

## Latvia on the European Ship

By Valdis Krastins

It is very easy to assume that all the new member countries have boarded the EU ship with the same luggage. The Copenhagen criteria, the need for universal adherence to the Stability pact and to universal human rights instruments, efforts to make the law system compatible with EU regulations – the constant rehashing of these and other mandatory-for-all tasks during the accession time was almost bound to create an illusory vision of all ten now neatly alike, equally positioned and ready to start a sportsmanlike competition. Nothing could be further from reality. Every country has had its own development and is entering the EU on its own terms, dictated by history and the resources presently available.

During the last decade of the 19th century and the first decade of the 20th century, Latvia was a heavily industrialized region of the Russian Tsarist Empire, producing many items for the all-Russia market, including, for instance, ships, railway cars etc. At the beginning of First World War most of these industries were evacuated to Russia, the rest was destroyed by military action.

It took the newly independent Latvian state ten years to build an economical system functioning in accordance with available resources, with the geopolitical and trade situation, which, with the rise of Soviet empire, was an absolutely different one. The result was a deeply satisfactory one, putting Latvia at the end of 1930-ies on par with, for example, Denmark by GDP, income per head, educational level. The trade balance was positive, notwithstanding the fact that Latvia had to import practically all its energy sources.

The Soviet occupation and consequent incorporation into the USSR put an end to all these positive developments. The first year of Soviet rule was spent uprooting everything and everyone, especially “the class-enemy” – Latvian farmers, businessmen, not to speak of former officials and politicians. Then came the Second World War, the shadowy years of German occupation, and by the end of it in 1945 Latvia was worse off than in 1920, and under a renewed foreign, Soviet occupation at that.

During the first 25 years of the post-war period the Soviets tried to rebuild the pre-existing industries, many of which were then geared to the needs of the military machine. For instance, a leading enterprise – VEF, was transformed into a leading military communications factory completely under the control of military HC.

Then came a still more menacing turnaround in Soviet policies. The efforts of a group of nationally minded people at the local Communist leadership to keep the economical development of Latvia in some proportion to the needs of the so-called Soviet Republic created in Moscow a suspicion of separatist tendencies. From there came a directive to integrate Latvia completely into an all-Union system and abandon every attempt to keep it separate.

It started a period of frenetic factory building, sometimes in glaring contradiction with local resources and needs. For instance, in Daugavpils a factory was built for producing metallic chains for all kinds of combustion engines; its production covered up to 50% of Soviet needs. A gigantic microchip factory was erected in Riga, for a time the only enterprise in USSR producing laundry machines was in Riga, it was in this city that 50% of Soviet electrical trains were built. An immense pharmaceutical factory was created near Riga, producing for all-Union needs. So were huge textile and knitwear plants, producing many times more that could be absorbed by local market, not to speak of glass fibre producers etc.

The scheme was simple and effective in political terms: raw materials and workforce brought in, production out, leaving local authorities with the social, ethnic and environmental

fall-out. Logistics or other economical considerations did not play a role, it was a question of integrating Latvia completely - ethnically and economically - into the Soviet system.

That was the ethnically, socially sensitive and economically awkward background for the first Latvian government after regaining independence in 1991 in its efforts to return to market economics. All the following ones have been involved with reprivatisation, restructuring and splitting up procedures, trying to convert the Soviet era giants into something economically reasonable and feasible, at the same time making the banking system work and coping with the environmental side, which was completely ignored under Soviet rule. This has not gone easily at all, especially after Latvia started aiming at being a member of EU. The national debt and budget deficit had to be kept under strict control; both are and have been within the boundaries prescribed.

Even now, retrospectively, there is a debate in Latvia about the debt and budgetary restrictions maybe playing too big role in holding back the rebuilding of a normally functioning Latvian economy – especially because the Latvian farming industry could not be the source of income that it was in the twenties and thirties of the last century. But it was decided to “hold the line”, to take the restrictions as a price for obtaining EU membership and the funding that comes with it. It was maybe the most difficult decision to take in connection with Latvian membership of the EU.

Now the first and foremost task is to direct EU financing and Latvian co-financing where it is needed most in the long-term perspective. It means regional development – especially where the Soviet-built factories had to be closed for economical reasons. Then the support for small and medium size enterprises, thus creating a safe economical buffer zone and giving the population in the countryside a chance to make a decent living, because farming as it is still known to many Latvians, has little hope of being successful. The farming side of the EU membership may be the most difficult, sensitive and painful one; the ideas about it are still being formulated. Then there is a need to enhance the road and railroad system, modernise ports, put money into the forest industry as the foremost Latvian natural resource.

But the most important task is to enhance and speed up monetary turnover, the cash flow. Foreign trade is one of the options for that. Latvia has been doing well in this field but not enough, as the restructuring of the economy has diminished the percentage of industrial products in GDP. Nevertheless foreign trade is now 70% with EU countries (in 1991 Latvian output went almost completely to the rest of the Soviet Union). Russia would be a natural and welcome trade partner, but as long as Russia is still coping with the emotional consequences of the loss of Balticum and is putting up artificial trade barriers, there is not much hope for improvement. A further opening up of EU markets in connection with our membership is therefore a most welcome development.

It should be clear by now to the reader that Latvia will not be in favour of abandoning its control of the fiscal system; low taxation is and will be very important in creating a competitive framework for investments. Nor would the idea of European federalism find many supporters in Latvia so soon after escaping another so-called “union”. Much more attractive is the idea of close cooperation with other Baltic Rim countries, especially with Nordic Council countries. But we feel that here too, all should be done in the European context, as the feeling of being a part of Europe, where we belong, is very dear to the heart of every Latvian.

*Valdis Krastins, Ambassador  
Embassy of Latvia, Helsinki*