Riga: From a Hanseatic city to a modern metropolis. Pathways to creative and knowledge-based regions

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ACRE report 2.9

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Accommodating Creative Knowledge – Competitiveness of European Metropolitan Regions within the Enlarged Union

Amsterdam 2007
AMIDSt, University of Amsterdam

ACRE

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EXECUTIVE SUMMARY

This report is part of a pan-European project aiming at exploring the impact and potential of the emerging creative and knowledge-based economic activities on the economic development and hence the competitiveness of several metropolitan regions in the European Union. The ACRE (Accommodating Creative Knowledge – Competitiveness of European Metropolitan Regions within the Enlarged Union) project involves 13 metropolitan in the "old" as well as in the "new" EU countries. Riga, defined as the city of Riga, is, through the participation of the Stockholm School of Economics in Riga, one of the metropolitan areas in the project.

The ACRE project recognizes creativity as one of the important factors for economic and urban development of metropolitan areas. Hence, in addition to "traditional factors" such as geographic location, economic structure, specialisation, mode of production and scale, creativity as such and a creative environment are supposed to play an important role for the economic development and competitiveness of metropolitan areas. To understand the current situation as well as the metropolitan areas' potential to become competitive centres of creativity, knowledge and innovation, particular attention is paid to path dependency (i.e. "history matters") and so called "soft factors" that determine a metropolitan area's attractiveness. Examples of soft factors include urban atmosphere, housing market, social structures and social conditions. This report will therefore pay particular attention to Riga's development path as well as the soft factors characterizing Riga.

In a Latvian context, the concept of the knowledge based economy is extensively discussed in the Latvian National Development Plan 2007-2013 and supplemented by a discussion on creative industries. The creative industries are supposed to play an important role for Latvia's and hence Riga's economic development in the coming years and according to the Latvian National Development Plan:

"In order to effectively employ Latvia's creative and cultural environment resources, to increase the work efficiency of existing creative sectors, to expand and diversify the economic activities of creative individuals, thus turning their creative potential into economic gain, the creative industry sector, as one of the most promising, should be integrated into the economy of Latvia. In order for this sector in Latvia to reach growth rates equal to those of other countries, special attention should be paid to the specific needs of the creative industries, their innovative potential should be developed, and the experience of creative industries should be systematically expanded."

At the local level, Riga envisages itself in 2025 to be a city with:

- A highly educated and skilled society;
- An economy built around the East-West connection;

- Develop on a human scale and with high quality environment,

where the economy restructured from the dominance of low value added sectors to a more varied economic structure including high-value added activities.

Riga has since its foundation in 1201 always (with the exception of the Soviet occupation 1945-1991) been a centre of trade and commerce and today it is the main national and regional attractor of both investment and employment and today's Riga holds primacy over Latvia's economic, political, social and cultural functions. Furthermore, Riga has throughout the centuries been a multiethnic city and ethnic Latvians have been in minority in the city for most of the time.

The starting point of the report's analysis is Riga's historic development path from 1860 to 1999, i.e. from the period of industrialisation when Riga was the third biggest city in the Russian empire, through the first period of Latvian independence, through Soviet occupation and through the economic transition following the collapse of the Soviet Union. The analysis pays particular attention to the economic, social and cultural development as well as the impact on Riga's development of the dramatically changing institutional framework, which has had a major impact on Riga's development path.

The period of economic transition following the break down of the Soviet Union and the restored Latvian independence in 1991 saw the collapse of the large scale Soviet industries and the emergence of a new industrial structure mainly based on small enterprises, which to a large extent were active in the service sectors. Out of the gross value added in today's Riga, 80 per cent comes from the tertiary (service) sector, whereas 19 per cent comes from the secondary sector (manufacturing). The main sectors in terms of value added are in order of importance: real estate, renting and business activities; wholesale and retail trade; financial intermediation; transport, storage and telecommunication; and hotel and restaurants.

Today around 110,000 employees, or approximately one third of the employees in Riga, work in what the ACRE project defines as the creative knowledge sector. However, many jobs in the creative knowledge sectors are low-skilled and low-wage jobs in labour intensive production processes. This development reflects the fact that the by European standards relatively low Latvian labour costs have resulted in outsourcing of relatively low-skilled activities from European countries, predominantly Nordic countries, with higher labour costs, to Latvia and Riga. However, with the rapid Latvian economic development and the shortage of labour force and hence increasing wages, it is reasonable to believe that the employment in the creative knowledge sectors will fall unless the low-skilled low-wage jobs will be replaced with high-skilled jobs in activities with higher value added.

In the light of what was said above, the challenge facing Riga in terms of developing its potential as a creative city is to keep and further develop the human capital in the creative knowledge sectors in order to create new businesses with higher value added. The challenge is, however, not limited to the creation of a business friendly environment. It also includes creating an environment that is characterized by favourable soft factors such as pleasant urban atmosphere, housing, social structure and social conditions. If successful, then Riga can emerge from the current situation with a weak industrial base and with an economy that to a large extent relies on low-skilled low-cost labour employed in labour intensive production processes to situation where Riga fully exploits its potential as a creative knowledge city.

1 LATVIAN BACKGROUND

1.1 Geographical and demographical context

The Republic of Latvia is situated in the North-East of Europe, on the shores of the Baltic Sea. Latvia's only distinct border is the Baltic Sea coast, which extends for 531 kilometres. In the north Latvia borders with Estonia (267 kilometres common border), in the south with Lithuania (453 kilometres), in the east with Russia (217 kilometres), and in the south east with Belarus (141 kilometres), the latter two being EU external borders. The territory of Latvia is 64 589 square kilometres, a size surpassing that of Belgium, Denmark, the Netherlands, and Switzerland. About 40 per cent of the country is covered by forests.

The population of Latvia is currently approximately 2.31 million of which close to 60 per cent are ethnic Latvians.[1] Nationally close to 30 per cent of the population are ethnic Russians with much higher concentrations in certain parts. In general terms the proportion of ethnic Russians increases the further east and the closer to the Russian border one travels. The remaining 10 per cent is to a large extent comprised of ethnic Byelorussians, Ukrainians, Poles and Lithuanians. Approximately 20 per cent of the population (mainly ethnic Russians) has the status of non-citizens, many of them not speaking Latvian which has been reinstated as the official language since independence. A non-citizen is not eligible to vote (neither at the parliamentary nor at the local level) and is excluded from many positions in the public sector. Issues in relation to the Russian minorities have contributed to the often strained relations between Latvia and her much larger eastern neighbour in recent years.

1.2 Historical context

Before Latvia declared its independence in 1918, the area which today constitutes Latvia was ruled over for seven centuries by German bishops and princes, Polish and Swedish kings, and Russian czars. However, throughout the centuries Baltic German feudal lords and merchants along with Russian governors, bureaucrats and traders had a significant influence on the region. It was not until the emancipation of the serfs and the early industrialisation in the late nineteenth century that ethnic Latvians were allowed to take an active role in administration and policy formulation.[2] The first period of Latvian independence lasted between 1918 and 1940 when the Soviet Union occupied Latvia as a consequence of the 1939 Molotov-

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[1] The figures reflect the situation in 2005. Source: Central Statistical Bureau of Latvia (2005). Although the percentage of ethnic Latvians have increase since Latvia regained independence in 1991, the absolute number of ethnic Latvians has fallen.

[2] See King et al (2004), Pabriks and Purs (2002), and Plakans (1995).

Ribbentrop Pact, which in effect assigned Latvia to the Soviet Union. The first Soviet occupation lasted until 1941 and was followed by more than three years of German occupation. After the German occupation, Soviet rule as well as the sovietisation of Latvia and the other Baltic States resumed in 1945 and lasted until 1991 when independence was restored. From and early stage of transition from the planned to the market economy, the idea of Latvia joining the European Union was seen as the goal[3] and as stated by Nissinen (1999): "Latvia has pursued consequent reform polices since regaining independence in order to accelerate its transition to a fully fledged market economy". Equally important to many Latvians bearing in mind recent history was the issue of national security and sovereignty and Latvia therefore pursued membership of NATO with equal enthusiasm. The strategy paid off and Latvia achieved both of these goals in 2004, joining the EU on 1st May.

1.3 Regional and urban policies

In Latvia, like in many other post-communist countries, one of the first democratising reforms after the fall of communism was the re-introduction of the local and municipal self-government and the structure that prevailed in 1939 was to a large extent re-introduced. Despite the reintroduction of local government, the euphoria of independence and the huge challenges and reforms that this stimulated meant that the first years of independence were characterised by little if any regional development or spatial planning. As in other former Soviet states the concept of planning was also associated with the central planning of the former system and this was another reason why it received little priority or attention.

Currently, there are four planning levels in Latvia: national, regional, district, and local. According to the Law on Territorial Planning from 2002, territorial plans are required for each level at an appropriate scale. Only the lowest level plans are binding on the citizen although all other levels of plans are binding on the lower levels of government.

At the national level the Ministry of Regional Development and Local Government (which was formed in 2003) is responsible for i.a. spatial planning, regional policy, local government and local government reform. Unlike its Baltic neighbours, Estonia and Lithuania, Latvia has been very late in preparing a National Development Plan (NDP). The first Latvian NDP appeared in September 2006 and covers the period 2007-2013. The other planning document, the National Spatial Plan is due in late 2006.

The purpose of the NDP is to determine the national interests and requirements for the use and development of the whole territory of the country. According to the Law on Regional Development, the NDP medium term strategic development document with a time horizon of seven years (tied to the period of EU programming periods). National priorities are identified in the NDP and the document serves as a coordination document and provides the framework for public investment as well as EU and private financing. The NDP is also required to address the social, economic and environmental situation. The NSP will provide an analysis of the current situation and a perspective for the future development, settlement structure,

[3] See Ancans et al (2000).

infrastructure, open space etc. It will also provide binding regulations and guidelines for territorial development.

The 2002 regional development legislation legitimised the establishment of five planning regions with responsibilities in the field of regional development and spatial or territorial planning. The five planning regions are Kurzeme in the west, Latgale in the east, Vidzeme in the north, Zemgale in the south and the Riga capital region in the centre. Each region has its own regional development agency (RDA) and there are regular meetings with the Ministry of Regional Development and Local Government. Each region is required to prepare development programmes and territorial plans that will determine development opportunities, trends and restrictions in relation to the regional territory.

Latvia has two tiers of local government, whose activities and functions are defined in the "Law on Local Government". The higher tier of local government comprises 26 districts (rajons). In addition the seven republican cities also function as districts from an administrative point of view[4]. The districts mainly have a coordinating role and have few independent functions of their own. The lower tier of local governments is known as towns (pilseta), villages/parishes (pagasts), and novads. The latter comprise an amalgamation of several smaller municipalities (towns and villages/parishes). The lower tier of local governments is directly elected whereas the district level is appointed. Being one of the republican cities, Riga has the responsibilities of both layers of local governments and the Riga City Council is directly elected.

Both the district and the local levels are required to adopt territorial plans identifying development opportunities, trends and restrictions as well as defining the permitted land use at their respective levels.

1.4 Economic development

Although Latvia's GDP per capita is the lowest in Europe, Latvia is experiencing the fastest growth in Europe with recent real growth rates exceeding 10 per cent per year (to a large extent due to the rapid economic expansion in Riga). Despite of this the economic growth is high, Latvia's labour productivity is the lowest among the EU 25, around 45 per cent of the EU 25 average.

[4] The republican cities are (ranked according to population): Riga, Daugavpils, Liepaja, Jelgava, Jurmala, Ventspils and Rezekne

Table 1.1: Growth of Real Gross Domestic Product in Europe

	2003	2004	2005
EU15	1.1%	2.3%	1.5%
Estonia	6.7%	7.8%	9.8%
Latvia	**7.2%**	**8.5%**	**10.2%**
Lithuania	10.5%	7.0%	7.5%
Germany	-0.2%	1.6%	0.9%
Finland	1.8%	3.5%	1.5%
United Kingdom	2.5%	3.1%	1.8%
Sweden	1.7%	3.7%	2.7%
Denmark	0.7%	1.9%	3.1%
Poland	3.8%	5.3%	3.2%
Ireland	4.4%	4.5%	4.7%
Czech Republic	3.2%	4.7%	6.0%

Source: Eurostat

According to the Latvian Labour Force Survey, employment rate as of the second quarter 2006 was 7.2 per cent. The most recent figure for local unemployment in Riga is from December 2004 when the unemployment rate was 4.5 per cent (at the same time it was 8.5 per cent for the country). For the first quarter 2006, the employment rate for Latvia was 64.2 per cent for the age group 15-64 years old. The work force is reduced by emigration. Mainly low-skilled labour have emigrated to other EU countries, in particular Ireland and the U.K. There is a perceived shortage of labour force, in particular when it comes to low-skilled labour and workers for the construction industry.

Despite the high economic growth the majority of the Latvian companies work in low added value and natural resource intensive sectors that use cheap labour force employing labour intensive production processes and “low tech”. The Latvian National Development Plan 2007-2013 recognizes this fact and suggest a number of measures to be implemented in order to achieve the strategic goal “education and knowledge for economic growth and technological change”. To achieve the goal the following priorities are set:

- An educated and creative individual
- Technological excellence and flexibility of companies
- Development of science and research

Particular attention is paid to the educational system, the need to further reform it, to improve its infrastructure and to exploit the linkages between research and economic growth through commercialisation of research and innovation, and through technology transfer. The focus on developing the knowledge based sectors of the Latvian economy is supplemented by a discussion of creative industries, which are supposed to play an important role for Latvia’s economic development in the coming years:[5]

“In order to effectively employ Latvia’s creative and cultural environment resources, to increase the work efficiency of existing creative sectors, to expand and diversify the economic activities of creative individuals, thus turning their creative potential into economic gain, the

[5] Latvian National Development Plan 2007-2013, pp 21-22.

creative industry sector, as one of the most promising, should be integrated into the economy of Latvia. In order for this sector in Latvia to reach growth rates equal to those of other countries, special attention should be paid to the specific needs of the creative industries, their innovative potential should be developed, and the experience of creative industries should be systematically expanded."

1.5 Legal aspects for business

According to the World Bank's *Doing Business Data Base* (2006) an entrepreneur has to go through five procedures to set up a new business. This process takes on average 16 days and comes at a cost of 3.5 per cent of the gross national income (GNI) per capita (USD 6,760). For the OECD countries the numbers are 5.3 and 16.6, respectively. To obtain a company registration number the entrepreneur has to deposit an amount which is 26.1 per cent of the Latvian GNI per capita. For the OECD the number is 36.1.
The registration with the enterprise register costs LVL 300 (EUR 430) if done in 3 days and LVL 100 (EUR 140) in done in 14 days.

To register a limited liability company the minimum equity capital is LVL 2,000 (somewhat less than EUR 3,000). A joint stock company has to have a minimum equity capital of LVL 25,000 (approximately EUR 35,000). Approximately 75 per cent of all companies are limited liability companies.

The Latvian corporate income tax rate is 15 per cent. Dividends and capital income are not taxed. Personal income is subject to a flat tax of 25 per cent (planned to be reduced to 15 per cent). The social payroll tax rate is 33 per cent of which employers are liable for 24 percent. Hence, the tax burden on employees is high and tax wedge is close to 50 per cent creating incentives for 'envelope wages'. The VAT rate is, with few exceptions, of 18 per cent. The consolidated government expenditures in Latvia were 37 per cent of GDP in 2005.

Tax administration is perceived to be rather heavy and the tax legislation is often interpreted differently by business and the State Revenue Service, which in turn can result in penalties for the businesses. The penalties are in the range 100 – 200 per cent of the outstanding tax amount. However, according to the World Bank's *Doing Business Data Base* (2006), tax administration in Latvia has improved considerably up from position 106 to 54 from the 2005 to the 2006 survey. Entrepreneurs in Latvia must make 8 payments, spend 320 hours, and pay 42.6 per cent of profit in taxes. The numbers for OECD are 15.3 and 47.8, respectively.

1.6 Internal asymmetries and regional disparities

Latvia has one of the most concentrated urban structures in the European Union, since Riga with more than 730,000 inhabitants comprise around one third of the nation's population.[6] Daugavpils is the second largest with approximately 150,000 inhabitants in the metropolitan

[6] Greece might be the only EU country where a metropolitan area (Athens) comprises a higher fraction of the country's population. See Coccossis et al. (2005).

area. The port city of Liepaja and the city of Jelgava are third fourth with 130,000 and 100,000 inhabitants in the respective metropolitan areas.[7] The rest of the urban system is comprised of medium sized and smaller cities/towns with a population between 1,300 and 55,000.

Compared to the relatively balanced pre-1991 situation, the regional disparities within Latvia have increased considerably. At the regional and local levels GDP/capita figures for Latvia show large and increasing regional disparities. According to the 2004 figures[8], the Riga region is by far the richest region within in Latvia, its GDP per capita is 182 per cent of the Latvian average, while the other four regions are all below the average. The poorest region of Latvia is the eastern region of Latgale with a GDP per capita of just 48 per cent of the national average. The levels of unemployment provide a mirror image of the GDP figures, in the Riga region the level of unemployment is less than 5 per cent, whereas it is higher than 20 per cent in a number of rural districts.[9]

In comparison to the other new member states Latvia has a GDP per capita of 76 per cent of the average. Only the Riga exceeds the average per capita income of the new member states with 138 per cent.

The recent development trends in Latvia would seem to confirm the findings of Downes (1996) and Petrakos (2001) that economic transition is likely to increase regional disparities in the short to medium term at least. Metropolitan areas and the more western regions, in the Latvian case Riga and Kurzeme (including the Baltic ports of Ventspils and Liepaja) would appear to be in the best position to adapt to the transition process than the more rural and more eastern regions. The increase in these core-periphery disparities have been exacerbated due to the Riga metropolitan area attracting the lion’s share of foreign capital, joint ventures, new enterprises etc., and the Kurzeme ports of Liepaja and Ventspils have also been able to benefit from a lesser degree from the new trade opportunities. In addition, regional disparities are further strengthened by the fact that the Soviet planning system allowed very few functional relationships between urban areas and/or regions. As discussed in Nijkamp (1995) and Coccossis et al (2005), these functional relationships form the basis for clusters, corridors and networks and help to foster economical integration between urban centres and regions, promoting economic growth and development, and hence reducing regional disparities.

[7] Source: The Latvian Statistical Bureau, 2005.
[8] The figures reflect the situation in 2002. Source: The Latvian Statistical Bureau, November 2004.
[9] Source: The EU Employment Observatory, “Monthly labour market update for Latvia”, November 2004.

2 INTRODUCTION TO THE REGION

2.1 Definition of the Metropolitan Region

This metropolitan region considered in this study is the area defined by the Riga city limits, henceforth it will be referred to as “Riga”. Riga is the capital of Latvia, it has an elected city council and from an administrative point of view it assumes the tasks of the lower as well as higher level of local government.

Other definitions of the Riga metropolitan region that were considered but rejected were the Riga district (rajons) and the Riga region. There were several reasons for rejecting them, for example they are fairly heterogeneous encompassing urban as well as rural areas, it is difficult to obtain statistical data etc.

