EVALUATION OF THE EXPORT POTENTIAL OF LATVIA WITH EU COUNTRIES CATEGORISED BY GROUPS OF GOODS
ERICA PANCENKO, TATYANA IVANOVA

ABSTRACT
The relevance of the research subject is related to the fact that exports are an integral part of the overall economic potential of any state and largely determine the pace of its economic development. The slowing of export growth relates to exports to the EU countries in recent years; the negative trade balance of Latvia with these countries increases the need to analyse the factors affecting the realisation of export potential and to search for opportunities to do so. The purpose of this study is to analyse the export potential of Latvia to the EU countries, categorised by groups of goods. To achieve the goal of the study, it was necessary to determine the essence of the export potential, identify factors that affect the implementation of the country’s export potential and assess the export potential of trade between Latvia and the EU countries by groups of goods. The study used quantitative and qualitative methods of analysis, statistical data analysis, as well as methods for assessing the potential of Latvian exports to the EU countries. As a result of the study, groups of goods with trade potential for export to the EU countries have been identified.

KEY WORDS
Foreign trade, export potential, competitiveness, indicative trade potential.

Introduction
The relevance of the research subject is due, on the one hand, to the conditions of the economic development of Latvia that have changed over recent years because of the uncertainty surrounding foreign policy and the economic situation, and on the other hand to the importance of foreign trade relations for the successful development of the economy of any country. The foreign trade relations of countries positively affect the growth of the global economy and largely determine the quality and standard of living of the population. Among other things, foreign trade relations allow countries around the world to use raw materials, materials, products, services and technologies which – for one reason or another – are inaccessible to them in domestic markets.
The majority of Latvian foreign trade relations are with the countries of the European Union; therefore an analysis of trade with these countries is most useful. In addition, the slowdown in the growth of trade with the EU countries in recent years, as well as a negative trade balance, should be noted. Thus, the mere analysis of the possibility of increasing exports, which is an integral part of the overall economic potential of any state and largely determines the pace of its economic development, is most important.

The purpose of the study is to analyse the potential of Latvian exports to the EU countries by product groups.

To achieve the goal of the study, the following tasks were put forward:

1. Determine the essence of export potential;
2. Identify factors affecting the realisation of the country’s export potential;
3. Define the methodology for assessing the country’s export potential;
4. Analyse the export potential of trade between Latvia and EU countries, categorised by product groups.

The study used methods of statistical analysis, a method for calculating the indicative trade potential (by product groups) and a qualitative assessment of factors affecting the country’s trade potential.

The work makes use of special economic literature on the chosen research topic, as well as statistical data from the Central Statistical Bureau of Latvia, the interactive Trade Map system, and other sources available on the Internet.

This study is a continuation of the work carried out by Pancenko and Ivanova (2016) on the definition of the EU countries to which Latvia has not realised its export potential. Such countries include Finland, Sweden, Germany, Austria, Greece, Croatia, Luxembourg, and Slovenia. In the study, only these countries will be used to determine the level of existing potential for Latvian exports. The availability of potential (demand) for certain goods will help to find out which areas of production and commercial activities in Latvia have the prospect of increasing sales.

This study may be of interest to Latvian exporters, both those already working with these countries and those who are looking for prospective markets for products identified in the study, for which there is trade potential in those countries.

1. Essence of export potential and factors affecting its realisation

Foreign trade is the interaction of a country with foreign countries in terms of the shipment of goods and services across national borders. It allows the state to receive additional income from the sale of national goods and services abroad, to fill the domestic market, to overcome the limitations of national resources, to increase labour productivity, and specialise in the supply of certain products to the global market (Salov, 2004; Kliestik et al., 2018). The task of the state in the field of foreign trade is to support the export of domestic products, since increased exports expand sales markets, and also have a positive impact on the competitiveness of export companies (Reppas and Christopoulos, 2005).

The development of exports of goods and services from a country depends to a large extent on their competitiveness on the world market. National competitiveness depends on the competitiveness of certain sectors of the economy, and the economy in turn depends on the competitiveness of enterprises operating in these sectors and, ultimately, on the competitiveness of the goods and services which these enterprises produce (Ultan and Rogovskaya, 2012; Chico et al., 2017). The competitiveness of
the state is closely connected with the concept of the country's export potential.

To understand the essence of the economic category of export potential, its various interpretations should be considered. In the Modern Economic Dictionary, this concept is defined as the potential capacity, or the ability, of a given country to export its available or produced resources and products (Raizberg et al., 2007). Semenova and Soboleva (2015) clarify that export potential is part of the goods and services that a certain country can sell on the international market without incurring losses for its own economy. Vasylchenko (2010) proposes considering export potential “first, as an aggregate of resources of the economic system; second, as the ability of the economic system to produce goods in demand on the world market; third, as an opportunity to sell these goods at the achieved level of development of economic, socio-political factors, foreign trade infrastructure and the system of integrated export support.”

