

**RIGA TECHNICAL UNIVERSITY**  
Faculty of Engineering Economics and Management  
International Business and Customs Institute  
Department of International Business, Transport Economics and  
Logistics

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# **LATVIA'S DEVELOPMENT MODELS IN THE INTERNAL MARKET OF THE EUROPEAN UNION**

**Summary of Doctoral Thesis**

Branch: Management science  
Sub-branch: Management of Entrepreneurship

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## DOCTORAL THESIS

### PROPOSED TO THE RIGA TECHNICAL UNIVERSITY FOR THE PROMOTION TO THE SCIENTIFIC DEGREE OF DOCTOR OF ECONOMICS (Dr.oec.)

The Doctoral Thesis has been developed at the Department of International Business, Transport Economic and Logistics, Faculty of Engineering Economics and Management of Riga Technical University (RTU). The defense of the Doctoral Thesis will take place at the open meeting of the Promotion Council “P-09”, Faculty of Engineering Economics and Management of RTU on the 17<sup>th</sup> of September, 2012, Riga, 1/7 Meza Street at 10.00 a.m., room 309.

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#### CONFIRMATION

I hereby confirm that I have worked out this Doctoral Thesis that has been submitted for review to Riga Technical University for the promotion to the degree of Doctor of Economics (Dr.oec.). This Thesis has not been submitted to any other university in order to receive any scientific degree.

Olga Bogdanova \_\_\_\_\_

The Doctoral Thesis has been written in Latvian. The Thesis, without appendices, is presented on 183 pages. The Thesis consists of introduction, 3 chapters, conclusions and proposals; it comprises 45 tables, 35 figures, 18 formulas and 6 appendices. The List of sources contains 195 sources of information used to complete the Doctoral Thesis.

The Doctoral Thesis and Summary are available at the Scientific Library of Riga Technical University, Kipsalas Street 10, Riga.

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## GENERAL REVIEW

State development theory finds its beginning in the 18th and 19th centuries, when scientists tried to define development preconditions. During the ages the list of economic development preconditions has gradually changed and was supplemented with new factors having an effect on state development. Nowadays, the list is still not completed, and new preconditions for successful development continue to emerge reflecting the changes in the dynamic world. It is highly important to constantly follow the world development trends, promptly reacting to new impulses and respectively adjusting state or region development priorities. Latvia, when shaping its development policy, should also take into account up-to-date factors and preconditions influencing state development.

In recent years Latvia has faced considerable changes in development factors and preconditions mainly connected with Latvia's accession to the internal market of the European Union (EU).

*As a result of joining the EU internal market the Latvian policy became strongly connected with the EU common policy.* After the accession of Latvia to the EU the governmental decisions should be evaluated not only from the national perspective, but also at the EU level, since a decision taken in one state may have considerable impact on the welfare of other member states or the general EU economic balance.

*The creation of the EU internal market has substantially changed the business environment of Latvia and the other EU member states.* It is possible to freely move from country to country, use the right to live and work in another EU member state with equal working conditions, enumeration, taxes, social benefits, etc. without discrimination on national considerations. The European market has opened the national markets by improving entrepreneurial environment, reducing administrative burden, raising quality of goods and services, as well as fostering competition. The main principles of the EU internal market operation are set in the Treaty on the Functioning of the European Union. Articles 34-36 of the Treaty state, that in the EU internal market the member states may not apply import or export barriers, as well as other measures having similar effect. Moreover, Articles 49-55 of the Treaty ban application of restrictions to establish business in other EU member states, as well as provide services in case a company is established in another member state. Latvia as a member of the EU internal market has acquired an opportunity to enjoy the mentioned above and many other advantages ensured by the EU internal market business environment.

*To ensure effective functioning of the EU, a single development strategy is created. Latvia as a member of the EU internal market should adjust its national development strategy*

to the EU strategy. The single EU development strategy highlights all the EU economic priorities and action directions. The member states should transpose the decisions taken at the EU level into their local economic systems. As each member state has its unique culture, economic situation, political priorities, natural heritage, institutional framework and entrepreneurial environment, the implementation of the single EU strategy at national level has certain flexibility. Therewith, a part of EU policy issues still remains within the competence of the member states – a member state should combine the local and EU interests in its national development strategy (also when building its local business environment).

*Despite the changes in development preconditions after Latvia joined the EU in 2004, Latvia still does not entirely take advantages of the EU internal market potential.* Despite the limited size of Latvia's market, the majority of local companies do not expand their activity to other EU member states ignoring opportunities ensured by the approximately 500-million strong consumer market. At the same time, Latvia's state administration does not provide sufficient support to businesses by promoting the opportunities existing in the EU internal market. Latvia as an EU internal market member state implements the obligatory requirements defined by the EU regulations, ensuring that Latvian companies and firms from other EU internal market member states can operate in Latvia under the same local conditions, consequently sharing the Latvian market with other EU companies. However, in order to gain from Latvia's membership in the EU, not only should the compulsory EU requirements be introduced, but also the existing barriers hampering the use of the EU internal market benefits should be removed, ensuring for Latvian companies equal business possibilities with the EU internal market entrepreneurs.

Currently, in the Latvian long-term conceptual document "Latvia's growth model: People take first place", the Latvian sustainable development strategy and Latvian national development plan do not consider Latvia as a part of the EU internal market. At the same time, the Latvian National Lisbon Program is mostly oriented to reach the ambitious goals of the EU and does not sufficiently take into account the specific interests of the country. Development of Latvia and development of the EU internal market are considered as two completely separate concepts. This proves the necessity for a well-balanced Latvia's development model in the EU internal market.

Therefore, **the goal of this Doctoral Thesis** is, by investigating the benefits of the EU internal market and defining Latvia's as an EU internal market member state's development opportunities and threats, to work out models for improving the entrepreneurial environment in the EU internal market, combining Latvia's national interests and EU internal market perspectives, thus promoting Latvian economic development.

**The tasks** to achieve the goal are as follows:

1. To investigate and evaluate state development theories and state development concept, taking into account the challenges of the 21<sup>st</sup> century.
2. To systemise state development preconditions by investigating state development level evaluation methods for the EU internal market member states.
3. To estimate Latvia's development level and entrepreneurial environment.
4. To define the factors hampering Latvia's development and establish the untapped potential of Latvian entrepreneurial environment in the EU internal market.
5. To work out for improving Latvia's business environment encouraging Latvian economic development, taking into consideration the state's membership in the EU internal market.

**The object of the research** is Latvia's economic development relating to Latvia's membership in the EU internal market.

**The subject of the research** is the impact of advantages and drawbacks of the EU internal market on Latvia's economy and entrepreneurial environment.

**The hypothesis of the research:** entrepreneurial opportunities influence the state development level.

**The theses presented for the defence:**

1. Latvia's development in the EU internal market depends on the favourableness of Latvia's entrepreneurial environment and ability of companies to successfully apply the benefits provided by the EU internal market.
2. To improve its entrepreneurial environment Latvia has to not only qualitatively transpose the EU obligatory requirements, banning discrimination of other EU internal market companies, but also implement those EU instruments that encourage activity of Latvian companies in other EU internal market member states.
3. Passive participation of a separate EU internal market member state in the creation of the EU common policy and legal framework fragments the EU internal market hinders development of the mentioned state.

**Research methods.** For elaboration of the Doctoral Thesis the author has used generally accepted quantitative and qualitative methods of economic science, inter alia grouping, comparative analysis, synthesis, inductive, deductive, axiomatic, logically constructive, statistical data processing and parameter estimation, economically mathematical modelling, expert evaluation methods, and focus interviews.

The research is described first starting with the analysis of macroeconomic state development preconditions, followed by basic principles of business functioning, supposing

that the quality of the entrepreneurial environment directly influences state economic development.

### **The theoretical and practical methodological basis of the research**

Many authors of scientific investigations have been studied state development preconditions, as well as formulated state development models. The author has used the investigations on state development process and its preconditions reflected in the Latvian publications by such authors as G.Lībermanis, R.Počs, V.Skribans, L. Krilovs, J. Zvanītājs, J.Saulītis, M. Šenfelde, J. Vanags, V. Bikse, R.Škapars, Ē.Šumilo, U.Rozevskis, L.Frolova, L.Bandeviča, etc.

The author has used the literature on the topic of state development in English published by the following most popular authors: D.Colman, F.Nixon, D.Seers, D.M.Keynes, A.Thirwall, D.Goutlet, E.Barbier, A.Smith, T.Malthus, D.Ricardo, J.Mill, W.A.Lewis, F.Perroux, K.Rothschild, J.Hicks, G.Stigler, P.Howitt, J.McArthur, J.Sachs, M.Herschey, etc.

In her research the author has used the literature of the following authors who have been made a considerable contribution to the analysis of state development concept and preconditions published in Russian: V.Rostov (В.Ростов), L.Kantorovich (Л. Канторович), I. Babst (И. Бабст), I.Pososhkov (И. Посошков), etc.

The informative basis of the research is works and investigations of foreign and Latvian scientists, materials published by the government administration and related institutions (the Ministry of Economics, the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Transport, the Ministry of Welfare, the Ministry of Healthcare, the Ministry of Education and Science, the State Social Insurance Agency of the Republic of Latvia, the Bank of Latvia, the State Treasury, the International Monetary Fund, the European Commission, the Ministry of Economics of New Zealand), Fitch Ratings agency, Moody's Investors Service Rating Agency, Standard&Poor's Rating Agency, R&I Rating Agency and other, the Central Statistical Bureau of Latvia, the European Central Bank, the Eurostat, the World Bank, the EFTA statistical bureau, as well as data from other electronic databases, legal acts of Latvia and the EU, published scientific works and investigations, publications in mass media and specialised editions, as well as materials and experience gathered from international scientific conferences and seminars.

### **Research restrictions**

1. The author of the research has used only the factors and corresponding indexes from publicly available information on all the EU internal market member states in the investigation. The specific information which is available upon request from competent authorities has not been used in the Doctoral Thesis.

2. Due to the limited availability of information and taking into account the width of the research, the estimation of the state development level was performed based on the data from 2000 to 2010; separate issues were investigated in a longer or shorter period of time.
3. The author of the Doctoral Thesis has paid main attention to the possibilities of elimination of the barriers to free movement of goods and services and the models for resolving these problems. The Thesis does not provide detailed solutions for other problems determined.

Specific restrictions are also outlined in certain chapters of the Thesis.

### **The scientific novelty of the Doctoral Thesis**

1. The state development concept, taking into consideration the challenges of the 21<sup>st</sup> century and based on the investigation of state development theories, has been defined.
2. The state development preconditions have been determined and state development level estimation methodology for the EU internal market member states has been elaborated.
3. The following entrepreneurial environment improvement models based on the EU legal instruments have been worked out:
  - a general model for development of the EU market for goods and services based on the EU legal instruments;
  - preventive measures implementation models, precluding barriers to free movement of goods and services during the elaboration of national regulations by evaluating proposed requirements before their adoption;
  - a model of effective application of the mutual recognition principle, which simplifies the operation of Latvian companies in other EU internal market member states ensuring recognition of official documents issued in another state;
  - a model of improvement of mutual communication between the EU internal market governmental institutions based on effective functioning of the Internal market information system;
  - a model of elimination of short-term barriers to free movement of goods by implementation of a quick information spread mechanism;
  - models for functioning of Latvia's point of single contact, providing companies with information on the requirements towards certain business activities existing in the EU internal market, as well as ensuring access to electronic services of relevant governmental institutions.



- models for implementation of corrective measures, which ensure companies with a possibility to quickly resolve disputable issues with governmental institutions and defend their rights in the EU internal market.

### **The practical approbation and application of research**

The results of the research were used elaborating the documents of the Ministry of Economics of the Republic of Latvia on the EU internal market issues, inter alia Latvian national positions and instructions, the Report on Latvian Economic Development, Chapter “EU Internal Market” (June 2008, June 2011), other informative reports and materials.

The results of the research were used in the following projects:

- investigation “Business barriers in the EU internal market and other Latvia’s export markets” carried out by the Ministry of Economics – 2011, executor and the official in charge (Resolution of the government meeting of 13.06.2011, minutes No. 21, clause 4.2.6; the action plan of the Ministry of Economics, clause 52.5.2.);
- “Improvement of middle-term and long-term forecasting instruments for labour market. Mid-term and long-term forecasting and surveillance system development for demand on labour market” – 2011, assistant (1DP//1.3.1.7.0/10/IPIA /NVA/001, L7724).

Part of the materials of the Doctoral Thesis were used in the lectures delivered by the author at the Riga Technical University, Faculty of Engineering Economics and Management for the master program students: *International business forecasting, Organization and management of international business relations, Topicalities of the EU economic policy*.

**Scientific publications.** The results of the research have been published in 23 scientific works in Latvian, English and Russian, incl. 8 reviewed conference abstracts.

#### Research results published in internationally recognized reviewed scientific editions:

1. Bogdanova O. Model of Free Movement of Goods and Services in the EU // Economics and Management, 2012. Volume 17(1)/2012, Lithuania. Kaunas: Kaunas University of Technology, 2012, pp. 130.-135., – ISSN 1822-6515 (CD), ISSN 2029-9338 (online).
2. Bogdanova O. Latvijas attīstības līmenis un pastāvošās attīstības problēmas // Latvijas Universitātes raksti “Ekonomika. Vadības zinātne” 77.1.sējums, 2011. Rīga: Latvijas Universitāte, 2011, 382.-394. lpp. – ISSN 1407-2157.
3. Bogdanova O. Latvian Services Sector Development Model: Internet Solution // The 17<sup>th</sup> Annual International Scientific Conference Proceedings "Research for Rural Development 2011" Vol.2, 2011. – Jelgava: Latvian University of Agriculture, 2011, 120.-126. pages. – ISSN 1691-4031.
4. Bogdanova O. Enhancement of Business Information Availability. The case of Latvia // The 16th International Scientific Conference "Economics and Management-2011 (ICEM-2011)", Full Papers Conference Proceedings. – Kaunas: Kaunas University of Technology, 2011, 7 pages, CD. – ISSN 1822-6515.

