

LATVIAN FOREIGN AND SECURITY POLICY

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The Latvian Institute of International Affairs (LIIA) continues to provide an annual assessment of Latvian foreign and security policy. The *Latvian Foreign and Security Policy Yearbook 2015* aims to contribute to the understanding of Latvia's foreign and security policy decisions and considerations, along with opportunities and concerns for 2015. Latvia is assuming a six month responsibility for the presidency of the Council of the European Union, but this comes at a complicated time for the Euro-Atlantic community in general, and Latvia in particular. This publication is an effort of the Latvian Institute of International Affairs with fundamental support by Friedrich Ebert Stiftung.

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INTRODUCTORY REMARKS

By Andris Sprūds

The Latvian Institute of International Affairs (LIIA) continues to provide an annual assessment of Latvian foreign and security policy. Latvia is facing a number of opportunities and challenges in its external policy in 2015. Latvia is assuming a six month responsibility for the presidency of the Council of the European Union. The presidency allows Latvia to demonstrate its strong commitment to the values of a like-minded community, leadership in agenda setting, and institutional readiness to manage multifaceted European affairs. Ten years after enlargement, Riga will become one of the hubs for political decision-making and intellectual thought exchange in the EU. However, the EU presidency comes at a complicated time for the Euro-Atlantic community in general, and Latvia in particular.

Russia's adventurism in Ukraine, annexation of Crimea, and continuous competition regarding integration projects in the neighbourhood of the EU and The Federation has become an important "game changer" for regional and global politics. Perceptions of engagement, and expectations of wider regional cooperative frameworks, have apparently been replaced by a growing mistrust, mutual deterrence strategies, and "great power" rivalry. Latvia has long been attempting to implement an engagement strategy with strong endeavours to extend political and economic interaction with Russia, promote modernization and Europeanization of the Eastern Partnership countries, and strengthen cooperation with Central Asia states. Now with violent conflict in Ukraine a "win-win" approach for the wider region is increasingly difficult to achieve and insecurity perceptions are omnipresent. Latvia's presidency primarily aims to continuously reach out to partners in the neighbourhood, ensure sustainability of the Eastern Partnership initiative, and to stabilize the region.

Russia's assertive actions have invoked traditional security concerns. Conflict in the direct proximity of NATO countries is an important reminder about collective defence and mutual reassurance to all members of the alliance. A common position is needed for facing challenges in the Middle East and responding to terrorism threats. In the context of a growing number of these regional and global concerns

and challenges, it becomes even more important to have strong Euro-Atlantic partnerships, viable institutions, and sustainable and credible strategies. Latvia has benefited immensely from its NATO membership but further steps should and could be done in strengthening its own security and demonstrating further solidarity with its alliance partners.

Foreign and security policy starts at home. The issues of acute economic recession, political crisis, and institutional disarray within the European Union have been largely put aside. However, questions of long-term economic, social and institutional sustainability, global effectiveness and relevance, and the ability to speak with a common voice remain. Institutional changes in the European Union must not only bring answers to “who gets what” but should become a new, fundamental restart opportunity for addressing concerns within single societies, and reinforcing its role as a relevant economic and political player regionally and globally. Hence, Latvia must take advantage of its fully-fledged membership and presidency, in particular with promoting its own ideas on competitiveness, the digital market and education, and regional cooperation to move the Union forward.

The Latvian Foreign and Security Policy Yearbook 2015 aims to contribute to the understanding of Latvia’s foreign and security policy decisions and considerations, along with opportunities and concerns for 2015. The publication reflects on the developments in 2014 and attempts to outline possible scenarios and provide recommendations for Latvia’s foreign and security policy in 2015. Partnerships are instrumental in achieving a positive outcome. The *Yearbook 2015* is a reflection of the importance of partnerships, which benefited considerably from Latvian and foreign experts’ willingness to share their views and recommendations. At the same time, continuous and generous support by the Friedrich Ebert Foundation has been important for the successful outcome of this publication. The Friedrich Ebert Foundation has repeatedly demonstrated its leadership in promoting intellectual engagement, and facilitating a thorough exchange of thoughts at a national level and beyond. This has been an essential contributor to invigorating and informed debate among the decision-making and expert communities, and general public. Last but not least, this publication benefits from a reader interested in understanding the challenges and opportunities for Latvia to successfully implement its foreign and security policy in a demanding regional and international environment during a year of important responsibilities and difficult decisions.

LATVIA'S FOREIGN POLICY 2014/2015: PLAYERS, EVENTS AND CHALLENGES

By Imants Lieģis

As Latvia takes on its Presidency of the EU in January 2015, the Transatlantic Partnership has held its own during 2014 and will need to be nurtured during the next year. Given the radically new security situation faced by Europe during 2014, upholding strong ties with the USA has to remain a priority in parallel with running the Presidency.

Latvia's foreign policy has remained sound during the last year despite the fact that neither an aggressively revisionist Russia nor an IS (Islamic State), conducting YouTube posted beheadings and wanting to re-establish a Caliphate, were anticipated. The storms produced in the tempestuous seas of international relations have been relatively successfully navigated by Latvia's foreign policy in 2014.

The success has come about even though there were some twists and turns amongst foreign policy actors in Latvia during 2014. They deserve some consideration given that policy is moulded by personalities.

FOREIGN POLICY PLAYERS

Foreign Minister Rinkēvičs survived the Government changes in January, following Prime Minister Dombrovskis' resignation, and as a result of Parliamentary elections later in the year. His popularity was reflected in the outcome of October elections, when he successfully stood as a top "*Vienotība*" candidate after leaving "*Reformu Partija*" – the party that drew him into Government in 2011. It was his first electoral test, which he passed with flying colours. His post electoral disclosure about being

gay should have a neutral impact on his professional and respected position as a leading figure in the conduct of Latvia's foreign affairs.

The departure of Latvia's longest serving Prime Minister Valdis Dombrovskis to the EU Commission was in itself a smooth transition within Latvia. His sound credentials and astute political manoeuvring by conceding his attempted nomination as EU Commission President to Jean-Claude Juncker at the last minute, ensured both a weighty portfolio and Vice-President position in the new line-up. Dombrovskis' name was also touted for the EU Council President post, but the appointment of former Polish Prime Minister Tusk was an excellent outcome for Latvia and the region as a whole. Latvia can also be satisfied with a seamless handover from former Commissioner Piebalgs, who in turn may well continue to appear in a high profile foreign policy capacity for Latvia in the years ahead. It is important that the country puts his experience to good use.

Laimdota Straujuma took over the helm as Prime Minister having served as Minister of Agriculture in the final Dombrovskis' Government. She brought with her long years of experience working in Latvia's civil service and seeing how Government works from the inside. Although without strong foreign policy credentials, as Minister of Agriculture she nevertheless handled with competence the important question of arguing for increased direct payments to Latvia's farmers in the negotiations for the EU post 2014 budget. She is Latvia's first female Prime Minister and during 2014 made a modest impression on the international stage, which included hosting the important visit of Chancellor Merkel to Rīga in August. Her second term as leader of the Government should show her to be increasingly confident in foreign affairs. Just like Rinkēvičs, she stood as a Parliamentary candidate for the first time at the October elections, having joined the party "*Vienotība*" just before being confirmed as Prime Minister in January 2014.

The new Government in 2014 saw not only an expanded coalition with "*Zaļo un Zemnieku Savienība (ZZS)*" (Union of Greens and Farmers) being brought in, but also a change at the Ministry of Defence. Previous Minister Artis Pabriks was ousted and rejected by President Bērziņš as candidate for Prime Minister, but now serves as a Member of the European Parliament. He was replaced by ZZS' Raimonds Vējonis, whose lack of experience in security and defence policy was balanced by a wealth of political expertise in both Government and Parliament. Given the turbulence caused by Putin's attacks on Ukraine, the Defence portfolio became of critical importance. His political standing was challenged to the full, when the notorious Aivars Lembergs from within ZZS started writing to NATO Secretary General and questioning whether NATO was a "threat to Latvia's

society”¹ and also making statements about the visiting NATO forces behaving like pigs and being “occupiers”.²

Overcoming internal party political tiffs, Vējonis proved to be a very capable Minister of Defence and probably contributed to an increase in support for ZZS at the October elections.

The changes in Government personnel during 2014 were certainly handled smoothly and efficiently from the foreign policy perspective. Russia’s aggression helped to ensure this. Latvia’s right wing parties were able to take full advantage of increased threats to regional security whilst addressing the genuine concerns of Latvia’s population. Presidential elections, maintaining strong US engagement and holding the Presidency of the Council of the EU will present the main foreign policy challenges during 2015.

From the perspective of foreign and security policy, Latvia joining the Eurozone on 1st January 2014 was, with hindsight, a wise decision. Further integration into European structures was rightly identified by the political elite as bringing more security, even though the process leading up to adopting the euro did not receive overwhelming popular support at the time. Any doubts about the wisdom of joining the euro fell by the wayside during the course of the year.

EVENTS

Two seminal events ensured profound consequences for Latvia’s foreign, security and defence policy during 2014. NATO’s Summit in Wales in September and, starting in February and continuing almost one year later, Russia’s aggression in Ukraine. The latter events helped to influence the outcome of the former one. Although the NATO Summit was planned well in advance, the unanticipated actions of Russia changed substantially the agenda and subsequent decisions taken.

If we look back at Latvia’s Foreign Minister’s Annual report to Parliament last year, concerns were already noted about Russia’s military exercises and modernisation

¹ „Pilns vēstules teksts – Lembergs prasa NATO ģenerālsēkretāram atvainoties Latvijai un Ventspils pilsētai”, last modified May 14, 2014, <http://www.diena.lv/latvija/viedokli/pilns-vestules-teksts-lembergs-prasa-nato-generalsekretaram-atvainoties-latvijai-un-ventspils-pilset-14055633>

² „Lembergs: NATO karavīri – okupantu cūkas”, last modified May 21, 2014, <http://infoagentura.wordpress.com/2014/05/21/lembergs-nato-karaviri-okupantu-cukas/>

of the Armed Forces³. The need to maintain a common EU position towards the “strategic partner” was highlighted⁴, whilst about half a page is devoted to bilateral Latvia-Russia relations.⁵ Probably in common with most other Ministries of Foreign Affairs around the globe, Latvia was not predicting the depths of the crisis into which relations with Russia were about to topple.

The impact of Russia’s invasion and annexation of a sovereign country’s territory – Crimea – and subsequent military attack on Ukraine’s eastern territory had a profound effect on Latvia’s foreign policy. The concocted story used by Russia that its actions were taken to protect Russian nationals, the references to “*Novorossija*”, the organisation of fake referenda and “elections” conducted at the barrel of a gun all had traumatic echoes of Soviet times amongst Latvia’s population. This in turn inevitably influenced Latvia’s reactions to these events, where the wake-up call was heard most loudly. The security of the population and the amount being devoted to defence expenditure suddenly hit the political agenda in Latvia in an unprecedentedly big way.

The earlier steps towards setting up in Riga a NATO Centre of Excellence (COE) for Strategic Communication, which were strongly promoted by former Defence Minister Pabriks in particular, took on a new urgency. This was because it soon became apparent that Russia was conducting a massive propaganda war to support their nefarious activities in Ukraine. Not only did the USA and NATO start countering the disinformation campaign, there was a growing recognition of the need to speed up the accreditation of Latvia’s COE given that combined NATO funding for dealing with strategic communication pales in comparison to the annual figure of some US\$300 million estimated to be spent by Russia. If in January Latvia’s aim to have the Centre up and running by the time of the NATO Summit in September seemed over optimistic, the use of deception, lies and propaganda as part of Russia’s hybrid war ensured that this aim was indeed realised. The Government’s organisational skills in appointing communications expert and diplomat Jānis Kārklīņš to head up the COE also played an important role. An illustration of Russia’s information war is well commented on in an article “Putin’s Propaganda” by Latvia’s former Foreign Minister, Māris Riekstiņš, in *Foreign Affairs*.⁶

Given geographical and historical considerations, Latvia’s interests quickly became most closely aligned with those of Estonia, Lithuania and Poland. Latvia benefited from Poland’s high profile engagement in seeking diplomatic solutions to the

³ Latvia’s Foreign Minister’s Annual report to the Parliament 2013, p. 4; p.19.

⁴ *Ibid.*, p.11.

⁵ *Ibid.*, p.21.

⁶ Maris Riekstins, “Putin’s Propaganda”, *Foreign Affairs*, November/December 2014, <http://www.foreignaffairs.com/articles/142190/maris-riekstins/putins-propaganda%E2%80%A9>

crisis with Russia through the good offices of both Foreign Minister Sikorski and Prime Minister Tusk. Sweden's Foreign Minister Carl Bildt, a long-time friend and supporter of the Baltic countries, also played a high profile and positive role in focussing EU attention on the crisis. Sikorski's and Bildt's departures from their Foreign Minister positions in 2014 will be a loss for Latvia's foreign policy. But for Latvia, the clear engagement by America in the region during 2014 shows that the USA not only "talks the talk", but also "walks the walk". President Obama met on several occasions with all three Baltic Presidents, with the most visible sign of engagement coming with his visit to Tallinn on September 3rd en route to the NATO Summit in Wales. His words:

"the defense of Tallinn and Riga and Vilnius is just as important as the defense of Berlin and Paris and London."⁷

resonated strongly with his Baltic audience. In addition, not only did US boots on the ground arrive in Latvia and our neighbouring countries during 2014. We also saw the arrival of US tanks, more aircraft for policing NATO's regional airspace and ongoing joint exercises.

The knock on effect of Russia's actions in Ukraine on Transatlantic relations has been palpable. The US administration has worked closely with the EU to synchronise sanctions against Russia. Whereas at the beginning of 2014 the focus of NATO's Summit was planned to be on the winding down of the ISAF operation in Afghanistan, by the time the Summit took place the agenda was transformed. Collective defence, reassurance measures for NATO's members in Europe's Eastern flank, strengthening of NATO forces through a Readiness Action Plan and Very High Readiness Joint Task Force, the establishment of a new Regional Command structure centred in Poland and with elements in Romania and the Baltic States – these were some of the crucial decisions taken by Heads of State and Government, which effectively pushed the focus on Afghanistan further down the agenda.

No less important was the pressure applied by the USA on European Allies to come up to scratch on devoting sufficient money to defence. Failure by many European Allies to meet the political commitments of spending 2% of GDP has been a long standing complaint by America. Already in June 2011 outgoing Defence Secretary Bob Gates in his valedictory speech in Brussels gave some stark warnings about US concerns.

"If current trends in the decline of European defence capabilities are not halted and reversed, future US political leaders – those for whom the cold war was not the formative

⁷ „Remarks by President Obama to the People of Estonia”, last modified September 3, 2014, <http://www.whitehouse.gov/the-press-office/2014/09/03/remarks-president-obama-people-estonia>

experience that it was for me – may not consider the return on America’s investment in Nato worth the cost.”⁸

President Obama continued some 2 years later, as academic Andrew Roberts pointed out in the Fall of 2013:

“President Obama has rightly said—and it’s very rare I ever start a sentence with those five words—that it’s high time that Europe becomes an overall “provider” rather than just a “consumer” of security.”⁹

During 2014, Latvia was able to react to these ongoing concerns because of Russia’s actions, American pressure and the need to deliver and not be seen as a security “free – rider” at the Wales Summit, a month before Parliamentary elections. Latvia’s Parliament took a binding decision to raise defence spending by set amounts each year, thereby reaching 2% of GDP by 2020. It will be crucial to stick to this commitment and indeed try to reach the required 2% threshold even sooner. Scarce resources need to be spent wisely. The current Minister of Defence Raimonds Vējonis has indicated the need to spend on air defence capabilities, radars and the National Guard. The latter supplement Latvia’s professional force, and as a strong local military capability acts as a type of preclusive defense that would increase the costs of any anticipated limited attack. More attention is being paid to Latvia’s (and NATO’s) border security and strengthening civil-military cooperation. At the same time, intelligence and strategic awareness needs bolstering with a renewed emphasis on advance planning.

Estonia’s current commitment to 2% probably ensured that when President Obama visited the region a few days before the Wales Summit, his venue was Tallinn. Latvia’s wise political move to start paying serious attention to inadequate defence resources at least deflected other Allies criticism about Latvia expecting to be defended when Latvia itself fails to put its “money where its mouth is”. Latvia came within the part of the Wales Summit Declaration stating that members of NATO “agree to reverse the trend of declining ...budgets.”¹⁰

Russia’s rejection of international agreements and norms not only helped to consolidate Transatlantic links during 2014. It also, certainly in Latvia’s case, helped focus on defence spending and thus persuade Latvia’s most important ally that we take seriously the need to provide more for our own security.

⁸ “US Defence Chief Blasts Europe Over Nato”, last modified June 10, 2011, <http://www.theguardian.com/world/2011/jun/10/nato-dismal-future-pentagon-chief>

⁹ “The Decline of Europe’s Military Might”, last modified 1 October, 2013, <http://www.hoover.org/research/decline-europes-military-might>

¹⁰ Wales Summit Declaration, Paragraph 14, last modified September 29, 2014, http://www.nato.int/cps/en/natohq/official_texts_112964.htm

CHALLENGES IN 2015

The immediate foreign policy challenges during 2015 relate to Latvia's first EU Presidency of the Council of the European Union. Given that power in foreign policy remains with member states, Latvia will have half a year of making the most of exercising that, albeit limited, power. Policy coordination with the main member state actors, Germany, France and to a lesser extent the UK, will be important. So will dealing with the hand over from the Italian Presidency and working with the new Commission High Representative, Federica Mogherini.

The two main foreign policy priorities during the six month Presidency are the EU Eastern Partnership and the Central Asia region. Given the mutuality of interests, there should be little difficulty in cooperating with the US on both issues.

As already mentioned, the Eastern Partnership's focus on Ukraine and the question of sanctions against Russia has been constantly coordinated by the EU with the USA during the last year. It is hardly surprising that the US Administration has often been able to take the lead given that the structure of the EU means seeking a common position amongst 28 countries with differing interests.

In Central Asia, Latvia will want to increase the EU profile, but also bear in mind the security implications of the post 2014 Afghanistan situation. With NATO's military engagement through the IFOR operation transgressing to a support role and handover of security responsibilities to the Afghans, the prospect of volatility spreading across to the neighbouring Central Asian countries cannot be discounted. At the same time, the EU will no doubt also bear in mind the implications for the region of Russia's actions in Ukraine.

The EU Foreign Policy agenda has recently focused on the Southern Neighbourhood because of the threat from ISIS, the ongoing instability in Syria and other regional challenges. The Ebola threat has also come to the forefront. Latvia will have to deal with these ongoing challenges whilst bearing in mind that US actions on these issues have implications for moulding EU foreign and security policies.

EU-Transatlantic relations have other dimensions which will be addressed during 2015. The most important one is trade. Latvia's Presidency will take on board the current negotiations between the EU and the USA on the Transatlantic Trade and Investment Partnership (TTIP). With the 7th round having been completed during October 2014, the next round will either continue or start during Latvia's Presidency. It will be important to encourage progress in these negotiations. The TTIP agreement also has broader security policy implications for Europe. More specifically, the whole question of energy security comes into play. With Russia's use of gas supply to Europe

being used as a tool of influence, diversification of supply and avoiding unconnected “energy islands” are of paramount concern. Europe is therefore interested in tapping the resources available from America’s Liquefied Natural Gas – an issue that should be taken on board in the negotiating process. Latvia will need to take full advantage of the recently constructed LNG terminal in Lithuania to advance diversification of energy supply. Putin’s announcement to abandon the South Stream gas pipeline project will have an impact on EU energy policy.

Given the divergence of interests amongst EU member countries in their trade relations with the USA, the TTIP issue is far from simple with negotiations themselves delving into complex and technical questions. Data protection has, for example, posed particular problems in the last few years with high level eavesdropping cases hitting the headlines and creating Transatlantic tensions. However it will be important that strong political leadership on both sides of the Atlantic maintains the momentum in the TTIP process.

On a broader scale it can be noted that the TTIP is competing for US attention with the TTP – Trans-Pacific Partnership.¹¹ Which recalls the whole question which now seems to have fallen away from the focus of attention – America’s policy of pivoting to Asia.

The attention that America has paid to Europe’s security through the NATO Alliance has, as illustrated above, been substantial during 2014. The description of a “Pivot to the North” has, arguably, almost become a reality.¹² Although it can also be argued that the polemics about a US “pivot” are irrelevant. In the global competition to capture the attention of the world’s most important military power, Latvia and the region in Northern Europe has, thanks to divergent events, been comparatively successful. In the broader NATO context, it will be crucial to focus on implementation of the Wales Summit decisions.

Latvia should not rest on its laurels when it comes to maintaining a strong and favourable US engagement. As the new coalition Government gets down to business in 2015, attention should continue to be paid to democratic credentials and developments within the country that concern our Transatlantic partners. This is of importance when we see risks of democratic backsliding and unclear signals in relations with Russia in other parts of Europe. Latvia’s respected outgoing Finance Minister Andris Vilks rang alarm bells after the October 2014 elections in pointing out the increased influence of one of the Government Coalition partner’s leaders,

¹¹ Suparna Karmakar and André Sapir, “To the Commissioner for Trade”, *EU to Do in 2015–2019: Memos to the New EU Leadership*, accessed November 25, 2014, <http://eu2do.bruegel.org/trade/>

¹² Lieģis comment in *Latvian Foreign Policy Yearbook 2013*, ed. Andris Sprūds (Riga: Latvian Institute of International Affairs, 2014), p. 39.

Aivars Lembergs, who faces serious corruption and fraud charges in Latvian courts, but was again nominated as the ZZS candidate for Prime Minister. As mentioned above, Lembergs' anti-NATO remarks led to a clash with Defence Minister Vējonis. Vilks tweeted just after the elections,

“So Latvia can start to prepare for “Lembergs Latvia”. At least he won't send NATO packing...”¹³

Such concerns resonate with explicit US criticisms expressed by the State Department's Assistant Secretary Nuland on 2nd October 2014.

„In Central Europe today...the internal threats to democracy and freedom are just as worrying. Across the region, the twin cancers of democratic backsliding and corruption are threatening the dream so many have worked for since 1989. And even as they reap the benefits of NATO and EU membership, we find leaders in the region who seem to have forgotten the values on which these institutions are based.”¹⁴

Given some of the contradictions within Latvia's politics, this type of warning should also be heeded by Latvia's leaders so as not to antagonise our most important supporter within NATO. In this context, Latvia's ongoing negotiations to join the OECD provide an excellent incentive to maintain strong democratic credentials.

CONCLUSION

2014 brought a tectonic shift to the security of Latvia and the surrounding region. Lithuania's Presidency of the EU in 2013 presented unexpected challenges, not least various subversive attempts to discredit the country by different means. For this reason, Latvia will have to maintain a vigilant, reliable and firm foreign policy approach during 2015. The new Government confirmed in November 2014 will hit the ground running. However, with crucial foreign and security policy Government members having retained their positions, there are good grounds for ongoing optimism.

The opinions expressed in this article are those of the author

¹³ Twitter account: Andris Vilks@AndrisVilks, October 5, 2014.

¹⁴ „Keynote at the 2014 U.S.-Central Europe Strategy Forum”, last modified October 2, 2014, <http://www.state.gov/p/eur/rls/rm/2014/oct/232444.htm>

LATVIAN FOREIGN POLICY IN 2014–2015: THE GREATER THE CHALLENGE THE GREATER THE INCENTIVE

By Juris Poikāns and Arvils Zeltiņš

Last year, for Latvia's foreign policy, was difficult but at the same time very dynamic. Latvian diplomats dealt with expected exercises as well as unexpected challenges, which influenced the initial intentions of Latvian foreign policy makers. Preparation for the upcoming presidency in the Council of the European Union in the first half of 2015 was the main task of Latvia's Ministry of Foreign Affairs, and Latvia's public administration on a whole. While it turned out the major focus of Latvia's foreign policy, in Europe and in the territory "from Lisbon to Vladivostok", was undoubtedly the warfare in Ukraine, and the illegal annexation of Crimea caused by aggression from the Russian Federation.

Although, the initial concept from Lisbon to Vladivostok represents Putin's earlier offer to work on the creation of a single free trade area between the EU and Eurasian Economic Community (EurAsEC). The year 2014 marked different understandings in Lisbon from one side (or any other capital of the EU member states), and Russian cities ala Vladivostok or Moscow from another, on issues of the founding principles of European security architecture. Europe, having witnessed two devastating wars in the twentieth century, met a challenge of territorial revisionism not witnessed since the end of the Cold War. In addition, warfare at the Eastern part of the Europe and threats of terrorism and violence against humanity at the Southern borders of the EU (ISIL, Syria, Libya, and Iraq) were an important part of Latvia's foreign policy activities in 2014.

Predictability in international affairs, promotion of international law, and international trade are Latvia's vital interests. 2014 reconfirmed that the unity of the European Union and North Atlantic Treaty organization (NATO) remains

pivotal for achieving foreign policy aims of individual EU member states and the United States – in two ways – acting towards violators of this system, and promoting our common agenda. Latvia together with its EU allies was searching for an understanding of these principles with other allies as well, for example, Australia, Canada, Korea, Japan, and others.

The crisis in Ukraine equally demonstrated the validity and importance of the NATO security alliance. Signals sent to Latvia and other Baltic states were reassuring. Important visits from German chancellor Angela Merkel to Riga and US president Barack Obama to Tallinn, provided an opportunity to adapt the new changing security environment to the realities on Baltic shores. The physical presence of NATO troops on soil, mutual exercises, and planning marked the commitment of the alliance to the security of the Baltic States. The crisis in Ukraine at the same time gave the necessary push to politicians in Latvia and Lithuania to have another look at the necessity of increasing defense spending at 2 percent of the GDP. The issues of strengthening energy security received increased attention as well.

Finally Latvian foreign policy in 2014 was not only about preparations of the EU Presidency or the Ukrainian crisis. The first big bloc in this list is associated with economic diplomacy, efforts to become a fully-fledged member of the Organisation for Economic Co-operation and Development (OECD), obtaining new export markets, and daily work with Latvian entrepreneurs and potential foreign investors. Another bloc is related to daily issues as maintenance of bilateral political contacts, consular assistance, and support to Latvian diaspora abroad. In this regard 2014 was notable with the opening of two new Latvian embassies in India (New Delhi), and the United Arab Emirates (Abu Dhabi). Further expansion of Latvian diplomatic representation is planned for the next five years. The opening of new embassies or representations (in the case of the OECD) is envisaged, as well as expanding the network of honorary consulates, especially in Asia, Latin America, Africa, Australia, and Oceania.

It should be noted, however, at least in the case of obtaining new external markets and establishing/maintaining bilateral contacts, the situation in Ukraine has also played an indirect role, in particular to Russia's retaliatory sanctions on several EU and Latvian food products as well as the Federation's increasingly severe economic recession. With slowed economics in the Eurozone, it provides a clear signal to Latvian entrepreneurs to look for new export markets for their production. The most logical and promising direction for the diversification of trade balance is thought to be Asian countries; mainly Central Asia as well as the biggest economies: China, Japan, India, and the rapidly growing region of the Gulf. This element of logic should

be explained by presently existing trading routes and non-existing language barriers between Latvia and Central Asian countries. The element of promising cooperation mainly consists of growing economies (hence the demand), including cultivated and fostered political contacts between Latvia and Asian superpowers and economic tigers. Also annual high-level transport conferences organized by the MFA of Latvia are devoted to this geography.

Next year Latvia's foreign policy will primarily focus on the successful holding of the EU Presidency. The three EU Presidency priorities¹⁵ nominated by Latvia largely continues the agenda of the trio Presidency¹⁶ and responds to common challenges the EU is facing today, particularly in terms of competitiveness and a global EU. Elements for the strengthening of European competitiveness will be first place for Latvian diplomats, especially the preparation of the so called Juncker plan of investments, Energy Union, the Transatlantic Trade and Investment Partnership (TTIP), and future European growth in general.

Promotion of the EU Digital agenda is a priority not only because of a common European challenge for the unification of one digital system but the rules of it. Digitalization is one of the strongest points for Latvia's future growth and our (also a Baltic one on a whole) example in this area could assist towards a common European understanding in how to be more competitive as a single digital Europe. Especially as regards digital competition with the US and Japan.

In the global element of Presidency priorities, Latvia particularly underlines EU relations with Eastern neighbors: Central Asian¹⁷ countries and members of the Eastern Partnership (EaP) initiative. In Latvia's view, dialogue between the EU and Central Asia is insufficiently developed so far. There is a necessity for a redefinition of relations, considering the specifics and needs of Central Asia. The EU could do this by reviewing the EU-Central Asia strategy, which has practically been a forgotten document somewhere in a Brussels hallway since 2007. The main sectors for redefinition in Latvia's view (and also by associates such as Germany) should be in prospective cooperation areas: transport, energy, education, environmental protection, and tourism.

Relations with EaP countries will be high on the agenda of the upcoming presidency, with the fourth EaP summit on 22 May 2015 looking at establishing the guidelines and objectives of this policy for future years. It has been continuously stressed that the European Union wants to develop relations with its neighbors in a manner which

¹⁵ Competitive, digital, and engaged Europe.

¹⁶ Together with Italy and Luxembourg.

¹⁷ Kazakhstan, Uzbekistan, Tajikistan, Kyrgyzstan, and Turkmenistan.

does not impact on the interests of third states and, more specifically, Russia. Latvia and its EU allies believe in constructive relationship with Russia as long as we do not try to influence the free and sovereign policy choices of countries of the Eastern Partnership. It is obvious the situation in Ukraine and a gradual movement towards establishing long lasting peace in this country might positively affect EU–Russia relations. Less public attention has been devoted to some very significant side-events occurring in the context of the Eastern Partnership (EaP). The most important business networking event during Latvia’s presidency will be the Eastern Partnership Business forum (May 21) organized by the Employers Confederation of Latvia, in close cooperation with the European Economic and Social Committee, Business Europe, and other partners, including the biggest investment banks in Europe. The central aim of this event will be an assessment of the DCFTA¹⁸ implementation in Moldova and Georgia, the business environment in EaP countries, and following recommendations from business to political leaders who will meet a day after the business forum at the EaP summit.

Taking into account the issues of engagement of civil society, which is full of challenges in Eastern Partnership countries, a very important EaP side-event during our Presidency will also be the Civil Society Forum. The event will be organized by a trio of Latvia’s think and do tanks, namely the Latvian Institute of International Affairs (LIIA), the Centre for East European Policy Studies (CEEPS), and the Latvia Transatlantic Organization (LATO). A new innovation of our Presidency will be the EaP media conference, in which the media situation in EaP countries, as well as the elements necessary to ensure greater transparency for the EaP region, will be mainly discussed using media.

Latvian foreign policy in 2015 will continue to strengthen Latvian security and defense. The successful NATO summit in Wales in 2014 has served as a good reference point for Latvian allies and their serious purpose to promote security in the Baltic region. At the same time Baltic countries should initially by themselves invest much more to promote security and increasing state funding for it, as well as implementing the so-called “smart defense” component (trilateral procurements for example), given the limited financial resources. At the beginning of 2015 it is impossible to predict future developments in the Eastern Ukraine, North Africa, or Middle East. However, better preparedness and investment in security will always be the best remedy against unexpected developments in European and global security. Greater preparedness also means preventive actions, starting from planning and strategizing. For this reason, it is necessary to revise the European Security Strategy.

¹⁸ Deep and Comprehensive Free Trade Agreement.

A very important element of the Latvian foreign policy in 2015 will be access to external markets and strengthening of national economic competitiveness in general. Latvia will continue the negotiation process of accession to the OECD by adjusting the Latvian public administration model to the world's best practices. Similarly, in close cooperation with the Latvian Investment and Development Agency (LIDA) and business umbrella organizations, Latvian Embassies and economic divisions will continue to assist Latvian entrepreneurs to develop new export markets and promote inward investment.

In 2015 Latvia will also continue improving their transportation diplomacy. The organization of traditionally high-level conferences for transport, logistics, and trade routes will be the responsibility of the Ministry of Transport in 2015. The event will be organized during the ASEM¹⁹ Ministerial meeting, and promises even wider discussion about the development of trade routes between Europe and Asia.

The last months of 2014 were very active and intensive at Krišjāņa Valdemāra Street No.3, and especially at the Avenue des Arts 23, in Brussels. Considering the upcoming Presidency, a lot of consultation and bilateral visits took place. It can even be argued that the Presidency of Latvia already started around September 2014. Everyone in Europe, and also in other regions, wanted to be on the same page as the next presiding country of the European Union. Of course, the Presidency itself does not mean that Latvia will unilaterally set the agenda of the EU. At the same time Latvia will certainly steer *the big Europeansip* towards new challenges, and new developments. Nonetheless, Latvian diplomacy will not only focus on the presidency's agenda for the next half year. National economic interest will still be a major priority for the Ministry of Foreign Affairs, especially considering diverse economic growth conditions between neighboring countries. Likewise, Latvian diplomats will closely follow developments in Eastern Ukraine. As in 2014 a large part of Latvian diplomacy in an Eastern direction will be evaluated first of all from a security perspective.

¹⁹ Asia-Europe meeting.

CHANCES AND CHALLENGES FOR THE LATVIAN PRESIDENCY OF THE COUNCIL OF THE EUROPEAN UNION

By Andris Čegodajevs

On 1 January 2015 Latvia took over the Presidency of the Council of the European Union. This is the first Presidency for the small Baltic nation, and a very challenging and important time for the European Union. A time during which the EU's relations with Russia, issues such as energy and security, as well as the aftermath of the financial crisis, dominate political agendas in Europe. Every six months the Presidency of the Council rotates among member states of the EU. During this time respective government ministers and other public officials of a particular member state chair meetings of the Council, draft its agendas, sets out a work program, and facilitates dialogue at Council meetings and with other EU institutions. The broader cycle of the Presidency is in total 18 month long and divided among a trio of EU countries. The current trio is made up of Italy, Latvia, and Luxembourg. Even as the circumstances in which the Presidency will be held are considered to be more difficult than previously expected, confidence that goals of the presidency will be fulfilled are high. The domestic political situation in Latvia is stable; the country has been preparing for the Presidency well in advance, and has been evaluated as more than capable for committing to this task.²⁰

²⁰ “Kalniņa-Lukaševica: Latvija prezidentūrai ES Padomē ir pilnībā gatava”, BNS, 30.12.2014., <http://www.la.lv/kalnina-lukasevica-latvija-prezidenturai-es-padome-ir-pilniba-gatava/>; “Edgars Rinkēvičs: Latvija prezidentūrai ES Padomē ir gatava!”, 28.11.2014., <http://www.mfa.gov.lv/lv/Jaunumi/zinas/2014/novembris/28-01/>

THE 2014 BUILD-UP FOR THE POLITICAL ENVIRONMENT OF THE LATVIAN PRESIDENCY

First of all, 2014 started with Latvia's accession to the Eurozone, and becoming the eighteenth member of the third stage of the Economic and Monetary Union.²¹ As the Government of Latvia noted in preparation for this event, participation in the Eurozone means Latvia has become more attractive to foreign investment, since Eurozone membership is seen as a hallmark of fiscal responsibility and economic stability, at least in the case of more recent members, and can now be seen as one of the 'core' countries of the European Union. This means Latvia has become fully involved in discussions on the principles of Eurozone governance, as well as its economic and monetary governance. As a new member of the Eurozone that is also now holding its first Presidency of the EU Council, Latvia in 2014 made it a key foreign policy task to strengthen its position in the Eurozone and prove itself to be a reliable and constructive partner. Lithuania, as the last Baltic State to become a member of the Eurozone in 2015, is seen not only as essential from the point of view of Baltic unity and increased ease for doing business between countries, but it also symbolizes a positive start for the Latvian presidency of the Council of the European Union.

In terms of global events affecting Europe and the Latvian Presidency, the aftermath of Yanukovich's ouster from Ukraine, Russia's refusal to recognize the new interim government with the consequent annexation of the Crimean Peninsula, and covert support for separatist activities in south-eastern Ukraine, are among the central ones for Latvia. The situation in Ukraine prompted the EU and the United States, among other governments, to apply sanctions against individuals and businesses from Russia, and separatist regions of Ukraine. These events have changed the existing paradigms in international politics and raised a number of concerns ranging from defence, to energy policies in Europe, particularly Eastern Europe. These conditions make the upcoming Latvian Presidency much more challenging than previously expected from a geopolitical point of view.

Another significant event to the Latvian Presidency and Europe in general was the elections of the European Parliament in May 2014. In Western Europe, particularly in countries like France and the United Kingdom, these elections were marked with the rise and anti-EU sentiment among voters, and consequential election results, in which parties such as Marine Le Pen's *Front National* and Nigel Farage's *UK Independence Party* made significant gains. But, unlike Western Europe, voters in Latvia gave their support for the pro-European "Unity" (Vienotība) party, which also

²¹ Euro area member states, <http://www.eurozone.europa.eu/euro-area/euro-area-member-states/>

is the current ruling party in Latvia, which won 46.19 percent of the vote and four of the eight seats Latvia has in the European Parliament. These European Parliament election results coincide with similar pro-European results in other countries of Eastern Europe, and can be attributed to Russian aggression in Ukraine where voters have demonstrated their support for the EU, reaffirming their European identity and geopolitical choice. This gives a clear mandate to the Latvian Presidency domestically, but also creates additional challenges when negotiating with the current European Parliament.

The third factor defining the environment for the Latvian Presidency is the new European Commission, headed by Jean-Claude Juncker. During the period leading up to the European Parliament elections in May 2014 a new precedent was set. For the first time leading candidates from their respective groups of the European Parliament, who would also be candidates heading the Commission, participated in pre-election debates. This was mainly done to address issues of “democratic deficit,” since the Commission had previously been seen as democratically alienated from voters. Unfortunately, the pre-election television debates did little to change this perception and convince more voters to participate. The main reason for this, which was also noted by analysts²², was the three main candidates from major groups (Jean-Claude Juncker, Martin Schulz, and Guy Verhofstadt) actually differed little in their proposals, ideas, and overall policy goals, making the debate more of a formality. Nevertheless, the new European Commission, because of this change, not only has a different legitimacy position than previous ones, but is also active on many similar issues prioritized by the Latvian Presidency. Namely, economic recovery and increased competitiveness of the EU’s goods and services, digitalization needs in EU member states, as well as the role of the EU in global politics and economics are common to both the new European Commission and the Latvian Presidency.

Fourthly, the selection of Federica Mogherini as the new High Representative of the Union for Foreign Affairs and Security Policy raised some controversy. Her nomination proposal had been opposed by some eastern European countries, including Latvia, Estonia, Lithuania, and Poland, where her stance towards Russia concerning the Ukrainian crisis was considered to be too soft. The selection of the Polish Prime Minister Donald Tusk, on the other hand, was seen as the right choice, since Tusk had called for a tough response to Russia’s attack on Ukraine. The inclusion of Tusk now means a representative of Eastern Europe is among the EU leadership, positions previously held by “old” member state politicians. For the

²² “Juncker And Schulz Struggle to Find Differences in First TV Debate”, 10.04.2014., <http://www.euractiv.com/sections/eu-elections-2014/juncker-and-schulz-struggle-find-differences-first-tv-debate-301474>

Latvian Presidency this gives new partnership opportunities to negotiate priorities and acquire additional support from the European Council on Presidency's policies.

Additionally, from the Latvian perspective, the constitution of the new Commission also includes former Latvian Prime Minister Valdis Dombrovskis as Vice-President for Euro and Social Dialogue. Dombrovskis' experience as Latvia's Prime Minister (2009–2014) during the economic crisis and his handling of the austerity programmes during this time earned him a reputation in Brussels of a fiscally strict and responsible leader. Dombrovskis is also credited for restarting the Latvian economy and ensuring his country's entry into the Eurozone. Nevertheless, the policies of his tenure have generated mixed views domestically and abroad. But, of visible importance for the Presidency is the post Latvia can bring – especially when economic governance issues, the European semester, or the review of the Europe 2020 Strategy, will be addressed at the Council during the first semester of 2015.

Seventh, 2014 has also brought other challenges in EU foreign and security policies that the Latvian Presidency of the Council of the European Union will have to take into account. The emergence of the Islamic State in the territories of civil war torn Syria as well as large parts of Iraq has reignited the debate over how Europe should handle possible threats from Islamic terrorism. Diplomatically, the EU has condemned the Islamic State and voiced its support for Iraqi authorities, at the same time granting an additional 12 million euros for humanitarian aid in the region, to handle the humanitarian crisis created by ISIS.²³ But the fact is that more than 3000 European nationals (as of September 2014), mostly from Western European countries such as France, with large Muslim populations, are taking part in the conflict on the side of ISIS. Currently ISIS itself does not pose a direct threat to Europe, but the possibility of these fighters return to Europe is worrying, since military training, indoctrination, and networking with other radicals could pose a very real threat in the foreseeable future.²⁴ During the latter part of 2014, the security debate in the EU over possible threats posed by ISIS centred around increased cooperation at an EU level in exchange for information on the foreign fighters, and also facilitating better use of existing Europol and Eurojust structures to counter such possible threats. The ISIS and foreign fighters' problem will continue haunting the Latvian Presidency as will the previously mentioned Russian-Ukrainian conflict.

²³ "EU Foreign Affairs Council: Support for Ukraine Peace Plan, Condemnation of ISIS", 24.06.2014., European Union External Action, http://eeas.europa.eu/top_stories/2014/240614_fac_en.htm

²⁴ "ISIS Threat Requires More Integrated Answer than Anything Before, EU Counter-Terrorism Coordinator Tells MEPs", 24.09.2014., European Parliament News. <http://www.europarl.europa.eu/news/en/news-room/content/20140922IPR67207/html/ISIS-threat-requires-more-integrated-answer-than-anything-before>

In 2014 the European Union also did its part in contributing aid to fight the outbreak of the Ebola virus in Western Africa. The European Union has been monitoring its spread and taken collective action at home and abroad. It mobilised political, financial, and scientific resources to help contain, control, treat, and limit the spread of Ebola. The EU's total financial contribution to fight the epidemic is over €1 billion. This includes funding from Member States and the European Commission.²⁵ The events in Africa were important to the EU, since development in Africa has for a long time been an EU priority. In spite of this question being relatively marginalized in Latvian domestic discourse, as the Presidency country, the Baltic State will have to be ready to deal with the matter politically.

Ninth, at the end of the year the issue of energy dependence on Russia was raised again, when the Federation announced the cancelling of the *South Stream* gas pipeline project through Bulgaria (the gas pipeline that would supply Southern Europe), blaming EU regulations, and instead altering plans and choosing to cooperate with Turkey. European leaders, including European Commission President Jean-Claude Juncker, responded to this by emphasising the project could still go on and accusing Russia in blackmailing Bulgaria.²⁶ This event again illustrated how Russia is using its natural gas resources to manipulate relations among EU member states, especially those who completely rely on Russian gas supplies. This, in combination with the ongoing situation in Ukraine, has accelerated developments for alternative energy supply projects, including the building of liquid natural gas terminals, which would receive gas shipments from Norway, the United States, and the Middle-East. These developments have again revitalized plans on the Energy Union that will have to be addressed in urgency during the Latvian presidency.

Therefore, 2014 has been a turbulent year for the European Union, but the above mentioned events will continue to influence Europe's agenda in the upcoming year. Other issues within the EU, like the aftermath of the economic crisis and ongoing socio-economic issues are also expected to remain topical during the Latvian Presidency. As for Latvia itself, during this year Latvia continued to be a reliable member state within the realm of EU foreign policy, maintaining consistency and bringing attention to the interests of its partners. The same could be said about the domestic situation in Latvia, when even during an election year it maintained political stability. For these reasons it's safe to say that regardless of events during the last year, Latvia is in a stable position to hold the Presidency of the Council.