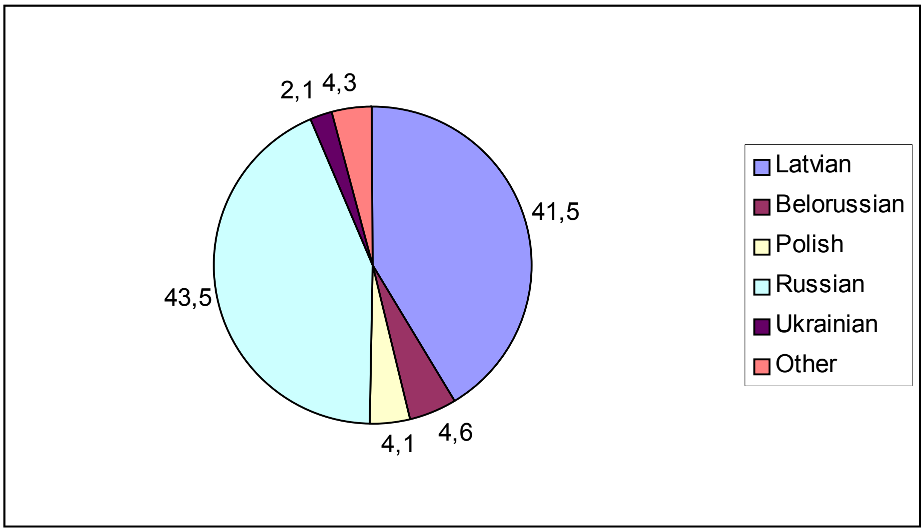
Riga covers more than 307 square kilometres, 19 per cent is occupied by parks and gardens, 16 per cent by water, 22 per cent is dwelling territory, and the 43 per cent is occupied by streets, roads, industrial zones etc. Riga is divided into six regions and suburbs. In the centre, between the Daugava River and the City Canal is the Old Town, which has preserved its irregular form of a fortified medieval city. The Old Town is surrounded by the New Town built in the late 1800s and early 1900s. In this part of the city there are offices, banks, stores etc. There are also residential houses, many of them being converted in to commercial offices space. In a wide circle around the city centre (the Old Town and the New Town), major industrial plants are located. Many of the plants are not operating as industries any more and have been converted for other activities. In this area there are also a growing number of shopping malls. Outside this industrial circle, there are several suburbs mainly with residential housing. In addition, within the Riga city limits, there are also a number of forests and lakes which are used for recreation.

2.2 Geographical and demographical context

Riga sits on the Daugava River and has a population of 732.000, i.e. approximately one third of Latvia’s population. As an ancient merchant town and member of the Hanseatic League, Riga has a unique cultural and historic heritage. During its more than 800 years of existence, Riga has always been an important transport hub and centre of trade and commerce. Riga is located in the centre of the Baltics, the road distance to the other two Baltic capitals, Tallinn and Vilnius, is about 300 kilometres. However, in a European Union perspective, Riga is located in the periphery. The distance to Brussels is more than 2,000 kilometres. Moscow is at a distance of 1,000 kilometres.

Riga being in the centre of the Baltic countries has always been at the crossroads and on the border between Western and Eastern Europe. Throughout the centuries Riga has been an international city bridging the East and West. In the early 1930s Germans and Jews were the two largest ethnics groups in Riga after Latvians. Each of them constituting around 15 per cent of the total population. In the 1960s Russians became the largest ethnic group in Riga as a consequence of Soviet policy. The ethnic distribution of the population (for Riga) according to the 2001 census is shown in figure 1.1.

Figure 2.1: Population in Riga by ethnicity (2001 census)



In contrast to Western Europe where most metropolitan areas gained in population in the 1990s and early 2000s, the population dynamics has been negative in the Riga region. During the 15 year period, 1990-2005, the Riga region's population has fallen with approximately 150.000 individuals. During the first part of the period, right after Latvia had regained independence, the loss in population was to a large extent due to the emigration of Soviet military personnel. During the second part of the period low and falling birth-rates contributed to the decline. Since the early 2000s it looks like the population has stabilized, although with migration within the region with a tendency for people to leave Riga and move to the outskirts physically outside the city borders (but within the Riga region).

The long-term population projection for the Riga region is assumed to follow the same trend as for Latvia, i.e. under-replacement of generations in the future combined with a rapid ageing of the population. There is a rapid absolute and relative reduction in the number of children and by 2020 the number of people age 15-19 will be half of those in 2000. Overall this means that there will be potential shortage of workforce 15-20 years from now.

2.3 Main economic specialisations

Riga is Latvia's main attractor of both investment (including foreign investment) and employment. It is the administrative and educational centre of Latvia. Due to its favourable geographical location it serves as transportation hub as well as a centre for trade commerce with good domestic and international connections.

Riga is the main educational and scientific centre in Latvia. Out of Latvia's 32 universities and institutions of higher education, 26 are located here. Several of them having separate research institutes. Latvia is in the process of integrating its higher education system into the European model. Education reforms from the Soviet type of education have been completed and adjustments have been made to meet the high demand for education, especially in the social sciences. Private institutions of higher education have emerged and provide roughly one fourth of the higher education study places.

If compared to Latvia as a whole, Riga is specialised in the tertiary sector, i.e. the service sector. The main activities are real estate, renting and business activities; financial intermediation; and transport, storage and telecommunication. Since the collapse of the Soviet Union, Riga's industrial sector has undergone a substantial transformation and the industry structure has changed drastically. Many of the large factories have either down-sized their activities considerably or closed down operations entirely. Furthermore, the service industry as well as the number of small enterprises has have grown.

2.4 Position in the European networks and hierarchies

The transition of the former socialist countries poses a major challenge for regional policy and economic development, not only because central control mechanisms have been abandoned in favour of market mechanisms, but also because the countries' macro-geographical position has changed. Research, by among others Sachs (1997) and Gallup et al (1999), emphasises the role of geography in economic transition and economic integration. Along the same lines are the findings in Petrakos (2000), showing that the integration of the former socialist countries into the economy of the European Union has a macro-geographical dimension which is related to the proximity of each of the countries to the Union's development centres. Hence, to understand the challenges facing Riga (as well as Latvia), Riga's macro-geographical position has to be considered.

The macro-geographical position of Latvia and Riga changed drastically with the fall of the Soviet Union. Latvia's as well as Riga's strategic position within the Soviet Union was very strong given its proximity to the Soviet gravity centre given by the triangle Moscow-Leningrad[10]-Minsk. Hence, part of Latvia's Soviet legacy is an infrastructure system built to serve the gravity centre of the former Soviet Union. The legacy is illustrated for example by the fact that many of the infrastructure networks still reflect the needs of the centrally planned economy and old political borders resulting in a need to restructure the national transportation system in order to fit the new geopolitical and economic realities.

After the fall of Soviet Union, Latvia and Riga moved from occupying a strategic geographical location within the hierarchy of the Soviet economic space to occupy a

[10] Now Saint Petersburg.

peripheral location in the hierarchy of the European Union economic space. The country has swapped its position of relative power to become a perimetric country in a peripheral region of the European Union. As discussed in Petrakos (2000) and Coccossis et al (2005) countries that occupy a geographically peripheral location are likely to be integrated more slowly and selectively than countries located close to the core as the countries located near the core will experience the benefits of an eastward-directed dispersion of development more rapidly.[11] With the elimination of the administrative barriers within the European Union geographical factors such as distance, accessibility and centrality emerge as important factors in the spatial organisation of activities. For a country like Latvia and a metropolitan area like Riga, both being far from the European gravity centre, it will be difficult to attract higher order economic functions and to develop multiple strategic location cities or regions that will be placed in the upper part of the European hierarchy. The only exception, when it comes to experience a positive net effect from the increased openness, is the Riga metropolitan area, possibly together with the western port cities of Ventspils and Liepaja.

However, if the Russian-Latvian relations improve and if Russia opens up to the European Union, then Riga's strategic position will once again change considerably and Riga as well as Latvia will be able to fully exploit the comparative advantage that stems from its geographical location on the shores of the Baltic Sea and close as well as easily accessible to important development centres of the Baltic Sea region and Russia, i.e. at the crossroads of important communication routes between Western Europe and Russia.[12] This has played a significant role in the development of the territory that now constitutes Latvia. Crohn-Wolfgang (1923) argues that the advantages of Riga and Latvia:[13]

"…were a product of nature which could not be changed by political events and will never be changed by these… Irrespective of the political changes in the east, one thing is certain, namely that the geographic area constituting European Russia even in the future will continue to use Riga as its main gateway; and here all human reason suggest that Riga's future as port is determined, as is that of Latvia as a transit region. Specifically, the country will continue to be the coastal transit zone for Russia and the bridge between Western Europe and Russia."

With the exception of the close to 50 years of Soviet occupation Riga has since it was founded in 1201 always been an international city where trade and commerce have been the main businesses. As can been seen from the industry structure, Riga and the Riga region are now regaining this position and this will continue to be Riga's competitive advantage. This is seen in the 2005 development strategy for Riga covering the period up to 2025 it is said "Riga – the city of opportunity for everyone", and Riga envisages itself in 2025 to be a city with:

- A highly educated and skilled society

[11] There is no unanimous definition of the European Union gravity centre or core area. However, one core area that has been frequently discussed is the pentagon whose corners are given by London, Paris, Milan, Munich and Hamburg. See, e.g. Faludi (2001) for a discussion.

[12] For example, before the First World War about 25% of Russia's total export and import was conveyed through the Latvian ports of Riga, Liepaja and Ventspils, see Crohn-Wolfgang (1922).

[13] Translated from German by one the authors of this report.

- An economy that is built around the East-West connection
- Development on a human scale and with a high quality environment

2.5 Conclusions

This section defined the geographical area to be considered in this study as the area defined by the Riga city limits and discussed Latvia’s and Riga’s macro-geographical position:

- Riga has always been at the crossroads and on the border between Western and Eastern Europe, bridging East and West.
- Riga’s macro-geographical position changed drastically with the fall of the Soviet Union. Riga’s strategic position in the Soviet Union was very strong given its proximity to the Soviet gravity centre.
- Part of Latvia’s Soviet legacy is an infrastructure system built to serve the gravity centre of the former Soviet Union.
- With the fall of the Soviet Union, Latvia and Riga moved from occupying a strategic geographical location within the hierarchy of the Soviet economic space to occupying a peripheral location in the hierarchy of the European Union economic space.

3 HISTORIC DEVELOPMENT PATH

3.1 Introduction

Archaeological excavations indicate that the area which today is occupied by Riga most likely was inhabited and operated as a trading centre as early as the second century BC. The first time what could be considered a city is mentioned was in 1201 when Bishop Albert of Bremen established the locus Riga and the first German fortress. From the very beginning until the eve of the First World War, Baltic Germans were strong in Riga. Even though Riga throughout the centuries was a part of the Russian or Swedish empires, it was more or less entirely ruled by the Baltic Germans.

Riga has since it was founded in 1201 been a centre of trade and commerce. In 1282 it joined the Hanseatic league. Throughout the centuries Riga’s prosperity has been closely related to the trade. In periods of peace and stability the trade blossomed bringing prosperity and commercial success to Riga.

Industrialization in what is today Latvia started in the second part of the 19th century and was to a large extent concentrated to Riga. The development from the mid 1800s to the end of the 1900s can be divided into four very distinct periods related to the political development. The pre-first world war period, when Riga was one of the biggest cities in the Russian empire (the demographical development is shown in table 3.1). The period can be characterized by heavy industrialization and large scale factories. The second period 1918-1940 coincides with Latvia’s first period of independence and is characterized by small scale industry and an economy suffering from the loss of the Russian market and the fact that most of the industrial plants were moved to Russia during the First World War. The third period, Soviet occupation 1945-1991 is again characterized by heavy industrialization and Latvia became one of the most important industrial centres of the Soviet Union. The fourth period 1991-2000, is like the intra-war period characterized by a loss of the Russian market and closing down of most of the Soviet era industrial enterprises.

Table 3.1: Riga population 1800-2001

Year	Population
1800	27,894
1862	102,590
1881	169,329
1897	282,230
1913	517,522
1925	337,629
1930	377,917
1935	385,063
1959	580,423
1979	731,831
1989	910,445
1997	815,581
2001	763,675

Sources: Plakans (1995), Enciklopedija Latvijas Pilsetas (1999), and the 2001 Census.

The development of Riga's territory is given in table 3.2. Out of today's 307 square kilometres.

Table 3.2: Territory of Riga

Century	Square km
13th	0.135
16th	0.35
18th	0.60
21st	307,2

Sources: Debrer (1982) and Enciklopedija Latvijas Pilsetas (1999).

3.2 Industrialization 1860-1914

3.2.1 Economic development

The industrialization of what today is Latvia in general and Riga in particular was determined by the Latvia's and Riga's geographical position, the traditional links with Western Europe, the economic dominance of the Baltic Germans, a qualified workforce (compared to other parts of the Russian Empire) and the opportunities provided by the market of inland Russia. As discussed in Pabriks (2002), in the early 1860s Riga was not much different from it Hanseatic former self, controlled by the guilds and export oriented. By the end of the century Riga was one of the most modern cities and prosperous cities of the Russian Empire. The economic prospects were good and the city attracted considerable foreign capital and investment. At the eve of the First World War, Riga was the third largest industrial centre in the Russian Empire after Moscow and St. Petersburg.[14]

[14] Duzmans (1926).

Several factors contributed to this development. The German Baltic elite converted much of their wealth based on land-holding to wealth based on trade and industry. Furthermore, the liberalisation of peasant movement gave Riga the workforce needed for the rapid industrialization.

An overview of the industrial development in Riga covering the period 1858 to 1914 is given in table 3.3. In 1858, the Kuznetsov china factory was the largest factory in Riga employing over 200 people. In 1879 Riga had acquired the position as Russia's third largest industrial centre in terms of works and fourth in terms of output (after St. Petersburg, Moscow and Ivanovo-Voznessensk). In 1901 Riga was home to 59 per cent of Latvia's enterprises and had 70 per cent of the workers.

Table 3.3: Industrial development in Riga

Year	Number of factories	Number of workers
1858	47	4,500
1879	145	12,100
1901	278	47,242
1914	372	87,606

Sources: Crohn-Wolfgang (1923) and Kiaupa et al. (1999).

In the decade prior to the outbreak of the First World War, Riga's industry experienced rapid modernization and the annual growth rate in output was 6.4 per cent. Furthermore, the concentration of Latvia's industries to cities in general and Riga in particular that started during the last two decades of the 19th century continued in the early 20th century. This process was further intensified by the consolidation of enterprises into larger units and as seen from table 3.4 this process had reached a remarkable level by 1913. This process was accompanied by a monopolisation and internationalisation of the industries.

Table 3.4: Proportions of Riga's industrial labour force employed by small, medium- and large-sized companies in 1913

Size (number of employees)	Proportion
1-100	19%
101-500	35%
501-	46%

Source: Bleiere et al. (2006) and own calculations.

Among the largest employers in Riga before the First World War were the rubber manufacturer Prowodnik with around 15,000 workers, the Russian-Baltic Wagon Factory with 4,000 workers, and the Railway Carriage Factory Phoenix with 3,000 workers. The latter two also produced high quality steel, agricultural machinery, and engines. The Russian-Baltic Wagon Factory also produced automobiles. The world's largest metal file maker, Salamandra as well as the Felser Shipboiler Works were located in Riga as well. Other large employers were in industries such as metal working, mechanical engineering, chemicals, timber and food. However, the in the 1800s important textile industry lagged behind. Approximately two thirds of the inhabitants of Riga were dependent on industry for their livelihood.

Riga was also a major transport hub, and it served as Russia's main gateway to the West. According to Crohn-Wolfgang (1922), the shipping trade of Riga's port doubled between

1900 and 1913. During these years the port became the biggest timber exporting port in Europe. In addition, the port handled a flourishing export trade in products such as flax, timber, hides, rye, butter and eggs. The import trade handled comprised products such as rubber, steel. A substantial part of the imported products were converted into finished goods for the Russian Empire. In 1913, 17 per cent of the value of the Russian Empire's trade went through the port of Riga (or one third of European Russia's trade).

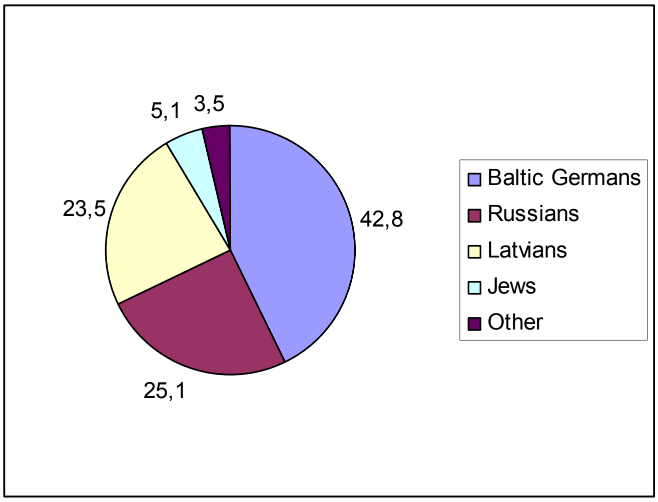
Riga was home to an impressive banking and financial network serving the trade and industry. However, the centre of banking was St. Petersburg and most of the banks and financial institutions had their head offices in St. Petersburg.

The expansion of economic activity in Riga also altered the city's physical appearance. In the 1860s, the old city walls were torn down and the city expanded rapidly. Medieval structures disappeared and were replaced by modern buildings, working class residential areas were built, and main thoroughfares were built and paved. The medieval heart of Riga, became the historic part of an expanding city centre, and the nearby small rural estates were developed into suburban areas. With the exception of the Soviet suburbs from the 1960s, 70s, and early 80s, much of contemporary Riga was built from 1890 to 1914.

3.2.2 Social and demographic development

The liberalisation of peasant movement within the Russian Empire resulted in an in-migration of workforce to Riga. During the thirty years 1867 to 1897 Riga's population doubled and reached 282,000 in 1897. During the same period the labour force quadrupled. The ethnic distribution of Riga's population in 1867 is given in figure 3.5.

Figure 3.5: The ethnic distribution of Riga's population in 1867 (per cent).



Source: Henriksson (1983).

At the end of the 19th century, ethnic Latvians comprised close to half of Riga's population, Baltic Germans somewhat more than 20 per cent of the population, and ethnic Russians somewhat less than 20 per cent. Other ethnic groups of significant size were Poles and Jews, each of them making up somewhat less than five per cent of Riga's population. Other important ethnic minorities were Lithuanians and Byelorussians.[15] From the turn of the century, Riga's Russian population grew rapidly, mainly through an inflow of military personnel and workers of Russian ethnicity. By the end of the 19th century, Riga had become the sixth largest city in the Russian Empire.

The period 1897 to 1913 saw Riga's population increase to 482,000 in 1913. Out of the total population 42 per cent were not engaged in paid employment, 39 per cent were workers, and 16 per cent belonged to the 'bourgeoisie' (property owners, civil servants and members of the free professions). Ethnic Latvians were in a weak position among Riga's wealthy population, making up only 20 per cent of the top civil servants and members of the free professions. Latvians owned craft workshop and small industrial businesses, where all the big businesses were owned by non-Latvians.

In the early 20th century, Riga was characterized by a unique multi-ethnic setting with a great diversity of languages, religions, cultures and customs. Education was provided in 11 different languages and newspapers published in seven different languages. As discussed in Bleiere et al. (2006), the Rigans were in general tolerant towards each other, apart from the rivalry between Latvians and Baltic Germans.

The industrialization led to the emergence of a working class and a socialist movement. Whereas Riga approached the Western European standards of cultural and economic achievement, the political institutions lagged behind and the lack of political rights frustrated all classes in the society. The workers could not legally organize, and the Latvians could not challenge the Baltic Germans' power, and the Russification of the society could not be challenged. In January 1905, police killed dozens of demonstrators in Riga. As a consequence, the Russian Empire's Baltic provinces erupted in revolution and Riga, like other urban centres, were controlled by workers' councils. The main aim was to stop the Tsarist autocracy and to establish a democratic system of rule. In the end of 1905 tsarist troops arrived and together with Baltic German militia they defeated the revolutionaries and the revolution was crushed militarily by mid-1906.

3.2.3 Cultural development

The Baltic German hegemony of Riga was not only economical, it was also political and cultural. Although Latvians always have been ethnically unique with a distinct language and culture, it was not until the latter half of the 19th century that the Latvian identity emerged. Latvian language, tradition and folklore were 'rediscovered', books, journals and newspaper in Latvian language were published. In 1868, the Latvian Society of Riga was established. It promoted education and culture, and in 1873 it organized the first Latvian song festival in Riga.

