

STRUCTURAL SHIFTS IN THE BALTIC STATES' FOREIGN TRADE

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Professor Gennady Fedorov, Doctor of Geography and a distinguished Soviet and Russian researcher, made a significant contribution to the study of economic development in the Baltic states, particularly in their economic relations with Russia. His work consistently underscored the importance of trade with Russia for the Baltic economies and its impact on regional production of goods and services. Recent geopolitical shifts have triggered profound structural changes in international trade. This article examines the trade in goods within the Baltic states, as well as between these states and third countries, including Russia. It evaluates the long- and short-term structural shifts in commodity flows, utilizing a comparative analysis of export and import trends based on the latest international statistics. The study covers the period from 2004 to 2024, drawing on annual statistics from 2004–2023 and more granular quarterly and monthly data for 2021–2024, sourced from UN/UNCTAD, Eurostat, WTO, and the World Bank. Employing methods of statistical and structural analysis and Trade Intensity Index (TII) calculations, the article investigates two hypotheses. The first hypothesis, proposing a general increase in the TII between the Baltic states from 2004 to 2023, is partially supported; Lithuania's exports deviate from the overall trend due to the country's strong trade links with Poland and Germany. The second hypothesis, asserting the adaptability of Baltic business to geo-economic and geopolitical stresses — including sustained trade with Russia—has been fully confirmed. The article identifies commodity groups where export and import flows between the Baltic states and Russia increased between 2021 and 2023, highlighting potential niches for Russia to maintain or expand its presence.

Keywords:

Baltic states, foreign trade, trade intensity index, Lithuania, Latvia, Estonia, Russia

Introduction

The three Baltic states of Latvia, Lithuania, and Estonia are open economies with a significant proportion of their gross domestic product, GDP, and household incomes generated at external markets. Since 2010, the ratio of total foreign trade (i. e., the sum of exports and imports) to GDP in these countries has been

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consistently exceeding 100 %, according to the World Bank. Thus, in 2023 this indicator reached the value of 132 % for Latvia, 153 % for Lithuania, and 156 % for Estonia; against the EU average of 97 %.¹

Such a high dependence on foreign trade and integration into the global economy has both advantages and disadvantages. The former include access to new markets for national businesses, which allows them to optimize costs, increase profits, boost productivity and efficiency, acquire advanced knowledge and technologies. The latter, however, concern increased competition between domestic producers, higher sensitivity of local economies to fluctuations in external markets and prices, as well as to global economic crises, shocks and stresses. This paper demonstrates that being so integrated into the global economy means that the Baltic states are more susceptible to external crises than the EU countries generally tend to be.

As of 2010, the Baltic states have been facing serious issues connected with economic reproduction and the structure of foreign trade. Some of these have been external, such as the global economic downturn following the 2008/2009 crisis and the lengthy struggle to overcome its aftershocks; the decline in global trade between 2015 and 2016; the COVID-19 pandemic; the global geopolitical upheaval and the imposition of anti-Russian sanctions. Some have been internal, such as relatively weak — compared to the EU average — national economies with their heavy reliance on subsidies and external (foreign) investment; high unemployment and poverty rates with low social welfare; and so on. However, the main factor contributing to economic problems in the Baltic states has been their drastic and overly aggressive anti-Russian policy that has led to the curtailment of many trade connections with Russia to the detriment of their own national output, and, as a consequence, to the undermining of domestic economic reproduction. To this day, the Baltic states have not yet managed to overcome these issues.

The study aims to use the latest official statistical data from a number of international organizations to conduct a comparative analysis of export-import flows between the three Baltic states as well as between these states and the rest of the world, including Russia, and to assess the directions and scale of long- and short-term structural shifts in their foreign trade.

To this end, the study will attempt an economic and statistical analysis of commodity flows between the three Baltic states as well as between these states and external economies; it will evaluate structural shifts and directions of international trade flows and calculate the Trade Intensity Index (TII) values; it will also identify commodity niches that Russia can maintain and/or develop in its trade with the Baltic states.

¹ Trade (% of GDP) — Estonia, Latvia, Lithuania, *World Bank Database*, URL: <https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=EE-LV-LT> (accessed 22.10.2024).

The study covers the period from 2004 to 2024. It is based on the open annual (for the entire period) and quarterly/monthly (for 2021—2024) data published by the UN/UNCTAD, Eurostat, WTO, and the World Bank.

Two hypotheses have been tested in the course of the study. The first, on the general increase in the TII between the Baltic states in 2004—2023, has been partially confirmed. The second hypothesis, on the high degree of adaptability of the region's non-sanctioned business to geo-economic and geopolitical stresses, its ability to navigate the current difficult situation of trading in international markets, including trade with Russia, has been fully confirmed.

State of research

Russian economic studies in general and the studies of trade relations in particular have always paid increased attention to the Baltic states. This interest is stimulated by the shared historic past and the strategic importance that the Baltic states bear as a buffer, or a link, between Russia and the West. While not claiming to provide a comprehensive review of literature, we will highlight the most notable works that focus on the trade relations of the Baltic states and, specifically, on their trade with Russia [1—3].

Over the last decade, international trade has been increasingly influenced by geopolitics. As a result, the entirety of global, multi- and bilateral economic and trade relations has shifted towards being determined by the geopolitical agenda. Among the many recent Russian studies on the topic as applied to the Baltic region, we would like to draw attention to [4; 5] in particular.

