

Sectoral import dependency in Latvia

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I. INTRODUCTION

Latvia’s economy as any small open emerging economy has a considerably highly import dependency due to the specifics of its economic structure, economic development, limited availability of domestic resources, globalization, geographical location, available technologies etc. The aim of the research is to analyse in detail the sectoral import dependency, analysing the dynamics on the basis of input-output tables, as well detecting the major influencing factors that facilitate or slow down the dependency on the imported goods.

II. METHOD

The object of research is intermediate consumption of imported and domestically produced goods and services, as well as the dynamics in the research period. In the research, the quantitative and qualitative data analyses methods as well as analytic method have been used in the research. The ratio of import dependency is computed according the following formula:

$$imp_dep_{i,t} = \frac{imp_{i,t}}{imp_{i,t} + dom_{i,t} + valu_{i,t}} = \frac{imp_{i,t}}{out_{i,t}}, \quad (1)$$

where $imp_dep_{i,t}$ - the ratio of import dependency of the industry i in the time period t ; $imp_{i,t}$ – the use of imported goods by the industry i in the time period t ; $dom_{i,t}$ – the intermediate consumption of domestic goods; $valu_{i,t}$ – value added (incl.taxes); $out_{i,t}$ – output.

In the study, there are used Latvia’s input-output tables that are elaborated within World Input-Output Database’s (WIOD) project. It should be stressed that WIOD are available for the period 1995-2009 and it give the values of transactions among 35 industries in 40 countries (incl. Latvia) plus the 'Rest of the World' and from these industries to households, governments and users of capital goods in the same set of countries [1].

Nevertheless, the study focuses on the latest decade – the research period is the time period from 2000 till 2009. This time period is very important in Latvia’s economic development as significant events took place. For instance, the end of privatization process, the preparation (2000-2004) and actual membership in the European Union (2004-), fast economic growth (including real estate boom) (2005-2008), as well economic slowdown (started in 2009). This decade might be the most important in Latvia’s economic history, hence even more it is significant to analyse the processes, relations, causalities etc. Many studies are devoted to macroeconomic level researches and results reveal the macro level outcomes, but, at the same time, this is the first study that research this topic in such a high sectoral disaggregation (economy is subdivided into 35 industries).

III. ANALYSIS AND RESULTS

The research results argue that a general (true for all 35 industries) trend is not observable. There are industries that relatively much use imported goods and the share of imported

goods in cost structure has increased. In the paper, the results of two industries are presented. The production of food and beverages – in 2000, the imported goods accounted for 11.2% of its direct production costs, but in 2009 – 15.0% (mainly the imported goods of the same industry (imported food and beverages) (33% of total consumption of imported goods by this industry), agricultural goods (20%), paper (11%), petroleum products (6%), rubber and plastics (6%)). Figure 1 illustrates the dynamics of the import dependency of the production of food and beverages, as well the minimum and maximum level of this indicator in the research period.

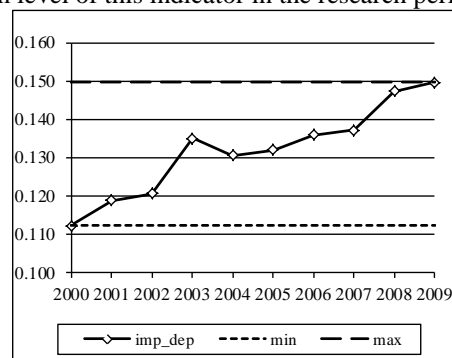


Fig. 1. Dynamics of the import dependency of the production of food and beverages in Latvia in 2000-2009.

The production of wood products is the second largest manufacturing branch; and it relatively heavily relies on the imported goods (as chemicals (23% of total consumption of imported goods by this industry), imported products of wood (21%), petroleum products (17%)) despite the fact that wood and timber resources are widely available in Latvia. The introduction of larger timber export duty by Russia in 2007 resulted in a sharp decline of use of imported timber and decline of import dependency (See Fig.2).

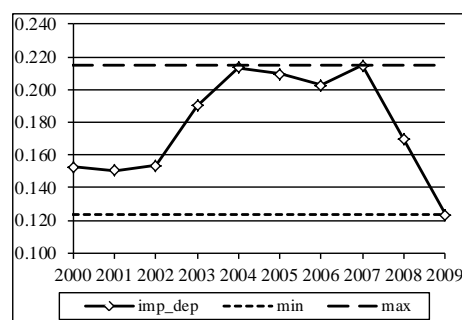


Fig. 2. Dynamics of the import dependency of the production of wood products in Latvia in 2000-2009.

IV. CONCLUSIONS

It is concluded that Latvia’s manufacturing branches have higher import dependency ratio than other sectors (financial intermediation, transport, education etc.), and the import dependency is heavily affected by external and internal factors (export duty changes in supplier country, global economic crisis (global price change) and others).

V. REFERENCES

- [1] E. Dietzenbacher, B.Los, R. Stehrer, M. Timmer, G.de Vries, “The construction of world input-output tables in the WIOD project” in Economic Systems Research, Vol. 25, Issue 1, 2013, pp 71-98.