[15] Enciklopedija Latvijas Pilsetas (1999).

In 1888 the Latvian national epic Lacplesis (the Bear Slayer) by Andrejs Pumpurs was published in Riga. Since Latvians, like Estonian and Finns, did not have any historic state to look back to for inspiration they all populated their national epics with methodological heroes.

In the struggle for national and cultural awakening, the Russian Imperial power was not seen as the main obstacle – the main obstacle was the Baltic German hegemony. However, the hegemony was challenged with the increasing number of in-migrating Latvians supplying the expanding factories with labour force. The tens of thousands Latvians coming to Riga overwhelmed the old mechanisms for assimilation into the Baltic German culture and social control. A 'Latvian Riga' was created at the end of the 19th century; a Riga where Latvian was spoken, Latvian words were being read, and where Latvian theatre, art and popular entertainment were in high demand. In 1896 the Latvian Society organized the Exhibition of Latvian Ethnography. The Exhibition was a success and a powerful demonstration of Latvian ethnicity.

Although the Baltic German hegemony was challenged, it managed to maintain its grip of the city throughout the Imperial period. The Baltic German strong cultural hold of Riga in the late 1800s and early 1900s is still visible in today's Riga through the Jugendstil (Art Noveau) architecture. Riga has block after city block with the best examples of Jugendstil architecture in Europe. The Jugendstil buildings, together with the wooden buildings (most of them from the time after the Riga fire in 1812), contribute to Riga's unique architectural character.

3.3 The first independence 1918-1940

3.3.1 Economic development

Latvia was one of the battle fields of World War One and Riga suffered several, long sieges. Furthermore, even after the German collapse in late 1918 war activities continued on the Latvia territory for one more year since the Latvian territory was the main theatre for the Baltic operations of the German forces in 1919.

Riga not only suffered from the damages caused by the war as such, it also suffered from the fact that virtually all major industrial and transportation equipment had been evacuated to the interior of Russia in 1915 and 1916, and only about 10 per cent of these, mainly the small ones, were returned to Latvia after the signing of the peace treaty with Soviet Russia in 1920. The largest ones remained in Russia and the shells of the factories were reminders of the pre-war industry. Furthermore, Riga's port was destroyed and remained silent close to four and a half year after the end of the War, and it never fully recovered in terms of tonnage shipped. In 1920 the entire Latvian industry employed slightly more than 21,000 workers, to be compared with more than 87,000 employed in Riga alone in 1913.

Riga's industry structure changed radically after the War. The big Russian market, which was the cornerstone for Riga's prosperity before the War, was lost and the trade had to be oriented towards Western Europe. The large scale industries in Riga were gone and the industry sector was made up of what today is called small and medium sized enterprises with not more than 500 employees (SMEs).

Riga's changed geo-political location after World War One showed considerable similarities with that of the 1990s. The economy was compelled to be restructured and reoriented on an entirely new basis. In the early 1920s, Riga like the rest of the regions was seen as, using the words of O'Malley (1920) "…a very good jumping off ground for British trade with Russia whenever this becomes possible". Not only Brits, but businessmen from all over Europe flocked to Riga to prepare for the opening of the Russian market. However, these expectations never materialized even thought the trade with the Soviet increase during the ere of New Economic Policy. However, with the introduction of the first Soviet five-year plan, the Soviet Union turned in on itself.

Unlike the pre-war period, Riga's economy (like independent Latvia's) was to a large extent built on Latvia's own resources. The wood working sector expanded. Although most of its goods were exported, it had low value-added. The food sector, which on the other hand had high efficiency and high value added, expanded as well. The sector was highly successful and many of the companies were well-known. Some of them, like Laima and Staburadze, still exist today. There were also a number of tobacco factories. The chemical sector, in particular rubber manufacturing, was successful and attracted substantial foreign investment. The textile business expanded as well and the company Rigas Audums introduced new products, hired talented artists and designers and cultivated contacts with the fashion houses in Paris and Milan during the 1930s.

The banking system was reconstructed after the War and Riga became the home of several of the leading banks in the region. German interests had a prominent position in the banking system. The Riga Commercial Bank, founded in 1871, to a large extent on the basis of German capital, was after reconstruction of the largest commercial banks and even after the War its management remained in German hands. The bank had branches in Estonia and Lithuania and servicing German businesses throughout the Baltic countries.

Like in most parts of Europe the government interfered with the economy and there was a tendency to increase the state's share of ownership in the economy. The authoritarian coup by President Ulmanis in 1934 resulted in drastically increased state intervention in the economy through nationalisation of private companies on a large scale. Most of the state owned enterprises were far less successful than the private ones. However, there was one notable exception the VEF factory in Riga. VEF started its production in 1919 of radios, in 1920 of telephones and later in the 1920s it expanded into electrical bulbs. By 1930, VEF employed more than 1,000 highly skilled engineers and workers. In 1938 it began producing the smallest camera in the world, the Minox. The Minox camera together with the VEF radios became the symbols of Latvia's innovation potential combined with technical superiority and excellence in design. Like most of the Latvian companies VEF reached its heights just before the Second World War and the first Soviet occupation.

3.3.2 Social and demographic development

Riga, like the rest of Latvia, was depopulated during the war. After the war the population of Riga was somewhat higher than half of the pre-war population, and it was not until the 1950s Riga's population reached its pre-war level (then mainly because of the in-migration from other parts of the Soviet Union). Most of lives lost were young men killed in action. This created a huge sexual imbalance. Before the War there were 37,000 more women than men in Latvia, after the War this figure had increased to 153,000. Furthermore, there were around 535,000 children under the age of ten before the war, after the war there were less 250,000. This created the huge demographic imbalances that characterized the inter-war period with 'too few' people in the working prime (i.e. between the ages of 20 and 40), which in turn hampered the rebuilding of Latvia and the inter-war economic development. To reverse the negative demographic trend, all inter-war governments followed a pronatalist policy to promote marriage and large families.

As regards the ethnic distribution of Riga's population, the Latvian's increased both in absolute and relative numbers during the inter-war period, whereas the number of Baltic Germans fell gradually during the period and the number of Russians remained fairly stable in absolute terms, but fell in relative terms. In 1935 the proportion of Latvians in Riga reached 63 per cent. The other main ethnic groups were Jews, 11 per cent, Baltic Germans, 10 per cent, Russians, 9 per cent, and Poles 4 per cent. In the fall of 1939 the exodus of the Baltic Germans began as a consequence of the Ribbentrop-Molotov pact between Nazi Germany and the Soviet Union.

3.3.3 Cultural development

Broad support for culture was a characteristic of new Latvian state from the very beginning, and the job of, as Plakans (1995) calls it, "culture building" that started with the national awakening in the second half of the 19^{th} century continued through the interwar period. Song and dance festivals flourished. Exiled authors and artists came back to Latvia. Throughout the interwar period, the artistic creativity in the fine arts as well as in writing had a national tone and the cultural policy aimed at strengthening the Latvian cultural world. The Ulmanis regime continued along these lines with a wide network of cultural subsidies and special grants for study and research.

In 1919 the University of Latvia was established in Riga. The University of Latvia was, and still is, the largest institution of academic learning in Latvia. The year 1919 also saw the establishment of the Latvian Conservatory, the Latvian Art Academy, and the Latvian National Theatre as well as the National Opera. The number of museums and public libraries in Riga increased considerably throughout the 1920s. So did the number of elementary and primary schools as well as the number of printing and publishing houses. In 1928 the first building was erected in the Ethnographic Open Air Museum (the Museum still exists today and there are now more than 100 buildings).

Although the language of most cultural activities were Latvian, there were also cultural activities in the fields discussed above carried out in languages other than Latvian, primarily German and Russian. Despite the fact that the old order was destructed the Baltic German flourished in many ways, e.g. the German Theatre in Riga, until the mid 1930s. Furthermore, the Latvian constitution of 1922 required the cultural autonomy of national minorities to be protected and subsidized. For example, education was offered in a number of different languages throughout the interwar period.

3.4 Soviet occupation 1945-1991

3.4.1 Economic development

Soviet troops re-entered Riga in October 1944 and the last German soldiers on Latvian territory capitulated in May 1945. In Latvia, like in the two other Baltic countries, the Soviet rule was met with determined resistance and guerrilla formations operated in the Latvian countryside until the early 1950s. The war activities caused substantial damage to Riga's infrastructure. All the bridges crossing the Daugava River were destroyed, and so were the railway lines and the port. Parts of the historical city centre burned down in 1941, whereas the damage to the industrial sector was relatively little and in many cases easy to repair.

Like in the rest of the Soviet Union, Latvia's and Riga's economy was subordinated to central planning through five-year plans and the forced development of the industry was seen as the ultimate objective of the economic development. The Stalinist era saw a rapid programme of industrialisation pushed through by the Soviet authorities in Riga. The industrialisation was accompanied by liquidation of private property. The development of Riga during the Soviet occupation is characterized by Plakans (1995) in the following way:

In many ways, since 1945 Riga had reassumed the position it had had before the First World War – a large an important urban center in an "empire" with leaders who made "imperial" plans with little reference to regional or republic sensitivities. ...Latvians had to adjust to the thought that the future of "their" capital would be determined by decisions in which their views counted for little.

The large scale industrialization of Riga draw on the human as well as physical capital inherited from the tsarist times and Latvia's first period of independence. The human capital included the technical and managerial skills of the labour force, the manufacturing culture as well as the high levels of education. The physical capital included manufacturing buildings and equipment – most of it just needed only to be fitted for the specific needs in order to start production; the complex of the former rubber manufacturer Prowodnik was turned into a plant for the Riga Electro Machine Factory, RER. The physical capital also included the infrastructure, in particular the railroad network, which was quickly repaired after the War.

The industrialisation resulted in a re-integration of Riga into the Russian/Soviet economic sphere from which it had been detached during Latvia's first period of independence. The central planners considered Riga to be an important centre of manufacturing and huge capital investments were made by the Soviet Union in Riga's industry and throughout the Soviet occupation Riga's industry became more and more fitted into all-Union plans and integrated into a network of specialised plants in other Soviet republics.

The economic Soviet policy brought Riga into the larger Russian economic sphere from which it had been detached during the Latvia's first period of independence. The re-industrialisation of Riga had an emphasis on the same industries for which Riga had been important prior to 1914. Many of the industries were "All-Union" and hence serving the entire Soviet Union with their goods. Examples include machinery manufacturing , metal processing, chemical industry, and railroad equipment. Manufacturing also included military equipment. Furthermore, certain pre-Second World War features of Riga's industrial structure were evident as well, for example electronic technology, through VEF and later also Radiotehnika, continued to be an important sector, and so was food processing. Many of the consumer products manufactured in Riga were popular throughout the Soviet Union and earned a reputation for high quality (by Soviet standards). At the company's peak in the late 1980s, it employed more than 20,000 people in its Riga factories.

Although many factories were built outside of Riga from the 1960s to the 1980s and industries were relocated to the Latvian regions, Riga continued to be the industrial centre of Latvia, and more than half of Latvia's industrial output was produced in Riga.

From the beginning of the Soviet occupation until the late 1980s there were no direct means of passenger transportation between Riga and the West. During the 1940s and 50s, there was little international trade through the Riga port. The opening up of Soviet trade in the 1960s influenced the development of the Riga port which specialised in the transhipment of dry cargo.

In the first part of the 1960s, the standard of living improved considerably as a consequence of the increases in productivity which largely exceeded the average Soviet development, resulting in an increase of private consumption, private housing and private cars. In the declining years of the Brezhnev era during the 1970s, the problems of the Soviet economy began to show. Not only in terms of lower productivity in the industrial sectors, but also in terms of shortages of food and consumer goods. The living standard of the population declined during the 1970s and 80s and the gap between Riga and the rest of Soviet Union in terms of standard of living diminished. Not only the economy suffered, during the same period the environmental damage caused by the Soviet industrialisation became more and more evident.

3.4.2 Social and demographic development

The Second World War brought the destruction of the German Baltic and the Jewish communities in Riga. In 1944, around 250,000 ethnic Latvians fled westward in the face of the invading Soviet Red Army. A majority of those that fled were intellectuals causing a brain-drain of ethnic Latvians.

During the Soviet occupation, the Soviet Union came, as discussed in Hiden and Salmon (1994), closer than any other of the past rulers to extinguishing the national identity of the Latvian people. This was not so much through direct attacks on Latvian culture, the effect was effect was a consequence of Soviet-style economic modernisation. The rapid industrialization required far more workers than Latvia alone could supply and large scale in-migration from other parts of the Soviet Union took place. During the period 1961-1989 close to 1.5 million immigrants from other parts of the Soviet Union (mainly Russia) moved to Latvia. Most of them were workers needed for the growing industries in Riga and elsewhere, but there were also a substantial number of military personnel. The majority of them stayed for brief periods and then left Latvia again. However, around 350,000 settled permanently in Latvia (most of them in Riga). This radically shifted the ethnic balance of the Latvian society. Ethnic Latvians were already in minority in Riga (in the late 1970s the fraction of Ethnic Latvians fell beyond 40 per cent), and in the 1980s they were on the verge of becoming a minority in the Latvian Soviet republic.

The population grew constantly until the end of the 1980s when it reached its peak of more than 910,000 inhabitants. The large-scale immigration from other parts of the Soviet Union resulted in an increased demand for housing. Initially the development of Riga's manufacturing industry came at the expense of housing. To meet the demand for housing a large part of Riga's stock of apartments was turned into communal flats with several households sharing a bigger apartment; one household per room sharing a common kitchen and bathroom. Many of the apartments were taken from the deportees of the Stalinist era's large deportations of ethnic Latvians to Siberia. However, from the late 1950s new residential areas were developed, and large scale suburbs were being developed in a belt around Riga in the late 1960s, the 1970s, and early 1980s. Several of the buildings built in the 1960s were constructed in such a way that they would be used for approximately 20 years and then to be torn down. However, they are still used today.

Furthermore, Riga with its high living standards (by Soviet standards) and its 'western' life style attracted tourists as well as settlers from other parts of the Soviet Union. The latter leading to illegal migration into Riga.

The rapid industrialization of Latvia in general, but Riga in particular, was, as in other advanced societies, accompanied by increased social pressure and hence a rapid increase in social problems. From the 1960s the crime, suicide, divorce and abortion rates rose steadily. At the same time birth rates dropped considerably. The increase in alcohol consumption was to a large extent the root to these problems and alcohol abuse became common on work place. Today's Latvia is still suffering from its Soviet heritage in terms of a decreasing population and as Pabriks (2002) puts it: "the debilitating alcohol problem is and will continue to be one of the longest-lasting vestiges of Soviet Rule in Latvia".

3.4.3 Cultural development

The essence of the Soviet cultural policy was to be “socialist in essence and national in form” strictly following class principles. Furthermore, the Soviet cultural policy involved selective destruction of the intellectual heritage resulting through cleansing of “bourgeois literature” from libraries etc. In the 1970s the official policy of the Soviet Union focussed on the creation of one Soviet people, *homo sovieticus*, which in fact meant Russification.

Between the late 1940s and the early 1980s, Riga, like the rest of Latvia and the two other Baltic Soviet republics, was to a large extent isolated from the world outside the Soviet Union. During the Stalinist era virtually all contact with the West was cut off. It remained closed to Western journalists until the 1960s. Foreign tourism into Latvia was mainly confined to Riga.

The three Baltic republics enjoyed the highest standard of living in the Soviet Union and throughout the Soviet occupation Riga remained distinctively ‘western’ in culture and outlook. The Baltic Soviet republics’ small sizes accompanied by their political, intellectual and cultural sophistication gave them a unique position in the Soviet Union. Estonia in particular, but Riga as well, was considered to be a kind of ‘laboratory’ where the study of technological, managerial and cultural change could take place.

The Sovietisation (and hence Russification) of Latvia in general and of Riga in particular with its large majority of non-ethnic Latvians resulted in an increased use of Russian language as well as an expansion of Russian culture. The number of schools with tuition in Latvian decreased, an increasing number of civil servants did not speak Latvian language (or were afraid to use it), and meetings were conducted in Russian.

A distinct feature of the Soviet culture was amateur activities and the tradition from the interwar period of independence with amateur orchestras, choirs, drama societies etc. was carried on. Towards the end of the 1950s a new generation of creative intelligentsia entered the cultural life resulting in an increase of high-level professional culture. The tradition of song festivals continued during the Soviet occupation and gradually they became nationally-biased mass events.

As a reaction to the Sovietisation and industrialization of Latvia two cultural currents emerged. The growing interest in folk art and its customs and traditions – an interest that remains strong in today’s Latvia as well; and a small underground hippie movement in the early 1970s. The great song festivals remained a means for national self-expression as they had been in tsarist times a century ago. Other types of music, such as jazz and rock, were viewed with suspicion by the Soviet authorities.

Although Latvian culture was under a Sovietisation attack during these years, a revival of Latvian culture took place which included record attendance at theatre performances, museum exhibits and film screenings. However, at the same time the number of books, journals and newspapers published in Latvian language dropped and by 1984 less than 50 per cent of the books published in Latvia were published in Latvian language.

3.5 The transition 1991-1999

3.5.1 Economic development

The Latvian independence and the break up of the Soviet Union resulted in a breach of trading links with the rest of the former Soviet Union and the decline in industry output in Riga and Latvia was steeper than in most other parts of the former Union. The breach of trading links made it difficult for several of Riga's industries to get components needed for production. For example, the Riga Railway Carriage Factory, RVF, relied to a large extent on components produced elsewhere in the former Soviet Union. Furthermore, the producers of consumer goods, like VEF and Riga's Radiotehnika, suffered from the lack of image, design, packaging and marketing. Even though their products technically were as good as many imports, consumers preferred something with a Western brand name and an attractive design and packaging.

In the early days of transition, most of the workers still clung to their jobs, although productivity was extremely low. Later, the gigantic workshops of the Soviet factories turned silent with the exceptions of a few of the former workers trying to produce something using the old machinery.

The, during the Soviet era, underdeveloped service sector expanded rapidly during the 1990s. The expansion of the service sector was the main explanation for the rapid growth of small and medium sized enterprises. During the period 1991 and 1998 more than 350,000 jobs were created in the Latvian SME sector.[16] Although the statistics describe the Latvian development, it is reasonable to believe that the majority of them were created in Riga. In 1998 45 per cent of the SMEs operated in retailing, 39 per cent in the service industry (excluding banking and finance, education, and medical care). Out of Latvia's total number of enterprises in 1998; enterprises employing less than 50 people comprised 93 per cent of the total enterprises in Latvia, contributing to close to 60 per cent of the total employment, and to 50 per cent of Latvia's GDP.

By the end of the 1990s and the early 2000s the situation stabilized and former large employers such as VEF, Rigas Radiotehnica, RVR and the pharmaceutical company Grindex emerged as restructured companies. VEF was split into several companies ("baby VEFs") – one of them being merged with Radiotehnika into VEF Radiotehnika RRR. However, the number of persons employed by these restructured companies is much lower than in the Soviet time. The VEF companies now have around 3,500 employees.

[16] Sources: Latvian Ministry of Economy (1998) and Kuzmina (2003). The definition of SMEs used here, consider an enterprise to be an SME if it has less than 250 employees.

3.5.2 Social and demographic development

Riga's population fell drastically during the period. The natural increase in population was negative, i.e. the death rate exceeded the birth rate. For example, compared to the number of births per 1,000 women in reproductive age in Riga in 1990, the number was less than half in 1999. In addition to the natural decrease in population, the emigration from Riga has exceeded the immigration to Riga throughout the period. Most of the people leaving Riga were of Russian ethnicity. The outflow of people also contributed to a demographic aging, since the majority of emigrants were in working age. Furthermore, the drastic fall in life expectancy, in particular among males, contributed to the decrease in population as well.

