TURUN KAUPPAKORKEAKOULU
Turku School of Economics and Business Administration

FOREIGN TRADE BETWEEN THE BALTIC STATES AND RUSSIA: TRENDS, INSTITUTIONAL SETTINGS AND IMPACT OF THE EU ENLARGEMENT

Alari Purju

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Foreign trade between the Baltic States and Russia: trends, institutional settings and impact of the EU enlargement[1]

Alari Purju[2]

Abstract

The paper analyses foreign trade developments between the Baltic States and Russia. The general commodity and geographical patterns of foreign trade of the Baltic States are described. The exports of the Baltic States have been determined by their economic potential inherited from the Soviet Union and further adjustments through privatisation, inflow of foreign direct investments (FDI), creation of new enterprises and integration with developed economic networks. The structure of the Baltic States' imports has been induced by the necessity to purchase fuel and other raw materials. The specialisation amplitude is expressed by commodity concentration, trade coverage ratio. The natural resource based items are dominating in the commodity sections with the highest trade coverage ratio. The impact of institutional settings of foreign trade between the Baltic States and Russia is described in the next part of the study. After EU enlargement, the EU25 has a widening range of agreements starting with the PCA and followed by the Common Space, Eastern Dimension (covering regions of Russia and the Ukraine, Moldova and Belarus), and Wider Europe program (covering a wider set of new neighbours). Several important regulative issues covering foreign trade and critical for the access of the Baltic States to Russian markets has become a competence of the EU, but no fast solutions have been seen until the end of 2004.

Key words: foreign trade policy, the Baltic States, Russia, EU enlargement.

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[2] Professor at Tallinn University of Technology and a visiting professor at Turku School of Economics and Business Administration, Pan-European Institute

1. Introduction

The commodity and geographical pattern of foreign trade describes the role of particular country in internationalised market economy. The comparative advantages of a country are important and determine its specialisation in international distribution of labour. Those comparative advantages involve natural resources, labour and capital. On the other hand, also institutional settings expressed in memberships and relevant obligations in international organisations like the European Union (EU), the World Trade Organisation (WTO), in political and economic agreements like the EU-Russia Partnership and Cooperation Agreement (PCA) have been important factors in determination foreign trade developments.

The exports of the Baltic States have been determined by their economic potential inherited from the Soviet Union and further adjustments through privatisation, inflow of foreign direct investments (FDI), creation of new enterprises and integration with developed economic networks. During the last ten years, integration into the EU has played a crucial role for exports. The structure of the Baltic imports has been induced by the necessity to purchase fuel and other raw materials. Machinery, mechanical appliances and electrical equipment have also been important articles for import because investments were materialised first of all through imports of capital goods. Afterwards also imports for processing and re-exports played an increasing role in that branch.

2. Impact of institutional settings

2.1. The Baltic States and the EU

Integration of the Baltic States into the EU customs union (CU) was followed by the elimination of duties and trade restrictions in trade with the EU members. On the other hand, it leads to implementation of all trade restrictions of a common external trade policy.[3] The EU trade policy is more protectionist than, for example, Estonian trade policy before joining the EU.

After joining the EU, external tariffs had to be adjusted to the EU common tariff (EC Treaty Articles 3 to 9). It would be followed by the diversion of trade with non-EU states to the EU members. Cheaper imports from US, Japan, China will be replaced by more expensive imports from the EU. However, for three reasons trade diversion from application of EU tariffs will not be considerable. First, the EU tariff level is not high. The average EU applied tariff level on manufactured goods is as low as 3%.[4] Second, majority of trade of the Baltic States was with either current EU members or with associated EU members already before they joined the EU. Assuming that the current import structure remains, less than 1/3 of imports will be from non-EU sources. Third, imports from non-EU countries are by large the articles on which the EU has very low tariffs. According to current trade flows, more than half of non-EU imports will be from Russia. Almost half of total imports from Russia are mineral products, bound at 0.7%.

An additional major consideration for EU accession is the cost reduction effect - by increasing the size of the home market, EU formation might enable economies of scale to be more fully exploited. It is especially relevant for small countries like the Baltic States to join the large EU market. In addition, accession to the big trading block like the EU causes terms of trade improvement and increases the bargaining power in international trade negotiations.

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[3] The Baltic States had to abolish their free trade agreements with the non-EU countries. That occurred without complications because all respective agreements (for example, Estonia-Ukraine Free Trade Agreement) contained a clause that in the case of EU membership of one party involved the agreement would be abolished.

[4] Data from Baldwin, Francoise and Portes, 1997. These authors also tell us that Central and Eastern European countries (the CEEC) are on average more protectionistic than the EU, although all of them are quite open compared to the developing countries in Asia, Africa and Latin America. The CEEC´s average of 6.5% consists of somewhat higher-than-EU rates on industrial goods, but much lower-than-EU rates on agricultural goods. As a result, the enlargement is likely to lead to an important increase in CEEC agricultural protection against third-country suppliers… The gap between the CEEC and EU rates varies widely across industrial goods…. This asymmetry of protection rates has important implications for the welfare effects of enlargement. Since two-thirds of CEEC imports are from the EU, and this trade will become free, the ongoing process of EU accession implies a great deal of tariff cutting in the CEECs, but very little tariff cutting in the EU (especially since imports from the CEECs amount only to 4% of EU-15 imports). Because most gains come from own-liberalisation, the initial levels of protection suggest that enlargement will lead to much greater income gains in the CEECs than in the EU (Baldwin, Francoise and Portes, 1997, pp. 132-133). As Estonia had practically no tariffs (except some import tariffs on agricultural products introduced in 2000), it means that this argument about welfare gain would lose ground and there could be a loss of welfare due to higher import tariffs for food imports from third countries as a result of full membership.

2.2. The EU and Russia

The EU-Russian relations are based on the PCA, which was negotiated in 1993, signed in 1994, and finally came into force in 1997. The PCA determines the main areas for cooperation, the mechanisms of political dialogue and regulates economic relations. The EU extended the PCA to all new EU members and expected the same position of Russia assuming that the PCA would automatically widen also to the new members of the EU. However, just before the enlargement, during last days of April 2004, Russia demonstrated its unwillingness to accept that position. During the last minute negotiations, the EU and Russia managed to agree on several compromise decisions, which included reduction of tariffs on the sensitive goods to Russia, increase of quotas for the Russian exports of steel, introduced a transition period for anti-dumping regime in the Central and Eastern Europe, increased quotas for nuclear materials from the acceding countries and created a free transit of goods, including energy, between Kaliningrad and mainland Russia (*EU and Russia confirm the extension of the PCA…, 2004).*

The comments came from Russian side that the PCA does not reflect the current situation in the EU-Russian relations and needs major changes or a new agreement (Zaslavskaja, 2004). On the other hand, it is noteworthy that Russia´s middle term strategy towards the EU states: ”The 1994 PCA remains its major legal and institutional basis. The activities related to the development of cooperation with the EU, however, should be closely coordinated with the process of Russia´s accession to the WTO, which requires certain adjustment of the PCA after the end of the above-mentioned process (The Russian Federation Middle Term Strategy Towards the European Union 2000-2010, 2000, cited from Smith, 2004).

