



Increasing investments and competitiveness for Latvia's economic security

RECOMMENDATIONS OF THE AMERICAN CHAMBER OF COMMERCE IN LATVIA

Riga, 2023



John Tully

President and Chairman of the Board
American Chamber of Commerce in Latvia

At a time of geopolitical upheavals, it is of utmost importance to focus on maintaining existing and attracting new investments in order to strengthen Latvia's economic security. Investment in key sectors such as digital, technology, life science and research and development hold promise not only of high immediate returns, but of driving further progress and bringing value to our economies and businesses. The United States and other international investors stand ready to work together with the new government and other stakeholders to increase Latvia's competitiveness and build a prosperous society.

Executive Summary



Increased security risks, the ongoing energy crisis, high inflation, and supply chain disruptions are affecting the business environment around the world, reducing investors' willingness to invest in further growth. The identified risks and geopolitical upheavals have also triggered many challenges for Latvia's economy. Unfavorable perception of the region's security along with negative demographic trends highlight hindrances to long-term growth. Although the security situation in the Baltic region has improved since the beginning of the war in Ukraine, high level uncertainty remains.

Even though the growth of the Latvian economy has slowed down, the latest macroeconomic forecasts foresee an acceleration of growth in 2024, however, uncertainty related to invest-

ments, external demand and further Eurozone interest rate hikes remains high. The major risks to secure further growth include a lack of workforce, rapid cost increase, and a lack of capital investments.

Considering these factors, it is essential to prioritize the attraction of foreign direct investment (FDI) and retain existing investments from key strategic partners such as the United States in order to ensure Latvia's economic security and the well-being of the population.

The American Chamber of Commerce in Latvia (AmCham) offers actionable recommendations in two priority areas:



Increasing the nation's competitiveness and proactive investment attraction



Sustainable investments in Latvian human capital

The priority areas include the following recommendations:

- Transition to a high value-added economy and increasing productivity,
- Targeted attraction of foreign direct investments in priority sectors and markets,
- Capital market development and implementation of good corporate governance in SOE,
- Fair tax policy for domestic and foreign investors,
- Data-driven decision-making, better data governance and development of precision medicine,
- Better governance of employment policy to attract and retain talent,
- Upskilling and reskilling based on labor market needs,
- Increasing state investments in science, research and innovations and continuing education reforms,
- Sustainable and predictable investments in healthcare,
- Implementation of a more efficient healthcare organization model using a Value-based healthcare (VBHC) approach.

The recommendations have been developed based on the input of industry experts from AmCham member organizations with the goal to mitigate the negative impact of the current challenges on the national economy. The implementation of these priorities will help Latvia become more attractive destination for international investments. By prioritizing investment attraction, Latvia would be able to seize new opportunities, accelerate growth and ensure economic and national security.

Introduction



Increased security risks, the ongoing energy crisis, high inflation, and supply chain disruptions are affecting the business environment around the world, reducing investors' willingness to invest in further growth. The identified risks and geopolitical upheavals have also triggered many challenges for Latvia's economy. Unfavorable perception of the region's security along with negative demographic trends highlight hindrances to long-term growth. Although the security situation in the Baltic region has improved since the beginning of the war in Ukraine, high level uncertainty remains. Even though the growth of the Latvian economy has slowed down, the latest macroeconomic forecasts¹ foresee an acceleration of growth in 2024, however, uncertainty related to investments, external demand and further Eurozone interest rate hikes remains high. The major risks to secure further growth include a lack of workforce, rapid cost increase, and a lack of capital investments.

AmCham recognizes the efforts of the Government to ensure the well-being of society. Nonetheless, the Latvian business community is concerned about the economic downturn, and its effect on Latvia's ability to attract and retain investments. More could and should be done to improve the country's competitiveness. With the help of a long- and short-term action plan the state would prioritize investment attraction, reduce the negative impact of the downturn, and overall improve the nation's competitiveness.

