

## LATVIAN EXPORT OF GOODS: PROBLEMS AND SOLUTIONS

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### **Abstract**

**Purpose** – To determine the role of government and factors that foster and hinder Latvian exports the most, which have to be taken into account to improve the situation, by analysing the Latvian export of goods and export experience of specific enterprises.

**Design/ methodology/ approach** – Literature studies, analysis of statistical information (Central Statistical Bureau of Latvia), interviews with entrepreneurs and experts.

**Findings** – The main factors fostering and hindering export at the micro and macro level.

**Research limitations/ implications** – Research is based on experience of entrepreneurs and experts of two branches - Agriculture and food, wood and wood production.

**Practical implications** – The paper may serve as a basis for policy makers.

**Originality/ value** – The research reveals factors fostering and hindering export at the macro level as well as focuses on micro level factors at the enterprise level.

**Keywords:** export of goods, promotion of export, factors hindering export.

### **Introduction**

More and more attention is paid to export as a driving force of the Latvian economy in times of economic crisis when domestic consumption tends to decrease. Branches directed to domestic demand, oriented to consumption – trade, construction, business - showed a growth in 2007 – 2008, but the structure of Latvian economy changed with decrease in demand.

According to Central Statistical Bureau data, Gross Domestic Product (GDP) in Latvia in the 1<sup>st</sup> quarter of 2011 increased by 0.2% compared to the previous quarter, but it has increased by 3.4% since the 1<sup>st</sup> quarter of 2010.<sup>10</sup> The improvement in the economic situation is mainly associated with the increase in export volumes and growth of export-related industries.

Currently the government offers a wide range of activities to promote export, but it is necessary to evaluate which activities are really essential for enterprises who export their goods and which probably are not necessary at all. To provide an efficient and expedient support and to achieve the expected results it is necessary to research entrepreneurs' problems related to export and factors fostering and hindering export.

Research revealed in this paper is based on the analysis of statistical information, publications about export issues and interviews of entrepreneurs and experts. To get primary data two seminars with participation of entrepreneurs and experts were held as well.

### **Results and Discussions**

#### **1. Latvian export of goods in 2007-2010**

Statistical information about Latvian export of goods in 2007 – 2010 (Figure 1) demonstrates its growth last year which is the highest growth during the last 4 years.

Probably export can be one of the driving forces of the Latvian economy and points to economic recovery, though some questions can be raised regarding the validity of the existing data.

Firstly, the statistical information includes not only export of goods produced in Latvia over a definite period of time but also re-export at the same time as well. Central Statistical Bureau had gathered information about 100 largest exporters of goods. The data showed that they were exported half of total goods exported, but some of them are traders and intermediaries with warehouses here in Latvia. For

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<sup>10</sup> CSB data

example, *Samsung*, *Roche*, *LG Electronics Latvia* are enterprises which supply goods to retail chain networks in the Baltic countries. Yet another example is the enterprise *Do It*, which supplies goods to retail chains – *Yysk* and *The Pier* in Baltic countries and also in Bulgaria and Rumania [21].

Secondly, the large share of export in 2010 can be related to the increase in prices on the global market. Prices of some products have increased by several tens of percentage points - skimmed milk powder - by 49%, and butter – by 47% [11].

Since the accession of Latvia to the EU the largest share of export has been to countries of EU, which increased or decreased proportional to the total export of goods (Figure 2).

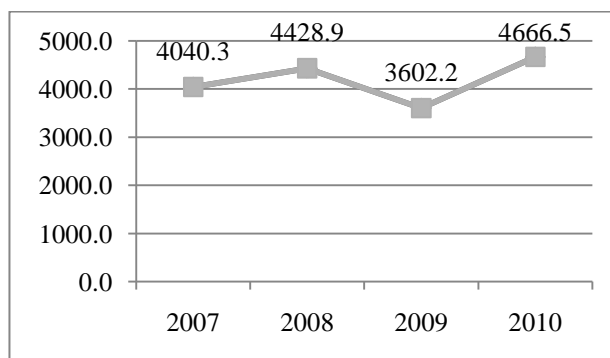


Figure 1. Latvian export of goods in 2007-2010 (million LVL)  
Source: CSB data

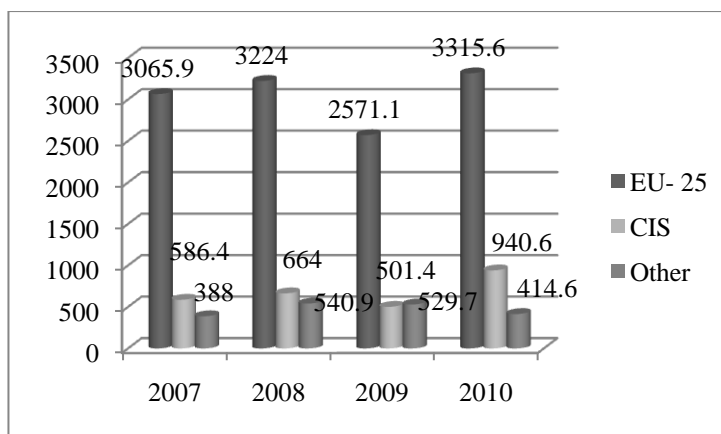


Figure 2. Latvian export of goods by groups of countries in 2007-2010(mil. LVL)  
Source: CSB data

