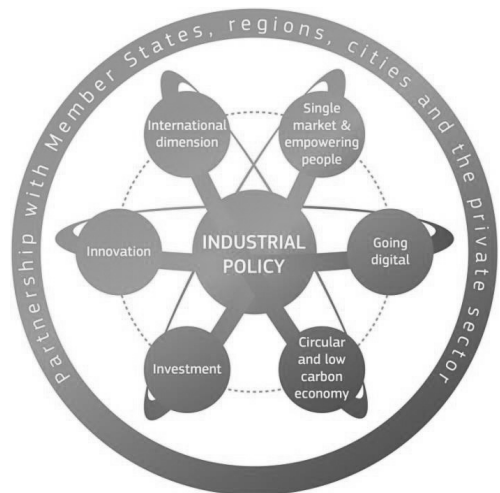
The Commission underlined the importance of a strong and high performing industry in the member states: the creation of jobs and growth through innovation and investment has acquired a priority. Other initiatives help to mobilise resources to boost economic recovery, to support states in innovative industries and in particular SMEs. Some modern EU initiatives

shall be mentioned too: moves towards low-carbon and circular economy through its circular economy, clean energy and low-carbon economy initiatives. Key enabling technologies would help industries to compete globally together with the Digital Single Market Strategy, the accompanying Digitisation of Industry Strategy and the Action Plan on 5G for Europe. Besides, new businesses would take advantage of new developments and create a properly functioning data economy with close connections in value chains free from customs or technical barriers; the New Skills Agenda for Europe would help equip SMEs with better skills.

New EU industrial policy strategy uses a holistic approach based on shared responsibility: thus the strategy's success depends on efforts and cooperation among of the EU institutions, the member states, regions and most importantly on the active role of industry itself.

There are the following main aspects in the new European industrial policy, in general adopted in September 2017:

- A comprehensive package to reinforce industry's *cybersecurity*. It includes the creation of a European Cybersecurity Research and Competence Centre to support the development of technology and industrial capabilities in cybersecurity, as well as an EU-wide certification scheme for products and services, recognised by all EU states;
- A proposal for a Regulation on the *free flow of non-personal data* that will enable data to circulate freely across borders, helping to modernise industry and create a truly common European data space;
- A new series of actions on circular economy, including a strategy on *plastics* and measures to improve production of *renewable biological resources* and their conversion into bio-based products and bio-energy;
- A set of initiatives to modernise the *Intellectual Property Framework*, including the implementation of the Directive on the enforcement of *intellectual property rights* and on balanced, clear and predictable European licensing framework for *Standard Essential Patents*;
- An initiative to improve the functioning of *public procurement* in the EU, including a voluntary mechanism to provide clarity and guidance to authorities planning large infrastructure projects;
- Extension of the "*skills agenda*" to new key industry sectors, such as construction, steel, paper, green technologies and renewable energies, manufacturing and maritime shipping;
- A strategy on *sustainable finance* to better orient private capital flows to more sustainable investments;
- Initiatives for a *balanced and progressive trade policy* and a European framework for the *screening of foreign direct investments* that may pose a threat to security or public order;
- A revised list of *critical raw materials* where the Commission will continue to help ensuring the secure, sustainable and affordable supply for the EU manufacturing industry;
- New proposals for *clean, competitive and connected mobility*, including tightened CO<sub>2</sub> emissions standards for cars and vans, an *Alternative Fuels*



*Infrastructure Action Plan* to support the deployment of charging infrastructure, and actions to foster autonomous driving. (15)

The European message to the member states and Latvia concerning economic growth, industrial development, entrepreneurship and SMEs is formulated along common European market principles. They include completing the member states' internal market for goods and services; helping the member states' economies along "smart, sustainable, and inclusive" growth by implementing the industrial and sectorial policies described in the EU-2020 strategy. (16)

### **2.6.8. Increasing industrial competitiveness**

For the first time, the EU stated that industrial competitiveness was European main economic integration objective in the Maastricht Treaty (TEU, 1992). Then, in the Lisbon Treaty (2009) it was pronounced the main EU's industrial policy direction, which was to ensure the necessary conditions for the competitiveness of various Union-large industrial sectors.

The EU concept and approach has been pretty simple: coordination among the member states national development and the EU sectoral policies (as being complementary) provides for optimal industrial growth-patterns, as such coordination can be more effective than "a simple sum" of national economies with better position on the global markets (which forms the Union's competitiveness capability).

Subsidiarity in the EU policy guidelines is applied only to those areas where it has the potential to be more beneficial than national policies). For example in:

- Speeding up industry adjustments to structural changes;
- Providing favourable climate for SMEs activity;
- Stimulate cooperation among SMEs;
- Fostering innovation and research; and
- Industrial policy's coordination with other EU's policies.

In industrial renaissance, a key driver of sustainable European growth and competitiveness through the stimulation of world-leading innovations with a positive impact on economy and society is the European Institute of Innovation and Technology, EIT. The institute's mission is to search for innovation capacity and capability through progressive higher education, research, business and entrepreneurship as well as creating integrated Knowledge and Innovation Communities, KICs. (17)

### **2.6.9. European programmes for SMEs and startups**

COSME is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs) running from 2014 to 2020 with a planned budget of €2.3 billion. It supports SMEs in four areas:

- 1) Improving access to finance for SMEs in the form of equity and debt;
- 2) Improving access to markets;
- 3) Improving framework conditions for the competitiveness and sustainability of Union enterprises; and
- 4) Promoting entrepreneurship and entrepreneurial culture.

COSME financial assistance is managed in the following 3 ways:

- 1) By *financial instruments* (loan guarantee and equity) including indirect management, with implementation entrusted towards the European Investment Fund (EIF);
- 2) By *grants and tenders*, i.e. direct management is assured by the Executive Agency for SMEs (EASME); and
- 3) Through *indirect management* with international organisations, which is envisaged for certain analytical and benchmarking activities.

Specific European supplementary and coordination efforts towards member states' industrial development are concentrated on general "sectors" within the following two policy lines: for *industry*, where it is about industrial competitiveness, industrial policy and structural reforms; and for *enterprises*, where it is about SMEs and Single Market. (18)

Naturally, that the Commission DG GROW's highest priority is on *growth and jobs*, as the EU and the member states' future depend on the success in this direction. As soon as businesses – particularly SMEs – creating the majority of jobs in the states, they need to be able to grow. However, enterprises cannot grow unless they are able to compete head to head with their rivals.

The DG's role is at the core of the Union's "Growth and Jobs Strategy" and the overall EU-2020 Strategy: creating the conditions which enable European enterprises to be strong competitors, at national, European or global level, which can only be done in close partnership between the Union and the member states.

However, one of the "difficulties" is that the industry issues are of Union's coordinating and complementary activities. It means that the member states are obliged to take most active part in industrial reforms, while the EU institutions would coordinate and supplement these reforms. Thus, main EU policy directives and initiatives are going from Single market to Industrial policy to Research and Innovations to SMEs and to global markets, whereas the member states have to see that their industries are competitive in European/global context.

#### 2.6.9.1. European innovative SMEs in progress

Over the last decade, many global initiatives have been created to celebrate entrepreneurship. Typically, such events follow the so-called Silicon Valley format: i.e. keynote motivational speeches, networking sessions, etc. However, the EU's approach is different and requires something more when it comes to entrepreneurship and business to meet corporate peculiarities. Regional diversity and local policy-making still play a big role in shaping European startups. Hence, European regions and separate states are key players in helping entrepreneurs to incorporate a business activity, creating a company, providing grants or arranging taxes breaks.

That is why the EU decided to include regions and countries in "conversation"; thus came the idea of creating the Startup Europe Week, SEW. The "week" is an initiative promoted by the European Commission and Startup Europe. The SEW's goals are numerous:

- To show the best initiatives promoted by regions to support entrepreneurs;
- To inform the local authorities about what already exists to help them;
- Provide live consulting sessions on how to open a company, apply for a grant, etc.;
- Share among regional officers what other regions in Europe are doing and what can be leveraged locally;
- Connect regional officers, investors and companies to create stronger local entrepreneurship community.

Besides, the SEW's ideas are to bring together as many regions as possible. Thus the SEW-17 has been a great opportunity for participants to learn and get the resources already available, be aware of the European level of doing business. For example, the SEW's advantages included:

- Information sessions on local specific actions currently developed by your local authority to support entrepreneurs (i.e. grants, tax breaks, office space, funding, etc.);
- Regional authorities' opportunities to speak and make sure which current initiatives can benefit a particular startup;
- Information sessions showed numerous Startup Europe projects and European Commission funds available for startups;



- Regional representatives through workshops guided entrepreneurs on topics in which they can help (i.e. how to incorporate a company, how to apply for a cohesion grant, etc.);
- Communications with local entrepreneurs and investors on how they smartly used the resources provided by the local authority to create or improve their businesses. (19)

#### 2.6.9.2. “Startup Europe Partnership”

The main purpose of Startup Europe partnership (SEP) is to link the most promising European startups with large and medium companies which are committing capital, seniority (involvement of heads of innovation office or corporate development) and procurement channels. It has been developed in partnership with *companies* (such as BBVA, Orange, Telefónica, Microsoft, Telecom Italia, Unipol and Enel), *investors* (the European Investment Bank Group/European Investment Fund) and *education institutions* (Cambridge University, IE Business School, Alexander von Humboldt Institute for Internet and Society). (20)

Several meetings are arranged between selected startups and SEP’s corporate members; besides, SEP Investors Forum is organised annually as SEP helps the best European startups to scale-up by providing qualified connections to large and medium corporate companies (“Matching”). SEP also contributes to identify and share best practices through startup-corporate interactions by Events and Research (“Sharing”). SEP is also involved in identifying and reporting the “scale-ups”, i.e. the fast growing startups at European level (“Mapping”).

### 2.6.10. Public trust and entrepreneurship

However, main problem in socio-political decisions is that of public trust: the issue of “confronting people” with the executive power and parliament has become of utmost importance recently. For example, presently, according to Latvian media, the level of trust (or better, mistrust) towards the two branches of power in the country has practically returned to the level of 2004: level-trust of 30% for the government and 50% for the parliament. (21)

Political scientist, O. Skudra from Latvian University, underlines that “the system of political parties in Latvia is experiencing a crisis of confidence”. He noted that it was important to distinguish between public trust towards the EU institutions, Latvian parliament, the government and political parties. According to scientist, the “mistrust-crisis” in political parties could be resolved by creation of new parties when the public necessities are required. He added that university scientists have been monitoring the level of public trust in the Seimas and the government systematically since mid-1990s, and concluded that “nothing changed in Latvia in this regard”. (22)

Within the framework project “Formula: Latvia-2050», which took place in the Latvian University in the end of November 2017, Commission vice-president, V. Dombrovskis noted that in Latvia there were **two political “camps”**: one lays emphasis on new “smart” technologies (e.g. in Latvian economy ministry), and another camp proposes simply to support the industrial potential already existing in the country. Most elites’ participants are in favour of the second camp, i.e., not to support anything new, while understanding, that not all people would become programmers and biotechnologists already tomorrow.

Probably for Riga-region even presently there are some more technological solutions, because in this region there are more modern science/innovation based enterprises. Besides, some more efficient possibilities exist for financing from banks, including a positive real estate situation.

However, other regions of Latvia are in completely different situations; real reforms in “tools” for support business activities in these regions are needed: it is government’s politico-economic obligation to support these regions’ development.

As it concerns “business and ICT”, for example the head of Latvian LMT, Juris Binde, noted that in the sphere of internet technologies, Latvia is proceeding quite well, compared to many other EU states. However, additional efforts towards new “specialists” on the market are needed: it was noted at the conference “Formula Latvia-2050» that about 65% of present school children would be engaged in a decade in professions which have not yet existed. For example, V. Stankevičs noted that presently about 80% the graduates were involved in businesses making cheaper goods than their competitors, i.e. they have rapidly adapted to new conditions.

Although technological future is approaching quickly, some experts predict that so desired “general” ICT programmers’ profession was not any more so popular and that several human activities’ functions are already in the process of transferring to robotics, to automated or artificial intelligence spheres. And ICT “general” programmers are becoming a kind of a “seamstress”, accomplishing some purely technical tasks: very soon only those computer specialists would be needed who would have knowledge and skills about specific economic sectors, e.g. in banking, in biotechnology, in engineering and other technical solutions.

Hence, it is necessary to approach positively existing opportunities and do something: if nothing done, nothing would happen... (23)

The same situation is in other Baltic States, e.g. in Lithuania: according to national statistic department, the number of needed workers in 2017 increased by about 21%, i.e. by 3.5 thousand more than in 2016. In one quarter only in Lithuania, about 700 new workers positions appeared; most of all the scarcity of workers exist in the transport sphere and security (during the quarter about 500 positions added) and in manufacturing industry, public administration and services (plus 200 work positions).

However, in Latvia a controversy took place because of the arrival into the country Irish company specialists for the cultivation of mushrooms and inviting Latvians to work on their fungus plantations. The company *CMP Mushroom* promises to collectors and packers of fungi 40–50 hour working week and the wage of about €9.25 an hour, i.e. near €1850 a month, or the same kind work in Ireland. Latvian confederation of employers did not stand to expansion of Irish company and required politicians to take some measures; otherwise Latvia would completely lose working people. So far it is not well worth talking about increasing number of workers in Latvia; on the contrary, workers of all professions often leaving for good. According to Latvian economy ministry’s accounts, in four years the country will need about 30 thousands specialists in “average professions” and 16 thousands of specialists with highest mathematical and engineering education. Even now Latvia fall short of about 10 thousands of specialists in the exact science, and over 300 professions would be needed in the country in the near future. (24)

### **2.6.11. Digital agenda in the Baltics and Latvia: effect on business and trade**

During Estonian Council Presidency in the second part of 2017, a vital guide (of some 70 pages) for anyone who wants to succeed in the age of the fourth industrial revolution was prepared. It was created to provide valuable insights on how to successfully navigate the use of digital system in a social agenda. It is already becoming a must-read for the European business and technology executives managing the digital transformation of their organisations.

It is to be used for all those seeking guidance as to which digital tools and practices to deploy presently across different business processes and industries.

Digital agenda has become a priority in almost all EU activities: the Commission insists that the digital agenda would “stay in focus” to achieve a Digital Single Market by the end of 2018.

The agenda, however, is becoming too ambitious: both the EU and the member states will be the frontrunners of the global digital revolution to master and create added value in new “digital economies”. (25)

The same priority is within “on line trade”: the EU’s Consumer Conditions Scoreboard in 2017 showed that ever more EU consumers are shopping online across the member states: in 10 years the increase from about 30% to 55%; their trust in e-commerce has increased too. Retailers are still reluctant to expand their online activities due to higher risk of fraud and non-payment in cross-border sales. The levels of trust, knowledge and protection still vary greatly among the EU states.

The Consumer Scoreboards provide an overview of how the Single Market works for EU consumers. Published since 2008, these reviews aim to ensure better monitoring of consumer rights and provide evidence for policy- and decision-making. (26)

For retailers, however, the Scoreboard shows that many are still reluctant to expand their online activities and continue to have concerns about selling online to consumers in other EU countries. Such concerns are mainly linked to a higher risk of fraud and non-payment in cross-border sales, different tax regulations, differences in national contract law and in consumer protection rules.

While consumer conditions have improved overall since the last Scoreboard, the levels of trust, knowledge and protection still vary greatly between EU states.

European Commission underlined that it was the EU’s priority “to improve peoples and smaller retailers’ trust in the Digital Single Market” as the consumers in the member states have become more confident when they shop online. At the same time, the EU institutions have equipped consumers with a quick procedure to get their money back if something goes wrong, even when buying from another country.

The 2017 Consumer Scoreboard shows that consumer trust in e-commerce has dramatically increased. In ten years the share of Europeans buying online has almost doubled (from 29.7% in 2007 to 55% in 2017). Since the last Scoreboard consumers’ levels of trust have increased by 12 percentage points for purchases from retailers located in the same country and by 21 percentage points for purchases from other EU states. (27)

Although there has been much progress, the Scoreboard shows that consumers are still facing obstacles when trying to buy from online retailers based in another EU country. For example, 13% of respondents reported a payment being refused and 10% were refused delivery of products to their country.

As for retailers, only 4 out of 10 of those currently selling online said that they are considering selling both domestically and across borders in the coming year. Many still have concerns about selling online in other countries, namely because of a higher risk of fraud, differences in national tax regulations or national contract law rules, or differences in consumer rules.

The Commission has made a proposal for modern digital contract rules to harmonise these rules for online sales of goods, and to promote access to digital content and online sales across the EU.

However, consumer rights are still low and uneven across the EU: compared to previous data, consumers are more aware of their rights. On average, 13% of consumers are aware of their key rights (an increase of 3.6 percentage points since 2014). However, consumer conditions are generally better in northern and western EU countries than eastern and southern ones.

Thus, 94.5% of Finns complain when they encounter a problem, for example, whereas only 55.6% of Bulgarians do so. Exposure to unfair commercial practices, such as the use of aggressive marketing techniques, also varies greatly: 40.9% of Croatians are affected, in comparison to 3.4% of Austrians.

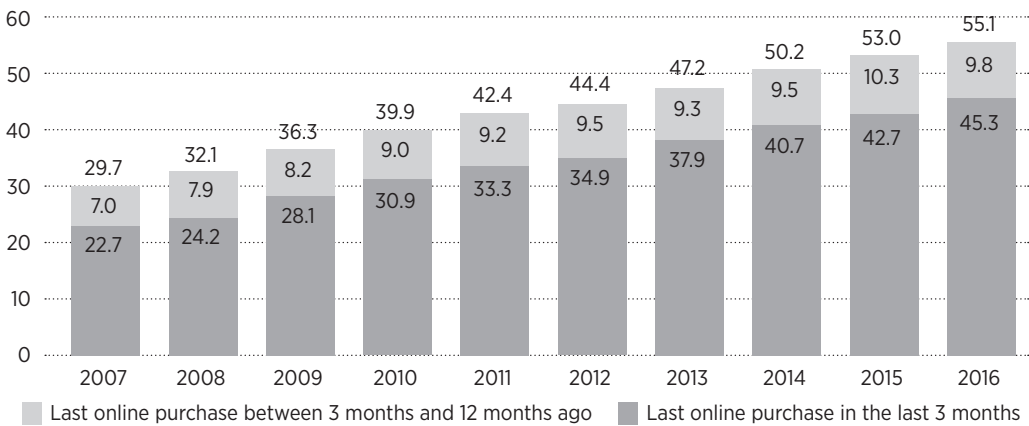
To tackle these issues, the Commission is working on a proposal to update consumer rules. The aim is to make sure that every European consumer is aware of their rights and that these rights are correctly enforced throughout the EU.

The 2017 Scoreboard shows that retailers’ knowledge of consumer rules has not improved since the previous edition. Only 53.5% of their answers to questions on basic consumer rights were correct. Again the level of knowledge varies between countries, with only 36.2% of Croatian retailers knowing these rights compared to 62.3% of retailers in Germany.

During last years, there have been improvements in handling complaints: while consumers are finding fewer reasons to complain, the ones who have done so are more satisfied with how their complaints are handled.

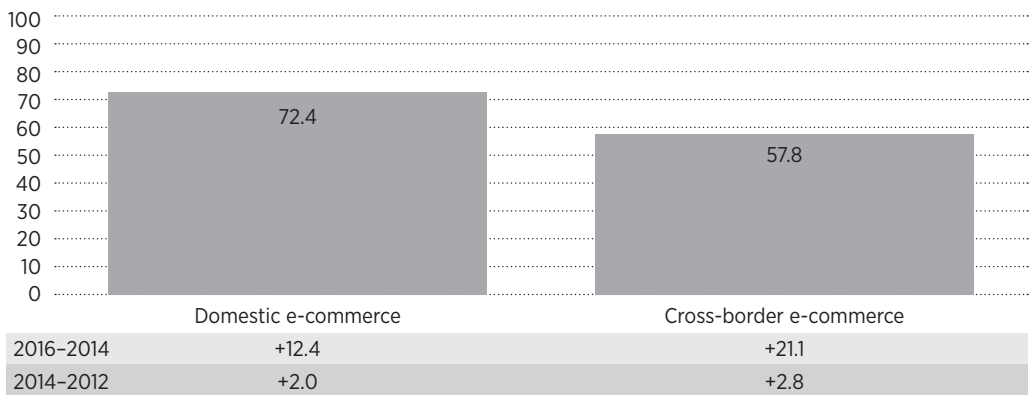
However, almost one third of consumers decided not to complain, as they considered the sums involved were too small (34.6%) or that the procedure would have taken too long (32.5%).

**ONLINE SHOPPING, EU-28 (% OF THE POPULATION WHO ORDERED GOODS OR SERVICES OVER THE INTERNET FOR PRIVATE USE IN THE LAST 12 MONTHS), 2007-2016**



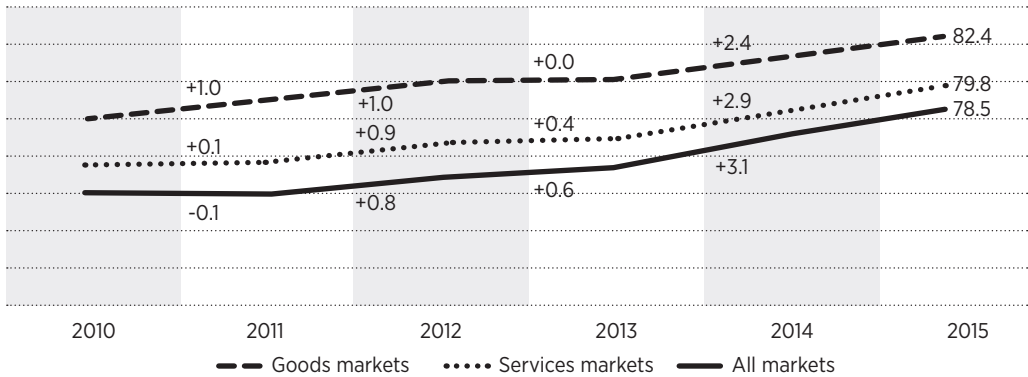
Source: Eurostat Community survey on ICT usage in households and by individuals(isoc\_ec\_buy). When did you buy or order goods or services for private use over the internet?

**CONSUMERS’ CONFIDENCE IN ONLINE PURCHASES: % OF PERSONS CONFIDENT BUYING ONLINE (FROM THEIR OWN COUNTRY AND FROM OTHER EU COUNTRIES) EU-28, 2016 (%)**

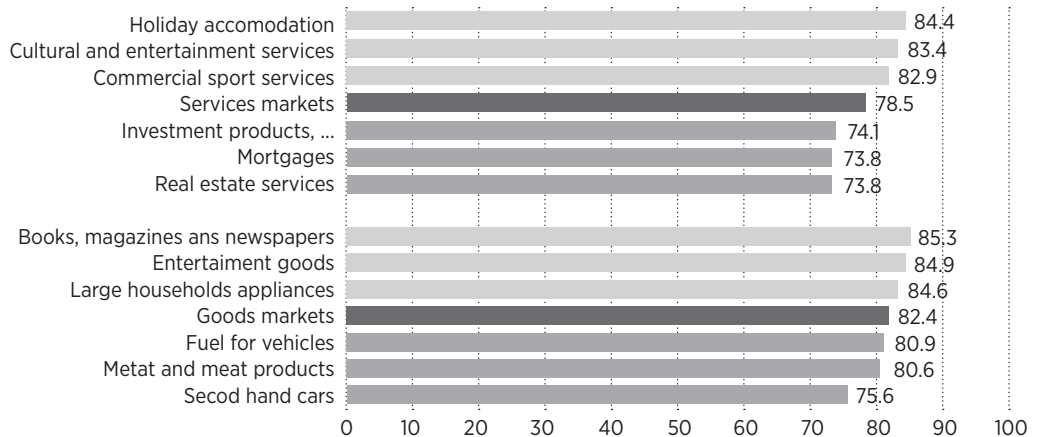


Source: Survey on consumer attitudes towards cross-border trade and consumer protection. How strongly do you agree or disagree with each of the following statements? You feel confident purchasing goods or services via the internet from retailers or service (in your country, in another EU country)

**DATA FROM THE 2016 CONSUMER MARKETS SCOREBOARD**



**TOP AND BOTTOM PERFORMING CONSUMER MARKETS FOR SERVICES AND FOR GOODS (OUT OF 100 MAXIMUM POINTS)**



In 2017, the Commission improved the *Small Claims Procedures*, which now allows consumers to benefit from a fast-track online procedure for claims up to €5000. The Commission is also encouraging out-of-court settlements with the Online Dispute Resolution (ODR) platform, which offers easy online access to alternative dispute entities for online transactions. (28)

**2.6.12. Latvian Diaspora: valuable asset for growth**

In 2016, there were 56 000 vacant job positions in Latvia; in 2017 – already 70 000. It means that labour problems are becoming not only quire serious, but pose important questions of understanding “the coverage” of labour shortage. Politicians might be wondering where the workers are coming from: by the re-emigration flow or/and by third-countries nationals.

Diaspora and migration research centre at Latvian University has found out that Latvian businessmen prefer re-emigrants. LV’s researchers underlined that for them the salary was not a decisive factor; however, Latvian citizens do not hurry back home! Data showed that Latvians residing abroad, who were considering to return back to Latvia (or have already returned), pointed out to difficulties in finding well-paid and qualified job in Latvia.

The study concludes that there has been large Diaspora's pessimism regarding situation in Latvia, mainly due to a very critical economic situation of Latvia and difficulties in finding job. Of those who emigrated since 2000 or later, about half (53%) think that the opportunity to find jobs according to their qualifications and skills was rather bad; 85% think that the chances of finding job with satisfactory remuneration in Latvia are bad. Although the real situation might not be so bad, among Diaspora's various reasons dominate pessimism and Latvia is not in focus for occupation. Two-thirds of the re-emigrant works do not have clear information from trade unions on labour opportunities; besides, employers are not flexible. Job seekers would like to have trustworthy information about vacancies and opportunities, employer requirements, salaries, work environment, taxation and company's management. However, web-site is going to be created soon...

Currently, about 15% of Latvian nationals are residing outside the country; since 2000, about 260 000 people left Latvia, and during ten years only about 40% of them were thinking of returning back. Polls show that labour, social and professional situations are the first three positions that determine "returning factors", though returning potentials are great, still very few are considering coming back. Quite interesting that very often returning to Latvia is becoming just spontaneous. Many employers in Latvia do not insure their workers, although this is a normal practice abroad.

All political systems in the past and presently are liable to decay, as soon as older institutional structures fail to evolve in order to meet the needs of challenging circumstances. The fact that a system once was a successful and stable liberal democracy does not mean that it will remain so in future and no states have a permanent immunity from institutional transformation and, possibly, decline. (29)

### **2.6.13. Business in modern Latvian growth strategy: urgent issues**

Latvian state's budget for 2018, approved by the Parliament has reached €8.75 billion. However, the general amount of uncollected taxes (revenue's debt) in the beginning of 2018 reached €939. 04 million. At the end of 2017, the joint tax debt exceeded one billion euro!

Entrepreneurs are dissatisfied, first of all, by the quality of laws regulating their activity, by the work of the tax collecting authorities (SGD in Latvian), by the inadequate national tax policy and by the insufficient government's support for businesses.

Therefore there is not much left for businesses to survive but "depart to the shadow side of economy"; for decades wages are paid in "envelopes": e.g. about fourth of all workers in Latvia are used to such a practice. Quite fascinating that in "envelopes" about 40% of chief accountants and 30% of "regular ones" obtains their salaries in envelopes. These sensational figures have been revealed in May 2017 at the Latvian "shadow economy" conference by the former SDG's director general Ilze Cīrule. Main reasons, which force employers to pay and obtain wages in envelopes, were named at this conference too: low incomes, which exceed necessary expenditures, high mortgages, lack of trust to authorities and so forth.

According to the Latvian Economic Affairs Ministry (LEAM), about 99% of all enterprises in Latvia are SMEs; from this amount about 90% are micro-enterprises. The SMEs' general turnover makes about 45% of the total Latvian companies' turnover. Besides, SMEs pay to the state budget about 40% of all collected revenues.

The number of those employed in SMEs reached in 2014 about 471 thousand; after "regulatory strengthening" of the SMEs activity, the numbers reduced to 467 thousand in 2016 and several companies went bust. According to the recent pool by the *SEB services* among the SMEs' owners about 61% expect reduction in turnover, about 20% plan to reduce the number of personnel, but 40% do not plan to invest at all and hesitant in developing their businesses.



Experts came to the conclusion in 2016 that means of reducing shadow economy by repressive measures was exhausted; actually authorities knew that already in 2015... However, Latvian Finance Ministry is constantly creating – one after another – plans of “combating shadow economy”; in one of the latest “plans” there were over 50 (!?) various suggestions. It remains to be seen whom the tax authorities are fighting with: either the criminal business or with the small entrepreneurs, which are backbone of Latvian economy?

The questions remain: what methods tax authorities will use to cover a billion euros tax debt? And where can they get money to finance numerous budget expenses? Is it again at the expense of SMEs? Shall the authorities again relay on “repressive” means on small businesses? (30)

## Resume

*Business and entrepreneurship culture are main driving forces in perspective Latvian growth strategy: hence, the need for closer attention from political elites and the government towards these developmental spheres.*

*And again, the EU assistance in strategic investments, in start-ups and in “industrial renaissance” serves as good impetus to Latvian efforts in entrepreneurship. Industrial and manufacturing growth shall be considered as both a priority and an incentive for the Latvian narrative.*

*Other Latvian priorities are included into such EU programmes as: “innovative SMEs”, the “Startup Europe Partnership” and the digital agenda’s effect on Latvian business and trade. However, the burden of implementing the EU recommendations and programmes is on the Latvian government’s efforts to make the national business flourishing.*

## Notes and references

1. Complete Amway’s report. In: <https://www.amwayglobal.com/amway-global-entrepreneurship-report/>; other sources: World Bank’s “doing business” reports. In: <http://www.doingbusiness.org/data/good-practice> and the BC’s publication “Measuring governments’ policy effect on business: World Bank analysis. In: [http://www.baltic-course.com/eng/modern\\_eu/?doc=127565&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=127565&ins_print)
2. See more on EU’s investment priorities in: [https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan\\_en](https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan_en)
3. See more on EU’ project’s priorities in: [https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/european-fund-strategic-investments-efsi\\_en](https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/european-fund-strategic-investments-efsi_en)
4. See more: <http://www.eib.org/efsi/how-does-a-project-get-efsi-financing/index.htm>
5. See: <http://www.eib.org/projects/cycle/index.htm>

Note: for EFSI eligible sectors see: Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No. 1291/2013 and (EU) No. 1316/2013 – the European Fund for Strategic Investments. In: [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv-%3AOJ.L\\_2015.169.01.0001.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv-%3AOJ.L_2015.169.01.0001.ENG)

6. More about the advisory hub in: <http://eiah.eib.org/about/index.htm>
7. Note: Commission’s autumn forecast in: [https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2017-economic-forecast\\_en](https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2017-economic-forecast_en)
8. Note: Latvian economic forecast. In: [https://ec.europa.eu/info/files/autumn-2017-economic-forecast-latvia\\_en](https://ec.europa.eu/info/files/autumn-2017-economic-forecast-latvia_en)

More information in the following links:

- Factsheet: What is new in EFSI 2?;
- Memo: Extension of the European Fund for Strategic Investments (EFSI) – Frequently Asked Questions;
- Investment Plan website: latest news and results from the EFSI;
- EIB EFSI website: full list of EFSI projects and how to apply for financing;
- Advisory Hub: technical assistance for project promoters and small businesses;
- Project Portal: free service, matching investment opportunities with investors.

