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FOREIGN PRIVATE BANKS AS EUROPEANIZATION  
AGENTS: EXAMPLE OF LATVIA 1995–2004

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## INTRODUCTION

The European Union is a project of sovereignty delegation via democratic, multilateral diplomatic negotiations. It is a unique instance of cooperation in international relations whereby the creation of a new political entity does not involve violence. The absence of violence, however, does not mean that economic and political interests, needs and rationale are not present. The European integration process and Europeanization is not without pragmatic interests. The adoption of norms and principles is not only a political process, because it is also tightly bound to economic calculations. This was clearly understood by the Central and Eastern European countries that chose a path towards EU membership shortly after the end of the Cold War. For these countries, including the Republic of Latvia, not only was the path toward the EU a complex and demanding process involving a transformation into democratic, capitalist, open market economies, but the following transposition of EU norms during the second half of the 1990s also required a complete mobilization of administrative and political resources. Both the post-communist transition in the first half of the 1990s and the following accession into the EU involved not only legal and technical adjustments, but also socialization – learning and adapting to Western and EU norms and values.

This overall process is called Europeanization and is considered to be an intrinsic part of a theoretical understanding of the European integration process and the European Union in general. The EU's so-called "big-bang" enlargement of 2004 gave a lot of material for the Europeanization theoreticians to work with after the mid-1990s. The growth of a body of academic work on EU enlargement, EU integration and especially the Europeanization process was overwhelming. The geopolitical and economic calculations made by many countries, including the Baltic states, resulted in their becoming extremely susceptible to influences from Western countries, especially from the European Union. Membership in the

EU was seen as a paramount goal and this was a unique window of opportunity in history for these countries to realign their national political and economic exposure to Western countries. This defined the process of the transposition of EU law – the *acquis communautaire* – into the national law of the post-communist transformation countries.

This dissertation addresses the period starting from the year 1995, when the Baltic countries of Estonia, Latvia and Lithuania regained independence from the Soviet Union and the first steps of liberalization and privatization had been made, and most importantly an official application for EU membership had been submitted. This year is popularly considered to be an essential moment in Latvia's geopolitical history that put the country on a path to integration into Euro-Atlantic economic and security structures. But it also should be regarded as the moment when the decision to be Europeanized was taken. Until May 2004, Latvia's Europeanization process was all-encompassing, with Europeanization agents being in the position to exercise the strongest conditionality to promote change.

Therefore, it is an intriguing period in Latvia's political and economic history that needs to be revisited years after the country became part of the supranational organization, because during this period the ideational, political and economic fundamentals of the Baltic country were installed. Moreover, in terms of the economy, the first private foreign investments in the banking sphere in Latvia started in mid-1990s (Barisitz, 2002), but a sudden increase in the acquisition of indigenous Latvian banks by Western capital happened from around 1998 till 2000. The rapidly growing capitalization of acquired banks took off after Latvia officially started the accession negotiations, and gradually the market share of foreign banks with EU origins reached the dominant position in all the Baltic states even before EU membership (Swedbank, 2010, Baltic Export, 2012). Therefore, the period from 1995 until 2004 was the beginning of the relationships between the Scandinavian banks and the Latvian state. This

relationship not only makes it possible to trace the origins of the 2008 – 2010 economic crisis in Latvia, but also continues defining the banking structure in the country.

Europeanization as a term has become interdisciplinary and is widely present in academic literature, as well as in public political discourse and journalism. Among others, the term has been used in economics, in politics, and in law to define a theoretical outlook on the effects of European integration and its paths of influence. Not only does the EU have supranational institutions, but it also has a supranational legal system with EU level decisions having a direct effect on a national level. Moreover, it has a socialization effect on both national decision makers as well as society. As Žaneta Ozoliņa and Tālis Tisenkopfs point out: “Followers of classical integration theory see the EU as the result of an agreement between countries, where the main elements of the relationships are countries and EU institutions. Meanwhile, Europeanization followers enlarge this relationship bloc by including society” (Ozoliņa and Tisenkopfs, 2005, 31-35).

The traditional *understanding of Europeanization*, however, revolves around public institutions, especially the European Commission advancing the transfer of rules and norms to public agents. What is neglected and will be investigated thoroughly in this research is that private actors are also deeply involved in the process. Private actors should not be regarded as bystanders or instruments of public Europeanizers (see, Table 1, Classification of agents of Europeanization). They have their own role to play, especially if private actors are endowed with economic or financial resources. This includes more than international organizations or governments that perform a socialization function by being educators, standard setters, and value promoters through the implementation of agenda setting, conditionality, accession negotiations and *acquis communautaire*. Public and private actors, especially economic ones, like

companies, banking groups, multinational corporations, easily perform a similar function.

The Europeanization of Latvian decision makers – i.e. the political and bureaucratic elite, as well as business representatives – can be facilitated via the promotion of the adoption of EU norms and values both directly and by the projection of attractive image of “the European”. Europeanization mechanisms and instruments are not exclusive to EU institutions and the norms that countries embrace. Private businesses can in reality perform similar functions. The Europeanization process should not be downgraded to a process involving solely the interaction of EU institutions and national public institutions. Yet it also cannot be seen as a horizontal socialization process, as banks can be structurally in the position of lender and thereby of condition-setter. Moreover, the Europeanization process involves not only a transfer and adoption of formal rules and institutionalized procedures, but also a transfer of shared beliefs and norms (Grabbe, 2003). A private actor can be an agent on the basis of predispositions of their representatives and projected self-image.

Therefore the *prime intention* of this dissertation is to contribute to the theoretical conceptualization of Europeanization. Recognizing private actors as an active part of the Europeanization process, both on the receiving end of the EU norms and as facilitators of change, is important for a more thorough understanding and conceptualization of Europeanization. In theory private political entities like non-governmental organizations and political parties, as well as private economic entities like enterprises, corporation, banks etc., regardless of whether they are domestic or foreign, could be admitted to the list of Europeanization agents. Europeanization requires a more holistic approach and political, social and economic interaction does not only happen between public agents via transposition of legal norms. It is a socio-political process that involves various entities, phenomena and actors. And some of those actors are more equipped to perform the task of an agent of Europeanization than others.

## **Research outline**

This dissertation selects foreign private banks as the object of analysis. Since the establishment of the first banking-type ventures, the importance of institutionalized lending and borrowing has become increasingly dominant in economics and in the political understanding of both societal and political governance. The fundamental nature of banking sector and essential structural role for the economies of modern capitalist states and their economic survival makes the banks an obvious candidate for the exercise of conditionality. The control and channelling of monetary resources is a prerogative of business entities legally registered as banks. Finally, banks are not only about providing capital to the economy and the attraction of foreign direct investment; they could also leverage the capacity of socialization that banks possess via their representatives. Direct lobbying work performed by foreign banks during the legislation process, the creation of public discourse via public analysis and announcements, and personal contacts between the personnel of private foreign banks and decision makers at the national level are all part of the socialization capacity of the banks as private agents.

A theoretical and methodological analysis is performed, and the theoretical findings are tested by looking at the role of private foreign banks with EU origins in the Europeanization of Latvia. This research uses deductive reasoning, and with this top-down approach *aims* to prove that private economic Europeanization agents were capable of producing legislative and value changes in Latvia. The dissertation investigates the situation in academic literature with regards to the private agency aspect of Europeanization, to define the criteria necessary for an actor to be an efficient agent of Europeanization and finally, based on these criteria, to determine whether the private banks with EU origins used their capacities to facilitate Latvia's membership in the EU and the adoption



of EU norms and values, in particular the principles of rule of law and good governance. With this notion and logic in mind, it tests three *hypotheses*:

H1: That private actors can be agents of Europeanization.

