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# FOREIGN POLICY “ON THE CHEAP”: LATVIA’S FOREIGN POLICY EXPERIENCE FROM THE ECONOMIC CRISIS

## **Didzis Kļaviņš, Toms Rostoks and Žaneta Ozoliņa**

This article assesses whether the reduction of budgetary allocations to the Ministry of Foreign Affairs of Latvia in 2008–2012 led to more modest foreign policy in the sense of both objectives and execution. After assessing four goals of Latvian foreign policy since 2008 – regional cooperation, bilateral development cooperation, facilitation of Latvia’s economic interests abroad, and relations with the Latvian diaspora – the authors conclude that the decrease in funding for the Ministry of Foreign Affairs had little impact on Latvia’s ability to achieve foreign policy objectives.

**Keywords:** Latvia; foreign policy; diplomacy; budget allocations

Since the beginning of the global financial crisis, Latvia has fought the difficulties and consequences that have arisen from it. The economic shock, and the experience gained in overcoming the crisis, has drawn wide recognition from foreign experts and has even been presented as an example for other countries (Åslund and Dombrovskis 2011), while other experts continue to criticize Latvia’s response (Krugman 2013). In the context of overcoming the economic crisis, foreign policy has not been one of the central themes of research in Latvia,<sup>1</sup> which is why the aim of this article is to fill this gap and focus on Latvia’s foreign policy over the last five years, and, in particular, how budgetary allocations to the Ministry of Foreign Affairs of Latvia have influenced foreign policy. During the period 2008–2012, the budget of the Ministry of Foreign Affairs decreased by 36%. If it turns out that Latvia has managed to reach its foreign policy goals successfully, despite such a rapid reduction of resources, then this example would testify to the fact that the principle of “more with less” really works.

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The article also has a wider objective. Until now, little attention has been paid to research on the effect of material provisions on a state's ability to achieve foreign policy goals. Financing for foreign policy needs is taken as self-evident. The literature hardly ever looks at the effect of an increase or decrease of a budget on the achievement of foreign policy goals and priorities in detail. Therefore, the authors of this article, using Latvia as an example, would like to clarify whether or not there is a decrease in a country's capacity to reach foreign policy objectives when there is a considerable decrease in financing. Considering the economic difficulties that have scarred most economically developed countries, this question is significant not only for Latvia, but also for other countries.

The first section of the article looks at the link between a country's foreign policy and its economic capabilities. While the literature dedicated to foreign policy analysis has not paid much attention to this question, it is possible to identify several assumptions about this connection, which will also form the research framework reflected in the article. The following section analyzes the overall changes in resources available for foreign policy in Latvia since 2008. The authors outline two interlinked indicators, but the key determinant is the effect of budgetary allocations available to the Ministry of Foreign Affairs (MFA). The third section outlines Latvia's foreign policy goals in four foreign policy documents. The last four sections of the article look at the restrictions encountered by the state in a situation of reduced financing for foreign policy. The focus is on changes that have taken place in the following Latvian foreign policy objectives: regional cooperation, bilateral development cooperation, facilitation of Latvia's economic interests abroad, and relations with the Latvian diaspora. These foreign policy goals are among Latvia's most constant political priorities (Ministry of Foreign Affairs of the Republic of Latvia 2011b, 2012a, 2013a) and thus their analysis provides a review of changes in Latvian foreign policy since 2008.

The reduction of budgetary allocations to the MFA is the independent variable, whereas the four foreign policy goals are the dependent variables of this analysis. We conclude that a decrease in financing does not always automatically lead to a down-scaling of foreign policy ambitions.

## **Foreign Policy and the Material Basis of State Power: In Search of a Research Framework**

Does the capacity of a state to implement its foreign policy objectives diminish with a decrease in resources allotted to this sector? Despite the fact that this is a significant question, because it acknowledges a state's level of autonomy in international politics, research literature has not paid it enough attention. The most significant theoretical research dedicated to the analysis of foreign policy has mainly focused on decision making (Snyder, Bruck, and Sapin 2002; Allison 1969; Allison and Zelikow 1999; Janis 1982; Jervis 1976; Holsti 1979; Khong 1992; Hermann 2001), implementation of foreign policy (Smith and Clarke 1985), the effect of various factors, such as public opinion, on foreign policy (Holsti 1992), and mass media's influence on foreign policy (Robinsons 2002). Comparative foreign policy has become its own field of research

(Rosenau 1966; Beasley et al. 2012). There are many textbooks dedicated to foreign policy analysis (Smith, Hadfield, and Dunne 2012; Hill 2003; Neack 2008; Beach 2012; Breuning 2007; Alden and Aran 2012) and diplomacy studies have become a separate discipline (Barston 2006; Berridge 2005; Sharp 2009; Rana 2011). However, in these cases, the link between resources available to foreign policy and foreign policy ambitions has still not been a focus. Thus, the aim of this article is to fill this gap and take the first steps in clarifying whether or not a decline in foreign policy financial support diminishes a state's capacity to reach its foreign policy objectives.

The question of resources allotted to foreign policy has generally been viewed in the context of the material basis of state power. Two conflicting opinions can be identified. The first opinion anticipates a close link between the amount of resources available to the state and its foreign policy. In other words, large and wealthy states will be able to devote a much higher level of resources to foreign policy than smaller and less wealthy states. Furthermore, the literature dedicated to foreign policy research has argued that foreign policy remains one of the most important national policies because a country's security and survival directly depend on it. Therefore, states will be willing to allocate the necessary amount of resources for foreign policy. If the state does not have access to sufficient resources, its foreign policy goals would be difficult to achieve and would have to change to reflect the state's actual capabilities.