Hanna Smith assumes that the tension in early 2004 between Russia and the EU over the automatic extension of the PCA to the new accession countries could be linked to the WTO accession negotiations. What is striking here is that it only aroused major tensions at the beginning of 2004 when the enlargement had been known already about four years. A plausible explanation is that Russia really thought that Russian WTO membership would be achieved before EU enlargement, and some of the economic issues would be automatically dropped from the agenda. The PCA expires in 2007 and even if the Russian side indicates that PCA is not for contemporary relationships, it is unlikely that anything will happen before that time (Smith, 2004, p.8).

Wider Europe-New Neighbourhood program was prepared by the EU Commission and approved by the Council in 2003. This concept was supposed to give perspectives of development for the EU external relations after the enlargement. It was an attempt to prepare for the consequences of the enlargement and a certain reaction to the Polish initiative of the Eastern Dimension of the EU, an analogy to the Northern Dimension. The EU adopted a new financial instrument, *The New Neighbourhood Instrument*, to influence the neighbouring countries (*Wider Europe-Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours, 2003).*

The program is very critical about Lithuania carving out a role for itself in this program, because it will push for measures to boost economic development in Kaliningrad. The big difference in living standards between this Russian enclave and

its neighbours provides a ground for cross-border smuggling and corruption. That could be critical for Lithuania's progress in adopting the Schengen Treaty, because it would raise questions on (EU outside) border control.

In October 2001, the EU and Russia decided to establish a joint High Level Group to prepare the concept of a Common European Economic Space. Later on, considering the mutual interests in other areas, other spaces were also suggested: 1) common space of freedom, security and justice; 2) a space of cooperation in the field of external security; 3) a space of research and development, including cultural aspects. In May 2003, leaders of the EU and Russia agreed to establish these four common spaces thus opening the way of limited integration between the EU and Russia (*Final Report of the High Level Groups on the Common European Economic Space to the EU-Russia Summet, 2003)*.

Before EU enlargement, the EU15 had PCA with Russia and Europe Agreements with enlargement countries. Russia, on the other hand, had bilateral relations with the enlargement countries.

After EU enlargement, the EU25 has a widening range of agreements starting with the PCA and followed by the Common Space, Eastern Dimension (covering regions of Russia and the Ukraine, Moldova and Belarus), and Wider Europe program (covering a wider set of new neighbours).

Despite the achieved agreement on the PCA, the road to Russian market is still dumpy for exporters. In June 2004, Russia banned imports of animal origin from all the EU member states. Russia has been negotiating with the EU for a uniform certificate since 2003 and hoped to finalise the negotiations in May 2004, which was not accomplished[5]. Exporters from the new EU member states then had to obtain individual inspection certificates from Russia's veterinary service. According to a recent report by the Economist Intelligence Unit on Lithuania, the EU aimed to implement a unified system by October 2004, although Russia has since granted an extension until the end of 2004 in order not to jeopardise EU support for its application to join the WTO (Lithuania, 2004).

Exporters from the new EU member states have to go through expertise of the Russian inspection for sanitary and phytosanitary measures, because Russian authorities do not recognise expertise, for example, of the respective Estonian laboratories. A reason for that is a missing Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). Those problems could also wait for a solution in the framework of the EU and Russian negotiations and the WTO membership of Russia.[6]

[5] One problematic issue has been mutual agreement of certificates issued by national authorities.

[6] Matsushita recognises that there is a disharmonious and sometimes conflicting relationship between a WTO agreement and other international trade agreements. One example is the relationship between the SPS Agreement and the Cartagena Protocol under the United Nation Bio-diversity Convention (the latter convention genetically modified organs). See Matsushita, 2004.

3. Foreign trade of the Baltic States: the general trends

Foreign trade has been one of the deciding factors of the Baltic States development. The total turnover of exports and imports of commodities exceeded the volume of GDP by 1.2 times in Estonia, was close to 80% of GDP in Latvia and Lithuania. The share of exports in recent years has been at the level of 60-65% of GDP in Estonia and 40-50% of GDP in Latvia and Lithuania.

The exports of the Baltic States have been determined by their economic potential inherited from the Soviet Union and further adjustments through privatisation, inflow of foreign direct investments (FDI), creation of new enterprises and integration with developed economic networks.

The commodity structure of imports of the Baltic States has been induced by the necessity to purchase fuel and other raw materials. Machinery, mechanical appliances and electrical equipment have also been important articles for import, because investments were materialised first of all through imports of capital goods. Afterwards also imports for processing and re-exports played an increasing role in that branch.

All the Baltic States have been increasing exports and imports and have faced a growing trade deficit since 2000. That can be explained by the inflow of foreign trade investments, those financial assets used to by imported capital goods. However, such large and growing foreign trade deficit would not be sustainable in the long run.

An interesting question is how the EU accession has influenced the trade flows of the Baltic States. The statistics for the first half of 2004 depicts the growth speeding up to 17% of exports in comparison with the first half of 2003, and 21% of imports in comparison of the same periods in Estonia (Estonian Statistics, 2004). Latvia and Lithuania have also faced some speeding up of foreign trade growth rates. The trends that started already in 2003 continued in the commodity and geographic patterns, the only exceptional change being a fast growth of imports from Russia due to the high price of oil[7].

[7] According to an analysis, eastern enlargement seems, even in its very deep form, to be beneficial for all EU regions without causing substantial welfare losses outside the Union. EU-Russia integration, on the other hand has a different impact. To be beneficial for Russia, free trade between the EU and Russia requires improved productivity in the latter, which may be due to better institutions or increased FDI. This might make the negotiations of the agreement cumbersome and, if agreed, its implementation difficult, see (Sulamaa and Widgren, 2004).