Orientation mainly towards only one export market increases the risk, and therefore an increase in diversification at both levels – the country as well as the enterprise – is necessary, for example, increasing exports to CIS and other countries. Export changes in absolute figures show a dramatic reduction in export in 2009 - 3.6 billion LVL. Compared to 2008, the reduction is more than 20%. This is due to the impact of the economic crisis and therefore a sound reason and justification for the need for export diversification.

The main export partners in terms of countries during the 1<sup>st</sup> part of 2010 was Lithuania – 15.4% of total export (16.6% in 2009), Estonia – 13.9% (13.8%), Russia – 9.7% (8.3%), Germany – 8.9% (8.7%), Sweden – 6.7% (6.3%). The largest growth in 2010 was attributed to CIS countries.<sup>11</sup>

Latvia significantly increased exports to Armenia, China and Russia. In the first quarter of this year (compared to the same period in 2009) Latvian export to Armenia increased by 46%, to China - by 42% and to Russia - by 36%. The amount of Latvian export of goods to the following countries also increased: to Kyrgyzstan (by 12%), to Ukraine (by 6%) and to Tajikistan (by 2%) as well. Amount of export decreased to Kazakhstan (by 57%), to Turkmenistan (by 50%), to Uzbekistan (by 37%), to Moldova (par 17%), to Georgia (by 14%), Belorussia (by 11%) and to Azerbaijan (by 6%) [15].

<sup>11</sup> CSB data

The TOP 3 Latvian export positions have not changed over the last four years (2007 – 2010). Wood and wood production, Agriculture and food and Metals and metal production have all been in the TOP 3 all these years. These branches just changed their positions in the TOP 3. As an exception, export of Metals and metal production lost its positions in 2009, and Machinery, appliances and electrical equipment penetrated the TOP 3<sup>12</sup>.

The dominant groups in the Latvian export of goods are the groups where resources are the most available in Latvia – wood and wood production, agriculture and food. We can conclude that natural resources are one of the main factors which determine relationships between international trade and branches. Both groups mentioned above have developed and strengthened over a long period of time. But why does such group as metalworking take such a large share of Latvian export of goods when metal ore mining does not exist here in Latvia? The geographic position of Latvia may be a decisive factor in this case because Latvia is situated near countries where there are natural resources and near countries which are the main markets for this production – Estonia, Lithuania, Germany, United Kingdom, Sweden etc. Metal castings, rods, farm machinery, port facilities etc. are exported to these countries. Changes in the TOP3 exports are related to changes in the main markets of export. The largest reduction - 40% (in 2009, compared to the situation in 2008) – was in the export of base metals and its production. This was due to a significant reduction in the amount of construction in Europe and the USA. It is necessary to point out that export of agricultural and food products remained stable.

We can observe that goods with low added value dominate in the Latvian export. This situation is just in contrast to that in most developed European countries whose industries are oriented towards production of goods with high added value: chemical industry, transport, optical equipment, etc.

The Bank of Latvia underlines serious risks for growth of export and even forecasts a reduction in exports that can be related to [18]:

- uncertainty regarding global economic prospects;
- capacity utilisation in the industry (as a result – rise in production and export will depend on new investments in expanding production, but it cannot continue over a long period as it is impossible to increase production endlessly due to increased capacity utilisation);

Additional risks:

- Russia's decision on the reduction of a number of transport permits for European Transport Conference (ETC) leading to a reduction of Latvian cargo carriers' opportunities of cooperation with Russia by at least one third;
- proposals of European Commission on reduction of fishing quotas for the catch of herrings and sprats in the Baltic Sea by 10-28%, beginning from 2011 leading to possible reductions in the export of food [18].

Experts of the Bank of Latvia point out the significance of using new technologies and production of innovative products to maintain the Latvian export.

## 2. Exports in agriculture and food

Exports of agricultural and food products have been on TOP3 list of Latvian exports of goods for the past four years and it was at its highest level in 2010 over the last four years (Figure 3).

Export of some products has increased significantly over the last year (in 2010 compared to the previous year –2009): export of milk products increased by 48%, oils and fats - by 23%, fruits and vegetables – by 16%, fishes – by 16%, oil seeds - by 12%, sugar - by 8%, coarse grains – by 5%, wheat – by 1%, rice –by 10% (including re-export, because rice is not grown in Latvia) [28].