Large and wealthy states' foreign policy has a global impact, but small and less wealthy states' foreign policy is restricted to, often unsuccessful, attempts at influencing the nearest regional environment. If a connection exists between a state power's material basis and foreign policy ambitions, goals should become less ambitious together with the decrease in material capacity. This view on the link between a state power's material basis and foreign policy is characteristic of structural realists (Waltz 1979), whereas in the view of neoclassical realists (Rose 1998; Lobell, Ripsman, and Taliaferro 2009) this link is not straightforward and is heavily influenced by various domestic factors such as decision-makers' perceptions. However, this incongruence is perceived as an error, which, at best, does not provide the state with the international influence reflective of its capabilities, and, at worst, can lead to an excessive taking on of international commitments which it is not possible to fulfil with the resources available.

The other opinion anticipates that the link between finances allotted to foreign policy and a state's ability to reach its foreign policy goals is more complicated, and that a state's foreign policy achievements are not closely tied to the material resources available. In this case, it is not a question of a complete separation of the foreign policy content aspect and material basis, but rather the conviction that with fewer resources it is possible to gain better results, in accordance with the thesis that was widely diffused during the crisis of "more with less". This assumption is usually based on a practical necessity to continue implementing effective foreign policy even if a state's resources are impaired, or in cases where resources available to competing states experience a rapid rise. The close cooperation of countries within the transatlantic space and the increasing institutionalization of international politics allow countries to seek allies and partners who share the same views, thereby enabling them to benefit

from resources available to other countries, as well as other governmental and non-governmental actors, to reach their foreign policy goals.

As Marijke Breuning (2007) notes, it is not unusual for states to attempt, and to achieve, foreign policy goals that far exceed their material capacity. Therefore, a state's ability to achieve specific foreign policy goals is only partially dependent on material conditions because many other factors also need to be taken into account, for example, seeking synergy with non-governmental actors, opportunities for economizing on resources, and searching for resources in the international environment. This way of thinking forms the basis for the frequently expressed assertion that with fewer resources it is possible to achieve the same foreign policy goals, with the condition that the foreign policy is well-considered and it is reasonable to believe that other factors influencing foreign policy do not experience unfavorable changes. Since foreign policy is carried out in conditions of restricted resources, the question of a more effective implementation of foreign policy is always on the agenda. However, these days, changes in the distribution of power in the world and repercussions from the economic crisis have forced Western countries to decrease resources for various international activities, making it particularly relevant. It is precisely from this point of view that one should examine NATO progression. In recent years, it has moved towards a smart defense, focusing on EU Pooling and Sharing initiatives, as well as facilitating discussions on whether Western countries should reduce their international activities in the light of the economic recession and reconcile themselves to less international influence.

In order to explore the link between material power basis and foreign policy, the authors of this article have chosen a three-step approach: money, goals, and performance.

First, the article will look at budget changes at the Ministry of Foreign Affairs during the period from 2008 to 2012. Then, attention will be turned to human resources by adapting and modifying Kishan S. Rana's conclusions on performance management in Ministries of Foreign Affairs (2004, 2011). Although changes in the structure or division of finances do not always mean an immediate effect on the quality of the execution of foreign policy, it cannot be denied that in a large part of the literature it is presumed, at least indirectly, that this coherence exists. Therefore, the following two indicators will be used for the analysis:

1. Changes in the budget size of the Ministry of Foreign Affairs point to a causal relationship between foreign affairs tasks proposed and conceived, and those accomplished during the corresponding time period. An increase in budget does not always guarantee that the respective task or priority will be carried out with a higher value. Similarly, budget decreases do not immediately mean that the corresponding foreign policy task will be carried out in a more superficial and incomplete manner. Irrespective of a budget increase or decrease, each case has to be looked at individually. Therefore the article focuses on both foreign policy goals and the process of achievement.
2. The Headquarters-mission ratio compares the total number of employees at the Headquarters of the Ministry of Foreign Affairs with the total number of government representations abroad (embassies, permanent diplomatic missions, and consulates). Coefficient changes over a longer time period indicate the common

development trend in the division of human resources at the Ministry of Foreign Affairs and its ability to implement foreign policy objectives.

Second, the investigation of foreign policy goals is necessary in order to establish whether a decrease in foreign policy financing led to a decrease in the number of objectives. Though there may be a temptation to significantly limit foreign policy activities during times of reduced financing, it must be considered that this may not always be possible, because the function cannot be eliminated solely because there is less money. The complete opposite effect is even possible. During periods of economic recession, pressure can increase on a state's foreign policy to be more active and to take on new functions. It can be assumed that in situations of economic recession, pressure will grow on the diplomatic service to promote national economic interests in representations abroad and provide a larger contribution to the promotion of national export.

Third, the analysis of performance is necessary for ascertaining to what extent Latvia has succeeded in reaching its desired foreign policy goals in conditions of reduced financing. Despite the fact that Latvia is a small state and its foreign policy activities, from a purely quantitative point of view, trail significantly behind not only large states but also other small Baltic Sea Region states, it is not possible to consider all of Latvia's foreign policy goals in one article. The authors of this article will therefore focus on changes that have taken place in these foreign policy goals: regional cooperation (including Baltic State tripartite cooperation), bilateral development cooperation, facilitation of Latvia's economic interests abroad, and Latvian diaspora policy. These foreign policy goals are key and constant Latvian political priorities (Ministry of Foreign Affairs of the Republic of Latvia 2011b, 2012a, 2013a). Therefore, their analysis provides a review of changes in Latvian foreign policy since 2008. The authors have deliberately chosen not to look at Latvia's relations with the EU and NATO, which are also among foreign policy priorities, because the economic crisis has affected representation in these organizations to a lesser degree. This article aims to look specifically at those foreign policy goals where the influence of the economic crisis has been the most noticeable. The principle of "more with less" is tested not on least likely, but on most likely cases, thus increasing the significance of this article's findings.