The emerging world order and global transformation of trade relations are also actively studied internationally, especially by researchers from Europe (see, for example, [6]). For the EU, the problem of geopolitics and its impact on trade relations is now so relevant that academic journals devote entire issues to it — a phenomenon that has not been observed outside of the 2008/2009 crisis and the COVID-19 pandemic. For example, in July 2024, the *Journal of Common Market Studies*, the EU's leading publication on economic integration and the common market, published a special issue on the geo-economic pivot of the European single market. It includes 11 articles on theoretical issues and empirical research. A number of these concern the EU trade policy which forms the framework for current trends and structural shifts in foreign trade of the EU countries [7—10].

Much of the literature looks at structural changes in global and European trade [11-14]. Thus, [11] researches the prospects of ongoing structural transformations in international trade and suggests a number of ways in which the mechanisms of such transformations can be further explored.

Economists have identified and analyzed the following features that characterize foreign trade of the Baltic states: lack of consistency and sustainability; high volatility and major structural changes [15].

Another important focus of research is the link between economic development and structural changes in trade flows in the Baltic states [16–18]. In [16], the authors analyze the long- and short-term relationship between economic growth and liberalization of trade in 13 EU countries, including Estonia, Latvia and Lithuania.

In [17], the researchers identify a causal link between the openness of trade and economic growth in the period between 1990 and 2020. The model developed by the authors demonstrates the cross-industry dependence within the Baltic states which indicates shared influences and economic ties.

One study, [18], analyzes economic indicators of the Baltic states between 1993 and 2014 (GDP, FDI, export / import). The results confirm, for these countries, causal interdependence between economic growth, foreign direct investment (FDI) dynamics and trade volatility [18, p. 8].

The impact of FDI and the openness of trade on the economic development of the Czech Republic, Slovakia, Estonia and Lithuania is estimated in [19] on the basis of long series for the 1995-2021 period. The results demonstrate that both factors have a positive influence on economic growth in all countries [19, p. 598].

Several publications are devoted to the comparative analysis of regional trade problems of Central and Eastern European (CEE) countries [20; 21]. Thus, [20] tests the hypothesis of the dual impact of trade openness on the economy in the context of globalization: that of strengthening and weakening of the economic influence of the state. The study is based on statistical data for the period from 1996 to 2021 for 11 CEE countries, including the Baltics. In [21], structural shifts in the regional trade of ten CEE countries are studied over the period between 2004 and 2018.

Some works draw cross-regional comparisons of international trade flows. Thus, [22] compares the consequences of the 2008/2009 crisis, and foreign trade of the countries of the Iberian Peninsula, CEE and the Baltic states. The paper identifies specific features of changes in foreign trade indicators. One conclusion is that the economies of the countries under review have become much more open and export-dependent.

A significant body of research is dedicated to analyzing bilateral trade between the Baltic states as well as between these states and other EU countries and major EU partners, i. e., China, the US and Russia. For example, [23] traces the evolution of trade relations between Latvia and China, while evaluating the potential and diversification possibilities for Latvian exports to the People's Republic of China.

In [24], the authors look at the mutual complementarity of trade relations between China and the Baltic states. They note that distance is the main obstacle to the development of trade between these countries [24, p. 802].

China has been the focus of economic analysis for the last few years, and the literature reflects that. In [25], for example, the authors describe the structure and trends of bilateral trade imbalances between the EU and China and test the hypothesis that the existing lack of balance in bilateral trade tends to work in favour of China. Having calculated export and import indicators for the EU countries (including Latvia, Lithuania and Estonia) and analyzed their growth rates over

the five-year period between 2016 and 2021, the authors have been able to identify commodity groups with growing and declining competitiveness in the EU in trade with China.

In [26], trade between the Baltic states and the USA is examined. The researchers identify current trends and assess the importance of the USA as a trade and investment partner.

At the same time, there is a lack of studies on integration and structural shifts in trade, including those in the Baltic states, in the literature. This fact is mentioned, in particular, in one of the publications discussed above: “The study found a significant literature gap concerning CEE regional trade integration and its determinants. Its limitations refer to: lack of product-groups-level trade data and narrow scope of trade flows (in goods only)” [21, p. 225]. With dramatic events surrounding deep restructuring on the supply side of the Baltics’ main imported commodity — energy sources — brought about by large-scale anti-Russian sanctions and the consequent displacement of Russia from this market, the topic of structural trade shifts is especially relevant. This article aims to investigate the latest developments in this process.

Methods

The following methods and approaches to economic analysis have been used in this study:

1. Long-time series statistical analysis; trend analysis (identification and mapping); comparative cross-country analysis. Here, we also used some methods of structural analysis: calculating indicators of structural shifts; identifying shares and their dynamics; calculating rates and dynamics of both growth and increment of annual, quarterly and monthly data, etc.

2. Trade Intensity Index (TII) calculation. To calculate the TII between the Baltic states, we used the formula developed by [27, p. 71]

$$IIT_{ij} = (Ex_i^j / \text{Sum}Ex_i) / (\text{World}Ex_j / \text{Sum}Ex_w), \quad (1)$$

where IIT_{ij} is the intensity index for export from the country i to the country j ;

Ex_i^j is the export from the country i to the country j ;

$\text{Sum}Ex_i$ is the total volume of the country i exports;

$\text{World}Ex_j$ is the global export to the country j ;

$\text{Sum}Ex_w$ is the total global export.

The value of calculating TII for economic analysis lies in the fact that it allows researchers to compare the bilateral trade of two countries with their participation in global trade. This is important for this study as it helps test one of the hypotheses and assess structural changes in the bilateral trade intensity between the Baltic states over the past 20 years.