Table 1. Foreign trade of the Baltic States in 2004, current prices

	2000		2001		2002		2003		2004, first half	
	EUR, mln	y-o-y change %	EUR, mln	y-o-y change%	EUR, mln	y-o-y change %	EUR, mln	y-o-y change %	EUR, mln	y-o-y change %
Estonia										
Exports	3445	53.6	3698	7.3	3642	-1.5	3996	9.7	2245	17.2
Imports	4615	43.1	4798	4.0	5079	5.9	5734	12.9	3317	21.1
Balance	-1170		-1100		-1437		-1738		-1072	
Latvia										
Exports	2020	25.2	2232	10.5	2417	8.2	2557	5.8	1479	
Imports	3453	25.2	3910	13.2	4284	9.6	4634	8.2	2586	
Balance	-1433		-1678		-1867		-2077		-1107	
Lithuania										
Exports	3841	48.7	4778	24.4	5537	15.7	6158	11.2	3336	
Imports	5650	30.2	6767	19.8	7943	17.4	8441	6.3	4553	
Balance	1809		-1989		-2417		-2283		-1217	

Source: *Estonia, Latvia, Lithuania Foreign Trade in 2003*, 2004, Riga: Statistics Latvia, pp.11-16; *Estonian Statistics*, 2004, No.8, Tallinn: Statistical Office of Estonia, pp. 70-73.

3.1. Geographical Pattern

The geographical foreign trade pattern of the Baltic States changed very substantially in the 1990s. The EU's share in exports and imports increased rapidly, Estonia having the largest share of EU trade, and Lithuania having the smallest figure among the Baltic States (see Table 2). The geographical pattern of Estonia was much induced by intensive orientation to Scandinavian economies (Finland and Sweden above all). Another reason why Finland's and Sweden's shares are high in the Estonian foreign trade is the large number of foreign direct investments from those countries in Estonia and the enterprises created on the basis of these investments use to trade with Finland. The Scandinavian impact has not been so visible in Latvia and Lithuania. The United Kingdom and Germany have been most important foreign trade partners for Latvia and Lithuania. Poland has been playing an increasingly important role in Lithuania's foreign trade.

Table 2. The Foreign Trade of the Baltic States by Regions, 2003

Regions and countries	Exports		Imports		Balance, EUR mln
	EUR, mln	%	EUR, mln	%	
Estonia					
Total	3996.5	100.0	5733.5	100.0	-1737.0
EU	2731.6	68.3	3071.2	53.6	-339.6
CIS	241.0	6.0	841.0	14.7	-600.0
Russia	*155.9*	*3.9*	*491.4*	*8.6*	*-335.5*
Ukraine	*72.7*	*1.8*	*248.9*	*4.3*	*-176.1*
Belarus	*5.2*	*0.0*	*68.6*	*1.2*	*-63.4*
Others	1023.9	25.7	1821.3	31.7	-797.4
Latvia					
Total	2557.0	100.0	4627.0	100.0	-2070.0
EU	1582.0	61.8	2356.9	51.0	-774.9
CIS	246.5	9.8	669.9	14.5	-423.4
Russia	*137.5*	*5.4*	*405.3*	*8.7*	*-267.8*
Ukraine	*53.0*	*2.1*	*84.5*	*1.8*	*-31.5*
Belarus	*37.0*	*1.5*	*171.2*	*3.7*	*-134.2*
Others	728.5	28.4	1600.2	34.5	-871.7
Lithuania					
Total	6158.1	100.0	8525.8	100.0	-2367.7
EU	2652.7	43.1	3769.5	44.2	-1116.8
CIS	932.4	15.1	2196.1	25.8	-1263.7
Russia	*548.5*	*8.9*	*1931.6*	*22.7*	*-1383.1*
Belarus	*173.2*	*2.8*	*126.6*	*1.5*	*46.6*
Ukraine	*141.6*	*2.3*	*113.6*	*1.3*	*28.0*
Others	2573.0	41.8	2560.2	30.0	12.8

Source: *Estonia, Latvia, Lithuania Foreign Trade in 2003*, 2004, Riga: Statistics Latvia, pp.17-22.

Russia has been the most important source of imports for Lithuania. That has to do with the oil manufacturing complex in Lithuania, Mazeikiu Oil, which imports oil from Russia and exports manufactured oil products to other countries. Russia's share was 8.9% of Lithuania's exports and 22.7% of imports in 2003.

In Estonia and Latvia, Russia was basically a source of mineral products and relatively small part of exports went to that market. Russia created 5.4% of Latvia's exports and 8.7% of its imports in 2003. Russia's share in Estonian foreign trade declined dramatically in 1999, after financial crises and deep devaluation of the rouble, but recovered afterward and created 3.9% of Estonian exports and 8.6% of imports in 2003. Among Estonian imports the dominant item was mineral products (mainly oil). The high price of oil increased the value of imports from Russia during the first half of 2004 to 9.1% of all imports.

Trade with other Baltic countries, Latvia and Lithuania, has been rather modest. The foreign trade flows were largest between Latvia and Lithuania, the latter creating 8.2% of Latvia´s exports and 9.7% of imports in 2003.[8] In 2003, Latvia's share in

[8] Large discrepancies should be mentioned in foreign trade statistics of the Baltic States. For example, Lithuania´s exports to Latvia have been reported to be EUR 591,172 thousands and Latvia´s imports from Lithuania EUR 504,084 thousands, the discrepancy being EUR 87,088 thousands. Similar

Estonian exports was 7.0%. Lithuania's share was 3.7% of exports. Estonia, Latvia and Lithuania signed the Baltic Free Trade Agreement in 1992 (enforced since April 1994). Additionally, a free trade agreement on agricultural products has been in force since 1997. In May 2004, the EU Agreement abolished that regional treaty.

3.2. Commodity Structure

The structure of exports of the Baltic States was labour and natural resource intensive during the first half of 1990s, being dominated by textile and textile articles and wood and articles of wood exports. Since the mid-1990s, the absolute and proportional importance of the machinery and equipment industry in Estonia and the vehicles and transport equipment industry in Lithuania have increased, Latvia having at the same time minor changes in its export patterns.

Exports of the Baltic States have been increasing rapidly over the last three years. Lithuanian exports increased 11.2%, Estonian exports 9.7% and Latvian exports 5.8% in 2003 in comparison with the previous year. The structure and dynamics of the commodity patterns are presented in Table 3.

Estonia

The machinery and equipment branch, still the largest section of exports, increased 20% in Estonia in the course of recovering after decline in previous two years due to the IT sector crisis. Exports of other key sectors in Estonia such as wood and wood products increased 11%, and textile and textile products 2%. The most important import items were machinery and equipment with 29.7% and transport vehicles with 10.8%. Imports for inward processing in Estonia and for later re-export created approximately one-third of the exports.

Machinery, mechanical appliances and electrical equipment have also been important articles of import. Some of these products have been imported for inward processing and have been exported afterwards as semi-final products, other products have been imported technical equipment and machinery as investments.

In the commodity structure of Estonian exports the traditional export articles such as textile and food products declined in relative terms during the last years. Wood and articles of wood created 15% of exports in 2003 and these were the second largest article of Estonian exports. Other articles in this section were chips and fibreboards, plywood and construction details. Furniture has also been an important article of exports.

Textiles and textile articles created 11% of exports in 2003. Subcontracting accounted for a large share of exports of wearing apparel, but the amount of final products has been increasing in recent years. The main markets were Finland and Sweden, which also were the major customers of subcontracting.

