HUMANITIES AND SOCIAL SCIENCES LATVIA

Volume 22, Issue 1
(Spring-Summer 2014)

University of Latvia

CONTENTS

FROM THE EDITOR

Dear Reader,

This is the first issue for 2014 and we expect to be able to publish the next issue in autumn-winter 2014.

In this issue we have articles covering the fields of economics, economic history, and international law. The authors are both PhD students and established academics.

We hope you enjoy this issue and are looking forward to the next issue.

Best wishes

Viesturs Pauls Karnups
General Editor

CONCEPTUALISING THE *RESOURCE BASED VIEW* FOR INNOVATION RESEARCH AND MEASURMENT IN SMALL AND MEDIUM ENTERPRISES

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Dr. sc. adm.

Abstract

Innovation management and factors affecting successful innovation implementation in the enterprises has recently became a trendy research topic. However, measuring innovation output is a challenging task as many classical indicators reveal only financial input. This article points out the difficulties of innovation measurement practices, as well as the weaknesses of some widely used innovation indicators. Moreover, the *Resource based view* that has attracted the attention of various management scholars within the last decade is presented as a suitable theory for innovation research and measurement.

Keywords: innovation, *Resource based view*, innovation measurement, SMEs

Introduction

Enterprise resources as the factor affecting growth and innovation

In recent years an increasing criticism of neoclassic economic theory based on the inability of a traditional model to clarify the complicated economic processes and enterprise development lines and different tempo rates within the frame of one field is revealed by foreign business administration literature sources. In the last couple of decades an observable progress is noted in the development of the Theory of the Firm. The paradigm of neoclassic economics under which an enterprise is considered as a "black box" and its processes are not conceived to be worthy of respect, is substituted by new, inter-disciplinary approaches trying to obtain a response to questions on enterprise existence targets, to explain the diversities in enterprise behaviour, as well as considering enterprises as living bodies that can learn and grow (Foss, 2006; Casson, 2005). This new approach suggests a different way of investigation of the entrepreneurship system as opposed to entrepreneurship systems reviewed by traditional economic publications – those are focused on material goods and money flows between production enterprises while the new approach pays attention to information and knowledge flows.

Under the Theory of the Firm a *Resource Based View* was produced in which an enterprise is defined as the summation of strategically important resources assisting in the determination of advantages of long-term competitive strength and executed work of different enterprises in one field, owing to the unicity and irreplaceability of these resources. Initially this approach was developed in the strategic management field, but later it gained popularity also in other sub-divisions of business administration studies, such as organizational behaviour, international business etc. The *Resource-Based View* is often related to social capital and innovation theories since the analysis of social networks has become one of the most important estimation tools in the last decades for enterprise growth and competitive strength, as well as innovation (Uzzi, 1997; Gulati, et al., 2000). The further development of the *Resource Based View* is rewarded by the success on theorization of the *Knowledge Based Approach.* An enterprise is conceptualised under the *Knowledge Based Approach* as a tool with which individual knowledge is transformed into market demanded goods and services. Here the integration of existing or newly produced knowledge of an enterprise becomes the most important task of a manager.

The *Resource Based View* is one of the various conceptions for strategic management which makes an attempt to clarify the background of enterprise existence, as well as its various occurrences in the broader outlines of the Theory of the firm. Scholars of the Theory of the Firm developed their conceptions by building on the work of *Edith Penrose* who was the first to observe that company dependence on resource availability may differentiate significantly in the range of even a single field. In addition, a very broad layer of productive resource definitions was devised by her, including such factors as senior management teamwork abilities, entrepreneurship capability, and the ability to observe the benefits of implementation of a new product or service. In her book "*The Theory of the Growth of the Firm*" (1959), the growth of an enterprise is claimed by *Edith Penrose* to be dependent on the realization and utilization of the resources. Consequently, an enterprise conception may not be reduced to a single production function and enterprise processes may not be considered only as a response to a market situation. Quite the contrary, company growth is claimed by the author to stem from a totality of management decisions that originates from the resources at the disposal of the company in return. Therefore, enterprise growth is largely determined by company manager experience and information accessibility, as well as by the available resources of an enterprise that serve as a basis for further strategies and lines of activity.

In the following years Penrose's conception was developed in two interrelated approaches – *Resource Based View* and *Knowledge Based Approach.*

The development of the *Resource Based View* was carried out with an emphasis on the identification and grouping of the resources themselves, while the *Knowledge Based Approach* was moved forward by making an attempt to estimate the most applicable methods of organizational resource management, organizational structure to prompt innovation and learning, the role of a manager and the allocation of decisive rights, processes of implementation of innovations and knowledge both internally and externally.

On the basis of both theoretic conceptions, enterprise growth is affected rather by internal accumulation of knowledge than by the external one of the market or in society. It is suggested that under these approaches enterprise competitive strength is affected by the position of enterprise resources rather than enterprise market position, which is confirmed, for example, by the model of the Porter five forces analysis.

Resource typology

The origin of resource typology was encouraged by the further development of the *Resource Based View*. It became possible to group various resources and test those as factors affecting enterprise activity, to compare their impact with the impact of external environment factors etc. However, the utilization of varied terminology denominating, in fact, the same notions, is observed in scientific literature sources, as well as sometimes quite the opposite, denominating different resource categories by same terms.

J. B. Barney and *A. M. Arikan,* who are among the most prominent authors, who started latterly discussion within the framework of the *Resource Based View*, do not further break them up into categories. They suppose the exposition of the *Resource Based View* conception to be perplexed by this since it is considered necessary by every researcher to implement a new resource classification and to denominate by new words. As a result, distinctive publications and research projects on resources, competencies, capabilities, dynamic capabilities and knowledge originate.

The notion of resource is comprehended by other authors in the model of *Resource Based View* as the summation of all enterprise capabilities – both financial and non-financial in their classic interpretation (considering e.g. buildings and capital as financial resources and licences and trademarks under non-financial resources), as well as enterprise abilities to maintain these resources, as well as knowledge about market, enterprise products and services etc. (Eriksen, Mikkelsen, 2006; Ray et al., 2004)

The recommendation of the author is to denominate financial resources, non-financial resources and enterprise competences, which are reasonable to be further subdivided into basic competences and special competences, by the term "enterprise resources". Very similar English words such as "*competences*" and "*capabilities*" are used as synonyms within the conceptual framework of the *Resource-Based View.* This is observed by such authors as *R. M. Grant*, *G. Hamel* and *C. H. Prahalad*.

On the basis of the postulates of the *Resource Based View*, that consolidate the most important enterprise resources to be those that are difficult to imitate and replace, it may be concluded that the basis of the advantages of long-term competitive strength is formed by those resources that are related to knowledge rather than information (which is comparatively easy to obtain and port with up-to-date information carriers). Therefore, enterprise competences build the most important enterprise resource group since they form exactly the sensitivity of an enterprise to variable conditions of the environment and make it produce innovations, consider new business opportunities etc.

The next line for the development of the *Resource Based View* utilises the notion of *dynamic capabilities* or *absorptive capacity* stressing the ability of developing new competences as the most important enterprise characteristics in today's changeable environment (Treece, Pisano, Shuen, 1997; Eisenhardt, Martin, 2000). In addition to this resource category in the *Resource Based View,* the conception of knowledge is integrated (Gold, Malhorta, and Segard, 2001; Canter, Joel, 2007). *Knowledge management* and *Knowledge Based View of the Firm* are separate branches based on the *Resource Based View* that are focused on knowledge production, acquisition and transfer in enterprises.

Countless publications were issued in foreign scientific literature on the subject of the *Resource Based View* in recent years (Table 1). Many scientists devised their own resource terminology and typology contributing in this manner to the development of the theory.

Table 1 Resource split within the framework of the *Resource-Based View* and *Knowledge-Based Approach* according to previously conducted studies

Ray, Barney, Muhanna (2004)	Do not separate resources from competences. The most important enterprise resources: service climate; organizational knowledge on information technologies; technological resources used in the processes; investments into the customer service process.
Grant (1991)	Resources: financial; physical; human capital; technologies; reputation; organizational resources. Competences: the ability of resource summation to fulfil assigned tasks or activities.
Fahy, Smithee (1999)	Material valuables: appliances; equipment; land; financial capital; bank deposit. Intangible assets: trademarks; licences; enterprise logo reputation; social network; databases. Competences: teamwork; organizational culture; mutual confidence between employees and the management.
Hall (1993)	Intangible assets: reputation; network; database; agreements/licences; licences/logo/trademarks; confidential technology. Competences: knowledge, understanding of quality; learning skills; understanding of customer service; flexibility skills; innovation implementation skills; teamwork; joint management.
Collis (1994)	Enterprise functional competences: appliance scheme; division logistics; summation of marketing activities; level of operational efficiency; good knowledge of customers; product management. Strategic understanding: intention to choose and implement a strategy; evolve enterprise resources and develop new resources; elaborate new production functions.
Liao, Chung (2006)	Technological resources: daily activities; the ability to use and refresh knowledge. Social resources: structural (to simplify getting knowledge, creativity, sharing); cultural (to support in order to demonstrate knowledge as an asset and follow on knowledge requested activities); human (employee knowledge and its application in various tasks).
Gold, Malhorta, Segars (2001)	Infrastructure competences: technology; structure; culture. Knowledge management competences: acquisition/engaging (brands, cooperation; reorganization (laws, daily activities, processes); usage; defence.

Canter, Joel (2007)	Innovation resources: number of graduates among employees; innovation expenses; number of external partners. Dynamic competences: the ability to respond to changing environment. Absorptive capacity: the cooperation of research and development.
Lee, Lee, Pennings (2001)	Entrepreneurial orientation (a will to take risk in order to get profit): innovation; will to take risk; demonstration of initiative. Financial resources: investigation and development of investment; advertising costs; investments for market investigation.
Coates, McDermott (2002)	Technological competences: formation and production competences; ability to develop and manage new quality processes and methods; packing. Market competences: market knowledge; find non-typical customers; management of relationship and reputation; create/produce understanding about current and potential customers. Coordination competences: involvement of gifted staff; human investments; orientation towards learning; focus on the development of new competences.
Leskovar-Spacapan, Bastic (2007)	Organizational competences: innovation oriented culture; business thinking; market orientation. Innovation competences: intensity; advantage.

Source: author's compilation based on literary source analysis.

The border may be established among three main resource categories:

1. **material resources,** such as financials, buildings, equipment, technologies etc.;
2. **non-material resources**: brands, licenses, enterprise reputation, cooperation networks, databases;
3. **competences**: knowledge, organizational abilities to use fixed assets, observed business opportunities, ability to produce new knowledge on old basis, ability to produce innovations etc.

Relying on previously conducted studies, the author of this paper proposes that enterprise competences to be categorised as **basic competences** and **special competences**. It is recommended to classify under basic competences such knowledge and capabilities that are necessary for performing daily activities and ensure the advantage of competitive ability, but cannot ensure long-term competitive ability and protect from competitor imitation. In their turn, special competences would be those that ensure long-term competitive ability of an enterprise since they are difficult to imitate and replace. In this context, basic competences are formed by human capital, will to learn, teamwork abilities, as well as market and competitor knowledge, marketing analysis and its utilization in daily decision making. In their turn, special competences are those that contribute to innovation implementation in an enterprise and are routed in enterprise culture, social capital and business orientation.

The author suggests her own definition for enterprise competences:

Enterprise competences are defined as the resource which is formed by the summation of knowledge and capabilities; the adaptive abilities of an enterprise to the changes of external environment are determined by utilization of this resource.

Enterprise basic competences are defined as staff and management knowledge, capabilities and expertise that are beneficial for an enterprise in performing daily activities as well as in developing a future strategy.

Enterprise special competencies are defined as enterprise capability to renovate the existing resources, produce new knowledge on the existing basis, observe new business opportunities and produce innovations.

Innovation conductive resources

Assuming the logic of the *Resource Based View* as a basis, the conception of *dynamic capabilities* developed by *David J. Teece, Gary Pisano* and *Amy Shuen*, gained prominence in the scientific literature and provided grounding for the development of the *Knowledge Based View.* Although alternative denominations are used by some other authors, all of these denominations refer to the same occurrence, which is accepted to be named as dynamic competences. For example, Kogut and Zander (1992), who are considered to be the originators of the *Knowledge Based Approach*, use the term *combinative capabilities,* while *Amit and Schoemaker* (1993) present practically the same occurrence by simple *capabilities*.

Dynamic competences are of high importance since they render assistance to an enterprise in the production of new knowledge. In such a way, these competences form a background which is necessary for innovation implementation. Dynamic competences can be integrated into the conception of special competences since exactly the special competences are those that ensure enterprise ability to produce innovations and adapt to the changes of external environment.

The significance of innovation in obtaining of the advantage of competitive ability and achieving the highest financial indicators, as well as the decisive role of innovative competences in rapidly changing environment when it is not possible to forecast a future situation, was reviewed in various studies. (Snoj, Milfelner, Gabrijan, 2007; Prajogo, Ahmed, 2006; McEvily 2004; Shoham, Fieganbaum, 2002; Roberts, 1998).

According to *Hurley and Hult* (1998), organizational innovations are dependent on two factors – innovation oriented culture and ability to implement innovations (approach to technologies, investigation and development). Consequently, it could be stated that the first factor is defined as enterprise special competences, and the second factor is defined in fact as financial resources, approach to technologies, investigation and development, which is largely dependent on the financial assurance of an enterprise. It was acknowledged by many previous studies, where the impact of cultural (so called *soft factors*) and technological factors (so called *hard factors*) were tested separately from one another, that cultural factors are more important than technological factors since it is easier for competitors to get technologies than to create a relevant innovation oriented culture (Powell, 2006; McDonough, Kahn, 1996; Samson, Terziovski, 1999; Dow 1999).

Such factor as social capital is as important as organizational culture. Furthermore, such authors as *Bo Eriksen* and *Jesper Mikkelsen* (2006) use such social capital component parts as norms and sanctions as an analogue for organizational culture. However, social capital in the context of innovation implementation is usually understood as enterprise capability to co-operate with other market players. Co-operation renders assistance in obtaining of new and relevant market information, its participants, changes of external environment factors such as legislation, demand fluctuations etc., as well as in observing new business opportunities. In addition to this, co-operation is often necessary in order to divide innovation production and implementation costs (Inkpen, Tsang, 2006; Kogut, 2000). Co-operation with others (often with competitors) is especially important for small and medium-sized enterprises since expensive studies and development activities are not affordable for them due to limited financial resources (Roper, 1997; Ingram, Roberts, 2000). The importance of strategic alliances in various industries was proved by many previously conducted studies. The main conclusion of these studies is as follows: the co-operation of small and medium-sized enterprises with other players of their occupation field serves to increase of the number of innovative products and services (Lee, et al., 2001; Gulati, 1998; Ahuja, 2000).

A specific resource group that serves to increase enterprise innovative potential and is defined as *entrepreneurial orientation* is the last but not least. This resource group and its impact on enterprise financial performance and innovation is reviewed in numerous studies. As the most important of these Lee et al. (2001), Atuahene-Gima, Ko (2001), Bhuian et al. (2005), Li et al. (2006), Lescovar-Spacapan, Bastic (2007) may be mentioned. The enterprise conception here is transferred from the individual level to the organizational level. By the same procedure as on the individual level, entrepreneurial orientation is related to the will of taking a risk, generation of new products or services and ability to observe new business opportunities. Therefore, entrepreneurial orientation is an important enterprise resource which is operated in empiric studies as development proactivity of new products and services, the will for innovation dominance in enterprise occupation field, as well as readiness of senior management to take a risk.

Development of innovation theory and its interrelation with enterprise growth

The development of innovation theory is traditionally associated with *Jozef Schumpeter's* name. In his perspective, the main operational force in economics involves people with special entrepreneurial skills who are ready and willing to take risks and start a new business in order to be granted social status, as well as to improve their financial situation. Growth and development in macroeconomics are governed by innovations in their turn.

Speaking about innovations, it is important to understand what is meant by this term. First of all, it is important to determine a difference between invention and innovation. Invention is defined as any new idea, while in order for an invention to become an innovation; this idea must be able to become commercialised. Therefore only at the moment when an invention comes to the market it becomes an innovation. The number of definitions for innovation is as large as the number of authors working on these subjects. The definition of "innovation" under the National innovation conception accepted by the Cabinet of Latvia on 27 February 2001 is as follows:

"… the process which new scientific, technical, social, culture or other field best practices and technologies are realised at the market in the form of demanded and competitive product or service."

The definitions of innovation may be divided to two large trends: in the first instance innovations are defined in the narrower sense, specifically as radical current developments that were not yet commercialised anywhere in the world; in the latter case, innovations are defined in the wider sense where they may be new only on a scale of a specific market or even an enterprise. However, considering that the number of radical innovations is comparatively small, a wider definition of innovation is used more frequently, including *incremental innovations*.

Latest tendencies in the development of innovation theory

Reviewing the development steps of innovation theory and latest tendencies in this field, Jon Sundbo (2003) suggests innovation theories to be investigated under the context of different paradigms: "*entrepreneur paradigm*" – entrepreneur as an individual is the most important factor to determine the occurrence of innovations; "*technologically-economic paradigm*" – the development of technologies is the most important driving force; and "*strategic paradigm*" – strategy and enterprise senior management are the determining factors in innovation implementation.

Since the middle of the 1980s, a gradual transition from the "*technologically-economic paradigm*" to the "*strategic paradigm*" has occurred. Innovations are more and more often reviewed in scientific literature sources as the result of optimum utilization of enterprise resources and different competences. A growing number of innovations is implemented by enterprises where no specific departments for research and development are present, along with the growth of the education level of population being not anymore concentrated in development laboratories, but expanded to wider society, where no substantial monetary contributions are required to commercialise innovative ideas. Development of innovations does not anymore take place within the boundaries of one enterprise, but often steps out of those. Large companies that invested significantly into research and development do not always benefit from these investments; their ideas may be developed by competitors or also the initial innovation projects that did not succeed in commercialization in some specific market for some reason, may be successfully utilised in another market. These significant changes occur under the impact of various factors. The most important of them are: the increase of work force mobility. Having worked for one employer and gained valuable knowledge of the field, an employee initiates a job change or also starts his own business where he utilises the knowledge and competences acquired at his previous position. The time needed for the development of products and their market appearance decreased dramatically, the development of new products, services and technologies proceeds constantly. Consumers and suppliers become ever more competent and demanding, making it difficult for an enterprise to get an essential profit from their investments in research and development. The enterprise boundaries become ever more blurred along with enterprise engagement in strategic alliances, their co-operation with universities, research centres, suppliers, distributors and even competitors.