## **Budget Allocation to the Ministry of Foreign Affairs: Figures and Trends**

The budget consolidation carried out by the government during the period 2008–2012 had an immediate effect on the decrease of the budget of the Ministry of Foreign Affairs. The Ministry's budget for 2008 was slightly more than 58 million euro, but in 2010 the Ministry's annual budget was already just under 37 million euro (see Table 1). Compared to 2008, the expenditure amount of the Ministry of Foreign Affairs in 2010 had decreased by 36%. Despite the minor increase in financing over the next two years, the Ministry's budget was still considerably less than in the period before the crisis. A look at the expenditure of the Administration of the Ministry of Foreign Affairs reveals that the Headquarters reached its lowest point of financing precisely in 2011,

**TABLE 1** Changes to the budget of the Ministry of Foreign Affairs 2008–2012 (EUR)

	2008	2009	2010	2011	2012
<b>Expenditure of the Administration of Foreign Affairs</b>	<b>55,466,685</b>	<b>38,368,494</b>	<b>32,127,046</b>	<b>38,123,941</b>	<b>34,067,337</b>
Expenditure of Headquarters	19,917,767	12,366,957	11,166,924	10,835,177	11,135,812
Expenditure of diplomatic missions abroad	35,207,039	24,641,909	20,847,196	27,175,838	22,793,464
Consular collateral	341,879	1,359,628	112,926	112,926	138,061
<b>Payments to international organizations</b>	<b>1,332,889</b>	<b>1,428,663</b>	<b>1,974,804</b>	<b>2,105,786</b>	<b>4,681,248</b>
<b>Latvian Institute</b>	<b>348,705</b>	<b>166,374</b>	<b>29,836</b>	<b>92,430</b>	<b>92,430</b>
<b>Development cooperation projects and international aid</b>	<b>825,266</b>	<b>12,806</b>	<b>1,148</b>	<b>383</b>	<b>71,526</b>
<b>Other expenditure positions</b>	<b>523,856</b>	<b>2,713,640</b>	<b>2,657,250</b>	<b>2,072,340</b>	<b>2,009,687</b>
<b>Total expenditure (in proportion to annual national budget, %)</b>	<b>58,497,401 (0.81%)</b>	<b>42,689,997 (0.64%)</b>	<b>36,790,084 (0.59%)</b>	<b>42,394,860 (0.63%)</b>	<b>40,922,228 (0.59%)</b>

Note: the budget data of the Ministry of Foreign Affairs has been converted to euros according to the official pegging rate of the Latvian Bank (0.702804 lats per 1 euro).

Source: information provided by the Ministry of Foreign Affairs of Latvia.

while diplomatic mission expenditure was already reduced in 2010. Budget decreases were carried out in accordance with promises made by the Latvian government to international creditors regarding action aimed at the decrease of the excessive budget deficit. In the same way, in proportion to the annual national budget, the Ministry of Foreign Affairs experienced a rapid budget decrease. The Ministry's 2008 budget was 0.81% of the total national annual budget expenditure. In 2010, the budget amount was, in turn, reduced to 0.59%.

A closer look at the budget shows that the biggest decreases concerned regular expenses. In 2008, the total expenditure amount for the Administration of Foreign Affairs was just over 55 million euro, but two years later this sum was reduced to 32 million euro. In five years, since the beginning of the crisis, the expenditure of the Ministry Headquarters was reduced by about half, while diplomatic mission budgets experienced a cut of one-third. Development cooperation projects experienced an almost extreme decrease (from 825,266 euro in 2008 to 383 euro in 2011). All of the small, bilateral development cooperation budget was used for the delivering of experience to Kyrgyzstan, to help parents, non-governmental organizations and social services integrate children with special needs into society. Despite the limited size of the bilateral development aid budget, Latvia continued to provide development assistance even during the years of crisis, through payments to the European Union and other international organization budgets, as well as cooperating with NGOs involved in relevant programs. It is important to note that unlike other expenditure budget positions of the Ministry of Foreign Affairs, payments to international organizations showed an upward trend for the entire crisis period. Compared to 2008, the payments to international organizations in 2012 had increased by more than three times.

In 2010, The Latvian Institute, a state agency which is subordinate to the Ministry of Foreign Affairs and carries out a large part of its public diplomacy functions, also experienced a significant decrease in financing. Compared to 2008, the Latvian Institute budget was reduced by 318,869 euro or 91.4%. Thus, the Latvian Institute was forced to decrease its number of employees from 14 to four.<sup>2</sup>

Since 2008, the Ministry of Foreign Affairs has experienced a rapid decrease in its number of staff (see [Table 2](#)). In 2009, the Ministry was forced to reduce its number of employees from 720 to 690 and a year later it experienced the biggest decrease in its history since the renewal of independence. One hundred and ninety-two positions were abolished at the Ministry, both at Headquarters and at diplomatic and consular representations abroad. This means that the total number of employees in 2009 was less than before Latvia joined the EU and NATO in 2004.<sup>3</sup>

Taking into account the limited budget, the leadership of the Ministry of Foreign Affairs found themselves faced with a dilemma – either close several diplomatic missions abroad or reduce the number of positions at the Ministry, as well as the employee salary fund. The decision was made to reduce the number of staff in diplomatic and consular missions, but not to close them (Ministry of Foreign Affairs of the Republic of Latvia 2011a). The only exception was Latvia's Consulate General in Bonn, which was closed and the property was sold. The Ministry management was not only forced to reduce mission expenditures, but also had to limit the number of work-related business trips.



