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## **ASSESSMENT OF THE DEVELOPMENT PROSPECTS OF TRADE RELATIONS OF LATVIA AND SOUTHEAST ASIA**

**Abstract.** In the article presented, the authors carry out the analysis of export — import operations of Latvia with Asian countries. Based on the UN Resolution on Sustainable Development 2030 adopted in 2015, the concept of developing the world until 2030 is presented for seventeen goals and 169 goals. The convergence of Europe and Asia based on the trade cooperation will certainly lead to a deepening of economic relations between the regions. Using the trading strategies of P. Krugman, C. Lancaster and I. B. Krevis, the authors analyze export-import operations between the countries of Southeast Asia and Latvia. The authors, particularly focus on the main partners of Southeast Asia: the People's Republic of China, Hong Kong, Taiwan, Japan, South Korea, and Singapore. The authors carried out the analysis of the calculated volume of exports to countries for the period from 2015 to 2017, as well as carried out the analysis of the goods exported by Latvia, identified the leaders of export operations from the countries of Southeast Asia. Based on the statistical date of Latvia, the authors pay special attention to the calculation and classification of exported goods to the countries of Southeast Asia. As a result of the analysis, the authors revealed that the main export goods to Southeast Asia are machinery, mechanisms and electrical equipment, mineral products. The analysis allowed ranking the countries of Southeast Asia by the volume of exported goods.

Given the trade volumes of Latvia and the countries studied, it is proposed to strengthen the role of SMEs in trade between regions. The analysis of the number of small and medium enterprises of Latvia from 2015-2017 is carried out, as well as the inclusion of SMEs in the trade relations of Latvia and the countries of Southeast Asia is justified.

**Keywords:** Latvia, People's Republic of China, Hong Kong, Taiwan, Japan, South Korea and Singapore, trade, export, SMEs.

**JEL Classification** F10, F20

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## **ОЦІНКА ПЕРСПЕКТИВ РОЗВИТКУ ТОРГОВЕЛЬНИХ ВІДНОСИН ЛАТВІЇ І КРАЇН ПІВДЕННО-СХІДНОЇ АЗІЇ**

**Анотація.** Проаналізовано експортно-імпорتنі операції Латвії з країнами Азії. Ґрунтуючись на ухвалені 2015 року ООН Резолюції сталого розвитку 2030, де в сімнадцяти цілях і 169 задачах представлено концепцію розвитку світу до 2030 року. Зближення Європи і Азії за допомогою торговельного співробітництва, безумовно, призведе до поглиблення

економічних відносин між регіонами. Використовуючи торгові стратегії Кругмана, Ланкастер і Кревіса, проведено аналіз експортно-імпортних операцій між країнами Південно-Східної Азії і Латвією. Особливо сфокусовано увагу на основних партнерах Латвії в Південно-Східній Азії: Китайська Народна Республіка, Гонгконг, Тайвань, Японія, Південна Корея і Сінгапур. Проведено аналіз розрахованого обсягу експорту в країни за період з 2015 року до 2017-го, а також проведено аналіз експортованих Латвією товарів; виявлено лідерів експортних операцій із країн Південно-Східної Азії. Базуючись на статистичній базі Латвії, особливу увагу приділено розрахунку і класифікації товарів, що експортуються у країни Південно-Східної Азії. У результаті аналізу виявлено, що основними товарами експорту в Південно-Східній Азії є машини, механізми та електричне обладнання, мінеральні продукти. Аналіз дозволив ранжувати країни Південно-Східної Азії за обсягом експортованих товарів.

З огляду на обсяги торгівлі Латвії та досліджуваних країн запропоновано посилювати роль МСБ у торгівлі між регіонами. Проведено аналіз кількості фірм малого і середнього бізнесу Латвії за 2015—2017 роки, а також обґрунтовано включення в торговельні відносини Латвії і країн Південно-Східної Азії МСБ країни.

**Ключові слова:** Латвія, Китайська Народна Республіка, Гонгконг, Тайвань, Японія, Південна Корея і Сінгапур, торгівля, експорт, МСБ.