These significant societal and economic changes and their impact on innovation process were combined by Chesbourgh (2006) under conception of *Open Innovation*. The foundation of this conception is routed in changes of organization theory – from a closed unit with well-defined boundaries an enterprise is transformed to an open system which becomes ever more difficult to assign boundaries to. It is provided by the open innovation conception to pay more attention to co-operation issues in order to strengthen enterprise innovative potential, therefore the studies on the impact of social capital on state and enterprise innovative performance become ever more important. The innovation implementation process, though not that much anymore referring to technology utilization, becomes more complicated than before when it was kept largely within the confines of one company.

Analysis of most important indicators of enterprise innovative activity

The methodology of empiric studies related to innovative activity was also affected by changes in innovation paradigms. In prior years (the seventies and eighties of the last century) the amount of investments in research and development and the number of introduced patents were used as two main indicators in surveying of innovative activity. It was closely connected with the then dominant *technologically-economic paradigm,* as a part of which the emphasis was put on investigation of technological innovations. Despite the fact that these indicators are still used for the estimation of innovative activity and are marked by a great number of substantial advantages, they have much more disadvantages though. The research and development investments and patents may be classified as traditional innovation indicators. As the most important advantages of research and development indicators the following may be mentioned. In Western European countries these indicators were carefully collected at the level of national statistics management since the fifties of the last century, therefore they make a significant and trusted data source. This data is analysable by time lines and sector cross-cut, it may be broken down by investments in fundamental research, business research and development activities. But regardless all these positive signs, there are many serious drawbacks in the research and development data (hereafter referred to as R&D). First of all, no information is presented by R&D about innovation results (namely the development of new product or service) and the practicality of investments. It is possible to invest significantly in research and development that will not result in innovation commercialization though. Secondly, R&D indicators are only applicable to the analysis of production sector, not the service sector, since innovations here are usually implemented without investing in research and development (Smith, 2006; Sundbo, 2008). Thirdly, the innovation analysis based on R&D indicators may reduce to zero the work done by small and medium-sized enterprises where research and development activities are organised rather as fragmentary occurrences than as a formal process. Fourthly, the R&D statistics, especially in small countries, is kept hidden – only aggregated data is available in order not to make it possible to estimate the costs of largest field players. This makes a big problem since the innovation statistics may only be meaningful if micro data is available for universities and other research institutions and is analysable in various cross-cuts.

The next traditional innovation indicator group is comprised of patents and utilization of patents. They are usually used as the indicators of the work done on innovations. Similar to research and development statistics, patent database registration takes place for a long time by now, therefore the time lines are available. In addition, a doubtless advantage of this data is defined by its availability. However, the disadvantages of patents as innovation indicators are quite serious – some technologies, such as food products and services, cannot be patented. Small and medium-sized enterprises may deny the patenting of their products due to a shortage of financial means. There is also a problem of an opposite nature – the largest parts of patents were never and will never get commercialised. Therefore, the availability of a patent does not yet mean that an invention would be transformed into an innovation.

New innovation indicators that basically were developed under the *Community Innovation Survey*, consist of total innovation expenses, innovation proportion in an enterprise turnover, information sources engaged in the development of innovations, and co-operation indicators.

Total innovation expenses as opposed to research and development expenses make a broader indicator, with which it is possible to estimate innovative activity investments of various types. In addition to this, these indicators are even lower in the service sector that proves repeatedly the fact of research and development investments do not reveal a real situation of innovative activity status in service sector. Actually the greatest disadvantage of innovation expenses indicator is enterprise inability to provide a valid answer to this question (as it is in the case of investments in research and development), since these expenses are accrued from various balance positions and render a precise estimation difficult. Therefore, the reliability of this indicator is lower than that of R&D.

The innovative products proportion in enterprise turnover is a valuable innovation indicator since the real outcome of innovation activity is expressed by this, not only the investments made with the intention to achieve this result. However, the greatest disadvantage of this indicator is that a life cycle of a product is not considered by this, which makes an objective cross-sector collation impossible. The proportion of new products will be greater in those enterprises where product life cycle (*ceteris paribus)* is shorter, and vice versa. Therefore, in order to avoid systematic mistakes in this data interpretation, the questions must be supplied to surveys about average cycle of most important products and the data obtained about innovation products in enterprise turnover must be estimated with consideration for this additional indicator.

Throughout the years also social capital indicators are included into the Community Innovation Survey. The questions are made by Community Innovation Survey about information sources to be used by enterprises in the process of innovative activities, as well as about co=operation with other enterprises, state or non-state organizations, universities and other research institutions. It is allowed by this data to conclude on enterprise social networks and the purpose to which specific organizations serve in these networks. However, a significant disadvantage of structural social capital indicators is that only the availability of contacts or their frequency at the best case are reviewed by them without paying any attention to the content and importance of such contacts.

Conclusions

Within this article the *Resource based view* is presented as a valuable framework for innovation research and measurement studies. The main advantages of the *Resource based view* are in its emphasis at intangible and knowledge creation and management related resources which are the keystone of the new economy. Moreover, the *Resource based view* helps to understand why enterprises within the same industry reveal different results. Those conclusions contain important implications for managers concerned with innovation enhancement, as well as for government officials in charge of valid innovation infrastructure creation. Such resources as entrepreneurship orientation, organizational culture, and social capital are of a crucial importance for innovation output within enterprises.

This paper revealed recent developments in innovation theory that focuses towards the strategic paradigm – innovations are viewed as strategic choices and depend on the right usage of resources possessed by an enterprise. Thus, the *Resource based view* gains additional importance in innovation related studies. Several widely used innovation indicators are not suitable for innovation measurement within SMEs (such as investment in R&D, patent numbers) and thus future research should aim at the development of new, appropriate indicators.

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LATVIAN AND TURKISH ECONOMIC RELATIONS 1918-1940[1]

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Dr. oec.

Abstract

This paper provides an overview of Latvian-Turkish economic relations in the interwar period. Latvia established formal diplomatic relations with Turkey in 1925, but Latvians had interaction with Turks already from the late 19th Century. In the interwar period Latvian and Turkish economic relations were mainly confined to foreign trade. The first Commercial and Navigation Convention was signed in 1929, but it had a very short life due to the onset of the world-wide Depression. A second trade agreement package was signed in 1938, which included a commercial convention, a commercial agreement and a clearing agreement. Latvia's main imports from Turkey in the interwar period were tobacco leaf, sesame seeds, figs and raisins, whilst Latvia's main exports to Turkey were linoleum, match-splints, paper and paper products, and rubber galoshes. There were also some small investments from Turkey in the tobacco industry in Latvia.

In general, despite a growth in trade in the late 1930s, trade and thus economic relations were of marginal significance to both countries in the interwar period.

Keywords: Latvia, Turkey, Interwar, Trade, Import, Export, Investment.

Introduction

Although for most Turks Latvia was, and still to large extent is, *terra incognita*, for Latvians, Turks and Turkey, at least in the interwar period, was a known and remembered entity. Latvians, as part of the Tsarist Russian Empire, had been conscripted into the Russian Army and had taken part in the Russian-Ottoman wars in the late 19th century.

During the Russo-Turkish war of 1877-1878, several hundred Turkish prisoners-of-war from the battle of Plevna (in Bulgaria) were sent to Cēsis, Latvia. There they were given a certain freedom of movement and were able to mingle with the local population. Unable to cope with the harsh climatic conditions and being so far from home, they suffered from pneumonia and later typhus. Despite the best efforts of doctors 26 Turkish soldiers died

[1] A version of this paper was presented at the 10th EBES Conference – Istanbul, 23-25 May, 2013

and were buried together in a special cemetery on the outskirts of the city.[2] After the war, most of soldiers returned home, although one at least stayed to open a Turkish bakery in Cēsis.

On 26 September 1937, a monument, financed by the Turkish envoy to Latvia and Cēsis City council, to the Turkish soldiers at their final resting place was unveiled.[3]

The monument to the Turkish soldiers was renewed in 2005 with the assistance of the Turkish Government. The inscription on the monument reads, in Latvian and in Turkish: "26 Turkish soldiers, who were captured in the battle of Plevna during the Turkish-Russian war and died later in Cēsis, are buried here. 1877-1937".

Similarly, during the First World War, when Russian armies invaded the Ottoman Empire and occupied parts of Northern Turkey, there were Latvians among the Russian soldiers who were awarded medals for their bravery.[4] Some were also taken as prisoners-of-war. In 1917, in the occupied city of Trabzon, the Latvian soldiers even established a Latvian Society with some 40 members.[5] As a result of the Bolshevik *coup d'etat* in Russia and the end of WWI, in 1921, there were some 200 Latvian refugees in Turkey, most of who returned home.[6]

A Friendship Treaty between Latvia and Turkey was negotiated and signed in Warsaw, Poland on 3 January 1925 (signed into law on 7 April 1925)[7]. The Treaty established formal diplomatic relations between the two countries, as well as paving the way for closer economic relations.

Nevertheless, in the interwar period, Latvian and Turkish economic relations were mainly confined to foreign trade.

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2 *Latvijas Kareivis*, 22 September 1937, p. 2; *Jaunākas Ziņas*, 22 September 1937, p. 4

3 *Brīva Zeme*, 27 September 1937, p. 6.

4 See Krasnais, V. (1938), pp. 378-379, where the author describes the part played by a Latvian sergeant- major in the capture of Erzurum in 1916.

5 Ibid. p. 379.

6 See Andersons, E. (1982), p. 660.

7 See *Saeimas Stenogrammas*, 31. marts 1925, pp. 930-931 and *Likumu un ministru kabineta noteikumu krājums, 14. burtnīca, 4. maijā 1925*, Tieslietu ministrijas kodifikācijas nodaļa, Rīga, pp. 239-241.

Comparison of Latvia and Turkey in the Interwar Period

Table 1 **Selected economic indicators for Latvia and Turkey in the interwar period**

	Latvia	**Turkey**
Population (millions)	2.0 (1939)	17.5 (1939)
Share of urban population (%)	34.6 (1935)	18 (1939)
Share of agriculture in the labour force (%)	67.8 (1935)	77 (1939)
National Income (millions Ls)	1256 - (1938)	1669 - (1934)*
National Income per capita (Ls)	628 (1938)	95.4 (1934)
Share of Agriculture in NI (%)	39.2 (1938)	39 (1939)+
Share of Manufacturing in NI (%)	20.5 (1938)	17 (1939)+

* Conversion of 1934 Turkish pounds to US dollars and conversion of 1934 US dollars to Lats

+ Based on GNP

Sources: Clarke, C. (1940), *The Conditions of Economic Progress*, p. 36; Owen, R. & Pamuk, S. (1999), *A History of Middle East Economies in the Twentieth Century*, p. 244; Darbiņš, A. & Vītiņš, V. (1947), *Latvija: Statistisks pārskats*, pp. 7, 18, 69; *Ekonomists*, 1934, No. 22, p. 816.

As can be seen from Table 1, Latvia's share of urban population was almost twice that of Turkey; the share of agriculture in the labour force was slightly less (10% less), but the National Income per capita was six times that of Turkey although the share of agriculture was similar. Latvia's share of manufacturing in NI was also slightly higher.

Latvian-Turkish Economic Relations 1921-1940

Some Turkish and Latvian trade had already been in existence prior to the formal establishment of the Turkish state. In 1921, Latvia imported tobacco leaf from Turkey and in 1922, Latvia imported some cotton. In 1923, the first Latvian export shipment of linoleum was sent to Turkey. By 1924, both imports from and exports to Turkey were a regular feature of Latvian foreign trade.

Latvia's foreign trade in the 1920s was based in large measure on a system of commercial and trade treaties. By 1929, Latvia had concluded commercial treaties with all important European states, including a Commercial and Navigation Convention between Latvia and Turkey[8] in

[8] See *Saeimas Stenogrammas*, 21. decembris 1928, pp. 530-535 and *Likumu un ministru kabineta noteikumu krājums, 1. burtnīca, 11. janvāris 1929*, Saeimas kodifikācijas nodaļa, Rīga, pp. 1-15.

1928. They provided the regulatory framework within which were stated the obligations undertaken by Latvia in its foreign trade relations with its trading partners up to 1931.

The Convention between Latvia and Turkey was signed on 28 May 1928 and came into force on 17 September 1929. It provided generally for Most Favoured Nation (MFN) for both parties and as with other treaties signed by Latvia to that date it contained the Baltic and Russian clause[9]. It also contained a list of goods to which the MFN customs provisions would be applied. In relation to the list for Latvian imports it contained such items as raisins, figs, nuts, tobacco leaf, cotton, opium, olive oil, etc., but for Latvian exports such items as butter, tinned fish, flax, linoleum, rubber galoshes, etc. Unfortunately, because of the onset of the Great Depression[10] the Convention had a very short life. The day before the Convention was due to come into force, the Turkish side denounced the Convention beginning from 17 September 1929 and it ceased to function 17 December 1929.[11]

The denunciation of the Convention did not mean that trade or other economic relations between Latvia and Turkey ceased. In 1930, both states exchanged diplomatic notes emphasising that until a new trade agreement is negotiated and signed each state will apply MFN principles to the goods of the other.[12]

The distance between Latvia and Turkey was another impediment to the expansion of trade. Latvia had signed in 1933 a Commercial Treaty between Latvia and the USSR[13] by which Article 6 allowed for transit privileges also from the Black Sea ports of the USSR to Latvia and vice versa. Turkey, however, had not signed a similar convention with the USSR, which meant that goods from Turkey had to travel the long sea route or Turkish exporters had to negotiate each shipment separately with Soviet

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[9] The Baltic and Russian clause was in the nature of a geographical and regional restriction of the MFN principle and provided that the MFN principle does not apply to rights, preferences and privileges which Latvia reserves or may reserve to Estonia, Finland, Lithuania and the Soviet Union. Reciprocally, there was a similar provision for agreements between Turkey and the lands of the former Ottoman Empire, which separated from Turkey in 1923.

[10] "At the beginning of 1929, the prices of exported goods [in Turkey] were dramatically decreased. When the prices decreased, the foreign trade was reduced to a minimum level." – Takim, A. & Yilmaz, E., Economic policy during Ataturk's era in Turkey (1923-1938), *African Journal of Business Management*, Vol. 4(4), pp. 549-554, April 2010, p. 552.

[11] *Valdības Vēstnesis*, No. 287, 18. decembris 1929, p. 1.

[12] *Rīts*, No. 311, 11. novembris 1935, p.5; LVVA, 2574.f., 2.apr., 6940.l. – p. 38.

[13] Bilmanis (1978), pp. 178-184.

authorities. As a result many Latvian importers purchased Turkish products through Germany or the Netherlands.[14] However, importing Turkish products through Germany and the Netherlands raised the price of such goods, which was unfavourable to Latvian importers. By 1936, Latvian importers were visiting Turkey to establish contacts and purchase products such as raisins, figs and nuts for direct importation to Latvia.[15]

By late 1937, talks were conducted between the Latvian and Turkish governments and a new trade agreement package was negotiated in Ankara in November 1937. The package, which was signed on 12 January 1938 and came into force on 27 January 1938, consisted of a Commercial Convention between Latvia and Turkey, a Commercial Agreement between Latvia and Turkey and a Clearing Agreement between Latvia and Turkey.[16]

The Commercial Convention was essentially the same as the 1929 Convention, providing for MFN treatment and containing the Baltic and Russian clause and the Ottoman Empire clause. The Commercial Agreement, on the other hand, dealt essentially with a contingent (quota) system for each nation's products which could be imported based upon product lists. For Latvia the list of goods included match-splints, cellulose, paper, flax thread, rubber galoshes, radios, paint, plywood and other goods, whilst for Turkey the list included hides, sesame seeds, raisins, figs, nuts, raw cotton, tobacco, wool, tanning materials and other goods. As both countries were having problems with foreign currency reserves, the Clearing Agreement[17] was an essential part of the trade agreement package. The Agreement provided that the settling of accounts between the two nations would be in British sterling pounds through the Central banks. For Latvian importers there was the additional advantage that they could settle accounts through the clearing system also for Turkish goods, which were imported through third countries. The trade agreement package operated up to WWII.

Latvian-Turkish Trade 1921-1940

As noted previously, some Latvian-Turkish trade had occurred prior to the formal establishment of the Turkish state. The value of Latvian imports from and exports to Turkey can be seen in the Figure 1. Imports were at very low levels up to 1933. From 1933 imports increase substantially

[14] *Jaunākās Ziņas*, 21. novembris 1936, p. 11; LVVA, 2574.f., 2.apr., 6940.l. – p. 3.

[15] Ibid. p. 11.

[16] See *Valdības Vēstnesis*, 1. februāris 1938, pp. 1-4.

[17] The basic idea behind bilateral clearing agreements was to even out or "balance" trade between two countries, while at the same time conserving scarce foreign currency and gold reserves.

and in 1938 reach their highest value – over one million lats. Exports, on the other hand, were greater than imports up to 1930 with a peak in 1925. They fell with Great Depression, but slowly started to rise from 1934 and reached their peak in 1938 with a value of over 700 thousand lats. Generally, exports exceeded imports only in the 1920s; for the 1930s imports exceeded exports.