3. Statistical data: approaches to selection. To avoid significant errors in the calculations, we made sure to use compatible data for all countries, including Russia. Therefore, the main source of statistical information for this study was the United Nations, and the Trade Map database created under its auspices (devel-

oped and maintained by the UNCTAD/WTO International Trade Centre). Additionally, the study relies on data from the EU (Eurostat), WTO (WTO Stats), and the World Bank (World Bank Open Data) databases.

Results

In the Baltic states, foreign trade is largely shaped by the general trends of the economic development of the European Union and by the decisions made by its governing bodies. At the same time, much is determined by trade policies of national governments and the general situation within the countries themselves, as well as by the global economy.

Exports

Shortly after joining the EU, the three Baltic states experienced a period of rapid growth of foreign trade that lasted up until the global financial and economic crisis of 2008/2009 (Fig. 1).

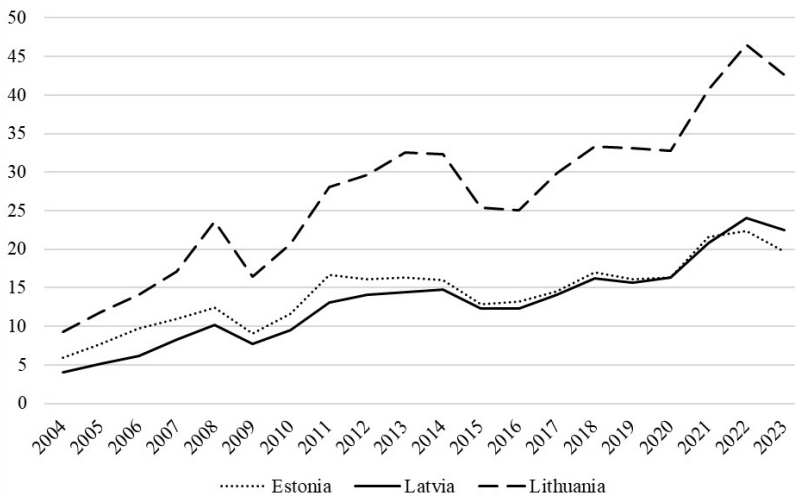


Fig. 1. Exports in goods from the Baltic counties, US dollars, billion

Calculated by the author based on WTO data: Merchandise exports by product group — annual (Million US dollars), *WTO Stats*, URL: <https://stats.wto.org/> (accessed 22.10.2024).

Before the crisis hit, the annual incremental growth rates would routinely reach 30% or higher; however, the comeback from the economic downfall was long and sluggish, and none of the Baltic states was able to reach their pre-crisis dynamics after 2011. The economic development of the Baltic states in that period of time has been the subject of extensive research (see, for example, [1; 28—30]), and we will refer the reader to these studies.

Since the Baltic states are more sensitive to fluctuations in global markets, they are also more susceptible to the effects of external economic and trade crises than the other EU member states. Thus, the slumps in exports during the econom-

ic crises of 2009, 2015/2016 and 2023 were much more pronounced for the Baltic states than for the EU in general. For example, while in 2009 exports from the Baltic states dropped by 28.2 %, the EU only lost 22.5 % of its exports. In 2015, the decline was about 10 % less steep, but its structure remained the same: 19.9 % drop for the Baltic states against 12.8 % for the EU. In 2023, as Baltic exports fell by 8.8 %, the EU was able to demonstrate an overall growth of 0.2 % in this area (Fig. 2).

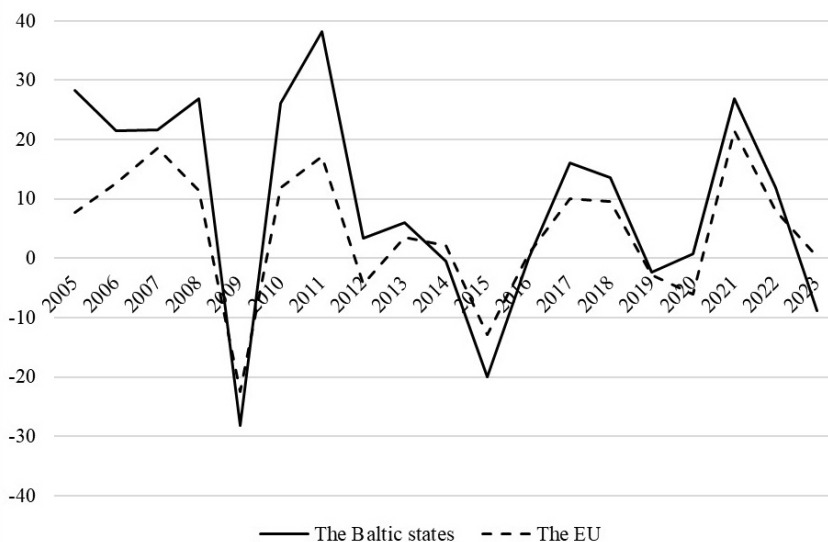


Fig. 2. Annual incremental growth in exports in goods for the Baltic states and the EU, %

Calculated by the author based on WTO data: Merchandise exports by product group — annual (Million US dollar), *WTO Stats*, URL: <https://stats.wto.org/> (accessed 22.10.2024).

Analyzing the data from Figures 1 and 2, we can arrive at a number of conclusions on the dynamics and structural shifts in the commodity trade.