H2: That to be an efficient agent of Europeanization the actor must possess two capacities: the capacity of conditionality and the capacity of socialization.

H3. That private foreign banks with EU origins used their conditionality and socialization capacities to Europeanize Latvia.

In order to prove these hypotheses, this dissertation performs the following *tasks*:

1) The identification of the private agency aspect in sociological institutionalism and research of Europeanization as a concept;

2) A theoretical investigation of the conditionality and socialization capacities of private agents of Europeanization and a definition of criteria for Europeanization agents;

3) An analysis of process tracing methodology principles in researching private Europeanization agents;

4) An investigation of presence of conditions set by private foreign banks with EU origins during Latvia's accession process to the European Union and the importance of their promised benefits;

5) An investigation of the credibility of threats and promises and the ability of private foreign banks with EU origins to win over domestic competition during Latvia's accession process to the European Union;

6) An investigation of the presence of intensive contacts and active socialization of Latvian decision makers by private foreign banks with EU origins during Latvia's accession process to the European Union;

7) An investigation of whether the principles were followed by private foreign banks with EU origins themselves during Latvia's accession process to

the European Union and whether the standards fit the understanding of the Latvian decision makers.

From the *methodological* perspective, this research turns to process tracing as the most effective approach to identifying a causal link between the role and actions of foreign private banks in Latvia's Europeanization – including the adoption of the EU legal norms, values and principles. Process tracing methodology is a useful approach for research that synthesizes the cognitivism and rationalism that are characteristic of sociological institutionalism. Namely, the conceptual model with the Europeanization agent criteria developed in the first chapter will be empirically tested on the case of Latvia's Europeanization. This will be done from the position of epistemological rationalism, as this research considers the Europeanization process to be externally observable and the role of the agents to be testable. Although process tracing methodology is a positivist (rationalist) approach from an epistemological position, it does not prevent a combination of both rationalist ontology and social ontology to increase the explanatory value and observe both the material interests and normative values.

The process tracing research design that this research utilizes is based on investigating whether the six criteria of an agent of Europeanization, developed in the first chapter of this dissertation, constitute the causal link between the actions of private banks with EU origins and the Europeanization of Latvia (see, Table 2, Schematic of the research design). The criteria serve not only as the intervening mechanisms but also make it possible to reach conclusions on the role of particularly Swedish, Finnish and German banks in Latvia's Europeanization, answering the questions of whether the banks used their conditionality and socialization capacity to Europeanize Latvia, and whether private economic agents of Europeanization are meaningful not only theoretically, but also empirically.

As the second chapter of this dissertation explains in detail, designing and applying the process tracing technique for an analysis of Latvia is an optimum approach due to relatively low levels of existing *empirical material* and data on the subject. Publicly available information is limited surrounding private foreign banks and their formal as well as informal interaction with national decision makers. Besides the economic data used to support the argumentation and demonstrate correlations, rare statements in mass media, and publicly available reports, the empirical data for this research mostly had to rely on twenty-five semi-structured in-depth interviews with decision makers from the respective banks and from national level public representatives to investigate the process. In addition, four expert interviews were also performed.

Analysed documents and data sources came from the respective internal and external correspondence on EU integration matters available through the archives of the Ministry of Finance, from public annual reports of the Bank of Latvia, and from the respective researched banks, as well as statements and reports from the Financial and Capital Market Commission, the Foreign Investors' Council in Latvia, the Association of Latvian Commercial Banks, and media outlets (available in newspaper archives and LETA archives). These were used to trace the presence, role, activity and influence of the respective private foreign banks during Latvia's accession into the European Union from 1995 until 2004.

Dissertation consists of three chapters: 1) Private Agents in Europeanization Process, dealing with theoretical argumentation; 2) Research Methods for the Europeanization Agent, dealing with methodological argumentation and 3) Latvia's Europeanization by Private Foreign Banks, dealing with empirical analysis of Latvia's example. All three consist of several subchapters that are elaborated in detail in their respective chapters.

## **Academic relevance and novelty of the research**

The European Union enlargement has been and will remain a topical subject for research and theoretical modelling (Schimmelfennig and Sedelmeier, 2005a) because possibility of the inclusion of new member states is still high. This dissertation deals with a specific aspect of EU enlargement and with the situation in a specific country. Namely, it takes the Europeanization process, looks at it from the *sociological institutionalist* (constructivist institutionalist) perspective and derives six conceptual criteria for the analysis of potential agents of Europeanization. Then this research using process tracing methodology looks at the role and influence of foreign private banks with EU origins in Latvia's accession process to the EU and the country's Europeanization. It was the academic responsibility of this research to address the unanswered question of the potential of private economic actors to be Europeanization agents and facilitate political and legal change in target countries. Therefore, private foreign political and economic actors can be *Europeanization agents – active promoters of standards, norms, and principles regarded as part of the Europeanization process*.

This research differs from previous studies on Europeanization by looking at private economic actors, as agents, as promoters of change in the target country. Not only is this research based on a sociological institutionalist theoretical approach to explain Europeanization process, but it also *extends the Europeanization* concept to the International Political Economy discipline. It is essential to consider the economic arguments to fully embrace the “rational side” of sociological institutionalism. The Europeanization concept and sociological institutionalism makes it possible to address the so-called “if” and “how” questions, while only partially answering the “why” questions. Meanwhile, the International Political Economy arguments can provide an explanation of the “why” aspect – in this research, why foreign private banks act as Europeanization

agents and why national decision makers in the Europeanization target country are willing to implement requirements and follow the conditions.

Similarly, a blend between aspects of sociological institutionalism and political economy has previously been done by Rachel Epstein in her research on the internationalization of the banking sector of post-communist Europe. The author develops a theory of international institutional influence, arguing that “(...) if external advice or conditionality is to produce its intended effect, it must be offered in a particular social context” (Epstein, 2008, 883). However, R. Epstein’s developed three features of social context that influence the perception of authority or conditionality, are insufficient to fully explain the interaction between the foreign actors in the financial sector and national decision makers. Therefore, this research turns to writings from other representatives of the “internationalist wing” of sociological institutionalists to define the six criteria of a Europeanization agent (see, Figure 1, Capacities of Europeanization agents).

The central inspiration for the rational arguments or rationalist criteria in the conceptual model developed for this dissertation is research on the Europeanization of the 2004 EU enlargement countries by Frank Schimmelfennig and Ulrich Sedelmeier (2004, 2005), and Schimmelfennig in his own research (2000). The conceptualization of both Europeanization theoreticians provides strong insight into the features and characteristics that were essential for EU conditionality during the accession negotiations of Central and Eastern European countries. And their approach enables an understanding of the specific requirements for the transfer of norms and principles to happen efficiently. Among the theoretical writings utilized to define the criteria are also Heather Grabbe’s works (2001, 2003, 2005) on the Europeanization of the Central and Eastern European countries through conditionality. Her research allows for conceptualizing EU conditionality and drawing strong theoretical arguments to support the rational choice criteria developed in this research.

The fifth and sixth criterion are developed on the basis of a book written by F. Schimmelfennig and co-authored by Stefan Engert and Heiki Knobel (2006) on the international socialization of the European countries. From a structuralist perspective, the authors look at the political conditionality and socializing power of the EU institutions, which allows for defining the theoretical arguments for the socialization strategies and capacities of Europeanization agent. Finally, another notable theoretical influence is Jeffrey T. Checkel's writings (1999, 2001, 2005, Zürn and Checkel, 2005) on argumentative persuasion and socialization mechanisms, which help to support and define the international socialization arguments with regards to the vectors and tactics for social and mental influencing of the decision makers of the target country.