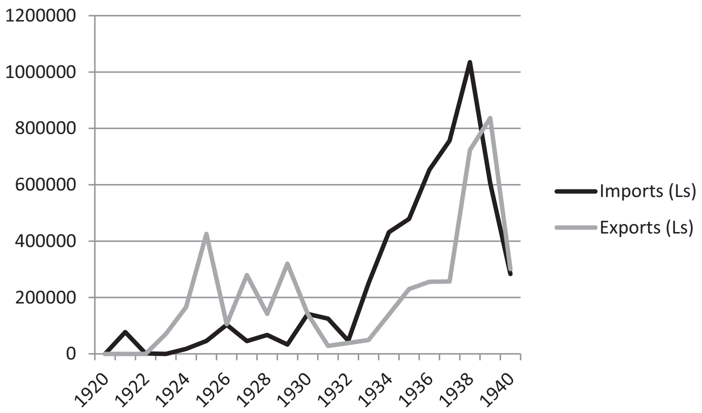

Figure 1 **Latvia-Turkey Imports and Exports 1920-1940**[18]

Sources: *Latvijas* ārējā *tirdzniecība un transits – 1921-1939.* [Latvian Foreign Trade and Transit. 1921-1939.] Rīga: Valsts Statistiskā Pārvalde; and *Mēneša Biļetens Nr. 10, oktobris 1939* [Monthly Bulletin, No. 10, October 1939], p. 1057; LVVA, 2574.f, 2.apr, 733l – p. 19, 98.

Although for all practical purposes trade with Turkey ceased with the commencement of WWII, as a result of the “Agreement regarding Trade Turnover between Latvia and the USSR” signed on 18 October 1939, some trade continued through USSR ports on the Black Sea. In 1939 and early 1940, Latvia exported through Odessa to Turkey.[19]

[18] Latvia, following the practice of other nations, stopped publishing official data regarding foreign trade after the commencement of WWII. See *Economists* [The Economist] No. 4 – 1940, p. 231. The data for 1939 and 1940 is from reports by the Latvian General-Consul, A. Kacens, in Istanbul (LVVA, 2574.f, 2.apr, 733l – p. 19, 98). As the figures provided by him were in Turkish lira, these were converted from 1940 Turkish lira to US dollars and further converted from 1940 US dollars to Lats (1.38 TL = 1 USD; 5.50 Ls = 1 USD). The data for 1940 is for five months only – to 31 May 1940.

[19] LVVA, 1314. f., 5.apr., 100.l. – p. 25.

Latvian Exports

In the 1920s, Latvia mainly exported linoleum to Turkey. The export of linoleum reached its peak in 1925. The other main export goods in this period were paper and paper products, which commenced in 1927 and rubber galoshes, which commenced in 1925. Both continued intermittently throughout the decade. The export of linoleum ceased in 1930 due to a change in the cartel arrangements in 1927.[20] The linoleum factory completely ceased production in 1930 and linoleum disappeared from the foreign trade of Latvia.[21]

Table 2 **Main Latvian exports to Turkey 1923-1939**

	Linoleum		**Match-splints**		**Paper and paper products**		**Rubber galoshes**	
Year	**kg**	**Value (Ls)**	**kg**	**Value (Ls)**	**kg**	**Value (Ls)**	**kg**	**Value (Ls)**
1923	55250	70788	0	0	0	0	0	0
1924	130445	160459	0	0	0	0	0	0
1925	172330	224803	0	0	0	0	36256	200208
1926	67324	98559	0	0	0	0	0	0
1927	115947	177850	0	0	26937	10154	16882	83845
1928	88274	124498	0	0	14305	5284	0	0
1929	64408	76828	0	0	0	0	44577	242418
1930	54606	66250	0	0	2880	5760	9208	68645
1931	0	0	56000	16050	0	0	0	0
1932	0	0	120000	31612	16712	7034	0	0
1933	0	0	122507	34205	21292	6457	0	0
1934	0	0	542718	138304	0	0	0	0
1935	0	0	835091	224966	3387	612	0	0
1936	0	0	882406	242746	0	0	0	0
1937	0	0	580485	255402	5869	1696	0	0
1938	0	0	899347	424835	322192	133546	28353	115601
1939	0	0	425000	350725	390000	143478	51000	203261

Sources: *Latvijas ārējā tirdzniecība un transits – 1921-1939.* [Latvian Foreign Trade and Transit. 1921-1939.] Rīga: Valsts Statistiskā Pārvalde; and *Mēneša Biļetens Nr. 10, oktobris 1939* [Monthly Bulletin, No. 10, October 1939], p. 1057; LVVA, 2574.f, 2.apr, 733l – p. 49.

[20] Johansson (1988), p. 260.

[21] Johansson (1988), p. 261 and Aizsilnieks (1968), p. 537.

In the 1930s, Latvia mainly exported match-splints to Turkey. The export of match-splints to Turkey was associated with the establishment of the Swedish match syndicate *Svenska Tändsticks Aktiebolaget* in Turkey. Like Latvia[22], Turkey also received a loan from the Swedish Match Company to the amount of 10 million US dollars (131 million in 2010 dollars) for the concession to produce matches in Turkey.[23] Unlike Latvia where match production for export ceased in the 1930s, match production in Turkey was expanded. The export of match-splints reached its peak in 1938. Paper and paper products continued to be exported intermittently throughout the decade reaching a peak in 1939. The export of rubber galoshes ceased in 1931, but recommenced in 1938.

The amounts and value of main exports exported to Turkey in the interwar period are shown in Table 2.

Latvian Imports

In the 1920s, Latvia mainly imported tobacco leaf from Turkey. The import of tobacco leaf reached its peak in 1929 in terms of value, although in terms quantity the largest was in 1924. The other main import goods from Turkey in this period were nuts, which commenced in 1929 and seeds, which commenced in 1928.

In the 1930s, Latvia also mainly imported tobacco leaf from Turkey. The import of tobacco leaf reached its peak in 1939. Seeds continued to be imported intermittently throughout the decade reaching a peak in 1930, as well as nuts, which reached their peak in 1939. Three new imports – sesame seeds, raisins and figs, became important in the 1930s. Import of sesame seeds began in 1932 and reached their peak in 1938; import of figs began in 1931 and peaked in 1939. The importation of raisins began in 1932, ceased in 1935, but recommenced in 1938, reaching their peak in 1939.

The amounts and value of main imports imported from Turkey in the interwar period are shown in Table 3.

[22] In 1928, Latvia signed an agreement with the Swedish match syndicate, which provided for the syndication of the Latvian match industry and the granting of an external loan to Latvia of 6 million US dollars (78.3 million 2010 dollars).

[23] Deck (1930), p. 151.

Table 3 **Main Latvian imports from Turkey 1924-1939**

	Sesame seeds		**Nuts**		**Tobacco leaf**		**Raisins**		**Figs**		**Seeds**	
Year	**kg**	**Value (Ls)**	**kg**	**Value (Ls)**	**kg**	**Value (Ls)**	**kg**	**Value (Ls)**	**kg**	**Value (Ls)**	**kg**	**Value (Ls)**
1924	0	0	0	0	27664	77352	0	0	0	0	0	0
1925	0	0	0	0	0	0	0	0	0	0	0	0
1926	0	0	0	0	0	0	0	0	0	0	0	0
1927	0	0	0	0	0	0	0	0	0	0	0	0
1928	0	0	0	0	2141	15669	0	0	0	0	214	233
1929	0	0	944	2844	7913	90590	0	0	0	0	0	0
1930	0	0	243	1327	2601	27664	0	0	0	0	15000	12660
1931	0	0	718	1551	8511	44230	0	0	1438	2759	10000	8476
1932	313	180	1260	2802	4276	22322	288	269	10865	6530	313	180
1933	0	0	37629	67066	13005	44614	28453	17508	11356	8602	3314	2294
1934	0	0	19914	37002	8670	17220	84528	57904	2468	2775	14569	6058
1935	8000	3946	10134	18035	7012	10013	0	0	2300	2217	2466	876
1936	38925	18654	16456	21229	65873	208621	0	0	591	224	515	130
1937	117662	43117	11845	15651	133682	366670	0	0	923	590	1273	391
1938	129206	54385	28422	34392	114645	326656	95535	43685	18752	11023	551	239
1939*	40665	26464	48343	67081	108279	402814	196547	112438	22367	15993	1480	722

*First eight months of 1939 – to 31 August 1939
Sources: *Latvijas* ārējā *tirdzniecība un transits – 1921-1939.* [Latvian Foreign Trade and Transit. 1921-1939.] Rīga: Valsts Statistiskā Pārvalde; and *Mēneša Biļetens Nr. 10, oktobris 1939* [Monthly Bulletin, No. 10, October 1939], p. 1057.

Investment

Although there are no records of Latvian investment in Turkey, there was some investment from Turkey in Latvia. Turkish investment in Latvia was exclusively in the tobacco industry. Turkish investment in 1925 (when records of foreign investment in Latvia commenced) was 278 000 lats, rising to a peak of 853 000 lats in 1932-1933, and this level was generally maintained to 1937. Following the devaluation of the lat at the end of 1936 and both Turkey's and Latvia's decision to attach their currencies to the British pound sterling[24], the value of Turkish investments fell dramatically and by 1939 had dropped to 408 000 lats.

The values of Turkish investments in Latvia in the interwar period are shown in Figure 2.

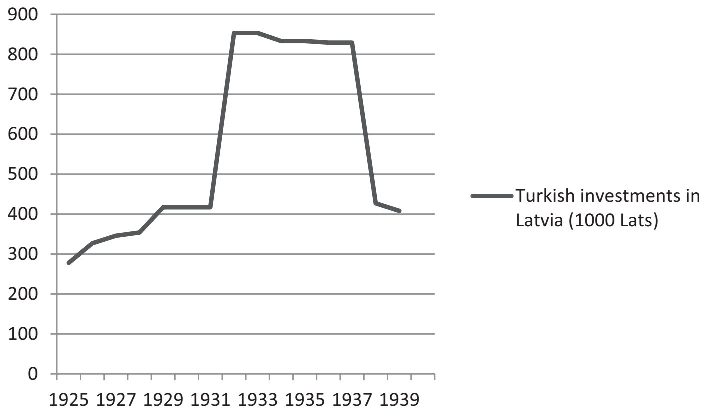

Figure 2 **Turkish investments in Latvia 1925–1939 (1000 Lats)**

Sources: Latvijas statistiskā gada grāmata 1929. [Latvian Statistical Year Book 1929], Rīga: Valsts statistiskā pārvalde, 1930, p. 265; Statistiskas tabulas [Statistical Tables], Rīga: Latvijas PSR Tautsaimniecības statistikas pārvalde, 1940, p. 170.

Conclusion

In 1929, when Latvian foreign trade reached its pre-Depression peak, Latvian exports to Turkey made up 0.01% of total Latvian exports, and Turkish imports made up 0.001% of total Latvian imports. Similarly in 1938, when Latvian foreign trade reached its post-Depression peak, exports to Turkey were only 0.03% of total Latvian exports, and imports from Turkey

[24] Layton (1937), p. 26

were only 0.05% of total Latvian imports. One suspects that the figures from the Turkish point of view would be similar or even less. In other words, trade and thus economic relations were of marginal significance to both countries in the interwar period.

It is interesting to note that in 2012 Latvian exports to Turkey totalled 144 136 499 EUR or 1.59% of total Latvian exports (mainly metal products, wheat and rye, animal and animal husbandry products, timber products) whilst imports from Turkey totalled 62 775 585 EUR or 0.57% of total Latvian imports (mainly transport vehicles, citrus fruits, machinery, textiles, metal products).[25]

In October 2013, some 97 Turkish-Latvian joint ventures were registered in the Latvian Enterprise Register. The total value of Turkish foreign direct investment (FDI) in Latvia from 2002 to 2011 was 12 million USD, while FDI from Latvia in Turkey was 62 million USD in the same period.[26]

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[25] Data from the Central Statistical Bureau of Latvia.

[26] Republic of Turkey, Ministry of Economy: *http://www.economy.gov.tr/index.cfm?sayfa=countriesandregions&country=LV&region=8* (accessed 12.05.2012).

FUNCTIONING OF LATVIAN MANUFACTURING: UP THE STAIRS WHICH LEAD DOWN

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Dr. habil. oec

Abstract

The article analyses the dynamics and functioning of manufacturing industry in Latvia. Based on statistical information, it is shown that manufacturing industry is not the technical and technological foundation of economic growth in Latvia. Trends in employment in the manufacturing industry in Latvia are mainly determined by the high level of competition that test industrialists in Latvia for the EU single market. Policies to stimulate employment are particularly relevant for the regions of Latvia.

Keywords: employment, enterprises, manufacturing industry, production, regions.

Introduction

During the period of the machine production supremacy, industry was seen as the leading sector in every country's national economy. However, it has been theoretically proved and confirmed in world economic practice that industry plays a key role in insuring national economic security. This is achieved by "natural selection" of the most successful entrepreneurs–industrialists within market competition, as well as through active governmental participation in the process of formation of conditions for the functioning and competitive development of national entrepreneurship.

In the European Commission's report "*Industrial Policy: Reinforcing Competitiveness*" published on 14.01.2011, it was noted that "*European industry is of critical importance for the EU as a global economic leader. A competitive industry can lower costs and prices, create new products and improve quality, contributing thus decisively to wealth creation and productivity growth throughout the economy. Industry is also the key source of the innovations required to meet the societal challenges facing the EU*" [15].

In the literature, industrial production is usually analysed in two main areas of activity – mining and manufacturing. This article is focused on the problems of the activities of manufacturing. Manufacturing is the sector of industry, which produces finished products from raw materials and other materials. Manufacturing industry includes: food, beverages, tobacco, textiles, wearing apparel, footwear, leather, haberdashery, wood, furniture, paper and its products, printing, metalworking, machinery, equipment and other industries according to the **NACE** second editorial section **C** classification [2].

The Latvian manufacturing industry is one of the leading sectors in the national economy of Latvia. This proposition is statistically confirmed by the following data:

- The share of manufacturing in Latvia's Gross Domestic Product (GDP) in 2012 (at 2000 constant prices) amounted to 13.4% [10]. In this context it is important to note that according to Latvian National Industrial Policy Guidelines it is planned that the share of manufacturing in the GDP will increase to 20% in 2020 [16].
- In 2012, workers employed in the manufacturing sector reached 122.5 thousand, or 14.0% of the total number of employed in the national economy of Latvia. This is comparable to the number of employed in information and communication (21.5), accommodation and catering (28.3), finance and insurance (24.2), real estate (23.0), as well as professional, scientific and technical (27.7) services, totalling 124.7 thousand workers [19].
- There are a significant proportion of large companies concentrated in manufacturing. In 2011, 17.8% of Latvian enterprises with 250 workers and over were in this sector. This is important in terms of the attraction of foreign investment [3].

Latvia, being an EU Member State, demonstrated a rather fast recovery after the recent economic crisis. Thus, following a decrease in the volume of production in 2009 to 82.0% in comparison to 2005; in 2012, the volume of manufacturing production in Latvia had increased by 15.9% (See Figure 1).

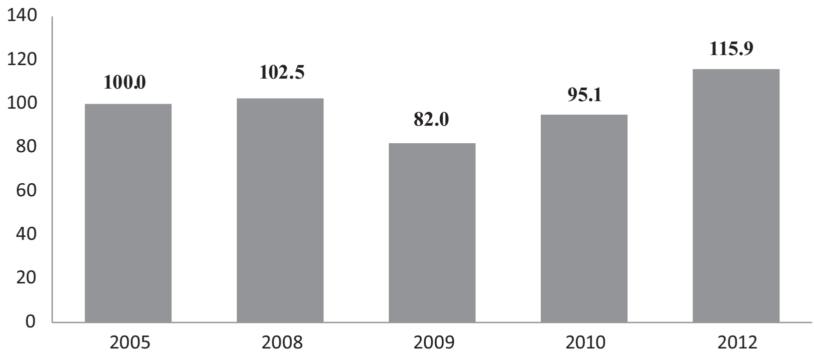

Figure 1 **Latvian manufacturing production volume index, percentages to 2005 (calendar adjusted data)**

Source: According to data of the Central Statistical Bureau of Latvia [21]

Manufacturing as a sector of the national economy of Latvia performs three main tasks:

I. Provides the foundation for economic growth. In general terms, economic growth is the result of both quantitative and qualitative changes in the economy. Manufacturing enterprises should provide the material basis for this kind of change. In fact it is the manufacturing industries, which produce the machinery, equipment and technologies for enterprises in other sectors of the economy in Latvia and which employs a highly qualified specialist workforce.

II. Creates jobs for the employable population of Latvia. In the heyday of mechanised production, the attraction of manufacturing was the driving force of urbanisation. Today urbanisation in Latvia is associated with the expansion of employment in the service sector. Especially in Riga and in other large cities. The services market in the Latvian provinces is quite narrow. Entrepreneurs, who operate in this market, do not need a large number of workers. The supply of labour outside of the Riga agglomerate is larger than demand. Therefore, investments in the Latvian provinces might be profitable for manufacturing entrepreneurs.

III. Ensures the preservation of Latvian traditional economic sectors. Traditional manufacturing sectors are associated with food and wood processing, basic metal and metal products, textiles and wearing apparel, electrical equipment and furniture production. During the Latvian economy's structural transformation process it is necessary not only to maintain, but also to strengthen the functional conditions for Latvian traditional manufacturing industries: ensuring raw materials, labour force, infrastructure, etc.

Manufacturing characterised by technological intensity

The usual meaning of industrialisation as the spread of mechanised production has long ago been completed in developed countries. Industrialisation as a process of qualitative industrial transformation is still relevant today for many countries including Latvia. Such factors as the spread of scientific technology, trade liberalisation and the strengthening of economic integration have reduced the importance of industrial production. Taking into account the changes in the structure of industry in the period 1999-2007, the experts of the European Commission have classified (2011) all Member States into four groups:

In the first group, the industrial structure is dominated by technologically advanced sectors. In this group are included Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Sweden and Great Britain.

In the second group are states with industry specialisation in less technologically advanced sectors, despite the presence of some highly competitive industries. The prevalence of labour intensive industries, low innovation and relatively low knowledge intensity lead to fewer high-growth firms. The states in this group are Cyprus, Greece, Italy, Luxemburg, Portugal and Spain.