The most complete definition, from the point of view of the authors of the article, was suggested by Rogov (2004) who understands the export potential of the country as the ability of the national economy, its industries, enterprises and companies to produce goods and services that are competitive on the world market by using both comparative national advantages and new competitive advantages, based on the achievements of science and technological progress (Rogov, 2004).

The export potential of the national economy, its sectors, industries, and enterprises has implications for the prospects for development on the external market, depending on the availability of resources and the possibilities for their mobilisation. Also, export potential can be considered as an indicator of competitiveness, which serves as confirmation of the real competitive advantages of the state on a global economic scale (Ultan and Rogovskaya, 2012).

Thus, the essence of the economic category “export potential” is as follows:

1. Export potential should be considered as a generalised assessment of the existing and unused capacities of the country, region, industry, or enterprise to export its goods and services;
2. Export potential can be the subject of research at all levels of the economy (state, industry, enterprise and their exported goods and services);
3. The country’s export potential is closely linked to the notion of national competitiveness and serves as an indicator of the state's competitiveness on a global scale.

The formation and realisation of the export potential of the country are influenced by various factors that must be taken into account for the development of foreign economic activity. Table 1 summarises the factors that are most often mentioned in the economic literature on foreign trade (Table 1).

<table>
<thead>
<tr>
<th>Factors</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Economic factors</td>
<td></td>
</tr>
<tr>
<td>• size of the economy (Egger, 2002; Baltagi et al, 2003)</td>
<td>The larger the economy of the exporting country, the greater the possibility of production for export, and the high GDP of the importing country means a large demand for imports</td>
</tr>
<tr>
<td>• level of free trade or restrictions (Wilson et al, 2003; Augier et al, 2005; Iwanow and Kirkpatrick, 2007; Pelipas et al., 2014; Pancenko and Ivanova, 2016)</td>
<td>Trade with countries which have a high level of protectionism may be more limited</td>
</tr>
<tr>
<td>2. Integration of the national economy into the global economic system (Sapir, 2001; Porojan, 2001; Buch and Piazolo, 2001; Wilson et al., 2003; Gradov, 2005; Paas and Tafenau, 2005; Bussiçre et al., 2005; Sarkera and Jayasinghe, 2007)</td>
<td>The higher the level of integration of a country into the global economy (free trade zone, customs union, common market, economic and monetary unions), the fewer trade barriers between member countries</td>
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<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>
| 3. Social factors  
- purchasing power of the population (Porojan, 2001; Baltagi et al., 2003)  
- common language (Fidrmuc and Fidrmuc, 2009; Egger and Lassmann, 2012) | – The higher the purchasing power of the population of the importing countries, the higher the demand for imports  
– The influence of a common history and established ties facilitates trade |
| 4. Infrastructure development level (transport communications) (Martinez–Zarzoso and Suarez–Burguet, 2005); Bensassi et al., 2014 | Developed transport communications significantly speed up the delivery procedure and allow faster and more profitable deliveries of goods |
| 5. Technological innovations (Martínez-Zarzoso and Márquez-Ramos, 2005) | A favourable climate for innovation in the country helps the development of industry and is a component of the development of export potential, which facilitates the expansion of the country’s participation in world trade |
| 6. Geographical position and potential of natural resources (Nitsch, 2000; Vasylychenko, 2010; Egger, 2008) | A favourable geographical position gives an advantage for trade with neighbouring countries and the choice of a more advantageous type of supply. The presence of natural resources increases the country’s competitiveness in foreign trade |

Source: Own elaboration.

The factors presented in Table 1 are analysed in the works of the majority of authors examining the export potential of countries. Thus, in works by all authors using gravity models to determine export potential, the GDP of the trading countries is necessarily analysed, and acts as a measure of their market size (Egger, 2002; Baltagi et al., 2003, etc.). GDP per capita (Porojan, 2001, Baltagi et al., 2003) is also used to assess the purchasing power of importing and exporting countries, since two countries with significantly different populations may have similar GDP but a completely different level of economic development. Some authors, when assessing export potential, take into account the membership of the exporting country in any association of countries, for example, whether the country is a member of the EU (EU membership) (Sapir 2001; Porojan 2001; Buch and Piazolo, 2001; Wilson et al, 2003; Paas and Tafenau, 2005; Bussiçre et al, 2005; Sarkera and Jayasinghe, 2007). This is due to the fact that the integration association (single economic space) provides not only free movement of goods, services, capital and labour on the common market, but is often associated with the introduction of a single currency, coordination of trade and financial policies, harmonisation of relevant legislation, and influence on export volumes and opportunities.