1. Over the entire EU tenure of the Baltic states, the bloc experienced four major external trade upheavals, the first three being the global financial crisis of 2008/2009; the global trade crisis of 2015/2016¹ with the anti-Russian sanctions;

¹ In the 2017, Bulletin on Current Trends in Global Economy, dedicated to the Baltic states, the experts of the Analytical Center for the Government of the Russian Federation claim that the global trade crisis had been brought about by the global economic situation: “In 2012 — 2014, the dollar trade was growing gradually (with the exception of Estonian exports), but in 2015 it fell by 15 — 20 %, mostly following the global price drop for a variety of goods”. Focus On: the Baltics — Revival after the Great Recession, 2017. The Bulletin on the Current Trends in Global Economy. Analytical Center for the Government of the Russian Federation, vol. 20, p. 7. URL: <https://ac.gov.ru/files/publication/a/13165.pdf?ysclid=m0z1pjc1xt22871867> (accessed 22.10.2024).

and the crisis surrounding the COVID-19 pandemic. The latest, or the fourth, crisis started in 2022 in the Baltic states with the announcement of unprecedented anti-Russian sanctions and hit with full force in 2023.

2. According to the Eurostat data, Estonia's exports went from 30.9 billion euros in 2022 to 29.5 billion euros in 2023, Latvia's exports dropped from 28.0 billion euros to 25.9 billion euros in the same period, and Lithuania's — from 58.5 billion euro to 56.5 billion euro¹; all the while the EU exports stagnated at 8.9 trillion euros.

3. Exports increment growth rates during economic upswings in all three countries exceeded the EU average not only at the initial stage after their accession to the Union (2004—2007) but also in the subsequent period up to 2022. We estimate that between 2004 and 2022 the average growth of EU exports amounted to 4.6% annually, while the Baltic states' exports grew at double this rate: Estonia — by 8.1% annually, Latvia — by 10.8%, and Lithuania — by 9.9%. Low base effect in production output levels accounts for some of these numbers, as well as the high competitiveness of the goods produced in the Baltic states. The latter is explained by two factors: a) production means used in the Baltic states are comparable to the state-of-the-art manufacturing facilities, technologies, equipment, etc. employed by some of the EU's best producers (such as Germany or France); b) labour costs are relatively low. The Baltic states were lagging behind in wages throughout the entire reporting period, reaching levels that were 2 to 3 times lower than the European average over the last few years. According to the Eurostat data for the last available year, in 2018 the average hourly wage was 15.43 euros across the EU27, 7.46 euros in Estonia, 6.28 euros in Latvia, and 5.28 euros in Lithuania.² So, while the first of the two factors discussed above allows the manufacturers from the Baltic states to compete in quality, the second — lower labour costs — gives them more freedom to vary (i. e., reduce) prices, the latter being a major factor in determining the competitiveness of goods.

4. Foreign trade volatility in the Baltic states is consistently higher than the EU average: external trade crises hit these countries harder, and recovery follows steeper trajectories. This is explained, firstly, by a higher degree of dependence of the Baltic states on the situation in the global economy, and, secondly, by relatively weak domestic governance and legislative system. The latter is manifested, in particular, in low indicators of socio-economic development and in the attitude of society to the authorities. Thus, one of the leading Russian experts on the Baltic states Olenchenko notes: “The results of the governments' activities, assessments of politicians' activities in the public opinion of the Baltic states testify to the low authority of the Baltic leaders. They apply their efforts not to advance the Baltics prosperity, but to promote the Euro-Atlantic ideology” [1, p. 75].

¹ Goods and services, imports and exports, *Eurostat*, URL: <https://ec.europa.eu/eurostat/databrowser/view/tec00110/default/table?lang=en> (accessed 20.10.2024).

² Hourly earnings by economic activity and contractual working time (enterprises with 10 employed persons or more), *Eurostat*, URL: https://ec.europa.eu/eurostat/databrowser/view/earn_ses18_hftpt/default/table?lang=en (accessed 20.10.2024).

Exports by commodity

There were no large structural shifts in the Baltic states' exports by commodity groups, which is typical for many economies with well-developed production. In 2023, the Baltic states exported the same types of goods as in 2004 (Table 1).

Table 1

**Shifts in the structure of commodity exports
of the Baltic states, 2004–2023, % of total exports**

Products (arranged by share in total exports, 2023)	2004	2023
<i>Exported by Latvia</i>		
Wood and articles made of wood	27.56	15.1
Electrical machinery and equipment	3.96	10.76
Mineral fuels	4.63	7.39
<i>Exported by Lithuania</i>		
Mineral fuels	25.07	14.32
Vehicles	5.42	7.53
Furniture	6.06	7.51
<i>Exported by Estonia</i>		
Electrical machinery and equipment	21.9	13.95
Wood and articles made of wood	11.63	10.45
Machinery and mechanical appliances	4.71	9.25

Calculated by the author based on Trade Map: List of products exported by Latvia, *Trade Map*, URL: https://www.trademap.org/Product_SelCountry_TS.aspx (accessed 22.10.2024).

Nevertheless, there were significant structural shifts within the complex of the main export-oriented industries. For example, the share of wood as a traditional export commodity decreased almost 2-fold for Latvia, while the share of other types of manufactured goods doubled or even tripled (electrical machinery and equipment). In Lithuania's exports, the share of mineral fuels decreased, but the industry remained in the 1st place in terms of exports. In Estonia, while the shares of electrical machinery and wood in total exports dropped, these commodities still retained their top positions in the structure of exports.