The third group are states that are catching up in terms of GDP per capita, and whose trade specialisation is in high-innovation intensity sectors and technology-driven industries. They have achieved a structural change from labour-intensive industries towards technology-driven industries on both production and trade. The group consists of the Czech Republic, Hungary, Malta, Poland, Slovakia and Slovenia.

The fourth group are states that are catching up, but with trade specialisation in technologically less advanced sectors. These countries resemble those of the second group with which it also shares the trend towards sectors with higher educational intensity. However, a major difference is the much stronger than average presence of high-growth firms in this group, and the large increase in industry and trade specialisation in technology-driven industries. The states in this group are Bulgaria, Estonia, ***Latvia***, Lithuania and Rumania [17; p.7].

Table 1 **Latvian manufacturing enterprises structure by technological intensity, percentage**

	2005	**2008**	**2011**	**2011/2005**
Number of enterprises*				
High technologies	2.7	2.6	1.8	72.2
Medium-high technologies	10.2	11.5	6.0	63.5
Medium-low technologies	15.2	19.4	25.9	184.2
Low-technologies	71.9	66.5	66.3	99.9
Total	100.0	100.0	100.0	108.3
Number of persons employed**				
High technologies	2.9	3.1	2.8	68.3
Medium-high technologies	13.2	15.4	9.9	52.3
Medium-low technologies	14.4	17.9	22.3	109.0
Low-technologies	69.5	63.6	65.0	65.9
Total	100.0	100.0	100.0	70.4

*Any entity engaged in economic activity may be considered as an enterprise irrespective of its legal form. These include self-employed persons and family enterprises that are involved in some craft or pursue another activity as well as partnerships and associations engaged in economic activity. An enterprise may pursue one or several activities at one or at several locations.

**Employees working on the basis of work or enterprise agreement both at main job, and at secondary job, including self-employed natural persons, employers, working family members and persons engaged in entrepreneurship and not employing others.

Source: According to data of the Central Statistical Bureau of Latvia [22]

An indirect confirmation of the conclusions formulated by the EU experts regarding the technological intensity of manufacturing in Latvia is contained in statistical data. The share of high-tech manufacturing enterprises (the production of pharmaceuticals, computers, electronics, optical instruments, aeroplanes and their equipment) in 2011 amounted to only 1.8% of the total number of manufacturing enterprises in Latvia (See Table 1).

The information contained in Table 1 shows that:

- During the long period of working within the EU single market, the number of high-tech manufacturing enterprises in Latvia has substantially decreased (by 72.2% in year 2011 compared to 2005), and there was also a noticeable decrease of workers – by 68.3% from the 2005 level;
- After the economic crisis in 2008, Latvian national business developed in sectors statistically related to medium-low technology manufacture enterprises – recorded media reproduction, coke and oil products, rubber and plastic, mineral products, metals and finished metal products (excluding weapons), ship and boat manufacture, and equipment and apparatus repair and installation. Moreover, in these manufacturing sub-sectors in 2005-2011 there was an increase in employment;
- Latvian manufacturing is dominated by low-technology enterprises, which produce food products, beverages, tobacco and textile products, wearing apparel and leather products, wood and products of wood, furniture and printing products, paper and paper products. At the same time, the number of workers employed in the low-technology sector in 2011 reached only 65.9% compared to the 2005 level (71.9%).

The above-mentioned tendency of the amount of high-tech companies to decrease is unlikely to allow Latvia to preserve its status of a “catch-up country” or “close to it” in the future, which the EU specialists have assigned to the countries of the fourth group. If the exacerbation of the competition on the market of high-tech products is not taken into consideration, then the causes of the pessimistic forecast with regards to the growth potential of knowledge-based manufacturing industry can be explained with the fact that manufacturing policy in Latvia does not have clear criteria and it is weakly co-ordinated with other areas of economic policy. As an argument for the above conclusion would serve the aims of manufacturing policy, which are formulated in the normative acts of the Ministry of Economics of Latvia:

- The aim of the national manufacturing policy is the transition to production of the products and services that have high value added;
- The main directions of the national manufacturing policy shall be directed to the development of industrial zones, support of existing and new industries, reform of labour force taxation, formation of an entrepreneurship excellence enabling environment, reform of the innovation system, as well as a new approach to employment policy [18].

Manufacturing perspectives in the labour market

The reduction of employment in manufacturing can be seen as a natural process. Many industrialised countries have experienced this phenomenon at the end of the XX century. A unified methodological approach how to resolve the problem of preserving the competitiveness of the manufacturing sector has not yet been developed by economists. At the same time, the economic experience of entrepreneurs–industrialists in such countries as Finland or Slovenia has shown that it is possible to maintain important economic sectors even within an aggressive competitive environment.

Latvian manufacturing enterprises are not active “players” in the domestic labour market. The number of workers in enterprises in this, once very popular among youth, sector of the Latvian economy has continually decreased. Thus, only in the period of Latvia’s membership of the EU, i.e., 2005-2011, the number of employed persons has decreased by nearly 30% (See Table 2).

Table 2 **Employed person structure in manufacturing (NACE, 2nd ed.), percentage**

		2005	**2009**	**2011**	**2011/2005**
manufacturing total		100.0	100.0	100.0	70.4
including manufacture of	food products and beverages	22.0	23.6	22.7	72.4
	manufacture of textiles, wearing apparel, leather and footwear	14.1	11.6	12.4	61.7
	wood and of products of wood	20.9	17.8	21.2	71.5
	chemicals and chemical products	1.8	2.2	2.2	88.7
	non-metallic mineral products	3.8	4.2	4.0	74.4
	fabricated metal products, except machinery and equipment	7.8	9.7	10.4	93.5
	computer, electronic and optical products	1.3	1.2	1.1	59.6
	electrical equipment	1.9	2.2	2.2	84.6
	furniture	6.9	6.0	5.0	50.7
	other manufacturing and repair	19.5	21.5	18.8	67.8

Source: According to data of the Central Statistical Bureau of Latvia [7]

It should be noted that even compared with the post-crisis year of 2009; the number of workers employed in manufacturing in 2011 was only 80.1%. It can be concluded that during recent years employment in manufacturing in Latvia has been decreasing. The following manufacturing sectors have made the “largest contribution” into this process:

- ✓ furniture (number of employees–furniture manufacturers in 2011 only reached 50.7% of the 2005 level);

- ✓ textiles, wearing apparel, leather goods and footwear (61.7%);
- ✓ food products and beverages (72.4%).

The scale of reduction the size of employment in manufacturing can be illustrated more plainly with the following data:

- In 2005 there were 91 045 workers involved in manufacturing food products, beverages, textiles, wearing apparel, footwear, wood, leather and products of wood, i.e., more than half (57.1)% of the total workforce involved in Latvian manufacturing;
- In 2011 only 63 194 workers were employed in above listed sectors that nevertheless was 56.3 of total workforce involved in Latvian manufacturing.

The employment trend in Latvian manufacturing is mainly associated with the increased competition that Latvian enterprises are experiencing in the single EU market. Theoretically this means that the owners of manufacturing enterprises must try to improve manufacturing productivity and invest in new technologies. In practice these theoretical principles are not always implemented. This theme can be illustrated with the example of furniture production.

It is somewhat difficult to assess the functional dynamics of furniture production in the period 2005-2011:

1. In 2012, the volume of furniture production was only 61.7% of the 2005 level. At the same time, Latvian furniture exports in 2012 were 26.5% higher than the 2009 level [21]; [5]; [6].
2. Based on Eurostat information it might be concluded that the main reason for the achievements of Latvian furniture manufacture exports are associated with savings on labour costs (See Figure 2).

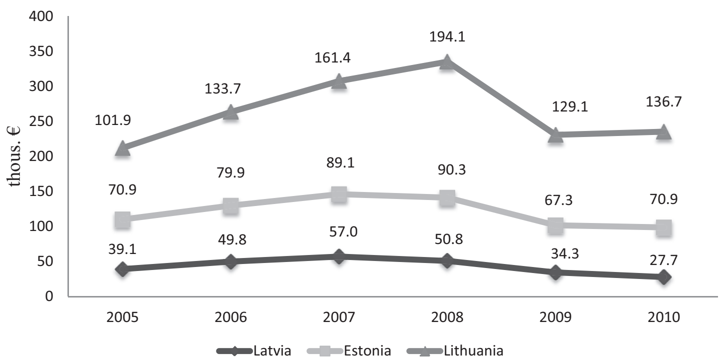

Figure 2 **Personnel costs in furniture production sector**

Source: According to data of Eurostat statistics [1]

Thus, labour costs in 2010 were only 70.8% of the 2005 level (54.5% compared to the 2008 crisis year). It is noteworthy that labour costs in furniture manufacturing in Estonia considerably exceed the labour costs in the same sector in Latvia.

3. The Latvian furniture manufacturer's focus on low-skilled and low-paid labour did not compensate need for the investments in new equipment and technologies. Thus, the gross capital formation or acquisition of fixed assets (land, buildings, unfinished building objects costs, equipment, machinery, etc. with more than one year operational time) in Latvian furniture manufacturing only reached 28.3% in 2011 of the 2005 level (See Figure 3).

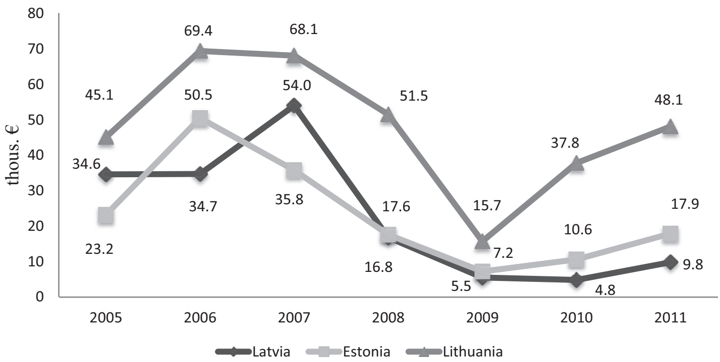

Figure 3 **Gross capital investments in furniture production**

Source: According to data of Eurostat statistics [1]

During the reporting period, Lithuanian and Estonian furniture manufacturers have invested significantly more funds into production apparently believing in the prospects for business growth. Growth in furniture exports testify to positive trends in the Latvian economy. However, it should be emphasised that the strengthening of the market position of Latvian furniture exporters in foreign markets is accompanied by an expansion of furniture importers in the Latvian market. Total furniture import volume to the Latvian market in 2012 was 55.1% higher than in 2009. However, in money terms furniture exports during the reporting period were nearly 3 times larger than furniture imports. There is a reason to believe that an increase in furniture imports is only a matter of time. Furniture, which is provided for middle-class consumers, is being produced by Lithuanian, Polish and Belarus furniture manufacturers. Over the long term they will gradually squeeze out domestic furniture manufacturers from the Latvian market. If this trend continues in the future, then Latvian furniture manufactures may not be ready in the future for a consumer purchasing power increase that as a result will raise demand for furniture [13]; [14].

4. The potential for attracting labour into furniture manufacturing is determined by the size of furniture enterprises. In 2011, only 10.5% of Latvian furniture employees were employed in enterprises with 250 and over employees, but 19.3% in micro-enterprises (See Table 3).

Table 3 **Workforce structure employed in the manufacturing in enterprise by size, 2011, percentage**

		total	**including on number of employees, person**				
			0–9	**10–19**	**20–49**	**50–249**	**250 +**
manufacturing total		100.0	11.8	9.2	16.6	37.4	25.0
including manufacture of	food products and beverages	100.0	4.5	5.1	13.7	42.5	34.2
	manufacture of textiles, wearing apparel, leather and footwear	100.0	15.0	7.6	14.8	39.5	23.1
	wood and of products of wood	100.0	11.8	13.6	24.0	36.1	14.5
	chemicals and chemical products	100.0	8.7	11.3	20.9	43.4	15.7
	non-metallic mineral products	100.0	14.9	9.5	22.6	29.2	23.8
	fabricated metal products, except machinery and equipment	100.0	12.7	8.4	16.4	37.5	25.0
	computer, electronic and optical products	100.0	16.9	14.2	12.3	56.6	0.0
	electrical equipment	100.0	5.0	2.2	8.5	35.0	49.3
	furniture	100.0	19.3	13.6	15.4	41.2	10.5
	other manufacturing and repair	100.0	16.4	9.5	12.6	30.2	31.3

Source: According to data of the Central Statistical Bureau of Latvia [7]

Furniture manufacture in Latvia is concentrated in small and medium-size enterprises. This may mean that furniture business owners are more likely to employ skilled craftsmen for producing special order furniture or low-skilled workers for mass production of low-tech furniture.

In Latvian manufacturing as a whole there is a tendency to absorb labour in companies, which employ 50 people or more people – 62.4% of employed persons in 2011. This fact inspires hope with regard to the formation of demand in the labour market. Nevertheless, it should be emphasised that in companies with 250 or more people being employed are only 25.0% of the total amount of employed labour in the manufacturing industry in Latvia. To compare, in 2010 in Slovenia's large companies worked 40.6% of manufacturing industry labour, but in Germany – 51.7%! Moreover, in 2010 in Germany, the proportion of workers in micro-enterprises was only 7.4% from the total amount of employed in manufacturing industry [20]. The stable economic growth of Germany's economy may serve as evidence that German manufacturers have found the optimal relation of the level of employment in small-sized and large-sized companies.

Evaluating the perspectives of Latvian manufacturing industry regarding the labour market, special attention should be paid to the structure of employment in companies that produce computers, electronic and optical equipment. A significant amount of the workforce is employed (16.9%) in the abovementioned sub-industries of manufacturing in small-sized companies. In addition, there is reason to believe that a significant number of self-employed persons are producing computers, electronic and optical equipment. The status of a self-employed person is interesting in that one can work at home with no requirement of special premises or office to work in. Another benefit of self-employment is that the person can determine his or her own working hours and intensiveness of work, as well as creating an independent client base.

A significant number of small-sized companies in the manufacturing industry of Latvia should be evaluated in the context of the level of entrepreneurship freedom. Thus, in the entrepreneurship area of developed manufacturing countries dominate, for example, individual entrepreneurs. The owner of an individual business takes full responsibility for both successes and failures of the business. Specialists in business psychology think that people who like to take the initiative and be the owner are more suitable to be entrepreneurs. Nevertheless, it should be taken into account that in developed market economy countries, entrepreneurs can expect some sort of support from the government, which is manifested in large budget investments in order to maintain the infrastructure of the internal market. It is this support of government, which allows entrepreneurs to reduce the levels of risk and increases the chances of success in business.

Regional dimension of manufacturing industry

Based on the information of the results of the activities of Latvian manufacturing industry, a conclusion can be made that presently not only the tendency of economic growth has decreased, but also additional arguments for government economic policy correction has become obvious. The latest course, which was to decrease the government budget deficit and make Latvian entrepreneurs more competitive on external markets based on a model of "internal devaluation" should have long ago been replaced by a policy of stimulating employment. With regard to this, it is interesting to note that experts of the International Labour Organisation, while evaluating the scientific–analytical report "World of Work Report 2013" regarding the situation in Europe, clearly stated that the policy of internal devaluation is not productive. Positive results in both a macroeconomic and labour market context can be achieved by moving to a growth of employment strategy [23].

An employment stimulation policy is especially relevant for Latvian regions. Compared to cities where the employment rate of the economically active population aged 15-64 in 2012 reached 64.5%, the countryside index reached only 59.9% [11]. In addition, the problem of the Riga agglomeration should be noted: according to data on 01.01.2013 half of the total population of Latvia (50.1%) lives in Riga and its surrounding area [12]. Taking into account these facts, let us analyse the workforce dimension in manufacturing in the Latvian regions (See Table 4).

In 2011, Riga and its surrounding area manufacturing enterprises employed 53.3% of the total workforce in manufacturing in Latvia. The number of employed in Vidzeme, Kurzeme, Latgale and Zemgale are distributed approximately equally. As could be expected the best represented sector in the Latvian regions it is wood and wood production. Thus, 42.2% (4875 workers) employed in manufacturing in Vidzeme were employed in wood and wood product manufacturing enterprises. At the same time in the sector of computer, electronic, electrical and optical equipment production there were only 7 workers employed in Vidzeme in 2011. It should be mentioned that the production of computer, electronic and optical equipment is statistically classified as high-tech production.

It should be noted that in the Latvian regions it is such sectors as the production of computers, electronic and optical equipment that have a very low employment level. In Riga and its surrounding area 1 144 employees were involved with these sectors, but only 102 employees in the regions (including 5 in Vidzeme and 4 in Zemgale). In fact this kind of high-tech manufacturing is common only in the Riga metropolis. Provincial entrepreneurs mainly focus on low-technology wood and wood products manufacturing understandably from the business success point of view. However, in terms of Latvian economic growth prospects, it is more important to develop the business environment in the country and thus creating work places in computer, electronic and optical equipment manufacturing.

Table 4 **Workforce structure in manufacturing in Latvian regions, 2011, percentages**

		Latvia's regions					
		Riga	**Pieriga**	**Vidzeme**	**Kurzeme**	**Zemgale**	**Latgale**
manufacturing total = 100.0		36.3	17.0	10.3	15.5	10.3	10.6
manufacturing structure		100.0	100.0	100.0	100.0	100.0	100.0
including manufacture of	food products and beverages	19.4	33.6	19.1	20.9	18.9	26.0
	manufacture of textiles, wearing apparel, leather and footwear	12.0	9.8	3.7	17.1	13.9	16.7
	wood and of products of wood	12.1	20.5	42.2	19.5	27.4	18.2
	chemicals and chemical products	2.9	1.8	1.6	1.9	2.7	1.4
	non-metallic mineral products	3.6	4.5	10.7	2.4	2.8	1.8
	fabricated metal products, except machinery and equipment	9.2	8.6	1.7	22.4	10.0	8.7
	computer, electronic and optical products	2.4	0.8	0.0	0.2	0.0	0.5
	electrical equipment	4.5	0.1	0.0	0.8	0.0	4.2
	furniture	4.8	5.8	10.7	2.4	4.9	2.7
	other manufacturing and repair	29.1	14.5	10.3	12.4	19.4	19.8

Source: According to data of the Central Statistical Bureau of Latvia [8]

In 2011, a noticeably large number (10.4%) of positions in the Latvian labour market manufacturing segment were in basic metals and fabricated metal product manufacturing enterprises. It should be noted that basic metals production and fabricated metal product manufacturing has been preserved and practically has reached the number of work places prior to accession to the EU – 93.5% in 2011 in relation to the 2005 level. In 2012, exports of basic metals production and fabricated metal products exceeded the 2008 performance by 35.8% [5]; [6]. However, a stable market functioning of these sub-sector manufacturing companies is closely associated with the risk of the cessation of the activities of *Liepājas metalurgs*. The possibility of such an outcome, except in the case of negative changes in market conditions, may be associated with relatively low onetime social payments, which have to be paid by *Liepājas metalurgs* owners if the company terminates its operations. As a result several thousands of employees might lose their jobs that in 2011 manufactured basic metal and fabricated metal products in Kurzeme.