²⁵ "The European Union's Response to Ebola Emergency", 18.11.2014., http://europa.eu/rapid/press-release_MEMO-14-1903_en.htm

²⁶ "EU's Juncker Says South Stream Pipeline Can Still Be Built", 4.12.2014., Reuters, <http://www.reuters.com/article/2014/12/04/us-russia-europe-pipeline-eu-idUSKCN0JI18720141204>

THE LOGIC OF LATVIAN PRESIDENCY PRIORITIES

Preparations for the Latvian Presidency began in 2009, when Latvia's Government approved early guidelines to start arrangements for the tenure. Work on similar documents continued well into 2012. In summer of 2012 a series of public discussions on potential priorities and goals of the Latvian Presidency took place. These discussions became the conceptual basis for further development of the work programme, and in autumn 2013, additional public discussions took place in Latvia's regions on the guiding principles of the Latvian Presidency. The development of the six month working programme for the Latvian Presidency was carried out in close collaboration with all ministries, the State Chancellery, Permanent Representation of the Republic of Latvia to the European Union and EU institutions, as well as the Trio Presidency partners Italy and Luxembourg, and Latvian civil society. On 21 October 2014 the draft Presidency programme was approved by the Cabinet of Ministers, with the final document published in January 2015. The programme defines three main priority vectors for the Latvian Presidency:

- 1) A Competitive Europe (EU competitiveness and growth)
- 2) A Digital Europe (Use of European digital potential for EU development)
- 3) An Engaged Europe (Strengthening the EU's role as a global actor)

One of the overall goals of the current trio presidency (Italy, Latvia, and Luxembourg) is the reestablishment of Europe as a globally competitive and healthy economy. To facilitate the Union's growth, it is necessary to completely overcome the economic and financial crisis and strengthen the EU's capacity to create more jobs. This is the essence of the first priority of the Latvian Presidency. As the *18 month programme of the Council of the European Union* for the current trio mentions, financial stability of the euro and continued fiscal consolidation to provide a healthy economic environment is key.²⁷ Therefore the Council will continue to work on strengthening the Economic and Monetary Union; the four pillar roadmap outlined in the Report by the four Presidents in December 2012.

In this context the implementation and proper functioning of the Banking Union is of utmost importance. Implementation of the Banking Union goes hand in hand with establishing a strengthened economic governance framework, which in the context of the European Semester has resulted in better coordination and convergence of economic policies and increases efforts to take forward and implement structural

²⁷ The future Italian, Latvian and Luxembourg Presidencies and the High Representative, Chair of the Foreign Affairs Council, "18 month programme of the Council (1 July 2014 – 31 December 2015)", Brussels, 23 June 2014, <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2011258%202014%20INIT>

reforms within Member States. The Latvian Presidency will also be the time during which the Europe 2020 Strategy will be reviewed, introducing renewed efforts towards building a smart, sustainable, and inclusive economy. In order to ensure growth and job creation in the EU, another important task during the Latvian Presidency will be to take steps towards completing the Single Market and tapping into its full potential.

The Council will seize the opportunity of the new legislative cycle to prompt a new “strategic” cycle centred on the completion of the Single Market. All pending proposals under the Single Market Act II should be finalised and further actions supporting a fully functioning Single Market for Services will be undertaken. Another important task is the completion of the Single Market for energy, which is of utmost importance for energy security in the EU. Recent regional events have motivated many countries in the EU to intensify work on the diversification of energy sources, making them less dependent on Russian gas and oil.

During the Italian Presidency, towards the end of 2014, the European Commission unveiled its long awaited investment plan to lift the economy of EU countries most hit by the economic crisis. The European Fund for Strategic Investment will provide 21 billion euros in funds. But these funds will reportedly be leveraged by a factor of 15 to have a net effect on the bloc’s economy of approximately 315 billion euros. Officials hope the plan can be operational by mid-2015. A team of financial experts will then help decide on projects, based on their likelihood to attract private investors. The Commission believes the plan will create up to 1.3 million new jobs across the bloc.²⁸ The plan comes at a crucial time, when South European nations like Greece and Spain are still affected by the crisis, manifesting in a double digit unemployment rate and looming austerity programs. As already mentioned, Latvia is known for having overcome the crisis during Dombrovskis tenure as Prime Minister, but many problems still remain. The employment rate still leaves much to be desired, while Russian “countersanctions” on European produce have left Latvian exporters with an uncertain future. Also, during 2013 growth of the Latvian economy was expected to be one of the highest in Eastern Europe by the IMF, with a projected 4.2 percent growth for 2014.²⁹ Unfortunately, over the course of the year Latvian Central Bank data has shown the actual growth was closer to 2.4 percent in

²⁸ Investment Plan, European Commission, http://ec.europa.eu/priorities/jobs-growth-investment/plan/index_en.htm

²⁹ “Latvia to Have Greatest Economic Growth in Central and Eastern Europe”, IMF, Latvia.eu, <http://www.latvia.eu/news/latvia-have-greatest-economic-growth-central-and-eastern-europe-imf>

comparison to 4.1 percent³⁰ in the previous year. This leads us to conclude there is still much work to do in facilitating growth, not only in Southern Europe, but in Latvia as well.

The second of three major priorities for the Latvian Presidency is a Digital Europe. This priority converges with the completion of the Single Market and overall goals for the first priority mentioned above, to which an accomplishment of the Digital agenda is crucial. The 18 month programme includes a commitment to complete the Digital Single Market by 2015, as expressed by the European Council in 2013. The Union will pursue boosting digital infrastructure and using public administration as an instrument of innovative digital services, enhancing consumer and business confidence in the digital market, facilitating digital cross-border trade and guaranteeing data protection, moving towards a real Single Market for electronic communications and on-line services, promoting long term projects such as cloud computing and open data, and investing in digital skills and strengthening network security and data protection.³¹

Latvia has already had some experience in this regard. For example, the percentage of e-government users among enterprises is well above the average rate in the EU, and Latvia has implemented the necessary laws to support the Digital Single Market.³² This has in large been thanks to the cooperation of non-governmental actors such as the Latvian Open Technology Association and the Latvian Information Technology and Telecommunications Association, which have hosted conferences on the subject of the Digital Single Market. European Commission Vice President of the Digital Single Market, Andrus Ansip, participated in one of these conferences, which was dedicated to the Latvian Presidency's digital priorities, in December 2014.³³ This sort of cooperation will continue during the Presidency, when Latvia will host conferences on this matter with the participation of entrepreneurs and service providers from digital industries across Europe, in addition to government officials. In this view, Latvia has more than enough to contribute in advancing the Digital Agenda of Europe.

The third priority of the Latvian presidency – an Engaged Europe, is related to foreign policy and straightening its position as a global player. The central matter

³⁰ Key Macroeconomic Indicators., Latvijas Banka, <http://www.bank.lv/en/statistics/data-room/main-indicators/key-macroeconomic-indicators>

³¹ 18 month programme of the Council (1 July 2014 – 31 December 2015).

³² Implementation of the Digital Agenda for Europe, European Commission, <http://daeimplementation.eu/>

³³ "Over 250 Opinion Leaders Discussed Europe's Digital Future in Annual LIKTA Conference in Riga", Likta.lv, <http://www.likta.lv/EN/Activities/Lists/Activities/DispForm.aspx?ID=12>

for this priority is that Latvia has consequently seen the Eastern Partnership as a personal matter of interest. An expansion of relations with the Eastern Partnership and Central Asian countries have political and economic reasoning behind them, because Latvia can use its knowledge and expertise on former Soviet bloc countries and also enhance the country's international prestige. The fourth Eastern Partnership Summit is to be held in Riga in May 2015. It will be an opportunity to evaluate the progress achieved in political associations and economic integration and to further develop the relationship between the EU and its Eastern Partners. Based on the principle of differentiation within the Eastern Partnership, the Latvian Presidency will seek to foster enhanced relations with other Eastern Partnership countries, including Armenia and Azerbaijan.

The Riga Eastern Partnership summit will be held in the aftermath of Russia's annexation of Crimea and ongoing Russian supported separatist insurgency in south eastern Ukraine. The EU will continue to support the sovereignty, independence, and territorial integrity of Ukraine and to promote the country's political and economic stabilisation. The EU will continue implementing its support to necessary reforms, notably the civilian security sector reform and the energy sector. The EU's relationship with Russia will continue to be reviewed if the ongoing conflict in Ukraine continues. The EU will continue to call on Russia to support stability and security in Europe in line with the Helsinki Final Act, the Paris Charter, the principles and instruments of the OSCE, and the Council of Europe. But events in Ukraine cannot be allowed to overshadow the EU's cooperation with other Eastern Partnership countries, such as Georgia and Moldova. During the Latvian Presidency the EU will continue to work with the OSCE, other partners on settling conflicts, and these countries.

Beyond the countries of the Eastern Partnership, Latvia has taken a front seat role in developing European Union relations with Central Asia. At the end of 2014 and the departure of ISAF forces from Afghanistan, relations with Central Asia are mostly seen in the context of security. But beyond the security significance, Central Asia represents major economic potential as a bridge between Europe and countries of East Asia, as well as India. Over the years Latvia has demonstrated its expertise on the Central Asia region, and built reliable contacts with governments in the region, all of which have contributed to better EU relations with the region. Since the region is seen as problematic in terms of democracy, and considered to be authoritarian by Western standards, the EU should also put more effort into the areas of rule of law and democratisation, good governance, and the protection of human rights. The Presidency is viewed as an important tool for how Latvia can bring more EU attention to the region of Central Asia.

Looking westward, December marked the conclusion of another negotiation round on the Transatlantic Trade and Investment Partnership (TTIP). During these negotiations, EU and US leaders agreed to conclude talks on the TTIP until late 2015. The European Commission estimates that, if successful, the TTIP could add as much as €100 billion extra to the EU's GDP. But TTIP negotiations have been controversial, and critics have complained about a lack of transparency, worry that the TTIP will water down consumer protection provisions, and allow corporations to block unfavourable regulation. At the same time leaders of the EU see the TTIP as a tool to reinforce the global attractiveness of the EU as a place of production and investment.³⁴ The next round of talks on the TTIP will be held in Washington, during the Latvian Presidency, in February 2015, making it a natural point of worry for the Latvian Presidency administrators.

DOMESTIC CONCERNS OVER THE LATVIAN PRESIDENCY

During the Presidency around 200 events at different levels will be organised in Latvia while around 1500 meetings will take place in Brussels and Luxembourg. Some of the more important events during the Latvian Presidency will be the Eastern Partnership Summit, the Fifth Meeting of the Ministers of Education of the ASEM countries, and the Conference of European standardization. At the same time Latvia will host many informal meetings of various ministers of the EU. Latvia is also planning to hold a high level e-health summit and the UNESCO World Press Freedom Day event. The work of the Latvian Presidency is coordinated by the Secretariat of the Latvian Presidency of the Council of the European Union, which functions under the Ministry of Foreign Affairs. The Secretariats' job was to ensure a timely and qualitative preparation of Latvia for its first Presidency and coordinate work during the upcoming Presidency.

Domestically much of the Presidency undertakings have been surrounded by controversy due to the high costs of events. Most of the expense for the Presidency have gone to technical organization, as well as training civil servants and employees of government institutions. The costs of the Latvian Presidency is estimated to be around 65 million euros³⁵, considerably more than the 50 million euros earmarked

³⁴ Transatlantic Trade and Investment Partnership (TTIP), European Commission. <http://ec.europa.eu/trade/policy/in-focus/ttip/>

³⁵ "Latvijas tēriņus ES prezidentūras laikā vērtē kā vidējus", Lsm.lv, <http://www.lsm.lv/lv/raksts/ekonomika/zinas/latvijas-terinjus-es-prezidenturas-laika-verte-ka-videjus.a110639/>

for costs related to the organization of the Greek Presidency earlier in 2014.³⁶ Nevertheless, the actual costs of the Presidency will only become known after it has taken place, in the second half of 2015. Organizers of the Presidency have also noted that money spend on the Presidency will end up back in the wallets of Latvians, with an estimated 64.5 million euros in revenue for local businesses servicing the Presidency, as well as 44 million euros in tax revenue.³⁷ This means the Latvian Presidency might end up making back the money that was spent organizing it.

Much of the domestic debate over the upcoming Latvian Presidency has also been about whether such a small country is able to host such important events and preside over the Council for six months. Over the years a range of smaller EU countries such as Slovenia, Cyprus, and Luxemburg have held the Presidency with good results. The main challenge is the fact Latvia will be holding the Presidency for the first time, but preparations and planning, as mentioned above, have gone on for many years, so this is of little concern.

During the Lithuanian Presidency (1 July 2013 – 31 December 2013) many doubted the country's capability to hold the Presidency and believed Lithuania would struggle, as it was seen as a small member state with little credibility. However, even if the Presidency was held during a challenging period with two upcoming deadlines, before which Lithuania's Presidency had to finish as much legislative work as possible before the European elections, and adopt the legislation required for the next Multiannual Financial Framework, this Presidency proved itself to be successful. During the Lithuanian Presidency, the EU made progress in establishing a Banking Union, the conclusion of the Multiannual Financial Framework and EU relations with Eastern Partnership countries.³⁸ Thus, hopes for the success of the Latvian Presidency can be pragmatic if no intentional disruptions of the planned process will occur.

³⁶ Report on the Expenditure of the Greek Presidency of the Council of the European Union, Gr2014.Eu, <http://www.gr2014.eu/news/features/report-expenditure-greek-presidency-council-european-union>

³⁷ "Latvijas tēriņus ES prezidentūras laikā vērtē kā vidējus".

³⁸ Ramūnas Vilpišauskas and Bruno Vandecasteele., The Lithuanian Council Presidency of 2013: Small and Effective. Integration 2/2014. <http://iep-berlin.de/en/publications/issue-22014-of-integration-published/>

CONCLUSIONS

Overall, the Latvian Presidency of the Council of the European Union promises to be very ambitious. The main priorities and other goals have been very clearly set, and many institutions of Latvia have worked hard organizing this Presidency. Preparatory work has been completed, and this internationally turbulent year of 2014 ended with Latvia taking over the Presidency from Italy. This is also an opportunity to be reminded of Latvia's role in the future of the EU. For the Latvian government the Presidency is a sign of its special European vocation and mission. As the presiding country, Latvia is put in the political spotlight of EU citizens and outside governments – particularly since it belongs to the group of smaller and newer members. In 2014 Latvia marked the tenth anniversary of its EU membership and the twenty third year of its re-established independence after the Soviet Union collapsed. 2015 will also be a historic year for Latvia, for it will host the Presidency of the Council of the European Union.

CRAFTING A STRATEGIC RESPONSE TO RUSSIA: GEOPOLITICAL PRIORITIES FOR LATVIA IN 2015

By Melanie G. Mierzejewski-Voznyak

The Russian invasion of Ukraine in late February 2014 radically altered the strategic security environment in Europe. No sooner than the EuroMaidan Revolution in Kyiv ousted from power the increasingly autocratic President Viktor Yanukovich, Russian President Vladimir Putin's troops occupied Ukraine's Autonomous Republic of Crimea. Additionally, Putin sent subversive units, including Russian special forces, into eastern Ukraine; the latter's activities grew into a bloody militancy against the central government and peaceful Ukrainians living in Donetsk and Luhansk oblasts.³⁹ Thus, 2015 will prove to be an important year for Latvia geopolitically. Issues of national security will top Latvia's priority list particularly given increased Russian military activity in the Baltic Sea Region.⁴⁰ Furthermore, Latvia will also hold the Presidency of the Council of the European Union (EU) and therefore will have an opportunity to steer the direction of the Eastern Partnership (EaP), which requires a more country specific approach following the Russian invasion of Ukraine, and subsequent illegal annexation of the Crimea. The purpose of this chapter is twofold. First, the chapter assesses the implications of

³⁹ "МВС і СБУ розпочали операцію «Кордон»,» *ZIK*, March 5, 2014, http://zik.ua/ua/news/2014/03/05/mvs_i_sbu_rozpochaly_operatsiyu_kordon_467661; Наливайченко: "СБУ має докази, що до провокацій в Україні причетна російська розвідка," *ZIK*, March 11, 2014, http://zik.ua/ua/news/2014/03/11/nalyvaychenko_sbu_maie_dokazy_shcho_do_provokatsiy_v_ukraini_prychetna_rosiyska_rozvidka_469261; "СБУ встановила, хто керує диверсантами у Слов'янську," *Українська правда*, May 15, 2014, <http://www.ppravda.com.ua/news/2014/04/15/7022478/>

⁴⁰ Thomas Frear, Lukas Kulesa, and Ian Kearns, "Dangerous Brinkmanship: Close Military Encounters Between Russian and the West in 2014," *European Leadership Network*, November 2014, <http://www.europeanleadershipnetwork.org/>.

the Russian-Ukrainian conflict on Latvian national security interests. Second, the chapter examines how Latvia can further EU interests by reenergizing the Eastern Partnership and proposing a more strict policy of containment towards Russia.

The Russo-Ukrainian conflict raises important security questions for most states sharing a land border with Russia, particularly Latvia where there is a high population of ethnic Russians. Can the Crimean scenario be successfully executed by Russia in Latgale or across the entire Baltic region? This chapter begins with a thought exercise where I apply lessons learned from the Crimean invasion to a fictional case where Russia takes control of the eastern Latvian region – Latgale. Using this exercise, I draw conclusions about the challenges that the Latvian government would need to overcome during such a “crisis.” I evaluate to what degree Latvia’s membership in the North Atlantic Treaty Organization (NATO) offers credible and realistic security guarantees to protect Latvian territorial integrity and offer basic recommendations to inform the Latvian leaders and people about how to safeguard their own freedom.

In the second part of the chapter, I examine how Latvia can use its Presidency of the Council of the EU between January and June 2015 to advance EU interests against the backdrop of the war in Europe. Latvia should play a leading role in dialoguing with Russia about the integration process of EaP members and emphasize the unacceptability of threats and attacks on EaP partner countries. The EU has yet to set boundaries with Russia as concerns the sovereignty and territorial integrity of EaP members, and following Russia’s war with Ukraine this needs to be a priority for 2015. Furthermore, Latvia must work to refocus the nature of the Eastern Partnership so that it takes a more country distinct approach where the EU works towards helping EaP members achieve the specific degree of integration desired. By taking such a multilateral approach based on individual aspirations and abilities, Latvia can further regional cohesion between the EU and the developing democracies in its eastern neighborhood.

LATVIAN SECURITY AFTER THE RUSSIAN INVASION OF UKRAINE

What if Latgale were Crimea?

By extending the events in Crimea to Latvia, we are able to hypothesize about the potential threats to Latvian security, which serves a preparative function. While not able to hold predictive power, the utility of this exercise lies in that it allows us

to think systematically and in a structured manner through analytical problems before us. While it is unimaginable to think that Russia would ever violate Latvian territorial integrity again, the Russian war with Ukraine demands that we examine this possibility, however remote it may be. After all, prior to February 2014 no one – except Russian military planners – thought that Russian troops would invade sovereign Ukrainian territory, annex part of it, and terrorize the civilian population.

What if Russia invaded Latvia? Based on the Crimean scenario, unmarked Russian militants would seize key government buildings and installations in major Latvian towns such as Daugavpils, Rezekne, and Ludza. At the same time, Russian gunmen would secure control over the Daugavpils airport to enable reinforcements by air. The Russian military would aim to manage via propaganda and information warfare tactics the narrative about events on the ground to three key audiences: domestic, Kremlin sympathizers in Latvia, and the West. This narrative would provide legal and moral justification for the invasion. Based on what we observed during the Russian occupation of the Crimea, we can expect that in possible future scenarios the Russian Ministry of Foreign Affairs and pro-Russian media resources in Russia and worldwide would claim that in Latvia...

Putin needs to protect ethnic Russians who are being oppressed and disenfranchised by the neo-fascist government in Riga. Further, Latgale was historically Russian at any rate, so this action would redress a historical injustice by returning to the fold historically Russian lands with a large ethnically Russian population.

Such a takeover could also involve the use of a “referendum” to further legitimize actions of what appear to be indigenous discontent of Latgale pro-Russian groups. If Russia invaded Latvia, what would be lacking, at least at first, is any appearance of uniformed Russian troops or heavy machinery that would provide the necessary evidence, the smoking-gun, with which to invoke Article V NATO security guarantees.

This type of take-over is what some western commentators call *maskirovka*. This is “a strategy [which] relies on deception, deniability, and special operations troops mixed with volunteer militias – armed with advanced weapons – to bring about political change outside Russia’s borders.”⁴¹ During its invasion of Ukraine, Russian troops entered the Crimea in vehicles with license plates and insignia blacked out. At least initially, there was no public evidence that it was in fact Russian regular troops as opposed to well-equipped locals with pro-Russian sentiment.⁴²

⁴¹ David Axe and Robert Beckhusen, “NATO could have trouble combating Putin’s military strategy,” *Reuters*, September 15, 2014, <http://blogs.reuters.com/great-debate/2014/09/15/how-nato-could-defend-against-a-russian-invasion>

⁴² Ibid.

Latvia should be rightly worried about such a stealth invasion. The use of such hybrid war methods would likely cause a response delay on whether an attack on a NATO member took place, and if Article V should be triggered. As National Defense Academy of Latvia's Center for Security and Strategic Research warned in an April 2014 report, "it is the operationalization of a new form of warfare that cannot be characterized as a military campaign in the classic sense of the term. The invisible military occupation cannot be considered an occupation by definition."⁴³

The key question necessary to defend Latvian territorial integrity lies in interpretation of the NATO charter, which will be left up to Latvia's NATO allies in Washington, London, Berlin, and Warsaw: do military fatigues worn by "little green men" as seen during the Crimean invasion constitute an attack on a NATO member and therefore trigger Article V, or does NATO require introduction of clearly marked, uniformed conventional Russian military forces? This ambiguity is the weakness of NATO which Russia may be able to use to its advantage as any delay in response will move the situation on the ground closer to the *fait accompli*, and give Kremlin the negotiating leverage to establish another frozen conflict, except this time, it would be on the territory of an EU and NATO member.

Lessons for Latvia

Given the lack of any significant military assets on the part of the Latvian military that could be used to repel an initial attack, the Latvian government's response to any "disturbances" in Latgale will have to confine itself to collection of information about the ground truth and communicating these details to NATO allies and the Latvian public. The biggest challenge for Riga would be to establish beyond any reasonable doubt that a) an invasion by the Russian military has indeed taken place, and b) that Article V of the North Atlantic Treaty needs to be triggered immediately.

The Russian military operation against Ukraine in the Crimea showed that once control on the ground was established relatively peacefully, the incentive to fight the Russian army quickly evaporated. While the Ukrainian units in the Crimea honorably held out for quite some time, the Russian military wore them down through regular pressure and intimidation, and ultimately forced those units to leave the peninsula for the Ukrainian mainland.

⁴³ Jānis Bērziņš, "Russia's New Generation Warfare in Ukraine: Implications for Latvian Defense Policy," *National Defense Academy of Latvia Centre for Security and Strategic Research*, Policy Paper 2 (2014), 7, <http://www.naa.mil.lv/~media/NAA/AZPC/Publikacijas/PP%2002-2014.ashx>

Despite the explicit security guarantees contained in the North Atlantic Treaty, it is difficult to imagine that the US, the UK, or Germany would quickly deploy its soldiers on the ground in Latvia to fight Russia over an ethnically Russian region. While there are already NATO troops present in the Baltic States, NATO allies will need time to prepare their domestic constituencies that additional soldiers need to be sent to protect a NATO ally (Latvia) and fight a conventional war against Russia. At the same time, the Allies will need to make the case that the deployment of troops against Russia is worth taking and that the local conflict in the remote region of one NATO member is worth possible escalation to a nuclear war.

In light of the above, Latvia's best option is to avoid getting to a situation where Putin decides to use the Crimean scenario on Latvia. There are several options available that will help buttress the Latvian security: increase Latvia's defense spending to the NATO mandated 2% of the GDP minimum, bolster border defenses, and ramp up information warfare capabilities. The aim of all of these would be to deter Russia by raising the costs that it would need to incur should it choose to invade Latvia.

Latvia has already committed to increasing the defense budget to 2% by 2020, which shows determination to protect against all potential threats facing the country. However, while the *Law on State Defense Financing* has been approved by the Saeima (Parliament), it remains to be seen whether the yearly incremental increases will occur. Currently, Estonia is the only Baltic state, which annually spends 2% of its GDP on defense.

Latvia must also stand firm in its opposition to military cooperation between EU members and Russia – be it through the sale of arms or joint exercises. Ensuring border security includes open opposition to issues such as France's deal to sell Mistral-class amphibious assault ships to the Russian military. Latvian Minister of Foreign Affairs Edgars Rinkēvičs was correct in proclaiming this deal was unacceptable given the existing security situation.⁴⁴ The establishment of the NATO Strategic Communications Centre of Excellence (CoE) in Riga further illustrates Latvia's commitment to tackling new challenges confronting NATO members. Russia's aggressive way of waging war through propaganda and subversion is a major threat, particularly for countries with large Russian-speaking populations like Latvia. Ironically, in order to defend its freedom, it will be necessary for Latvia to continue regulating Russian-speaking, pro-Kremlin biased media outlets that broadcast within its borders and take necessary measures against "war propaganda,"

⁴⁴ "Latvian Foreign Minister Voices His Concern to the French Minister of State for European Affairs Over the Possible Mistral Deal," *Ministry of Foreign Affairs of the Republic of Latvia*, November 10, 2014, <http://www.mfa.gov.lv/en/news/press-releases/2014/november/10-03>.

such as the temporary banning of Rossiya RTR in April 2014 after it was found to be broadcasting tendentious information about the events in Ukraine.⁴⁵ The CoE's focus on information warfare complements NATO military exercises carried out by U.S. and Latvian troops. Latvia must continue to send the message to Putin that it will defend its borders and is prepared to counter propaganda warfare used by its opponents.

In conclusion, it should be noted that the likelihood of Russia crossing into Latvia is small. Though some in Latgale, such as Kraslava Mayor Gunars Upenieks, already report some pro-Russian activity, Russia is a conservative interstate actor, which undertakes war as a policy tool when it is certain about the final outcome.⁴⁶ An invasion of Latvia at this stage (late 2014) is simply not advantageous to Moscow, which can much more effectively control and manipulate Riga indirectly through interference in politics, business, and propaganda via sympathizers and the Russian speaking media. The small likelihood however should not deter those in the Latvian national security structures to prepare for the worst.

LATVIA'S EU PRESIDENCY

EU-Russia relations

While Latvian national security should top 2015's political agenda, Latvia's EU presidency in the first half of the year presents a rare opportunity at an important historical time. Building on the legacy of Sweden and Poland, Latvia must use the Eastern Partnership program to maintain EU engagement with its eastern neighbors – Moldova, Ukraine, Georgia, Armenia, Azerbaijan and Belarus – in the hope of advancing liberal democracy in Eastern Europe and the Caucasus. Similar to the Vilnius Summit in November 2013, the Latvian government's organization of a Riga Summit in May 2015 is an important milestone in enhanced cooperation between the EU and EaP members.

While the EaP is not offering formal membership in the EU, it has been grounded in what David Cadier calls the 3M incentives - money, markets, and

⁴⁵ "Latvian regulator issues temporary ban to Russian TV channel Rossiya RTR," *European Platform of Regulatory Authorities*, April 10, 2014, http://www.epra.org/news_items/latvian-regulator-issues-temporary-ban-to-russian-tv-channel-rossiya-rtr.

⁴⁶ "Pro Russian activists in Latvia campaigning to join Russia, mayor says," *The Baltic Times*, November 11, 2014, <http://www.baltictimes.com/news/articles/35774/>.

mobility.⁴⁷ Aid packages are crucial for implementing necessary reforms, visa-free travel is highly sought after, and the opening of EU markets through DCFTAs (Deep and Comprehensive Free Trade Acts) would boost the partner countries' economies. However, in order for legislative harmonization to occur so that all these incentives are realized, partner country laws must mirror European ones. Unfortunately, Russia under Putin interprets EaP as a sinister EU plan to geopolitically orient EaP countries toward the EU. This zero-sum thinking holds that by politically and economically drawing the partnership countries closer to the EU, they are distanced from Russia. Latvia is in a key position during its leadership of the EU to strengthen and deepen the relations between EaP frontrunners – Georgia, Moldova, and Ukraine – and the EU as well as normalize EU relations with Russia.

Latvia has proclaimed its desire to assist in finding solutions to foreign policy issues that affect the entire EU.⁴⁸ In 2015, the normalization of EU-Russia relations will be a major policy priority. The years 2013 and 2014 saw increasing Russian hostility towards the EaP. Though the Eastern Partnership was not born with the intent of forcing the six Eastern European and Caucasus countries to choose between Russia and the EU, Russia under Putin has increasingly interpreted EaP to be just that. This tension over geopolitical orientation – EU vs. Russia – resulted in the failure of Ukraine to sign an EU Association Agreement in Vilnius in 2013 after Putin used carrots (i.e. offers of economic assistance) and sticks (i.e. economic cutoff) to convince at the time Ukraine's President, Viktor Yanukovich, to change his mind in favor of not initialing the Agreement. Yanukovich's sudden change of heart provoked outrage among the Ukrainian people, and led directly to the EuroMaidan Revolution. With Yanukovich fleeing Kyiv, Putin capitalized on the political chaos in early 2014 by occupying the Ukrainian territory. Putin has no interest in seeing increased EU enlargement into Eastern Europe, and has countered EU economic incentives by initiating the Eurasian Customs Union. Russia refuses to accept the reality that the former Soviet Union Republics are now sovereign states, and it continues to exert political, economic, and military power over what it claims is its sphere of influence. This is evidenced by the fact that all three of the more advanced EaP countries now have separatist regions that are being backed by Russia (South Ossetia and Abkhazia in Georgia, Transnistria in Moldova, and the Donbas region in Ukraine).

⁴⁷ David Cadier, "Is the European Neighbourhood Policy a substitute for enlargement?" in London School of Economics IDEAS Report, *The Crisis of EU Enlargement* (2013), 52, http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR018/Cadier_D.pdf

⁴⁸ Ministry of Foreign Affairs of the Republic of Latvia, "Annual Report by the Minister of Foreign Affairs on activities performed and planned in national foreign policy and European Union matters," 2013-2014, http://www.mfa.gov.lv/data/21012014_arlietu%20ministra%20zinojums-en.pdf

Whether the EU chooses to see it this way or not, the domestic politics of Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine have become a matter of geopolitical alignment – to Europeanize or to remain aligned with Russia. Undoubtedly, this is a matter of politics, not just about economic cooperation. The EaP is political at its core, because it implicitly supports a liberal democratic political system, which is antithetical to Putin and the post-Soviet petrol state that he has built. An increasingly diplomatic approach is needed, not just a technocratic approach to bring legislation within EaP countries in line with EU standards. The EU must acknowledge the political and economic pressures applied by Russia and the constant interference by Putin into the domestic politics of EaP members. The West's attempts to appease Russia through EU-Russia partnerships or a "reset" policy have failed to curb the ongoing Russian aggression. If the EaP is to advance, the Russia factor needs to be addressed. During its Presidency of the European Council, Latvia must stress the need for a well-coordinated EU response to Russia concerning the unacceptability of attacks and threats against EaP countries. This goes beyond Putin's annexation of the Crimea or support for pro-Russian militants in eastern Ukraine, which – in addition to thousands of innocent Ukrainian civilian deaths – resulted in the downing of Malaysia Airlines Flight 17, a civilian airliner carrying hundreds of EU citizens, using Russian supplied weapons by pro-Russian militants.⁴⁹ In its dialogue with Russia, the EU should challenge Russian trade embargoes on fruit and vegetables as well as alcohol from Georgia and Moldova, import bans on Ukrainian steel and railcars, and restrictions against migrant workers from Georgia and Moldova.⁵⁰ Latvia should push for the drawing of clear lines on Russian manipulation and hostility towards EaP countries.

Re-energizing the EaP

In 2015, Latvia's main task will be not just to set boundaries with Russia, but to re-engage the EaP countries through a more individually tailored integration approach, allowing EaP partners to set the limits about the extent to which they choose to integrate. This means different goals for different countries: working

⁴⁹ Hubert Gude and Fidelius Schmid, "Deadly Ukraine Crash: German Intelligence Claims Pro-Russian Separatists Downed MH17," *Der Spiegel*, October 19, 2014, <http://www.spiegel.de/international/europe/german-intelligence-blames-pro-russian-separatists-for-mh17-downing-a-997972.html>

⁵⁰ Agata Wierzbowska-Miazga, Russia goes on the offensive ahead of the Eastern Partnership summit in Vilnius, Ośrodek Studiów Wschodnich, October 1, 2013, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2013-10-01/russia-goes-offensive-ahead-eastern-partnership-summit-vilnius>

towards visa-liberalization for Georgia by the 2015 Riga Summit, providing humanitarian aid and expert advice to Ukraine, expanding dialogue with Armenia on trade and economics, and simply elevating the dialogue between the EU and Belarus.⁵¹ Practical guidance is needed to help EaP partner countries overcome decades of political stagnation and rampant corruption inherited from the communist system. This is particularly important for the three countries – Georgia, Moldova, and Ukraine – that have signed the Association Agreement.

As noted by Latvian Foreign Minister, Edgars Rinkēvičs, this differentiation between EaP members will allow those countries that are making substantial efforts in reforms to be acknowledged and specific roadmaps for future efforts to be drafted – such as judicial reform in the case of Georgia.⁵² It will also allow for flexible relations with other EaP members that are not interested in deeper EU integration – such as Armenia and Azerbaijan. Cooperation on this level creates respect for the domestic political situation of each member country, something Russia cannot offer as long as it continues to view them as part of its sphere of influence. However, an approach linked to individual countries' achievements and desires will likely require offering the prospects of membership to some countries in the future – particularly Moldova and Georgia.

The Eastern Partnership has lost some of its momentum, due to Putin's opposition and the lack of tangible results. However, this only signals the need for more efforts to strengthen civil society and encourage reform of political institutions. Latvian President Bērziņš voiced his willingness to share the Baltic state's experiences with the reform and integration process with EaP partner countries.⁵³ Latvian and Estonian experts have already taken part in such seminars aimed at sharing experiences and raising awareness on issues of EU integration in April 2014, when

⁵¹ "The Ambassador of Ukraine bids Farwell to the Foreign Minister," Ministry of Foreign Affairs of the Republic of Latvia, November 24, 2014, <http://www.mfa.gov.lv/en/news/press-releases/2014/november/24-03/>; Diāna Potjomkina, "Latvian-Belarusian Relations: Multiple Realities," in *Latvian Foreign Policy Yearbook 2013*, ed. Andris Sprūds (Riga: Latvian Institute of International Affairs, 2014); "Edgars Rinkēvičs: Latvia will promote dialogue with Armenia during its Presidency of the Council of the European Union," Ministry of Foreign Affairs of the Republic of Latvia, December 12, 2014, <http://www.mfa.gov.lv/en/news/press-releases/2014/december/12-04/>; "Latvian FM Lays Out EaP Riga Summit Goals," *Civil Georgia*, November 26, 2014, <http://www.civil.ge/eng/article.php?id=27856>

⁵² "Latvian FM Lays Out EaP Riga Summit Goals."

⁵³ "Latvian President: My Visit to Georgia Should Strengthen Economic Relations," *The Baltic Course*, November 27, 2014, <http://www.baltic-course.com/eng/legislation/?doc=99416>

around 30 representatives from EaP countries were brought together in Tbilisi.⁵⁴ Important for the EaP's advancement is more cooperation programs between EaP partners and Central European EU member states as well as additional twinning programs that involve the posting of EU officials and experts to ministries within EaP countries.⁵⁵ Latvia set an example of such economic cooperation in November 2014, when a delegation unprecedented in size – seven state officials and over 70 business representatives – visited Georgia to establish contacts and develop large-scale business projects with Georgian partners.⁵⁶ Latvia must use its turn in the Presidency of the Council of the EU to encourage similar efforts by other Baltic states and Central European countries.

CONCLUSION

The last 12 months were historical. In Ukraine, a democratic popular uprising displaced an autocratic and corrupt regime. Taking advantage of the ensuing chaos Russia once again invaded and occupied a neighboring country creating yet another frozen conflict. Yet, the next 12 months will prove to be just as important for the strategic security environment on the European continent. Given Latvia's border with Russia, the large population of ethnic Russians living in Latvia and the country's EU Presidency, 2015 will be especially important for the Baltic state. This article has highlighted a few key points concerning Latvian geopolitical priorities for the upcoming year.

In particular, Latvian national security will be a prime concern given increased military tensions between Russian and NATO countries, notably those in the Baltic Sea region. Putin's invasion of Ukraine and the ongoing Russian-Ukrainian conflict centered in the Donbas region may only be the first in a series of increasing confrontations between Russia and its European neighbors. Nearly 40 incidences of national airspace violations, emergency scrambles, and near miss mid-air collisions between March and October 2014, signal increased Russian aggression. Furthermore, 14 serious or high risk incidences including close overflights over

⁵⁴ "Latvian Expert Shares Experience of Informing Society about EU integration Issues," Ministry of Foreign Affairs of the Republic of Latvia, April 7, 2014, <http://www.mfa.gov.lv/en/news/press-releases/2014/april/07-1/>

⁵⁵ Richard Youngs and Kateryna Pishchikova, "Smart Geostrategy for the Eastern Partnership," *Carnegie Europe*, November 14, 2013, <http://carnegieeurope.eu/publications/?fa=show&article=53571&postCommentStatus=1&reloadFlag=1>

⁵⁶ "Latvian president: my visit to Georgia should strengthen economic relations."

warships, Russian “mock bomb raid” missions, a near collision of a Russian surveillance plane with a civilian airliner, abduction of an Estonian intelligence officer, and a major submarine hunt by Sweden after credible reports of “underwater activity” in their territorial waters are evidence of increased Russian military provocations.⁵⁷ Latvia must ready itself and its borders for a potential Russian threat. While Latvia has NATO security guarantees, questions remain to what extent Latvia will be able to count on its NATO allies if Russia chooses to engage in direct military confrontation. After all, there are no permanent western military bases in Latvia, and any NATO response to a hypothetical Russian attack on Latvia would face a formidable foe in a modernized Russian military, which would have time to stake out strong defensive positions prior to a NATO response. Lack of a common Western position on how to respond to Russia – including whether or not to sell Russia sophisticated western military equipment – further suggests that Latvia needs to build up its national defenses. This should include protecting against information warfare and the Kremlin’s disinformation campaigns aimed at confusing and dividing the public in the European Union.

Latvia’s turn at the Presidency of the European Union Council in the first half of 2015 also presents an opportunity for the politicians in Riga to play a leading role to establish clear red lines concerning Russia’s behavior with EaP partner countries and at the same time to reengage the EaP countries through a multilateral approach. Latvia is in a position to lead the EU’s dialogue with the Kremlin about the need to end Russian military aggression and interference in the domestic politics of now sovereign states in Eastern Europe and the Caucasus. Such a firm stance is necessary at this time as Putin’s military aggression against Ukraine may not be unique, and is not the “only potential flashpoint in Russia-West relations.”⁵⁸ As previously discussed, there are several frozen conflicts in EaP countries in which Russia openly backs the separatists. Latvia’s adoption of an individualized approach tailored to the aspirations and abilities of each EaP partner country also has the potential to bring about deeper cooperation and/or integration between Moldova, Georgia, Ukraine, Armenia, Azerbaijan, and Belarus. Such an approach will allow members who implement reforms to receive the proper benefits faster. Incentives will be attached to progress on country specific obstacles, creating for conditionality. The inclination should be towards creating attractive incentives for EaP members that are tied to issues that both the EU *and* EaP partner country agree need reform – in some cases this may be overcoming obstacles to democratic development and governance reform and in others just sectoral cooperation in areas such as consumer protection

⁵⁷ Thomas Frear, Lukas Kulesa, and Ian Kearns, 2–3.

⁵⁸ *Ibid.*, 12.

policy or migration policy.⁵⁹ The Vilnius Summit in 2013 saw the EaP gain new impetus with Georgia and Moldova initialing the Association Agreement; the Riga Summit in 2015 comes after a substantial change in the geopolitical environment, but will hopefully become an equally important milestone for cooperation and integration between the EU and EaP partner countries.

⁵⁹ Laurynas Kasčiūnas, Linas Kojala, and Vytautas Keršanskas, “The Future of the EU’s Eastern Partnership: Russia as an Informal Veto Player,” *Lithuanian Foreign Policy Review* 31 (2014), 72, <http://www.janeliunas.lt/files/LFPR/Kasciunas.pdf>

OLD TRICKS, NEW CONTEXT: RUSSIA'S SOFT POWER APPROACH TO LATVIA IN LIGHT OF RUSSIA'S AGGRESSION AGAINST UKRAINE

By Douglas B. Wake⁶⁰

OVERVIEW AND SUMMARY OF RECOMMENDATIONS

Over the course of 2014, the Russian Federation continued its more than two-decades-old routine of conducting information campaigns designed to undermine the image of Latvia and its Baltic neighbors in the world and to compete for the loyalty of its “compatriots” in these neighboring countries. These campaigns in 2014 were largely consistent with past approaches but in select cases involved new rhetoric linking alleged human rights violations or hypothetical future developments in Latvia with Russian actions against Ukraine in ways that implied direct threats to the sovereignty of Latvia and the other Baltic states.

Given that 2014 was the first time in recent years that Russia had actually gone beyond threats to use military force to violate the territorial integrity of a neighbor, first in Crimea and subsequently in southeastern Ukraine, and in view of other provocative actions against the Baltic states, Latvian policy-makers and others concerned about Baltic state sovereignty rightly viewed even “routine” Russian statements with greater concern in 2014 than in previous years. Latvia responded in a number of ways, including fairly robust public diplomacy and the expansion of Russian-language public broadcasting in Latvia. Some point out that Russia’s vastly greater capabilities and experience in this field will make it a constant uphill struggle to compete with Russian-generated messaging, while others have expressed

⁶⁰ The views expressed by Mr. Wake in this article are his own and do not represent the opinion of any government or other entity.

the view that the impact of Russia's campaigns may in fact be quite limited or even counter-productive.⁶¹ In fact, rather little information is available about the impact of Russian propaganda on various audiences in Latvia at the same time that Russia is carrying out a bloody military campaign against a neighboring state. Also unknown is the ultimate aim of Moscow's campaign against Latvia and its neighbors, with some suggesting that it presages direct aggression while others see a more nuanced policy to gain influence and undermine stability.

A suggested approach to countering hostile Russian soft power campaigns for Latvia and its friends in 2015 and beyond involves three broad elements, none of which are entirely new but all of which may require increased attention and resources in the near to medium term:

- 1) Continue to track Russian "soft power" approaches for signs of continuity as well as changes, analyzing Russian measures carefully in terms not only of their specific content and apparent intent but also their actual effects on target audiences;
- 2) Ensure that Latvia and its supporters are prepared not only to counter and respond to negative Russian messages in the most effective possible manner, consistent with human rights and democratic principles including the free flow of information, but also to convey accurate information proactively to such key target audiences as Russian-speakers in the region and politically aware Europeans;
- 3) Maintain and intensify steps to consolidate Latvian society in the most inclusive ways possible, not only because such steps will promote Latvia's successful domestic development but also to demonstrate the weakness of arguments that Latvia is restricting the rights of any residents and that closer affiliation with Russian would bring any benefits to residents of Latvia.

These recommendations are limited primarily to the ways that Latvia should fight Russian soft power with soft power of its own. Beyond the scope of this chapter, Latvia and its allies also need to consider how to fine-tune military contingency plans and the ways in which Latvia must deploy border security, law enforcement and intelligence tools to address such potential threats as infiltration of little green men, bribery of officials, or espionage.