Reference to: Commission press release “Final adoption of extended and improved European Fund for Strategic Investments”, European Parliament, Strasbourg, 12 December 2017. In: [http://europa.eu/rapid/press-release\\_IP-17-5169\\_en.htm](http://europa.eu/rapid/press-release_IP-17-5169_en.htm); Latvian’s version: [http://europa.eu/rapid/press-release\\_IP-17-5169\\_lv.htm](http://europa.eu/rapid/press-release_IP-17-5169_lv.htm)

9. Reference: [http://www.nytimes.com/2015/02/14/technology/for-tech-start-ups-in-europe-an-oceanic-divide-in-funding.html?\\_r=0](http://www.nytimes.com/2015/02/14/technology/for-tech-start-ups-in-europe-an-oceanic-divide-in-funding.html?_r=0)
10. More information on these issues in: <http://ec.europa.eu/digital-agenda/en/about-startup-europe>
11. Source: About CERN in <http://startupeuropeclub.eu/sern/>
12. More on the Communication in: <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52014DC0014>
13. On European industrial policy strategy in: [http://ec.europa.eu/growth/content/state-union-2017-%E2%80%93-industrial-policy-strategy-investing-smart-innovative-and-sustainable\\_en](http://ec.europa.eu/growth/content/state-union-2017-%E2%80%93-industrial-policy-strategy-investing-smart-innovative-and-sustainable_en), and Communication on a renewed EU industrial policy strategy in: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2017:479:FIN>
- 14-15. All references and the table: [http://ec.europa.eu/growth/content/state-union-2017-%E2%80%93-industrial-policy-strategy-investing-smart-innovative-and-sustainable\\_en](http://ec.europa.eu/growth/content/state-union-2017-%E2%80%93-industrial-policy-strategy-investing-smart-innovative-and-sustainable_en)
16. More in: [http://ec.europa.eu/growth/about-us\\_en](http://ec.europa.eu/growth/about-us_en). Note: references to web links on EU industrial policy:
- State of the Union 2017 web page;
  - The 10 political priorities of the European Commission;
  - Factsheet “A holistic strategy and a strong partnership in a new industrial age”;
  - Factsheet “Making Europe’s industry stronger: Key Commission initiatives”;
  - Stockshots;
  - A Renewed Industrial Policy Strategy for Europe;
  - Annex – Next steps on key actions;
  - 2017 list of Critical Raw Materials for the EU.
- The Commission promotes industrial competitiveness with other initiatives; see the following web links: the Investment Plan for Europe, the Single Market Strategy, the Digital Single Market strategy, the Circular Economy package, Energy Union, Capital Markets Union, the New Skills Agenda for Europe, Trade for All Strategy. Sectorial action can be seen at: Industry in Europe: Facts & figures.
- General reference about EU industrial policy in: [https://ec.europa.eu/growth/industry/policy\\_en](https://ec.europa.eu/growth/industry/policy_en)
17. See more about the European Institute of Innovation and Technology, EIT in: <http://eit.europa.eu/at-a-glance/eit-mission.html>
18. See more in Commission’s enterprise DG in: [http://ec.europa.eu/enterprise/index\\_en.htm](http://ec.europa.eu/enterprise/index_en.htm) and [https://ec.europa.eu/commission/commissioners/2014-2019/bienkowska/team\\_en](https://ec.europa.eu/commission/commissioners/2014-2019/bienkowska/team_en)
19. More on SEW-2017 in: <http://startupeuropeweek.eu/about/>; - <http://www.startupheatmap.eu/>; and - <http://startupeuropeclub.eu/>
20. See: <http://startupeuropeclub.eu/sep/>. SEP was launched by the former Commission vice-President and EU Commissioner for digital agenda Neelie Kroes at the Davos World Economic Forum in January 2014. Matching and Sharing Events are organised each year in parallel with the most relevant European startup events.
21. Source: LETA mediju monitoring: <http://monitorings.leta.lv/item/PCC160812-7E1D-4A83-91E7-7702CC0541E6/c/10AA86A7-D697-11D6-AEC6-0070CA111E26/1239/>
22. Source: LETA mediju monitoring: <http://monitorings.leta.lv/item/> and [mixnews.lv](http://mixnews.lv)
23. All references to Leta web-site: <http://monitorings.leta.lv/item/P9CA86A17>
24. Latvian Leta web link at: <http://monitorings.leta.lv/item/P8E15F9A4-363C-4391-9193>
25. Source on digital agenda and digital society in: <https://digimedia.be/DTR-shop.php>
26. Note: references from the 2016 Consumer Markets Scoreboard in: [http://europa.eu/rapid/press-release\\_IP-16-2931\\_en.htm](http://europa.eu/rapid/press-release_IP-16-2931_en.htm)
27. On dispute resolution platform in: <https://ec.europa.eu/consumers/odr/main/index.cfm?event=main.home2.show&lng=EN>
- Note: the following tables are from: Table I in: [http://www.baltic-course.com/eng/analytics/?doc=131690&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=131690&ins_print); Tables II-IV in: Source: [http://europa.eu/rapid/press-release\\_IP-17-2109\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-2109_en.htm?locale=en)
28. Source: Migration center’s data in: <http://business.lv/sabiedriba/id/34224/remigranti-kapec-vini-neatgriezias-latvija>
29. Reference to: Fr. Fukuyama. Political order and political decay. From the industrial revolution to the globalization of democracy. – Farrar, Straus & Giroux Publ., 2014. – 658 pp.
30. Main reference to publication in “The Baltic Course” at: [http://www.baltic-course.com/rus/kolonka\\_redaktora/?doc=19186&ins\\_publication](http://www.baltic-course.com/rus/kolonka_redaktora/?doc=19186&ins_publication)

## 2.7. Latvian political economy: towards modern narrative

*European and global challenges are forcing Latvian economy to be reoriented from previous approaches – though, often successful – to something new, inspired by the digital agenda, ICT, reforms in education and welfare system, as well as by other trends in sustainable and “green growth” patterns. Latvia has to develop an economic model to be adequate to the new trends in the world: it means formation of a new national paradigm: i.e. a new narrative for growth and progressive development. In approaches to a new narrative, all complex relations among political, economic and legal issues must be properly assessed. Only through new approaches to growth the Latvian “economic immunity system” can be created.*

### 2.7.1. Introduction

Entering a new historic period, while wishing to overcome existing difficulties and formulate a predictable future, Latvia needs a vision, which will turn the country into a progressive and modern society. In formulating strategic Latvian development path – a kind of a narrative, the most important issues shall be analysed: those that could serve as the “uniting” factors among main growth spheres. These spheres and/or sectors embrace political, economic, regulatory and ideological factors. In line with the Latvian constitution’s clause, which formulates the main country’s aim – creating a **welfare society** – new Latvian narrative (and national political economy) shall combine the mentioned growth spheres into a single development strategy.

Presently dominating in the world and in most part of Europe **liberal economic and political order**, have been the basis for social and political mindset already for decades. However, after the 2008 crisis, the liberal order is witnessing deep crisis; discussions are going on concerning the threats of populism and extreme nationalism posing numerous political issues in European socio-economic development.

Usually people are talking about liberal democracy as a “given thing”. However, its historic evolution has been full of controversies and disputes. People often forget that from its inception, liberalism has been quite un-democratic. As Italian liberal thinker, G. Mazzini (1805–1872) pointed out over 150 years ago, that democracy was just an inspiration for social competition and had been often used as “manifestation of people’s revolt”. (1)

The liberal idea has been widely shared in 19–20<sup>th</sup> centuries by numerous scientists and politicians on both sides of the Atlantic, e.g. Edmund Burke, Alexis de Tocqueville, Benjamin Constant and Danish politician Orla Lehman (1810–1870), to name a few. (2)

Presently, liberalism and democratic order have been turning into *oligarchy*; with further numerous crises to be potentially inevitable. In its modern form, the representative democracy has become a platform for a new **classa politica**, a platform providing both political guidance and (which is more vital) emergence of *elites*, which are operating under the pretext of democracy. Ordinary people are having only one “instrument” in their approach to democracy – **trust**; this is what presently “governs” the social order with some “checks and balances” that control possible power’s misuse. In this way, democracy is ultimately turning into a “method of electing leaders”, providing a sort of inspiration for social competition. (3)

In modern time, liberal-democratic values (in political context) have penetrated the liberal economy structures (economic policies) making political and economic elites as the main driving force for contemporary social development. Thus, at the end of 20<sup>th</sup> century, there was a drastic fall in people’s participation in democratic institutions, e.g. like political parties and/or other economic-cultural organisations. In this way the whole structure of “socio-political contract” in previous decades, and a compromise-kind democracy has been made generally

dysfunctional, turning into a sort of post-democratic developmental path with strong elites and plutocratic trends.

However, in national parliaments – the epitome of modern representative democracy – there are actually quite a few practically viable political ideas with real value and meaning for society. Plenty of proposals, suggestions and plans discussed in parliaments and in media are almost of no practical importance. Three reasons can explain such a miserable situation: a) it is not easy to make a “real policy”: serious resources are needed to create a good and competitive one; b) political choice is a risky issue: as soon as a party suggests a plan, it visualises its position and thus is exposed to criticisms; c) best way is to make a “flexible position”, i.e. the one that is based on compromises, both for a ruling party and for opposition. In this way the differences among political parties are reduced to semantics with real substance hidden for a while giving the press/media the leeway for presenting the “policy’s substance” to the public...

Political elites are already deeply involved in modern states’ development all over the world, which, by the way, makes them good lobbyists: e.g. during last years over 80 politicians (for different reasons) left the Danish Parliament. They have been very welcome in other “high society” sectors possessing solid knowledge of political process and political system. These over 80 former politicians have been since occupied in about 115 different positions (often combining two or three posts): e.g. 57 took positions in “interest groups” (becoming a kind of public affairs managers), 24 in lobbying, about 25 in professional organisations and labour unions, and 10 in think-tanks. (4)

### 2.7.2. Narrative challenges: political, economic and legal

First, some *political factors* shall be mentioned. Being the EU member states, the Baltic States political and governance systems (besides, the national agendas) have to follow the Union’s political guidelines: thus, during each European Commission’s five-year-term, there are adopted multi-years “political planning” guidance, addressing the member states’ development with a “Union-wide orientation”. Besides, the Union’s integration spheres are constantly increasing; thus, in the general structure of EU policies recently appeared a number of new integration “unions”: banking union and capital market union, digital and innovation unions, new energy union, and several are on the way... These and other EU’s “planning initiatives” are making politicians’ role in the member states reduced to finalising “smart specialisation” (described in the previous chapter) for their countries; the latter needs definitely a much close cooperative efforts in the Latvian political economy from all social “actors”.

A new “anti-system” movement in the EU (as well as skepticism over present course of events) is taking place under the main slogan: “people will be the rulers”. This approach and concept is definitely right, though the main issue at stake is about the ways of implementation. There are two main options in peoples’ democratic governance: direct and representative systems; in smaller societies

#### GLOBAL ECONOMIES' COMPETITIVE RANKING

The ranking goes the descending way, from ten to one:

- No. 10 - Finland**
- No. 9 - Japan**
- No. 8 - United Kingdom**
- No. 7 - Sweden**
- No. 6 - Hong Kong**
- No. 5 - Germany**
- No. 4 - Netherlands**
- No. 3 - Singapore**
- No. 2 - United States**
- No. 1 - Switzerland.**

**Note:** among ten best economies in the world there are five European, e.g. Finland, Sweden and Germany are the Baltic Sea states’ example of most competitive countries in the world.

the former could be used, in larger – the latter. “Direct representation or ruling” cannot solve all social issues: people need a kind of management tools and means, which are finally performed by politicians (or political elites).

Modern system of representative democracy doesn't satisfy “most of the people, most of the time”. Hence, one of the possible solution: to move where possible closer to a *direct democracy*; for example, management in a bloc of houses, in small cities and communities, in small regions, so-to-say – closer to peoples' needs.

It is seen in almost all western states that modern democracy principles are in deep crisis: when politicians are elected through a representative system for the first time, they are hopelessly unable to function as the existing political system's *modus operandi* is too strong. For example, for inexperienced new ministers it is too tough to combat with experienced heads of departments and/or finance ministry, because the latter is really “running the show” combining real politics with actual economics. That's why a young politician's role is often reduced to “activating” some smaller issues, which are supposed to make an image for the public of some “activities”.

However, it is becoming more and more difficult to deceive people: they want promises fulfilled; so, the only choice for “young rulers” is to form “political circles”, or join political elites. Otherwise, they run the risk of losing at the next elections: that is why people often say that politicians' term is from one election campaign to another.

Recent examples in the US elections, Brexit or Macron in France, etc. have shown that the general public needs changes; hence, the modern trend towards “anti-system” movements around the world. Enlightened electorate rejects those “old-type” politicians that for the last decades used economic-administrative logic (and “objective logic” as a governance style) instead of political economy's approach. Electorate can clearly see that “things” can be done differently: modern populism is a good sign for this...

For example, recent dramatic elections in the US have shown that electorate would not tolerate any longer treating “the nation's economy” as the outcome of “the law of nature”: they needed people-oriented politics, and that has nothing to do with democracy. That is why often political elites are facing “identity crisis”: people urgently want “real political vision” aimed at welfare concept. Political debates are usually about choices between the so-called objective economic laws and implementing welfare principles at the lower levels of society (“the high-placed groups” can manage themselves). When politics “meet the real life”, often political ideas fail to be realised: they hit resistance from an existing “system's order”. The latter is giving room for growing populism; but such populism's ideas do not necessarily provide solutions to problems on the “democratic path” (probably, in the “enlightened populism” it can really happen). However, all modern changes do not signify that there wrong or right politics; it rather means that people need an understanding that a political choice is in fact “political”. One can dispute the need for a certain reform: the issue is what sort of long-term consequences such a reform would have? The balance of political decision and economic effect is always there: for example, the number of civil servants in Latvia can be reduced, however, political consequences shall be analysed; the weekly working periods can be reduced (according to the EU's recommendations to about 35 hours), but that could lead to dramatic outcomes.

Facing modern populism in politics, one has to analyse the populist's phenomenon. The main problem for a “politician of the future” is that such person should “think big”, with full understanding of modern global and European challenges, with the multiple effect of the 4<sup>th</sup> industrial revolution (with overwhelming digitalisation) while being equipped with adequate argumentation for the wide public.

However, to smoothly develop a “state machine”, alongside solid economic knowledge, a modern politician (e.g. a person in a prime minister's cabinet) has to be a “great technocrat” in

order to suggest necessary reforms; the latter are often presently done without due account of peoples' popularity. Such behaviour needs stamina; but if one is not able to explain people the urgency of suggested reforms (and only make hundreds of promises never meant to be real), such a leader is in great danger.

On the global scene, world's power structures are under severe and fast changes: western states are losing influence in favour of Asian states, and the US dominant role in global politics is diminishing. For the Baltic States and Latvia it means to rely on its own strength and growth to withstand global challenges; so, it means, first of all a strong grasp of economics...

**Second**, there are important **economic factors**, which are integrally intervened into politics: hence the notion of *political economy*. Two issues have to be mentioned in this regard: crisis of traditional liberal models of economic governance, and new trends in developmental directions. The crisis of traditional liberal economic order is evident in almost all countries: as a result, there appeared numerous plutocratic oligarch structures and elites. (5)

Elites' power is growing constantly, firstly, due to weak people's self-organisation, secondly, due to enormous resources at the hands of elites. The divide between the elites and the masses is becoming wider with every passing year. The evidences are numerous: in education (these are schools and universities elites), in state management (governing economy elites); and so on, in science, culture, tourism and sport. Traditional liberalism in theory and practice cannot do anything about it... It gives just room for critically-damaging relations between leadership and membership, between economy and policies, between capitalistic entrepreneurship and social solidarity.

Capitalism's order culminated in 50–70s of the last century, followed by stagnating growth and explosive financial transactions finalised in the 2008 financial crisis. Austerity policies introduced in some states, including Latvia, did not help in quick revival; the reversal process has taken about a decade, with damaging workers' solidarity, lower wages and quality of life in the most European states. One of the problems is that growing income's inequality could not be eliminated by the traditional liberal market instruments; it needed the changes in "modern capitalism", as a French economist, Thomas Piketty underlined in his famous book in 2015; the book is already translated into Latvian. (6)

As to new trends in Latvian political economy, one has to mention sustainability issues and circular economy. (7)

In ministries' approach to economic growth they often use so-called "out-of-house" analysis (often called outsourcing), which is another sign in the reduction of modern analytical skills concerning vital economy and financial issues. Using consulting analysis from other institutions not only reduces the ministry's authority and expertise, but moves the economic policy analysis and prognoses to other centres of power. For example, in Denmark, financial ministry used to publish own analytical papers (on budget, financial situation, investment, etc.): in 1995 there were about 50 such "papers"; presently, only about 10. The rest are made and published by the external analytical groups, e.g. Boston Consulting or McKinsey & Company.

National "economies' actors" have to focus on reforms, innovation and talent to sustain the countries' competitive abilities. Thus, the World Economic Forum in its annual Global Competitiveness Report 2017–2018, released in September 2017 made the following analysis.

The Chinese mainland's competitiveness ranking moved up from 28<sup>th</sup> to 27<sup>th</sup> in 2017. According to the report, major emerging markets, such as China, India and Indonesia are becoming centres for innovation, catching up with advanced economies.(8)

For both Latvian policies and economy, it will require new thinking, approaches, strategies and mechanisms on national scene and in international relations, based on economically efficient and politically acceptable approach.



**Third, legal or regulatory issues;** it is known that about 70% of the EU member states' laws originate in the Union's institutions in the form of regulations, directives, decisions, etc. They cover almost all development and growth sectors in an EU state. Two EU co-legislative institutions: the Council of the European Union and the European Parliament are responsible for adopting these legislations aimed at coordinating member states' policies in specific fields, e.g.

- **Economic and fiscal policies:** the Council coordinates member states' economic and fiscal policies to strengthen economic governance, monitors the states budgetary policies and strengthens the Union's fiscal framework, and also deals with the legal and practical aspects of financial markets and capital movements. For Latvia, as a member of euro-zone there are some more stringent financial rules;
- **Education, culture, youth and sport:** the Council adopts EU policy frameworks and working plans, which set out the priorities for cooperation between member states and the Commission;
- **Employment policy:** the Council draws up annual guidelines and recommendations for member states, based on European Council conclusions on the EU employment situation. (9)

Additionally, **some ideological issues** in the new narrative shall be mentioned too. Modern national economies are becoming so integrated globally (for Latvia, at the EU level), that often states are seriously losing their grip on local markets. As a result, follows de-politisation of national economic policies in the public discussion with the increasing role of cultural and ideological issues concerning identity and nationalism. The lack of public interest in economics can be substituted by a new public discussion issue – political economy.

Liberalism is in crisis on both fronts – socially and ideologically: growing are neo-liberal approaches to development, such as new completion models, self-assertion, branding, consumption models, efficiency, elite-presentation and neo-classic economic models. Even the whole public sector is under new “instruments of change”, like *new public management –NPM*, with a more diverse view of state authority and its relationship with the civil society.

The NPM, as advocated by neoliberals includes reforms attempted to increase the role of markets and of corporate management techniques in the public sector. While there have been extensive and significant reforms, bureaucratic hierarchies still perform most government functions in most states. Industries subject to dramatic privatizations included telecommunications, railways, electricity, water, and waste services. (10)

However, liberalism does not see these issues as ideology factors: modern societies are becoming more individualised, where each person is “performing” its own “life-project”. This gives way to broad individualism and a sense of freedom...

In short, in the ideological sense, there is great distance between the liberal order and reality, where liberal ideology is in sharp contrast to enormous concentration of power “on the top” of society with “atomised” population at the bottom.

To conclude the ideological paradigm, an important remark suffices: about five hundred years ago, a German priest, Martin Luther (1483–1546) started a “reformation” process, which turned out to be a dramatic change in the whole religious' spheres, including the social one. Important thing that M. Luther was not against religion as a symbol of belief; he just wanted to reform some those traditional (at that time) administrative and procedural “instruments” in clerical life, which were, so-to-say, completely outdated traditions and contrary to ordinary wisdom. Of course, these reforms have been treated at Luther's time as anathema; and so are almost all new reforming ideas...

It seems now is a high time to reform seemingly outdated existing – also traditional – system of public governance with the political elites at the head of the main social transformations. This “social ills”, due to a perverted political-economic governance, are numerous: from “dropping

liberalism” to deficiencies in representative democracy, to apparent distances between political aims and economic means, to problems with countries’ “specialisations” and to cardinal issues of delivering on the constitutional principles of welfare, etc.

It means that modern democracy’s future is within the enlightened and well-informed populism; for years to come, the European Union will be composed in future of the independent states striving for strong national (in some sense, populist) governments.

### **2.7.3. Creating Latvian growth pattern: national “economic-immunity system”**

Latvian socio-economic situation has been closely connected with the EU-2020 strategy, reliance on OECD recommendations and the UN sustainable development goals. All these “external” factors often play a decisive role in forming Latvian approaches in political economy. However, national political and economic potentials shall be used actively as well: e.g. through “green” and circular economy, active use of ICT, supporting progressive SMEs, etc.

Modern trends in green economy are probably most interesting and important for Latvia. Economic growth and industrialisation – together with a rising number of consumers caused by population growth – often lead to unsustainable consumption of natural resources. Climate change impacts are putting additional pressure on ecosystems, societies and economies, especially in developing countries. As a consequence, new environmental and climate-friendly development paths are needed, as well as socially sound forms of economic development, which generate broad-based employment and income and contribute to the reduction of poverty.

Green Economy is defined by UNEP as “an economy that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities”. It is a holistic concept, ensuring a balance between social, ecological and economic dimensions while promoting economic growth and employment. Green Economy as one of the key themes for the UN Conference on Sustainable Development (Rio+20) and the related concepts of ‘Green Growth’ and ‘Low-Carbon Development’ have received significant international attention over the past few years as a tool to address the 2008 financial crisis.

The intervention areas addressing a green economy are manifold and include agriculture, forestry, fisheries, industry, tourism, transport, waste, energy and water. Supporting factors which play a role in the key intervention areas cover institutional and human capacity development (green skills) and the development of adequate basic conditions (e.g. finance mechanisms).

In Latvian green economy’s priorities some integrated solutions are required based on combined expertise and technical know-how in various intervention areas. In this regard, the GOPA consulting group offers specialised cross-sectoral knowledge. For example, since 2012, GOPA has been providing expertise and integrated solutions to tackle challenges of a green economy in the *Green Economy Competence Unit* (GECU) as an interdisciplinary working group and knowledge platform focusing on the acquisition and implementation of projects supporting the shift towards green economy. It also provides expertise and holistic concepts in the areas of environmental and climate protection, in economic sustainability, as well as in social equity and inclusion. In addition, GECU supports the GOPA group in reducing the states’ environmental footprint by systematically improving the corporate environmental management system. GECU also advises development partners on protecting the environment and guides them towards a sustainable use of natural resources. (11)

### 2.7.3.1. Sustainability's perspectives

The UN sustainable goals (described in the book's first part, 1.4) are becoming really the focal points in the new Latvian narrative. The opportunities in circular economy are impressive; thus, among new opportunities in recycling there are, e.g. the beverage carton packaging machinery market, which is an important sector for business as Latvia is a growing beverage producer. For example, only in the US the packaging market was estimated at \$746.9 million in 2017 and is projected to reach \$840.7 million by 2022. The growth of the beverage carton packaging market is attributed to an increase in the consumption of personal care and hygiene products in emerging economies as well; it will rise in the number of production facilities of beverage carton packaging machinery in the coming years.

Key players, i.e. companies operating in the beverage carton-packaging machinery market include global and European firms: such as Langfang Best Crown Packing Machinery (China), ACG Worldwide (India), KHS (Germany), Krones (Germany), GPI Equipment (US), Bosch Packaging Technology (Germany), Econocorp (US), Jacob White Packaging (UK), Bradman Lake Group (UK), and Mitsubishi Electric (Japan). These players have adopted various growth strategies to expand their global presence and increase their market share. Mergers and acquisitions, expansions, and new product launches are some of the major strategies adopted by key players operating in the beverage carton packaging machinery market. So, the room for Latvian developers is good; it just needs a political will and management skills to succeed. (12)

Sustainable growth needs investments: unlocking the potential of sustainable energy, promoting digitalisation for development or supporting micro, small and medium sized enterprises will help to create sustainable development. Investment areas represent real opportunities for businesses and social partners in the EU states, including private and public sectors. Securing a good climate for cooperation, these investments will contribute to sustainable growth; therefore EEIP is expected to bring tangible results providing for job creation and greater competitiveness, stronger economy, governance, connectivity, and stronger societies.

Five main sectors of investment opportunities can be used in Latvian growth strategy:

1. **“Sustainable energy and connectivity”**: aimed at attracting investments in renewable energy, energy efficiency and transport.
2. **“Micro, small and medium sized enterprises (MSMEs) financing”**: aimed at improving MSME's access to finance. Such kinds of businesses are the main employers in the EU and Latvia offering important and more sustainable alternatives to the informal economy.
3. **“Sustainable agriculture, rural entrepreneurs and agro-business”**: aimed at providing better access to finance for small-holders, cooperatives and SMEs in agro-business sectors; such investment will allow addressing food quality issues.
4. **“Sustainable cities”**: aimed at mobilising investments in sustainable urban development of municipal infrastructure, including urban mobility, water, sanitation, waste management, renewable energy services.
5. **“Digital agenda for development”**: aimed at promoting investments in innovative digital solutions for local needs, inclusion and improving labour market.

Investments should provide adequate risk sharing, be economically and financially viable, as well as socially and environmentally sustainable. (13)

#### 2.7.4. Perspective Latvian economic development trends

Global, European and Latvian economy was quite good in recent years; e.g. 2017 witnessed positive signs for the national government, companies and ordinary people. For example, growth rates in Latvian economy by the end of 2017 have been at the level of 5 per cent; though slowdown trends have been visible too. Latvian experts from *Swedbank*, however, predicted “rather sharp” decline in economic growth in 2018. (14)

Latvian tax reform in 2017 has shown good signs: as a result, general tax load has been reduced, especially for the small incomes’ recipients and flat tax was introduced for all forms of income. In corporate income tax rates (CIT) two things were essential: the cancellation of the so-called advance payments and that the undistributed profit will not be subject to CIT. The former is supposed to help enterprises in critical time, while the latter is expected “to legalise” all financial transactions. Generally, experts argue, tax reform is a good step in right direction. However, some problems remain: the way the tax reform is being implemented and whether bureaucracy would be reduced. For the Latvian government it would be worthwhile to deliver reform’s plans in a clear and reasonable way to the public, argues experts; often contradictory and incoherent communication was the problem.

Investments after the long years of stagnation swiftly renewed with over 20% increase. The construction sector attracted most: it has rapidly growing during 2017, inspiring labour market.

As to the latter, it has been heated by demand for special skills, negative Latvian demography and workers’ exodus. Salaries’ growth reached 7.5% (in 2018 is expected at 10%) and most of wages were “legalised”, i.e. adding to open economy. Wages’ growth has been felt in private and public sectors, which also stimulates contractions in the labour market.

Simultaneously with the good economic indices and wages’ increase in 2017, the inflation increased from almost zero to 3% (expected to be 3.5% in 2018). Prices’ increase was influenced by higher excise duties, increase in the personal income and rise in energy resources’ prices in the world markets. Hence the prices have grown on foodstuffs, refreshment drinks, as well as increase on goods and the services in households and transport. Although on average income increase in 2017 was bigger than growth in prices, the general people’s purchasing power increased, i.e. sectors of population with the low incomes were more affected by inflation.

The rates of credits in Latvia have been still quite low: main reasons are caution approach to credits in the general public and among businessmen; a number of new rules decreased attractiveness of bank credits.

Growth in the world economy will proceed; and it will be positively felt in Latvia as growth in global demand will increase export opportunities. Main global negative risks will be connected with the political and geopolitical aspects, e.g. aggravation of the US relations with other parts of the world, relations with Russia, the outcomes of Brexit negotiations, etc.

With the coming elections to Saeima no new political decisions are expected: hence, Latvian economy will proceed without dramatic changes and reforms. Experts expect some reforms only in 2020: when the economy growth will become more moderate and will be considerably less financial resources for perspective reforms and “correction of mistakes”.

Growth in Latvia is expected to be driven by internal consumption (as assessed by the OECD-2017 report) and growing export (the latter will be driven by external demand). Investments are expected to grow; and so the citizens’ wellbeing and public and local income. (15)

### 2.7.5. EU suggestions for improving labour markets in the member states

The labour market, so-to-say the “world of work” is changing fast with a growing number of non-standard jobs and contracts; the social partners have to implement new EU recommendations for minimum working conditions’ requirements in collective agreements. Latvia has to take into consideration in its social policy the new requirements. (16)

The Commission’s new draft fully answers the requirements for more transparent and predictable working conditions in the EU states. The draft is based on the compromise to create more secure employment in modern types of working arrangements, allowing for flexibility and ensuring a level playing field. The new proposal fully respects national social dialogue practices, by allowing social partners to implement the new minimum requirements relating to working conditions through collective agreements.

The Directive’s draft is going to update and replace the so-called “written statement Directive, 91/533/EEC”, adopted in 1991 (still in force), which gives employees starting a new job the right to be notified in writing of the essential aspects of their employment relationship. After more than 25 years, this Directive does not no longer answer changing labour market realities, in particular concerning the new forms of work that have developed in recent years. Increased labour market flexibility and a growing diversity of forms of work have created new jobs and allowed more people to become professionally active. The draft also exposed some gaps in the protection of workers and, in some cases involving vulnerable workers, contributed to new forms of precariousness.

The Commission’s initiative was announced in April 2017 together with the European Pillar of Social Rights, being part of the 2018 Commission Work Programme and following two-stage consultation of social partners. However, the EU states’ social partners did not enter into negotiations to propose their own agreement; therefore, the Commission decided to take action and made a present draft.

The proposal, for example, postulates that the EU states shall adopt necessary laws and provisions to comply with the Directive (within 2 years) and shall ensure that both the social partners introduce the required provisions and the states being obliged to take the necessary steps to guarantee the implementation of the Directive (17)

In addition, the draft creates new minimum standards to ensure that all workers, including those on atypical contracts, benefit from more predictability and clarity as regards their working conditions. The Commission estimates that about 2–3 million additional workers on atypical contracts will be covered and protected by the new proposal. At the same time, the draft also puts measures in place to avoid administrative burden on employers, for instance by giving them the possibility to provide the requested information electronically. The new rules will also create a level-playing field for companies, so that employers will benefit from fairer competition in the internal market, with fewer loopholes. More transparent and predictable working conditions are also important for a more motivated and productive workforce.

