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SOCIOECONOMIC RESEARCH OF THE LATGALE REGION (LATVIA)

This research analyses the socioeconomic development of the Latgale region, which occupies 22.5% of the territory of Latvia and is one of the least populated regions, after Latvia's accession to the EU. Latgale region borders with the Russian Federation on the East, Belarus on the Southeast, and Lithuania on the South. After Latvia's accession to the EU this status has become an important element of the Latgale regional identity. The aim of the study is to analyze population trends in the region and its economic development in the context of other regions of Latvia. The research was conducted on the basis of the hypothesis: economic and social environment of the Latgale region has improved since Latvia's accession to the EU and the region is well-favoured to its residents and economic growth.

Keywords: socioeconomic development; region; Latvia; Latgale.

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СОЦІАЛЬНО-ЕКОНОМІЧНЕ ДОСЛІДЖЕННЯ РЕГІОНУ ЛАТГАЛЄ (ЛАТВІЯ)

У статті описано соціально-економічний розвиток регіону Латгалє, який займає 22,5% території Латвії, але водночас є найменш заселеним регіоном країни. Латгалє має спільний кордон з Росією на сході, Білоруссю на південному сході та Литвою на півдні. Після приєднання до ЄС прикордонний статус регіону набув особливого значення. Акцент у даному дослідженні зроблено на демографічній динаміці у контексті економічного розвитку регіону. Початкова гіпотеза дослідження: після вступу до ЄС економічне та соціальне середовище у регіоні Латгалє покращилось.

Ключові слова: соціально-економічний розвиток; регіон; Латвія; Латгалє.

Табл. 2. Рис. 4. Літ. 20.

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СОЦИАЛЬНО-ЭКОНОМИЧЕСКОЕ ИССЛЕДОВАНИЕ РЕГИОНА ЛАТГАЛЕ (ЛАТВИЯ)

В статье описано социально-экономическое развитие региона Латгалє, которые занимает 22,5% территории Латвии, являясь при этом наименее заселённым регионом страны. Латгалє граничит с Россией на востоке, Беларусью на юго-востоке и Литвой на юге. После присоединения страны к ЕС пограничный статус данного региона приобрёл особое значение. Акцент в данном исследовании сделан на демографической динамике в контексте экономического развития региона. Исходная гипотеза исследования: после вступления в ЕС экономическая и социальная среда в регионе Латгалє улучшилась.

Ключевые слова: социально-экономическое развитие; регион; Латвия; Латгалє.

Introduction

The Latgale region is one of the regions in Latvia covering the area of 14.55 ths km², which is 22.5% of the state territory. In 2004 the population density in the region was 24.7 people per 1 km². It is one of the lowest indicators in Europe, in Finland it is 17, in Sweden – 20 (taking into account the geographical location of Scandinavian countries). The European Union has, on average, the population density of 111 inhabitants per km², but Latvia – 37. In 2012, the region's population was only 20.5 people per 1 km². Latgale region borders with Russian Federation on the East,

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Belarus on the Southeast, and Lithuania on the South. After Latvia's accession to the EU (in 2004), the border status has become an important element of Latgale regional identity.

The aim of the study is to conduct the research on socioeconomic development of the Latgale region after Latvia's accession to the European Union, analysing the population trends in Latgale region and its economic development in the context of other regions of Latvia. The research was conducted on the basis of the hypothesis that: economic and social environment of the Latgale region has improved since Latvia's accession to the EU and the region is well-favoured to its residents and economic growth.

The research was carried out in the successive stages:

- 1) summary of various approaches to regional studies;
- 2) the research on changes in population and its causes;
- 3) the analysis of socioeconomic environment indicators (household income, unemployment rate, GDP).

The research has been conducted applying the general scientific research methods, such as, data analysis and synthesis, logic and constructive approach, monographic method, data grouping, and graphical display of quantitative analysis.

Results and Discussions

Scientific research substantiation

Region as an inhabitants' community with a certain territory, financial and infrastructure resources is in the focus of many research in different scientific disciplines. Region as a research object is mainly related to the actualization of the research direction, influenced by events and changes in the global economic space.

The research on the development of regions started from 1930-s when Britain and the US began to work actively to promote economic growth in less developed regions. Since the 1970-s the idea on the necessity of regional policy assessment spread in most of European countries. The studies on regional development obtained their relevance after the introduction of the Structural Funds, because in 1988 there were elaborated the first impact assessment guidelines of the EU structural funds. Thus, the necessity to assess the impact of the implemented ESF projects became the key to developing this issue and searching for common approaches in the European Union. This issue was especially important after the development and implementation of Cohesion policy. Implementing the EU Cohesion Policy of the 2000–2006 planning period, Regional Policy General Directorate had to develop an ex post assessment methodology for more than 230 target programs of different extent and content in 25 member states. Implementing the EU regional policy of the next programming period (2007–2013), there were discussions on the most appropriate and cost-effective assessment method (Amantova-Salmane, 2011).