The Latvian standard of living, as measured by the United Nation's Human Development Index, fell considerably until the end of the 1990s. In 1993, Latvia was ranked 35 and in 1998 it was ranked 92.

The collapse of the large Soviet industries also had direct social consequences, since the factories provided the employers and their dependants with various forms of social security. Hence, with the closure of the factories a whole social support system vanished.

3.5.3 Cultural development

Already during the period of national re-awakening in the second half of the 1980s, major changes in culture took place and previously unavailable gems of Latvian as well as 'foreign' culture were discovered, and the Latvian culture was re-united with the culture of the Latvian Diaspora. Meanwhile, the interest and demand for Russian culture fell. This changes continued in the 1990s and with the independence came the opportunity for Latvian creative intellectuals to go abroad and to be integrated into the international cultural developments. At the same time the demand for and from the mass culture grew rapidly.

The economic transition brought difficulties that more or less affected all cultural spheres in Latvia. Cultural institutions and publications had to adapt to the new environment. However, many of them were unable to survive under the new conditions. On the other hand, there were many new initiatives that managed to survive in the new environment.

The transition to market economy was most painfully felt by art genres requiring large capital investments. The Riga film studio, which during the 1980s produced up to 40 films a year more or less collapsed in the first half of the 1990s. However, cooperation with foreign partners resulted in a small, but anyway revival of the Riga film industry in the late 1990s.

The Latvian National Opera House was reopened in 1995 after renovation and many acclaimed productions have been staged there since its reopening. Among the other Riga theatres, the New Riga Theatre, established in 1992, have staged several performances that have won international recognition.

In 1997 the historic centre of Riga was inscribed as UNESCO World Heritage. In the decision it was taken into consideration that "the historic centre of Riga, while retaining its medieval and later urban fabric relatively intact, is of outstanding universal value by virtue of the quality and the quantity of its Art Nouveau/Jugendstil architecture, which unparalleled anywhere in the world, and its 19th century architecture in wood"[17].

3.6 The Soviet heritage

3.6.1 Cityscape

The Soviet legacy is visible in the Riga cityscape. There are industrial complexes located on what in most European capital would be considered prime locations for commercial development. In terms of architecture it is mainly visible outside the city centre, and as Lieven (1994) puts it:

Compared to the great empires of history, the Soviet Union has left a visually disappointing legacy. The drab, grimly modernist offices of the fallen Communist Party, or the concrete memorials to the Great Patriotic War, hardly compare in grandeur with the remains of Timgad, of Persepolis or Fatehpur Sikri.

3.6.2 Civil society

On important aspect of the Soviet heritage is the effect it had, and still has, on the civil society. According to Schrader (2004), post-socialist societies face a situation where the social capital of the entire society is weak compared to the social capital based on personal networks. This in turn has a negative impact on the emergence of a well-functioning civil society, which in turn affects the involvement of various stakeholders in the city development process.

The increased interest in regional development has highlighted the need to involve various stakeholders in the processes. Hence, successful strategies require partnership between all stakeholders, i.e. a concordat between the local government, business and the voluntary sector. Logan and Molotch (1987) claim that growth coalitions, involving and cooperating with local politicians, media, public leaders and semi-public institutions (such as development agencies, chambers of commerce, employers' federations and trade unions) with a view towards generating a coherent vision and strategy, are crucial when it comes to the economic development of a city. Furthermore, the success of a growth coalition and hence of a city's economic development is dependent on and related to the nature and structure of its political and, in particular, economic elites. According to Judge *et al*. (1995), comparative research has shown that the existence of close and hegemonic growth coalitions weaving together public and private elites play a crucial role in generating and maintaining competitive spaces.

[17] Source: http://whc.unesco.org/en/list/852

Swyngedouw (2000) further discusses the role of and the importance of involving civil society in the process. Failure to bring broad layers of the civil society in line with the growth coalition's vision might result in conflicts that have the potential to erode the base on which successful development rests.

Taken together, this means that it will be important to involve civil society at the local level. In this respect, Riga faces a major challenge, not only because of the large minority of non-citizens, but also because its Soviet legacy. In looking at the latter North (1990) argued that the actions and behaviour of individuals, as well as the functioning of institutions are path-dependent. Applied to Riga, this means that its Soviet past might still play an important role when trying to understand individual behaviour and actions. The Latvian evidence so far however is not very promising; the extent of stakeholder participation in planning processes has been very limited. Hence, people need to be convinced of the added value from participation. Another aspect is the need to raise the capacity of stakeholders and local communities so that they can play a full and active role in the process as members of the growth coalition.

3.7 Conclusions

This section has analyzed Riga's historic development path in terms of cultural, social and cultural development during the period 1860-1999 and the findings can be summarized as follows:

- Riga has always been a centre of trade and commerce (with the exception for the Soviet occupation 1945-1991).
- Riga holds primacy over Latvia's economic, political, social and cultural functions.
- Riga has always been a multiethnic city. Ethnic Latvians have been in minority in the city during most of the period 1860-2006. Prior to World War II the main ethnic groups, in addition to Latvians, were Baltic Germans and Russians; after the Second World War Russians.
- The industrialisation period (1860-1914) and the period of Soviet occupation (1945-1991) saw large scale industries being established in Riga, to a large extent staffed by migrants from other parts of the Soviet Union.
- The period of independence 1918-1940 saw more of small scale industry with several technologically advanced enterprises.
- The transition period (1991-1999) saw the collapse of the large scale Soviet industries and the emergence of new industrial structure with small enterprises to a large extent in the service sectors.
- The Baltic German hegemony of Riga was economical as well cultural. It was not until the latter half of the 19th century that the Latvian identity emerged. The national awakening continued during the interwar period.
- The period of Soviet occupation saw massive Sovietisation (Russification).
- The Soviet occupation has left a heritage in the cityscape as well as in the civil society that still affect today's development.

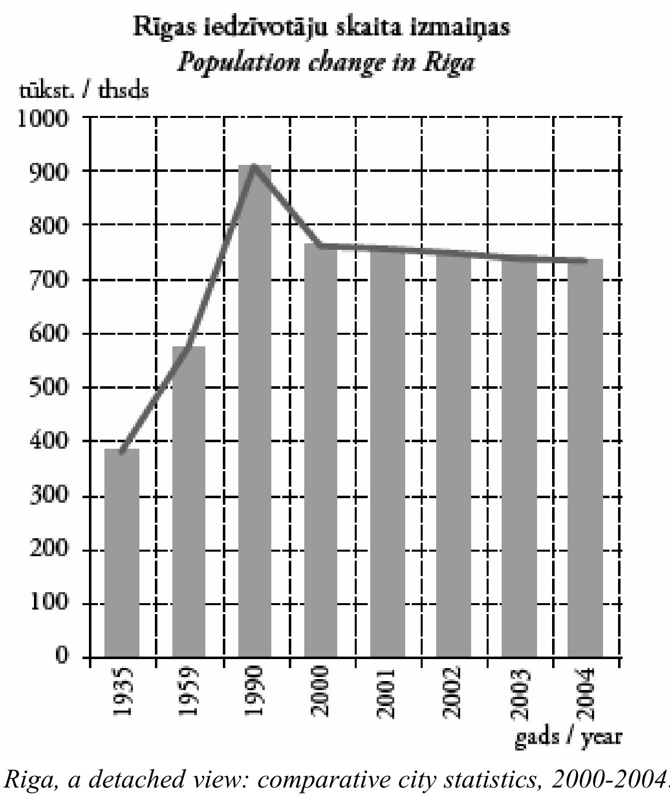
4 THE CURRENT SITUATION

4.1 Demographics

4.1.1 Demographic development

The population of Riga increased between 1935 and 1989, whereas it has, as seen from Figure 4.1, decreased since 1990. Hence, Riga has never returned to the all time high number of close to million inhabitants in 1989. One can even say that the city now, as compared to 1989, has lost approximately one fifth of its population[18]. Still, in recent years, the decrease of population has been more gradual.

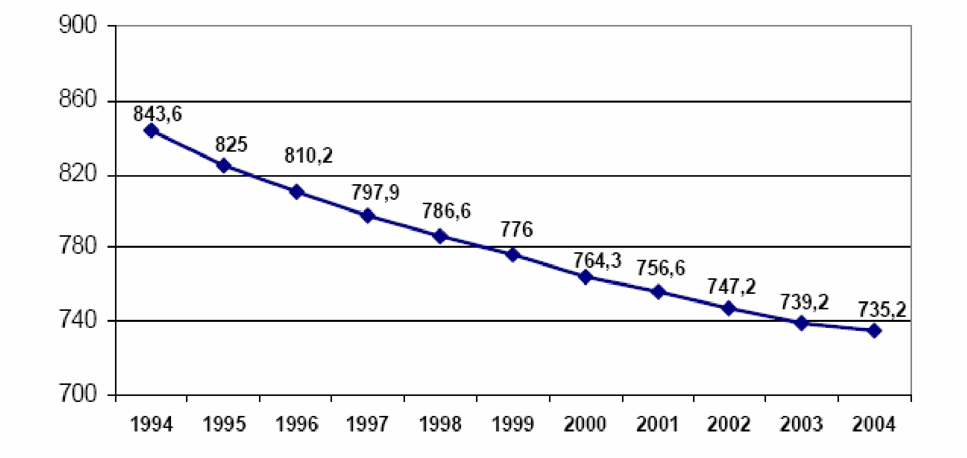
Figure 4.1: Population 1935-2004.



Source: Riga, a detached view: comparative city statistics, 2000-2004: Riga, Nordic and Baltic Capital Cities, p 11

[18] In fact, during this period, Riga accounts for 49% of the total population loss of Latvia as a whole. On the other hand, there is a gradual increase of the population numbers in surrounding areas suggesting that part of the Riganians move out of the centre of the city to the Greater Riga area.

Figure 4.2: Population 1994-2004



Source: Riga City development programme 2006-2012, p. 24

The remaining part of this section presents demographic situation for the city of Riga using some appropriate indicators. The source of information presented here is the Global Entrepreneurship Monitor Database 2005. The target population is adults, 18-64 years old, who with 634 120 persons constitute 87% of Riga's population[19]. All results in the forthcoming analysis are weighted.

Riga is the largest city in Latvia, with a share of more than 32% of country's population[1]. Tables 4.1 and 4.2 show the distribution of Riga's population by gender and age. Thus, 8.24% of all Riga's residents are males of age from 20 to 24. 47% of residents are men.

Table 4.1: Decomposition of Riga's population by age and gender in 2005.

Age cohorts	Males, the percentage of Riga's population	Females, the percentage of Riga's population
20-24	8.2	4.9
25-29	5.0	4.8
30-34	6.5	5.3
35-39	6.0	6.5
40-44	4.2	6.9
45-49	4.1	4.9
50-54	3.8	4.6
55-59	3.6	5.0
60-64	3.3	6.0

Table 4.2: Decomposition of Riga's population by age and gender in 2005

Age cohorts	Males, the percentage of Riga's population	Females, the percentage of Riga's population
18-24	10.8	8.7
25-49	25.8	28.5
50-64	10.7	15.6

Riga is a multi-ethical city with Latvians and Russians being the largest ethnic groups representing 50 per cent and 43 per cent of the population, respectively. As seen from table

[19] Source: Central Statistical Bureau of Latvia, "Riga in Figures 2005".

4.3, the proportion of persons of Russian ethnicity is higher in Riga than in the country in general.

Table 4.3: Decomposition of Riga's and Latvia's populations by ethnicity in 2005

Ethnicity	Percentage of Riga's population	Percentage of Latvia's population
Latvians	49.7	58.5
Russians	42.9	32.2
Others	7.4	9.3

The Latvians in Riga are younger than the Russians: 48 per cent of the Latvians are less than 35 years old, whereas the number for the Russians are 33 per cent and for the other ethnic groups 41 per cent.

The largest age cohort of Latvians is 25 – 34 years olds (26 per cent of all Latvians), but of Russians 45 – 55 years olds (23 per cent of all Russians). All ethnic Latvians have Latvian citizenship. On the other hand, 54 per cent of the Russians (i.e. 20 per cent of Riga's population) and 75 per cent of the other ethnicities (i.e. 6 per cent Riga's total population) do not have Latvian citizenship. Hence, approximately 26 per cent of Riga's population is non-citizens.

4.1.2 Marital status

Out of Riga's population (age group 18-64) 28 per cent are not married, 52 per cent are married, 15 per cent are divorced, and 5 per cent are widowed. The majority of singles, 61 per cent, are in the cohort 16-24 years. In the next age group (from 25-34) 66 per cent are married and the percentage of married people is steadily high throughout the all consequent cohorts in the age group from 35 to 44 – 69 per cent are married, in the group 45-54 – 59 per cent and in the group 55-64 – 51 per cent. The cohort with the largest fraction of divorcees, 34 per cent, is the cohort 45-54 years of age.

4.1.3 Religion

Several religious beliefs are presented in Riga. The main confession in the city is Christian – altogether more than 75 per cent declared that they belong to one of the main Christian churches, i.e. to Orthodoxy, Catholicism or Protestantism. The second largest group is non-believers – 20 per cent of Riga's population consider themselves to be atheists. Other religions, such as Islam, Buddhism, Judaism and some minor Christian confessions (for example Old Believers, Jehovah's Witnesses etc) constitute the remaining 5 per cent. The distribution among the different religions by nationality in Riga is very unequal.

Out of the persons of Latvian ethnicity, almost 40 per cent o are Lutherans, 28 per cent are Catholics and 25 per cent non-believers. For the population of Russian ethnicity almost 75 per cent are orthodox Christians and 16 per cent are atheists. For the group "other nationalities" 45 per cent are orthodox, 30 per cent are Catholics and 12 per cent atheists.

4.2 Ethnicity in Riga

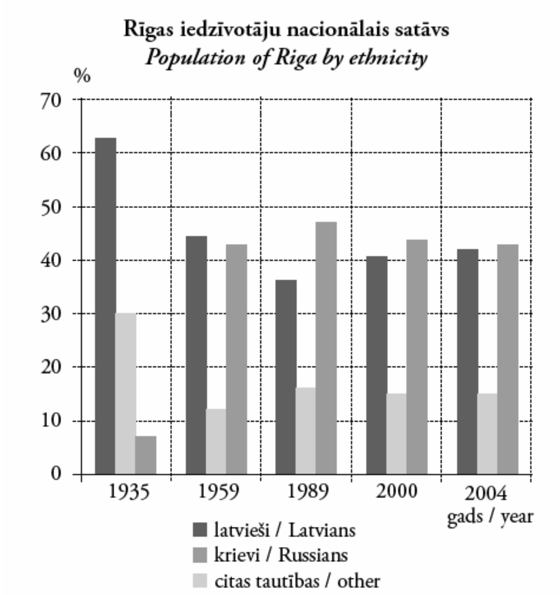
For centuries Riga has been a multi ethnic and multi cultural city although its ethnic composition has experienced rather dramatic historical shifts reflecting the corresponding changes of the population of Latvia at large. In the early 1800s Latvia's ethnic composition was relatively homogeneous with the Latvians constituting more than 90% of the total population. There was a small German population (Baltic Germans), belonging mainly to the ruling social stratum, and very small numbers of Russian, Jewish, Polish and other immigrants. Major changes in the composition of the population occurred during and after the Second World War. In the first place, almost all the Baltic Germans left Latvia at the outbreak of war. Then, in 1941, the occupying Soviet authorities began deporting people to Siberia on a mass scale. This was followed by the Nazi German invasion, which brought virtual annihilation of the Jewish population, and the slaughter of the majority of the Roma.

At the close of the war, several hundred thousand people fled from Latvia in fear of renewed Communist oppression and eventually found refuge in various countries around the world: the USA, Canada, Australia, Germany, Sweden, etc. When the Soviet Army invaded Latvia again in 1944–45, they recommenced repression against the local population, culminating in 1949, when around 45 thousand of the most prosperous farmers were deported to Siberia.

During the years of Soviet rule, a total of at least 1.5 million immigrants from other parts of the former USSR arrived in Latvia, half of whom stayed to live here. The majority of them were economic migrants. Latvia's Russian population increased fivefold; while at the same time the Latvian population did not even regain its pre-war level. As a result of the Soviet rule, Latvia's ethnic composition changed significantly: the proportion of ethnic Latvians fell from at least 80% before the Second World War to 52% percent in 1989. Meanwhile, the proportion of Russians grew from under 9% before the Second World War to as much as 30% in 1989. Also, the Belarusian population has increased fivefold since the war, and the Ukrainian minority appeared only in the Soviet period. The number of Poles and Lithuanians has remained approximately the same, while the Roma community has grown several times over, due to their high birth rate.

The available data on ethnic composition roughly gives the picture shown in figure 4.3.

Figure 4.3: Riga's population by ethnicity 1935-2004.



Source: Riga, a detached view: comparative city statistics, 2000-2004: Riga, Nordic and Baltic Capital Cities, p 12

Most of the Latvia's Russians live in Riga and other big cities. Other ethnic groups, too, are concentrated mainly in Riga and the other cities. In Riga itself there are certain historically developed districts and suburbs where Latvians are minority and where Russians are minority. In the districts with single-family homes, and in those parts of the city that were built up before the Second World War, the majority of the inhabitants (two thirds to three quarters) are Latvians, while the Russians form the majority in the districts of apartment blocks built during the Soviet era. However, the great majority of Rigans live in houses with a mixed ethnic composition, and that there are practically no minority 'ghetto districts'.

Analysis of income levels among Latvians and non-Latvians leads to the conclusion that there are no significant differences in this regard. Still, as some observations suggest[20] among the Russian population there is a greater degree of stratification, since they are slightly more represented among the very poorest and also among the very richest people in Riga. Likewise, comparison of the ethnic composition of the unemployed and employed workforce does not reveal any major ethnic differences. One can hardly find any substantial proof (not anecdotal) of ethnically dominated professions. The exception is the civil service. Two selection criteria – citizenship and the highest level proficiency in Latvian give selection bias and favour more Latvians than Russian speaking people. This applies to Latvia as a whole and Riga in particular.

When Latvia regained its independence in 1991, a principle of inherited citizenship was applied: all those who had been citizens of the Republic of Latvia in 1940, before the Soviet occupation, automatically regained Latvian citizenship, and it was bestowed automatically on all the direct descendants of the citizens. The people automatically granted Latvian citizenship also included tens or even hundreds of thousands of people from the minorities – Russians,

[20] Although no hard evidence is available to support or falsify.

Poles, Belarusians, Jews and others – regardless of their knowledge of the Latvian language. The remainder of the population, i.e. those who had arrived in Latvia in recent decades and their descendants, were offered a choice of either applying for citizenship from their country of origin or becoming permanent residents of Latvia without Latvian citizenship ("non-citizens"). During the past decade, 100 thousand people have chosen to become naturalised as Latvian citizens, a process that has gathered speed particularly since the country joined the EU. Latvia currently has one of the highest rates of naturalisation among EU[21]. The non-citizens are mainly older people who have difficulty accepting the collapse of the Soviet Union and the great political changes associated with it, and most of this group will probably never wish to become Latvian citizens.