AmCham believes that international companies should be part of the solution. International companies make a significant contribution to the Latvian economy and prosperity. For instance, in 2022 AmCham member companies alone employed more than 17,100 people, reached almost €1.7 billion turnover or 4.5% of GDP and paid €278 million in taxes². While businesses recognize the current investment

environment in Latvia as quite attractive, prioritizing investment attraction would help overcome the upcoming downturn and set us on a path of stronger growth. The ultimate objective is to ensure that companies which operate here keep and expand their operations in Latvia and that together we can convince prospective investors to select Latvia to grow their business. AmCham believes that by addressing the specific shortcomings outlined below, Latvia will become a more attractive investment destination.

In a difficult geopolitical environment, Latvia's priorities are undoubtedly to increase investments in security and defense, as well as to ensure energy independence. However, ensuring economic security is equally important for Latvia's national security and future economic growth. Maintaining existing and attracting new investments, especially from our key strategic partners such as the United States, is essential to our economic security. This is why AmCham continues to speak to sustainable and transparent business environment with the aim to attract more American and other Western investors representing common democratic values – human dignity, rule of law and respect for human rights. By building a stronger economy, we empower citizens to meet their socio-economic needs, we ensure access to essential commodities and products, and we can also generate revenues to fund the activities necessary for strong national security. In addition to that, strengthening of the economy directly depends on sustainable and predictable investments in healthcare, education and science – prerequisites for the retention and growth of human capital.

AmCham is committed to working closely with the Latvian policymakers and other stakeholders to reach the common goals of a more secure, and prosperous Latvia.

¹ [Informative Report "Forecast of macroeconomic indicators, revenues and general government budget balance in 2024, 2025 and 2026", 2023](#)

² [Lursoft](#)

Recommendations

1

Increasing the nation's competitiveness and proactive investment attraction

1.1. Transition to high-value-added economy and increasing productivity

Latvia's planning documents³ indicate a move towards a high added-value economy and, as competitive advantages of the country are changing, a knowledge and innovation-based business models are introduced more widely. Insufficient level of digital transformation and technological development is one of the main causes of low productivity in Latvia⁴. Latvia's future growth is closely related to the ability to increase productivity, which lags far behind the EU average⁵. To increase productivity, it is necessary to increase quality human capital, invest in the development of the innovation ecosystem, new technologies and digital solutions, as well as increase the share of high-tech products in exports. A more significant influx of investments is also needed for the optimization of production processes in companies, which currently lag behind the EU by a quarter⁶. The quality of human capital required for productivity increase depends on the

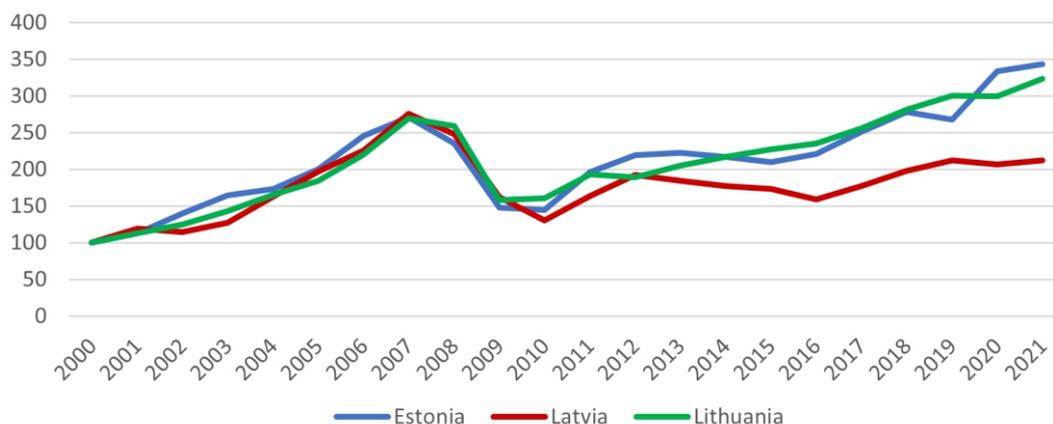
qualifications of the workforce and healthy life expectancy under declining demographics.

