

Too few locally produced goods on the shelves of Latvian shops: Reality or myth?

A BICEPS and SSE Riga Report
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The issues

- Too few Latvian produced food products available in Latvian shops??
- *Diena.lv* article 19.02.2009: shock that products such as pickled cucumbers are prepared and pre-packed in India, Turkey, and Hungary.
- Does popular perception correspond to reality?
- How does Latvia compare internationally?

Methodology

- International trade permits specialisation, specialisation generates gains from trade
- 100% self-sufficiency in all products means no gains from trade.
- Efficient pattern of specialisation determined by comparative advantage and factor endowments
- Comparative advantage: empirically inferred using the method of Revealed Comparative Advantage (RCA)

Revealed Comparative Advantage, RCA

$$RCA_{food} = \frac{EX_{food} - IM_{food}}{EX_{food} + IM_{food}}$$

Revealed Comparative Advantage, RCA

$RCA > 0$: A country has a revealed comparative advantage

$RCA < 0$: A country has a revealed comparative disadvantage

$-1 < RCA < 1$

RCA, food and beverages, 2008

Latvia	- 0.112
Estonia	- 0.184
Lithuania	0.014
Denmark	0.199
Finland	- 0.396

RCA, meat, 2008

Latvia	- 0.590
Estonia	- 0.382
Lithuania	- 0.222
Ireland	0.613
Sweden	- 0.685

RCA, fish, 2008

Latvia	- 0.137
Estonia	- 0.078
Lithuania	- 0.301
Ireland	0.521
Austria	- 0.830

RCA, preparations of meat and fish, 2008

Latvia	0.438
Estonia	0.032
Lithuania	0.377
Poland	0.617
UK	- 0.737

RCA, dairy products, 2008

Latvia	0.254
Estonia	0.482
Lithuania	0.548
Poland	0.643
Romania	- 0.661

RCA, cereals, preparations of cereals, 2008

	Cereals	Processed cereals
Latvia	0.541	- 0.301
Estonia	0.392	- 0.395
Lithuania	0.624	- 0.103
Hungary	0.837	- 0.290
Italy	- 0.516	0.533

Self-Sufficiency

$$SS_{food} = \frac{\textit{production of food for domestic consumption}}{\textit{total consumption of food}}$$
$$= \frac{\textit{domestic production of food} - EX_{food}}{\textit{domestic production of food} + IM_{food} - EX_{food}}$$

Self-Sufficiency

$$0 < SS < 1$$

SS = 0: All domestic consumption is imports

SS = 1: All domestic consumption is domestically produced (zero imports)

Self-sufficiency ratios, export ratios, import ratios – food and beverages

	Self-sufficiency	Exports	Imports
Latvia	51.2	39.5	48.8
Estonia	43.6	49.2	56.4
Lithuania	47.5	52.3	52.5
Poland	83.0	22.3	17.0
Netherlands	16.9	87.9	83.1

Self-sufficiency ratios, export ratios, import ratios – food

	Self-sufficiency	Exports	Imports
Latvia	50.1	40.0	49.9
Estonia	43.4	47.8	56.6
Lithuania	41.7	59.6	58.3
Poland	80.5	25.5	19.5
Netherlands	14.9	89.4	85.1