Lastly, it must be noted that the analysis of the economic actors as political agents, i.e. foreign private banks as Europeanizers of the Republic of Latvia, is done in line with Susan Strange's (1996, 1998a, 1998b) International Political Economy argumentation on the role and political/economic influence of financial markets and financial actors on modern states. The theoretical material is complemented by an in-depth analysis of the academic body on the Europeanization process and concept, especially the works of Robert Ladrech (1994, 2009, 2010), Tanja A. Börzel (1999, 2003, 2011), Börzel and Thomas Risse (2000, 2003, 2009), Risse (2009), Risse, Maria Green Cowles and James A. Caporaso (2001), Christoph Knill (2001), Knill and Dirk Lehmkuhl (1999) in addressing the conceptual characteristics of Europeanization, its vectors and mechanisms, and the New Institutionalism methodological approach to the phenomenon.

It is in the area of sociological institutionalism where this research makes its strongest deviation from the existing literature. It looks at private actors as promoters, facilitators, and agents of Europeanization and therefore produces the most notable novelty for the Europeanization concept and research of the Europeanization process. Moreover, this research is intended to provide a *new*

*conceptual model* for analysing agents of Europeanization. Namely, it defines the six criteria that makes an actor an agent of Europeanization. In sociological institutionalist and Europeanization research, “the agency aspect is self-evident, because the EU institutions impose rules and therefore it is not specifically distinguished” (Schimmelfennig, 2018). The transfer of rules is the central object of analysis in Europeanization process. And almost exclusively, research has been devoted to public agents of Europeanization, i.e. the European Commission, the European Court of Justice, and the politicians and bureaucrats of EU member states.

Private actors as agents of Europeanization have been severely under researched. On one of the rare occasions where this has been addressed in academic literature, Heather Grabbe mentions private sector actors in the context of the EU’s hard and soft routes for policy transfer in CEE in her comprehensive research “The EU’s Transformative Power”, stating that the “CEE private sector adopted EU practices because of competition in home market (efficiency gains, technology transfer) or in EU markets (product and process standards)” (Grabbe, 2005, 58-59, Table 3.1). The author clearly indicates that private economic actors gain additional advantages from the adoption of EU norms domestically, but does not see them as promoters of standards and principles. Furthermore, regarding the leverage exerted on policy, H. Grabbe indicates that “studies of foreign direct investment suggest a ‘learning process’, but it is very hard to measure (...) [while] influence depends on sector, and type and intensity of competition” (Grabbe, 2005, 59). In the context of this premise, this research delves into an analysis of the role of foreign capital investors to show their influence as agents of Europeanization. Research on private actors as agents of Europeanization was also touched upon in an article by Alex Warleigh dealing with domestic non-governmental organizations as agents of the Europeanization of civil society. The author concluded that NGOs, due to a lack of resources, their elitist internal governance and fact that “(...) NGO supporters do not actually want to undertake

such a role” (Warleigh, 2001, 635), do not function as capable Europeanizers of civil society.

This is also the first research to address the agency aspect of private economic actors in Europeanization, and it is only second after R. Epstein (2008) in investigating the interaction between the Europeanization process and internationalization of the financial sectors of CEE countries and private Europeanization agency respectively, and in this regard this research also has *empirical novelty*. Namely, this research adds a new perspective to Latvia’s accession process into the European Union and country’s Europeanization from the perspective of Latvian decision makers, politicians and institutions as well as investigating the role of foreign private banks with EU origins in pre-EU Latvia. This dissertation can contribute to practical policy-oriented and theoretical researches, most notably building on the comprehensive outlook in “Latvia at the Europeanization Crossroads” by Žaneta Ozoliņa and Tālis Tisenkopfs (2005), research performed by Providus analysts before (Svendesen, 2004) and shortly after Latvia’s accession into the EU (Akule, 2007), as well as research that includes chapters or case studies of Latvia, namely, on the Europeanization of the Baltic civil societies (Spurga, 2007), of CEE political parties (Walecki, 2007), on economic policies of the new EU member states (Kostadinova, 2007), on minority protection policies (Tugdar, 2014), on Latvian research policy (Tõnismann and Muizniece, 2016), on foreign aid policy (Timofejevs Henriksson, 2014), on sexual minority rights (Pelz, 2016), and most notably on the ethnic policy changes in Central and Eastern European countries (Kelley, 2006). The contribution of this doctoral research to the existing literature is an in-depth analysis of the Europeanization of Latvian decision makers and its financial sector. At the same time, it should be noted that a substantial body of research on the overall EU integration process of Estonia, Latvia, and Lithuania (separately or together) is available, with a few of the most prominent being “The European Union and the Baltic States: Changing Forms of Governance”



(Jacobsson, 2010), Peter Van Elsuwege's (2008) comprehensive analysis of the Baltic accession into the EU, the book on monumental change from post-communist transition to EU enlargement by Vello Pettai and Jan Zielonka (2003), or articles on positive EU conditionality in the Baltic states by Viljar Veebel (2012). But none of these provide an empirical analysis of the role of the banking sector.

The situation in the Latvian banking sector in the context of EU accession has received academic and research attention, but almost exclusively in the disciplines of Economics or Economic History. Most notable examples dealing in particular with Latvia's accession into the EU are the compilation "Latvia Entering the XXIst Century" edited by Juris Vīksniņš and Inna Šteinbuka (2000), the newest comprehensive work led by Gatis Krūmiņš (2017) on the economic history of Latvia, and research on the effects of the economic policy of the European Union on Latvia (Dovladbekova, Eteris and Zelmenis, 2008). All of these, alongside Martin Adahl's (2002) analysis, became the most important sources of data and conceptualization for this dissertation. It should be mentioned that research on Baltic financial and economic developments in the context of EU accession is also available in reports from the bank of Latvia, the International Monetary Fund and the World Bank, including reports on post-soviet country trade globalization and Baltic achievements in diversification (Broadman, 2005), or the general economic rebound of post-soviet countries (Kolodko, 2000). In contrast to the research done in Economics, this dissertation deals with the banks and financial sector from the International Political Economy and Europeanization perspective but takes a different approach from Dennis P. Quinn's and Carla Inclan's article (1997) on political motivations for opening the country to foreign financial capital, which does not include an account of Europeanization.

Therefore, from theoretical perspective, this research expands the application of the Europeanization concept within the disciplines of International

Relations and International Political Economy and provides additional theoretical argumentation and conceptual models that could be further applied to analysing other countries and their European integration experiences. And as no comprehensive social science research has been done on the political role of foreign banks in any of three Baltic States, this analysis contributes to limited research on Latvia specifically and provides new empirical material on both the economic and political integration of Latvia into the European Union.

This dissertation also has *practical importance from today's perspective*. The experience of Latvia still offers lessons to other countries that are striving for EU membership. Latvia's pre-accession situation was not unique, and understanding the role of private economic actors and the character of engagement with them is essential for current and potential candidate countries. As long as European Union enlargement is incomplete and there are more countries willing to join the organization and undertake the Europeanization process, lessons from the Latvian experience are useful. In this situation, this dissertation will allow for an understanding of the practical aspects of engagement with foreign private economic agents, the added value of collaboration with them, and paths of mutual engagement.

Finally, the results of this dissertation have been presented at three international scientific conferences:

- 1) *The 1st Riga Readings in Social Sciences (RRSS) "Civic society, inequality and post-crisis transformations"* in Riga, Latvia, 23 November 2017;
- 2) *MIRDEC—the 6th International Academic Conference on Social Sciences* in Lisbon, Portugal, 27-29 November 2017; and
- 3) *UACES Graduate Forum Conference 2018* in Catholic University of Leuven, Belgium, 12-13 July 2018.