5. Bogdanova O. Evaluation Methodology of the Development Stage of a Country // Intellectual Economics 2011: Scientific Research Journal, Vol.5, No. 2. Vilnius: Mykolas Romeris University, 2011, 189.-199. lpp. ISSN 1822-8011.
6. Богданова О., Танина А. Модель развития рынка услуг при помощи единого контактного пункта // VII Международная научно-практическая конференция «Современные тенденции в экономике и управлении: новый взгляд», 2010. Декабрь, Новосибирск, Российская Федерация. Сборник материалов. – Новосибирск: Издательство НГТУ, 2010, 17-23 с. – ISBN 978-5-7782-1566-5.
7. Танина А., Богданова О. Роль интернет-маркетинга в управлении сферой // XVII Международная научно-практическая конференция „Актуальные вопросы экономических наук”, 2010, Декабрь, Новосибирск, Российская Федерация. Сборник материалов. Часть 2. 2010. – Новосибирск: Издательство НГТУ, 2010, 207-214 с. – ISBN 978-5-7782-1564-1.
8. Bogdanova O. Latvia on the way of economic development in the EU internal market // Economy & Business, 2010. September, Bulgaria, Sunny Beach. Journal of International Scientific Publication. – Bulgaria: Info Invest, 2010, pp.290-307. – ISSN: 1313-2555.
9. Bogdanova O. The Economic Pros and Cons for Latvia Joining the European Monetary Union // Ekonomika ir Vadyba: Aktualijos ir Perspektyvos, 2009. Volume 1(14)/2009, Lithuania. Siauliai: Siauliai University, Faculty of Social Sciences pp. 35-43. – ISSN 1648-9098.
10. Bogdanova O. The importance and perspectives for development of manufacturing in Latvia // International Scientific Conference “Mining Forum – 2009”, 2009, September – October, Ukraine, Dnepropetrovsk. Full Papers Conference proceedings. – Dnepropetrovsk: National Mining University, 2009, 248-257 pp. – УДК 622(06).
11. Bogdanova O., Orlovska A. Competition – the key factor for effective business development // RTU Scientific Conference on Economics and Entrepreneurship 9-13 October, 2008. The Problems of Development of National Economy and Entrepreneurship. October, Latvia, Riga. Full Papers Conference proceedings. – Riga: Riga Technical University, 2008, 8 pages. – ISBN: 978-9984-32-567-5 (CD)
12. Bogdanova O., Orlovska A. Competitiveness of nations in global economy. Competitive perspectives of the European Union // The International Conference “Economics and Management-2008”, 2008. April, Lithuania, Kaunas. Full Papers Conference proceedings. – Kaunas: Kaunas University of Technology, 2008, 446-452. pp. – ISSN 1822-6515.
13. Starčenkova O. (Bogdanova O.), Gaile-Sarkane E. Problems of business expansion in small countries // 48. Starptautiskā zinātniskā konference „Ekonomika un Uzņēmējdarbība”, 2007. Oktobris, Latvija, Rīga. Pilna teksta rakstu krājums. 3. sērija, 16. sējums. – Rīga: RTU zinātniskie raksti, 2007, 116.-122. lpp. – ISSN 1407-7337.
14. Starčenkova O. (Bogdanova O.), Gaile-Sarkane E. The importance of information access for the business expansion in the EU internal market // International scientific dual-conference “Towards knowledge-based economy” & “Enterprise management: diagnostics, strategy, effectiveness”, 2007. April, Latvia, Riga. Full Papers Conference proceedings. – Riga: Riga Technical University, 2007, 8 pages. (CD).

Other scientific publications:

1. Bogdanova O. Model of Free Movement of Goods and Services in the EU // Economics & Management – 2012: Programme and collected abstracts of international scientific conference, 2012. March, Estonia, Tallinn. – Tallinn: Tallinn University of Technology, 2012, pp. 65 (flash).

2. Bogdanova O. Enhancement of Business Information Availability. The case of Latvia // The 16<sup>th</sup> International Scientific Conference: Economics and Management 2011, 2011. April, Czech Republic, Brno. – Brno: Brno University of Technologies, 2011. – 334-335 pp. ISBN: 978-80-214-4279-5.
3. Bogdanova O. The importance and perspectives for development of manufacturing in Latvia // The International Forum-Competition for Young Researchers “Topical Issues of Subsoil Usage”, 2009. April, Russian Federation, St. Petersburg. – St. Petersburg: St. Petersburg State Mining Institute named after G.V. Plekhanov (Technical University), 2009. – pp.90.
4. Bogdanova O. Competition – the key factor for effective business development // the 49<sup>th</sup> International Scientific Conference of Riga Technical University “The Problems of Development of National Economy and Entrepreneurship”, 2008. 2008. October, Latvia, Riga. Riga: RTU Publishing House, 2008. –27-29. pp. ISBN 978-9984-32-567-5.
5. Bogdanova O., Orlovska A. Competitiveness of nations in global economy. Competitive perspectives of the European Union // the International Scientific Conference “Economics and Management-2008”. 2008. April, Lithuania, Kaunas. –Kaunas: Kaunas University of Technology, 2008. –107-108. pp. ISBN 978-9955-25-462-1.
6. Starčenkova O. (Bogdanova O.), Gaile-Sarkane E. Problems of business expansion in small countries // RTU 48. Starptautiskās zinātniskā konference „Ekonomika un Uzņēmējdarbība”. 2007. Oktobris, Latvija, Rīga. – Rīga: RTU izdevniecība, 2007. – 57. lpp. ISBN 978-9984-32-769-3.
7. Starčenkova O. (Bogdanova O.), The Application of Benefits Provided by the EU Internal Market to Cross-Border Entrepreneurship // the International Scientific Seminar for Doctoral Students “Challenges of Research: Theory and Practice”. 2007. August, Latvia, Riga. – Riga: RTU Publishing House, 2007. – pp. 25-26.
8. Starčenkova O. (Bogdanova O.), Gaile-Sarkane E. The importance of information access for the business expansion in the EU internal market // the International scientific dual-conference “Towards knowledge-based economy” & “Enterprise management: diagnostics, strategy, effectiveness”. 2007. April, Latvia, Riga. – Riga: RTU Publishing House, 2007. – pp. 64-65. ISBN 978-9984-768-6.
9. Starčenkova O. (Bogdanova O.), Pucens I. Latvijas pakalpojumu nozares attīstība Eiropas Savienības tirgū // Rīgas Tehniskās universitātes Inženierekonomikas fakultātes zinātniskie raksti. Ekonomiskie pētījumi uzņēmējdarbībā. – 5. sēj., 2007, 133.-141. lpp.

The results of the research were presented at 15 international and local conferences (in Latvia, Lithuania, Estonia, the Czech Republic, Bulgaria, and Russia):

1. 17th International scientific conference "Economics and Management-2012", Tallinn, Estonia, March 28-30, 2012. Report – *Model of free movement of goods and services in the EU*.
2. International conference "The 3rd Southern Europe Experimentalists Meeting (SEET 2012)", Puerto de Carmen, Spain, Feb. 02-04, 2012. Report – *Decision making process in B2G communication*.
3. 17th International scientific conference "Research for Rural Development 2011", Jelgava, Latvia. May 18-20, 2011. Report – *Latvian services sector development model: Internet solution*.
4. 16th International scientific conference "Economics and Management-2011", Brno, Czech Republic, Apr. 27-29, 2011. Report – *Enhancement of business information availability. The case of Latvia*.

5. 69th Scientific conference of the Latvian University, Riga, Latvia, Feb. 10, 2011. Report – *Latvijas attīstības līmenis un pastāvošās attīstības problēmas (Latvian development level and existing development problems)*.
6. International scientific conference “Business, management and education 2010”, Vilnius, Lithuania, Nov.18, 2010. Report – *Evaluation methodology of the development stage of a country*.
7. 9th International scientific conference “Economy & Business. Economic Development and Growth”, Sunny Beach, Bulgaria, Sept. 2-6, 2010. Report – *Latvia on the way of economic development in the EU internal market*.
8. 9th International scientific conference „Economics and Management. Current Issues and Perspectives”, Siauliai, Lithuania, Oct. 19, 2009. Report – *The economic pros and cons for Latvia joining the European Monetary Union*.
9. International forum-competition for young researches “Topical Issues of Subsoil Usage”, St. Petersburg, Russia, Apr. 22-24, 2009. Report – *The importance and perspectives for development of manufacturing in Latvia*.
10. 49th International scientific conference “Development Problems of Economics and Entrepreneurship”, Riga, Latvia, Oct. 9-13, 2008. Report – *Competition – the key factor for effective business development*.
11. International scientific conference “Economics and Management – 2008”, Kaunas, Lithuania, Apr. 10-11, 2008.g. Report – *Competitive perspectives of the EU*.
12. 48th International scientific conference “National Economy and Problems of Business Development”, Riga, Latvia, Oct. 11-13, 2007. Report – *Problems of business expansion in small countries*.
13. International scientific seminar “Challenges of Research: Theory and Practice”, Riga, Latvia, Aug.21-22, 2007. Report – *The application of benefits provided by the EU internal market to cross-border entrepreneurship*.
14. International scientific conference “Towards knowledge-based economy” & “Enterprise management: diagnostics, strategy, effectiveness”, Riga, Latvia, Apr. 12-13, 2007. Report – *The importance of information access for the business expansion in the EU internal market*.
15. 65th International scientific conference of the Latvian University. Riga, Latvia, Feb.1, 2007. Report – *Latvijas pakalpojumu nozares attīstība ES tirgū (Latvian services sector development in the EU market)*.

### **The volume and content of the Doctoral Thesis**

The Doctoral Thesis, without appendices, is presented on 183 pages. The Thesis comprises 35 figures, 45 tables and 18 formulas. The Thesis has 6 appendices. The List of sources contains 195 sources of information used to complete the Doctoral Thesis.

**The first chapter** considers the various state development concept theories, opinions of different authors on the state development concept and preconditions, as well as presents the author's definition of the state development concept reflecting the challenges of the 21<sup>st</sup> century. The chapter features the methodology elaborated by the author of the Thesis for estimation of the state development level for the EU internal market member states taking into account the peculiarities of the EU internal market.

**The second chapter** presents evaluation of Latvia's and other EU internal market member states' development level according to the methodology described in the first chapter. The author defines Latvia's development level and determines the preconditions and barriers for its further development. The chapter presents critical analysis of Latvia's national development concept taking into account the EU internal market aspect, as well as highlights the further action directions for promoting Latvia's development by improving the entrepreneurial environment.

**The third chapter** contains the models for the improvement of Latvia's entrepreneurial environment in the EU internal market, inter alia the general development model of the EU market for goods and services, preventive, reactive and corrective measures implementation models, which are to ensure Latvian companies with a possibility to successfully apply the potential provided by the EU internal market, therewith fostering the development of Latvia.

## **MOST RELEVANT SCIENTIFIC RESULTS OF THE RESEARCH**

### **1. THEORETICAL ASPECTS AND PRECONDITIONS OF STATE DEVELOPMENT**

Nowadays different world countries have reached rather different economic development levels. When some countries plan to launch a new satellite into the orbit, others struggle with poverty being hardly able to provide their population with subsistence – water, food and dwelling. Scientific discussions on definition of development level and development process evaluation are still in progress. However, estimation of any development, also multilateral, could be argued as completely unsuitable for the goals of a certain policy. Therefore, the first chapter presents an analysis of the existing state development concepts and estimation methods and provides an approach for estimation of the state development level elaborated by the author.

#### **1.1. State development concept theories**

The economic development theory finds its beginning already in the 18th and 19th centuries, when scientists tried to define development preconditions. Having summarized the ideas expressed by the scientists at different times, the author of the Doctoral Thesis establishes the following main factors describing state or regional development: quality and quantity of natural resources (incl. environmental considerations), quality and quantity of labour resources, volume of capital, technological level, demand and distribution factors. At the end of the 20<sup>th</sup> century a new term appeared in state development concepts– sustainability or consistent development. The main difference of “sustainable development” from just a “development” is paying of a particular attention to the environmental and ecological aspects

in the state or regional development vision. The authors of the Latvian Sustainable Development Strategy 2030 (LSDS) consider that in a long-term economic and sustainable development have equal meanings, as it is impossible to keep an appropriate condition of production resources which ensures effective production process by ignoring environmental, ecological, human and other values. Therefore, the economic development theories have evolved from a simple technical evaluation of the economic growth process to the analysis of poverty, inequality, unemployment and other problem analysis.

The author of the Doctoral Thesis agrees that the sustainable development concept should combine environmental, economic and social aspects, as it is currently defined in the LSDS 2030 project. However, it is important to take into account that the list of the main factors for the state or regional development referred to above is not exhaustive, and it may be further expanded considering the goals of a research and changes of the environment.