1.2. Targeted attraction of foreign direct investments in priority sectors and markets

The flow of foreign direct investments (FDI) is affected by the general business environment in the country, including the geographical and geopolitical situation, tax system, human capital availability and quality, legislation, infrastructure, technological change, and external factors such as COVID-19 and wars in Europe and the Middle East.

Since 2012, the overall investment activity in Latvia has been lagging far behind the activity of the neighboring countries, with the largest decline in the private sector (from 23.3% of GDP 2004-2011 to 17.7% 2012-2022)⁷(graph No.1). Because investment dynamic remains weak, the attraction of private investments should be significantly promoted.

Graph No.1
Formation of gross fixed capital (2000=100)
Eurostat & Bank of Latvia



³ [The Ministry of Economy of Latvia, 2023](#)

⁴ [Latvian Industrial Policy Guidelines 2021-2027, 2023](#)

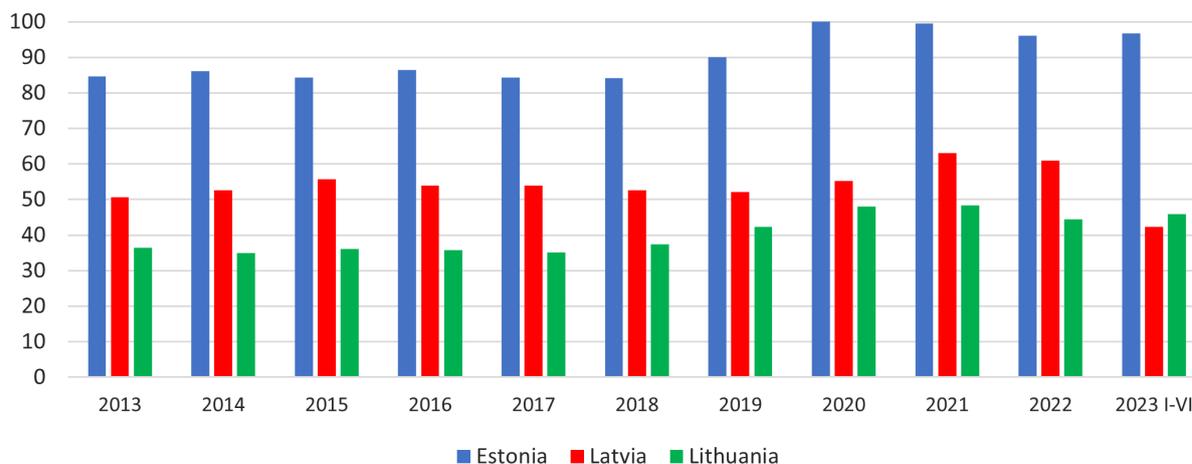
⁵ [Eurostat, Productivity trends using key national accounts indicators, 2023](#)

⁶ [Informative Report "Forecast of macroeconomic indicators, revenues and general government budget balance in 2024, 2025 and 2026", 2023](#)

⁷ [The Bank of Latvia, 2023](#)

Recommendations

Graph Nr.2
FDI (stocks of GDP)
Eurostat



In comparison with other Baltic countries, Estonia is leading with the highest FDI⁸ indicators for several years, while Latvia and Lithuania show slower FDI flows (graph No. 2).

Further growth of investment is related to digital economy, including IT, telecommunications, biomedicine, business services, automotive and mobility industries. However, Latvia should implement a targeted and active investment attraction policy, devoting more resources of the Latvian Investment and Development Agency for promotion of FDI in certain sectors with most added value.

AmCham believes that the current national economic policy is not sufficiently focused on attracting private sector investments. However, the strategic approach and activities of the Riga Investment and Tourism Agency by targeting investors in priority sectors and markets, are commendable and worth emulating⁹. A proactive position and forthcoming attitude like this give a positive signal to potential investors, and the successfully implemented investment projects serve as inspiring examples for the future. Targeted FDI attraction includes strengthening of Latvia's image, creating a branding strategy and an action plan to promote its competitive advantages as an investment destination.