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discrepancies occurred also between the other pairs of the Baltic States (Estonia, Latvia,. Lithuania. Foreign Trade 2003, 2004 pp. 64-69).

Latvia

Wood and articles of wood created 35% of exports in 2003 and was the clearly largest article of Latvian exports. The solid growth in exports of machinery and equipment and chemicals indicated that Latvia started to diminish its dependence on exports of low value added products. Textiles and textile articles created 13% of exports in 2003.

Subcontracting accounted for a high share of exports of wearing apparel also in Latvia. The relative importance of textiles and textile articles diminished, one reason for which being the rapid growth of real wages. In general, Latvia's structure of exports is still more focused on natural resources (wood sector) and textiles than that of the other Baltic States.

Lithuania

Oil products dominate in the structure of trade of commodities in Lithuania. Russia is a source for imported oil and also an important market for refined oil. The Swiss subsidiary of Yukos is the main intermediary for Mazeikiu Oil sales to Western Europe, explaining also the high proportion of Switzerland in Lithuania's exports[9]. Machinery and equipment were the fastest growing items in Lithuania's exports with a 22.1% increase in 2003. Lithuania had among the Baltic States the largest and increasing proportion of agricultural produce and manufactured food products (I-IV chapter) with 11.1% of exports in 2004. Approximately one-quarter of these products have been exported to Russia, with whom Lithuania had a border agreement and the Most-Favoured-Nation treatment.[10] See figures on foreign trade structure in Table 2.

[9] Lithuania inherited the Mazeikiu Oil complex from the Soviet era. During the first half of 1990s, when it was a state-owned company, the Russian oil company LUKoil was the main crude oil supplier for Mazeikiu Oil. When Mazeikiu Oil was privatised in late 1990s, LUKoil owning already an extensive gasoline retail network in Lithuania. The state authorities of Lithuania were against selling a strategic asset to a Russian company and the privatisation ended with the USA company Williams International being a major shareholder. However, LUKoil, being frozen out from the privatisation discussions, started to disrupt deliveries in the late 1990s. The disruption led the USA company to form close relations with Yukos, the latter company taking over oil supply for Mazeikiu Oil. The Williams International sold its stake to Yukos in the middle of 2002. What happens to Yukos is very critical for the Mazeikiu Oil and Lithuanian economy. The Mazeikiu Oil is owned through a Dutch registered subsidiary the assets of which have not been frozen, as it is in the case of units located in Russia. See, Lithuania (2004).

[10] Lithuania is different from Latvia and Estonia. With latter countries, the Russian Duma has still not signed the border agreements. Estonia and Latvia do not have for that reason the Most-Favoured-Nation (MFN) treatment, which has caused so-called double tariffs on exports from those countries to Russia. That should end with the membership in the EU, being part of the PCA agreement.

4. Foreign trade with Russia

Structure if foreign trade and general developments during recent years are covered in following part of the paper.

4.1. Structure by commodity chapters

In following part, exports and imports of the Baltic States are compared and also role of trade with Russia is evaluated. The special trade system data has been used.[11] Comparing importance of different commodity exports and imports, 10% and 5% level from total has been considered relevant.

First, comparing structure of foreign trade of the Baltic States by the commodity chapters of the HS a quite big similarity is evidenced from figures in Tables 3 and 4. In Estonian exports, machinery and equipment (Ch. XVI), wood and articles of wood (IX), textile and textile articles (XI) are the dominating areas all with shares more than 10% of total exports. In Latvian exports, two latter dominating areas are the same, added with base metals and articles thereof (XV). Lithuanian structure of exports is a little bit different. Mineral products are the dominating area (V) due to exports of refined oil products, followed by vehicles and transport equipment (XVII), textile and textile articles (XI) and machinery and equipment (XVI) all areas creating at least 10% of exports.

Between 5% and 10% of importance, exports of chemical or allied products belong to that group in all the Baltic States added by base metals and articles of thereof (XV) in Estonia, manufactured food products (IV) and machinery and equipment (XVI) in Latvia and non-manufactured food products (I-III) and articles of wood and wood products (IX) in Lithuania.

In imports, machinery and equipment (XVI) and vehicles and transport equipment (XVII) are among the areas with the share at least 10% of imports in all three countries. In addition to that, mineral products (V) create more than 10% of imports in Latvia and Lithuania and chemical and allied products (VI) in Latvia. In Estonia, imports of mineral products are also quite substantial but create less than 10% of total. Between 5% and 10% of imports were created by plastics and rubber and articles of them (VII), in textile (XI) and in base metals and articles thereof (XV) in all three states, chemical and allied products (VI) in Estonia and Lithuania, food products (I-IV) in Latvia.

Among imports, machinery and equipment are related to further exports after manufacturing of imported inputs in Estonia and imported mineral oil is an important

[11] Special trade covers goods that cross the boundary of the free circulation area as well goods that are imported into and exported from customs-bonded manufacturing plants and free economic zones. Excluded from foreign trade statistics are goods for direct transit trade, temporary exports and imports, monetary gold, securities, banks notes and coins in circulation, also goods for use by the embassies of foreign governments and international organizations. Exports are classified according to the indicated country of ultimate destination and imports according to the country of origin. The special trade system has been taken into use in all the Baltic States only after 2000. Estonia and Latvia did parallel calculations in the special trade system and in the general trade system, covering also exports from and imports to customs warehouses, already earlier. So, the comparisons before that year have to take into account also that change of foreign trade statistics.

source of exports refined oil products in Lithuania. The same is at less extent true in the case of textile and textile articles where subcontracting links imports and exports.

The role of trade with Russia is analysed from the two points of interest: 1) could there be areas where foreign trade with Russia is an important factor and 2) are the items of trade with Russia similar in the Baltic States?