The EU strategic development document “Europe 2020” defines development as a smart (knowledge and innovations based), sustainable (green, competitive economy applying resources efficiently) and involving (economy with a high employment level ensuring social and territorial cohesion) growth.

An increase of real product and income can appear in two ways: by attracting greater resource volumes (extensive development direction) and by using the existing resources more effectively (intensive development direction). Recognizing the high technologies and knowledge intensive approach as one of the most important development preconditions, in Latvia and the EU the main attention is paid to the intensive development direction.

Based on the evaluation of development theories and the EU development strategic documents, the author concludes that they are not controversial, but rather adjusted to a certain situation at a certain time. All the evaluated development theories have a common aim – improvement of human quality of live.

For describing Latvia’s economic development, the author of the Doctoral Thesis proposes to define the development concept by following the existing economic development concept theories. Considering the challenges of the 21<sup>st</sup> century, it is possible to use a development concept which combines economic, social and environmental dimensions. The definition of sustainable development used in the LSDS includes today’s most relevant development aspects and could be taken as a basis when defining the state development concept for this research. At the same time, the definition used in the LSDS could be supplemented, also emphasizing a balanced development, which is particularly crucial for neutralising cyclic fluctuations in economic development. In addition, it is also important to

highlight the creation of new working places, which is an influential state development precondition.

Based on the aforementioned considerations, Doctoral Thesis presents the following definition of the state development concept: “State development – is an integrated and well-balanced development of social welfare, environment and economy, which provides new working places, satisfies the current social and economic needs of the society and ensures compliance with environmental requirements and maintenance of biological variety, without jeopardising the possibilities of the next generations to meet their needs”.

## 1.2. Estimation of state development

Assuming that the general development process could be divided into three stages, starting from the first to the third state development stage, it is typical for an economy to have a decrease of growth rate and finally, theoretically, reaching the development maximum– the absolute wealth (abundance of material and non-material values). Taking into consideration, that state development at each of the stages depends on different preconditions, a country should apply a development strategy appropriate for a certain development stage (see Fig.1.1).

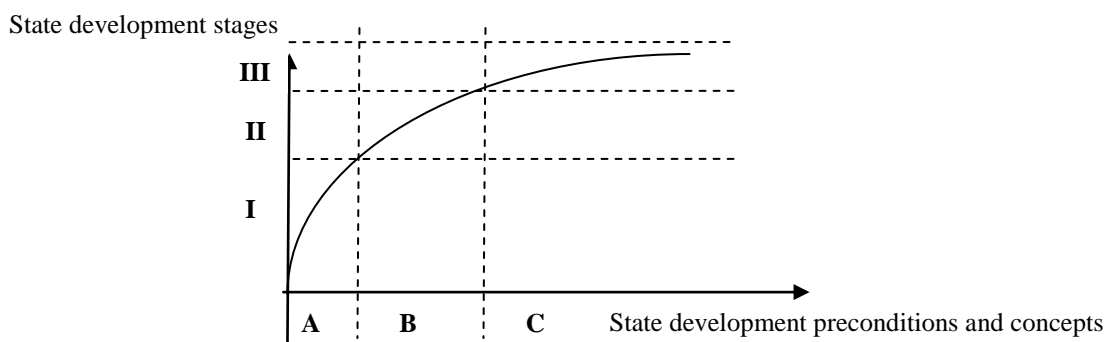


Figure 1.1. State development trend [author]

However, the progress in the economy is not always observed, and many countries fail to move from the first or the second development stage, state development being to a great extent dependant on a business-friendly policy.

Creation of the EU internal market considerably simplifies commercial affairs between companies from the EU member states. The open borders of the EU member states' local markets with approximately 500 million inhabitants, as well as a possibility to operate under the same harmonized regulative framework in all the EU without discrimination on national considerations, ensures brilliant business extension opportunities. It is particularly important for companies established in small countries, since limited markets hold entrepreneurship in a narrow frame with a high intensity of competition and a strictly defined demand. At the same time, not only does the open market bring tempting opportunities for companies in other

states, it also attracts new foreign competitors to operate on a domestic market. Therewith, advantages from market expansion are disproportionally allocated among the single market states, as appearance of new members decreases the position of companies on the domestic market, but increases the general relative competitiveness of small countries.

In order to estimate the development level of a state, as well as determine the factors fostering and hampering state development, appropriate methods, system of factors and indexes, their calculation rules, as well as a interpretation pattern of the results should be applied. The Doctoral Thesis presents a methodology for estimation of the level of state development for the EU internal market member states.

### 1.3. State development estimation methodology for the EU internal market member states

The aim of the state development estimation methodology for the EU internal market member states is to determine to which extent a state applies the benefits provided by the EU internal market, as well as to indicate the existing barriers for further state development.

The methodology is based on the assumption that the first development stage describes the ability of an economy to exist and function as a country, providing its inhabitants with basic benefits. When a country has created the basic framework for its economic operation ensuring its functionality and viability, it spirals up to the next economic development level. The aim of the efficiency enhancement stage is focused mainly on the improvement of the quality of the state mechanism and upgrade of living standards. The third economic development stage considers perfection of the existing economic instruments of a country or a region, and is normally applied by trend-setter countries and the most advanced market players. The state development at each development stage is defined by different factors. Fig.1.2 demonstrates the factors influencing state development arranged according to the three state development stages.

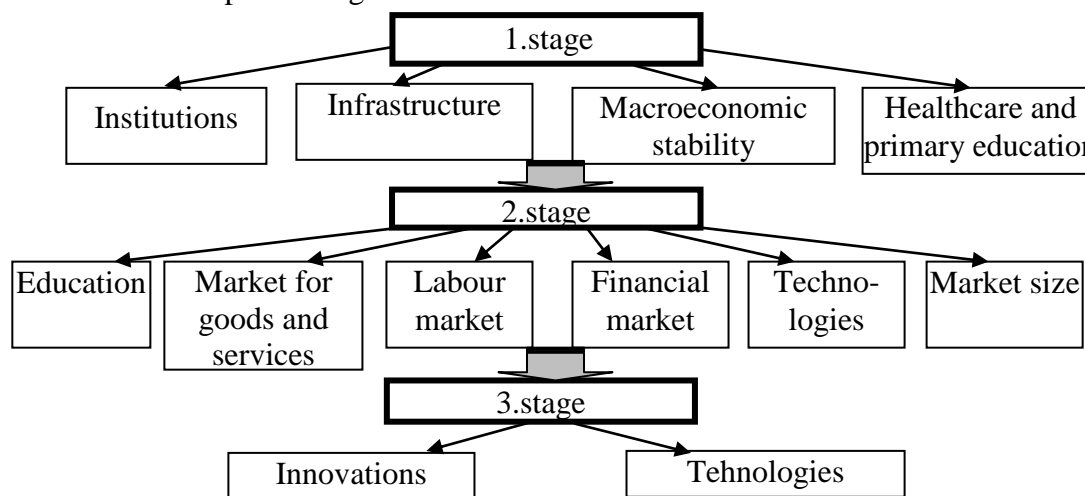


Figure 1.2. State development stages and evaluation factors. [author]



As it is demonstrated in Figure 1.2, at the first state development stage the quality of institutional framework, quality of infrastructure, macroeconomic stability, as well as healthcare and quality of primary education are crucial. At the second development stage a successful state development depends on an effective functioning of market for goods and services, labour market and financial market, technological development, market expansion, and education. However, at the third development stage in order to ensure further development a government should focus mainly on innovations and the top-notch technologies.

Each of the development evaluation factors could be described with indexes. The range of the indexes mentioned may be almost endlessly prolonged. Therewith, the methodology, based on the opinions of world economists V.Rostov, R.Solou, W.A.Lewis, H.B.Chenery, F.Perroux, K.Rotschild, J.Hicks, G.Stigler, P.Howitt, etc, as well as investigations of the European Commission, the World Bank and the main EU strategic documents (the Lisbon Strategy, Europe 2020), selects the most important 70 state development indexes.

The indexes were analysed by the three dimensions: the national value, the EU internal market average value and the value of the  $F$  coefficient, which demonstrates to what extent the indexes' values of a certain country comply with the average EU level. The national values, the EU average value and the  $F$  coefficient are calculated according to the formulas provided in the Doctoral Thesis.

Fruitful operation of a state depends on the strategy and priorities chosen, as well as efficient exploitation of available resources. The methodology described helps to identify whether the strategy preferred by a state complies with the state's needs at the existing development stage, as well highlights possible problems in the entrepreneurial environment and barriers for further development.

The methodology described may be applied for estimation of state or regional entrepreneurial environment and development, inter alia, for Latvia's and other EU member states' entrepreneurial environment and development estimation in the EU internal market, as well as for setting priorities for the common EU operation and strengthening of the competitiveness of individual EU member states.

## **2. ANALYSIS OF ENTREPRENEURIAL ENVIRONMENT AND FACTORS FOSTERING AND HAMPERING THE DEVELOPMENT OF LATVIA**

Chapter 2 presents evaluation of Latvia's entrepreneurial environment and development factors according to the methodology described in the Subchapter 1.3. It is considered that development of a country is not a destination, but a continuous process, as well as the state

development level is constantly changing reflecting the ability of the country to adjust to the changing situation in the world.

According to the methodology proposed, state development factors are estimated by analysing corresponding indexes. When applying the methodology to Latvia, the statistical and analytical data eleven-year period (2000-2010) were used.

Based on the analysis presented in the Doctoral Thesis, the author concludes that Latvia has successfully passed through the first development stage and currently finds itself at the second development stage. At the same time, at present, Latvia needs to be careful not to allow the disturbance of the balance of the first development stage factors resulting from the financial crisis of 2008, which might complicate and even threaten the state development at the next development stages. The effective functioning of the state administration, which includes efficient operation of institutions, infrastructure, macroeconomic stability, health and primary education of the population, is a compulsory precondition for business operation and further development of the state. In its turn, at the second development stage, when the leverage of the state's competitiveness depends on such factors, as secondary and the higher education, market for goods and services, labour market and financial market operation, technologies and market size, Latvia still has a range of unresolved problems. As Latvia is an EU member state, the issues of economic effectiveness are raised at the EU level. Due to the creation of the EU internal market, the decision concerning the market policy taken in one country even at the national level may have an impact on the market players and entrepreneurial environment of the other member states. It is important for Latvia to qualitatively implement the instruments facilitating entrepreneurship in the EU internal market, ensuring to the Latvian companies a possibility to actively take benefits of the EU internal market.

As to the third state economic development stage factors (innovations and the top-notch technologies), taking into account the existing economic situation, Latvia needs to choose the "follower strategy", taking part in the common EU programs, qualitatively implementing the technologies created in other, more developed EU member states, which are already elaborated and approved. The third stage economic development factors demonstrated in Figure 1.2 are mostly related to the priorities of the common EU policy, and Latvia should implement them together with other EU member states rather than individually. The existing resources of Latvia should be oriented mainly towards problem solving with regard to the second stage factors and stability maintenance for the first stage development factors.

Due to the considerations mentioned, the Doctoral Thesis focuses its main attention on the improvement of the efficiency of the second stage entrepreneurial environment indexes

and elimination of the existing imperfections. Solutions for enhancing the efficiency of the market for goods and services are presented in Chapter 3.

In addition, Chapter 2 of the Doctoral Thesis, based on the evaluation of the Latvia's long-term development conceptual document "Latvia's growth model: People take first place", Latvia's Sustainable Development Strategy, National Development Plan, as well as regional development documents – the EU long-term development strategy, the Lisbon strategy, Baltic sea region dimensional development long-term perspective and Baltic sea region development, the author concludes that Latvia needs a single national long-term strategy, combining the advantages provided to Latvia and requirements of all of the mentioned documents. Thus, the elaboration of the Latvia's Sustainable Development Strategy 2030 is of paramount importance to the society of Latvia.

At the same time, as a result of the analysis performed, the author of the Thesis concludes, that currently the LSDS pays insufficient attention to the solutions of such entrepreneurial environment problem as strengthening of basic state development factors (institutions, infrastructure, macroeconomic stability, healthcare, and primary education), which were negatively affected by the financial crisis 2008, as well as the improvement of the competitiveness leverage factors (market for goods and services, labour market, financial market operation, technology adoption, market size, education). As for creation of the new and innovative technologies, currently the LSDS does not clearly define the "follower strategy" – implementation and adjustment of technologies already introduced and approved by other more developed EU member states. Moreover, the LSDS project does not include financial and macroeconomic stability issues. Financial stability is one of the main priorities in the strategy "Europe 2020". Financial and macroeconomic stability plays a crucial role for ensuring a favourable entrepreneurial environment, effective functioning of the state mechanism and further development.

### **3. LATVIA'S DEVELOPMENT MODELS CONSIDERING THE BENEFITS PROVIDED BY THE EU INTERNAL MARKET**

Being a part of the EU internal market provides to countries plenty of opportunities and challenges. Whether a member state becomes a winner from its participation in the EU internal market or a loser, to a great extent depends from the activity of the country on the domestic market and on the markets of other EU member states. Chapter 2 of the Doctoral Thesis identifies various problems, hindering the application of the EU internal market potential in Latvia. Chapter 3 provides solutions for promotion of Latvia's development in the EU internal market, using benefits of free movement of goods and services.

### 3.1. General development model of the EU market for goods and services

A number of measures fostering free movement of goods and services are implemented in the EU internal market. They have a better effect if they are applied, harmonized and supplement each other, generating the synergy effect. Therefore, there should be a clear system for operation of such measures at the EU and the national levels, as well as their correlation with corresponding tasks to reach the common goal.