The results of this dissertation research have also been published in two peer reviewed journals in Latvian: 1) Bukovskis, K. 2018. Ziemeļvalstu privāto banku ietekme uz Latvijas iestāšanās Eiropas Savienībā procesu no 1995. līdz

2004. gadam. *Zinātniskie raksti: 2017. gada sociālo zinātņu nozares pētnieciskā darba publikācijas. Politika un tiesības*. Rīga: Rīgas Stradiņa universitāte, 53–60; and 2) Bukovskis, K. 2017. Privātie aģenti eiropēizācijas procesā. *Zinātniskie raksti: 2016. gada sociālo zinātņu nozares pētnieciskā darba publikācijas: Politika*. Rīga: Rīgas Stradiņa universitāte, 45–56.

# 1. PRIVATE AGENTS IN EUROPEANIZATION PROCESS

Traditionally Europeanization is exclusively applied to the processes surrounding direct engagement with the EU’s institutions and legal system. This creates a core challenge by not allowing for a fuller analysis of the phenomenon – in academic literature, Europeanization traditionally is understood and analysed from the point of view of interactions between the EU and nation states (including their public institutions or populations). As Tanja A. Börzel and Diana Panke explain: “One strand of Europeanization research analyses how member states shape EU policies, politics and polity, while the other focuses on how the EU triggers domestic change” (Börzel and Panke, 2013, 116). This process includes two types of actors – public and private – each of which can be further segmented into political and economic agents, respectively (see Table 1).

Table 1

**Classification of agents of Europeanization**

Agents of Europeanization			
Public		Private	
Political (European Commission, member states, European Parliament, a.o.)	Economic (European Central Bank, European Investment Bank, a.o.)	Political (pro- EU NGOs, individual lobbyists, pan- European civil society)	Economic (enterprises, individual businesses, private banks)

Europeanization of and by private actors in academic literature is limited almost exclusively to research on political parties, with the addition of Alex Warleigh’s (2001) take on non-governmental organizations as Europeanization agents of domestic civil society. Economic actors and economic sectors are exclusively analysed as targets of Europeanization. Private political and economic actors are not public actors, i.e. state or European Union institutions, which poses a capacity for imposing binding requirements on the implementation

of specific principles or actions from nation states or organizations. It is accepted that private actors cannot project identical legal pressure or leverage to that of international public institutions or nation states. But if the Europeanization process is being understood exclusively as a direct interaction between European Union institutions and its partners, this neglects the reality that private actors, especially businesses, can be promoters of Europeanization as well. Hence, this chapter is a theoretical discussion in order to identify and distinguish agents in the Europeanization process and the requirements for being an agent.

The Europeanization process is not only a transposition of institutional and legal norms. It is also a socialization process and a process leading to domestic change in European Union member states and candidate countries. In this dissertation, the main analytical emphasis is on agency – whether private economic agents can promote and exercise the same type of influence over national decision makers of the target country as public Europeanization agents do. The possibility to attribute the Europeanization process and Europeanization agency to private political and economic actors was analysed throughout this chapter.

It was the intention of first two parts of this chapter (Theoretical and methodological approaches to Europeanization; and Definitions and vectors of Europeanization) was to test the first hypothesis of this dissertation (H1) – *can private actors be agents of Europeanization?* Meanwhile the third part of this chapter (Conditionality and socialization capacities of private Europeanization agents) addressed the second hypothesis (H2) – *that an efficient agent of Europeanization the actor must possess two capacities: the capacity of conditionality and the capacity of socialization.* The chapter started with an analysis of Europeanization as a concept and covered the central theoretical and methodological approaches used in explaining the process. Following this an analysis of definitions and vectors of Europeanization in the context of private agency was provided. Finally, it turned to using sociological institutionalism as

a theoretical basis for the arguments, with particular emphasis on conditionality and strategic socialization aspects.

This dissertation theoretically concluded that actors endowed with economic and/or financial resources can project conditionality and perform the socialization of national decision makers in the target country. The interests of foreign businesses are not only economic, but also political. Namely, private economic actors like companies, corporations, individual businesses, and banks are interested in understandable and predictable rules of operation and in the protection of their investment from non-market factors such as expropriation, a lack of rule of law, discriminatory treatment in the market, etc. Private economic Europeanization agents have an intrinsic interest in solidifying the target country's economic and political environment in the name of long-term engagement and fear potential financial losses if the environment decays. This can be considered the central difference between private political Europeanization agents, like non-governmental organizations or political parties, and private economic Europeanization agents and defined six criteria of a Europeanization agent.

The capacity of conditionality is a crucial element in the Europeanization of non-EU member states, but it differs between private political agents like non-governmental organizations and political parties, and private economic agents like banks, service providers or goods producers. Namely, private political agents need backing, while private economic agents can provide their own economic leverage and therefore set conditions for the implementation of changes. Private economic Europeanization agents, due to their resources, could be powerful enablers of Europeanization. Although they do not guarantee membership in the European Union itself, private economic agents can provide foreign direct investment. This is often appealing to countries that are in need of capitalization of the economy. The credibility of promises and competitive rewards for

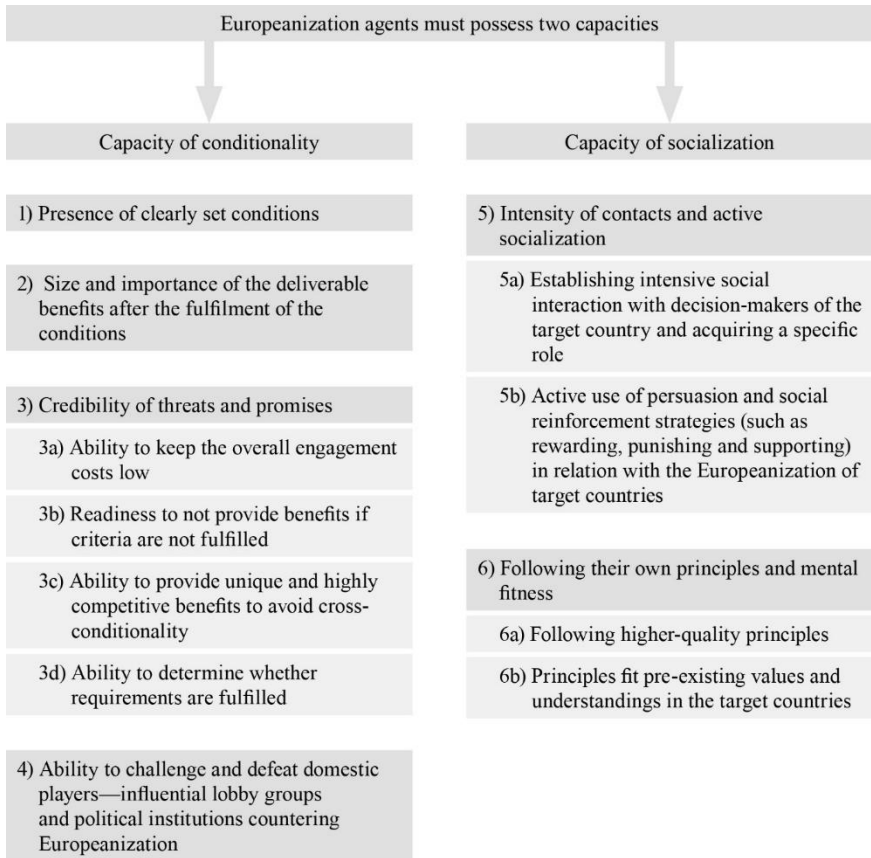
adjustment are central to the ability of private Europeanization agents to project conditionality on Europeanization target countries.

It was concluded that private actors, in the right circumstances and with the right capacities, are fit to be conditionality setters and EU norm promoters. This is not only due to directly requiring domestic changes in the target country, but also via the socialization of public institutions in those countries. Depending on the type of the Europeanization agent – i.e., public/private, economic/political, domestic/foreign – the capacities of the agents also vary. Public agents, regardless of whether they are political or economic (like international financial institutions), theoretically possess the most capacity due to the politically and legally binding character of their conditions and interactions. Consequently, they have been almost exclusively treated as the only agents of Europeanization in academic literature.