1.3. Capital market development and implementation of good corporate governance in SOE

Good corporate governance is a prerequisite for successful economic development, including attracting financing and ensuring stable growth. In the private sector an increasing number of companies are introducing and evaluating the benefits of good governance, however, considering the share of state and local companies in Latvia's economy, it is important that the companies owned by the state and municipalities are also governed in accordance with good corporate governance standards and principles. The introduction of a centralized governance model for state-owned companies should be set up in accordance with OECD guidelines¹⁰ on Corporate Governance of State-Owned Enterprises and would ensure efficient and transparent management of public funds and ensure fair competition for all market participants.

Showing the weakest stock market capitalization indicators in the EU¹¹, Latvia significantly lags behind the neighboring countries in terms of stock market activities¹². Therefore, AmCham calls the new government to implement the commitment¹³ to start listing the shares of state- and municipal-owned companies on a stock exchange, thus opening opportunities for the state and municipal

⁸ Eurostat inward FDI stocks in % of GDP, 2023

⁹ Riga Investment and Tourism Agency, 2023

¹⁰ OECD Guidelines on Corporate Governance of State-Owned Enterprises 2015 Edition

¹¹ CEIC data 2023

¹² The Bank of Latvia, 2023

¹³ Declaration of the Intended Activities of the Cabinet of Ministers of Evika Silina, 2023

Recommendations

companies to receive funding for the development, while retaining strategic control in the state and local governments deemed necessary. By doing so, it would help further develop the local capital market and boost the investment culture in Latvia by providing opportunities to invest not only to foreign or professional investors such as pension funds, but also to Latvian residents, so they can actively participate in the development of the economy.

1.4. Fair tax policy for domestic and foreign investors

Under the current tax system, both foreign and domestic investors who have tax obligations in other jurisdictions, cannot apply for double tax treaty benefits when receiving dividends from a Latvian company. Investors' profits from investments are taxed both in Latvia and in the country of the investor's tax residence, thus leaving a negative impact on Latvia's ability to attract new investments and retain existing ones. As a result, individual investors in Latvia are exposed to a higher tax burden and less competitive conditions compared to other jurisdictions in the region.

AmCham recommends evaluating the possibility of amending the regulatory framework, which, in case of profit distribution, would allow taxpayers to make a choice to reclassify 10% of either the company's income tax as withholding tax or personal income tax for the purpose of applying the tax convention. Although AmCham has repeatedly pointed out the above-mentioned tax burden to the responsible Ministry of Finance, no measures have been taken so far to implement this recommendation or to find an alternative solution¹⁴.

1.5. Data-driven decision-making, better data governance and development of precision medicine

Effective data management allows us to collect and analyze data, while understanding the impact of decisions on society and economy. It also helps increase productivity. According to

the European Data Governance Act¹⁵, the EU is committed to becoming a leader of a data-driven society by creating a single data market and free data flow.

Latvia ranks 17th in the Digital Economy and Society Index 2022 among 27 EU countries, lagging behind the EU average in terms of citizens digital skills, as well as related to the integration of digital technologies.¹⁶

By introducing better governance of digital transformation as repeatedly indicated by the Foreign Investors Council in Latvia (FICIL) in its recommendations,¹⁷ focusing on data governance, centralized and professional management of digital implementation projects, provision of data accessibility standards, centralization of data anonymization standards and standardization of data privacy and interpretation, will speed up the digitalization process in the country.

The lack of healthcare data significantly limits the opportunities to improve the quality, accessibility, and efficiency of healthcare. AmCham suggests speeding up the **digitalization of healthcare** to improve patient outcomes and industry governance. It is urgently required to develop data analytics to provide transparent data on the quality of the services provided. It is time to prioritize the management of digital health solutions of Latvian healthcare institutions by a competent organization with a motivated and decisive team.