⁶¹ Mike Collier. "Editorial: Annoyingly Loyal" LSM.LV, Public broadcasting of Latvia, 28 November 2014, 11:01 www.lsm.lv/en/article/features/editorial-annoyingly-loyal.a108065/; Mike Winnerstig [ed.]. Tools of Destabilization: Russian Soft Power and Non-military Influence in the Baltic States, Report FOI-R--3990—SE, prepared for the Ministry of Defence of Sweden, December 2014 http://www.foi.se/Documents/FOI-R--3990--SE_reducerad.pdf

SIGNIFICANT CONTINUITY OF RUSSIAN MESSAGES AND METHODS

In 2014, as in past years, numerous Russian Government statements about the Baltic states alleged that there were serious human rights violations against Russians, that there was an increase of neo-Nazi manifestations in Latvia, and that the number of non-citizens in Latvia was at odds with international standards. As in previous years, such rhetoric emanating from purely official sources such as Foreign Ministry representatives appeared to be quite closely coordinated with that espoused by Government-owned and affiliated media outlets, well-known think-tank commentators, and pro-Russian “non-governmental organizations” (including those based in Latvia and other Baltic states).⁶²

During 2014, there was a rather dramatic and completely understandable increase in the amount of attention that official and quasi-official Russian rhetoric about the Baltic States drew among officials and residents of those states and even more so among their supporters and media outlets further West. Typically, Western reports linked the Russian approach toward Latvia and the other Baltic States in 2014 to the way that Russia explained and “justified” its annexation of Crimea and its “hybrid warfare” tactics in Eastern Ukraine, suggesting that there are strong grounds for believing that Moscow is using “the same playbook” toward the Baltic States that it used toward Ukraine. Numerous articles appeared in mainstream Western media and many used social media to raise alarms about the Russian information campaigns against the Baltic states, sometimes with reference to Ukraine as a precursor for more aggressive Russian actions against the Baltics.⁶³

⁶² One venue in which Russian officials as well as ostensibly non-governmental organizations with obvious links to the Russian Federation regularly present anti-Baltic views to an international audience is the “Human Dimension Implementation Meeting” (HDIM), an annual human rights and democracy conference hosted by the Organization for Security and Co-operation in Europe (OSCE) in Warsaw each autumn. Analysis by the author indicates that a somewhat larger number of such groups made a somewhat larger number of statements in 2014 than in any previous year, but much of the increase involved statements attacking Ukraine rather than the Baltic states. At least one representative of an ostensibly Baltic NGO drew ominous parallels between the situations in Latvia and Ukraine. Anecdotal evidence available to the author suggests that the large number of anti-Baltic statements by groups also making patently false accusations against Ukraine served mainly to irritate and alienate rather than persuade most conference participants. Texts of many statements delivered at the 2014 HDIM, including replies to criticism delivered by official Latvian delegates, are available at: http://www.osce.org/odihr/hdim_2014 and at similar pages for earlier years; video archives for 2014 only are available at: <http://www.ustream.tv/channel/hdim-2014>

⁶³ Julian Borger and Luke Harding, “Baltic states wary as Russia takes more strident tone with neighbours”, *The Guardian*, 18 September 2014, <http://www.theguardian.com/world/2014/sep/18/baltic-states-wary-russia-strident-estonia-latvia-lithuania-nato>; John Besemeres, “Russian disinformation and Western misconceptions”, *InsideStory.org*, 23 September 2014, <http://insidestory.org.au/russian-disinformation-and-western-misconceptions>

While it would be a mistake to argue that all of this narrative was necessarily incorrect, in some ways it raised as many questions as it answers. Apart from the obvious differences in geopolitical realities (Baltic membership in NATO, Ukraine's strategic importance to Russia), it is worth asking to what extent the Russian rhetorical approach to Latvian domestic issues was either qualitatively or quantitatively "new" in 2014 and how much was actually consistent with the (already deplorable) patterns of previous years (especially previous election years and other years when there was a high level of East-West tension).

Without undertaking a systematic analysis of all sources, it is difficult to draw firm conclusions. However, one of the very few positive side effects of the crisis in and around Ukraine was that various relevant studies were undertaken by institutions outside as well as inside the Baltics. A review of several such studies and conversations with knowledgeable experts across the political spectrum suggest that the main "up-tick" in Russia's anti-Baltic rhetoric occurred much earlier, from about 2007 to 2010, and that the volume of attacks against the Baltics in 2014 was not particularly remarkable.

Suggestions that the Kremlin's steady drumbeat of attacks on Latvia for its treatment of its Russian-speaking and non-citizen minorities are part of the same campaign as Russia's information offensive against Ukraine must therefore be examined critically, not least in terms of timing. In the case of Ukraine, Russian officials and Kremlin-friendly commentators launched a vicious campaign in the immediate aftermath of Maidan protests and the departure of President Yanukovich, after paying very little attention to the rights of ethnic Russians or other Russian-speakers in Ukraine over the previous two decades. As documented well in a recent study compiled at the NATO Center of Excellence on Strategic Communications, the information campaign against Ukraine was an integral part of the strategy to take over Crimea and invade Eastern Ukraine, not a long-term operation akin to Russia's decades-long anti-Baltic campaign.⁶⁴

Just as the amount of mud slung at the Baltics in 2014 was probably similar to past years, much of the content was also the same. (If one were to review and believe Russian statements at the UN and the OSCE, one might conclude that "neo-fascist" and "neo-Nazi" groups have been expanding their activities in Latvia at a very alarming rate every year since about 1992.) The shrill tone and consistency of Russian official and quasi-official statements in 2014 about

⁶⁴ NATO Center of Excellence on Strategic Communications, "Analysis of Russia's Information Campaign Against Ukraine", November 2014, http://www.stratcomcoe.org/~media/SCCE/NATO_PETIJUMS_PUBLISKS_29_10.ashx

Ukraine may have actually made criticisms of the Baltic states seem modest by comparison.

IMPLIED THREATS, NEW MEANS OF DELIVERY

Of course there were some new elements to Russian soft power tactics vis-à-vis Latvia and its neighbors in 2014 that bear closer scrutiny. For example, some Russian statements, notably one by Russian Foreign Ministry “human rights envoy” Konstantin Dolgov in Riga, discussed the fate of “compatriots” and rising “neo-fascism” in Latvia in almost the same breath as the situation in Ukraine.⁶⁵ There were other alarming direct linkages between the Russian approaches to the Baltics and Ukraine and possible parallels between Russian tactics to be employed in both situations. These included statements by Kremlin-friendly “political analysts” like Sergey Markov to the effect that Latvia and Estonia should worry about their future⁶⁶ and by Kremlin spokesperson Dmitriy Peskov about the likely response of Russia and Russians to a Ukraine-style “coup” in Latvia.

Among the more alarming hints of differences between long-standing and “new” methods of Russian disinformation in Latvia were media reports that went beyond simple information operations to allegations by the mayor of Kraslava (eastern Latvia) that Russian paid agents/propagandists were on the ground preparing the way for Crimea-style operations.⁶⁷ However, subsequent reports seemed to cast significant doubt on the Kraslava story within a few days.⁶⁸ Two other widely reported areas in which Russia seems to be stepping up its information activities (including but not specifically against Latvia) are the use of Internet trolls and the (planned) delivery of local language

⁶⁵ Ministry of Foreign Affairs of the Russian Federation. “Выступление Уполномоченного МИД России по вопросам прав человека, демократии и верховенства права К.К.Долгова на Региональной конференции российских соотечественников Латвии, Литвы и Эстонии, Рига, 13 сентября 2014 года”. http://www.mid.ru/brp_4.nsf/newslines/0AD973C5C78C12B944257D5400382B03

⁶⁶ <http://www.delfi.lv/news/world/other/latvijai-un-igaujajai-vajadzetu-baidities-no-krievijas-saka-krievijas-politologs.d?id=45211980>

⁶⁷ Public broadcasting of Latvia, “Krāslava Mayor Alarmed at Local Pro-Russian Agitation”, 12 November 2014. <http://www.lsm.lv/en/article/societ/society/kraslava-mayor-warns-of-local-pro-russian-agitation.a106040/>

⁶⁸ Mike Collier, “Editorial: Annoyingly Loyal” LSM.LV, Public broadcasting of Latvia, 28 November 2014, www.lsm.lv/en/article/features/editorial-annoyingly-loyal.a108065/

broadcasts to non-Russian audiences through the recently unveiled “Sputnik” network.

RADICALLY NEW CONTEXT DRAWS MORE ATTENTION AND STRONGER REACTION

Regardless of how much the rhetoric or volume of statements may or may not have changed, what did change radically in 2014 was the *context* in which Russia carried out its efforts to use information operations to undermine Latvia’s image in the world and loyalty of its “compatriots” in Latvia. This context changed in at least three main ways:

- 1) For the first time at least since the 2008 campaign against Georgia, Russia’s continued use of hostile and misleading rhetoric against Latvia came at the same time that Russian troops were carrying out real military actions on the ground against a sovereign state, which greatly increased the extent to which anti-Baltic statements had the potential for intimidation and to engender fear;
- 2) While Russia’s rhetoric against Latvia drew on well-worn themes that did not change significantly (such as protection of compatriots and the struggle against fascism), the fact that these same themes were prominent in the massive and bombastic verbal attacks against Ukraine was a cause for concern;
- 3) Finally, Russia’s rhetoric was combined in 2014 with a number of concrete actions threatening Latvia and its Baltic neighbors, such as a relatively dramatic increase in military air operations in the Nordic-Baltic region, the detention of an Estonian intelligence officer allegedly on Estonian soil, etc. The fact that hostile rhetoric was combined with new realities not only in Ukraine but also in the Baltic region was a wake-up call for many.

Thus, it is understandable that the reactions of various players outside and inside Latvia to Russian information campaigns have changed over the past year in light of the deteriorating international environment. Most non-Russian audiences were more likely to see Russian rhetoric toward the Baltics as a serious or even existential threat in 2014 than in 2013, in view of the fact that Russia actually did take military and other hostile actions against Ukraine at least partly on grounds of “protecting the rights of Russians.”

Given the intensification of awareness and concern among the Latvian political class and Latvia’s friends about these Russian efforts, mostly as a function of Russian

action against Ukraine, the remainder of this chapter will briefly highlight a few of the ways that Latvian foreign policy circles responded in 2014 and suggest ways in which Latvia may wish to address the certainty that such campaigns will continue for the foreseeable future.

Among the first and perhaps more controversial actions taken by Latvia (and Lithuania) in early 2014 was the temporary three-month suspension of Russian television broadcasts to local viewers. A second was the decision to increase Russian language broadcasting on Latvian TV and radio, and a third was to initiate discussions (not yet conclusive by year end) about further steps to provide alternative Russian-language broadcasting on a wider basis.⁶⁹ On a separate track, Latvia gave strong support and a home base in 2014 for the establishment of the NATO Center of Excellence on Strategic Communication (NATO StratCom CoE) in part to build analytical and research capacity in this field.⁷⁰

In parallel with Latvian reactions and plans in the media sphere, Latvian officials and politicians continuously used their own public statements (including during the European Parliament and Latvian Saeima election campaigns) to lay out Latvia's position on Ukraine and to stress that Latvia would react strongly to the use of "hybrid warfare" tactics should they be employed against Latvia. (Allies chipped in as well, not least through the timely visit of President Obama to Tallinn and his statements underlining the sanctity of NATO's Article 5 commitments.) Events in Ukraine also prompted significant discussion within Latvia about the need for hard security measures like border security and intelligence and soft security measures like Russian language broadcasting and other forms of outreach to promote dialogue and integration.⁷¹

UNANSWERED QUESTIONS: INTENT AND IMPACT

Two key questions about Russia's long-standing soft power and information campaigns against Latvia and its neighbors cannot fully be answered at this time: what is their ultimate intent, and how much impact do they really have?

⁶⁹ Jari Tanner, "Baltics Prepare to Counter Moscow TV Propaganda", *The Associated Press*, 12 June 2014, <http://bigstory.ap.org/article/baltics-prepare-counter-moscow-tv-propaganda>

⁷⁰ www.stratcomcoe.org

⁷¹ Elisabeth Braw, "Tiny Baltic States Prepare to Hit Back at Mighty Russia", *Newsweek*, 19 November 2014, <http://www.newsweek.com/2014/11/28/tiny-baltic-states-prepare-hit-back-mighty-russia-285264.html>

Regarding intent, virtually all sources consulted by this author would dismiss the idea of taking Moscow's claims at face value (i.e., Russia is not expressing concern about the fate of Russians in Latvia primarily because it cares about alleged violations of the civic or linguistic rights of Russians in Latvia). Almost all sources would agree that the motives are geopolitical as well as economic and cultural, to include increased influence in Latvia in as many spheres as possible. But what no one knows, of course, is the extent to which campaigns against Latvia actually DO have a directly interventionist motive, involving contingency plans to use information operations (to create unrest in southeastern Latvia or Riga, for example) as a prelude to something even more sinister. What is clear is that the Ukraine and Georgia cases, while probably not precedents for action against NATO and EU members like Latvia and its Baltic neighbors, make the military options less "unthinkable" than in the past.

With regard to impact, despite several admirable studies undertaken over recent years, it is extremely difficult to assess the extent to which various audiences inside Latvia or elsewhere hold particular views because they are persuaded by Russian information campaigns as opposed to holding those views for other reasons (real dissatisfaction with Latvia's integration and nationality policies, deeper-seated preconceptions about Baltic political systems, cultural links to Russia, etc). A second difficulty in looking at this issue in 2015 is that few studies have been undertaken so recently that they can assess how audiences deal with the dissonance of hearing radically different versions of reality from official Russian and other sources. While much attention is appropriately focused on the fact that Russian-speaking and Latvian-speaking populations get much of their information from different media sources, it is also true that non-Latvians may have closer ties to those in Ukraine and Russia who are suffering from the effects of war and economic privation. As of this writing, it is too early to assess how attitudes of those with more private sources of information about events on the ground have already changed and may continue to evolve.

RECOMMENDATIONS

Given the current state of affairs, this author would not suggest that Latvia and its friends should either panic or be complacent about the Russian information threat. A balanced and strategic approach to countering this threat should include at least three main elements, none of which are totally new but all of

which may require additional human and financial resources in the near- to medium-term:⁷²

- 1) Latvian policy-makers and their supporters should carefully analyze Russian information campaigns directed at Latvia, especially with regard to the real as well as the intended impact of Russian efforts. Care should be taken not to oversimplify or assume cause/effect relationships. It is also important to recognize that well-financed and apparently sophisticated Russian propaganda may be not necessarily be effective – and may even be counter-productive – in the medium if not the short term. A key for Latvia is to understand what tactics and strategies Russia is using and to assess the extent to which they represent real threats;
- 2) Latvia should continue to prepare for and react effectively and energetically to hostile information operations, consistent with human rights and democratic principles including respect for the right of individuals to seek and impart information and ideas without regard to frontiers. In doing so, rather than seeking to ban or even respond to every false message delivered from Russian sources, Latvian spokespersons would be well advised to focus mainly on positive messages. While blatant lies should be countered, Latvian officials should avoid unnecessary “defensiveness” and should instead reach out to internal and external audiences with positive, honest and factual data about the country’s domestic and foreign policies;
- 3) Latvia’s political class should also continue efforts to consolidate society internally while strengthening Latvia’s alliances and partnerships externally. Such steps are inherently in Latvia’s interest because social cohesion and strong foreign alliances are two keys to making Latvia a more prosperous and successful state. They are also relevant specifically in the information sphere, to demonstrate the weakness of claims that Latvia or any of its residents would benefit from a “pro-Russia” realignment of domestic or foreign policy.

⁷² For excellent and somewhat similar recommendations, see also: Elina Lange-Ionatamišvili and Diāna Potjomkina, “The Fight for Hearts And Minds: Challenges in the Information Sphere of Russia’s Neighborhood”, *Visegrad/Insight*, 26 November 2014, <http://visegradinsight.eu/the-fight-for-hearts-and-minds26112014/> and Mike Winnerstig [ed.], “Tools of Destabilization: Russian Soft Power and Non-military Influence in the Baltic States”, Report FOI-R-3990—SE, prepared for the Ministry of Defence of Sweden, December 2014, http://www.foi.se/Documents/FOI-R-3990--SE_reducerad.pdf.

For broader recommendations (not limited to the Baltic case), see Peter Pomerantsev and Michael Weiss, “The Menace of Unreality: How the Kremlin Weaponizes Information, Culture and Money”, A Special Report presented by The Interpreter, a project of the Institute of Modern Russia, November 2014, http://www.interpretermag.com/wp-content/uploads/2014/11/The_Menace_of_Unreality_Final.pdf

A final and somewhat related observation is that Latvia's foreign and security policy elite should not shy away from internal debates about such questions as social integration, citizenship and naturalization, language and education policy. While policies toward these essentially domestic issues are rightly in the domain of the government and parliament, it is incumbent on the foreign and security policy establishment to point out that certain domestic policy choices have important public diplomacy and security policy implications. Translation: A well-integrated multi-ethnic Latvia with a well-informed population will be far less susceptible to even the best financed and most sophisticated Russian propaganda effort than an ethnically divided society in which even a small minority gets all its information from the East or perceives that its grievances remain unaddressed.

A REASSESSMENT OF LATVIA'S FOREIGN POLICY STRATEGY TOWARDS RUSSIA AFTER THE UKRAINE CRISIS

By Anna Beitāne

Over the last few years Latvia and Russia attempted to lessen conflicting rhetoric, and avoid contested historical narratives, by adopting and building a more pragmatic cooperation based on 'principles of mutual interest and respect', which helped facilitate practical cooperation in different political and economic areas.⁷³ However, Russia's assertive foreign policy in Eastern Ukraine, as well as the annexation of Crimea, require and urge European officials, especially in the Baltic States, to reassess a current foreign policy approach toward Russia. The new strategy should prevent the escalation of similar developments in the future, and re-establish relations with Russia based on strategic and normative interests of all actors, as well as new security and geopolitical environments in the region.

In this respect, the following paper has several interrelated objectives: to examine the current Latvian foreign policy framework towards Russia and the dynamics of Latvian-Russian relations in 2014; to identify strengths and weaknesses of the approach with short and long-term perspectives, as well as outlining a brief synopsis of potential scenarios of Latvian-Russian relations in 2015, and to provide recommendations for some structural changes in Latvia's foreign policy approach towards Russia after the Ukraine crisis.

In order to reach these objectives, the paper has been organized in the following way. The essay is divided into three parts. The first part will engage with the issue of foreign policy toward Russia. This issue will be examined at two levels: European

⁷³ "Relations between Latvia and Russia," Embassy of the Republic of Latvia to the Russian Federation, February 27, 2012, <http://www.mfa.gov.lv/en/moscow/Latvia-Russia/>

and national.⁷⁴ The first section of the discussion will start with brief introductory remarks by laying out the European foreign policy strategy towards Russia and identifying areas of cooperation and tension in 2014, particularly focusing on the shared neighbourhood and energy relations; while the second section will provide a more focused analysis on the Latvian foreign policy approach towards Moscow, by looking at the chronology and key tendencies in Latvian-Russian relations, as well as balances between security and economic interests in foreign policy formation. The second part of the essay will focus on the strengths and weaknesses of Latvia's 2014 foreign policy approach, taking into account the European dimension of Latvia's foreign policy strategy and evaluating it in the long and short-term perspectives. The final part will bring together the main findings of the paper, outline potential scenarios of Latvian-Russian relations in 2015 on the basis of the analyses discussed in the previous sections, and provide future recommendations in accordance with the outlined scenarios.

Before engaging in a more detailed analysis of Latvian foreign policy towards Russia, some clarifying remarks require elaboration, namely how the *strengths and weaknesses* of Latvian policy will be measured. In the paper, these dimensions will be evaluated according to the following criteria: how effectively Latvia is able to reach its policy agenda (at national and EU levels) towards Russia in the short and long-term perspectives; and what is the power asymmetry in Latvian-Russian relations? In this respect, *Latvian foreign policy towards Russia* will be referred in the paper also as *framework, strategy* and the *current approach*.

THE EU'S FOREIGN POLICY FRAMEWORK TOWARDS RUSSIA AND THE CHANGING DYNAMICS OF EU-RUSSIA RELATIONS IN 2014

Prior to the Ukraine crisis, the backbone of a European foreign policy strategy towards Russia was built on a heavily institutionalised foundation with a hope to pursue Russia to accept EU's post-modern logic and the model of strategic cooperation based on normative values, transparency, and a common legal framework.⁷⁵ In this respect, the Partnership and Cooperation Agreement, the 1999

⁷⁴ The following analysis would be insufficient without clarifying the European foreign policy dimension of Latvian policy since it is an inseparable part of it and influences the outlook of Latvian foreign policy as a whole.

⁷⁵ Mark Leonard and Nicu Popescu, *A Power Audit of EU-Russia Relations* (London: European Council on Foreign Relations, 2007), 25.

Cologne 'Common Strategy towards Russia', the 'Four Common Spaces' program and the 'Partnership for Modernization' framework provided the basis for EU-Russia cooperation, tackling the economic, security, technical, and modernisations spheres of partnership between the two actors during recent decades.⁷⁶ However, the past year revealed an institutional and structural ineffectiveness of the existing mechanisms of cooperation and deepened the normative divide in foreign policy toolkits between the EU and Russia.

The dynamics of EU-Russia relations drastically evolved and transformed from a pragmatic and strategic partnership at the beginning of 2014, to mutual misunderstanding and confrontation at the end of the year. Even though the conflicting and sensitive issues have always been present in EU-Russia relations (due to the differences in structural and normative discourses in foreign policy approached as well as the internal split in EU's Member States' foreign policies towards Russia) the recent disagreements in EU-Russia interaction are different in their magnitude.

Further escalation of the Ukraine crisis during 2014 cast the light on the 'vulnerabilities' in the EU's current foreign strategy towards Russia, such as the lack of a strong and coherent political agenda among Member States, and led to a gradual degradation of the institutions and intergovernmental frameworks linking the two actors, including the cancellation of bilateral EU-Russia summits.⁷⁷ Moreover, during the year, Russia did not accept the EU's interpretations of international order, sovereignty, and power, and moved in a diametrically opposed direction in its interpretations of international system and foreign policy formation. Despite mutual interdependence of both parties in many policy areas (from energy security and the economic realm, to 'soft power' policy implementation in a 'shared neighbourhood'), 2014 revealed a clear shift in EU rhetoric, and sparked the debate about the restructuring of a European *grand* strategy towards Russia.

In this respect, it could be argued that EU-Russia relations in 2014 were overshadowed by the divergent interpretations of, and disagreements over, concepts of integration and policy implementation in a shared neighbourhood, which reached critical point when then President Yanukovich refused to sign the Association Agreement which later escalated into a deep, political confrontation between Russia

⁷⁶ Lara Piccardo, "The European Union and Russia: Past, Present, and Future of a Difficult Relationship," in *The Foreign Policy of the European Union Assessing Europe's Role in the World*, ed. Luciano Bardi (Washington, D.C.: Brookings Institution Press, 2010), 125.

⁷⁷ Irina Busygina, "The Three Levels of EU-Russia Interaction and Ukraine Crisis" (paper presented at the 14th annual Aleksanteri Conference "Restructuring State and Society in Russia," the Aleksanteri Institute, University of Helsinki, October 22-24, 2014).

and the EU over Ukraine's future choices, undermining the existing international status quo and bringing EU-Russia relations closer to what they had been during the 'Cold War' era. With the further promotion of the Eastern Partnership programme and improved relationships between participating countries and the EU during 2013-2014, the EU entered into direct 'competition' with Russia, in its 'near abroad' area. While the EU's initiative holds more normative and legal basis and does not offer a full membership; the Kremlin's Eurasian Union, which should come into full force in 2015, has different and more coercive mechanisms of integration.

Looking at the economic relations between the EU and Russia, it could be noted that even though Russia remained the EU's third largest trading partner after the US and China over the year with \$169 billion in imports, economic cooperation drastically worsened in the first quarter of the year with Crimea's annexation, and was highly politicized and pre-occupied with tit-for-tat punitive measures against both actor's policies in the Eastern neighbourhood. The EU responded to Russia's assertive policy by imposing several sanctions targeted at economic, banking, financial, defence, and the high tech sectors of the Russian economy, as well as travel bans and the freezing of key Russian decision-maker's assets in EU Member States, whereas the Kremlin imposed import bans on EU food and agriculture products in August 2014.⁷⁸ The following measures made a negative impact on further EU-Russian trade growth: according to Eurostat, EU imports from Russia decreased by more than 9 percent during the first three months of 2014 compared with the same period last year; while EU exports to Moscow marked a 10.5 percent drop in Q1 this year compared with the first three months of 2013. As a result, in a year, the volume of EU goods sold to Moscow decreased from €28.7 billion to €25.6 billion.⁷⁹ The year ended with the EU's announcement on the further extension of additional sanctions towards Russia and Ukrainian separatists, targeted at the investment climate and infrastructure in Crimea, which leads to the conclusion that sanctions may be amended, suspended, or even fully repealed in the future, especially if the situation in Eastern Ukraine deteriorates.⁸⁰

⁷⁸ Irene Chapple and Ivana Kottasova, "West Threatens Russia with more Sanctions, but Trade Relations Complex," *CNN*, May 7, 2014, <http://edition.cnn.com/2014/03/07/business/russia-sanctions-why-the-u-s-and-europe-are-not-quite-in-step/>

⁷⁹ Francesco Guarascio, "EU-Russia Relations Trade Drops Sharply, as Bilateral Relations Sour," *EurActiv.com*, May 15, 2014, <http://www.euractiv.com/sections/european-business-summit-2014/eu-russia-trade-drops-sharply-bilateral-relations-sour-302144>

⁸⁰ "Crimea and Sevastopol: Further EU sanctions approved," *Council of the European Union*, Press Release, Brussels, December 18, 2014, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/146392.pdf

The current year also marked a shift in EU energy security policy. The situation in Ukraine pushed the EU to further diversify its energy sources and fully liberalise its energy market as well as update and strengthen its energy initiatives, such as the Energy Charter Treaty and the '2020 Initiative' strategy, which resulted in the European Commission's proposition of a new European Energy Security Strategy aimed at increasing security of the EU's energy supply, presented on 28 May 2014.

All in all, the Ukraine crisis defined the main tone in EU-Russian relations over the year and made it apparent for many European countries and beyond that the 'business as usual' model could no longer be sufficiently implemented where Russia was concerned.

THE LATVIAN 2014 POLICY STRATEGY TOWARDS RUSSIA BEFORE AND DURING THE UKRAINE CRISIS

While the Latvian foreign policy approach towards Russia is strongly integrated into the European Common Foreign and Security Policy framework and correlates with its agenda, the Latvian national approach has its own distinctive features, deriving from contested post-Soviet legacies, which define the main 'realpolitik' nature of Latvian-Russian relations.⁸¹ At the same time, however, the Latvian 2014 foreign policy strategy set the goal of developing Latvian-Russian relations on a pragmatic and rational basis without emphasising the contested historical discourses and narratives in both countries relations. In this respect, the Foreign Ministry's 'Annual Report on Activities Performed and Planned in National Foreign Policy and European Union Matters', reaffirms Latvia's aims to build its partnership with Russia on 'the principles of mutual interest and respect' through the facilitation and strengthening of all existing transnational partnership mechanisms, especially those in external cooperation in Central Asia and Afghanistan.⁸²

Despite the willingness and effort to build a pragmatic partnership, Latvian-Russian relations in 2014 moved away from the outlined Foreign Ministry's policy

⁸¹ Nils Muižnieks, *Latvian-Russian Relations: Dynamics Since Latvia's Accession to the EU and NATO* (Riga: University of Latvia Press, 2011), 14

⁸² The following priorities were drawn before the annexation of Crimea and the full escalation of the Ukraine crisis; see "Annual Report by the Minister of Foreign Affairs on Activities Performed and Planned in National Foreign Policy and European Union Matters," *Ministry of Foreign Affairs of the Republic of Latvia*, January 23, 2014, http://www.mfa.gov.lv/data/21012014_arlietu%20ministra%20zinojums-en.pdf

objectives. The Ukraine crisis and the annexation of Crimea not only changed the European foreign policy outlook and rhetoric towards Russia over the year, but also had a particular effect on the Baltic States' policy formation, revealing disproportional power and military asymmetry in the region as well as defining the main tone and source of tensions in Latvian-Russian relations in 2014. It also led to structural changes in the focus of Latvian foreign strategy, putting expansion and strengthening of NATO's capacities in the region and security matters as a top policy priority on the national agenda. From the very beginning Latvia highly supported the European position and condemnation of Russian asserted policy in Eastern Ukraine, standing for Ukrainian territorial integrity and sovereignty as well as pushing for tougher punitive measures against Russian decision-makers, who were destabilizing the situation in Ukraine.⁸³ Latvia's position on Ukraine made an immediate effect on Latvian-Russian bilateral relations, leading to the degradation of high level intergovernmental cooperation. At the same time, the cooperation continued and remained almost the same within a ministerial level, especially in crucial policy areas, such as customs and border cooperation, transit relations, and foreign ministries consultations.

Evaluating the dynamics in Latvian-Russian relations over the year, 2014 could be divided into several sections based on the magnitude and character of key chronological events in both countries policies. The first quarter of the year for relations was shaped by the escalation of the situation at Maidan Square and changes in Ukrainian political leadership; Russia's controversial policies preceding the Sochi Olympic Games and Latvia's President contested a decision to attend the opening ceremony despite several European political leaders' decision to boycott it; and finally by the annexation of Crimea and imposition of the first round of sanctions against Russian leadership. During the following timeframe, Latvia also made key decisions related to energy policy and its dependency on Russian gas, which led to a vote on the liberalization of the gas market by 2017. The next quarter of the year in Latvia-Russia relations was pre-occupied with the rising concerns over Russia's soft power and media channels in Latvia, and the decision to suspend broadcasting of the Russian TV channel 'Rossiya Segodnya' for three months⁸⁴; as well as military practices, namely the US decision to send 600 troops to the Baltic region and Russia's growing military activities and interference in Baltic

⁸³ "Statement by President of Latvia, Speaker of Saeima, Prime Minister and Foreign Minister on Russia's Interference in Ukraine," *Latvijas Valsts Prezidents*, March 2, 2014, http://www.president.lv/pk/content/?cat_id=605&art_id=21904

⁸⁴ "Par programmas "Rossija RTR" retranslācijas ierobežošanu Latvijas teritorijā," *Latvijas Vēstnesis*, No. 69 (5129), April 7, 2014, http://www.skatvis.net/files/planeta_rtr.pdf

sea and air space, which reached 173 cases by the beginning of fall.⁸⁵ Latvian-Russian relations achieved critical point in mid-July with the crash of Malaysia Airlines Flight MH17, and further expansion of sanctions targeted specific sectors of the Russian economy. Additionally, the Latvian Foreign Ministry expanded its *persona non grata* list to Russian musicians and artists, who were invited to perform at the upcoming musical festival 'New Wave' in Jūrmala, due to their questionable remarks regarding Ukraine's territorial integrity.⁸⁶ At the end of the summer, Russia responded to the sanctions with its import bans on European food and agriculture products, which raised a large backlash in EU policy circles about Russia's rationale behind this political move. The last quarter of the year in Latvian-Russian relations was dominated by discourses related to the outcomes of the Wales Summit, which were particularly beneficial for the Baltic States and, to some extent, decreased their security concerns; as well as the Kremlin's decision to place three persons from Latvia – Saeima deputy Andrejs Judins, Constitution Protection Bureau chief Jānis Maizītis, and theater director Alvis Hermanis – on its list of individuals banned from entering the country.⁸⁷

It could be argued that the most contested policy areas in Latvian-Russian relations over the year remained within security, energy relations, and Eastern neighbourhood policy realms. In this respect, economic and trade relations appear less challenging and controversial. In 2014, Russia remained Latvia's second largest trade partner, accounting for 10 percent of its imports share in the Latvian market, and ranked fifth among foreign investors, especially in the real estate area.⁸⁸ There has been considerable success in transit relations, especially within the framework of the Northern Distribution Network, and a sharp increase in the number of Russian tourists and cultural events has been witnessed in recent years. However, European sanctions and Moscow's import ban slow down further economic cooperation growth between Latvia and Russia: it is estimated that due to the Kremlin's food

⁸⁵ "Netālu no Latvijas ūdeņiem šodien konstatēts Krievijas zemūdeņu atbalsta kuģis," *Ir*, October 1, 2014, <http://www.ir.lv/2014/10/31/netalu-no-latvijas-udeniem-sodien-konstatets-krievijas-zemudenu-atbalsta-kugis>

⁸⁶ The list was further expanded in October and November of 2014, see also "Vešņakovs: Krievijas un Latvijas attiecības kļūst sarežģītākas," *Ir*, July 25, 2014, <http://www.ir.lv/2014/7/25/vesnakovs-krievijas-un-latvijas-attiecibas-klust-sarezgitakas>

⁸⁷ "Par naidu kurinošiem izteikumiem Rinkēvičs "melnajā sarakstā" iekļauj Krievijas aktieri," *Ir*, October 27, 2014, <http://www.ir.lv/2014/10/25/par-naidu-kurinosiem-izteikumiem-rinkevics-melnaja-saraksta-iekļauj-krievijas-aktieri>

⁸⁸ "Annual Report by the Minister of Foreign Affairs on Activities Performed and Planned in National Foreign Policy and European Union Matters," *Ministry of Foreign Affairs of the Republic of Latvia*, January 23, 2014, http://www.mfa.gov.lv/data/21012014_arlietu%20ministra%20zinojums-en.pdf

embargo, Latvia's GDP dropped by 0.7 percent, while the dairy and trucking industry was hit hardest by the sanctions.⁸⁹

Another contested policy area in Latvian-Russia relations relates to security and military matters. Due to the drastic power asymmetry in the states' power capacities, caused by the size and Latvia's critically limited resources and low defence spending, NATO serves as a key guarantor of security in the region. The annexation of Crimea and the events in Eastern Ukraine pushed the political elite in the Baltic States to intensify activities in the military and security dimension, including the deployment of additional NATO forces in the area, the organisation of a trilateral meeting in Tallinn of the Baltic defence ministers, the announcement of the participation of the Baltic Battalion in NATO's Response Force in 2016, and the development of cooperation in planning and command operations (Baltic Combined Joint Staff Element).⁹⁰ Moreover, the Wales Summit resulted in successful outcomes for the Baltic States in relation to decisions on the Readiness Action Plan and the Very High Readiness Task Force, as well as the pledge to increase military expenditure by 2 percent of GDP. However, in response to NATO's military exercises in the region, Russia also increased its military activities in the Baltic Sea area, which in most cases resulted in a clear violation of national airspace and near-misses, including emergency scrambles, narrowly avoided mid-air collisions, and close encounters at sea.⁹¹

Even more contested and challenging remain energy relations. While Latvia's consumption of oil might be replaced by alternative sources such as the Lithuanian refinery at Mažeikiai or by sea, the Latvian gas industry and consumption is still 100 percent dependent on Russian supplies. Latvia also remains an integral part of the Russian electricity grid: upon the closure of the Ignalina nuclear power, Latvian electricity imports from Russia rapidly increased from 4 percent in 2009 to more than 20 percent in 2014. In addition to importing electricity from Russia, Latvia also

⁸⁹ Juris Kaža, "Russia's Import Ban Seen Costing Latvia €70 Million in Food Exports," *The Wall Street Journal*, August 11, 2014, <http://online.wsj.com/articles/russias-import-ban-seen-costing-latvia-70-million-in-food-exports-1407770620>

⁹⁰ Kinga Dudzińska, "The Security Policy of the Baltic States vis-à-vis Russia," *The Polish Institute of International Affairs*, Bulletin, No. 83 (678), June 12, 2014, http://www.pism.pl/files/?id_plik=17608

⁹¹ For the full list of 39 incidents of military encounters between Russian planes and boats, and NATO forces and allies in the last 8 months, see the European Leadership Network report "Dangerous Brinkmanship: Close Military Encounters Between Russia and the West in 2014," November, 2014, <http://www.europeanleadershipnetwork.org/medialibrary/2014/11/09/6375e3da/Dangerous%20Brinkmanship.pdf>

generates 41 percent of its electricity using imported Russian gas.⁹² It is estimated that the new LNG terminal in Lithuania, which started work in December 2014, could meet about 90 percent of Baltic gas needs in the future, however, the Baltic States' ambitions to reduce their dependency on Russian gas are unlikely to come to fruition until 2017 or later due to restricted access to the region's sole gas storage site in the Inčukalns facility, partly owned by Russia's Gazprom.⁹³

Finally, 2014 highlighted the growing divide and opposing objectives of Russian and Latvian policies in a 'shared neighbourhood'. Latvia's primary agenda in the region over the year, according to its foreign policy guidelines, aimed at promoting economic well-being as well as the democratization processes in EaP countries, bringing them closer to the European fold.⁹⁴ With the start of the Maidan revolution, Latvia supported European aspirations and the reformation path undertaken by Ukraine. Russia, in contrast throughout the year, strongly condemned further development of European projects targeted at Russia's 'privileged spheres of influence' and searched for the opportunity to maximize its power in the post-Soviet space.

Assessing Latvia's 2014 foreign policy in general, it could be argued that the country faced numerous challenges in its relations with Russia in light of the unexpected developments and escalation of the situation in Ukraine. The overall foreign policy objectives of the Latvian strategy towards Russia evolved over the year and changed its initial focus. The Ukraine crisis indicated the need to re-think the national strategy towards Russia, reframe Latvia's security and defence policy and regional cooperation, as well as the necessity to strengthen a more coherent and functional European Common Foreign and Security Policy towards Russia.

⁹² Nils Muižnieks, *Latvian-Russian Relations: Dynamics since Latvia's Accession to the EU and NATO* (Riga: University of Latvia Press, 2011), 48.

⁹³ "Latvia Plans to Boost Gas Storage Capacity to 2.8 bcm by 2025", *Reuters*, October 3, 2014, <http://uk.reuters.com/article/2014/10/03/latvia-gas-idUSL6N0RY2TE20141003>

⁹⁴ "Annual Report by the Minister of Foreign Affairs on Activities Performed and Planned in National Foreign Policy and European Union Matters," *Ministry of Foreign Affairs of the Republic of Latvia*, January 23, 2014, http://www.mfa.gov.lv/data/21012014_arlietu%20ministra%20zinojums-en.pdf

RETHINKING THE LATVIAN 2014 FOREIGN POLICY STRATEGY TOWARDS RUSSIA WITHIN EU AND NATIONAL FRAMEWORKS

The current political approach did not prevent the negative escalation of Latvian-Russian relations in light of the changing geopolitical situation in the region over the last year. This leads to the following set of questions: how effective is the policy in reaching its objectives, and what drawbacks and strengths could be identified in the Latvian approach towards Russia, taking into account both the European and national dimension of Latvian foreign policy?

Even though cooperation in economic and inter-cultural relations remained almost on the same level, the overall tone and rhetoric in Latvian-Russian relations shifted towards a more hostile direction. Thus, the policy objective of building pragmatic relations with Russia based on ‘the principles of mutual interest and respect,’ outlined in the Foreign Ministry’s report, did not come into full fruition.⁹⁵

Evaluating the Latvian foreign policy approach in general – and its main drawbacks in particular – the paper presents two main arguments explaining Latvia’s insufficient attempts in achieving its foreign policy objectives towards Russia over the year.⁹⁶ Firstly, the main source of conflict in Latvian-Russian relations is driven by norm-based (rather than interest-based) tensions, which arises from a divergent nature of both partners and their policy goals in an international arena. Russia presents itself as a self-modern state, which builds its policy and state capacity on the principles of the *Westphalian system*, traditional force, and ‘hard power’; while Latvia relies on the EU’s post-modern logic and normative values. This obstacle creates the first barrier in reaching further rapprochement in both countries relations. Moreover, the institutional frame of Latvian-Russian relations, especially on a European level, serves as an additional hurdle in building stronger cooperation due to Russia’s nodes of governance, which are out-of-sync with EU standards. Secondly, the current framework does not take into account the trends and changes in the international arena and lacks ways to predict how these changes might affect Latvian-Russian relations in the short and long-term perspectives. The annexation of Crimea, the escalation of the situation in Eastern Ukraine, the economic sanctions – perfectly

⁹⁵ “Annual Report by the Minister of Foreign Affairs on Activities Performed and Planned in National Foreign Policy and European Union Matters,” Ministry of Foreign Affairs of the Republic of Latvia, January 23, 2014, http://www.mfa.gov.lv/data/21012014_arlietu%20ministra%20zinojums-en.pdf

⁹⁶ While the Ukraine crisis made an enormous impact on reaching the following goal and changed the dynamics of Latvian-Russian relations, the analysis takes this factor aside and looks at other structural problems and aspects that affected the Latvian foreign policy approach towards Russia.

illustrate how both parties were unable to predict the following developments and find the most effective ways to solve them.

Other important drawbacks could be formulated as follows:

- The increasing complexity of the double nature of Latvian-Russian relations and Russia's 'divide and rule' strategy towards EU Member States, which makes it harder for the Union to forge a common approach.
- An underestimation of Russian pressure on, and assertive policy towards, Eastern Partnership countries, which led to the political crisis in Ukraine, and Armenia's choice not to sign the Association Agreement.
- Divergent interpretations of cooperation in Latvian and Russian foreign policy approaches. Latvia interprets cooperation as a tool for bolstering economic prosperity and growth, political stability, and security in the region. In this respect, Russia perceives cooperation as a mechanism to maximize power and political influence.⁹⁷
- A lack of practical tools and a feasible policy approach in Latvian-Russian relations aimed at a long-term perspective. Neither state managed to establish 'conflict-management/prevention' mechanisms, or at least outline a foreign policy agenda with a long-term vision which includes a framework for resolving conflicting and contested issues.
- A very narrow agenda of highly conflicting, historic issues in the political agenda between the two states, including the occupation of Latvia, the outcome of WWII, the status of compatriots living beyond Russian borders, the procedures of naturalisation, and educational reform in Russian minority schools.⁹⁸

At the same time, there are some positive shifts in Latvian foreign policy both at a European and national dimension, which strengthened its position towards Russia during the last years. The following characteristics could be defined in the following way:

- Common support and consensus among Member States on EU strategy towards boosting the modernization of its neighbourhood through the export of its standards.

⁹⁷ Nils Muižnieks, *Latvian-Russian Relations: Dynamics since Latvia's Accession to the EU and NATO* (Riga: University of Latvia Press, 2011), 24-42.

⁹⁸ Ibid.

- Changes in the EU's 'legalistic' and 'technocratic' approach towards dealing with Russia have begun to undermine the ability of separate Member States and the European private sector to pursue more 'expedient' relations with Russia. The European Commission plays an important role in preventing unfair competition and market distortions by external actors, and the WTO case against Russia, which began in July 2013, highlights the EU's dedication to not tolerating non-compliance with the commitments undertaken by Russia.⁹⁹
- General agreement on the condemnation of Russia's actions in Eastern Ukraine and the illegal annexation of Crimea. Despite divergent policy approaches of Member States towards Russia, the EU reached a consensus in supporting Ukraine's territorial integrity and managed to introduce and implement several rounds of sectoral sanctions.
- A positive and qualitative shift in EU relations with Eastern Partnership countries. In spite of Russia's attempt to prevent further rapprochement of EaP countries with the EU, three out of six countries participating in the initiative signed the Association Agreement. Ukraine's and Moldova's elections in the fall of 2014 confirm the commitment of these countries to their further integration with European structures and processes.

2015 SCENARIOS AND RECOMMENDATIONS FOR REVISING NATIONAL AND EU POLICIES TOWARDS RUSSIA

Summarizing the main findings from the preceding parts, the paper suggests that EU and Latvian foreign policies towards Russia have drastically evolved during the year and transformed from pragmatic partnership into mutual misunderstanding at the end of 2014. The Ukraine crisis was the main dividing line between the EU/Latvia and Russia, and set the tone in country relations. While the situation in Ukraine affected each EU Member State differently, it had a particular impact on policy formation in the Baltic States. Evaluating Latvian foreign policy towards Russia in general, it could be noted that numerous challenges in Latvian-Russian relations in 2014 led to changes in the focus of overall policy strategy as well as corrections in the initial policy objectives related to Latvian bilateral relations with Russia. The dynamics of Latvian-Russian relations could be characterised by a varying

⁹⁹ Arkady Moshes, "Europe's Disillusionment with Russia," *PONARS Eurasia Policy Memo*, No. 284, September, 2013, http://www.ponarseurasia.org/sites/default/files/policy-memos-pdf/Pepm_284_Moshes_Sept2013.pdf

magnitude of events developed during the year: Crimea's annexation; Russia raising military activities in the Baltic sea and airspace; the Kremlin's increased 'soft power' and propaganda channels in the Baltic States; implementation of EU sanctions and Moscow's food embargo; extension of persona non grata lists on both sides; energy diversification initiatives in the EU, and Latvia's attempts to liberalise its gas market. Overall, the Ukraine crisis indicated the need to re-think and update Latvian national strategies towards Russia, reframe Latvia's security and defence doctrine, and strengthen European Common Foreign and Security Policy towards Russia by making it more coherent and functional.

Evaluating the main drawbacks of the current Latvian policy framework towards Russia, the paper put forward two main arguments: firstly, it suggests that tensions between Latvia and Russia arise from norm-based (rather than interest-based) differences, which serves as one of the main barriers to finding common ground between the two parties. Secondly, it argues the framework is narrow and time-limited: it lacks the ability to predict future trends and developments in the international arena and the possible impact on Latvian-Russian relations. On the other hand, there have been some positive changes in the Latvian foreign policy strategy at both European and national levels which have strengthened its position in relation to the Kremlin: firstly, EU Member States, despite their different national foreign policies towards Russia, managed to condemn the Kremlin's actions in Eastern Ukraine and the annexation of Crimea, as well as introduce several rounds of sanctions in an attempt to change Moscow's policies in the region. Secondly, despite general criticism of the EaP initiative, the relationship between the EU and EaP countries, who signed the Association Agreement, did change in a more constructive and positive direction. There is also a consensus among EU Member States for further development and strengthening of EU policies in a shared neighbourhood.