In addition to the above factors, studies also take into account other factors influencing bilateral trade, such as a common language (Fidrmuc and Fidrmuc, 2009; Egger and Lassmann, 2012), geographic characteristics, for example, the presence of common borders (Nitsch, 2000; Egger, 2008), the natural resource potential (Vasylychenko, 2010), the availability of technological innovations (Martínez-Zarzoso and Márquez-Ramos, 2005), and so on. Their use is justified by the fact that a common language, culture, preferential trading arrangements, and the presence of common boundaries are associated with increased mutual trade (Nurseiit, 2014).

A favourable climate for innovation in the country and investments in high technologies help the development of industry and create conditions for the development of the country’s export potential, which facili-
tates the expansion of the country’s participation in world trade.

It is customary to consider the distance between countries – which directly affects transportation costs – as the main factor restraining export potential, other things being equal. Nevertheless, a number of authors have shown that transportation costs depend not only on distance, but also on the level of development of public infrastructure (Martinez-Zarzoso and Suarez-Burguet, 2005, Bensassi et al., 2014).

Among other factors influencing the export potential of the country, a number of publications (Augier et al., 2005, Pelipas et al., 2014, Pancenko and Ivanova, 2016) assess the barriers to entry of exporters to the domestic market of other countries. The nature of such barriers can be different. Barriers can be caused by a high level of capital intensity, as a result of which enterprises can save on production scales, tariff discounts, territorial distribution of wholesale and retail trade points, natural monopoly, etc. (Gerasimov et al, 2009).


In reality, there are plenty of such factors; their number may vary depending on the specifics of the country’s trade or the influence of state policy.

2. Methodology of the study

An analysis of literature dedicated to issues of the evaluation of trade potential has demonstrated that no standard approach and general formula exist. Methodological approaches used for the evaluation of the export potential of an economic subject can be divided into quantitative and qualitative.

The quantitative approach supposes that the examiner obtains a specific quantitative value of export potential. Obtaining a quantitative evaluation is based on the use of a system of indicators (quantitative indicators), which give a general description of export level and dynamics, an evaluation of export commodity patterns and an assessment of export territorial-geographical structure.

The alternative (qualitative) approach is based on qualitative analysis of the most important individual factors affecting the export potential of a country, such as positive and negative trends in export development, investment climate, barriers to the increase in export volumes, and so on.

The choice of methods of analysis for a specific study is based on the subject and tasks of the study. At the current stage of the study, the task is to find out the key points (directions) for the development of exports: by commodity groups and by countries. Quantitative indicators are prevalent for the purposes of such analysis.

When choosing the approach to researching and assessing the export potential of Latvia’s trade with the EU countries, the authors of the study were guided by the following principles:

- conformity of the evaluation indicators to the selected areas of the study (for assessing the country’s export potential to EU countries grouped by product);
- availability of the necessary statistical information (indicators should be calculated based on the available information).

For the general characteristic of the level and dynamics of Latvia’s foreign trade, this study examines the dynamics of the volume of exports of goods, imports and trade turnover within the period of 2008-2017 according to Latvian statistics.

There are several indicators allowing the researchers to determine the prospects for the development of the country’s export
products in terms of international trade. One of these indicators is the country’s **net exports**, which is the difference between exports and imports and is a component of aggregate demand, calculated by Formula (1) (Ultan and Rogovskaya, 2012).

\[ X_n = Ex - Im \]  \hspace{1cm} (1)

Net exports can be either positive (if exports exceed imports, i.e. \( Ex > Im \)) or negative (in cases where imports exceed exports, i.e. \( Im > Ex \)).

In this study, the indicator of net exports is analysed in comparison with three groups of countries (EU countries, CIS countries and other countries).

To assess the geographical structure of exports of Latvian goods to the EU countries, the dynamics and structure of exports of goods to each EU member state were analysed.

To obtain a quantitative assessment of the export potential of Latvia’s trade with a group of EU countries for product groups, an **indicative trade potential** is calculated. **Indicative trade potential** is determined for specific goods that are exported from one country to another, and is expressed in the form of an additional volume of the supply of goods (or a reserve for increasing the supply of goods) in value terms.

For this:

1. Out of the entire set of goods (both of the exporter and importer), the goods that participate in mutual trade and for which there is a steady growth in the volume of supply (positive growth rates) are selected.

2. If these conditions are met, it can be assumed that there is a niche in the market of the importing country (partner country), which under other favourable circumstances may be occupied by the goods of the exporter’s country (in this case, Latvian goods).

For each selected item of goods, the export potential indicator or indicative potential is determined using Formula (2) (Trade Map, 2018).

\[ IPL_i = (\min(LEW_i; TIW_i)) - LET_i \]  \hspace{1cm} (2)

where:

- \( IPL_i \) – indicative potential of Latvia in trade with a particular EU country by \( i \) type of product;
- \( LEW_i \) – the value of Latvian exports on a global scale by \( i \) type of product;
- \( LET_i \) – the value of Latvian exports to a particular EU country by \( i \) type of product;
- \( TIW_i \) – import value of a particular EU country from the global market by \( i \) type of product.