Table 3. Commodity structure of exports of Estonia, Latvia and Lithuania, 2003 (mln. EUR and in % as proportion of total of respective commodity chapter)

Com-modity Chapter	Estonia					Latvia					Lithuania				
	Total, mln EUR	EU		Russia		Total, mln EUR	EU		Russia		Total, mln EUR	EU		Russia	
		Mln EUR	%	Mln EUR	%		Mln EUR	%	Mln EUR	%		Mln EUR	%	Mln EUR	%
I-III	183.2	92.7	50.6	8.5	4.6	83.9	41.4	49.3	4.6	5.5	401.1	124.2	31.0	61.1	15.2
IV	117.1	19.4	16.6	3.2	2.7	145.7	19.7	13.5	41.1	28.2	281.0	109.9	39.1	47.8	17.0
V	113.9	49.3	43.3	18.1	15.9	41.0	26.7	65.1	0.1	0.2	1258.2	32.7	2.6	28.6	2.3
VI	207.1	67.4	32.5	44.8	21.6	149.8	19.9	13.3	16.1	10.7	407.3	242.8	59.6	17.3	4.2
VII	106.3	65.3	61.4	4.1	3.9	46.9	22.0	47.0	6.9	14.7	161.3	54.3	33.7	23.5	14.6
IX	598.4	471.8	78.8	5.7	1.0	901.1	742.4	80.4	4.8	0.5	345.9	238.8	69.0	11.7	3.4
X	83.9	38.2	45.5	5.9	7.0	44.1	6.3	14.3	4.8	10.9	68.3	7.2	10.5	16.7	24.5
XI	433.8	340.8	78.6	3.0	0.7	323.7	242.9	75.0	9.9	3.1	860.3	734.8	85.4	15.5	1.8
XIII	60.9	29.5	48.4	3.7	6.1	52.6	23.6	44.9	5.6	10.6	52.8	11.2	21.2	10.8	20.5
XV	340.9	195.4	57.3	7.4	2.2	321.7	202.5	62.9	8.2	2.5	193.6	82.1	42.4	14.2	7.3
XVI	999.9	829.8	83.0	10.3	1.0	180.5	71.7	39.7	22.9	12.7	679.5	292.4	43.0	78.9	11.6
XVII	173.2	107.4	62.0	32.1	18.5	53.0	18.3	34.5	5.5	10.4	920.4	362.4	39.4	205.4	22.3
Other	577.9	424.6	73.5	9.1	1.6	213.0	144.6	67.9	7.0	3.3	528.4	359.9	68.1	17.0	3.2
Total	3996.5	2731.6	68.3	155.9	3.9	2557.0	1582.0	61.8	137.5	5.4	6158.1	2652.7	43.1	548.5	8.9

Source: *Estonia, Latvia, Lithuania Foreign Trade in 2003*, 2004, Riga: Statistics Latvia, pp. 23-30.

Table 4. Commodity structure of imports of Estonia, Latvia and Lithuania, 2003 (mln. EUR and in % as proportion of total of respective commodity chapter)

Com-modity chapter	Estonia					Latvia					Lithuania				
	Total, mln EUR	EU		Russia		Total, mln EUR	EU		Russia		Total, mln EUR	EU		Russia	
		Mln EUR	%	Mln EUR	%		Mln EUR	%	Mln EUR	%		Mln EUR	%	Mln EUR	%
I-III	266.9	120.4	45.1	13.3	5.0	279.6	126.2	45.1	1.9	0.7	389.0	165.0	42.4	24.8	6.4
IV	258.1	148.2	57.4	6.7	2.6	279.4	110.0	39.4	12.3	4.4	300.7	136.9	45.5	6.1	2.0
V	322.2	35.1	10.9	138.5	43.0	461.4	23.4	5.1	177.3	38.4	1578.9	22.0	1.4	1507.2	95.5
VI	415.7	253.3	60.9	54.8	13.2	465.4	240.8	51.7	32.3	6.9	733.6	398.0	54.3	80.9	11.0
VII	291.2	208.0	71.4	6.2	2.1	237.5	130.7	55.0	7.2	3.0	437.5	247.3	56.5	17.3	4.0
IX	157.7	38.0	24.1	81.7	51.8	108.7	20.7	19.0	39.1	36.0	138.1	33.1	24.0	30.9	22.4
X	139.0	92.5	66.5	8.6	6.2	174.8	104.9	60.0	17.0	9.7	204.5	109.0	53.3	12.7	6.2
XI	411.1	240.0	58.4	4.0	1.0	300.2	199.4	66.4	5.6	1.9	661.5	437.6	66.2	4.9	0.7
XIII	106.4	70.3	66.1	4.4	4.1	117.5	54.3	46.2	4.4	3.7	136.6	57.5	42.1	3.6	2.6
XV	528.5	319.8	60.5	86.3	16.3	429.1	164.1	38.2	73.7	17.2	501.9	244.5	48.7	78.8	15.7
XVI	1594.8	884.7	55.5	22.7	1.4	973.7	686.2	70.5	15.6	1.6	1582.3	837.3	52.9	110.7	7.0
XVII	853.7	429.5	50.3	58.0	6.8	484.7	324.5	66.9	7.7	1.6	1326.7	887.6	66.9	41.9	3.2
Other	388.2	231.4	59.6	6.2	1.6	315.0	171.7	54.5	11.2	3.6	534.5	193.7	36.2	11.8	2.2
Total	5733.5	3071.2	53.6	491.4	8.6	4627.0	2356.9	51.0	405.3	8.7	8525.8	3769.5	44.2	1931.6	22.7

Source: *Estonia, Latvia, Lithuania Foreign Trade in 2003*, 2004, Riga: Statistics Latvia, pp. 23-30.

HS Harmonized Commodity Description and Coding System

I-III Agricultural produce;
IV Food, beverages and tobacco;
V Mineral products;
VI Chemical or allied produce;
VII Plastics and articles thereof, rubber and articles thereof;
IX Wood and articles of wood;
X Pulp of wood, paper and paperboards and articles thereof;
XI Textiles and textile articles;
XIII Articles of stone, ceramic articles, glass and glassware;
XV Base metals and articles thereof;
XVI Machinery and equipment;
XVII Vehicles and transport equipment.

To answer the first question, the commodity chapters with at least 5% share of exports or imports are compared with the chapters, where the share of Russia is at least 10% of exports or imports of the respective commodity chapter. To answer the second question, exports and imports of the Baltic States to and from Russia have been compared.

The dominating items of exports of the Baltic States had very little connection with exports to Russia. Among commodity chapters creating at least 10% from total exports in each country, there was no single commodity chapter in Estonia and Latvia where exports to Russia created at least 10% of total exports of particular commodity group. In Lithuania's exports, inside the second largest group vehicles, transport equipment (XVII), and inside the forth group, machinery and equipment (XVI), exports to Russia created 22.3% and 11.6% of exports of respective commodity chapters[12].

In commodity chapters with share between 5% and 10% of total exports in each country, chemical and allied products (VI) was an area in all three states, where exports to Russia created at least 10% of exports of particular commodity chapter (the highest figure was for Estonia with 21.6%). Additionally, in Latvia Russian exports were above that conditional border in manufactured food, beverages and tobacco (IV) with proportion of 28.2% of exports of that commodity chapter. In Lithuania, exports of agricultural produce (I-III) belong to this section with share of Russia 15.2% of exports of that commodity group.