AmCham fully supports the directions articulated by the recently approved Digital Health Strategy 2023¹⁸ and invite to implement them by delegating "a driver" of digital health and selecting qualified partners. The interoperability of data and systems of the digital health ecosystem must be ensured, both in the public and private healthcare institutions, laboratories, and diagnostic centers. In addition, the use of innovative solutions such as artificial intelligence, digital pathology analysis, virtual multidisciplinary teams and other innovative approaches should be promoted. The policymakers of the healthcare industry should develop an action plan ensuring the input of Digital Health data into the digital health eco-

¹⁴ [Joint Statement to balance tax burden, AmCham website, 2023](#)

¹⁵ [Digital Economy and Society Index, 2022](#)

¹⁶ [DESI Index, 2022](#)

¹⁷ [Position of Foreign Investors Council in Latvia on Data, 2023](#)

¹⁸ [Informative report "Digital Health Strategy by 2029", 2023](#)

Recommendations

system. AmCham believes that the most successful solutions should be based on the best Digital health governance examples successfully developed by other countries resulting in data that are digital and secondary usable and accessible to everyone involved in the patient's pathway as well as available for Value-based healthcare (VBVA) and advancement of science and innovations.

Policymakers should urgently continue the work on the legal framework of the **Secondary Health Data regulation**¹⁹ to ensure more efficient diagnosis and treatment of diseases, as well as more effective use of healthcare resources and promoting the development of innovations to improve patient health outcomes.

At the same time, it is necessary to strengthen the **precision medicine approach** in several areas of healthcare, moving to targeted population healthcare. By integrating individual and population data, it is possible to provide positive results for a large population group. Targeted health is a broader concept that focuses on the determinants of health, including not only the delivery of medical care, but also integrating big data to provide the right approach to the right population at the right time to achieve the best healthcare outcomes²⁰. Precision medicine places a strong emphasis on health promotion and disease prevention using the latest technology and data analytics²¹. Precision medicine uses a wide range of data, including not only patient medical data but also genomic data, environmental, lifestyle and social indicators such as education, income level, place of residence, to achieve optimal public health outcomes²². The value of precision medicine does not stop at the level of the individual. Research in oncology, cardiology, endocrinology and infectious diseases proves that precision medicine increases the value of socio-economic productivity, and the implementation of these innovations can create value

worth hundreds of billions of euros on a global scale and several tens of millions of euros in Latvia, providing patients with longer and healthier lives²³. Latvia already holds an important position in the field of precision medicine, both by offering state support for science commercialization projects and by gathering international experts at the Precision Medicine Networking Forum in Riga with the aim of developing cooperation in the field of biomedicine²⁴.

¹⁹ [Framework of the Secondary Health Data regulation, 2023](#)

²⁰ [Khoury, M. J., Engelgau, M., Chambers, D. A., & Mensah, G. A. \(2018\). Beyond Public Health Genomics: Can Big Data and Predictive Analytics Deliver Precision Public Health?. *Public health genomics*, 21\(5-6\), 244–250, 2019](#)

²¹ [Weeramanthri TS, Dawkins HJS, Baynam G, Bellgard M, Gudes O, Semmens JB. Editorial: precision public health. *Front Public Health*. \(2018\)](#)

²² [Minor, L. and Rees, M. \(2020\). Introduction: The Power of Precision Health. In *Discovering Precision Health* \(eds L. Minor and M. Rees\), 2020](#)

²³ [Dzau, V. J., Ginsburg, G. S., Van Nuys, K., Agus, D., & Goldman, D. \(2015\). Aligning incentives to fulfil the promise of personalized medicine. *The Lancet*, 385 \(9982\), 2118-2119](#)

²⁴ [Precision Medicine Network, 2023](#)

Recommendations

2

Sustainable investments in Latvian human capital

2.1. Better governance of employment policy to attract and retain talent

The governance of employment matters in Latvia is fragmented, therefore it is necessary to review the current employment policy, improve coordination and communication between various institutions to ensure a long-term vision for the employment in Latvia, aligning it to the National Development planning documents (The National Development Plan, The National Industrial Plan) and implementing a comprehensive strategy with specific, measurable goals (KPI).

