

**Trade and Competitiveness:
The Latvian Economy is catching
up nonetheless**

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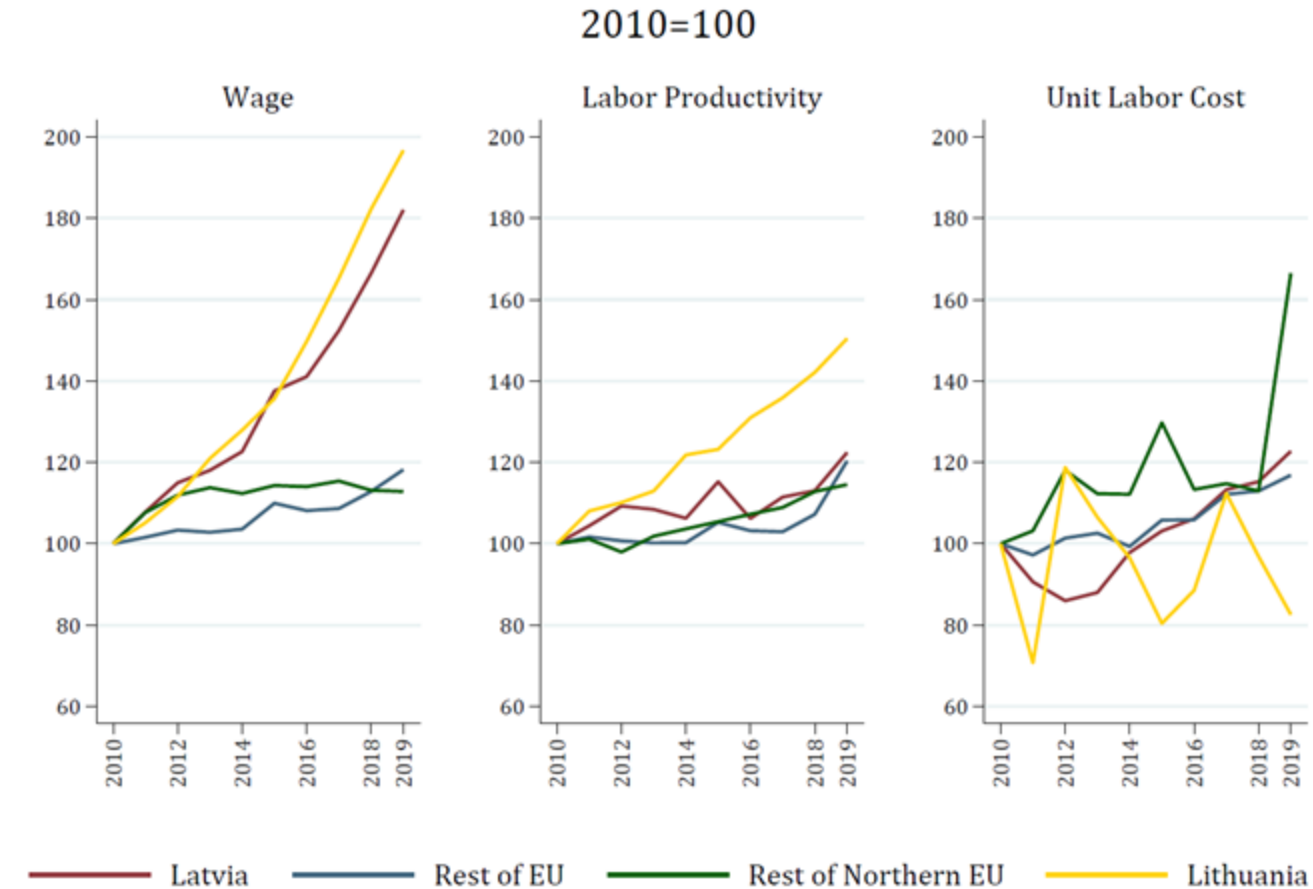


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Roadmap

1. **Overview** of Latvia's main structural issues that prevent Convergence to the EU standards
2. Exploration at the **macro-sector level**
3. Analysis of **resource allocation** (employment and capital) by:
 - i. Size class
 - ii. Technology and Knowledge intensive sector
 - iii. Labor Productivity distribution
4. Analysis of **Concentration and Reallocation** trends
5. **GVC Linkages**: overview of TFP growth
6. Conclusions