Exports by country

The ratio of the Baltic economies in relation to each other in the region's exports (intra-regional structure) is slow to change, and the share of each country roughly correlates to the country's population numbers and its level of economic and industrial development. Thus, Lithuania accounts for almost 50 % of the region's exports; Latvia, for 23–25 %; and Estonia, for 26–27 %.

The Trade Intensity Index (TII) between the Baltic states calculated according to the formula specified above (1) has shown that four out of six intra-regional trade flow directions demonstrated a significant increase in commodity exports (2004 vs. 2023):

- Estonia to Latvia: 77.0 vs. 115.1;
- Estonia to Lithuania: 46.2 vs. 80.1;

- Latvia to Estonia: 85.1 vs. 111.3;
- Latvia to Lithuania: 113.4 vs. 171.6;
- Lithuania to Latvia: 79.0 vs. 52.5;
- Lithuania to Estonia: 39.5 vs. 26.3.

Thus, our hypothesis on the general increase in the TII between the Baltic states in 2004–2023 is only partially confirmed. Lithuania's exports to Latvia and Estonia are outliers of the otherwise upward trend, which can be explained by:

a) relatively low growth of Lithuania's exports to neighbouring Baltic states in 2004–2023 (4.8 times to Latvia and 5.0 times to Estonia) compared to the increase of Lithuanian GDP, which grew by a factor of 6.4;

b) redirection of Lithuanian commodity flows to Poland, Germany, the Netherlands and other EU countries. For example, Lithuania's exports to Poland increased from 449 million euros in 2004 to 3,944 million euros in 2023, i. e., by 8.8 times.

Exports outside the Baltic states

The destination structure of commodity exports outside the Baltic states changed significantly over the reporting period. Table 2 summarizes data on the main importing countries for goods produced in the Baltic states in 2004 and 2023.

Table 2

Key importing countries for goods produced in the Baltic states (in brackets: their share in exports, %)

Ranking, 2023	2004	2023
<i>Exported by Latvia</i>		
1	Germany (12.2)	Lithuania (18.1)
2	Great Britain (12)	Estonia (11.6)
3	Sweden (9.8)	Germany (7)
4	Lithuania (8.7)	Russia (6)
5	Estonia (7.6)	Sweden (5.9)
6	Russia (6.5)	Great Britain (4.8)
<i>Exported by Lithuania</i>		
1	Latvia (10.2)	Latvia (10.8)
2	Germany (10.2)	Poland (9.3)
3	Russia (9.3)	Germany (7.8)
4	France (6.3)	The Netherlands (5.9)
5	Great Britain (5.3)	Estonia (5.5)
6	Sweden (5.1)	Russia (5.4)
<i>Exported by Estonia</i>		
1	Finland (20.6)	Finland (15.4)
2	Sweden (13.9)	Latvia (11.6)
3	Russia (11.9)	Sweden (9.1)
4	Latvia (7.7)	Lithuania (8.1)
5	Germany (7.5)	Germany (6.4)
6	Lithuania (4.1)	Russia (5.9)

Calculated by the author based on Trade Map: List of importing markets for a product exported by Latvia, *Trade Map*, URL: https://www.trademap.org/Country_SelProduct-Country_TS.aspx (accessed 22.10.2024).

Results

1. Overall, destinations of exports from the Baltic states remained unchanged over the 20 years in the study: goods were primarily exported to neighbouring states and the states with access to the Baltic Sea, including Russia, although the latter had lost top positions in many commodity groups of the Baltic exports by 2023. All of the Baltic states were mostly involved in internal macro-regional trade, with ‘macro-region’ understood as encompassing all the Baltic Sea countries. According to our estimates based on the Trade Map database, in 2023 such trade accounted for more than 60 % of Estonia’s and Latvia’s exports, and for almost 50 % of Lithuania’s exports.

2. The restructuring of export destinations for all three Baltic states was most pronounced within a rather narrow group of countries. The six leading importers of Latvian and Estonian products remained unchanged between 2004 and 2023. In the import of Lithuanian products, the relatively distant France and Great Britain conceded their leadership positions to the geographically closer Poland and the Netherlands.

3. Having remained a major consumer of goods produced in the Baltic states, Russia moved from the 3rd to the 6th position in the ranking of top importers from Lithuania and Estonia. As for the Latvian imports, our country moved up from the 6th place in 2004 to the 4th place in 2023 (Russia had already taken the 4th place in 2022).

Another notable trend concerns the changes in the structure of trade flows within the EU: here, the Baltic states’ monthly exports had dropped by 25–30 % since September 2022 and by March 2024 had been fluctuating around the 4-billion-euro mark (Fig. 3).

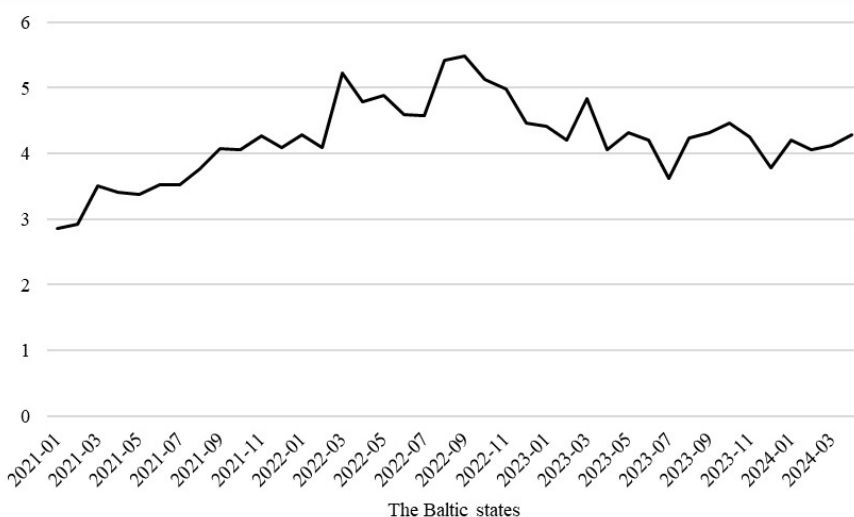


Fig. 3. Monthly exports from the Baltic states to the EU member states, billion euros

Calculated by the author based on Eurostat data: EU trade since 1999 by SITC, *Eurostat*, URL: https://ec.europa.eu/eurostat/databrowser/view/ds-018995__custom_12161354/default/table?lang=en (accessed 22.10.2024).