Figure 3.1 demonstrates the general model of the EU internal market development proposed by the author of this Doctoral Thesis, based on effective functioning of free movement of goods and services.

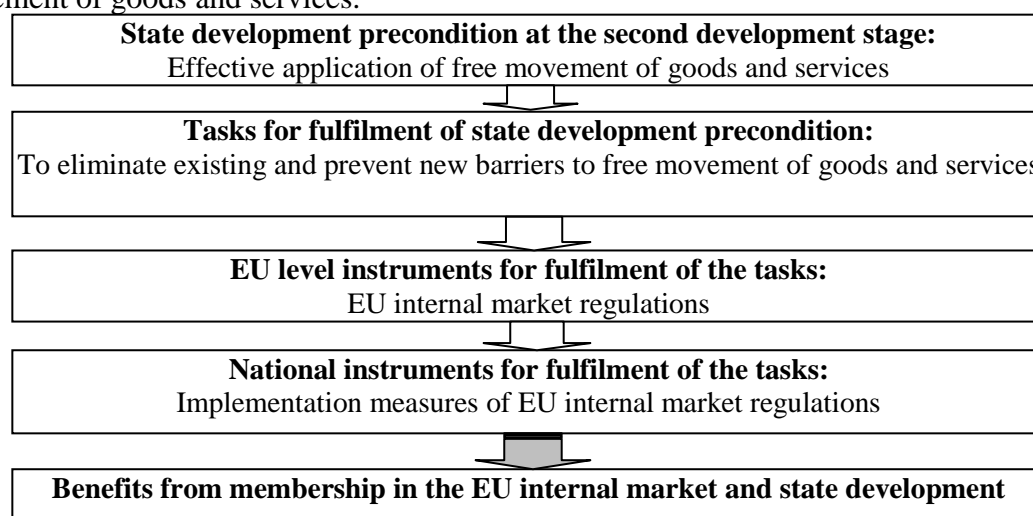


Figure 3.1. General model for the EU internal market development. [author]

According to the model displayed in Figure 3.1, in order to fully apply the EU internal market potential at the second state development stage, it is necessary to ensure effective functioning of free movement of goods and services. To reach the aim, the existing barriers to free movement of goods and services should be eliminated and new obstacles not allowed, what can be ensured by the EU regulations. To fulfil the tasks, the EU internal market implementation measures should be used at the national levels of the member states. The author defines three groups of measures for elimination of the existing barriers and precluding new impediments: preventive measures, reactive measures, and corrective measures.

*Preventive measures* – the measures having the aim to preclude the appearance of barriers to free movement of goods and services during the elaboration of national regulations by evaluation of the proposed requirements before their adoption.

*Reactive measures* – the measures having the aim to ensure effective information exchange between governmental institutions and companies, providing exhaustive information on the existing requirements, as well as ensuring a possibility to electronically receive the necessary authorisations for a certain activity.

*Corrective measures* – are the measures having the aim to cure market imperfections, which appear as a result of low-quality application of reactive measures, averting of the non-correct application of the Treaty on Functioning of the European Union or eliminating incompliance of a regulation to the principles of the Treaty.

In order to facilitate free movement of goods and services with the help of preventive, reactive and corrective measures, the system of respective instruments is needed (see Fig.3.2).

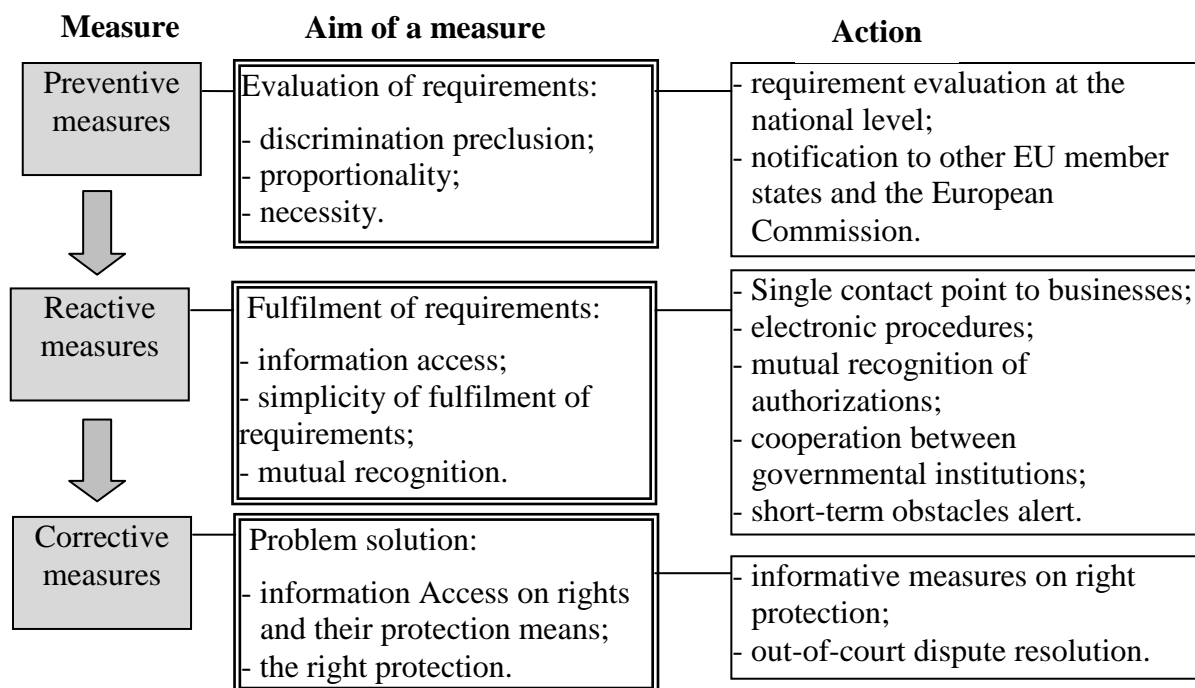


Figure 3.2. System of free movement of goods and services facilitation instruments  
[author]

As it is shown in Figure 3.2, to reach the aim of the preventive measures, it is important not to allow appearance of requirements hindering free movement of goods and services already during the elaboration process of a legal act: it means to ban discrimination, as well as to follow the principles of proportionality and necessity. The EU internal market member states should critically evaluate new legal norms being introduced in national regulations, as well as prevent introduction of unjustified requirements in other EU internal market member states.

To reach the aim of the reactive measures, the EU internal market member states should ensure mutual recognition of authorisations issued in other EU member states, unambiguity and transparency of the existing requirements, as well as a possibility to companies to simply and quickly fulfil the existing requirements.

To reach the aim of the corrective measures, companies should have a possibility to rapidly resolve disputes with governmental institutions and protect their rights in the EU internal market. The aim may be reached by ensuring appropriate functioning of out-of-court instruments.

Many EU level regulative instruments having aim to strengthen the EU internal market for goods and services have been created in the EU internal market. The EU regulations include the minimum requirements for implementation of such instruments. The European Commission prevents discrimination on operation of other EU member states' companies through ill transposition of the mentioned instruments. However, the benefits provided by instruments encouraging free movement of goods and services to the companies established in a particular country depend on the corresponding competent authorities of the respective country – how efficiently the operation of the EU regulatory instruments is organized.

To ensure feedback from the already created EU internal market instruments, the aforementioned instruments should be properly implemented. The Doctoral Thesis provides models for successful implementation of preventive, reactive and corrective measures in the EU internal market, which make it possible to reach the aims of the measures mentioned and ensure the effective functioning of the principle of free movement of goods and services. The qualitative implementation of the models offered ensures Latvia a possibility to benefit from the EU internal market potential.

### 3.2. Preventive measures implementation models

To prevent introduction of barriers to free movement of goods in national regulations of the EU internal market member states, the directives 98/34/EC and 98/48/EC have been adopted. The directives establish the obligation for the EU internal market member states to submit for evaluation to the European Commission and to other EU member states draft technical regulations (TR) and the corresponding information. From the 817 draft TR notified by EU member states, the regulations elaborated by Latvia make only 1.5% (12 TR). This statistics demonstrates the low effectiveness of the notification system in Latvia.

Analysing the notification system implementation process, two processes have been determined – evaluation of national TR and evaluation of TR elaborated in other EU member states. The Latvian notification system has been evaluated according to the criteria presented in the corresponding model (see Fig.3.3).

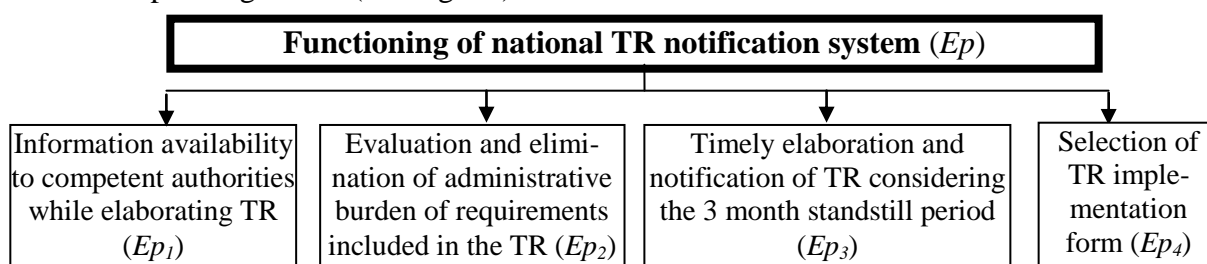


Figure 3.3. National TR notification system improvement model. [author]

Legend for Fig. 3.3. and the following figures:

- endogenous factor of a model;
  – exogenous indexes of a model;
- – logical link between endogenous factors and exogenous indexes.

In order to evaluate the efficiency of the Latvian notification system, a focus-group interview with ten TR notification related competent authorities was organized. The interviewed persons were asked to estimate the existing situation in Latvia with the TR notification system. The results demonstrate that respondents are not satisfied with all the notification system improvement elements. The particularly topical problems outlined by the respondents were evaluation and elimination of the TR administrative burden, information availability on TR substance and elaboration procedure, as well as postponement of adoption of a draft TR due to the standstill period.

The Doctoral Thesis provides proposals for improvement of the notification system. The estimation of the mentioned proposals, a list of responsible and related parties, as well the qualitative characteristics of the result planned are provided in Tab.3.1.

Table 3.1

The planned results for the implementation of notification system improvement

<b>Crite- ria</b>	<b>Proposals for the impro- vement of notification system</b>	<b>Responsible authority</b>	<b>Parties involved</b>	<b>Planned result</b>
<i>Ep<sub>1</sub></i>	Seminars, guidelines, studies	The Ministry of Economics, European Commission	All ministries	Deeper understanding of TR goals and the adoption process. Infringement procedure risk elimination
	Introduction of a requirement to mention in the annotation to a draft legal act if it includes or not a TR	The Ministry of Economics	The Ministry of Justice	Evaluation of all the legal acts to their compliance with TR requirements
<i>Ep<sub>2</sub></i>	Elaboration of guidelines for estimation of administrative burden of a draft legal act	The Ministry of Economics, European Commission	All ministries	Creation of a single transparent system for estimation of administrative burden of a draft legal act, ensuring more efficient evaluation of proportionality of a regulation
<i>Ep<sub>3</sub></i>	Notification of draft legal acts to the European Commission at a possibly early stage	All ministries	The Ministry of Economics	Timely adoption of draft legal acts after the standstill period without negative impact on the Latvian legal system
<i>Ep<sub>4</sub></i>	Possibility to define TR in a separate legal act not to delay adoption of other requirements included in the regulation	All ministries	The Ministry of Justice, the Ministry of Economics	Timely adoption of draft legal acts, adopting a TR later after a standstill period without negative impact on the Latvian legal system

[author]

In order to prove the practical expediency of the provided proposals, a focus-group interview of 5 EU internal market experts involved in the notification process was organized. As none of the proposals was evaluated negatively, all the proposals could be considered to be effective for the improvement of Latvia's entrepreneurial environment. No additional financial resources for the introduction of the proposed solutions are needed, and they could be implemented within the internal budgets of the governmental institutions involved.

As for the influence of the technical regulation notification system on Latvia's entrepreneurial environment and, consequently, economy, the author concludes that Latvia needs to increase the number of notified TR, because:

- due to the special procedure for elaboration and approval of TR with other governmental institutions, the notification system allows to evaluate the compliance of a TR with the principles of non-discrimination, necessity, and proportionality. Accordingly, the administrative burden to companies operating in Latvia's territory decreases;

- when notifying the European Commission and other EU internal market member states about the TR, detailed opinions with objections on the requirements that are too strict (which probably do not comply with the principles of necessity, non-discrimination and proportionality), as well as proposals with less bureaucratic solutions, which are already in force in other member states, could be received. Accordingly, the administrative burden to companies operating in Latvia's territory decreases.

The second important process of the notification system is evaluation of a draft TR elaborated in other EU member states. The evaluation system of the draft TR elaborated in other EU internal market member states was assessed according to the criteria presented in the corresponding model (see Fig. 3.4).