Overview

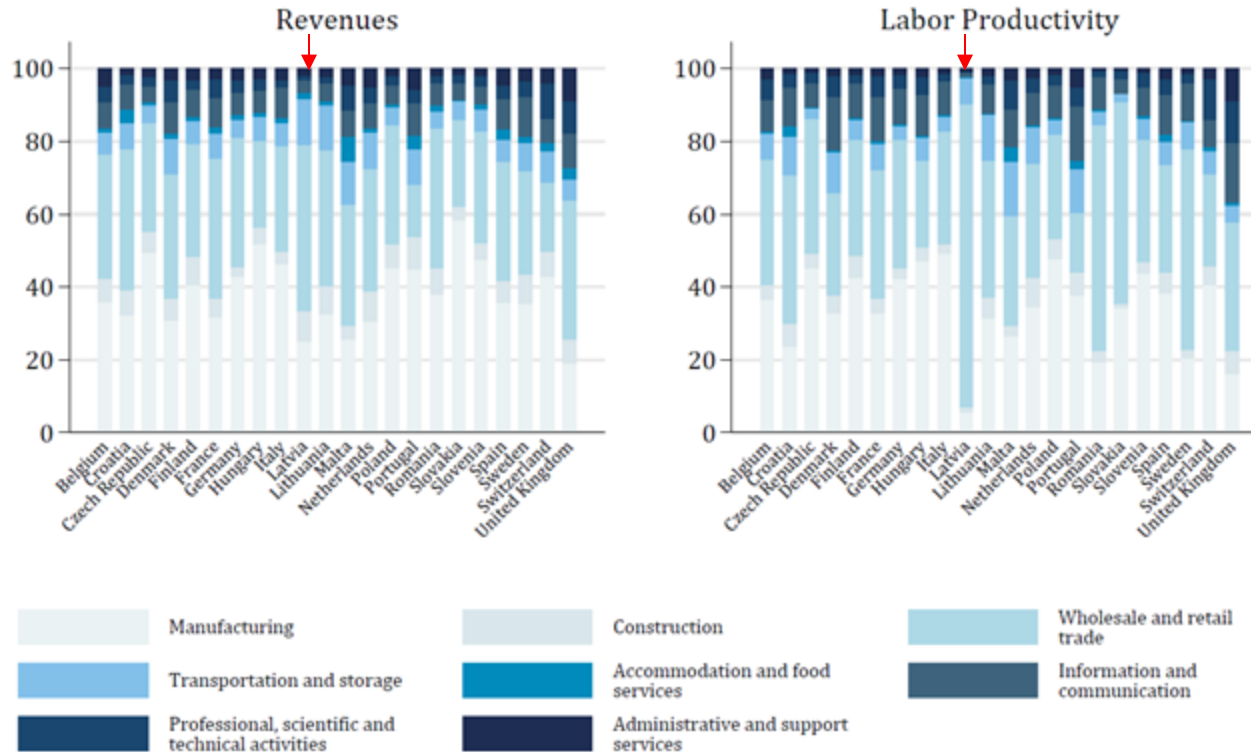


Source: CompNet 9th Vintage, unconditional_mac_sector_20e_weighted.dta.

- Not much evidence exists that Latvia is catching up in terms of **labor productivity**

