The EU accession of the Baltic States and Poland creates an integrating bridge between the East and the West

by Kari Liuhto

On the 1st of May, four Baltic Rim economies – Estonia, Latvia, Lithuania, and Poland – join the European Union, and with their integration into the Union the borderline between the EU and Russia almost doubles. Their EU accession creates a rather peculiar situation in EU-Russian relations, as the Russian-Estonian and the Russian-Latvian borders have not yet been ratified by the Russian parliament. The Russian relations of Lithuania and Poland becomes emphasised especially due to Kaliningrad, a small Russian enclave (half the size of Belgium) located between them.

After the next enlargement, eight out of nine countries surrounding the Baltic Sea belong within the European Union. Hence, the Baltic Sea becomes almost the inner sea of the EU, excluding only the regions of the Russian Federation i.e. the City of St. Petersburg and the Leningrad Oblast surrounding it, and the Kaliningrad Oblast. The inner sea status of the Baltic Sea and the EU-Russian energy dialogue aid in tackling logistical and environmental challenges concerning Russia's rapidly growing oil shipments via this northern water way, which is covered by thick ice for several months a year.

The political significance of the Baltic Rim within the EU may increase. Nevertheless, it remains to be seen whether four old and four new EU members around this sea share common objectives. Should all the Baltic Rim countries stand united, they have a better chance in shifting the Union's policy focus from the Mediterranean Sea towards the Baltic Sea.

Along with the EU accession of four new Baltic members, regional attractiveness improves in the eyes of foreign investors since this region provides high economic growth, stability, wealth, and a sea access to Russia's vast natural resources. According to the UNCTAD World Investment Report, the foreign direct investment stock of the countries surrounding the Baltic Sea has almost tripled since 1995. Then, the FDI stock of these nine countries was $ 270 billion, whereas seven years later it already reached $ 750 billion. The increase around the Baltic Sea region was higher than in the rest of the world, indicating improved investment possibilities in the northern part of Europe. The investment inflow probably accelerates after the next enlargement, which is only two months away.

The European Union's next enlargement only moves the dividing Iron Curtain towards the East unless the new member states undertake an integrating role between the enlarged EU and its new eastern neighbours – especially Belarus and Ukraine. Besides, the new members, the Baltic States and Poland in particular, have an important task in further integrating the Russian economy closer towards the EU.

Although the EU covers almost 40 per cent of Russia's foreign trade, Russia is a relatively small trade partner for the Union. Even if Russia accounts for less than five per cent of the external trade of the EU15, she is, due to her oil and natural gas deliveries, a strategic partner for the Union. In the future, Russia's strategic importance as an energy supplier grows; roughly a half of the EU25's gas imports and a quarter of its oil imports will arrive from Russia.

Along with enlargement, the importance of the Russian economy ascends as the new EU members have much more intensive trade relations with Russia than the majority of old ones. Russia is an important trade partner for Estonia, Latvia, Lithuania, accounting for 3-10 per cent of their exports and 8-22 per cent of imports. In addition to Russia, the rest of the Baltic Sea region is of strategic importance. The whole Baltic Rim covers clearly over half of the foreign trade of the Baltic States. The respective figure for Poland is some 40 per cent, which is close to that of Finland.

Though the Baltic States and Poland have not invested so much in Russia, nonetheless, Russian firms have landed there. Russia accounts for 1-5 per cent of the total FDI stock in these four aforementioned countries, her proportion being smallest in Estonia and highest in Latvia and Lithuania. Just as an example, the Russia's share of the Finnish inward FDI stock is one per cent.

Currently, the Baltic States and Poland create a bridge for Russian companies towards the EU rather than a foothold for Western companies to the East. However, along with the improvement of their Russian relations, these countries may become a two-way bridge between Old Europe and Russia, i.e. they may become an important gateway to the vast Russian market, and perhaps, an integrating zone for Belarus and Ukraine. Hence, one can argue that the Baltic States and Poland play a much more strategic role in the EU than the pure economic indicators would reveal.

Professor Kari Liuhto
Director, Pan-European Institute
Turku School of Economics and Business Administration

Exports and imports by groups of countries

	Estonia	Latvia	Lithuania	Poland*	Estonia	Latvia	Lithuania	Poland*
January-November 2003	Exports to (share %)				Imports from (share %)			
EU-15	**68,6**	**62,3**	**42,2**	**68,7**	**53,7**	**50,8**	**44,8**	**61,4**
EU-25	**82,5**	**79,6**	**61,5**	**80,5**	**64,9**	**75,2**	**56,7**	**69,1**
Baltic Rim (9)	**70,9**	**55,9**	**47,7**	**45,4**	**55,4**	**63,4**	**55,5**	**38,7**
Estonia	***	6,5	4,3	0,3	***	6,5	1,4	0,1
Latvia	7,0	***	9,6	0,7	2,4	***	1,6	0,1
Lithuania	3,8	8,1	***	2,4	3,5	9,7	***	0,4
Poland	1,1	1,5	3,4	***	2,8	5,1	5,2	***
Finland	26,0	2,7	1,5	0,7	16,1	7,4	2,4	1,5
Sweden	15,2	10,6	4,0	3,7	8,8	6,3	3,5	2,6
Denmark	4,0	6,0	4,7	2,5	2,2	3,4	2,9	1,5
Germany	9,8	15,2	10,0	32,3	11,2	16,0	16,2	24,5
Russia	4,0	5,3	10,2	2,8	8,4	9,0	22,3	8,0
Ukraine	1,9	2,0	2,3	2,8	4,4	1,7	1,4	1,1
Belarus	0,1	1,4	3,1	0,7	1,2	3,7	1,4	0,6

Source: Statistical authorities in Estonia, Latvia, Lithuania and Poland

*data by individual countries 1-9/2003

Baltic Rim Economies, Bimonthly Review 1▪2004, 27.2.2004
Editor-in-chief Hannu Pirilä

Turku School of Economics and Business Administration, Pan-European Institute
Rehtorinpellonkatu 3, FIN-20500 Turku, Finland
Tel. +358 2 481 481, fax +358 2 4814 268, www.tukkk.fi/pei/bre