This method of evaluation of indicative potential has a number of weaknesses:

1) the evaluation of potential only uses the quantitative indicator, which does not take into consideration many economic and political factors affecting the development of trade between countries. However, taking into consideration the fact that the present study evaluates the potential of trade between the EU countries, of which economic and political development is harmonised by means of common legislation, this drawback appears to be somewhat minor.

2) indicative potential should be considered as a conditional value of the maximum possible volume of exports of a specific product to a country within the current period of time.

**Restrictions** in the use of this method are associated with the following:

1) A given indicator allows the researchers to analyse the current economic relations between countries or the equivalent relations for a future short-term period, and not over the long
run. That is why the time period for the evaluation of economic potential was limited to 2017 (the last available information in the UN Comtrade database).

2) the outcomes of the evaluation of export potential by the summarised commodity items (4-digit product code) should only be considered as a stage of the study which is necessary to identify the directions of further analysis by types of products.

The database of the interactive system Trade MAP was used to calculate the indicative trade potential of Latvia with the EU countries. For the purposes of the calculation, items of goods were used (according to the 4-digit commodity code of the combined nomenclature (CN) used in the European Union), the volume of deliveries for which exceeded 1000 EUR per year.

3. Main findings of the study

Since 10 February 1999, Latvia has been a member of the World Trade Organisation and has free trade agreements with numerous countries. The dynamics of the foreign trade turnover of Latvia according to the Central Statistical Bureau of Latvia for the period 2008-2017 is presented in Figure 1.

The total turnover of Latvia in 2017 was 25,418.2 million EUR. This is 8405.4 million EUR more than in 2008 (17,012.8 million EUR). In general, the dynamics of the country’s foreign trade are positive, as in 2017 commodity turnover increased by 12.44% or by 2811.3 million EUR compared to 2016.

![Figure 1. Dynamics of Latvia’s foreign trade (in millions EUR)](image)

Source: Own elaboration based on CSB of Latvia data.

In the structure of foreign trade turnover, the examined Latvian imports exceeded exports throughout the period, which led to a trade balance deficit. Due to a more rapid increase in imports (by 13.98% or 1720.3 million EUR) compared to the increase in exports (by 9.93% or by 1029.8 million EUR), net exports in 2017 decreased by 690.5 million EUR and amounted to -2624.4 million EUR.

According to the Statistical Bureau of Latvia, the main trade partners of Latvia are the countries of the European Union, and therefore the trade balance deficit is also due to trade with these countries (Table 2).
Table 2. Foreign trade balance (net exports) of Latvia with EU, CIS and other countries 2008-2017 (in millions EUR)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>-4409</td>
<td>-1576</td>
<td>-1732</td>
<td>-2448</td>
<td>-2641</td>
<td>-2614</td>
<td>-2406</td>
<td>-2129</td>
<td>-1891</td>
<td>-2624</td>
</tr>
<tr>
<td>EU</td>
<td>-3516</td>
<td>-1358</td>
<td>-1595</td>
<td>-2247</td>
<td>-2816</td>
<td>-2953</td>
<td>-2648</td>
<td>-2299</td>
<td>-2146</td>
<td>-2765</td>
</tr>
<tr>
<td>CIS</td>
<td>-757</td>
<td>-350</td>
<td>-278</td>
<td>-359</td>
<td>-357</td>
<td>50</td>
<td>19</td>
<td>-271</td>
<td>-96</td>
<td>19</td>
</tr>
<tr>
<td>Other</td>
<td>-136</td>
<td>132</td>
<td>141</td>
<td>158</td>
<td>533</td>
<td>289</td>
<td>223</td>
<td>441</td>
<td>350</td>
<td>122</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on the CSB of Latvia data.

In 2017, the foreign trade balance (net exports) with the CIS countries and other countries was positive, whilst the deficit was 2765 million EUR in terms of trade with the EU countries.

Table 3. Distribution of exports to EU countries in 2015-2017 (thousands EUR, %)

