

# Latvia: Out of the Crisis, Coming into its Own

*Mark A. Pekala*

United States Ambassador to the Republic of Latvia

In 2008, as the world battled the global financial crisis, a small country on the Baltic Sea emerged at the center of the world's attention: Latvia. One of the most severely affected economies in the world and dubbed by Paul Krugman "the new Argentina," Latvia stood in the global spotlight. During the crisis, Latvia's GDP dropped by a quarter and unemployment ballooned to 23 percent.

However, Latvia did not take this economic beating without a fight. While Latvia accepted a loan from the international troika of the IMF, the World Bank, and the European Commission, it refused to devalue its currency, the lat, which had been pegged to the euro since 2005. This approach went against the long-held wisdom of many in the economic community, but Latvia stood strong and opted for what was called "internal devaluation" and a strict path of fiscal consolidation. The government slashed public sector salaries by a third, shuttered many hospitals, and forced many first responders into early retirement.

Latvia's serious approach and perseverance paid off. This small nation has enjoyed the highest economic growth rates in the European Union for more than two years, and in January 2014 it will join the eurozone. It is heralded as a global success story, credited to the leadership of Prime Minister Valdis Dombrovskis and his economic team. What enabled this remarkable turnaround were the perseverance and commitment of the Latvian people. I have seen these characteristics at work again and again during my time in Latvia, from the country's long-term engagement in Afghanistan to its efforts to mentor other former Soviet republics on their roads to democratic governance and market economies. It is what makes this small country on the Baltic Sea such a strong partner and ally.

## A Force for Global Good

Latvians bring this perseverance and commitment to all that they do. In our security relationship, Latvia is a first-rate ally and partner. Since it joined NATO in 2004, Latvia has supported all of NATO's international missions. Even prior to becoming a NATO member, Latvia deployed soldiers to Bosnia-Herzegovina as part of the 1996-2004 stabilization force. Latvia came through again in 2000, sending troops to Kosovo for that nine-year mission. In Iraq, Latvia provided both troops and critical training. Right now, Latvia has approximately 150 soldiers stationed in Afghanistan as part of the NATO mission. Latvia's troops are among the few that serve without caveat, taking positions on the front lines, working in provincial reconstruction teams, and serving in some of the most dangerous regions of the country.

But Latvia does more than just provide troops. Since 2009, Latvia has also served as a key node on the Northern Distribution Network (NDN). Described as a "logistics miracle," this overland route to Afghanistan provides critical supplies to the NATO mission there.

Over 100,000 containers have transited the NDN, 50 percent of which have gone through Latvia. More than two million tons of goods have transited the Baltic States. Amazingly, almost all of this happens on commercial roads. The NDN has been a test case for Latvia's initiative to create a "New Silk Road" running from the Baltic ports through Central Asia to China. With this initiative, Latvia is working to build a sustainable path of economic growth not only for itself, but for all of the countries of Central Asia. By building the strength of the economies of Central Asia, Latvia is also strengthening their democracies and illustrating the key roles that rule of law and good governance play in economic success. This is the work of a committed, results-oriented partner, one that the United States has turned to again and again as we have sought to pursue our shared goals.

A partner beyond the boots-on-the-ground, Latvia has sought to capitalize on historical and cultural similarities to promote democracy and our shared values in Eastern Europe and Central Asia. This is Latvia's comparative advantage. Despite its small size and limited resources, the history that Latvia shares with other countries in Eastern Europe and beyond gives it the credibility to mentor those that seek greater openness and integration with the West. Examples abound. Latvia has provided customs and border control training to officials from Serbia, Armenia, and Uzbekistan. It has supported anti-corruption and cultural education in countries like Tajikistan, Georgia, Armenia, and Moldova. As part of the Emerging Donor Challenge Fund (EDCF), Latvia is developing a proposal to combine Latvian and US development assistance to build on its previous border security in Uzbekistan. Dedication to our shared values is yet another way that Latvia has proven itself to be a like-minded partner.

Latvia has also shown itself to be a strong economic partner. Fueled by highly educated, creative, and energetic young Latvians, the innovation economy is booming. In November 2012, I visited TechHub Riga to meet a group of IT start-ups. There I met Uldis Leiterts, Raimonds Kaze, and Alise Semjonova of infogr.am, a company whose interface enables ordinary people to easily create professional-looking infographics. They left traditional private sector jobs to pursue their passion, and their company has become globally recognized as a leading start-up. Infogr.am is only one example of many world-leading Latvian enterprises. The Latvian company JZ Microphones produces the microphones used by Grammy-winning artists like Lady Gaga, Stevie Wonder, and Dr. Dre. FASTR, whose app improves reading speed, is yet another innovative IT company that is changing the way the world behaves.