Macro-sectoral composition

Share by macro-sectors, %

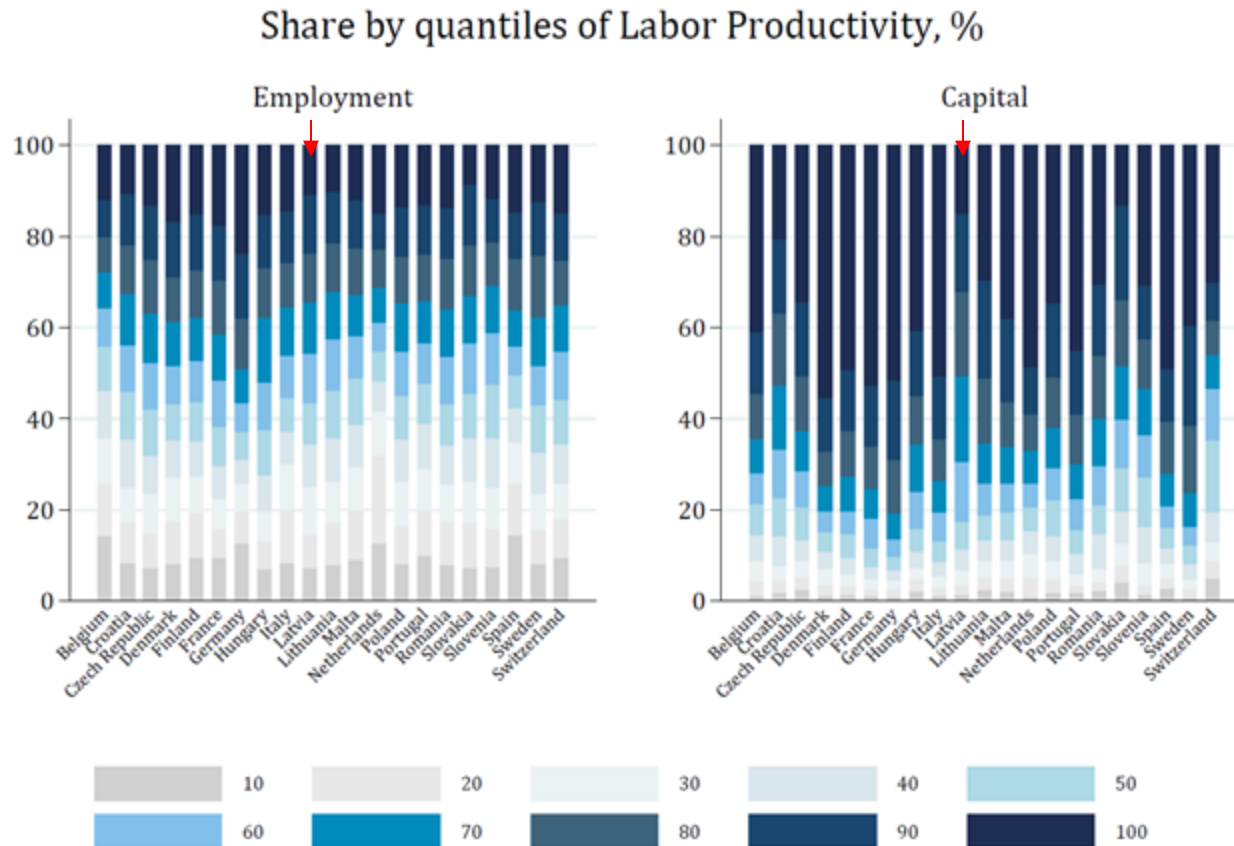


Source: CompNet 9th Vintage, unconditional_mac_sector_20e_weighted.dta.

Note: Share on labor productivity is equal to the contribution to the national average for labor productivity weighted by revenues. Average over 2010-2019. Last year for DE is 2018.