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## **ОЦЕНКА ПЕРСПЕКТИВ РАЗВИТИЯ ТОРГОВЫХ ОТНОШЕНИЙ ЛАТВИИ И СТРАН ЮГО-ВОСТОЧНОЙ АЗИИ**

**Аннотация.** Проанализированы экспортно-импортные операции Латвии со странами Азии. Основываясь на принятой в 2015 году ООН Резолюцию устойчивого развития 2030, где в семнадцати целях и 169 задачах представлена концепция развития мира до 2030 года. Сближение Европы и Азии посредством торгового сотрудничества безусловно приведут к углублению экономических отношений между регионами. Используя торговые стратегии Кругмана, Ланкастер и Кревиса, проведен анализ экспортно-импортных операций между странами Юго-Восточной Азии и Латвией. Особенно фокусируют внимание на основных партнерах Латвии в Юго-Восточной Азии: Китайская Народная Республика, Гонгконг, Тайвань, Япония, Южная Корея и Сингапур. Проведен анализ рассчитанного объема экспорта в страны за период с 2015 по 2017 год, а также проведен анализ экспортируемых Латвией товаров, выявлены лидеры экспортных операций из стран Юго-Восточной Азии. Базируясь на статистической базе Латвии, особое внимание уделено расчету и классификации экспортируемых товаров в страны Юго-Восточной Азии. В результате анализа выявлено, что основными товарами экспорта в Юго-Восточную Азию являются машины, механизмы и электрическое оборудование, минеральные продукты. Анализ позволил ранжировать страны Юго-Восточной Азии по объему экспортируемых товаров.

Учитывая объемы торговли Латвии и исследуемых стран, предложено усиливать роль МСБ в торговлю между регионами. Проведен анализ количества фирм малого и среднего бизнеса Латвии за 2015—2017 годы, а также обосновано включение в торговые отношения Латвии и стран Юго-Восточной Азии МСБ страны.

**Ключевые слова:** Латвия, Китайская Народная Республика, Гонгконг, Тайвань, Япония, Южная Корея и Сингапур, торговля, экспорт, МСБ.  
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**Introduction.** The modern development of economic and trade relations between countries is based on a number of important documents, thus the need to strengthen the relationship between Asian and European countries was identified by Resolution adopted by the General Assembly in September 2015. The United Nations at the General Assembly *adopts one of the most important documents* of the United Nations summit: Transforming our world: the 2030 Agenda for Sustainable Development. Seventeen goals in the field of sustainable development of the world and 169 tasks have been developed in this document, which is announced as the future development program of the countries of the world. The new goals and objectives entered into force on January 1, 2016, and over the next 15 years, when implementing the economic policy of the state, they will be guided by them for making decisions. Within the framework of the presented research on the development of export — import operations of the Baltic countries and Southeast Asia, we rely on the implementation of the eighth and ninth goals of this document. Thus, goal 8 is formulated as «Promote inclusive and sustainable economic growth, employment and decent work for all». Undoubtedly, for many millennia, trade has been and is the basis for the growth of welfare and prosperity of states and in the conditions of industrialization of states and the support of an innovative activity, an addition impetus is created to increase trade operations between states. This is indicated by goal № 9 «Creating resilient infrastructure, promoting inclusive and sustainable industrialization and innovations» [9].

**Analysis of the research and problem definition.** For several centuries since the time of Adam Smith, research has been ongoing on the trading operations of states, for the purpose of justifying and further development of the area of trade of countries. Thus, in the early 1980s P. Krugman, K. Lancaster [5; 6]. and some other economists suggested an alternative to the classical explanation of international trade, based on so-called economies of scale. Further, an analysis of the factors of the international division of labor is complemented by I. B Krevis's neotechnological concept. According to the opinion of Krevis, each country imports goods that it is either not able to produce on its own or can produce in limited quantities and whose supply is elastic and at the same time exports goods with highly elastic and superior local production requirements. As a result, the country's foreign trade is determined by the comparative level of elasticity of the national and foreign supply of goods, as well as by the higher rates of technological progress in export sectors.

Thus, this research is aimed at the analysis and assessment of the development potential of trade operations between Latvia and the countries of Southeast Asia.

**The results of the research.** For carrying out the analysis, we selected those countries of Southeast Asia with which the state has any significant trade operations, in the list of countries studied: China, Hong Kong, Taiwan, Japan, South Korea, and Singapore. Trade with Malaysia and Indonesia is very insignificant in the country's trade over; therefore it is not included in the analysis (*Table 1*).