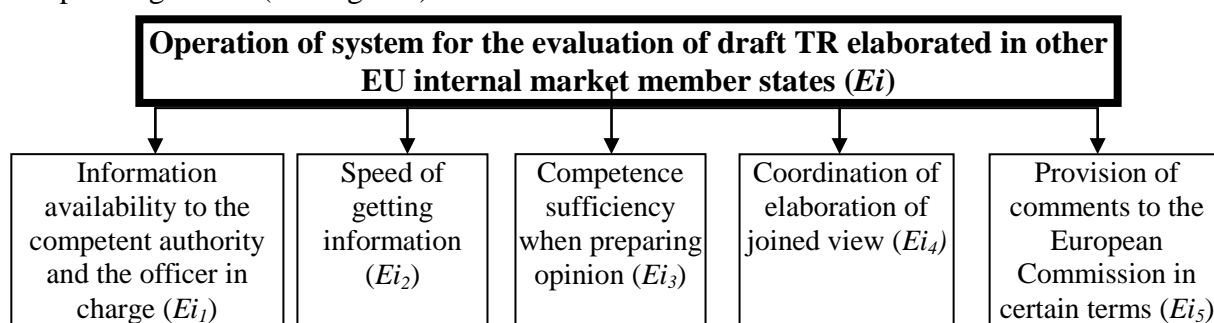


Figure 3.5. Model for improvement of evaluation of other EU internal market member states' draft TR. [author]

In order to evaluate the efficiency of the Latvian evaluation system of a draft TR elaborated in other EU internal market member states, a focus-group interview of 5 officers responsible for the notification process was organized. The interviewed persons were asked to estimate the existing situation in Latvia with the other EU member states draft TR evaluation system. 50% of the respondents pointed out the provision of comments to the European Commission in a certain time period as problematic. This is mainly connected with the difficulties to find the authority competent for a certain draft legal act. At the same time, the most significant problems are connected with provision of information to the right competent authority, information getting time, and lack of competence when preparing a detailed opinion. A part of the problems mentioned could be solved by organizing informative



seminars and special-focus training to the persons involved in the legal act elaboration process, as well as working out guidelines on TR substance and elaboration process, practically implementing the notification system improvement model given above. Estimation of the proposal on TRIS (Technical Regulation Information System) system extension and evaluation of competence allocation, the list of responsible and related parties, as well the qualitative characteristic of the planned result are presented in Tab. 3.2.

Table 3.2

Results of the proposals for improvement of TR evaluation system

<b>Crite- ria</b>	<b>Proposals for TR system improvement</b>	<b>Respon- sible authority</b>	<b>The parties involved</b>	<b>Planned result</b>
<i>Ei<sub>1</sub>; Ei<sub>2</sub></i>	More detailed allocation of competences in line ministries, assigning several information exchange coordinators related to the TR notification	All ministries	The Ministry of Economics	Raising efficiency of the information flow. Latvia's better involvement in evaluation of other EU member states' draft TR. Enrichment of Latvia's experience thanks to the benchmark of the elaborated foreign legal acts.
<i>Ei<sub>1</sub></i>	Services sector TR implementation in the TRIS system	European Commission	The Ministry of Economics	Good availability of notified draft TR in goods and services sectors

[author]

In order to prove the practical expediency of the proposals offered, a focus-group interview of 5 EU internal market experts involved in the notification process was organized. Based on the responses of the respondents the proposals offered in the Doctoral Thesis could be considered to be effective for the improvement of Latvia's entrepreneurial environment and the first two proposals have already been tested in other EU member states.

As for the influence of the evaluation system of the draft technical regulation elaborated in the other EU member states on Latvia's entrepreneurial environment and, consequently, economy, the author concludes, that Latvia needs to increase the number of evaluated foreign draft TR because:

- when evaluating the draft TR of the other EU internal market member states, Latvia has a possibility to object against implementation of those TR, that are discriminating, unjustified or disproportional to the aim set, thus preventing new barriers to free movement of goods and services. Latvia's exporters of goods and services are interested in possibly liberal conditions in all EU internal market member states. Accordingly, the administrative burden to companies operating in the EU internal market decreases;
- when evaluating other EU member states' draft TR, Latvia has a possibility to learn from a good practice of other EU member states. Accordingly, the administrative burden to companies operating in Latvia's territory decreases.

### 3.3. Reactive measures implementation models

#### 3.3.1. Principle of mutual recognition application model

The principle of mutual recognition (PMR) guarantees free movement of goods and services in the EU internal market without a necessity to harmonize national legal acts of member states. Products, which are lawfully produced in one EU internal market member state or Turkey, may not be banned for selling in the territory of other EU internal market member states, even if they were produced in compliance with different technical and quality requirements in comparison with the requirements of the market of destination. The same principle is applied to the services sector.

Economic development to a great extent depends on the fact how efficiently the principles having impact on the market processes were created and implemented. Thus, it is highly important to ensure efficient functioning of the PMR in all the EU internal market member states. The functionality of the PMR in Latvia was estimated according to the criteria, accumulated in the model demonstrated in Figure 3.5.

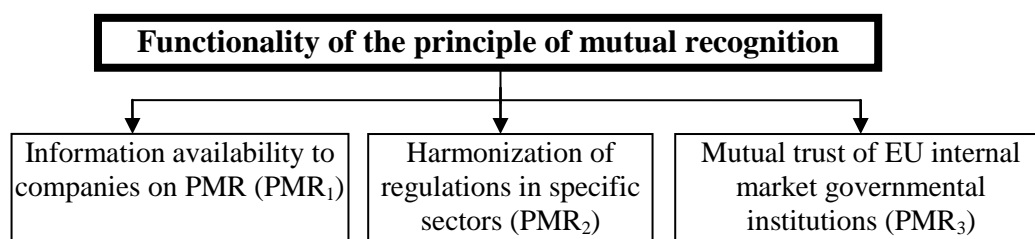


Figure 3.5. Functionality of principle of mutual recognition improvement model.  
[author]

*Information availability* is the first precondition for successful functionality of the PMR. The solution for the improvement of information availability has been provided in Subchapter 3.3.3 of the Doctoral Thesis.

According to the functionality of the PMR improvement model, efficient application of the principle depends on *EU internal market harmonized and non-harmonized regulations*. As it is demonstrated in Figure 3.6, there are two kinds of EU internal market regulations: harmonized sphere regulations and non-harmonized sphere regulations. The requirements set in the harmonized sphere are equally applied to all the members of the EU internal market, and these regulations usually contain the PMR clause. The requirements defined in the EU regulations are directly applied, but the requirements defined in the EU directives must be transposed to the national regulations of the member states.

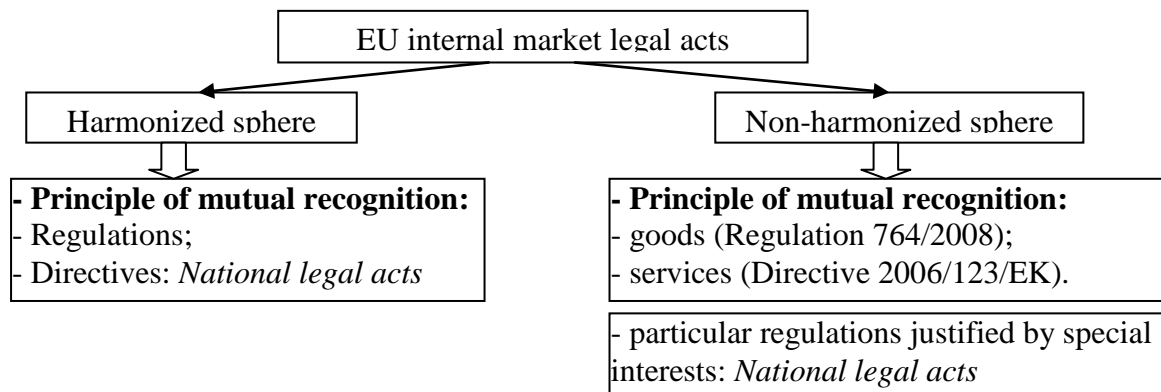


Figure 3.6. Classification of EU internal market regulations. [author]

In the non-harmonized sphere in the EU internal market member states the PMR is applied; and the EU internal market members should not additionally meet the national requirements in one member state, if the requirements defined in the regulations of another member state were already satisfied. The only barriers for application of the PMR are the special requirements introduced in the national legal acts, which are justified by particularly significant state interests. A bigger number of national regulations complicate cross-border operation of companies, bringing about unclearness of requirements and non-transparent system of regulations. Due to this, the number of exceptions from the PMR should be limited. The member states usually deviate from the PMR (justifying the necessity to determine an obstacle to free movement of goods) by establishing specific requirements in such sectors as foodstuff, electronics, transport, precious metals, construction, and chemicals.

Not to allow a complicated system of national legal acts in the EU internal market, in spheres where exemptions from the PMR are most frequently defined, adoption of the EU-level regulations should be encouraged. The best harmonization of requirements is possible by adopting the EU regulations, which are applied directly. As directives should be transposed by the member states, but the transposition takes time, as well as other administrative resources, the EU regulation is considered to be a more efficient legal instrument. The EU regulations ensure a better transparency and clearness of norms in the EU internal market, and, consequently, efficient application of the principle of free movement of goods and services.

According to the model demonstrated in Figure 3.5, the third precondition for efficient functioning of the PMR is mutual trust and cooperation between EU governmental institutions. Functionality of the basic principles of the EU internal market to a large extent depends on fruitful cooperation between governmental institutions, which issue authorisations to companies and ensure market surveillance. The cooperation between EU governmental institutions has been estimated according to the criteria presented in the model reflecting the

administrative burden to Latvian companies depending on operation of the Internal Market Information (IMI) system (see Fig.3.7).

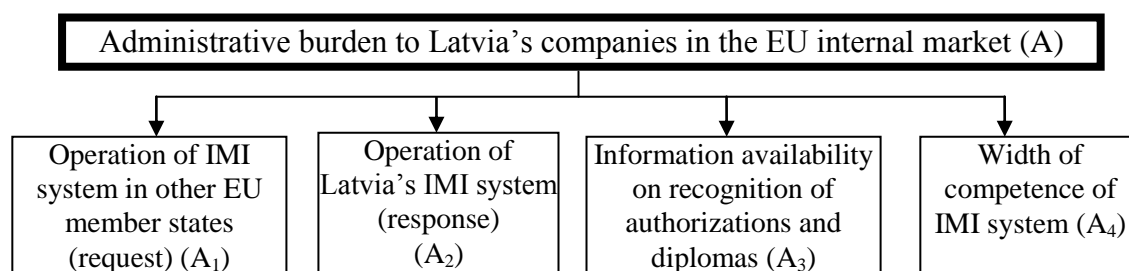


Figure 3.7. Model of the administrative burden dependance on operation of the IMI system. [author]

The results of the survey organized by the Ministry of Economics in June 2011 prove the low efficiency of the IMI system operation in Latvia. The lack of information on operational possibilities of IMI system, lack of experience providing information on authorisations and diplomas issued in Latvia upon request of the other EU internal market member states' competent authorities (CA), as well as a large number of CA were recognized to be the most topical problems for the users of the IMI system.

The Doctoral Thesis presents proposals for improvement of the operation of the IMI system in Latvia. The estimation of the proposals, a list of responsible and related parties, as well the qualitative characteristics of the planned result are provided in Tab.3.3.

Table 3.3

The planned results of improvement of the IMI system operation

Crite- ria	Proposals for improvement of IMI system	Responsible authority	Parties involved	Planned result
A <sub>1</sub> A <sub>2</sub>	Training to the IMI system employees. Benchmarking	The Ministry of Economics, European Commission	National IMI coordinator, Branch IMI coordinator, CA	Deeper understanding of the IMI system operation possibilities and principles.
	Introduction and/or re-evaluation of information exchange procedure	The Ministry of Economics, other EU member states CA	European Commission	Evaluation of efficiency of the system, sharing with best practice, drawback elimination
A <sub>3</sub>	Spread of information on the PMR (by electronic means, seminars, booklets, etc.)	The Ministry of Economics	All ministries, European Commission, other EU member states CA	Wider application of the PMR, more information requests via the IMI system
A <sub>4</sub>	The width of the IMI competence: - other sectors;	European Commission, the Ministry of Economics	All ministries	Improvement of functionality of better governance principle in Latvia and the EU internal market
	- national dimension	The Ministry of Justice, the Ministry of Economics	All ministries	

[author]

In order to prove the practical expediency of the proposals offered, a focused-group interview of 5 EU internal market experts involved in the IMI system operation was

organized. Based on the responses of the respondents the proposals offered could be arranged by their priority as follows:

1. Training to the IMI system employees twice a year; Benchmarking.
2. Spread of information on the PMR.
3. Efficiency of the information exchange procedure and necessity to review it.
4. Width of the IMI system competence (other sectors, national dimension).

The proposal on widening of the IMI system competence is the last one in the priority list, since, in comparison to other proposals, its implementation requires considerable financial investments, which currently could not be organized in a short term in Latvia. As none of the proposals was negatively evaluated, all the proposals could be considered to be effective.

As for the influence of the IMI system on Latvia's entrepreneurial environment and, consequently, economy, the author concludes that the efficient functioning of the IMI system is to decrease the administrative burden to Latvia's companies operating in the EU internal market. At the same time, as regards the influence of the PMR on Latvia's entrepreneurial environment and, consequently, economy, the author concludes, that Latvia needs to ensure effective functioning of PMR, since:

- the operation of Latvia's companies in other EU internal market member states has to be simplified, thus facilitating export of Latvian goods and services to the EU internal market and as a result encouraging employment;
- competition in the EU internal market is to increase, as a result diminishing the general price level and improving investment possibilities.

### **3.3.2. Model for elimination of short-term obstacles to free movement of goods**

In order to minimize the negative impact of short-term obstacles to free movement of goods and services on the players of the EU internal market, the mechanism for evaluation of justification of the planned barriers and the mechanism for raising society's timely awareness were introduced.