An answer to the question whether *Liepājas metalurgs* will repeat the same fate as sugar manufacturers and the production of basic metals and fabricated metal products in Kurzeme will be represented by small and medium sized companies, does not make much difference for the perspective of the manufacturing industry of Latvia's regions. The number of the employed people in this Latvian economic sector, as mentioned previously, has been decreasing in recent years. Thus, the number of employed persons in manufacturing industries in the regions of Latvia in 2011 was significantly lower than in 2008 (See Figure 4).

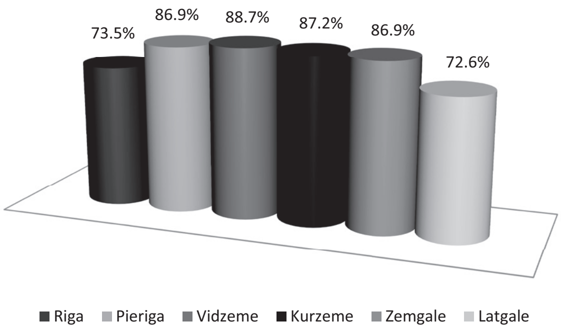

Figure 4 **Employed dynamics in manufacturing in Latvian regions, (2011/2008), percentage**

Source: According to the Central Statistical Bureau of Latvia

The largest employment decrease occurred in Latgale. It is interesting that in 2011 in the wood and wood production sector in Latgale were employed only 18.2% of total workforce employed in manufacturing. But the most significant "contribution" in the reduction of employment in manufacturing, i.e., 73.5% was made by the Riga region. In relation to this it should be noted that in 2011 the employment of the economically active population of the Riga region reached 84.3% from the 2008 level [9].

In other words even in Riga employment in manufacturing felt more rapidly than the number of workers in the economy as a whole.

Nowadays the Latvian manufacturing industry has most of the characteristic features of Eastern European economies. These country governments are unable to develop effective industrial policy forms and methods, which are not based on traditional methods of protectionism. It is concluded that small and medium-sized enterprises fail to create the "social remit" for their politicians. The difficulty of a large number of heterogeneous (dissimilar) enterprises to consolidate their position is revealed by the low effectiveness of the lobbying of entrepreneur interests in national governance structures.

Conclusions

- Manufacturing industry insufficiently serves as the technological base for economic growth in Latvia. This conclusion is based on the fact that for the period from 2005 to 2011 the number of high-tech companies in manufacturing industry has significantly decreased, as well as employment in such companies. The manufacturing industry in Latvia is currently dominated by the low-tech companies.
- The potential capacity of working places in manufacturing industry is not large, and thus the possibility of growth in the activities of companies in the labour market of Latvia should be evaluated cautiously. In evaluating the perspectives of Latvian manufacturing in the labour market, special interest may be produced by the encouragement of self-employed persons.
- The most characteristic type of production in the regions of Latvia is wood and products of wood. Production of computers, electronic and optical equipment is not significantly represented in the regions of Latvia. The preservation of manufacturing industry beyond the borders of the Riga agglomeration should become a priority for government support programmes for small and medium sized enterprises.

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STRUCTURAL REFORMS IN EMERGING ECONOMIES: ARGENTINA AND RUSSIA THROUGH THE LATVIAN MIRROR

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Abstract

The last decade of the twentieth century probably witnessed the most impressive economic transformations in human history. The collapse of the USSR marked a dramatic and irreversible change in the world economic structure combined with a rapid process of global economic integration. These phenomena implied also the emergence of new dominant paradigms, both in economic and political fields, summarised in the Washington Consensus policies. Driven by this context, many emerging economies started their processes of structural reforms, based on the new axioms.

Taking the cases of Argentina, Russia and Latvia as examples of emerging economies that applied structural reforms in the beginning of the 1990s; this article argues that the main economic and financial crises experienced by these countries during the last two decades were directly linked to the features of the reforms applied. In addition to that, the main outcome of the economic model applied was that it generated a higher internal instability and external vulnerability and it was unable to provide long term growth strategy.

Keywords: Russia, Argentina, Latvia, structural reforms, liberalisation of economy, Washington Consensus, economic crisis.

Introduction

The last decade of the twentieth century, probably witnessed the most impressive economic changes in human history. On the one hand, the collapse of the Union of Soviet Socialist Republics marked a dramatic and irreversible change in the global economic structure, which came to be dominated by a superpower without parallel in the previous human history. Simultaneously, this event led to a rapid process of global economic integration that deepened the transformations that were already taking place. Finally, other phenomena that should be highlighted are the emergence and imposition of new dominant paradigms, both in economic and political fields. Driven by this context of great global changes, many emerging economies started their processes of structural reforms.

The structural reforms were usually referred to by the euphemistic name of "*Structural adjustments*". These are the policies sponsored mainly by the International Monetary Fund (IMF) and the World Bank (WB) in developing and emerging countries and their implementation was a condition for receiving new loans from these institutions or for obtaining lower interest rates on performing loans. Theoretically, conditions were implemented with the aim of ensuring that the funds lent would be spent in accordance with the overall goals of the loan. In this regard, the structural reform programmes were intended to allow the economies of the developing and emerging countries to become more market oriented, applying "free market" programs and policy. These programmes included changes such as privatisation, deregulation, severe fiscal discipline and reduction of trade barriers. The main guidelines of these reforms were summarised in the Washington Consensus, a set a policy recommendations developed by the end of the 1980s.

"Emerging economies" could be defined as those national economies that after the fall of the USSR were not included in the group of developed countries, the group of least developed countries nor the group of newly industrialised economies. This was a very heterogeneous group, whose main common characteristic was that they had the mixed features of all previous groups, but they don't belong to any of them. That is, they had some characteristics of developed countries (e.g. high rates of literacy and developed urban areas), of least developed countries (such as high levels of inequality and predominance of the primary sector) and of newly industrialised countries (e.g. they had an industrial base, but this was not the main sector of their economies). In addition, these countries had an upper-middle income and they were intended to maintain a process of convergence with the developed and high-income economies.

It is also important to note that the emerging economies that implemented these reforms during the 1990s had very similar performances in the following years, even in the economic crisis. In this sense, it is possible to mention that most of the crises in emerging economies during the 1990s and early 2000s showed very similar dynamics: financial instability, recession, default and devaluation. With slight changes in the order of causation, this description can be applied to the cases of Mexico (1994), Thailand, Malaysia, Indonesia and the Philippines (1997-1998), Russia (1998), Brazil (1999), Turkey (2001) and Argentina (2002), among others. Moreover, the similarities within these crises seem to go further:

all of them showed highly liberalised commercial and financial schemes, deregulated markets, sustained external indebtedness processes and a considerable influence of international credit institutions, namely the International Monetary Fund and the World Bank.

In this context, the objective of this article is to show that the characteristics of these crises are directly linked to the structural reforms implemented in all these countries since the late 1980s and early 1990s. For this, the authors will take two main cases of study and a third concomitant case and will make a comparison between them. Argentina and Russia will be taken as the main cases, and Latvia as the concomitant case. The model of analysis proposed will develop the policies applied and its consequences in Argentina and Russia, and subsequently the case of Latvia will be used to confirm or discard observed trends and generalities.

According to the previous definition of emerging economies, it is possible to argue that these three countries belong to this group. In fact, despite some important differences, these countries also show interesting conceptual similarities. For example, measured by the UN Human Development Index, they occupy very close positions in the ranking: Latvia is 44^{th}, Argentina is 45^{th} and Russia is 55^{th} out of a total of 187 countries. In addition to this, measured by GDP per capita in the ranking made by the IMF for the year 2012, these countries also occupy very close positions: 53^{rd} Latvia ($ 18058), 55^{th} Argentina ($17917) and 58^{th} Russia ($17518).

The authors consider that this article can make a valuable contribution to the analysis of this economic phenomenon because the study of the crisis-structural reforms relationship is done from a comparative perspective of three presumable different cases. In fact, the authors argue that the significant differences between these countries will be very useful to highlight the similarities between them and the influence of structural reforms in their respective crises. It is also believed that these issues have become relevant today, as the causes and characteristics of the last financial crisis, which began in 2008, have much in common with the processes that will be discussed in this article. Therefore, the presentation of these cases can help one to think about the future of the global economy from a broader perspective.

The article will be structured as follows: in the next section will be introduced the theoretical framework of the analysis, focusing on the role of the Washington Consensus. In section 3 and 4 the respective reforms implemented in Russia and Argentina will be described. In Section 5, a comparison will be made between the two processes, explaining their similarities and particularities. In section 6 the case of Latvia will be introduced as an alternative model and it will be compared to the other cases. Finally, the conclusions will try to emphasise the implications of these processes for these countries today and their connections with the current global situation.

Washington Consensus

As noted previously, the changes experienced by these economies can only be understood in the context of the unipolar world that emerged after the end of the Cold War. In this scenario, the freedom of action of emerging countries became much more restricted and the aim of the new global power was to assimilate their economies into a global scheme (Anderson, 2003). On the one hand, there were the third world economies, which were burdened by their stagnation and external debts. On the other hand, there were the newly independent republics, formerly under the orbit of the Soviet Union and now incorporated into the capitalist world. The roadmap to carry out the process of transitions and convergences is reflected in the so-called “Washington Consensus” (WC).

There is no official document that formalises WC guidelines. However, it is possible to identify a set of policy instruments upon which various economic and political actors who have their headquarters in Washington reached “consensus” (Williamson, 1990). These actors are the Congress of the United States, the executive branch of the U.S. government, the international financial institutions (particularly the IMF and WB), the agencies of the U.S. federal government, the Federal Reserve, the U.S. Treasury Department and major neoliberal “think tanks”.

Concretely, the WC agenda prescribed policies focused on macro-economic stabilisation, economic opening with respect to both trade and foreign investment, and market expansion at the expense of state´s attributions. In order to meet these goals, the program included ten specific policy recommendations. They were: I) Fiscal discipline; II) Prioritisation of public spending; III) Tax reform; IV) Interest rates liberalisation; V) Exchange rates liberalisation; VI) Trade liberalisation; VII) Liberalisation of foreign direct investment; VIII) Privatisation of state enterprises, IX) Deregulation and greater flexibility and X) Legal security for property rights.

In brief, the WC’s goal was to harmonise the economic relations of emerging economies and the new capitalist economies with the economy of the United States as the new global hegemonic power. Financialisation, liberalisation, deregulation and privatisations of national financial and goods markets would open a stage of endless possibilities for making profits for major U.S. operators who would advance over these virgin territories.

Reforms in Argentina

In the early 1990s, Argentina was facing its own transition period. As for most of the South American economies, the 1980s were a decade of stagnation with no economic growth. In fact, this period is often referred as *"the lost decade"*. Moreover, the country was in serious difficulties to comply the repayment of interest and amortization of its large external and also fast-growing internal debt. In 1990, Argentina's external debt was U$S 61.7 billion, equal to 5 times its annual exports (Brenta, 2002). Throughout the whole decade several attempts to overcome this scenario were applied, but none of them met their objectives, including orthodox adjustment plans proposed by international financial institutions.

In this context of persistent stagnation, the first wave of pre-Washington Consensus structural reforms in Argentina took place during the second half of the 1980s. Inspired by the Baker plan, in 1985[1], the first reforms included deregulation of interest rates, reduction in trade barriers to imports of goods and a trade agreement with Brazil that subsequently led to the formation of the MERCOSUR[2]. However, they didn't manage to achieve the goals proposed and, because of that, the privatisation of state enterprises, which was included in the program, did not get neither popular nor parliamentary approval. It was in 1989 when the turnaround came, pushed by a combination of internal and external issues.

Since the adoption of the Brady Plan[3], in 1989, all agreements signed by the Argentine government with the IMF included conditionalities on the commitment to adopt structural reforms. Namely, they were: deregulation, privatisation of public enterprises, development of financial intermediation and capital markets, labour flexibility, tax reform, pension system reform, decentralisation of education and health, and public administration reform. However, this process was definitely boosted due to events related to the domestic economy.

The hyperinflationary episodes that preceded structural reforms in many South American countries were essential to enable its further application

[1] The Baker Plan was launched at the International Monetary Fund and World Bank meeting in Seoul that year. It was intended to relieve the debt pressure on the third world countries and it was proposed by James Baker, the Secretary of the Treasury of the United States.

[2] MERCOSUR is the acronym for "Mercardo Común del Sur" (Common Southern Market).

[3] The Brady Plan was an operation for debt restructuring focused on developing economies. The most important item of these operations was the introduction of so-called "*Brady bonds*" to repurchase the debt securities held by private banks. The financial assistance provided by the IMF and other major international lending institutions to hold the process was conditional on the implementation of structural adjustment programs in line with the Washington consensus.

(Brenta, 2002; Klein, 2007). They prepared the conditions to implement reforms for the sake of new models of macroeconomic stabilisation. In addition, they were very effective instruments in the pursuit of other goals, such as the liquidation of debts nominated in domestic currency. In 1989, the retail price index in Argentina increased 3079%. The hyperinflation reduced the quasi debt denominated in local currency, measured in dollars, from an index value of 100, in December 1989 to 6.9, in January 1990. Because of this, a second hyperinflationary episode took place in the early 1990s, as the onset of liquidation deposits and securities of the domestic financial system and public sector debts caused a capital flight from domestic money to the dollar, with the consequent devaluation pressure. In 1990, the retail price index grew 2314% causing a violent redistribution of wealth and slipping millions of working and middle class families into poverty.

In this dramatic scenario, with the popular resistance completely bent, the set of structural reforms promoted by the Washington Consensus was freely and fully implemented. To accomplish this mission, in 1989 the "State Reform law" (No. 23.696) was passed, liberalising the markets for goods and services and paving the way for privatisation of state enterprises. Between 1989 and 1994 Argentina applied most of the compromised structural reforms agreed to in the Brady plan.

The main symbol of the structural reforms implemented in Argentina in the early nineties was the so-called "Plan Convertibilidad" (Convertibility Plan). It takes its name from the Law 23.928 "*Convertibilidad del Austral*[4]" ("Austral convertibility"), effective from 1 April 1991. It established a fixed exchange and convertible rate and, in addition, it set the rate between the two currencies: 1 US Dollar = 1 Argentine Peso. The law also provided that the Central Bank must sell all the foreign currencies required for conversion operations at the established price and immediately after, the pesos received in the transaction should be withdrawn from circulation. Finally, it also established the requirement of equivalence between the monetary base and the freely available reserves in gold and foreign currencies. This legal framework set a highly rigid monetary and exchange rate policy and precluded the financing of public expenditure. The Pesos could only be issued against the exchange of foreign currencies, banning the Central Bank to neither finance government deficits nor provide support to commercial banks.

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[4] The Austral was the Argentinean currency between June 1985 and December 1991. Due to hyperinflationary episodes, it sharply depreciated against the dollar. Therefore, in January 1992 it was replaced by a new currency, the Convertible Peso, at a rate of 10 000 Australes to 1 Peso (equal to 1 US $).

Additionally, by the Decree 530/91, the mandatory income and foreign exchange trading was removed, which allowed operators to freely maintain funds in pesos or dollars. It also guaranteed the free flow of capital into and from the country. In other words, there was a liberalisation of capital movements, including both financial and direct investment, without even registration requirements. This was enforced by the full liberalisation of the banking system, including the privatisation of almost all the public banks, most of them to foreign owners. Furthermore, the adoption of the so-called Basel-Plus regulations, after the Mexican crisis, deepened this process (O´Connell, 2005).

These initial measures were complemented with the full privatisation of all state-owned enterprises, including the airline company, hydroelectricity generation, National Oil Company and the Post Office, among others. This process implied a radical reduction of the state, which included the adoption of a mixed privatised pension system in 1994, and the virtual elimination of unemployment insurance. As O'Connell (2005) points out, one of the main criticisms to this process arose because it was developed "*under extremely weak or almost non-existent regulatory systems with tariffs in some key services dollarized and indexed to the US cost of living index (in fact most sales – particularly the early ones – were inspired more by pressures to repay debt than guided by the idea of enhancing the efficiency of the economy)*"[5].

In regard to international trade, there was a strong reduction of tariffs: the average at the beginning of the 1990s was 45 percent and it declined to almost 11 percent by 2000 (O´Connell, 2005). Additionally, almost every non-tariff barrier was eliminated and exchanges with Brazil and the rest of MERCOSUR countries were fully liberalised (Rapoport, 2000). Finally, it is also important to mention that the bulk of 'social expenditure' was transferred to the provinces and suffered severe reductions.

During the beginning of the convertibility the results were encouraging. The GDP grew 9.1% in 1991, 7.9% in 1992 and 8.2% in 1993. However, after that initial momentum, the growth rate began to decline: 5.8% in 1994, and fell 2.8% in 1995. The fall of 1995 was primarily linked to the external shock caused by the Mexican devaluation of late 1994. This drove capital away from emerging markets, and weakened Argentina´s international reserves (Brenta, 2002). Between the end of December 1994 and June 1995 reserves were reduced from $17.2 billion to $13.5 billion, and the monetary base shrank by 19% in the first half of 1995, dragging down the real economy. This crisis was overcome with funding from the IMF and the conditions imposed were to apply further measures of openness and liberalisation. After the fall of 1995, growth rates were positive, but unstable: 5.5% in

[5] O'Connell, 2005; p. 292

1996, 8.1% in 1997 and 3.9% in 1998, before beginning an unprecedented decline that lasted over 40 consecutive months.