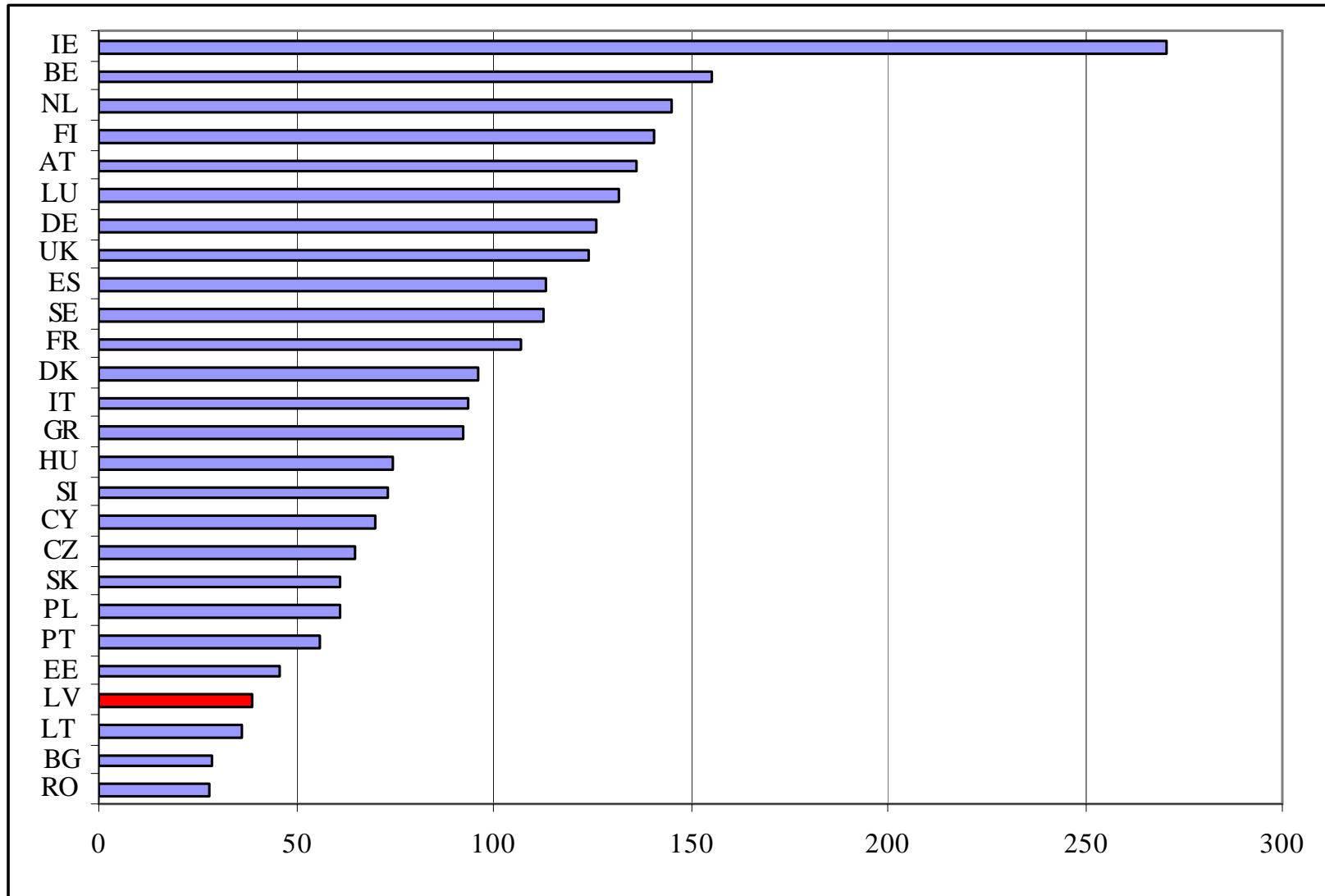
Self-sufficiency ratios, export ratios, import ratios – milk, cream and cheese

	Self-sufficiency	Exports	Imports
Latvia	79.6	33.9	20.4
Estonia	91.5	33.9	8.5
Lithuania	84.4	47.2	15.6
Romania	93.8	2.3	6.2
Belgium	46.1	51.1	53.9