The main 2014 international and regional developments would certainly impact the formation and overall structure of Latvian foreign strategy for the upcoming year. Latvia would continue to support the EU's position on the Ukraine crisis and condemn Russia's policy in Eastern Ukraine and Crimea. The security dimension of foreign strategy, such as the strengthening of NATO and national security capacities inside the country and in the region, would be expanded and given top priority. In this respect, Latvian-Russian relations in 2015 could develop according to the following policy scenarios. At an EU level, Latvia, as a country holding the rotating presidency, would seek to work on Russia-related questions and try to find common ground in restoring 'normal' EU-Russia cooperation based on both parties commitment to international law and order. Moreover, during the next year, the EU would push its agenda to reframe and strengthen its common strategy towards

Russia by trying to draft a new model of EU-Russia interaction. Latvia, as a country holding the EU presidency, could play an important role in starting and leading, as well as coordinating this initiative. However, the success of further EU-Russia cooperation will depend on Russia's policies and developments in Ukraine. Finally, Latvia during its presidency, might expect to see the Kremlin putting political and economic pressure on the country, especially in light of the approaching Eastern Partnership Summit in Riga. The scenario might develop similarly to the Lithuanian case in 2013. Moreover, Russia might put additional economic/food embargoes on Latvian goods and/or try to destabilize the internal political situation by strengthening its 'soft-power' channels as well as drawing attention to the issues of Russian minorities. Additionally, Russia might increase its military presence in the region by conducting military exercises near the border, and increasing the number of military flights in *European* airspace. At a bilateral level, the nature of Latvian-Russian relations would depend on the EU's overall strategy towards Russia, and the situation in Ukraine. Latvia would try to maintain strategic cooperation in crucial policy areas, in line with its national interests. In addition, Latvia would seek to raise awareness about the state of the Russian media's presence and soft power mechanism in the Baltics.

The formation of Russian foreign policy, on the other hand, during the next year would be shaped by Russia's slow economic growth, the decline of oil prices, the rouble's devaluing, and the effects of sanctions, which might push the Kremlin to rethink its policy in Eastern Ukraine in order to sustain the legitimacy of Putin's regime and prevent the possibility of social discontent due to dissatisfaction with the government's performance and a failure to meet social obligations. Another important factor to consider is the Kremlin's supranational project – the Eurasian Union, which comes into force at the beginning of 2015. In this matter, Russia might maintain its assertive policies in the shared neighbourhood by trying to attract more countries to join the Union. It could put additional pressure on EaP countries and continue to criticise EU policies in Eastern neighbourhood through cooperation and financial support of European far-right parties with the aim to split the EU internally and weaken its institutional capacity. At the same time, Russia's weak economy and imposed sanctions might affect the economic sustainability of the project and create tensions between Member States of the Eurasian Union.

To make the Latvian foreign policy approach at EU and bilateral levels more effective (and prepared for unexpected developments on a global stage in 2015), a number of recommendations should be suggested. The recommendations can be divided into several categories. The first set of recommendations relate to Latvian/European foreign policy in general, whereas the second set of recommendations concern the

security dimension, namely NATO, the shared neighbourhood, and developments in Ukraine.

A new EU/Latvian approach towards Russia should:

- Redefine the vocabulary of European/Latvian and Russian communication. Such concepts such as strategic partnership, a common neighbourhood, and Europe from Lisbon to Vladivostok, have lost their traction.
- Set a realistic agenda with Russia. The approach should not be structured around hopes and unrealistic expectations. It should focus more on normative practices and good governance, rather than driven by securitization and politicization.¹⁰⁰
- Create new ‘conflict-management’ or ‘coordination’ mechanisms within the EU and between Latvian-Russian political frameworks to better solve past issues, such as energy security or common foreign policy. In order to make European policy and markets in the energy sector more sufficient and prevent it from further monopolisation and partitioning, the European Commission could be granted the right to pre-approve large energy deals on long-term contracts, and pipelines concluded between EU and foreign energy companies. In this respect, unity in common foreign policy could be achieved through the creation of pioneer groups of Member States, which will draw and examine a common strategic assessment and joint action points on key issues such as Ukraine, Central Asia, or foreign energy policy.¹⁰¹
- Start an honest dialogue on values. The future framework of Latvian-Russian cooperation (at bilateral and European levels) requires a certain set of principles (such as the rule of law, international accountability, and reliability), which will grant progress in further economic partnerships and lower security concerns.¹⁰²

The recommendations related to security can be defined as follows:

- Develop a consensus on immediate risks and threats. The situation in Eastern Ukraine revealed the dangers of another ‘frozen’ conflict in European neighbourhood as well as the need to start a discussion on the degree of the EU’s involvement in such conflicts. The EU should clearly define consequences and issues related to autonomy, separatism, and frozen conflicts in the region, as well

¹⁰⁰ Stefan Meister, “EU-Russia Relations and the Common Neighborhood: The Ball is on the EU’s Side,” *DGAPanalyse*, No.7, August, 2013, <https://dgap.org/en/article/getFullPDF/24250>

¹⁰¹ Mark Leonard and Nicu Popescu, *A Power Audit of EU-Russia Relations* (London: European Council on Foreign Relations, 2007), 56–63.

¹⁰² *Ibid.*

as reinforce the commitment to act jointly on such matters and develop a common 'minimum scenario' focused on the risks posed by possible threats.¹⁰³

- Reinforce the role of NATO in Eastern Europe. The Ukraine crisis brought NATO, to some extent, its original *raison d'être*, but the main task is to redefine the nature of NATO's partnership with Kiev and Moscow.
- Suspend any military cooperation with Russia, including arms sales and personnel training. Even if relations between Russia and NATO resumed, Member States should agree on a consensus and pre-approve mechanisms in case of further engagement with Russia on military ground.¹⁰⁴

Finally, the recommendations concerning Ukraine could be formulated in the following way:

- Continue support for Ukraine's efforts to implement reforms and strength the country towards EU-oriented cooperation though economic and political means.
- Continue the policy of non-recognition of the annexation of Crimea and support for Ukraine's territorial integrity.

If all the complexities and drawbacks were to be taken into consideration – and the main drawbacks were to be fixed – it would lead to more stable and predictable relations between these actors in the future.

¹⁰³ Marius Laurinavicius, et al., "EU and Russia Relations after Crimea: Red Lines for Business as Usual," *Eastern Europe Studies Centre*, Policy Paper (paper prepared for an International Security Experts Conference "Partners in European Security: Search for Greater Synergy between EU Common Security and Defence Policy and Eastern Partnership Policy," June 2014, 5–8).

¹⁰⁴ Ibid.

WILL LATVIA BE PUTIN'S NEXT VICTIM IN 2015?

By Jānis Kažociņš¹⁰⁵

“We cannot tolerate the shameful status of ‘non-citizen.’ How can we accept that, due to their status as non-citizens, one in six Latvian residents and one in thirteen Estonian residents are denied their fundamental political, electoral and socioeconomic rights and the ability to freely use Russian?”¹⁰⁶ . . . “Regrettably, in some European countries the Nazi virus “vaccine” created at the Nuremberg Tribunal is losing its effect. This is clearly demonstrated by open manifestations of neo-Nazism that have already become commonplace in Latvia and other Baltic states.”¹⁰⁷
– Vladimir Putin

At the beginning of her excellent review of Karen Dawisha’s book *Putin’s Kleptocracy*,¹⁰⁸ Anne Applebaum¹⁰⁹ examines the reasons usually put forward for the West’s confrontation with Russia over Ukraine. Perhaps we mismanaged Russia at the end of the cold war; maybe NATO expansion made Russia feel threatened; we should have had a Russian Marshall Plan and so forth. But maybe, as Dawisha concludes, “the most important story of the past twenty years might not, in fact, have been the failure of democracy, but the rise of a new form of Russian authoritarianism.”¹¹⁰

¹⁰⁵ Jānis Kažociņš is a former director of the Latvian Constitution Protection Bureau. The views expressed in this article are his own and do not represent the opinion of any government authority or ministry.

¹⁰⁶ Vladimir Putin, Valdai Discussion Club, February 27, 2012.

¹⁰⁷ Vladimir Putin, interview with Politika newspaper, October 15, 2014.

¹⁰⁸ Karen Dawisha, *Putin’s Kleptocracy: Who Owns Russia?* (Simon and Schuster, 2014).

¹⁰⁹ Anne Applebaum, “How He and His Cronies Stole Russia”, *The New York Review of Books*, December 18, 2014.

¹¹⁰ Ibid.

The West should really have seen this coming. Russian rearmament was hugely expensive, plain to see and did not correspond to any obvious threat. Cyber attacks on Estonia in 2007 sounded a warning. Even more clearly, in the words of Ron Asmus, the war with Georgia in 2008 should have shaken the world awake¹¹¹. But (as many commentators have pointed out) the West collectively hit the snooze button. Then came the crisis in Ukraine for which the West found itself totally unprepared.

The aim of this article is to examine what kind of threat Russia may currently pose to the Baltic States and Latvia in particular.

2014 – A YEAR OF GEOPOLITICAL CHANGE

The Russian annexation of Crimea in March and the hybrid war in Eastern Ukraine, which followed, have finally shown that it really is time to face the new reality Russia's actions have created. For the first time since the end of the Second World War, military force has been used in Europe to change national borders. This poses a fundamental challenge to the existing European security architecture.

The threat to the Baltics is difficult to understand without a brief look at the motivation for Putin's seizure of Crimea and his attack on Eastern Ukraine. The Kremlin's desire to reassume Russia's "proper" place as a superpower is based on incremental steps. The Customs Union with Belarus and Kazakhstan should lead to a Eurasian Union to rival the EU. Of course, without Ukraine both of these constructions are lame. But as John Lough of Chatham House points out: "...central to Russia's view of the region is that it sees Ukraine's independence [in 1991] as a historic accident. It has never accepted it as permanent. Russian officials talk about it as a state and as a territory but not as a country."¹¹² Moreover, a view that Putin has repeatedly expressed is that the Russians and Ukrainians are one nation but two states which belong together¹¹³. If one part of the nation, with the determination of Maidan, can drive out its corrupt autocrat – then this is a clear and present danger to Putin himself. He had to act to prevent Ukraine's orientation towards the West, to show that violent opposition to corruption can only lead to civil war. The Crimea grab was a bold and well executed operation. Its very success led through overconfidence to the hybrid-warfare experiment in Ukraine's east. However, Ukrainian opposition was stronger than imagined and local support for separatism half-

¹¹¹ Ron Asmus, *A Little War that Shook the World* (Palgrave Macmillan, 2009).

¹¹² John Lough, Chatham House, quoted in *The Observer*, March 2, 2014.

¹¹³ Vladimir Putin, Valdai Discussion Club, September 19, 2013.

hearted. For the Ukrainians there is no military solution because Putin cannot allow the rebels to fail. But, at the time of writing, it is still not clear whether he has the political will, determination and means to move beyond a frozen conflict.

If we now turn our attention to the Baltic States we see a very different picture. All three are well established democracies, were independent before the Second World War and are now members of both NATO and the EU. So why should they feel threatened by Russia's behaviour in Ukraine? The answer lies in Russia's attitude towards them which, since renewed independence, has been patronising and occasionally hostile. Russia finds it difficult to accept three small, independent states so close to Russia's heartland, which until 1918 were part of the Tsarist Empire. Russia does not acknowledge the USSR's occupation of these three states between 1940 and 1991 (though Russian troops only left Estonia and Latvia in mid-1994) and feels acutely the lack of strategic depth which NATO countries on the east coast of the Baltic Sea denies them.

The Russian and Russian speaking ethnic minorities are another cause of friction, especially in Latvia and Estonia. In Latvia the former are 27% and the latter 34% of the total population according to the Latvian Migration Service. Among these are 280,000 permanent residents who have no citizenship. They are immigrants or descendants of immigrants from the USSR during the time of the occupation, who have not made use of their right to gain citizenship. This is a large number but is greatly reduced from the 735,000 in 1995.

The Kremlin's intentions in the Baltic States are also quite different from those in Ukraine and other former states of the USSR. Russia does not expect the Baltics suddenly to have a change of heart and to vote for the Eurasian Union. However, pliant countries which look to Russia as their big brother, inside NATO and the EU, would be very useful. If, on the other hand, internal or external pressures on the Kremlin forced it to look for military solutions, then a defeat of NATO would be the ultimate success, removing Russia's enemy and the perceived tool of US foreign policy. Such a defeat is conceivable if Article 5 of the Washington Treaty were to be shown to be ineffective. This is only possible in the Baltics where NATO is reluctant to station troops permanently and where Russia has at its disposal overwhelming conventional forces.

So what are the specific threats that Russia can pose? Let us examine the least likely first, moving on to those which are already in place and being used.

POSSIBLE RUSSIAN THREATS TO LATVIA IN 2015

The Russian exercises Zapad 2009 and 2013 were rehearsals for a military occupation of the Baltic States with a blockade against NATO/EU assistance. The 2009 exercise ended with a simulated nuclear strike; as a de-escalation measure¹¹⁴. Lt Gen David Deptula, the influential former USAF intelligence chief recently wrote: “It is not farfetched that at some point within the next two years [Russian President Vladimir] Putin makes a more aggressive move in Eastern Europe and uses a nuclear threat to deter a NATO response.”¹¹⁵ Clearly this would constitute a very serious threat to the Baltics. But, despite nuclear sabre-rattling from Moscow, it is by no means clear that there exists an intention to play the nuclear card. If it were to be played, it would leave Washington with only 2 options: to cede Europe to Russian influence and to see US credibility and foreign policy collapse worldwide; or to respond to the challenge.

Despite Chancellor Merkel’s famous remarks about President Putin’s state of mind, there is no convincing evidence that Putin is likely to act irrationally. His overall aim is to retain power at home and to increase it abroad. He may certainly be playing poker while the West plays chess¹¹⁶ but even he is unlikely to let the stakes get out of hand. But what if the US President of the time did not have the will to respond? “Then he would be impeached the next day”¹¹⁷.

The conventional threat professionally rehearsed during Zapad 2013 is a more serious concern. Russia could certainly muster the required military assets and would probably overwhelm Baltic in-place forces fairly quickly. However, this would be an existential challenge to NATO and to US foreign policy credibility, one the US (and indeed Germany) could not leave unanswered after the reassurances given to the Baltics at the most senior levels during 2014. Therefore it would be a matter of time and logistics before Baltic territorial integrity would be restored. Before the events of 2014 a coup-de-main operation to seize the Baltics might have been presented as a *fait-accompli* to a stunned and paralysed NATO. But now, forewarned about Russian capabilities and intentions, that option is no longer so straightforward. Of course, NATO will require time to implement the decisions taken at the recent Wales Summit, especially the Very High Readiness Joint Task Force which will most

¹¹⁴ “The absence of a nuclear element in Zapad 2013 may reflect concern over the unfavorable publicity generated by the reports of a simulated nuclear strike on Warsaw in Zapad 2009. Nevertheless, Russian nuclear weapons remain a priority item in Moscow’s defense procurement budget.” Stephen Blank, *Eurasia Daily Monitor* 10, Iss, 177, 4, October 2013.

¹¹⁵ Lt. Gen. David Deptula, *The Daily Beast*, October 30, 2014.

¹¹⁶ Andrei Piontkovsky, BALTDEFCOL Conference on Russia, November 25, 2014.

¹¹⁷ Private conversation with senior Washington think-tanker of a moderate disposition.

likely be fully ready by 2016. This does constitute a closing window of opportunity in 2015 but the Allied commitment to Article 5 has once again been clearly reaffirmed and could not be ignored.

The next possibility is the deployment of “little green men” in one or more of the Baltic States. They could be used in support of separatists (local or imported) in areas heavily populated by ethnic Russians, such as Narva in Estonia or Daugavpils in Latvia. However, despite the best efforts of many Western journalists, evidence of separatism in these areas is hard to find: “The main problem with Latvia’s Russian community isn’t that they are a potential fifth column – it’s that they are so remarkably stubborn about being normal citizens of the country.”¹¹⁸ While the political views of the Baltic Russian-speaking minorities may be more positively inclined towards Russia’s foreign policy, the whole community is united by a desire to avoid the violence and destruction witnessed in Eastern Ukraine. The Russian General Staff are professional and flexible and thus unlikely to repeat in the Baltics an experiment which, in military terms, has not brought about the anticipated success in Donetsk and Luhansk.

A more likely scenario is an insurgency with the aim of splitting the ethnic communities, pitting them in opposition to each other and undermining the state. This is potentially a serious challenge because it requires only limited personnel and logistics yet, through terrorist tactics, can inflict great damage on the state. For example, the UK counts 1441 armed forces deaths during the Northern Ireland troubles, while the campaigns in Afghanistan, the Balkans and Iraq together accounted for 694 – significantly fewer.¹¹⁹ Moreover, the UK is a well established, mature democracy which does not have a powerful neighbour able and perhaps willing to provide support for such an insurgency.

The Baltic States have been subjected to lower levels of threat since renewed independence. These include political, economic and military pressure which has now been supplemented by an intensified level of information warfare. This is accurately described by Peter Pomerantsev and Michael Weiss as the weaponisation of information.¹²⁰ The aim of this information warfare is to create the impression of inevitability: no matter how the Baltic States might squirm and wriggle, it is only a matter of time before they return to the Russian sphere of influence. The methods used are multiple but the messages are that the Baltics are failed states with incompetent, corrupt governments; that they discriminate against their minorities;

¹¹⁸ Mike Collier, “Annoyingly Loyal”, eng.lsm.lv, November 28, 2014.

¹¹⁹ MODUK FOI 05-08-2013-120915-007 dated August 5, 2013.

¹²⁰ Peter Pomerantsev and Michael Weiss, “The Menace of Unreality”, *The Interpreter*, November 2014.

and that they are returning to fascism. These messages are used internally and internationally to bring political pressure to bear on them with the constant Russian chorus that the Baltic States fail to live up to international norms and their obligations, therefore they are not worth defending.

Economic pressure is easily applied through disputes about import and other standards or simply by slowing or closing cross-border traffic. Energy dependency provides a very powerful tool which can be used to divide and rule through pricing policies but always with the unstated threat of energy denial. Corruption is encouraged both by the use of bribes and inducements as well as threats and intimidation. It is made clear that business in Russia is difficult without the “right”, compromising contacts. Military pressure has been evident with the increase in military aircraft and ships approaching Baltics airspace and maritime zones and the demonstration of power – Russia is indeed a regional super-power. To make sure that the message is getting through, less subtle tactics are also used such as the kidnapping of an officer of the Estonian Security Police on the Estonian-Russian border¹²¹ and the seizure of a Lithuanian trawler in the Barents Sea¹²². Further provocations are to be anticipated. However, Russia’s current financial troubles can only have a profoundly negative effect, particularly on soft power tools.

Finally, Latvia in particular faces the possibility of a constitutional (ie peaceful and legal) assumption of power by pro-Russian groups. An example of how this could be done is in the initiative to amend the constitution to allow for a universally elected President¹²³. This sounds like an eminently sensible and democratic initiative. However the employment of populist campaigning methods along with the widespread use of funding from unclear, foreign sources (which would only be proved after the election was over), could end with Latvia having what one local journalist has described as a “little green president”.

WILL LATVIA BE SAFE IN 2015?

So, with all these threats are Latvia and the other Baltic States in a dangerous position? The answer is probably a qualified no. The reasons for this conclusion are to be found in Russia herself, in Latvia and in the international system which has

¹²¹ “Russia Says Detained Estonian Police Officer Is a Spy”, *The Guardian*, September 7, 2014.

¹²² “Russia Sets ‘High Price’ for Release of Lithuanian Trawler: Lawyer”, *EUbusiness*, October 7, 2014.

¹²³ Currently the President is elected by the 100 members of parliament.

been given a jolt by the brazen way Russia chose to break the postwar existing rules of international conduct.

Beginning with Russia, the lack-lustre State of the Nation speech by President Putin on 4 December 2014 indicated that Russia is under pressure and, though he failed to address this issue directly, Western sanctions are biting. Of course, opinion polls show massive support for Putin but this support does not extend to paying for Crimea to reach the Russian standard of living or, more importantly, for a continued military adventure in Ukraine. The financial crisis seems to have caught the Kremlin unprepared.

That does not exclude the possibility that the Kremlin may decide that it has no alternative than to play the military card. But as Mark Galeotti has indicated, contemporary Russians are not the Stalingrad generation¹²⁴ and will not become one without a Stalinist level of terror and repression as well as an existential threat to the homeland, which clearly NATO does not constitute.

As far as Latvia is concerned, the Russian-speaking minority is politically useful for Russia (duty to protect) but, as indicated earlier, hardly a potent fifth column. Unofficial statistics indicate that about a third of marriages are between Latvians and non-Latvians, which shows a high degree of integration. More important, two thirds of non-Latvians consider themselves to be Latvia's patriots and in 2013 89% of babies born in non-citizen families became citizens at first registration¹²⁵.

LATVIA'S TASKS FOR 2015

Latvia's security is based on her membership of NATO and the EU, her self-defence capability and her internal stability and cohesion. All three are under attack, particularly through information warfare.

Firstly, it is not enough that Latvia encourages and supports the implementation of the Wales NATO Summit decisions. Latvia must fulfill her own obligations towards NATO. This includes reaching a level of defence spending equivalent to 2% of GDP as soon as possible. Otherwise Latvia's apparent concerns about Russia's potential military aggression sound hollow. Equally, pleas for US military support

¹²⁴ Mark Galeotti, *The Moscow Times*, May 20, 2014.

¹²⁵ Government census, http://www.mk.gov.lv/sites/default/files/editor/atskaite_piederiba_08_2014.pdf

are difficult to justify if Latvia is unprepared to pull her own weight. (It should be noted that while Russia's current defence spending stands at 4.1% of GDP¹²⁶ and that of the US is at 3.8% of GDP¹²⁷. Latvia's in 2014 was only 0.9%.) All other essential tasks necessary to receive NATO military support must be completed as a matter of priority.

Secondly, the potential costs of a Russian military adventure in the Baltics must be increased to the point where it becomes both politically and militarily unattractive. This means that low level self-defence must be capable of inflicting substantial casualties on an aggressor and preventing a quick and painless occupation. Of course the Latvian National Armed Forces are unable to secure the whole of her territory against a regional super-power alone. However, appropriate doctrine and the smart use of small units in an asymmetric way can raise costs substantially and buy time for allied reinforcement.

Thirdly, more attention should be paid to social stability and cohesion. We have already seen that the circumstances for integration are favourable. This can be based on shared interests between Latvia's various communities. While attitudes to, for instance, Russia's annexation of Crimea may vary, the overriding common interest is to maintain a stable and secure state and to avoid the horrors witnessed in Eastern Ukraine.

Finally, more attention should be focused on the information war in which the Balts have become reluctant participants. It is not enough to maintain a reactive attitude to information manipulation. Proactive measures are necessary. This means identifying the aims of information operations and taking steps to neutralise future attacks. In particular, attention needs to be paid to attempts to split the Latvian communities in order to make use of the Russian speakers to further Russia's foreign policy goals. This means, among other things, finding the right balance between government spending on security and on social programmes, especially health and education. This is a sensitive issue and must be explained to Allies carefully.

In conclusion, while it is to be expected that Russia will continue to attempt to destabilize Latvia and the other Baltic States, it is within their own powers to create the preconditions to prevent this happening. If Latvians are able to stand together as a (fairly) united community and the West as a strong (though at times slow) Alliance, we will resist current Russian pressure and lay the foundations for a healthier relationship with our eastern neighbour when Russia's foreign policy changes.

¹²⁶ "Finance Minister Warns Russia Can't Afford Military Spending Plan", Reuters, October 7, 2014.

¹²⁷ The 15 countries with the highest military expenditure in 2013, Stockholm International Peace Research Institute, April 14, 2014.

FROM BRUSSELS TO WALES AND BACK AGAIN: LATVIA'S PERSPECTIVE

By Rihards Bambals¹²⁸

INTRODUCTION

In 2014 the world marked the 100 year anniversary of the beginning of World War I and 75 years since World War II – the two largest tragedies in human history. However, both events were neither the end of the history, nor the beginning of a safer world, because for every human generation and decade of the last half-century there have been significant conflicts and an emergence of new threats which have left consequences until this day.

For example, the 1950s will be remembered for the Korean War and the start of a decade-long Vietnam War. The 1960s for the Cuban Missile Crisis. The 1970s for the terror act at the Munich Olympics, the Yom-Kippur War, the Turkey-Cyprus conflict, and the Soviet invasion of Afghanistan. The 1980s for the Falklands War, the Nagorno-Karabakh conflict, and the first ever documented cyber-attack. The 1990s the Rwanda genocide, and Balkan conflicts. And from 2000 the 9/11 terror acts, wars in Iraq and Afghanistan, and the global economic crisis.

The first half of this decade has started too fast, too furious. Internally Europe continuously faces consequences from the global economic meltdown: high youth unemployment, no or low growth rates, and lack of political unity among EU members. Likewise, externally there are threats stretching from the instability of Arab uprisings; civil war in Syria and the ISIL/ISIS phenomenon, to revisionism of the international order posed by Russia's aggression in Ukraine. Along with these examples there are transnational challenges as diverse as cyber warfare; pandemics (Ebola); and natural and man-made disasters; while innovations as the first

¹²⁸ The views are solely the author's own, and may not necessarily represent the position of Latvia's Ministry of Foreign Affairs.

3D printed handguns and emerging extremism (foreign-fighters) are keeping the world in a constant state of flux. Therefore, in 2014 the international security landscape is no safer than it was one hundred years ago.

Meanwhile, Europe fought back and patiently underwent fundamental transformations by changing from a reactive to prevention-oriented actor in global crisis management. Next to the biennial NATO Summits, the EU, in 2013, rediscovered the Common Security and Defence Policy (CSDP) by organizing a European Council (EC) for the first time dedicated to the defence and security. Moreover, it has committed to continue the tradition in 2015 – during the Latvian Presidency of the Council of the EU. As a result, there is a continuity of high level meetings on Euro-Atlantic security with serious prospects for Europe to revert the downturn of its global influence.

The article examines how the actions and decisions of the two key organizations sharing 22 members have shaped European capabilities of resilience towards global and regional turbulence and revisionism during 2013-2014. It also proposes recommendations for the Latvian Presidency on its way to preparing for June's 2015 European Council.

THE FIRST EUROPEAN COUNCIL ON DEFENCE AND SECURITY (DECEMBER 2013)

Latvia's 2014 foreign and security policy is unimaginable without the implementation of the decisions made at December's 2013 European Council which, along with NATO's security umbrella, aimed at strengthening the EU CSDP dimension. The EC was symbolic and unique in EU history. It was the first gathering where the Heads of State and Government were devoted to security and defence (under the Lisbon Treaty). It was also the first time when NATO's Secretary General was invited to exchange views on the actual state of European security. Likewise, it was one of the most awaited and well-prepared EC (at least it was supposed to be), as the EEAS, member states, and foreign policy community collectively experienced a wide, ongoing debate for the whole year (from December 2012), thus giving the security agenda significant public visibility. Last but not least, it was the first time the High Representative/Vice President of the Union (HR/VP) prepared an extensive analysis on CSDP (a 27 page long report), while at December's EC, issuing the most immense task undertaking ever for security and defence.

It is worth reflecting on the Report by the HR/VP, as it put forward five politically strategic priorities for the Union in CSDP. According to the Report, the EU must: 1) autonomously act as a global security provider starting from its neighbourhood; 2) be able to project power and back effective multilateralism with necessary military capabilities; 3) invest in partnerships and help building capacities of third parties; 4) develop tools and capabilities to be able to rapidly engage all five environments (land, air, maritime, space, and cyber); and 5) develop and use capabilities in line with a comprehensive approach – by avoiding duplication and leading to the synchronization of efforts and maximum gain.¹²⁹ Though it may seem too comprehensive, it was the first episode since adopting the European Security Strategy (2003)¹³⁰, and the Report's implementation (2008)¹³¹, when EU leaders decided on ways to develop tools and military capabilities to reach the Union's strategic autonomy in crisis management. Therefore, for EU bureaucracy it was an important moment to move the CSDP development forward.

Based on the Report, November's Council and December's European Council together gave 59 political tasks for the EEAS, the Commission, Member States, and other EU bodies along three thematic axes: 1) increasing effectiveness, visibility, and impact of the CSDP; 2) enhancing the development of capabilities; and 3) strengthening Europe's defence industry. In line with the first axis, the EU elites, first of all, agreed to guarantee coherence: a) between the foreign policy realized by the EEAS and Member States; b) between different EU tools and policies (i.e. CSDP, diplomacy, trade, sanctions, development assistance); and c) between the EU and like-minded regional and international partners, such as the UN and NATO. The leaders also agreed upon further development of rapid response capabilities such as the yet to be deployed EU Battle Groups, while strengthening the Union's cyber, maritime, energy, and border security ambitions and capabilities. Likewise, a promising task was given to the HR/VP: "...to assess the impact of changes in the global environment" and report "on the challenges and opportunities arising for the Union" in 2015.¹³²

Regarding the second axis – capability development – the EC agreed to support the development of critical military capability projects for strengthening the

¹²⁹ "Preparing the December European Council on Security and Defence", Final Report by the High Representative/Head of the EDA on the Common Security and Defence Policy, Brussels, October 15, 2013., 2–3.

¹³⁰ "A Secure Europe in a Better World", European Security Strategy, Brussels, December 12, 2003.

¹³¹ "Report on the Implementation of the European Security Strategy – Providing Security in a Changing World", Brussels, December 11, 2008.

¹³² *European Council Conclusions* (EUCO 217/13), Brussels, December 20, 2013., 3-4. <http://goo.gl/sYb34i>

Union's autonomy (Remotely Piloted Aircraft Systems; air-to-air refuelling planes; next generation satellites; and cyber defence capabilities), while inviting more multinational projects between Member States in the future (a 'pooling & sharing' initiative). In the framework of the third axis – Europe's defence industry – the leaders reached a compromise for strengthening the European defence market and military industrial and technological autonomy by creating new jobs and growth for the industry, while simultaneously supporting SMEs and opening up the Commission's funds for financing dual-use technologies, innovations, and research at large. Most importantly, follow-up on the progress achieved will be assessed in due time – at June's 2015 European Council.¹³³

In 2014, the EU had to work on the implementation of the tasking, while also deciding upon sanctions against Russia after the events in Crimea and the downing of MH17, as well as responding to ever growing challenges in 'the neighbourhood of the neighbours'. This included the launch of new CSDP operations in Mali, Central African Republic (CAR), and soon in Ukraine. In this regard, Latvia also discovered 'the African dimension' of its security policy for the first time, deploying troops to freshly started CSDP military operations – 7 soldiers to *EUTM Mali*, and 38 soldiers to *EUFOR RCA* (CAR). As a result, participating in two civilian missions in Afghanistan (*EUPOL Afghanistan*) and Georgia (*EUMM Georgia*), with three and two experts in each respectively, and in the military operation *EUNAVFOR Atalanta* off the coasts of Somalia (two soldiers), the two operations in Africa became the largest Latvian contribution to the CSDP in recent years.¹³⁴ Therefore, due to active work (though often publicly hidden and thus hard to measure) in Brussels' corridors when discussing, planning, and implementing the December's EC tasks, Latvia reinstated its crisis management tempo, which has slowed down when faced with defence budgetary cuts and downsizing operations in Iraq, and later Afghanistan.

However, the impressive list of tasking may leave ambitions that were NOT agreed upon in 2013 unnoticed, but these should be on the agenda of the next summit in 2015. Sven Biscop and Jo Coelmont, for example, have noted that although the EC conclusions start with the shortest phrase yet – "Defence matters" – the political leaders did not agree upon an explanation as to why it does matter, and what the EU's role is as a security provider (although it was done in the HR/VP Report).¹³⁵ A similar conclusion was outlined in *The Economist*, arguing that: "European countries

¹³³ "European Council Conclusions" (EUCO 217/13), 5-10.

¹³⁴ "Latvijas dalība ES misijās un operācijās" (in Latvian) (Latvia's participation in EU missions and operations), <http://goo.gl/3M7BQJ>

¹³⁵ S. Biscop, J. Coelmont, *Defence: the European Council Matters*, EGMONT Royal Institute for International Relations, Security Policy Brief No.51, December 2013, 3-4. <http://goo.gl/BQfaIK>

must first agree on what they want. Until then, if there were ever such a thing as a European army, it would probably do nothing”.¹³⁶ The pressing question that was bypassed by leaders was: how to overcome the lack of joint threat assessment between Member States, and provide a shared narrative for both the Europeans and the rest, therefore, explaining what security interests the EU stands for? Even the HR/VP Report highlighted the prolonged lack of long term shared vision through CSDP development (joint strategy); non-existing member states’ political will to launch or fund missions and operations; and non-efficient decision-making procedures and lack of strategic military assets.¹³⁷ As a result, although the elites made decisions on concrete projects and on means for increasing Europe’s military power, they failed to explain – why does it matter? Where should the EU concentrate its efforts in the security and defence domain? How could the defence spending downspin be stopped and reverted? These questions should be answered, and problems remedied, in 2015.

ALLIED REASSURANCE AND RECALIBRATION: NATO WALES SUMMIT

Meanwhile, in 2014, NATO confirmed and re-established its quintessence. Decisions undertaken collectively at the NATO Wales Summit, along with additional reassurance and solidarity measures realized throughout the year by Member States, bilaterally proved the Alliance is back to its roots. They showed NATO can quickly adapt strategically from being internationally deployed as a highly ready Alliance with collective defence and deterrence as its *raison d’être*. Without a doubt, the lead up to the Summit, the event itself, and implementation of the decisions afterwards, all took place “at a pivotal moment in Euro-Atlantic security”.¹³⁸ The landmark event of the year, and probably of the decade, was Russia’s military aggression in Ukraine. By occupying and organizing an illegal annexation of Crimea, by ignoring international laws and agreements, and by imposing a new world order and unprecedented warfare tactics, Russia, as stated in the Wales declaration, “fundamentally challenged our vision of a Europe whole, free, and at peace”.¹³⁹

¹³⁶ Charlemagne, “Defenceless? Austerity is Hollowing Out Europe’s Armies”, *The Economist*, December 21, 2013.

¹³⁷ “Preparing the December European Council on Security and Defence”, Final Report by the High Representative/ Head of the EDA on the Common Security and Defence Policy, Brussels, October 15, 2013, 3.

¹³⁸ Wales Summit Declaration, issued by the Heads of State and Government participating in the meeting of the North Atlantic Council in Wales, September 5, 2014, <http://goo.gl/ORww0d>

¹³⁹ Ibid.

This section examines the transformations that NATO underwent on three circles. In the first circle, it explains how the Alliance recalibrated after Russia's aggression, and what decisions were most important at the Wales Summit, from Latvia's perspective. Secondly, it analyses the acts of solidarity and reassurance that Latvia received in the post-Crimea environment. Last, but not least, the Latvian contribution to its own and Allied security are discussed.

The first circle: NATO's summit agenda and the outcomes from Latvia's perspective

Russia's actions in Ukraine changed the priorities and agenda of both Latvia and the Alliance at large in the run-up to the Summit in Wales (4–5 September 2014). For example, in last year's report on foreign policy and EU affairs (January 2014) Latvia presupposed that the Summit would focus on international operations (i.e. Afghanistan post-2014); collective defence capabilities during the financial austerity; and the relations with aspirant-countries and partners ('the open door policy').¹⁴⁰ At the time, it was a logical and predetermined agenda because ISAF (Afghanistan) was the Alliance's largest outreach operation, while a possible further enlargement has been topical since Bucharest (2008), but the safeguarding of military capabilities during times of austerity ever since the Lisbon Summit (2010). However, six months later the focus, and Latvian priorities, were more tailored to the rapidly changing regional and global security landscape. To the NATO Meeting of Foreign Ministers on 24-25 June, 2014, Latvia went with "transatlantic cooperation and strengthening collective security as the most important issues" for the Summit, while seeking "long-term measures for strengthening collective security" and "a decision on a lasting presence of allied NATO forces in the Baltics". Other priorities – adequate defence financing; 'open-door policy'; and future engagement in Afghanistan after 2014 – at the time moved to the background.¹⁴¹ In this regard, Latvia, with other members at the 'Eastern flank', were looking for practical and visible Allied reassurance measures to deter Russia from a further large-scale invasion in Ukraine, as well as a possible confrontation with any NATO members.

¹⁴⁰ Annual Report by the Minister of Foreign Affairs on activities performed and planned in national foreign policy and European Union matters (2013-2014), Riga, January 23, 2014, 20, <http://goo.gl/i0RNHQ>

¹⁴¹ "Edgars Rinkēvičs calls for taking decision on lasting presence of allied NATO forces in Baltic", Ministry of Foreign Affairs of the Republic of Latvia, June 25, 2014, <http://goo.gl/QJL03T>

And NATO as an organization did respond to the call at the crucial gathering in Wales that was by some compared to the importance of the Prague Summit (2002), as a decision had to be made as to “whether it will stand up for European security or concede to Russian aggression”.¹⁴² Though one might easily get confused when examining the extensive Wales Summit Declaration (consisting of 113 articles), its core messages and commitments are unambiguous and mostly in line with Latvia’s security policy expectations. From Latvia’s perspective there are seven main results and core working strands (at least) that will influence Latvian, regional, and Alliance security and defence at large, throughout the coming years.

First and foremost, the Alliance reaffirmed its strong commitment to three core tasks of the Strategic Concept adopted in Lisbon (2010): collective defence, crisis management, and cooperative security. In this regard, for Latvia the main Summit outcome is approval of NATO’s Readiness Action Plan (RAP). It is a comprehensive package of measures intending to recalibrate NATO forces and internal dynamics so the Alliance could respond in a timely manner to contemporary challenges posed by Russia, the southern neighbourhood, the Middle East, and North Africa. The package has a twofold goal – to deter (possible aggressors) and to assure (the Allied States) – and it takes the form of “continuous air, land, and maritime presence and meaningful military activity in the eastern part of the Alliance”, which is “flexible and scalable to the evolving security situation”.¹⁴³ In practical terms, measures include: 1) enhanced responsiveness of the NATO Response Force; 2) the creation of a new Allied joint force – Very High Readiness Joint Task Force (VJTR) – a 4000-6000 large troops unit deployable within a few days to the frontline; and 3) enhanced Standing Naval Forces.¹⁴⁴

Secondly, the Summit leaders decided to strengthen the political ambitions with substantial financial commitments, agreeing upon the “2+20 percent formula”. According to the Summit Declaration, Member States will aim to meet the defence budget target of 2 percent of their GDP within a decade (if not already met), of which at least 20 percent should be devoted to new equipment and Research & Development programmes.

Thirdly, the Summit paid substantial attention to Ukraine. In this regard, the most important outcomes are: continuous political support to Ukraine’s territorial integrity and sovereignty, combined with practical measures intended to help

¹⁴² K. Volker, E. Brattberg, “NATO Must Standup against Putin’s Threat to Invade Ukraine”, *The Washington Post*, August 28, 2014, <http://goo.gl/l0uxfX>

¹⁴³ Wales Summit Declaration.

¹⁴⁴ Ibid; Simon, L. NATO’s Rebirth: Assessing NATO’s Eastern European “Flank”, *Parameters*, Vol.44, No.3 (Autumn 2014), 68.

reforming the country's armed and security forces by raising their interoperability with Allied ones. For example, Latvia aims to financially support one of four NATO Trust Funds created to back Ukrainian reforms.¹⁴⁵

Fourthly, the Summit decided to continue the suspension of all practical and military cooperation with Russia, while condemning its aggression and actions in Ukraine. It was decided the political channels, however, were to stay open. *Fifthly*, along with adopting RAP and committing to significant financial contributions, the Allies also endorsed the NATO Framework Nations Concept, which promotes multinational cooperation in the development of capabilities and forces between various Member States with one leading state in each grouping. The Summit endorsed: the German-led group of 10 states (focusing on capability development in areas such as: logistics support; chemical, biological, radiological and nuclear protection; delivering fire-power from land, air and sea; and deployable headquarters); the UK-led group of 7 Allies (including the Baltic States), creating the Joint Expeditionary Forces (JEF) for a full spectrum of operations; and the Italian-led group of 6 nations (with a focus on stabilisation and reconstruction, enablers, usability of land formations, and command and control).¹⁴⁶

Sixthly, the Summit decided that NATO's doors remain open, but while "decisions on enlargement are for NATO itself", possible aspirants have to fulfil three criteria. They should be democracies sharing the Alliance's values and be ready to assume membership responsibilities; they have to further the principles of the Washington Treaty; and they should contribute to the security of the Euro-Atlantic community. On top of that, the Summit evaluated the progress achieved by aspirant-countries: Georgia, Montenegro, Macedonia, and Bosnia and Herzegovina. From Latvia's perspective, one of the most important decisions was the endorsement of "a substantial package for Georgia that includes defence capacity building, training, exercises, strengthened liaison, and enhanced interoperability opportunities".¹⁴⁷

Last but not least important, a main success of the Summit was the commitment to promote EU-NATO cooperation. As both organizations share 22 members and one set of capabilities, coordination of efforts between them has been an obvious necessity and a taboo, due to the protracted Cyprus-Turkey conflict. However, the events in Ukraine have led to some concessions from Turkey allowing for substantial commitments regarding future EU-NATO cooperation. For example, the Summit Declaration foresees such improvements to "broaden political consultations",

¹⁴⁵ "NATO Velsas samita rezultāti" (NATO Wales Summit outcomes), <http://goo.gl/z1DjaH>

¹⁴⁶ Wales Summit Declaration.

¹⁴⁷ Ibid; "NATO Velsas samita rezultāti".

“reinforcing our joint efforts and our common message”; working together in new joint areas as maritime security, defence and security capacity building, and countering hybrid threats; as well as strengthening strategic partnerships between the EU and non-EU Allies.¹⁴⁸

Second circle: allied reassurance measures

The second circle includes the practical reassurance and solidarity measures that Latvia benefited from in 2014. One of the most visible measures was the reinforcement of the NATO-led Baltic Air Policing Mission. If two years ago Baltic leaders had to convince other Allies about transforming the temporary mission (initially planned for 2004-2014) into a permanent one, in 2014 the necessity for reinforcement was even more obvious. Russia’s aggressive behaviour largely contributed to consolidating Allied solidarity, as during the first nine months of 2014 there were (at least) 68 incidents with Russian planes involving the Lithuanian border, 150 in Latvia, and six violations of Estonian airspace.¹⁴⁹ Therefore, right after the events in Crimea, Allies reinforced the Mission by tripling the number of fighter jets.

Until recently, Allied States, for a rotational four month period, provided four fighters-jets stationed at *Siauliai* Airbase (Lithuania). However, right after the events in Crimea the US increased its presence from 4 to 10 fighters (*F-15C*) and one air-to-air refuelling airplane (*Boeing KC-135 Stratotanker*) as well as deploying additional air forces in Poland and Romania. The whole mission, from May, expanded to 12 planes stationed together in two airfields, as four UK *Eurofighter Typhoons* joined the four previously planned Polish Mig-29 fighter jets in *Siauliai*, while four Danish F-16 *Fighting Falcons* were deployed to the *Ämari Airbase* (Estonia), which were added to the Mission at that point.¹⁵⁰ Similarly, from September, the Mission was continued by Portuguese (six *F-16 Fighting Falcons*) and Canadian forces (four *F/A-18 Hornets*) in *Siauliai*, and German forces (4-6 *Eurofighter Typhoons*) at *Ämari*, while four additional French fighter-jets (*Rafales*) were stationed at *Aalborg Airbase* in Northern Poland.¹⁵¹

¹⁴⁸ Wales Summit Declaration.

¹⁴⁹ T. Frear, L. Kulesa, I. Kearns, “Dangerous Brinkmanship: Close Military Encounters Between Russia and the West in 2014”, European Leadership Network, November 2014, 1-2.

