

— REPUBLIC OF LATVIA —

The Latvian way – A deeper look at the Baltic promise

TEXTE International Affairs, Chamber of Commerce

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Latvia 

Facts & figures

Political capital: Riga
Business languages: Latvian, English
Business currency: Euro
Working days: Monday - Friday
Time Zone: Eastern European Standard Time (GMT+2)
Climate: temperate continental
Surface: 64 594 km²
Population: 1 875 757
GDP per capita: \$ 34 469 (ranking 48 in the world) (2021)
Growth rate: +4.5% (2021)
Inflation rate: 21.8% (November 2022)
Unemployment rate: 7.6% (2021)
Ease of doing business: 19
Trade balance:
Exports of goods and services (2021): € 21.4 billion (+17.9% compared to 2020)
Imports of goods and services (2021): € 22.5 billion (+26.3% compared to 2020)
Trade Balance (2019): \$3,320,473,092
Logistics Performance Index: 48th ranked by World Bank
Corruption indicator: Latvia ranked 36th among the 180 countries in the Index, where the country ranked first is perceived to have the most honest public sector. For comparison, the best score was 88 (ranked 1), and the worst score was 11 (ranked 180).
Main economic sectors (2021):
Agriculture: 4.7%
Industry: 17.2%
Services: 78.1%
Country risk classification (COFACE): A4
Business Climate: A1

Sources: World Bank, Coface, CIA World Factbook, OECD, Statec...

As the center of the Baltic States, Latvia benefits from an excellent logistical location making it a natural gateway between the United States, the EU and Asia, with highly developed port, rail, and other transport infrastructures – a true crossroad for international trade.

In fact, since the 14th century, Latvia has been a major commercial hub between west and east, and was at the centre of the Hanseatic League, the world's first Free Trade Area. Despite a long road to independence, Latvia has remained a truly open country.

The Latvian capital Riga, with a population of around 625,000 inhabitants – which is about the amount of people living in Luxembourg in the whole country – is not only the largest city in the Baltic states, but also their most important trade and service center. Even though Latvia is bigger than Luxembourg in terms of square meters, it is among the ten smallest countries in the EU in terms of geographical size.

While Luxembourg has the best score in the European Union when it comes to the average number of foreign languages learned per pupil in upper-secondary education, Latvia is not far behind scoring 6th place. This openness towards languages shows that both countries are pragmatic, tolerant and oriented towards the future. It is also reflected in their attitude towards foreigners – in both countries, minorities constitute an important part of the society. In Latvia, 37.8% of the population are foreigners. Luxembourg and Latvia thus seem to share several similarities and are also strongly linked through a century of diplomatic relations. The intensification of the countries' bilateral relations dates back 30 years and both also cooperate in international fora such as the European Union, NATO, the UN and other multilateral organizations.

Both societies are determined to build a modern, safe, ecological world and eager to develop new technologies.

Key Economic Sectors

Latvia has seen significant economic progress since the beginning of the millennium. Yet, its productivity remains lower in comparison to other OECD countries, with the restraint of a declining working age population which limits the prospects for further growth.

The Latvian economy is largely based on service industries including transportation, information technology, and financial services. The construction industry also plays an important role, as do wood and forestry products, food processing, metalworking, and light industries (e.g., textiles). Latvia's tourism sector saw continuous growth in the recent years but was, however, slowed by the COVID-19 pandemic and Russia's further of Ukraine. In recent years, Latvia has also become increasingly attractive for foreign investors, with the country providing various tax, labor, and R&D incentives to them. It further offers significant cost advantages to investors, including a highly skilled

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City of Riga

workforce at competitive labor costs, affordable real estate, and competitive tax rates. Furthermore, foreign and domestic investments in Latvia are treated equally under the law.

In order to build a thriving economy, digital innovation is key to increasing productivity and raising living standards. The Latvian government has thus taken measures to increase research and development (R&D) and innovation, which has remained rather low up until now. However, a more coordinated approach to implementing research and innovation policy, which treats ICTs as a transversal technology, could help Latvia raise its low innovation performance and become a leader in new technologies, just as its neighbours, shaping the future economy.

Both Luxembourg and Latvia are in the process of developing a circular economy strategy and both are keen on opportunities in the space industry, which is a key high-tech sector for the benefit of future generations. The capital city of Riga has also recently signed a *memorandum* to become Europe's next Metacity – a state-supported initiative to develop its own Metaverse – becoming one of Europe's first and largest Metaverse projects, driving forward extended reality (XR) research, technology, and

applications. Latvia's key differentiating components in the EU's Virtual Reality ecosystem are heavily based on the already available infrastructure: for example, a strong cellular network and infrastructure, one of the fastest internet speeds in EU (5th), well-connected within the Baltics (airport, trains, cross-border 5G corridor etc.). Secondly is the ecosystem – a strong technical university with a vibrant student base, local technology companies that are geared towards wireless and AR/VR innovations, and a relatively small yet well-connected population to drive deployment and adoption.

Opportunities for Luxembourgish companies

Opportunities exist for expanding trade in various sectors and on an economic level, there is a potential for stronger cooperation between Luxembourg and Latvia, notably in the following sectors: wood industry, food industry and pharmaceuticals. Other sectors of interest with opportunities for synergies are renewable energies, cyber-defense and fintech.

Latvia and Luxembourg have also both invested heavily over the years in developing new technologies through startups.

These areas will be explored during the Official Mission to Latvia which will take place on 13-15 March 2023. Together with the Luxembourg Ministry of Foreign and European Affairs and the Luxembourg Ministry of Economy, the Official Mission will focus on Digital and Sustainable Economy. Keep your eyes peeled for more information on our website (www.cc.lu) soon. —

Useful contacts

Luxembourg Chamber of Commerce
 Georgia Kossmann
 Market Advisor Europe, International Affairs
 ☎ (+352) 42 39 39 - 357
 ✉ latvia@cc.lu

Embassy of Luxembourg in Warsaw
 (co-accredited in Latvia)
 Ambassador Paul Schmit
 ul. Sloneczna 15, 00-789 Warsaw, Poland
 ✉ riga.amb@mae.etat.lu

Honorary Consul of Luxembourg in Riga
 Kristiāna Lībāne-Šteīle
 Dzirnau str 68, LV-1050 Riga, Latvia
 ✉ riga@consul-hon.lu