But even before the external crisis hit, some negative consequences of the structural reforms were perceived. On the one hand, during the first years, although the economy was growing, the number of bankruptcies increased and there was a persistent increase in unemployment and underemployment. These phenomena were directly related to each other, because the sudden trade liberalisation combined with overvalued exchange rate made local products unable to compete with imports flooding the domestic market. In these conditions, thousands of companies went bankrupt and millions of people lost their jobs. In this regard, as shown in Table 1, the current account of the Balance of payments showed permanent deficits every year since 1992 until the devaluation in 2002.

Table 1 **Evolution of GDP, external trade balance, bankruptcies and unemployment, 1991-2001**

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP (as % of the previous year)	9.1%	7.9%	8.2%	5.8%	-2.8%	5.5%	8.1%	3.9%	-3.4%	-0.8%	-4.4%
Current Account	N.D.A.	-5.558	-8.209	-10.981	-5.104	-6.755	-12.116	-14.465	-11.910	-8.955	-3.780
Bankruptcies	772	840	1252	1400	2.279	2.469	2.232	2.468	2.438	2.665	2.426
Unemploy-ment (%)	6.9	6.9	9.9	10.7	18.4	17.1	16.1	13.2	14.5	17	18

Source: Authors calculations based on INDEC data

Meanwhile, the public sector accounts also began to show inconsistencies: in 1994 the national government current savings declined, and the cash surplus disappeared due to the decrease of state revenues, in a large extent due to the above mentioned partial privatisation of the pension system[6]. The public deficit increased in 1998 and 1999 because the current revenue fell 4% and 9%, respectively, due to depression. Moreover,

6 The pension funds that stopped flowing into the public system generated a revenue gap for the State, increasing pressure to cut spending and/or external financing. This scenario also created a bitter paradox: private firms engaged in the management of pension funds became the most important local holders of Argentine government bonds, so that, after privatisation, the Argentine state had to pay interest on the money that it had stopped to collect (Brenta, 2002).

it must be added that the current expenditure increased those years by higher interest payments on the foreign debt, an item that rose from $6.6 billion to $8.2 billion. In 2000, the interest burden for the foreign and domestic debt increased by 17%.

In order to meet financial needs, the government turned to the IMF for help (Kulfas, 2005). In March 2000 an agreement for $10.5 billion was signed, and in December 2000, a "shield" was completed by an amount close to $40 billion, involving international financial institutions, local banks, and the Spanish state, whose national companies made strong direct investments in Argentina during the whole decade. But economic indicators continued to worsen: in 2000, GDP fell around 1%, unemployment increased to over 20% and deflation was recorded. Instability and poor prospects of Argentina's economy only worsened their situation, so that the process of capital flight intensified: from January to December 2001 approximately $9 billion of international reserves were lost, equivalent to 35% of the total. To try to stop the drain of deposits in the financial system, on 3 December 2001 the optional dollarization of financial liabilities was authorised, and all active operations were compulsively converted into dollars. Simultaneously, a strict restriction on deposits in the financial system was imposed, known as "Corralito financiero".

Despite these desperate measures, in the last quarter of 2001 GDP fell by 10.3% compared to the same period in 2000. Depression was lasting over thirteen consecutive quarters. In late December 2001, the economic crisis and the arbitrary policies led to millions of citizens to demonstrate against the government. Following violent clashes, the President and his cabinet resigned. After a troubled transition, between December 2001 and January 2002 default of external debt and devaluation of the Argentine peso was announced. A split type of change was applied: the official rate for foreign trade and other certain transactions would be $1.40 per dollar (40% depreciation) and the exchange rate for other transactions would be set by in the free market. These measures ended with the main symbol of the convertibility plan: the exchange rate parity between the Argentine peso and the U.S. dollar. However, many other structural features that were still remaining were reversed during the next years. The recovery of Argentina's economy occurred in the second quarter of 2002 and was based on a retrieval of the role of the state, trade surplus, import substitution and competitive exchange rate, bolstered by the rise in international prices of raw materials.

Reforms in Russia

Since the 1990s, Russia also chose the way of foreign debt and structural reforms prescribed by the IMF and the World Bank. The Russian reforms, including privatisation, tax reform, reform of the labour code, pension reform, education reform, budget reform, Forest Code and others, were developed with the direct participation of international financial institutions and were based on neoliberal axioms (Zuev, 2012).

In accordance with the neoliberal program, the formation of a free market economy had three main elements: liberalisation, deregulation and privatisation. Thus, in conformity with the plans designed by the reformers and in order to change its economic structure, Russia had to proceed to:

- "Free prices" of goods and services, which was intended to provide automatic determination of their market value and remove the problem of shortages in the domestic market
- Trade liberalisation, which would accelerate the exchange of goods and change marketing infrastructure; and
- Privatisation of public ownership: transferring it – for a fee or free of charge – to the private sector was expected to create a middle class (smallholders), which could engage in business and participate in the market.

The transition to a market model was approved in October 1991. In January 1992, prices were liberalised, but the structure of production was still oligopolistic, which led to increasing average prices by the end of 1992, up to 150 times (Yavlinsky et al., 1991). In this context, there was a so-called «dramatic circle»: enterprises increased a product's prices trying to reduce losses, the purchasing power of the rouble and consuming capacity of the population declined, leading to a forced increase in nominal wages. The deficit of the state budget was increasing and at the same time the money emissions were growing. In this manner 1992 became a symbol of catastrophic inflation. Only by 1996 inflation was reduced to 1% per month.

Table 2 **Inflation in Russia, end of period, consumer prices (percent change)**

1992	1993	1994	1995	1996	1997	1998	1999
2508.8	839.9	215.1	131.3	21.8	11.0	84.4	36.5

Source: IMF, World Economic Outlook Database

As for stabilisation, theoretically it was aimed at curbing inflation and improving the financial situation of the state. In the context of the neoliberal program, attempts to improve the financial situation of the state were primarily focused on reducing the public debt and budget expenditure. It was assumed that the non-interference of the state in the economy could improve its efficiency. But in reality, these very fast changes in economic processes provoked a huge economic downturn, which was the main characteristic of the Russian transition period. During the period 1991-1996, the average annual decline for GDP was 8.2%, and for industrial production, it was 13%.

Table 3 **Russian Real GDP growth, in %**

	1992	1993	1994	1995	1996	1997	1998	1999
GDP	-14.5	-8.7	-12.7	-4.1	-3.5	0.8	-4.6	3.2

Source: Gaidar institute for Economic Policy (Russian Economy in 1992-1999. Trends and Outlooks) [www.iep.ru]

The transition period was also connected with structural shifts, such as changes in proportions between prices and/or production volumes of different goods and services. This meant that the prices of some goods increased several times faster than others. The production of some goods, such as machinery and equipment, declined sharply, but the production of other commodities didn't change significantly or even increased, such as oil and gas. It is important to mention that these structural shifts occurred during all of the transition period, not only at the moment of price liberalisation.

A precarious financial stability was achieved due to external and internal debt that helped to finance the budget deficit. After the fall of the Soviet Union, the Russian Federation was committed to repay most of the foreign debt of the USSR. Additionally, the country´s external debt during the transition period has increased dramatically: in 1985 it amounted to $28.3 billion, in 1990 increased to $59.8 billion, in 1993 - up to $80 billion, and in 1999 exceeded $140 billion.

The privatisation of state property started on 14 August 1992 with the decree on privatisation vouchers signed by B. Yeltsin. The "Vouchers" were the main component of the first stage of privatisation (1992-1994). Their main objective was to give equal starting opportunities to every citizen, as they shared the common property of the country. However, when the privatisation process started, the market prices of companies had not been determined yet. In that context, the basis for the sale of state´s productive capacity was based on an arbitrary value set by the Russian federation government and distributed equally among all the population, including children (148.7 million people). The share of each Russian citizen was 10 thousand roubles, but because of the enormous inflation, by the end of

1993 almost all of its purchasing power was lost. In practice, the Vouchers functioned almost as “bearer checks” and due to strong backlogs of salary levels, its systematic delays and non-payments; they became an object of trade. Thus, Vouchers were bought by those who had the cash to afford it much below their nominal price, provoking a strong differentiation within the Russian society[7].

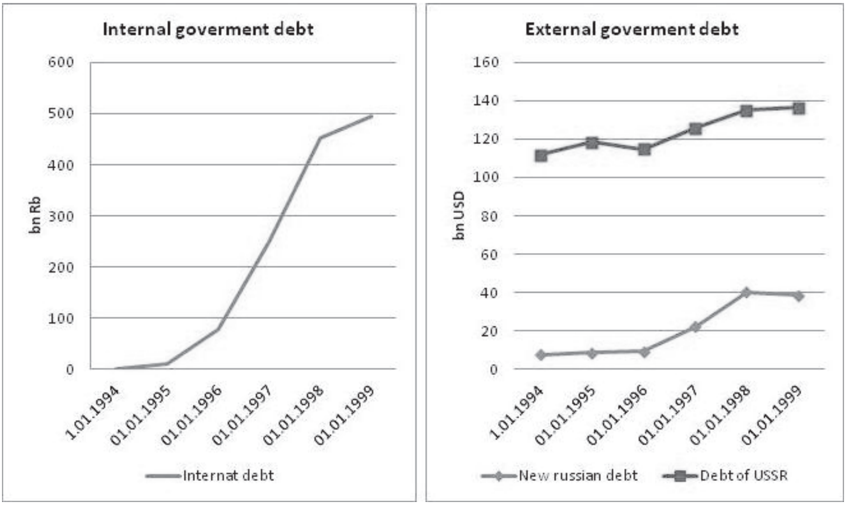

Figure 1 **Internal and external government debt**
Source: Bank of Russia [official site www.cbr.ru]

Internal debt also increased during the1990s. Since 1993, it is possible to distinguish three stages in the history of the domestic public debt (Pichugin, 1995). The first stage refers to the period 1993-1995: it is characterised by the small size of the domestic debt and its slow growth, consisting only of two types of securities – Sovereign bonds (OVGVZ) and treasury bills. In the second phase – from 1996 to 1997 – there was a sharp increase in the public debt. By this time T-bills, bonds (OFZ), State Savings Loan bonds (OGSZ) and OVGVZ were used as instruments. The third stage in the development of the domestic debt was after the August

[7] Privatisation in Russia and others countries of Commonwealth of Independent States. Centre of Scientific Studies of global and regional problems. Executive editor – Vinogradov V.A. Moscow, 2003.

1998 default, when the government securities market was significantly reduced[8].

On 27 October 1997, the Dow Jones Industrial Average index fell to a minimum record value of 554 points and this date may be considered as the beginning of the financial crisis in Russia, which destroyed all macroeconomic results achieved up to 1997, and changed the course of economic reforms. Obviously, the aggravation of the global financial crisis and the fall of exports prices in the international market were also involved in the economic destructive process experimented with in Russia. At the end of 1998 it seemed that the seven years of economic reforms were lost. Compared with 1991, the year of the birth of the new Russian state, the quality of life in 1998 was worse in many ways and the August financial crisis was the last step on the way to the collapse of Russian economy. Finally, in 1998 default and immediate devaluation of the rouble were announced and in 1999 there were the first real signs of economic recovery, such as positive economic growth, especially in manufacturing. An unexpected "post-crisis" economic breakthrough surprised researchers of Russian economic reforms, because in 1998 most of them thought that the 1990s program of reforms had finally failed.

Since the financial crisis in August 1998, the Russian economic recovery has been driven mainly by:

- ✓ High international prices at the world market of oil and other Russian exports;
- ✓ Growth of domestic production beyond the energy sector in the aftermath of rouble devaluation, due to import substitution.

Actually, since the beginning of the reforms in the Russian economy exports have been playing a key role in the economic development of the country. On average, they have accounted for one third of GDP in the last 20 years. This figure has not changed much during the whole period, except in 1992, when the proportion reached 60.4% and post-crisis 1999-2000 – 40% (See Table 4).

[8] Ministry of Finance of the Russian Federation [official site *www1.minfin.ru*].

Table 4 **Correlation of Russian exports and GDP**

Year	GDP, $bn	Exports, $bn	Share of exports in GDP, %
1992	85.6	51.7	60.4
1993	183.8	58.6	31.9
1994	276.9	67.4	24.3
1995	313.5	82.4	26.3
1996	391.8	89.7	22.9
1997	405.0	86.9	21.5
1998	271.0	74.4	27.5
1999	195.9	75.6	38.6

Source: IMF, World Economic Outlook Database; Bank of Russia

At the same time the share of oil and gas in Russian exports rose and the share of machinery and equipment decreased. In this scenario, the high volatility of commodity prices increased dramatically the vulnerability of the national economy to external risks.

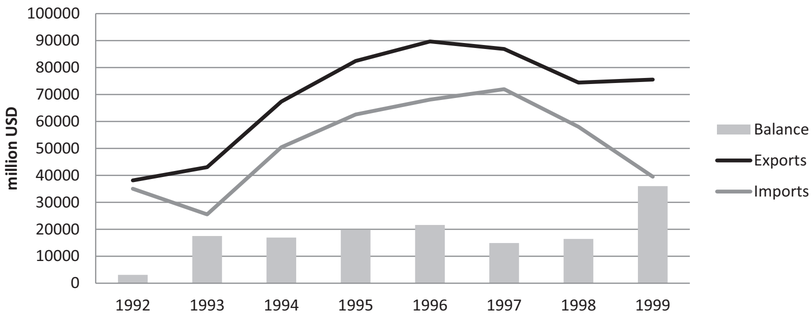

Figure 2 **Russian Import and Export balance**

Source: Federal state statistics service of the Russian Federation [official site www.gks.ru]

Table 5 **Comparison between Argentina and Russia**

Policy recommendations of the Washington Consensus	**Argentina**	**Russia**
Fiscal discipline	It was banned for the Central bank to finance the State budget. Therefore the deficit was covered by external borrowing through bond issues or loans from international financial institutions, particularly the IMF, WD and IDB.	Drastic budget cuts, budget deficit was financed by increasing public debt (for example, internal debt of the Russian Federation, expressed in Russian government securities increased from 0.09 to 451.05 billion roubles from 01.01.1993 to 01.01.1999).[9]
Prioritisation of public spending	The main component of the public spending was the payment of pensions. Secondly, with special emphasis on the second half of the decade, were the debt service payments. Behind them were spending on health, operating expenses and education. However, after the crisis of 1998, severe cuts were applied to all of the above except the payment of foreign debt.	At the beginning of the 1990s, social policy was aimed at increasing the share of social spending in total expenditure, but the effectiveness of social programs remained at a low level (e.g. sharp increase of population below the poverty line), which was one of the main reasons for the rapid increase in the budget deficit. However, social sphere was not a priority during the period of structural reforms.
Tax reform	Export taxes were eliminated, import tariffs were drastically reduced and a general 21.5% VAT was introduced.	In 1992 the Tax Code was approved, which introduced such taxes as income tax, individual tax, VAT, excises, land tax, etc. During 1990-2000 a series of laws and amendments were applied to the tax legislation.
Interest rates	Since 1991, interest rates were highly positive, determined by the market. This situation was formalised in 1992, with the reform of the charter of the Central bank.	The banking sector was privatised and liberalised, financial sector was created with a deregulated framework, opening access of foreign capital in the domestic market and allowing Russian banks and enterprises to borrow in foreign markets. After the shock therapy period (1992-1995), interest rates were positive.

[9] Data from the Department of state debt and state financial assets of the Russian Federation, 2012. Available online at: *http://www1.minfin.ru/common/img/uploaded/library/2011/02/sddolggod2011-0.pdf*

Exchange rates	The exchange rate was established by law 23.928. It was fixed and convertible: 1 Argentine Peso = 1 US Dollar, from 1991 to 2002	The formation of the currency market started in autumn 1989. On 1 July 1992 a floating exchange rate against the US dollar was introduced by the Bank of Russia, the rate was daily fixed at the Moscow Interbank Currency Exchange by a tendering mechanism.
Trade liberalisation	Export taxes were eliminated as were almost all quantitative restrictions. Taxes on imports were also drastically reduced from an average of 45% in 1990, to 11% in 2000.	On 15 November 1991, the Decree “On Liberalisation of foreign trade activities in the territory of the RSFSR” was passed. It allowed foreign trade activities for companies and individuals and the opening of foreign currency accounts. As a result the foreign trade turnover for the years 1992-2000 increased approximately 2.5 times.
Liberalisation of foreign direct investment	It was possible to keep freely funds in Argentine pesos or U.S. dollars. Moreover, the entrance and exit of capital into the country was totally liberalised without minimum terms, restrictions or conditions of any kind.	The law on foreign investment (1999) proclaimed the right to establish institutions and set the regime for foreign investments and protection against unfair expropriation. The role of foreign capital in the creation and development of market institutions increased, but the legal regime of FDI kept restrictions.
Privatisation of state enterprises	Between 1990 and 1995 virtually all state enterprises were privatised, including oil, airlines, railroads, public services companies and the pension system.	Mass privatisation was carried out in accordance with the State Program: vouchers, direct sale of state property or auctions (1992-1994), secured auctions (1995) and privatisation rights on housing and land.
Deregulation and greater flexibility	Between 1990 and 1995 several measures of deregulation and flexibility were introduced, especially in prices and labour market. Deregulation in the business legal framework promoted a sharp increase of corruption.	State intervention was drastically reduced. Market gained importance as regulator of economic activity. Decentralisation of economic management was begun, increasing autonomy of private economic units.
Legal security for property rights	Property rights were protected by local legislation and international agreements, especially since joining the WTO, in 1995.	Quick privatisation in the absence of a legislative framework did not contribute to the full legitimacy of private property formed in these years. During the period of structural reform local laws failed to make privatisation in conformity to international standards for the protection of property rights.