¹⁵⁰ N. De Larrinaga, “NATO’s Tripled Baltic Air Policing Mission Begins”, IHS Jane’s Defence Weekly, April 29, 2014, <http://goo.gl/CjyWui>

¹⁵¹ G. Jennings, *Portugal Takes Over Lead of Baltic Air Policing Mission*, IHS Jane’s Defence Weekly, August 31, 2014, <http://goo.gl/gwur5s>

Along with the additional airpower, the Allies provided significant practical and moral reassurance bilaterally. In June, the strategic US partner announced its one billion dollar European Reassurance Initiative, as well as deployed 600 paratroopers from the 173rd Airborne Brigade (in April) for training purposes on a rotational basis in the Baltic States and Poland. The Allies also participated in various military exercises in the Baltic States throughout the year. For example, the ‘Steadfast Javelin’ exercises during May gathered some 6000 troops from the US, Belgium, Denmark, France, Poland, the UK, and the Baltics to test “NATO’s readiness and combat effectiveness”.¹⁵²

Also US President Barak Obama made a significant political gesture of solidarity and reassurance by visiting Estonia, and meeting the Presidents of all Baltic States on the eve of the Summit. In his public speech he outlined the main reassurance measures and further dynamics in relations between the US and the Baltic States, NATO, and Europe at large, *vis-à-vis* Russia’s aggressive revisionism. The reassurance plan includes: 1) defence for every NATO Ally equally because “the defence of Tallinn and Riga and Vilnius is just as important as the defence of Berlin and Paris and London”; 2) an increased US presence in Europe and the Baltics with more military equipment, training and exercises more often, and more soldiers (“American boots on the ground”); 3) creating even faster deployable NATO Rapid Response Forces in return for receiving increased infrastructure and facilities in the Baltics; 4) collective commitment from all Allies to spend at least 2 percent of their GDP to defence; and 5) a united stance against Russia from both NATO and the EU.¹⁵³ Other European elites followed the US example. German Chancellor Angela Merkel, in December, reassured that Germany and NATO will protect the Baltics and Poland against Russian aggression, while accusing Russia of interfering in the domestic affairs of the Eastern Partnership and Western Balkan countries seeking closer ties with the EU.¹⁵⁴ Similarly, after long debates, French President Francois Hollande announced in late November to suspend the 1.2 billion euro Mistral warship deal with Russia, showing solidarity with extremely worried states at the Eastern flank of the Alliance, including Latvia.¹⁵⁵ All of these efforts contributed to not only ease the unquiet in societies of the ‘Eastern flank’, but also to prove NATO’s readiness to defend its members and raise the stakes for any potential aggressor.

¹⁵² Fact Sheet: European Reassurance Initiative and other U.S. Efforts in Support of NATO Allies and Partners, The White House, Office of the Press Secretary, June 3, 2014, <http://goo.gl/ojYAYg>

¹⁵³ Remarks by President Obama to the People of Estonia, Nordea Concert Hall, Tallinn (Estonia), September 3, 2014, <http://goo.gl/MgmSON>

¹⁵⁴ A. Von Robin, B. Beat, “Merkel wirft Moskau vor, Osteuropazudestabilisieren” (in German), *Die Welt*, December 7, 2014, <http://goo.gl/S7inxb>

¹⁵⁵ Elysee (@elysee), Twitter post, November 24, 2014, 1:43 PM, <http://goo.gl/SbMUxI>

Third circle: Latvia's contribution to NATO

Lastly, Latvia in 2014 continued its efforts of previous years to put more distance from their possible image as “a security user” both within the EU and the Alliance, gradually proving with political and practical measures its genuine international role as “a security provider”. In addition to notable investments in the CSDP missions and operations, Latvia also made major contributions to its own security, therefore, also strengthening the Alliance's collective defence. Events ranging from the disastrous collapse of “Maxima” supermarket in Riga (November 2013), to Russia's blatant aggression in Ukraine against the backdrop of Latvia's 10 year NATO membership anniversary, all served as some sort of catalyst for keeping security high on the agenda of Latvian society and its policy makers. Some might even argue that they consolidated Latvian society.

As proof for such argument, the fact that not only did Latvia adopted a new defence financing legislation that foresees a concrete annual defence budgetary gradual increase commitments for reaching at least 2 percent of the country's GDP¹⁵⁶ by 2020 (2015 – 1 percent; 2016 – 1.1 percent; 2017 – 1.3 percent; 2018 – 1.5 percent; 2019 – 1.75 percent; 2020 – 2 percent)¹⁵⁷, but it was approved unanimously by all members of Parliament, representing all elected political parties.¹⁵⁸ The country's robust commitment to its own security can be summarized in the words of Minister E. Rinkēvičs after the adoption of the law: “...we cannot and must not expect Allies to invest in our own security, if we are not ready to do so ourselves.”¹⁵⁹

Likewise, the country invested in niche capabilities for modern hybrid warfare that the Alliance and other members were currently lacking – by creating a multinational institution (initially those participating are Latvia, Lithuania, Estonia, the UK, Germany, Italy, and Poland)¹⁶⁰ that was accredited by the Summit as the NATO Strategic Communications Centre of Excellence (CoE), and welcomed by Alliance leaders in the Summit Declaration.¹⁶¹

¹⁵⁶ Wales Summit Declaration.

¹⁵⁷ Valsts aizsardzības finansēšanas likums (in Latvian) (State defence financing law), adopted by Saeima (the Parliament) on July 3, 2014; issued by the President on July 10, 2014. <http://goo.gl/Bab2No>

¹⁵⁸ Balsošanas rezultāti (par – 86, pret – 0, atturas – 0) (Voting results: support – 86; against – 0; abstaining – 0). Valsts aizsardzības finansēšanas likums (1178/Lp11), 2.lasījums, steidzams. 2014.07.03 12:23:59. <http://goo.gl/Hsjijo>

¹⁵⁹ “A Law on Financing of National Defence is a Step in the Direction of Strengthening National Security”, Ministry of Foreign Affairs of the Republic of Latvia, July 4, 2014, <http://goo.gl/K0g5I2>

¹⁶⁰ “NATO Accredits Centre of Excellence for Strategic Communications in Riga”, Ministry of Foreign Affairs of the Republic of Latvia, September 2, 2014, <http://goo.gl/26N65o>

¹⁶¹ Wales Summit Declaration.

For nearly two decades Latvia has taken an active part in international missions and operations of the EU and NATO in different parts of world. They range from the Balkans to Afghanistan, Iraq, Georgia and others, which have been prioritized because of solidarity (i.e. to the US, and Georgia), and to express commitment to, and align with, the contemporary politics of both organizations (especially during the process of accession). However, in times of peace and the budgetary austerity (post-2008/2009 crisis) Latvia had to balance between sustaining its capabilities and keeping defence at large on a domestic public and political agenda, while at the same time supporting international crisis management efforts and a high level of interoperability and readiness with Allies. In this regard, some even started questioning the country's burden sharing abilities. Therefore, the commitments made throughout 2013–2014 – to properly fund the defence, to develop modern capabilities, and to participate in operations far away from domestic borders or traditional regions of interest – all must have sent strong signals to the Allies and the EU, while deterring any potential aggressor questioning the coherence of these organizations.

PREPARING FOR JUNE'S 2015 EUROPEAN COUNCIL ON DEFENCE AND SECURITY

In one of her first foreign visits, the HR/VP Mogherini in Riga declared that June's 2015 EC will be the second most important event for the EU foreign and security domain during the Latvian Presidency, right after the Eastern Partnership Summit.¹⁶² Therefore, following a major debate on European security at an EU level in 2013, continued in the NATO framework against the backdrop of Russia's aggression in 2014, expectations for June's 2015 EC are slowly skyrocketing.

Although in the post-Lisbon environment the Presidency is chairing neither the Foreign Affairs Council (FAC) nor the EC meetings, while the EEAS is producing the bulk of initiatives in security policy domains, Latvia can still be an important facilitator for preparing strategic debates on the EU's role as a global security provider. It can provide additional platforms of debate, but more importantly – courageous and inspiring ideas, and expertise. Moreover, the job is already half-way done for two reasons. Firstly, the HR/VP together with the Commission

¹⁶² F. Mogherini, "Common Foreign and Security Policy (CFSP) Development", Public lecture, Berlin Auditorium, Faculty of Social Sciences, University of Latvia, November 13, 2014, <http://goo.gl/SXfuvG>

has the mandate to prepare a report on the EU's global role, in which she has showed a particular interest. Secondly, the wider security policy community (that Mogherini plans to engage) has already produced some comprehensive research and recommendations.¹⁶³ Likewise, they all came to similar conclusions – the EU's credibility to act as a global power relies on its success in the neighbourhood; while the strategy of EU external relations, together with strategic partnerships, have to be reassessed. Therefore, the Presidency can serve as a magnifier for these ideas on a wider pan-European scale.

Reviewing the Strategy. First and foremost, it is high time for the 2015 EC to commission a review of the European Security Strategy (ESS, 2003) because much has changed in last 12 years, and the EU can no longer escape an adaptation to these new realities. There is a non-existent Western hegemony and a non-effective multilateralism as the world has become multi-polar. The EU has expanded from 15 to 28 members, now having new post-Lisbon institutions, but lacking shared foreign policy priorities reaching beyond the security domain (covered by the ESS). Also, a shared threat assessment does not exist at EU-28, while new threats have emerged (cyber, energy, and hybrid warfare). Meanwhile the economic recession has weakened Europe's defence budgets and capabilities. Russia has become aggressive by creating new protracted conflict zones in the EU neighbourhood: first in Georgia (2008), then in Ukraine (2014). While the historical allies – NATO and the US – have both rebooted by adopting a new Security Concept, and National Security Strategy in 2010, the EU has lagged behind. However, the new HR/VP has expressed support and interest in debating and developing a Global (CFSP) Strategy, whereas security and defence are still important, but rather just parts of a wider joint European vision. Therefore, Member States should prepare for a major strategic rethinking, while for Latvia there is a possible role as facilitator in generating the consensus to initiate the review process no later than at June's 2015 EC.

Reforming EU-NATO Cooperation. Along with both organizations having 22 shared members with one set of capabilities, they also have the same regions of interest and threats to counter. While externally both are interested in stability, conflict resolution, and peaceful state-(re)building in the Eastern neighbourhood (Ukraine, Georgia, and Moldova), as well as in the Western Balkans, Northern Africa, and the Middle East; internally they share the pressing concerns of cyber and hybrid warfare,

¹⁶³ N. Witney, M. Leonard, F. Godement, D. Levy, K. Liik, V. Tcherneva, *Rebooting EU Foreign Policy*, ECFR Policy Brief, October 2014.; Keohane, D., Lehne, S., Speck, U., Techau, J., *A New Ambition for Europe: A Memo to the European Union Foreign Policy Chief*, Carnegie Europe, October 28, 2014; *Towards a European Global Strategy: Securing European Influence in a Changing World*, May 28, 2013.

and cross-national threats. Both have ‘the Berlin-Plus Accords’ (2003) allowing the EU to access the Alliance’s operational assets. However, as reminded by Judy Dempsey, “the elephant in the room”, deadlocking EU-NATO cooperation, is the Cypriot-Turkish ‘frozen conflict’. While Cyprus is an EU member (but not NATO) and Turkey is a non-EU Ally, both are blocking incentives for the organizations to cooperate with one another. However, new EU and NATO institutional elites (Tusk, Juncker, Mogherini, and Stoltenberg) could initiate reforms unleashing EU-NATO cooperation potential, especially when dealing with situations, such as Ukraine.¹⁶⁴ In parallel, the EU should work on practical EU-NATO cooperation (i.e. joint exercises, training, and operational cooperation), as well as on bilateral defence rapprochement between the EU and non-EU Allies. While resolution of the Turkish-Cypriot conflict during a six month Presidency may appear like an unrealistic ambition, practical cooperation is not. In this regard, with full respect to EU accession negotiations in first case and the trade negotiations in the second, particular attention in a major EU strategic recalibration process should be given to Turkey and the US. Likewise, it must be recognized that TTIP negotiations along with economic benefits also have strategic security importance, proving that any new strategy needs to encapsulate the whole picture.

Widening the EU Security Concept. To respond adequately to modern warfare and emerging challenges and the decline of Europe’s global role, the EU has to step out of its comfort zone. This includes striking a balance between thinking in strictly military or civilian terms and “the comprehensive approach”, of which the latter, according to ECFR researchers, has been nothing but ‘a smoke-screen’ behind which the CSDP collapsed, now doing more harm to EU crisis management efforts than if they were carried out in a coalition of willingness.¹⁶⁵ The EU needs to widen security concept and the range of concerns it defends by focusing more on external relations and in the areas where it still has major norm-setting influence and expertise. Among others, they include: energy, climate, and food and water security, as well as state-building (and reforming), and development assistance and diplomacy. In this regard, the HR/VP will need to more actively use her role as the Vice-President, while the Presidency can always support and help her. Also, a widened security concept could help revive the previously effective Union’s trump card – effective multilateralism – creating its 2.0 version with strengthened ties to the UN and OSCE, and increase the EU’s weight within them. This is particularly important for the Latvian Presidency because 2015 provides a rare opportunity when the policy review cycles for these organizations overlap. A fresh EU legislation and institutional cycle, the

¹⁶⁴ J. Dempsey, *Time to End the EU-NATO Standoff*, Carnegie Europe, December 8, 2014, <http://googl/EWLjkE>

¹⁶⁵ N. Witney et al., *Rebooting EU Foreign Policy*.

40th anniversary of the OSCE, and the review of the post-2015 development agenda within the UN all create a momentum for better synchronization of efforts in global crisis management. Likewise, if in future one plans to launch EU civil-military missions, or back-to-back simultaneously planned EU-NATO joint operations with strategic decision-making autonomy but precise labour division, the Union will have to review its *modus operandi* regarding financing outreach activities and their chain-of-command (in combination with using 'the Berlin Plus' potential). Moreover, the EU will have to invest in strengthening its external borders (both physical and ideological) from threats such as: uncontrolled migration and pandemics, as well as 'the little green men' and propaganda (hybrid) warfare, whereas internal-external security and civil-military synergies may be of particular importance.

Lastly, a prioritization of the Eastern partnership within Latvia's foreign policy at large, as well as within the priorities of the Presidency, can provide beneficial input to June's 2015 EC if the security policy dimension is added to the European Neighbourhood Policy (ENP). Respectively, the EU's global role depends on its success (or failure) in the immediate neighbourhood, especially regarding resolution of the conflict in Ukraine. Moreover, if the EU at the level of 28 wants to unfreeze and resolve peacefully the frozen conflicts at its doorstep (in Ukraine, Moldova, Georgia, Cyprus, and the Middle-East), then besides traditional crisis management (CSDP operations) it has to reassess and focus more on areas like: state-building/reforming; peaceful transition, democratization and integration; security and defence sector reforms; the strengthening of the rule of law (and others). Latvia has notable experience to share and discuss about this on the way to June's EC. Smallness has been a great Latvian virtue in its decade-long membership of the EU and NATO. It has promoted regional cooperation with other Baltic States together with whom Latvia has long-standing *pooling and sharing* experience – regular joint exercises and training, as well as joint armament procurements, participation in EU Battle Groups, and international crisis management operations – that should be promoted and replicated EU-wide. Likewise, the recently established NATO CoE in Riga should also serve the interests of the EU to find solutions against propaganda and hybrid warfare next to European borders and beyond (to counter the actions of Russia, China, and countries with emerging Muslim radicalisation and extremism). Latvia already has the expertise of both domains – strategic communication and resilience (in post-Soviet collapse state-reforming; accession to the Euro-Atlantic structures; and overcoming the economic and financial crisis) – that may be useful in the process of strategic deliberations for reforming the EU's external actions. Now it can help the whole Union in its process of strategic recalibration of forces, and the strengthening of resilience both domestically and internationally.

CONCLUSIONS

Still experiencing echoes of the economic recession, the Euro-Atlantic community in 2014 was shaken by Russia's aggression in Ukraine, testing the limits of the current international order, as well as the resilience of the EU and NATO. Both organizations – still the world's largest trading bloc and military alliance – passed the test (at least for now). The EU recently rediscovered the importance of CSDP, admitting that 'defence matters' and that it may have the ambitions of a strategic autonomy to exercise global crisis management. Now, in the run-up to June's 2015 EC, it has to put another step forward to cross the line and commit itself to reviewing its foreign and security policy strategy by defining the EU's strategic interests and permitting the recalibration of resources. Meanwhile, NATO proved itself both politically and practically, first, that collective defence is more important than ever; second, that it is able to exercise it and ground Article 5 with real measures applicable to all members equally; and third, that it is capable of adapting in short time. With the approval of RAP at the Wales Summit it can do it even faster. More importantly, both the EU and NATO showed their internal unity, while agreeing upon a joint external policy against the backdrop of an external shock. The EU agreed for once upon a common stance against Russian sanctions, and NATO on reassurance measures and defence investments. Likewise, Latvia played the role of a responsible security provider within both organizations. It contributed by participating in CSDP operations far away from its borders, by developing modern niche capabilities, and by committing itself to allocate proper funds to its own defence and security. Though this is a turbulent decade of uncertainties, for Latvia it is also a time of opportunities. In 2012, the country was announced to have successfully come back from the economic crisis.¹⁶⁶ In 2014, Riga is the European Capital of Culture, while in 2018 Latvia will mark its 100 year anniversary. In fact, Latvia is in the permanent centre of Europe. Now, it is time to use the spotlight of the Presidency of the EU Council in 2015 to further enhance the strategic vision of Latvia, and the EU at large, especially regarding security and defence.

¹⁶⁶ C. Lagarde, *Latvia and the Baltics – a Story of Recovery*, Riga, June 5, 2012. <http://goo.gl/7OMNBc>

SAVING DISTANT LANDS: FROM WASHINGTON'S VIEW

By Andris Banka

INTRODUCTION

One of history's most odious characters, Neville Chamberlain, addressing the British nation during the 1938 Czech crisis raised the following question: "Why should we care about people in faraway places with unpronounceable names?"¹⁶⁷ After Russia's grab of Crimea and pseudo-annexation of Eastern Ukraine, Chamberlain's infamous question has once again regained its practical utility and momentum. By replacing law with force Moscow instilled fear across Eastern Europe and put to test the firmness of transatlantic ties. The first countries to experience a heightened nervousness were the three Baltic republics – and for good reasons. Geographical proximity and large ethnic minorities make Latvia, Lithuania, and Estonia particularly sensitive to any malign intentions that their big neighbor may have. Responding to Russia's use of force, the United States has stood firm on its assurance that each and every NATO member will be protected, and none 'sold down the river'. For those who see politics primarily as a realm of self-interest, where strategic calculations invariably trump ideals and good intentions, America's unequivocal backing of the three Baltic republics represents quite a puzzle. Looking from other side of the Atlantic, there seems little to gain from extending security guarantees to small nations with negligible geopolitical importance, and a lot to risk if this provokes a shooting match with a nuclear state like Russia. The question is then: Why is the United States so sensitive to the security concerns of the Baltic people? The presented analysis engages with this strategic puzzle, and aims at untangling Washington's rationale for acting as a security guarantor for the Baltic States. Moreover, it sets out policy recommendations for strengthening the American-Baltic partnership.

¹⁶⁷ M. Albright, "HBO History Makers Series with Madeleine K. Albright", *Council on Foreign Relations*, 2013, <http://www.cfr.org/united-states/hbo-history-makers-series-madeleine-k-albright/p30030>

THE END OF ILLUSIONS

To start, an examination of recent events in Ukraine and the consequences that flowed from that vis-à-vis the Baltics is required. Strategic thinkers and analysts have provided quite contrasting explanations for Russia's revanchist behavior. On the one hand, there are those who clearly put the blame at the Kremlin's door. Unable to imagine a life with pro-Western Ukraine at its doorstep, the argument goes that Vladimir Putin, by distorting history and making use of nationalistic sentiments wrapped in Soviet nostalgia about the imperial past, moved troops across an international border and conquered the land by force. Realizing what little effort it took to snatch Crimea, Russia then raised the bets by installing pro-Moscow separatists in major cities in Eastern Ukraine. On the other hand, political commentators have cultivated an entirely different logic, claiming that the root cause for why Ukraine is in flames, is because of NATO's insatiable expansionism tendencies. 'The United States and its European allies share most of the responsibility for the crisis,' wrote John Mearsheimer in *Foreign Affairs*.¹⁶⁸ This view would stress that since the end of the Cold War the West has been stepping on the toes of the Russian Federation by pushing the alliance line ever closer to Moscow, and finally when these attempts reached a country existential to Russia's geopolitical outlook – Ukraine - the bear was cornered and had no choice but to attack.

It is not the intention of this article to settle the East-West 'blame game', as plenty of attempts can be found elsewhere. Rather the key here is to understand what the current crises mean for European security architecture and in particular, NATO's Eastern flank. One thing that everyone seems to agree on is that the blood-spill in Ukraine represents a profound rift between the Euro-Atlantic world and Russia. Historically, there has been plenty of mistrust, animosity, and suspicion between the two, yet today it has gone way beyond the usual estrangement. When the West accuses Russia for inflaming the region, it does so by evoking concepts of national sovereignty and respect for international borders – two fundamental principles of today's international affairs. When Russian political elites respond, their justification usually consists of references to spheres of influence and the protection of ethnic Russians been left behind as a result of the collapse of the Soviet Union. The result is that both sides are talking past each other. When big powers are unable to agree upon basic organizing principles of the system, this is usually a recipe for crises and instability.

¹⁶⁸ J. Mearsheimer, "Why the Ukraine Crisis Is the West's Fault", *Foreign Affairs*, 2014, <http://www.foreignaffairs.com/articles/141769/john-j-mearsheimer/why-the-ukraine-crisis-is-the-west-s-fault>

As recent as 2012, former US national security adviser and longtime political commentator, Zbigniew Brzezinski, suggested Russia may be slowly gravitating towards the West. Brzezinski's basis for optimism was the emergence of an 'internationally minded middle class', which he believed 'wants the same privileges and rights that democracies in the West have'.¹⁶⁹ In retrospect, this turned out to be wishful thinking. In words and deeds Vladimir Putin has suggested that under his leadership Russia functions on its own unique terms and principles, which can be irreconcilable with the European order. More importantly, Russia does not feel apologetic about being an outlier state; in fact it takes a certain pride in it and welcomes such label as a symbol of its geopolitical awakening.

In the light of events in Ukraine, and what it unmasked about Russia's capabilities, ideology, and willingness to resort to military means, others in the region have wondered if someday they could meet a similar fate. After all, Ukraine is not the only post-Soviet country where Russian-speaking populations have been left behind in abundance. For years worried voices in Latvia, Lithuania, and Estonia have cautioned that Moscow could attempt to stir up crises in a NATO member country. On an official level, diplomats in Brussels and Washington recognized the peculiar Baltic predicament. Behind closed doors, however, they were largely dismissed as too sensitive and blinded by the dark chapters of the Soviet history.

Some five years ago, when a group of leading Eastern European thinkers sent a letter to the Obama Administration, urging it to not lose sight of this region, the message was met by suspicion and accusations of 'Russophobia'.¹⁷⁰ Today the tables have turned. In the corridors of power, high level US policy makers – former and current – have raised the Baltic security issue. 'You have to prepare for the 5 percent chance that Russia may not be rational. We don't really need forces in Italy; let's put them in Baltic States', Condoleezza Rice recently suggested.¹⁷¹ A similar change of tone can be observed in Europe. A Parliamentary working group in the UK, did not mince words, when concluding that the Baltic States are in fact 'highly vulnerable to asymmetric attacks from Russia'. "We are not convinced that NATO has fully grasped the implications of this threat", warned Chair of the Committee, Rory

¹⁶⁹ Z. Brzezinski, "Turkey-Iran-Russia: Dynamics Old and New", *Center for Strategic and International Studies (CSIS)*, 2012.

¹⁷⁰ A. Vondra, "Letter to Obama: Five Years Later", *Center for European Policy Analysis*, <http://cepa.org/print/node/20779>

¹⁷¹ Aspen Institute, "The Crisis with Russia: Implications for the US and Europe featuring Robert Gates, Condoleezza Rice and Madeleine Albright", McCloskey Speaker Series, 2014, <http://www.aspeninstitute.org/video/crisis-in-russia>

Stewart.¹⁷² In short, Euro-Atlantic leaders have come to the realization there is still a heavy dose of resentment and ambition running through the Kremlin's veins, and the Baltics are frontline countries for potential Russian aggression.

AMERICA'S 'ULTIMATE COMMITMENT'

In the wake of escalating crises, Washington has remained unshaken in its NATO commitments, clearly stating that it will not hesitate to use its sharp elbows in order to protect allies from external aggressors. In a highly anticipated speech in Estonia, addressing Baltic security concerns, the President of the United States, Barack Obama, solemnly declared: "If you ever ask again, who will come to help, you'll know the answer. The NATO Alliance, including the Armed Forces of the United States of America."¹⁷³ It is not unusual for high ranking US officials to make moving speeches and exchange friendly statements, and in most cases, apart from an expression of good will and compassion, they really do not mean that much. This however was something more than mere smiles and pats on the back. Obama's announcement at the Nordea Concert Hall, as described by the Atlantic magazine, was the 'ultimate commitment, given by the ultimate authority, in the very place where commitment would be tested - and would have to be honored'.¹⁷⁴ Shortly after, Washington backed these words with muscle – more aircraft patrols in the Baltic skies, US military personnel on the ground, and the formation of high-readiness brigades. All of this lends evidence that the United States takes Article 5 of the North Atlantic Treaty seriously, and is willing to resort to arms to enforce its claims.

For advocates of *realpolitik*, Obama's assurances to the Baltic nations raised eyebrows, and were described as overly extravagant, costly, and unnecessary. After all, what happens in Riga, Vilnius, and Tallinn has no direct impact on the lives of most Americans. Crisis situations in these places do not threaten the supply of critical US strategic resources. Writing for *The National Interest* on this very issue, one political commentator noted that, 'US policymakers have forgotten what the purpose should be of any US military alliance: to enhance the security of the

¹⁷² UK Parliament, 'The UK and NATO's capacity to respond', 2014, <http://www.publications.parliament.uk/pa/cm201415/cmselect/cmdfence/358/35807.htm#a14>

¹⁷³ B. Obama, 'Remarks by President Obama to the People of Estonia', *The White House*, 2014, <http://www.whitehouse.gov/the-press-office/2014/09/03/remarks-president-obama-people-estonia>

¹⁷⁴ D. Frum, "Obama Just Made the Ultimate Commitment to Eastern Europe", *The Atlantic*, 2014, <http://www.theatlantic.com/international/archive/2014/09/obama-commitment-eastern-europe-russia-nato/379581/2>

American republic.’ ‘The commitments to NATO’s easternmost members’, he continued, ‘threaten to do the opposite: greatly increase the risks to America for the most meagre possible benefits.’¹⁷⁵ Yet, despite this logic the United States for years has stood up for Balts, and warned the Kremlin that any attempt to destabilize these countries would trigger a joint military response. During a visit to Latvia, Victoria Nuland, US assistant secretary of state for European and Eurasian affairs, even went as far as suggesting that Americans are willing to give their own lives for the security of Baltic countries.¹⁷⁶ Given how hesitant the United States usually is about embracing international obligations, one must ask: How do we explain such American good will and ironclad security guarantees?

Surveying official speeches and diplomatic cables, one could end up with the feeling that the Baltics, from the perspective of US policymakers, deserves to be protected simply because they represent all the ‘right things’ – democracy, pluralism, freedom of speech, a market economy, and so on. While these factors certainly matter and have anchored the American-Baltic partnership, it is by itself not the underlying reason why Washington is ready to go to war over these territories. As Stephen Walt points out, one of the biggest myths about US foreign policy is that it is guided by moral concerns.¹⁷⁷ In foreign affairs interests and values rarely flow together, and at the end of the day the United States has acted as many other great powers have – from aiding brutal dictators to overthrowing democratically elected leaders, all in the name of “advancing self-interest”. To state the point, just because America is a democracy it does not automatically mean that it will blindly sacrifice its own blood and treasure to save a fellow democracy.

US foreign policy is driven by manifold factors, ranging from personalities, organized interests, economic considerations, and other pressures. Time and information constraints further affect the decision making process. That being said, there is one factor which has shaped US behavior in the international system unlike anything else - the fear of other great powers. Despite sitting behind vast oceans, commanding an impressive military and being largely self-sufficient, America has always been suspicious of countries that appear to challenge its hegemonic position. During the Cold War, America solidified its power position through NATO, which was created to counterbalance the Soviet Union. In 2004, when Latvia, Lithuania, and Estonia

¹⁷⁵ T.G. Carpenter, “Are the Baltic States Next?”, *The National Interest*, 2014, <http://nationalinterest.org/commentary/are-the-baltic-states-next-10103?page=2>

¹⁷⁶ P. Goble, “‘Americans are Prepared to Die for Latvia,’ Nuland Says”, *The Interpreter*, 2014, <http://www.interpretermag.com/americans-are-prepared-to-die-for-latvia-nuland-says>

¹⁷⁷ S.B.Glasser, “Mythbusters”, *Politico Magazine*, 2014, <http://www.politico.com/magazine/story/2014/01/myths-about-americas-role-in-the-world-102409.html#.UuZr77TLdrQ>

joined the Alliance they essentially became part of America's broader security architecture. It is through the institutional framework of NATO, which represents a united security body, that the United States is willing to protect the Baltic countries. When Washington looks at the Baltics, it does so through the magnifying glass of its own credibility and reputation. It sees the Baltics as the first dominos that no matter how small, simply cannot be allowed to fall. Turning a blind eye on Latvia, Lithuania, and Estonia was possible when they were sitting in the Euro-Atlantic waiting room with hopes of joining the world's strongest military organization. Today such abandonment would incur serious credibility costs to America and raise profound questions about its power position in the world.

Thomas Jefferson, one of America's founding fathers, during his inauguration speech declared: "Peace, commerce, and honest friendship with all nations, but entangling alliances with none." Jefferson would be surprised to know how dramatically his suggested policy course has come to be reversed. America has voluntarily entered quite a few 'entangling alliances', including the Baltic republics. People in Latvia, Lithuania, and Estonia should take pride in the fact they managed to capitalize on the historic opportunity of joining NATO, effectively erasing the previous Cold War lines. Moreover, they should also find certain comfort in the fact they are now allied with the most powerful nation in the world. That being said, Baltic decision makers should not forget that international security is a delicate flower needing constant attention and care.

BALTIC HOMEWORK: 2015

While 2014 showcased that the United States does take Baltic security seriously, Latvia, Lithuania, and Estonia cannot afford the luxury of being inactive. The partnership may appear as straight as an arrow today, almost naturally flowing, but without continuous effort and investment, that can easily bleed away. Past performance is no guarantee of future success. Having spent considerable time inside government walls, Henry Kissinger probably captures the nature of American promises best when he describes them as 'leaves on a turbulent sea'. 'No President-elect or his advisers,' Kissinger writes, 'can possibly know upon what shore they [promises] may finally be washed by storm of deadlines, ambiguous information, complex choices, and manifold pressures which descends upon all leaders of a great nation'.¹⁷⁸ Indeed, in a world rife with conflict and crises, no one really knows what the future holds. The United States faces pressing

¹⁷⁸ H. Kissinger, *White House years* (Little, Brown and Company, 1979).

issues in every corner of the globe and to remain relevant, Baltic policymakers have to be vocal, prudent, and persistent about the threats and needs of this region. The authoritative *Bloomberg News*, based on insights from foreign policy analysts and military experts, have flagged the Baltics as a potential geopolitical flashpoint in 2015.¹⁷⁹ In order to prove this prediction wrong and keep US-Baltic relations on a positive trajectory, a number of policy recommendations are advised as follows:

1) Avoid looking like a 'free-rider' or 'reckless driver'

Quarrels about NATO's budget and division of labor are as old as the alliance itself. During the past decade, an odd tradition has emerged where the outgoing US Secretary of Defense slams European allies for not putting their fair share into the budgetary basket. In 2011, when leaving office, Robert Gates issued a blunt warning to Europe: 'The reality is that there will be dwindling appetite and patience in the US Congress to expend increasingly precious funds on behalf of nations that are apparently unwilling to devote the necessary resources or make the necessary changes to be serious and capable partners in their own defense'.¹⁸⁰ With time, harsh words like these faded and Washington ended up subsidizing Europe generously. This time around, however, the situation is different. The transatlantic gap in spending may work during times of peace, but when conflict is raging at the EU's own doorstep, countries that do not live up to the 2 percent of gross domestic product on defense as previously agreed, simply appear as hypocrites. Madeleine Albright makes a valid point when she reminds us that 'NATO is not a charitable organization, but a functioning military alliance'.¹⁸¹ Unable to meet the GDP benchmark, the Baltics (Estonia is a positive exception here) increasingly appear as security consumers, and not providers. In strategic terms, boosting Baltic defense expenditures would still be 'small beans' compared to that of the military capabilities of the Russian Federation. But as a matter of principle, moving closer to the 2 percent defense line is something the Baltics need to address as a top priority.

'Reckless driving', a term coined by political scientist Barry Posen, is the other side of 'free riding', when American allies make decisions which run contrary to US national

¹⁷⁹ Bloomberg News, "A Pessimist's Guide to the World in 2015", 2014, <http://www.bloomberg.com/graphics/2015-flash-points/?hootPostID=1bf44c4c7dfefd887f53d51d7083bef7>

¹⁸⁰ T. Shanker, "Defense Secretary Warns NATO of 'Dim' Future", *The New York Times*, 2014, http://www.nytimes.com/2011/06/11/world/europe/11gates.html?_r=0

¹⁸¹ Aspen Institute, "The Crisis with Russia: Implications for the US and Europe featuring Robert Gates, Condoleezza Rice and Madeleine Albright", McCloskey Speaker Series, 2014, <http://www.aspeninstitute.org/video/crisis-in-russia>

interests.¹⁸² Since the re-emergence of the independent Baltic States in the 1990s they have done quite well avoiding this category. In fact, one of the main reasons why these nations continue to be so popular among US political elites is because of their responsible and stable behavior. Major powers like the United States value predictability in their strategic outlook, and the Baltics have been delivering such political predictability for a while now. As Russian provocations and propaganda efforts reach new heights, it can be challenging at times to hold on to democratic values and have faith in them. But this is exactly what the Baltics should do to appear as solid partners – stick to those core principles that have guided them so far.

2) Have a clear understanding of how to advance the Baltic agenda in a US-based system

Every nation has its own distinctive foreign policy bureaucracy, culture, and decision making structure. Understanding some of the nuances and interrelations of the American political system is important for the successful advancement of the Baltic agenda. US behavior in an international arena rests heavily on what happens in one particular city – Washington DC. While America theoretically functions ‘of the people, by the people, for the people’ in foreign affairs this is not necessarily true. The broader public is largely inattentive to international events and has little influence on foreign policy decisions. Baltic policymakers do not need to convince a housewife in Kansas City that Eastern Europe needs a protective American shoulder. Decisions regarding alliances and national security are made by a small group of policymakers inside the beltway. Identifying these key decision makers – top advisers and strategic thinkers – and understanding how they can be engaged with Baltic issues can make all the difference. US embassies in Riga, Vilnius, and Tallinn have served their purpose in bringing top American policymakers to the Baltic region. Such initiatives should be further encouraged.

In connection with the previous point, one should note that the balance of power in executing foreign policy has visibly shifted from Congress to the White House. Passionate speeches are often delivered on the Senate floor, with political sides fighting each other on issues, yet most of the ‘real’ decisions originate from the Oval Office. This is not to argue that Baltic lawmakers should refrain from engaging with Congress. They should certainly seek support for their cause, working both sides of the aisle – Democrats and Republicans. At the same time, we should be aware the real US foreign policy engine, especially in the post-9/11 era, is not Congress,

¹⁸² B. Posen, “Why American Restraint Makes Sense in a World Going to Hell”, Columbia University, 2014.

but the Office of the President. Given that Latvia, Lithuania, and Estonia have limited diplomatic and economic means, policymakers should have a clearheaded understanding of where to invest political capital across the Atlantic.

3) Strengthen ties with Baltic émigrés in the United States

Baltic émigrés in the United States have historically played an important role in shaping the path of the Baltic republics towards freedom and democracy. While on the surface lobby groups may seem to have symbolism but without much impact, upon closer inspection their positive influence cannot be denied. US presidents from George H. W. Bush to Bill Clinton, in their biographies, have acknowledged Baltic lobbies in Washington directly shaped their decisions, and understanding, about these countries. Because of the work of the Baltic-American Freedom Foundation, there is a steady stream of talented Latvians, Lithuanians, and Estonians moving to the US, often as students in top universities or interns at major institutions. They are a potential target group that can be utilized for diplomatic means. They are often happy to help out without any monetary assistance. Moreover, their understanding of the US political landscape and ability to communicate in English is at an advanced level. Having a support base where it is needed the most – the US capital, is important, and Baltic governments should work to nurture and encourage ties with émigrés.

4) Be receptive to issues of other NATO members

NATO is a peculiar institution in that it consists of diverse members located in Europe and North America. Because of this geographical diversity, nations do not necessarily share the same security concerns. For countries like the United States, Great Britain, and the Netherlands, so called ‘out of area’ threats are more important, whereas for Poland and the Baltics, NATO primarily serves as a deterrent for Russia. If the Baltic populations expect the West to patrol its skies and defend its borders, they cannot act as if other issues such as terrorism, piracy, and international drug routes are none of their business. The Baltics already have a good record of engagement in Kosovo, Iraq, and Afghanistan, and they should continue to undertake international missions far beyond their own borders. Apart from NATO’s military operations, Latvia in the first half of 2015 will hold the Presidency of the Council of the European Union. This is a unique opportunity to show Europe and America that the Baltics have a global mindset and are able to successfully carry international burdens. In short, there are plenty of opportunities for the Baltics just over the horizon, and it is up to policymakers to make the best out of them.

RUSSIAN STRATEGY AND BALTIC DEFENCE AFTER CRIMEA

By Eoin Micheál McNamara¹⁸³

Russia's March 2014 annexation of Crimea has left many doubts hanging over a European security order which had remained largely intact since the Helsinki Final Act in 1975. Having deviated sharply from the *status quo*; judgment is open as to the limits of Moscow's revisionist aspirations. While the position of the states of Central and Eastern Europe (CEE) within both the EU and NATO ensures that the region is not directly exposed to the unstable security dynamics of the post-Soviet area, the eastern edge of the transatlantic security community nonetheless represents both the EU's and NATO's frontline should Russia's revisionist aspirations extend towards a direct challenge of Western interests. This chapter will first trace the origins and characteristics of Russia's contemporary regional strategy, before later assessing the problems and prospects in the Baltic security and defence makeup considering the multi-faceted challenges posed by Russia's revisionism.

The chapter will first examine the core of Russian strategy as it attempts to firmly retain its preponderance over the post-Soviet area through the creation of circumstances that subvert Western efforts to influence the area immediately beyond the eastern borders of the transatlantic security community. The argument shall then be made that the subversion element of Russia's strategy defuses through to the CEE region, with Russia applying coercive tactics in an attempt to nullify the influence of these states in shaping EU and NATO policy

¹⁸³ Affiliations: University of Tartu and Latvian Institute of International Affairs. Analysis undertaken over a portion of section two and the final two sections of this chapter both draws and elaborates on other publications I have recently written, these include Eoin M. McNamara, "NATO Reassurances and Baltic Defence Cooperation: Getting the Balance Right", *European Leadership Network*, December 2 (2014) and Eoin M. McNamara, "The Baltic States: Agile Transatlantic Allies?" to be published in a forthcoming (at the time of writing) report from the Finnish Institute of International Affairs on Nordic-Baltic security.

towards the post-Soviet region. With Russia's coercive posture far from benign, the chapter's last two sections will examine the problems and prospects for the Baltic states – Estonia, Latvia and Lithuania – in adapting both their security and defence policies considering the strategic challenges posed by Russia's revisionist strategy. It is argued that there is significant space to improve both intra-CEE defence cooperation and Baltic societal security and thus alert flexibility should be expected from Baltic policy-makers. The chapter will conclude with a number of policy recommendations taking into account Latvia's EU presidency during the first-half of 2015.

THE REGIONAL ROOTS OF RUSSIAN REVISIONISM

As the post-Crimea dispute between the West and Russia has taken shape, underlying accusations have come to the fore from each side to the effect that one has been engaging in geopolitics at the expense of the other's security. In short, the conflict can be described as a classic security dilemma where one side believes itself to be acting in defence, while the other sees the move as aggression and vice-versa. While the past fifteen years have seen rapprochements attempted in the forms "re-sets" initiated by the US and "risky Westward turns" after September 11 2001 on the part of Moscow¹⁸⁴, the claim that Russia's threat perception has been building over a roughly parallel time-period should not come as much surprise. For instance, remarking on Russian actions in Crimea, one former Kremlin aide, Gleb Pavlovsky, is quoted as saying: "The fact that the operation was brilliantly implemented proves that the plan was created long ago and was kept at the General Staff's office for years".¹⁸⁵ Russia's perception of wider transatlantic events as they played out during the early 2000s was no doubt a key impetus for the development of its seemingly deep rooted regional strategy. The decision of the George W. Bush administration to withdraw the US from the Anti-Ballistic Missile (ABM) Treaty in 2002, the imminent prospect of NATO's first enlargement to the lands of the former Soviet Union with Baltic membership in 2004 and Russia's perception of EU and US support for pro-democracy movements during the era of post-Soviet "coloured revolutions" after 2003 as largely a form of zero-sum geopolitics together served to

¹⁸⁴ John O'Loughlin, Gearóid Ó Tuathail and Vladimir Kolossov, "A 'Risky Westward Turn'? Putin's 9–11 Script and Ordinary Russians", *Europe-Asia Studies*, 56 (1) (2004), 3–34.

¹⁸⁵ Yekaterina Kravtsova, "Observers Say Russia Had Crimea Plan for Years", *The Moscow Times*, March 27 (2014), <http://www.themoscowtimes.com/news/article/observers-say-russia-had-crimea-plan-for-years/496936.html>

build the Russian perspective that Western actors were to be treated with wariness rather than trust.¹⁸⁶

The fact that Russia was by far the weaker actor was well understood. The Kremlin's strategy was designed to play to Russia's strengths. In a great power system dominated by the US, as Washington-based analysts have previously attested, Russia nonetheless can still sever a considerable advantage due to its presence over a large swath of the earth's land mass through its historically embedded diplomatic networks among the states of post-Soviet Eurasia.¹⁸⁷ In this context, as if taking his cue from John Mearsheimer's variant of realist theory's "timeless wisdom", as the post-Soviet area once again came firmly back into focus during the early 2000s, Dmitri Trenin argues the long-established view among the Russian foreign policy elite that command over subservient satellite states in regions proximate serves as the foundation for Moscow as a global power centre as well as a barrier blocking the influence other great powers may wish to exert.¹⁸⁸

With the regime security of Vladimir Putin's administration particularly troubled by the prospect of contagion emanating from this series of "coloured revolutions", Thomas Ambrosio argues that a three-pronged strategy, designed to meet the challenge of these realities, was deployed in order to restore Russia's traditional regional imperatives. Bringing Russia's core strengths to the forefront, the strategy came in the form of "insulate, bolster, subvert". Insulating meant stopping internal challenges to regime security, this came through a clamp-down on foreign funded NGOs operating in Russia. Bolstering meant easing potential pressure on the authoritarian regimes that remained in the region. Thus, substantially discounted Russian energy supplied to Belarus and Central Asia was one means to ensure a reduction in the possibility that difficult social conditions in these states would be conducive to revolution. Finally, subversion was practiced against governments who had come to power through a "coloured revolution", but were still economically linked to Moscow. In Ukraine, pressure on Viktor Yushchenko's fledgling "orange" administration was intensified through a doubling of the price of natural gas, while the political fortunes of Yushchenko's Russian-favoured rival, Viktor Yanukovich, were revived through Russian support for him and his Party of Regions after

¹⁸⁶ Dimitri K. Simes, "Losing Russia: The Costs of Renewed Confrontation", *Foreign Affairs*, 86 (6) (2007), 44.

¹⁸⁷ Eugene B. Rumer and Celeste A. Wallander, "Russia: Power in Weakness?", *The Washington Quarterly*, 27 (1) (2003), 58.

¹⁸⁸ Dmitri Trenin, "Russia's Spheres of Influence, Not Interest", *The Washington Quarterly*, 32 (4) (2009), 4. For offensive realist theory, see John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton, 2001).

2005.¹⁸⁹ Yanukovich recovered remarkably and ascended to the Ukrainian presidency in 2010.