This indicates that in recent years the Baltic states lost a significant part of their competitive positions in trade on the EU market. In our view, this is mainly a consequence of the sharp decline in economic relations with Russia.

Imports

Between 2004 and 2023, trends in imports to the Baltic states mostly echoed their exports. Latvia increased its purchases abroad by a factor of 4.3, Lithuania — by a factor of 5.3, and Estonia — by a factor of 4.4. The volume of imports in 2023 amounted to 27.4 billion euros in Latvia, 53.7 billion euros in Lithuania, and 29.3 billion euros in Estonia.¹

In 2023, imports fell dramatically alongside exports: Latvia saw an 11.5 % decrease, Lithuania — a 12.1 % decrease, and Estonia — a 15 % fall.² Such a major drop in foreign trade indicators resulted from a combination of factors, including the EU economic stagnation, long-term systemic economic and social issues in the Baltic states, and unfavourable general economic conditions in partner countries.

Imports by commodity

The structure of the main imports in all three countries changed little over the 20 years in this study. In all of them, four commodity groups maintained their position as top imported goods: mineral fuels, electrical machinery and equipment, vehicles, and machinery and mechanical appliances. In 2023, these accounted for between 40 and 50 % of each country's total imports.³

The shares of each group in total imports also remained fairly stable over the reporting period, except for 2022, when, due to the frenzied demand for energy sources caused by the EU sanctions against Russian oil supplies, the Baltic companies, taking advantage of the gap between the announcement of the sanctions and them coming into effect⁴, dramatically increased purchases of all types of mineral fuels to create reserves, having thus driven the share of these products in imports to an unprecedented 21 % (for Latvia and Estonia) and 28 % (for Lithuania). Already in 2023, however, the balance of the imports

¹ GDP and main components (output, expenditure and income), *Eurostat*, URL: https://ec.europa.eu/eurostat/databrowser/view/nama_10_gdp__custom_12157892/default/table?lang=en (accessed 22.10.2024).

² List of supplying markets for a product imported by Latvia, *Trade Map*, URL: https://www.trademap.org/Country_SelProductCountry_TS.aspx (accessed 22.10.2024).

³ List of products imported by Latvia, *Trade Map*, URL: https://www.trademap.org/Product_SelCountry_TS.aspx (accessed 22.10.2024).

⁴ The EU imposed sanctions on Russian oil in June 2022, with exemptions both for deadlines and for deliveries.

structure was restored to the levels of 2021, and the share of imported mineral fuels returned to the average numbers: 11 % for Latvia and Estonia, and 20 % for Lithuania.

Imports by country

The country structure of imports to the Baltic states underwent dramatic structural shifts caused by Russia's withdrawal from the top positions in the list of exporters (Table 3).

Table 3

Key commodity exporters to the Baltic states (in brackets: their share in imports, %)

Ranking, 2023	2004	2023
<i>Imported by Latvia</i>		
1	Germany (13.5)	Lithuania (21.2)
2	Lithuania (11.9)	Germany (11.1)
3	Russia (9.3)	Poland (10.6)
4	Estonia (6.9)	Estonia (8.5)
5	Sweden (6.2)	The Netherlands (4.3)
6	Finland (6.1)	Finland (4.0)
<i>Imported by Lithuania</i>		
1	Russia (23.1)	Germany (13.8)
2	Germany (16.7)	Poland (13.2)
3	Poland (7.7)	Latvia (8.1)
4	The Netherlands (4.0)	The US (6.4)
5	Latvia (3.8)	The Netherlands (5.0)
6	Sweden (3.4)	Norway (4.5)
<i>Imported by Estonia</i>		
1	Russia (12.1)	Germany (11.1)
2	Finland (10.9)	China (9.3)
3	Germany (9.3)	Finland (8.6)
4	Sweden (5.8)	Lithuania (6.6)
5	China (4.7)	Poland (6.4)
6	Lithuania (3.9)	Latvia (5.2)

Calculated by the author based on Trade Map: List of supplying markets for products imported by Latvia, *Trade Map*, URL: https://www.trademap.org/Country_SelProduct-Country_TS.aspx (accessed 22.10.2024).

The data in Table 3 confirm the earlier conclusion that the main foreign trade partners are neighbouring and nearby countries, excluding Russia.

Shifts in trade with Russia

At the initial stage after the introduction of the first sanctions (from March 2022 to January 2023), the decline in the Baltic states' imports from Russia was

sharp (Fig. 4). Then, as the volume of imports from Russia decreased, so did the rate of decline, and in 2023 imports had already entered stationary trajectories at a much lower level.