Meanwhile, with regards to private agents of Europeanization, the greatest capacity for conditionality belongs to the economic agents due to the financial resources they wield. Private foreign economic Europeanization agents like banks, international businesses or even individual entrepreneurs theoretically can possess both conditionality and socialization capacities. The set of six criteria developed in this chapter define the contents of the conditionality and socialization capacities that an actor must possess to be an efficient Europeanization agent (see Figure 1, Capacities of Europeanization agents). Namely, this theoretical analysis completed the first step necessary for proving the second hypothesis (H2) of this dissertation. After establishing that private actors can theoretically be agents of Europeanization, and the capacities that they should possess to be an agent of Europeanization, this research continued with applying this conceptual model to analyse the role of foreign private economic agents – specifically, the role of banks with EU origins in Latvia's Europeanization.

Figure 1.

### Capacities of Europeanization agents





## **2. RESEARCH METHODS FOR THE EUROPEANIZATION AGENT**

Sociological institutionalism and the theoretical path chosen in this dissertation is complex in its ontological position, as the approach relies on both rationalist (realist) and constructivist (relativist, social) ontologies. Namely, sociological institutionalism and the criteria for an agent of Europeanization developed in the previous chapter of this dissertation accept both the existence of rational choice theory elements in decision making as well as the social construction of relationships and the role of ideas. The important distinguishing element that sociological institutionalism and this dissertation seek to explain is the transposition of ideas based on the interests and understandings of the involved parties. Hence, it follows the two logics developed by new institutionalists James G. March and Johan P. Olsen – the logic of consequences and the logic of appropriateness. The logic of consequences includes the rational act based interest by actors and agents, while the logic of appropriateness emphasizes the rule and value based behaviour which is constrained by recognition from other parties (March and Olsen, 1989, 1998a).

Dissertation adopts a combination of both rationalist and social ontologies for a greater explanatory value. This synthesis of cognitivism and rationalism in both the sociological institutionalist account and in this dissertation requires recognition that norms and principles, although socially constructed and transposed, exist as observable phenomena for methodological purposes. This foundationalist position hence requires applying an epistemological rationalist approach, which consequently allows for hypothesis testing and the identification of causality in research. In addition, sociological institutionalist research traditionally investigates how the relationship is structured between the involved parties of Europeanization – it is the agency angle of their research that this dissertation concentrates on.

This chapter of the dissertation defined the methodological principles of process tracing in researching private Europeanization agents as well as identified the main data sources and data processing principles. The first subchapter of this research (Process tracing methodology in agent-centred research of Europeanization) served the purpose of analysing process-tracing methodology. Meanwhile, the second subchapter (Data for researching Latvia's Europeanization) dealt with research methods, i.e. data gathering, data sources and data processing principles for further research. The process tracing methodology principles developed in this chapter and the analysis of Latvia's experiences in the third chapter of this dissertation allowed for testing the conceptual model.

Methodologically this research used the process-tracing technique to identify the causal link between the actions of private foreign banks and Latvia's Europeanization. Process tracing is an important method for qualitative research and within-case analysis, which allows for making causal-process observations and distinguishing among independent, dependent and intervening variables. The process-tracing technique fit the necessities and objectives of this dissertation as it made it possible to test the theoretical framework, the conceptual model that was developed in the previous chapter.

Process tracing methodology allows this dissertation to investigate and conclude not only on the third hypothesis (H3) – that private foreign banks with EU origins used their conditionality and socialization capacities to Europeanize Latvia – but also draw general conclusions on the applicability of conceptual model for the investigation of private agents of Europeanization. Private economic actors like foreign banks can be considered agents of Europeanization if the process tracing analysis reveals and confirms the intervening mechanisms, i.e. the six criteria of Europeanization agents. Each of the six criteria developed in the previous chapter served as causal mechanisms for this research (see, Table 2, Schematic of the research design).

### Schematic of the research design

Causal condition (X)	Engagement of foreign private banks with EU origins in relations with Latvia during its EU accession period from 1995 until 2004	
Causal mechanism (sequence of intervening mechanisms)	Intervening mechanism 1	The presence of clearly set conditions is visible in the actions of private banks with EU origins.
	Intervening mechanism 2	The size and importance of the deliverable benefits after the fulfilment of the conditions is essential for Latvian decision makers.
	Intervening mechanism 3	The credibility of threats and promises by the banks is present because they can keep the overall engagement costs low, they are ready not to provide benefits if the criteria are not fulfilled, they offer unique and highly competitive benefits to avoid cross-conditionality, and they are able to make sure the requirements are fulfilled.
	Intervening mechanism 4	The ability to challenge and win over domestic veto players – influential lobby groups and political institutions that work against the Europeanization of Latvia
	Intervening mechanism 5	The intensity of contacts and active socialization is visible because the banks have established intensive social interaction with decision makers in the target country and have acquired a specific role, as well as actively used persuasion and social reinforcement strategies like rewarding, punishing and supporting in relation with Latvian decision makers.
	Intervening mechanism 6	An alignment with their own principles and mental fitness is visible, because banks followed the higher quality principles that they themselves promoted, as well as the fact that the principles they promoted fit pre-existing values and understandings in Latvia.
Outcome (Y)	Foreign private banks are economic agents of Europeanization.	

The sources of information used in the dissertation are predominantly interviews, but also include documents and secondary literature. The interviews, with questions based on these criteria, became the central source of data for analysis, because the selected banks and their representatives are the agents of change. 25 semi-structured in-depth interviews were performed with

representatives of Hansabanka/Swedbank, Unibanka/SEB, Merita/Nordea, Nord/LB and representatives of Latvian government institutions and the Bank of Latvia, all of whom were in office or active in the period from 1995 to 2004. These interviews assisted with understanding the reasoning and arguments that motivated the banks. The interviewees include former ministers of foreign affairs, former prime ministers, former advisors to prime ministers and presidents, former high-ranking officials at the Ministry of Finance of Latvia and the Ministry of Foreign Affairs of Latvia, as well as former ministers of special tasks responsible for EU integration-related matters, with a wide range of different political party affiliations. Two interviews with high-ranking representatives of the Bank of Latvia were performed, and four consultative interviews were performed with banking sector experts. The interviews with officials and ministers allowed for a clarification of the level of political engagement, the importance of foreign capital, the requirements stated by the foreign banks in question, as well as the role of banks in the overall EU integration process of Latvia. In addition, 4 expert interviews were also performed.

Besides the annual reports of the researched banks, the reports and statistics of the Bank of Latvia and the Ministry of Finance of the Republic of Latvia, as well as reports produced by the Financial and Capital Market Commission of Latvia, and the archived documents of the Ministry of Finance, and the Foreign Investors' Council in Latvia, and reports of the Bank of Latvia and Financial and Capital Market Commission of Latvia, as well as public statements found in mass media (in particular LETA archives) were used. Finally, data on foreign bank market shares, accumulated portfolio investments to GDP per capita, the capitalization of the banks, changes in share ownership, and the volume of issued loans were used as well.

### **3. LATVIA'S EUROPEANIZATION BY PRIVATE FOREIGN BANKS**

The first two chapters proposed and analysed a conceptual model for researching private agents of Europeanization, and determined that the process tracing methodology is the best approach to conducting a study on the specific case of Latvia's Europeanization by private economic agents of Europeanization in the form of foreign private banks with EU origins. The purpose of this third chapter was to provide additional argumentation for the second hypothesis (H2) and provide proof for the third hypothesis (H3). This third chapter concludes if the Latvian state embraced the principles and policies advocated by the private foreign banks of EU member states due to both pragmatic self-interest and to them having similarities in the overall cultural and ideological approach as Latvian decision makers. It also concluded if and why foreign banking capital facilitated Latvia's membership in the EU.