**TABLE 2** Division of human resources at Headquarters and diplomatic missions for 2008–2012

	2008	2009	2010	2011	2012
Number of staff positions at the Ministry of Foreign Affairs	720	690	528	530	534
Headquarters-mission ratio	1.3:1 (404:316)	1.3:1 (384:306)	1.6:1 (327:201)	1.8:1 (342:188)	1.7:1 (334:200)
Number of diplomatic missions abroad <sup>1</sup>	45	45	44	44	44
Number of rotating employees (% of number of staff positions at Headquarters)	57 (14.1%)	57 (14.8%)	23 (7%)	52 (15.2%)	27 (8.1%)

<sup>1</sup>Before joining the EU and NATO, Latvia had 36 diplomatic missions and consulates abroad. From 2005, the Ministry rapidly developed its embassy network abroad. Embassies were initially opened in Japan, Azerbaijan, and Georgia. In 2006, embassies were opened in Hungary and Egypt, and in 2007 in Slovenia. Latvia currently has 44 diplomatic missions and consulates, of which six are permanent representations in international organizations: UN (New York), UN, OSCE (Vienna), UN (Geneva), EP, EU, and NATO. Latvia's interests abroad are also represented by 140 honorary consuls and 13 honorary consul generals, who are entrusted to carry out representative and consular functions. For comparison, in Latvia there are 37 embassies, 11 international organizations, 22 honorary consulates, and three consul generals.

Source: Information provided by the Ministry of Foreign Affairs of Latvia.

Compared to the number of staff at Headquarters, nearly half of the staff members of diplomatic missions either lost their jobs or were summoned back to Headquarters in Latvia. Undeniably, with the decrease in the number of positions at the missions, the volume of work for the remaining staff rapidly increased. According to information provided by the Ministry of Foreign Affairs, in more than half of the diplomatic and consular missions (57% or 25 out of 44), the ambassador and one diplomat carried out all responsibilities. The much larger average mission size can be explained by the high number of employees in the larger embassies and representations, for example, in the USA, Russia, EU, and NATO.

The decrease in financing was not equitable and for the implementation of several functions it was reduced drastically. The budget allocation for personnel training was the hardest hit and was reduced by more than 90% from 2008 to 2012. If, before the economic crisis, employees of the Latvian Ministry of Foreign Affairs had considerable opportunities to raise their qualifications not only in Latvia, but also abroad, during the crisis years these opportunities were reduced to a minimum.

This information confirms that under the influence of the economic crisis the budget designated to foreign affairs was considerably reduced. A significant number of employees were let go and this influenced the average mission size. The reduction in resources painfully affected resources allotted to bilateral development cooperation, personnel training, and work-related trips.

## Latvia's Foreign Policy Goals

A rapid decrease of resources due to the economic crisis was a significant reason for a change in the procedures for the determination of Latvia's foreign policy goals in 2011, as well as the procedures for accountability on the part of the Ministry of Foreign Affairs. During the period following the renewal of independence, Latvia's foreign policy demonstrated a tendency to produce foreign policy planning documents covering an increasingly shorter time frame.

In 1995, foreign policy priorities for a period of 10 years were proposed (Ministry of Foreign Affairs of the Republic of Latvia 1995). In 2006, the foreign policy planning document covered a shorter time period, up to 2010 (Ministry of Foreign Affairs of the Republic of Latvia 2010). Taking into account the effect of the economic crisis on Latvia's foreign policy, a new format was chosen, aimed at the preparation of an annual report by the Minister for Foreign Affairs on tasks implemented and planned. The report is prepared at the beginning of January, and, at the end of that month, debates take place in Parliament.<sup>4</sup> Thus, since 2008, Latvian foreign policy priorities have been laid out in four foreign policy documents: Latvian foreign policy priorities 2006–2010, Report on foreign policy and European Union matters (2011), Annual Report by the Minister of Foreign Affairs on activities performed and planned in national foreign policy and European Union matters (2012 and 2013). The first document was adopted in 2006 and outlined the main foreign policy aims for a five-year period, until 2010, while the last three documents are annual reports.

The first document (2006–2010) lays out five priorities: increasing the welfare of Latvia's residents; strengthening national security; strengthening democracy and

contributing to the fight against poverty and infectious disease; attracting foreign direct investment and defending Latvia's economic interests abroad; and strengthening ties with the Latvian diaspora and shaping a favorable perception of Latvia abroad (Ministry of Foreign Affairs of the Republic of Latvia 2006).

The first annual report in 2011 is the most thorough and detailed foreign policy document ever produced in Latvia. It does not define a precise shortlist of foreign priorities, but instead outlines a number of issue areas important to Latvia that can hardly be considered as priorities, because they cover practically every foreign policy aspect (Ministry of Foreign Affairs of the Republic of Latvia 2011a). However, at the Parliament when the report was presented, Foreign Minister Ģirts Valdis Kristovskis identified four key foreign policy priorities: deeper integration in the EU and NATO; increased relations with the Latvian diaspora abroad; furthering Latvia's economic interests abroad; and cooperation within the Baltic Sea region and with the eastern neighbors of the EU (Ministry of Foreign Affairs of the Republic of Latvia 2011b).