It is necessary to evaluate statistical information because prices of main agricultural products rose very fast which is one of the main factors making statistical data for agriculture and food larger.

The main markets for agro-industrial sector are the Baltic countries, then other new EU countries, EU – 15, CIS, high developed countries and other countries. There are different problems related to every market. The main problems related to the Baltic countries market are: small capacity of the market, slow growth, and concentration of retailers and competitiveness of domestic producers. The main problems related to export to EU-15 are higher requirements of consumers and demand for goods with high added value, which is very low in Latvia. Very often producers consider goods with just some modifications, for example, a yogurt with another taste as a new product. Very seldom are new products created, for example, Lakto (different cultured milk product). There is high concentration of retailers in EU – 15 countries as well, and shops try to ensure

<sup>12</sup> CSB data

distribution of stock for the whole trade network, but producers from Latvia are unable to ensure the necessary amount of goods. Problems of CIS countries market are related to undeveloped infrastructure which makes supply more expensive. There are certain barriers for entry into this market too, for example, a special certificate of Veterinary Service is required. The market is protected by quotas, requirements of quality and customs [28].

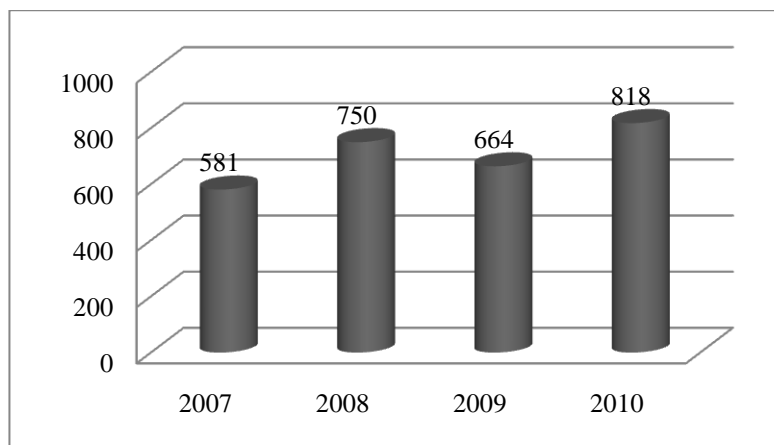


Figure 3. Export of Agriculture goods and food in 2007 - 2010 (mil. LVL) [7, 8]

According to information included in the plan "on promotion of food production to Russia"[2] 64% of agriculture and food product export to third countries in 2010 was exported to Russia. The main products exported to Russia were:

- Alcoholic and non-alcoholic drinks (growth in export by 122% compared to export in 2009);
- Milk products (growth – by 202%)
- Wastes of the Food industry, including food for animals (decrease in export in 2010 compared to 2009 – by 33%);
- Meat and fish products (increase in export – by 31%).[2]

Structure of food production has not changed significantly in the past years (share of meat and meat production– 23%, share of milk products – 19% and production of drinks – 17%).[5]

Agriculture and food production is mainly exported to Russia and Lithuania (similar shares for both countries) 117.3 million LVL to Russia and 113.4 million LVL to Lithuania respectively. If we look at the share of export to different countries, then the share of Lithuania is 21% and the export value increased by 25%. Exports to Russia have increased by 60%, and the share has increased to 22%. The most important countries – importers of agriculture and food production are Lithuania – imports of 167.6 million LVL, Poland – 67.8 million LVL and Estonia – 60.1 million LVL. [5]

*Opportunities for export of agriculture and food production [30]:*

1. Positive trends in the world market. Stable growth in demand also leads to a growth in prices. Forecasts – these trends will remain stable in the long-term and will determine the sustainability of agriculture and food production.

2. Coordinated actions of state institutions (Ministry of Agriculture, Ministry of Economics, Ministry of Defence etc.) play an important role in fostering export. The task is to help to promote production in perspective markets. Currently enterprises export their production form informal associations, and therefore there is a lack of coordination and sometimes even opposing actions among promoters of different projects (trade marks) can be observed.

3. Strategically important issue - equal distribution of grants among EU countries as grants among “new” and “old” EU member states sometimes can vary up to several times, but differences in prices of resources are not so large. This leads to an unfavourable situation in the resources market as well as while competing with the old EU countries.

*Main problems regarding export of agriculture and food production [30]*

1. High costs which depend on:
  - a) Price of resources;
  - b) Unutilised capacity;

c) Weak cooperation.

2. Fragmentation of agricultural production is one of the reasons for reduction in export opportunities. Solution - cooperation. Cooperation success stories - "Latraps" and "Vidzeme agro-economic co-operative society".