Table 1

The volume of imports to Latvia of the countries of Southeast Asia from 2015—2017, euro,  
 developed by the authors

Countries	2015	2016	2017
Asia	795 185 472	765 380 696	878 787 509
China	415 472 693	402 035 560	439 891 497
Hong Kong	20 287 892	14 756 483	15 822 537
Japan	20 404 731	18 974 269	22 282 088
South Korea	42 869 875	23 265 863	25 712 389
Singapore	3 086 504	4 217 357	10 757 605
Taiwan	72 081 764	73 548 880	83 469 073
<b>Total</b>	<b>12 710 128 172</b>	<b>12 416 571 142</b>	<b>14 176 718 116</b>

Source: [10].

It should be noted that over the studied period of 2015—2017, the share of Asian countries in the total volume of trade operations of Latvia increased significantly (*Fig. 1*).

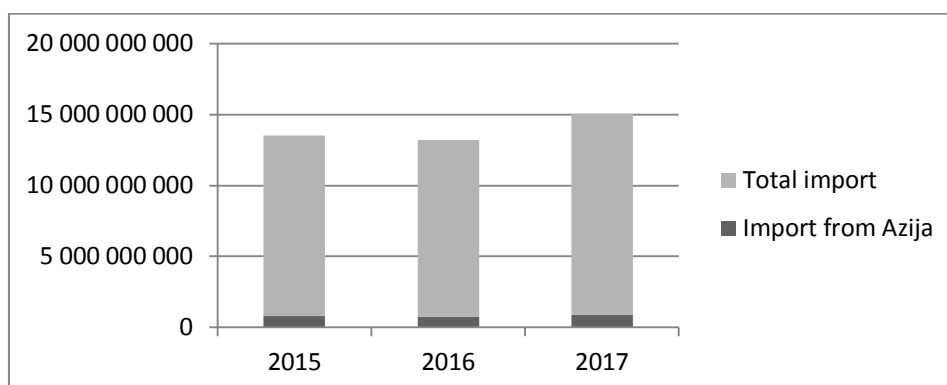


Fig. 1 Import of Asian countries into Latvia, calculated by the authors

Source: [10].

As you can see from the presented diagram, the share of imports from Asian countries increased in the total volume of import operations and in 2017 the growth compared to 2015 made up 110,5 %. It should be noted that the main share in imports belongs to the EU countries — 77,59 %, CIS — 10,67 %, southeast Asian countries account for 4,0 % according to the opinion of the authors, there is potential for the development of this particular market.

An analysis of Latvia's export operations to Asian countries showed that there was an increase and share of exports of Asian countries was approaching 900 million euros in 2017 (*Fig. 2*).

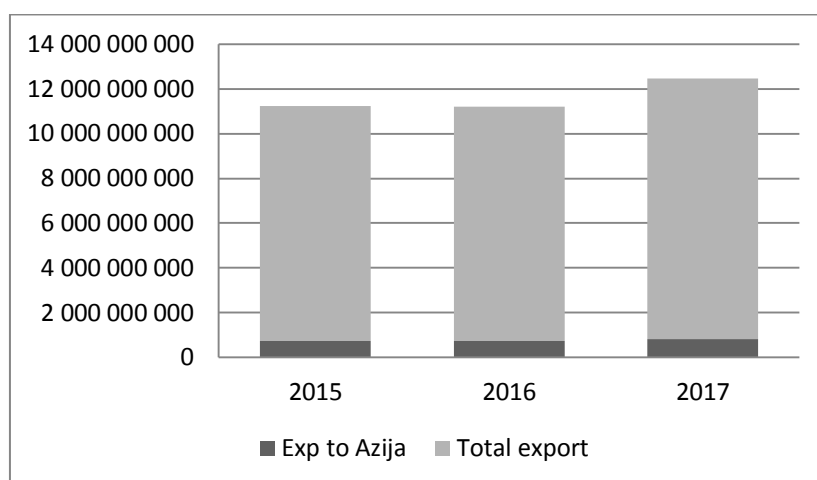


Fig. 2. Latvian Export to Asia from 2015—2017, calculated by the authors

Source: [10].

Note that the main share in Latvian exports belongs to the EU countries — 71,04 %, CIS — 12,89 %, southeast Asian countries account for 2,13 % (*Fig. 2*).

However, over the research period, the share of import operations in the volume of trade with Asian countries exceeds export operations, which means that there is potential for growth for both Latvian and Asian companies (*Fig. 3*).