There are some other concrete measures to reduce risks and increase workers’ protection:

- Aligning the notion of “worker” to the case-law of the European Court of Justice. Under current rules, the definitions may vary and certain categories of workers end up being excluded. By using the definition of worker from the case-law of the Court, this Directive would ensure that the same broad categories of workers will be covered.
- Bringing within the scope of the Directive forms of employment that are now often excluded. This includes domestic workers, marginal part-time workers or workers on very short contracts, and extending it to new forms of employment, such as on-demand workers, voucher-based workers and platform workers.

- Ensuring that workers are provided with an updated and extended information package directly at the start of employment from day one, instead of two months following the starting date as is currently the case.
- Creating new minimum rights, such as the right to greater predictability of work for those working mostly with a variable schedule, the possibility to request transition to a more stable form of employment and receive a reply in writing, or the right to mandatory training without deduction from salary.
- Reinforcing the means of enforcement and redress as a last resort to resolve possible disagreements, if a dialogue was not enough.

The draft is among the Commission's actions to implement the *European Pillar of Social Rights* (EPSR), which was proclaimed at the Social Summit for Fair Jobs and Growth in Gothenburg on 17 November 2017. (18)

The European Pillar of Social Rights is about delivering new and more effective rights for citizens. It has 3 main categories:

- 1) Equal opportunities and access to the labour market;
- 2) Fair working conditions;
- 3) Social protection and inclusion. (19)

### **2.7.6. National “economy-immune system”: welfare issues in Latvia**

In order to formulate a right narrative for the Latvian growth, the main “ills and cure” of national economy have to be assessed; so-to-say, a right “diagnoses” must be made afterwards. Therefore it is necessary to organise an experienced group of experts to figure out the necessary reforms (so-called “treatment”) and, finally, a true and efficient pace of adequate reforms shall be prescribed, i.e. a “socio-economic medicine” must be found.

As soon as the EU's recommendations from numerous “common strategies” are aimed at social market economy development, it is necessary to look at the social aspects of development and the concept of welfare state. The issues of individual and state's “wealth” have become a vital theme in Latvian economists' discussion with the main idea of how to increase both. In essence, discussions on “accumulating” public/private wealth and assets, as well as savings, and preserving existing assets are dealing with all sorts of savings which might influence the individual welfare and the national economic growth. Though, generally, it is about all sorts of income that can generate any sort of savings.

Thus, on one hand, the lack of individual savings in Latvia is the result of comparably low incomes and constantly increasing costs of living, it is hard to achieve the “accumulation” goal. At the same time, people do not make big savings, as there are possibilities of acquiring credits and loans. Even in the EU the situation is quite simple: for example, the European Central Bank in the post-crisis period after 2009, with its expansive monetary policy created a very low rate interest situation in Europe, contributing somehow to the EU's economic recovery.

Then, from another side, low interest rates allowed businesses to borrow cheap and promote corporate development; however, current Latvian interest rates available at commercial banks for “regular/simple deposits” are lower than the inflation rate; therefore, specific form of savings are becoming rather impossible. It seems as a wishes circle, doesn't it?! Either way, it should be remembered that any extremes are bad; Latvian citizens having no substantial savings (or any at all) might be at risk in cases when they urgently need money. The only way in these circumstances is short-term borrowing with relatively high interest rates, which quite few people can afford.



Nothing wrong with the consumption's priority in GDP: all modern states explore the same pattern of growth; however with one vital exception in approach. It is about the national trade balance, i.e. with the optimal positive stance – when export exceeds import. In Latvian “case” internal consumption works as a damaging factor in growth as the balance of external trade has been negative during last 10–15 years. That means that consumption of imported goods/services represent a significant growth burden to be substituted by additional budget expenses. In order to overcome such a trend, the government policy shall be oriented towards local production and drastic reduction of imported goods.

No wonder, that recent OECD-2017 Economic Survey for Latvia mentioned strong internal consumption as a main factor of rapid economic growth. This is due to both greater economic activity and increasing wages, as higher salaries could encourage greater consumption. Internal consumption is not only essential for the GDP growth, but also important for developing numerous fields adjacent to consumption patterns, i.e. production and growth of services related to this growing demand, argued Latvian University specialists, Gundars Bērziņš (dean of economy and business department) and assoc. prof. Jānis Priede. (20)

The scientists argued that economic development was determined by many factors, some of which are distinctly psychological, such as expectations of future developments. Besides, when media and advertising are increasingly mentioning perspectives for Latvia's fast growing economy in the future, then it would add as a stimulating factor to people-turned-consumers' security awareness and, consequently, to people's intention to live better and spend more.

Surveys in Latvian commercial banks also confirmed some facts concerning the “consumption future”. Thus, SEB-study has shown that “emotional purchase” drives more than 66% of the population, even often coped with the threat of loss of any means of subsistence. For a large part of the population (39%) there is no threat of losing job, but 17% of those surveyed had only enough resources for about a month. Only few Latvians can “afford” savings: 18% of those surveyed have enough funds for three months, 12% – for 6 months and 9% – for more than six months, underlined Latvian University researchers.

However, Latvian GDP per capita is presently at the level of 65% from the European Union's average, whereas Lithuanian GDP is already at 75%. (21)

### **2.7.7. Next generation of internet and skills**

The European Commission launched in 2016 a new initiative aimed “to shape the future internet as an interoperable platform” that embodies the European values, i.e. openness, inclusivity, transparency, privacy, cooperation, and protection of data. The initiative, which is important for Latvian digital agenda, is called “the next generation internet, NGI” and will turn the digital revolution along the lines of ensuring progressive adoption of advanced concepts and methodologies spanning the domains of artificial intelligence, Internet of Things (IoT), interactive technologies and more, while contributing to making the future internet more human-centric. (22)

This ambitious vision requires the involvement of the best Internet researchers and innovators to address technological opportunities arising from cross-links and advances in research fields ranging from network infrastructures to platforms, and application domains to social innovation. In Europe, innovators in artificial intelligence, AI can benefit from a pool of €30 billion as part of the Horizon 2020 programme, where ICT-26-2018-2020 (see below) will fund the best proposals with the most promising breakthrough innovations.

The challenge is to fully exploiting the potential of AI in the economy and society by making AI technologies and resources available to developers and innovators in all sectors (while actively engage with a wide user community, including non-AI experts).

Research and innovation activities should strengthening industrial competitiveness across all sectors including for SMEs and non-tech industries and help address societal challenges like ageing, while clearly demonstrating the need for the Union-wide and collaborative approach in a highly competitive field. (23)

Work programme (WP)-2019 for an open internet initiative includes the following topics:

- To **identify the challenges** related to values and topics (as well as **potential solutions** to address these challenges), and
- To **identify gaps** that need to be filled by research and innovation projects within some topic areas. (24)

### **2.7.8. Latvia in the EU's future: a "threat of federalism"**

Europe is slowly heading towards a "united" federal state. Several references to that have been voiced long ago (last time former Commission President Barroso did so in 2000s).

The EU's federal structure and these ideas of such Europe's future make nervous many leaders among EU states; and there are certain grounds in such fears. In order to create a "united Europe" one has to somehow reduce the existing states to "second-hand" administrative units if not to abolish existing EU states' competences drastically. Decades of European integration have made these fears perfectly visible: existing division of competences among the EU institutions and the member states (exclusive, shared and supporting) is a clear indication of the process.

Besides, on top of the existing Union's integration policies there appear separate "unions": energy, digital, innovation, security, 5-G Network, etc. More important, about 60–70 per cent of the member states legislation derives from the EU institutions; and it is about 80 thousand different legal acts!

There are, of course, some vital aspects of "national identity" which are still within the competences of the member states. However, they are constantly reducing: e.g. national finances/currency and taxation system, most important ingredients of national sovereignty. Both are under fierce Union's control: all three Baltic States and Latvia are having common EU's currency (euros); as to taxation: VAT levels are controlled already by the EU's VAT Directives (with lower and upper-limits), including customs duties and expected common corporate tax base with mandatory exchange of national tax authorities' information.

Then, there are two additional national competences, which are only "slowly diminishing" within the EU's "federalism": security issues and foreign relations. Although states' foreign relations are still within the EU countries' competence, the EU institutions are slowly overtaking some of the national functions. Thus, the EU's external policies, strategies, instruments and missions are overseen by the European External Action Service, which has four key aims:

- 1) Supporting global/regional stability;
- 2) Promoting human rights and democracy;
- 3) Seeking to spread prosperity in the world, and
- 4) Supporting the enforcement of the rule of law and good governance.

The Union's external policy mix is vast, ranging from bilateral agreements to guidelines and legislation. Foreign affairs and other issues are discussed monthly in the Foreign Affairs Council chaired by the High Representative of the Union for Foreign Affairs and Security Policy with the invitation of the member states' officials. (25)

As to security, the EU member states have committed themselves to the Union's Common Foreign Security Policy. Thus, the European Security and Defence Policy is aimed at strengthening the EU's external ability to act through the development of civilian and military capabilities in conflict prevention and crisis management. (26)

In a rapidly changing world, the EU is faced with security challenges both in its immediate neighbourhood and around the world. Therefore, EU Common Security and Defence Policy (CSDP) enables the Union (on behalf of the member states) to take a leading role in peace-keeping operations, conflict prevention and in the strengthening of the international security. CSDP has become an integral part of the EU's comprehensive approach towards crisis management, using civilian and military assets. However, some member states are quite hesitant on this issue, e.g. Austria, which has a constitutional obligation of neutrality.

Since 2003 the EU has launched some 30 peace missions and operations contributing to stabilisation and security in Europe and the world. In time of limited resources Europe also needs to use them rationally: thus the CSDP allows EU member states to pool their resources and to build stronger defence capabilities to act rapidly and effectively.

In principle, each EU state continues to conduct its own foreign policy. If a country is against a common decision, then the EU cannot adopt a "united position". Maximum that states can do – to officially "shame a defector" and "doctor an opponent" it at their Council's sessions.

Another national sovereignty' "fortress" is so-called united "social standards". Formally speaking, these are the shared EU-member states' competence, not the exclusive ones of the European Union institutions. But even in this sphere the EU bureaucracy has been increasingly interfering into the member states' competences. Often with the good intentions: e.g. unified standards of the size of benefits and duration of leave for the care of child, as well as the minimal sizes of wages, in those countries, where they did not exist.

*Bottom-line:* concepts of "strong national sovereignty" is slowly diminishing in the modern Europe: first, due to the European integration's process and second, due to increasing role of several national agendas that are being taken over the EU institutions, mainly by the European Commission. This process does not impose any threats or challenges to the Baltic States and Latvia: politicians have to adapt to the challenges coming from the ever growing European integration in which the role of national "actors" are changing in line with the EU's "federal future".

Combating for national sovereignty is a process that goes up and down in the member states: *down* by the EU's integration efforts and *up* due to growing national feelings. So far "the sovereignty battle" proceeded mostly in one direction, i.e. imposing the EU's authority over the member states. Anyway, the reverse process has witnessed only rear examples... There is a general feeling that the member states will be defeated; formally the EU "guidance" will continue to exist, including e.g. such EU symbols as the Union's coat of arms, the hymn, flag and other formal EU's attributes which will definitely stay! However, there is feeling that the member states will reserve only some functions of regional authorities; this is what the EU's federal perspective is about...

## Resume

*Latvian constitution formulates the country's main aim: creating a **welfare society**. Welfare concept means that all people living in the country are having a fair share of created wealth, i.e. goods and services produced in the country. Therefore major economic growth strategy shall be oriented towards "maximising output" of public governance in increasing national GDP. In general that means compiling such national political economy's structures that correspond to competitive in the world (so-called global value chains, GVCs) and in Europe productive forces. In the new national growth strategy, creating a Latvian narrative is vital, which shall combine all perspective growth spheres into a single development strategy.*

*Narrative formation needs comprehensive analysis of strategy's "internal forces", which consist mainly of political, economic and legislative "blocks"; just corresponding to the power balance in a modern states among legislative, executive and judicial branches.*

*In the narrative formation, both “external” factors (global and European challenges) and “internal” factors (political will and governance) play a decisive role in forming Latvian approaches to political economy. Besides, national political and economic potentials shall be used actively as well: e.g. through “green” and circular economy, active use of ICT, supporting progressive SMEs, etc. In this regard, challenges in labour market shall be considered, as well as the “next generation of internet” and other welfare issues, which can make national economy “immune-resistant” to ant possible risks.*

## Notes and references

1. More on democratic issues in: <https://press.princeton.edu/titles/9042.html>
2. On political thoughts: [https://da.wikipedia.org/wiki/Orla\\_Lehmann#Sidste\\_tid](https://da.wikipedia.org/wiki/Orla_Lehmann#Sidste_tid)
3. See, for example, Hannah Arendt (1906–1975) about narrative in: <https://plato.stanford.edu/entries/arendt/#Act-NarRem>
4. Reference: *Politiken, Kroniken* Section (Denmark’s daily), 21.x.2017, p. 9. The single consequence and cure from such course of events is a growing liaison between political and economic elites in all spheres of modern societies.
5. See, e.g. Eteris E. “Governing elites in modern economies” in: [http://www.baltic-course.com/eng/editors\\_note/?doc=15280&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=15280&ins_print)
6. Piketty Thomas. *Capital in 21<sup>st</sup> century*. – Paris, 2014. – 685 pp. (Original in French, 2013). In: <http://www.amazon.com/Capital-Twenty-First-Century-Thomas-Piketty/dp/1491534656>
7. On sustainability and circular economy see: Eteris E. Circular economy: new EU incentives for Baltic States. *The Baltic Course Magazine*, 03.12.2015. In: [http://www.baltic-course.com/eng/editors\\_note/?doc=15759&ins\\_print](http://www.baltic-course.com/eng/editors_note/?doc=15759&ins_print)
8. On top global economies and rankings, see, for example: [http://www.chinadaily.com.cn/business/2017top10/2017-11/01/content\\_33964293.htm](http://www.chinadaily.com.cn/business/2017top10/2017-11/01/content_33964293.htm)
9. About the Council of Ministers’ functions: <http://www.consilium.europa.eu/en/council-eu/>
10. More on NPM in: <https://www.britannica.com/topic/governance#ref1181885>
11. On GOPA group: <https://www.gopa-group.org/our-services/green-economy>
12. More on market in packaging: <https://www.marketsandmarkets.com/top-market-reports.asp>
13. Examples from the EU external investment plan see in the following websites: EIP Website; Q&A about the European External Investment Plan; More details on pillar assessment; Reference to: Commission press release “European Union’s External Investment Plan: green light for the first five investment areas”, November 2017, in: [http://europa.eu/rapid/press-release\\_IP-17-4884\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-4884_en.htm?locale=en)
14. The bank’s analysis. In: [http://www.baltic-course.com/rus/\\_analytics/?doc=136287&ins\\_print](http://www.baltic-course.com/rus/_analytics/?doc=136287&ins_print)
15. Citations and references from Kazaks M., Swedbank’s chief economist’s article. In: [http://www.baltic-course.com/rus/\\_analytics/?doc=136287&ins\\_print/28.12.2017](http://www.baltic-course.com/rus/_analytics/?doc=136287&ins_print/28.12.2017)
16. Proposal for a Directive of the European Parliament and of the Council on transparent and predictable working conditions in the European Union [SWD (2017) 478 final] and [SWD (2017) 479 final].
17. See draft on: COM-2017-797\_Transparent-predictable-working-conditions\_EN.pdf, art. 20.
18. On EPSR: [https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights\\_en](https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights_en)
19. More information in: MEMO: Commission’s proposal to increase transparency and predictability of working conditions – Questions and Answers ([http://europa.eu/rapid/press-release\\_MEMO-17-5284\\_en.htm](http://europa.eu/rapid/press-release_MEMO-17-5284_en.htm)); and News item with links to legal documents on the DG Employment website. Source: Commission press release: “Commission proposes to improve transparency and predictability of working conditions”, in: [http://europa.eu/rapid/press-release\\_IP-17-5285\\_en.htm](http://europa.eu/rapid/press-release_IP-17-5285_en.htm); Latvian version at: [http://europa.eu/rapid/press-release\\_IP-17-5285\\_lv.htm](http://europa.eu/rapid/press-release_IP-17-5285_lv.htm)
20. See more in: <http://monitorings.leta.lv/item/PCD85DA3E-503C-4358-88C8-32DABDC76FE9/c/10AA86A7-D697-11D6-AEC6-0070CA111E26/1239/4.xii.2017>
21. See: Leta monitoring in: <http://monitorings.leta.lv/item/PD38E64CD-D67E-4F7B-9439-BD35897149FE/c/10AA86A7-D697-11D6-AEC6-0070CA111E26/1239/-4.xii.2017>
22. More on NGI in: <https://www.ngi.eu/about/>. See also NGI’s contact point in Latvia at: Advanced Computer Networking, GEANT PoP in Latvia, CERT in Latvia and CC TLD.LV. In: <https://map.hub4ngi.eu/map/> and <http://lumii.lv>
23. More in: <http://ec.europa.eu/research/participants/portal/desktop/en/opportunities> and in: <https://consultation.ngi.eu/comment/32?comment=32>
24. More in: <https://consultation.ngi.eu/channels/work-programme-2019-open-internet-initiative>  
See: ICT-24-2018-2019, Next Generation Internet – An Open Internet Initiative.
25. On EU’s external policy. In: <http://collections.internetmemory.org/haeu/content/20160313172652/http://www.eeas.europa.eu/csdp/>
26. On European security. In: <https://www.eui.eu/>

## PART III

# LATVIAN GROWTH PERSPECTIVES: FACING NEW CHALLENGES (INTERNAL CHALLENGES – II)

*The third part of the book shows in a condensed form some aspects in perspective Latvian growth, including the formation of a national perspective narrative. As was seen in previous book's parts, Latvian growth is influenced and dependent on certain "external" factors: such as the EU's challenges for further Union integration, in which Latvian economy is just a small part of. However, there as well some internal challenges influencing changes in the national economic and social policy's spheres, i.e. in the forming of a new narrative. These internal challenges include numerous economic policy guidelines, e.g. smart specialisation strategy, changes in Latvian industry, manufacturing and agro-sectors, as well as through activating business and entrepreneurship, through new digital society and new skills, and modern education policy.*

### 3.1. Introduction: Latvian economy – 2.0

All EU member states are making efforts to "foresee the future"; Latvia is not an exception.

Both, the whole EU and Latvia (among the Union member states) are facing with challenges, such as globalisation, the impact of new technologies on society and jobs, security concerns and the rise of populism, to name a few.

For Latvia, "writing its own future" (i.e. national narrative) means taking into consideration some "external" factors influencing national decision-making. In a nutshell, it is about such European challenges for growth as EU strategy guidelines for 2016–2020, European budget distribution and financial issues with particular attention to investment opportunities.

Latvian perspective growth agenda is closely connected to the European integration process: thus, important are the European Commission's initiative (March 2017) to conduct European-wide discussions on new development paths for the whole Europe. The reason for such discussions has been obvious: designing both the European and member states' narratives for perspective growth patterns; the European states have been facing with numerous challenges, starting from globalisation, to the impact of digitalisation, to increasing employment, to security concerns, to problems in increasing society's welfare, etc.

In these challenges the role of politicians is great: they have to "figure out" and create long-lasting strategies to ensure that their countries can seize the opportunities that these challenges and trends present, while initiating public debates for the European "shared future" and the role of each state in the common integration efforts. In short, both European and the member states politicians are in the process of "sketching" the ways the future should look like; such a future would be designed in a new narrative, as never before the European societies have been facing such complex and revolutionary challenges. (1)

#### 3.1.1. Politics and economics combined

As an introduction note to the Latvian "narrative-3" issues, it has to be underlined that business and entrepreneurship are main spheres of perspective Latvian growth. In the narrative-3, all political, economic and social parameters are intervened.

Among important factors affecting political economy and progressive changes to pave the way forward some *real reforms* in politics and economics are needed, mostly from the centre-left front. Such reforms shall be based on rational and perspective in mind expert analysis rather than approaches based on emotions and prejudices. It has to be underlined that modern so-called western democracy system has become outdated; old institutions do not any more answer contemporary realities in political economy. It is becoming even more complicated for political elites. Situation in the Baltic States and Latvia is not that critical as it is in old EU states and in other countries in the world; but the need for changes and reforms are felt in the Baltic Sea region as well.

Politics presently is less based on cooperation and solidarity: the “rules of political game” look more like “winner takes all”. For example, opposition tries to over through the ruling government, whereas those in power want to keep *status quo* at all costs. Needless to say that such “political game” is not in the wide public interest. Sensitive political forces in Latvia wander: “what does it take to be “progressive” in Latvia, in the Baltic States and the EU, generally, both in theory and in practice?

From *political side*, questions from the public are becoming more complicated for political elites to deal with; feelings of fair are everywhere, e.g. towards “mass movements” stimulated by internet connections (e.g. Facebook, Amazon, etc.) penetrate ruling blocks. It is about peoples’ uncertainties about future jobs, about retirement, about education and training (what are future skills?), about culture and national security. Generally, what does it take to be Latvian, Danes, German or European? How much is a “European share” in all of us, and how much shall be a national one? Shall the national part be dominating over the European one, or vice versa?

Besides, the core of the whole multi-party system seems outdated: in most developed countries there are two-three main party groups that govern national development: in the US, the UK, Japan, Canada, etc.; in China it is still a one-party system, which functions perfectly well in the economic development sense!

Most feasible and progressive for politicians in Latvia is creating a broad social coalition in a form of so-called “social accord” based on already existing market economy principles but with stronger accent to social justice and equality. Bottom line: modern perspective politics cannot be the same as for example 20 years ago: progressive changes are needed!

From *economic side*, the situation is even more complicated: European and global challenges shall be carefully taken into Latvian national agenda. And some of these issues are having close political connections too: e.g. immigration, which is impossible to avoid and must be dealt with progressively. As soon as the EU’s decision was “to share immigration burden” among the member states, the only feasible way out (even when some states refused to take any) is through so-called “smart quotas”; it means, the countries can accept immigrants but only those that will be needed for national development. For example, sensitive tax reform: taxes can be increased but also quite reasonable for such goods as alcohol, tobacco and petrol, etc. as well as for any polluting activities. Besides, any fraudulent tax cases, such as those in Panama Papers or Paradise Papers, shall be treated more radically: hiding profits from biding taxation shall be prevented at any cost.

Another important economic policy issue: exaggerated importance of “market forces” from leftist-liberal politicians underlining that “market” and corporate activities/interests would form a progressive path in Latvian development. Such an approach shows a complete misunderstanding of the role of state institutions in a modern socio-economic development. Disregard to modern politico-economic trends has been the main reason for growing skepticism in most countries towards existing political establishments during recent turmoil times (see more below in “global elites’ reaction).



Ultimately, pro-active analysis from the economic and political sides would help making necessary correlations in the functions of presently inefficient any more western-type democratic institutions. However, present situation is such that opposition forces are becoming too critical of the existing status quo, while being too weak on any really progressive alternatives.

Some introductory notes shall be made *about the narrative* in the view that political and economic issues occupy presently major role and place in public debates in the EU states, as well as among the Baltic countries and in Latvia. Close attention to these two aspects in national development – political and economic – have given room for establishing a new narrative in Latvian modern development, so-called *political economy*.

For the first time in the modern Latvian political/economy history, a narrative is needed to cover a “true story” of events, experiences, and the like, which intends to support the idea of a complex approach to Latvian political economy. What is more important, such a narrative is needed to connect and explain particular importance of close connections among political and economic ideas to support a vital practical thesis: Latvian perspective development depends on the carefully formulated prospects including all the inherent connections in Latvian political and economic development. (2)

Main aspect in such a narrative is to show complicated ways the two ingredients in national development – political and economic – are correlated and the best ways for using these “parameters” in the Latvian progressive political-economy doctrine. Such correlations in politics and economy are already visible in various EU member states and in Latvia too, e.g. through the EU efforts to coordinate and control member states’ planning (through Semester, described in the first part), and the Latvian more structured connections between the legislators (Saeima) and the executive branch (the government).

Modern economic and political ideas in the EU states are under severe influence from at least three “fronts”: a) internal situation and priorities, b) the EU’s economic policy guidelines, stemming from the European integration principles, and c) from global challenges.

As a rule, political economy is “growing” on the national ground: for example, country’s basic law, usually constitution, defines main, so-called strategic, political priorities for a country while existing resources and administration tools specify economic prerogatives. Therefore, numerous political parties are trying “to round-up” specific priorities and some tactical means/steps in reaching the national tactical and strategic goals. For Latvia, for example, such a strategic goal has been formulated in the Constitution’s preamble: “... *to promote welfare of the people of Latvia and each individual*”. In particular, it is the country’s President who is empowered to deliver and secure this strategic goal. More than that, the President, upon taking up the duties of his/her office, is taking “the solemn oath” to dedicate all his work “*to the welfare of the people of Latvia*”. (Bold and italics are mine, EE). (3)

In delivering on such a multi-aspect notion as peoples’ welfare, some complex problems arise. **First**, the *welfare concept* includes numerous people’s needs, such as good health (with adequate medical services), safe nutrition (with quality of food), clean environment (with clean air and water), efficient public transport with good roads), good housing (with affordable dwellings), proper end quality education, and so on and so forth. Each of these “public needs”, forming the structure of welfare, can serve (and actually is serving generally) as a basis for different parties activities: liberal (with individual initiatives), conservative (with more active state role), and so on. The role of the state – schematically – is to “divide the budget cake” among the above mentioned public needs, as financial injections are aimed at developing various sectors of national development. Depending on the national development strategy (e.g. “smart specialisation”), some welfare sectors can have a priority (e.g. beverages in France and Italy, or digital services

in Estonia, agro-manufacturing in Poland, etc.); while others can be enforced by international obligations, as for example in 2% of GDP on defence, following NATO's regulations.

**Second issue**, is that numerous political parties are starting their fierce fighting for getting their "slice of the budget"; with sufficient financial support these parties/groups will be forming some "circles of power", which are consequently turning into "sectoral elites" and group of political/economic interests. There are, for example, 423 such elite-groups in Denmark, which actually govern the whole national economy's development; it would be interesting to know, how many such elite-groups are in Latvia? (4)

Then, a **third issue**, which deals with efficiency of the above mentioned two issues. It is about whether existing traditional ways of political approach to strategic development are in line with the modern system of progressive development based on "smart specialisation" concept. Does Latvian political system really need such a dispersed system of competing political interests, which optimally shall lead to a common denominator, i.e. people's welfare?

Even in Germany, with about 90 million inhabitants, after recent elections in the autumn of 2017, there were just three parties left in the Parliament's coalition: Merkel's leading CDU/CSU, liberal FDP and De Grønne (the co-called ecology party). The ideas of other political spectrum have not been reflected in the developmental guidelines!

On top of the above mentioned issues, very often national political economy is heavily influenced by the European and global challenges. For example, the EU integration policy provides important guidelines for the member states' development and formation of national political economy (e.g. the effect of a "general" EU-2020 strategy and EU's sub-regional strategy for the Baltic Sea region; both are visualised in the book's first part). In fact, most of the EU member states' spheres of socio-economic development are "directed" by the Union's integration and cohesion policies. For example, over €4 billion has been used for structural changes and infrastructure development in Latvia during last five years. The efficiency of this EU support funds is the responsibility of both politicians' choice and economists' mode of implementation.

As to the global challenges, influence on national development might be even more severe and fundamental: for example, global competition makes Latvian entrepreneurs more eloquent to global trends and modern factors imposed by the 4<sup>th</sup> industrial revolution.

Thus, two aspects in modern Latvian narrative are subject to extensive analysis from both political and economic perspectives. As a rule, discussions on nation's socio-economic development rotate around the following issues: **political decisions** (reflecting national long-term and short-term political aims and guidance) and **economy development decisions** (reflecting national sectoral socio-economic policies). These issues are already in the minds of economists and politicians in Latvia: thus, after more than 25 years of the renewed independence, a pivotal even took place in Latvian developmental history: the first ever economic forum (April 2017) with the main idea of defining national economic identity and Latvia's role in the EU and the world. The forum has evidently shown the need for a new national narrative, i.e. Latvian political economy. (5)

### 3.1.2. The narrative's composition: Latvian options

The new narrative for EU and Latvia will inevitably include the following issues oriented towards European-style optimal growth:

- **EU's trade strategy.** EU is a key player in international economic/trade relations: the Union's long-term economic strategy provides "leading guidelines" for both European and the member states' progressive future. Besides, the new external policy agendas in the US and the UK, e.g. America First, Global Britain, etc. provide for a new EU's geopolitical

strategy. That means that a revised EU's political economy for the 2016–2019 will take into consideration new aspects in the European future growth with the additional support for European business community and its role in bolstering EU-states' economies. Besides, with the US moving closer towards protectionism and Asia taking centre-stage in the international trade market, Europe needs to strongly position itself in this new world order. The European and member states' (as well as Latvian) politicians have to re-assess the ways the decision-makers strategically coordinate the EU-states' "economic diplomacy" to generate new market opportunities for businesses.

- **EU's healthcare policy.** With the new issues like rising digitalisation, aging of population and associated chronic diseases, the European health industry has been disrupted by several challenges. Although they are generally well recognised, the EU and the member states shall do more in "collectively addressing" these major European socio-economic issues.

New ICT achievements can provide progress in health service: i.e. artificial intelligence is on the advance, this technology is rapidly growing with numerous application spheres for these products and services. According to experts, *artificial intelligence* could revolutionise the healthcare system, but the confidence is not that great everywhere. (6)

- **European start-ups.** The main issue is to unleash the start-ups potentials. Some important issues to deal with are: venture capital investments, building a real European start-up culture and exchanging experiences from young "business-starters".
- **Living space: successful "smart cities".** Most important in this narrative direction is how the European cities are transforming the future of living. Besides, the decision-makers shall find out how to make European cities smarter and in line with the digital revolution and other 4<sup>th</sup> industrial revolution challenges.
- **Sustainable development issues.** The narrative needs a more concise view as to how progressive business practices could support inclusive growth, more jobs and equality. Global Sustainable Development Goals, SDGs already enforced by the UN 2030 agenda since January 2016, set out 17 global targets in addressing the most pressing current economic, social, health, environmental, etc. issues. SDGs provide a unique opportunity for Europe to generate real sustainable impact towards an innovative, prosperous and inclusive society. (7)

### 3.1.3. European strategy for 2016–2020 and Latvian growth perspectives

Being the EU member since 2004, Latvia is already for 15 years is obliged to fulfill numerous obligations and follow certain rules imposed by the Union's institutions concerning economic development: about 60–70 per cent of Latvian legislation (which is the common share in almost all EU member states' legislation) are deriving from the EU institutions. Generally, these obligations from the Union's side are dealing with the European internal/single market, business activities and rational/sustainable growth patterns, which all help progressive Latvian political economy.

The EU institutions, particularly the Commission, adopted at the end of 2015 a strategy (for the next five years) providing necessary guidance for member states' economic development including perspective entrepreneurship and assistance to SMEs; the latter are supposed to be the main driving forces for Latvian economic growth.