3. Milk is sold to Lithuania resulting in job losses in dairy farms [16].

### 3. Role of government and government institutions in fostering export

Government institutions: The Ministry of Economics and Investment and Development Agency of Latvia (LIAA) which is under the authority of Ministry of Economics; Ministry of Foreign Affairs, Ministry of Agriculture and Rural Support Service and Latvian State Institute of Agrarian Economics under the authority of Ministry of Agriculture, and non-governmental institutions: associations of industries, Latvian Chamber of Commerce (Figure 4).

The Ministry of Economy (ME) has the most important role in fostering export; they develop guidelines for fostering export and attraction of foreign investment including guidelines for 2010 – 2016 (approved by decree of Cabinet of Ministers No 413 (19<sup>th</sup> June, 2009)) [3] and annual plans of action for fostering export of goods and services of Latvia [1].

Unfortunately, evaluating the guidelines, we can see that goal of the policy is "to increase and diversify the export of goods and services" and sub-goals - creation and export of goods with high added value, increasing the competitiveness of entrepreneurs in global markets and attraction of foreign investments in industries of high technologies [3], are too general and no priority industries have been named for the creation of goods with high added value or for increase in competitiveness of entrepreneurs. Following such aims it is difficult to imagine strictly defined, goal oriented and effective development of export. M. Porter in his „Diamond" theory emphasises the role of government in providing support for certain sectors and fostering export and competitiveness.

Evaluating the institutional structure of Latvian economy it is possible to draw the conclusion, that this structure is fragmented. It is horizontal (Figure 4) but not vertical. An institution that would monitor all issues related to export is missing. Ministries have an essential role and they monitor other institutions, but every ministry operates in its area of competence and does not relate its operations with operations of other ministries and institutions monitored by other ministries. Consequently, the promotion of export is more episodic rather than focused and unified. We can also observe the ineffective use of resources.

Do the Latvian foreign economic representative offices really need supervision of two institutions (LIAA and Coordination Council of Latvian Foreign Economic representations founded in 2009)?

It would be advisable to consolidate embassies or diplomatic missions supervised by the Ministry of Foreign Affairs and economic representative offices supervised by Ministry of Economics thereby effectively using resources and entrepreneurs would not have any doubts regarding which institution to refer to concerning issues they may face abroad.

If we look at institutional structure for export promotion we can observe that agriculture is state priority in export, because it is supervised by one of the ministries (Ministry of Agriculture) and gets its full attention. If it is really a state priority then the expected results have been achieved as agriculture and food, wood and wood production are in the TOP 3 of Latvian exports.

Exports of all other industries are supervised by Ministry of Economics, but LIAA oversees the direct promotion. We cannot observe any priorities in this area.

It is possible to promote exports in direct and indirect way. Direct promotion is related to actions aimed at promoting enterprise exports and are directly connected with enterprises. Indirect promotion can be achieved by actions aimed at, for example, improvement of business macro-environment or development of infrastructure (Table 1).

As can be seen in Table 1, the scope of indirect promotion of exports is far wider than direct promotion.