In absolute terms, dominating items of Estonia's exports to Russia, totalling in 155.9 million EUR in 2003, were chemical and allied products with 44.8 million EUR, vehicles and transport equipment with 32.1 million EUR[13]. In Latvia's exports to Russia, totalling 137.3 million EUR, food, beverages and tobacco (IV) created 41.1 million EUR, machinery and equipment (XVI) 22.9 million EUR and chemical and allied products 16.1 million EUR of exports. In Lithuania, from 548.5 million EUR of total exports to Russia, vehicles and transport equipment created 205.4 million EUR[14],

[12] The total exports of particular commodity chapter have been taken as 100%.
[13] Quite a big proportion of those exports was safety belts and other parts for Russian car industry.
[14] Ships, boats and floating structures created the largest section of that chapter in Lithuania's exports.

agricultural products (I-III) 61.1 million EUR and food, beverages and tobacco (IV) 47.8 million EUR in 2003.

On the basis of those figures, it is possible to conclude that exports to Russia played a minor role in exports of all the Baltic States. Share of exports to Russia was very small in commodity chapters with the largest amount of exports in all three states, only exception being exports of vehicles and transportation of Lithuania, where the proportion of exports to Russia was close to one quarter of exports of respective commodity chapter. The exports of the Baltic States to Russia differed between each other, but the areas with largest part of exports to Russia were minor commodity sections in total exports.

On imports side, mineral products (V) and base metals and articles thereof (XV) were the commodity chapters with important role for imports from Russia. Here could be added also wood and articles of wood (IX), where imports from Russia created from one quarter to half of imports of particular chapter in different Baltic States. On the other hand, that commodity group was small inside the imports in all three countries, the share being less that 5% of total imports[15].

We can conclude here that this analysis depicts current situation and does not say too much about the potential of foreign trade with Russia. Political obstacles played a big role in determination circumstances of that trade. Also macroeconomic conditions, particularly lower price and income level in Russia in comparison with the Baltic States, determined penetration of exports of the latter. As those exports have been competing with local production of Russia's companies, that difference in price and wage level played a big role.

[15] It is interesting to compare foreign trade structure of the Baltic States with Finland. The structure of imports has been quite similar but in exports the Baltic States have been competing first of all with Russian domestic production while Finland exported e3lectronic industry products, machinery, equipment and other finished goods, see (Kotilainen, Kaitila, Widrgen and Alho, 2003).

4.2. Trends in foreign trade with Russia

Trade with Russia increased in the beginning of current decade, see figures in Tables 5,6 and 7. Estonia's exports growth was highest, annual average being 24.0% for covered period. Lithuania's exports increased in average by 8.3% and Latvia's exports by 1.1%. Imports increased respectively by 13.9%, 3.7% and 4.6%. All the Baltic States had a deep foreign trade deficit with Russia imports exceeding exports several times (Estonian exports to Russia were 155.9 million EUR and imports from Russia 491.4 million EUR in 2003, for Latvia respective figures were 137.5 million EUR and 405.3 million EUR, for Lithuania 548.5 million EUR and 1931.6 million EUR).

Table 5. Estonia's foreign trade with Russia, 2000-2003

Com-modity Chapter	Exports					Imports				
	2000		2003		$qav_{2000-03}$ %	2000		2003		$qav_{2000-03}$ %
	Mln EUR	%	Mln EUR	%		Mln EUR	%	Mln EUR	%	
I-III	8.2	10.0	8.5	5.5	1.2	11.4	2.9	13.3	2.7	5.3
IV	1.3	1.6	3.2	2.1	35.0	4.9	1.3	6.7	1.4	11.0
V	5.4	6.6	18.1	11.6	52.0	170.0	43.4	138.5	28.2	-6.5
VI	8.5	10.4	44.8	28.7	74.0	34.2	8.7	54.8	11.1	17.0
VII	2.5	3.1	4.1	2.6	18.0	14.0	3.6	6.2	1.3	-23.7
IX	2.6	3.2	5.7	3.7	30.0	42.3	10.8	81.7	16.6	24.5
X	0.8	1.0	5.9	3.8	94.5	9.5	2.4	8.6	1.7	-3.2
XI	3.8	4.7	3.0	1.9	-7.6	2.9	0.7	4.0	0.8	11.3
XIII	2.0	2.4	3.7	2.4	22.7	3.9	1.0	4.4	0.9	4.1
XV	1.9	2.3	7.4	4.7	57.5	80.4	20.5	86.3	17.6	2.4
XVI	6.6	8.1	10.3	6.6	16.0	8.5	2.2	22.7	4.6	38.7
XVII	32.1	39.3	32.1	20.6	0	5.2	1.3	58.0	11.8	12.4
Other	6.0	7.3	9.1	5.8	14.9	4.2	1.2	6.2	1.3	13.9
Total	81.7	100.0	155.9	100.0	24.0	391.4	100.0	491.4	100.0	9.1

Source: *Estonia, Latvia, Lithuania Foreign Trade in 2003*, 2004, Riga: Statistics Latvia, pp. 23-30.

One reason for foreign trade deficit would be directly connected to different foreign trade policy applied by the Baltic States and Russia. If Estonia, Latvia and Lithuania supported access to their domestic markets with missing or very low level of customs tariffs, Russia applied against Estonia and Latvia so called double tariffs due to missing MFN regime with those countries. That is reflected in very small amounts of exported food products to Russia being traditional items in earlier years of Soviet period but also in 1990s until Russian financial crises and devaluation of rouble in 1998. Only Lithuania had higher figures for food exports to Russia.

Table 6. Latvian foreign trade with Russia, 2001-2003

Com-modity Chapter	Exports					Imports				
	2001		2003		$qav_{2001-03}$ %	2001		2003		$qav_{2001-03}$ %
	Mln EUR	%	Mln EUR	%		Mln EUR	%	Mln EUR	%	
I-III	3.1	2.3	4.6	3.3	21.8	2.9	0.8	1.9	0.5	-19.0
IV	46.8	34.8	41.1	29.9	-6.3	5.4	1.5	12.3	3.0	50.9
V	0.1	0.1	0.1	0.1	0.0	185.1	50.0	177.3	43.7	-2.1
VI	17.0	12.7	16.1	11.7	-2.7	42.9	11.6	32.3	8.0	-13.2
VII	2.9	2.2	6.9	5.0	54.2	7.4	2.0	7.2	1.8	-1.4
IX	3.1	2.3	4.8	3.5	24.4	15.5	4.2	39.1	9.6	58.8
X	3.7	2.7	4.8	3.5	13.9	16.2	4.4	17.0	4.2	2.4
XI	10.3	7.7	9.9	7.2	-2.0	4.5	1.2	5.6	1.4	11.6
XIII	2.9	2.2	5.6	4.1	39.0	4.2	1.1	4.4	1.1	2.4
XV	4.1	3.1	8.2	6.0	41.4	62.3	16.8	73.7	18.2	8.8
XVI	24.0	17.8	22.9	16.7	-2.3	13.8	3.7	15.6	3.8	6.3
XVII	6.3	4.7	5.5	4.0	-6.5	4.6	1.2	7.7	1.9	29.4
Other	10.2	7.4	7.0	5.0	-17.2	5.4	1.5	11.2	2.8	36.6
Total	134.5	100.0	137.5	100.0	1.1	370.2	100.0	405.3	100.0	4.6

Source: *Economic Survey of Europe*, 1998, UN Economic Commission for Europe, No 3, p.82; *Estonia, Latvia, Lithuania Foreign Trade in 2003*, 2004, Riga: Statistics Latvia, pp. 23-30.