Studies on the indicators of regional sustainable development have been published since the 1990-s, however, they got their relevance only at the beginning of this century. In the result of scientific discussions, there conclusions were made indicating that these indicators cannot be only technically or scientifically created, but they must be based on open communication and policy processes, as well as public participation as a key component in the development of sustainable set of indicators (Georgiev, 2011).

Regional assessment in the context of sustainable development has been extensively studied in theory, but there are different views on the dimensions to be taken into account. Most authors consider that the assessment is based on 3 dimensions or spheres to be assessed – social, economic and environmental ones. However, some authors also focus on a new dimension – institutional or regulatory one. Some studies also emphasize the dimension of finance, culture, quality of life etc. It is not enough simply to identify some dimensions, but it is important to ensure sustainable interaction between them. Authors particularly emphasize the interaction between economic interests, environmental factors, and social aspect (Amantova-Salmane, 2011).

The indicators used to assess sustainable development in rural areas, are as follows: economic indicators, social indicators, environmental indicators (Georgiev, 2011).

The territory development index (TDI) has been used in Latvia for 10 years to assess various territorial units. Its calculation methodology was developed by Central Statistical Bureau of Latvia in 2000. TDI is a generalised indicator calculated with determined weight coefficients by summing up standardised values of the most important basic indicators of statistics which characterise development. It demonstrates higher or lower development of territories from the average socioeconomic development level of the state in a relevant year. For the development index calculations both statistical indicators accumulated within a year (GDP, the amount of personal income tax, non-financial investments) and moment statistics (demographic indicators) at the beginning of a year are used. In 2011 the territorial Development Index of the Latgale region was minus EUR 1.203 (for Riga region it was 0.839, Kurzeme – minus 0.432, Zemgale – minus 0.5, and Vidzeme region – minus 0.605).

A number of scientists in different countries deliver the researches on regional disparities. Moreover, there are regional differences in economic development indicators both in the European Union countries, and as well within each country. Economic adjustment is essential throughout the EU, but in different countries and in different regions it occurs at different speed and in different time. Competitiveness of a region as a certain territory is the ability to create and maintain competitive environment for business enterprises, which function in a certain territory. Development process of regional competitiveness can be structured in several stages:

- formation of the territory competitiveness;
- attainment of a particular level of competitiveness, when a region obtains significant role in the world's economy;
- increase of competitiveness due to a region's competitiveness in conjunction with other factors (Boronenko, Vilcinya, 2009).

The rate of economic and social development is a key determinant of political, economic and social efficiency of each economic subject (Makshtutis, 2009). Therefore, it can be hypothetically assumed that a territory, where the development rate is slower, economic efficiency of private sector and the efficiency of political management in the public sector reduce.

National or regional geopolitical situation as a competitive advantage has been analysed in many studies, especially paying attention to the geographical location of the Baltic States and the knowledge of Eastern markets. An obvious example is the

Lithuanian car market, which composed 5.4 to 16% of the country's exports in different time periods. This is an example of how to benefit from geographical location between Western and Eastern countries, including Russia. Car sale is essential for exports, especially in the view of the fact that there are no car factories in Lithuania (Zitkus, 2009). There is a debate whether geographical location is a competitive advantage or a resource. Geographical location does not generate benefit itself, but it can certainly be used in combination with knowledge, public support, financial resources etc. Free territories, like the Latgale region, may be an advantage for the development of certain types of business.

The research on changes in population in the Latgale region and its causes

Development opportunities of each economic system or territory are characterized by its human resources, financial and natural resources, including energy. In the 21st century the role of a human as a manufacturing resource has not reduced, but, on the contrary, increased. In scientifically technical and information era fundamental changes in society have favoured the formation and development of the human capital theory. In the 20th century the determinant of general welfare and business development was investment in technologies, but in the 21st century the dominant factor of the development and growth is human resources. The current situation in the EU countries makes it necessary to assess the leading role of population as a resource in economic development and as a formation condition of human capital. The number of population on a particular territory is an important indicator, taking into account the condition that there are no voluminous natural resources or significant sources of energy.