During the time period from September 2010 till August 2011, no cases of hindering free movement of goods in the territory of Latvia or other EU internal market member states was notified in Latvia. Moreover, since its participation in the EU internal market, Latvia has not provided a single comment on the notifications of obstacles by other member states.

For the improvement of the short-term obstacles to free movement of goods notification system three processes were defined:

- a) providing the Latvian society with the information on the obstacles to free movement of goods in other EU internal market member states;
- b) providing the other member states with the information on the existing or planned obstacles to free movement of goods in Latvia;
- c) evaluation of justification of the planned obstacles to free movement of goods in other member states.

The notification system of short-term obstacles to free movement of goods in Latvia was estimated according to the criteria presented in the model below (see Fig. 3.8).

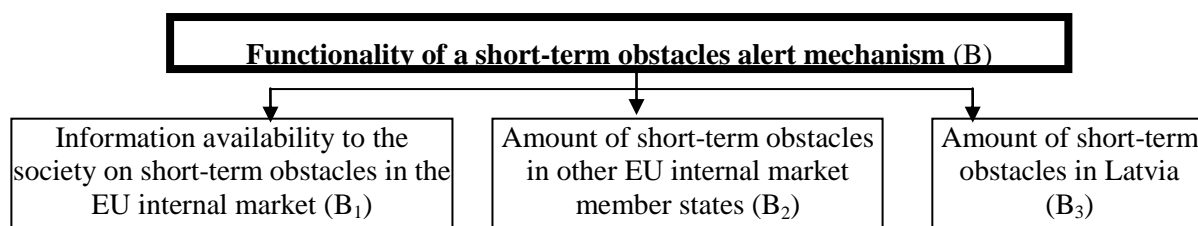


Figure 3.8. Model for elimination of short-term obstacles to free movement of goods.  
[author]

In order to evaluate importance of the short-term obstacles elimination criteria in Latvia, the focus-group interview with ten companies operating in Latvia and other EU internal market member states was organized. The results demonstrate that the respondents do not receive information on the planned or existing obstacles to free movement of goods in the EU internal market member states (incl. Latvia) and are not informed about the EU internal market obstacles alert mechanism created.

In the Doctoral Thesis the proposals for elimination of short-term obstacles to free movement of goods were provided. The estimation of the proposals offered, the list of persons in charge and related parties, as well as the qualitative characteristics of the planned results are provided in Tab.3.4.

Table 3.4

Planned results of short-term obstacles elimination

Crite- ria	Proposals for elimination of short- term obstacles	Responsible authority	Parties involved	Planned result
1	2	3	4	5
B <sub>1</sub>	Information access via portal <a href="http://www.latvija.lv">www.latvija.lv</a>	The Ministry of Economics, the Ministry of environmental protection and regional development (MEPRD)	-	Easy and quick access to up-to-date information on the existing or planned obstacles in the EU internal market
	Resolution of Prime Minister on the requirements of Regulation No.2679/98	The Ministry of Economics, Chancellery	All ministries	A higher activity of notifying on short-term obstacles to free movement of goods in Latvia's territory

Tab.3.4. continuation

1	2	3	4	5
B <sub>1</sub> , B <sub>2</sub> , B <sub>3</sub>	Creation of a centralized register of short-term obstacles in the entire EU internal market on the portal of the European Commission	European Commission	The Ministry of Economics	Easy and quick access to up-to-date information on existing or planned obstacles in the EU internal market
B <sub>2</sub> , B <sub>3</sub>	Introduction of a short-term obstacles evaluation procedure in member states	European Commission	The Ministry of Economics	Elimination of problems appearing when member states prepare and submit notifications on short-term obstacles to the European Commission

[author]

In order to prove the practical expediency of the provided proposals, a focus-group interview with ten companies operating in Latvia and other EU internal market member states was organized. Based on the responses of the respondents the provided in the Doctoral Thesis proposals could be arranged by their priority as follows:

1. Information availability via the state portal [www.latvia.lv](http://www.latvia.lv).
2. Creation of a centralized register on short-term obstacles to free movement of goods in the entire EU internal market on the portal of the European Commission.
3. Resolution of the Prime Minister on the requirements of Regulation No.2679/98.
4. Introduction of a procedure for evaluation of short-term obstacles in the member states.

As none of the proposals was negatively evaluated, all the proposals could be considered to be effective for improvement of Latvia's entrepreneurial environment. The alert mechanism of obstacles to free movement of goods in the EU could be further developed, providing to companies a possibility to select a function on a mobile device to getting messages with alerts on short-term obstacles in a certain country.

As for the influence of the short-term obstacles notification system on Latvia's entrepreneurial environment and, consequently, economy, the author concluded that Latvia needs to ensure effective functioning of the notification system, since:

- Latvia's companies can avoid unpredicted loses during the product realization process.
- The planned obstacles to free movement of goods in Latvia's territory are evaluated by the European Commission and other EU internal market member states in respect to their justification. In case of insufficient justification obstacles are to be removed. Latvia's companies are to gain from elimination of the obstacles in the state's territory.
- The planned obstacles to free movement of goods in other EU internal market member states' territory are evaluated by the European Commission and Latvia in respect to their justification. In case of insufficient justification, the obstacle is to be removed. Latvia's companies are to gain from the obstacles elimination in the EU internal market.

### 3.3.3. Model for creation of Single point of contact

One of the instruments encouraging application of the EU basic freedoms and improvement of entrepreneurial environment by liberalization of the EU internal market is the Directive 2006/123/EC on services in the internal market (the Services directive). The Services directive was elaborated to eliminate the existing imperfections in the EU internal market and remove discriminative practices in free movement of services. Among other activities, the Services directive defines the obligation of the member states to create an electronic centralized business assistance system – point of single contact (PSC), ensuring access to the exhaustive information on the requirements to be met by companies to provide a certain kind of services in a selected EU member state. The directive does not describe many nuances of PSC functionality, and organizational issues are left to the competence of each EU member state.

The functionality of Latvia's PSC is estimated according to the criteria accumulated in the model demonstrated in Figure 3.9.

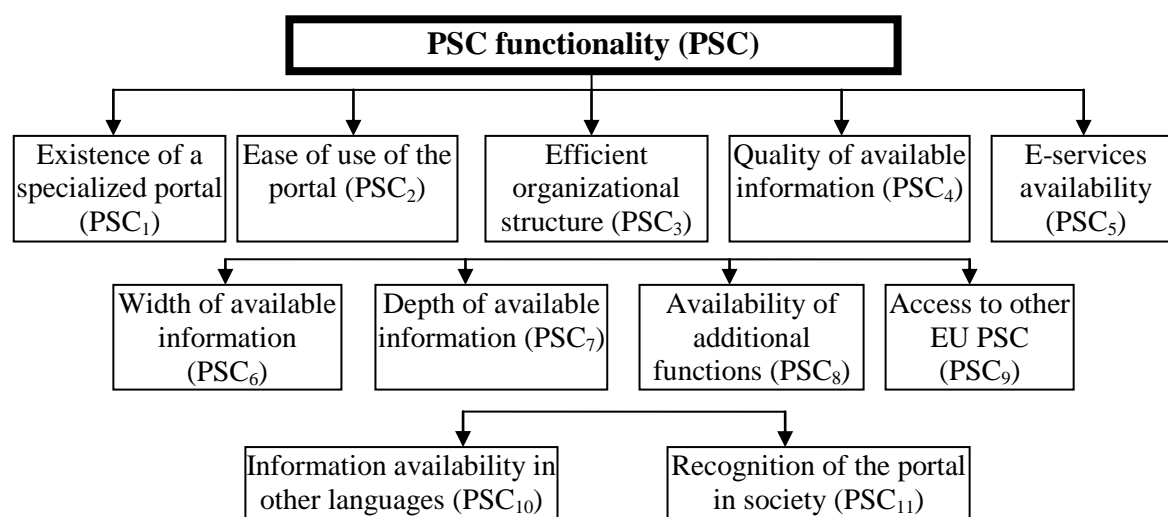


Figure 3.9. PSC functionality model. [author]

The PSC was founded on the basis of the society-oriented state portal [www.latvia.lv](http://www.latvia.lv). To improve the functionality of the Latvian PSC, the benchmark of the experience of other EU member states was applied.

In order to evaluate the importance of the short-term obstacles elimination criteria in Latvia, a focus-group interview with ten companies operating in Latvia and other EU internal market member states was organized. The majority of the respondents consider that the quality of information available in the PSC should be improved. Unfortunately, the e-services availability in Latvia is rather low in comparison to other EU internal market member states (the problem was outlined by 60% of the respondents). 70% of the respondents consider that the available information is not wide (many sectors of economy are not covered) and deep



enough (e.g., the information on the requirements established by several local authorities is not available or the available information is too general, as well as the possibility to contact the issuer of an authorisation by means of PSC is not ensured).

The Doctoral Thesis provides proposals for improvement of the PSC functionality. The estimation of the proposals offered, a list of responsible and related parties, as well the qualitative characteristics of the result planned are given in Tab.3.5.

Table 3.5

Results planned from improvement of PSC functionality

<b>Crite- ria</b>	<b>Proposals for improve- ment of PSC functionality</b>	<b>Responsible authority</b>	<b>Parties involved</b>	<b>Planned result</b>
1	2	3	4	5
PSC <sub>4</sub> , PSC <sub>7</sub>	Assignment of a one respon- sible institution for the quality of information	MEPRD Chancellery	All ministr ies	Standardization and quality improvement of informati- on available via the PSC
PSC <sub>8</sub>	Organisation of informative events to local authorities	MEPRD	-	Standardization and quality improvement of informati- on available via the PSC
PSC <sub>9</sub>	Inclusion of information on non-governmental institutions in PSC	The Ministry of Economics, MEPRD	All ministr ies	Information on the possibility to use professional consultations
	Creation of comments and questions window in the PSC. Creation of an autom- atic register of PSC visitors	MEPRD	-	Possibility to ask questions or place comments on the PSC; Information on the PSC expansion possibility
PSC <sub>10</sub>	Translation of information to other languages (at least English and Russian)	MEPRD The Ministry of Justice Cabinet of Ministers	All ministr ies	Bigger number of the PSC users
PSC <sub>11</sub>	Informative campaign	The Ministry of Economics	All ministr ies	Bigger number of the PSC users

[author]

In order to prove the practical expediency of the proposals provided, a focused-group interview with ten companies operating in Latvia and other EU internal market member states was organized. Based on the responses of the respondents the proposals offered by the author of the Doctoral Thesis could be arranged by their priority as follows:

1. Organization of an informative campaign.
2. Assignment of a one responsible institution for the quality of information.
3. Inclusion of information on non-governmental institutions in the PSC.
4. Creation of the comments and questions in the PSC.
5. Translation of information to other languages (at least English and Russian).
6. Organisation of informative events to local authorities.
7. Creation of an automatic register of the PSC visitors.

As for the influence of the PSC operation on Latvia's entrepreneurial environment and, consequently, economy, the author concludes, that Latvia needs to ensure effective functioning of the PSC, since the PSC simplifies entrepreneurial activity in Latvia and the entire EU internal market, providing exhausting information on the requirements existing in a certain sphere, as well as ensuring access to a certain business activity via the PSC.

### 3.3.4. Model for improvement of the Point of Single Contact functionality

The aim of the Latvian PSC portal [www.latvia.lv](http://www.latvia.lv) is to act as a roadmap in the electronic resources of state and local authorities, to ensure access to e-services of state and local authorities, accordingly improving the entrepreneurial environment. The portal includes a huge volume of information, and the transparency of the information is crucial. Currently, the information is not arranged well enough; and portal visitors often have problems when trying to find the necessary data.

The Doctoral Thesis presents an analysis of of the Latvian PSC – its ability to help entrepreneurs to commence and exercise a certain business activity – has been analysed.

To numerically evaluate the functionality of the PSC in the situation described above, it is possible to calculate entropy criteria. The entropy demonstrates the amount of supererogatory elements hindering the achievement of a target in a decision tree during the searching process. The entropy could be defined as a sum of suspended logarithmic values for each decision class  $i$ , and could be calculated by means of the following formula:

$$Entropy(Y) = \sum_{i=1}^n x_{i-} \log_2 x_{i+} \quad , \quad (3.1)$$

Where:

$Entropy(Y)$  – is the entropy criteria of a decision tree;

$x_{i-}$  – the number of wrong decisions in a class  $i$ ;

$y_{i+}$  – the number of true decisions in a class  $i$ ;

$n$  – the number of decision classes.

A decision tree has the most optimal structure, if entropy is equal to “0”. In this case, it is possible to take the right decision following the descriptions (titles) of the branches of the decision tree. Currently, the entropy value of the Latvia's PSC (27.21) demonstrates a significant flaw of the portal, and a considerable risk, that a visitor of the portal will not succeed in searching the necessary information. As a result of thorough analysis of the drawbacks of the Latvian PSC, the model of an advanced PSC was elaborated, fixing the current flaws (see Fig.3.10).

In the improved PSC model unnecessary branches and leafs of the initial decision tree were stripped away, thus making the decision process unambiguous and time-efficient.

