Latvia and Sweden at Historic Crossroads

2011.02.18 | By Janis Urbanovics, Chairman of the Social Democratic Party "Concord" of Latvia

Today Swedish Prime Minister Fredrik Reinfeldt makes a historic visit to Latvia. Given Sweden's special role in the Latvian economy, our bilateral relations have over the past years seen both ups and downs. Today's visit provides a historic opportunity to open a new page and mutually commit to a new – more sustainable – model of bilateral cooperation within the framework of enhanced economic integration in the Baltic sea region. In order to discuss the possibilities of elevating our relations to a new quality, it is crucial that during this visit the parties, first, reach a common understanding on the causes of the Latvian economic crisis and its chosen recovery model, and, second – based on this shared understanding – ensure the solidarity and commitment from the Swedish side to help Latvia develop a new sustainable real economy structure.

In the light of Sweden's admirable macroeconomic performance, its Davos-showcased economy has received countless compliments as of lately – "the Northern tiger", "as strong as Pippi Longstocking" or "a beacon of light in Europe". Undoubtedly these metaphors are flattering to the Swedish ruling elite. However, certain public pronouncements by Swedish politicians suggest that they either cannot or are unwilling to recognize the role which – in the context of the Swedish economic miracle – has been played by its neighbor Latvia. Within the past months we have heard assertions by Swedish Foreign Minister Carl Bildt that the Latvian crisis was precipitated by the problems of the now-nationalized Parex bank and that the influx of capital by Swedish banks prior to the crisis bears no blame, even more so – the Swedish capital is actually fuelling region's recovery from the recession. At the same time, Finance Minister Anders Borg publicly lashes out at the Swedish banks warning them not to make new exposures in the Baltic. Several conclusions can be drawn in this context. First, the Swedish government does not seem to be willing to admit the causal linkages that would materialize had Latvia not bailed out the systemically important Parex bank. As a result of an obvious chain reaction, Sweden would itself have likely had to bail out or even nationalize any of its banks. Had that happened, we would probably not be talking about the northern tiger today. Second, the internal devaluation program that Latvia agreed upon with the international creditors presupposed that – after the financial sector and the government budgetary process is stabilized – the commercial banking sector would reinvigorate liquidity in the real economy. Given that commercial banks, not least the Swedish banks, hold around one billion lats (c.a. 12.5 billion SEK) at the central bank as excess reserves instead of lending out to the economy, this process has clearly not started, and the Swedish Finance Minister's inconsiderate pronouncements are definitely not favoring it either. Third, the Swedish government has not displayed a sincere comprehension and solidarity with respect to the sacrifices that Latvia has made in the name of Europe, including and particularly Sweden: both in financial terms – whereby in addition to the funds allocated to the bail-out of the Parex bank we can highlight the one billion lats that Latvia has spent out of its foreign reserves to ensure the stability of the national currency (another key savior for the Swedish banks), as well as the hefty interest payments that Latvia incurs in servicing the one billion lats worth of foreign creditor funds currently frozen at the State Treasury as 'financial stabilization reserve' – as well as in social terms – given the hardships of the Latvian people as well as an imminent loss of Latvian economic sovereignty and sustainability stemming from structural unemployment, further deterioration of demographic problems, rapidly increasing emigration and a growing inaccessibility of basic social services due to budgetary austerity. On this backdrop, Latvia cannot afford an unwary foreign policy, our friends and partners must be fully aware of the sacrifices that Latvia has made on behalf of the wider region.

It is only through such common comprehension based on shared responsibility that Sweden and Latvia may strive towards a new model of enhanced cooperation, which ensures a hands-on involvement from Sweden in helping shape a new real economy structure in Latvia within the context of the economic integration in the wider Baltic region. The active involvement of Swedish capital, technology, knowledge, market access and direct investment in the process of reindustrialization of the Latvian economy is crucial. It is of utmost importance that Swedish government – both in its public rhetoric and practical involvement – actively promotes the flow of real economy investment to Latvia (especially in areas where Latvia currently operates as a exporter of resources and low-value-added inputs, while importing manufactured high-value goods back from Sweden), helps Latvia overcome structural unemployment (not least by promoting cooperation in the fields of vocational/industrial training and technology transfer, as well as by advancing the integration of economic resources and capacities within the Baltic sea region, especially in the area of nearsourcing), and promotes (or at the very least – does not hinder) renewed availability of Swedish banks' credit financing to the Latvian real economy. It is in Sweden's long-term interest to ensure that – instead of satellite-economies languishing on the painful blind alley of austerity and resource extraction – the other coast of the Baltic Sea boasts flourishing and socially stable economies, well integrated in the region's common economic bloodstream.

We believe that in the context of the Swedish Prime Minister's timely visit these are the main goals of the Latvian foreign policy, and at these historic crossroads we express sincere hope for the advent of a new and more sustainable era in the Swedish-Latvian bilateral relations.