Besides, the strategy (for 2016–2020) is aimed at developing deeper and fairer internal market, helping European enterprises, in particular start-ups and SMEs, as well as manufacturing and services industries, to be globally competitive, innovative and sustainable while creating more jobs, growth and value for all. (8)

Generally, the EU's perspective strategy for the coming five years includes two main goals:

- 1) So-called common goal, i.e. to deepen the *EU internal/single market in goods and services* and make it the active part of the member states' economic growth and business activity, while serving as a launch pad for the states' companies and industries to thrive in the global economy;
- 2) Specific goal is aimed at sustaining development of *a high-performing industrial base, with a strong services sector* and better exploitation of the *synergies between the two* to ensure that European companies maintain their global leadership in strategic sectors with high-value jobs such as the automotive, aeronautics, engineering, chemicals and pharmaceutical industries. (9)

As to the first aim, i.e. deeper and fairer *internal market for goods and services*, the following activities are recommended in the member states:

- Creating more opportunities in the single market for EU consumers, professionals and businesses, especially SMEs and start-ups;
- Drafting "smart regulation and policies" for a range of industry and service sectors and value chains to create the right framework for enterprises and citizens;
- Ensuring easily accessible information and assistance on single market rules and procedures;
- Effectively implementing and enforcing EU internal market rules for the benefit of companies and citizens;
- Providing easy access to public procurement in cross-border deals and tenders; and
- Ensuring that EU industrial property rights are applied to the states' SMEs.

As to the second aim, i.e. creating a *modern, innovative and sustainable industrial base in the member states*, the following actions are recommended:

- Promoting the use of advanced technologies and business models, developing new governance approaches for innovation, and improving conditions for investment;
- Ensuring that regulation, standards, intellectual property rights and public procurement are intervened into innovative activities;
- Enabling the development of the "collaborative economy" as an innovative business model.

Besides, some vital recommendations for the member states are in the sphere of "*boosting jobs, growth and investment*". Here the Strategy recommends the following steps for the member states' economic development:

- Facilitating application of the European Fund for Strategic Investments by removing barriers to investment;
- Creating a business-friendly environment to help enterprises, in particular start-ups and SMEs, grow and boost jobs using better regulation tools;
- Enhancing better access to finance for enterprises, in particular start-ups and SMEs;
- Facilitating access to third country markets and eliminating technical barriers to trade;
- Promoting better access to information, assistance, business support and responsible business management in the member states' enterprises;
- Making Europe one of the most entrepreneurial regions in the world and increase EU business competitiveness in the single market;
- Managing those EU programmes that can help promoting innovation and competitiveness, e.g. COSME and Horizon 2020. (10)

### 3.1.4. European economy and Latvian growth perspectives

European economic situation is on a good track: thus according to the Commission's autumn-2017 survey, 48 per cent of EU citizens see the situation of the European economy as "positive"; it is up 6 percentage points from spring-2017 and as high as was last seen in 2007. For the first time in 10 years, optimists exceed pessimists by 39 per cent; in 23 EU member states the assessment of the economic situation is regarded presently as "good" with growth in national economies being closer to pre-crisis period in 2007. It shows that optimism and economic growth are on the growing scale in Europe and the member states.

The positive situation is in the euro-zone where Latvia and two other Baltic States belong to; generally, over sixty per cent of the EU citizens are "for" the monetary union, while only 33 per cent are "against" it. The figures among citizens in the euro-zone are even more positive: 74 per cent in favour (with 21 per cent against), which is a new record since 2004. In seven countries, 80% or more citizens support the European common currency, the euro: Slovakia, Belgium, Germany, Spain, **Estonia**, Ireland and Slovenia.

The share of the population generally optimistic about the future of the EU also rose to 57 per cent, compared with 37 per cent ten years ago who are "fairly" or "very pessimistic." Most positive about the EU are people in three states: **Lithuania – 91%**, Denmark – 89% and the Netherlands – 87%, followed by Ireland (80%), Luxembourg (72%) and Malta (70%). At the lower end of the scale are France (49%) and Italy (50%); optimists are dominant in all EU states except Greece and the U.K.

Peoples' trust in the EU institutions stands at 41%; however majority of the EU citizens are positive about the European integration. For example, trust in the EU is highest in **Lithuania** (64%), Bulgaria (57%) and Luxembourg (56%). *Immigration* is regarded a top challenge among the EU citizens (39%), *terrorism* comes second (38%), well ahead of the economic situation (17%), countries' public finances (16%) and unemployment (13%). However, at the member states' level, the main concerns remain about *unemployment* (25%) leaving *immigration* on the second with 22%.

Besides, about 70% of Europeans feel they are *European citizens*: such aspects as "free movement of people, goods and services in the EU" for 57% and "peace among the EU states" for 56% of Europeans are perceived as the two most positive European assets. About 44% of Europeans agree that their "*voice counts in the EU*". (11)

*Latvian political economy* is experiencing strong pressures from both European and global sides, making "**politico-economic spheres**" alert to new challenges. Among traditional economy sectors, information and communication technology (ICT) and digitalisation are becoming a driving force in perspective approaches to Latvian development and in a new narrative.

In Latvia's 2018 budget, revenue is planned at €8.75 billion and expenditure at €8.95 million. The biggest increase is planned in allocations to health care; defence budget will be increased to 2% of GDP in line with the NATO's requirement.

The 2018 revenues will be €725 million higher than in 2017, while expenditures will be €625 million higher. The steepest rise

#### LATVIAN KEY ECONOMIC FIGURES

Present Latvian GDP is about €25–26 billion, with an average growth rate at 2.8–3% (expectations for 2018 are about 4%); growth in public and private consumption is at the level of 3 to 4%.

General government debt is at 38% (EU's maximum allowed debt level is at 60%), and government budget deficit at 0.5–1% (EU's maximum allowed at 3%).

Latvian employment rate is about 63%; unemployment is at 8.6% (which is at the average level among the eurozone states). (12)

in allocations in 2018 is in the following sectors: internal and external security, health care, tackling demographic situation and road maintenance.

Maximum government debt in 2018 is planned at €10.25 billion, and the GDP forecast for 2018 is about €28.4 billion; the general government budget deficit in 2018 is at 1% of GDP. (13)

### 3.1.5. Effect of the EU-2018 budget on Latvian development

The structure of both EU's yearly and multi-year (for about six years) budgets could serve as orientation for Latvian priorities in development. Thus in mid-November 2017, the EU-2018 budget was adopted: total commitments for common EU issues have been set at about €145–160 billion. *Smart and inclusive growth* (with €66,6 billion), as well as *new directions in sustainable growth* (with €56 billion) occupy main priorities in 2018.

These development priorities underline that the member states and Latvia in 2018 shall focus on, e.g. boosting sustainable economic growth, increased employment and cohesion, new job creation in smart growth sectors, as well as strengthening security; see table below.

Thus, two main priority items envisaged in the EU-2018 budget shall be reflected in the Latvian development strategy too:

- **Smart and inclusive growth**, which is divided into two directions: a) competitive growth and jobs (with about €20 billion of EU's financial support), and b) cohesion issues (with about €46 billion of Union's injection); and
- **Sustainable growth**, with about €56 billion from the EU's budget allocation.

For example, out of about €145 billion payments for 2018, over €112.6 billion are for new economic growth models with science and investment in "smart" and sustainable growth. Another EU-2018 budget priority is to be mentioned too: i.e. "*global Europe*" (with about € 9 billion), designed to increase EU states' companies influence and activities in the world.

#### EU-2018 BUDGET THROUGH COMMITMENTS AND PAYMENTS (14)

Headings	2018 EU budget (in € million)	
	Commitments	Payments
<b>1. Smart and inclusive growth</b>	77 534	<b>66 624</b>
- 1a. Competitiveness for growth and jobs	22 001	20 097
- 1b. Economic, social and territorial cohesion	55 532	46 527
<b>2. Sustainable growth</b>	59 285	<b>56 084</b>
3. Security and citizenship	3493	2981
<b>4. Global Europe</b>	9569	<b>8906</b>
5. Administration	9666	9666
Special instruments	567	420
<b>TOTAL</b>	<b>160 114</b>	<b>144 681</b>

Nearly 80% of the EU's budget is redistributed to the states through two channels:

- 1) **Common Agricultural Policy (CAP)**, and
- 2) **Cohesion Funds** (including funds for regional development and European Social Fund, ESF).

Seemingly big enough, such EU assistance is just about 1% of the European GDP or about one-fifty's of the national public spending average.



European CAP takes up nearly 40% of the Union's budget; some say that CAP did not responded adequately to the crises in which farmers have found themselves during last years and that CAP rules had become so complicated that they were too difficult for farmers' understanding. The Cohesion Funds, which are co-managed by the EU institutions and the member states are far from being effective, e.g. during 2016–2017, the gap between the states' needs and available resources in the EU has risen to around €10 billion. The main reason is difficulties in procedures and incapacity to finance unsubsidised share of the development projects in the member states; through sometimes, appropriations allocated by the EU, e.g. by the European Social Fund (ESF), can trigger public spending. To receive subsidies from the Union's budgets, the EU states are often engaged in some useless actions about the projects, whose overall cost is higher than that allocated by the Union.

The Brexit outcome would rule out a EU's budget contributor; due to the UK's exit, about €10 billion will be missing from the Union's budget. In the present EU financial restrains, the reduction could mean that some common programmes will be cut with possible increase in some states' contributions to the EU budget. For example, the European Parliament President Antonio Tajani argued that the states' contributions would increase with the countries' contributions to the EU budget to reach 2% of the European GDP (presently it is about 1.2%).

Possible level of spending in the multi-year EU budget (MAFP) would need to take into consideration that certain EU competences are more efficient than the sum of the member states' impetus. Experts in the *Foundation Robert Schuman* predicted the following options:

1. The EU budget will be more flexible by creating new internal instruments to make it easier to cope with unexpected events or crises. For example, the creation of a “crisis reserve” might be included to mobilise necessary resources immediately in the event of an emergency. However, *flexibility instruments* shall be used to finance only critical situations as the new projects would require additional resources.
2. The EU states shall respect the MAFP's *budgetary unity principles*: then, a fair balance between the financial instruments and subsidies shall be re-established, as financial instruments absorb an increasing share of the European budget.
3. *Taxation issues*: carbon tax on the external borders, taxation of financial transactions and taxation of the activities of the digital multinationals are all paths to be explored.
4. *Simplifying regulations*: creation of the eurozone imposed a set of rules in the Stability and Growth Pact, introducing instruments of economic, financial and fiscal governance. However, shared monetary sovereignty (and regulations in the 19 eurozone states) is inoperative, since none of the many breaches of its rules have been sanctioned. In other words, there is neither regulation nor government. Therefore, the “structural lacuna” was the source of the sovereign debt crisis in 2008, which undermined investors' confidence. (15)

Latest views on the EU-27 development show that growth rates in 2018–2019 are expected to be at the level of 1.6–1.9% and about 1.5–1.7% for the eurozone area; the Brexit issue would not significantly damage the EU's business confidence. However, some experts say that there could be some long-term “political risks” to both the EU and UK economies. Besides, as global trade is slowing, the EU could face some difficulties in trade with outside world, following rise in the euro exchange rate since the end of 2016. (16)

### 3.1.6. Managing European finances and investments

There are four main financially-regulating politicians in the EU designing allocation and distribution of Union resources for common policies: new Eurogroup President *Mario Centeno* from January 2018 (for next 2.5 years with possible re-election), President of the European

Central Bank *Mario Draghi*, President of the European Investment Bank *Werner Hoyer* and Managing Director of the European Stability Mechanism *Klaus Regling*.

Besides, there is so-called an expected “second in line” political actor from the European Parliament: main centre-left political party of European socialists voiced in favour of selecting a “lead candidate” for Commission president in the 2019 European election, via a primary voting system. It increases the likelihood that other major parties in the Parliament would agree for the positions of so-called *Spitzenkandidat* being elected as the new EU leader as another important “regulator” in financial sphere. (17)

European Structural and Investment Funds, ESIFs are aimed to assist SMEs; numerous European funds play vital role in both strengthening the EU Single Market, but also helping states’ economies in supporting job creation and innovation. The number of EU-funded projects in the EU states doubled during 2017; Latvian companies – big and small – can use the cohesion funds more actively. The EU December 2017 report highlighted the achievements the EU five “structural” funds created at the beginning of new multi-year EU budget in 2014. Thus, the ESIFs for 2014–2020, together with the member states’ co-financing, represent a total investment into growth in the member states at the volume of about **€638 billion**, including €181 billion dedicated specifically for “smart growth”, i.e. particularly aimed at investments in research and innovation, in digital technologies and in direct support to over two million SMEs in Europe.

Some novelties were introduced since 2016 to enhance the quality of spending, such as thematic concentration, new preconditions to investments and enhanced focus on results and mechanisms to increase funds’ performance.

Therefore, ESIF – as an integral part of the EU’s general cohesion policy framework – is concentrated on **eleven thematic objectives**, which have to be kept in mind by the member states in choosing the SMEs activity to be financed from EU funds. (18)

Besides, there are seven “thematic objectives” in ERDF, which are also important to orient SMEs applications for funds. (19)

### 3.1.6.1. *Ex ante conditionalities, ExAC*

By the end of 2017, almost half of the ESI funds’ budget for 2014–2020 had been committed to concrete projects: e.g. during 2014–2016, almost 793 500 SMEs had received support from the funds, creating an estimated 154 000 new jobs. About 7.8 million people have already benefitted from assistance in finding a job or developing skills, while the biodiversity of 23.5 million hectares of agricultural land has been improved. Overall, 2 million EU-funded projects had been selected by the end of 2016, which was a million more than a year before; the biodiversity of 11 million hectares of agricultural land was improved and another million EU-funded projects were selected, for a total value of almost €60 billion. Commission officials underlined that “blending Structural Funds with the European Fund for Strategic Investments” also allowed financing some riskier but promising projects. (20)

Latvian SMEs should use this opportunity as encouraging project promoters. In addition, novelties introduced in the 2014–2020 plan allowed the EU funding include SMEs’ support in digital, social inclusion and environmental projects.

The Commission’s new priority is for creating *better conditions for investments*: thus, in March 2017, first assessment of the new prerequisites to successful investments (so-called *ex-ante conditionalities*, ExAC showed that they proved to be powerful incentives for reforms in a wide variety of sectors: compliance with energy efficiency or public procurement legislation, investment planning for innovation, transport or digital technologies, etc. (21)

*Ex ante conditionalities*, ExAC is among key elements of the cohesion policy reform for 2014–2020. The reform introduced European Structural and Investment Funds (ESI Funds) to ensure that the necessary conditions for the effective and efficient use of ESI Funds are in place. These conditions are linked to:

- 1) Policy and strategic frameworks, to ensure that the strategic documents at national and regional level which underpin ESI Funds investments are of high quality and in line with standards commonly agreed by the EU member states;
- 2) Regulatory frameworks, to ensure that implementation of operations co-financed by ESI Funds complies with the EU legislation;
- 3) Sufficient administrative and institutional capacity of public administration and stakeholders implementing the ESI Funds.

These ExAC elements are linked to the horizontal aspects of ESIF's programme implementation and 29 thematic ExAC, which set out *sector-specific conditions* for relevant investment areas eligible for support under cohesion policy (so-called investment priorities). (22)

### 3.1.7. EU's financial issues and Latvian economy

For the EU post-2020 financing period, it is envisaged to strengthen further the link between EU funds and the support to structural reforms in the EU states, as outlined in the Commission's reflection paper on the future of EU finances and in the Commission's proposals for the deepening of Europe's Economic and Monetary Union from December 2017. (23)

In order to facilitate investments, the member states and Latvia shall take into account the following measures:

- **Less red-tape for the beneficiaries of the funds.** The report mentions that the EU states have increasingly been using the simplification opportunities of the 2014–2020 Cohesion Policy frameworks, namely:
  - online procedures in the management of the funds (“e-cohesion”),
  - simpler application processes for businesses (“single entry points”) and simpler ways for beneficiaries to claim reimbursements from the EU.

Simplification is also at the core of the reflection on the architecture of the future Cohesion Policy, with the valuable input of the EU High Level Group on Simplification.

- **Smarter use of available resources led to an increased mobilisation of private finance.** In line with the EU's Investment Plan objective to mobilise more investments, the 2014–2020 framework was set up to support a more widespread use of financial instruments. By the end of 2016, **€13.3 billion** under ESI Funds programmes was committed to such instruments, mostly for SME support, research and innovation and the low-carbon economy.

Over 76 000 businesses are currently supported by the ESI funds through financial instruments. SME support projects selected so far under the European Regional Development Fund, ERDF represent €11.5 billion of leveraged private financing, out of a target of €42 billion. (24)

Economic development and financial sector in the euro zone's three Baltic States need additional support. Only 64% of EU eurozone states' citizens think that euro is good for their countries. New EU measures provide concrete steps in deepening Economic and Monetary Union with EU Monetary Fund a European Minister of Economy and Finance.

Commission's plan for deepening the Economic and Monetary Union (EMU) during 2018–2019 has noble aims: more jobs, growth, investment, social fairness and macroeconomic stability in the member states. The single currency offers protection and opportunities to Europeans; strong and stable euro area is essential both for its members and for the whole EU.

The growth in the EU is apparent: unemployment is at its lowest level since 2008, economic sentiment is at its highest since 2000, Europeans has shown the highest level of support for the single currency since the introduction of euro more than two decades ago. This provides a window of opportunity for deepening Europe's Economic and Monetary Union.

The new measures are a continuation of Union's previous measures. There have been important institutional reforms to strengthen EMU during 2015–2017: proposals in the Five Presidents' Report of June 2015; Reflection Papers on the Deepening of the Economic and Monetary Union, and the state-of-art of the Future of EU Finances made in spring 2017, to name a few. However, the final architecture needs completion and "final touch": hence present roadmap reflecting changes and eradicating challenges.

Present robust economic growth after years of crises encourages the EU member states to move ahead to ensure that the Union's economic and monetary policy becomes more united, efficient and democratic, "working for all citizens". (25)

### 3.1.8. EU roadmap's for the eurozone states

All reforms to combine *solidarity and responsibility* initiated so far by the EU were not enough; to increase states' economic performance and citizens' confidence in the single currency, new measures are needed. For example, according to recent European *Flash Eurobarometer* on the euro area, only about 64% of respondents say the euro is a good thing for their countries. Thus, the following four main initiatives at the EU and member states' level are suggested:

1. Establishing European **Monetary Fund** (EMF), connected with already functioning **European Stability Mechanism** (ESM); the latter played a decisive role in safeguarding the euro's stability by assisting the states to regain or maintain access to sovereign bond markets. The EMF will preserve current financial and institutional structures, including the role of national parliaments, and thus continue to assist euro area states in financial distress. In addition, the EMF would support the **Single Resolution Fund** and act as a last resort lender in order to facilitate the orderly resolution of distressed banks. More rapid decision-making in cases of urgency and more direct involvement in the management of financial assistance programmes are also foreseen. Over time, the EMF could also develop new financial instruments, for instance to support a possible stabilisation function. The European Parliament and the Council are expected to adopt this proposal by mid-2019.
2. Integrating **Treaty on Stability, Coordination and Governance (TSCG) into the Union's basic law**, taking into account flexibility envisaged in the Stability and Growth Pact. Already in 2012, the 25 signatory EU states committed to incorporate TSCG into the Union's law by the beginning of January 2018. This proposal makes TSCG the main elements of the EU basic Treaty in order to support sound fiscal frameworks at national level, which is fully in line with existing rules defined in the EU's primary and secondary legislation. The European Parliament and the Council are invited to adopt this proposal by mid-2019.
3. Creating **new budgetary instruments for stable eurozone**; they include some budgetary functions essential to strengthen member states public finances presently. These measures also include specific EU functions:
  - a) Supporting states in structural reforms through a **reform delivery tool and technical support** at the request of the states;
  - b) Providing a **dedicated convergence facility for other EU states** to join euro;
  - c) Assisting in supporting the **Banking Union**, through the EMF/ESM, to be agreed by mid-2018 and made operational by 2019; and
  - d) Creating a **stabilisation function in order to protect investments** in the event of large asymmetric shocks.

The Commission will make necessary draft proposals in May 2018 for the post-2020 Multiannual Financial Framework. The European Parliament and the Council are invited to adopt these proposals by mid-2019. Besides, the Commission during 2018–2020 will propose measures for strengthening the *Structural Reform Support Programme*, by doubling the member states' funding for technical support activities, reaching €300 million up to 2020. The Commission is also proposing to test the new reform delivery tool in a pilot phase with some targeted changes to the *Common Provisions Regulation* governing the *European Structural and Investment Funds*, *ESIF* in order to extend the possibilities to use part of their performance reserve in support necessary reforms (the European Parliament and the Council are expected to adopt these latter two proposals during 2018).

4. Suggesting new competences in a possible *European Minister of Economy and Finance* (who could serve as Vice-President of the Commission and chair the Eurogroup), as is possible under the current EU Treaties. The new “minister” would combine existing responsibilities and expertise while strengthening the coherence, efficiency, transparency and democratic accountability of *economic policy-making* for the EU and the euro area, though in full respect of national competences. Reaching a common understanding on the role of the Minister by mid-2019 would allow setting it up as part of the formation of the next Commission. The Eurogroup could then also decide to elect the Minister as its President for two consecutive terms in order to align both mandates. (26)

## Resume

*Analysis of European external factors in Latvian growth process (there are some global as well described in the first book's part) are important in a way that being part of the EU's integration Latvian political and economic elites can either initiate their own strategies for perspective growth, or so-to-say wait until the EU institutions “impose” some integration instruments on national development. It means there are two aspects in any EU member states' growth patterns and Latvian included (i.e. narratives): a passive follow-up the EU's recommendations, or designing active national strategies with the EU's supplemented coordination.*

*Therefore, Latvian politicians have to be aware of European challenges for growth, i.e. including the EU strategy for 2016–2020, EU budget and financial issues, i.e. particularly within the investment context.*

## Notes and references

1. More on the European “path to future” in: [https://ec.europa.eu/commission/white-paper-future-europe-reflections-and-scenarios-eu27\\_en](https://ec.europa.eu/commission/white-paper-future-europe-reflections-and-scenarios-eu27_en)
2. On the narrative concept in: <http://www.dictionary.com/browse/narrative>
3. Reference to the *Latvian Constitution*, Chapter 3.
4. See: Book review. “Power elites in a welfare state: Danish example”. In: [http://www.baltic-course.com/eng/book\\_review/?doc=109645&ins\\_print](http://www.baltic-course.com/eng/book_review/?doc=109645&ins_print)
5. See more on Latvian economic forum and political economy issues in: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=129396&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=129396&ins_print)
6. To learn more about HIMSS Europe and HIMSS Analytics, see [www.himss.eu](http://www.himss.eu) and [www.himssanalytics.org](http://www.himssanalytics.org)
7. See more on these issues in the European Business Summit website: <http://www.ebsummit.eu/speakers.php> and <https://www.businesseurope.eu/>
8. See more about European strategic planning in: [https://ec.europa.eu/info/sites/info/files/strategic-plan-2016-2020-dg-grow\\_july2016en.pdf](https://ec.europa.eu/info/sites/info/files/strategic-plan-2016-2020-dg-grow_july2016en.pdf)
9. Details can be seen in the EU Strategic Plan 2016–20, p. 9.
10. References to: European Economic Strategic Plan 2016–20, pp.3–4.

11. All statistics in this paragraph are from: Commission press release: “Autumn-2017 Standard Eurobarometer”, 19.xii.2017. In: [http://europa.eu/rapid/press-release\\_IP-17-5312\\_en.htm](http://europa.eu/rapid/press-release_IP-17-5312_en.htm)
12. Source: Economic development of Latvia Report. June 2016, – 190 pp. Published by Ministry of Economics of the Republic of Latvia. Additional data in the website: <http://www.em.gov.lv>
13. Source: [http://www.baltic-course.com/eng/legislation/?doc=135687&ins\\_print](http://www.baltic-course.com/eng/legislation/?doc=135687&ins_print)
14. References to the EU general budget for 2018; all data from: <http://www.consilium.europa.eu/en/meetings/ecofin/2017/11/17/#>
15. More on these options in: Arthuis, Jean. European Financial Outlook 2021–2027. Which budget for which Europe? – Foundation Robert Schuman, – *European issues*, No. 453, 27 November 2017.
16. Reference to: <https://www.business.europa.eu/policies/economy-and-finance/macro-economic-policy-economic-outlook>.
17. More in: <https://www.politico.eu/article/lead-candidate-process-for-commission-president>
18. Four of these key priorities are forming the “structure” of European Regional Development Fund (ERDF): see more the following links: Research and innovation; Information and communication technologies; SMEs competitiveness, and Low carbon economy.
19. See the following links: Climate change and risk prevention; Environment and resource efficiency; Transport and energy networks; Employment and labour market; Social inclusion; Education and training, and Efficient public administration. More on EU regional policy in: [http://ec.europa.eu/regional\\_policy/en/policy/themes/](http://ec.europa.eu/regional_policy/en/policy/themes/)
20. Source: Commission press release: [http://europa.eu/rapid/press-release\\_IP-16-4421\\_en.htm](http://europa.eu/rapid/press-release_IP-16-4421_en.htm)
21. Note: term *ex-ante* (sometimes written *ex ante*) is a phrase meaning “before the event”. *Ex-ante* is used most commonly in the commercial world, where results of a particular action, or series of actions, are forecast in advance (or intended). The opposite of *ex-ante* actions is *ex-post* (or actual moves). See more in: <https://en.wikipedia.org/wiki/Ex-ante>
22. More on ExAC see in: [http://ec.europa.eu/regional\\_policy/en/policy/what/glossary/e/ex-ante-conditionalities](http://ec.europa.eu/regional_policy/en/policy/what/glossary/e/ex-ante-conditionalities)
23. See: [http://www.baltic-course.com/eng/modern\\_eu/?doc=135767&ins\\_print](http://www.baltic-course.com/eng/modern_eu/?doc=135767&ins_print); on the EU finances, see Commission press release “EU budget fit for tomorrow: Commission opens debate on the future of EU finances”. In: [http://europa.eu/rapid/press-release\\_IP-17-1795\\_en.htm](http://europa.eu/rapid/press-release_IP-17-1795_en.htm)
24. More information is in the following links:
  - Factsheet – The European Structural and Investment Funds at work;
  - The 2017 Strategic report on the implementation of the European Structural and Investment Funds;
  - The Cohesion Open Data Platform.
 Reference: [http://europa.eu/rapid/press-release\\_IP-17-5201\\_en.htm](http://europa.eu/rapid/press-release_IP-17-5201_en.htm); Latvian version at: [http://europa.eu/rapid/press-release\\_IP-17-5201\\_lv.htm](http://europa.eu/rapid/press-release_IP-17-5201_lv.htm), 13.xii.2017
25. The Commission President said that “there was no better time to fix the roof than when the sun was shining”: the citation from: [http://europa.eu/rapid/press-release\\_IP-17-5005\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-5005_en.htm?locale=en)
26. Reference to the Commission press release “Commission sets out roadmap for deepening Europe’s Economic and Monetary Union”, Brussels, 6 December 2017. In: [http://europa.eu/rapid/press-release\\_IP-17-5005\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-5005_en.htm?locale=en). Latvian version: [http://europa.eu/rapid/press-release\\_IP-17-5005\\_lv.htm](http://europa.eu/rapid/press-release_IP-17-5005_lv.htm)

## 3.2. Latvian way to smart specialisation

*The EU’s general strategy recommendation development for the member states is to find out specific growth spheres and specialisations that could provide additional competitive advantage in the global value chain. Hence, Latvian decision-makers have to figure out which such specific spheres could be, taking into consideration available resources (both natural and human), existing structural reforms in economy, as well as business culture, infrastructure, etc.*

*The EU’s message is: Latvia has to find its “smart specialisation”, which would drive her growth in the years to come.*

*Besides, the EU suggestions to the member states are to increase their industrial base, including specific manufacturing sectors. The European Commission is certain that for the states to find out their competitive advantages they need to activate the role of science, research and innovations.*

*The process of finding “Latvian specialisation” is closely connected with re-evaluating the national growth policy’s advantages, which can be most optimally done with the new economic policy’s narrative.*



### 3.2.1. EU Smart Specialisation Strategy: recommendations for the Baltic States and Latvia

*Globalisation has brought enormous benefits and numerous opportunities for European states and Latvia. However, the benefits are unevenly spread among the states; certain stumbling blocks increase the “adoptive costs” among the EU countries. Therefore, the European Commission highlighted the necessity to take up the challenges of economic modernisation; at the same time, the EU member states need to empower their regions and help them create additional and competitive values.*

*Generally, it means embracing innovation, digitalisation, decarbonisation and developing perspective people’s skills. To be competitive in the world, the Baltic States and Latvia have to develop their own so-called smart specialisation strategies.*

“Smart specialisation” approach in the European Union dates back to 2011, when the European Commission has started to provide advises to regional and national authorities on developing and implementing their “specialisation strategies” through the “smart specialisation platform or/and strategy” (so-called 3S concept). Generally, smart specialisation is a kind of innovative approach that aims to boost growth and jobs by enabling each region to **identify and develop its own competitive advantages**. Through EU-states’ partnership and bottom-up approach in the member states, **smart specialisation** brings local authorities, academia, business spheres and the civil society additional tools for the implementation of long-term growth strategies supported by numerous EU funds.

### 3.2.2. Smart specialisation strategy – 3S concept

Three words in the 3S concept need some clarification: thus, “**smart**” – means identifying states-regions own strengths, resources, comparative advantages and assets; “**specialisation**” – means prioritising science and research components in growth, as well as innovation investment in competitive areas; and “**strategic**” – means defining a shared and perspective vision for regional innovation. (1)

Therefore, smart specialisation strategy (3S), generally, is seen as a strategic approach to economic development in the member states through targeted support for research and innovation. That is why in was announced in the “Innovation Union” flagship initiative of the Europe 2020 Strategy as the key action of Cohesion Policy in the field of innovation. (2)

The development of a specific innovation activities in the form of “research and innovation strategies for smart specialisation” was seen as **a pre-condition** for countries and regions receiving support from the European Regional Development Fund (ERDF) and European Agricultural Fund for Rural Development (EAFRD); therefore the Baltic States and Latvia have to rely upon new “science conditions” if they expect EU funds’ support in the future.

In this way, the European Union’s 3S ultimate aim is to ensure more effective and efficient innovation policy strategies at national and regional level to maximise the impact of EU investment. (3)

The Commission suggested initially two main spheres and categories of smart specialisation for the member states strategic planning:

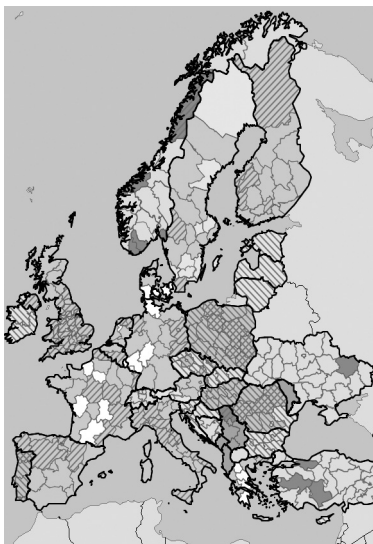
- 1) Supporting **industrial transition**, i.e. making the states’ growth “more productive” both through new industries and/or progressive manufacturing options, and
- 2) Supporting **inter-regional partnerships** (at least four EU member states can participate in multi-states’ cooperation to be supported by the EU’s funds) to develop competitive European “value chains” in growth.