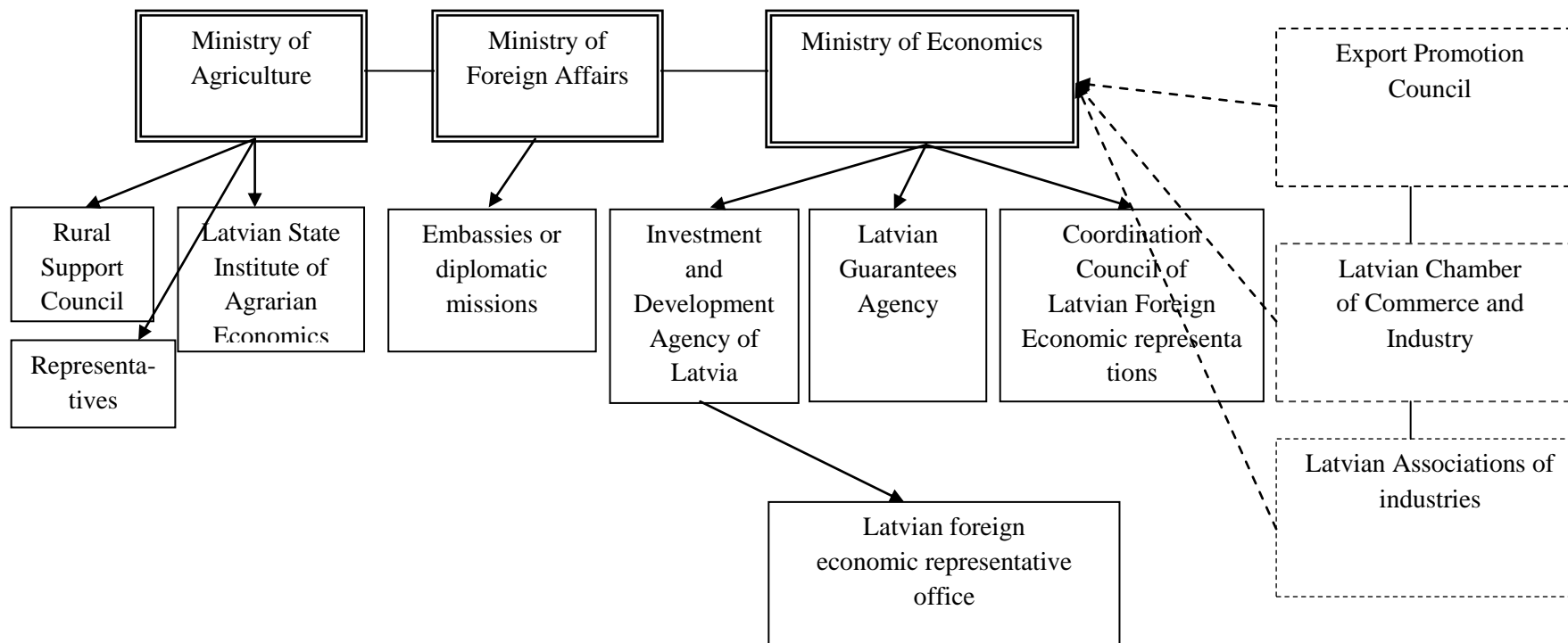


Figure 4. Institutional structure of export promotion  
 Source: based on the authors' analysis

Table 1

**State support for export promotion**

<b>Direct support</b>	<b>Indirect support</b>
Information & consultations	Trans-governmental agreements
Support for cooperation	Tax relief
Marketing	Infrastructure development
Insurance of export credit risks	Support for R&D
Legal support	Latvian diplomatic missions and consulates abroad
Financial support	Loans and guarantees, availability of financial resources
	Training qualified specialists

Source: based on the authors' analysis

We can divide all direct export promotion events into the following groups:

1. Information and advisory activities;
2. Networking activities;
3. Marketing activities;
4. The legal framework-building actions;
5. Financial support actions.

We can see that range of export promotion actions is very wide. There are a lot of direct actions for export promotion, but usually evaluating these actions the number of these actions rather than its quality is taken into consideration. Especially we can observe this in reports of LIAA which refer to the number of actions. It is necessary to study the quality of these actions and its effect on Latvian export promotion. It is possible that the results can show that investment is much larger than the result.

There are no priorities either for export promotion actions, or for industries. LIAA's consultations, networks and other actions are the same for entrepreneurs of all industries.

The issue is to what extent Latvian entrepreneurs are aware of these activities and avail of those necessary for them. During the last 5 years enterprises have been acquainted with only a handful of research results conducted on export promotion.

A positive example that could be underlined regarding state priority in the field of export promotion is the plan „on food export promotion to Russia” within the framework of which research has been carried out on the development of food industry clusters for food exports to Russia and several export promotion actions have been planned and implemented: support has been provided for participation in international exhibitions in Russia to help to overcome barriers for entry into the Russian market; the booklet *Food product certification* was published, conference *Food Products Export Promotion to Russia* was held, etc.

The result of such targeted complex actions is: „Promotion of Latvian agricultural and food product export to Russia with a positive contribution towards its growth (increase by 61% compared to 2009). Amount of enterprises exporting to Russia increased by 16.4% (71 enterprises as of 31<sup>st</sup> December 2010 compared to 61 enterprises as of 31<sup>st</sup> December 2009" [4].

International exhibitions, which increase the visibility of Latvian entrepreneurs, are the most widely used and important export promotion activities for entrepreneurs.

Actions like brand introduction are doubtful, because brands have been created, but do not work in reality. No information on brands *Quality Product of Latvia* and *Rīgas marka* or the criteria how enterprises can avail of them is available.

It would be desirable in the present situation to develop financial instruments for export promotion, because one of the most important preconditions for export promotion is the availability of resources.

#### **4. Research „Analysis of Latvian entrepreneurs' experience related to export”**

Information in press and Internet resources was summarised, entrepreneur's interviews were conducted and 2 seminars *Latvian export of goods: problems and solutions* with participation of entrepreneurs and experts were organised to evaluate the experience of entrepreneurs and to clarify factors fostering and hindering export

All interviewed entrepreneurs are owners of small enterprises and have started export in recent years (2-5 years). Countries to which they export are quite different - Russia, Lithuania, Estonia, Germany, Sweden, Finland etc. The choice of markets depends on the demand for goods in one or the other country and the possibility to find network partners. Entrepreneurs' interviews were aimed at clarifying 5 of the most essential issues:

- 1) Factors fostering export;
- 2) Factors hindering export;
- 3) Possible solutions;
- 4) State's role in export promotion;
- 5) Knowledge and skills necessary for entrepreneurs to be successful exporters.