Latvia is the only country in the world in which its competitor to Facebook ("draugiem.lv," which means "friends") has more subscribers than Facebook itself (and more subscribers than the total population of Latvia!). Draugiem also serves as an incubator of some of the most innovative hardware and software start-ups that I have ever seen. These young Latvians have made success out of the country's economic crisis. They have turned their own desire to do something out of the normal confines of a traditional workplace into the beginnings of an innovation economy. The young Latvians I have met display the same commitment and results-oriented attitude as the Latvian government. This attitude shows through in their efforts to revitalize the economy, support entrepreneurship, and invest in the future of their country.

The Latvian government has also tackled new challenges in the economic arena, in its efforts to lead the nation to a dynamic and prosperous future. This year saw Latvia achieve two of its top foreign policy goals, when it received membership invitations to the OECD and the eurozone. These invitations are recognition of Latvia's successful response to its economic crisis, as well as the seriousness with which Latvia takes its international obligations. In both organizations, Latvia will have the credibility to advocate for tough policies that support our shared international goals and promote the stability of the international economy.

Latvia has come an extraordinarily long way in only 22 short years since the restoration of its independence in 1991; its progress has been remarkable. Along with these historic accomplishments, Latvia still has some unfinished business to address. As a result of the economic crisis, for example, Latvia now has the highest income inequality rate in the European Union. Issues of transparency are present in both the private and the public sector and sometimes inhibit foreign investment. Likewise, the court system is complex and sometimes sluggish, with bankruptcy and insolvency procedures that are in need of reform. Support for diversity and tolerance issues is still limited, and—while Latvia has completed the process of restitution of *private* property from the World War II and Holocaust era, it must still complete the restitution of *communal* and *religious* properties. While these are serious issues, I have seen Latvia's dedication to dealing with its challenges. The Latvian government and people are committed to making progress on all of these issues, and I am confident that they will do so in the near future.

### Leading for the Future

Given Latvia's achievements thus far and its commitment to further progress, it is no surprise that the country has ambitious goals for the future. We see this most clearly in Latvia's preparations for its EU Presidency in the first half of 2015. Latvia has stated four key goals for its presidency: strengthening the Transatlantic partnership—an important component of which is facilitating negotiations for the Transatlantic Trade and Investment Partnership (TTIP); closer cooperation with the Eastern Partnership countries of Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine; deepening Brussels' relationship with Central Asian countries; and the negotiation of a global, binding agreement on climate change. While these goals may seem too big for a small country like Latvia, Latvia's history demonstrates this is not the case. These goals grow out of Latvia's own experience and out of deeply held convictions about the kind of future it would like to help fashion for itself, the region, and the world.

Latvia understands the importance of the free flow of trade and investment. After the 2008-2010 economic crisis, Latvia has dedicated itself to creating sustainable economic growth based on value-added exports. Every day in Latvia, I speak with government officials and businesspeople about increasing our bilateral trade and investment, one of my top priorities as United States Ambassador (because job creation for the United States doesn't stop at our borders). These conversations prove time and again that Latvians understand the importance of this effort not only to their own businesses and the Latvian economy, but to the stability of the global economy.

Similarly, the desire for closer cooperation with the Eastern Partnership countries grows out of Latvia's democracy-promotion efforts in Central Asia. Latvia already has strong ties with these countries and is finding innovative ways to deepen the European Union's cooperation with Central Asia by cultivating people-to-people and education contacts. Bringing the Eastern Partnership countries closer to the European Union is also a continuation of Latvia's own integration into the European Union.

While the fourth goal of a global, binding agreement on climate change may be the most ambitious, it may also be the closest to Latvia's heart. Currently, Latvia is among the greenest countries in the world (a recent Yale University study ranked Latvia at #2), and the Latvian government has plans to become the #1 greenest country in the world. It is an ambitious goal, but like all of those that Latvia has laid out, it can be achieved. Latvia's record of commitment and results-driven action show that this small country is a force for global change.

#### Strong Ally - Past, Present, and Future

As we so often state, the greatest challenges that we face in the 21<sup>st</sup> century are global and transnational; threats to our security, health, environment, and prosperity do not respect borders. To face these global challenges, the United States needs strong, like-minded partners—partners, like Latvia, that are committed and results-oriented. Though this small country stepped into the global spotlight during its most difficult hour, it has thrived and has shown the world how much it can accomplish. These are qualities that the United States has long known, and which we will never take for granted. Part of our job in the Embassy in Riga is to demonstrate daily how much we value Latvia's work and support, to build on our existing partnership, and to discover new fields of cooperation that will make the United States, Latvia, and our partnership stronger.

At the Baltic Summit between President Obama and the three Baltic presidents on August 30, we reconfirmed the importance of our relationships with Latvia and the other Baltic states. The Summit, which came 15 years after President Clinton signed the 1998 Baltic Charter, underscored the significant transformations all three Baltic states have undergone since the restoration of their independence just over two decades ago and laid out an ambitious agenda for future cooperation to address our shared challenges. Latvia may be a small country on the Baltic Sea, but it is one that has demonstrated its outsize value as a partner and friend. As United States Ambassador to Latvia it is my honor to further develop our partnership with this strong ally.