



Weekly Briefing

**Latvia economy briefing:
Latvian-Chinese relations in view of the
2021 China International Import Expo
Institute of Economics at the Latvian Academy of Sciences**


China-CEE Institute

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Latvian-Chinese relations in view of the 2021 China International Import Expo

Summary

The 2021 China International Import Expo, which took place from November 5-10, 2021, demonstrated China's determination to promote sustainable world economic development, globalisation and building a new development paradigm for its economy and society. Latvia has taken part in the Expo in 2019 and 2020 and demonstrated its aim to boost relationships between Latvia and China, boost economic and trade collaboration and relations, as well as responded to Chinas Belt & Road Initiative. The import value of goods from China imported into Latvia is steadily growing, however the export value is dropping, therefore establishing a regular trade corridor between the countries is essential to keep the cooperation between the two countries mutually beneficial.

Introduction

The fourth annual China International Import Expo 2021 Country Exhibition took place from November 5 to November 10, 2021. Latvia has taken part in the Expo twice – for the first time in 2019 at the 2nd Expo and in 2020 at the 3rd Expo. In 2019, Latvia was represented with the National Pavilion showcasing trade, tourism and transport cooperation opportunities, where Latvian transport enterprises offered to consider the transportation of goods from Asia to Europe via Latvia. In 2020, the focus for Latvia at the expo was on export of high-level innovation and ecological high-quality Latvian products to the Chinese market. Even though Latvia has chosen not to take part in this years China International Import Expo, possibly due to the country's participation in the Expo 2020 Dubai, previous establishments of the Latvian pavilion aimed to boost relationships between Latvia and China, strengthen economic and trade cooperation and exchanges, as well as responded to Chinas Belt & Road Initiative. Therefore, in light of the 2021 China International Import Expo, to honour the relations between Latvia and China, it is important to outline the importance of the economic and trade cooperation between the two countries.

Economic cooperation between Europe, Latvia and China

Latvia has a stable, active and pragmatic political dialogue with China and an intensive exchange of visits at all levels. Cooperation between Latvia and China takes place both bilaterally and within the framework of EU-China relations and in various multilateral formats, such as the Central and Eastern European (CEE) countries and China (17 + 1) cooperation format and the Belt and Road Initiative. Latvia's priorities in these formats are co-operation in the transport and logistics sector, attracting investment to high value-added projects, promoting trade and tourism, and exchanging students and teachers. Latvia coordinates co-operation in the logistics sector in the "17 + 1" format - the "17 + 1" Logistics Coordination Secretariat operates in Riga.

Due to its geographic situation, Latvia has always been one of the significant transit gateways for both north-south and east-west trade movements. Today, Latvia has maintained its strategic relevance regarding transportation flows that connect major world economies like the USA, European Union, Russia, the CIS, Central Asia and the Far East. The transit and logistics segment is one of the strongest industrial sectors in Latvia and has been recognized as a key priority within the Latvian economy. Moreover, it is seen that a necessary prerequisite for prosperous advance of Trans-Eurasian supply chains and logistic sectors off all countries is to ensure synchronised and consistent actions, thus ensuring the economic growth both for the whole region and for each individual country.