Table 4.4: The legal status of different ethnic groups at the beginning of 2005 (data for the entire Latvia)

Ethnic group	Citizens of Latvia	Non-citizens	Foreign nationals	Total	Ethnic group as a percentage of the total population	Percentage of citizens in the ethnic group
Latvians	1 349 539	2 120	1 033	1 352 692	58.9%	99.8%
Russians	346 746	288 207	21 084	656 037	28.6%	52.9%
Belarusians	28 551	56 829	2 024	87 404	3.8%	32.7%
Ukrainians	13 812	40 952	3 813	58 577	2.6%	23.6%
Poles	40 642	14 885	556	56 083	2.4%	72.5%
Lithuanians	17 655	12 263	1 571	31 489	1.4%	56.1%
Jews	6 418	2 796	360	9 574	0.4%	67.0%
Estonians	1 522	658	349	2 529	0.1%	60.2%
Others	21 919	14 159	5 599	41 677	1.8%	52.6%
TOTAL	1 826 804	432 869	36 389	2 296 062	100.0%	79.6%

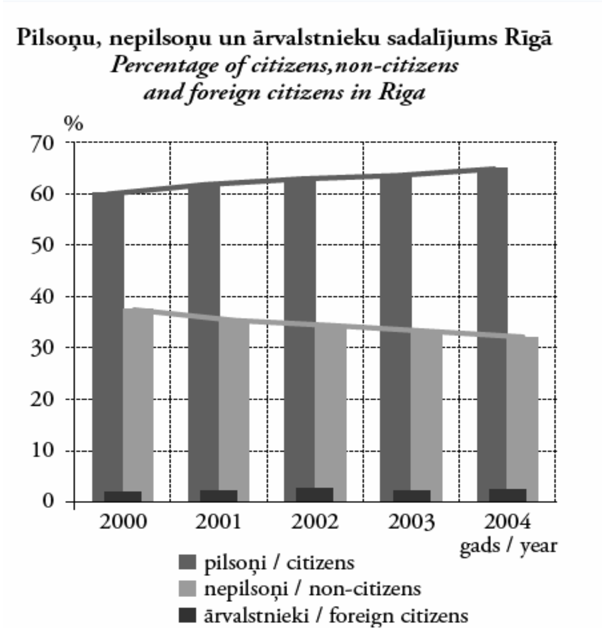
Source: Mežs Ilmārs, (2005), The People of Latvia, Fact Sheet on Latvia, No. 13, Latvijas Institūts

According to rather crude calculations, shown in figure 4.4, the percentage of citizens among Riga inhabitants is somewhere around 65 per cent and foreign citizens around 4 per cent with the rest being the so-called "non-citizens"[22].

[21] Almost 1% of the population is granted citizenship every year (CSB)

[22] This distribution has direct relevance to the policy level since non-citizens are not eligible to participate in either national or local/municipal elections (whereas EU-citizens residing in Latvia are eligible to participate in the local elections).

Figure 4.4: Percentage of citizens, non-citizens and foreign citizens in Riga 2000-2004



Source: Riga, a detached view: comparative city statistics, 2000-2004: Riga, Nordic and Baltic Capital Cities, p 13.

4.3 Education in Riga

Riga is the main scientific centre in Latvia. Most of the country's scientific and academic institutions are located in Riga and the Riga region. Out of Latvia's 32 universities or institutions of higher education, 26 are located in the Riga region. Among them are Latvia's two leading universities: University of Latvia (26,000 enrolled students, out which 21,000 are enrolled as full time students) and Riga Technical University (16,000 enrolled students, out of which 10,000 are enrolled as full time students). In total there around 93,000 students enrolled at Riga's universities and institutions of higher education. Out of these students 60,000 are enrolled at public universities and institutions of higher education, whereas 33,000 are enrolled at private ones. In terms of academic research, there are several research institutes associated with the public academic institutions.

In Latvia the share of population with tertiary education is 12 percent, whereas in Riga the share is 16 per cent. Although the share of the population with tertiary education is low by European standards, the number of students per 1000 population in tertiary education is very high by international standards. In 2002/2003 there were 55 students in higher education per 1,000 population – the highest number in Europe. However, as shown in table 4.5 the proportion of students in natural sciences and engineering is by European standards low in Latvia. Consequently, education in Latvia is very much oriented towards the social sciences and humanities.

Table 4.5: Proportion of students in natural science and engineering

2002/2003a	Graduates in natural sciences and mathematics (% of total)	Graduates in engineering and technology (% of total)
Latvia	6.2	7.1
EU-15	11.1	14.6

Source: Central Statistic Bureau of Latvia, Education Institutions in Latvia 2003/2004. [a]Latest data available.

The education in Latvia is to a large extent oriented towards the social sciences and humanities. The number of students enrolled in natural sciences and mathematics indicates that sciences and engineering are not popular in Latvia. The following characteristics of the Latvian education market might at least partly explain the high interest in social sciences (business administrations, economics, finances, and law) programmes:

- High proportion of older students (acquiring second diploma after Soviet education).
- Low proportion of students in natural sciences and engineering because of very high demand for social sciences education by older generation students.
- Poor matching between educational outcome and business needs.

4.4 Labour market[23]

Out of Riga's population age 18-64, 78 per cent of the men were working 2005, whereas 65 per cent of the women were working. The pattern of employment is quite similar between Latvians and Russians – in both groups men are working more than women. In total 71 per cent of Riga's citizens between 18-64 were working in 2005; of them 38 per cent were Latvians, 28 per cent Russians and 5 per cent representatives of other ethnic groups.

Table 4.6 analyzes the labour force by age and by gender. From the table it is seen that the majority of the labour force belongs to the age group 25-44 years old; 53 per cent of the working males and 57 per cent of all women are from that group. Young males comprise 18 per cent of Riga's male labour force, where as young women comprises 9.5 per cent of Riga's working females. Furthermore, table 4.6 shows, that in the first two cohorts, men are the majority of workers, however in the three older cohorts the majority of the labour force are women[24].

[23] Like in Section 4.1, the source of information presented in this section is, unless otherwise indicated, the Global Entrepreneurship Monitor Database 2005. The target population analyzed comprises adults, 18-64 years old. All results are weighted.

[24] To a large extent this reflects that there are, as shown in table 1, in section 4.1, more women than men of age 40 and older.

Table 4.6: Percentage of Riga's labour force by gender and age group in 2005

Age cohort	Percentage of the working males population	Percentage of the working females population
18-24	18.0	9.5
25-34	27.8	23.5
35-44	25.3	33.5
45-54	18.0	20.8
55-64	11.0	12.8

Most of the jobs in Riga are full-time – only 8 per cent of the workers work part-time. The distribution of the part-time work between males and females is not even, more men than women are working part-time, 5 and 3 per cent out of the total population, respectively. Out of the working women around 94 per cent of all women with a job are working full-time. The same number for males is 90 per cent.

Table 4.7 shows distribution of the working population by their status. The database provides eight levels of classification of employees. The two largest groups are skilled workers and specialists and professionals with, respectively, 24.2 per cent and 15.6 per cent.

Table 4.7: Percentage of Riga's working population by working status in 2005

Working status	**Percentage of Riga's working population**
Unskilled worker	8.2
Skilled worker	24.2
Specialist, professional	15.6
Office employee, civil servants, clerk, military, police	13.8
Mid/high level management in state sector	13.8
Employer / owner in private sector	3.8
Mid/high level management in private sector	3.2
Craftsman, self employed	0.8

In table 4.8 the unemployed citizens age 18-64 are divided into four groups: (i) already retired, (ii) students, (iii) are a housekeepers and women on a maternity leave or (iv) unemployed or who for the other reasons do not work. The percentage of retired females is twice as high as for men, which follows from the fact that age of retirement for females in 2005 was 60 years (till July 1st) and 60.5 (after July 1st), whereas the retirement age for men was 62 years. Furthermore, the low life expectancy of men compared to women (66 and 76 years, respectively) contributes as well[25].

Table 4.8: Percentage of Riga's non-working population by unemployment status and gender in 2005 (ages 18-64)

Category of non-workers	**Percentage of Riga's males non-working population**	**Percentage of Riga's females non-working population**
Pensioners, retired	24.2	33.9
Students	42.4	25.4
Housewives/men and maternity/paternity leave	0.00	24.2
Unemployed/do not work	33.3	16.5

[25] Source: World Health Organization, in Internet: http://www.who.int/countries/lva/en

Tables 4.9 through 4.11 provide some additional information on Riga's labour market. Table 4.9 shows employment rates, labour force participation rates, and part-time employment rates. In table 4.10 employment rates by level of education are shown, whereas the employment rates for the whole population (18-64 years old) by age and gender are shown in table 4.11.

Table 4.9: Participation, employment, and part-time employment rates for the whole Riga's population, for males and females in 2005

	The whole population, %	Males, %	Females, %
Participation rates26	77.6	85.4	70.5
Employment rates27	71.1	78.1	64.5
Part-time employment rates	5.6	7.4	4.0

From table 4.9 it is evident that the male participation rates are higher than the female. More than 85 per cent of Riga's men from 18 to 64 are in the labour market, compared to 70% of the women. Furthermore, 78 per cent of men from of the working age are employed, whereas less than 65 per cent of the women in the same age group have a job. Finally, as discussed above more male are working at the part-time job than women – part-time employment rate for the former is 7.4 per cent and for the latter 4.0 per cent.

Table 4.10 analyzes the employment rates in the light of the highest attained level of education. For persons with first and second stages of tertiary education the rates are the highest and almost identical. Not surprisingly, the population with primary education has lowest employment rates. As regards gender, men have a higher employment rates.

Table 4.10: Employment rates for the whole population, males and females by the level of education in 2005

Level of education	Population, %	Males, %	Females, %
Primary degree	40	45	31
Secondary degree	68	78	60
First stage of tertiary education	81	87	77
Second stage of tertiary education	80	88	73

Table 4.11: Employment rates for the whole population, males and females by age groups in 2005

Age cohort	Employment rates of total Riga's population	Employment rates of males Riga's population	Employment rates of females Riga's population
18-24	51.0	60.0	38.8
25-34	84.8	90.0	78.9
35-44	87.6	92.2	84.2
45-54	78.9	83.9	74.7
55-64	47.1	60.0	39.1

[26] The participation rate is the sum of employed and unemployed persons aged 18 – 64 as a percentage of the same age population.

[27] The employment/part-time employment rate represents employed/part-time employed persons aged 18-64 as a percentage of the same age population.

4.5 Infrastructure

Today's Riga is the major industrial and business centre of the Baltic region. It is also an important transport hub. The main elements making Riga a transit centre are the port of Riga, the Riga international airport, the developed railway and road networks connecting Riga with the rest of Latvia as well as with the neighbouring countries.

The seaports in Riga handle both international passenger traffic and goods. In terms of goods shipments Riga's port is Latvia's second after Ventspils. In total close to 250 thousand passengers and close to 25 million tons of cargo were handled by the Riga ports in 2005. In addition to the Riga port, the other ports of the Riga region are in Skulte and Salacgrīva.

Riga is an important railway junction and there are direct passenger trains to Moscow and St. Petersburg. Riga's international airport has undergone a rapid expansion since the EU accession. In 2003 it served 700 thousand passengers, in 2005 close to two million, and in 2006 more than 2.5 million. There are more than 40 destinations (most of them European) directly connected with Riga. There is one domestic destination, the western city of Liepaja.

The number of fixed internet connections as well as the mobile telephone penetration is increasing in Latvia. According to a survey, LETA (2003), on internet and telecom access, Latvia was classified as an upper access country. Not very far from countries such as Cyprus and Ireland, but far behind the Nordic countries which scored highest in the survey. The Latvian internet and telephone penetration is presented in table 4.12. Currently, there are three mobile phone operators in Latvia. With the entrance of a third operator in 2005, the increased competition brought down the prices and, according to the 2007 Global Information Technology Report, Latvia ranks 5 among 120 countries in terms of mobile telephone call costs. Furthermore, Latvia ranks 42 according to the Networked Readiness Index, which examines the preparedness of countries to use information and communication technology (ICT) effectively. Among the factors considered are: general business, regulatory and infrastructure environment for ICT; preparedness of individuals, businesses and governments to use and benefit from ICT; and actual usage of the latest ICT available. Latvia is seen to have problems with the government's readiness for ICT development and the government's promotion of ICT. Furthermore, Latvia also has problems with availability of scientists and engineers in the ICT sector.

Table 4.12: Telephone and internet, 2004

	Fixed internet connections per 100 inhabitants	**Cellular mobile subscribers per 100 inhabitants**	**Main telephone lines per 100 inhabitants**
Latvia	2.4	59	28

Source: The International Telecommunication Union

Major infrastructure projects improving the Riga region's competitiveness include: a new bridge over the Daugava river (and in addition maybe also a tunnel); expansion of the port, improved rail connections with Tallinn and Vilnius and further on to Warsaw and Berlin through the Rail Baltica project; the Via Baltica road project aiming at developing a pan-

European transport corridor from Helsinki to Warsaw where it will connect to the Trans-European Network for Transportation; expansion of Riga International airport both in terms of capacity and number of destinations served.

4.6 Main economic specializations

Riga is Latvia's main attractor of both investment and employment and its continuing attractiveness for capital and people is a prerequisite for the economic development of Latvia as a whole. By European standards Latvia stands out as being highly concentrated not only in terms of population vis-à-vis the rest of the country, but also in terms of economic activity. According to the European Commission (2004), the variation within Latvian between the highest and lowest income per capita region in 2002 was 3.8:1.[28] The Riga region has the highest GDP per capita amounting to 76% of the EU average, while Latgale is the poorest region, not only within Latvia, but also within the EU, with a GDP per capita of 20% of the EU average. Hence, the capital city region is by far the richest Latvian region, and this difference has, as discussed in Fokins et al (2005), been further accentuated over the last decade even though Latvia has experienced rapid economic growth during the same period. This development has been further accentuated by the fact that Riga dominates in terms of population with more than one third of Latvia's population and being seven times as populous as the Latgalian city of Daugavpils, which is Latvia's second largest city.

As discussed in the previous section, the Riga region has very good domestic and international infrastructure connections. Riga is the transportation hub of Latvia and, as discussed in the previous section, there are several infrastructure projects that will strengthen the region's role as a hub.

In comparison with Latvia as a whole, Riga is, as shown in table 4.13, specialised in the service sector (i.e. the tertiary sector). Second in importance is the manufacturing sector (secondary sector). The agricultural sector (primary sector) is naturally low in Riga.

Table 4.13: Gross Value Added, metropolitan regions and national data 2003[a], three sectors

	Primary sector	Secondary sector	Tertiary sector
Riga	1%	19%	80%
Latvia	5%	23%	73%

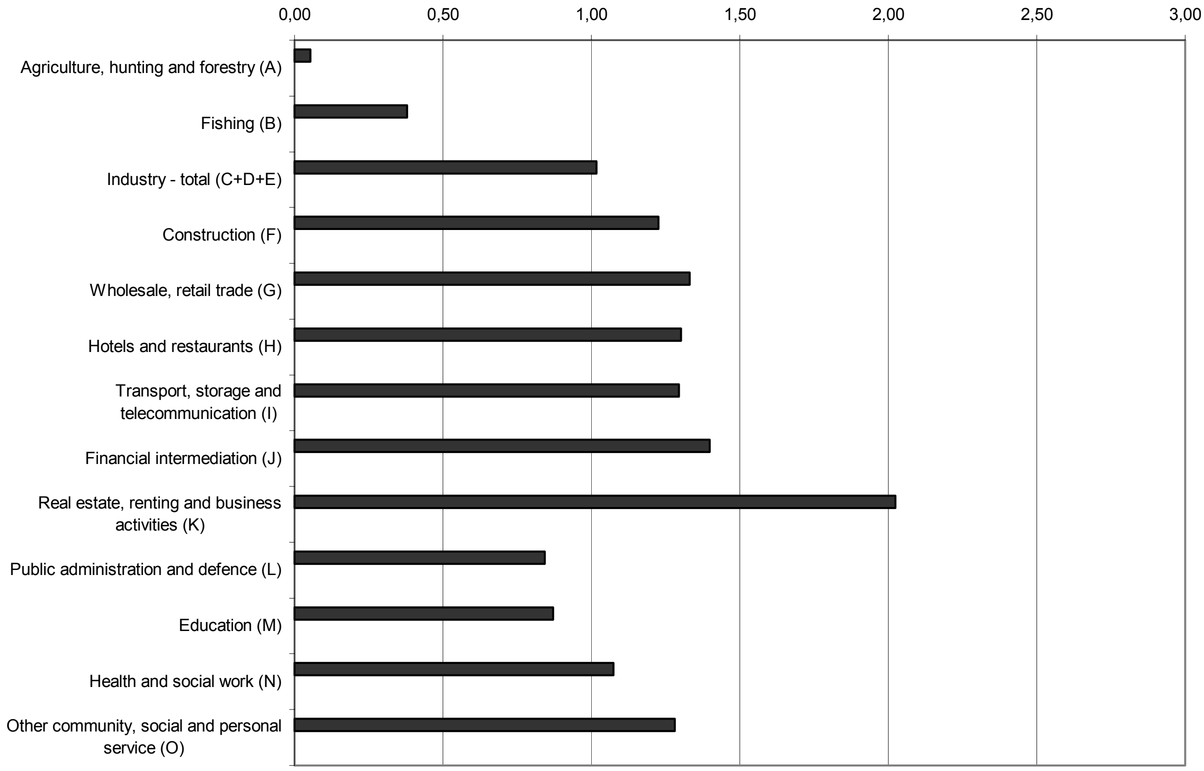
Source: Central Statistical Bureau of Latvia. [a]Latest data available.

The findings in table 4.13 are a product of the Riga regions favourable geographical location as well as it role as a transportation hub and centre for trade and commerce with good domestic as well as international connections.

[28] The largest difference in EU is by far in the United Kingdom with 4.4:1. In Estonia and Lithuania the differences are 2.6:1 and 2.5:1, respectively. For a discussion of regional disparities within the three Baltic countries, see Fokins et al (2005).

The specialisation of economic activity in Riga vis-à-vis the rest of Latvia is shown in figure using the location quotient.[29] The location quotient measures the significance of employment in a certain sector in Riga compared with its significance in Latvia. If the quotient is larger (smaller) than 1, then the sector makes up a larger (smaller) share in Riga than in Latvia as a whole.

Figure 4.5: Specialisation of employment in Riga in 2003[a]



Source: Towards a Coordinated Investment Strategy for Riga, Tallinn and Vilnius, A report for BaltMet Invest, BICEPS, July 2006. [a] This is the latest data at city level available from the Eurostat Urban Audit.

To complement table 4.13 above, table 4.14 below shows the net value added in the Riga Region according to NACE code for the period 2000-2004.

[29] The location quotient is measured as the ratio between the relative employment in a certain sector in the Riga region and the relative employment in the sector in all Latvia.

Table 4.14: Net Value Added in the Riga Region, million LVL in actual prices according to NACE code[30].

NACE	2000	2001	2002	2003	2004
A	6,842	11,774	16,609	11,181	18,205
B	.	.	.	.	2,078
C	.	.	.	.	.
D	282,666	298,695	320,556	304,564	358,123
E	61,681	55,994	62,141	66,470	.
F	156,504	158,317	196,088	215,528	236,834
G	485,829	456,263	590,436	626,569	815,456
H	34,597	38,660	43,005	54,289	71,455
I	292,008	405,239	502,254	550,507	656,423
J	162,567	159,755	197,303	218,746	281,370
K	483,342	547,627	591,265	619,860	750,883
L	137,433	144,733	171,228	185,585	201,691
M	84,879	100,120	104,060	131,588	138,994
N	58,706	67,265	74,546	86,067	94,157
O	100,736	110,239	121,110	136,497	158,100
Total	2357,755	2561,744	2993,554	3209,369	3872,421

4.7 Entrepreneurship in Riga

The 2005 Global Entrepreneurship Monitor Latvia Report (henceforth referred to as GEM) provides some information about the entrepreneurial level in Riga. GEM focuses on early stage entrepreneurial activity which is defined as the sum of:

- Nascent entrepreneurs, i.e. individuals between the ages of 18 and 64 who have taken some action in the past year toward creating a new business. To qualify, the individuals must also expect to own a share of the business they are starting.
- Owner-managers of firms are classified as new business owners if they report being active as an owner-manager of a new firm that has paid wages or salaries for more than three months, but less than 42 months.