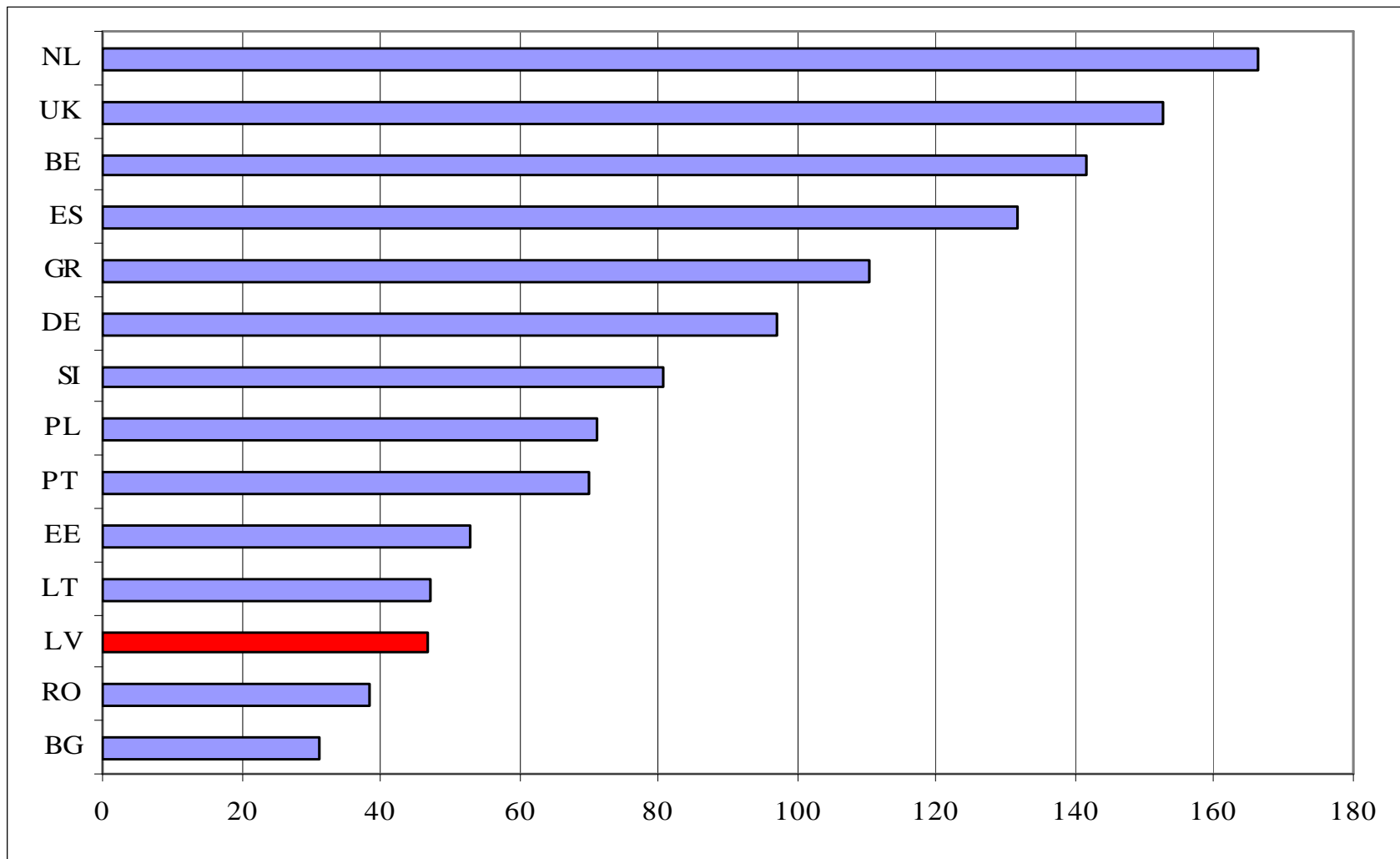
Self-sufficiency ratios, export ratios, import ratios – meat

	Self-sufficiency	Exports	Imports
Latvia	76.8	6.3	23.2
Estonia	71.9	11.8	28.1
Lithuania	79.1	20.3	20.9
Finland	94.8	4.8	5.2
Greece	41.1	2.7	58.9