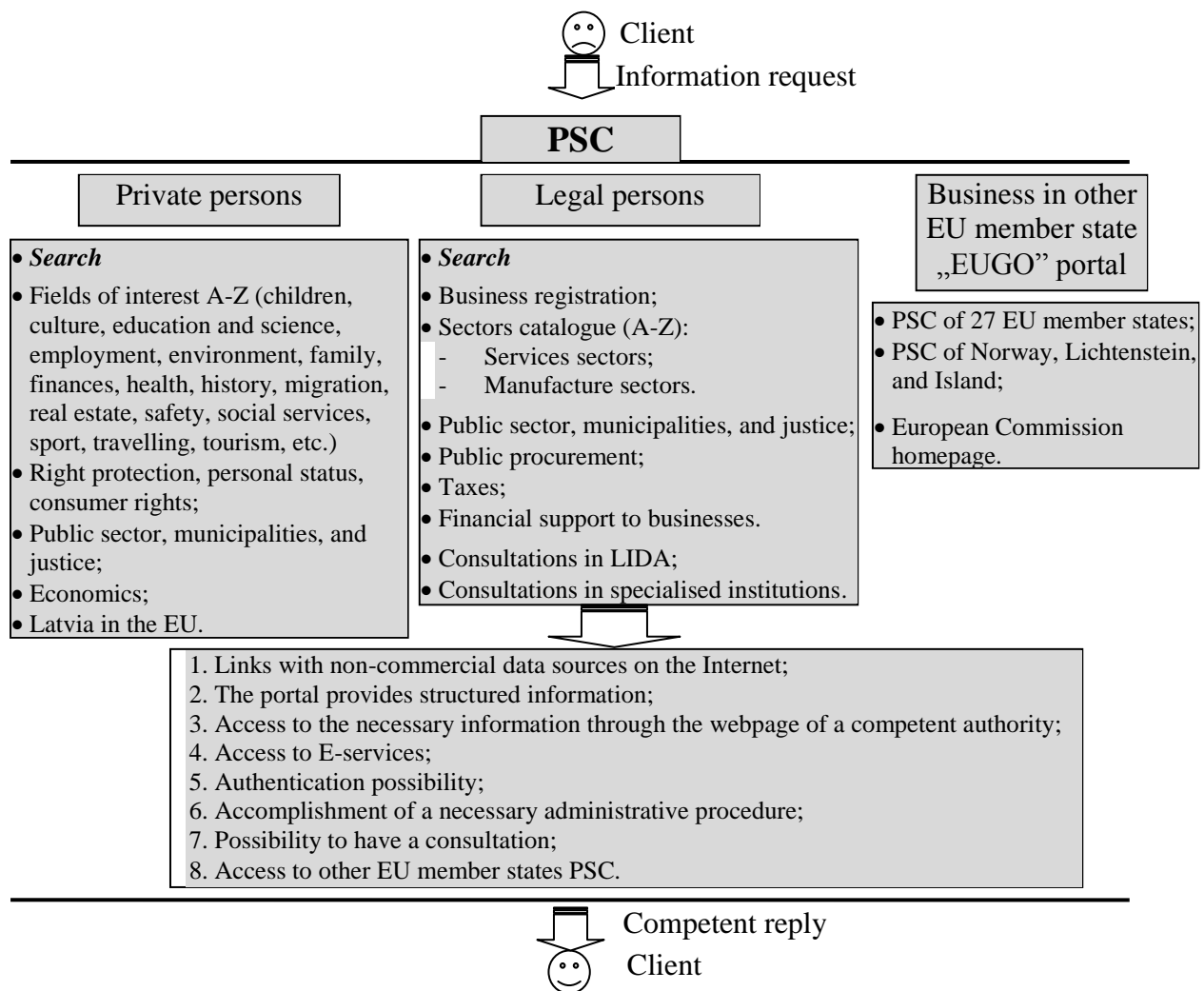


Figure 3.10. The operational model of the improved Latvian PSC portal [author]

The entropy coefficient of the improved PSC model has a zero value. It means that a visitor of the portal can inerrably take decisions when searching for the necessary information. Consequently, the model of the PSC could be characterised as an efficient instrument for improvement of the entrepreneurial environment.

The described methodology for evaluation of a sagacity of the decision tree splitting the decisions into right and wrong, and the subsequent removal of unnecessary variations could also be successfully applied to the PSC models of the other EU internal market member states, improving the entrepreneurial environment accordingly.

If a business assistance tool does not fulfil its desired function, it loses its value. It is important not only to *de jure* provide necessary information to companies, but also to make the B2G communication process as simple and transparent as possible.

The current model of the Latvian PSC possesses a huge potential in terms of fostering local and cross-border entrepreneurship, but the portal's lack of organized structure and ill-designed interface are factors significantly limiting the application of its benefits. The solution provided for the optimization of the PSC raises significantly efficiency of the portal,

yet it does not require vast capital investment. It could well be implemented within the internal budget of the MEPRD, which is the institution responsible for supervision of the portal in Latvia. The author is of the opinion that a well-organized business-supporting portal should be considered an excellent tool for enhancing availability of business information and stimulating general economic activity of a country.

### **3.3.5. The width of information available on Point of Single Contact**

When implementing the requirements of the services directive, each EU internal market member state has created a PSC. Via the PSC companies and citizens can receive necessary information on the regulations in a services sphere, as well as electronically fulfil the administrative formalities. To better facilitate development of the services sector, the entrepreneurial environment should be improved by providing electronic assistance for settling of administrative formalities regarding all services activities included in the PSC. Due to this, the following tasks should be successfully implemented:

1. To elaborate new e-solutions to the services spheres, where the administrative e-support is currently not available.
2. To ensure an access to all the existing e-solutions from the PSC portal.
3. To ensure that the e-solutions, which are to be created in the nearest future, are connected to the PSC.
4. To provide in the PSC portal the information on services spheres, where a specific regulation does not exist.

The model of facilitating the entrepreneurship environment for the services sector applying the development potential of the PSC and services sector e-solutions is demonstrated in Fig.3.11.

Fig.3.11 shows that, according to the model, in the portal [www.latvija.lv](http://www.latvija.lv) the PSC user can choose either to search for a data referring to the services spheres (A-Z) or to go on with the horizontal business-related issues. The grey background specifies the topics a PSC user may choose to receive the desirable information. The highlighted titles are connected with the existing e-solutions and other informative resources, which are provided by external internet channels or integrated into the PSC infrastructure (depending on the available financial resources).

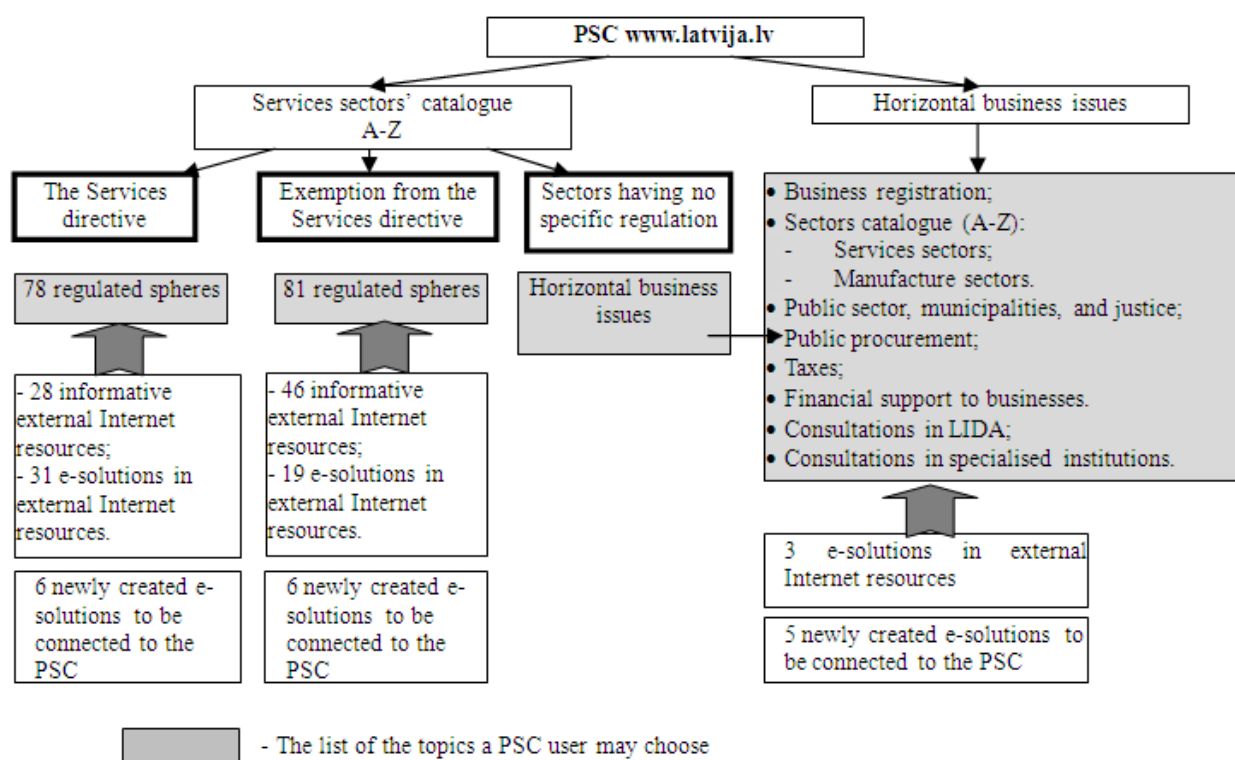


Figure 3.11. Model for facilitating the services sector by applying e-solutions. [author]

The data bases, information systems and other e-solutions mentioned in Fig.3.11 are to facilitate the entrepreneurial activity in Latvia. However, the integration of the e-solutions and informative resources into the single portal (PSC) are to bring about the synergy effect, considerably pushing up the effectiveness of each particular e-resource.

In the creation of PSC for goods, Latvia could overtake the experience of Denmark and the United Kingdom. The PSC functionality evaluation criteria for goods provided by the Doctoral Thesis are equal to the criteria displayed in the PSC functionality model for services. Consequently, the PSC functionality model should be related to both – goods and services sectors, including information on all Latvia's economic spheres.

As for the influence of creation of a PSC for goods (the manufacture sphere) on Latvia's entrepreneurial environment and, consequently, economy, the author concludes that Latvia needs to ensure effective functioning of PSC for all economic spheres (also manufacture), since PSC simplifies entrepreneurial activity in Latvia and the entire EU internal market, providing exhausting information on the requirements existing in a certain sphere, as well ensuring access to a certain business activity via PSC, therewith encouraging the general economic development of Latvia.

### 3.4. Model for implementation of corrective measures

Despite the fact that many instruments ensuring the functioning of the four EU internal market pillars have been created, in practice, companies still meet unexpected barriers for

exercising the EU rights, when governmental institutions put forward requirements conflicting with the EU legal acts. To solve the problems without involving court, which is a time-consuming process, in the EU internal market a special fast reacting tool – SOLVIT network – was created. After getting an application from a company or a citizen, SOLVIT not longer than within 10 weeks, persuades the competent authority involved in the case to remove the barrier for the exercise of the EU internal market rights. If violation happens in another member state, the case is forwarded to the SOLVIT centre of the corresponding country for further evaluation and resolution with competent domestic authorities.

The operation of Latvia's SOLVIT centre was estimated according the criteria presented in the model displayed in Figure 3.12.

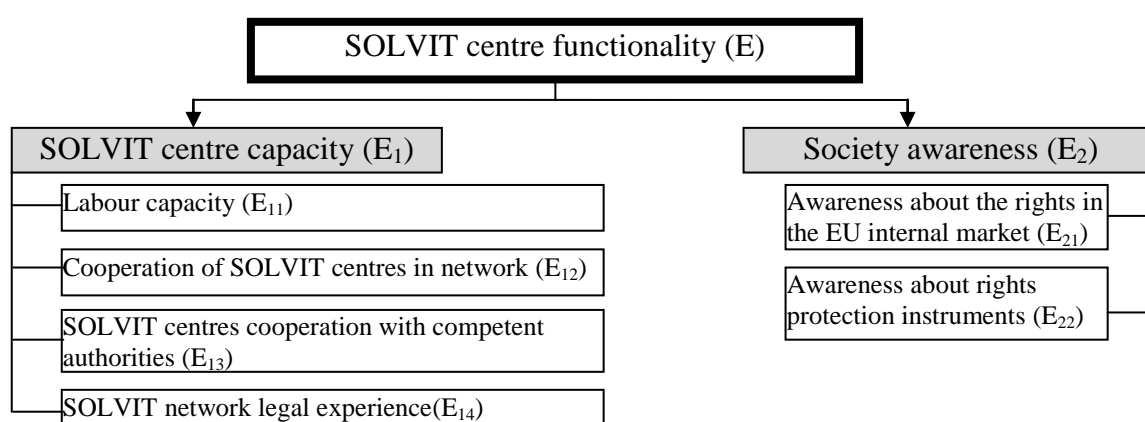


Figure 3.12. Model of operation of the out-of-court dispute resolution mechanism. [author]

In order to estimate the capacity of SOLVIT centres in Latvia and other EU internal market member states, the information submitted to the European Commission concerning the operation of the centres was evaluated. In addition, a focus-group interview with Latvia's SOLVIT centre employees was organized.

The Doctoral Thesis provides proposals for improvement of the out-of-court dispute resolution mechanism. Estimation of the proposals offered, a list of persons in charge and related parties, as well the qualitative characteristic of the planned result are presented in Tab.3.6.

Table 3.6.