Latvia

After regaining its independence in 1991, Latvia also began a process of structural reforms inspired by the guidelines of the neoliberal doctrine, embodied in the recommendations of the Washington Consensus. Thus, in its first stage these reforms included liberalisation, deregulation and privatisation. As in the case of Russia, during the first years a strong fall in output and a hyperinflationary explosion is observed.

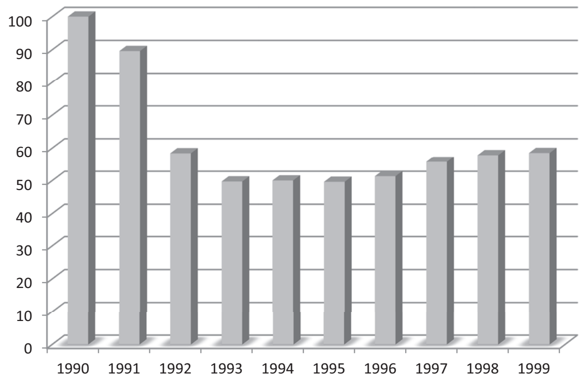

Figure 3 **Evolution of Real GDP of Latvia, 1990-1999 (1990 = 100)**

Source: Authors calculations based on CSB of Latvia

Table 6 Variation in Consumer Price index (as % of the previous year)

1991	172.2
1992	951.2
1993	109.2
1994	35.9
1995	25
1996	17.6
1997	8.4
1998	4.7
1999	2.4

Source: Authors calculations based on CSB of Latvia

For its part, similarly as in Argentina, in the case of Latvia, liberalisation of the current account of the balance of payments combined with a new relatively overvalued currency led to a systematic deficit in the trade balance with the rest of the world. Except in 1992 and 1993, in all other years, a deficit was recorded, as shown in the Figure 4. This is a trend that continues until the present and that is accentuated during the cycles of economic growth. This process was accompanied by a massive closure of firms (mainly manufacturing), unemployment and falling real wages, e.g. between September 1990 and September 1992 real wages decreased by 60% (Dreifelds, 1996) and official unemployment reached 20.7% in 1996.

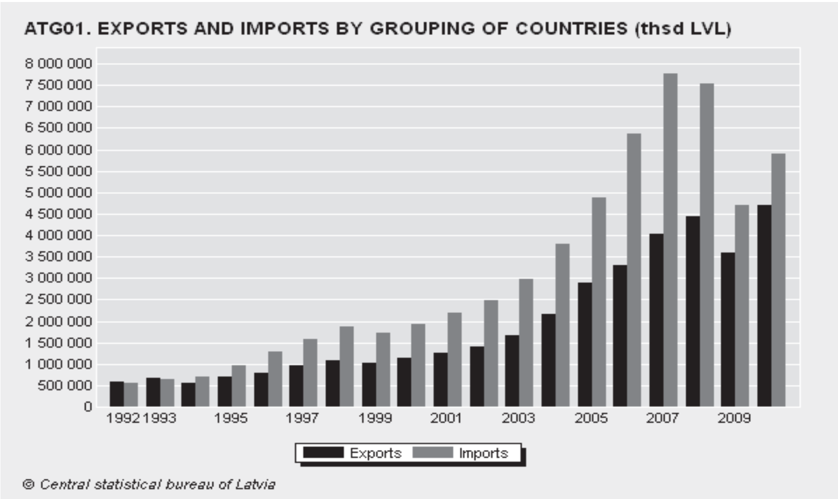

Figure 4 **Latvian Imports and Exports 1992-2010**

Source: CSB of Latvia

By 1994, Latvia managed to halt the recession. However, the newly deregulated banking system and liberalised interest rates affected the fragile stability that the Latvian economy had reached. In 1995, the country's largest bank, *Banka Baltija*, went bankrupt. This event was deepened by a severe state budget crisis, which led to a domino effect that dragged down several other banks.

Similarly, Latvia had to face a new critical stage during 1998-1999 due to the severe crisis of the Russian financial system. In addition, this situation was exacerbated by the fall in international commodity prices.

In short, the situation in Latvia during the 1990s was strongly influenced by the effects of the economic policies applied, whose main objective was to create the conditions for developing a market economy. These policies were underpinned by three fundamental pillars: liberalisation, deregulation and privatisation of the national economy. The result was a decade marked by economic instability and a dramatic social situation dominated by rapid increases in inequality and poverty. In fact, according to the latest available statistics from Eurostat, Latvia is the most unequal country in the European Union, as measured by the Gini index[10].

The new millennium brought a new economic cycle, marked by the entry of the country into the WTO in 1999 and into the European Union in 2004. Since the beginning of 2000, Latvia exhibited impressive growth rates until 2007. However, this virtuous cycle was abruptly cut by the international financial crisis, highlighting the high vulnerability and exposure of the Latvian economy to external shocks. Between 2008 and 2010 Latvia's GDP fell by around 25%, bringing back the Latvian economy to the 2005 levels (Weisbrot and Ray, 2011).

Conclusions

As it was mentioned in the introduction, the cases that have been described in this article show substantial structural and circumstantial differences within them. However, it is also important to note that all of them have implemented - at different paces and extensions - the policies recommended by the Washington Consensus agenda with remarkable similar consequences in some aspects. Thus, in this conclusion the authors will try to address their similarities and specificities, as well as the general trends.

In the first place, it is worthwhile to mention that in all cases trade liberalisation combined with an overvalued exchange rate and low productivity affected negatively the balance of payments, tending to place emphasis on exports of primary goods and raw materials. In the case of Argentina and Latvia, it was impossible for local industries to compete with imported goods. This led to an increase in the number of bankruptcies and a rapid increase in unemployment. In both countries this dynamic was accentuated when the economy was growing, as there was a greater part of disposable income to spend on imports, and consumption turned to buy cheaper foreign goods in the detriment of local production. The case of Russia is a little different in this regard: even when there was a permanent surplus in the current account, there was a shift in the structure of foreign trade. Both exports and imports increased during this period, but exports were mostly composed of raw materials and imports of finished goods. This also led to bankruptcies of industries and an increase of unemployment, but combined with an external surplus.

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[10] As of 2012, Latvia´s Gini Index is 35.7; followed by Spain, 35; and Portugal, 34.5. (Eurostat Database – Gini coefficient of equalized disposable income).

In the second place, it is possible to state that high interest rates had two main negative consequences for local industries in these countries. On the one hand, there is the traditional contractionary effect on local investment and demand. On the other hand, deregulation of financial markets, foreign exchange and capital movements, combined with high interest rates set by the market promoted foreign speculative investment instead of productive investments. At the same time, deregulation for mobility of capital left the financial systems of these countries in positions of extreme fragility and high exposure to external shocks. The best example of this, were the major financial crises suffered by Russia in 1998, by Argentina in 2001 and by Latvia in 2008-2009.

In the third place, in the described scenarios, internal and external debt plays a key role to sustain the economic model. In the case of Argentina, the only way to sustain the convertibility model was through indebtedness. The increase of external debt was not the result of “mismanagement” but, on the contrary, it was an indispensable condition for sustaining the economic model for 10 years as it was the only way to raise the needed foreign currencies for the Central bank reserves. When dollars stopped flowing into the Argentine financial system, especially after the “Tequila” crisis and even more after the Russian crisis, the only way to ensure those dollars was taking credits from the international financial institutions and the issuance of debt bonds. However, from 1997-1998, the ratio between dollars received and capital flight was almost 1 : 1, which means that the Argentine economy was virtually taking on debt to finance capital flight of private local and foreign agents.

In the case of Russia, it is no coincidence that the debt was increasing during the years of macroeconomic stabilisation. The Russian government needed urgently to raise funds to alleviate the social situation and pursue its project of consolidation of the market economy system. In this context, the way to get these funds was the issuance of debt securities. Finally, in the case of Latvia, external borrowing intensified during the economic boom of the 2000s. During this period the general government debt increased over four times. In this way, it is possible to argue that under the WC model, external debt plays a key role in the economic growth in the short term, but it finally lead to a crisis in the medium-long term.

In summary, it is evident that there are direct causal connections between the nature of the structural reforms applied in these countries during the first half of the nineties and the respective crises that these economies suffered. The main conclusions that the authors can draw from the cases analysed are that neoliberal structural reforms don’t provide a long-term sustainable growth strategy, but instead of that, increase internal instability and external vulnerability. The first statement is based on the notorious volatility showed by the GDP evolution and the harshness of the crisis that followed the growth cycles (See Annex 2). In addition to that, when economies were growing, they were not effective in absorbing the unemployed labour force. Regarding the second statement, it is clear that economic openness and integration make national economies more vulnerable to external shocks (Foo, 2005). However, the particularity of this model is that the main channel of transmission of external vulnerability is the financial sector. This is confirmed by observing that the major crises in these countries were related to the financial sector. In turn, the authors can also mention the strong repercussions that the last international financial crisis had in Latvia, whose economy kept the neoliberal model. Conversely, Argentina and Russia, that reversed much of the neoliberal reforms during the following decade, showed a relatively successful performance despite the drop in export prices and world trade volume.

In short, the set of reforms promoted by the Washington Consensus was intended to open national economies to integrate them into the world economic order that emerged after the end of the Cold War. However, the main outcome of this model was that it generated a highly unstable equilibrium and it proved to be unable to ensure sustained growth in the medium to long term. Moreover, since the beginning of the new millennium a dramatic change in the global context is observed, characterised by the multipolarity of power and the growing role of emerging economies. In this context, Argentina, Russia and Latvia can be characterised as New Millennium Emerging Economies (NMEE), because after a decade of profound structural changes and instability during the 1990s, they began significant and sustained growth cycles since the early 2000s, promoted by the increase of commodity prices and integration in regional blocs, among other features. However, further research should be conducted on this topic to systematise the characteristics of these NMEE and its projection in the global scenario of the future.

Annex 1 **Table of comparison – Argentina, Latvia and Russia**

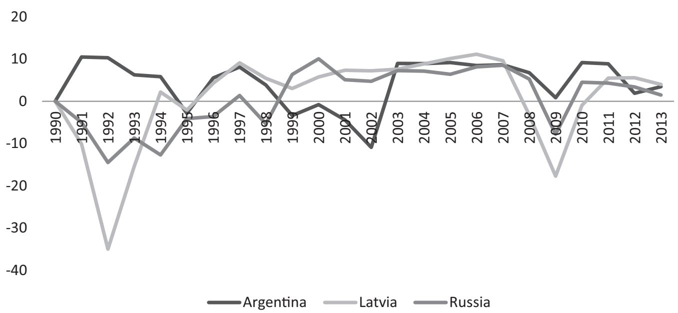
Country:	Liberalisation and privatisation					
	Current account convertibility	**Controls on inward direct investment**	**Interest rate liberalisation**	**Exchange rate regime**	**Wage regulation**	**Tradability of land**
Argentina	full	no	full	fixed peg to US dollar	no	unlimited
Latvia	full	no	full	Euro since 1/2014	no	full except foreigners
Russia	full	yes	full	managed float	no	limited de facto

Table of comparison – Argentina, Latvia and Russia (continuation)

Country:	Business environment and competition			Financial sector	
	Competition office	**Quality of insolvency law**	**Secured transactions law**	**Deposit insurance system**	**Private pension funds**
Argentina	yes	medium	advanced	yes	yes
Latvia	yes	under reform	advanced	yes	yes
Russia	yes	medium	under development	yes	yes

Source: Authors calculations based on EBRD, IMF, and INDEC data

Annex 2 **GDP evolution comparison (change in %)**



Source: Authors calculations based on EBRD, IMF, and INDEC data

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Gaidar Institute for Economic Policy: *http://www.iep.ru/en*

Instituto Nacional de Estadística y Censos (National Intitute of statistics and census of Argentina): *http://www.indec.mecon.ar/*

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Latvijas Republikas Centrālā Banka: *http://www.bank.lv/*

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THE COUNCIL OF EUROPE AND THE PROTECTION OF NATIONAL MINORITIES

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Abstract

This article gives an overview of the developments that have followed the recognition of national minority rights in the Council of Europe. The Council of Europe is the international institution generally acknowledged to have had most success in establishing new norms in the promotion of national minority rights. The Council of Europe, setup in 1949, was the first international organisation established to foster co-operation between European democracies for the purpose of realising and safeguarding their common ideals and principles, which include democracy, human rights and the rule of law. It is the practical expression of a vision of Europe based upon peace, stability and justice. National minority issues constitute an essential part of its mandate as one of most important aspect for peaceful and unite Europe.[1]

Between 1989 and 1991 the Council of Europe took qualitative steps forward with regard to normative standard setting and established the principle that national minority issues were a legitimate international concern, not merely an internal affair of the state concerned. Legal provisions existing in the Council of Europe for minority protection are based on the principle of non-discrimination with provisions of positive support and protection of individual rights of persons belonging to national minorities. The most important of them are two treaty-format instruments of the Council of Europe that have been entered into with a view to addressing minority-related questions are the European Charter for Regional or Minority Languages and Framework Convention for the Protection of National Minorities.

The European Charter for Regional or Minority Languages is designed to protect and promote regional or minority languages as a threatened aspect of Europe's cultural heritage. The Framework Convention for the Protection of National Minorities contains mostly programme-type provisions concerning the rights of minorities which leave the State Parties a measure of discretion in the implementation of the objectives enshrined through national legislation and governmental policies. The Council of Europe monitors implementation of both conventions and drafts every three years for the European Charter for Regional or Minority Languages and every five years for the Framework Convention for the Protection of National Minorities monitoring reports containing various recommendations.

Keywords: rights of national minorities, Council of Europe, Framework Convention for the Protection of national Minorities, European Charter for Regional or Minority Languages.

[1] National Minority standards, Strasbourg: Council of Europe Publishing, 2007, P. 7.

Introduction

The horrors of the Second World War had convinced many people that international co-operation was vitally needed to avert new conflicts and create conditions in which states could work fruitfully together. The Council of Europe's first task was thus to bring together those European states which shared democratic values, and were founded on the ideals of personal freedom, political liberty and the rule of law.[2]

The Council of Europe was an organisation as a sort of social and ideological counterpart to the military aspects of European co-operation represented by the North Atlantic Treaty Organization. It was inspired partly by interest in the promotion of European unity, and partly by the political desire for solidarity in the face of the ideology of Communism. In other words, the Western European states wished to demonstrate that they were as serious about the "first generation" civil and political rights, as the USSR and its allies undoubtedly were with regard to the "second generation" social and economic rights.[3]

Now the Council of Europe is the continent's leading human rights organisation. It includes 47 member states, 28 of which are members of the European Union. All Council of Europe member states have signed up to the European Convention on Human Rights, a treaty designed to protect human rights, democracy and the rule of law. The European Court of Human Rights oversees the implementation of the Convention in the member states. Individuals can bring complaints of human rights violations to the Strasbourg Court once all possibilities of appeal have been exhausted in the member state concerned. The Council of Europe advocates freedom of expression and of the media, freedom of assembly, equality, and the protection of minorities.

European Convention on Human Rights

The Council of Europe was created on 5 May 1949 by the signing of the Treaty of London. Any European State may become a member of the Council of Europe as far as it accepts the principles of the rule of law and of the enjoyment by all persons within its jurisdiction of human rights and fundamental freedoms. According to the Article 3 of the Statute of the Council of Europe every member of the Council of Europe must accept the principles of the rule of law and of the enjoyment by all persons within its

2 Florence Benoît-Rohmer and Heinrich Klebes, Council of Europe law, Towards a pan-European legal area, Council of Europe Publishing, 2005, P. 20.

3 Ian Brownlie, Guy S. Goodwin-Gill, Basic Documents on Human Rights, 5th ed., Oxford University Press, Oxford, 2006, P. 609.

jurisdiction of human rights and fundamental freedoms, and collaborate sincerely and effectively in the realisation of them.[4]

This special importance which the Member States accord to human rights – a newly emerging concept at a time when the majority of the world's States jealously guarded the sovereign privilege to deal with their citizens as they wished – was subsequently taken to a new level with the opening for signature in Rome on 4 November 1950 of the Council of Europe's Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR).[5] According to the Article 9 and 14 of ECHR the enjoyment of the rights and freedoms set forth in ECHR shall be secured without discrimination on any ground such as sex, race, colour, language, religion, political or other opinion, national or social origin, association with a national minority, property, birth or other status. Everyone has the right to freedom of thought, conscience and religion; this right includes freedom to change his or her religion or belief and freedom, either alone or in community with others and in public or private, to manifest his or her religion or belief, in worship, teaching, practice and observance. Freedom to manifest one's religion or beliefs shall be subject only to such limitations as are prescribed by law and are necessary in a democratic society in the interests of public safety, for the protection of public order, health or morals, or for the protection of the rights and freedoms of others.[6]

In the Council of Europe in particular, the ECHR has been assessed for its strengths and limitations on minority issues. The results are mixed. The "indirect" approach of the ECHR to minority protection has produced an indispensable matrix of rights for the basic freedoms of citizens, and a broad commitment to pluralist democracy essential for minorities to thrive. The contribution of the ECHR to the democratic protection of European citizens is enormous. Although the text is relatively "light" on key questions such as non-discrimination, because of the subsidiary character of that principle in the text of the ECHR, possibilities of development are present.[7]

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4 Statute of The Council of Europe, *http://www.conventions.coe.int/Treaty/Commun/QueVoulez Vous.asp?NT=001&CM=8&DF=09/10/2013&CL=E NG*

5 Uğur Erdal, Hasan Bakirci, Article 3 of the European Convention on Human Rights: A Practitioner's Handbook, OMCT, 2006, P. 33.

6 Convention for the Protection of Human Rights and Fundamental Freedoms, *http://www.conventions.coe.int/Treaty/Commun/QueVoulezVous.asp?NT=005&CM=8&DF=09/10/2013&CL=ENG*

7 Patrick Thornberry, Maria Amor Martin Estebanez, Minority Rights In Europe, Council of Europe, Europe press, 2004, P. 650.