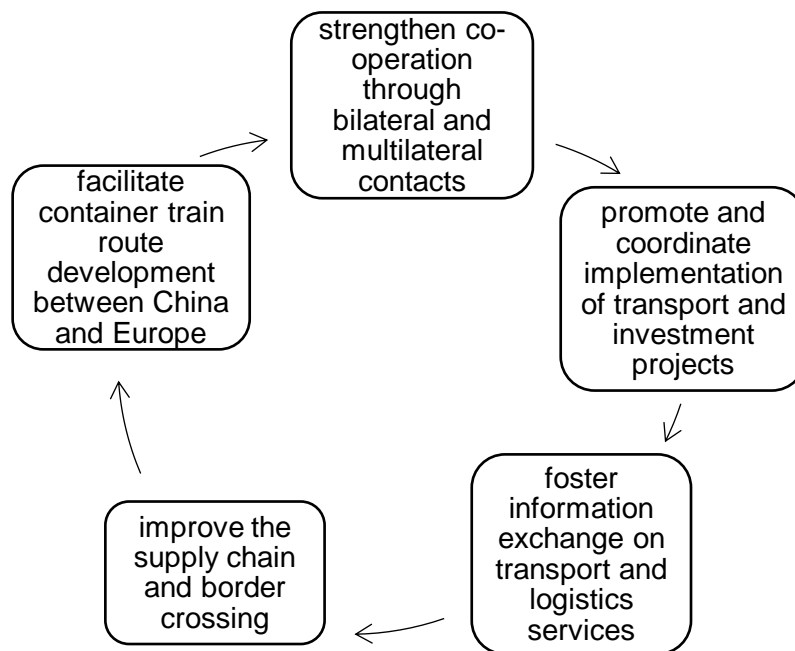


Figure 1. Aims of the CEEC-CHINA Secretariat on Logistics Co-operation

Source: created by the author, CEEC-China information

Latvia became the coordinating country for the project during the 2015 China-Central and Eastern Europe 16+1 Summit. As is visible in Figure 1, the coordination aims to strengthen cooperation through joint and multilateral contacts, targeting the development and enhancement of integrated transport corridors between China and Europe, stimulate and organise implementation of the investment ventures in transport and logistics between China and Europe, to improve and provide new logistics services solutions among Europe and Asia, as well as to promote closer cooperation and harmonization among public and private stakeholders in the framework of the Initiative. The cooperation acts to improve the supply chain and border crossing between China and the Central and Eastern European Countries, to remove bottlenecks and lessen administrative liabilities in transport documentation, including customs and other border-crossing processes, as well as to facilitate the container train route development between China and Europe, recognizing the market prospective of green railway transportation methods, to strengthen competitiveness of the Silk Road land routes. In order to achieve the goals above, the CEEC-China Secretariat on Logistic Cooperation had been established under the Ministry of Transport of the Republic of Latvia.

In general, China is Latvia's 22th most important export and 6th most important import trade partner. In 2019, the trade balance of goods was negative: approx. 350 mln. EUR, but in 2021, it reached a staggering 508 mln. EUR.

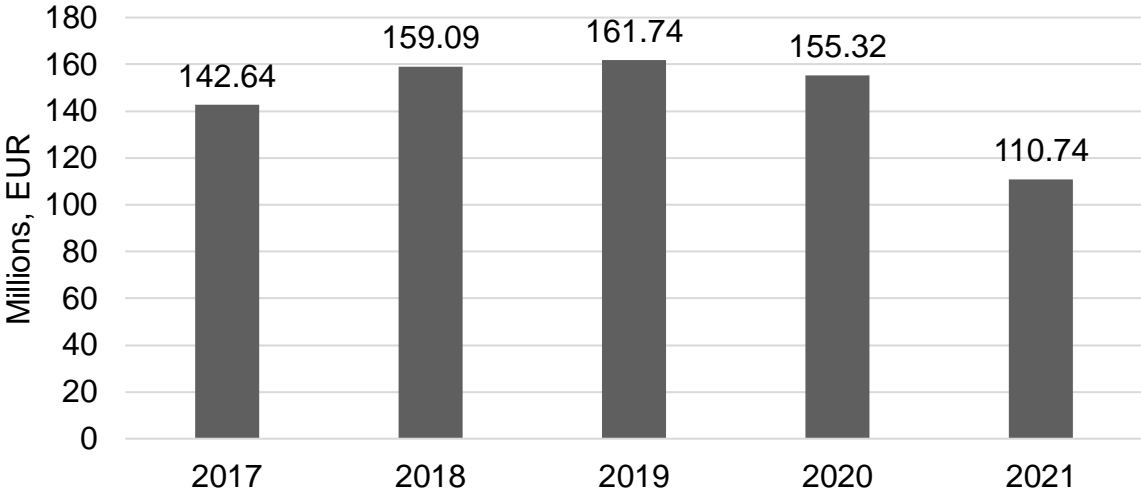


Figure 2. Export value of Latvian goods to China, 2017 - 2021

Source: created by the author, CSB

The export of Latvian goods and products, as visible in Figure 2, has decreased since the start of the pandemic by approx. 50 million EUR, however, as is visible in Figure 3, the import of Chinese goods has risen by approx. 120 million EUR. The epidemiological crisis caused by COVID-19 in 2020 has boosted trade in certain specific products. Imports of personal protection products in 2020, compared to 2019, increased by 37.7 mln. and mainly these goods were imported from China.