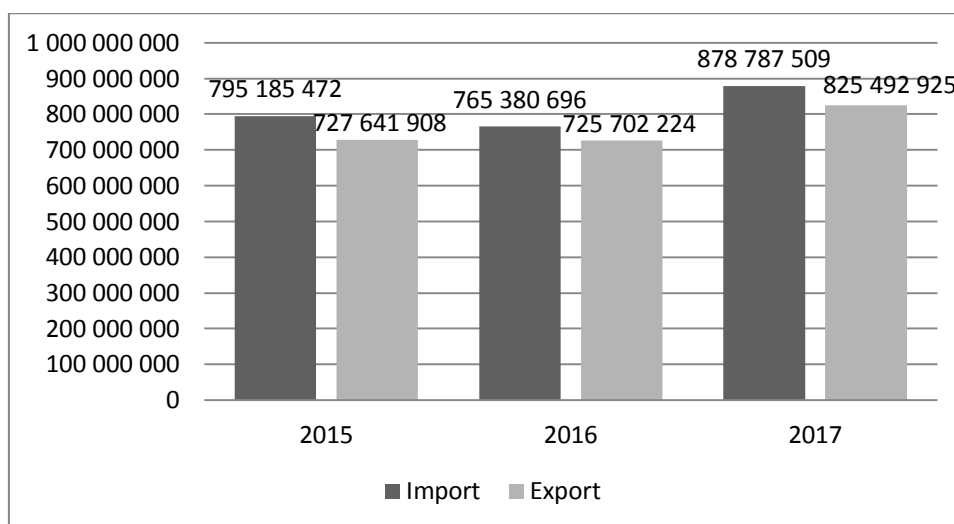


Fig. 3. Latvian export — import operations in Asian countries

Source: Central Statistical Bureau of Latvia (www.csb.gov.lv).

Let's graphically represent the volume of import transactions by countries (Fig. 4), which clearly shows the leaders in the Latvian market.

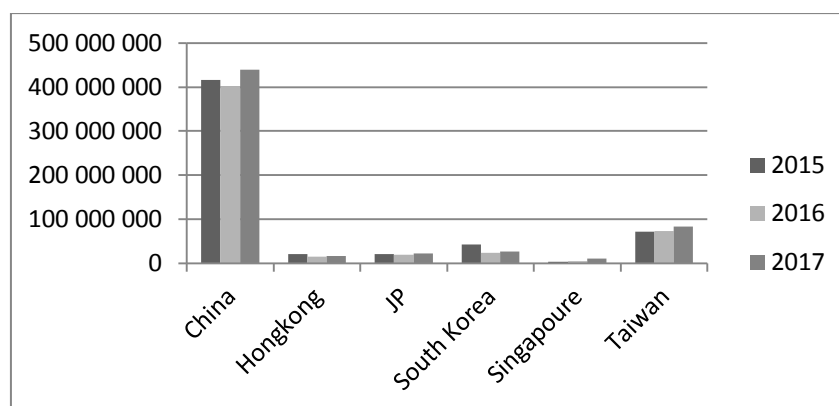


Fig. 4. Latvian imports from countries of Southeast Asia, from 2015—2017, calculated by the authors

Source: [10].

Thus, in the presented diagram it is clearly seen that China is the leader in imports to Latvia, Taiwan is in second place, South Korea and Japan are in third place and Hong Kong and Singapore close this rating.

Let's examine how the studied states participate in Latvian export operations (Table 2).

Table 2

The volume of Latvia's exports to the countries of Southeast Asia from 2015—2017, developed by the authors

Countries	2015	2016	2017
Asia	727 641 908	725 702 224	825 492 925
China	108 467 860	120 315 672	42 638 023
Hong Kong	33 918 123	23 415 062	29 906 156
Japan	39 592 073	48 524 194	50 525 675
South Korea	41 885 561	48 863 002	61 798 754
Singapore	20 401 372	19 295 912	16 836 159
Taiwan	4 707 526	4 962 939	5 220 619
<b>Total</b>	<b>10 504 567 382</b>	<b>10 490 023 595</b>	<b>11 647 288 907</b>

Source: [10].

As you can see from the represented table, the total volume of exports to Asia is increasing, thus, in 2015 exports amounted to 727 641 908 euros, then, in 2017 increased by almost 98 million euros (97 851 017 euros). The total amount of exports in 2017 amounted to 11 647 288 907 euros, which is 1 142 721 525 euros more than in 2015. The growth made up 10,87 %.

Let's consider how trade was distributed among countries on the chart (Fig. 5).