Protocol No. 11 (1994) aims to rationalise the machinery for enforcement of rights and liberties guaranteed by the ECHR. All alleged violations of the rights of persons were referred directly to the new permanent Court. In the majority of cases, the Court will sit in Chambers of seven judges. The Court deals with individual and inter-State petitions. Following the entry into force of Protocol No. 11 to the ECHR on 1 November 1998, the control machinery established by the ECHR has been restructured. All alleged violations of human rights are referred directly to the Court.[8]

Protocol No. 12 (2000) to the ECHR expands the scope of the prohibition of discrimination by guaranteeing equal treatment in the enjoyment of any right. According to the Explanatory Report to the Protocol, it was created out of a desire to strengthen protection against discrimination which was considered to form a core element of guaranteeing human rights. Article 1 of the Protocol No. 12 provides a general non-discrimination clause and thereby affords a scope of protection which extends beyond the enjoyment of the rights and freedoms set forth in the ECHR without discrimination on any ground such as sex, race, colour, language, religion, political or other opinion, national or social origin, association with a national minority, property, birth or other status.[9] Under Article 14 of the ECHR, discrimination is prohibited only in relation to the exercise of another right guaranteed by the treaty. Under Protocol No.12, the prohibition of discrimination becomes free standing.[10]

Rights of national minorities

In 1957, the Parliamentary Assembly of the Council of Europe adopted Resolution No. 136 (1957) on the position of national minorities in Europe. In this resolution the Assembly recognises that in various Member States of the Council of Europe there are population groups conscious of belonging to a national minority in which another Member State is interested. The Assembly, considering that a comparative study of the laws and regulations in force, and of existing situations in this regard, might show whether, and to what extent, improvements could be effected, invited the Governments

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[8] Protocol No. 11 To The Convention for The Protection Of Human Rights and Fundamental Freedoms, Restructuring The Control Machinery Established Thereby, *http://www.conventions.coe.int/Treaty/Commun/QueVoulezVous.asp?NT=155&CM=8&DF=09/10/2013&CL=ENG*

[9] Protocol No. 12 to the Convention for the Protection of Human Rights and Fundamental Freedoms, *http://conventions.coe.int/treaty/en/Reports/Html/177.htm*

[10] Handbook on European non-discrimination law, European Union Agency for Fundamental Rights, European Court of Human Rights – Council of Europe, 2011, Luxembourg: Publications Office of the European Union, 2011, P. 17.

of the Council of Europe concerned in these matters to transmit all desirable information to the Secretary-General.[11]

In 1961, the Parliamentary Assembly recommended the inclusion of an article in a second additional protocol to guarantee to national minorities certain rights not covered by the ECHR. The latter simply refers to "association with a national minority" in the non-discrimination clause provided for in Article 14.[12] Recommendation 285 (1961) on the rights of national minorities proposed the following wording for the draft article on the protection of national minorities: "Persons belonging to a national minority shall not be denied the right, in community with the other members of their group, and as far as compatible with public order, to enjoy their own culture, to use their own language, to establish their own schools and receive teaching in the language of their choice or to profess and practise their own religion".[13]

The higher level of protection of human rights in European law exists not only within the protection of the civil and political rights of minorities, but also in the field of economic and social rights, as it is shown by the1961 European Social Charter which was revised in 1996.[14]

The European Social Charter (ESC) is relevant for the present discussion of educational rights of national minorities and migrants as it supplements the ECHR in the field of economic and social rights and lays down various fundamental rights and freedoms which encompass among other things education and non-discrimination. Article E of the Revised Charter, contains a non-discrimination clause which reads that the enjoyment of the rights set forth in the Charter 'shall be secured without discrimination on any ground such as race, colour, sex, language, religion and also makes an explicit reference to prohibition of discrimination in the enjoyment of the rights under the ESC on the basis of the association with a national minority.[15]

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[11] Resolution 136 (1957) on the position of national minorities in Europe, *http://assembly.coe.int/Main.asp?link=/Documents/AdoptedText/ta57/ERES136.htm*

[12] Framework Convention for the Protection of National Minorities: Collected Texts, Council of Europe, 2008, P. 18.

[13] Recommendation 285 (1961) on the rights of national minorities, *http://assembly.coe.int/Main.asp?link=/Documents/AdoptedText/ta61/EREC285.htm*

[14] Björn Arp, International Norms and Standards for the Protection of National Minorities: Bilateral and Multilateral Texts with Commentary, BRILL, 2008, P. 59.

[15] European Social Charter, *http://conventions.coe.int/Treaty/Commun/QueVoulezVous.asp?NT=035&CL=ENG*

Collapse of communism

The collapse of communism in the former Soviet bloc between 1989 and 1991 was accompanied by an outpouring of antagonistic nationalism on the part of both national minorities and national majorities in the region. Multinational Yugoslavia, Czechoslovakia and the Soviet Union came apart along ethnic lines and were replaced new national minorities who in many cases resented their position as 'entrapped' peoples. The political-and in some instances military-confrontations this hostility engendered became matters of some urgency for those institutions charged with the task of maintaining order and stability in post-Cold War Europe. As a result, the national minority question rose to the top of the European international agenda for the first time since 1945.[16]

In 1990 the Parliamentary Assembly of the Council of Europe prepared Recommendation No. 1134 (1990) on the rights of minorities. The Assembly recommended that the Committee of Ministers draw up a Protocol to the ECHR or a special Council of Europe convention to protect the rights of minorities in the light of these new principles.[17] Recommendation No. 1134 (1990) indicates respect for minority rights "as an essential factor for peace, justice, stability and democracy", recommends that the Committee of Ministers draw up a protocol to the ECHR or a special convention; stresses not only the need for a general (non-accessory) clause on the prohibition of discrimination in the ECHR and basic guarantees such as equal access to court, but also the need for special measures for minorities, including trans-frontier contacts rights; lists rights of minorities as such (namely, group rights) and rights of persons belonging to minorities (namely, individual rights) – including the right to have one's own institutions, to participate in decision-making and to receive public instruction in the mother tongue – involving positive measures by states; reaffirms the principle of territorial integrity of states and mentions the duties of minority members vis-a-vis the state where they live.[18]

[16] J.Jackson Preece, National Minorities and the European Nation-States System, Oxford, Clarendon Press, 1998, P. 3.

[17] Recommendation 1134 (1990) on the rights of minorities, *http://assembly.coe.int/Main.asp?link=/Documents/AdoptedText/ta90/EREC1134.htm*

[18] Gaetano Pentassuglia, Minorities in International Law: An Introductory Study, European Centre for Minority Issues, Council of Europe, 2002, P. 127-128.

European Charter for Regional or Minority Languages

Among the fundamental aims of the Council of Europe are the protection and promotion of the wealth and diversity of Europe's cultural heritage. Regional or minority languages are very much part of this heritage. Since 1992, Council of Europe's Member States have been able to confirm their commitment to the protection of this heritage by ratifying the European Charter for Regional or Minority Languages (ECRML).

The ECRML, drawn up on the basis of a text put forward by the Standing Conference of Local and Regional Authorities of Europe, was adopted as a convention on 25 June 1992 by the Committee of Ministers of the Council of Europe, and was opened for signature in Strasbourg on 5 November 1992. It entered into force on 1 March 1998.

At present, the ECRML has been ratified by twenty-five states (Armenia, Austria, Bosnia and Herzegovina, Croatia, Cyprus, Czech Republic, Denmark, Finland, Germany, Hungary, Liechtenstein, Luxembourg, Montenegro, Netherlands, Norway, Poland, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine and the United Kingdom). Another eight states have signed it, some of which are expected to ratify soon.[19]

This treaty aims to protect and promote the historical regional or minority languages of Europe. It was adopted, on the one hand, in order to maintain and to develop the Europe's cultural traditions and heritage, and on the other, to respect an inalienable and commonly recognised right to use a regional or minority language in private and public life.[20]

First, it enunciates objectives and principles that State Parties undertake to apply to all the regional or minority languages spoken within their territory: respect for the geographical area of each language; the need for promotion; the facilitation and/or encouragement of the use of regional or minority languages in speech and writing, in public and private life (by appropriate measures of teaching and study, by transnational exchanges for languages used in identical or similar form in other States). Further, the ECRML sets out a number of specific measures to promote the use of regional or minority languages in public life. These measures cover the following fields: education, justice, administrative authorities and public services, media, cultural activities and facilities, economic and social activities and trans-frontier exchanges. Each State Party undertakes to apply a minimum of thirty-five paragraphs or sub-paragraphs chosen from among these measures, including a number of compulsory measures chosen from

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[19] Chart of signatures and ratifications, *http://conventions.coe.int/treaty/Commun/ChercheSig.asp?NT=148&CM=1&DF=&CL=ENG*

[20] European Charter for Regional or Minority Languages, *http://conventions.coe.int/treaty/Commun/QueVoulezVous.asp?NT=148&CM=1&CL=ENG*

a "hard core". Moreover, each State Party has to specify in its instrument of ratification, acceptance or approval, each regional or minority language, or official language which is less widely used in the whole or part of its territory, to which the paragraphs chosen shall apply. Enforcement of the ECRML is under control of a committee of experts which periodically examines reports presented by the State Parties. Under the terms of its Article 15 (1), each State Party is required to present its first report "within the year following the entry into force of the Charter with respect to the Party concerned, the other reports at three-yearly intervals after the first report.[21]

The ECRML is primarily not an instrument for the protection of minorities. It is focused on the promotion and protection of regional and minority languages and, in this way, it may be instrumental for the protection of minorities, bearing in mind that language is one of the most important aspects of their protection. The ECRML is a normative instrument which does not create justiciable rights, whether for minorities or for persons belonging to minorities. While of necessity it acknowledges the concept of a minority, it tends to focus more on the concept of "speakers" of the language in question. The ECRML places, however, obligations on States which accede to it. Those obligations require them to adopt the measures laid down in it, unless domestic law already affords the same guarantees as in the ECRML. In that sense, the obligations may therefore eventually result in rights for individuals.[22]

With regard to its object and purpose, the ECRML is, as noted above, centrally concerned with the preservation of cultural diversity. The preamble of the CRML, for example, recognises that some of 'the historical regional or minority languages of Europe' are in danger of eventual extinction, and that the protection of such languages contributes to the maintenance and development of Europe's cultural wealth and diversity. This theme is also emphasised in the Explanatory Report to the ECRML. While the demographic situation of these 'regional or minority languages' varies greatly, the Explanatory Report recognizes that many of these languages share one important feature: they all suffer from 'a greater or lesser degree of precariousness'. In this context, the 'overriding purpose' these regional or minority languages 'as a threatened aspect of Europe's cultural heritage, indeed, the Explanatory report characterises this overriding purpose as

[21] European Charter for Regional or Minority Languages, Summary, *http://www.conventions.coe.int/Treaty/en/Summaries/Html/148.htm*

[22] J.M. Woehrling, The ECRML – A critical commentary, Council of Europe Publishing, Strasbourg 2005, P. 27.

'cultural'. In making culture, and cultural diversity, its central focus, the ECRML is unique.[23]

Framework Convention for the Protection of National Minorities

In 1994 by the Committee of Ministers of the Council of Europe was adopted the Framework Convention for the Protection of National Minorities (FCNM)[24] which was entered into force in 1998. It is the first legally binding multilateral instrument devoted to the protection of minorities and is regarded as the most comprehensive international standard in the field of minority rights so far. To a large extent, it transforms the political commitments of the 1990 Copenhagen Document of the Organization for Security and Cooperation in Europe into legal obligations. As of December 2013, the Framework Convention for the Protection of National Minorities had been ratified by 39 states. It has been signed but not ratified by 4 states.[25]

The use of the term 'framework' refers to the fact that the FCNM contains 'programme-type' provisions. In view of the different situations and problems in the Member States the drafters of the FCNM did not consider it feasible to include provisions with detailed or specified rights for minorities. The word "framework" in the instrument highlights a quite wide margin of appreciation for states to translate this convention's provisions to their contextual situation in a specific country. Programmatic provisions often contain qualifying phrases such as "substantial numbers",

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[23] Robert Dunbar, Synergies in Minority Protection: European and International Law Perspectives,

Edit, by Kristin Henrard and Robert Dunbar, Cambridge, Cambridge University Press, 2008, P. 157.

[24] Framework Convention for the Protection of National Minorities, *http://www.conventions.coe.int/Treaty/en/Treaties/Html/157.htm*

[25] Framework Convention for the Protection of National Minorities, Chart of signatures and ratifications, *http://www.conventions.coe.int/Treaty/Commun/ChercheSig.asp?NT=157&CM=1&DF=&CL=ENG*

As of December 2006, the Framework Convention had been ratified by 39 states: Albania, Armenia, Austria, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, Georgia, Germany, Hungary, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Malta, Moldova, Netherlands, Norway, Poland, Portugal, Romania, Russian Federation, San Marino, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, The former Yugoslav Republic of Macedonia, Ukraine, the United Kingdom of Great Britain and Northern Ireland and Montenegro. The four states that have signed but not ratified the Framework Convention are Belgium, Greece, Iceland, and Luxembourg.

"a real need", "where appropriate", and "as far as possible," giving the state parties certain flexibility when they implement the FCNM through national legislation and appropriate governmental policies. The Framework Convention is thus largely created as a series of state obligations rather than as a detailed list of rights of persons belonging to national minorities. However, this state flexibility does not release states from their legal obligation to implement the FCNM's provisions over time.[26]

The Framework Convention does not contain a definition of the concept of "national minority" as there is no general definition agreed upon by all Council of Europe member states. Each party to the FCNM is therefore left with a margin of appreciation to assess which groups are to be covered by the FCNM within their territory. Individuals are free to decide whether or not they wish to be treated as belonging to a national minority.

The aim of the FCNM is to specify the legal principles which States undertake to respect in order to ensure the protection of national minorities. The FCNM therefore sets out general objectives and principles concerning issues such as cross-border contacts, education, full and effective equality, identity, association, religion, language, media and participation. It should be noted that a number of provisions go beyond the mere stating of principles so that the FCNM is sometimes called a hybrid convention. The Preamble of the FCNM says that the State Parties are obliged to implement the objectives and principles through national legislation and policies.[27]

The purpose of the FCNM is to ensure the applicability of the principles of equality and non-discrimination for persons belonging to national minorities. The FCNM stresses that the promotion of full and effective equality between persons belonging to a national minority and those belonging to the majority may require the states to adopt special measures that take into account the specific conditions of the persons concerned. Such measures need to be "adequate", that is in conformity with the proportionality principle, in order to avoid violation of the rights of others as well as discrimination against others. This principle requires, among other things, that such measures do not extend, in time or in scope,

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[26] Alan Philips, The Framework Convention for the Protection of National Minorities, Minority issues handbook: Mechanisms for the implementation of minority rights, Council of Europe, 2004, P. 111.

[27] Catherine Barnes, Manon Olsthoorn, The Framework Convention for the Protection of National Minorities A Guide for Non-Governmental Organizations, Minority Rights Group, 1999, P. 5.

beyond what is necessary in order to achieve the aim of full and effective equality.[28]

According to Article 5 Paragraph 2 of the FCNM the states undertake to promote the conditions necessary for persons belonging to national minorities to maintain and develop their culture, and to preserve the essential elements of their identity, namely their religion, language, traditions and cultural heritage. Without prejudice to measures taken in pursuance of their general integration policy, the states shall refrain from policies or practices aimed at assimilation of persons belonging to national minorities against their will and shall protect these persons from any action aimed at such assimilation. Paragraph 1 of Article 5 lists four essential elements of the identity of a national minority. This provision does not imply that all ethnic, cultural, linguistic or religious differences necessarily lead to the creation of national minorities. However, the reference to "traditions" is not an endorsement or acceptance of practices which are contrary to national law or international standards.[29]

Articles 24-26 of the FCNM set out the monitoring mechanism. Essentially, States are obliged to submit periodic reports for examination. Ultimate responsibility for examining the reports rests with the Committee of Ministers of the Council of Europe, but an Advisory Committee of experts assists the Committee of Ministers. Unlike in the ECHR, there is no procedure that allows for individual complaints. The specific monitoring arrangements are detailed in the Committee of Ministers Resolution 97(10). State reports are examined first by the Advisory Committee, which evaluates the adequacy of the measures taken by States and gives its "opinions" on the reports. The Committee of Ministers, in turn, considers the State reports and the opinions of the Advisory Committee before adopting its own conclusions on the Convention's implementation. Where appropriate, the Committee may also adopt recommendations.[30]

Although given a legal status, the FCNM does not invoke judicial enforcement in front of the European Court of Human Rights like the ECHR, but rests rather on a 'soft-law jurisprudence' consisting of opinions, monitoring, state visits, public reports and dialogue.[31]

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[28] Framework Convention for the Protection of National Minorities, Explanatory Report, *http://www.conventions.coe.int/Treaty/en/Reports/Html/157.htm*

[29] Framework Convention for the Protection of National Minorities, Explanatory Report, *http://www.conventions.coe.int/Treaty/en/Reports/Html/157.htm*

[30] Rules Adopted by the Committee of Ministers on the Monitoring Arrangements under Articles 24 to 26 of the Framework Convention for the Protection of National Minorities, *http://128.121.10.98/coe/pdfopener?smd=1&md=1&did=778974*

[31] Hoffman, R. and Friberg, E., The enlarged EU and the Council of Europe: Transfer of Standards and the Quest for Future Cooperation in Minority Protection, In: Toggenburg,

The FCNM was designed to create a legally-binding convention to protect national minorities, and to promote tolerance throughout society. It emphasizes the components of a pluralist and genuinely democratic society. It also identifies the need for tolerance and dialogue to enrich society. The effective implementation of the FCNM is essential for the development of a stable and inclusive Europe.

The Framework Convention for the Protection of National Minorities has attracted a lot of criticism relating to various aspects, including the programme-type character of the provision, not defined term of 'national minorities', slowly monitoring mechanism, weakening the obligatory character of FCNM. However, in the same time these aspects are strength of FCNM, too. States can interpret the provisions and implemented them the approach they find most suitable for local conditions. This is one of the reasons, why this Convention can be regarded as a success story, taking into account the impressive number of states of Eastern and Central Europe which rushed to sign the convention and subsequently also ratified it relatively quickly. So, the FCNM played a positive role in this process and that the minorities in the region are adequately protected.

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