Measure in this way, and as shown in table early-stage entrepreneurial activity involves 7.3 per cent of the Riga's population age 18-64[31] and close to half of them being involved in consumer-oriented business. Comparison with other countries participating in the GEM survey reveals that the proportion of early stage entrepreneurs is somewhat below average. However, if compared with a previous study on Latvia, using a different methodology, the scope of entrepreneurship has grown dramatically during the last two years.

[30] NACE code: A = Agriculture, hunting and forestry, B = Fishing, C = Mining and quarrying, D = Manufacturing, E = Electricity, gas and water supply, F = Construction, G = Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods, H = Hotels and restaurants, I = Transport, storage and communications, J = Financial intermediation, K = Real estate, renting and business activities, L = Public administration, defence, M = Education, N = Health and social work, O = Other community, social and personal service activities.

[31] This number refers to the Riga region since data for Riga city is not available.

According to the World Bank's *Doing Business Data Base* (2006) an entrepreneur has to go through five procedures to set up a new business. This process takes on average 16 days and comes at a cost of 3.5 per cent of the gross national income (GNI) per capita (USD 6,760). For the OECD countries the numbers are 5.3 and 16.6, respectively. To obtain a company registration number the entrepreneur has to deposit an amount which is 26.1 per cent of the Latvian GNI per capita. For the OECD the number is 36.1.

4.8 Property market

The construction level of modern office space as well as residential housing is high in Riga. Demand for space has grown more rapidly than construction. Office rents have increased and so have the number of pre-lease and pre-sale deals. At the end of 2005, Riga's A and B class office market stock reached close 100,000 square metres, and the overall vacancy rate was around 10 per cent.

In Latvia, after denationalization, over 80 per cent of the housing stock is privately owned. Out of the total Latvian housing stock around 20 per cent is in an extremely bad or dilapidated condition. Furthermore, almost half of the buildings are large-scale panel building that would require heat insulation. In Riga there is still housing without running water, without hot water and without WCs. Although less common in today's Riga, there are still communal flats ("kommunalka") where a number of households share one flat, having a private room but sharing kitchen and bathroom (if any).

As regards the demand for residential housing demand has increased considerably. At the end of year 2000, the average price per square metre of residential housing in Riga was approximately EUR 400. By the end of 2006, the average prices were around EUR 1,400 per square metre, i.e. an increase of roughly 250 per cent over a period of 6 years. The increase in real estate prices has been accompanied by a rapid expansion of credits.
The vintage of the dwelling stock is given in the table 4.15.

Table 4.15: Dwelling stock, building year, percentage of total.

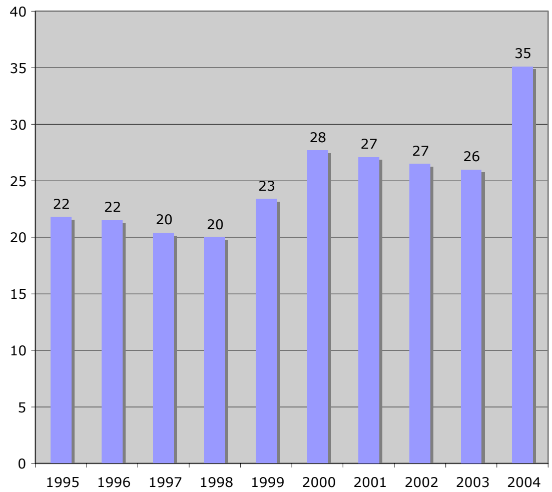
Before 1918	15,1
1919-1945	8,2
1946-1960	7,7
1961-1970	20,4
1971-1980	24,7
1981-1990	21,2
1991-1995	2,3
1996 and later	0,3

4.9 Soft factors

4.9.1 Crime

Table 4.16 shows the number of registered crimes in Riga per 1,000 inhabitants for the period 1995-2004. After being fairly stable until 2003, the number of registered crimes increased with more than 30 per cent between 2003 and 2004.

Table 4.16: Number of registered crimes in Riga per 1,000 inhabitants.



A closer look at the 2004 figures reveals that close to half of the registered crimes are property related. Out of the property related crimes, burglary and theft from motor vehicles represent about one fifth each. Other common property related crimes are shoplifting and stealing of motor vehicles, each representing somewhat more than a tenth of the property related crimes.

Crimes such as serious bodily injury, intentional homicide and rape, altogether amount to two per cent of the total registered crimes in 2004. Out of all crimes registered in 2004, 40 per cent have been solved.

Injuries to one's body such as serious bodily injury, intentional homicide or rape together amount to 2% of the total for registered crimes. 40% of the recorded crimes have been cleared.

4.9.2 Theatres, museums etc.

In today's Riga there are 37 museums and 6 theatres (out of which one is Russian). During the last 10 years the number of museums have increased from 28 ten years ago, whereas the number of theatres has remained the same. The number total number of persons attending performances in Riga's theatres during 2006 was 260,000. The number of museum visitors in 2004 was close to 730,000.

Out of the Riga theatres, the state-owned Riga New Theatre is probably the most interesting. The Theatre's productions provide innovative and contemporary art and its repertoire includes classics as well modern plays. The Theatre has toured Europe as well as North America and has earned several prizes at theatre festivals abroad.

In addition to the theatres there is an opera, the Latvian National Opera and a permanent Circus a seating capacity of around one thousand. The number of performances at the Opera exceeds 200 per year. Furthermore, in early summer every year the Opera organises the annual Opera Festival.

4.9.3 Hotels, Restaurants and Bars

With the accession to the European Union and the entry of low cost carriers such as Ryanair, the number of tourists visiting Riga has grown tremendously. The growth in the number of tourists is also reflected in the number of hotels, restaurants and bars in Riga. During the ten-year period 1995-2005 the number of hotels more than doubled, and the number of beds increased three times. The number of bars and restaurants increased more than four times during the same time.

4.9.4 The Song and Dance Festival

The very first Song Festival took, as discussed in section 3, place in 1873. Nowadays the Song and Dance Festival takes places every fifth year (the next Festival will take place in 2008). Each time it takes choirs from all over Latvia come to Riga to perform at the Festival. The number of singers and dancers participating in the recent Festivals has exceeded 13,000. During the Festival there are choir and dance performances all over Riga. The main event is however the choir of choirs when more than 13,000 singers sing together on the grand open-air stage in the park Mezaparks. This impressive event is preceded by a parade of participants through the city.

In 2003 the Song and Dance Festival was proclaimed UNESCO Masterpiece of the Oral and Intangible Heritage of Humanity, i.e. included in the UNESCO list as part of the unique cultural heritage.

4.9.5 The New Three Brothers project

To improve Riga's cultural facilities, three main projects are under development. The project, labelled the New Three Brothers (with a reference to the three medieval buildings in Old Riga name the Three Brothers), comprises a new library, a new concert hall, and a new museum of contemporary art.

In addition to the being a depository of knowledge with access to state-of-the art library services, the new library will be a multi-functional culture and education centre. The new library building, the Castle of Light, by the Latvian architect Gunars Birkerts, will be accompanied by an information network, Network of Light, linking all Latvian libraries.

The new concert hall, located on the Daugava river opposite the Old Town, will be the home of the Latvian Symphonic Orchestra, the State Choir, and the State Chamber Orchestra. There will be two halls, the big one having 1,400 seats and a stage for 120 musicians, and the small one with 350 seats and a stage for around 50 musicians.

The new museum of contemporary art will be built in the Riga port and part of it will be in a building of a former thermo-electric plant. The museum will have exhibition space of approximately 4,000 square metres. Furthermore, there will be a cinema, a conference hall, and a computerized information centre.

The three projects will be financed through a combination of sources: from Riga City Council, the central government, EU structural funds, and public and private partnerships.

4.10 Conclusions

This section analyzed the current situation in Riga along several dimensions:

- Riga's population has fallen with close 20 per cent since it peaked in 1989.
- Riga is a multiethnic city, close to 50 per cent are ethnic Latvians and somewhat more than 40 per cent are ethnic Russians.
- The labour force participation is close to 80 per cent.
- Riga is specialised in the service sector – 80 per cent of the gross value added comes from the tertiary sector.
- In terms of value added the most important activities are: real estate, renting and business activities; wholesale and retail trade; financial intermediation; transport, storage and telecommunication; and hotel and restaurants.
- Around 8 per cent of Riga's population in working age is involved in early-stage entrepreneurial activity.
- To improve Riga's competitiveness major infrastructure investments are needed.
- Riga is the cultural capital of Latvia and several major cultural infrastructure projects are planned.
- A relatively large fraction of the housing stock is sub-standard.

5 THE STATE OF THE CREATIVE KNOWLEDGE SECTORS

5.1 The state of the creative knowledge sectors

This section presents the state of the creative knowledge sectors in Riga using statistics for the period 2001-2005. The definition of the creative knowledge sectors follows the ACRE definition for the data on the number of companies in the sector as well as for the turnover data. For employment, a slightly different (more aggregated) definition is used due to lack of disaggregated data at the Riga level. Finally, the data underestimate the activities in the creative knowledge sectors since self-employed creative professionals are not included.

When analyzing the data in this section, there are at least two caveats to be considered. Firstly, there are question marks about the quality of the data as such, in particular at the disaggregated level (i.e. at the NACE four digit level). Secondly, although many jobs belong to the creative knowledge sector according to the ACRE definition, in practice many of them are low-skilled and low-wage jobs in labour intensive production processes. Since Latvian labour costs are (have been) relatively low by European standards and hence many European manufacturers, e.g. Scandinavian ones, have outsourced relatively low skilled production to Latvia. However, with increasing Latvian labour costs, labour intensive manufacturing in Riga will become less competitive. This will, *ceteris paribus*, lead to an apparent reduction in the creative knowledge sector employment, turnover etc.

From the discussion of higher education in Riga, it should be evident that higher education and research related activities constitute a large part of the activities in the creative knowledge sectors in Riga. This is also confirmed by the findings in tables 5.1-5.4.

In the following, developments in some of the more important sub-sectors of the creative knowledge sector in Riga will be discussed.

5.1.1 Manufacturing of fibres, textiles, clothing etc.

The discussion above on labour costs is of particular relevance to many of the activities within NACE codes 17, 18, and 19 (manufacturing of fibres, textiles, clothing etc.), which take advantage of the relatively low Latvian labour costs. While there is a tendency (due to the rising Latvian labour costs) to move production in these sectors to countries further East or South, there has at the same time been a growth in the number companies active in these sectors (in particular in manufacturing of textiles and apparel). The latter perhaps indicating that there is a tendency towards smaller (in terms of scale), but more specialized activities, e.g. design, in these fields.

5.1.2 Financial intermediation and financial services

Inspection of tables 5.1-5.4 as well as of table 4.13 reveals that the activities in the fields of financial intermediation/services (NACE 65, 66, 67, J) both in terms of number of employees and value added have grown considerably during the period. To a large extent this growth reflects Latvia's recent rapid economic growth. In total there are 25 banks in Latvia. Approximately one third of them are owned by Nordic banks, and out of the three biggest ones, two are owned by Nordic banks. Out of the 25 banks, there are a number that more or less exclusively serve non-resident, mainly Russian, clients.

The Latvian financial market is still in many ways in its infancy. Very limited financial instruments are offered and regularly traded and the trading as well as the number of companies listed on the Riga Stock Exchange is low. The same applies to the retail financial services offered by the banking sector – they are to a large extent standard payment, savings and credit products. However, the Latvian banks have been very active and also highly successful in developing e-based products within the field of standard services. In many cases, they have been in forefront, well ahead of their Nordic 'mother banks'. However, despite the development in e-banking and related e-services, the Latvian banking system is still fairly labour intensive relying on low labour costs relative to those in the parent Nordic banks. Recently, Scandinavian banks have begun to relocate back office activities to Riga in order to benefit from the relatively low labour costs.

Recent years have seen a number of small investments banks being established. These offer highly specialised services and have highly qualified employees.

5.1.3 Information and communication technology

Information and Communication Technology (ICT) includes NACE 642 and NACE 72 in the ACRE definition of creative knowledge industries. Firstly, consider the telecommunications sector (NACE 642). The former state telecom monopoly as well as the 'new' mobile phone operators all have their headquarters in Riga. The employment in the sector has fallen during the period analyzed reflecting less use of labour intensive process relying on cheap labour. On the other hand, there are a growing number of companies producing advanced goods and services for the telecommunication sector using highly qualified Latvian labour force.

The software and data processing sectors (NACE 72) have grown fast during the period 2001-2005. There two trends contributing to this development. The relatively low Latvian labour costs making outsourcing to Latvia/Riga attractive. The other is the growth of a domestic industry in Riga that produces advanced software programming.

5.1.4 *Advertising, architectural and engineering, and legal and accounting activities*

Like the Latvian economy, the activities in the Advertising (NACE 7440), Architectural and Engineering (NACE 7420), and Legal Accounting and Book-Keeping (NACE 7410) have expanded rapidly during the five-year period analysed. Although located in Riga, many of the companies in these sectors serve the entire Latvia.

The number of companies in each of the categories has almost doubled during the period 2001-2005. The same is true for the number of employees. Inspection of the tables also reveals that the average company is fairly small, both in terms of turnover and number of employees.

Table 5.1: Number of companies in Riga in selected NACE categories for the period 2001-2005.

NACE	2001	2002	2003	2004	2005
7440 Advertising	389	405	494	664	670
7420 Architectural and Engineering activities	356	395	435	531	624
1710 Preparation of textiles	4	4	4	5	3
1720 Textile weaving	2	3	4	3	5
1730 Finishing of textiles	1	2	3	5	4
1740 Manufacture of textile articles, except of apparel	32	28	33	39	42
1750 Manufacture of other textiles	21	20	23	22	23
1760 Manufacture of knitted and crocheted fabrics	1	1	1	1	1
1770 D:o articles	27	29	35	32	30
1810 Manufacturing of leather clothes	7	4	5	3	4
1820 Manufacturing of other wearing apparel	202	213	226	242	243
1830 Dressing and dyeing of fur	7	8	9	8	6
1910 Tanning and dressing of leather	2	2	1	2	2
1920 Manufacture of luggage etc	23	24	24	22	22
1930 Manufacture of footwear	16	13	18	15	12
2230 Reproduction of recorded media	10	11	12	14	14
9210 Motion pictures and video	48	47	51	69	77
7480 Misc business activities	.	.	.	.	.
9230 Other entertainment	110	114	129	152	165
9270 Other recreational	53	.	.	.	55
2210 Publishing	230	242	235	268	260
9240 News agency	7	4	4	5	7
7220 Software consultancy and supply: computer games	198	223	.	.	.
9220 Radio and TV	47	48	48	50	50
3000 Manufacture of office machinery and computers	19	20	24	24	21

3130 Manufacture of insulated wire and cable	1	1	2	3	6
3210 Manufacture of electronic valves and tubes etc	9	9	9	11	6
3220 Manufacture of TV and radio transmitters etc	20	16	15	15	14
3230 Manufacture of TV and radio receivers etc	12	14	10	13	11
3320 Manufacture of instruments and appliances for measuring etc	33	33	33	34	34
3330 Manufacture of industrial process equipment	2	3	3	4	6
6420 Telecommunications	79	76	80	137	184
7210 Hardware consultancy	9	13	20	38	53
7230 Data processing	22	19	46	56	66
7240 Database activities	80	116	145	158	169
7250 Maintenance and repair of office machinery	78	88	111	130	146
7260 Other computer related activities	15	16	9	16	22
6500 Financial intermediation, except insurance and pension	.	.	.	.	.
6600 Insurance and pension funding	41	32	36	39	37
6700 Activities auxiliary to financial intermediation	.	.	.	.	.
7410 Legal, accounting and book-keeping and auditing activities	825	980	1225	1602	1848
7430 Technical testing and analysis	66	83	96	105	104
7450 Labour recruitment and provision of personal	64	76	91	113	129
7460 Investigation and security activities	129	121	137	147	154
7310 Research and experimental development on natural sciences and engineering	67	56	60	60	60
7320 Research and experimental development on social sciences and humanities	19	15	13	14	14
8030 Higher education	19	21	22	21	22

Table 5.2: Nominal turnover in 1,000 LVL for Riga companies in selected NACE categories.

NACE	2001	2002	2003	2004	2005
7440 Advertising	55 166	82 605	101 189	100 619	129 225
7420 Architectural and Engineering activities	39 391	51 076	62 670	87 503	123 521
1710 Preparation of textiles	9 265	9 453	9 082	6 449	.
1720 Textile weaving	.	.	.	.	.
1730 Finishing of textiles	.	88	.	.	224
1740 Manufacture of textile articles, except of apparel	14 387	16 181	19 389	18 364	12 856
1750 Manufacture of other textiles	1 717	1 677	2 845	2 331	3 605
1760 Manufacture of knitted and crocheted fabrics	.	.	.	.	.
1770 D:o articles	.	5 924	8 090	9 859	6 430
1810 Manufacturing of leather clothes	.	.	.	.	.
1820 Manufacturing of other wearing apparel	32 108	38 033	44 821	49 965	53 585
1830 Dressing and dyeing of fur	.	.	.	.	.
1910 Tanning and dressing of leather	.	.	.	.	.
1920 Manufacture of luggage etc	.	.	.	.	.
1930 Manufacture of footwear	1 351	619	1 169	1 449	1 518
2230 Reproduction of recorded media	.	.	.	.	.
9210 Motion pictures and video	5 021	4 570	4 781	8 701	13 091
7480 Misc business activities	3 363	6 884	26 641	41 456	48 248
9230 Other entertainment	11 095	7 728	11 077	10 596	17 663
9270 Other recreational	35 381	40 806	50 968	71 584	100 274
2210 Publishing	50 794	59 306	67 417	71 662	82 247
9240 News agency	1 798	1 760	2 075	1 925	2 470
7220 Software consultancy and supply: computer games	.	.	.	.	.
9220 Radio and TV	23 066	25 739	31 540	33 550	41 806
3000 Manufacture of office machinery and computers	.	.	.	.	.
3130 Manufacture of insulated wire and cable	.	.	.	.	.
3210 Manufacture of electronic valves and tubes etc	.	3 068	1 450	2 108	2 888
3220 Manufacture of TV	4 619	5 406	8 412	16 301	.

and radio transmitters etc					
3230 Manufacture of TV and radio receivers etc	.	.	2 883	3 061	2 947
3320 Manufacture of instruments and appliances for measuring etc	5 091	5 275	15 437	13 099	16 591
3330 Manufacture of industrial process equipment	.	.	.	.	783
6420 Telecommunications	311 058	342 097	366 046	404 358	455 975
7210 Hardware consultancy	.	.	.	.	.
7230 Data processing	.	.	.	.	.
7240 Database activities	.	.	.	.	.
7250 Maintenance and repair of office machinery	.	.	.	.	.
7260 Other computer related activities	.	.	.	.	.
6500 Financial intermediation, except insurance and pension	.	.	.	.	.
6600 Insurance and pension funding	0	0	4 744	5 967	9 152
6700 Activities auxiliary to financial intermediation	7 482	.	.	.	13 956
7410 Legal, accounting and book-keeping and auditing activities	35 851	.	.	.	138 562
7430 Technical testing and analysis	.	.	.	.	.
7450 Labour recruitment and provision of personal	3 974	5 602	5 888	4 343	11 852
7460 Investigation and security activities	20 104	22 838	25 240	29 721	39 200
7310 Research and experimental development on natural sciences and engineering	.	.	.	.	.
7320 Research and experimental development on social sciences and humanities	.	.	.	.	.
8030 Higher education	9 448	12 838	15 158	17 667	20 230

Table 5.3: Turnover in 1,000 LVL discounted with PPI 2000 for Riga companies in selected NACE categories