Moscow's push to create the Eurasian Union, argued as a mechanism to achieve geopolitical goals through economic policy can arguably be seen as an added contemporary evolution of this strategy.¹⁹⁰ The Eurasian Union initiative is evidently designed to both regionally project authoritarian norms as well as fully institutionalize Russian power with Moscow taking its place as the centre of regional dependence.¹⁹¹ As well as its deep historical linkage with Russia, Ukraine holds far greater economic potential compared to other candidates in line for Eurasian Union membership. Thus, Russia's region-building would gain little traction should Ukraine's absence be confirmed and hence the project's international credibility would be severely damaged. With an EU Association Agreement on offer after 2012, it has been argued that Ukraine became a "normative battleground" with simultaneous participation under both initiatives ruled-out due to economic incompatibility.¹⁹² The offerings of EU Association Agreements are naturally modest and are not indicative of a linear passage to full EU membership *per se*. The document's utmost value for Ukraine comes through the politically innocuous clauses detailing its place within a free-trade agreement.¹⁹³ Thus, while zero-sum competition may have taken place between the EU and Russia with respect to economic policy, following the protests in Kyiv and Yanukovich's eventual overthrow in February 2014, Russia's heavy-handed, yet prompt, response in seizing Crimea and fuelling a proxy war in eastern Ukraine was largely dictated

¹⁸⁹ Thomas Ambrosio, "Insulating Russia from a Colour Revolution: How the Kremlin Resists Regional Democratic Trends", *Democratization*, 14 (2) (2007), 232–252.

¹⁹⁰ Hannes Adomeit, "Putin's 'Eurasian Union': Russia's Integration Project and Policies on Post-Soviet Space", Neighborhood Policy Paper no. 4 (July, 2012), Istanbul: Kadir Has University.

¹⁹¹ The tendency of forming regional organizations in order to promote authoritarian norms has a precedent with some of the region's states members of the Shanghai Cooperation Organization (SCO), the design of which has been argued as fulfilling this function, see Thomas Ambrosio, "Catching the 'Shanghai Spirit': How the Shanghai Cooperation Organization Promotes Authoritarian Norms in Central Asia", *Europe-Asia Studies*, 60 (8) (2008), 1321–1344.

¹⁹² For discussion of Ukraine's construction as a "normative battleground" between the EU and Russia, see Rilka Dragneva and Kataryna Wolczuk "Russia, The Eurasian Customs Union and the EU: Cooperation, Stagnation or Rivalry?" Chatham House, Russia and Eurasia Programme Briefing Paper, 2012/1. For analysis on the incompatibility of Ukraine's choice in terms of free-trade options between an EU Association Agreement and the proposed Eurasian Union, see "EU Ukraine DCFTA vs. Eurasian Customs Union: Flexibilities on Technical Standards Implementation in Sight", *Borderlex*, August 29, 2014, <http://www.borderlex.eu/eu-ukraine-dcfta-vs-russia-sponsored-eurasian-customs-union-flexibilities-implementation-sight/>

¹⁹³ Anders Åslund, "Ukraine's Choice: European Association Agreement or Eurasian Union?", Peterson Institute for International Economics, Policy Brief 13–22 (2013), <http://www.iie.com/publications/pb/pb13-22.pdf>

by geopolitical thinking on its regional preponderance *vis-à-vis* its perception of Western influence. As Anton Barbashin has put it, “For Vladimir Putin – Ukraine is a zero-sum game. Either he wins and gets what he wants or nobody wins and Ukraine will remain an unstable, economically failing and decentralized state”.¹⁹⁴ Thus, whether one or the other outcome is achieved, it is difficult to expect that Western influence in the post-Soviet area will not be subverted.

RUSSIAN STRATEGY AND THE CEE REGION

Underscored by their NATO and EU accessions in 2004, the CEE states have long detached themselves from the direct consequences of Russia’s regional foreign policy. Nonetheless, the active stance taken by a number of CEE states in attempting to shape Western policy towards the Eastern Neighbourhood frequently added further tension to their already fraught relations with Moscow. While the Baltic states and Poland themselves perceived the leveraging of EU foreign policy in attempting to promote liberal values and economics immediately beyond their eastern borders as improving their regional security environment, Russia perceived these states as partially facilitating divisive geopolitics.

Whether this influence has been positive or negative is a question beyond this chapter, it can be said however that touches of geopolitical thinking in the Eastern Neighbourhood policy of some CEE states has been reported. For instance, Vadim Kononenko argues that Baltic activism with regard to EU policy was likely viewed by these states themselves as a means to reduce Russia’s influence in the region by stealth. Policy was undertaken under the logic that the closer the states of the post-Soviet area were political and economically linked to the EU, the less influential leverage Russia would have over them. For this reason and others such as Baltic determination to bring the deterioration of Russian democratic standards into wider EU-Russia relations, the Baltic states have often, over the past decade, been labelled as “trouble-makers” in Moscow.¹⁹⁵ Moreover, on the possibility of further NATO enlargement taking in Georgia and Ukraine, while a politically difficult task, Kęstutis Paulauskas has argued this prospect as preferential from a Baltic standpoint,

¹⁹⁴ Anton Barbashin, “A Eurasian Union No More”, *The National Interest*, April 23, 2014, <http://nationalinterest.org/feature/eurasian-union-no-more-10296>.

¹⁹⁵ Vadim Kononenko, “‘Normal Neighbours’ or ‘Troublemakers’? The Baltic States in the Context of Russia-EU Relations” in *The Estonian Foreign Policy Yearbook 2005*, ed. Andres Kasekamp (Tallinn: Estonian Foreign Policy Institute, 2005), 80–81.

as, if achieved, it would serve to “contain Russia within its own territory”, meaning it could not pursue an aggressive posture towards the states occupying its immediate hinterland.¹⁹⁶

Utilizing the Baltic states as a specific example, Viatcheslav Morozov points out that during times of deterioration in Russian-CEE relations, there has been a tendency on the part of Moscow to personify a number of CEE states as the “embodiment of false Europe”. States framed within this cohort are frequently accused of attempting to hinder the alternative European order which Russia seeks to promote.¹⁹⁷ These promotion efforts have unmistakably harboured the view that European security order ought to be defined by a concert of the continent’s great powers. A frustrated Russian view has thus routinely targeted the US as responsible for imposing Atlanticism as the exclusive passage towards European security at the expense of a more multi-polar approach standing to facilitate Russia’s presence as a prime actor in the region’s affairs.¹⁹⁸ Discussing the Western sanctions which followed Russia’s annexation of Crimea, Dmitri Trenin describes the Russian view of French and German conformity as largely enforced through “Atlantic discipline” rather than a representation of the genuine sentiments present within both states.¹⁹⁹ It is unlikely that this somewhat sympathetic Russian rhetoric applies with reference to the Baltic states and Poland. Together with their efforts in attempting to tilt EU foreign policy towards the influencing of greater Westernization in the post-Soviet area, these states are largely depicted as accomplices supporting a monopolized Atlanticist European security order, an order seen by Russia as designed to marginalize its influence.

In this sense, the subversive edge of the Russian strategy deployed in the post-Soviet area defuses through to the CEE region. With respect to the Baltic strategic environment, as Justyna Gotkowska argues, Russia’s revisionist strategy consists in attempts to foster uncertainty over the vitality of NATO’s collective defence in order to render the Baltic states obedient to Russian interests.²⁰⁰ Russia’s coercive

¹⁹⁶ Kęstutis Paulauskas, “The Baltic Quest to the West: From Total Defence to Smart Defence (and Back?)” in *Apprenticeship, Partnership, Membership: Twenty Years of Defence Development in the Baltic States*, ed. Tomas Jermalavičius and Tony Lawrence (Tallinn: International Centre for Defence Studies, 2013), 71.

¹⁹⁷ Viatcheslav Morozov, “Russia in the Baltic Sea Region: Desecuritization or Deregionalization?”, *Cooperation and Conflict*, 39 (3) (2004), 319–320.

¹⁹⁸ Mark Webber, “NATO: Within and Between European International Society”, *Journal of European Integration*, 33 (2) (2011), 150.

¹⁹⁹ Dmitri Trenin, “The End of Consensus: What Does Europe Want From Russia”, *Eurasia Outlook* (Carnegie Moscow Center, December 15, 2014), <http://carnegie.ru/eurasiaoutlook/?fa=57511>

²⁰⁰ Justyna Gotkowska, “Russia’s Game in the Baltic Sea Region: A Polish Perspective”, *Commentary: European Council on Foreign Relations*, December 16, 2014, http://www.ecfr.eu/article/commentary_russias_game_in_the_baltic_sea_region_a_polish_perspective381

posture comes through a package of measures including the precedent of its concealed interventions and sponsorship of social destabilization in Crimea and eastern Ukraine, its frequent violation of airspace in central and northern Europe and the release of thinly-veiled threats of military force.²⁰¹ One prime purpose of these endeavours is undoubtedly the attempt to coerce a number of CEE states into ceasing the diplomacy that promotes the potential for NATO and EU policy to Westernize the post-Soviet area and thus hinder the Russian-centric promotion of authoritarian norms in its immediate region.

Attempting to implement this strategy, Russia acknowledges that it is the materially weaker actor with respect to, in this instance, overlapping Western security institutions in the form of the EU and NATO. In choosing its tactics accordingly, the Kremlin plays to its strengths in attempting to maximize the coercive effect of its actions. With a number connected to the CEE region, Russia's position has been argued as targeting narrow points of European and transatlantic difficulty which, if agitated, can nonetheless trouble the collective security posture of both institutions.²⁰² It has been argued that Russian influence within the wider European fold, particularly in relation to Germany, has been used in attempts to nullify CEE influence within the transatlantic security community and thus foster regional insecurity through a sense of isolation. This effect has been cited in the decision of Polish Prime Minister, Ewa Kopacz, to remove Radosław Sikorski as Polish foreign minister. Sikorski's anti-Russian stance, amplified in the wake of the Ukraine crisis, was not shared by a number of other EU member states, with the Polish position therefore argued as becoming increasingly isolated.²⁰³

If this strategy continues to have an effect, Russia is not just encouraged in its attempts to dent CEE influence, but to also persevere with the same tactics in order to weaken the EU and NATO in their broadest form. This is particularly the case with respect to the credibility of NATO's Article 5, should Russia veil itself under "strategic ambiguity" and deploy hybrid tactics against the Baltic states as a test of the vitality of NATO's collective deterrent. In discussing how the CEE states can counteract these Russian tactics, the argument has been made that some CEE states

²⁰¹ Vladimir Putin is quoted to have told Petro Poroshenko the following, "If I wanted, in two days I could have Russian troops not only in Kiev, but also in Riga, Vilnius, Tallinn, Warsaw, and Bucharest", see "Could Putin's troops 'be in Warsaw in two days'?", *EU Observer*, September 30, 2014, <http://euobserver.com/defence/125807>

²⁰² Matthew Kaminski, "Putin Has Exposed Europe's Cracks", *The Wall Street Journal*, June 16, 2014, <http://www.wsj.com/articles/putin-has-exposed-europes-cracks-1402950676>.

²⁰³ Jackson Diehl, "Eastern Europeans are Bowing to Putin's Power", *The Washington Post*, October 12, 2014, http://www.washingtonpost.com/opinions/jackson-diehl-eastern-europeans-are-bowing-to-putins-power/2014/10/12/2adbf4c2-4fd0-11e4-babe-e91da079cb8a_story.html.

prefer a narrower territorially-orientated focus on “defence” in preference to the broader Western-favoured concept of “security”.²⁰⁴ This might have been the case, however, Russia’s current strategic posture which matches externally sponsored social destabilization and hybrid warfare with conventional military intimidation requires counteraction utilizing both concepts in order to create a deterrence strategy capable of filling the societal and military vacuums the Kremlin may wish to exploit in its strategy towards the Baltic states. Hence, having outlined the political origins and prime threats posed by Russia’s regional strategy, this chapter will now proceed to assess the problems, prospects and potential solutions for the Baltic security and defence establishments as they attempt to enhance their resilience in light of Russian revisionism.

DEFENCE AND DETERRENCE

With transatlantic security provision a multifaceted endeavour, various divisions-of-labour have previously been discussed in relation to European security and defence institutions. A division-of-labour has been argued with reference to the EU’s Security and Defence Policy (ESDP) and NATO, with the latter largely involved with peacekeeping and stabilization around the EU’s hinterland, while the former has been dually engaged with more distant out-of-area operations where heavier combat is required while also pursuing military diplomacy in Europe, once providing Security Sector Reform (SSR) to the CEE states before ultimately taking them under the transatlantic security umbrella.²⁰⁵ Meanwhile, others have discussed politico-military capability variations between European states and the US, whereby NATO’s comprehensive approach for out-of-area operations is satisfied by the Europeans largely pursuing civilian-orientated crisis management tasks on one side, while the US predominantly provides the hard combat capabilities crucially required on the other side.²⁰⁶ Building on this literature, a further application of the division-of-labour concept should be thought of in relation to CEE security in light of Russia’s strategic posture post-Crimea. As this section and the next will demonstrate, in order to bolt

²⁰⁴ Marko Lehti, “Protégé or Go-Between? The Role of the Baltic States after 9/11 in EU–US Relations”, *Journal of Baltic Studies*, 38 (2) (2007), 132–133.

²⁰⁵ Richard Whitman, “NATO, the EU and ESDP: an Emerging Division of Labour?”, *Contemporary Security Policy*, 25 (3) (2004), 448–449.

²⁰⁶ Andrea Locatelli and Michele Testoni, “Intra-Allied Competition and Alliance Durability: The Case for Promoting a Division of Labour Among NATO Allies”, *European Security*, 18 (3) (2009), 357–358.

the door on the utility of the tactics Russia may wish to deploy, a balanced division-of-labor integrating both NATO's collective deterrence measures with defence and security solutions produced by the states of the CEE region themselves is required for the region's security to be comprehensively resilient.

In terms of the resources provided collectively by NATO, this side of the division-of-labour was initiated in earnest at the alliance's Wales Summit in September 2014 through its "flexible and scalable" security assurances for the east. Agreed to both assure CEE allies and deter Russian aggression, NATO's package of deterrence / assurance measures includes the creation of a 4,000-strong Very High Readiness Joint Task Force (VJTF) deployable in 48 hours, prepositioning of defense supplies and improved hosting capabilities within the CEE region, increased NATO visibility on CEE territory through more frequent training exercises and enhanced air and naval monitoring of potential flashpoints.²⁰⁷ Moreover, as the VJTF will not be fully operational until 2016, an "interim spearhead force" consisting of a brigade of Dutch, German and Norwegian troops will be in operation from January 2015.²⁰⁸

In terms of the region's ability to further enhance these measures and their own security through increased military pooling, specialization and interoperability promoted under the "smart defence" approach to NATO's development,²⁰⁹ a number of significant difficulties can be identified. Taking a Baltic-centric view, a weakness of the "smart defense" concept is that it is molded around the thinking of the transatlantic security community's liberal core while partially blind to the far more realist CEE periphery.²¹⁰ In this sense, the region suffers from a cooperative security dilemma in a number of areas. For "smart defence" to be implemented successfully, an evident trust needs to exist between allies. With territorial violation out of the question for the states of the security community's liberal core, this high-trust environment enables the prospect of exchanges where small Western European militaries can delegate capabilities to partner allies while then developing their specific specializations. With this degree of trust significantly lower within the CEE region, the prospects for inter-Baltic defence cooperation developing in this manner are not significant. The trust gap is largely driven by significant disparity in defense

²⁰⁷ Louisa Brooke-Holland and Claire Mills, "NATO Wales Summit 2014: Outcomes", House of Commons Library, September 12 (2014), <http://www.parliament.uk/business/publications/research/briefing-papers/SN06981/nato-wales-summit-2014-outcomes/>

²⁰⁸ Michael R. Gordon, "Nimble New NATO Force to Take Form Next Year", *The New York Times*, December 12, 2014, http://www.nytimes.com/2014/12/03/world/europe/nato-to-create-interim-rapid-response-force-to-counter-russia.html?_r=0

²⁰⁹ Bastian Giegerich, "NATO's Smart Defence: Who's Buying?", *Survival*, 54 (3) (2012), 70.

²¹⁰ James M. Goldgeier and Micheal McFaul, "The Liberal Core and the Realist Periphery in Europe", *Perspectives on European Politics and Society*, 2 (1) (2001), 1–26.

expenditure, on 2013 figures, Estonia meets the NATO required 2% of GDP on defense while Latvia and Lithuania lag well behind at 0.9% and 0.8% respectively. Hence, in terms of inter-Baltic “smart defence”, this spending gap is then translated into a trust gap with Estonia’s defence policy establishment prospectively holding little confidence in any proposed system where they rely on their southern neighbors’ ability to invest in delegated defense capabilities.

Regarding wider regional defence cooperation, there are options for the Baltic states both to the south and north. In terms of the former, as the largest NATO ally within the CEE region possessing an impressive defence investment track-record, the prospect of Poland assuming the mantle of a regional defence hub within NATO is based on a solid foundation. Predominantly through its central role as a key contingency actor within NATO’s “Eagle Guardian” plan for the region’s defence, Warsaw holds a major stake in Baltic security. However, from the Baltic perspective, while a strong Poland is certainly welcome, insecurity, albeit mild, remains under a scenario that projects Polish-Baltic defence cooperation as operating satisfactorily, prompting possible unease that NATO’s major powers such as the US, the UK and France may not invest as much in CEE security as they otherwise might. With the optimum involvement of the aforementioned actors deemed indispensable for Baltic defence, there is a risk that regional defence cooperation could be dis-incentivized and relegated to a lower priority as a consequence. For such scenarios to be averted and CEE defence cooperation to be as comprehensive as possible, a specific division-of-labour needs to take shape whereby NATO’s major powers provide the assurances pledging that they will remain firmly involved in CEE defence over the long-term while simultaneously providing tangible encouragement for enhanced intra-CEE defence cooperation.

As Henrik Breitenbauch outlines, should Nordic-Baltic security cooperation extend to Poland, a number of benefits standing to enhance the interoperability required for collective security around the Baltic Sea rim stand to be gained. This comes through “downstream” options whereby the Baltic, Polish and Nordic militaries can hone their interoperability through operations undertaken in third countries, most prominently under EU or NATO-led out-of-area operations as well as through “upstream” cooperation adjusted to contemporary threat perceptions through better cooperative integration in defense planning, pooling of military training facilities as well as through professional military education.²¹¹ Greater Nordic-Baltic

²¹¹ Henrik Breitenbauch, “Strengthening Nordic-Baltic Defense Capabilities: Open NORDEFCO to the Baltic States” in *Advancing U.S.-Nordic-Baltic Security Cooperation*, eds. Daniel S. Hamilton, Andras Simonyi and Debra L. Cagan (Baltimore MD: Johns Hopkins University Press, 2014), 146–147.

defence cooperation also grants Finland and Sweden, as non-NATO members, the opportunity to avail of the astute consultancy of the Baltic policy-makers who have been NATO insiders in order to fine-tune their already high degree of interoperability with the alliance. Nevertheless, as a word of caution, pursuit of enhanced cooperation with Nordic defence establishments should be a collective endeavour for the three Baltic states.

As a possible problem, albeit slight, from the Estonian perspective, there is a tendency to advocate Nordic cooperation based on arguments towards a shared social identity as much as the geostrategic realities of defence policy.²¹² Hence, if not pursued collectively from the Baltic side, Estonia's continued re-balancing northward could bring the repercussion of Lithuanian concentrating on Poland as its prime defence partner; this would leave Latvia perhaps disjointed in terms of immediate defence partners and thus exposed. While confined to the economic and societal security sectors, for those seeing Latvia as perhaps the most exposed among the Balts to Russian leverage,²¹³ such a scenario would be problematic for all three Baltic states given the geographic underpinnings of their security interdependence. Thus, to bring this section to a close, it can be said that with NATO's assurance package in place, and while the Baltic states have at their disposal still underdeveloped, yet worthwhile regional defense partnerships, clever political initiative is nevertheless required to ensure that the problematic issues surrounding intra-CEE and Nordic-Baltic defence cooperation are astutely overcome.

SOCIAL COHESION: CHALLENGES OF RISK REDUCTION IN 2015 AND BEYOND

The issue of security by way of social cohesion is most pressing for Estonia and Latvia. Both hold Russian speaking minorities of approximately 25% within their borders. A largely misleading discourse, sometimes popular within the Western media, posits ethno-linguistic minorities in both states largely as a uniform bloc open to persuasion

²¹² Sven Sakkov, "Towards Nordic-Baltic Defence Cooperation: A View From Estonia" in *Northern Security and Global Politics: Nordic-Baltic Strategic Influence in a Post-Unipolar World*, eds. Ann-Sofie Dahl and Pauli Järvenpää (Abingdon: Routledge, 2013), 155–169.

²¹³ For discussion of this see the opening paragraphs of Andris Sprūds, "Entrapment in the Discourse of Danger? Latvian-Russian Interaction in the Context of European Integration" in *Identity and Foreign Policy. Baltic- Russian Relations and European Integration*, eds. Piret Ehin and Eiki Berg (Farnham: Ashgate, 2009).

from either Russian propaganda or titular influences.²¹⁴ This perspective neglects a number of crucial nuances. Firstly, membership of an ethno-linguistic minority on its own should never be insinuated as an indicator of disloyalty towards the state within which the minority resides. Counter to the “collective mindset” assumption, the integration levels come in different shades across the minority groups, with some fully fledged bi-lingual participants in Estonian or Latvian society, while, on the flip side, others find themselves largely disconnected from the titular societal group as either Russian or non-citizens. In Estonia, 54% of Russian speakers hold the country’s citizenship, while others remain less integrated.²¹⁵ Russian speaking “non-citizens” are frequently perceived as those most disenfranchised within the ethno-linguistic group, with just over 13% and 7% of the Latvian and Estonian populations respectively holding the status of “non-citizen”. Those holding Russian citizenship but residing in either state is 4% in Latvia and 7% in Estonia.

However, even the situation with “non-citizens” is more complicated than it appears at first glance. “Non-citizen” status is far less restrictive in terms of visa-free travel to Russia compared to Estonian citizenship. Thus, neither is it a clear-cut indicator of non-integration, as those holding this status may wish to retain it in order to avail of an arrangement perceived as advantageous. Furthermore, those within this bracket are cited to rarely seek permanent relocation to Russia.²¹⁶ Finally, the Baltic Russian ethno-linguistic group has undergone a different identity formation process since the Soviet Union’s collapse compared to most of the citizens of the Russian Federation. During the early 1990s, affinity towards a nostalgic Soviet identity may, in some quarters, have been stronger than one towards Russia. Many also considered themselves of Belarusian or Ukrainian identity.²¹⁷ While Russian influence through media and cross-border interactions has no doubt played a strong role since, Baltic Russian identity has also been partially crafted through engagement with the titular groups in both states. Therefore, there is a strong case to argue that many within the Baltic Russian ethno-linguistic minorities are not necessarily of the same mindset compared those that consolidate Vladimir Putin’s support base in the Russian Federation.²¹⁸

²¹⁴ For an essence of this rhetoric, see Richard Milne, “Spotlight Shifts to Estonian Town if Russia Tests NATO’s Mettle”, *The Financial Times*, April 11 (2014), <http://www.ft.com/cms/s/0/9f829192-c07d-11e3-8578-00144feabdc0.html#axzz3KB2msKQS>

²¹⁵ Martin Ehala, “Russian Minority in Estonia After Crimea”, *Aspen Review: Central Europe*, No. 2 (2014), 47.

²¹⁶ Ott Tammik, “Number of Grey Passport Holders Falls Below 100,000”, *Eesti Rahvusringhääling*, 24 April 2011, <http://news.err.ee/v/759a6f74-c555-4f4a-90e4-5f57ad5b921a>.

²¹⁷ Ammon Cheskin, “Identity and Integration of Russian Speakers in the Baltic States: A Framework for Analysis”, *Ethnopolitics*, 14 (1) (2015), 73–74.

²¹⁸ Tom Balmforth, “Russians of Narva not Seeking ‘Liberation’ by Moscow”, *Radio Free Europe / Radio Liberty*, 4 April 2014, <http://www.rferl.org/content/russia-estonia-not-crimea/25321328.html>.

While the aforementioned complications grant scepticism to the view that Baltic Russian speakers can be readily geopolitically leveraged by the Kremlin in order to subvert Estonian or Latvian security through social destabilization, security risks potentially arising from the divided social composition in both states nonetheless remain. Risks concerning Latvia have been argued to have both an urban and rural basis. As Andis Kudors argues, Moscow's financing of some pro-Russian NGOs operating in Latvia such as *Russkiy Mir* and its promotion of alternative narratives of the country's history through the media continues to instill a divide between Russian and Latvian speaking citizens. Moreover, the position of the Harmony Party (formally Harmony Centre) in heading Riga's city-government is a cause for concern in light of its connections to the United Russia Party; suspicions have been aired regarding latent support from United Russia to Harmony in the form of financial injections and Russian-styled political capacity-building.²¹⁹ Meanwhile, in outlining the potential threats delivered by Russian utilization of information warfare, Jānis Bērziņš argues the economic model currently pursued by Latvia as leaving rural gaps open for potential Russian exploitation, outlining that Latvia's core sectors of economic activity: real-estate, transit and financial services are largely concentrated on Riga while rurally based economic activity remains underdeveloped. Bērziņš underlines the negative connections often drawn between individual economic insecurity and loyalty to the state.²²⁰ Hence, a more inclusive economic model satisfying both urban and rural dwellers is likely required to further reduce risks and enhance Latvia's social cohesion.

Moving to the connections between Estonian party-politics and issues of social cohesion, as Benjamin Reilly argues, political parties operating within divided societies can frequently attempt to utilize "the nationalist card" in attempting to maximize their share of the vote within the bounds of a particular ethnic group. If seen to be successful, this can encourage competition between political parties through escalating rhetoric as two or more attempt to demonstrate their nationalist credentials, thus leading their position on inter-ethnic issues to become dangerously hard-line.²²¹ This effect was seen in the led-up to Estonia's Bronze Soldier crisis in 2007, where the Reform Party (liberal) and the Pro Patria and Res Publica Union (conservative) jostled for the ethnic Estonian segment of the electorate before the

²¹⁹ Andis Kudors, "Russian Soft Power and Non-Military Influence: The View from Latvia" in *Tools of Destabilization: Russian Soft Power and Non-Military Influence in the Baltic States*, ed. Mike Winnerstig (Stockholm: Swedish Defence Research Agency, 2014), 71–112.

²²⁰ Jānis Bērziņš, "Russia's New Generation Warfare in Ukraine: Implications for Latvian Defense Policy", Latvian National Defence Academy, Policy Paper No. 2 (2014), 10.

²²¹ Benjamin Reilly, "Political Engineering and Party Politics in Conflict-Prone Societies", *Democratization*, 13 (5) (2006), 812.

March 2007 general election. This competition brought the Reform Party's perilous promise that, should they be elected, the Bronze statue would be moved before that year's May 9 commemoration which had emerged as an uneasy spectacle of inter-ethnic tension in central Tallinn during the years immediately previous. With the restoration of Estonian independence in 1991 ushering in an intense era of near constant reform, Tõnis Saarts has argued one of the crisis' underlying causes as the promulgation of a political culture conducive to a style of politics where the majority force through decisions while seeing little importance in consultation with other stakeholders.²²² While the two nights of rioting which took law enforcement in central Tallinn to a point of strenuous difficulty in April 2007 have not since been repeated, as the wider geopolitical situation changes, these events should nonetheless act as a warning.

This culture of majoritarian politics comes in stark contrast to those advocating a more comprehensive approach to national security. While difficult to achieve given the competitive realities of democratic politics, the encouragement of a "culture of continuous dialogue and compromise" is nonetheless recommended to foster resilience through social cohesion.²²³ Hence, disconnection brought through the lack of consultation with the wider socio-political environment potentially leaves vacuums facilitating opportunities for externally sponsored social agitation. In this context, points of disconnect between the Russian speaking minority and wider Estonian politics should be a cause for concern. With the party having the largest input into Estonia's governance over the past decade perhaps perceiving the exercise as futile, a prominent example of a socio-political disconnect comes through the decision of the Reform Party to not run an electoral list in any towns of the predominantly Russian speaking East-Viru County during the autumn 2013 Estonian local elections.

Linking this to the wider post-Crimea strategic environment, given the Russian penchant for intervention under the veil of protecting its diaspora in the post-Soviet area, Baltic membership of larger international organizations such as the EU and NATO has been previously argued as crucial in preventing Russian attempts to intervene more heavily in Baltic domestic affairs given the different forms of economic and military deterrence that both actors combined can project towards

²²² Tõnis Saarts, "The Bronze Nights: The Failure of Forced Europeanization and the Birth of Nationalist Defensive Democracy in Estonia", *Eurozine*, October 10 (2008), <http://www.eurozine.com/articles/2008-10-10-saarts-en.html>

²²³ Tomas Jermalavičius, Piret Pernik, Martin Hurt with Henrik Breitenbauch and Pauli Järvenpää (eds.) *Comprehensive Security and Integrated Defence: Challenges of Implementing Whole-of-Government and Whole-of-Society Approaches* (Tallinn: International Centre for Defence Studies, 2014), 13.

Moscow.²²⁴ However, given Russia's posture towards Ukraine, provocative actions such as increased airspace violations in the Baltic Sea region and increasingly coercive rhetoric towards many CEE states, there is significant room to doubt whether Russia will remain the *status quo* power in the Baltic Sea region that it most likely was, at least temporarily, in 2007. Instead, if the opportunity presents itself, a revisionist strategy aiming to exploit the cracks in Baltic social cohesion and thus test the mettle of NATO's security guarantees exists as a risk to transatlantic security. As this section has explained, Moscow does not have as much leverage over Baltic Russian speakers as might appear at first glance. Nevertheless, as both the Estonian and Latvian cases have illustrated, some established political and economic tendencies can perhaps maintain the risk of leaving loopholes open for externally-sponsored social destabilization. Hence, security policy adaptation in light of emerging geopolitical challenges should prompt greater flexibility in terms of both domestic and foreign policy responses.

CONCLUSIONS AND RECOMMENDATIONS

This chapter outlined the motives upon which Russia's contemporary regional strategy is based. While Moscow's primary hegemonic focus concerns the states of the post-Soviet area, the Kremlin's subversion strategy does defuse into its relations with the CEE states. With CEE states such as the Baltic states and Poland attaining NATO and EU membership in 2004, they promptly began their efforts to influence an increase in EU and NATO policy striving to promote greater Westernization of the post-Soviet area. For Russia, these actions largely marked many CEE states out as problematic facilitators of Western initiatives perceived as attempting to both reduce Russia's preponderance over the post-Soviet area and relegate Moscow to a position of marginal influence within what it perceived as an increasingly Atlanticist European security order. Hence, as the Russian revisionist strategy strongly highlighted through its annexation of Crimea in March 2014 shows little sign of abating, with the Baltic states chief among them, the CEE states can likely expect further Russian subversion efforts aimed at nullifying their influence as the EU's foreign policy is inter-governmentally bargained. Considering the plausible prospect of escalated Russian coercion towards the CEE region, this chapter later proceeded to assess the prospects, problems and possible solutions for the Baltic defence establishments in particular as each state attempts to build its resilience towards Russia's multi-faceted strategy.

²²⁴ Hiski Haukkala, "A Close Encounter of The Worst Kind? The Logic of Situated Actors and the Statue Crisis Between Estonia and Russia", *Journal of Baltic Studies*, 40 (2) (2009): 208.

In this context, a division-of-labour encapsulating NATO's collectively generated security provision on one side and the security initiatives taken by the CEE states themselves on the other was argued as essential for shutting the vacuums in the region's security configuration which Russia may wish to exploit. In terms of the military-orientated "defence" dimension, it was argued that a number of problems persist in terms of greater defence cooperation between some of the region's states. With the effect prominent in the Baltic context, this is due to a lack of trust in each other's military development. While opportunities likely exist for the Balts to engage in quality defence cooperation with the Nordic states, this is largely supplementary as NATO provides the prime framework with the potential to ensure the stability required for more effective intra-CEE defence cooperation. With this chapter's focus on the wider "security" dimension largely centred on the prospects for enhanced social cohesion in both Estonia and Latvia, it was argued that while the severity of the situation should not be over-exaggerated risks nevertheless persist. Highlighted from the Latvian context was the penetration by Russian media as a factor partially serving to foster a continuing divide between the country's Russian and Latvian speakers as well as economic inequality being a likely hindrance undermining social cohesion. In the Estonian context, an engrained majoritarian-styled political culture hypothesized as facilitating little space for the wider societal consultation required to govern a divided society more cohesively was examined. It was argued that the sharply competitive realities of democratic politics will render this trend difficult to reverse. Thus, with many of the aforementioned aspects requiring adaptation in order to meet the challenges of Russia's revisionism, containing this threat will require a continued flexible alertness from Baltic policy-makers.

Drawing five policy recommendations for Latvia for 2015 based on this analysis:

1. Latvia's EU presidency during the first half of 2015 should incorporate the goal of strongly and repeatedly raising awareness of Russia's continued attempts to divide EU member states and thus weaken the EU's collective foreign policy influence. In this respect, successful persuasion stands to help both the Latvian and CEE positions towards Russia gain greater influence as EU foreign policy is formed in future. While Latvia should be seen to promote a more unified EU foreign policy over a range of issues, Riga should nonetheless articulate Russia's revisionist strategy as well as the Baltic position to a number of Western European member states which may not always see post-Soviet affairs with a similar level of urgency;
2. As Finland and Sweden are EU members but not NATO members, Latvian decision-makers might consider efforts to build greater security and defence links through EU initiatives in parallel to NATO. As this chapter has outlined, for Nordic-Baltic defence cooperation to be as comprehensive as possible, it

requires the firm commitment of all Baltic and Nordic states. With the exception of Norway, all participating under Nordic-Baltic initiatives are EU member states, hence defence cooperation under an EU banner comes without the political difficulties that some quarters of the Finnish and Swedish political elite might have were cooperation to otherwise take place within a wholly NATO-led setting. Latvian encouragement for conducting matters under the EU banner would still nevertheless grant potential to gain the unchanging objective of Nordic-Baltic cooperation which is to enhance defensive interoperability in the Baltic sea region;

3. While difficult, Latvia should make attempts to increase its defense spending beyond what is already planned before 2020. Latvia should also try to implement better defence diplomacy in order to foster improved confidence in common defence initiatives between itself and its Baltic neighbours. This should be pursued with the vision of greater capability sharing among the Baltic militaries as the future develops;
4. Given the rural difficulties faced by the Latvian economy and the risks to security through social cohesion posed by this, Latvia's leaders should use the opportunity of its EU presidency to seek greater funding and consultancy that may assist enhanced rural development through the various EU schemes available for this purpose;
5. In terms of inter-ethnic relations within Baltic societies, Latvia should work closely with its Baltic neighbours at both the trilateral and EU levels as the Baltic states attempt to achieve better pan-Baltic media options available through the Russian language. The development of which will stand to offer competition against the problematic influence of Moscow's soft power in the Baltic Sea region.

LATVIA AND THE EASTERN PARTNERSHIP: MOVING TOWARDS 2015 SLOWLY BUT SURELY

By Diana Potjomkina

The Eastern Partnership (EaP) has long been declared a priority of Latvian foreign policy, but in recent years Riga has been moving from making declarations to practical actions. This has been especially notable through 2014, when Latvian policy-makers had to deepen their strategic and tactical thinking in order to prepare for the upcoming EU presidency, and develop a clear offer for the upcoming Riga Eastern Partnership summit. The EaP is one of the main presidency priorities, and although bilateral interests were not forgotten, the presidency for Latvia is a cherished possibility to raise their profile within and outside the EU. Thus, it should be first noted that Latvia actively raised EaP issues in multilateral and bilateral discussions with EU states and other Western partners like the US and Japan.²²⁵ Second, the year 2014 – especially in its last months – saw an unprecedented number of visits and discussions on the future of the Partnership with Eastern Partners themselves.

This chapter begins with a very brief overview of Latvia's policy towards the Eastern Partnership states, including priorities outlined in the last Foreign Minister's Annual Report to the Saeima [Parliament] in January 2014. Then, it goes on to discuss Latvia's 2014 approach to the EaP as a whole, its six member states individually, and plans for the upcoming EU presidency. It concludes with some recommendations.

²²⁵ Evidently because Japan was active in the Ukrainian crisis.

LATVIA'S POLICY TOWARDS THE EASTERN PARTNERSHIP: SOME GENERAL OBSERVATIONS

The EaP is certainly a major foreign policy priority for Latvia, but the actual policy towards the Eastern Partnership is more complicated than one would think at first sight. I have addressed some particulars at more length in my previous work,²²⁶ but here it suffices to say, Latvian policy-makers face multiple strategic and tactical possibilities that are supported by multiple domestic and external players.

On the strategic level there are two main options – the first, the one that has been adopted at an official level, is to develop an active and supportive policy towards the region, trying to maintain close ties bilaterally and to “tie” it to the EU. Arguments behind this approach include the idealistic desire to promote “Western values” and well-being in the region, supporting the Neighbours on their path of Euro-Atlantic integration like Latvia itself was supported in the 1990s; the wish to ensure Latvia’s security by creating a belt of pro-European border states that would serve as a barrier against possible Russian expansion; and the desire to increase prosperity and stability in the region so Latvia can safely expand human and economic links with EaP states. The second option is to keep a low profile in the region, not stressing the need for democratic reforms and Euro-Atlantic integration of the Neighbours, and focusing, at best, on economic cooperation and other “low politics” issues. The latter view is unthinkable for the current Latvian government but still advocated by some pro-Russian players, corroborated by Russia’s own pressure, and highly desirable for such non-reformers as Belarus and Azerbaijan.

On a tactical level, the range of possibilities is even greater. As will be seen further on, the current Latvian government has chosen to develop close political links with all EaP states, including the less pro-European Armenia, Azerbaijan, and Belarus; to promote economic cooperation and cooperation on an administrative level, again with all six EaP countries; and to harness EU resources. Latvia is still idealistic and believes that closer *integration* with the EU should only be made possible for states that advance well in reforms²²⁷; however, Latvia is against turning “more for more” into “less for less”, namely, it believes that EaP-EU *cooperation* on issues of mutual interest should continue under all circumstances. The aim is to offer an alternative to Russian influence, to not engage in a geopolitical fight over the Neighbourhood – one could say that Latvian policy-makers think in “soft” geopolitical terms. To some extent, these tactics are dictated by Latvia’s narrow “national” interests – for

²²⁶ See e.g. “Latvia’s Turn to Take the Lead”, *New Eastern Europe*, January–February 2015.

²²⁷ Ārlietu ministra ikgadējais ziņojums par paveikto un iecerēto darbību valsts ārpolitikā un Eiropas Savienības jautājumos (2014).

instance, the government is careful about criticizing Belarus, lest transit should suffer. However, in principle, this policy is based on a more fundamental belief that the EU should not turn its back on under-performers and cut all ties, keeping them from moving even further away from Europe. The reason is that Latvian policy-makers tend to focus on the importance of external factors – both EU and Russian policies – and believe Eastern Partners must be able to decide for themselves, but should not be left completely to themselves. In contrast, some previous governments acted within the first, EU-centric strategy but pursued different tactics: more “hawkish” geopolitics, stricter criticism, and less contacts with human rights violators like Belarus. Meanwhile, the supporters of the “low politics” strategy tend to prefer bilateral relations between Latvia and EaP states to multilateral ones (using the EU format). Some of them tend to support close cooperation with all regimes as long as it is profitable, while others believe that for Latvia, cooperation with all “post-Soviet” states is natural; others downscale the importance of the region altogether.

LATVIA’S POLICY TOWARDS THE EAP IN 2014: PLANS AND REALITIES

The Foreign Minister’s Annual Report to the Parliament, published in January 2014, went in line with the general Latvian strategy and tactics described above: close engagement and practical cooperation with EaP states. Although the Presidency programme will only be published on 2 January 2015, it was known already in 2013 that the EaP will be a high priority for the Latvian EU Presidency (the agreement on organizing the next summit in Riga was also reached back then), so the bulk of the 2014 report section on the EaP was dedicated to Latvia’s policy within the European Union. In line with the general principles outlined above, the MFA highlighted the need for closer EU engagement and support; the unacceptability of third countries’ (read: Russia’s) pressure; the importance for Ukraine to continue with its Euro-Atlantic integration course; and the need to work on protracted conflicts in Abkhazia, South Ossetia, Transnistria, and Nagorno Karabakh. The main tasks for Latvia itself were defending these principles within the EU; maintaining and expanding bilateral relations with EaP states; and, perhaps the most important, for “Latvia, together with partners, to define the directions for further action in the framework of previous Eastern Partnership policy and initiatives, so as to prepare for the Eastern Partnership Riga Summit”.²²⁸

²²⁸ Ārlietu ministra ikgadējais ziņojums par paveikto un iecerēto darbību valsts ārpolitikā un Eiropas Savienības jautājumos (2014). The quote translated by the author.

How was this approach implemented in practice? The year 2014 brought no major surprises, and Latvia pursued the same or similar approaches in EU format and in bilateral relations with the six Neighbours. I will address Latvia's plans for the EU Presidency in the next session and offer a brief recap of policies that have already been implemented.

Within the European Union, Latvia was one of the most active states pushing for a strong response to the Ukrainian crisis – or, as the Latvian foreign minister called it, the war in Ukraine²²⁹. Citing him again, “Ukraine’s struggle for the future and independence of its country is also Latvia’s struggle.”²³⁰ Somewhat paradoxically, Russia hijacked the agenda of the EU-EaP relations and obstructed cooperation “as usual”, but its aggressive intervention also brought the region into the spotlight and proved to all EU partners that “new” EU members were right when warning about the dangers of Russia defending its “sphere of influence” in the Neighbourhood. As the intra-European and Western consensus on the unacceptability of Russian actions strengthened, Latvia was active and even pro-active in calling for sanctions against Russia, and for increased political and economic assistance not only to Ukraine but also to the other five partner states. Actually, early in the crisis Latvia reversed its own previously semi-pragmatic course towards Russia, despite being comparatively economically dependent on this country (according to some estimates, for approximately 10 percent of its GDP). The February 20 urgent meeting of the FAC, where targeted sanctions were supported, was co-initiated by Latvia because of the escalating situation in Ukraine.²³¹ Throughout the crisis and until the present day, Latvia has been consistent: sanctions must continue and even strengthened if necessary, until Russian policy changes. This is also viewed as a credibility issue: a strategically important decision must be implemented notwithstanding costs.

Latvia did not waver with supporting the conclusion of the Association Agreements, not only with Ukraine, but also Georgia and Moldova. In fact, on June 14, it became the third EU country to ratify the AAs and organized a special celebration a few weeks after. Latvia believes that practical implementation of the Agreements is crucial to their success and is against any externally induced modifications that could “dilute” their content, in particular, any changes in the EU-Ukraine DCFTA

²²⁹ “Foreign Minister Rinkēvičs on Ukraine: “This is war.”, 28.08.2014., Latvian Public Media, <http://www.lsm.lv/en/article/politics/foreign-minister-rinkevics-on-russian-invasion-of-ukraine-this-i.a96240/>

²³⁰ “The Ukrainian President Thanks Latvia for its Quick Ratification of the EU Association Agreement”, 16.07.2014., <http://www.mfa.gov.lv/en/news/press-releases/2014/july/16-3/>

²³¹ “Ārlietu ministrs iestājas par sankciju piemērošanu pret Ukrainas amatpersonām, kas atbildīgas par vardarbību un rupjiem cilvēktiesību pārkāpumiem”, 20.02.2014, <http://www.mfa.gov.lv/lv/Jaunumi/zinas/2014/februaris/20-4/>

that would be demanded by Russia.²³² As already mentioned, Latvia was keen to discuss the future of the Partnership with its EU partners, including less interested ones like Denmark and Spain, and not only took part in EU-level meetings but also came forward with their own initiative. For instance, in June Riga hosted an informal meeting of high-level diplomats from the countries titled “friends of the Eastern Partnership”; on October 20 Latvian foreign minister organized a meeting of the “Friends of Georgia” gathering EU foreign ministers and EEAS experts as well as the Georgian counterpart and her deputy. Latvia also stressed the AAs should not be seen as the final step in the neighbours’ Euro-Atlantic integration – membership perspective should be given only when partners are ready for it, but must not be excluded altogether. Latvia has the same opinion on NATO enlargement – candidates must continue to implement reforms and be ready to contribute to the Alliance’s security once they are accepted. At the same time, NATO must stick to its “open doors” policy, and no third country should be able to affect this.²³³

One unexpected step by Latvia in 2014 was the suggestion made by foreign minister Edgars Rinkēvičs at the Brussels Forum in March – that the Eastern Partnership should, in the future, engage the US, becoming the Euro-Atlantic Eastern Partnership.²³⁴ This could seem a one-off statement, however, it came shortly after political consultations in Washington, D.C., where Latvia MFA’s Secretary of State discussed possibilities for closer cooperation on the EaP with his American colleagues.²³⁵ News on possible cooperation with the US appeared in November, and in January the Latvian Embassy in the US plans to hold an international conference together with the Atlantic Council.²³⁶

Bilaterally, it seems that Latvia mostly focused on Ukraine (for obvious reasons), and then on Belarus (neighbour), Georgia, and Moldova (EaP frontrunners). Still, Armenia and Azerbaijan also received a significant level of attention. Below, I quickly recap the most important events in Latvia’s relations with each of the six states. As we will see, not all partners are treated equally, but the reason is mainly Latvia’s own interests and resources.