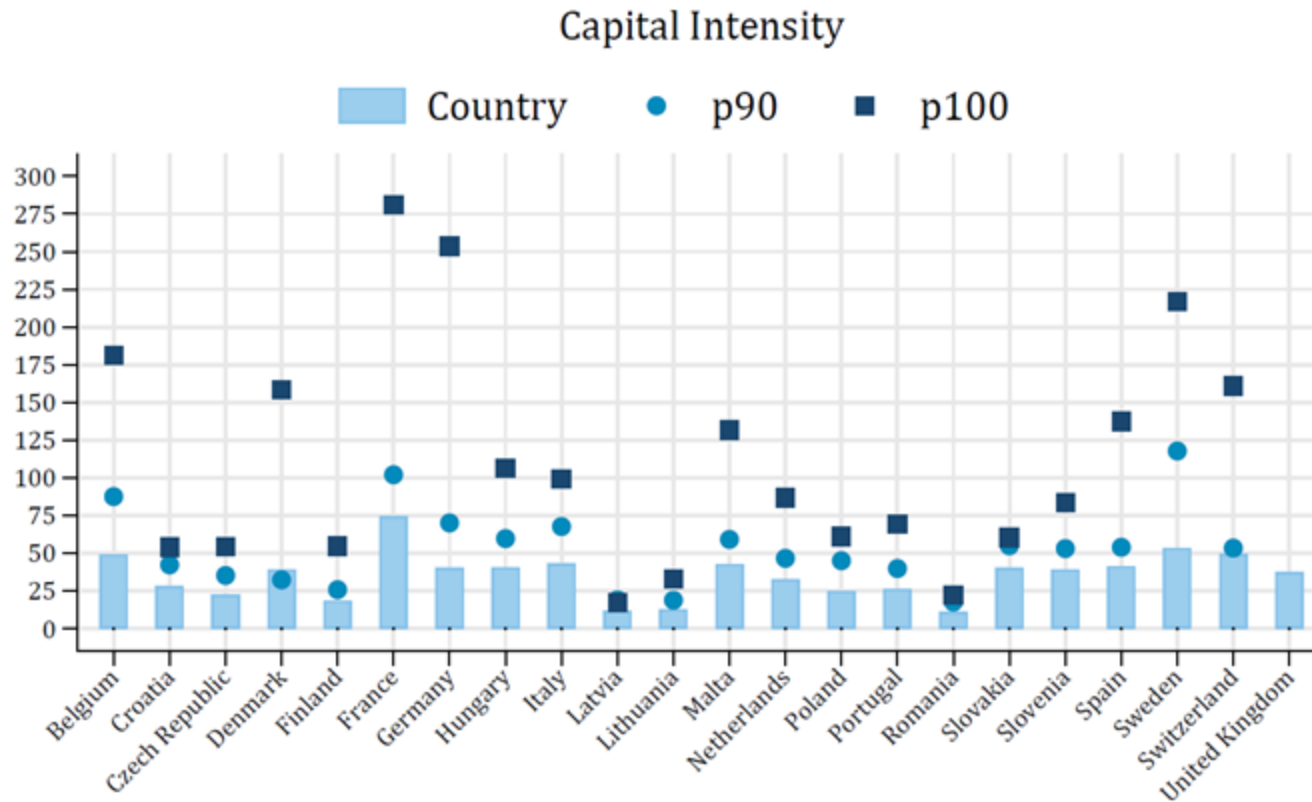
- Latvia displays the highest share of **Wholesale & Retail** trade on revenues (45.71%) followed by Croatia (38.68%) and France (38.58%)
- Asymmetries between the productivity levels of different macro-sectors

Resource Allocation



- The allocation of employment across deciles of labor productivity is tendentially homogeneous across the EU.
- Latvia is the country with the lowest share (32.13%) of total capital allocated to the top 2 percentiles of labor productivity