The first part of this third chapter dealt with the structural importance of the banking sector and foreign capital in the country's economy; the second part provided an explanation of the situation and the developments in Latvia's path towards the EU and in Latvia's banking sector before their EU application; and the third part engaged in an analysis of the role of particular foreign banks in Latvia from 1995 until 2004.

It was concluded that Latvian decision makers were willing to engage with foreign banks with EU origins, and that mutual collaboration had a facilitating effect on Latvia's Europeanization and overall integration into the European Union. The private foreign banks used their conditionality and socialization capacities to Europeanize Latvia, as suggested by the third hypothesis (H3). A more detailed elaboration of proof of the third hypothesis is available in the "Conclusions" section of this summary.

Meanwhile, it generally was concluded that not only did the observed banks have a clear understanding of the conditions needed for entrance into the Latvian market, but they communicated them to Latvian decision makers and assisted with the implementation of changes. The capital influx from banks was essential for Latvia as no alternative sources in similar volumes were available at the time, either domestically or internationally. Finally, the observed banks collaborated with public actors, including the European Commission, in fostering Latvia's success and in making decisions regarding increasing financial exposure in Latvia. The mindset of the Latvian decision makers was oriented towards entrance into the European Union and the adoption of EU norms, strengthening the rule of law, and good governance. Hence, the socialization process undertaken by the observed banks was supportive, both on a technical and occasionally on a public level.

It is clear that the Latvian decision makers and employees of the acquired banks were open for collaboration with the Swedish, Finnish and German banks based on the overall mental match and openness to Europeanization norms in Latvian society. Simultaneously, the adoption of norms, values and principles would not have been possible without active socialization and political support and political guidelines for businesses, both of which decreased after Latvia became a competitor on 1 May 2004 (Birkavs, 2017).

Hence, in the 20 years since EU banking institutions expanded their operations in the small Baltic country, relations between the foreign banking sector and domestic decision makers experienced ups and downs. From the very first years of Latvia eagerly welcoming capital, adopting the *acquis communautaire* and learning from their Nordic partners, to growing into a relationship of harsh competition with indigenous banks after joining the EU, and to financial and economic crisis that required close collaboration to preserve mutual interdependence.

## CONCLUSIONS

The Europeanization process is responsible for one of the most unique transformations in human history. The process involves a transposition of norms and principles that are relatively strange to a nation state and its society. The requirement for membership in a supranational organization goes against the classical notion of state sovereignty, the independence and autonomy of a nation state and the classical realist assumptions of international relations. Meanwhile, the Europeanization process is not without pragmatic interests and calculations made by both the leadership and decision makers of the specific country that adopts the external requirements and complies with external commitments and the Europeanization agents. This dissertation demonstrates that not only public actors are agents of Europeanization, but that private actors can be as well. And it revealed that private economic Europeanization agents endowed with financial resources can be powerful facilitators of Europeanization.

This dissertation addressed the agency aspect of the Europeanization, as well as the role and influence of private economic actors in the process and in the European integration of Latvia. The research also gathered new empirical material and shed new light on Latvia's accession into the European Union, as well as on the development of Latvia's financial and banking sector. In addition, not only did this research provide supplementary arguments for explaining Latvia's Europeanization, but in this way also contributed to the academic and research literature on the concept in general. Finally, this dissertation defined and tested an innovative conceptual model to be used for further research on Europeanization. Besides these academic contributions, this research makes it possible to increase the overall understanding of the interests and activities of private banks in foreign countries, and the logic and reasoning that drives both banks and national governments in modern economy.

A combination of the Europeanization concept with aspects of international political economy from the sociological institutionalist theoretical perspective allowed to analyse the experiences of the Republic of Latvia on its Europeanization path from 1995 until 2004 and draw clear conclusions regarding the role of the Swedish, German, Finnish banks that continuously operated on Latvian territory. The acquisition of Latvian indigenous banks and expansion of their operations took place closely following the developments in the country and its accession process into the European Union. Moreover, as indicated by the interviewed politicians, officials and representatives of the respective banks and banking system in general, the very decision by the European Commission to support Latvia's bid for EU membership was closely tied to lobbying that was done, especially by Swedish public institutions along with Swedish financial system representatives. Swedish, Finnish and German businesses readiness to expand their presence in the Baltic states and Latvia in particular was a strong signal for determination of Latvia to follow the European integration path in the long term, due to banks' interest in risk minimization in the new markets.

From the perspective of the private economic Europeanization agents, their central interest is not only profit maximization, but also securing their long term investments. Especially for the banks that are issuing long term loans like mortgages over several decades to private individuals. The very adoption of the *acquis* and the EU values of rule of law and good governance became an important constituting element of Latvia's transformation into an eligible and promising EU member state. Hence, banks used their economic and political leverage to achieve changes in the business culture, making Latvia's business environment closer to that of already existing EU member states via a transposition of the *acquis*. They were willing to safeguard that their business operated in a predictable, politically and economically stable environment, where their investments and actions were protected by functioning legal and judicial system that is guided by rule of law rather than corruption. Foreign banks were



interested in preserving the stability of the financial system and the quality of assets in the system to avoid domino effects, bank runs and major shocks.

Finally, legitimate, well-established and prestigious banks are interested in operating in a banking system that does not contain illegal activity or facilitate money laundering and tax evasion. All these principles, together with changing the overall business culture and environment in the country, are important for long term structural investors. And in the case of modern countries, especially small ones, the attraction of foreign direct investment to a country's economy is paramount. Therefore, as this research demonstrates, Europeanization is not an idealistic process. It is a pragmatic one from both the target country's and agent's perspective. Europeanization agents are driven by pragmatic interests when improving the environment, justifying their political positioning and existence, as well as securing collaboration and influence when operating in potential member states.

It should also be kept in mind that for an agent to exercise conditionality on decision makers, it should possess a substantial amount of the desired resource or benefit. As addressed in chapter 3 of the dissertation and this summary, in terms of resources that are crucial for the functioning of the state and economy, financial resources are on top of the list. And banks possess the capability and know-how to mediate and secure an influx of capital. Besides all the capacity that the banks possess, one of the conclusions of this research is that they cannot be regarded as the one and only Europeanizer. Moreover, the contribution of foreign commercial banks to the Europeanization of Latvia cannot be successfully measured, because they did not act alone. Agents of Europeanization seldom act alone, as there is no single agent in the process. This relates to the central premise of this research: public agents of Europeanization are not the only ones that count. The Europeanization process is to some extent an all-encompassing phenomenon, where changes in one sector affect the functioning of the whole system, the whole country. Hence, any requirements to

adopt specific instruments or legislation are always part of a political process that involves multiple actors, including other private economic and political entities. Therefore, although the Europeanization process has been widely researched from the perspectives of different theoretical and methodological approaches and over the last few decades has become one of the most thoroughly applied concepts in academic and professional literature, it still has substantial potential to be further developed.

This leads to the aim of this dissertation and the three hypotheses, which have all been confirmed during the theoretical and empirical research. The *first hypothesis* (H1) that private actors can be agents of Europeanization, is proven in the first chapter, revealing that there is missing academic work on the issue but that there is no theoretical argument that would not allow for considering private actors as capable of being agents of Europeanization. Moreover, new academic research on the issue of private Europeanization agents is more than welcome and necessary. Theoretical analysis demonstrates that a sociological institutionalism approach allows for focusing on the agency aspect and not only on structural interaction. Emphasizing the agent's role makes it possible to efficiently address both the cognitive and material sides of the Europeanization process. Modern scholars of Europeanization are blending the rational motivations of actors with the narratives and ideational framework that allow for explaining the change in political processes. Moreover, existing theoretical definitions and vectors of the Europeanization process can embrace the private agency aspect as well.