Labour productivity, manufacturing

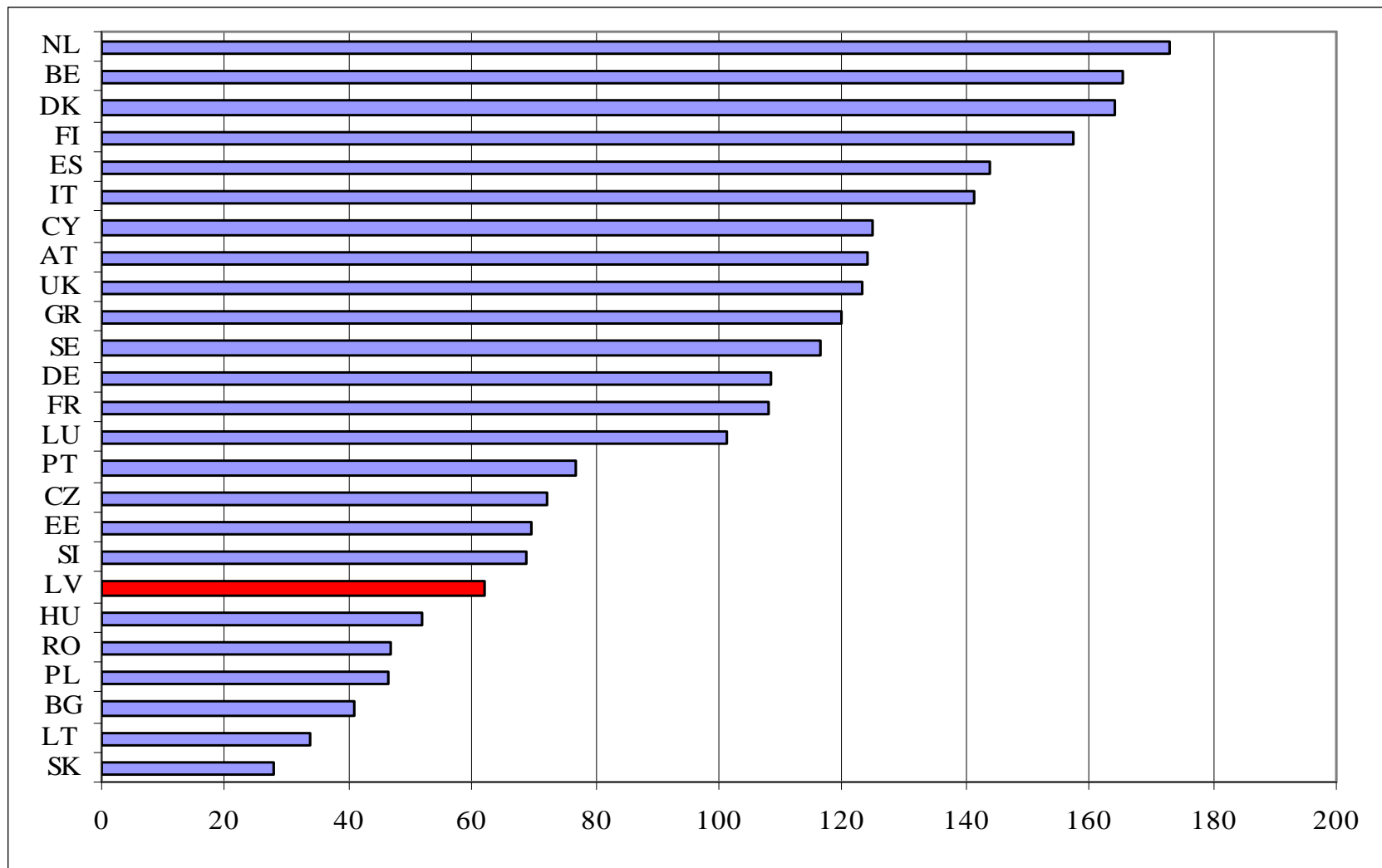


Labour productivity, food and beverages