Resource Allocation

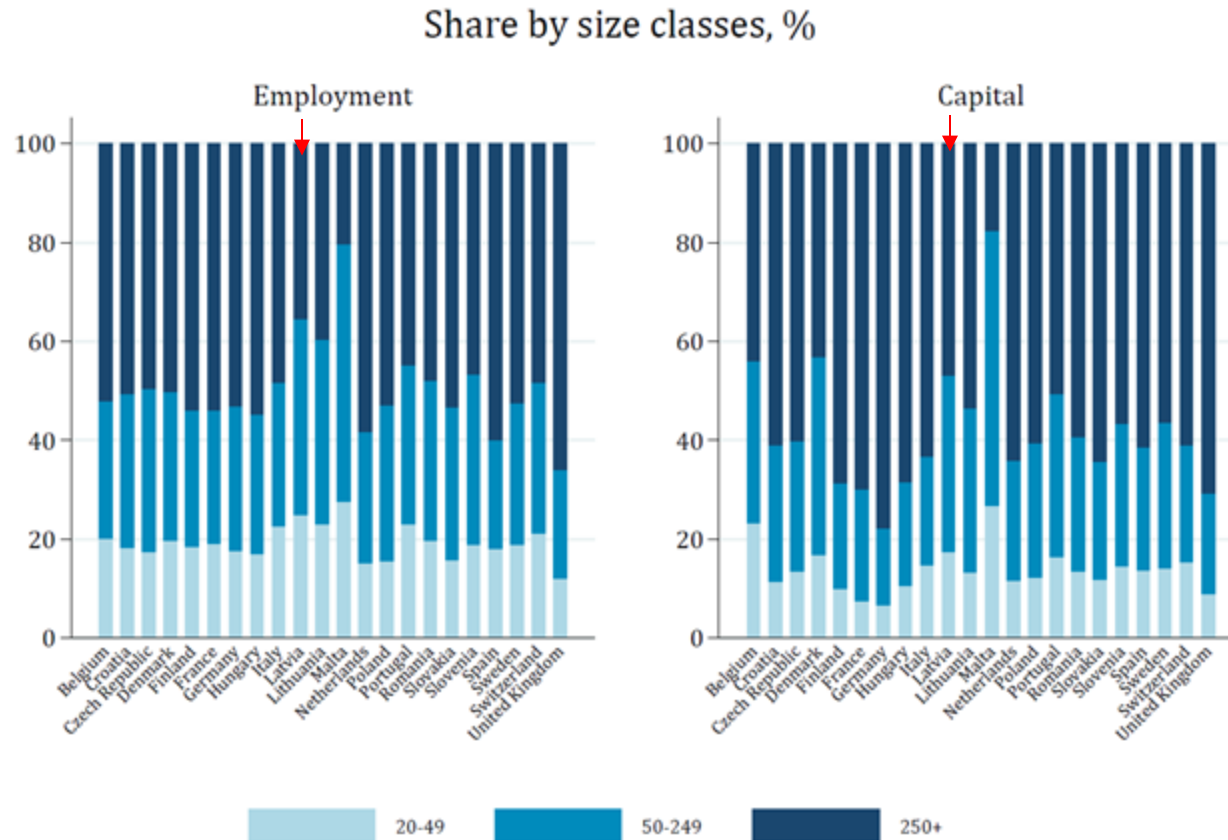


Source: CompNet 9th Vintage, unconditional_country_20e_weighted.dta and jd_inp_country_20e_weighted.dta.

Note: Capital intensity is equal to capital per worker. Average over 2010-2019. Last year for DE is 2018. Data on p90 and p100 for the United Kingdom are missing.

- Latvia appears under-capitalized for the European standards, with firms in the upper tail of the labor productivity distribution falling behind firms from the other member states.