The S3 Platform provides advice to the EU countries and regions for the design and implementation of their strategies; for example, Latvia can receive advices and support in the following activities:

- Preparing guidance material and good practice examples;
- Inform strategy formation and policy-making;
- Facilitate peer-reviews and mutual learning;

### REGISTERED COUNTRIES AND REGIONS IN THE S3 PLATFORM

Legend is seen at: <http://s3platform.jrc.ec.europa.eu/s3-platform-registered-regions>



- Support access to relevant data, and
  - Assist in training “policy-makers”.
- Commission presented an “initial design” of better public policies for boosting innovation-driven growth in EU regions in 2012 through EU Cohesion Policy in the report on the use of “Smart Specialisation” strategies. The report, originally compiled by the Organisation for Economic Co-operation and Development (OECD), was also reviewed by the European Commission Vice-President responsible for industry and entrepreneurship and Commissioner for research, innovation and science. The report examined the development of 3S indicators and metrics and looked at 15 case studies of country and regional experience in designing and implementing such strategies. (4)

### 3.2.3. Latvian S3 Priorities and examples from Estonia and Lithuania

Latvian authorities have already specified some 3S directions (5):

Priority Name	Description
Knowledge intensive bio-economy	Sustainable and productive forest growing in changing climatic conditions; Full use of wood biomass for chemical processing and energy; Innovative, risk-reducing plant and animal breeding technologies; Development of innovative high value-added niche products from wood, traditional and unconventional agricultural plant and animal raw materials; Technological solutions for the use of plant and animal breeding and processing by-products; Food safety
Biomedicine, medical technologies and biotechnology	Chemical and biotechnological methods and products for the production of pharmaceutical and bioactive substances; Development and research of new and existing human and veterinary medicinal products; Molecular and individualised treatment and diagnostic methods and cell technology; Functional foods, therapeutic cosmetics and bioactive natural substances
Smart materials, technology and engineering	Implant materials, composite materials, thin layers and coatings, equipment, machinery and working machines, glass fiber products and smart glass-based materials
Advanced ICT	Innovative knowledge management, system modeling and software development methods and tools; innovative sectoral ICT hardware (hardware) and software (software) applications; cyber-physics systems, language technologies and the semantic web; bulk data and knowledge infrastructure; information security and quantum computers; computer system testing methods
Smart Energy	Development of smart grids – development of demand-supply systems, smart buildings, home, appliances and home automation systems; Development of next-generation technologies for energy from renewable energy sources; Increasing energy efficiency – energy efficiency of building structures, energy efficiency of residential infrastructure elements; Sustainable energy for transport – new technologies, accelerating their implementation, electric mobility

Source: <http://s3platform.jrc.ec.europa.eu/regions/LV/tags/LV>

It is interesting to compare Latvian priorities with those of the other two Baltic States. For example, there are the following **3S Priorities in Estonia** (6):

Priority Name	Description
e-Health	
Biotechnology	incl. food that supports health; medicine: diagnostics, therapeutic; bio-banking
ICT: Industry 4.0, Robotics and Embedded Systems	
ICT: Cyber Security	
ICT: e-Government and Data Science	incl. big data and data mining
Materials Technologies	incl. nano-technologies in new materials, surface coating technologies, and oil shale in the chemical industry
Enhancement of Resources	biomass (primarily timber and food) and oil shale, including energy efficiency related to knowledge-based construction

Source: <http://s3platform.jrc.ec.europa.eu/regions/EE/tags/EE>

While Lithuanian **3S Priorities** are the following (7):

Priority Name	Description
Agricultural innovations and food technologies:	sustainable agro-biological resources and safer food; functional food; innovative development, improvement and processing of biological raw materials (bio-refinery)
Energy and sustainable environment:	smart systems for energy efficiency, diagnostic, monitoring, metering and management of generators, grids and customers; energy and fuel production using biomass/waste and waste treatment, storage and disposal; technology for the development and use of smart low-energy buildings – digital construction; solar energy equipment and technologies for its use for the production of electricity, heat and cooling
New production processes, materials and technologies:	photonic and laser technologies; functional materials and coatings; structural and composite materials; flexible technological systems for product development and fabrication
Health technologies and biotechnologies:	molecular technologies for medicine and bio-pharmaceutics; advanced applied technologies for individual and public health; advanced medical engineering for early diagnostics and treatment
Transport, logistics and ICT:	smart transport systems and information and communication technologies; technologies/models for the management of international transport corridors and integration of modes of transport; advanced electronic contents, content development technologies and information interoperability; information and communications technology infrastructure, cloud computing solutions and services
Inclusive and creative society:	modern self-development and education technologies and processes; technologies and processes for the development and implementation of breakthrough innovations

Source: <http://s3platform.jrc.ec.europa.eu/regions/LT/tags/LT>

### 3.2.3.1. Other examples: Spain, France and Sweden.

The regions of Catalonia in Spain, Skåne in South Sweden and l'Aquitaine in France have shown what “Smart Specialisation Strategies” really mean in practice. The Regions were invited by the European Commission to present their strategies, as they are considered as leading examples for other regions on the most optimal ways in creating smart specialisation strategies.

*The Research and Innovation Strategies for Smart Specialisation (RIS3)* in Spain is a strategic approach to economic development through targeted support for research and innovation. Before regional funds are invested in research and innovation, regions need to draw up so-called smart specialisation strategies. Each region has to focus on a limited set of priority areas, in which it already has a competitive advantage. These strategies will help regions to build on their particular assets and strengths. It should result in new ways of exploiting knowledge and new ways of doing businesses.

The success of Catalonia lies in the fruitful partnership between public and private actors. Though Catalonia has first-rate R & D centres and universities as well as a solid industrial tradition, it registered a lack of technology transfer. Consequently, connecting its research and innovation system to the existing business and industrial fabric is identified as the strategic priority in their “RIS3CAT – Research and Innovation Strategy for the Smart Specialisation of Catalonia”. The resulting cooperation between companies and research institutes is identified as a driver for the economic transformation of the regional production system. This cooperation should ensure that investments in research and innovation are effectively translated into economic growth and job creation in the region.

*In Aquitania (France)*, three main sectors have been identified for the Smart Specialisation Strategy. The agro-food sector is considered the “sleeping giant” in France; however being a traditional sector of excellence with very little innovation. The aeronautical subcontracting sector is the “hungry dwarf”, while the start-ups are considered as the “goblins” that should be better supported.

The Smart Specialisation Strategy in the region focuses on boosting innovation by adopting a method based on objectivity, transparency and inclusion. In order to advance on the path of smart specialisation, the Aquitaine region has set out selective rules and permanent mechanisms of supervision and control.

The main aim of the so-called IISS – *International Innovation Strategy in Skåne* (Sweden) is to become Europe’s most innovative region in 2020. To strengthen its innovation capacity, Skåne focuses on the collaboration between universities, researchers and entrepreneurs. The process has identified three areas of innovation: smart materials, personal health, and smart and sustainable cities. The Skåne Research & Innovation Council was established as a long term guarantee of this innovation process. The Council which is not a regulatory body is the main platform of discussion helping to unleash the big potential of this small region. (8)

### 3.2.4. Modern European approaches to 3S concept

In July 2017, Commission proposed a new set of actions to further help European regions invest in their niche areas of competitive strength (now generally recognised in EU as *smart specialisation strategies or 3S*) and a “generator” for innovation, resilience and growth needed so much. (9)

The Baltic States can benefit from new EU support’s structures if they can make a “quick creation” to draft an optimal (resilient) 3S economy’s approach with corresponding industrial and/or manufacturing sectors, as well as other perspective and competitive services.

Baltic States and regions can apply for the Commission’s tenders and can benefit from the EU’s financial and advisory support in transforming their economies and modernising their industries. At the end of September 2017, the European Commission proposed *a new set of*

**actions** to help European states “uncover” their niche areas of competitive growth and “strength sectors”, as well as to design investment strategies based on their specific actions.

For example, Latvia would have a chance to get a sufficient “helping hand” from the EU institutions (mainly, Commission) in finding out optimal strategic specialisation structures.

Introduced as one of the instruments to ensure *effective EU Cohesion Policy spending* in research and innovation, 3S has required all regions to design investment strategies based on **their own competitive assets**, e.g. from agro-food specialties and tourism to nanotechnologies and aerospace, to name a few.

Under these strategies, local businesses can receive EU’s financial support to develop innovative products and expand beyond local markets. These strategies have also resulted in better links between science and business as well as improved coordination at all levels of local governance.

Commission’s regional policy approach (formulated in September 2017) underlined five steps which an EU state (or a region) should take into consideration in order to get a share “in a value chain in a globalised economy”. These steps are:

- 1) **Embracing innovation;**
- 2) **Increasing digitalisation;**
- 3) **Reducing pollution (so-called decarbonisation process);**
- 4) **Developing people’s skills, and**
- 5) **Breaking down barriers to investment.**

This Commission’s “assisting instrument” as a thematic platform provides some advantages in developing the member states’ 3S specialisation. The 3S approach in the EU states during last 5–6 years has already facilitated mutual learning, data gathering, analysis, and networking opportunities in about 170 EU regions and 18 national governments. Various EU regions joined forces and pooled resources on the basis of matching smart specialisation priorities in high valued added sectors; for example, partnerships among EU states and/or regions have been developed in the fields of 3D printing, medical technology, smart grids, solar energy, sustainable buildings, high-tech farming, etc.

More active smart specialisation approach has appeared in all EU regional policy programmes already in 2014. Since then, such approach improved the way regions designed their innovation strategies, by closely involving local businesses and researchers.

Over 120 smart specialisation strategies have been developed since; more than €67 billion from the European Structural and Investment Funds and national/regional funding have been available to support such 3S initiatives.

The Commission predicts that the 3S achievements would bring 15 thousand new products to markets, create 140 thousand new start-ups and 350 thousand new jobs in the years to come. (10)

Attention to the member states’ 3S strategies goes hand-in-hand with the EU-2020 growth strategy for a “changing world”, which aims at making the EU **a smart, sustainable and inclusive economy**. These three mutually reinforcing priorities shall provide additional help to the EU member states to deliver high levels of employment, productivity and social cohesion.

Quite concretely, the Union has set five ambitious objectives – on employment, innovation, education, social inclusion and climate/energy – to be reached by 2020. Each EU state has adopted its own national targets in each of these areas. Thus concrete actions at the EU and national levels underpin the strategy.

National and regional authorities across Europe **shall design smart specialisation strategies in entrepreneurial discovery process**, so that the European Structural Investment Funds (ESIF) can be used **more efficiently** and synergies between different EU, national and regional policies, as well as public and private investments can be increased. (11)

In implementing 3S approach, the EU member states and particularly those in the Baltics have to increase their science and technology potentials. And here much is going to be done by national governments, as the Baltic States are lagging behind in innovative capacities. Thus, according to Commission's assessment, Latvia belongs to a category of "**moderate innovators**".

Latvian research and development directions have been coordinated with the Commission and finally formulated in the following 3S priority areas:

- 1) Information & communication technologies;
- 2) Human health & social work activities;
- 3) Key enabling technologies;
- 4) Energy production and distribution, and
- 5) Manufacturing and industry. (12)

However, without additional investments in R & D it would be almost impossible to activate Latvian 3S directions. Therefore, a big role is to be played by rational political decisions and subsequent economic implementation.

### 3.2.5. The European 3S pilot projects

The Commission has already suggested some 3S pilot projects: these pilot projects are building on the previous positive experience and suggest the following two groups of activities in the member states/regions:

**Group 1: Tailored support for regions facing industrial transition.** Some European regions have been bearing the costs of globalisation without yet reaping its benefits. They have often suffered substantial job losses and often can suffer from a lack of appropriate skills, high labour costs and de-industrialisation.

EU member states regions facing these specific challenges can have the following benefits providing from the Commission:

- 1) **Tailored assistance** from Commission's experts organised in "regional" teams from several Commission departments. They will help regions draw up regional economic transformation strategies. Depending on specific regional needs and assets, the Commission will hire external experts to support the work of the regions. They can be for example experts in financial instruments, business consultants or researchers working on advanced manufacturing processes, etc. The Commission sets aside up to €200 000 per region to cover the costs of this external expertise; the money comes from the European Regional Development Fund (ERDF).
- 2) **Additional support** from the *European observatory for clusters and industrial change* to help regions build cluster policies and link better local firms, research centres and academia. See: <https://ec.europa.eu/easme/en/tender/9880/european-observatory-clusters-and-industrial-change>
- 3) **Up to €300 000 from the ERDF** to support the *early implementation* of the regional economic transformation strategies (so-called regional 3S), subject to sufficient progress in their development. This initiative specifically targets "transition" and "more-developed" regions; the Commission will designate 5 most needed regions.

In order to get EU funding, the "transition" regions would have a GDP per head between 75% and 90% of the EU average; "more-developed" regions' GDP per head shall be over 90% of the EU average. That means the three Baltic States can be qualified in these two categories.

Depending on the level of EU states' interest, the Commission may designate 5 more regions, with a new and similar budget.



**Group 2: Inter-regional partnerships to develop competitive European value chains.** The aim of this pilot project is “to commercialise” and scale-up so-called *bankable inter regional projects* in priority sectors such as big data, bio-economy, resource efficiency, connected mobility, health and active aging or/and cybersecurity, etc.

Transnational partnerships of regional authorities from at least **four different EU countries** and involving universities, research centres, clusters and businesses can apply for Commission support in developing their projects and accessing new markets.

Commission expects that some 5 to 10 selected partnerships will benefit from tailored support by special teams established within the Commission, involving experts from several thematic departments and external experts. A total of €1 million from the ERDF will support the development of these partnerships. (13)

### 3.2.6. Regional smart specialisation

Specific attention in the EU is given to developing *regional smart specialisation strategies (R3S)*. These strategies aim at making innovations as the driving force for growth in all EU regions. As part of the EU-2020 strategy to create a smart, sustainable and inclusive economy, regional governments are designing economic transformation agendas that concentrate on existing strengths, competitive advantages and resources’ potential. (14)

Another important sphere in 3S approach is “*cultural and creative industries*” (CCIs). It has to be noted that in the 21<sup>st</sup> century, CCIs have underwent considerable changes as a result of increased digital technologies, new economic development patterns (sustainability, circular economy, etc.) and considerable changes in the regulatory framework.

Support to CCIs has, likewise, evolved rapidly, witnessing core changes in intellectual property law, increased support through state aid, and a greater recognition of their potential contribution to the economy.

Despite the considerable potential of CCIs, estimated to be responsible for over 3% of the EU’s gross domestic product and jobs, they remain undervalued and unrecognised, especially in terms of their ability to access start-up capital and financing.

The challenges facing CCIs are compounded by a lack of clear evidence and information in the sector, which further limits the ability of financial backers to recognise their potential, as well as other legislative hurdles, such as intellectual property rights, varying tax regimes, and mobility issues.

CCIs need support to enable them to properly represent their interests and raise their concerns, as well as to create cross-border networks and platforms to help structure and strengthen the sector. (15)

In line with the Europe 2020 strategy for growth and jobs, the European Commission’s role is, in general, to ensure that the culture sector is able to increasingly contribute to employment and growth across Europe. Specifically, this involves the provision of direct financial and technical support, whether in the form of grants or the establishment of networks and platforms to support the sector.

EU-2020 strategy sees at: [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester_en)

The Commission’s priorities in the field of CCIs include:

- Responding to changing skills needs by promoting innovation in education;
- Supporting the mobility of artists;
- Coordinating with member states to reform regulatory environments; and
- Developing policies and initiatives to promote market access for and investment in CCIs.

These priorities are complemented through a variety of actions and initiatives, as well as the Creative Europe Programme, and funding from other Commission sources. Specific activities undertaken recently include: a pilot project on the economy of cultural diversity; publication of a green paper on the potential of cultural and creative industries; reports of the expert groups under the “open method of coordination”; and an executive summary, mapping different creative value chains in the digital age, in particular for visual arts, performing arts, cultural heritage, artistic crafts, book publishing, music, film, TV, broadcasting and multimedia. (16)

## Resume

*Choosing “smart specialisation” for Latvia becomes, first of all, is an urgent political issue; although it has been inspired from the European Commission, it provides practical steps for the member states in reaching 3S aims. Second, 3S is an important issue of Latvian perspective economic growth: only finding its competitive edge Latvia can secure its progressive future. Third, Latvian 3S is based on creating more export-driven development, mainly through widely used manufacturing spheres (they are easy to structure and affiliate modern innovations). Finally, 3S in Latvia needs political and economic “national investments” in its future: to foster this process Latvia shall adopt adequate political decisions concerning, for example, reduction of taxes (to make export competitive), reform public services (to reduce bureaucracy) and transform education system.*

## Notes and references

1. More on smart specialisation strategy in: [http://ec.europa.eu/regional\\_policy/sources/docgener/guides/smart\\_spec/strength\\_innov\\_regions\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/guides/smart_spec/strength_innov_regions_en.pdf)
2. More on 3S and science connection in: [http://ec.europa.eu/regional\\_policy/en/newsroom/news/research/innovation-union/index\\_en.cfm](http://ec.europa.eu/regional_policy/en/newsroom/news/research/innovation-union/index_en.cfm)
3. More on regional issues in: <https://ec.europa.eu/inea/en/news-events/newsroom?page=9>
4. More on smart specialisation in the Commission’s smart specialisation platform’s website: <http://s3platform.jrc.ec.europa.eu/home>, and the report in: [http://ec.europa.eu/regional\\_policy/en/newsroom/news/2012/12/smart-specialisation-strategies-for-innovation-driven-growth](http://ec.europa.eu/regional_policy/en/newsroom/news/2012/12/smart-specialisation-strategies-for-innovation-driven-growth)
5. On Latvian priorities in: <http://s3platform.jrc.ec.europa.eu/regions/LV/tags/LV>
6. Estonian priorities. Source: <http://s3platform.jrc.ec.europa.eu/regions/EE/tags/EE>
7. Lithuanian priorities. Source: <http://s3platform.jrc.ec.europa.eu/regions/LT/tags/LT>
8. Source: [http://ec.europa.eu/regional\\_policy/en/newsroom/news/2014/03/how-regional-strategies-for-growth-and-innovation-can-drive-europe-s-prosperity-in-2014-2020-3-european-regions-demonstrate-how-it-can-be-done](http://ec.europa.eu/regional_policy/en/newsroom/news/2014/03/how-regional-strategies-for-growth-and-innovation-can-drive-europe-s-prosperity-in-2014-2020-3-european-regions-demonstrate-how-it-can-be-done)
9. Commission’s reflection paper on 3S issues. In: [http://europa.eu/rapid/press-release\\_IP-17-1995\\_en.htm](http://europa.eu/rapid/press-release_IP-17-1995_en.htm)
10. More on “smart specialisation in action”, in: [http://ec.europa.eu/regional\\_policy/sources/docgener/guides/smart\\_spec/strength\\_innov\\_regions\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/guides/smart_spec/strength_innov_regions_en.pdf)  
Note: about the S3 Platform and the strategy’s implementation in such spheres as good practice examples, strategy formation and policy-making, mutual learning and access to relevant data, as well as policy-making training. In: <http://s3platform.jrc.ec.europa.eu/home>
11. More in: [http://ec.europa.eu/regional\\_policy/en/information/publications/brochures/2014/research-innovation-strategies-for-smart-specialisation](http://ec.europa.eu/regional_policy/en/information/publications/brochures/2014/research-innovation-strategies-for-smart-specialisation)
12. On Commission’s recommendation in 3S priority areas. In: [http://ec.europa.eu/regional\\_policy/en/information/publications/factsheets/2017/smart-specialisation-strengthening-innovation-in-latvia](http://ec.europa.eu/regional_policy/en/information/publications/factsheets/2017/smart-specialisation-strengthening-innovation-in-latvia)
13. More information on the 3S issues is in the following links:
  - Inforegio – how to apply?;
  - Factsheet – Smart specialisation pilot actions;
  - Factsheet – what is smart specialisation?;
  - July 2017 Communication – Strengthening Innovation in Europe’s regions;
  - July 2017 MEMO – Challenges ahead: boosting innovation-led growth in EU regions.
 Additionally, Commission press release: [http://europa.eu/rapid/press-release\\_IP-17-3501\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-3501_en.htm?locale=en)
14. These strategies provide a focus for policy support in the member states, help to use European Structural & Investment Funds effectively and aim to stimulate private investment for sustainable growth.  
More in: national/regional innovation strategies for smart specialisation factsheet
15. On cultural and creative industries in: [https://ec.europa.eu/culture/policy/cultural-creative-industries\\_en](https://ec.europa.eu/culture/policy/cultural-creative-industries_en)

16. See additional web-links:

- Communication on the cultural and creative sectors;
- European Parliament resolution on promoting the cultural and creative sectors;
- Communication by the European Economic and Social Committee on promoting cultural and creative sectors;
- Communication by the Committee of the Regions on promoting cultural and creative sectors;
- European Creative Industries Alliance;
- Policy learnings and networking support for creative industries via the European Network of Creative Hubs.

Optional reading for 3S issues:

- Smart specialisation and innovative-led growth in the EU states. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=131478&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=131478&ins_print)
- EU new industrial policy: investing in a smart, innovative and sustainable industry. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=133328&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=133328&ins_print)
- Fuel-cell buses: solution for city air pollution. In: [http://www.baltic-course.com/eng/baltic\\_states/?doc=133314&ins\\_print](http://www.baltic-course.com/eng/baltic_states/?doc=133314&ins_print)
- Facing globalisation: EU assists Baltic States in smart specialisation. In: [http://www.baltic-course.com/eng/good\\_for\\_business/?doc=133683&ins\\_print](http://www.baltic-course.com/eng/good_for_business/?doc=133683&ins_print)

### 3.3. European industrial policy: effect for Latvian manufacturing and agricultural sectors

*According to the European Union's requirement, the member states GDP shall be composed at least on 20 per cent by industrial production and/or manufacturing, as industry, in the EU's context, includes a number of manufacturing sectors too.*

*Therefore, some states, e.g. Latvia, with stringent conditions for broad industrial sectors' development may have opportunities to develop some manufacturing directions. However, Latvian industrial/manufacturing potentials greatly depend on national development strategy, available resources and political will to "design national industrial policy strategy".*

*In forming Latvian industrial policy, attention has to be given both to traditional development spheres (e.g. agro-sector including eco-farming, which are still having important role to play in national growth), and some new ones, e.g. collaborative approach to new clean transport means, artificial intelligence and sustainable smart manufacturing.*

It is to be mentioned at the start, that the European industrial policy is the sole competence of the member states; the EU institutions have only supplementing, supporting and coordinating competence in the states' industrial development. Another important thing is that industrial sector in the European context includes so-called second-level of production, which is often called manufacturing. Finally, the EU's approach to a Union-wide industrial policy includes a whole spectrum of socio-economic development issues, combining the Union's internal/single market aspects (with all "basis free movements, i.e. goods, services, workers and capital) as well as entrepreneurship and SMEs activity.

Historically, the term "manufacturing" comes from the Middle Aged Latin, *manu facère*, which means "make with hand". This term through centuries has transferred into "manufacture" to include factories using new technologies; presently, for example, so-called "intelligent manufacturing".

Thus, modern 4<sup>th</sup> industrial revolution supports dynamic changes through new technologies and concepts including artificial intelligence (AI), zero-defect, additives, block chain methods, etc.

However, opinions about AI in manufacturing differ: e.g. Microsoft's founder, Bill Gates mentioned that "the development of full artificial intelligence could spell the end of the human race"; whereas Stephen Hawking argued that he did not understand "why some people were not

concerned about artificial intelligence”. Elon Musk from Tesla argued about being very careful about artificial intelligence, saying that to prevent from biggest existential threats, it would be necessary to introduce some national and international regulations to make sure “that we don’t do something very foolish”. (1)

### 3.3.1. Latvian industrial perspectives

In forming a progressive path for Latvian industrial/manufacturing future, the role of science and innovative research is vital; here the EU provides sufficient support. For example, for several years functions the biggest ever EU research and innovation programme, Horizon 2020 assisting the member states industrial development. Thus, European and international conferences (taking place almost each month) analysed perspective issues in the EU manufacturing industry. They attracted leading European industry and academia representatives with the aim of understanding future role of European manufacturing industry towards the year 2030 and prioritising possible moves using new technological development. (2)

Most important source in stimulating Latvian industry/manufacturing “future” is the Horizon 2020 as the European Union’s Framework Programme for Research and Innovation. Running from 2014 until 2020 with a budget of nearly €80 billion, Horizon 2020 is the biggest multinational research programme in the world. It funds research in all areas of science and innovation. Horizon 2020 is open to the world – researchers, universities, companies and institutes from all over the world are welcome to participate in research initiatives.

Due to difficulties in creating new industries or reviving the old ones in the Baltics, almost the only way to fulfill the EU’s requirement on 20% of national GDP in industrial development is through manufacturing sector.

There are multiple ways and programmes to support transformation of manufacturing industry. For example, the **collaborative robots** market is expected to be worth \$4.28 billion by 2023, growing at a rate of 56.94% between 2017 and 2023.

European industrial potential in manufacturing is enormous, e.g. **artificial intelligence** (AI) in manufacturing market is expected to grow from \$272.5 million in 2016 to about \$5 billion by 2023, at an immense growth rate!

The growing usage of **big data technology**, industrial “**internet of things (IoT)** in manufacturing, extensive usage of **robotics in manufacturing**, **computer vision technology** in manufacturing, cross-industry partnerships and collaborations, and significant increase in venture capital investments would propel the growth of the AI in manufacturing market. (3)

AI in manufacturing could be both positive and negative: thus, a robot can protect a human being from any harm, but being programmed “inhuman” a robot can enter in conflict with the first presumption. However, AI suggests some other issues: ethical (pertaining to or dealing with morals or the principles of morality, pertaining to right and wrong in conduct, being in accordance with the rules or standards for right conduct or practice); anthropocentric (human beings are the central or most significant entities in the world), and democratic (in the interest of the whole community and not the singles).

### 3.3.2. European approaches to manufacturing

EU is supporting transformation of manufacturing through several programmes:

- “Factories of the future”, so-called FoF partnership: it is €1.15 billion programme within Horizon 2020, including over 250 projects with over 2500 organisations participating and 60% industrial participants. It provides over 30% of funding to SMEs and several national and regional initiatives align with FoF Roadmap.

- European Factories of the Future Research Association (EFFRA-project), which is uniting industry-led association representing private side in the 'Factories of the Future' public-private partnership. EFFRA includes 170 large, small & medium industrial enterprises, research organisations, universities, industrial associations and clusters. Its full time secretariat is connecting members with coordinating research agenda and the EU institutions. (4)

#### MANUFACTURING ROLE IN EUROPE

It is a key sector transforming material and energy into high added value products;

It is responsible for 80% of Europe's exports with about 15–16% GDP;

It has huge potential to generate wealth and high-quality jobs;

It provides thirty million direct jobs and sixty million indirect jobs. (5)

Perspectives of European manufacturing activity are great: e.g. by 2020 Germany and the UK will be among *ten global competitive countries*; the rest are from the US, China, Taiwan, India, Japan, South Korea, etc.

However, manufacturing ideas are not wide-spread in Europe: only 8% of 16–18 year olds would consider a job in manufacturing. The majority prefers to work in service-based industries: among them desk jobs are highly favoured and 76% believed they are better paid and 84% think this job is more “glamorous”. (6)

Less than ten young-people consider manufacturing career: young people and their parents consider manufacturing to be dirty, greasy and sweaty work aimed for people who did not do well academically in high school. They think that it is a “dead-end career”, low-paying and comprised of monotonous and brain-numbing tasks. Hence *teaching manufacturing* is important: it encourage youth to be future scientists, engineers, makers and inventors. It provides such skills as creative thinking, cooperation and communication. It helps introducing modern science into educational activities, promotes robotics in education worldwide making a “manufacturing hub” for education uniting high schools, universities and research centres. (7)

Qualified workforce in technology needs to be trained in **STEM system** (science, technology, engineering and mathematics). Job market needs more technological based professionals capable to adapt to high-tech breakthroughs: automation, robotics, digital. Future graduates in science and technology are expected to be better considering rethinking education, investing in skills for better socio-economic outcomes. (8)

The following directions of rethinking education at all levels for current industrial needs in Latvia might be considered:

- Master degrees/courses in combining Industry 4.0 and Manufacturing/ Additive Manufacturing;
- Learning /teaching environments similar to industrial ones;
- STEM for qualified workforce;
- Cognitive and non-cognitive skills;
- Training elder workforce and immigrants.

In order to ensure the competitiveness of European industry and manufacturing sector the following actions should be taken in the near future in order to attract people to manufacturing: manufacturing summer camps; manufacturing hub for education involving industry, research centres, universities and high schools; spreading information about manufacturing; adapting long-life learning to modern industrial/manufacturing needs, etc. (9)

### 3.3.3. EU policy concerning member states' industrialisation

These activities include the following related topics: free movement of goods, free movement of services, industrial sectors and SMEs. Besides, the Commission's DG GROW is responsible for the "general industrial sphere" in the Union: that means that issues concerning either starting a new industrial/manufacturing sector or/and merging the existing one with a sector in another EU state are coordinated with the Commission. Such "coordination" can help creating most effective production forces on the Union's territory with sufficient and qualified labour force and needed resources.

Therefore, the EU's "industry", as a whole, is more than just a sum of the member states' industrial development: the idea is to make a so-called unified regional industrial block.

Therefore, the DG GROW's responsibilities include:

- Renewing the strategy for completing the single market for goods and services, including extending the list of products to be recognised in all EU countries and eliminating remaining obstacles;
- Maintaining and reinforcing a strong and high-performing industrial base for the European internal market, by stimulating investment in new technologies, improving the business environment and easing access to markets and to finance;
- Identifying new sources for high-value jobs and growth, in industry and services with a focus on start-ups;
- Encouraging EU countries to make defence markets more efficient and open to EU-wide competition by cooperating in defence contracts and using synergies;
- Setting the right regulatory conditions for the development of space applications and services in Europe and delivering innovative projects such as Copernicus and Galileo. (10)

However, the EU states are active in industrial "coordination" too: thus, the EU member states' economy ministers almost each month debate issues of European *industrial policy* with a view of adopting common approaches to future EU and the states' industrial strategy.