For a long time, human capital has been an undervalued resource in the economy of Latvia, which, with targeted education and upskilling activities, can help attract investments, create well-paid jobs and thus reduce inequality and increase well-being of the general population. Finding and attracting necessary talents in the Latvian labor market is becoming more difficult each year, considering both negative demographic trends and the unavailability of highly qualified specialists. Latvia urgently needs to address the acute labor shortage to ensure further growth of the national economy.

Labor availability issues can be addressed by ensuring inclusive working environment, reducing the employment taxes, reducing financial and bureaucratic barriers for foreign workforce in Latvia as well as providing practical support related to relocation, such as housing and school availability for the children of foreign workers.

2.2. Upskilling and reskilling based on the labor market needs

Training of skills and, especially, digital skills should be made available at various levels of competence for all population groups, inclu-

ding through various education, lifelong learning and reskilling programs. The improvement of digital literacy should be promoted at different competence levels as it encompasses most in-demand skills for today's work environment: data management and analysis, media literacy, online safety, problem-solving, cooperation and communication etc. using digital technologies²⁵. Quality content should become a top priority for upskilling and reskilling. Training programs should be designed to enable the learning process to become more effective and, in addition to improving the content, focus on teaching methods, accessibility and the most current global trends through internationally recognized and certified training programs.

2.3. Increasing state investments in science and research and continuing education reforms

In 2022, research funding in Latvia has increased significantly with the goal of reaching 1% of GDP in 2024, however, historically it has been among the lowest in the EU²⁶. In 2023 and the following years, the availability of state funding for research will significantly increase, including by €18 million for research programs of the Ministry of Education and Science²⁷. In order to increase investments, a balanced supply of research and knowledge between scientific institutions and industry demand should be ensured and technology transfer infrastructure built up. Through investments in innovation and education, as well as more accurate forecasts of future skills, a greater balance of the labor market demand and supply can be achieved. Concurrently it is necessary to continue the ongoing reforms in both general and higher education to improve the quality, accessibility, and competitiveness in various stages of education.

²⁵[DESI Index, 2022](#)

²⁶[Eurostat, Gross Domestic expenditure on R&D, 2021](#)

²⁷[The Ministry of Education and Science, 2023](#)

Recommendations

2.4. Sustainable and predictable investments in healthcare

One of the major factors of economic growth is the availability of human capital, hence a strategic and sustainable approach to state investments in human resources is required. Unfortunately, according to the statistics, Latvia has the lowest number of healthy life years in the EU, with approximately 52-55 years²⁸. According to the Economist at the Bank of Latvia, if Latvia would have prioritized investments in healthcare since 2000, the country would have 60,000 more inhabitants, 4,000 lives would be saved every year, and there would be 40,000 more people of working age, which would promote faster economic growth, providing additional 0.2% GDP growth every year, as a result the GDP would be by 4% higher than it is now²⁹. In order to ensure the preservation of the highest possible share of economically active population, it is essential to focus healthcare resources on increasing the number of healthy life years of the population and reducing the number of potentially lost years of life. At the same time, taking into account the aging of society, the needs and rights of access to quality and efficient healthcare services of the least protected groups of society such as patients with chronic diseases and seniors must be ensured. It is also important to strengthen the efficiency of the national screening mechanisms for timely diagnosis of various diseases, thereby significantly increasing the chances of successful treatment and preserving the working capacity of the population.

In Latvia, the growth rate of healthcare expenses exceeds the growth rate of GDP, however, the total healthcare expenses per capita are still among the lowest in the EU. Sustainable healthcare financing ensures economic sustainability and directly correlates with public health outcomes³⁰; therefore, it is necessary to continue the strategic direction to increase

the healthcare budget to reach the current EU average for public investment in health³¹. A sustainable healthcare financing model needs to be developed and implemented while digital health and data availability need to be developed to focus on patient needs.