<table>
<thead>
<tr>
<th>No.</th>
<th>EU countries</th>
<th>2015 (x1000 EUR)</th>
<th>2016 (x1000 EUR)</th>
<th>2017 (x1000 EUR)</th>
<th>2015 %</th>
<th>2016 %</th>
<th>2017 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>LT - Lithuania</td>
<td>1 989 018</td>
<td>1 884 084</td>
<td>1 913 388</td>
<td>26.48</td>
<td>24.81</td>
<td>23.65</td>
</tr>
<tr>
<td>2</td>
<td>EE - Estonia</td>
<td>1 207 514</td>
<td>1 246 655</td>
<td>1 318 141</td>
<td>16.08</td>
<td>16.42</td>
<td>16.29</td>
</tr>
<tr>
<td>3</td>
<td>DE - Germany</td>
<td>658 900</td>
<td>740 101</td>
<td>834 764</td>
<td>8.77</td>
<td>9.75</td>
<td>10.32</td>
</tr>
<tr>
<td>4</td>
<td>SE - Sweden</td>
<td>538 550</td>
<td>621 878</td>
<td>711 621</td>
<td>7.17</td>
<td>8.19</td>
<td>8.79</td>
</tr>
<tr>
<td>5</td>
<td>GB - United Kingdom</td>
<td>542 885</td>
<td>579 424</td>
<td>594 544</td>
<td>7.23</td>
<td>7.63</td>
<td>7.35</td>
</tr>
<tr>
<td>6</td>
<td>PL - Poland</td>
<td>615 939</td>
<td>528 094</td>
<td>518 778</td>
<td>8.20</td>
<td>6.95</td>
<td>6.41</td>
</tr>
<tr>
<td>7</td>
<td>DK - Denmark</td>
<td>417 275</td>
<td>480 212</td>
<td>494 072</td>
<td>5.56</td>
<td>6.32</td>
<td>6.11</td>
</tr>
<tr>
<td>8</td>
<td>NL - Netherlands</td>
<td>259 505</td>
<td>294 693</td>
<td>300 538</td>
<td>3.46</td>
<td>3.88</td>
<td>3.71</td>
</tr>
<tr>
<td>9</td>
<td>FI - Finland</td>
<td>190 278</td>
<td>204 974</td>
<td>232 898</td>
<td>2.53</td>
<td>2.70</td>
<td>2.88</td>
</tr>
<tr>
<td>10</td>
<td>FR - France</td>
<td>183 003</td>
<td>178 416</td>
<td>187 650</td>
<td>2.44</td>
<td>2.35</td>
<td>2.32</td>
</tr>
<tr>
<td>11</td>
<td>CZ - Czech Republic</td>
<td>175 899</td>
<td>143 547</td>
<td>182 143</td>
<td>2.34</td>
<td>1.89</td>
<td>2.25</td>
</tr>
<tr>
<td>12</td>
<td>IT - Italy</td>
<td>140 540</td>
<td>144 482</td>
<td>179 569</td>
<td>1.87</td>
<td>1.90</td>
<td>2.22</td>
</tr>
<tr>
<td>13</td>
<td>BE - Belgium</td>
<td>118 804</td>
<td>122 821</td>
<td>168 857</td>
<td>1.58</td>
<td>1.62</td>
<td>2.09</td>
</tr>
<tr>
<td>14</td>
<td>ES - Spain</td>
<td>133 398</td>
<td>107 736</td>
<td>129 188</td>
<td>1.78</td>
<td>1.42</td>
<td>1.60</td>
</tr>
<tr>
<td>15</td>
<td>SK - Slovakia</td>
<td>59 457</td>
<td>48 844</td>
<td>51 654</td>
<td>0.79</td>
<td>0.64</td>
<td>0.64</td>
</tr>
<tr>
<td>16</td>
<td>AT - Austria</td>
<td>53 984</td>
<td>42 486</td>
<td>50 746</td>
<td>0.72</td>
<td>0.56</td>
<td>0.63</td>
</tr>
<tr>
<td>17</td>
<td>HU - Hungary</td>
<td>48 979</td>
<td>43 133</td>
<td>48 390</td>
<td>0.65</td>
<td>0.57</td>
<td>0.60</td>
</tr>
<tr>
<td>18</td>
<td>IE - Ireland</td>
<td>26 500</td>
<td>29 016</td>
<td>38 294</td>
<td>0.35</td>
<td>0.38</td>
<td>0.47</td>
</tr>
<tr>
<td>19</td>
<td>BG - Bulgaria</td>
<td>35 042</td>
<td>40 998</td>
<td>29 108</td>
<td>0.47</td>
<td>0.54</td>
<td>0.36</td>
</tr>
<tr>
<td>20</td>
<td>RO - Romania</td>
<td>28 784</td>
<td>18 477</td>
<td>21 534</td>
<td>0.38</td>
<td>0.24</td>
<td>0.27</td>
</tr>
<tr>
<td>21</td>
<td>PT - Portugal</td>
<td>14 949</td>
<td>18 503</td>
<td>21 376</td>
<td>0.20</td>
<td>0.24</td>
<td>0.26</td>
</tr>
<tr>
<td>22</td>
<td>GR - Greece</td>
<td>17 515</td>
<td>15 606</td>
<td>13 530</td>
<td>0.23</td>
<td>0.21</td>
<td>0.17</td>
</tr>
<tr>
<td>23</td>
<td>CY - Cyprus</td>
<td>29 641</td>
<td>25 137</td>
<td>12 306</td>
<td>0.39</td>
<td>0.33</td>
<td>0.15</td>
</tr>
<tr>
<td>24</td>
<td>SI - Slovenia</td>
<td>8 693</td>
<td>9 882</td>
<td>11 722</td>
<td>0.12</td>
<td>0.13</td>
<td>0.14</td>
</tr>
<tr>
<td>25</td>
<td>MT - Malta</td>
<td>5 937</td>
<td>8 990</td>
<td>11 669</td>
<td>0.08</td>
<td>0.12</td>
<td>0.14</td>
</tr>
<tr>
<td>26</td>
<td>LU - Luxembourg</td>
<td>7 021</td>
<td>11 694</td>
<td>9 111</td>
<td>0.09</td>
<td>0.15</td>
<td>0.11</td>
</tr>
<tr>
<td>27</td>
<td>HR - Croatia</td>
<td>2 493</td>
<td>4 110</td>
<td>6 432</td>
<td>0.03</td>
<td>0.05</td>
<td>0.08</td>
</tr>
<tr>
<td>Latvia, total exports</td>
<td>7 510 503</td>
<td>7 593 993</td>
<td>8 092 024</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own elaboration based on CSB of Latvia data.
From the data in Table 3, it can be seen that the largest export partners of Latvia in 2017 were Lithuania (23.65%), Estonia (16.29%), and Germany (10.32%). The remaining top ten export partners include Sweden (8.79%), United Kingdom (7.35%), Poland (6.41%), Denmark (6.11%), Netherlands (3.71%), Finland (2.88%), and France (2.32%).