Resource Allocation

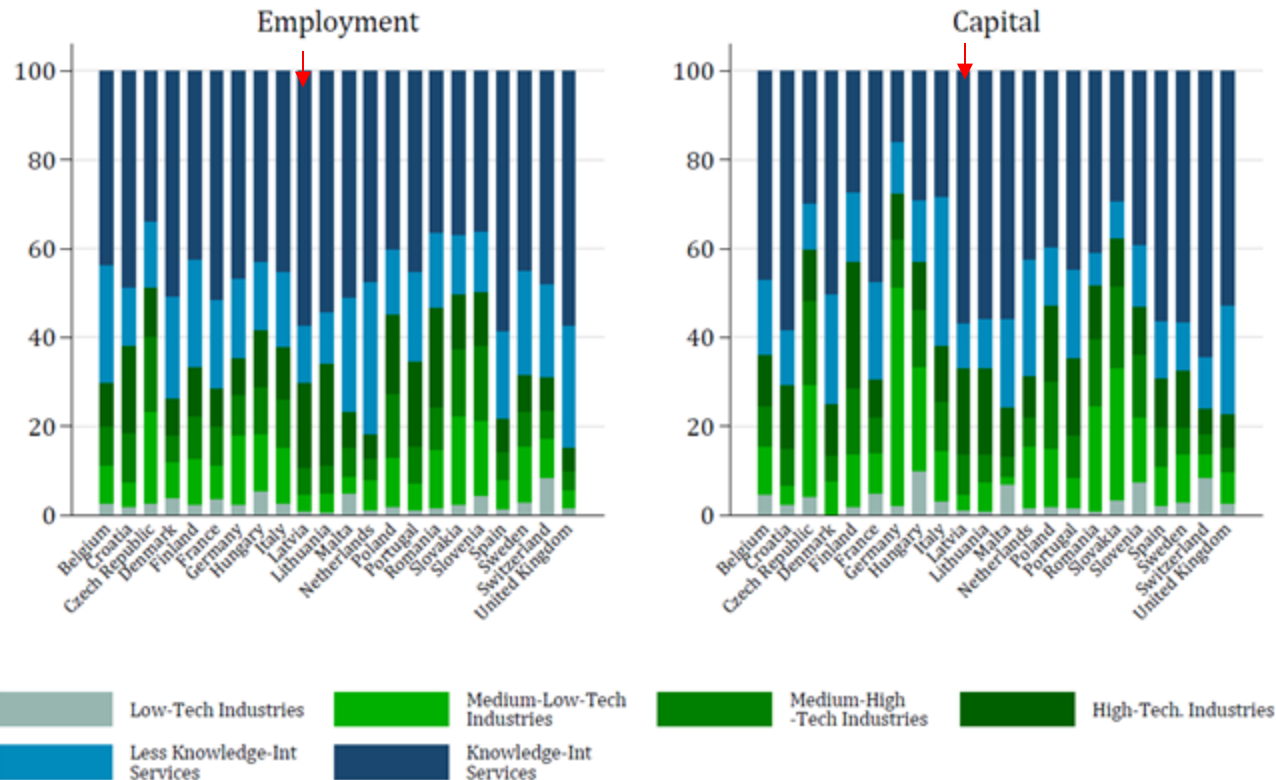


Source: CompNet 9th Vintage, unconditional_macsec_szcl_20e_weighted.dta.
Note: Average over 2010-2019. Last year for DE is 2018.

- Latvia (and Lithuania)'s share of employment and capital allocated to the largest firms (by employment) is low in comparison with most of the other EU countries.

Resource Allocation

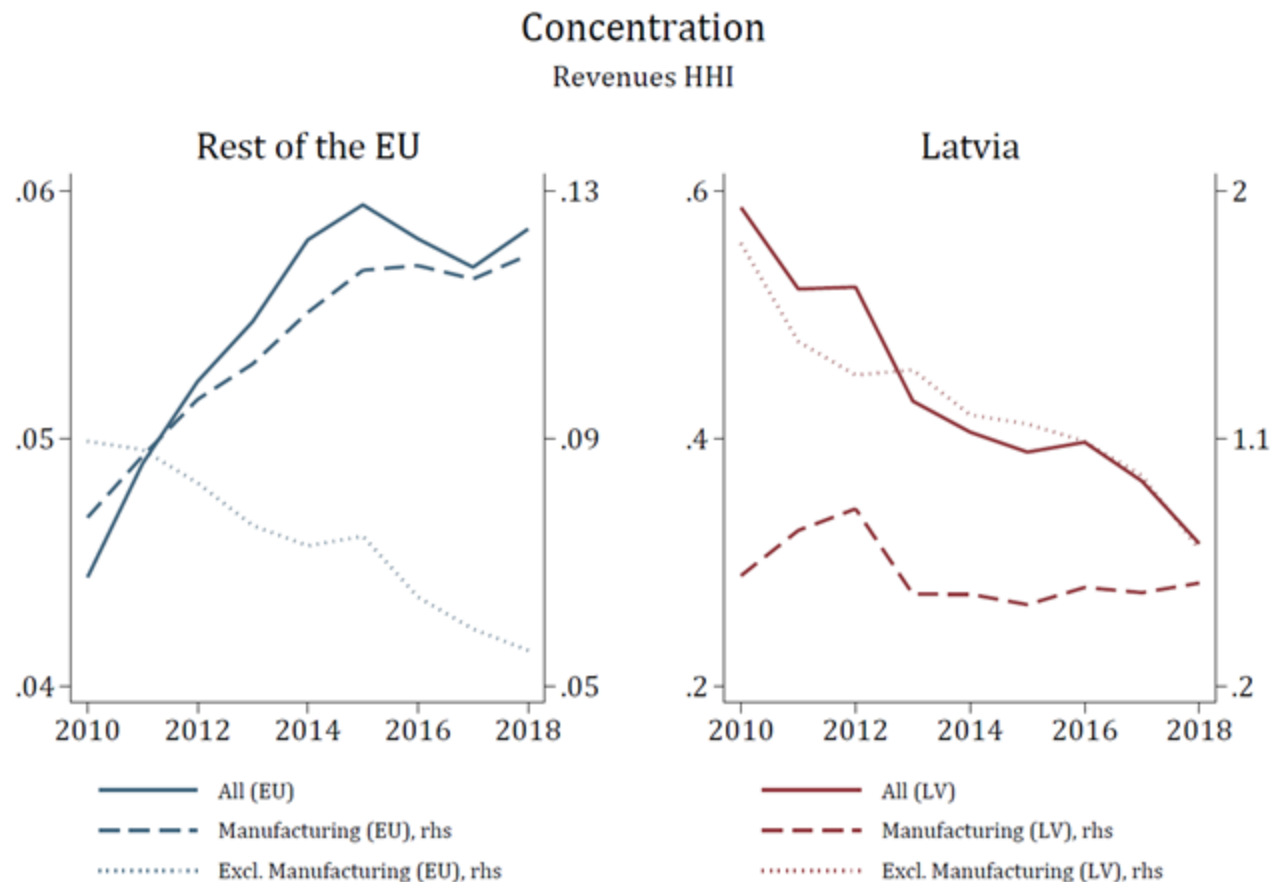
Share by classes of technology and knowledge intensity, %