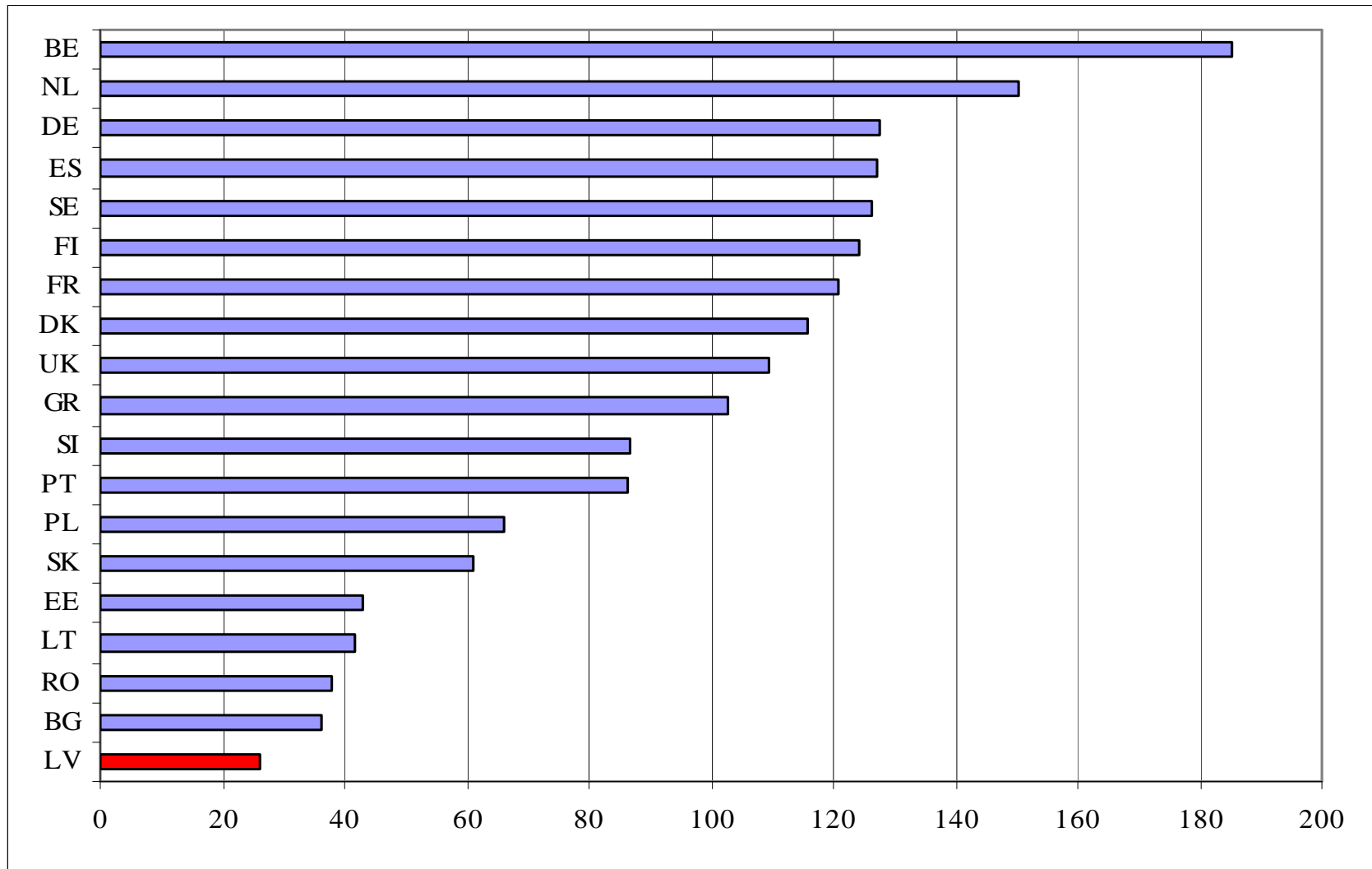
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Labour productivity, meat and meat products