Among Estonia's exports, the chemical products were the fastest growing item and created the largest amount of exports in 2003 to Russia. Other more important commodity chapters were vehicles and transport equipment, in which no increase occurred during estimated period, mineral products and machinery and equipment. Also exports of food products increased but volumes still remained small.

Mineral products created the largest part of Estonia's imports from Russia. The amount decreased but as total import of mineral products increased, part of Russian imports seems to be substituted by other countries supplies. Base metals and articles thereof and also wood were the fast growing commodity groups of Estonia's imports from Russia.

In Latvia's exports to Russia, the commodity chapters with largest share, as manufactured food and machinery and equipment, had a decreasing trend during covered period. Manufacture of plastics and articles thereof, base metals and articles and construction materials (Ch XIII) were the fastest growing groups but their absolute values and share in exports remained still small. Structure of Latvia's imports was quite similar to Estonia with the same tendency to substitution of Russia's oil imports with other countries supplies. Wood and articles of wood was the fastest growing commodity chapter evidencing the increased use of imported from

Russia timber and manufactured wood in expanding wood manufacturing industry in Latvia.

Lithuania had higher volume of foreign trade with Russia than its Baltic neighbours. Export of mineral products was the fastest growing area, but this is linked first of all to re-export of refined oil products first imported to Lithuania. Other fast growing areas were manufactured food and agricultural produce. Also the largest commodity chapter, vehicles and transport equipment, had some growth the share in total exports declining at the same time. In Lithuania´ imports, the mineral products commodity chapter (first of all imported oil) created 78% of imports from Russia in 2003 and had a modest growth during the investigated period. Growing areas of imports from Russia were machinery and equipment, base metals and articles of thereof, chemical products and wood. That evidences widening use of Russia's resources, but Lithuania's foreign trade in general is very much dependent on developments in Russia's oil industry.

Table 7. Lithuanian foreign trade with Russia, 2001-2003

Com-modity Chapter	**Exports**					**Imports**				
	2001		**2003**		$q_{2001-03}$ %	**2001**		**2003**		$q_{2001-03}$ %
	Mln EUR	%	Mln EUR	%		Mln EUR	%	Mln EUR	%	
I-III	50.1	10.7	61.1	11.1	10.4	19.4	1.1	24.8	1.3	13.1
IV	21.7	4.6	47.8	8.7	48.4	4.4	0.2	6.1	0.3	17.7
V	9.6	2.1	28.6	5.2	72.6	1448.8	80.7	1507.2	78.0	2.0
VI	24.0	5.1	17.3	3.2	-15.1	55.1	3.1	80.9	4.2	21.1
VII	13.6	2.9	23.5	4.3	31.5	20.5	1.1	17.3	0.9	-8.1
IX	9.8	2.1	11.7	2.1	9.3	25.7	1.4	30.9	1.6	9.7
X	15.0	3.2	16.7	3.0	11.3	19.0	1.0	12.7	0.7	-18.2
XI	20.1	4.3	15.5	2.8	-22.2	8.8	0.5	4.9	0.3	-25.4
XIII	9.5	2.0	10.8	2.0	6.6	4.6	0.3	3.6	0.2	-11.5
XV	12.8	2.7	14.2	2.6	5.3	59.1	3.3	78.8	4.1	15.5
XVI	79.9	17.1	78.9	14.4	-0.6	69.4	3.9	110.7	5.7	26.3
XVII	182.9	39.1	205.4	37.4	6.0	43.6	2.4	41.9	2.2	-2.0
Other	18.8	4.1	17.0	3.2	4.9	16.4	1.0	11.8	0.5	-15.2
Total	467.8	100.0	548.5	100.0	8.3	1794.8	100.0	1931.6	100.0	3.7

Source: *Economic Survey of Europe*, 1998, UN Economic Commission for Europe, No 3, p.82; *Estonia, Latvia, Lithuania Foreign Trade in 2003*, 2004, Riga: Statistics Latvia, pp. 23-30.

4.3. The comparative advantages and economic integration measures

The following part of the paper is dedicated to the analysis of foreign trade flows reflecting comparative advantages and integration of a country. The indicators used for that purpose are trade coverage ratio. The analysis is performed separately for foreign trade as a whole and for trade with Russia for all the Baltic States.

4.3.1. Trade coverage ratio

The trade coverage ratio (TC) is the ratio of exports (X) to imports (M). The indicator measures country's comparative advantage in particular sectors of foreign trade:

$TC = X_i / M_i$;

where i is indicator of the sector.

A higher than one TC value evidences that this sector of exports is competitive in comparison with imports of the same sector. It is also assumed that domestic output would need no or only a small amount of imported inputs. That is basically what a nation's comparative advantage concept assumes.

The HS sections at two-digit level have been included in the sample. The minimal value of EUR 1 million was assumed for exports. The evaluation was made for all trade and separately for trade with Russia.

From the total of 97 sections, 16 had higher TC than 1 and 10 sections higher than 2 in Estonia. The natural resource based items are dominating in the sections with the highest TC figure. That is somewhat natural, because TC is a parameter capturing resource-based advantages. In that sense, TC is different from the intra-industry trade indicator which values high internationalisation, i.e. imported inputs have an important role in particular industries.

The coverage of the segments with the highest values of TC in total trade and in trade with Russia is not big: only 3 segments from 10 with the highest values in total trade also belong to 10 segments with the highest TC value in Russian trade. The parameters for Russia are higher and one reason for that is that the country-based figures can be higher, as country by country trade is more specialised than the country's trade with all partners.

Latvia had 13 sections with TC higher than 1 and 4 sections had TC higher than 2. The natural resource-based items are dominating in the sections with the highest TC figure. The coverage of the segments with the highest TC values in total trade and in trade with Russia is not big – 3 segments, like in the case of Estonia, out of 10 with the highest values in total trade also are among the 10 segments with the highest TC values in Russian trade.

Lithuania had 16 sections with TC higher than 1, the largest number of sections among the Baltic States. Lithuania also had 11 sections with TC higher than 2. The coverage of the segments with the highest TC values in total trade and in trade with Russia is 2. All results are presented in Tables 8, 9, and 10.