The European integration process is a complex phenomenon that links both public and private actors in order to produce change both domestically and abroad. Coordination and interaction to facilitate change does not only take place at the output stage of the process, but also during the input stage. And here is where private agents, including economic ones, engage in debates and negotiations. Private economic agents promote their interests, including

normative understandings and values. Recommendations and requirements that they express publicly via mass media or institutionally via direct engagement with officials define their character as political agents of normative change. Therefore, what is important is the capacity of the agent to facilitate change, not the agent's public or private character.

The *second hypothesis* (H2) that to be an efficient agent of Europeanization the actor must possess two capacities: a capacity of conditionality and a capacity of socialization, is proven in two steps. The first step was theoretical research. The sociological institutionalist approach, and especially the work of Frank Schimmelfennig, Heather Grabbe and Jeffrey T. Checkel, helped to define the criteria that are essential for an actor to be considered an agent of Europeanization. An actor must be capable of producing change in the target country. And change can be produced when the political or economic entity has significant economic or political leverage that makes it important for the decision makers of the Europeanization target country. But the capacity to set conditions is not enough of a motivation for change – active engagement on a personal level must also be present. Hence, the capacity to socialise, be present and be listened to is of paramount importance as well for an actor to be able to function as, and be academically recognized as, an agent of Europeanization.

The two capacities were broken down to six criteria for theoretical and research purposes (see Figure 1 for clarification). Therein, the capacity of conditionality consists of four criteria: 1) the presence of clearly set conditions; 2) the size and importance of the deliverable benefits after the fulfilment of the conditions; 3) the credibility of threats and promises, which itself consists of four sub-criteria: 3a) the ability to keep the overall engagement costs low, 3b) a readiness to not provide benefits if the criteria are not fulfilled, 3c) the ability to provide unique and highly competitive benefits to avoid cross-conditionality, and 3d) the ability to determine whether requirements have been fulfilled; and 4) the

ability to challenge and defeat domestic players (influential lobby groups and political institutions countering Europeanization).

The capacity of socialization, meanwhile, consists of two criteria. The first (and fifth in total) is 5) the intensity of contacts and active socialization, which is constituted of two sub-criteria: 5a) establishing intensive social interaction with the decision-makers of the target country and acquiring a specific role, and 5b) the active use of persuasion and social reinforcement strategies (such as rewarding, punishing and supporting) in relation with the Europeanization of target countries. The second (and sixth in total) is 6) following their own principles and mental fitness, which consists of two sub-criteria: 6a) following higher-quality principles, and 6b) that the principles fit pre-existing values and understandings in the target countries.

Although the conceptual model has been tested in this dissertation on foreign private economic agents, it is expected to be applicable to other Europeanization agents as well, regardless of whether they are private or public, political or economic. And it is clear that private actors, in the right situation and endowed with sufficient capacities, are predisposed to be conditionality-setters and EU norm-promoters. The greatest capacity for conditionality belongs to economic agents due to the financial resources they wield. Based on this logic, this dissertation analysed the role of foreign private banks during Latvia's accession into the EU with assumption that foreign banks with EU origins facilitated normative change in Latvia. The second step in proving the second hypothesis (H2) was empirical research, using a process tracing method as described in the second chapter of the dissertation and this summary. All six criteria and all subcriteria demonstrate themselves explicitly, although the fulfilment of two sub-criteria was slightly less outspoken – the sub-criterion “5b) the active use of persuasion and social reinforcement strategies in relation with the Europeanization of target countries”, and the sub-criterion “6a) following higher-quality principles” by the banks themselves. Therefore, it can be also

concluded that the conceptual model developed in this research withstood its first empirical test.

**Third hypothesis** (H3), which argued that private foreign banks with EU origins used their conditionality and socialization capacities to Europeanize Latvia, was confirmed using a process tracing method in the third chapter of this dissertation. All six of the theoretical criteria (intervening mechanisms) that were tested on the case of Latvia's Europeanization by private foreign banks with EU origins revealed this to be present. The conclusions on the third hypothesis (H3) and the empirical evidence of this research should be summarized in more detail. Some of these conclusions allow for the drawing of practical recommendations as well.

It was revealed that the Europeanization agents had clearly stated their interests in Latvia's membership in the EU, improving the legal framework of the Latvian banking sector, minimizing illegal or "shady" business models, as well as improving banking system monitoring institutions and capacities, fostering the transposition of the EU norms in related sectors, and promoting the active establishment of rule of law and good governance are among the requirements that the foreign banks were looking for before penetrating Latvian economy. The fulfilment of requirements was based on Latvia's pragmatic calculation, that not only EU membership itself, but the influx of foreign direct investment on large scale was absolutely necessary to the country in addition to the stabilization of the post-1995 banking crises financial sector of Latvia. As result, the Latvian decision makers were in a strong position and determined to improve the regulatory framework, business culture and overall system to adapt to the needs of the large foreign banks. Latvian decision makers possessed the political will to embrace the conditions. And foreign banks were able to project clear threats and fulfil their promises only in the case of Latvia's compliance with the requirements. A clear correlation between Latvia's accession negotiations, EU norm transposition and the activity of the researched Swedish, Finnish and

German banks, together with very low costs of market analysis and close collaboration with the respective national public institutions and the European Commission, put the banks in a perfect position to follow through with their promises in case of the fulfilment of conditions.

A lack of serious cross-conditionality capacities from Russia and other CIS countries further enhanced this situation. Outcompeting the domestic actors and winning over the veto player position was an easy task due to the fact that the state institutions were very positively predisposed towards the entrance of foreign banks from the European Union countries. A lack of capital, experience and technology, alongside decision makers' willingness to balance out the unwanted influence of the some indigenous players, let the private foreign banks from Sweden, Finland and Germany offer a more competitive and more appealing proposal in spite of the requirements and conditions that came with that. Hence, it is clear that private economic Europeanization agents (in this case foreign banks) can have a strong capacity of conditionality. Endowed with resources, both financial and personnel, they are powerful actors that can promote values, standards and principles.

Similar but less outspoken is the capacity of socialization of the private economic actors. Here, one needs to take into account that businesses can tend to be precautious regarding open engagement in political affairs unless they want to exercise direct influence. Curiously, avoiding engagement in a direct lobby or even a conflict of interest in their activity is one of the constituting elements of good governance and rule of law, which are part of the EU accession principles. As this research demonstrated, the foreign private banks possess sufficient capacity of socialization for this via direct engagements, their positive image, technical advice, training and know-how that they are providing to both the public officials and the employees of indigenous banks that they acquire. The intensity of contacts and active socialization via proximity to decision makers was kept mainly via the Association of Latvian Commercial Banks and Foreign

Investors' Council in Latvia, as well as through direct engagement with middle level administrators of the Ministry of Finance and the Bank of Latvia. Moreover, the banks acquired a specific role in the adoption of the acquis and banking sector regulations due to their experience and knowledge.

The banks “5) actively pursued social reinforcement strategies” via institutional and personal contacts with their business partners and public officials in EU countries and institutions. Meanwhile, in Latvian public discourse the views of the banks were seldom expressed, especially during the first years of presence in the Latvian market. This low level of activity in public media is explainable by an unwillingness to lose potential clients and partners should the criticism or support be too intensive. As for the methodological framework, this 5b) sub-criterion can be regarded as present.