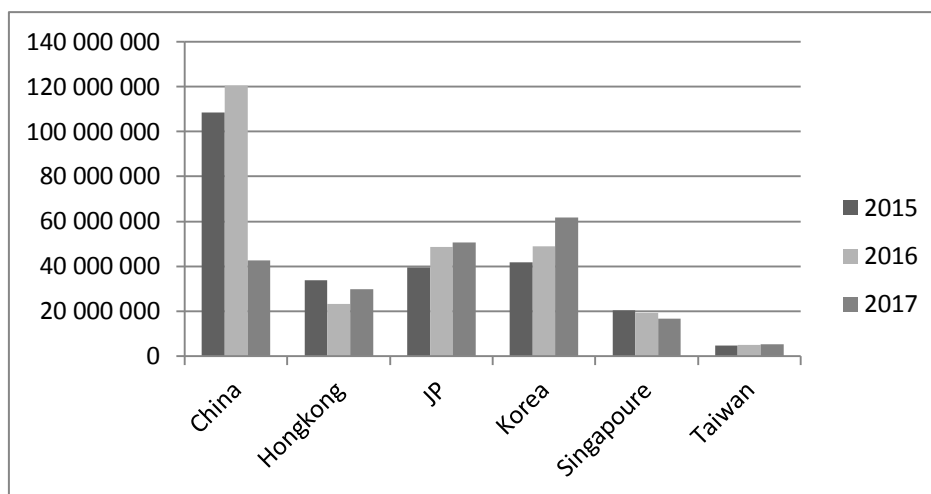


Fig. 5. Latvia's exports to the countries of Southeast Asia, from 2015—2017, euros, calculated by the authors

Thus, the above data indicate that China was the largest exporter of Latvia in 2015, 2016, however, in 2017 the share of Latvia's exports to the country decreased by 3,5 times. So, if in 2015 goods were exported to China for 108 467 860 euros, then in 2017 exports amounted to 42 638 023 euros, moving China only to third place. In terms of volume of export operations of Latvia in 2017, South Korea was the leader — 61 798 754 euros, the second place in export operations of the countries of Southeast Asia was taken by Japan — 50 525 675 euros.

To assess the prospects for further cooperation of Latvia with the countries of Southeast Asia, it is necessary to examine the structure of the trade. In the presented research, the author focuses on export operations of the Latvian business, since, as shown in the figure 1 analysis, the volume of imports to Latvia from countries of Southeast Asia significantly exceeds the volume of exports from Latvia. According to our opinion, there is enormous potential for the development of bilateral relations in the country. Let's evaluate the structure of exported goods to Asian countries.

Thus, as it was mentioned above, the leader in the volume of export operations in 2015, 2016 was China. The main types of goods exported from Latvia are presented in Table 3.

Table 3

Latvian exports to the PRC, by type of goods from 2015—2017, in euros, developed by the authors

Types of goods	2015	2016	2017
Machinery and mechanisms, electrical equipment	182014340	19763325	37967665
Metals and its production	13057427	14512436	27569863
Mineral products	12631514	16405693	29037207

Source: [10].

The analysis demonstrates that the main share accounted for the exports of machines and mechanisms, electrical equipment, their share significantly increased over the researched period. Thus, in 2015, 18.2 million euros of goods were exported, then, in 2017, 2 times more — 37,9 million euros. Metals and products also form the basis of Latvia's exports to the PRC and in 2017, the volume increased almost 2 times compared to 2015. A significant share of exports is also accounted for the export of mineral products to China.

Latvia's next export partner is Japan (*Table 4*).

Table 4

Latvia's exports to Japan by product groups from 2015—2017, euros, calculated by the authors

Types of goods	2015	2016	2017
Machinery, mechanisms; electrical equipment	1064487	1344737	2409224
Optical devices and equipment, watches and musical instruments	289923	3639422	3929345
Mineral products	3177546	3639422	6816968

Source: [10].

The data presented in table 4 reflect the structure of goods exported to Japan. Here we see that the basis of Latvia's exports to Japan forms the mineral products, machines, mechanisms and electrical equipment and optics, watches and musical instruments.

The table clearly shows that mineral products have become an import as part of Latvia's exports to Japan, with the growth in 2017 of this group of goods made up 214 % (!) compared to 2015. Optics, watches and musical instruments took the second line in the column of export and machines, mechanisms and electrical equipment, the third place among the exported goods of Latvia to Japan. The annual growth is also clearly demonstrated by the table, if in 2015 the volume of export of machine, mechanisms and electrical equipment made up 1 064 487 euros, in 2016 — 1 344 737 euros, and in 2017 — 2 409 224 euros, i.e., the growth in 2017 made up 179 % compared to 2016 or increased by 226 % compared to 2015.