The newspaper „Dienas Bizness" interviewed entrepreneurs exporting goods to ascertain the profile of an average exporter in Latvia. The average exporter is an entrepreneur working in one of the dominating export industries (wood and wood production; agriculture and food; metal and metal production) who is able to adapt to foreign customers' requirements. The Latvian entrepreneur tries to respond to demands in a fast and flexible manner considering quality as an important issue (a satisfied client is one of the most important values for enterprise) to be competitive in foreign markets. Entrepreneurs answering questions of the newspaper „Dienas Bizness", mentioned the availability of funds, shortage of highly qualified specialists, attraction of reliable sales agents etc. as the main problems concerning exports [6, 14-15].

Problems which entrepreneurs encountered while starting exports were ascertained from the entrepreneurs' interviews. These problems are mainly related to the lack of experience because each export case is quite different and it is difficult to find instructions for each and every situation.

The most significant problems entrepreneurs face starting exports are:

- Lack of full information about foreign markets;
- Difficulty in finding appropriate partners;
- Costs (for product improvement, packaging, transport);
- Increasing production capacity etc.

Direct export promotion actions provided by the state include provision of information about foreign markets and assistance in partner finding as well. There are examples when entrepreneurs are grateful to the state for its support in networking [14], but there are radically opposing opinions when entrepreneurs name the lack of contacts and partners for starting export as the most actual problem and suggest the provision of experts with knowledge of local markets of different countries as a solution [16]. Networking and organising visits to different countries play an important role in export promotion actions carried out by LIAA. It shows either the low quality of these support actions or the lack of information about such kind of support.

Issues concerning expenditure are being resolved on a nationwide scale with the establishment of Latvian Guarantees Agency which provides exporters with guarantees for their loans. There are a lot of enterprises already using these opportunities, but the funds for guarantees is limited (20 million LVL for period 2007 – 2013) [26], and therefore requests for such guarantees are carefully evaluated. It is necessary to think about financial instruments for export promotion at the state level because funds are the basis for export opportunities.

Very often enterprises are not ready to start exports because there is lack of enterprise strategy. There is no understanding regarding which countries to export to, no vision, no plans [8]. It shows the unprofessional approach and lack of knowledge of Latvian entrepreneurs. Firstly, entrepreneurs have to set goals they wish to achieve through exports; secondly, they have to evaluate their resources - whether they have enough resources and whether their employees are competent enough [24].

Entrepreneurs consider it essential to have good technical knowledge to be successful in the particular area of export, which is decisive in being able to invent and produce new innovative products which would make the life of not only Latvian inhabitants but worldwide easier [25].

Entrepreneurs themselves mentioned the knowledge and skills required for starting exports. They consider language knowledge and communication skills as the most important ones. Table 2 shows that entrepreneurs require knowledge that they can learn themselves (languages, culture of different countries), knowledge they could gain from research results at the state level (foreign markets) and knowledge they could acquire within programmes offered by higher education institutions (marketing strategies).

Table 2

**Knowledge and skills essential for exporters**

<b>Knowledge</b>	<b>Skills</b>
Languages	Communication skills
Culture of other countries	Ability to analyse and understand situation
Foreign markets	Creativity
Products	Ability to act fast in untypical situations
Marketing strategies	

*Source: worked out by the authors; based on interviews with entrepreneurs*

*Main factors hindering exports at the at the state and enterprise level*

Factors most hindering export (entrepreneurs' opinion) at the micro level (Table 3) and macro level (Table 4) were ascertained during the entrepreneurs' interviews.

Table 3

**The main factors hindering export at the macro level**

<b>Macro level factors</b>	<b>Solutions</b>
Unpredictable changes in taxes, tariffs	Taxes and tariffs are planned by government over a period of several years
Level of education	Education of high level specialists

*Source: worked out by the authors; based on interviews with entrepreneurs*

Entrepreneurs most critically assess the unpredictable increase of taxes and tariffs that do not provide any security and stability. Consequently, entrepreneurs are acting only in present situation without thinking about possibilities of enterprise's future development. There are entrepreneurs planning to transfer their business to other countries where there is a safe and stable base for development [26]. Entrepreneurs working in the field of agriculture consider that reduction of taxes may foster development of modern, ecological agriculture at the same time maintaining bio-agriculture [13], which could be one of niches in export markets. Entrepreneurs consider that improvement of business macro environment has to be one of the most important contributions for export promotion.

„Government with its unpredictable decisions and increasing of taxes obstruct economic development, and entrepreneurs become uncompetitive” [24].