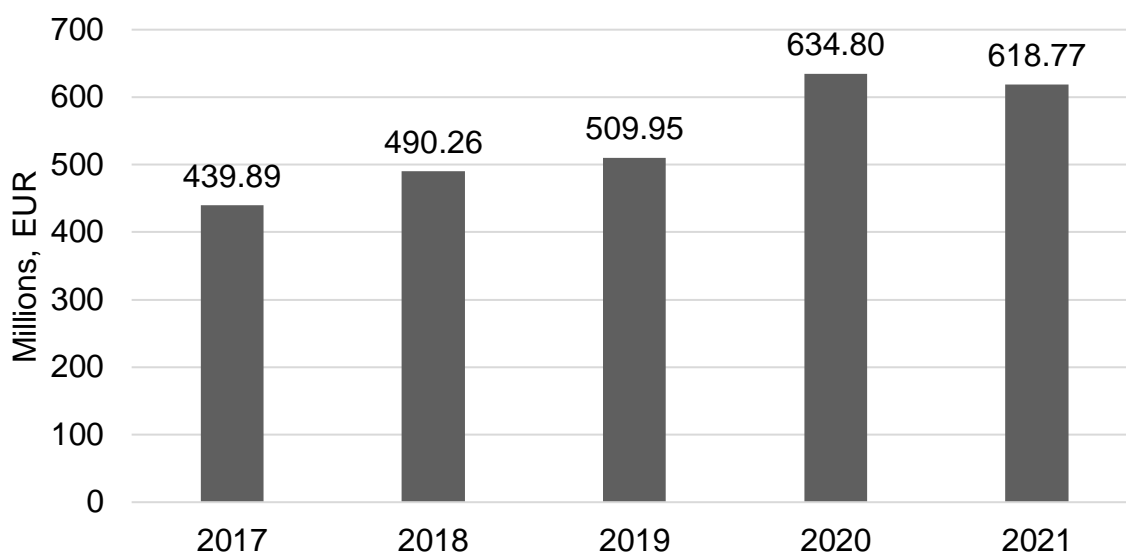


Figure 2. Import value of Chinese goods to Latvia, 2017 - 2021

Source: created by the author, CSB

The main groups of Latvia's export goods to China are wood and wood products (52%), mineral products (13%), machinery and electrical equipment (10%). The main groups of imports from China are machinery and electrical equipment (52%), various manufactured goods (10%), and plastic products (8%). According to the Central Statistical Bureau of Latvia, China is Latvia's largest trading partner in Asia. Latvia-China bilateral trade in goods and services has grown by 59% between 2016 and 2020. While the volume of transport and logistics services has grown by 98% between 2016 and 2020. In 2020, services in the transport and logistics sector accounted for 85% of all trade in services between China and Latvia.

Transport and logistics is one of the priorities of Latvian-Chinese economic cooperation, which is confirmed by the active exchange of visits of officials and experts in the field of transport, as well as practical results. During the bilateral official visit of the Prime Minister of China Li Keqiang in November 2016, the Governments of Latvia and China signed a Memorandum of Understanding on Cooperation in the Framework of the Silk Road Economic

Zone and the 21st Century Maritime Silk Road Initiative. One of the goals of Latvia is to start regular container train traffic, which continues up until this day.

Notably, in 2017, two container trains went from Riga to China, delivering cargo through Russia and Kazakhstan to the eastern part of China - Kashgar. In September 2017, the second container train went from the Chinese city of Urumqi to Latvia. In 2018, the first container train from the Chinese city of Xi'an arrived in Riga, two months after the signing of the strategic cooperation agreements between LDz and Xi'an International Trade and Logistics Park. The containers were then shipped to Germany and Finland. At the same time, 260 containers arrived in the port of Riga from Rotterdam to be sent to China. Thus, for the first time, there was a reciprocal exchange of freight trains in the port area, unloading the containers received from Xi'an and simultaneously loading them to China.

China is recognized as one of Latvia's priority distant tourism destination markets. Until the Covid-19 pandemic, the number of Chinese tourists in Latvia has steadily increased since 2012. One of Latvia's goals is also to launch direct flights between Latvia and China, which would have an even more positive effect on the flow of cargo and passengers between the two countries.

Conclusions

Putting the previously mentioned facts in context, a seamless and advanced Latvian-Chinese trade and economic cooperation is fundamental for the development and function of the Latvian country, and the China International Import Expo is an event where economic and trade cooperation between nations can be strengthened, global trade can be promoted and world economic growth can be facilitated. China is one of Latvia's one of the most important Latvian import trade partners, taking 6th place out of all countries. If China is looked at as an export trade partner, it is in 22th place and, since the position has lowered in the last years, it is important to facilitate joint action and combine efforts between the countries to pull out and popularize Latvian goods in the Chinese market, as well widen its potential share in the already dense market. Further bilateral trade will be strengthened once regular freight and container train services will start between the two countries, as well as when the goal of launching direct flights between Latvia and China will be reached.

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