Source: CompNet 9th Vintage, unconditional_techknol_20e_weighted.dta.
Note: Average over 2010-2019. Last year for DE is 2018.

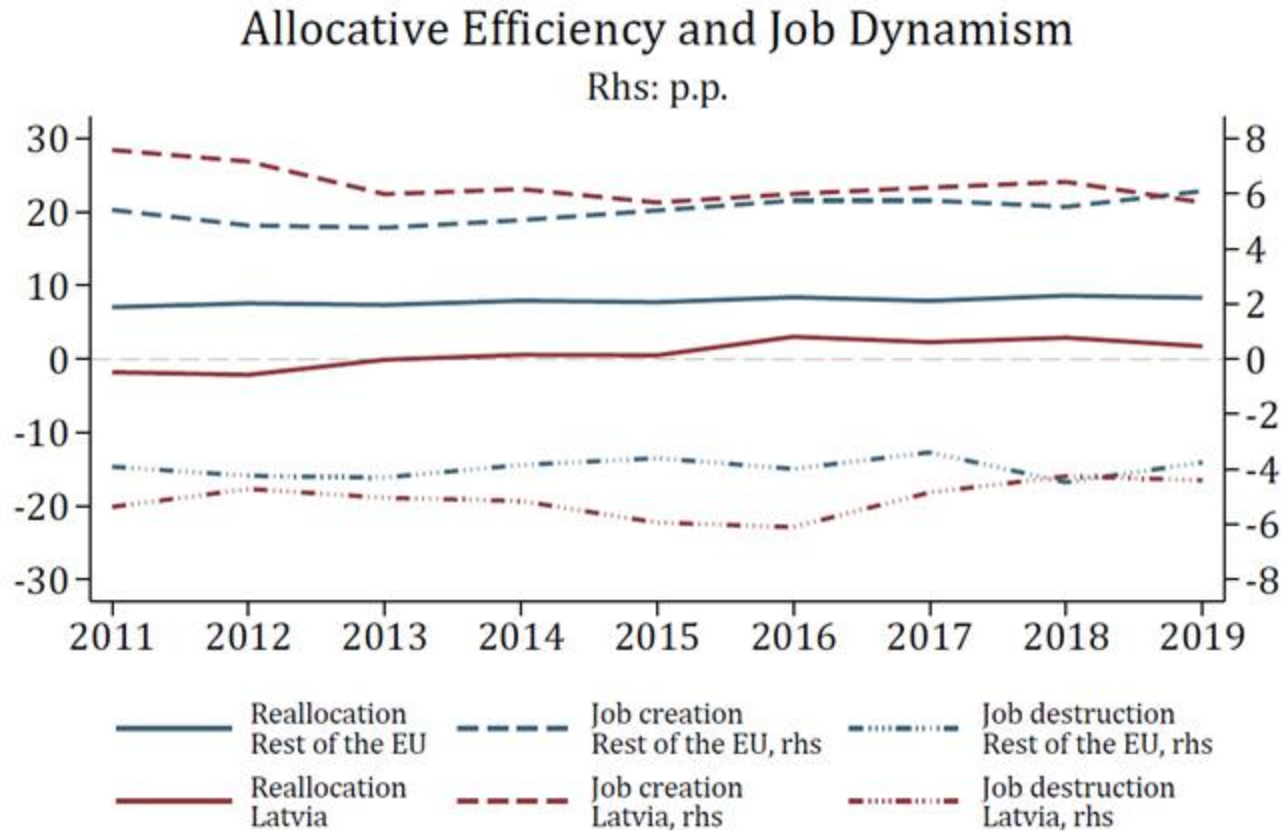
- Latvia (and Lithuania)'s shares of both employment and capital are higher in the most technologically sophisticated and knowledge intensive firms