Entrepreneurs and experts consider that there is a necessity for highly qualified specialists, professionals in production and exporting as well. It should be noted that all interviewed entrepreneurs and experts have education and experience in their respective field of work, which is one of factors for ensuring successful export. The objective of state is to provide training as a result of which enterprises would employ high level specialists.

Part of entrepreneurs mentioned protectionism of other countries by giving preference to local production as factor hindering export. Some examples are markets of Poland, Finland and Sweden [9].

Entrepreneurs note another barrier for entry into foreign markets - specific requirements for different products. For example, producers of food who want to sell their production in Russia have to go through special tests to get the certificate. Producers of ecological food have also met the same problem while trying to enter the German market [27]. These are issues to be solved at the bilateral level with cooperation agreements providing better rules for cooperating countries.

Although competitiveness is mentioned as a micro level factor, some entrepreneurs pointed out the importance of state's image and competitiveness (Table 4). Marketing activities are assessed positive, especially the creation of unified state image at international exhibitions, but entrepreneurs suggest improving the image by developing business macro environment including development of infrastructure, resolving demographic issues etc. [13].

Due to the small capacity of production, entrepreneurs are forced to look for appropriate size of partners abroad, and this factor limits their export opportunities. They lose a large part of market because foreign partners require regular supplies for their whole trade network not just for only one separate shop. This problem is very actual in the Russian market and in markets of EU countries as well where developing retail networks require large amounts of production and Latvian entrepreneurs are unable to supply such amounts of production.

Table 4

**Factors most hindering export (entrepreneurs' opinion) at the micro level**

Micro level factors	Solutions
Small quantity of the production	Cooperation
Poor competitiveness	Production of products with high added value

*Source: worked out by the authors*

Another essential micro level problem is the competitiveness of production. Foreign customers are becoming more and more exacting and are demanding improvement of current production and creation of new products with high added value as well. Currently Latvia is oriented towards production of goods with low added value although research carried out in Latvia show that Latvia should develop production of such industries as pharmacy, chemical industry etc.

„The more in terms of quantity and efficiency the state produces complicated and qualitative goods the more the state, enterprises and people can earn money. A state specialising in the production of simple and less qualitative goods can only compete with low-cost labour countries and has no chances to reach the level of incomes of Western countries because it can only survive by maintaining low salaries [22].

*Factors fostering export*

Factors fostering export were ascertained as a result of entrepreneurs' and experts' interviews (Table 5).

Table 5

**Factors fostering export at the macro level and micro level**

Macro level factors	Micro level factors
Stable business macro environment	Competitive products
Foreign seed- money	Good knowledge about export markets
Government's support for R&D , education	Good sales skills
Resource accessibility	Flexibility
Good infrastructure	Cooperation
Logistics	
State's image	

*Source: worked out by the authors based on opinions of entrepreneurs*

Entrepreneurs see the most important role of state not so much in direct export promotion as in formation of stable business environment and targeted policies. State must determine priority industries or priorities for export in some industries as it is being done in neighbouring countries and the state has to form favourable tax policy, incentives for investments, support for establishment of new enterprises etc. These activities must be carried out in a goal oriented and planned manner so that entrepreneurs would feel safe about future, about the situation in a month, year etc. Currently the long term policies do not list any priority industries or other industries [13].

Exports should be promoted with indirect activities oriented to research and development (R&D) and improvement of system of education too. Investments in R&D would result in production with high added value, and improvements in the system of education in highly qualified specialists. Investments in R&D would promote the production of goods that have never been produced in the world and according to P.Krugman's theory, would be first entrants in the market. Lack of reforms in the system of education has worsened the human resources situation as a lot of educated specialists have emigrated abroad. Firstly, the state has to seriously consider how to maintain and improve the human resources situation.

State has to provide basic functions and business and profit functions have to be handed over to entrepreneurs [26].

Infrastructure has a significant role in export promotion. Information technologies are playing an ever more important role in the development of infrastructure. The largest operator of data centres in Baltic States (DEAC) has started to provide information and communication technology infrastructure for work in networks of Russia, Europe and Asia. It opens wider technological opportunities for Latvian enterprises to enter export markets [12].

Infrastructure has a significant impact on the logistics development in a state. Exports cannot exist without an improved logistics system. Just some enterprises consider logistics issues while starting exports [66], but the majority of exporters are small and medium sized enterprises which are still facing logistics

problems. Entrepreneurs in their interviews note that logistics is yet to be developed for export of agriculture and food production. They are still using foreign logistics, not local services.

Latvia's image in the world would be promoted with improvement of the economic situation. Entrepreneurs consider that Latvia is not well-known and not a desired partner for foreign entrepreneurs. Though the State's image is a macro level factor, it promotes a lot of other factors like safety, stability, honesty and profitability of each and every entrepreneur.