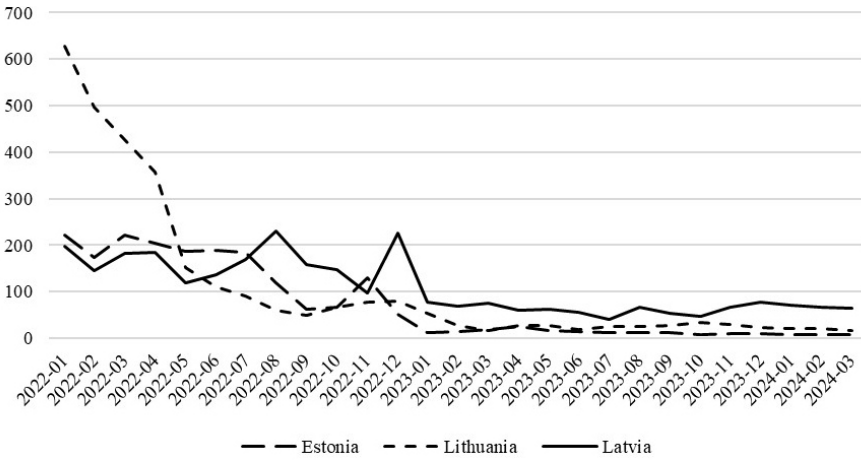


Fig. 4. Monthly imports from Russia to the Baltic, million euro

Calculated by the author based on Eurostat data: EU trade since 1999 by SITC, Eurostat, URL: https://ec.europa.eu/eurostat/databrowser/view/ds-018995__custom_12032993/default/table?lang=en (accessed 22.10.2024).

Although the EU also imposed sanctions on exports of goods to Russia (particularly for high-tech products), there were weaker downward trends here until November 2023 (Fig. 5). In general, Baltic exports to Russia decreased, but not as significantly as imports.

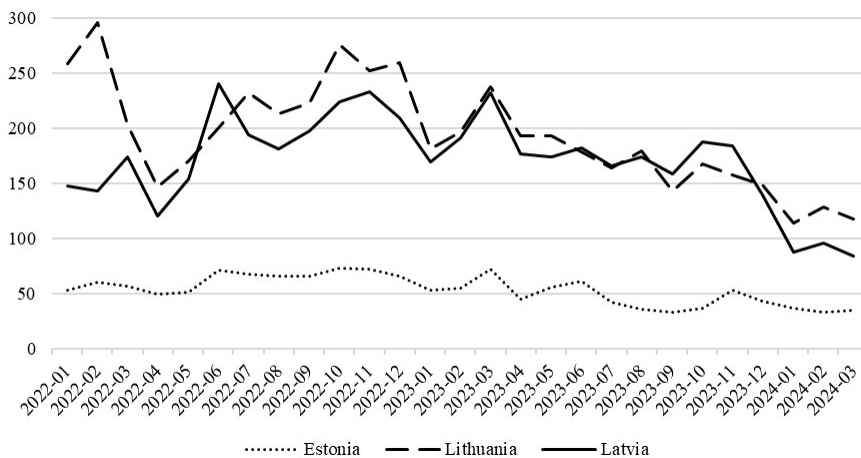


Fig. 5. Monthly exports of goods from the Baltic states to Russia, million euros

Calculated by the author based on Eurostat data: EU trade since 1999 by SITC, Eurostat, URL: https://ec.europa.eu/eurostat/databrowser/view/ds-018995__custom_12032993/default/table?lang=en (accessed on 22.10.2024).

Deep structural shifts discussed above fit into the generally negative trends of the EU trade with Russia: the 2022 drop was followed by a recovery to numbers lower than those of 2021 in both exports and imports (Fig. 6).

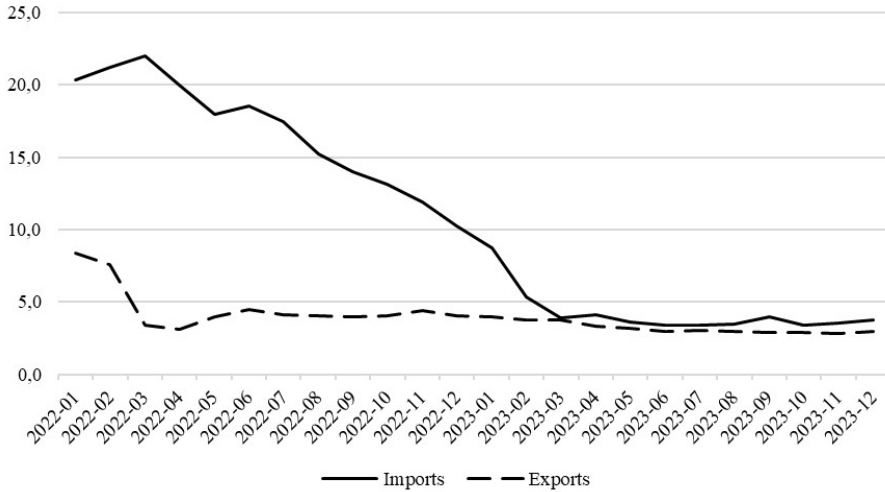


Fig. 6. Monthly EU-Russia trade, billion euros

Calculated by the author based on Eurostat data: EU trade since 1999 by SITC, *Eurostat*, URL: https://ec.europa.eu/eurostat/databrowser/view/ds-018995__custom_12032993/default/table?lang=en (accessed 22.10.2024).

At the same time, in 2023, Russia's purchases increased for a significant group of food and light industry products, which form the basis of Russian imports from the Baltics (Table 4).