The volume of exports to most European countries is growing (highlighted in grey): the growth rate of Latvia’s exports to the EU countries in 2017 was 6.70%. In 2017, the volumes of deliveries decreased to a number of European countries, such as Poland, Bulgaria, Greece, Cyprus, and Luxembourg.

To assess trade potential, a group of European countries were selected in terms of their export potential for Latvia, including Austria, Germany, Greece, Luxembourg, Slovenia, Finland, Croatia, and Sweden (Pancenko and Ivanova, 2016).

To assess the potential of Latvia in terms of trade with each country, information on the export of Latvian goods to the above-mentioned countries and all over the world, as well as on imports from all countries, was analysed using the database and information analysis capabilities in the interactive Trade Map system. In particular, data was obtained that characterises the trends of trade flows for 2015-2017 and the indicative trade potential of Latvian goods in each country was calculated.

As a result of the analysis, data was obtained on the magnitude of the trade export potential in each country (Table 4).

<table>
<thead>
<tr>
<th>No.</th>
<th>Country</th>
<th>Trade potential (x1000 EUR)</th>
<th>Specific weight in total trade potential, %</th>
<th>Total items of goods exported into country</th>
<th>Number of items of goods with export potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Germany</td>
<td>1763225</td>
<td>32.25</td>
<td>601</td>
<td>52</td>
</tr>
<tr>
<td>2</td>
<td>Finland</td>
<td>1015957</td>
<td>18.58</td>
<td>491</td>
<td>28</td>
</tr>
<tr>
<td>3</td>
<td>Austria</td>
<td>1000014</td>
<td>18.29</td>
<td>213</td>
<td>11</td>
</tr>
<tr>
<td>4</td>
<td>Sweden</td>
<td>833360</td>
<td>15.24</td>
<td>479</td>
<td>42</td>
</tr>
<tr>
<td>5</td>
<td>Greece</td>
<td>354837</td>
<td>6.49</td>
<td>194</td>
<td>16</td>
</tr>
<tr>
<td>6</td>
<td>Slovenia</td>
<td>235398</td>
<td>4.31</td>
<td>167</td>
<td>10</td>
</tr>
<tr>
<td>7</td>
<td>Croatia</td>
<td>212400</td>
<td>3.88</td>
<td>130</td>
<td>6</td>
</tr>
<tr>
<td>8</td>
<td>Luxembourg</td>
<td>52543</td>
<td>0.96</td>
<td>51</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5467734</td>
<td>100.00</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on Trade Map data.

Thus, the total amount of trade export potential to the European Union countries at the end of 2017 was 5467.7 million EUR, which is more than 50% of the actual volume of exports to the EU for 2017.

Consequently, Latvian exporters have a large amount of unrealised potential when it comes to exports in European countries.

The largest volumes of export potential in Latvia are in trade with Germany (1763.2 million EUR or 32.25%), with Finland (1016.0 million EUR or 18.58%) and Austria (1000.0 million EUR or 18.29%). Significant opportunities to increase exports to Sweden, Greece, Slovenia and Croatia also exist.

Our analysis has demonstrated that the number of commodity items (according to the 4-digit commodity code of the combined nomenclature (CN) used in the European Union) with export potential is small in terms of the total number of exportable goods (on average less than 7%).