The regular, so-called "competitiveness check-ups" are integral parts of such sessions, focusing on common industrial policy objectives. (11)

Research and innovation is another aspect in creating efficient and competitive industrial policy: generally it is the competence of different "configurations" (totally ten) in the EU Council of Ministers. For example, the Council considers ways to solve global challenges in the EU multi-annual framework for research and innovation, the successor of the current Horizon-2020 programme. A set of draft conclusions titled "From the interim evaluation of Horizon 2020 towards the ninth framework programme" has been already submitted to the Council. (12)

Most important are the issues of single/internal market **strategy for goods and services**. This aspect of industrial strategy aims at unleashing full potential of the single market in order to improve member states' industrial competitiveness. The strategy (published at the end of 2015) focuses on three key areas:

- Creating **new opportunities** for consumers and businesses;
- Encouraging **modernisation and innovation**, and
- Ensuring **practical benefits** for people in their daily lives.

The overall objective of the strategy is to **eliminate the remaining economic barriers** from the single market. This would

#### EU SINGLE MARKET IN NUMBERS

Services account for more than 65% of EU gross domestic product and 70% of total employment;  
Public procurement represents around 19% of the EU GDP, with over €2.3 trillion spent each year by public authorities and utilities; and  
Europe has over 5000 regulated professions, which equates to 50 million people facing unnecessary regulatory obstacles to mobility. (14)



expand consumer choices and support new business models, thus boosting innovation and job creation. On 19 October 2017, the European Council called for a *more integrated single market* able to deliver practical benefits for European citizens.

EU leaders asked for EU institutions to step up legislative work and for member states to implement the relevant EU legislation and other necessary measures required to shape the new digital era. (13)

Despite being one of the greatest achievements of European integration, the single market has yet to reach its full potential. Persisting barriers to the free exchange of products and services, **insufficient enforcement** of existing rules and a **low level of cross-border public procurement** all limit opportunities for businesses and citizens. This results in fewer jobs and higher prices. At present, cross-border services only account for 5% of EU GDP, compared with 17% for goods. According to the European Commission, a more ambitious implementation of the existing services directive alone would yield a **1.8 % increase** in the EU's GDP. (15)

### 3.3.4. Start-ups and scale-ups in industrial growth

In February 2017, the EU Council presented European Commission's communication "**Europe's next leaders: the start-up and scale-up initiative**" followed by a ministerial debate on ways to help young EU enterprises to grow and expand. This initiative has three main priorities:

- 1) To **remove barriers** for start-ups and scale-ups in the single market;
- 2) To **facilitate partnerships** and access to commercial opportunities and skills, and
- 3) To ensure **better access to finance**.

This initiative was an important step towards creating a favourable environment for start-ups and scale-ups in Europe; it would have a direct effect on **innovation, employment and economic growth**. (16)

### 3.3.5. Latvian agro-sector: options for growth

Food and farm sector becomes the domain of important national political decisions concerning Latvian industry and manufacturing. In this direction, the Union's support is becoming vital: the Commission's ideas of supporting farmers through *sustainable agriculture* with simpler and more flexible rules are paving the way to the member states' more modern food and farming sectors. Following subsidiarity principle, new agricultural policies shall be re-assessed by the states in developing national food and farm sectors with sufficient control from the Commission. Common Agricultural Policy (CAP) is the oldest EU common policy (it was adopted in 1962). Almost each new Commissioner in the College terms, tried to "revolutionise" European agro-sector; hence the sector went through about half a dozen CAP reforms. However, the member states agricultural production is still far from being perfect and efficient; besides, new global challenges require adoption of accommodation efforts. Such new efforts cannot be done just by the policies "from above": they need active and effective steps through political-economic decisions in the member states (so-called subsidiarity approach); and again, with a proper coordination from the Commission.

Since February 2017, the European Commission conducted consultations with the member states on the CAP's future in order to better understand the ways the current policy could be simplified and modernised. During the three month consultation period, the European Commission received more than 320 000 replies, mostly from individual farmers. The consultation found that mostly respondents wanted to keep a strong common agricultural policy at the EU level; however they underlined the need for: simpler more flexible agro-rules focused on meeting key challenges; fair standard of living for farmers, preserving the environment and tackling climate change.

### 3.3.5.1. Main ideas of a “new European CAP policy” for Latvia

The new policy’s goal is to allow the EU states greater freedom in agriculture investment with only restrictions concerning ambitious Union common goals on environment, climate change and sustainability. As soon as, generally, agricultural policy is a shared competence between the EU institutions and the member states, the delimitation must be approved by both sides.

According to the Commission Vice-President in charge of Jobs, Growth, Investment and Competitiveness, the EU should strive for such Union’s CAP that would keep “delivering healthy and tasty food for consumers with jobs and growth in rural areas”. Hence the EU’s new proposals to modernise and simplify CAP, to follow the new Commission’s “delivery model” providing for greater subsidiarity to the states, i.e. making agriculture an important part member states’ national political economy guidelines. Thus, the states are supposed to prepare their strategic agro-plans, which will enable simplification, better coherence and monitoring. (17)

The Commissioner for agriculture and rural development argued that revised CAP was expected to deliver on new challenges which require urgent actions aimed at fostering smart and resilient agricultural sector, bolstering environmental concerns and climate action while strengthening the rural areas’ social-economic spheres. Thus a new CAP implementation will make “accent” on national efforts while giving the EU states and regions a much greater degree of subsidiarity, i.e. with less EU’s “prescriptive approach” to the states.

However, CAP’s *two main pillars* remain: direct payments/market measures, and rural development. The *first pillar* supports farmers on an annual basis in the form of *direct payments* and market measures, which are subject to compliance with basic rules and environmental objectives. The *second pillar* is a multiannual and flexible investment tool, more adapted to the local realities of each EU state, in particular to help support longer term projects.

These two pillars are going to be simpler and more flexible while the states’ detailed actions in their plans will be agreed on the EU level. Thus, each EU state would then develop their own strategic plans – approved by the Commission – setting out the ways to meet the new CAP objectives. Rather than on compliance, the EU attention will be on monitoring progress and ensuring that funding is focused on concrete results. Moving from a one-size-fits-all to a tailor-made approach means the policy and its real-life implications will be closer to the farmers.

The future CAP is reflecting high sustainable development ambition regarding resource efficiency, environmental care and climate action; thus, among others, new CAP includes:

- Encouraging the use of modern technologies to support farmers with market transparency and certainty;
- Greater attention to encourage young people to take up farming, to be coordinated with the states’ actions in such areas as land taxation, planning and skills development;
- Addressing farmers’ concerns regarding sustainable agricultural production, including health, nutrition, food waste and animal welfare;
- Seeking coherent action among agro-policies in line with the global dimension, notably on trade, migration and sustainable development; and
- Creating an EU-level platform on risk management and assisting farmers to cope with the uncertainty of climate, market volatility and other risks.

The new CAP has some common for all states objectives and measures: from common set of measures (either at national or regional level) to states’ preferred agro-policies in achieving the CAP goals. The actual farmers’ needs will be assessed and fed by the states into a CAP strategic plan approved at the EU level; the Commission aims at establishing “a pact of trust” with the EU states’ rural areas and individual farmers. Strengthening of farm advisory services for farmers and the full implementation of geospatial aid applications will also support the simplification of EU aid applications and the implementation of investment measures.

### 3.3.5.2. CAP role in promoting rural prosperity

The CAP is not only acting on the farming sector; it helps boosting local rural economies and enhancing rural prosperity. EU rural development funds can for example support the setting up of an artisan's business, creating new jobs' opportunities and increase growth potential in rural areas through support of new rural value chains: e.g. clean energy, emerging bio-economy, the circular economy and eco-tourism, investments in infrastructure, natural and human capital, including vocational training, programmes to develop new skills, quality education and connectivity.

For example, recent Commission's "smart villages" proposal, as an emerging concept, is going to help local communities addressing issues of inadequate infrastructures and employment opportunities. (18)

In this regard, CAP efforts is aimed at supporting in the EU states are aimed fairer approaches to agro-SMEs. During the first year supporting agro-SMEs in 2015, about 20% of small farmers in the EU received around 80% of *direct payments*. This shows the CAP's concerns for economic efficiency and social equity as well as reflects the threat of land concentration versus small farmers' support.

As soon as more than half of the direct support beneficiaries are small farms, most of the payments (72% in 2015) went to medium-size professional (family) farms (from 5 to 250 ha) who are managing most of the EU agricultural land (71%); they are mainly responsible for the delivery of public goods and environmental benefits in the agro-sector.

The Commission is committed to explore ways to further target direct payments more effectively and ensure a fair and better targeted support of farmers' income across the EU: following list of possibilities should be further explored in Latvia:

- A compulsory capping of direct payments with managing negative effect on agro-jobs;
- Possible introduction of digressive payments as a way of reducing support for larger farms;
- Enhanced focus on a redistributive payments in order to provide support in e.g. small- and medium-sized farms;
- Ensuring support to genuine farmers, focusing on those who are actively farming in order to earn a living (and not a part-time job).

### 3.3.5.3. Future CAP in supporting farmers' efforts to protect environment

Latvian farmers receiving income support from the CAP will have to apply various environment- and climate-friendly practices. The EU states will determine the details, in line with the need to meet the EU objectives but also taking into account national, regional and local circumstances. The system will draw on strengths currently observed in the CAP but will involve fewer and less complex rules in EU legislation.

Eco-friendly action which goes beyond this foundational level of good practice will be supported through schemes which are voluntary for farmers – at a relatively basic level, and above that more advanced schemes. Important that the EU states will be responsible for designing the schemes, in such a way as to meet EU objectives translated into national, regional and local terms. The CAP will also place strong emphasis on unlocking the potential of research, innovation, training and the use of advice to improve care for the environment and climate, including through greater resource efficiency.

### 3.3.5.4. Start-ups, young farmers and generation renewal in agro-sector

Generational renewal should become a priority in a new Latvian agro-policy framework; here the EU is stimulating generational renewal using "powers" on land regulation, taxation, inheritance law and/or territorial planning.

CAP is give flexibility to Latvian farmers in developing “tailor made schemes” that reflect the specific needs of country’s young farmers. CAP strategic plans could include support for skills development, knowledge, innovation, business development and investment support for Latvian farmers, as well as helping mitigate risk in the first years after launching a farming business by providing an EU-wide system of support.

Access to financial instruments to support farm investments and working capital in Latvia should be facilitated and better adapted to the investment needs and higher risk profiles of new entrants. Support to the new generation of farmers could be combined with the appropriate incentives to facilitate the exit of the older generation and the transfer of knowledge among generations as well as to increase land mobility and facilitate succession planning.

### 3.3.5.5. Stimulating agro-investments and financial support for regions

A flexible CAP investment tool is essential to support competitiveness, innovation, climate change adaptation and mitigation and ultimately the sustainability of Latvian agriculture and rural areas. Modernising a farm, setting up new technologies, renovating irrigation systems are all actions that require a lot of frontload money and are substantial financial efforts that farmers cannot be expected to do on their own.

Available public funds for grants from EU are not sufficient to address the growing investment needs of the sector. Rough estimations show that the market gap for financing agriculture in the EU-27 (without the UK) is between €1.6 and €4.1 billion for short-term loans, and between €5.5 and €14.8 billion for long-term loans.

Financial instruments, such as loans, guarantees and equity funds, can ease access to finance for those farmers (e.g. small holders, new entrants, etc.) or agro-food producers, who find it difficult to obtain the necessary funds to either enter the business or develop it. By bringing together EU and private funding, they shall have a multiplier effect, i.e. increased investment volumes and leverage.

During 2018, discussion and work on the concrete objectives, architecture and design of the future policy will advance in parallel with the work on the next MFF. It will be done through some forms of “impact assessments” exploring different options by making use of the elements gathered from the states and farmers, e.g. using the public consultation’s results carried on in 2017, by Re-Fit inputs and numerous conferences. Following the expected Commission proposal for the next MFF in May 2018, legislative proposals on the future CAP will be revealed before the summer-2018. (19)

Besides, the EU assists member states in helping companies innovate and grow internationally.

For example, providing support for business innovation, the *Enterprise Europe Network* helps businesses bring innovative ideas to commercial success on international markets. Innovation support services are open to all kinds of businesses. Network experts are there to assess which services in Latvia are best suited to specific business development phases.

At an entry level, Network services include: information on innovation-related policies, legislation and support programmes, links with local innovation stakeholders, information about access to local sources of funding/support and innovation capacity building. (20)

The Network’s experts also provide one-to-one services, including:

- 1) Innovation audits and strategy advice;
- 2) Advice on intellectual property rights;
- 3) Technology and innovation brokerage services;
- 4) Advice on technology marketing;
- 5) Advice on access to finance for innovation; and
- 6) Support to access funding programmes (including Horizon 2020).

Network experts will be able to advise if Latvian agro-businesses having the potential to successfully apply for the EU Horizon 2020 “SME Instrument programme” and help present a competitive proposal.

Providing innovation management for entrepreneurs in the member states, Commission’s network services are supporting “potentially innovative” businesses with innovation management solution. These services help update businesses plans and manage Latvian innovation activities as well as align their innovation strategy with other business processes.

In practice, Network experts perform an innovation management capacity and gaps assessment, (in close cooperation with CEOs), develop an action plan to tackle identified gaps, help businesses carry out the action plan and indicate paths for further development. (21)

### 3.3.6. Combining EU and Latvian efforts in agro-policy

Latvian farm sector and rural areas are major players in terms of the country’s well-being and its future. So far Latvian agricultural sector was not at level it shall have in national growth patterns; though it used to be in the beginning of the last century (under Ulmanis’ government) one of the European leading producers of agro-food, e.g. beekon, cheese, other milk products.

The Latvian farmers have to be “the guarantees” of national food security. Besides, the farmers are also the first stewards of the natural environment, as they care for Latvian natural resources of soil, water, air and biodiversity. About half of Latvian territory is covered by forests (in the EU about 36%); forests provide essential natural CO<sub>2</sub> filter for citizens, supply renewable resources for industry and energy sectors, being at the same time a big source of export revenues.

Large numbers of jobs in Latvia depend on farming, either within the sector itself (which provides regular work for thousand persons) or within the wider food manufacturing sector, i.e. food processing, related retail and other agro-sector’s services.

The same picture is in the EU, where agro-sector provides jobs for about 44 million people, or over 10 per cent of Europe’s total population. The EU’s rural areas as a whole are home to 55% of its citizens, while serving as major bases for employment, recreation and tourism. (22)

The EU’s CAP is presently under stress over existing differences between western and eastern European farmers; the tension exceeded in view of the new multi-annual budget talks among EU member states. Thus in November 2017 Commission’s “Future of Food and Farming” paper (mentioned above) suggested funding cuts to large farms: the “direct-payment-subsidy-ceiling” suggested limiting direct payments to largest farms. (23)

Those EU states that fair cup-cuts would fiercely combat such EU’s moves while forming possible alliances with the interested states to confront CAP moves. For example, Czech PM Andrej Babiš has a personal interest in the subsidies’ status-quo: according to *Politico*, he owns the country’s largest agro-holding *Agrofert*, which collected in 2017 about €14 million in subsidies. Concentration of farm’s holdings is great in the country: Czech farm association showed that top 2.6% of the largest farms acquire about 80% of the country’s arable land and breeding 70% of dairy cows. (24)

Nevertheless, small farmers want just and fair direct payment distribution with adequate management, as generally the family-style farming in Eastern Europe is mostly in danger. The choice is actually simple: either supporting small and medium farms or developing industrialised agro-business, though definitely small farms are more dynamic and better for protecting environment and for better employment. But at the end of the line, it is about the political choice in any country: which kind of agriculture to develop.

However, big-size farmers in the EU are furious over planned cuts: meanwhile, the EU’s idea is to stop “landlords”, agro-aristocrats and huge multinationals from getting additional subsidies from CAP. Additionally, the cuts in practice would allow the EU to cover holes in Union’s budget

after Brexit, and might end up delivering a painful blow to former Eastern bloc farms that used to be vast cooperatives in the not so long-ago-times. The Czech Republic, Slovakia and eastern regions of Germany stand to be particularly affected because they are nine times larger in size (an average, about 133 hectares per farm) than the EU average, which is about 16 ha. (25)

Land-based measures in Latvian agro-policy are pivotal to achieving the EU environmental and climate-related goals; farmers are the primary economic agents in delivering these important societal goals. In this context, the EU suggested re-evaluation of direct payments in order to ensure that a large portion of the EU's actively farmed areas is managed with environmentally-safe practices. Current area-based rural development payments (partly thanks to the CAP's organic farming) expanded significantly, to cover 6% of EU agro-land in 2015 compared to 2% five years earlier.

The Union's *REFIT Platform* focuses on additional control over current eco-farms' measures with control and audit system. Though there is a need to reduce CAP's regulatory burden, there is a need to "improve value for agro-support", while ensuring the achievement of CAP objectives and increase agro-sectors' integration with other policy areas. (26)

The EU's future agro-support through CAP is going to be smaller by about €60 billion a year. In response to cost-cutting measures, Latvian largest farmers would get "a ceiling" on hectare-support (though there is threat that this measure could affect some poorer big farms as well). Long-standing complaints from Eastern farmers about more generous pay-outs to their Western farmers (sometimes 3–5 times more than in the West) are just fueling Eastern bitterness. For example, the Czechs are initiated campaign to end Western food producers from selling "inferior quality" foods in the East. The comparison with Czechs' neighbors in Germany is not encouraging: e.g. an agro cooperative in Thuringia collected about a billion euros in direct payments in 2016; another in Brandenburg (near Polish border, growing potatoes and other vegetables on 4.3 thousand ha) managed to collect about €700 thousand. (27)

As soon as agriculture is in the EU-member states "shared competence", greater subsidiarity (that is decision-making being closer to farmers) would make it possible to better take into account local conditions and needs, against such objectives and targets. In this way, Latvian agro-policy is in charge of tailoring CAP interventions to maximise their contribution to reaching EU objectives. While maintaining current governance structures – that must continue to ensure an effective monitoring and enforcement of the attainment of all policy objectives – Latvian government would also have a greater say in designing the compliance and control framework applicable to beneficiaries (including controls and penalties).

European CAP is focusing mostly on the EU objectives while Latvian agro-policy would address national/regional specifics. In line with this logic, the Commission's budget is focused on results:

that a future agro-system should be more result-driven, boost subsidiarity and give states a much greater role in rolling out CAP schemes, while reducing the EU-related administrative burden for beneficiaries. In such a context simplified cost options and modern technologies offer better opportunities for reducing administrative burden; both farmers and citizens should benefit from such approach. (28)

Present structure of European agro-sector shows options for possible changes: farm sizes on average in the Baltic Sea region (BSR) per holding are extremely diverse (see

**FARM SIZES IN SOME BSR STATES,  
AVERAGE UTILISED AGRO-AREAS PER  
HOLDING, IN HA**

Denmark – 67.5	Latvia – 23.0
Germany – 58.6	Lithuania – 16.7
Estonia – 49.9	Poland – 10.1
Sweden – 45.2	EU's average – 16.1
Finland – 42.0	

Smallest: in Malta – 1.2 ha, Cyprus – 3.1 ha and Romania – 3.6 ha. (29)



Table below). Thus, Latvian average utilised agro-areas per holding are much smaller than, e.g. in Denmark, Germany or even in Estonia.

Recently, Latvian agro-sector has shown good growth: thus just during seven years (2007–2013), agro-output increased from €600 million to about €1 billion, while labour force in the sector reduced from 105 thousand to 82 thousand; livestock remained the same at about 490 thousand. In two other Baltic States, agro-output was growing too: from €491 to €676 million in Estonia and from €1.3 to €1.9 billion in Lithuania.

However, farmers' income in the Baltic States has been far lower than in the EU's average: thus, in Latvia and Lithuania it was at the level of €3–4 thousand (EU's average is about €17 thousand) with highest in Nordic countries at the level of €30 thousand. CAP financial support in Latvia covers three fourths of farmers' income while in Lithuania – about one third and is “fifty-fifty” in Estonia.

The EU agro-sector now competes at global market prices; however it managed to lead in terms of food product diversity and quality while achieving the world's highest agro-food exports (it has been worth €131 billion in 2016). (30)

During recent years (between November 2016 and November 2017), the value of EU agro-food exports increased by €1 billion to €12.7 billion; with EU monthly agro-food imports of around €10 billion, the monthly trade balance in agro-food products remains around €2.7 billion.

Wine has seen the highest year-on-year export growth at the end of 2017, increasing by €125 million; sugar exports grew by €79 million compared to the end of 2016 while exports of spirits and liqueurs rose by €71 million.

In contrast, EU wheat and other cereal exports experienced the biggest drop over the year, falling by 29% (or €1.7 billion) and 15% (or €0.3 billion) respectively; pork exports also saw a dramatic annual decline of 9% or €47 million. (31)

To this regard, the European message from CAP to Latvia is to continue coherent policy with the EU development policy guidelines, which recognises sustainable agriculture's vital role in developing countries while promoting agricultural markets, inclusive value chains, encouraging agro-industry and generating jobs. With good quality agro-food, Latvian farmers can participate in the Union's development policy, having additional financial support for farmers. For example, some Latvian farmers are selling all agro-produce to North African dealers. (32)

### 3.3.7. Sustainable and smart manufacturing issues for Latvia

As is known, the EU-2020 strategy suggests three main innovative ideas for Latvian industry-manufacturing growth: i.e. smart, sustainable and inclusive development (with fostering science, knowledge, innovation, education and the digital agenda). Innovations are going to drive the Latvian production/service transformation, bringing forward new business opportunities and fostering prosperity. In the situation of limited and finite financial resources a new culture of greater efficiency and innovation will require new technologies, processes and materials.

Moving towards a circular economy is a framework for Latvian future industrial/manufacturing transformation, an opportunity to rethink and redesign the future to address modern Latvian challenges: i.e. from the ways the natural resources are used to ways the manufacturing products are designed, through recycling and re-use towards a zero-economy waste.

In this regard, European Commission is stimulating and fostering trans-disciplinary research and innovation in the fields of manufacturing, design, architecture and construction, with a focus on a new culture of eco-design and innovation, towards smarter and sustainable manufacturing systems. These are inspiring ideas for Latvian researchers and manufacturers. (33)

Innovations are becoming fashionable in Latvia: a national prize for “Export & Innovation-2017” has won agro-cooperative *LatRaps*, which unites 948 farmers (established in 2000 with 12 farmers).

Some data on the cooperative are interesting: about 70% of farmers are having the turnover of up to €50 thousand (it does not seem much as about €400–500 shall be invested in each hectare); 2% of farmers are having more than €0.5 million a year; 21% of cooperative members' possess over 500 ha.

Latvian Financial Ministry's acknowledged that manufacturing sector was among most important sectors in national economy; about 13 per cent of workforce is involved in all sorts of manufacturing.

The EU funds have been constantly one of the support instruments in sectors' development; thus in the 2007–2013 financial planning period Latvia acquired about €4.5 billion. Out of this amount, €474 million or about 10 per cent were used for promoting business and innovations, while €200 million were used for financing production and development in the manufacturing sector.

The biggest co-financing to investment projects went to timber processing, engineering, chemical industry, metal processing and food products.

Totally, some 320 project have been completed in the manufacturing sector with about €460 million investment, including about €170 million from the EU funds.

In the present financial planning period (2014–2020), the EU's support for Latvia is €4.42 billion; out of which €314 million is being used for measures to increase SMEs competitiveness in Europe and the world. (34)

## Resume

*Although national industrial policy is Latvia's sole competence of the member states (which means that the EU institutions have only supplementing, supporting and coordinating competence in Latvia' industrial development), industrial part of national growth is influenced by the Union. Important thing is that industrial sector in Latvia is to provide at least 20 per cent in national GDP. However, in the European context industrial production includes so-called second-level of production, which is often called manufacturing.*

*Besides, the EU's coordinating efforts include the Union-wide industrial policy, which consists of the whole spectrum of socio-economic issues, combining the Union's internal market (with its all "basis free movements, i.e. goods, services, workers and capital) as well as Latvian entrepreneurship and SMEs activity.*

*In all the present Latvian "burning" economic, environmental, social, technological, industrial and political issues the agricultural sector is still having a vital role for Latvian growth. Main objectives of the new CAP policy (such as fostering smart and resilient agricultural sector; bolstering environmental care and strengthening the socio-economic fabric of rural areas) are becoming the integral part of a Latvian agro-policy.*

*In order to fulfill the CAP objectives, Latvian agricultural sector and rural areas will need to be better linked to human capital development and research, while supporting and stepping-up all sorts of innovation.*

*Support for knowledge, innovation and technology will be crucial to future-proofed Latvian agro-sector: schemes that aim at enhancing economic, social or environmental performance shall be linked to the government actions in providing knowledge, advice, skills and innovation. A good example in this regard is an award of the Latvian national prize for "Export & Innovation-2017" to an agro-cooperative LatRaps.*

## Notes and references

1. References from: <http://manufuture2017.eu/wp-content/uploads/2017/10/pdf-Maurizio-Gattiglio.pdf>
2. See more in "EUROPA – Research and Innovation: Past Events", part of the European Commission's Research website: <http://ec.europa.eu/research/rss/events-past.xml>
3. References and citations from the largest revenue impact company "MarketsandMarkets". in <https://www.marketsandmarkets.com/>

4. More about EFFRA projects in: <https://portal.effra.eu/projects>
5. Source: <http://manufacture2017.eu/wp-content/uploads/2017/10/pdf-Pedro-J.-Arrazola.pdf>
6. Source: <https://www.themanufacturer.com/articles/>
7. About learning environment in manufacturing. In: [https://link.springer.com/referenceworkentry/10.1007/978-3-642-35950-7\\_16828-1](https://link.springer.com/referenceworkentry/10.1007/978-3-642-35950-7_16828-1)
8. More in: [http://ec.europa.eu/epsc/publications/strategic-notes/future-work\\_en#h-5-5](http://ec.europa.eu/epsc/publications/strategic-notes/future-work_en#h-5-5)
9. Note: Some remarks on the EU's industrial strategy: the main coordinating and supporting Union body is the European Commission directorate (DG), responsible for industrial development policy, SMEs and business activity in the member states called DG GROW; its activity covers internal market, industry, entrepreneurship and SMEs. See more in: [https://ec.europa.eu/info/departments/internal-market-industry-entrepreneurship-and-smes\\_en](https://ec.europa.eu/info/departments/internal-market-industry-entrepreneurship-and-smes_en) DG GROW's responsibilities were previously covered by the Directorate-General for Internal Market (DG MARKT) and the Directorate-General for Enterprise and Industry (DG ENTR).
10. More in: [https://ec.europa.eu/commission/commissioners/2014-2019/bienkowska\\_en](https://ec.europa.eu/commission/commissioners/2014-2019/bienkowska_en)
11. More information in: Council conclusions on a future industrial policy strategy (press release, 29/05/2017); Competitiveness check-up (background information).
12. References to: Horizon 2020 (European Commission), and Report on maximising the impact of EU research and innovation (European Commission).
13. References to: European Council conclusions, 19/10/17; Upgrading the Single Market: more opportunities for people and businesses (European Commission). More in: <http://www.consilium.europa.eu/en/policies/deeper-single-market/>
14. Source: European Commission: <http://www.consilium.europa.eu/en/policies/deeper-single-market/>
15. References to: Deeper and fairer single market: factsheet (European Commission); Directive on services in the internal market (Official Journal of the EU).
16. Source: Meeting of the Competitiveness Council, 20/02/2017. In: <http://www.consilium.europa.eu/en/meetings/compet/2017/02/20/>
17. Reference: [http://europa.eu/rapid/press-release\\_IP-17-4841\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-4841_en.htm?locale=en)
18. EU actions in "smart villages" actions. In: [https://ec.europa.eu/agriculture/sites/agriculture/files/rural-development-2014-2020/looking-ahead/rur-dev-small-villages\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/rural-development-2014-2020/looking-ahead/rur-dev-small-villages_en.pdf)  
Note: "Smart Villages" as a new concept in the EU policy-making refers to traditional and new networks and services enhanced by means of digital, ICT, innovations and better use of knowledge for rural farmers and businesses. Digitalisation may support quality of life, increase standard of living and public services, better use of resources and new opportunities for rural value chains in production and manufacturing This concept does not propose a one-size-fits-all solution: it is territorially sensitive, based on the needs and potentials of the respective territory, supported by new or existing territorial strategies.
19. More information in: Communication ([http://europa.eu/rapid/press-release\\_MEMO-17-4842\\_en.htm?locale=en](http://europa.eu/rapid/press-release_MEMO-17-4842_en.htm?locale=en)); see more in the Commission press release "The future of food and farming", Brussels, 29.xi.2017. In: [http://europa.eu/rapid/press-release\\_IP-17-4841\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-4841_en.htm?locale=en); Latvian version. In: [http://europa.eu/rapid/press-release\\_IP-17-4841\\_lv.htm](http://europa.eu/rapid/press-release_IP-17-4841_lv.htm)
20. Source: Enterprise Europe Network, in: <http://een.ec.europa.eu/>
21. Reference: Commission website "Support for business". In: <http://een.ec.europa.eu/content/support-business-innovation>
22. Source: [https://ec.europa.eu/agriculture/sites/agriculture/files/future-of-cap/future\\_of\\_food\\_and\\_farming\\_communication\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/future-of-cap/future_of_food_and_farming_communication_en.pdf)
23. CAP in your country website: [https://ec.europa.eu/agriculture/sites/agriculture/files/cap-in-your-country/pdf/fr\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/cap-in-your-country/pdf/fr_en.pdf)  
Note: Some earlier "cup-cut" versions suggested a cap between € 60–100 thousand a year. For example, farmers in the Czech Republic receive now about €1.2 billion a year in subsidies; the amount would decrease by about 30–43% depending on the size of the cap.
24. References: "Central-Europe's big farms cry foul over EU cuts", by Emmet Livingstone, Simon Marks and Emily Schultheis. 24 January 2018, – Politico, European edition. In: <https://www.politico.eu/article/>
25. EU farm structure statistics. In: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Farm\\_structure\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Farm_structure_statistics)
26. Source: REFIT platform opinions on "Cross Compliance", "Greening", "Overlaps between pillar I and II", "Control and Audit", "Rural Development support" and "EU legislation on the Farm subsidies reform". In: [https://ec.europa.eu/info/law/law-making-process/overview-law-making-process/evaluating-and-improving-existing-laws/reducing-burdens-and-simplifying-law/refit-platform/refit-platform-recommendations\\_en](https://ec.europa.eu/info/law/law-making-process/overview-law-making-process/evaluating-and-improving-existing-laws/reducing-burdens-and-simplifying-law/refit-platform/refit-platform-recommendations_en)
27. Reference to: <https://www.agrar-fischerei-zahlungen.de/Suche>
28. See more in: [https://ec.europa.eu/agriculture/sites/agriculture/files/future-of-cap/future\\_of\\_food\\_and\\_farming\\_communication\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/future-of-cap/future_of_food_and_farming_communication_en.pdf)

29. Source: [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Output,\\_labour\\_force\\_and\\_livestock,\\_2007%E2%80%9313\\_YB16.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Output,_labour_force_and_livestock,_2007%E2%80%9313_YB16.png)
30. On EU trade data: [https://ec.europa.eu/agriculture/trade-analysis/statistics\\_en](https://ec.europa.eu/agriculture/trade-analysis/statistics_en)
31. Source: [https://ec.europa.eu/info/news/impressive-increase-eu-agri-food-exports\\_en](https://ec.europa.eu/info/news/impressive-increase-eu-agri-food-exports_en)
32. See: New European Consensus on Development signed on 07/06/2017, and [https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626\\_en.pdf](https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626_en.pdf)
33. On Commission's ideas in sustainable smart manufacturing: <http://ec.europa.eu/research/index.cfm?pg=events&eventcode=BE1A41EA-0D00-398D-8B43493BBB36BD48&period=2016>
34. Source: [http://www.baltic-course.com/eng/markets\\_and\\_companies/?doc=139531&ins\\_print](http://www.baltic-course.com/eng/markets_and_companies/?doc=139531&ins_print)

### 3.4. Next generation of digital society and new skills

*With the right skills, people are equipped for good-quality jobs and can fulfill their potential as confident and active citizens. In a fast-changing global economy, skills will to a great extent determine competitiveness and the capacity to drive innovation. These factors serve as a “pull factor” for investment and a catalyst in the virtuous circle of job creation and growth.*

*The new generation of digital society in Latvia is a vital component in the general growth strategy and in social cohesion.*

*That means that national education policy and higher education institutions in Latvia need to ensure that they equip graduates with relevant and up-to-date skills.*

#### 3.4.1. Introduction

Skills gaps and mismatches are striking in all European states and in Latvia as well. The term “skills” is used broadly to refer to what a person knows, understands and can do. Many people work in jobs that do not match their talents. At the same time, 40% of European employers have difficulty finding people with the skills they need to grow and innovate. Education providers on the one hand and employers and learners on the other have different perceptions of how well prepared graduates are for the labour market. Too few people have the entrepreneurial mindsets and skills needed to set up their own business. Besides, more than half of the 12 million long-term unemployed in the EU are considered as low-skilled; even more have poor numeracy and digital skills, which puts them at risk of unemployment, poverty and social exclusion.