The most important micro level factor is competitiveness of goods that depends on each and every individual entrepreneur. Some entrepreneurs create new products, some - improve products making better packaging or making the product more convenient to use etc. Added value of goods is becoming more and more important. Some examples:

- Saldus food factory produces a varied range of sweets *Gotiņa*, with improved packaging elements such as colours, design or even advertisement of enterprises (enterprises can order sweets in packaging with the name of their enterprise) [20].
- Kate furniture has thought about the needs of customer, producing ergonomic goods [19].

It is important that entrepreneurs understand their advantages in export markets.

Entrepreneurs producing food production consider that one of niche markets for Latvian exporters may be eco products because already currently customers appreciate taste qualities and naturalness of Latvian products [74]. Currently there are a lot of food producers who provide biological products – *Anna Bergmans teas* [27], *Lauku tējas* [17], chickens' eggs, candied quince, honey [65], meat and others. Association of Latvian Biological Agriculture note that currently there are 3514 organic farms functioning in Latvia, but only 63 of them are processing enterprises. It means that it is possible to develop biological agriculture by developing its processing. Only 5% of production reaches the customer as biological production due to lack of processing [10]. The largest enterprises which process eco production are *Lāči*, *Rīgas dzirnavnieks*, *Talsu piensaimnieks*, *Trikātas siers* [23].

Other Latvian producers are trying to position themselves as producers of quality production and partners who are able respond to any requirement of client or even to any whim.

For example, *Balticovo* listens to requirements of customers and quickly responds to the demand providing the Swedish market with boiled eggs without shell, packed in small buckets, for Germany – eggs laid by chicken grown outdoors and for Estonia, Lithuania, Germany, Poland, Finland, Sweden – mass for omelettes etc. [9].

Entrepreneurs were asked to evaluate current state's support activities for export promotion. The most positive evaluations were for marketing activities, especially, support for participation in international exhibitions. In this way small enterprises with limited finances and less experience of participation in exhibitions are supported financially and provided assistance in fulfilling the necessary documentation. It is very important for small enterprises that they can participate at a common Latvian stand and therefore be noticed by clients. It is very expensive for small enterprises to participate on their own being able to afford only small exhibition space and thereby risk not being noticed by clients at the exhibition.

In some situations assistance provided by LIAA and Latvian Export Council in finding partners [26] and trade missions were assessed very positively, but sometimes these activities were assessed just on the contrary. It is possible to find the opinions of entrepreneurs on LIAA's homepage. Some opinions published in the media are very positive about support making network, but entrepreneurs noted that these activities are very superficial and don't give the expected result. LIAA offered a list of contacts for some entrepreneurs, but they consider that it was difficult to select necessary contacts from this list. Consequently entrepreneurs decided to find contacts related to their needs themselves in different electronic catalogues.

Entrepreneurs believe that they are not aware of all export promotion provided by the state and know only some activities. The most mentioned activities for export promotion were consultations; support for participation in international exhibitions; support in search for partners; international missions.

Some of entrepreneurs believe that direct state's activities for export support are not necessary at all and they see the role of state in improvement of the business macro environment.

### **Main conclusions**

The main task of the government has to be the improvement of business environment (reduction of taxes, energy tariffs and minimum salary etc.). The state's indirect support (forming and maintenance of stable business macro environment; training of highly qualified specialists, development of infrastructure etc.) of export is more important than a rather wide range of direct activities about which only a part of entrepreneurs were informed. Unpredictable changes of taxes and tariffs are one of the most hindering factors raising prices of production and thereby making them uncompetitive.

Government's support for export is divided and lacks good coordination in Latvia. It is possible to observe ineffective use of resources in the institutional structure for export promotion: responsibilities overlap (Ministry of Foreign Affairs and LIAA; Council of Latvian Foreign Representative Coordination and LIAA; associations of industries and LIAA).

There is a very wide range of export promotion activities in Latvia, but nobody evaluates their effectiveness. Activities for export promotion are not aimed at priority industries or goods. The most positive activity (entrepreneurs' opinion) is support for participation in international exhibitions.

Main problems entrepreneurs face, when starting export are:

- Lack of full information about foreign markets;
- Difficulty in finding appropriate partners;
- Costs (for product's improvement, packaging, transport);
- Increasing production capacity etc.

One of the problems indicated by entrepreneurs who export to other countries is small quantity of production. To solve this problem it is necessary to find appropriate size of partners abroad. Other solution (preferable) is cooperation between small producers.

It is possible to acquire the knowledge (languages, culture of other countries, foreign markets, products, marketing strategies) and skills (sales, communication, etc.) necessary for entrepreneurs to export goods through different forms and levels (from self-education to studies in higher education institutions). Entrepreneurs have got good export experience themselves and every individual case of export (different products to different countries) is specific, and it is necessary to organise courses for entrepreneurs where they can learn from each other's experience (creative classes).

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