²³² “Edgars Rinkēvičs: nav pieļaujamas izmaiņas ES un Ukrainas Brīvās tirdzniecības līgumā”, 15.10.2014, <http://www.mfa.gov.lv/lv/Jaunumi/zinas/2014/oktobris/15-05/>

²³³ “Edgars Rinkēvičs: NATO jāturpina “atvērto durvju” politika”, 05.09.2014, <http://www.mfa.gov.lv/lv/Jaunumi/zinas/2014/septembris/05-1/>

²³⁴ “E. Rinkēvičs aicina ES Austrumu politiku pārveidot par Eiroatlantisko austrumu partnerību”, 23.03.2014, <http://www.mfa.gov.lv/lv/Jaunumi/zinas/2014/marts/23-1/>

²³⁵ “Noslēdzas A. Pildegoviča politiskās konsultācijas Vašingtonā”, 20.03.2014, <http://www.mfa.gov.lv/lv/Jaunumi/zinas/2014/marts/20-1/>

²³⁶ “Vašingtonā diskutē par Latvijas prezidentūras ES Padomē prioritātēm”, 06.11.2014, <http://www.mfa.gov.lv/lv/usa/aktualitates/zinas-presei/2014/11-06/>

Latvia's relations with *Ukraine* mostly focused on the conflict with Russia and, relatedly, signing and implementing the Association Agreement, although there was more to it than "high politics" only. Like with other EaP states, in 2014 Latvia invested in better understanding their respective conditions on the ground, and Latvian officials not only maintained close links with Kiev but also visited regions like Odessa and Dnipropetrovsk. It provided humanitarian aid to Ukraine (several batches throughout the year); carried out projects in the sphere of education (for instance, training on combatting corruption for Ukrainian officials and the joint Advanced Programme in EU economics and law for officials and non-governmental sector covering Central Asia, Kosovo, and all six Eastern Partnership states); shared its own transition experience in state administration, e-governance, adoption of phytosanitary standards etc.; consulted Ukraine on regional reform; and held several meetings with Ukrainian military officials, among them a visit of the Latvian defence minister to Kiev in order to discuss possible Latvian support to the Ukrainian military forces.²³⁷ Notably, Latvia strived to maintain Crimea on the international agenda and paid close attention to human rights violations in this region.

In relations with *Belarus*, Latvia kept to the intention originally voiced by the foreign minister – to support the state's democratization, economic liberalization, and "coming closer" to the EU, and at the same time to "continue dialogue, develop comprehensive practical cooperation, and promote people-to-people contacts".²³⁸ However, it evidently preferred the latter part. It seems the current Latvian leadership is well aware of risks posed by cooperation with the current Belarusian regime (the minister's report voiced concern over the joint Russian-Belarusian military trainings Zapad 2013), but it still wants to preserve economic links and to use for its own favour openings in EU-Belarusian relations. Thus, the year 2014 saw high-level political contacts, very positive rhetoric, and active lower-level practical cooperation; it also seems Latvia wanted to support Belarus who took a very moderate stance in the Ukrainian conflict, risking Russia's ire. Criticism remained muted.

For two days in February, Latvia hosted Belarusian foreign minister Vladimir Makey (temporarily allowed to enter the EU since 2013) who came to discuss bilateral and EU-Belarus issues, as well as the situation in Ukraine. In its press release about the meeting, the MFA did note that Belarus must improve its situation with "political freedoms" before having closer relations with the EU, but the general mood was

²³⁷ "Latvijas aizsardzības ministrs darba vizītē apmeklēja Ukrainu", 24.09.2014, <http://www.mfa.gov.lv/lv/ukraine/jaunumi/zinas/2014/09-24/>

²³⁸ Ārlietu ministra ikgadējais ziņojums par paveikto un iecerēto darbību valsts ārpolitikā un Eiropas Savienības jautājumos (2014); quotes translated by the author.

“positive” about political and practical cooperation.²³⁹ In May, Latvian diplomats met Belarusian deputy foreign minister Alena Kupchyna to discuss preparations for the Latvian Presidency; in September, foreign ministry consultations on the Eastern Partnership were held in Riga. In October, the deputy state secretary of the Latvian MFA had high level visits in Minsk to discuss, again, the EaP and Eurasian Economic Union. In June, the Latvian minister of agriculture visited Minsk, and returned in September; the talks concerned, inter alia, regarded the selling of Latvian products in Belarus²⁴⁰ (this could possibly be linked to the Russian sanctions against Western foodstuffs and Belarus’ expansion in the Russian market while being unable to provide for its own).

In what concerns practical issues, numerous business activities took place, normally with a political support/component. Among these, one can single out the second Latvian-Belarusian Regional Business Forum and roundtable discussion on Latvian-Belarusian cooperation in transport and logistics featuring 30 Latvian enterprises – it took place in Minsk in October and was opened by the transportation ministers of both countries.²⁴¹ Belarus remains Latvia’s second largest transit partner, and the MFA sees, or wants to see it, as “an important partner” in the “New Silk Road” – a concept of Transeurasian transportation networks actively supported and promoted by Latvia.²⁴² Latvia and Belarus also worked on such issues as border crossings, migration and visa liberalization, science and the digital market, as well as tourism (this has a strong business component), and culture. On some occasions, Latvian officials did come in touch with independent Belarusian experts and NGOs; however, in 2014, Latvia was clearly most busy with maximizing the possibilities opening through the governmental and government-backed channels.

Latvia maintained close ties with *Georgia* – here, practical cooperation also took place, but it seems that Latvian-Georgian relations were most important on a political level, especially in the context of the EU and NATO, but also bilaterally. Despite geographical distance and underdeveloped economic ties (in 2013, Georgia tanked only 50th among Latvia’s trade partners²⁴³), mutual understanding is good,

²³⁹ “Ārlietu ministrs Edgars Rinkēvičs tiekas ar Baltkrievijas ārlietu ministru Vladimiru Makeju”, 27.02.2014., <http://www.mfa.gov.lv/lv/Jaunumi/zinas/2014/februaris/27-4/>

²⁴⁰ “Darba vizītē Minskā uzturas Latvijas zemkopības ministrs ar uzņēmēju delegāciju”, 03.09.2014., <http://www.mfa.gov.lv/lv/belarus/jaunumi/zinas/2014/09-03/>

²⁴¹ “Minskā diskutēs par sadarbību transporta un loģistikas nozarēs”, 08.10.2014., <http://www.mfa.gov.lv/lv/belarus/jaunumi/zinas/2014/08-10/>

²⁴² “Ārlietu ministrs Edgars Rinkēvičs tiekas ar Baltkrievijas ārlietu ministru Vladimiru Makeju”, 27.02.2014., <http://www.mfa.gov.lv/lv/Jaunumi/zinas/2014/februaris/27-4/>

²⁴³ “Latvijas un Gruzijas attiecības”, 30.09.2014., <http://www.mfa.gov.lv/lv/Arpolitika/divpusejas-attiecibas/Gruzija/#ekonomika>

and Georgia is still perceived as a strategically important ally. On May 7, political consultations between the MFAs took place; the Latvian foreign minister visited Georgia in July, on the occasion of the ratification of the Association Agreement with the EU, and the President also paid a visit in November. Georgia was visited by the Latvian ministers of culture, and of education and science, and by a delegation of the Ministry of Justice, among others. Like in the case of Ukraine, Latvia strongly supports the territorial integrity of Georgia and, in particular, announced it did not accept the so-called elections in Abkhazia and South Ossetia. In bilateral relations, Latvia – like in all other cases – is particularly interested in practical cooperation, especially in trade, transit, and education. It also provided some technical assistance in the fields of border management and police trainings, and organized a seminar/course on strategic communication – a shared field of interest.

Latvia's relations with *Moldova* were less intensive, although this country also is one of the EaP frontrunners and the November parliamentary elections in this country were widely perceived as a litmus test for the ability of EaP states and societies to resist Russian pressure and to stay on the course of pro-European reforms. Among the notable visits, one can mention the Latvian foreign minister visited Moldova in February, and the speaker of the Parliament came as part of the NB8 group in May. Latvia also sent its experts to Moldova in order to communicate the AA and the DCFTA to society. Contacts will likely increase, however, because a Latvian embassy was finally opened in Chisinau, and in December, the first ambassador, Juris Poikāns (who is also currently the Ambassador at Large responsible for the whole Eastern Partnership) was accredited. Again, Latvia would like to expand economic and practical cooperation (in 2013, it was Latvia's 56th trade partner²⁴⁴), but here, political dialogue would need to come first.

Latvia also maintained very positive rhetoric and good political contacts in relations with *Armenia* and *Azerbaijan* – the aim was, it seems, not only to generally prepare for the upcoming presidency but also to keep Yerevan and Baku in the “Western orbit” similarly as Minsk, and to look for some (better profitable) practical cooperation possibilities. The Armenian foreign minister visited Latvia in June; the visit was returned by his Latvian counterpart in December. Political consultations between MFAs took place in July. Relations with Azerbaijan did not include high level visits this year, although the Latvian ministers of agriculture and of defence did come to Baku, and, for instance, Latvia acted as leading country in a new Twinning project on pensions. It remains to be seen how Latvia will deal with the political situation in Azerbaijan and how, and if, economic and energy ties will be developed.

²⁴⁴ “Latvijas un Moldovas attiecības”, 30.09.2014, <http://www.mfa.gov.lv/lv/Arpolitika/divpusejas-attiecibas/Moldova/>

PLANS FOR 2015

Latvia's strategic thinking on the future of the Eastern Partnership is now concentrated on the Riga Summit due to take place on May 21–22. Latvia pays great attention to the success of the Summit – a proof of its expertise on this part of the Neighbourhood – and started to discuss the content early on. The Foreign Minister's annual report of 2014 already contained some indications on what will be the particular interests of the Latvian EU Presidency, and a clearer picture emerged shortly afterwards.

Here, it must be admitted the possibilities of the Presidency are not limitless. As previous examples demonstrate, it can influence an agenda and early stage of the policy-making process, and can make significant achievements in particular sectors or in the EU's relations with particular partner states, but normally, breakthroughs in the overall regional strategy (like the Association Agreements) need close cooperation not only of the other Council members but also of the European External Action Service and the Commission.²⁴⁵ The good news is that by the end of 2015, the Commission plans to present a review of the European Neighbourhood Policy; although within the EU, there are some voices arguing the EaP is “dead”²⁴⁶, there are plans to update and not scrap the initiative – especially in light of the conflict between Russia and Ukraine. Actually, at the end 2014, Latvia had already reached an agreement with the new European Commissioner for European Neighbourhood Policy & Enlargement Negotiations, Johannes Hahn, on working together to prepare for the Riga summit.²⁴⁷ So, both the upcoming Latvian EU presidency and the European Commission envisage the following steps:

- to better tailor the EU's offer to the needs of each partner state and flexibilize the EU's policy;

²⁴⁵ Bruno Vandecasteele, Fabienne Bossuyt and Jan Orbie, “Unpacking the influence of the Council Presidency on European Union external policies: The Polish Council Presidency and the Eastern Partnership”, in: Ripoll Servent, Ariadna and Amy Busby (eds): ‘Agency and influence inside the EU institutions’, *European Integration online Papers (EIoP)*, Special Issue 1, Vol. 17, Article 5 (2013), <http://eiop.or.at/eiop/texte/2013-005a.htm>; Bruno Vandecasteele, “Influence of the Lithuanian Presidency of the EU Council on EU Relations with Countries of the Eastern Partnership”, *Lithuanian Foreign Policy Review* 2014.

²⁴⁶ Nathalie Tocci, “The Neighbourhood Policy is Dead. What's Next for European Foreign Policy Along its Arc of Instability?”, *IAI Working Papers* 14 | 16 (Rome: November 2014), <http://goo.gl/kGs0AC>

²⁴⁷ “Edgars Rinkēvičs: the Riga Summit Should Become a New Milestone in the European Neighbourhood Policy”, 18.11.2014., <http://www.mfa.gov.lv/en/news/press-releases/2014/november/18-03/>

- to strengthen economic cooperation and support economic development in the EaP;
- to review the implementation of the EaP, especially Association Agreements/DCFTAs.²⁴⁸

If we look at the legacy of the Vilnius summit, Latvia will likely have to address the creation of a regional economic area²⁴⁹ (a feasibility study is already foreseen). Another area where broad consensus can be observed within the EU is enhancing cooperation on security issues.

Latvia, however, may still prove more ambitious than the Commission, thanks to its greater interest in the matter and less institutional limitations. For instance, Latvia would like to go beyond the AAs despite these often being branded by the EU as the ultimate achievement. In principle, it supports giving the best-performing states the perspective of eventual membership, but in practice, first, it wants to go beyond the Agreements and offer individualized “road maps” to the signatories²⁵⁰; second, it wants to offer alternative legal instruments to non-signatories such as Armenia.²⁵¹ Latvia also puts a special focus on assistance to EaP states in actually implementing the AAs – indeed a crucial aspect for which EU support must increase. Another topical issue for Latvia is visa liberalization with the Partners – again an objectively necessary move. At the Riga summit, Latvia hopes to conclude such an agreement with Belarus; discussions on this issue took place over the last year. In addition, it has put forward additional sectoral priorities that not only correspond to partners’ interests but are particularly attractive for Latvia itself: transit, energy, education, cooperation at the level of municipalities, and mass media. The latter issue has become topical due to the conflict between Russia and Ukraine and the surge of Russian-language propaganda not only in the Neighbourhood but also beyond – a problem acutely felt by Latvia itself (inter alia, the Presidency plans to organize EaP Media Days before the Riga Summit). As can be seen, all these innovations are moderate and practical in nature – the aim is to improve current functioning of the EaP through small steps that could later amount to a bigger turn. However, there are still some questions to be considered.

²⁴⁸ Rikard Jozwiak, “Full Transcript: Interview With New EU Enlargement Chief Hahn”, 12.11.2014., <http://www.rferl.org/content/hahn-interview-full-transcript/26687137.html>

²⁴⁹ “Joint Declaration of the Eastern Partnership Summit, Vilnius, 28-29 November 2013”, <http://goo.gl/8o4tIV>

²⁵⁰ “Ārlietu ministri: Rīgas samits dos nepārprotamu un skaidru signālu ES Austrumu partnerības tālākai attīstībai”, 15.12.2014., <http://www.mfa.gov.lv/lv/Jaunumi/zinas/2014/decembris/15-05/>

²⁵¹ “Edgars Rinkēvičs: Latvija ES Padomē prezidentūras laikā veicinās dialogu ar Armēniju”, 12.12.2014., <http://www.mfa.gov.lv/lv/Jaunumi/zinas/2014/decembris/12-11/>

RECOMMENDATIONS / SOME QUESTIONS TO CONSIDER

The most basic thing to start with is to cement the EU's internal unity – policy coordination mechanisms and a single understanding of the situation in the Neighbourhood and what the Eastern Partnership is about. There are several scenarios of how the EaP can develop: gradual approximation to EU standards without confrontating third sides; the EaP falling into oblivion/remaining a “grey area” and becoming a latent source of instability near the EU's borders; increased polarization and conflict in the Neighbourhood, where Russian influence poses a particular risk; and “Wider Europe vs. Russia” – a scenario which presupposes integration of the EaP with the EU but at the same time a conflict of this alliance with Moscow. If Latvia and the EU as a whole orient themselves towards the first, more beneficial scenario, Latvia – first as the Presidency of the EU Council, second, as an active member state – should consider the following actions:

- significant material assistance for maintaining socio-economic stability not only for the duration of pro-European reforms but also – if the EU wants to strengthen its positions in the region – for the less reformist states such as Belarus, Armenia, and Azerbaijan. The EU currently works mostly with specific groups such as representatives of state administration, media, students, and civil society, hoping for a spillover. However, benefits provided by the EU are not “overflowing”, and it must reach out to the population at large, particularly in the regions. Even a short-term deterioration of the socio-economic situation will bring along increased anti-EU sentiments, and this will be used by Russia. In case resources cannot be found within the EU or internationally, loans or alternative assistance could be provided (inter alia, Latvia in 2014 addressed the European Investment Bank on the possibility of joint projects within the EaP, and hopefully this will be continued);
- assistance should also take the form of a well-considered opening of the EU's labour market (particularly taking into account the problems posed by the recent crisis to the EaP labour immigrants staying in Russia);
- a credible promise of membership for successful reformers – the EaP States must be subject to the same conditions for accession as “new” EU member States or the Balkans;
- security guarantees/assistance against Russian intervention and other types of conflicts – these can be provided in cooperation with other international organizations/players;
- continued monitoring of Russia's policies, consequences of the Eurasian Economic Union and processes within EaP states themselves; all available

expertise, including that of the non-governmental sector (experts in development cooperation etc.) must be used to the fullest;

- improved communication of the goals and activities of the Eastern Partnership and main tendencies in EaP states – to the policy-makers and societies of the EU member States, Eastern Partners and third countries, as well as an efficient feedback to EU institutions; this also includes Latvian domestic politics. For this, new mechanisms like media must be created and existing ones (like the EURONEST or the Eastern Partnership Civil Society Forum) strengthened;
- making sure all presidency events related to the EaP contribute to the abovementioned goals, and that suggestions from experts in the EU and EaP are further used in national and EU policies;
- looking for possible lessons from, and synergies with, the Southern Neighbourhood policies – although the Southern Mediterranean States receive a different offer and are not considered “European”, it is still important to speak about common challenges and solutions in order to overcome internal divisions among EU member States. It is important that Latvia has already declared: the Southern and the Eastern Neighbourhoods are, in principle, equal in value²⁵².

Additionally, Latvia should be ready for likely Russian interference at levels of decision-making and public opinion – not only there is the Lithuanian example to look at, but also warning signs already appeared in 2014 (for instance, the Russian ambassador to Latvia hinted that Latvia “took on a big responsibility” by prioritizing the EaP while the initiative itself is unacceptable for Russia).²⁵³

²⁵² “Latvijas un Vācijas Ārlietu ministrijas akcentē ES politikas un nākotnes jautājumus”, 08.07.2014., <http://www.mfa.gov.lv/lv/Jaunumi/zinas/2014/julij/08-1/>

²⁵³ ЛЕТА, “Вешняков: все попытки ограничить Россию закончились провалом”, 23.05.2014., <http://rus.delfi.lv/news/daily/latvia/veshnyakov-vse-popytki-ogranichit-rossiyu-zakonchilis-provalom.d?id=44528084#ixzz3NCaC4tfx>. The note was made at the Baltic Forum conference showing somewhat pro-Russian leanings; interestingly, the Forum in 2014 was dedicated to the “Opportunities and Costs” of the Eastern Partnership, and specially for this event, the Russian Academy of Political Science (affiliated to the MGIMO University) prepared a 92 page report, opening with accusations that the Eastern Partnership programme was one of the major causes of the Ukrainian conflict. See Елена Пономарева, Любовь Шишелина, ред. Оксана Гаман-Голутвина, *Председательство Латвии в ЕС-2015: “Восточное партнерство” вместо или вместе с Россией* (Российская ассоциация политической науки, Москва, 2014).

WRAPPING UP

In 2014, Latvia carried out a very constructive policy towards the Eastern Neighbours – probably in thanks to a greater level of policy “Europeanization” brought about by the closeness of the Presidency. There are still many challenges ahead: the Eastern Partnership is still wrought with domestic problems and harmful external influences; the EU is underresourced, underengaged, and insufficiently aware of these problems; and Latvia is only in the process of moving from a declarative to a substantive foreign policy. Latvia still lacks resources and expertise for dealing with the EaP, and it cannot maintain the same level of relations with all six partners (this year, Ukraine and Belarus came as a priority, followed by Georgia, while engagement with Moldova, Armenia, and Azerbaijan was less active or visible). Nevertheless, Latvia was confident and even inventive in preparing for the Presidency – with precise suggestions supported by active diplomacy. It remains to be seen if Latvia can, for these six Presidency months, push forward not only its own ambitions but joint EU interests, and if these joint ambitions can be strengthened the Eastern Partnership receives not only a greater (in relative terms) but fully adequate (in absolute terms) level of support.

EU-CENTRAL ASIA COOPERATION: AN OPINION FROM UZBEKISTAN

By Guli Yuldasheva

The EU is one of the most influential global actors, with an enormous potential to contribute to the development and overall security of Central Asia. In spite of the ongoing global economic crisis, the EU still has substantial resources in comparison to other Eurasian actors with which to sponsor high-tech innovation, education, and infrastructure in Central Asia, and to inject scientific-intellectual and financial capital into the region. As such it is perceived in the region mostly as a bearer of unique experience and scientific knowledge, universal democratic traditions and culture, and a potential donor and partner in security issues. Moreover, present-day processes around and in Afghanistan, Iraq, and Syria have demonstrated well enough that distance in a globalizing world cannot be a barrier for transnational security threats, which makes coordination and cooperation between European countries and Central Asia very important, and necessary.

In this sense European political and expert circles now have a more accurate knowledge of the region, based on many years of experience and strengthened by their close cooperation with local analytical circles.

In response, there is a broad consensus in Uzbekistan – in governmental circles, the expert community, and civil society – concerning the positive role played by Europe in general, although different groups highlight different sectors of cooperation. However, Uzbekistan believes that cooperation through multinational organizations active in the region (EURASEC, SCO, CSTO, and NATO) is more problematic than bilateral cooperation with EU member states. As a result, around 80 percent of all programs with EU participation include a bilateral element from an EU member state. In Uzbekistan alone 841 Uzbek enterprises use European capital and 266 leading European companies function. Germany and France are the most active. EU-Uzbekistan trade has been growing steadily, and increased by about

20 per cent in 2010–2011, reaching \$2367 million.²⁵⁴ The number of Uzbek students and academics studying and/or doing research in EU states is also on the rise, as are parliamentary contacts, cooperation within legal and security spheres, and governmental visits. EU assistance is particularly visible in sectors such as higher education, health and social systems, and security through the BOMCA-CADAP programs.

However, European-Central-Asian cooperation is not naturally smooth or deprived of any problems. Existing problems in CA-EU relations have arisen from a complex set of internal and external factors in development of both sides.

First of all, this is a partial result of the *ongoing processes in Europe*. According to western opinion, the European community is not yet prepared to reorient itself to Asia so quickly. The external European political system underwent significant changes after the Lisbon summit of December 2009 and more recent events in the Middle East. Since then European countries have been reevaluating their strategic values and priorities, forms and methods of developing partnership relations, including within the limits of NATO. Absorption in its internal problems of development, as well as weak coordination between the members of the Community itself (especially after the start-up of the institution's enlargement process) has brought a relative inefficiency of the EU policy in Central Asia.

It is also a result of the *complex international environment* around Central Asia and Europe. The role of the EU could be mutually complementary and successful if based on coordinated partnerships with Russia, China, and the US. Europe has the necessary potential to perform the role as a counterbalance to possible domination of definite forces in the region (fundamentalist states, China, etc.). However, it is difficult for the European Union to establish the necessary strategic balance between commercial and political interests in relation with such partners as Russia and China, the closest neighbors of Central Asia. This is now more complicated with the Ukrainian crisis and sanctions against Russia, who obviously have their own negative influence on CA states, both in political and economic issues (for example Iran). As a whole, current rivalry in and around Central Asia among Russia, China, and the United States, the prolonged anti-Iranian sanctions, as well as the fragmented nature of the region itself – due to water and ethno-national problems – hamper effective cooperation between the EU and the region.

Prioritization of a bilateral level of cooperation in *security issues* has led to an inadequacy of measures taken within the limits of the CADAP and BOMCA

²⁵⁴ <http://www.mfa.uz>

programs. They were not successful enough in preventing drug trafficking, border control and government, introduction of advanced European experience, legal trade, and effective transit in the region of Central Asia. In particular, opium production in 2013 in Afghanistan went up to some 5,500 tons, a 49 per cent increase over 2012.²⁵⁵ Correspondingly, it brought growth to cross-border violations and crimes. For instance, since 1994 in Uzbekistan, 52 tons of narcotics have been destroyed, whereas in 2013 only 2326 kg of drugs were withdrawn.²⁵⁶

It is clear that the European states are themselves victims of similar problems that makes improvement and a further deepening of multilateral cooperation in these issues topical for CA and EU states. Especially in view of the extreme priority for all sides to build a network of transport-transit and logistical systems in Central Asia within the limits of the revived New Silk Road strategy.

Extreme absorption with issues of *democratization and human rights* in Central Asia has contributed to some kind of tension among the EU and CA states. It is of no doubt that the democratization of Central Asia is an issue providing for its long-term stability. The European Community has made considerable efforts to improve the governmental system and human rights in Uzbekistan and other CA states. With this aim, five joint bodies, for example, successfully operate in Uzbekistan: the Council on cooperation, a Cooperation Committee, the Committee on Parliamentary cooperation, the Subcommittee on trade and investments, a Subcommittee on justice, and internal affairs and human rights. Among the positive examples of constructive cooperation one should point out the program for the implementation of a European experience in the educational process of preparing police staff, as well as involvement in international seminars on corruption problems for representatives of anti-corruption agencies from EU countries.

However, there are still some cultural misunderstandings that are especially visible in democratization projects initiated by the EU in Central Asia. The accent is made on full or very close correspondence to European standards, priorities, and values without taking into account traditional norms and values of the country (e.g. in gender or party system issues), and the low level of the political-legal culture. That is not to say that Central-Asians should not fight violations of human rights. Certainly, they should and, moreover, proceed to.

²⁵⁵ “Afghanistan. Opium Survey 2013. Summary findings/United Nations Office on Drugs and Crime”, Islamic Republic of Afghanistan, Ministry on Counter Narcotics, November 2013, 3.

²⁵⁶ «В 2013 году в Узбекистане из незаконного оборота было изъято 2326 кг наркотиков», 27.06.2014, <http://www.12uz.com/#ru/news/show/comments/17322/hightext/наркотики/>

All CA states agree with, and try to adhere to, universal norms and values of democracy, reflected in the Universal Declaration of Human Rights. Disputes between the EU and CA States on democratic issues arise only in cases which go beyond the scope of the Declaration, and have to do with national specifics and identity; tempos of changes not adequate to the countries' realities. It is worth paying attention here to rules of law and democratic issues connected with certain historically pre-conditioned levels of political culture which form models and norms of political behavior and political institutions' styles of activity. This means that democratic progress in the CA is first of all connected with progress in the sphere of education that lays favorable ground for the formation of adequate political culture and, hence, behavior in political life. This is obviously a long-term task, whose acceleration itself can create a basis for violations of human rights. One example is the history of the bolshevist policy with regard to Central Asian women in the twentieth century or present-day events in the Middle East. At the same time, theoretically there is no clear-cut and single model of democracy, and as David Held, an influential political scientist rightly concludes, "Changes in the international order are compromising the viability of the independent democratic nation-state ... the fate of democracy is fraught with uncertainty."²⁵⁷

The *outcome* of the above-mentioned factors brought relatively insufficient results in the social sphere (health, education, and employment). According to specialists, for instance, the number of unemployed in Central Asia increased by 5 percent during 2002–2008 from 27.2 million to 28.5 million, with figures increasing to present day.²⁵⁸

There is still much work to do in the issues of providing effective governments and overcoming poverty and social integration of the population. In fact this is all connected with the situation on the rural side, as nearly 70 percent of the Central Asian population lives in the country. However, rural areas remain the last elements in the Uzbek society to benefit from European cooperation, and poverty challenges the development of the country, as well as changes in the political culture. At the same time it is clear that improving education without being able to offer better living standards in rural areas will only increase internal migration. According to unofficial figures, there are about 3 million labor migrants in Russia alone.

²⁵⁷ Held David, "Democracy, the Nation-State and the Global System", in *Political Theory Today*, ed. Held D., (Stanford: Stanford University Press, 1991), 197.

²⁵⁸ Peleah M., "Концепция аналитической публикации «Миграция, денежные переводы и человеческое развитие в странах Центральной Азии», 03.04. 2014., <https://undp.unteamworks.org/pt-br/node/428068/>

In this sense 750 million euro spent on technical assistance, provided by TACIS program in 2007-2013, was insufficient. By comparison, in May 2004 China allocated its SCO partners from Central Asia \$900 million credit to realize its economic projects. Moreover, China is planning a \$16.3 billion fund to finance railways, roads, and pipelines across Central Asia, reviving the centuries-old Silk Road trade route between China and Europe.²⁵⁹

Besides, priority given by the EU to its energy interests and human rights values – a fact highlighted by the significance of energy-rich Kazakhstan (the only CA country, where EU trade in 2013 constituted 31,091 Mio €),²⁶⁰ and Turkmenistan, and the recent application of sanctions against Uzbekistan – has had negative effects on the EU's capacity to bring Central Asian states together. In these circumstances some states, like Uzbekistan, preferred to develop bilateral relations with some EU states.

Prioritization of bilateral relations to the detriment of multinational cooperation naturally leads to the absence of a clear and comprehensive understanding of the EU as a single indivisible institution.

CULTURAL-RELIGIOUS ISSUES: ALIENATION OR A CHANCE FOR COOPERATION?

Uzbekistan like other CA states regards itself as a part of the Asian Eastern civilization and Islamic culture. But being a part of the Islamic culture does not mean a potential threat to the European Union nor does it alienate it from the European world. The matter is that Maverannahr, which located on the territory of modern Uzbekistan, during the eighth to ninth centuries was a center for Islamic teachings. In the tenth century it gave birth to hanafi mazhab of sunni Islam, which is distinguished by ijihad – freedom of thoughts in shariat²⁶¹, tolerance to other beliefs, etc. Alongside the Soviet legacy of all-round modernization effects this specific sunni branch of Islam, dominating in present-day Central Asia, counteracts the spread of any religious radicalism in present day. This makes CA states natural

²⁵⁹ Carol Matlack, "Putin Is Losing Out to China in Central Asia's Latest 'Great Game'", November 6, 2014, <http://www.businessweek.com/articles/2014-11-06/putin-loses-his-grip-on-central-asia-as-china-moves-in>

²⁶⁰ European Commission. Directorate-General for Trade, 27.08.2014.

²⁶¹ See, for instance, Saidov A.H., editor, introduction and commentaries to *Hidoya. Commentaries on the Moslem Law* by Marginoniy Burhaniddin (in 2 parts, M. Volter-Kluver, 2010), November 23, 2014, <http://www.worldislamlaw.ru/?p=1343>

allies of the European Union in its fight against various forms of religious extremism.

Moreover, through education and scientific means Europe can play a unique role in helping to restore and strengthen Central Asian identity and culture. Europe could help local governments to find a balance between the modernizing and conservative layers of the population, to provide favorable conditions for all-round education and, hence, favor changes in political culture and a subsequent comprehensive transformation of CA societies. This is potentially one of the biggest European contributions in preventing a radicalization of the Central Asian population in view of the surrounding fundamental states and the instability in Syria, Iraq, and Afgh-Pak zones.

Fortunately the EU has recently thoroughly revised its CA strategy. As a result, around €1 billion is being planned to support the development efforts of Central Asian countries between 2014–2020.²⁶² It is fair that cooperation will be tailored with a particular focus on the poorest and the most fragile countries, because these kind of states can turn into new sources of instability and areas for future terrorist activities. In this sense special attention should be given to Uzbekistan with its numerous predominantly rural populations. Activation of European activity in Central Asia was especially visible in November this year at several summits: the EU-Kazakhstan Human Rights Dialogue, EU-Kazakhstan JLS Committee and Cooperation Committee, the 11th EU-Uzbekistan Sub-committee on Justice, Home Affairs, Human Rights and Related issues, EU-Kyrgyz Republic Cooperation Council, and from December 15-16 the EU-Uzbekistan Cooperation Committee and Trade Sub Committee talks.

POSSIBLE RECOMMENDATIONS

Thus, the role and significance of the EU as a potential donor and partner for the CA states in comprehensive security issues is indispensable and urgent. It acquires unique value during the prolonged Ukraine crisis with regard to invigorating and consolidating the “Heart of Asia” process, based on common principles and commitments of the Istanbul Process Declaration on regional security and cooperation for a secure and stable Afghanistan.

²⁶² EU announces future commitments for development with Central Asia Region, 20.11.2013., http://europa.eu/rapid/press-release_IP-13-1119_en.htm

One can single out the following problems of mutual interest:

- The EU could through constructive negotiations accelerate the issues of lifting sanctions from Iran and Russia, thus providing favorable ground for social stabilization and speedy economic recovery of the CA societies. This way it could not only effectively balance the presence of the competing actors – Russia, China, Turkey and Iran – but also seek to efficiently integrate them into joint regional endeavors, including in Afghanistan.
- Europe could be a mediator between NATO and the US in providing stability in the CA region, including preventing the influence of radical ideas and trends in the region.
- The EU could play a further constructive role (with expertise, exchanges of experience, scientific-analytical projects, joint committees and groups, etc.) in issues of providing effective governing structures in the CA countries.
- EU-CA cooperation should focus on the country's rural areas – in such issues as building necessary social infrastructure, developing small and medium size businesses, etc., to provide employment, efficient health care and educational institutions, and improve living conditions. These measures would significantly help in reducing the flow of migrants to other countries.
- Europe could also further develop a regional Central Asia policy, focused on water-energy disputes, through the World Bank Central Asia Energy-Water Development Program (CAEWDP) and EU initiatives on Energy and Water in Central Asia.
- European expertise and financial resources could be very helpful in constructing new transport-transit and oil-gas pipeline infrastructure and logistics centers along the New Silk Road routes (INOGATE, Baku Initiative, and Eastern Partnership energy objectives, etc.). With this aim it would also be expedient for the EU to provide:
 - 1) high-tech resources to increase the quality of industrial-technical products, machine-building, processes of output, processing, storing and distribution of resources, as well as machine processing and usage of deposits;
 - 2) training and re-training on the basis of existing educational institutions, both in the EU and CA countries, along with the necessary staff able to work efficiently in the new environment.

In addition to forwarding, controlling, and monitoring these tasks and objectives, Latvia as a chairman of the EU, could be:

- participating in some of these projects, including the oil-gas sphere, connected with sharing expertise and experience, scientific-analytical, teaching and engineering goals;
- advancing the successful transformation of the NDN project (after the withdrawal of Western forces from Afghanistan) into a regional transportation hub, connecting Scandinavia and Central Europe with Central Asian states;
- assisting in the formation of several Baltic free economic zones connected by trade with CA economic zones (Navoi, Angren, and Djizak in Uzbekistan, for instance).

It would be expedient for Latvia:

- To organize on the basis of local or Latvian institutions training and/or re-training of law enforcement employees in regards to fulfilling cross-border duties and tasks, and to work efficiently with modern high technology to prevent crimes and violations on the borders;
- To organize an exchange of students and professors in regional and Latvian institutes on topical specialties, like logistical and border management issues.

However, the most important tool for fighting terrorism is with social-economic means; that is the creation of job places, investments, and high technology that will tremendously help the region. That is why it would be extremely helpful if Latvia concentrated on the following:

In view of the dependence of small and medium business in Uzbekistan on energy, to organize *in every* Uzbek rural district *small electric power stations with renewable energy sources*;

- to overcome unemployment by building in rural areas *mini plants and factories* for processing and selling agricultural products, and astrakhan fur (karakul) and fleece;
- to provide for the immediate needs of the rural population with gas by assisting in sponsoring *high technology* equipment, and constructing *local gas pipelines* in CA villages and towns;
- to periodically organize *business forums* in rural CA places to exchange ideas and experience in regards to operating small and medium businesses;
- to be aware in a timely fashion of problems and difficulties in realizing projects and organize a *special analytical center* in each CA country for monitoring, regularly controlling, and assessing ongoing projects with close links to the EU's special representative in the region.

BALTIC DILEMMAS AROUND LIBERAL TRADE VALUES AND MODERN MERCANTILISM OF THE EUROPEAN UNION

by Viljar Veebel

INTRODUCTION

Estonia's (but in many aspects also Latvia's and Lithuania's) economic progress after re-independence has been related to the liberal ideology and values of their economies: openness to investments, simple and low tax burdens, a currency board type monetary system (until accession to the euro zone), an annual balanced state budget, liberal trade policy, flat income tax, and flexible labour market.

It was only after joining the European Union (EU) in 2004, that Estonia especially started follow more moderate and social EU strategies when formulating its economic policy, but it has retained its reputation as an open liberal economy with a modern and business friendly regulatory environment.

While different to the Baltic States, by promoting and following liberal trade and taxation ideas some of their EU partners have focused on promoting their economic growth by the neo-mercantilist way of expanding exports, supported by the economic structure of these countries exporting high technology and capital goods. As a result, when the Baltic States are expecting in a broader context that other EU member states share the same vision of the liberal market economy, their motives have not been fully understood among regional trade and cooperation partners.

The openness of the Baltic States to the world market has also increased these countries' vulnerabilities to external shocks, the impact of which was fully felt

during the economic crisis in 2008–2011. This has also heated internal debates as to which model, liberal trade or neo-mercantilist, will offer more welfare and security for upcoming years.

The contrast between liberal approaches followed in Estonia and also in Latvia and Lithuania, and the neo-mercantilist views dominating Germany in particular, are also at the heart of the present study. This article focuses on whether in practice there has been a potential ideological shift from the liberal economic policy to neo-mercantilism during 1991–2014, and whether Baltic countries should be ready for the European neo-mercantilist project and “German game” in the upcoming year.

IDEOLOGICAL COMPETITION: LIBERAL TRADE MODEL OR NEO-MERCANTILISM

What are the main practical supportive arguments in favour of liberal trade model and neo-mercantilist model from the perspective of Estonia, Latvia, and Lithuania for upcoming years?

A general discussion whether countries – and especially small open economies – should rely on the free trade principle to improve global welfare or use interventionist trade policy regimes to protect domestic producers, deal with market imperfections, and improve domestic welfare, is one of the fundamental questions of the international trade theory which has been around for centuries.

The advantages and benefits of free trade are associated with efficient reallocation of resources without price distortions, increased specialization, and economies of scale, more intense competition at a domestic level leading towards new incentives for increasing efficiency, the diffusion of international knowledge through trade and innovation, and a shakeup of industry potentially creating a Schumpeterian environment especially conducive to growth.²⁶³ Empirical studies have confirmed the relationship between a country’s openness to trade and higher growth rates and a strong tendency towards economic convergence; countries with lower *per capita* income levels grow more rapidly than countries with higher income levels.²⁶⁴

²⁶³ P. R. Krugman, Obstfeld, M., *International Economics: Theory and Policy*, 7th Edition (Pearson – Addison Wesley, 2006).

²⁶⁴ J. D. Sachs, Warner, A. *Economic Reform and the Process of Global Integration. Brookings Papers on Economic Activity*, No. 1 (1995), 1–118.

Free trade is considered the optimal policy for small open economies, as an increase of imports has an impact on domestic price levels, as well as on production volume in domestic sectors competing with imported goods, which contributes to the reallocation of available resources in the most productive sectors, as resources will not be used to produce goods that could be imported at a lower price. Trade liberation also increases productivity by providing less expensive or higher quality imported intermediate goods and technology, as well as increasing the variety of goods.²⁶⁵ Although from early 2000 debates have become more diversified and the direct effects of the country's openness to trade, along with the causality (i.e. is economic growth induced by more trade or vice versa) still remain subjects for dispute. The role of a country's openness to trade on economic growth should not be underestimated and should be looked along with other determinants of growth.

There are also numerous arguments to support the mercantilist model, both from a European and Baltic perspective: in a global general equilibrium, if some countries increase net exports, some countries must increase their net imports. Accordingly countries with persistent trade deficits might face difficulties to finance the deficit, and high levels of net imports weaken aggregate demand which might lead to fiscal deficits. While in principle the net effect of trade openness on budget balance is ambiguous, empirically trade openness increases a country's exposure to external shocks regardless of whether it is related to natural openness, based on structural determinants of trade openness, e.g. the size of the country and its geographical characteristics; or to trade-policy openness, which is determined by decision makers. Additionally, trade openness affects budget balances directly, and here the effects of natural openness and trade-policy induced openness go in opposite directions: contrary to natural openness, trade-policy induced openness improves budget balances.²⁶⁶

Governments, including those in developing countries, may often resist liberalizing their trade regimes, arguing that their budget situation is already difficult and reducing tariffs will lead to larger budget deficits. Even if trade openness increases a country's exposure to external shocks and thereby adversely affects its budget balances, an outward looking policy strategy should lead to an overall strengthening.

In early mercantilist views, trade-argument balance was based on the zero-sum game approach, where "one man's gain must be another man's loss". More recent concepts of neo-mercantilism have widened the scope of debate, stressing the importance

²⁶⁵ R. Dornbusch, "The Case for Trade Liberalization in developing Countries", *The Journal of Economic Perspectives*, Vol. 6, No. 1. (1992), 69–85.

²⁶⁶ J.-L. Combes, Saadi-Sedik, T. "How Does Trade Openness Influence Budget Deficits in Developing Countries?", IMF Working Paper, 2006/3.

of promoting economic growth by expanding exports, seeking a balance of trade surplus and increasing the level of government foreign reserves to achieve social or political objectives.

ESTONIA'S (AND BALTIC) IDEOLOGICAL PREFERENCES AND CHOICES FROM 1991–2013

After re-gaining independence, all three Baltic States chose the liberal path with an aim to ensure macroeconomic stability, attract foreign investments, and become members of the EU and NATO. Reforms were introduced in various areas from privatisation and liberalisation of prices and trade, to institution building, monetary policy and the financial sector, public finances, and so on. These reforms have led to a significant inflows of foreign direct investments and in 2000–2008 in Estonia, Latvia and Lithuania resulted in high economic growth rates of 8–9 percent per year, on average, and in real terms more than doubled levels of national real wealth.

The preference for market liberalism in the political and economic landscape of the Baltic States in many aspects was caused by the overreaction of society to domination of the state and central planning during the Soviet era. At the same time, it could also be interpreted as an expression of individualistic approach dominating Estonia (among other things, the unequal treatment of members of society is accepted as a result of the thinking that “if you are successful, you deserved it; but if you don’t succeed, it’s your own misfortune”); for individualistic views in Estonian society, opposing the former collectivist approach from the Soviet period.

In Estonia in the first years of regaining independence, mainly inspired by the works of Milton Friedman and Frierich Hayek as well as the foundations of Thatcherism, liberal ideology was considered an integral part of the new Estonian economic model by the political elite opposing central planning during the Soviet era. The concept of economic policy followed by Margaret Thatcher was often cited by Mart Laar, the Prime Minister of Estonia from 1992 to 1994 and from 1999 to 2002. Until the beginning of the financial crisis in the second half of 2008, Estonia has commonly been described as a good example of the liberal state model reflecting an economic success story for the CEE.²⁶⁷ Liberal ideology has also been followed by the Estonian Reform Party occupying the prime-minister’s seat in last decade since 2004. The main

²⁶⁷ B. Thorhallsson, Kattel, R., “Neo-Liberal Small States and Economic Crisis: Lessons for Democratic Corporatism”, *Journal of Baltic Studies* (2012), 1–21.

opposition party and ruling party in Tallinn city, The Centre Party, is at least officially based on liberal values and aims. Accordingly to parliament parties in Estonia only the Social Democratic Party is clearly opposed to the liberal model (while at the same time being in a governmental coalition with the Liberal Reform Party).