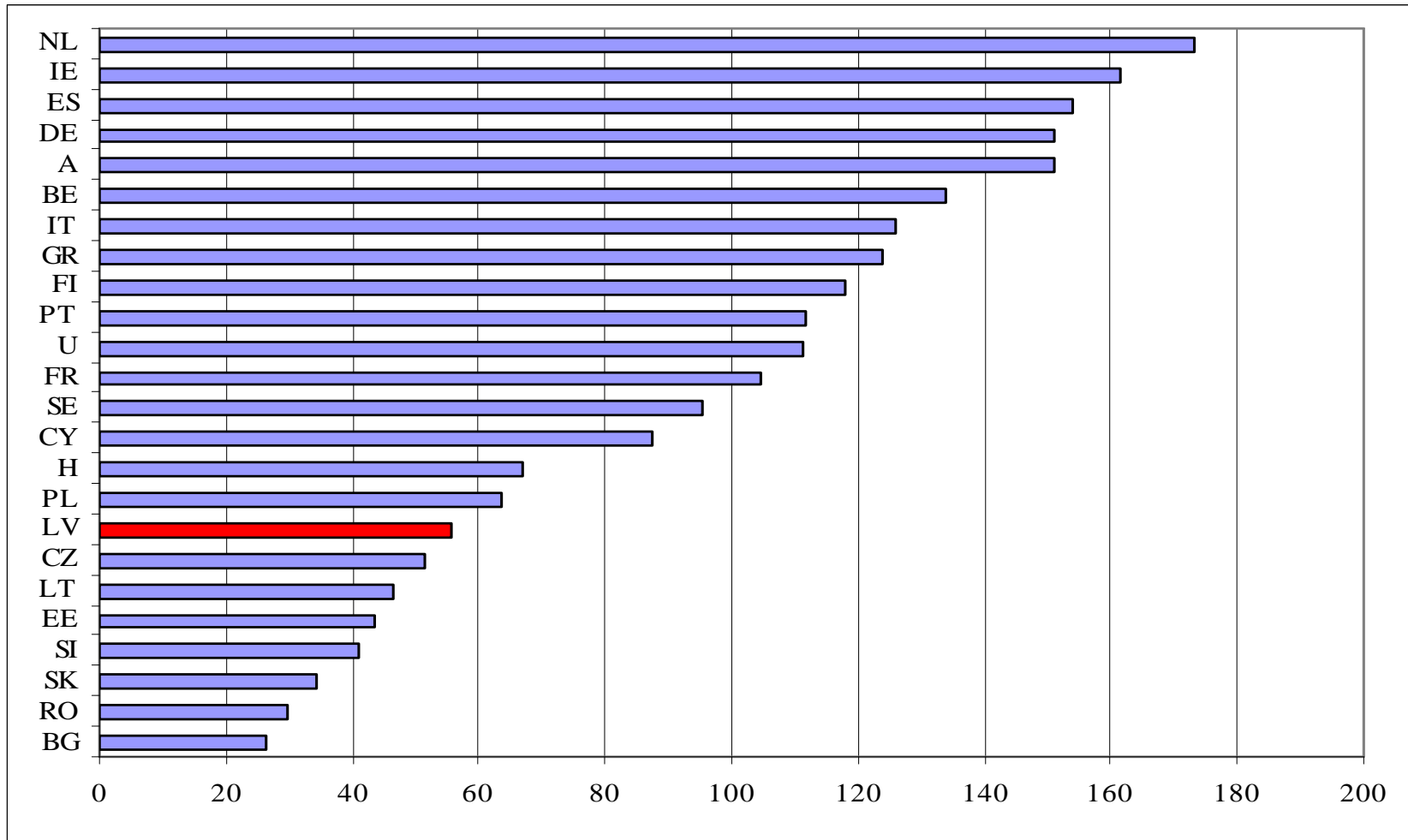
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Labour productivity, fish products



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Labour productivity, dairy products



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Conclusions and suggestions (1)

- RCA: Latvia does not have a comparative advantage in food products as a whole
- Only Hungary, Denmark and Netherlands have strong RCA in food products
- Individual products: strong Latvian RCA in fish and meat products, and dairy products
- Contrast between RCA in cereals and cereal products
- Self sufficiency: Latvia is marginally more self sufficient than Estonia and Lithuania

Conclusions and suggestions (2)

- Self sufficiency:
 - Latvia is marginally more self sufficient than Estonia and Lithuania
- Netherlands, Belgium are low self-sufficiency countries
- Poland and Romania are low self-sufficiency countries
- Low self sufficiency \longleftrightarrow high exports
- High self sufficiency \longleftrightarrow low exports

Conclusions and suggestions (3)

- Productivity in Latvia and other Baltic states generally low
- Productivity in high exporting countries is high
- For Latvia's most 'competitive' product (fish products) is less than 30% of EU average

Conclusions and suggestions (4)

- No lack of RCA or self sufficiency
- Low productivity is the real problem for Latvian food producers
- What to do?
 - Investigate and identify success factors in Netherlands, Denmark eg education
 - Identify factors that promote innovation in food products
 - Resources for both producer learning and research should be available from structural funds