The planned results from improvement of the out-of-court dispute resolution mechanism

Crite- ria	Proposals for improve- ment of out-of-court dispute resolution	Responsible authority	Parties involved	Planned result
1	2	3	4	5
E <sub>11</sub>	Increase of the number of employees	Cabinet of Ministers, the Ministry of Finance, the Ministry of Economics	Competent authorities of other member states	Increase in capacity of the SOLVIT centre; bigger number of resolved cases

Tab.3.6. continuation

1	2	3	4	5
	Organization of training to employees	European Commission	The Ministry of Economics, competent authorities of other member states	Increase in capacity of the SOLVIT centre; bigger number of resolved cases
E <sub>13</sub>	Creation of a SOLVIT centre in a governmental institution	The Ministry of Economics	Competent authorities of other member states	Better influence on competent authorities; bigger number of resolved cases
E <sub>14</sub>	European Commission's legal assistance regalement	European Commission	Competent authorities of other member states	Better legal assistance of the European Commission; bigger number of resolved cases
E <sub>21</sub> , E <sub>22</sub>	Creation of a single informative point	The Ministry of Economics, MEPRD	Competent authorities of other member states	Society's awareness about the rights in the EU internal market
E <sub>22</sub>	SOLVIT centre promotion measures	The Ministry of Economics, Latvian Investment and Development Agency	Competent authorities of other member states	Society's awareness about the rights protection instruments

[author]

In order to prove the practical expediency of the proposals provided, a focused-group interview with ten companies operating in Latvia and other EU internal market member states was organized. As none of the proposals were negatively evaluated, all the proposals could be considered to be effective for improvement of Latvia's entrepreneurial environment.

As for the influence of the operation of the out-of-court dispute resolution mechanism on Latvia's entrepreneurial environment and, consequently, economy, the author concludes that a SOLVIT centre ensures fast and efficient protection of the rights of the Latvian companies, which may be violated due to illegal activities of governmental institutions of other EU internal market member states, thus facilitating Latvia's entrepreneurial environment, encouraging export of goods and services and overall development of the state in the EU internal market.

## CONCLUSIONS AND PROPOSALS

The research performed by the author of this Doctoral Thesis has allowed drawing the following conclusions:

1. As a result of the evaluation of the development theories and the EU strategic development documents, the author concludes, that they are not controversial, but rather adjusted to a certain situation at a certain time. All the development theories evaluated have a common aim – improvement of human quality of life.

2. Defining the state development, the challenges posed by the 21<sup>st</sup> century should be considered – it is possible to use the development concept, combining economic, social and environmental dimensions. The definition of sustainable development used in the LSDS includes today's most relevant development aspects and could be taken as a basis when defining the state development concept for this research. At the same time, the definition used in the LSDS could be supplemented, emphasizing also the balanced development, which is particularly crucial for neutralising cyclic fluctuations in economic development. In addition, it is also important to highlight the creation of new working places in the concept, which is an influential precondition of state development. Based on the considerations mentioned above, the following state development concept is proposed: *“State development – is an integrated and well-balanced development of social welfare, environment and economy, which provides new working places, satisfies the current social and economic needs of the society and ensures compliance with environmental requirements and maintenance of biological variety, without jeopardising the possibilities of the next generations to meet their needs”*.
3. Taking into consideration that state development at each of the three stages depends on different preconditions, a country should apply a development strategy appropriate for a certain development stage. To ensure the single development vision of the region, as well as to reach the synergy effect from competitive advantages of different member states, a single EU development strategy is needed, which should take into account that the EU internal member states are at different development stages. At the same time, when implementing the single EU strategy in the member states, it is necessary to consider the national peculiarities, adjusting the common EU development strategy to the particular development stage of a country.
4. Despite the fact that the four freedoms in the EU internal market (free movement of goods, services, capital and labour) have been introduced, offering the member states a great entrepreneurial potential, an EU internal market member state's development level depends on the favourableness of the business environment in a certain country and from the countries' ability to benefit from the EU internal market potential. Therefore, the methodology for estimation of state development for the EU internal market member states is needed, defining how efficiently a member state applies the advantages of the EU, as well as indicating the existing barriers in the entrepreneurial environment hampering the further development of a country.
5. Based on the analysis performed in the Doctoral Thesis, the author concludes that Latvia has successfully passed through the first development stage and currently finds itself at



the second development stage. However, the quality of Latvia's entrepreneurial environment and state development level is below the average EU internal market development level.

6. Efficient functioning of the state administration, which includes efficient operation of institutions, infrastructure, macroeconomic stability, health and primary education of the population, is an obligatory precondition for business operation and further state development. Latvia needs to be careful not to allow the disturbance of the balance of the first development stage factors caused by the financial crisis 2008, which might complicate and even threaten the state's development in further development stages.
7. At the second development stage, when the leverage of a state competitiveness depends on such factors, as secondary and higher education, market for goods and services, labour market and financial market operation, technologies and market size, Latvia still has a range of unresolved questions. It is important for Latvia to qualitatively implement the instruments facilitating entrepreneurship in the EU internal market, ensuring Latvian companies a possibility to actively use the benefits of the EU internal market.
8. As for the third stage factors of state economic development (innovations and top-notch technologies), taking into account the existing economic situation, Latvia needs to choose the "follower strategy", taking part in the common EU programs, qualitatively implementing the technologies created by other, more developed EU member states, which have already been elaborated and approbated. The third stage factors of economic development are mostly related to the common EU policy priorities, and Latvia should not participate and realize them individually, but together with other EU member states. The existing resources of Latvia should be oriented mainly to the problem solving of second stage factors and stability maintenance for the first stage development factors. After solving the problems at the second development stage, Latvia should be able to successfully move to the next, the third, development stage.
9. Latvia needs to increase the number of technical regulations notified to the European Commission, because due to the special procedure for elaboration and approval of technical regulations with other governmental institutions, the notification system allows to evaluate the compliance of a technical regulation with the principles of non-discrimination, necessity, and proportionality. Accordingly, the administrative burden to companies operating in the Latvia's territory decreases. Moreover, when notifying the technical regulation to the European Commission and other EU internal market member states, a detailed opinions with objections on the requirements that are too strict (which probably do not comply with the principles of necessity, non-discrimination, and

proportionality), as well as proposals with less bureaucratic solutions, which are already in force in other member states, could be received. Accordingly, the administrative burden to the companies operating in the Latvia's territory decreases.

10. Latvia needs to increase the number of evaluated foreign draft technical regulations, since, when evaluating the draft technical regulations of other EU internal market member states, Latvia has a possibility to object against implementation of those technical regulations, which are discriminative, unjustified or disproportional to the aim set, therewith preventing new barriers to free movement of goods and services. Latvia's exporters of goods and services are interested in possibly liberal conditions in the entire EU internal market. Accordingly, the administrative burden to companies operating in the EU internal market decreases. Moreover, when evaluating the other EU member states' draft technical regulations, Latvia has a possibility to learn from good practices of other EU member states. Accordingly, the administrative burden to the companies operating in the Latvia's territory decreases.
11. Latvia needs to ensure the efficient functioning of the principle of mutual recognition (PMR), since the PMR simplifies the operation of the Latvia's companies in other EU internal market member states, therewith facilitating export of Latvian goods and services to the EU internal market, as a result encouraging employment. Moreover, the PMR has a positive impact on competition in the EU internal market, as a result diminishing the general price level and improving investment possibilities.
12. To avoid a complicated system of national legal acts in the EU internal market, in the spheres, where exemptions from the PMR are most frequently defined, adoption of the EU level regulations should be encouraged. The best harmonization of the requirements is possible by adopting the EU regulations, which are applied directly. As directives should be transposed by the member states, but the transposition takes time and other administrative resources, the EU regulation is considered to be a more efficient legal instrument. The EU regulations ensure better transparency and clearness of norms in the EU internal market, and, consequently, effective application of the principle of free movement of goods and services.
13. In order to ensure functional cooperation between the EU internal market member states' governmental institutions, it is recommended to use the Internal Market Information (IMI) system created by the European Commission. The effective functioning of the IMI system decreases the administrative burden to the Latvia's companies operating in the EU internal market.

14. Latvia needs to ensure efficient functioning of the short-term obstacles notification system, as the Latvia's companies will have a possibility to avoid unpredicted losses during the product implementation process. At the same time, the planned obstacles to free movement of goods in the Latvia's territory are evaluated by the European Commission and other EU internal market member states in respect to their justification. In case of insufficient justification, the obstacle is to be removed. Latvia's companies are to gain from the obstacle elimination in the state's territory. Moreover, ensuring the notification system, the planned obstacles to free movement of goods in the other EU internal market member states' territory are evaluated by the European Commission and Latvia in respect to their justification. In case of insufficient justification the obstacle is to be removed. The Latvia's companies are to gain from elimination of the obstacles in the EU internal market.
15. Latvia needs to ensure efficient functioning of the PSC, since the PSC simplifies entrepreneurial activity in Latvia and the entire EU internal market, providing exhaustive information on the requirements existing in a certain sphere, as well ensuring access to a certain business activity via the PSC.
16. The current model of the Latvian PSC possesses a huge potential in terms of fostering local and cross-border entrepreneurship, but the portal's lack of organized structure and ill-designed interface are factors significantly limiting application of its benefits. It is important not only to *de jure* provide necessary information to companies, but also to make the B2G communication process as simple and transparent as possible. The solution provided for optimization of the PSC increases significantly the efficiency of the portal. A well-organized business-supporting portal should be considered an excellent tool for enhancing business information availability and stimulating a country's general economic activity.
17. Latvia needs to ensure efficient functioning of the PSC not only for the services sector, but also for goods (manufacture), as PSC simplifies entrepreneurial activity in Latvia and the entire EU internal market, providing exhaustive information on the requirements existing in a certain sphere, as well ensuring access to a certain business activity via the PSC, thus encouraging the overall economic development of Latvia.
18. To better facilitate the development of the services sector, the entrepreneurial environment should be improved by not only accumulating the exhaustive information on the existing administrative formalities, but also providing electronic assistance for fulfilment of administrative formalities to all the services activities included in the PSC. The existing data bases, information systems and other e-solutions are to facilitate the

entrepreneurial activity in Latvia. However, the integration of e-solutions and informative resources into a single portal (PSC) generates a synergy effect, considerably pushing up the efficiency of each particular e-resource, consequently improving the entrepreneurial environment and encouraging the overall state development.

19. Latvia needs to ensure efficient operation of a SOLVIT centre, as the centre ensures fast and effective protection of the rights of Latvian companies, which may be violated due to illegal activities of governmental institutions of other EU internal market member states, therewith facilitating Latvia's entrepreneurial environment, encouraging export of goods and services and the overall development of the state in the EU internal market.
20. The investigations conducted by the author within the scope of the present Doctoral Thesis provide solutions to one of the main development problems of Latvia in the EU internal market – insufficient application of the EU internal market potential, which causes a situation where Latvian companies have unequal position in comparison to the companies from other EU member states. The results obtained allowed meeting the aim of the Doctoral Thesis – to elaborate models for improvement of the entrepreneurial environment and state development of Latvia in the EU internal market, ensuring successful application of the advantages of EU internal market to companies established in Latvia.
21. The implementation of the solutions offered by the Doctoral Thesis with the help of the governmental institutions may provide a considerable support to the operation of the Latvian companies both on the domestic market and in other EU internal market member states, which is particularly important to Latvia in the after-crisis period, at the time of economic stagnation or low growth rate state development period.
22. The state development estimation methodology proposed by the author of the Doctoral Thesis may be applied for Latvia's and the other EU member states' entrepreneurial environment and development evaluation in the EU internal market, for setting the priorities for the common EU operation and strengthening the competitiveness of individual EU member states.

Based on the results of the research, the author of the Doctoral Thesis comes up with the following **proposals**:

1. The methodology for estimation of state development presented in the Doctoral Thesis may be further advanced, widening the list of factors influencing state development and the corresponding indexes at each of the three development stages.
2. In order to improve the entrepreneurial environment in the EU internal market the European Commission should regularly review EU legal acts, where possible,

transforming directives into regulations, which is a less bureaucratic form of a legal act. The requirements included in the EU regulations are directly and equally applied in all EU internal market member states, eliminating the possibility of different interpretation of norms, thus improving the entrepreneurial environment in the EU internal market.

3. It is recommended to further develop improvement of Latvia's entrepreneurial environment and state development models, considering not only efficient functioning of free movement of goods and services in a certain EU internal market member state and the entire EU internal market, but also successful organization of free movement of capital and persons.
4. It is recommended to the EU internal market member states to use the IMI system created by the European Commission not only for communication between different EU internal market governmental institutions, but also for communication between competent authorities within one country (line ministries and subordinated institutions), further improving the entrepreneurial environment of the particular country.
5. It is recommended to the Ministry of Economics of the Republic of Latvia in cooperation with private companies to further develop the alert mechanism of short-term obstacles to free movement of goods in the EU, providing to companies a possibility to select a function on a mobile device on getting messages with alerts on short-term obstacles created by a certain country.
6. The competent governmental institutions should regularly review the model of effective functioning of the Point of Single Contact, evaluating the possibility for its further enhancement following the technological progress.
7. It is recommended to connect to the Point of Single Contact portal also other internet informative web pages and informative systems which not covered by this Doctoral Thesis, providing assistance to companies or in other way simplifying the entrepreneurship in Latvia, other EU internal market member states or the other world countries.
8. It is recommended to gradually implement the solution proposed by the author of the Doctoral Thesis with regard to improvement of information availability in the services sector, by ensuring e-services offered by governmental institutions via PSC, up to a capacity of the operational state budget.

Summing up the results of the research described in this Doctoral Thesis, the author concludes that the theses presented for defence are well substantiated and justified.