After re-independence, the Estonian external economic policy has focused on free trade and openness, and finding international support for radical economic reforms implemented during the period 1989–1993. Reforms started in 1989 when price controls and regulations were removed on most food, industrial products, and services, followed by the introduction of the simple tax system from 1991, monetary reforms, and the currency board system in 1992, full liberalisation of trade abolishing all import duties in 1992–1993, and privatization, etc. Latvian and Lithuanian political choices in the first decade of re-independence consisted of more variety, and at least Lithuania also opted for a more social democratic approach next to the liberal ideas.

From the economic perspective, since the mid-1990s all Baltic countries were mainly focused on deeper integration with the EU and started to adjust to European rules. The main motivation was to benefit from the free trade area and customs union, as well as the country's attraction to international capital flows and finding guarantees for investors trusting the local currency. However, liberal ideology has been seriously challenged both during the negotiations on the free trade agreement between the EU and Baltic countries in the mid-1990s, and accession negotiations at the end of the 1990s, particularly in the area of foreign trade regimes, regulatory norms, and agricultural policy.²⁶⁸ In 1995 Estonia decided to sign a free trade agreement with the EU without any transition period protecting the Estonian market and local producers, and underline their desire for deeper integration, which definitely allowed a speeding up of accession negotiations later on with the EU.²⁶⁹ Hereby, Latvia and Lithuania initially requested transition periods to preserve the trilateral free trade area of the Baltic countries should all three Baltic countries not join the EU simultaneously and to have a transition period in phasing out free trade agreements with Ukraine. Although the need for transition periods disappeared during negotiations, the fact itself reflects the importance of liberal economic policies for Latvia and Lithuania. Despite radical changes in the Baltic countries during the European integration process, all three countries have retained the reputation as open economies with a business friendly regulatory environment.

²⁶⁸ For further details, see for example Toming 2011, and Vilpišauskas 2003.

²⁶⁹ M. Laar, "Estonia's New Beginning" in *Estonia's Way into the European Union* (compiled by K. Rannu), Estonian Ministry of Foreign Affairs (2009), 8–15.

The debate about how liberal or mercantilist the EU should be in general and how much liberalism is possible for small member states has been ongoing after gaining EU membership. In 2010, the MFA vice chancellor Marina Kaljurand, raised a rhetorical question as to whether a demand for protectionist measures would also develop in Estonia, be it in the form of preferring to products as “made in Estonia” or favouring Estonian companies and workers in the EU. Her answer was clearly negative: “Hardly. It is not impossible that some protectionist proclamations may be heard, but they will not garner broad support. Estonia’s current economic model has been sufficiently successful, and today the efforts of the public and private sectors are directed at overcoming the economic crisis as successfully as possible. As a popular saying goes – one should not waste a good economic crisis. It is increasingly recognised that there is no positive or negative protectionism. There is only one – trade-restricting protectionism. And even if some protectionist measure seems to be beneficial in the short term, these measures are not good in the mid- and long-term.”²⁷⁰

At the same time, assuming that neo-mercantilist countries encourage the promotion of exporting sectors by the state to ensure these companies will be competitive internationally, in practical terms the shift from liberal ideology prevailing in Estonia in the early years of independence, to neo-mercantilist views offering support to Estonian firms exporting abroad, could be observed. More precisely, in total 356 million EEK (approximately 22 million EUR) have been used for export grants and loans delivered by Estonian Enterprise and KredEX, supporting 541 Estonian companies and their export capability development during the years 2004-2009. Additionally until 2000, several foundations promoting innovation, tourism, and regional development, etc. operated under different ministries in Estonia, which were integrated under the institution named Enterprise Estonia in 2000. One of the aims of the institution is to support the country’s competitiveness, increasing export capability and the internationalisation of Estonian companies. From 2001 Enterprise Estonia has mainly offered support in the form of export planning programmes and export market supporting programmes, which from 2004 will be co-financed from the European Union structural funds. The importance of supporting export has been stressed by local politicians and diplomats, especially in the light of the recent economic recession in Estonia. In the wake of the economic crisis in 2008, former Estonian Prime Minister, Andrus Ansip, stipulated the new growth potential from the Estonian economy should result from the country’s exports, stressing that

²⁷⁰ M. Kaljurand, “Estonia – Watchdog of free trade” in *Estonian Ministry of Foreign Affairs Yearbook*, 2010, 45–52.

financial support by the state to exporting companies has increased remarkably.²⁷¹ Issues related to supporting exports have also been the subject of heated debates among politicians, e.g. in 2009 the former Minister of Economic Affairs and Communication, Parts, and the former Minister of Legal Affairs had intensive discussions with regard to draft legislation on offering state guarantees to exporters and establishing an institution offering guarantees in the EU and OECD countries.

All three Baltic States have decided to join the euro area which can also be seen as a step away from the liberal path and towards the neo-mercantilist model. According to views of Bank of Estonia, in 2005 the main motivation behind Estonia's decision to join the euro area was related to benefits of the monetary union through increased trade and financial integration, as well as higher economic growth and real convergence. Although the initial target date for January 2007 was not reached due to growing macroeconomic imbalances as well as pressures related to the overheating of the economy, which became most apparent during the years 2005–2007, Estonia successfully fulfilled the Maastricht criteria in 2010 and adopted the euro in January 2011. Even despite the economic recession gripping the euro zone in 2011, local policy-makers were expecting an increase in business and investor confidence in economic relations with Estonia, as well as increased economic stability in Estonia.²⁷² The decision to adopt the euro in 2011 was directly related to another decision made 20 years ago, when Estonia's government instituted a currency board system and fixed the Estonian kroon to the German mark until 1998 and to the euro from 1999. As stipulated by former Minister of Economic Affairs and Communication, Juhan Parts, "Estonia decided to delegate its monetary policy because a small and open economy like Estonia cannot have exchange rate stability, capital mobility, and an independent monetary policy at the same time. The goal has been to ensure trust in the currency and be open to international capital flows".²⁷³

However, in 2014 economic growth in the Baltic States was the fastest in the only non-euro member (Lithuania), which also indicates that while common currency is contributing in terms of stability and security, it might have a slowing effect to economic growth.

Liberal trade and economic openness has also paid its price on foreign trade balance. Mainly based on the rapid increase in domestic demand in Estonia, especially during the boom years in 2006 and 2007, trade balance has been in the European

²⁷¹ A. Ansip, "Majanduskasvu peab vedama eksport", *Eesti Päevaleht*, September 13, 2008, <http://epl.delfi.ee/news/eesti/ansip-majanduskasvu-peab-vedama-eksport.d?id=51142009>

²⁷² R. Lättemäe, "Estonia's Preparations for Joining the Euro Area" (Bank of Estonia: Kroon & Economy, 2009), No. 3, 6-10.

²⁷³ J. Parts, "Estonia and the European Debt Crisis", *Cato Journal*, Vol. 33, No. 2 (2009), 269–274.

Union's favour as well in trade relations between Estonia and the EU. Firstly, higher growth rates of Estonian exports and imports should be stressed, especially from 2005. In the last ten years Estonian external trade with other EU member states has annually increased on average by 9.5 percent and with countries outside the EU by 9.7 percent, in comparison to the EU-28 external trade annual growth rates which were, respectively, 3.5 percent and 6.3 percent. Even despite the temporary setback in 2009 induced by the economic crisis Estonian exports to third countries outside the EU has shown higher growth numbers (an annual average growth rate of 16.4 percent). Thus, a preliminary conclusion could be drawn that Estonia has, in general, managed to exploit the advantages of the European Union's common commercial policy, especially with countries outside the EU.

Asymmetry in the form of continuous trade deficits from a Baltic States' perspective could partially be explained by the neo-mercantilist characteristics of the Germany economy, focusing on trade surplus, wage moderation, etc. At the same time, based on the composition of bilateral trade relations between the Baltic States and Germany, one could argue the dynamics of external trade is in accordance with the liberal trade theory, stipulating that large countries are supposed to be net exporters in scale-intensive industries.

Both tendencies contradict the neo-mercantilist view that a balance of trade surplus should be achieved to accumulate wealth and contribute to social and political objectives. Particularly, a current account deficit driven by booms or deteriorating export performance is often viewed to be problematic. In general, due to the openness of a country, more attention should be paid to the vulnerabilities to external shocks in small open economies.

How liberal have the Baltic States been before and after their EU accessions, and how has the accession into euro area impacted the economic freedoms in Estonia and Latvia? According to the Heritage Foundation's Trade Freedom Index²⁷⁴ during the period 1999–2005 Estonia was the country with the most liberal trade policy. In comparison to other Baltic countries, the Economic Freedom Composite Index was highest in Estonia during the whole period from 1995–2014, showing high values especially in areas of investment freedom, trade freedom, and business freedom. At the same time, although foreign trade volume remarkably increased in Estonia, especially from 2004, economic decisions made and macroeconomic tools used have, in principle, contributed to the sustainability of Estonian kroon to speculative attacks, generated a stable fiscal environment, and attracted FDIs. The country's openness to trade also resulted in high trade deficits and current account deficits until 2009.

²⁷⁴ Heritage Foundation's Trade Freedom Index, available <http://www.heritage.org/index/heatmap>

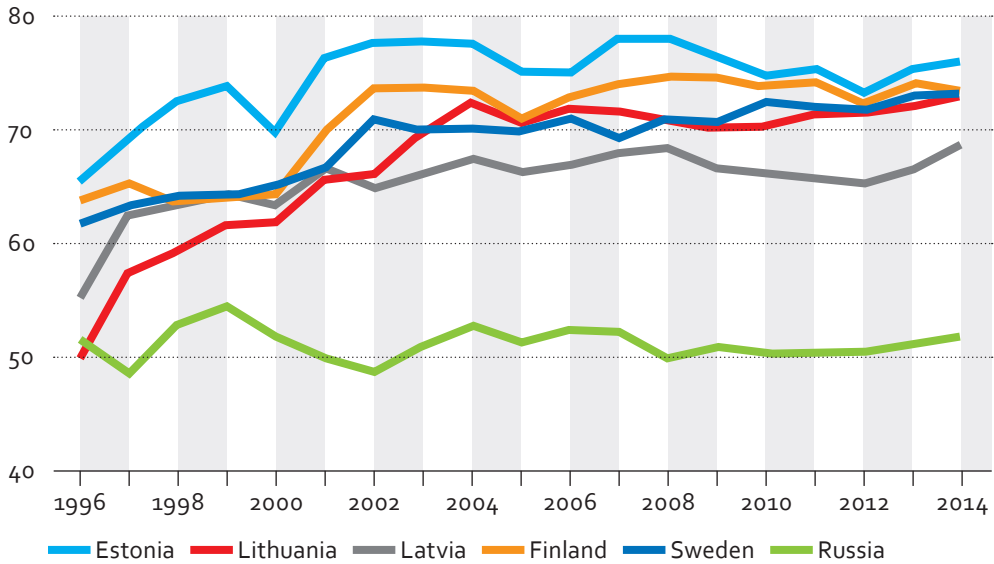


Figure 1: The dynamics of the Heritage Index of Economic Freedom in 1996–2014
 Source: Heritage Foundation's Trade Freedom Index

WHAT ARE THE OPTIONS FOR THE BALTIC STATES IN THE NEO-MERCANTILIST "GERMAN GAME"?

In analysing the economic performance of Baltic countries in the EU, higher growth rates of the exports and imports of the Baltic countries should be stressed, starting from 2005. Even despite temporary setbacks in 2008–2009 induced by the economic crisis, a preliminary conclusion could be drawn that Estonia, Latvia, and Lithuania have, in general, managed to exploit the advantages of European Union's common commercial policy.

However, there are also growing concerns. First, trade relations between the Baltic countries and the EU as a whole are growingly asymmetrical and are reflected in constant trade deficits from the point of view of all Baltic countries. In intra-EU trade, the largest trade deficit in all three countries occurs in trade with Germany, showing some signs of deficit reduction during the years of economic recession, but rapidly increasing again from 2010. Baltic countries main exports to Germany are machinery and equipment, wood and wood products, and other manufactured goods, and importing machinery and equipment, metals and metal products, and

transportation vehicles. Also, trade relations with Germany as one of the most influential countries in the EU are extremely important for the Baltic countries, whereas they only rank as second-order trading partners from a German perspective.

Although the recent global financial crisis has led to some adjustments in the trade balances of the EU member states, trade between member states is still affected by large and persistent imbalances. For more than a decade a group of EU countries have consistently run high surpluses both in intra-EU trade and in the global arena, based on the data of the trading of goods. Germany, the Netherlands, Belgium, Denmark, and Ireland are the only member states of the EU with permanent intra-EU trade surplus and a total balance of trade surplus during the period 2002–2013. Although trade volumes have decreased during the recent financial crisis, the trade balance of these countries has remained positive during the whole period, whereas in other EU member states, including countries which have already had long-standing surpluses from the mid-nineties, such as Sweden and Finland, trade deficits (particularly *vis-à-vis* intra-EU trade partners) occurred during the recent financial crisis.

The persistent trade surplus of these five countries has been associated with a high degree of competitiveness, which is reflected in their rankings in the Global Competitiveness Index. In 2013–2014, Germany ranked 4th, the Netherlands 8th, Denmark in 15th place, Belgium 17th, and Ireland 28th.²⁷⁵ However, roots of the trade surpluses do not derive only from a high degree of competitiveness. Trade surplus in the Netherlands and in Belgium, within the European Union, and in total world trade, has also been associated with the “Rotterdam effect”.²⁷⁶ The surplus in Ireland has been interpreted as a result of the large share of multinational companies in the country’s economy due to Ireland’s attractive corporate tax system, so the country serves as an export platform for multinational enterprises. The same applies to Denmark, accompanied with advantages stemming from the country’s location on the Baltic Sea and being the only Scandinavian country which is connected to mainland Europe. In Germany, trade surplus has been associated with the neo-mercantilist views dominating this country.

In the current situation of the euro area, Germany represents a good example of the mercantilist economy in the context of state building and industrialising, as the country has focused, among other things, on trade surplus, production and productivity, wage moderation, and the compression of domestic consumption,

²⁷⁵ See also http://www3.weforum.org/docs/GCR2013-14/GCR_Rankings_2013-14.pdf

²⁷⁶ The “Rotterdam effect” refers to the phenomenon that goods from non-euro area countries are recorded at the port of arrival (e.g. Rotterdam or Antwerp) as extra-euro area imports, even if they are subsequently re-exported to another euro area country.

etc.²⁷⁷ The same model can also be seen in a broader context when analysing Germany's hegemonic position in the EU – the relative weight of export-led accumulation in the “Model Deutschland”, the country's “ecological dominance” in the euro zone, as well as institutional flaws in the design of the euro.²⁷⁸ It has even been argued that German neo-mercantilism has caused the current economic recession in Europe, and that reasons for the recent economic and political situation in the European Union are related to links between capital accumulation and export surpluses, “a situation in which, as is the case in Germany, most of the net external balance, are realized within Europe itself”. According to critics, “In Germany it destroyed the dynamics of the domestic markets and provoked vulnerabilities of trading partners that will backfire on Germany”. Thus, the situation also involves risks for countries with trade surplus.²⁷⁹ In the last ten years, Germany as well as the Netherlands and Austria, have implemented a neo-mercantilist trade policy, expanding exports within the EU and euro zone and increasing in competitiveness when compared to their partners (like Greece, Spain, Portugal, Romania, Bulgaria, and Hungary, etc.), where trade deficit, with respect to Germany and other stronger European economies, has gradually increased.²⁸⁰

Thus, in practical terms neo-mercantilist views are prevailing in some EU member countries, supported by the economic structure of these countries by exporting high technology and capital goods. In practical terms, during the period 2000–2010, Germany was the only economy among the EU-15 member states, who managed to increase their share in world export as well as in the European Union's total export. At an EU level, practical trade policy work seems to be inspired to a great extent by neo-mercantilism and some elements of mercantilism like the promotion of exports and the pro-active role played by the EU-Commission actively intervening abroad in the interest of European-based companies, as well as dismantling trade barriers of third countries.

As stated: “the absence of an intra-European mechanism for redistributing surpluses requires the deficit countries to undertake the adjustment by going into recession.

²⁷⁷ S. Cesaratto, “Europe, German Mercantilism and the Current Crisis”, Department of Economics, University of Siena, No. 595, 2005.

²⁷⁸ B. Jessop, “The Eurozone Crisis and why it is so hard to Resolve”, 2012, <http://www.lancaster.ac.uk/cperc/docs/Jessop-Eurozone-DELC-February%202012.pdf>

²⁷⁹ H. Flassbeck, “German Mercantilism and the Failure of the Eurozone”, 2012, <http://yanisvaroufakis.eu/2012/04/21/german-mercantilism-and-the-failure-of-the-eurozone-guest-post-by-heiner-flassbeck/>

²⁸⁰ E. Toussaint, “The euro crisis and contradictions between countries in the periphery and centre of the European Union”, CADTM, 21 November 2013, http://cadtm.org/spip.php?page=imprimer&id_article=9624

The surplus countries will therefore suffer negative repercussions on their exports and on the related level of employment. They may still maintain their net position with a trade surplus, but at a reduced overall level of activity, with, thus, higher levels of unemployment, as Germany has today”.²⁸¹

But at least in Estonia’s case political priorities (mainly security related) have prevailed over economic logic and needs, as stated by the current Estonian President, T.H. Ilves, “It would be difficult to imagine the recovery of the European Union and the euro zone without Germany taking the lead”.²⁸²

THE TRENDS IN 2014 AND STRATEGIC OUTLOOK FOR 2015

The year 2014 was in many ways a stabilizing year for the EU and the euro area: collective solidarity measures succeeded in cooling down the financial crisis and grew a greater belief, especially in the financial sector, that the liberal trade model has failed and should make room for a centralized toolbox of stabilization and redistribution, reducing the effects of a liberal market economy. With the help of financial stability vehicles and agents, balance was achieved between the trade deficit of Southern Europe and investment surpluses of Germany, and joint financial solidarity funds, keeping European consumptions slowly growing, but also leading the EU even further away from the traditional liberal market logic.

From a Baltic perspective, 2014 offered the final option to compare the performance of non-euro member states and euro area members, which ended with the conclusion that accession to the euro area and a growing tendency for neo-mercantilist activities can cause slower economic growth. But even when Latvia, and especially Estonia, showed some signs of slowing down, the Baltic States were in 2014, and are projected to be in 2015, among the fastest growing economies of the EU. It will be achieved with a price on growing consumption, growing governmental debt, and additional export subsidies, and will be supported by growing dependence (and subsidies) on EU funding. As a result, at least in Estonia’s case, the share of the business sector will decrease and the public sector will grow.

²⁸¹ E. Toussaint, “The euro crisis and contradictions between countries in the periphery and centre of the European Union”, CADTM, 21 November 2013, http://cadtm.org/spip.php?page=imprimer&id_article=9624

²⁸² T.H. Ilves, Tānane Euroopa vajab rohkem “Saksamaad” (in Estonian), *Postimees*, 08. juuli 2013, <http://www.postimees.ee/1294228/ilves-saksamaa-riigipeale-tanane-euroopa-vajab-rohkem-saksamaad>

In an ideological debate, it seems that neo-mercantilist ideas will find growing support not only among the political elite but also among the middle class, offering higher short term consumption, more jobs, and at least seem to be more secure. This process seems to be stronger in Estonia (which traditionally tends to be mostly radically liberal) and softer in Latvia and Lithuania.

In 2014 Estonia rhetorically and practically supported all new initiatives of market control, starting from growing budgetary control for member states, banking supervision, and also direct financial support to indebted member states and their creditors. Estonia actively supported the EU Financial Framework for 2014-2020²⁸³, which is based on current neo-mercantilist preferences where Germany is seen as the engine and industrial heart of the community, Southern Europe as the consumer and aid-recipient; and solidarity promoted as the central value to keep this model effective.

CONCLUSIONS

Estonia, Latvia, and Lithuania have commonly been described as good examples of the liberal state model. At the same time, some of their main trading partners (such as Germany, the Netherlands, and Austria, as well as some Scandinavian countries) have been described as neo-mercantilist countries, promoting their economic growth by expanding exports, seeking for a balance of trade surplus, and increasing the level of government foreign reserves. This approach is also supported by their economic structure by mainly exporting high technology and capital goods. As a result of deeper European integration, the Baltic States openness to trade has resulted in high trade deficits and current account deficits, as well as asymmetry, particularly with regard to trade relations with Germany. At the same time there has been no diplomatic reaction to the asymmetry in trade – instead, Estonia for example, has continuously stressed Germany's role as an engine of the recovery of the EU after the crisis. This has created a situation which is both economically unfair and unsustainable for the Baltic States – but is neo-mercantilist protectionism a better option?

Among Estonia's political elite, protectionist measures are in general considered ineffective in small open economies, given their small size, relative to some of their

²⁸³ European Commission, Multiannual Financial Framework, 2014, http://ec.europa.eu/budget/mff/index_en.cfm

main trading partners. Thus, free trade is considered optimal for an economy, whereas trade policy is an inefficient tool for the redistribution of income. But in practical terms it must be admitted that if the country's manipulative ability depends on the relative size of its trading partners, it leaves less bargaining power for small countries. Also, as small countries are in general highly dependent on imports and exports, and if their exports are geographically specialized, small countries are more vulnerable to exogenous economic shocks, thus, due to a country's size its' strategic policy tools – like neo-mercantilism, protectionism, and subsidies – are, *per se*, limited.

The disparity in openness and asymmetry in trade relations (i.e. small economies are usually more open and highly dependent on trade) definitely confront Estonia's previously liberal-minded economic policy with difficult challenges, as small countries are more vulnerable to external demand shocks. In the long term, particular attention should be paid on avoiding drastic changes in aggregated demand, including changes in the dynamics of exports and imports.

LATVIA IN A “GENUINE” ECONOMIC AND MONETARY UNION

by Aldis Austers

As of 1 January 2014, Latvia started participating in the Euro zone. However, Latvia's path to the euro was not even, as it had to undergo periods of boom and bust before it was allowed to replace its national currency with the euro. It is a great geopolitical achievement – without any doubt, in particular in the light of Russia's recent aggressions against its neighbouring countries. Moreover, through the adoption of the euro, Latvia has gained a seat in the influential Executive Board of the European Central Bank and, with that, a voice in the world's financial affairs.

In economic terms, on one hand, Latvia's attractiveness to foreign investment has positively increased, as witnessed by improving sovereign ratings. The positive effect from the euro should also be felt in Latvia's trade, as Euro zone countries constitute 31 percent of Latvia's exports and 41 percent of imports. With Lithuania's accession to the Euro zone as of this year, this share will increase to 49 percent of exports and 58 percent of imports. Moreover, this positive impact will be felt also in trade with other trading partners outside the Euro zone, as the euro is the second most popular currency when invoicing.

On other hand, as will be shown later in this article, investment flows to Latvia are slowing. Also, trade performance is down due to economic problems in other Euro zone countries, and Russia. Contrary with other new entrants to the Euro zone, Latvia did not see price increases with the euros introduction (there was not even a public perception to a rise in prices). Slowing economic growth, in combination with price dynamics close to deflation, suggest Latvia's economy is experiencing developmental problems.

The true economic consequences of Latvia's membership in the Euro zone will become apparent only at a later stage. The risk is that a “one-size-fits-all” monetary policy will

be out of synchronisation with Latvia's needs, most of the time due to Latvia's shallow financial market and limited diversification of the economy (a perennial problem to all small economies). It is extremely good that Lithuania has joined the Euro zone – it will increase the circle of Latvia-related economies inside the Euro zone.

However, it is very troubling to see economic woes deepening inside the Euro zone. This makes Latvia's economy suffer. Therefore, the main policy prescription for Latvia's government, and central bank, is to put all their weight behind a swift resolution of institutional problems besetting the Euro zone. More integration is required. Moreover, Germany is a false friend to Latvia. Latvia will never belong to the core of the Euro zone – and, even neo-liberally minded, it has to think in terms of the peripheral economy and, therefore, align its position with other peripheral Euro zone member states.

ECONOMIC DEVELOPMENTS IN THE EUROPEAN UNION AND LATVIA

As expected, there has been little cheerful news about economic developments in the Euro zone and also with that, the European Union in 2014, and financial fragmentation of the Euro zone in terms of interest rate differentials has continued to widen. The beginning of 2014 was marked by economic decline, and, despite some recovery during the second part of 2014, overall GDP expansion did not exceed the meagre 0.8 percent in the Euro zone and 1.3 percent in the EU. Inflation did not lift from the fraction of a percent point (0.5 percent) and unemployment remained as high as it was in 2013 – above 11 percent. What is important is that in 2014 economic woes did not spare the European “economic powerhouse”, Germany, which also saw its economy shrinking. There was some good news from Greece, Portugal, and Ireland, yet, at the same time, the economies of Italy and France have turned even more troublesome than earlier. Deteriorating public finances and competitiveness, compounded with slack structural reforms, were the markers of these two countries. What is worse, Italy is about to reach an unsustainable level of public debt (135.6 percent of its GDP in 2014). In fact, the sovereign credit rating of Italy was downgraded recently by Standard & Poor's to “BBB-”, a level just one notch above “junk” grade, and, with that, restructuring of some part of Italy's public debt seems very probable now. If Italy falls off the proverbial cliff, France would likely follow.

According to commentators, recent economic calamities constitute a double-dip recession in the Euro zone. This time it is self-imposed, caused by unresolved

institutional deficiencies and policy mistakes. The widely expected miracle of economic growth, which would have alleviated problems, has not happened. On the contrary, the Ukrainian conflict and Russian economic countersanctions have made the situation worse. Falling oil prices provide some relief, however, the hesitation with labour market reforms in high-debt countries, and reluctance from those countries who can afford to introduce financial stimulus to do so, aggravates the situation. The European Commission in its autumn 2014 economic forecasts concluded that the EU's recovery appears particularly weak, not only in comparison to other advanced economies but to historical examples of post-financial crisis recoveries as well. The Commission blames an abnormally low level of investment in the European economies (around 20 percent of the GDP in 2013) and ongoing deleveraging. The OECD²⁸⁴, for its part, points towards excessive fiscal consolidation and the contractionary monetary policy of the European Central Bank. Yet European economic mavericks,²⁸⁵ for their part, insist there is no "investment gap" and that supply shortfalls (high interest rates or inaccessible finance) are not to be blamed. Instead, weak aggregate demand due to the rapid demographic slowdown is the major cause of the slump, they claim, and, hence, not investment but income and demand promotion should be the focus of economic revival policies.

Economic developments in other parts of the world are not helping resolve European economic problems. China is slowing down, Japan's growth is still meagre, and Russia, an important supplier of energy resources to Europe and a market for investment goods and finished commodities, is approaching a state of free fall due to the conflict in Ukraine and mutual sanctions applied by Europe and Russia. Hence, the external economic environment has become highly unpredictable. The good news is the continuing decrease of oil prices through 2014, and the revival of economic growth in the US.

Latvia's economic performance, compared to other EU member states, looked impeccable in 2014. Latvia introduced the euro on 1 January 2014 and gained a seat at the Executive Board of the European Central Bank. With growth of 2.6 percent, falling unemployment (down to 11 percent), a limited current account deficit (-2.2 percent), stable prices (0.8 percent) and diminishing public debt (40.3 percent), Latvia seems to exist in another reality. According to the European Commission's forecasts,²⁸⁶ these positive trends in Latvia will continue in 2015.

²⁸⁴ *OECD Economic Outlook*, Volume 2014/1.

²⁸⁵ Daniel Gros, "Investment as the Key to Recovery in the Euro Area?", CEPS Policy Brief, no. 326, 18 November 2014.

²⁸⁶ "European Economic Forecast Autumn 2014", *European Economy* 7/2014, 2014.

However, there is some worrying news in relation to Latvia too. *First*, Latvia's economic growth is slowing down, and the forecasts are being revised downwards (in 2013, the forecasted GDP growth for 2014 was 4.1 percent). On balance, productivity developments are pushing the economy ahead, while the shrinking population, the Russian economic counter-sanctions and recent collapse of the Russian rouble, as well as the economic woes of the Euro zone are acting as a drag on Latvia's economic growth. *Second*, although 2.6 per cent may seem a good result for a Euro zone country, for a catching-up economy it is not that impressive. Latvia still makes less than two-thirds of the EU-15 average income level (59 percent in 2013 in PPS standard per capita, up by 4 percent from 2012²⁸⁷) and there is a long way to go before the income level will equalize with the most developed member states. *Third*, investment levels have been falling in Latvia, despite the introduction of euro, investor friendly taxation, and improving sovereign credit ratings. What is more, commercial banks in Latvia have continued to deleverage in 2014. The falling rate of investment will certainly affect productivity development in future. *Fourth*, the governmental sector in Latvia has continued to diminish and has reached the lowest level in the EU – the state budget of 2015 makes only 29.5 percent of the GDP. For a welfare state, this is an extremely low level. Latvia's ability to spend on public investment and services, inter alia on defence and health, will be very constrained. If this diminishing trend is not reversed, the government will have to face growing popular frustration.

THE PERIL OF DEFRAGMENTATION OF THE EURO ZONE HAS NOT RECEDED

The situation in the European financial markets has somewhat stabilized and fears of an imminent collapse of the Euro zone receded in 2014. Notwithstanding that, the major problem is still there and is best described as a situation in which “correct economic policy is no longer consistent with the European treaties”.²⁸⁸ In the European unification project, economic efficiency driven integration was given precedence over political integration. Thus, the common currency was introduced without common fiscal and labour policies. The problem is that putatively neutral integration has produced winners and losers, and more inequality, e.g., between Europe's North and South and also inside member states like Germany. Without

²⁸⁷ Eurostat, Purchasing Power Parities (PPPs), price level indices and real expenditures for ESA2010 aggregates, table code [prc_ppp_ind], last update: 11.12.2014.

²⁸⁸ “OECD Says ECB Runs Contractionary Monetary Policies”, *Eurointelligence*, November 26, 2014.

appropriate wealth redistribution policies in place, the clash of interests of these groups of winners and losers risks turning into a protracted conflict. Now European unification has reached a stage of integration when further economic integration is impossible without effective political (i.e. redistributive) mechanisms. Yet, without improved trust among the member states political integration will not advance, and the situation is further complicated by a widely shared disgust of delegating more power to European institutions.

It is worrying that the “one-size-fits-all” monetary statistics reveal very little about the actual state of the economy in the Euro zone, and one has to treat economic developments at the core, and in the periphery of the Euro zone, differently. In fact, the economic differentials are huge between the core and periphery: unemployment – in Germany 5.1 percent, while in Greece and Spain around 25 percent; bond yields – in Germany 0.72 percent, in Greece 8.2 percent; interest rates on new loans of up to one year – in Germany 2.77 percent; in Greece – 5.54 percent.

In Germany, the economy will continue to stagnate in 2015, despite being close to full employment. The economy is suffering from a shrinking population and also from growing inequality. The savings rate is high, yet, at the same time the rate of private investment is very low. Export continued to propel economic growth; nevertheless, the surplus of the current account of 7.1 per cent is more a sign of weak domestic demand and less about a sound state of economy. The German economic policy-makers believe there is plenty of private money around desperate to find good investment opportunities, therefore, governmental intervention is not necessary, in fact - it would even be damaging as it could spoor unwanted inflationary pressure.

The economies of the periphery countries of the Euro zone, on the other hand, are characterised not only by low growth, but also very high unemployment and deepening indebtedness problems. Low inflation in the Euro zone (0.5 percent in 2014) is in fact as damaging as deflation, as it encourages savings over investment, and with that it chokes demand, causing debt to spiral downwards faster. What is more, it hampers efforts to equalise competitiveness among peripheral and core economies of the Euro zone. Under the conditions of low inflation, it is only through real wage cuts and price deflation that peripheral countries can improve their competitiveness against the core countries, yet, it makes the debt burden even more of a weight to bear.

According to economic textbooks, what the Euro zone needs is a fiscal loosening, that is, the periphery should be allowed to run larger budget deficits and the ECB buy newly issued bonds from those countries. Peripheral economies should also commit themselves to structural reforms in order to boost their long-term growth

credentials, which would allow them to borrow more.²⁸⁹ However, the monetisation of public debt is against Euro zone rules and structural reforms extremely unpopular and difficult. Yet, it is the unpalatable truth that, if no action is taken, under the current framework a Japan style economic stagnation will follow, and that could last many decades (according to some observers it could even take up to 40 years). Taking into account the Euro zone is not a unitary state, an entrenched stagnation and widening defragmentation would very likely lead to a collapse of this monetary project.

POLICY RESPONSE – MOVING TOWARDS A GENUINE ECONOMIC AND MONETARY UNION?

At the end of 2012, European institutions unveiled their vision for a genuine economic and monetary union and presented a roadmap of actions. Since then, several noticeable actions have taken place at a European level.

First, the fiscal surveillance framework and coordination of economic policy making has been strengthened. 2014 was the first year when all newly established rules, inter alia related to the macroeconomic imbalance procedure (the Six-Pack), strengthened fiscal surveillance in the Euro zone (the Two-Pack), and a new fiscal framework (the Fiscal Compact), became operational.

Second, in regards to the Banking Union, a single banking supervision mechanism and a single bank resolution mechanism was established. The purpose of these mechanisms is to delink failing systemically important banks from weak sovereigns. In November 2014, the European Central Bank took over supervision of around 130 of Europe's largest banks. In addition in 2014, a Single Resolution Mechanism was established consisting of a Single Resolution Board and a Single Resolution Fund. The Single Resolution Fund will become operational from 2016, and the total target size of the fund will equal 1 percent of covered deposits of all banks in Member States participating in the Single Supervisory Mechanism (around 55 billion euro). In addition, a decision was made to establish direct a recapitalisation instrument of 60 billion euro for Euro-area financial institutions within the European Stability Mechanism (ESM).

Third, in November 2014, an Investment Plan for Europe was presented by the new European Commission. According to this plan a European Fund for Strategic Investments should be created by June 2015, and within three consecutive years

²⁸⁹ "The Pendulum Swings to the Pit", *The Economist*, October 25–31, 2014, 21–24.

(2015–2017) 315 billion euro should be mobilised for public investment in different infrastructure projects of European significance, and in support of small and medium sized companies around the European Union. It is relevant to note that these 315 billion will essentially consist of public guarantees for private sector investments in selected public infrastructure projects. By the end of 2014, member states proposed 2000 infrastructure projects worth 1.3 trillion euro.

Fourth, the European Commission has announced it will work towards the creation of a Capital Markets Union as a medium term goal. The aim of this Union will be to reduce financial fragmentation of the EU's financial markets and to diversify the supply of finance at a lower cost. In Europe, bank credit is a major source of financing capital investments, while equity markets have very limited importance. Moreover, only 44 percent of newly issued equity in the Euro area has cross-border ownership. According to the ECB President, Mario Draghi, "The less public risk-sharing we want, the more private risk-sharing we need."²⁹⁰ The Capital Market Union, along with the Banking Union, will represent an essential step in the direction of private financial risk sharing among residents of the Euro zone.

Fifth, on an international scale, the European Union has embarked on a series of trans-continental trade deals. In 2014, an agreement was reached between Canada and the European Union Comprehensive Economic and Trade Agreement (CETA). This treaty has been called historic, as it will remove more than 99 percent of tariffs between the two economies, and is broader in scope and ambition than the North Atlantic Free Trade Agreement (NAFTA). The negotiations on a trade agreement with the US, the Transatlantic Trade and Investment Partnership (TTIP), and on the EU-Japan Free Trade Agreement are ongoing. The US agreement aims to not only remove trade barriers across all sectors, but also remove differences in technical standards and approval procedures. The conclusion of negotiations on this partnership is difficult to predict. Germany has recently stated its opposition to investor state dispute settlement provisions, and, according to the outgoing European trade commissioner, Karel van Gucht, if the TTIP is not agreed on by 2015, it may never happen, due to the 2016 US presidential election.

²⁹⁰ "Stability and Prosperity in Monetary Union", speech by Mario Draghi, President of the European Central Bank at the University of Helsinki, Helsinki, November 27, 2014.

DESPITE SOME INSTITUTIONAL PROGRESS, EXPECT EXTREMELY STRONG HEAD-WINDS IN THE FUTURE

Despite steps taken to resolve the institutional deficiencies of the Euro zone, the overall positive economic impact has not yet been felt, and it is not clear whether this will materialise in the near future. The difficulty is that European leaders are forced to resort to a kind of creative manoeuvring – to create something out of nothing. The twin vices are a self-imposed fiscal straightjacket which precludes a fiscal stimulus and an aversion towards permanent fiscal transfers among Euro zone countries.

In fact, it was the activism of the European Central Bank what helped save the Euro zone from collapse, so far. Long-term refinancing operations (LTRO) have provided liquidity to distressed financial institutions since 2008 and outright monetary transactions (OMT) have stabilised bond markets through unrestricted purchases of distressed governmental bonds since 2012. In September 2014, the ECB undertook another set of actions: it cut its target short-term interest rate basically to zero (0.05 percent) and announced plans to massively purchase bonds to push longer-term rates lower. However, recently the limits of the ECB's "whatever-it-takes" policy have become apparent, and it has been noticed that the President of the ECB, Mario Draghi, is becoming more and more exasperated.

First, the ECB clearly sees the perils of depressed economic development; however, without the governments of member states acting on the fiscal side, the ECB has no effective instruments in its hands except direct purchases of government bonds (quantitative easing). Experts put the quantity that is needed to boost prices, and with that economic growth in the depressed economy of the Euro zone, to 2 trillion euro. To Mario Draghi, 1.1 billion euro would be sufficient. So far, through newly introduced targeted long-term refinancing operations, the ECB has succeeded to inject liquidity of only around 110 billion euro. Apparently the banks, which are clients of the ECB, are satiated with money. In this situation the ECB is left with the last option – monetary financing. In fact, in December 2014, the ECB announced a formal target increase to its balance sheet by 1 trillion euro. This means the decision on the first tranche of quantitative easing will happen in January 2015.

Second, activism of the ECB has, reportedly, caused serious frictions among the members of the ECB's Executive Board. Apparently there is a north-south divide among the governors of the national central banks participating in the Executive Council.²⁹¹ This is not good news for the ECB which, according to its statutes, is

²⁹¹ Reportedly, the governors of Estonian and Latvian central banks have supported the stance of Germany's Bundesbank during recent debates in the Governing Council of the European Central Bank condemning the introduction of unconventional monetary operations (quantitative easing).

supposed to distance itself from political and national influences, and act solely in the interests of the Euro zone as a whole. These frictions will make the work of the ECB president more difficult. Moreover, disagreements between the President of the ECB and governor of the largest national central bank, Bundesbank, have taken a personal twist.²⁹²

Third, with two “hats” on its head, the ECB has a conflict in interests, as became apparent during the bank stress test in 2014. On one hand, the ECB is a master of monetary policy in the Euro zone, and as such is not interested in bailing out failing banks as it would boost inflation. On other hand, the ECB is now the supervisor of European systemically important banks and in this capacity the ECB should strive for financial stability in the system, i.e. to save systemically important banks from failure. In the recent stress test, altogether 25 banks failed, only 13 of them still have to raise capital, a total of 9.8 billion euro, which is not such a big amount. However, the results would have been much worse if resilience of the European banks were tested against deflation – a very realistic scenario of development in the Euro zone. For this reason more surprises are to be expected from the banking sector in 2015.

It is very probable that Greece will need a third restructuring of its public debt. Moreover, the willingness of France, Italy, and Belgium to comply with new fiscal discipline rules is to be questioned. The three have missed their commitments for reducing the public deficit so far. The Commission has delayed its verdict until March 2015; however, it is very unlikely the Commission will not dare to challenge these countries in the European Court. Indeed, is it really feasible that every member state becomes as efficient as Germany? There should be some limits to it, otherwise the idiosyncratic politico-economic and social fabric of those “laggard” countries would implode with dire consequences. Moreover, the new surveillance system is difficult to grasp, and opaque. It is good that the new European Commission has announced its willingness to revise that system. Hopefully it will deliver a system based on a single indicator – a sustainable public debt position.

As to Juncker’s investment plan for Europe, its feasibility and macroeconomic impact is under serious doubt. In fact, there is no fresh money to cover newly created guarantees and, hence, no money to cover loses. Moreover, the masters of selected European public projects will have to pass lengthy partnership negotiations and bureaucratic approval. What is more, each project will have to find one or more private investors before qualifying for the guarantee. It will take a lot of time, but

²⁹² Carsten Hefeker, “Conflicts in Substance and Style in European Monetary Policy”, *Intereconomics*, Vol. 49, No. 6 (November/December 2014), 298-299, DOI: 10.1007/s10272-014-0513-z

money is needed right now. One has to also ask why private investors should prefer public projects instead of investment in private projects with more clear commercial rewards. Moreover, if private direct investments have so far disfavoured peripheral economies like Latvia's, what is the magic of the proposed investment plan that would change the opinion of geographic risk-averse private investors? Last but not least, experts point out that only the peripheral economies are in dire need of investment, while core economies are suffering from weak consumption in the Euro zone, and in such cases, the most effective measure is fiscal stimulus.

All in all, the European economy in general, and Euro zone's in particular, need more productivity enhancing measures. The Digital Single Market and Energy Union – recent major headlines of the European Commission along with the investment plan for Europe – are indeed crucial for enhancement of European productivity. Still, liberalization and integration of services sectors, and the harmonization of social safety systems and labour law would bring more economic benefits but are jealously protected by national governments. Besides, with the Russian economy approaching collapse²⁹³, the European Union must find new markets for its produce and diversify energy supplies. Trade deals with other developed parts of the world and deepened economic relations with countries of the Eastern Partnership and Central Asia are steps in the right direction. Once again sustained efforts will have to be invested and results will take time to become apparent.

CONCLUSIONS

The year of 2015 in the European Union promises to be as entertaining as 2014.

First, as of 1 January, Lithuania will become the nineteenth member state of the Euro zone. Lithuania is Latvia's largest trading partner; therefore, this is cheerful news to Latvia's businesses.

Second, 2015 has a great chance of gaining historical importance due to a new crisis in the Euro zone because of the recent destabilization of the Greek government, the

²⁹³ The crash of Russia's economy is very likely, as Russia's currency reserves will not last long – a maximum of two years, and Saudi Arabia has no intention to boost oil prices and the US – to lift financial sanctions introduced against Russia, unless Russia decides to withdraw its military from Ukraine. For more details see Anders Aslund, "The Only Cure for What Plagues Russia", comment on Financial Times' website, <http://www.ft.com/intl/cms/s/0/770f73c2-8541-11e4-ab4e-00144feabdc0.html#axzz3NIeESLgy>

collapse of the Russian economy, and very probably the default of Italy. 2015 will not be a good time for major investment, in Latvia, nor in other Euro zone countries.

Third, the ECB, in its saviour role, has decided to continue with “whatever-it-takes” and will proceed with introducing quantitative easing in 2015. This will have an effect similar to the introduction of “eurobond”, but Germany will certainly decry such measures running against the rules, and, therefore, the German Constitutional Court will have its hands full of work. Latvia should not support Germany, but align itself with other peripheral Euro zone economies. The rule is simple – the stronger the position of leaders in European institutions, including the ECB, the better it is for smaller member states.

Fourth, the incoming Latvia EU presidency will have to deal with the legal proposal from the European Commission on the European Fund of Strategic Investments, which has been recently put forward. Latvia has to persuade its European partners to put more real money behind this endeavour; moreover, conditions facilitating increased investment in peripheral regions of the European Union should be carved out.

Fifth, relative calm in areas of legislation will give Latvia more opportunity, as the incoming presiding member state of the Council of Ministers of the European Union, to propel its particular priorities higher on the European agenda. Latvia has to resort to “niche” and “group” diplomacy within the Union. Promotion of a digital single market and deepening relations with countries of the Eastern Partnership and Central Asia will be good for Latvia and the European Union.

Sixth, last but not least, as for the domestic situation in Latvia, Latvian policy makers should urgently reconsider the taxation policy in Latvia. The distribution of national income is seriously deformed, thus constraining future growth potential. European Union funding is supposed to supplement, but not to replace, local resources. If Latvia’s government cannot deliver extracting more resources from the local economy, others should not feel obliged to cover the gap.

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The Latvian Institute of International Affairs was established in May 1992, in Riga, as a non-profit foundation, charged with the task of providing Latvia's decision-makers, experts, and the wider public with analysis, recommendations, and information about international developments, regional security issues, and foreign policy strategies and choices. It is an independent research institute that conducts research, publishes publications, as well as organizes lectures, seminars, and conferences related to international affairs.

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