Hong Kong is another important partner in the export operations of Latvia (*Table 5*).

Table 5

Latvia's exports to Hong Kong by product groups from 2015—2017, euros, developed by the authors

Types of goods	2015	2016	2017
Food	711726	845470	1557196
Metals and its production	634666	415539	1050295
Machinery and mechanisms, electrical equipment	26815244	15880922	42696166

Source: [10].

Thus, in the export operations of Latvia and Hong Kong machines, mechanisms and electrical equipment become important in the export group of goods. The significant growth of this group of goods is observed in 2017. Compared to 2016, the growth made up more than 2,5 times or 269 %. For the searched period since 2015, the growth of Latvia's exports of machinery, mechanisms and electrical equipment of Latvia to Hong Kong made up 159 %. In trade with Hong Kong appears such type of export as metals and products from them, which are in second place in the export of Latvia and Hong Kong. In 2017, the volume of exports of metals and products from them doubled and amounted to 1050295 euros.

In the export of Latvia and Hong Kong compared to other Asian countries, the article Food appears and in 2017 the volume of goods from Latvia to Hong Kong amounted to 1557196 euros, which is 184 % more than in 2016 or 219 % than in 2015 (*Table 5*).

Next, we proceed to the analysis of another important trading partner in Latvian exports — South Korea (*Table 6*).

Table 6

Latvia's exports to South Korea by product groups from 2015—2017, euros, developed by authors

Types of goods	2015	2016	2017
Mineral products	2887516	4146806	7034322
Machinery and mechanisms, electrical equipment	410110	606544	1016654

Source: [10].

As indicated by the author above, the analysis of export–import operations include those countries of Southeast Asia with which there is a significant trade turnover in Latvia, including related goods. Thus, in the export operations of Latvia and South Korea are presented mineral products and machinery, equipment and electrical equipment (*Table 6*).

The volume of exports from Latvia to South Korea is marked by an annual increase. Thus, the mineral products formed the basis of export with South Korea and the growth in 2017 compared to 2016 made up — 169,6 % or 243,6 % compared to 2015.

The export of machinery, mechanisms and electrical equipment also in Latvian exports is marked by a linear increase in 2017, goods were exported more than twice as much as in 2015 and the growth made up 248 %.

The next trading partner of Latvia in export operations is Singapore (*Table 7*).

Table 7

Latvia's export to Singapore by product groups from 2015—2017, euros, developed by the authors

Types of goods	2015	2016	2017
Optical devices and equipment, watches and musical instruments	682944	1503421	2186365
Machinery and mechanisms, electrical equipment	11925003	14681881	26606884
Mineral products	3919495	251949	4171444

Source: [10].

Thus, as the data in *Table 7* indicate, the main types of goods that Latvia exports to Singapore are: machinery, mechanisms and electrical equipment; mineral products in second place and optics, devices, watches, and musical instruments.

As the table shows, the basis of Latvia's exports to Singapore forms machinery, mechanisms and electrical equipment. Moreover, for the analyzed period from 2015—2017, a linear increase is noted. In 2015 machinery, mechanisms and electrical equipment were exported to Singapore in the amount of 11 925 003 euros. In 2016 — 14 681 881 euros, but in 2017 — 26 606 884 euros. The growth of 2017 compared to 2015 made up — 223 %. Mineral products are also exported from Latvia to Singapore and the dynamics of growth of 2017 is marked compared to 2015 — 107 %.

Further, we turn to an analysis of another exporter of Latvia — Taiwan. Among the groups of goods, presented in table 8, machinery, mechanisms and electrical equipment, mineral products, optics, and manufactured food dominate in export with Taiwan (*Table 8*).

Table 8

Latvia's export to Taiwan by product groups from 2015—2017, euro, developed by the authors

Types of goods	2015	2016	2017
Optical devices	204380	162262	366642
Manufactured food	176042	326843	502885
Mineral products	423235	395823	819058
Machinery, mechanisms;	1023159	1177072	2200231

Source: [10; 11].