The quality and the relevance of what people learn are now centre-stage. Many young people leave education and training without being sufficiently prepared to enter the labour market and without the skills or mindset to start their own business.

However, acquiring skills is a lifelong process, both formal and informal, and it is better that the process starts very young. The positive long-term effects of good quality early education are significant and well documented, laying the foundation for future ability and motivation to learn.

Beyond looking for the right occupation-specific skills, employers are increasingly demanding *transferable skills*, such as the ability to work in a team, creative thinking and problem solving. This skills mix is also essential for people considering starting their own business.

Yet too little emphasis is usually placed on such skills as writing a syllabus, an analytical paper and/or own CV; these essential skills are rarely assessed in many EU states. Interdisciplinary profiles – people with the ability to combine work across different fields – are increasingly valued by employers, but they are in short supply on the labour market. (1)

OECD states make adequate efforts to the digital agenda too: thus, OECD Forum 2018 discussed the impact of digitalisation and artificial intelligence, big data and the Internet of Things which are rapidly changing all facets of our societies and economies.

The heightened pace and scale of the digital transformation is causing uncertainty, and a clear framework approach is needed to make sure this transition can help build more innovative and inclusive economies and prepare all sectors of society for these changes. The OECD estimates that about 14% of jobs in OECD countries are highly automatable, while another 32% of jobs could face substantial change in how they are carried out. Social dialogue is an important tool to help governments face these profound changes, but many consider it needs to be strengthened and redesigned. We need to broaden the scope beyond wage bargaining to also include skills development, working conditions and upgrading social-protection systems to take into account the rise of irregular employment relationships and non-standard work. (2)

### 3.4.2. Challenges and problems

National and regional labour markets (as well as states' education and training systems) encounter specific challenges. However, all EU states face similar problems, such as:

- Skill acquisition and development are essential for the performance and modernisation of labour markets in order to provide new forms of flexibility and security for job seekers, employees, and employers alike.
- Skills mismatches hinder productivity and growth and affect the EU states' resilience to economic shocks.
- The digital transformation of the economy is re-shaping the way people work and do business. New ways of working are affecting the types of skills needed, including innovation and entrepreneurship. Many sectors are undergoing rapid technological change and digital skills are needed for all jobs, from the simplest to the most complex. High skills enable people to adapt to unforeseen changes. Similarly, the transition to a low carbon and circular economy means creating and adapting to business models and job profiles.
- The EU workforce is ageing and shrinking, leading to skills shortages in some cases. To compensate for this it is necessary to increase labour market participation and productivity. Women represent 60% of new graduates, but their employment rate remains below that of men and women and men tend to work in different sectors. Inclusive labour markets should draw on the skills and talents of all, including the low-skilled and other vulnerable groups. In the global race for talent, we need to nurture our skilled workers, reduce brain drain, while facilitating mobility of EU citizens, attracting talent from abroad and making better use of migrants' skills.
- The quality and relevance of the education and training available, including teaching standards, vary widely. This contributes to increasing disparities in the economic and social performance of Member States, whereas stronger education and skills policies are key to shape innovation and could facilitate upward convergence towards the best performing countries.
- Perceptions are not always rooted in reality; for example, more awareness of the good employment outcomes of *vocational education and training* (VET) can make it a genuine first choice for more people. Similarly, increasing the attractiveness of the teaching profession would stimulate talented young people to pursue this career.
- People increasingly learn in settings outside formal education – online, at work, through professional courses, social activities or volunteering. These learning experiences can often go unrecognised.

Tackling the skills challenges will require significant policy efforts and systemic reforms in education and training. It will require smart investments in human capital from both public and private sources, in line with the European Stability and Growth Pact.

While competence for the content of teaching and the organisation of education and training systems lies with the EU member states, a European-wide coordinated efforts are required to achieve meaningful and sustainable results. The EU-wide education/teaching policy has already made important contributions in strengthening European skills base, e.g. through the European Semester, the EU-2020 Strategy with its vital educational targets, the Investment Plan for Europe, the strategic framework for cooperation in education and training “ET-2020”, as well as through the assistance of the European Structural and Investment Funds. The European Social Fund and the European Regional Development Fund alone is investing over €30 billion to support skills development during 2014–2020, and the Erasmus+ programme supports skills development in education and training in the member states with nearly €15 billion.

### **3.4.3. Towards “digital labour market”: skills in the digital society**

In mid-April 2018, the EU member states adopted the Commission’s proposal to revise the Europass framework. The revision, which aims at simplifying and modernising the Europass and other skills tools for the digital age, will enable people across the EU to make their skills and qualifications more visible, and will help policy makers to anticipate labour market needs and trends.

The European “New Skills Agenda” supports a shared commitment and works towards a common vision about the strategic importance of skills for sustaining jobs, growth and competitiveness. The EU’s “skills agenda” strengthens and, in some cases, streamlines existing initiatives to better assist EU states in their national reforms as well as to trigger a change of mindsets in both individuals and organisations. It seeks a shared commitment to reform in a number of areas where the EU actions can bring most added values in the member states.

The Europass agenda is centred on three main efforts:

- Improving the quality and relevance of skills formation;
- Making skills and qualifications more visible and comparable among the EU states, and
- Improving skills intelligence and information for better career choices.

The revised Europass arrangement consists of ten actions in the Skills Agenda for Europe. For over a decade, Europass has been a key tool to support better communication and understanding of skills and qualifications. It has served as a crucial bridge between the worlds of work and education and training. There are over 55 000 visits a day to the Europass portal and over 100 million downloads of the Europass since 2004. (3)

Europass has clearly demonstrated its added value as a vehicle to communicate skills across the EU, but it has to evolve in parallel to challenges and opportunities in the digital age.

The modernised Europass will offer an e-portfolio for storing and sharing information, tools for people to self-assess their skills and tools for describing formal and informal learning as well as qualifications. For the first time, Europass will also offer information to support career management including information on trends and demands in the labour market and on guidance and learning opportunities across Europe.

Now it is time for the member states to make their own steps towards implementation of the new Europass arrangements to ensure better tools and services for skills and qualifications for the citizens. (4)

The *Skills Agenda for Europe* was adopted by the Commission in June 2016; it consisted of 10 actions to make the right training, skills and support available to people in the EU states. The goals and actions on the Agenda are set out in the Commission’s Communication “A New Skills Agenda for Europe”. (5)

The Commission is continuing to take forward each of the 10 actions; it calls on all EU countries, employers’ associations, trade unions, industry and other interested parties to continue to work together to ensure that these initiatives produce the best possible outcomes.



#### 3.4.4. “Blueprint” for sectoral cooperation on skills

In January 2017, the Commission started discussions among the member states on the “Blueprint for Sectoral Cooperation on Skills” to improve skills intelligence and address skills shortages in specific economic sectors – automotive, defence, maritime technology, space and geo information, textile, leather clothing and footwear, tourism, etc. Six additional sectors were selected for a second round of implementation: additive manufacturing, construction, maritime shipping, paper-based value chain, renewable energy and green technologies, steel industry. (6)

Technological progress and globalisation offer tremendous opportunities for innovation, growth and jobs. These developments require skilled and adaptable people who are able to drive and support change.

The Blueprint is *a new framework for strategic cooperation* in a given economic sector among key actors, e.g. business, trade unions, research, education and training institutions, as well as public authorities. The Blueprint will stimulate investment and encourage a more strategic use of EU and national funding opportunities. The aim is to *support an overall sectoral strategy* and to *develop concrete actions* to address short and medium term skills needs.

All relevant EU and national qualitative evidence and quantitative data produced under the Blueprint will contribute to the “skills panorama” and the new Europass framework. (7)

Following the member states’ intentions, the Commission supports the work of selected *sectoral skills alliances at EU-level*. Such “partnerships” will develop a *sectoral skills strategy* to support the objectives of the overall growth strategy for a certain economy sector and match the demand and supply of existing (or needed) skills. Partners will look into how major trends (e.g. in global, societal, and technological developments), are likely to affect jobs and skills needs, as well as their potential impact on growth, competitiveness and employment in the sector (e.g. restructuring, hard-to-fill vacancies). They will then *identify priorities and milestones for action* and develop concrete solutions, such as creating and updating curricula and qualifications based on updated and new occupational profiles. (8)

Building on the results achieved at EU level, the Blueprint will be *progressively rolled out at national and regional level*, in cooperation with national and regional authorities, as well as keeping in mind relevant exploiting synergies with regional smart specialisation strategies.

The funding for Blueprint comes from a number of EU’s funding streams, including from Erasmus+. (9)

First five “blueprint alliances” started in January 2018 and included the following sectors: automotive industries, maritime technology sector, space and geo information; textile, clothing, leather and footwear industries; tourism. Some sectors are under Erasmus+ funding: additive manufacturing, construction, green technologies & renewable energy, maritime shipping, the paper-based value chain, and steel industry. (10)

#### 3.4.5. Boosting skills intelligence and cooperation in economic sectors

Current and future skills needs vary across different sectors of the economy. New sectors emerge or radically change, mainly but not exclusively driven by technological developments. The innovation-driven transition to a low carbon and circular economy (as well as *Key Enabling Technologies, KETs*) in e.g. nanotechnology, artificial intelligence and robotics) are already transforming an increasing number of economic sectors. The supply of right skills at the right time is key for enabling competitiveness and innovation. The availability of high-end skills is also a critical element for investment decisions. With the pace of technological change, a major challenge for industry, in particular SMEs, is to better anticipate and manage the transformative change with regard to skills requirements.

Many sectoral – and regional – initiatives to promote skills have been launched, involving public and private bodies and organisations. But these projects often remain fragmented and their impact on the education and training system is limited. This is why the mobilisation of industry, including social partners, is indispensable for the design and the implementation of solutions. A strategic approach is, therefore, needed that addresses well-defined markets and sectoral skills needs.

Sectoral skills partnerships, in industry and services, is first set up at the EU level and then rolled out to the member states' level and/or, when relevant, to regional level too. The “partnerships” are expected to “translate” sectoral strategies for the next 5–10 years into identification of skills needs and development of concrete solutions in the member states.

Examples of Partnerships are numerous: in business-education-research partnerships; in support of agreements on the recognition of sectoral qualifications and certifications, to name a few.

The Blueprint will be supported by existing EU funding in six initial sectors (preparatory work already started in 2016): *automotive, maritime technology, space, defence, textile and tourism sectors*. Additional areas (construction, steel, health, green technologies and renewable energies) have been assessed in a second wave of implementation during 2017. The selection of sectors includes high-end technologies with a view to ensuring long-term competitiveness as well as more traditional sectors facing specific short- to medium-term challenges.

#### **3.4.6. Work-based learning and business-education partnerships**

Work-based learning, such as apprenticeships are a proven springboard to good jobs and to developing labour market-relevant skills, including transversal and soft skills, where typically social partners play a key role in the member states' business strategies. More people should be able to benefit from this way of learning: presently, about a quarter of students in upper secondary vocational education attend work-based programmes, while general and higher education programmes rarely include any work-based experience.

Business-education partnerships, involving all sectors and levels of education and training, can unlock this potential. Some successful initiatives are showing the way, engaging labour market actors in education and training and helping young people get a foot on the jobs ladder. The European Alliance for Apprenticeships has so far mobilised 250 000 in-company training and job opportunities for young people.

Through the European Pact for Youth, one million young people will be trained in digital skills, and “smart classroom” programmes will reach 100 000 students. Through the EU's *Grand Coalition for Digital Jobs* companies and other organisations have offered millions of additional training opportunities. (11)

More learners should be able to get the benefit of a learning experience abroad. Data show that young people who study or train abroad find employment much more quickly than those without international experience. They adapt more quickly to new situations and are better problem solvers. Recently the EU adapted its legal framework for non-EU students and researchers, to make it easier to attract and retain these talented people. (12)

#### **3.4.7. Modernising higher education: towards adequate skills**

According to Commission's communication, by 2025 almost half of all job openings in the EU will require higher qualifications, usually awarded through academic and professional programmes at tertiary level. Skills developed through these programmes are generally considered to be drivers of productivity and innovation. Graduates have better chances of employment and higher earnings than people with only upper-secondary qualifications. Thus, “Agenda for the modernisation of Europe's higher education systems” shows that over two

thirds of students and recent graduates perceive a mismatch between the supply of graduates and the knowledge and skills the economy needs. (13)

However, only half of EU member states' higher education authorities share this assessment. It highlighted the need for higher education institutions to be active players at regional and national level, not only supplying qualified people to the labour market, but also promoting innovation.

Other important challenges identified by stakeholders include the impact of technology and globalisation on higher education, and the need to improve graduate learning and employment outcomes, to give prospective students better guidance and to encourage more multi-disciplinarity.

The Commission is also actively engaged in an in-depth dialogue with the states on how to best use the opportunities offered by existing funding programmes to meet the "modernisation agenda's" objectives. The main instruments in the funding are: the European Social Fund (ESF), the European Regional Development Fund (ERDF), the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF), the Asylum, Migration and Integration Fund (AMIF), Horizon 2020 and Erasmus+. The potential of the European Investment Bank, EIB and other financial organisations including the European Fund for Strategic Investments are used as well in order to boost private-sector investment in skills development.

### 3.4.8. Digital public service: e-governance

The EU's support measures in the area of "digital transformation", i.e. e-Government/Digital Public Administration aim to enhance the states' capacity to accelerate the digital transformation of public administrations by building on the expertise of more developed public administrations and institutions. It helps the states to better deliver on public administration modernisation efforts, by offering a responsive and high quality IT function. (14)

Using digital society's paradigm can be extremely helpful in implementing Latvian social economy's growth patterns. Latest European e-government benchmark Commission's report (end of 2017), showed significant improvement on cross-border availability of digital public services and accessibility of public websites from mobile devices in the EU states while also indicating a need for improvement in transparency of public services delivery and use of supporting technology like e-IDs and/or e-Documents.

Latvian progress in using computers in public services is quite impressive: the country ranks 8<sup>th</sup> in e-government performance, according to the EU's e-Government Benchmark-2017 analysis, which is higher than the EU average level. Latvian is among top-ten group of advanced countries in e-government score, together with Malta, Denmark, Sweden, Estonia, Norway, Austria, the Netherlands, Latvia, Lithuania and Portugal. Besides, Latvia is among top EU member states with the main public services online reach for citizens and businesses.

There are three parts of the European e-government Action Plan for 2016–2020:

- 1) Modernising public administration with ICT;
  - 2) Enabling cross-border mobility with digital public services;
  - 3) Facilitating digital interaction between administrations and citizens/businesses
- +) *Additionally: Key digital enablers & facilitators.* (15)

The EU recommendation for the member states' e-performance consists of four "benchmarks":

- 1) *User centricity*: showing how fast and easy public information and services are used online;
- 2) *Transparency*, which shows government authorities' operations, service delivery procedures and the level of control over personal data;
- 3) *Cross-border mobility*: showing the extent to which people can use public services outside their country; and
- 4) *Key enablers*, showing the availability of e-ID, e-Documents and other authentic sources in decision-making.

However, the availability of *key enablers* such as e-ID and e-Documents in cross-border services (measured for the first time in 2016) was quite low. On the adoption of the e-ID in cross-border service provision; 14% availability for citizens and 29% availability for businesses were registered in 2016.

Slightly more optimistic is the adoption of e-Documents in cross-border service provision, with 24% availability for citizen services and 43% availability for businesses.

It is also seen that Latvia, Denmark, Sweden, the Netherlands, Ireland and Austria have made excellent progress regarding cross-border service delivery.

In addition, it noted as an innovative e-government solution the testing of verification of a social networking profile by means of an e-ID card which was done in Latvia in 2015 during a campaign advertising e-opportunities. (16)

### **3.4.9. Other management instruments in Latvian narrative's implementation**

#### **3.4.9.1. Good governance and sound political decision-making (PAS)**

It has to be mentioned that paths to implementing circular economy (CE) patterns in the national growth strategies are difficult and complicated issues. Modern governments are facing increasingly complex and interconnected policy challenges, which need new approaches and solutions to address them. In the recent OECD analysis: e.g. 2016-Survey on Policy Advisory Systems, it was underlined that “a reliable and impartial knowledge” can support governments in optimal and perspective approaches to decision-making (DM).

The 2015 OECD Helsinki Public Governance Ministerial Meeting stressed the importance of “policy cycle” and various “diverse voices for inclusive policies” while emphasising “the value of accountability”. The complexities require governments to rethink the organisation and function of public administration striving to policy's DM based on collaborative approach. To deal with modern challenges, governments need the expertise views and information from wide spheres of knowledge. As to policy cycles, the role of policy advisers becomes an important issue, working as “knowledge brokers” for neutral advices to public institutions. (17 )

Another vital feature is *transparency in DM*, together with providing a certain level of control and guidance in the work of government bodies. Finally, inclusiveness is important, as DM should consider a wide range of both political perspectives and different socio-economic backgrounds.

Modern governments need a specific “policy advisory system, so-called, PAS”, which provides governments with scientifically based “policy cycles” starting with inception stages and up to final “ex-post” DM evaluation. Success factors in PAS include five key dimensions: adaptability, transparency, autonomy, inclusiveness and effectiveness.

Transparency and trust are crucial for optimal “connections” between the public and the governments' structures. However, levels of transparency differ across countries, depending on historic traditions and political culture, etc. In some countries there are long-standing traditions in public administration's openness; in others they are in formation process, still in others the openness is a regulatory process. The role of PAS is becoming even more important in Latvia in view of the need for increasingly complex inclusive advisory process with adequate attention to both political and socio-economic developmental directions.

Permanent PAS can be made up of committees/councils or as research institutes: they can be either independent managerial/legal entities and/or being attached to ministries. Their functions can range from providing evidence and evaluations to ensuring strategic overview.

Advisory bodies and PAS can help provide answers to questions for which the governments do not yet have answers. Besides, PAS can ensure for governments a kind of preparedness for the future in the form of policy choices, long-term economic planning and developmental strategies.

Inside the public service, the PAS in the form of special advisers and/or strategy unit; in those PAS “next to governments”, it could be inter-ministerial units, public think tanks, etc.; in the PAS external to governments there could be departments in universities, legislative committees, etc.

For example, Lithuania and Sweden have established over 50 bodies with advisory/research role in policy- and decision-making with duration of about a year; ad-hoc advisory bodies in Latvia exist for a period of 4 months-to two-three years. For example, a special Lithuanian Council for the affairs of disabled was established in 1992 to coordinate measures of social integration. (18)

**Swedish example:** there are more than 50 different commissions on a yearly basis; before the Swedish government submits a new draft to the Parliament (Riksdag), it examines various alternatives in establishing a commission of inquiry. The commission submits its proposal in the form of a report to government, which is published in the public open files (anyone can obtain a copy and submit comments), which is a tradition in Swedish public administration as the government often rely on advisory bodies’ opinion. (19)

However, it is necessary to keep a balance among PAS in a government work and prevent an overload of advice. PAS is important at an early stage of DM or in situations of quick response or new/rapidly evolving policy issues and areas, as well as in cross-sectoral issues, such as sustainability or circular economy. (20)

## Resume

*Acquiring right skills is a lifelong process, both formal and informal; it is better that the process starts at a very young age. The positive long-term effects of good quality early education are significant and well documented, laying the foundation for future ability and motivation to learn.*

*Beyond looking for the right occupation-specific skills, employers are increasingly demanding transferable skills, such as the ability to work in a team, creative thinking and problem solving. This skills mix is also essential for people considering starting their own business.*

*Developing “new skills” is a “shared” responsibility among the EU and the member states; thus, Latvian authorities, including the government and political elites, have to use available EU funding with adequately elaborated national “skills perspectives” corresponding to the national growth model.*

## Notes and references

1. More on Communication from the Commission “A new skills agenda for Europe: working together to strengthen human capital, employability and competitiveness”. June 2016, in Com 2016/381, final. Reference to: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016DC0381&from=EN>
2. More on digital transformation in: [http://www.oecd.org/going-digital/ai/?utm\\_source=Adestra&utm\\_medium=email&utm\\_content=Read%20more%20on%20AI%20and%20the%20OECD&utm\\_campaign=OECD%20Forum%202018%204th%20Newsletter&utm\\_term=demo](http://www.oecd.org/going-digital/ai/?utm_source=Adestra&utm_medium=email&utm_content=Read%20more%20on%20AI%20and%20the%20OECD&utm_campaign=OECD%20Forum%202018%204th%20Newsletter&utm_term=demo)
3. Reference: <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=9087&furtherNews=yes>
4. Source: <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=9087&furtherNews=yes>. More on 10 actions in: <http://ec.europa.eu/social/main.jsp?langId=en&catId=1223>
5. Commission’s Communication. In: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016DC0381>
6. More on cooperation in: <http://ec.europa.eu/social/main.jsp?catId=1415&langId=en>. Note: the “blueprint” is part of the “new skills agenda” from 2016.
7. More in: <http://ec.europa.eu/social/main.jsp?catId=1415&langId=en>
8. More on “blueprint for sectoral cooperation on skills” in: <http://ec.europa.eu/social/main.jsp?catId=1415&langId=en>
9. Note: Calls for tenders are published regularly under the COSME programme in: [https://ec.europa.eu/growth/smes/cosme\\_en](https://ec.europa.eu/growth/smes/cosme_en)
10. More information about the call is available on the website of the Education, Audiovisual and Culture Executive Agency in: [https://eacea.ec.europa.eu/erasmus-plus/funding/sector-skills-alliances-2018-eaca052017\\_en](https://eacea.ec.europa.eu/erasmus-plus/funding/sector-skills-alliances-2018-eaca052017_en)
11. See more in: <http://www.linkedpolicies.eu/pledge>

12. Directive (EU) 2016/801 on the conditions of entry and residence for the purposes of research, studies, training, voluntary service, pupil exchange schemes or educational projects and au pairing.
13. Citations from: Supporting growth and jobs – an agenda for the modernisation of Europe’s higher education systems; in COM (2011) 567 final.
14. More in: Communication on the “EU e-Government Action Plan 2016-2020: accelerating the digital transformation of government”, {COM (2016) 179 final}, in: <https://ec.europa.eu/digital-single-market/en/european-egovernment-action-plan-2016-2020>
15. Source: European Commission e-Government Benchmark 2017 Report: “Taking stock of user-centric design and delivery of digital public services in Europe”, 2017. – 190 pp. In: <https://ec.europa.eu/digital-single-market/en/news/new-study-egovernment-services-europe-improving-cross-border-availability-services>
16. Source: publication in: <http://www.baltic-course.com/eng/analytics/?doc=135505>
17. More in: <http://dx.doi.org/10.1787/9789264268104-en>
18. Additional information in: [www.ndt.lt/en/about-us/](http://www.ndt.lt/en/about-us/)
19. Source: OECD Survey on policy advisory system in: [www.rigsdagen.se/en/how-the-rigsdag-works](http://www.rigsdagen.se/en/how-the-rigsdag-works)
20. Reference: OECD Report “Supporting good governance and sound public decision-making”, in: <http://dx.doi.org/10.1787/9789264283664-en>. It provides a comparative overview and analysis of the important role played by advisory bodies in public policy decision-making.

### 3.5. Modern European education policy: effect for Latvia

*The European Commission urges EU member states to do more both in modernising the national system for education and training and in overcoming inequalities in education systems. Education has a special role in building a fairer society by offering equal chances to everybody. Therefore, the Commission supports the EU states’ measures in their education systems to deliver on the key EU targets in reforming and modernising education, with more efforts to achieve equality in education.*

#### 3.5.1. Introduction: the EU supplementing educational instruments

Although the education sector is solely in the competence of the member states, the latter have to include in their national policies the EU recommendations concerning the European “educational union’s” aspects. The European dimension in education is described in EU strategic plan for 2016–2020. Among some important aspects are those related to the modernisation of education and its infrastructure in the member states, research and knowledge dissemination in the digital economy, integration of education, research and innovation, culture as a catalyst of innovation and contributor to jobs and growth, in particular through SMEs.

Besides, the states have to foster digital skills that allow citizens to exploit all the benefits of the e-society, use of ICT and open resources for teaching and learning, the innovations of the European Institute of Innovation and Technology in the area of ICT.

Additionally, the states have to promote the *modernisation of European education* with the mobility of individuals, the cooperation of institutions and policy-makers, through Erasmus+ and reinforcing the “*knowledge triangle*” between education, business and research. (1)

For the first time “education, vocational training, youth and sport” competences have been introduced in the EU Treaties in 2007 (with effect from 2010). Although there are only two articles in the EU basic law (Title XII, art. 165–166), they are important in understanding the essence of the “division of competences” between the EU and the states. For example, the Treaty says that “the Union shall contribute to the development of quality education by *encouraging cooperation* between member states and, if necessary, *by supporting and supplementing their action*, while *fully respecting the member states’ responsibility for the content of teaching and the organisation of education systems and their cultural and linguistic diversity.*” (art. 165, p. 1, TFEU; author’s italics, EE).



Among main EU's "supplement" activities there are the EU incentive measures (excluding harmonisation of laws and regulations in the member states) and recommendations; the latter are implemented through ordinary legislative procedure, in "cooperative consultations" with the EU consultancy bodies, Economic and Social Committee and Committee of the Regions.

The UN Sustainable Development Goals (in effect from 2016) have already made some projections for the global community concerning quality aspects in teaching (see book's Part I). However, teaching aspects are only part – though an important one – in formulating and implementing a rational and future-oriented education policy in any state and in Latvia as well.

European Commission's account on education and training policy's implementation in the EU member states (according to the 2017 monitor edition) shows that national education systems are becoming more inclusive and effective. Yet it also confirms that students' educational attainment largely depends on their socio-economic backgrounds.

The Commissioner for Education underlined that inequality still deprives too many Europeans of the chance to get modern education: inequality was also a threat to social cohesion, to long-term economic growth and to prosperity. Still too often, the states' education systems perpetuated inequality: generally, the states do not cater for people from poorer backgrounds; in such cases parents' social status determine educational achievements and poverty diminish opportunities on the job market.

The member states have to do more to overcome these inequalities as education systems have a special role to play in building a fairer society by offering equal chances to everybody.

### **3.5.2. The EU education policy: legal and management aspects**

According to the Treaty, in the areas of education, culture, youth and sport, the competence rests with the member states. The EU can assist the states in the following ways: by supporting them in modernisation efforts, through the fostering of policy cooperation, through the open method of coordination and by maximising the impact of its financial instruments.

The EU action are aimed, in particular, at developing the *European dimension in education*, i.e. at encouraging mobility and distance education, promoting cooperation between educational establishments, developing exchanges of information and experience on education systems among the states, at stimulating researchers' training and mobility (art. 165, 166 and 180 TFEU).

EU's educational cooperation involves science and research issues too: the EU is strengthening the states' scientific and technological bases by achieving a *European research area* in which researchers, scientific knowledge and technology circulate freely, and encouraging it to become more competitive, including in its industry, while promoting all the research activities deemed necessary (art 179 TFEU).

Finally, the EU will promote greater awareness of a *European heritage* and of the *diversity of cultures* in Europe and worldwide, throughout intercultural dialogue and supporting transnational mobility of artists/cultural professional and of their works (art. 167 TFEU).

There are two main facilities in the EU educational management: direct and indirect; *direct management* proceeds through two EU executive agencies: the Education Audiovisual and Culture Executive Agency (EACEA) and the Research Executive Agency (REA), mainly for those parts of programmes where projects are allocated across Europe based on excellence (about 42% of the overall EU education budget).

*Indirect management* goes through the member states national agencies (NAs) appointed and supervised by the national authorities of the participating countries to the Erasmus+ programme. This implementation mode is mainly used for mass mobility actions, partnerships, and certain cooperation projects. The actions implemented through NAs represent a stable share of about 45% of the overall EU's education/culture budget. (2)

EU's controlling functions in education are broad as well: thus, the Commission *directly controls* all EU funded projects (e.g. individual mobility grants, institutional partnerships, web platforms, European Capitals of culture, sport networks, etc.) and guaranteed loans (e.g. Erasmus+ Student Loans or Cultural and Creative Sectors Guarantee Facilities, which address sub-optimal investment situations). Besides, the Commission exerts control over the supported activities' dissemination effect, e.g. concerning EU funded education materials for knowledge and innovation communities, cultural prizes, etc. More widely in controls spill-over effect on behaviours of individuals or organisations through non EU-funded similar activities, such as general mobility, youth volunteering, cultural exchanges, etc.

The EU's "controlling effect" extends to areas where the EU can have a *progressive influence* on the priorities and working methods of the member states' authorities, e.g. through Open Method of Coordination, Country Specific Recommendations, dissemination of best practices, Education and Training Monitor and benchmarks, European Institute of Innovation and Technology's (EIT), Knowledge and Innovation Communities (KICs), etc.

Education and culture is included into the EU multi-annual budget under the section "Cohesion, economic growth and employment"; total funding of about €46 billion is roughly divided into "convergence" (about 37 billion) and regional competitiveness and employment (8.5 billion).

EU budget spheres of *cohesion, growth, employment and competitiveness* occupy about 44% of the whole EU budget. (3)

Since 2016, *Erasmus+* has become a EU programme to help the states to modernise and improve their education and training systems, as well as reinforcing their role as drivers for social cohesion. The programme offers participants, in particular young people, increased opportunities to participate actively in society, promoting tolerance in order to *reinforce social cohesion in the EU*. (4)

### 3.5.3. Social aspects in education

Educational attainment is important in determining social outcomes. People with only basic education are almost three times more likely to live in poverty or social exclusion than those with tertiary education.