Table 1. Population at the beginning of the year in Latvia and in some of its regions, 2004–2012

Territory (state/region)	2004	2006	2008	2010	2012	2012 to 2004 (%)
LATVIA	2276520	2227874	2191810	2120504	2042391	89.7
Riga	721640	706617	697272	673433	648867	89.9
Riga suburbs	363310	366399	372740	373918	369562	101.7
Vidzeme	243342	235754	228424	218208	209024	85.9
Kurzeme	305926	297923	290637	279287	265899	86.9
Zemgale	282421	276454	271123	261584	250773	88.8
Latgale	359881	344727	331614	314074	298266	82.9

Source: Central Statistical Bureau of Latvia <http://data.csb.gov.lv>.

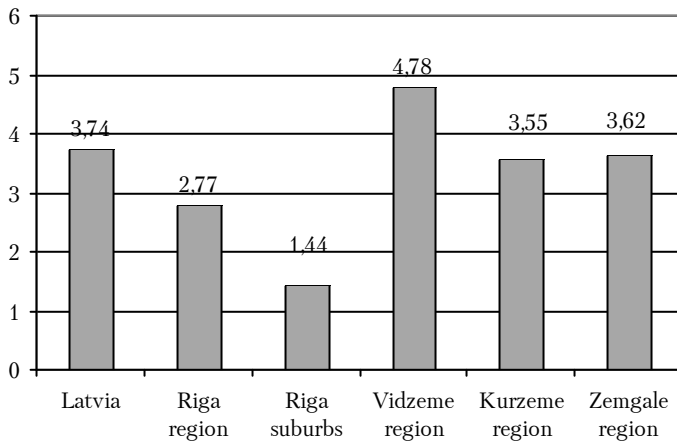
Describing the overall population dynamics, it can be concluded that the number of inhabitants in Latvia and separately in regions has decreased during the period from 2004 to 2012. Population growth in Riga suburbs is due to the development of private sector housing construction in this period, and the growth of population was the result of internal migration. In 2009, the economic crisis led to a drastic decline in construction, hence the population decreased.

The analysis of changes in population by regions shows that since 2004 the population has decreased by 10.3%. The largest decline was observed in Latgale (17.1%) and Vidzeme regions (14.1%). Depopulation in Riga, and the regions of Zemgale and Kurzeme is notable as well and exceeds 10%.

Population sharply declined in the Latgale region after the economic crisis of 2009. The residents of this region lost employment opportunities not only in private

but also in public sector. In 2006 and 2007, when the economic boom was observed, population decline slowed down. This trend might be seen as well in 2012, when there were created various financial instruments to facilitate the development of business sector in Latvia.

The obtained data on population changes in the result of natural increase shows that the death rate is substantially higher than the birth rate in all the regions during the surveyed period, which also confirms the "natural extinction" of population in Latvia that will adversely affect the long-term development of the country.



Source: Central Statistical Bureau of Latvia <http://data.csb.gov.lv>.

Figure 1. Percentage of population decline (natural increase), comparing 2012 to 2004

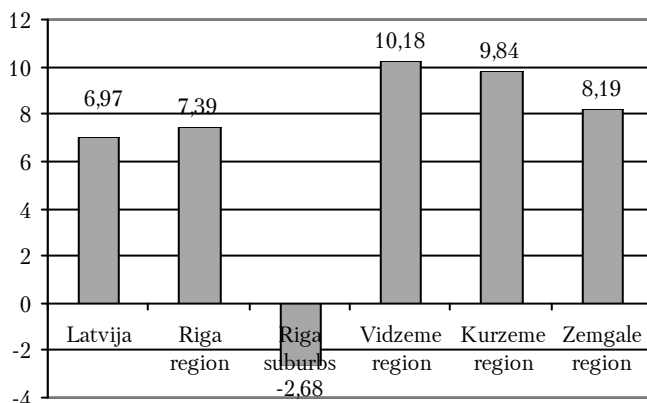
The percentage of population reduction in the period from 2004 to 2012, when the mortality rate exceeded the birth rate, was higher in the regions of Latgale and Vidzeme than on average in Latvia. In the result of the negative natural population growth in the Latgale region during the mentioned period, the population in this area decreased by 7.58%, which is 2 times higher than the average rate in Latvia (3.74%), confirming the low quality of life and social problems in the region.

Analysing the dynamics of absolute indicators of migration, it can be concluded that emigration trends were relatively similarly in all the regions. More rapid increase in emigration was observed in 2008 and it continued till 2010. In 2011 there was a decrease of absolute indicators of emigration in all the regions compared to the previous year.

Analysing the percentage of population reduction due to inhabitants' long-term migration and comparing the year 2011 to 2004, it can be concluded that the total population losses in Latvia due to emigration (6.97%) exceeded by 1.86 times the reduction in population (3.74%), which occurred in the result of a negative natural increase. The highest percentage decrease due to emigration was observed in Latgale region (10.29%), but in Vidzeme region (10.18%) and Kurzeme region (9.84%) this reduction is insignificantly lower.