Finally, the sixth criterion, or the second criterion in the capacity of socialization category, or “6) following their own principles and mental fitness”, also is visible in the actions of the foreign private banks with EU origins. Although several criticisms and self-criticisms were expressed during the interviews for this research, the question of whether the banks themselves always followed the principles that they promoted, this sub-criterion was still confirmed. The banks were generally following the rule of law and banking standards while operating in Latvia. And lastly, the principles, norms and standards that the researched banks supported and promoted overall fit the pre-existing values and principles of the Latvian decision makers, businesses and society. This was not only due to the appeal of the Westernization and modernization of legal, political and economic system, but also due to a familiarity with the democratic system, principles of good governance, and work ethics.

It can be generally observed that private foreign banks with EU origins wanted to see Latvia in the EU and did not hide this intention. Swedish, Finnish and German private banks did want to Europeanize Latvia not only because of material interests, but also because they did not want to become part of a banking

system with a bad reputation and image. From a practical perspective, the markets and environments in which banks operate can negatively influence credit ratings and the company image. Worsening credit ratings, at the same time, means a higher prices for interbank credit and more intensive monitoring from national agencies. Hence, the banks with EU origins, especially from those countries like Sweden where national standards on banking operations were even higher than the EU standards, had and still have a vested interest in Latvia operating in accordance with the rule of law and the best international standards. Based on this, it is possible to speculate if particular observed banks would have an interest in acting against Latvia's Europeanization and Latvia joining the "four freedoms", but there is a lack of empirical evidence supporting that.

Another speculation would be to analyse whether the situation and Latvia's Europeanization path would be different without the presence of private foreign banks from EU countries. This dissertation argues that the banks clearly facilitated Europeanization, but a further research on other EU and non-EU countries is necessary to reveal if foreign capital itself played the same role. One of the cases that could be helpful to look at is the Republic of Moldova, or some of the Western Balkan countries.

Both these speculations look to answer whether the process of Latvia's Europeanization and an influx of Western capital were tightly bound processes where both sides – the Latvian decision makers and the observed foreign banks – were interested in mutual collaboration in accordance with the "rules of the game" that were stated and requested by the banks. Whether EU banks would have become massively engaged and exposed in Latvia and the other two Baltic countries without the states being members of the EU and being Europeanized is unclear. But pragmatic logic leads to the assumption that they would have had a limited presence, limited exposure and a limited number of operations in Latvia and would not become structurally important banks if not for country's adoption of the *acquis communautaire*. Finally, as multiple examples in secondary



literature reviewed in this dissertation also proves, foreign banks with EU origins tended to act with the same strategy as in other CEE and South Eastern European countries. There is no reason to assume that the Baltic states, and in particular Latvia, were an exception.

To address this, it is essential to recall that Europeanization is an agent-driven process. Hence, the success of post-accession conditionality heavily relies on the conditionality and socialization capacities of the Europeanization agents. Namely, should the original capacity disappear a new one must take its place. In the case of the conditionality capacity and the European Union public institutions, the European Commission has two main capacities: the dispersion of the European Union budget and levying sanctions with or without the help of the European Court of Justice. Countries and companies can be sued and penalized by the European Commission for non-compliance. And traditionally post-accession countries continue receiving the EU funding that can be essential for their economic performance and that they would not risk. In the case of the socialization capacity, public agents of Europeanization have more thorough engagement via the EU level decision making process and the networking that exists in the EU. In both cases, the unanimity aspect in decision making tends to reduce the capacities as countries have powerful leverage.

Therefore, it just needs to be kept in mind that not only public Europeanization agents, but also private economic ones, still have influence after the country's membership. Private economic agents of Europeanization can still exercise conditions if they possess the resources and economic influence to do so. And, as this dissertation on foreign private banks in Latvia demonstrates, due to investment logic and a willingness to gain profits, private economic Europeanization agents can actually increase their influence over the years. Being a major investor and holder of vital resources for a country's economy allows the actors to retain their role as agents of change and agents of Europeanization. In this particular case, as structural economic actors with long

term investment and exposure, banks tend to want a predictable, honest and even prestigious environment to operate in. At the same time, their intention should not be overestimated, as private economic agents tend to follow the business logic first. Following political logic is strictly tied to business interests. Finally, the conditionality capacity of private agents should also not be overestimated, because freedom of action can be tied down by national or international legislation.

All the aspects that have been observed regarding the banks in this dissertation are also important to both other foreign businesses and domestic entrepreneurs. They are seeking political stability, legal and fiscal prudence and as major investors they could potentially act as agents of Europeanization. On a theoretical level their rational interest in improving the situation in the country they are operating in (or willing to operate in) and intentional or unintentional socialization that they are performing via interaction with decision makers, would deductively lead to the assumption that farmers organizations, industrialists, trade unions and other powerful economic actors could also be agents of Europeanization. But this is the task of future research to address – first, whether other business entities fulfil the criteria to be considered agents of Europeanization in the case of Latvia (or any other country undergoing Europeanization), and second, whether they acted or are acting like private economic agents of Europeanization. Hence the conceptual model developed for this research could be further applied and tested on other potential economic or political agents of Europeanization.

Hence, a few aspects for further academic research still need to be mentioned on the conceptual framework that has been developed for this research. It is safe to say that the criteria could be used and should be further tested in future research – not only on foreign agents, but also domestic agents. Future research can be both on agency Europeanization in general or on the promotion of specific values, e.g. good governance or rule of law only. This

promotion can be done by both public and private actors in different regions in the world, e.g. Eastern Partnership or Central Asian countries. In specific situations, foreign private agents, especially economic ones, can even preserve the Europeanization process when official cooperation with public agents is problematic. The conceptual model could be applicable to explaining the success or failure of Europeanization in these regions or in existing or potential candidate countries.

Moreover, with proper adjustments this conceptual framework could also be used for explaining more than topical and current issues, for instance a country's positioning on the completion of the Economic and Monetary Union and the Future of the European Union in general. From an academic point of view, this framework allows for advancing a resource diplomacy or financial diplomacy angle in diplomatic studies, especially as part of economic diplomacy. Finally, the Europeanization process of Latvia was a complex and lengthy process, as is every process requiring fundamental political, economic, legal and societal changes. And it is clear that a full-fledged comparative analysis of different types of foreign financial institutions, different speeds of opening to foreign financial investors in each country, and the correlation of these factors with the Europeanization process would provide a comprehensive picture.

Finally, this dissertation provides both practical and academic benefits by addressing Latvia's experiences. And that makes it as topical today as it was 15 years ago. It concludes that agents of Europeanization are diverse, and that no potent actor should be neglected or disregarded. But its potency and actual agency should be analysed and tested. The most straightforward choice for the further application of the conceptual model would be to on countries that are currently aspiring for European Union membership. Countries that are in the process of Europeanization can learn from Latvia's experiences and from aspects thereof revealed in this dissertation. The European enlargement process and the spreading the European values, norms and principles into other regions in the

world is still an essential part of the functioning of the EU. From a practical recommendation point of view, upcoming EU member states can learn the importance of being socialized and accepting the Europeanization norms as standards and principles, all as part of modernisation and improving living standards. Public institutions can use major foreign actors to win over domestic veto players. Meanwhile, foreign economic agents can use their financial capacity to improve the legal, cultural and business environment in which they are willing to operate by suggesting and promoting specific broadly accepted improvements and changes. From academic point of view, the conceptual model of this dissertation needs to be applied in research on candidate and potential candidate countries, and the agents that are making effective change in those countries. As with the very Europeanization process itself, this conceptual model opens new possibilities and space for advancement.

## LIST OF PUBLICATIONS

Results of the dissertation have been discussed in following academic publications:

1. Bukovskis, K. 2018. Ziemeļvalstu privāto banku ietekme uz Latvijas iestāšanās Eiropas Savienībā procesu no 1995. līdz 2004. gadam. *Zinātniskie raksti: 2017. gada sociālo zinātņu nozares pētnieciskā darba publikācijas. Politika un tiesības*. Rīga: Rīgas Stradiņa universitāte, 53–60.
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