Table 8. Commodity groups with highest trade coverage ratio in Estonia, 2003

HS section (chapter)	Section´s name	TC (order on list)	TC for Russia (order on list)
01(I)	Live animals	6.870(1)	
16(IV)	Preparation of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	6.350(2)	53.7(4)
94(XX)	Furniture	4.169(3)	213.9(2)
44(IX)	Wood and articles of wood	3.825(4)	
81(XV)	Other base metals; cermetics; articles thereof	3.630(5)	
47(X)	Pulp of wood or other fibrous cellulosic material	2.976(6)	
62(XI)	Articles of apparel and clothing accessories, not knitted or crocheted	2.859(7)	
63(XI)	Other made-up textile articles; sets; worn clothing and worn textile articles	2.841(8)	6.892(6)
57(XI)	Carpets and other textile floor coverings	2.766(9)	
65(XII)	Headgear and parts thereof	2.257(10)	
51(XI)	Wool		949.2(1)
32(VI)	Tanning or dying extracts, pigments and other colouring materials, paints and varnishes		63.9(3)
43(VIII)	Furskins and artifical fur, manufactures thereof		9.457(5)
87(XVII)	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof		7.553(7)
49((X)	Printed books, newspapers		6.443(8)
90(XVIII)	Optical, photographic, cinomathographic, measuring, medical or surgical instruments and apparatus, parts and accessories therof		3.652(9)
69(XIII)	Ceramic products		1.737(10)

Source: *Estonia, Latvia, Lithuania Foreign Trade in 2003*, 2004, Riga: Statistics Latvia, pp.23-45; Author's calculations.

Table 9. Commodity groups with highest trade coverage ratio in Latvia, 2003

HS section (chapter)	Section´s name	TC (order on list)	TC for Russia (order on list)
44(IX)	Wood and articles of wood	8.381(1)	
47(X)	Pulp of wood or other fibrous cellulosic material	5.783(2)	
36(VI)	Explosives, pyrotechnic products	4.220(3)	
16(IV)	Preparation of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	3.908(4)	733.3(1)
62(XI)	Articles of apparel and clothing accessories, not knitted or crocheted	2.785(5)	9.683(4)
61(XI)	Articles of apparel and clothing accessories, knitted or crocheted	1.863(6)	8.464(5)
94(XX)	Furniture	1.499(7)	
76(XV)	Aluminium and articles thereof	1.414(8)	
41(VIII)	Raw hides and skins (other than furskins) and leather	1.374(9)	
74(XV)	Copper and articles thereof	1.233(10)	
18(IV)	Cocoa and cocoa preparations		16.6(2)
20(IV)	Preparations of vegetables, fruits, nuts and other parts of plants		14.9(3)
43(VIII)	Furskins and artificial fur, manufactures thereof		8.086(6)
6(II)	Live trees and other plants, cult flowers		6.333(7)
63(XI)	Other made-up textile articles; sets; worn clothing and worn textile articles		6.892(8)
30(VI)	Pharmaceutical products		6.920(9)
03(I)	Fish and crustaceans, molluscs and other aquatic invertebrates		6.333(10)

Source: *Estonia, Latvia, Lithuania Foreign Trade in 2003*, 2004, Riga: Statistics Latvia,

Table 10. Commodity groups with highest trade coverage ratio in Lithuania, 2003

HS section (chapter)	Section´s name	TC (order on list)	TC for Russia (order on list)
62(XI)	Articles of apparel and clothing accessories, knitted or crocheted	8.026(1)	
31(VI)	Fertilizers	5.556(3)	
04(I)	Dairy produce, birds eggs, natural honey	4.303(4)	96.5(4)
94(XX)	Furniture	4.285(5)	
01(I)	Live animals	3.770(6)	1282(1)
61(XI)	Articles of apparel and clothing accessories, knitted or crocheted	3.530(7)	
46(IX)	Manufacture of straw, of esparto and other plaiting materials	3.428(8)	
16(IV)	Preparation of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	2.925(9)	
44(IX)	Wood and articles of wood	2.513(9)	
63(XI)	Other made-up textiles articles; sets; worn clothing and worn textile articles	2.367(10)	
20(IV)	Preparations of vegetables, fruits, nuts and other parts of plants		120.0(2)
15(III)	Animal or vegetable fats and oils and their cleavage production		105.0(3)
58(XI)	Special woven fabrics, tufted textile fabrics, tapestries		94.0(5)
18(IV)	Cocoa and cocoa preparations		82.0(6)
55(XI)	Man made staple fibres		25.7(7)
87(XVII)	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof		25.2(8)
56(XI)	Wadding, felt and nonwovens, special yarns, ropes and cables		24.1(9)
23(IV)	Residue and waste from food, prepared animal fodder		22.8(10)

Source: *Estonia, Latvia, Lithuania Foreign Trade in 2003*, 2004, Riga: Statistics Latvia, pp.23-45; Authors calculations.

Conclusions

Before EU enlargement, the EU15 had PCA with Russia and Europe Agreements with enlargement countries. Russia, on the other hand, had bilateral relations with the enlargement countries.

After EU enlargement, the EU25 has a widening circle of agreements starting with the PCA and followed by the Common Space, Eastern Dimension (covering regions of Russia and the Ukraine, Moldova and Belarus), and Wider Europe program (covering wider set of new neighbours).

After joining the EU, external tariffs had to be adjusted to the EU common tariffs. The result for Estonia and Latvia was abolishment of so called double tariffs. However, trade was still hindered by non-tariff measures.

The dominating items of exports of the Baltic States had very little connection with exports to Russia. Among commodity chapters creating at least 10% from total exports in each country, there was no single commodity chapter in Estonia and Latvia where exports to Russia created at least 10% of total exports of particular commodity group. In Lithuania's exports, inside the second largest group vehicles, transport equipment (XVII), and inside the forth group, machinery and equipment (XVI), exports to Russia created 22.3% and 11.6% of exports of respective commodity chapters.

Trade with Russia increased in the beginning of current decade. Estonia's exports growth was highest, annual average being 24.0% for covered period. Lithuania's exports increased in average by 8.3% and Latvia's exports by 1.1%. Imports increased respectively by 13.9%, 3.7% and 4.6%.

All the Baltic States had a deep foreign trade deficit with Russia imports exceeding exports several times. Estonian exports to Russia were 155.9 million EUR and imports from Russia 491.4 million EUR in 2003, for Latvia respective figures were 137.5 million EUR and 405.3 million EUR, for Lithuania 548.5 million EUR and 1931.6 million EUR.

One reason for foreign trade deficit would be directly connected to different foreign trade policy applied by the Baltic States and Russia. If Estonia, Latvia and Lithuania supported access to their domestic markets with missing or very low level of customs tariffs, Russia applied against Estonia and Latvia so called double tariffs due to missing MFN regime with those countries.

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