Concentration



- Latvia has been following an opposite pattern than the rest of the EU concentration
- Downward pressure coming from the manufacturing and non-manufacturing sectors

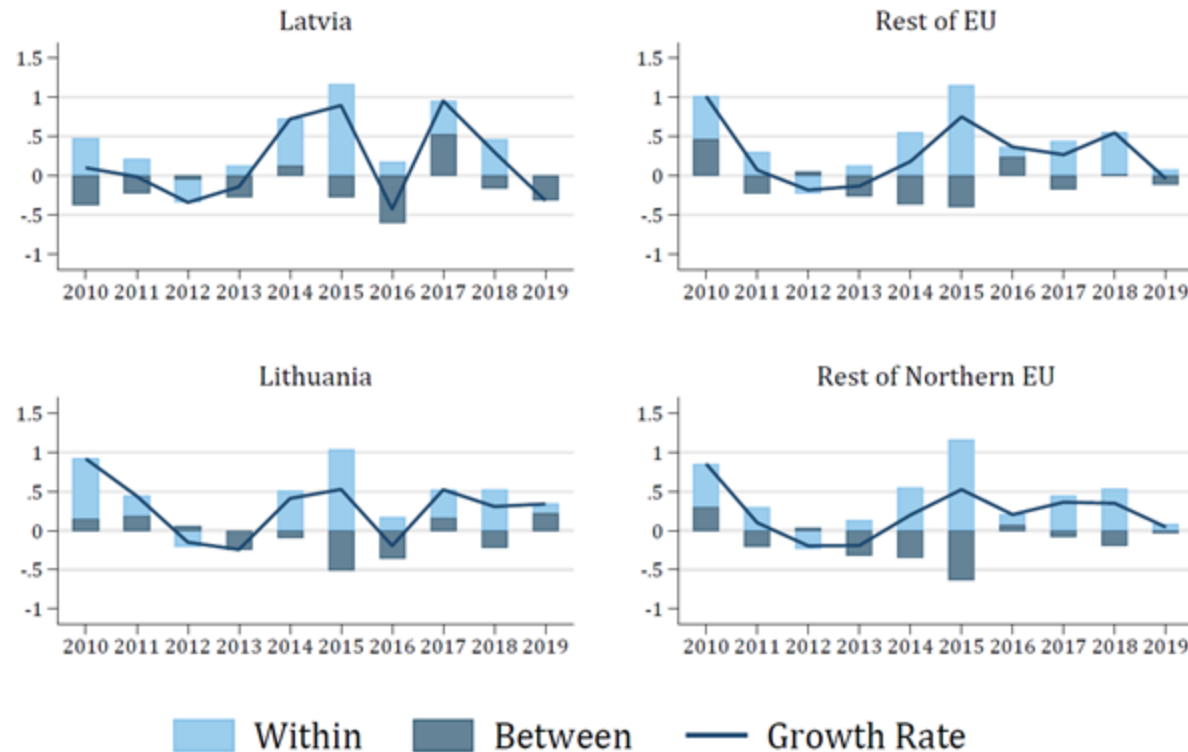
Reallocation



Source: CompNet 9th Vintage, unconditional_country_20e_weighted.dta and op_decomp_country_20e_weighted.dta.

- Latvia is characterized by a more vibrant job market environment than the rest of the EU
- Reallocation of resources in Latvia constantly trailed EU levels despite some encouraging convergence has been taking place from 2014.

TFP growth at the GVC Export Frontier



Source: CompNet 9th Vintage jd_inp_prod_industry2d_20e_weighted and OECD ICIO.

- Latvia $\Delta TFP_{GVCc,t} = N\Delta TFPs + NCov(\Delta TFP, s)$ seems tendentially more volatile than that for the rest of the EU, despite a sustained growth between 2014 and 2017.
- The negativity of the *Between* component might reflect poor trade partners selection

Conclusions

- Evidence of slow convergence of Latvia to the EU standards in few aspects
- Structural issues responsible for Latvia's delay in labor productivity convergence:
 - Asymmetries in productivity levels across macro-sectors
 - Capital and employment misallocation
 - Under-capitalization
 - Scarce reallocation of resources
 - Poor trade relationships with the rest of the EU hinder productivity transmission mechanisms

THANK YOU FOR YOUR
ATTENTION!