In the period from 2004 to 2011 the number of population in the result of negative natural increase has declined by ~76.1 ths and due to emigration – by ~158.6 ths. Taking into account other sources of information, the actual number of emigrants

might be even higher. In the whole Latvia and the regions of Vidzeme, Kurzeme and Zemgale the decrease of population due to emigration exceeds by more than 2 times the negative natural growth during this period. In Latgale the decrease of population due to emigration exceeds only by 1.52 times the population reduction, which occurred in the result of negative natural increase.



Source: Central Statistical Bureau of Latvia <http://data.csb.gov.lv>.

Figure 2. Percentage of population reduction due to long-term migration, comparing the year 2011 with 2004

Population reduction in Latvia is the sixth fastest in the world, according to the rating of more than 200 countries and territories, according to the data collected by the research group "Population Reference Bureau" (Washington, USA). The total reduction number of residents of Latvia is the largest decrease, which has been recorded by the census since its first conduct in 1935.

In the last decade, the decisive factor of emigration was Latvia's accession to the EU. The exact division by emigration destination countries is still not available in Latvia, but trends show that Britain and Ireland are the dominating ones, followed by other EU countries (Sweden, Germany, the Netherlands), as well as the US and Russia.

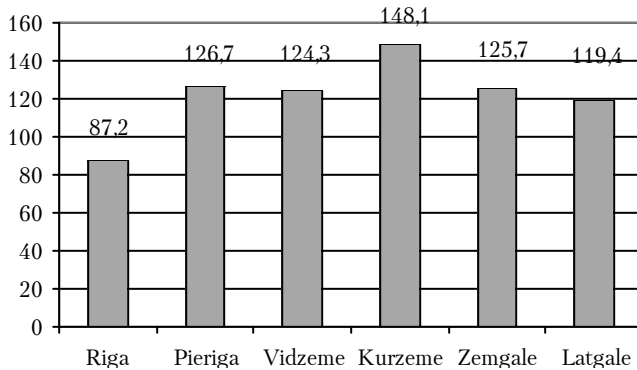
One of the requirements for state or regional competitiveness interpreted in research studies is population of not less than 1.5 mln. (Boronenko, Vilcinya, 2009), which makes us think about the future of Latvia and perspectives of economic development.

The population is one of the most essential components of economy that generates financial resources, but it is not the only factor and there is no correlation between population size and material well-being in a certain area, however, there is no long-term economic growth in the territory if its population is declining. Material well-being of population and the availability of sufficient income is one of the factors that contribute to population growth and the existence of a particular region or even a country.

The survey of socioeconomic environment indicators (household income, GDP)

Analysing household income in the regions of Latvia in the period from 2004 to 2011, it may be noted that in general the revenues in Latvian during this period have risen by ~2.2 times. In Latgale the income has increased by ~2.18 times. However, in

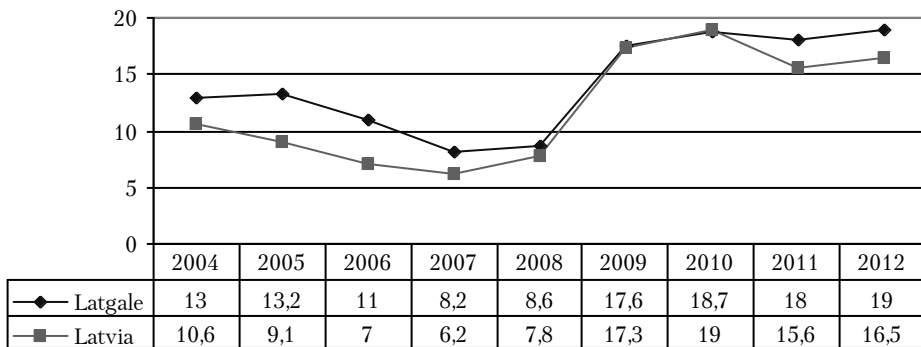
the surveyed period, one of economic development trends in Latvia was the development of regions which would contribute to the development of the whole territory and would attract population to the regions. Statistical data demonstrate that from 2004 to 2011 the household income in the regions of Vidzeme, Zemgale and Kurzeme has increased faster than in Latgale. Consequently, it reduced the attractiveness of the region for both residents and investors. It should be noted that household income in Riga region did not grow as fast as on average in Latvia, however, the household income is 24.7% higher than on average in Latvia, while in Latgale it accounts for only 79.6% of the average household income in the country.