The following Latvian foreign policy priorities for 2012 were defined in the second annual report: getting the most out of the talks on the EU multiannual budget framework; preparations for the Latvian presidency of the EU Council in 2015; deepening cooperation between the Baltic and Nordic states; and strengthening transatlantic relations (Ministry of Foreign Affairs of the Republic of Latvia 2012a). The latest annual report from 2013 outlines the following Latvian foreign policy priorities: active participation in shaping the future of the EU; favorable outcome of the talks on the EU multiannual budget framework; preparations for the Latvian presidency of the EU Council in 2015; strengthening dialogue with other Baltic Sea region countries; participating in regional energy cooperation projects; ensuring a favorable outcome of the NATO summit in Chicago; strengthening the strategic partnership with the United States; good neighbourly relations with Russia; facilitating Latvia's external economic relations; and strengthening relations with the Latvian diaspora (Ministry of Foreign Affairs of the Republic of Latvia 2013a).

Considering the drastic cuts in the Ministry's budget since 2008, it could be assumed that with fewer resources available, Latvia's capacity for reaching foreign policy goals should also decrease. This assumption is put to the test in the following sections of the article for the following Latvian foreign policy goals: regional cooperation; bilateral development cooperation; external economic relations; and diaspora policy.

## Regional Cooperation and the Crisis

Cooperation within the Baltic Sea region has always had a significant place in Latvia's foreign policy. Latvia has been part of a regionalized area, requiring simultaneous activities in various cooperation formats – BS3 (Estonia, Latvia, Lithuania), BS3 + EUNS3 (Baltic States and Denmark, Finland, and Sweden, forming the EU Northern block), NB8 (Baltic States and Denmark, Iceland, Norway, Finland, and Sweden),<sup>5</sup> CBSS (Council of the Baltic Sea States), and the newest formation, NB8UK (which includes the Baltic and Nordic countries together with the United Kingdom). At the same time, Latvia is also actively involved in the e-PINE (Enhanced Partnership

in Northern Europe) format meetings, and BDF (Baltic Development Forum) summits and initiatives.

Even though the significance of regional cooperation was doubted after joining the EU and NATO in 2004, as it was supposedly replaced by European integration tendencies, reality has turned out to be different, and the experience and capital accumulated through cooperation within the Baltic Sea area has been used in crisis conditions both as a resource for the implementation of policies and as a format for increasing influence by joining with those countries that are more competitive in international politics. With the start of the crisis it could have been assumed that a decrease in financial and human resources would influence Latvia's ability to participate in all of the existing cooperation formats. However, the opposite has proved to be true – the long-term political investments in regional cooperation (Ozoliņa 1999a, 1999b; Laizāne-Jurkāne 2005) served as foreign policy capital during the crisis period and demonstrated several significant trends.

First, since 2008, Baltic cooperation has acquired a more pragmatic approach, and decisions, as a result of the pressure of the crisis, are made at a more rapid pace. For example, the Baltic Assembly (BA) came to an agreement on common vaccination procurement for the Baltic States in three years. Notwithstanding the changing political climate and pressure of public opinion, agreement has been reached on the construction of the Visaginas nuclear power station. Changes have been made in legislation that will promote cooperation between Baltic State businesses in the field of external economics and investment, thereby ensuring their competitiveness in global markets. The level of harmonization of regional agendas between various cooperation formats has increased. For example, the annual action plans of the BA and Baltic Council of Ministers supplement one another.

To make cooperation more active and to ensure that its course is more focused, audits have been carried out regarding Latvian-Estonian and Latvian-Lithuanian bilateral relations, which have been reflected in reports. In 2010, former Foreign Minister Valdis Birkavs, with his colleague Søren Gade, prepared a report on cooperation in the past, present, and future, in which questions on the deepening of regional integration dominated (Birkavs and Gade 2010). Consultations between the countries of the region take place regularly before significant EU and NATO votes. Even though since 2004 fixed voting coalitions no longer generally exist within the EU Council of Ministers, the only countries still faithful to this practice are the Nordic countries. The NB8 format, in turn, which represents the fifth largest economy in the EU and the tenth largest in the world, has become the framework for resolving regional and global matters. In 2011, a Memorandum of Understanding was signed concerning the distribution of diplomats in NB8 country missions in third countries, which is an important resource for Latvia, since as a result of conditions created by the crisis it was necessary to reduce the diplomatic mission network (Norwegian Ministry of Foreign Affairs 2011).

The second tendency is linked with the EU Strategy for the Baltic Sea region approved by the EU in 2009.<sup>6</sup> Latvia, in contrast to Poland, Germany, and Denmark, welcomed the elaboration and execution of this strategy with enthusiasm, because it would strengthen regional cooperation and, at the same time, develop a political framework for the targeted projection of regional cooperation through the setting of

priorities, which are concentrated in 15 fields and 90 flagship projects. Latvia coordinates the energy priority together with Denmark, which can be considered an important condition for Latvia's growth, independence, and competitiveness. Because significant energy cooperation projects are taking place in the Baltic Sea region, such as the BEMIP (Baltic Energy Market Interconnection Plan), Nordel (the North European/Scandinavian energy interconnection system), and UCTE (the system for continental European countries), this allows Latvia to be a politically influential player even in conditions of reduced financial resources.

The third tendency points to the concentration and further development of the potential of regional cooperation. In 2011, when the British Prime Minister, David Cameron, came forth with his proposal to call an NB8UK summit, initial predictions about this format were linked to the necessity for developing coordinated action in the development of future EU politics and the decrease of globalization risks. Over time, this format has acquired the name "Northern Future Forum", and has focused less on global themes and more on regional matters, which can promote Northern Europe to a position among the most dynamic regions in the world. At the first forum, participating states exchanged examples of good practices in the fields of business, technology, innovation, and employment. In 2012, in Sweden, attention was turned to social problems – gender equality and active aging, then in Latvia, at the 2013 summit, questions concerning the digital divide in society and the competitiveness of a green economy were at the forefront. Thus, the general conclusion about Latvia's participation in regional cooperation is that the economic crisis has reduced Latvia's financial capacity for participation in various regional initiatives. However, since 2008, an upward trend can be observed as far as activity and regional cooperation are concerned.