Thus, as shown in table 8 for the researched period from 2015—2017, the main goods in the export of Taiwan are machines, mechanisms, and electrical equipment. In 2017 the growth of this export category made up — 187 % compared to 2016 and 215 % compared to 2015. The export of mineral products in Taiwan is also increasing and amounts to 819 058 euros in 2017, which is 194 % more than in 2015.

The analysis carried out by the author clearly shows that machinery, mechanisms, electrical equipment, and mineral products are the main goods in Latvia's exports with the countries of Southeast Asia (*Fig. 6*).

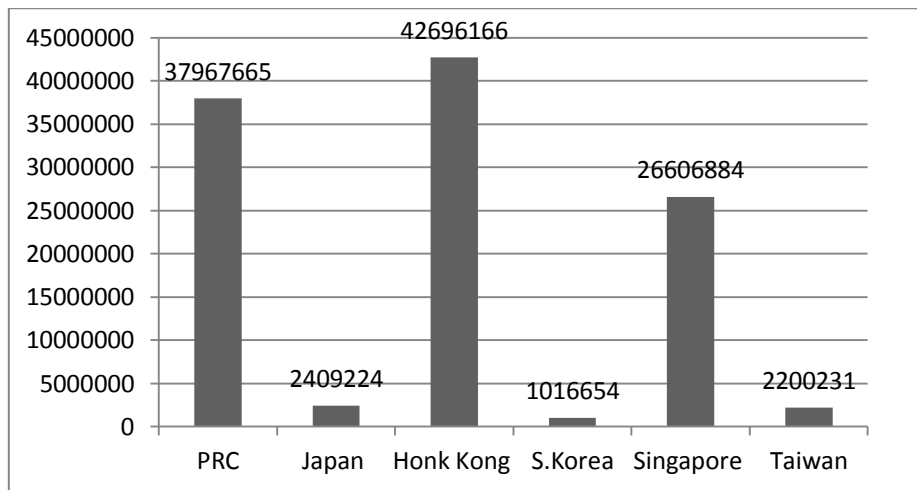


Fig. 6. Export of machinery, mechanisms; electrical equipment of Latvia to the countries of Southeast Asia in 2017, euros, calculated by the authors

The diagram clearly indicates that in 2017 the leader country, into which machinery, mechanisms, electrical equipment were exported was Hong Kong, in second place is PRC, third place — Singapore, followed by Japan, Taiwan, and South Korea (*Fig. 7*).

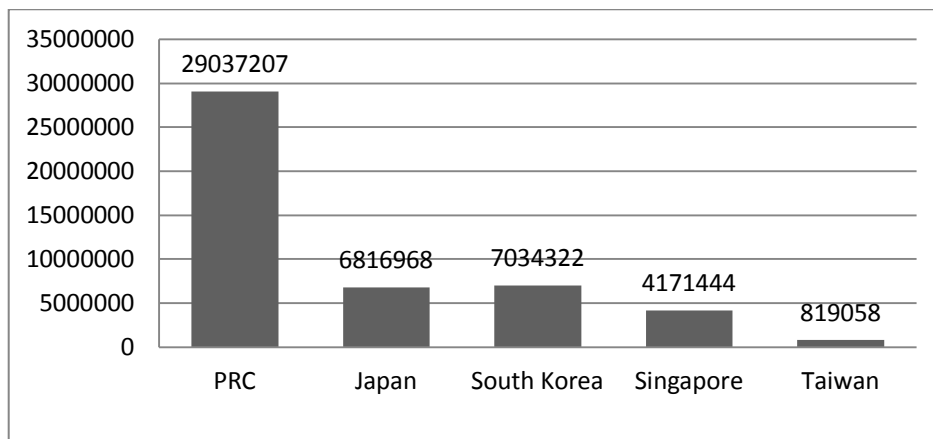


Fig. 7. Latvia's exports of mineral products to the countries of Southeast Asia in 2017, euros, calculated by the authors

As indicated by the authors above, one of the main goods exported to the countries of Southeast Asia is mineral products, with the exception of Hong Kong for the researched the year 2017. In the export of Latvian mineral products, the first place belongs to PRC, second place — South Korea, third — Japan, Singapore, and Taiwan close the list of exporting countries of mineral products from Latvia.

The authors would like to focus on the fact that industrial goods prevail in the volume of export operations of Latvia and countries of Southeast Asia: machinery, mechanisms; electrical equipment, mineral products, metals and products from them. According to the opinion of the authors, it is possible to develop cooperation between countries, namely, in this field, but taking into account the small turnover of SMEs, it is necessary to develop trade relations of SMEs in the industrial sector (*Tabl. 9*).