The healthcare budget should be balanced, ensuring not only salary increase for medical workers, but also increasing funding for innovations in the healthcare system such as the provision of outpatient technologies and medications, to promote access of healthcare services for the population³². New mechanisms for financing therapies should be developed, especially related to cost-intensive innovations, such as gene therapy or digital therapies to ensure patient access. At the same time, it is necessary to provide state-funded workplaces for young doctors in residency, creating a support mechanism that would motivate young doctors to stay and work in Latvia.

2.5. Implementation of a more efficient healthcare organization model using a Value-based healthcare (VBHC) approach

Due to the aging of the population and increase in the number of chronic diseases and co-morbidities, the demand for healthcare services is constantly increasing and is putting pressure on the healthcare systems. Existing healthcare organization models require restructuring to include new treatment technologies and personalized medicine that will deliver real value to patients while optimizing costs. Value-based healthcare (VBHC) is a conceptual approach to healthcare transformation aimed at improving patient healthcare outcomes and healthcare system performance while controlling costs. VBHC is based on well-known approaches of the health management systems – evidence-based healthcare, application of health economics principles, comprehensive quality, and patient safety system – supplementing them by linking the healthcare payment system to the achieved result. Compiling best

²⁸ Eurostat, Healthy life years in absolute value, 2021

²⁹ Human Capital as the Key to Economic Development, Dr. O.Krasnopjorovs, Bank of Latvia, Nov 1, 2023

³⁰ AmCham Latvia position on calling sustainable investments in healthcare, 2021

³¹ OECD Health at glance, 2021

³² AmCham Latvia position on sustainable, effective and equitable healthcare financing, 2022

Recommendations

international practices and terminology, the VBCH Latvia concept³³ and action plan for the implementation of such projects in selected areas of healthcare were developed under the guidance of AmCham experts. It is necessary to start the implementation of VBHC pilot projects in the near future through the cooperation of service providers, payers, and policymakers, implementing the public-private partnership model (PPP). At the same time, the VBHC approach requires a comprehensive digitalization of health data. Taking into account the initial work on the Oncology Disease Registry, an immediate approval of the legal framework³⁴ is required for the full functioning of the Oncology Patient Registry, especially by creating a clinical data module, while at the same time establishing a mandatory obligation to provide data regularly.

³³[White Paper on Value-Based Healthcare, 2022](#)

³⁴[23-TA-402 "Amendments to the Regulations of the Cabinet of Ministers, March, 2014, No. 134 " Rules on the unified electronic information system of the health sector", 2023](#)

Conclusion

Due to high uncertainty and geopolitical challenges, Latvia's priorities are undoubtedly to increase investments in security and defense, as well as to ensure energy independence. However, further economic development will depend on the extent to which the country would have invested in its competitiveness and economic security.

AmCham calls to prioritize the FDI attraction, as our neighboring countries have successfully done in the past, as a result ensuring much faster growth of their economies and almost twice higher income levels for their populations.^{35, 36} AmCham recommends improving the tax environment as well as ensuring sustainable investments in human capital. Taking into account the aging of the population and in order to ensure the retention of the highest possible share of economically active population, healthcare resources must be focused on increasing the number of healthy life years of the population and reducing potentially lost years of life. Therefore, AmCham calls to ensure predictable increase of the healthcare budget to achieve the objectives of public health and retain Latvia's human capital.

AmCham is ready to engage in dialogue with Latvian policymakers and support their efforts focusing on a more prosperous and secure Latvia.

³⁵ [Olegs Krasnopjorovs, Macroeconomics, 2021](#)

³⁶ [The World Bank, GDP per capita, 2022](#)



AmCham speaks on behalf of more than 160 leading U.S. and international companies in Latvia. It is committed to fostering trade, investment, partnership and friendship between the U.S. and Latvia and serves as a business, knowledge, networking and policy forum. Among AmCham's priorities is the development of human capital in areas including preparing for the future of work and improving health outcomes of Latvia's society with the aim to increase and secure investments.