NACE	2001	2002	2003	2004	2005
7440 Advertising	53 611	79 812	89 074	85 852	106 709
7420 Architectural and Engineering activities	38 281	49 349	55 167	74 662	102 000
1710 Preparation of textiles	8 934	9 055	8 425	5 722	.
1720 Textile weaving	.	.	.	.	.
1730 Finishing of textiles	0	84	.	.	208
1740 Manufacture of textile articles, except of apparel	13 874	15 499	18 291	18 438	14 794
1750 Manufacture of other textiles	1 656	1 606	2 770	2 210	3 286
1760 Manufacture of knitted and crocheted fabrics	.	.	.	.	.
1770 D:o articles	.	5 551	7 456	9 074	5 876
1810 Manufacturing of leather clothes	.	.	.	.	.
1820 Manufacturing of other wearing apparel	31 083	36 021	36 916	40 754	41 640
1830 Dressing and dyeing of fur	.	.	.	.	.
1910 Tanning and dressing of leather	.	.	.	.	.
1920 Manufacture of luggage etc	.	.	.	.	.
1930 Manufacture of footwear	1 409	695	1 302	1 584	1 563
2230 Reproduction of recorded media	.	.	.	.	.
9210 Motion pictures and video	4 941	4 432	4 431	7 797	11 453
7480 Misc business activities	3 268	6 651	23 451	35 372	39 841
9230 Other entertainment	10 852	7 247	9 765	8 967	14 587
9270 Other recreational	34 824	.	.	.	87 729
2210 Publishing	49 219	52 716	57 968	59 323	65 275
9240 News agency	1 770	1 707	1 923	1 725	2 161
7220 Software consultancy and supply: computer games	.	.	.	.	.
9220 Radio and TV	22 703	24 965	29 231	30 062	36 576
3000 Manufacture of office machinery and computers	.	.	.	.	.
3130 Manufacture of	.	.	.	.	.

insulated wire and cable					
3210 Manufacture of electronic valves and tubes etc	.	3 074	1 456	1 959	2 750
3220 Manufacture of TV and radio transmitters etc	4 680	5 417	8 540	16 701	.
3230 Manufacture of TV and radio receivers etc	.	.	2 894	2 845	2 806
3320 Manufacture of instruments and appliances for measuring etc	5 001	5 127	14 509	11 351	13 210
3330 Manufacture of industrial process equipment	0	.	.	.	624
6420 Telecommunications	321 009	372 655	413 612	458 976	535 811
7210 Hardware consultancy	.	.	.	.	.
7230 Data processing	.	.	.	.	.
7240 Database activities	.	.	.	.	.
7250 Maintenance and repair of office machinery	.	.	.	.	.
7260 Other computer related activities	.	.	.	.	.
6500 Financial intermediation, except insurance and pension	.	.	.	.	.
6600 Insurance and pension funding	0	0	3 567	3 952	5 133
6700 Activities auxiliary to financial intermediation	7 126	.	.	.	7 827
7410 Legal, accounting and book-keeping and auditing activities	34 841	.	.	.	114 420
7430 Technical testing and analysis	.	.	.	.	.
7450 Labour recruitment and provision of personal	3 862	5 413	5 184	3 706	9 787
7460 Investigation and security activities	19 537	22 066	22 218	25 359	32 370
7310 Research and experimental development on natural sciences and engineering	.	.	.	.	.
7320 Research and	.	.	.	.	.

experimental development on social sciences and humanities					
8030 Higher education	8 511	9 883	10 827	12 076	12 796

Table 5.4: Employment according to NACE code in Latvia and in Riga (more aggregated than the ACRE definition).

NACE code		2001	2002	2003	2004	2005
1711	Latvia	1100	959	943	651	490
	Riga	1100	959	943	651	490
1712	Latvia	18	24	27	29	24
	Riga	-	2	3	1	-
1713	Latvia	2493	-	1	2	228
	Riga	-	-	-	-	-
1714	Latvia	103	111	110	152	120
	Riga	-	-	-	-	-
1715	Latvia	-	-	-	-	-
1716	Latvia	-	-	-	-	-
1717	Latvia	-	-	-	-	-
1721	Latvia	178	403	423	393	520
	Riga	178	403	419	388	515
1722	Latvia	-	39	32	-	-
	Riga	-	3	3	-	-
1723	Latvia	-	-	-	-	-
1724	Latvia	-	-	-	-	-
1725	Latvia	1513	1467	1403	318	252
	Riga	-	-	-	-	-
1730	Latvia	5	170	29	28	14
	Riga	-	14	21	22	14
1740	Latvia	1476	1707	2014	1985	1742
	Riga	1220	1358	1635	1561	1272
1751	Latvia	-	-	1	3	-
	Riga	-	-	-	-	-
1752	Latvia	115	218	267	480	508
	Riga	12	33	28	20	35
1753	Latvia	21	33	18	23	17
	Riga	21	33	18	23	17
1754	Latvia	389	389	447	465	440
	Riga	389	363	410	392	397
1760	Latvia	1375	1394	1435	1499	1296
	Riga	25	38	53	60	25
1771	Latvia	496	662	733	793	770
	Riga	490	574	628	772	301
1772	Latvia	444	2774	2719	2258	1833
	Riga	62	273	365	296	265
1810	Latvia	36	44	39	42	46
	Riga	36	41	37	39	43
1821	Latvia	1935	2759	2397	2457	2273
	Riga	503	681	714	828	609
1822	Latvia	7330	8280	7960	7484	6604
	Riga	4010	4436	4051	3981	3729
1823	Latvia	2735	3029	3342	3834	3900

	Riga	1393	1629	1854	1810	1733
1824	Latvia	197	366	544	563	456
	Riga	71	57	50	93	63
1830	Latvia	41	103	62	77	64
	Riga	14	57	17	34	27
1910	Latvia	78	84	83	80	72
	Riga	20	21	21	20	20
1920	Latvia	156	297	257	265	233
	Riga	115	257	223	224	187
1930	Latvia	470	262	342	417	325
	Riga	285	228	254	330	230
2211	Latvia	792	918	840	1012	1136
	Riga	764	869	803	985	1109
2212	Latvia	2037	2509	2823	2877	2264
	Riga	1806	2232	2497	2476	1905
2213	Latvia	1977	1874	2067	2603	2751
	Riga	1614	1460	1638	2110	1880
2214	Latvia	59	108	104	81	83
	Riga	59	94	93	64	79
2215	Latvia	77	62	140	118	134
	Riga	77	56	101	115	118
2231	Latvia	34	4	7	28	10
	Riga	34	4	6	28	10
2232	Latvia	6	18	13	19	18
	Riga	-	18	13	19	18
2233	Latvia	-	5	6	12	31
	Riga	-	5	6	11	31
3001	Latvia	-	21	31	33	33
	Riga	-	21	31	33	33
3002	Latvia	163	175	122	215	144
	Riga	163	165	112	213	144
3130	Latvia	16	153	305	435	512
	Riga	16	8	18	107	157
3210	Latvia	238	271	339	312	334
	Riga	236	270	298	276	316
3220	Latvia	505	554	631	626	384
	Riga	415	489	503	481	297
3230	Latvia	67	336	317	388	355
	Riga	61	273	292	330	282
3320	Latvia	514	620	890	852	825
	Riga	513	583	860	826	795
3330	Latvia	5	19	22	32	46
	Riga	-	5	12	14	24
642	Latvia	6564	6172	5777	5658	5707
	Riga	6412	5912	5517	5293	5261
651	Latvia	8963	9197	9935	10595	11386
	Riga	8811	9036	9770	9227	9947
652	Latvia	1579	1988	1689	2458	3387
	Riga	1377	1782	1497	2274	3192
6601	Latvia	107	120	154	261	302
	Riga	107	120	143	252	294
6602	Latvia	11	19	22	32	39
	Riga	11	19	22	32	38
6603	Latvia	3022	2796	2961	5405	4952

	Riga	3022	2796	295	5395	4925
67	Latvia	1379	1732	999	1237	1467
	Riga	1270	1578	876	1105	1325
72	Latvia	1050	2090	4829	5508	6240
	Riga	801	1711	4225	5021	5398
73	Latvia	2795	3029	2894	2829	2758
	Riga	2126	2339	2183	2115	2054
7413	Latvia	523	804	1049	1075	1545
	Riga	521	758	718	953	1452
741 excl 7413	Latvia	2929	5471	6020	7864	9035
	Riga	2356	4218	4735	6203	6777
742 + 743	Latvia	3772	5256	5955	7223	7959
	Riga	3331	4328	4938	5858	6208
744	Latvia	2203	3000	3540	4721	4564
	Riga	2061	2676	3195	4148	3455
745	Latvia	354	840	975	886	1838
	Riga	318	743	911	813	1779
746	Latvia	4277	5360	6062	6839	7465
	Riga	3828	4636	5122	5805	6054
747	Latvia	1389	2253	2337	3075	3785
	Riga	1080	1690	1913	2518	3039
748	Latvia	402	1175	3117	4262	3621
	Riga	264	675	2229	3093	2597
801+ 802 + 803	Latvia	91149	91996	79781	79181	79027
	Riga	32805	33457	20423	20218	20505
9211+ 9212	Latvia	258	214	234	386	329
	Riga	246	195	229	371	306
9213	Latvia	299	198	281	241	199
	Riga	182	120	200	184	169
9220	Latvia	1859	1786	1819	1805	1932
	Riga	1605	1556	1559	1521	1702
9231	Latvia	2099	2210	2135	2604	2662
	Riga	1589	1700	1636	2086	2056
9233	Latvia	89	37	59	77	112
	Riga	74	22	36	50	86
9234	Latvia	2403	2620	2085	2166	2191
	Riga	1073	1053	600	534	605
9240	Latvia	187	183	182	173	210
	Riga	187	183	182	173	209
927	Latvia	2896	3650	6137	6862	6270
	Riga	2724	3446	5903	6628	6025

5.2 Conclusions

The objective of this section was to analyze the current state of the creative knowledge sectors in Riga. The analysis applied the ACRE definition of creative knowledge sectors and focussed on the major creative knowledge sub-sectors in Riga.

- The total number of employees in the creative knowledge intensive sectors in Riga is around 110,000, or roughly one third of the employees in Riga are working in the creative knowledge sectors.

- Many of the activities in the creative knowledge sectors are low-skilled, low-wage jobs in labour intensive production processes. The notable exceptions being the information and communication technology sector, some of the business services as well as some of the activities within the financial intermediation/services sector (in particular the ICT based ones).
- With the increasing Latvian labour costs it is reasonable to assume that the employment in the creative knowledge sectors will fall as the low-skilled jobs are moved to countries East or South of Latvia with lower labour costs. Hence, the challenge is to keep and further develop the human capital in these sectors in order to create new businesses with higher value added.
- Given that Riga is Latvia's centre for higher education, it is reasonable to believe that there is a potential for considerably more of creative knowledge activities based on university and research institute spin offs.

6 ANALYSIS OF POLICY APPLIED OVER THE PAST DECADE AIMING AT IMPROVING COMPETITIVENESS

The analysis of the policies aimed at increasing city's competitiveness has been partly addressed by the *Riga Long term development strategy of Riga City till 2025* and the *Riga City development programme 2006-2012* and some related research work[32]. Both these umbrella type documents have been prepared in 2005, and subsequently put to the public discussion. By this date, they were officially accepted[33]. With all their shortcomings the documents still provide the most up to date overview of the policy developments over the last ten years as well as define the priorities and key action points for the medium and long-term development. Yet, in order to see the context of the newly defined priorities, some outlook of the existing work done is in order.

6.1 Evaluation of the key past policies

Riga City development over the past 10 years (1995-2005) was outlined in the *Riga Development Plan 1995-2005.* The brief sketch of its implementation may largely reflect the character of the policies geared towards boosting (or not) Riga's competitiveness and, where it is appropriate, supporting creative and knowledge city ideology.

The Plan itself in 1995 was adopted in the absence any decent strategy documents at a national level. Also, the available research statistical data was rather limited. Inevitably the Plan turned out to be quite vague and general. This in turn allowed developing policies that reflected short term concerns of the City (councilors) much more than medium-to long term goals. The adopted policies also lacked co-ordination. Early attempts of the Mayor of Riga to initiate policy planning process at the departmental level turned out to be fiasco as none of the departments in 1996/97 came up with any initiative or proposal whatsoever.

The most elaborate part of the Plan[34] was that devoted to urban zonal planning and mapping of different city territories. Yet, this part only indirectly (via restrictions what and where can be built as well as stipulated procedure of licensing construction works) has impacted on the competitiveness of the city[35].

The vagueness of the plan resulted in the absence of a considered approach to public transportation – the concern addressed more thoroughly in the current strategic plans of the

[32] See more http://www.rdpad.lv/
[33] Resolution of the Riga City Council 584, protocol 26,7 from 15.11.2005
[34] And widely recognized as the only part that worked
[35] In other words, it has been difficult to precisely evaluate the impact of this part on the competitiveness

public transport development (period 2006-2018). Rather chaotic development of the transport infrastructure in the last ten years has clearly pointed to the need for the advancement of light rail transit, regional rail (to integrate Greater Riga area), introduction of efficient and widely used park-and-ride system, and optimization parking system and mini-buss commuting.

The matters of education, culture (exception – Riga Historical centre), knowledge intensive economy and creativity were not addressed by the Plan at all. Thus, all subsequent initiatives in this regard were adopted and implemented without any connection to the Plan and were based on short-term concerns in an ad hoc manner.

Still, some positive outcomes of the Plan at a policy level were the following. The plan created a certain feeling of stability and notion of at least some direction. This was one of the first attempts in Latvia to involve a wider public in the discussion of the development issues of the city and also the first municipality plan in the Baltic States after the collapse of the USSR. The fact of the acceptance of the plan was some sort of license to acquire a special status for the historical centre of Riga (included in the UNESCO's World Heritage list). This in turn led to the development and acceptance by the Cabinet of Ministers the Law of Preservation of Riga Historical centre. The Law regulations necessitated much more thorough consideration of the development of new office and economic activity areas thus devoting more attention the urban planning outside the historical centre. The plan also provided further grounds for the Riga region planning.

6.2 Current institutional arrangements

Riga city council is elected once in four years and comprises 60 elected members - councilors. Riga City Council sets up commissions and working groups from among the Riga City councillors and residents of the municipality. The need to form such commissions and working groups is determined by specific laws, regulatory acts or by the Council's decisions; specialists may be invited to work in such formations, with remuneration for their work paid from the municipal budget. The policies are implemented through the institution of executive director and departments. Currently there are departments of City Development, Municipal Services, Transport, Welfare, Property, Environmental, Culture, Finance, Education, Youth and Sports. There are also Agencies, such as Housing, and special status institutions, such as Tourism Bureau.

6.3 Riga development vision, mission and priorities

The new planning documents (see above) define the main priorities of the development of Riga and point out tasks, activities and projects for social and economic development of the municipality. The documents cover not only the issues under the full control of the Riga City Council, but also some Riga can not solve single-handed and is in need to get involved into partnership. This strategy is aimed at becoming the ground for several other major planning documents and policies, such as the formation of the budget of the city, planning the urban environment, attracting investments, drafting and implementing various projects related to the development of the urban environment, integrating various interests, priorities and objectives of different stakeholders.

The strategy sets out **three priorities** "expected to have most rapid and positive effect on each inhabitant of Riga and to facilitate improvement of the quality of everyone's life" (Development Strategy, p.7).

- to develop a well-educated, skilful, culture-respecting society
- to promote the development of economy based on East-to-West link
- to promote living in high-quality urban neighbourhoods (ibid., p.9)

6.3.1 Vision of Riga (official)

The city provides "opportunity for everyone" which means "the opportunity to live in a qualitative, harmonious environment, opportunity to develop oneself and one's welfare; the municipality is entrusted with professional servicing the inhabitants of the city, facilitating their personal growth and improvement of the quality of their lives" (ibid, p.10)

6.3.2 Mission of Riga (official)

As a city of opportunities for everyone, Riga supports enterprising and active people thus facilitating the improvement of everyone's quality of life, respecting free choice and ownership as far as they do not harm the interests of society.

As a convenient and comfortable place to live, Riga is developing into a safe, healthy, attractive seaport city, the transportation system of which is designed to be safe and convenient for everyone.

As the Baltic metropolis, Riga is to become the driving engine of the development of Latvia and the Baltic States, the most efficient Baltic Sea Region gateway of the EU to the neighbouring markets, and the centre of culture, education and tourism.

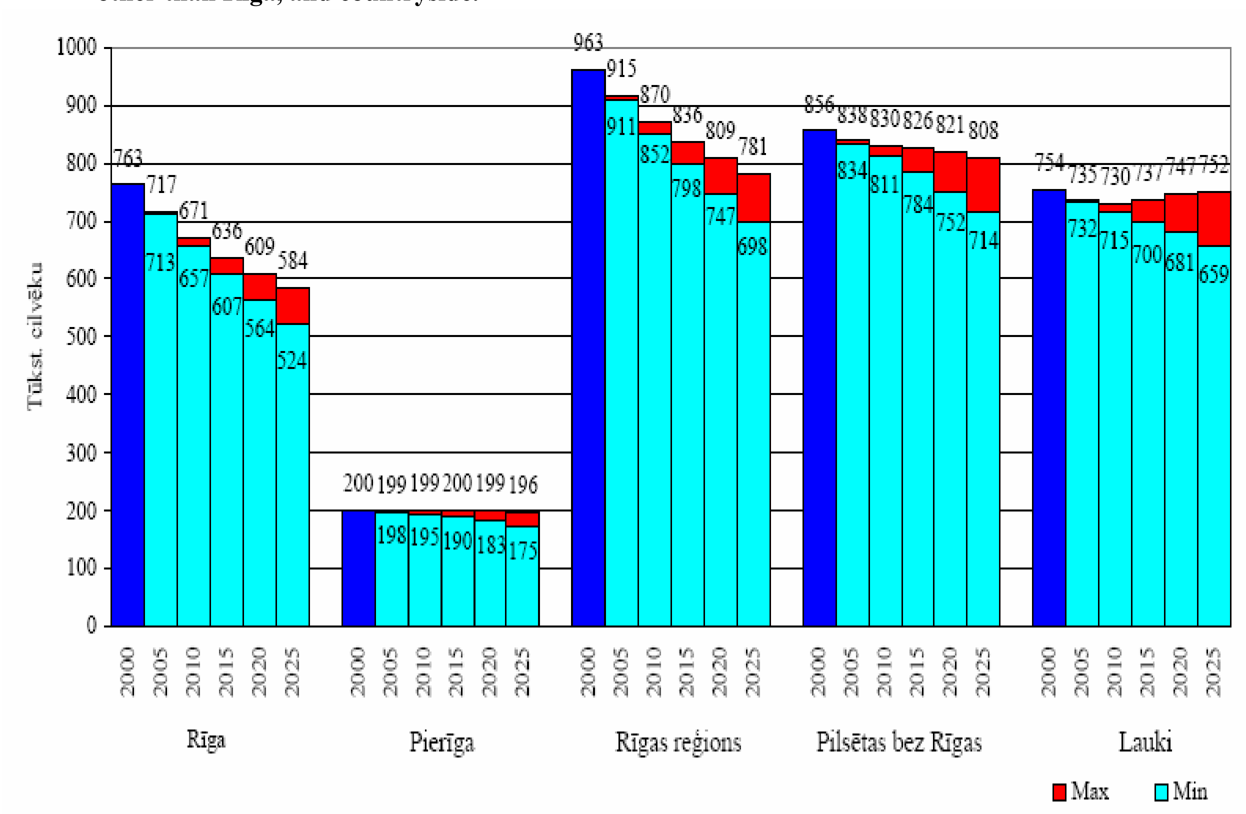
As a city of efficient administration, Riga municipality is to become an efficient, client-oriented institution, supporting implementation of progressive and entrepreneurial ideas, and boosting the recognition of Riga in Europe and the world (ibid, pp. 10-12)

6.4 Factors of competitiveness

6.4.1 Human Capital

One of the key factors of competitiveness is labour force. In Riga, as compared to other parts of Latvia, there is a greater share of the residents at employment age. Also, the higher is the share of high skilled and higher educated people. Given the unprecedented rate of out migration Latvia experiences after joining the EU in 2004[36], it is increasingly worrying that it is precisely those highly educated Riganians who might be most attracted by the prospects of higher earnings outside Latvia. It is also likely that due to demographic trends, the share of elderly, over the employment aged people in Riga and Greater Riga area shall increase over the next 5-10 years thus putting much more pressure on the squeezed Riga's labour force. The expected decrease of the total population in Riga for the period 2005-2025 is around 20% from 736.6 thousands in 2005 to around 590 thousands in 2025. (p.20).