Source: Central Statistical Bureau of Latvia <http://data.csb.gov.lv>.

Figure 3. The growth of household income, 2011 to 2004, %

Assessing the population structure by economic activity, it can be noted that the situation in the Latgale region in the period 2004–2011 has improved. However, the percentage of the unemployed among economically active inhabitants in Latgale region in this period exceeded the average indicator of Latvia by 0.3 up to 4.1%. The unemployment rate in the Latgale Region was significantly higher in 2005, 2006 and 2011.



Source: Central Statistical Bureau of Latvia <http://data.csb.gov.lv>.

Figure 4. Proportion of job seekers among economically active population in 2004–2011, %

One of the negative trends that should be noted is that in 2011 compared to 2004, in population income structure the proportion of labour income has reduced, but the

proportion of social transfer has increased, which confirms the population's dependence on local and national social policies.

Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a given period of time. It is calculated by using data on domestic production (current and constant prices), use (current and constant prices) and income (only current prices). GDP of Latvia concerning production is taken as the basis for calculations by regions. The overall GDP growth has increased by 72.3% in the surveyed period (2004 to 2010) while in the Latgale region by 73.6%. There have been observed GDP changes per capita:

Table 2. GDP indicators in Latvia and Latgale, 2004 and 2010

GDP per capita in Latvia in 2004, LVL	GDP per capita in Latvia in 2010, LVL	2004/ 2010	Total GDP, mln lats in Latvia, 2004	Total GDP, mln lats in Latvia, 2010	2004/ 2010
3279	6096	1:1.86	7420	12 784	1:1.72
GDP per capita in Latgale, 2004, LVL	GDP per capita in Latgale, 2010, LVL	2004/ 2010	Total GDP, mln lats in Latgale, 2004.	Total GDP, mln lats in Latgale, 2010.	2004/ 2010
1617	3228	1:2	575.5	999.1	1:1.74

However, much faster population decline in Latgale region during the surveyed period must be taken into consideration. If the decrease of population in Latvia in 2010 would be equal to the population reduction in 2004 (6.86%), then GDP per capita would be 2981 (calculated by the authors) and the change in 2004 would be 1:1.84, which is less than the average GDP growth of Latvia. Consequently, analyzing the regions, which have experienced considerable changes in population, the impact of population changes on economic indicators and their interpretation must be taken into account.

Discussion

In the eight-year period (2004 to 2012) the Latvian population has declined by more than one tenth, while Latgale has lost 17.1% of its population. Will Latgale region be uninhabited in 35 years? Will there be inhabitants on the territory of Latvia after ~60 years?

Within the six-year period (2004 to 2010) GDP of the Latgale region has increased by more than 70%, or more than on average 10% a year, which according to the economic theory can be evaluated as a positive trend, however, during this period there was a rapid emigration of population to other countries. Does GDP growth characterize the improvement of socioeconomic environment on a particular territory?

When Latvia joined the EU, the Latgale region was one of the less developed regions. Despite the regional policy and regional economic cohesion, still in 2012 the highest unemployment rate, the lowest GDP per capita and the lowest population density were observed in the region. Was the implemented economic development policy appropriate?

One of the requirements for state or regional competitiveness interpreted in research studies is population of no less than 1.5 mln (Boronenko, Vilcinyia, 2009, 86), which makes us think about the future of Latvia and perspectives of its eco-

conomic development. Moreover, is it correct to assess the economic indices in the regions of the country if their total population is only 200–300 ths? Is it possible to enhance the development of a certain territory or a region with a small population only through state or local government resources, but not private capital?

Conclusions

In order to develop the Latgale region, which is the periphery of Latvia and the EU, cross-border resources must be used (human, financial and natural), which create a competitive advantage of regions.

Population decrease in Latvia, including Latgale, which is particularly rapid due to emigration, reduces the economic potential of the country. Aging population, declining birth rates and emigration of working age population contribute to long-term increase of demographic tension.

On the basis of scientific knowledge, which claims that the economic and social development rate is the key determinant of political, economic and social efficiency of any economic subject, it can be concluded that in the territory where development is slower, there is an observed long-term decrease of economic efficiency in private sector and worsening of political management efficiency in public sector.

Geographical location does not generate benefit itself, but it can certainly be used in combination with knowledge, public support, financial resources etc. Free territories, like Latgale may be an advantage for the development of certain types of business.

Population is one of the most essential components of economy that generates financial resources, but it is not the only factor and there is no correlation between population size and material well-being in a certain area, however, there is no long-term economic growth in the territory if its population is declining. Material well-being of population and the availability of sufficient income is one of the factors that contribute to population growth and the existence of a particular region or a country.

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