For example, in Germany, Latvia exports
601 commodity groups, of which 52 have export potential. Among them, telephone sets (8517), motor cars and other motor vehicles (8703), and motor vehicle parts & accessories (8708) have the most significant value (more than 100,000 EUR). Significant potential can also be seen in the following product groups: rape or colza seeds (3304), printed books, brochures and similar printed matter (4901), air conditioning machines (8415), lifting, handling, loading or unloading machinery (8428), automatic data-processing machines and units thereof (8471), parts suitable for use solely or principally with electrical apparatus (8538), and prefabricated buildings (9406).

The total volume of goods exported to Finland is 491 commodity groups, of which 28 have export potential. The most significant are motor vehicles and other motor vehicles (8703), parts & accessories of motor vehicles (8708), automatic data-processing machines (8471). Export potential is also visible in air-conditioning machines (8415), parts suitable for use solely or principally with electrical apparatus (8538), medical instruments and appliances (9018), seats (9401), and prefabricated buildings (9406).

The number of export items to Austria was 213, of which only 11 have export potential. The most significant are telephone sets (8517), parts & accessories of motor vehicles (8708). Export potential is also visible in food products (2106), beauty or make-up preparations (3304), and medical instruments and appliances (9018).

In Sweden 479 commodity items are exported, of which 42 have export potential. The following commodity items feature significant potential: plywood (4412), motor cars and other motor vehicles (8703), structures and parts of structures from aluminium (7610), machinery, plant or laboratory equipment (8419), lifting, handling, loading or unloading machinery (8428), seats (9401), and prefabricated buildings (9406).

In Greece 194 commodity items are exported, of which 16 with export potential. Significant positions (more than 40,000 EUR) are occupied by the following: automatic data-processing machines (8471), wood sawn/chipped lengthwise (4407), medical instruments and appliances (9018), sauces and mixed condiments (2103), machinery, plant or laboratory equipment (8419), and centrifuges (8421).

In Slovenia 167 items of goods are exported, of which 10 have export potential. Significant goods, in terms of potential, are the following: automatic data-processing machines (8471), medical instruments and appliances (9018). Products with potential also include plates, sheets, film of plastics (3921), plywood (4412), discs, storage devices and other media (8523).

The number of items exported to Croatia was 130, of which six have export potential. Significant goods, in terms of potential, are wood sawn/chipped lengthwise (4407), medical instruments and appliances (9018). Other products with potential are plywood (4412), centrifuges (8421), and electrical transformers (8504).

The export of goods from Latvia to Luxembourg is represented by 51 items of goods, of which two have trade potential. These are food products (2106) and mechanical appliances for spraying (8424).

A summary of the analysis of trade potential by product groups is presented in Table 5.
Table 5. Export potential of Latvia in EU countries by product groups, %

<table>
<thead>
<tr>
<th>No.</th>
<th>Sectors of products (according to CN)</th>
<th>Trade potential, (x1000 EUR)</th>
<th>Specific weight of products, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8 mechanical appliances, electrical machinery and equipment, vehicles, tools and various equipment</td>
<td>3 651 153</td>
<td>66.78</td>
</tr>
<tr>
<td>2</td>
<td>9 medical instruments and appliances, prefabricated buildings, furniture, optical fibres</td>
<td>700 011</td>
<td>12.80</td>
</tr>
<tr>
<td>3</td>
<td>4 wood and wooden products, printed matter</td>
<td>438 048</td>
<td>8.01</td>
</tr>
<tr>
<td>4</td>
<td>3 products of chemical industry</td>
<td>208 364</td>
<td>3.81</td>
</tr>
<tr>
<td>5</td>
<td>1 rape or colza seeds, cereal grains, pasta products</td>
<td>177 729</td>
<td>3.25</td>
</tr>
<tr>
<td>6</td>
<td>2 ready food products</td>
<td>97 903</td>
<td>1.79</td>
</tr>
<tr>
<td>7</td>
<td>7 metalware, glassware, jewellery</td>
<td>91 733</td>
<td>1.68</td>
</tr>
<tr>
<td>8</td>
<td>0 coffee, roasted or raw, live animals (cattle)</td>
<td>52 877</td>
<td>0.97</td>
</tr>
<tr>
<td>9</td>
<td>6 clothes, made-up articles of textile materials</td>
<td>49 819</td>
<td>0.91</td>
</tr>
<tr>
<td>10</td>
<td>5 felt</td>
<td>97</td>
<td>0.002</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5 467 734</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Own elaboration.

Table 5 shows that the goods with the highest potential (3651.1 million EUR) are in **Sector 8** – mechanical appliances, electrical machinery and equipment, vehicles, tools and various equipment. The goods of this sector are in demand by all countries analysed. In particular, 35% of the potential for Sector 8 is in Germany, 23% in Austria, 20% in Finland, 11% in Sweden, 6% in Greece, 3% in Slovenia, 1% in Croatia and less than 1% in Luxembourg.