## **Bilateral Development Cooperation**

Upon joining the EU, Latvia undertook the responsibility of providing assistance to developing countries, primarily through payments to international organizations, which can be classified as multilateral development cooperation. This was considered to be a perspective policy, for which allocated financing was expected to increase rapidly in line with Latvia's international commitments. Since joining the EU, multilateral development cooperation assistance already made up more than 90% of the volume of aid provided by Latvia; however, the volume of bilateral assistance gradually grew in 2008, reaching 825,266 euro. During the conditions of crisis, the amount of finances apportioned by the government considerably decreased, in 2010 and 2011 dropping to 1148 euro and 383 euro respectively. Though it initially seemed that during the period of economic recovery combined with the upcoming Latvian Presidency of the EU Council, finances allotted to bilateral assistance could significantly increase again, instead the level of financing remained the same in 2013 as the previous year – 71,526 euro.

Latvia's priorities in the provision of aid have been tied as much to its own interests as to those of the countries receiving assistance. For the most part, assistance has been provided to countries from the post-Soviet area: Georgia, Moldova, Ukraine,

and Central Asian countries (Ministry of Foreign Affairs of the Republic of Latvia 2013c). Latvia's interests have been twofold. First, the assistance provided has been testimony to Latvia's benevolent stand towards bringing post-Soviet countries closer within the EU and NATO context. Second, the aid has allowed Latvia's non-governmental organizations to take part in development cooperation projects and build up a certain authority in development matters.

The economic recession has encumbered, but not prevented Latvia from attaining both objectives. Despite the decrease in aid provided, relations with the post-Soviet area countries have not suffered. Since Latvia joined the EU, these relations have been based not so much on the size of the aid offered, but on political support for transformations taking place in post-Soviet countries. Latvia is also an active defender of these countries within the framework of the EU and NATO. As far as support for non-governmental organizations is concerned, the decrease of governmental support has motivated non-governmental actors to look for financial sources elsewhere, and these searches have been generally successful. According to information provided by the Latvian Platform for Development Cooperation (LAPAS), the reduction in financing for the Ministry of Foreign Affairs has been compensated by resources from the Soros Foundation – Latvia, European Commission, European Council, and other financial sources.<sup>7</sup> Latvian non-governmental organizations, such as LAPAS and the Center for Educational Development, have been successful in procuring EU financing, using projects for cooperation with non-government organizations in other countries. Information about the disposal of bilateral development assistance assigned by the Ministry of Foreign Affairs in 2012 shows that financing has been oriented not towards direct support of the non-governmental sector, but towards ensuring co-financing for the development NGOs that take part in EU project competitions.

## External Economic Relations

Under conditions of economic crisis, business interest about foreign markets increased and companies tried to establish new economic contacts abroad. As a result, the question of economic interest representation in Latvia's foreign policy took on a position of significance. In addition, the question of actions the Ministry of Foreign Affairs could take in cooperation with other governmental and business organizations in conditions of rapidly decreasing financing, to help Latvian companies find new markets and business partners, thereby promoting the flow of investment into Latvia, increased in relevance. During the first debates on foreign affairs in Parliament in January 2011, the serving Minister for Foreign Affairs, Ģirts Valdis Kristovskis, said that "the improvement of a support system for external economic business activities respective of the needs of contemporary Latvia" was one of four main Latvian foreign policy priorities for 2011 (Ministry of Foreign Affairs of the Republic of Latvia 2011b). At the parliamentary debates in January 2013, the Foreign Minister Edgars Rinkēvičs also stressed that "never before has the promotion of external economic relations been so high on the agenda of the Ministry of Foreign Affairs" (Saeima 2013). This is confirmed not only by Latvia's opposition to the introduction of EU sanctions against Belarus, but also its future plans regarding the development of the diplomatic mission

network with India, South Korea, and Brazil as the three priority countries where Latvia would like to open embassies in the next few years. It is also important to note that since the middle of 2012, the Ministry of Foreign Affairs, in cooperation with other government institutions, has named the joining of the Organization for Economic Cooperation and Development (OECD) as one of its key foreign policy priority tasks (Ministry of Foreign Affairs of the Republic of Latvia 2013a). Membership in the OECD secures a higher national credit rating and promotes national economic growth, and the Ministry of Foreign Affairs has made active use of diplomatic channels to inform and convince other countries about Latvia's readiness to join. As a result of these efforts, on 30 May 2013, the OECD authorized its Secretary-General to start accession talks with Latvia. According to the Foreign Minister Edgars Rinkēvičs, "starting negotiations on the accession to the OECD is one of the key priorities of Latvia's foreign policy since it joined the EU and NATO" (Ministry of Foreign Affairs of the Republic of Latvia 2013b).