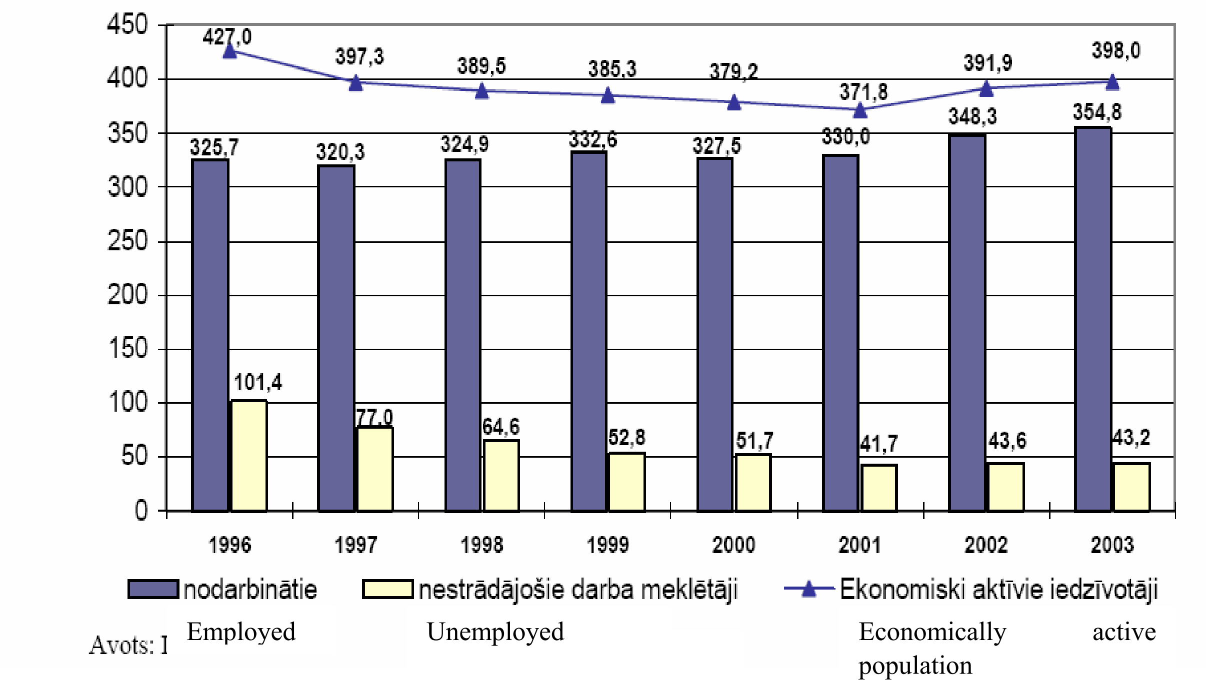
Figure 6.1: Population forecast until 2025 for Riga, the Riga surroundings, the Riga region, cities other than Riga, and countryside.



Currently the official unemployment level in the city is 4.4% of economically active population.

[36] No one knows exactly how much, yet various calculations suggest between 5-10% of the Latvia' s labour force now works outside Latvia

Figure 6.2: Employment in Riga 1996-2003 (employed unemployed, number of economic active persons)



Source: Central Statistical Bureau of Latvia

This low figure though hides several noteworthy trends, not the least to mention is some increase of unemployment levels in 2002 mainly due to the changes in "Law on unemployment and the status of job-seeker" (adopted 01.06.2002) that made the acquisition of the status of unemployment much easier than before.

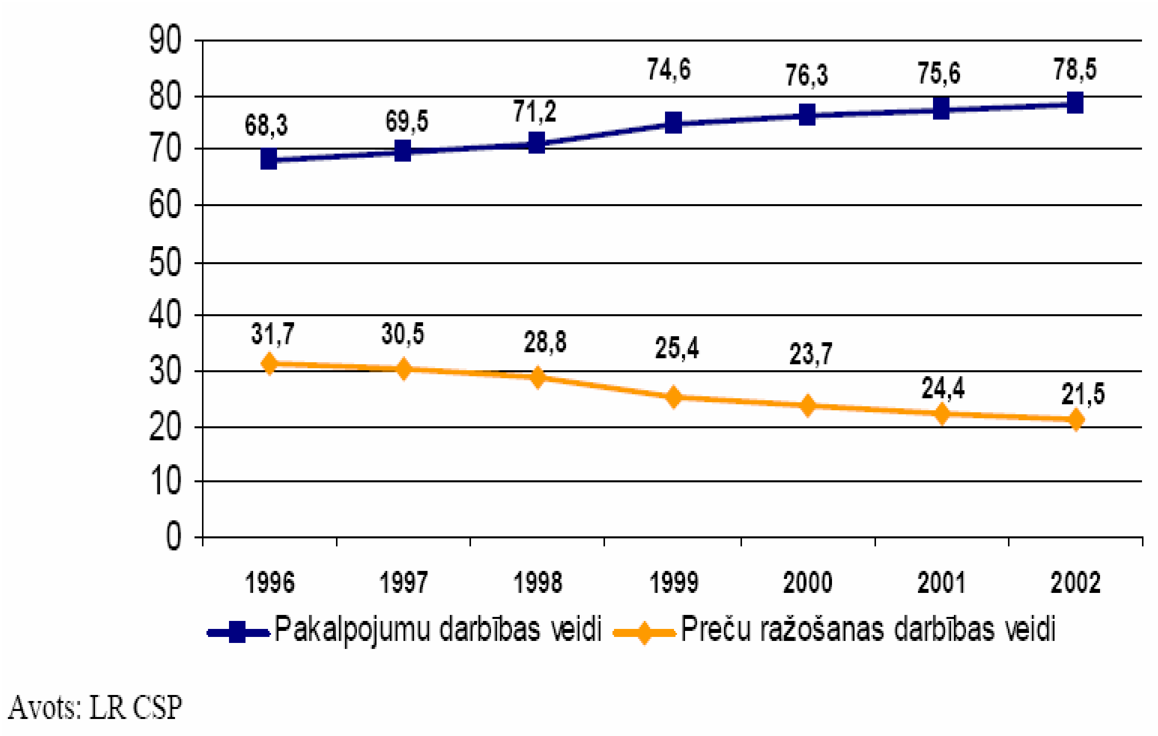
The policy measures proposed for improving natural demographic trends are passed on to the national level – such as policies to increase birth rate (already in place), measures to decrease death ratio etc. The only visible initiative here is publicly voiced intention to work out policies to attract young people from other parts of Riga at an even greater scale than[37] now.

6.4.2 Value added economic activities.

Over the last 10 years the share of commodity production has been decreasing giving way to the increased share of the value generated in the service sector. Even if the production in absolute numbers has increased, this has been largely in low value added direction. The commercial services represent 17 % of Riga's economy (4% nation wide) whereas public sector represents only 11% (compare 19% at a national level).

[37] Currently Riga attracts the greatest share of all secondary school graduates to its higher education establishments.

Figure 6:3: The structure of the value added in the Greater Riga Area (measured in real prices), percentage of total (services in black and production of goods in grey). Source: Central Statistical Bureau of Latvia.



6.4.3 Foreign direct investments

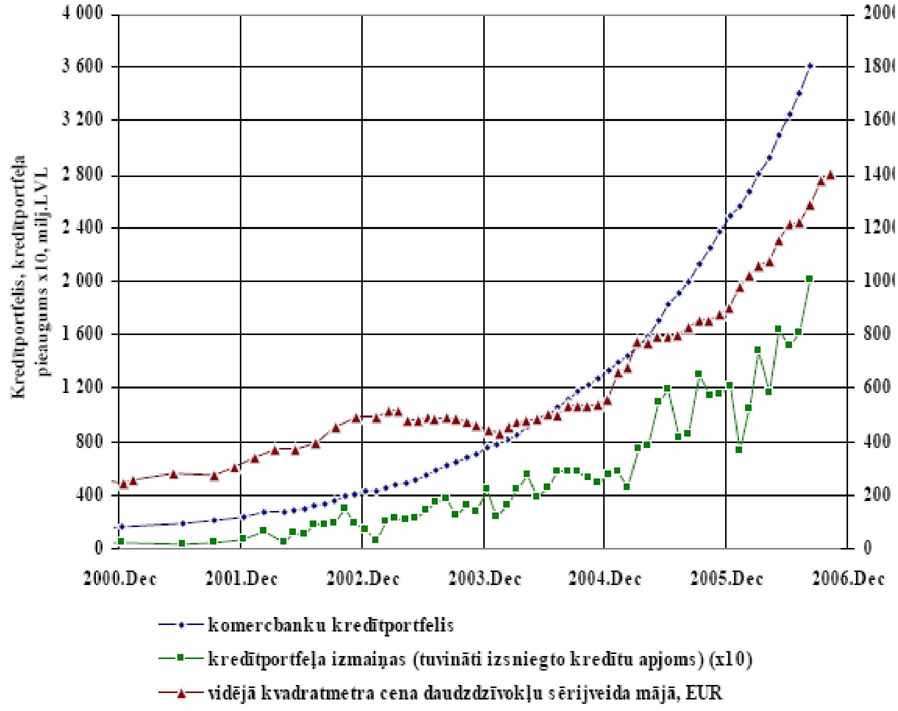
Since 2000 accumulated FDI in the enterprises registered in Riga have been specifically accounted in Latvia's Enterprise register data base Lursoft and by mid-2005 they amounted 1 billion lats. The amount has been growing over these years at 6.4% a year. In 2003 the city began to introduce the principles of medium-term budgeting and has attempted to implement more prudent long-term financial policy in order to reduce the increase of the city's debt.

6.4.4 Real estate and construction

One of the main forms how the city council can regulate economic development is through issuing the licenses for construction works. Riga as the capital and the Baltic Sea Region metropolis attracts increasing number of national and regional head offices. Riga City accounts for 2/3 of all construction works done in the country.

Although, the unprecedented and rapid growth of real estate and linked to that mortgage loan market (and, as a result, real estate prices – see graph) has put the construction control (including licensing) under very heavy pressure. There has been an increase of 35 % of the issued construction licenses over the past 10 years.

Figure 6.4: The loans issued to private customers by commercial banks and the average price of a standard apartment square meter.



Riga City Council Development Department monitors the distribution of economic activity (registered enterprises, economically active population) across all the districts in Riga and the respective demands placed on their infrastructure. It also closely follows the real estate prices (land, building, office space, apartments) for future planning purposes. The Department predicts that the increasing share of economic activity shall be moved out of the city centre o the outskirts or even outside the boundaries of the cities. It also intends to restrict further increase of economic activity in currently overburdened parts of the city and stimulate.

6.4.5 Information technology, science and technology parks

The highest levels of computer and software use can be observed in the fields of financial services (67,6%)[38] and real state operations (66.2%). The lowest levels are in the hotel business[39] and micro enterprises (less than 10 employees). Still, altogether usage of computers and IT in Riga is nearly 17% higher than Latvia's average.

By the end of 2004 there were three science and technology parks operating in Riga – Latvia's Technology Centre (est.1993) (medical and biotechnological equipment and machinery, material science and technology, design);

Latvia's Electronic Business Innovation Centre (established 1997) support for SMEs in IT and electronic fields, upgrading, export promotion and personnel training;

[38] Of enterprises and employees.

[39] Yet, the highest growth rate over the last two years – doubled.

Latvia's Technology Park (established 1996) – commercialization of innovations in energy, IT, Chemistry, biotechnology, environmental sciences, transportation.

The City Council recognizes that very little has been done to foster the potential of Riga as the centre of higher education and science in generating new knowledge and innovation. Considerably more is done and proposed at a national level, especially in the light of the newly adopted National Development Plan that stipulates the advancement of science and technological excellence as one of the keystones of prioritized knowledge economy.

6.4.6 Education and culture

There are 147 kindergartens and 147 primary and secondary schools, 36 professional schools and 19 leisure time activity centres in Riga. Riga also hosts the majority of the higher education institutions - 79 per cent of all Latvia's students study in Riga. Yet policies in this field are regulated and managed at a national level and therefore no specific policy measures are taken by the municipality in this regard (this is recognized). As to the field of culture, approximately 3.4% of the city annual budget is allocated to cultural activities. The Department of Culture is quite active and can praise itself on a few success stories such as the organization of the 800th anniversary of Riga in 2001 (has become the exemplary case of city festival organization) and participation in the international culture festival Surprising Latvia in France in 2005 (although centrally managed by the Ministry of Culture). In late 2006 a new long-term strategy for Cultural development has been proposed by the Department. Interestingly, the strategy does not echo the prioritisation of creative industries (Latvian National development Plan). The strategy also implies the creation of a new policy institution Cultural Agency.

In relation to culture and creative industries field, it is worth a mention that the national level initiatives to build a new public library, concert hall and modern art museum with related development of infrastructure and surrounding areas clearly would benefit the city. Yet, the only significant contribution here has been the allocation of land for the construction works. One should also stress that more strategic national branding activities inevitably implicate Riga as one of the key attractions as well as service encounter place of all sorts of tourists.

6.4.7 Administrative capacity

One of the most notable developments that may have substantial impact on the competitiveness of Riga is its comparatively well developed (at least technologically) e-governance system. In 2006 a joint study conducted by researchers at Rutgers University Newark (US) and Sungkyunkwan University (Korea) has evaluated the official websites of the world's major cities and compiled an index ranking them in order of performance. Riga was placed tenth in this index and was the only European Union city to appear in the 'top ten'. It seems that, provided the Government solves a few issues related to digital service introduction and administrative reshuffling of existing service system in public sector at the national level, Riga e-governance system may become an effective vehicle for boosting overall competitiveness of businesses and service infrastructure in Riga.

6.5 Conclusions

To summarize the key challenges of the development of competitiveness of Riga and fostering creative knowledge based economy are the following:

- To overcome the demographic downside (negative growth of population, out migration and lower than European average life span), sustain and expand high quality human capital making maximum use of existing opportunities as being the country's centre of higher education and science.
- To restructure the economy from the dominance of low value added sectors (notably in service, retail) to a more varied economic structure (communication, consulting, hospitality, recreation, entertainment services as well as education services) including high-value added export oriented activities thus having significant multiplication effect overall.
- To reorganize the public transportation system and the unevenly developed city with functionally overloaded centre and poorly developed local neighbourhoods to more comfortable, easy to reach, friendly and safe urban environment.
- To fully exploit the potential as a Baltic Sea regional centre in the fields of commerce, science, communication and culture.

If compared with the priorities of the Latvian National Development Plan (NDP), the Riga priorities are very much in line with those of the NDP, although the time horizon of the NDP is shorter (until 2013), whereas the Riga documents to some extent cover the period up to 2025.

7 CONCLUSIONS

Ever since its foundation in 1201 Riga has played a pivotal role as a regional centre for trade and commerce – a role that much predates the emergence of the Latvian nation state of which it is now the capital and today's Riga holds the primacy over Latvia's economic, political, social and cultural functions. Throughout the centuries, Riga has always been a multiethnic city and ethnic Latvian have been in minority in the city for almost all of the period since its foundation with either Baltic Germans or Russians being in majority. Until the second half of the 19th century, the Baltic German hegemony of Riga was economical as well as cultural.

The analysis of the development path of Riga from 1860 to 1999 showed that the economic, social and cultural development during the period could be divided into four very distinct sub-periods, each of them separated by dramatic institutional changes. The first period covering 1860-1914 is characterized by the industrialisation of what was by then the third largest city in the Russian Empire and by the Latvian national awakening. The second period 1918-1940 covers the first period of Latvian independence and is characterized by more of small scale industry with several technologically advanced enterprises. Culturally the period could be considered a period of Latvian "culture building" with roots in the national awakening of the late 19th century. During this period several important Latvian cultural institutions were established. The period of Soviet occupation, 1945-1991, saw large scale industries once again being established in Riga. The industries were to a large extent staffed by migrants (mainly of Russian ethnicity) from other parts of the Soviet Union. The cultural policy imposed on Latvia by the Soviet authorities involved selective destruction of the Latvian intellectual heritage.

The period following the break down of the Soviet Union and the restored Latvian independence in 1991 is characterized by the collapse of the large scale Soviet industry in Riga and the emergence of a new industrial structure mainly based on small enterprises that mainly are active in the service sectors. Today the service sector (tertiary sector) is predominant in terms of gross value added by economic activities in Riga. Approximately 80 per cent of the gross value added is generated by the tertiary sector, whereas 19 per cent is generated by the secondary sector (manufacturing). The economic transition brought difficulties to more or less all cultural spheres. Cultural institutions and activities had to adapt to the new market oriented environment and many of them, small as well as those requiring large capital investments, were unable to survive. On the other hand, there were several new initiatives that managed to survive in the new economic and political environment.

Furthermore, with the fall of the Soviet Union, Riga moved from occupying a strategic geographical location within the hierarchy of the Soviet economic space to occupy a peripheral location in the hierarchy of the European Union economic space. Although more than 15 years have passed since the break down of the Soviet Union, the Soviet legacy is still present in Riga. The infrastructure built to serve a gravity centre of the Soviet Union is still there. The Soviet heritage is also visible in the Riga cityscape, both in terms of architecture and in terms of location of industrial complexes. The Soviet heritage also continues to cast its shadows on the Latvian civil society.

The analysis of the current state of the creative knowledge sector in Riga revealed that although it accounts for a considerable part of the total employment in Riga (about one third or 110,000 employees), many of them have low-skill low-wage jobs in labour intensive production processes exploiting the relatively low (by European Union standards) Latvian labour costs. However, as the discussion following the analysis showed, it is reasonable to believe that the Latvian labour costs will increase, resulting in a move of the labour-intensive production processes based on low-skilled labour and low wages to countries with lower labour costs. Hence, the challenge ahead is to be able to maintain and further develop the human capital in the creative knowledge sector and to create favourable conditions for the continuing development of business activities with higher value added based on creative knowledge. There are, as the analysis of the creative knowledge sector showed, exceptions from the low-skill low-wage employment in the sector. Among the notable exceptions are the information and communication technology (ICT) sector, some of the business services (advertising, architectural and engineering, and legal and accounting activities) as well as some of the financial services (mainly the ones dealing with ICT in the financial sector).

The analysis also showed that the higher educational sector in Riga is to a large extent an untapped resource. Since Riga is Latvia’s centre of higher education, there is potential for much more of creative knowledge activities based on spin offs from the universities and the research institutes.

From the discussion of the soft factors, it is evident that the challenge for Riga is not only in terms of developing a business friendly climate with an appropriate infrastructure – the soft factors have to be developed as well. Both the Riga planning documents and the Latvian National Development Plan stress the importance of the soft factors for the development of a creative knowledge based economy. Among the soft factors to be considered are the creation of pleasant urban atmosphere, accessible quality housing, a well-developed and accessible cultural environment, and an inclusive social structure. If Riga (as well as Latvia) is successful in dealing with these issues, then Riga will be able to exploit its potential and emerge as a creative knowledge based city, leaving its past, to a large extent based on low-cost low-skilled labour, behind.

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