Table 9

## Analysis of the number of SMEs in Latvia, including the industrial sector in 2017

	Number of SMEs, 2017	Number of SMEs in industry, 2017		
		2015	2016	2017
0-9	103316	9271	9945	10507
10-19	4944	864	794	840
20-49	2975	732	729	751
50-249	1438	489	495	481
Total SMEs	112673	11356	11963	12579

Source: [10].

As we can see from the data presented in the table, from 112673 SMEs registered in 2017 — 12 579 in the industrial sector, including trade in machinery and equipment, which is 11,16 % of the total number of firms.

Using the SPSS program, we will calculate for 2015—2017 the total amount of goods exported by Latvia in the studied country, estimate the minimum and maximum of deliveries, as well as the standard deviation from the indicated values (*Table 10*).

Table 10

Descriptive statistics of the number of export of machinery, mechanisms and electrical equipment to Asian countries in euros and the number of enterprises of small and medium enterprises of Latvia in the field of production for 2015—2017, calculated by the authors

N	PRC	Japan	Hong Kong	South Korea	Singapore	Taiwan	SME
	3	3	3	3	3	3	3
	0	0	0	0	0	0	0
Valid							
Missing							
Mean	79915110,00	1606149,3	28464110,67	677769,33	17737922,	1466820,6	11966,00
Median	37967665,00	1344737,0	26815244,00	606544,00	14681881,	1177072,0	11963,00
Std. Deviation	88887789,227	709458,74	13483449,06	309481,32	7803457,5	639797,10	611,506
Minimum	19763325	1064487	15880922	410110	11925003	1023159	11356
Maximum	182 014340	2409224	42696166	1016654	26606884	2200231	12579
Sum	239745330	4818448	85392332	2033308	53213768	4400462	-

Thus, the data calculated by the author on the export of machinery, mechanisms and electrical equipment to Asian countries show that the leader for 3 years is a PRC — where in the total for 2015—2017 goods were exported in the amount of 239745 330 euros, in second place — Hong Kong — 85392332 euros and the third place belongs to Singapore — 53213768 euros.

The next type of goods exported by Latvia to Asian countries, as showed the research carried out by the authors is mineral products. Let's calculate for 2015—2017 the total number of mineral products exported by Latvia, evaluate the minimum and maximum of supplies, as well as the standard deviation from the indicated values (*Table 11*).

Table 11

Descriptive statistics of the number of export of mineral products to Asian countries and the number of Latvian SME enterprises in the manufacturing sector for 2015—2017, calculated by the authors

N	PRC	Japan	South Korea	Singapore	Taiwan	SMEs
	3	3	3	3	3	3
	0	0	0	0	0	0
Valid						
Missing						
Mean	19358138,00	4544645,33	4689548,00	2780962,67	1466820,6	11966,00
Median	16405693,00	3639422,00	4146806,00	3919495,00	1177072,0	11963,00
Std. Deviation	8592112,040	1981393,471	2126011,91	2193809,96	639797,10	611,506
Minimum	12631514	3177546	2887516	251949	1023159	11356
Maximum	29037207	6816968	7034322	4171444	2200231	12579
Sum	58074414	13633936	14068644	8342888	4400462	-

Thus, the calculated data clearly indicate that the average annual value from 2015—2017 of exported mineral products from Latvia is made up: to PRC — 19,3 million euro, to Japan — 4,54 million euro, to South Korea — 4,68 million euro, to Singapore — 2,78 million euro and to Taiwan — 1,46 million euro. In total, over the three years studied, the leadership also belongs to PRC, where mineral products worth 58 million euros were exported.

**Conclusions.** In order to expand Latvia's trading activities with Southeast Asian countries, the authors conducted research of trade operations, which revealed that the main trading partner is PRC, Hong Kong, Taiwan, Japan, South Korea, and Singapore. The authors focused on the country's export operations and showed that for the studied three years from 2015—2017 the main goods for export to the countries of Southeast Asia were—export of machinery, mechanisms and electrical equipment and mineral products. According to the opinion of the authors, Latvia's annual increase in exports to the countries under study showed that Latvia is characterized by a comparative level of elasticity of national and external supply of goods, confirming the concept of I. B. Kreivis and can achieve even greater results by developing export operations form small and medium-sized businesses.

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