In the attempt to increase the investment of the Ministry of Foreign Affairs in the development of external economic relations, two questions have been of primary importance. First, it was necessary to secure contacts between the diplomatic service and businesses. One of the activities started in 2009 was the cooperation format, "The Diplomatic Service for Latvian Export", which was intended as a platform for regular meetings between Latvian ambassadors and the major representatives of the economic fields interested in export markets. This discussion format also continues to be active in 2013, as the "ABC of Export". The Ministry of Foreign Affairs has gathered information on Latvia's biggest companies oriented towards export and informed them of the Ministry's potential for providing assistance outside Latvia. The Ministry of Foreign Affairs has become more open to cooperation with businesses, and the same can be said about the attitude of Latvia's highest-ranking officials regarding the representation of business interests outside Latvia. Under the influence of the economic crisis, business interests have become a significant factor in the planning of foreign visits for Latvia's highest-ranking officials (President and Prime Minister). Business interest, on the other hand, has increased not only in the traditional export markets, such as Russia, EU countries, and the USA, but also in India, China, Iraq, Afghanistan, and Middle East countries. The schedules of official visits are also available to businesses, allowing them to synchronize their interests with the visits of political officials. Close cooperation has also developed with organizations representing business interests, and, as a result, a list of priority countries has been established, including those countries in which businesses are most interested.<sup>8</sup>

Second, the Ministry of Foreign Affairs is only one of the government institutions whose task is to promote external economic interests, which is why the question of the coordination of external economic representation is important. The Latvian Investment and Development Agency (LIDA), which is subordinate to the Ministry of Economics, and the Ministry of Foreign Affairs are the two institutions tasked with the representation of economic interests. The economic crisis created the preconditions for closer practical cooperation between the MFA and LIDA, as well as for the creation of a more harmonized coordination mechanism. In spring 2012, the External Economic Policy Coordination Council (EEPCC) was established, whose Chair is the Minister for Foreign Affairs and the Deputy Chair is the Minister for Economics. The Council also includes

other sector ministers, representatives of government bodies (including LIDA), and business organizations. The aim of the EEPCC is to “ensure harmonized cooperation between government administration institutions and business organizations in the successful development and implementation of external economic policy for the raising of Latvia’s competitiveness and export capacity”, as well as to “exclude lack of uniformity in the processes of information exchange regarding external economic policy activities, and decision-making and implementation” (Ministry of Foreign Affairs of the Republic of Latvia 2012b). To date, several EEPCC meetings have taken place, and among the questions discussed is the proposal from organizations representing businesses to develop an indicator system for the “evaluation of the economic activities of Latvian external economic representations and Latvian diplomatic and consular missions” (Council for the Coordination of External Economic Policy 2013). There is also the intention of creating a database which would include all those Latvians living abroad interested in representing Latvia’s business interests.

During the economic crisis business interest regarding cooperation possibilities with Latvia’s diplomatic service in finding cooperation partners in other countries increased rapidly. In 2011 and 2012, with the renewal of economic growth (5.5% and 5.6% of GDP respectively) business interest in cooperation with the Ministry of Foreign Affairs has not decreased, and has even increased. Despite significant budget cuts, the Latvian MFA has managed to respond to the growing interest from the business community, not only by creating new cooperation formats, but also by reconsidering the overall relationship between the government and the business community.

## Diaspora Policy

Diaspora policy has been on the agenda of Latvian foreign policy since the 1990s. However, its significance and character have changed considerably since joining the EU. Since the beginning of the economic crisis, Latvia’s diaspora policy has been influenced by two conflicting trends. On the one hand, the volume of resources assigned to foreign affairs has considerably decreased. On the other hand, taking into account the considerable number of people who have left Latvia, the importance of diaspora policy has grown. Precise information about the number of people who have left Latvia is not available. However, it is estimated that in the period since 2000, more than 200,000 inhabitants (Hazans 2011) have departed. These figures are, however, approximate, and fluctuate between 140,000 and 250,000 (Ruduša 2013). Since 2004, the number of Latvian citizens in countries such as Ireland and Great Britain has grown noticeably, and this trend has continued during the period of economic recession because Latvia suffered economic hardships more than the aforementioned countries. This has created the necessity for finding ways of consolidating Latvia’s diplomatic missions in individual countries in very complicated conditions. As opposed to many other government institutions, the diplomatic service has missions outside Latvia, and it is therefore only natural that the involvement of the Ministry of Foreign Affairs in matters concerning diaspora policy is greater than in other government institutions.



As a result of emigration tendencies, government interest in this problem has increased, and Latvia has defined its short-term and long-term interests in relation to the diaspora. They include the following: maintenance of Latvian identity and connection to Latvia; promotion of the political and civic participation of the diaspora; cooperation with the diaspora in the fields of economics, culture, education and science; and encouraging return.<sup>9</sup> Taken as a whole, these priorities far exceed the areas of authority and current financial capacity of the Ministry of Foreign Affairs. However, as far as several of them are concerned, the Ministry carries out significant functions. Diplomatic missions ensure consular functions, resolution of citizenship questions, registry office functions, various notary activities, repatriation questions, the issuing of passports and identity cards, organization of Parliament and European Parliament elections, referenda, and registration of signatures. In conditions of growing diaspora numbers, the demand for these and other services increases, thereby increasing the pressure on the limited resources of the diplomatic missions. As a result of the crisis, the number of diplomatic staff in embassies was also reduced in Ireland and Great Britain. For example, in Ireland, the positions of diplomats responsible for economic and consular affairs were abolished. However, taking into account the growing number of Latvians in Ireland, the workload of the embassy continues to grow, and, as a result, the Ministry of Foreign Affairs dispatched a member of staff for carrying out consular duties for a determinate period of time. On 1 June 2013, the Latvian embassy in Great Britain employed seven diplomats and eight technical contractors, while the embassy staff in Ireland consisted of five diplomats and two technical contractors.