- **Sector 9** – medical instruments and appliances, prefabricated buildings, furniture, and optical fibres. The export potential of goods included in this sector is distributed among countries as follows: Germany (25%), Sweden (25%), Finland (22%), Greece and Austria (8% each), Slovenia and Croatia (6% each). In Luxembourg, the export potential of goods from Sector 9 has not been identified.

- **Sector 4** – wood and wooden products, and printed matter. The export potential of goods included in this sector is as follows: Croatia (26%), Sweden (25%); Germany (20%), Greece (15%), Slovenia (9%), Finland (5%). In Austria and Luxembourg, the export potential of goods from Sector 4 has not been identified.

- **Sector 3** – products of chemical industry: beauty or make-up preparations, soap, preparations for oral hygiene, and plastic products. The export potential of goods included in this sector is categorised by country as follows: Germany (25%), Austria (24%), Sweden (17%); Finland and Slovenia (15% each), Greece (4%). In Croatia and Luxembourg, the export potential of goods from Sector 3 has not been identified.

- **Sector 1** – rape or colza seeds, cereal grains, and pasta products. The export potential of goods included in this sector is distributed among countries as follows: Germany (68%), Sweden (16%), Finland (12%), Greece (4%). In Austria, Slovenia, Croatia, and Luxembourg, the export potential of goods from Sector 1 has not been identified.

- **Sector 2** – ready-made foods. The export potential of the goods included in this sector is distributed among countries as follows: Austria and Luxembourg (40% each), Greece (14%)
and Germany (6%). In Sweden, Finland, Slovenia, and Croatia, the export potential of goods from Sector 2 has not been identified.

- **Sector 7** – metalware, glassware, jewellery. The export potential of goods included in this sector is distributed among countries as follows: Sweden (69%); Germany (28%), Finland (3%). In Greece, Austria, Slovenia, Croatia, and Luxembourg the export potential of goods from Sector 7 was not revealed.

- **Sector 0** (includes codes CN 0101-0910) – coffee, roasted or raw, and live animals (cattle). The export potential of the goods included in this sector is distributed among countries as follows: Finland (67%), Slovenia (25%), Sweden (8%). In Germany, Greece, Austria, Croatia, and Luxembourg, the export potential of goods from Sector 0 was not revealed.

- **Sector 6** – clothes, and made-up articles of textile materials. The export potential of goods included in this sector is distributed among countries as follows: Germany (56%), Sweden (31%), Finland (13%). In Greece, Austria, Slovenia, Croatia, and Luxembourg, the export potential of goods from Sector 6 has not been identified.

- **Sector 5** – felt. The export potential of goods included in this sector was identified only in Sweden (100%).

**Conclusions**

1. The export potential represents the potential capability of a given country to export its products or resources, and is the main indicator of competitiveness as well as a tool for promoting national interests throughout the global economy.

2. Latvian exporters have large unrealised export potential in European countries: its total value as of the end of 2017 was 5467.7 million EUR, which is more than 50% of the actual volume of exports to the EU in 2017.

3. Latvia has the largest volumes of export potential in trade with Germany: 32.25% of the total potential capacity. Significant opportunities exist to increase exports of goods to Finland, Austria, and Sweden.

4. The commodity items belonging to the 8th sector have the greatest potential (66.78%) – mechanical appliances, electrical machinery and equipment, vehicles, tools and various equipment; commodity items belonging to the 9th sector (12.80%) – medical instruments and appliances, prefabricated buildings, furniture, optical fibres; commodity items belonging to the 4th sector (8.01%) – wood and its products, printed matter. The share of the remaining commodity items in total export potential does not exceed 4 percent.

**Proposals**

1. Familiarise Latvian exporters (producers and merchants) and export organisations with the findings of the study. The targeted promotion of goods with export potential on specific markets will contribute to the development and increase of Latvia’s exports.

2. State organisations should support exporters, assisting in market research and market promotion of Latvian goods as well as supporting and stimulating research on issues related to export development.

3. Continue efforts to discover what opportunities are available to Latvia to increase the export of individual products in order to realise export potential, as well as to identify barriers to the increase in export volumes of Latvian manufacturers and merchants.
References


Erika Pancenko, PhD, is Assistant Professor at the Department of Economics and Finances at RISEBA University, and teaches courses related to finance and investments. She conducts scientific research, and was a participant in research projects for the LR Competition Council, the LR Ministry of Economy and LR Ministry of Agriculture. Current research includes the analysis of Latvia’s export potential with different countries.

Tatiana Ivanova, PhD, is Assistant Professor at the Department of Economics and Finances at RISEBA University, and teaches courses related to accounting. She conducts scientific research, and was a participant in research projects for the LR Competition Council, the LR Ministry of Economy and LR Ministry of Agriculture. Current research includes the analysis of Latvia’s export potential with different countries.