Presently in the EU (according to the European Monitor-2017) *only 44% of young people* aged 18–24 who had finished school at lower secondary level are employed. In the general population aged between 15 and 64, the unemployment rate is also much higher for those with only basic education than for those with tertiary education (16.6% vs. 5.1%).

At the same time, socio-economic status determines how well pupils do: as many as 33.8% of pupils from the most disadvantaged socio-economic backgrounds are low achievers, compared to only 7.6% of their most privileged peers.

One of the EU's targets for 2020 is to reduce the share of 15-year-old pupils who underachieve in basic reading, maths and science to 15%. However, as a whole, the EU is actually moving further away from this objective, particularly in science, where the number of low achievers increased *from 16% in 2012 to 20.6% in 2015*.

People born outside the EU are particularly vulnerable. This group is often exposed to multiple risks and disadvantages, such as having poor or low skilled parents, not speaking the local language at home, having access to fewer cultural resources and suffering from isolation and poor social networks in the country of immigration. Young people with a migrant background are at a greater risk of performing badly at school and leaving school prematurely. In 2016, as many as 33.9% of people aged 30–34 living in the EU but born outside it were low skilled (having achieved lower secondary education or below), compared to only 14.8% of their peers born in the EU.

Among the EU states, investment in education has recovered from the financial crisis and increased slightly (1% year-on-year in real terms); about two-thirds of the EU states recorded a rise and four countries increased investment by more than 5%.

In November 2017, the EU leaders discuss “education and culture” issues as part of the general European project on “*Building our future together*”; discussions showed numerous political aspects and need for serious changes through modern education reforms in the states.

The EU organised the first ever EU Education Summit (January 2018) with high-level representatives from the EU states to discuss the ways of making national education systems more inclusive and effective.

### **3.5.4. Main European long-term education and training targets**

The Commission shows how the EU’s member states’ education and training systems are evolving presently. The “reforming measures” according to the EU’s plan are aimed at six education and training targets for 2020:

- 1) The share of early leavers (aged 18–24) from education and training should be less than 10%;
- 2) The share of 30 to 34 year-olds with tertiary educational attainment should be at least 40%;
- 3) At least 95% of children between the age of four and the age for starting primary education should participate in education;
- 4) The share of 15 year-olds with underachievement in reading, mathematics and science should be less than 15%;
- 5) At least 82% of recent graduates from upper secondary to tertiary education (aged 20–34) who are no longer in education or training should be in employment, and
- 6) At least 15% of adults (aged 25–64) should participate in formal or non-formal learning.

There are several EU institutions assisting the member states in stimulating investment and in supporting policy priorities in education: the Investment Plan for Europe, the Erasmus+ programme, the European Structural and Investment Funds (including the Youth Employment Initiative), the European Solidarity Corps, the EU Horizon 2020 programme and the European Institute of Innovation and Technology. (5)

### **3.5.5. Education as an important political-economy sector**

European Commission has formulated its vision on creating a European Education Area by 2025. In the debate on the future of Europe, the Commission is concentrating efforts on collective steps to overcome the forthcoming challenges and making the EU more resilient to possible risks. Increasing educational potentials as drivers for jobs and growth are in the common interests of all EU states.

It has to be mentioned that the primary responsibility for education and culture policies lies with the member states; the Union’s institution are having only supporting and coordinating competence to enhance education at national, regional and local levels. However, the EU institutions are playing important roles, particularly in cross-border activities. For instance, after 30 years in operation, the Erasmus programme (Erasmus+ since 2014) has enabled 9 million people to study, train, teach, or volunteer in another country.

Over the past decade, the EU has also developed a series of “soft policy” tools to help EU states in the design of national education policies: since 2000, the EU states have been cooperating under the “Framework for European cooperation in education and training”, which set common objectives and benchmarks.

In 2010, the EU set two additional education targets within the EU-2020 Strategy: a) early school leaving has been reduced from 13.9% in 2010 to 10.7% in 2016, with the target to reach

10% by 2020. And b) tertiary educational attainment is up to 39.1% in 2016 from 34% in 2010, with the target of 40% by 2020.

To steer the Union's educational reform and to stimulate discussion about European future, President Juncker proposed in his State of the Union Address in September 2017 a *Roadmap for a More United, Stronger and More Democratic Union*. Thus, the Commission's ideas on the EU's education area (EEA) are intended as a contribution to the member states' efforts, as the Commission believes that it is in the common interest of all the EU states to harness the full potential of education and culture as drivers for job creation, economic growth and social fairness as well as a means to experience European identity in all its diversities.

All this is making an education sector in Latvia as an important part of political economy; in particular knowing the EU targets in this field (see below).

For example, the Commission Vice-President, on the occasion of the EEA underlined that one of European greatest achievements had been the creation of an area of free movement for workers and citizens. But, there are still obstacles to mobility in the area of education: thus, by 2025 the EU shall create an area in which learning, studying and doing research would not be hampered by borders: studying in another EU state shall be the norm.

Commissioner for Education argued that for EU's future a shared agenda for culture and learning should serve as a driver for unity. In this sense, education becomes a key, as education equips people with skills necessary to be active members of increasingly complex societies. It is education, he argued, that helps people adapt to a rapidly changing world, to develop a European identity, to understand other cultures and to gain the new skills needed in mobile, multicultural and increasingly digital society.

In March 2017, the EU leaders committed to creating a *“Union where young people receive the best education and training and can study and find jobs across the continent”*. The Commission believes that education and culture can be an important part of the solution in tackling the challenges of an ageing workforce, continued digitalisation, future needs for skills, the need to promote critical thinking and media literacy in an era where “alternative facts” and disinformation can proliferate online, as well as the need to foster a greater sense of belonging in face of populism and xenophobia.

### **3.5.6. European Area of Education (EAE): main components**

According to the Commission's plan, the EEA shall include:

- *Making mobility a reality for all*: by building on the positive experiences of the Erasmus+ programme and the European Solidarity Corps and expanding participation in them as well as by creating an *EU Student Card* to offer a new user-friendly way to store information on a person's academic records;
- *The mutual recognition of diplomas*: by initiating a new ‘*Sorbonne process*’, building on the ‘*Bologna process*’, to prepare the ground for the mutual recognition of higher education and school leaving diplomas;
- *Greater cooperation on curricula development*: by making recommendations to ensure education systems impart all the knowledge, skills and competences that are deemed essential in modern world;
- *Improving language learning*: by setting a new benchmark for all young Europeans finishing upper secondary education to have a good knowledge of *two languages* in addition to their mother tongue(s) by 2025;
- *Promoting lifelong learning*: by seeking convergence and increasing the share of people engaging in learning throughout their lives with the aim of reaching 25% by 2025;

- *Mainstreaming innovation and digital skills in education*: by promoting innovative and digital training and preparing a new European *Digital Education Action Plan*;
- *Supporting teachers*: by multiplying the number of teachers participating in the Erasmus+ programme and eTwinning network and offering policy guidance on the professional development of teachers and school leaders;
- *Creating a network of European universities* so that world-class European universities can work seamlessly together across borders, as well supporting the establishment of a *School of European and Transnational Governance*;
- *Investing in education*: by using the European Semester to support structural reforms to improve education policy, using EU funding and EU investment instruments to fund education and setting a benchmark for EU states to *invest 5% of GDP in education*;
- *Preserving cultural heritage* and fostering a sense of a European identity and culture: by developing – using the momentum of the 2018 European Year of Cultural Heritage – a European Agenda for Culture and preparing a *Recommendation on common values, inclusive education and the European dimension of teaching*;
- Strengthening the European dimension of *Euronews*, the broadcast created in 1993 with an ambition of having a European channel offering access to independent, high quality information with a pan-European perspective. (6)

### 3.5.7. Administering EU's educational assistance

From the Commission side, there is a special executive agency for education and culture called *Education, Audiovisual and Culture Executive Agency* (EACEA), which manages some EU funding in the field of education.

The EACEA operates since January 2006 under the supervision of four parent Directorates-General:

- 1) Education and Culture (DG EAC);
- 2) Communications Networks, Content and Technology (DG CONNECT);
- 3) Migration and Home Affairs (DG HOME); and
- 4) Humanitarian Aid and Civil Protection (DG ECHO).

The Agency is responsible for most management aspects of the EU education policy, including assistance for the member states in, e.g. drawing up conditions and guidelines for funding opportunities; evaluating applications, selecting projects and signing project agreements; financial management; projects' monitoring (including intermediate and final reports, and controls); on-site project visits; dissemination and exploitation of projects' results and generally contributing to the European knowledge and expertise. (7)

In recent Commission's initiative to address the Union's future the EU's administrative resource concerning Union's and the member states' education policies was in fact supplementary and quite weak. Thus, in the set of questions concerning the "future of Europe", the issues of "improved education and training policies" (question 5), did not include any "guiding recommendations" from the EU 96 experts who formulated the futuristic European perspective in May 2018. The Commission just wanted to see the opinion of the member states' citizens. However, the issue of "fair and equal access to education for all across Europe" was included among the most important for the European future and in the first dialogue question (out of 12 total): "what decisions taken at the EU level would make you prouder of belonging to the Union?" It seems that after collecting EU peoples' opinion, the Commission would formulate new educational recommendations. (8)

### 3.5.8. Graduates in Latvia

Each year about 40 thousand Latvian citizens graduated from countries high schools and universities: for two years, i.e. 2017–2018 there were totally 81 602 graduates.

During 2017–2018 there have been 19 628 students to start their “basic education” (colleges, bachelors and other professional studies); in masters and high professional studies there were 7500. About 72% of students are in normal-stationary-day-time studies (or about 59 thousand) with about 57% whose enrolment is paid by the state.

Still the biggest universities in the country are: University of Latvia (LU with 15.5 thousand students), Riga Technical University (RTU with 14.7 thousand) and Riga Stradiņš University, RSU with about 8.5 thousand students. (9)

### Resume

*As soon as the education and training policy is within the member states' whole competences, this policy is becoming an important part of Latvia's political economy being a major “instrument” in delivering perspective growth and progress for the country. Following the EU's advises and recommendations, Latvia can make a national education strategy that would produce an added value to the country's efforts in delivering more jobs and new skills.*

### Notes and references

1. More on the EU strategic education plan adopted in 2016 in: [https://ec.europa.eu/info/sites/info/files/strategic-plan-2016-2020-dg-eac\\_march2016\\_en.pdf](https://ec.europa.eu/info/sites/info/files/strategic-plan-2016-2020-dg-eac_march2016_en.pdf)
2. Ibid. EU strategic education plan, page 8. In: [https://ec.europa.eu/info/sites/info/files/strategic-plan-2016-2020-dg-eac\\_march2016\\_en.pdf](https://ec.europa.eu/info/sites/info/files/strategic-plan-2016-2020-dg-eac_march2016_en.pdf)
3. More in “Connect with Europass”. In: <https://europass.cedefop.europa.eu/>
4. Citation from the EU Education Strategy 2016–20, p. 40.
5. Additional information on the EU's education reform in: Education & Training Monitor 2017; Reference: [http://europa.eu/rapid/press-release\\_IP-17-4261\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-4261_en.htm?locale=en); Latvian version: [http://europa.eu/rapid/press-release\\_IP-17-4261\\_lv.htm](http://europa.eu/rapid/press-release_IP-17-4261_lv.htm)
6. More information on the following web-sites:
  - Communication: A European Education area by 2025: fostering a European Identity through Education and Culture;
  - A series of Factsheets on strengthening European Identity through Education and Culture;
  - Strategic note by the European Political Strategy Centre (EPSC) on the 10 trends transforming education as we know it;
  - Commission's Education and Training Monitor 2017: key figures on where the education and training stand in the EU. See also: Commission press release “Future of Europe: towards European education area by 2025”, Strasbourg, 14 November 2017. In: [http://europa.eu/rapid/press-release\\_IP-17-4521\\_en.htm?locale=en](http://europa.eu/rapid/press-release_IP-17-4521_en.htm?locale=en)
7. More on EACEA in: [https://eacea.ec.europa.eu/about-eacea\\_en](https://eacea.ec.europa.eu/about-eacea_en)
8. See more on “consultations on the future of Europe in: <https://ec.europa.eu/consultation/runner/Future-of-Europe?surveylanguage=en>
9. See an article in “The Baltic Course” magazine. In: [http://www.baltic-course.com/rus/education/?doc=138871&ins\\_print](http://www.baltic-course.com/rus/education/?doc=138871&ins_print)



# CONCLUSION: ECONOMY AND POLICIES COMBINED FOR LATVIAN GROWTH STRATEGY

The main idea of the book is to describe both external and internal challenges in Latvian socio-economic developmental perspectives. However, the book is not only a fact-evidence manuscript: “between the lines” there are some vital questions that needed urgent answers. For example, what are Latvian aims and purpose in development; where does the country go to, or what is the government policy to make people happier? Such “eternal questions” do not need definite answers; probably, the answers are not that easy to calculate either. It is present and future generations, new politicians and economists shall find some answers; the author thinks that these answers are possible to find in the book. In this way, the book can be of a valuable assistance to all those wishing to know both the most urgent issues in the country’s political economy and possible ways concerning Latvian perspective development.

Important messages to Latvia from the European Union, among other things, have shown that Latvian development shall be planned: by 5, 10 and 15-years’ periods in line with the European strategic guidelines. The EU-2020 strategy shows three main directions in Latvian perspective growth patterns: *first*, future growth shall be based on knowledge and innovation (so-called smart growth”), *second*, the government has to stimulate high level of employment, modernise labour markets with due social protection and combat poverty (so-called inclusive and high employment growth); *third*, Latvian political economy shall “stay” on a competitive, resource efficient and sustainable economy, with a modernised industrial base (so-called “green growth”).

As soon as Latvian considerations about European integration are, generally, based on strict pragmatism, country’s own national prospective planning lacks a needed impetus. Being more active on the European scene, Latvia can find ways in more fruitful (and systematic) integrative efforts with positive effect for the strategic internal interests.

There are some exceptionally vital for Latvian economy recommendations stemming from the European political and economic guidance. They include, for example such development strategies’ sectors as national “measures towards constant improvements of peoples’ living and working conditions”, strengthening the unity of Latvian economy with other member states and ensuring their harmonious development by reducing existing differences among regions; as well as providing for citizens’ wide access to education with its constant updating.

Besides, Latvia has to be active in such modern development spheres as digital society, extensive innovations, energy security, etc.

Theoretical parts of the book stress attention to the changing role of state apparatus and other governing bodies in modern economic issues. The book shows that the most evident and progressive option is the so-called “regulated market economy” (where the state’s “instruments” can assist the SMEs activity), which generally increases national growth and wellbeing. This notion corresponds to the EU’s general direction in integration: creating a “social market economies” in the member states. Thus, social order becomes an important factor stimulating the general level of employment and quality of life.

Important for the Latvian “economic planning” are recommendations from the OECD experts: this is why Latvia joined the OECD. Numerous OECD reports are making independent but quite important recommendations for Latvian perspective growth strategies. For example, government budget’s priorities could be more specific, e.g. formulated around two main

directions: the *general*, which includes long-standing public-private efforts, like increasing productivity and reducing income gaps between high-earning and low-earning population groups, facilitating export diversification while concentrating on high-value-added activities, reducing long-run unemployment and emigration, which contributes to skill shortage, etc. As to the quality of life in Latvia, life expectancy at birth is 74 years, six years below the OECD average.

And *specific*, which focuses on some specific priorities, e.g. like making more attractive vocational training/education, reducing problems in health care system and housing market (as availability of affordable quality housing is low), increasing trust in public institutions and law enforcement. Besides, positive global growth development are sending good signs to Latvian companies; with sufficient help from government they can reap sufficient benefits from digital aspects in corporate activities.

Global community has made a valuable impetus in resolving these challenges by suggesting the UN sustainable development goals (SDGs), which have become since 2016 an integral part of all EU states and Latvian decision-making process as well.

Most of the problems that Latvia is presently facing can be resolved by implementing global and European suggestions (often in both recommendation- and legal-form) on choosing optimal and progressive growth paths. One of such “suggestions” stems from a set of the UN sustainable development goals (SDGs), another from the EU’s efforts to implement the UN-2030 Agenda.

The latter includes: a) making the SDGs as part of the European and member states’ policy framework, and b) to analyse a European longer term vision of the EU’s sectoral policies.

Latvian decision-makers shall analyse the new 17 Sustainable Development Goals and 169 associated targets in view of a balanced three dimensions of sustainable development, characterised by the interrelated environmental, economic and social actions. It means, for example, that environmental protection requirements and economic growth are not in conflict with each other, that new “clean technologies” assist to elevate country’s environment and ensures high quality of life in Latvia (Fuel cell buses in Riga is a good example).

European Consensus on Development (ECD) reflects a paradigm-shift in development cooperation under the 2030 Agenda, responding to the more complex and interconnected challenges the world and the member states are presently facing. The ECD shows a EU-states’ shared vision and framework for action for EU Institutions and the states, with particular emphasis on cross-cutting drivers of development, such as equality, youth initiatives, sustainable energy and climate action, investment, migration and mobility. The ECD is to increase the credibility, effectiveness and impact of EU development policy, based on shared analysis, common strategies, joint programming, joint action and improved reporting.

Latvian constitution formulates the country’s main aim: creating a *welfare society*. Welfare concept means that all people living in the country are having a fair share of created wealth, i.e. goods and services produced in the country. Therefore major economic growth strategy shall be oriented towards “maximising output” of public governance in increasing national GDP. In general that means compiling such national political economy’s structures that correspond to competitive in the world (so-called global value chains, GVCs) and in Europe productive forces. The new national growth strategy, i.e. a Latvian narrative, shall combine all perspective growth spheres into a single development strategy. Narrative formation needs comprehensive analysis of strategy’s “internal forces”, which consist mainly of political, economic and legislative “blocks”; just corresponding to the power balance in a modern states among legislative, executive and judicial branches.

In the narrative, both “external” factors (global and European challenges) and “internal” factors (political will and governance) play a decisive role in forming Latvian approaches to political economy. Besides, national political and economic potentials shall be used actively as well: e.g. through “green” and circular economy, active use of ICT, supporting progressive SMEs, etc. In this regard, challenges in labour market shall be considered, as well as the “next generation of internet” and other welfare issues, which can make national economy “immune-resistant” to any possible risks.

Latvian narrative is an initiative to design and connect Latvian public with the European values and concepts of integration, mobilising “Latvian spirit” towards more ambitious development goals. In order for the Latvian narrative to materialise, there shall be established a “social contract” among Latvian citizens coped with a strong social belief in contributing to Latvian “political agenda” in line with the EU’s narrative idea, which will pave the way to a well-functioning Latvian political economy. Then, the Latvian narrative shall be an evolving instance, which includes the national development directions, the EU political/economic guidance and challenges from the globalisation and the 4<sup>th</sup> industrial revolution. The European Union’s idea of smart specialisation (so-called 3S platform) for the member states makes it easier for the Latvian political economy to proceed along the already scientifically designed paths in progressive development. The role of politicians is to deliver these ideas to the general public see that the Latvian community is correctly implementing them.

The government and parliament have to stand by the Latvian citizens’ interests; they have “to echo” the people’s voice. Only Latvian people can truly describe the country’s future, that’s why the country’s leaders have to hear people’s intentions and desires.

That’s why the book describing some versions of Latvian future shall be taken seriously.

Massive tax cuts, deregulation, pro-growth energy policies and stronger trade practices would finally direct Latvian economy towards progressive growth and peoples’ wellbeing.

*Political aspects* in the narrative are composed of the following issues: first, formation of the strategic developmental aim and growth patterns, second, formulating “tactical steps”, i.e. political priorities for each growth period; third, properly informing the public on the government’s steps in order to get the general public support and inclusion into the national agenda.

Among most important outcomes, that can form politicians’ electoral/discussion platforms, the author suggests:

1. **Improving productivity**, i.e. increasing government funding for programmes with strong results; applying the same cost-benefit tests to large national projects as they are applied to EU-funded projects.
2. **In social spheres**: developing Latvian key service quality and performance indicators for health care providers at national, local and provider-level.
3. **In public health**: increasing Latvian public expenditures on health at least 10 per cent (presently it’s on the level of 4% of GDP). Thus, spending more on health is a matter of national politics and public choice, leading to better living conditions.
4. **In transport and spatial planning**, which represents an integrated politico-economic solution, transport-oriented development shall include land-use issues, provision of affordable housing support, with green and inclusive growth. The political decision shall be pro-active as cities with developed spatial urban structures (with incompatible transit system, as is in Rīga-region) would be very costly to adjust afterwards. OECD’s analysis shows that metropolitan areas that have proper urban governance can facilitate policy coordination for higher labour productivity and better quality of life.

5. In **Rīga metropolitan region** (which plays a special role in Latvian political economy and new narrative), the statistics show that the area constitute about one-sixth of the country's territory (which includes 30 municipalities out of 119 in the country), with about one million population (51% of the total) and GDP per capita exceeding €15 thousand (compared to about €11.5 thousand country-wide).

There is much to be done for the Latvian future by both political and economic elites. Thus, recent *Eurobarometer's* data (revealed by *Leta.lv*) showed that 58% the Latvian citizens valued the country's overall situation as "poor". Most skeptically Latvians evaluate the national economy: 70% consider it as "unsatisfactory" and only 25% as "good". At the same time, situation at the work place about 58% of respondents regarded as "stable" and only 23% as "negative". Households' financial position about 64% consider as "good" and 33% as "quite poor". Besides, 66% of Latvians are dissatisfied by the employment situation in Latvia; if there would be worthy alternative, and then 90% of them were ready to move to other country. (1)

As Latvia marks its centenary of independence in 2018, Latvian people are thinking about future improvements in national growth in general and in their well-being in particular. Latvian government, the Latvian Economy minister underlined in mid-January 2018 "must keep working to speed up economic growth in Latvia". (2)

Most important growth pattern in the Latvian narrative is about socio-economic factors. Revealing main Latvian political economy's principle makes it understand the basics of progressive national development aimed at:

- a) Creative human activity;
- b) Combined integrative solutions involving economic, environmental and social aspects in national narrative;
- c) Active public participation from all walks of society in national decision-making, and
- d) Creating an innovative, sustainable and efficient economy strategy.

Implementing these principles would contribute to positive balance in Latvian trade and increase competitive potentials in Europe and around the world.

The EU assistance for supporting the member states' competitive sectors is huge: thus during 2014–2020, the Commission would use about €16 billion to implement some innovative programmes: e.g. SMEs' competitiveness (so-called COSME program), with a budget of €2.3 billion to help enterprises access finances and markets, to promote entrepreneurship, and to support favourable conditions for business. Another EU programme is for research and innovation, so-called Horizon 2020 programme including innovations in SMEs. Latvian authorities can use these opportunities to facilitate national competitiveness.

Important aspect in the narrative is Latvian labour market's analysis: labour issues already present great concern for politicians: i.e. the appearance of a "new work-force generation", as an outcome of a wide-spread digital revolution and flexible employment agreements. Reforms in education shall involve evolutionary trends in the labour market.

Another issue is social standards and social rights: Commission's recent ideas of "social standard union" means that a new "union" would have certain consequences for Latvian social issues too. In the new system of labour relations protection for workers regardless of the type of jobs involved is vital. In the new "world of work system", all workers need to have access to social protection, whether they are employed with standard contracts, new types of contracts or self-employed. Hence, Latvia has to establish sustainable, adequate and fair social protection system.

Finally, important part of social issues in "internal challenges-I" is an introduction of happiness index in Latvian growth strategy. It is generally recognised that the GDP per capita index do

not reflect the real growth in a country: against so-called “tyranny of GDP”, the importance of “quality of growth” in national strategies is taken into account. Therefore, paying more attention to happiness should be part of Latvian efforts to achieve not only sustainable but socially adequate and happy growth. Decision-makers in Latvia have to deal with a vital issue: including happiness’ factors, in particular, income inequality, into national narrative and growth strategy. In this regard, the “life satisfaction” factor has to be the leading parameter in national plans followed by income issues, employment and partnership, physical and mental health.

Good signs are in the new Latvian tax reform in the outgoing year: as a result, general tax load has been reduced, especially for the small incomes’ recipients. Furthermore, a flat tax is introduced for all forms of income. In corporate income tax rates (CIT) two things are essential: the cancellation of the so-called advance payments and that the undistributed profit will not be subject to CIT. The former is supposed to help enterprises in critical time, while the latter is expected “to legalise” all financial transactions. Generally, experts argue, tax reform is a good step in right direction. However, some problems remain: the way the tax reform is being implemented and whether bureaucracy would be reduced. For the Latvian government it would be worthwhile to deliver reform’s plans in a clear and reasonable way to the public, argues experts; often contradictory and incoherent communication was the problem.

Latvian economy’s growth rates are having good increasing trends: export of goods and services provide essential stimulus of economic growth coped with the internal consumption; powerful external demand will contribute to export, according to Swedbank chief economist in Latvia. (3)

As soon as the book’s publication coincides with the parliamentary elections in the autumn-2018, some concluding remarks on Latvian election process during the last century. According to Latvian Constitution, “the sovereign power in the state belongs to the people of Latvia”. One of the ways the Latvian people can implement this power is through free and democratic elections.

Since the renewal of state independence in 1990, eight parliamentary elections took place: in 1993, 1995, 1998, 2002, 2006, 2010 and 2014; in 2011, an early parliamentary elections were held in Latvia. During this period seven municipal elections took place: in 1994, 1997, 2001, 2005, 2009, 2013 and 2017. Besides, during the years of regained independence, Latvian voters took part eight times on significant issues in national referendums.

In June 12, 2004, shortly after joining the European Union, for the first time in the EU Latvia European Parliament elections took place; afterwards the EP’s elections took place in 2009 and 2014.

Latvian electoral system underwent some transformations during the period of the renewed independence; during this time there has been a transition from plurality election system to proportional election system which was previously used during the period of the first Republic of Latvia in 1920s and 1930s. Multi-party system has stabilised in Latvia, legislation defining election administration process have been reestablished and improved. During this time some changes have occurred regarding most important issues of electoral process, i.e. election rights, procedure of submission and registration of candidate lists, rights and restrictions of candidates, the course of elections, calculation of results, formation of election commissions and procedure of appeal of decision of commissions, etc. Next regular *Saeima* (Parliament) elections are held on the first Saturday in October 2018. (4)

During the parliament elections to the 12<sup>th</sup> Saeima, held on 4 October 2014 the voters’ turnout was about 59% (out of about 912.5 thousand voters); six parties and parties’ associations managed to overcome the 5% threshold. (5)

Hence, in the present Latvian legislative branch there are six leading parties/alliances; the composition of the 12<sup>th</sup> Saeima (after the last elections in 2014) looks the following way: the Social Democratic Party “Harmony” – **24 seats**; the party “Unity” – **23 seats**; the Greens and Farmers Union – **21 seat**; the National Alliance “All For Latvia!” and “For Fatherland and Freedom/LNNK” – **17 seats**; the Regional Alliance of Latvia – **8 seats**, and “Latvia From the Heart” party – **7 seats**. (6)

However, according to latest LIAA data, seats’ allocation looks little different: Concord Centre (Social Democratic Party “Harmony Centre” (*Saskaņas centrs*)) – **23 seats**; Unity (*Vienotība*) – **20 seats**; Union of Greens and Farmers (*Green/agrarian and conservative political alliance Latvian Farmers’ Union (Latvijas Zemnieku Savienība, LZS)* and Latvian Green Party (*Latvijas Zaļā Partija, LZP*)) – **21 seats**; National Alliance “All For Latvia!” – “For Fatherland and Freedom/ LNNK” (*Nacionālā apvienība “Visu Latvijai!” – “Tēvzemei un Brīvībai/LNNK”*): **16 seats**; Latvia’s Regional Alliance (*Latvijas Reģionu Apvienība*) – **7 seats**; and unaffiliated members of parliament – **13 seats**. (7)

And finally, some urgent issues concerning a “combination” of economy and political aspects in Latvian development shall be kept in mind. Politics and economics should be approached in concert: thus the book reveals for the interested readers some vital issues concerning new Latvian narrative through analysing inherent connections between politics and economics. “Combined” connections are seen both as theoretical (i.e. scientific discipline), and a practical instrument in perspective national development.

Both the EU’s “managerial” structures and the member states’ governance need fundamental institutional reforms; both need willingness and commitments to adaptations. The book shows that the reforms are urgently needed, unless it is all too late...

The book’s ultimate aim is to assist civil society, and mostly Latvian politicians, to make progress on one crucial strategy for Latvian political economy with the main goal – offering welfare advantages and opportunities to everyone. It should also inspire the readers to be more ambitious about how to carry out other complementary Latvian strategies. But it depends on you, the reader, to help Latvia to shape, improve and extend all positive parts of new Latvian political economy for a new century. It is Latvian people that should keep all the positive ideas in motion giving the ruling elites the necessary impetus in power.

## References

1. Data from the Leta-website: <http://monitorings.leta.lv/item/PEE89D7DF-FC6C-4055-A703-568ADE0D012B/c/10AA86A7-D697-11D6-AEC6-0070CA111E26/1239/>
2. See more in: [http://www.baltic-course.com/eng/analytics/?doc=136947&ins\\_print](http://www.baltic-course.com/eng/analytics/?doc=136947&ins_print)
3. References to: [http://www.baltic-course.com/rus/\\_analytics/?doc=136287&ins\\_print](http://www.baltic-course.com/rus/_analytics/?doc=136287&ins_print) (28.12.2017).
4. References and data from: <https://www.cvk.lv/pub/public/28334.html>  
Latvia is divided into five constituencies for the Saeima elections – Rīga, Vidzeme, Latgale, Kurzeme and Zemgale.
5. More in: <https://www.cvk.lv/pub/public/30997.html>
6. Source: <https://www.cvk.lv/pub/public/30868.html>
7. Investment and Development Agency of Latvia. In: <http://www.liaa.gov.lv/en/about/latvia-facts>



## Eugene Eteris

European Studies Faculty, International  
Business & Economy Department,  
at Rīga Stradiņš University, RSU.

Eugene.Eteris@rsu.lv

### Previous books:

#### **European Union: Economic Policy**

(RSU Publ., 2007; in English)

#### **Eiropas Savienības Ekonomiskā politika**

**un Latvija** (RSU Publ., 2008;

Authors: I. Dovladbekova, D. Zelmenis,  
E. Eteris, in Latvian)

#### **Mūsdienu finanšu un ekonomiskā krīze**

#### **Eiropā un Latvijā: izeju meklējot**

(RSU Publ., 2011; Authors: I. Dovladbekova,  
D. Zelmenis, E. Eteris, in Latvian)

#### **Modern European Law for Businessmen:**

#### **Lisbon Treaty in Action**

(RSU Publ., 2012; in English)

Eugene Eteris regularly publishes  
articles on the European issues  
in the International web-magazine  
*The Baltic Course*, section “Modern EU”.

[www.baltic-course.com](http://www.baltic-course.com)

ISBN 978-9934-549-55-7



9 789934 549557