The decrease in the number of staff at the Ministry of Foreign Affairs during the economic crisis has had a negative influence on Latvia's ability to ensure the execution of many important functions in relation to the diaspora. There have been complaints about long queues at Latvian embassies during parliamentary elections, and about the length of time necessary for receiving consular services. Meanwhile, the diplomatic service has been able to introduce new working methods and initiatives. During conditions of reduced financing, atypical solutions have been sought to solve problems: for example, mobile passport workstations have been organized. It can be concluded that the Ministry of Foreign Affairs has managed to ensure the performance of functions in relation to the diaspora at a minimum level, but the Ministry's resources will no doubt turn out to be insufficient if the government decides to take a more ambitious diaspora policy course. In that case it would be necessary to assign additional resources and ensure a sufficient number of employees in diplomatic missions in countries with a notable number of Latvian emigrants. Considering that these days consular matters are taking an increasingly more important place in foreign affairs (Hocking et al. 2012), it can be predicted that the Ministry of Foreign Affairs will assign larger financial resources for ensuring the implementation of consular needs.

## Conclusions

Does the deterioration of a government's material basis lead to a more modest foreign policy in both objectives and execution? Within the framework of this article the focus

was on the case of Latvia, on the basis of which conclusions can be made about changes in foreign affairs in conditions of drastic reductions in financing. Latvia's case study allows us to come to two conclusions. First, in conditions of economic recession, the number of functions of the Ministry of Foreign Affairs does not decrease, and in many senses even increases. Latvia's experience, for example, in external economic relations, is indicative of this, with business interest in these relations growing considerably under the influence of the economic crisis. This is also the case with diaspora policy. As a result of the crisis, the need to regularly keep abreast of changes taking place increases, which is why annual accountability is particularly appropriate, as is close cooperation with all interested parties in the field of foreign affairs.

Second, a decrease in financing may not lead to more modest foreign policy goals and performance. Latvia's case demonstrates not only more foreign policy activity, but also an ability to reach projected goals. This is possible under the condition that already existing resources are used more effectively, priorities are defined clearly, and the government has the possibility of compensating shortfalls in resources with options found in the external environment. It is true, however, that the employment of existing opportunities in the external environment can be achieved only on the condition that this environment is benevolent.

Thus, this article reveals that material resources are not necessarily of utmost importance for the effectiveness of foreign policy. However, Latvia's case study indicates that the influence of an economic recession also has its downsides. It is not possible to achieve desired results with fewer resources on an equal level for all foreign policy objectives. The situation with diplomatic missions in international organizations during the years of crisis demonstrates a clear foreign policy course for Latvia – the number of diplomats in the EU and NATO has not decreased, reflecting the significance of both these organizations for Latvia's foreign policy agenda, but, at the same time, it is through these organizations that Latvia can reduce the influence of the crisis and find financial and political resources for the maintenance of its position in the international system. A different situation, however, is developing with Latvia's representation in the UN, where the number of diplomats has been reduced. This may render a number of ambitious goals difficult to achieve as Latvia has put forward several candidacies for international organization elections: UN Human Rights Council 2014 elections for a 2015–2017 term; ECOSOC Statistical Commission for a 2016–2019 term; UN Security Council temporary member 2025 elections for a 2026–2027 term; and UNESCO Committee for the Protection of World Cultural and Natural Heritage 2015 elections for a 2015–2019 term (Ministry of Foreign Affairs of the Republic of Latvia 2012c). The need to sacrifice individual priorities is a good reminder that a decline in a state power's material resources is not just a positive challenge and opportunity, but can also entail threat and missed opportunities.

## Notes

- 1 This has two main explanations. After joining the EU and NATO, a state's activity on the international arena has to be proportionate to the aims and basic principles of both these organizations. In fact, not only has Latvia's integration into these

organizations taken place, but their relations with the surrounding world to a large extent also influence Latvia's foreign policy. In addition, after the beginning of the financial and economic crisis in 2008, the execution of many of Latvia's foreign policy priorities in the same manner as before became impossible.

- 2 The main functions of the Latvian Institute are the following: preparation and distribution of well-informed, operative and coordinated information about political, economic and societal items on the agenda in Latvia; ensuring of partnerships and development of contacts for Latvian business projects and initiatives abroad; provision of printed and electronic information about Latvia; development of pro-active cooperation, information and assistance in the organization of foreign journalist visits. For more detailed information see: Latvijas Republikas Ārlietu ministrija [Ministry of Foreign Affairs of Latvia] (2011c).
- 3 Changes in the number of staff positions at the Ministry of Foreign Affairs (not including the "Latvian Institute") since 2000: 502 (2000), 483 (2001), 494 (2002), 503 (2003), 568 (2004), 611 (2005), 639 (2006), 702 (2007), 720 (2008), 690 (2009), 528 (2010), 530 (2011) and 534 (2012).
- 4 *Saeima* Rules of Procedure, Section 118, paragraph three. Amendments to this document were made on 28 October 2010, and they came into force on 11 November 2010.
- 5 In 2011, the former Minister for Foreign Affairs proposed changing the current name of NB8, which does in fact emphasize the division between two groups – Baltic and Nordic countries, to "Northern eight", which in his opinion would reflect a truer picture of cooperation in the region.
- 6 For more details on the EU BSRS see: Ozoliņa, Reinholde, and Rostoks (2010), Graudiņš et al. (2006).
- 7 Information provided by LAPAS shows that during the period 2008–2011, the following amounts were received: Soros Foundation Latvia, EUR 88,806; European Commission, EUR 71,481; Finnish NGO "KEPA", EUR 43,184; European Council, EUR 10,000.
- 8 Interview with Rūdolfs Brēmanis, Head of the Department for Economic Relations and Development Cooperation Policy of the Ministry of Foreign Affairs, April 12, 2013. Interview took place at the Ministry of Foreign Affairs of Latvia.
- 9 Responsibility for diaspora policy is redistributed amongst several ministries: Ministry of Foreign Affairs, Ministry of Education and Science, Ministry of Culture and Ministry of Economics.

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