Table 4

Commodity groups with increased exports to Russia in 2021 – 2023

Exported from	Products	US dollars, million		
		2021	2022	2023
Latvia	Beverages and spirits	359.4	358.6	500,9
	Articles of apparel and clothing; footwear	92.8	101.8	152,5
	Rubber and articles thereof	17.2	30.6	44,2
Lithuania	Beverages and spirits	300.0	297.0	394,5
	Perfumery and cosmetic preparations	250.1	210.5	296,8
	Articles of apparel and clothing; footwear	148.7	111.2	188,4
Estonia	Animal, vegetable or microbial fats and oils	221.1	359.3	409,9
	Cocoa and cocoa preparations	89.6	100.8	110,5
	Miscellaneous edible preparations	5.5	28.3	62,4
<i>Total</i>		1484.4	1598.1	2160.1

Calculated by the author based on Trade Map: Bilateral trade between Latvia and Russian Federation, *Trade Map*, URL: https://www.trademap.org/Bilateral_TS.aspx (accessed 22.10.2024).

In total, only for the commodity groups highlighted in Table 4, the increase in exports from the Baltic states to Russia in 2023 amounted to 50 % compared to 2021 and reached 2.2 billion US dollars. These groups represent product import niches that Russia can maintain and/or expand.

Moreover, compared to the other EU countries, Baltic exporters managed to strengthen their positions on the Russian market in 2022/2023. According to our calculations based on the Trade Map database, the share of the Baltic states in EU exports of manufactured goods to Russia kept growing over this period: from 6.4 % in 2021 to 10.1 % in 2022, having reached 13.2 % in 2023.

Sector-wise, the largest structural shifts over the long-term period from 2013 to the present have occurred in the imports of the main commodity — mineral fuel — by the Baltic states. The scale of imports and main importers are shown in Table 5.

Table 5

**The share of the main mineral fuel exporters to the Baltic states,
% of total imported value**

Supplying country*	Year			
	2013	2021	2022	2023
<i>Imported by Latvia</i>				
1. Lithuania	43.5	32.7	55.9	62.4
2. Estonia	2.9	17.5	18.5	10.3
3. The Russian Federation	28.1	34.4	19.2	10.1
<i>Imported by Lithuania</i>				
1. The USA	0.3	7.6	21.8	25.1
2. Norway	0	0.1	15.4	23.1
13. The Russian Federation	84.6	50.3	10.8	0.6
<i>Imported by Estonia</i>				
1. Lithuania	23.3	10.6	14.8	22.3
2. The USA	0	0.2	3.8	9.1
14. The Russian Federation	42.0	40.2	27.3	0.6

* Indicating the place among other exporters as of 01.01.2024.

Calculated by the author based on Trade Map: List of supplying markets for a product imported by Latvia, *Trade Map*, URL: https://www.trademap.org/Country_SelProduct-Country_TS.aspx (accessed 22.10.2024).

In 2023, the list of key suppliers of energy sources to the Baltic states started featuring the USA and Norway, two countries that had been almost completely absent from this market only 3 years prior. New suppliers also emerged in the form of Saudi Arabia, the United Arab Emirates and other countries.

By now, Russia has almost completely stopped supplying mineral fuel to Lithuania and Estonia, and its share in Latvian imports of this commodity amounted to 10.1 % as of January 1, 2024.

In Q2 2024, Latvia imported only \$ 37.3 million worth of energy sources from Russia, including \$ 28.0 million worth of gas, \$ 4.5 million worth of oil, \$ 4.9 million worth of electricity; Lithuania — \$ 4.4 million (of them, \$ 3.5 million worth of gas, \$ 1.1 million worth of electricity); and Estonia — \$ 2.4 million (all gas).¹

Yet, trade with Russia continues. While most energy-related and non-energy-related commodities saw a decrease in imports from Russia to the Baltic states, there are a number of niches with positive dynamics between 2021 and 2023 (Table 6).

Table 6

**Commodity groups with increased imports from Russia
to the Baltic states in 2021 – 2023**

Products	Million US dollars		
	2021	2022	2023
<i>Imported by Latvia</i>			
Residues and waste from the food industries	7.6	76.5	102.0
Cereals	33.0	83.0	84.6
Pearls and precious metals	23.5	5.5	44.0
<i>Imported by Lithuania</i>			
Residues and waste from the food industries	14.2	35.1	53.8
Rubber and articles thereof	33.5	33.2	35.6
Vegetables	14.8	10.1	30.2
<i>Imported by Estonia</i>			
Animal, vegetable or microbial fats and oils	5.1	13.7	12.3
Cereals	0.4	1.4	8.7
Polygraphy	4.5	4.6	4.8

Calculated by the author on the basis of Trade Map: Bilateral trade between Latvia and Russian Federation, *Trade Map*, https://www.trademap.org/Bilateral_TS.aspx (accessed 22.10.2024).

Thus, many companies from the Baltic states and Russia continue to maintain mutual trade and increase trade in certain goods. Long-standing trade, industrial and personal relations going back to Soviet and early post-Soviet times, familiar and understandable business environment, compatible infrastructure and logistics, and minimal transaction and transportation costs form the foundation for mutual trade between the Baltic states and Russia.

Conclusion

Geopolitical upheavals, downward trends of economic development in Europe and the West's course towards confrontation with Russia determine the directions, scope and depth of structural shifts in the foreign trade of the Baltic states. Therefore, the sharp drop in their export and import indicators in 2023

¹ Bilateral trade between Latvia and Russian Federation, *Trade Map*, URL: https://www.trademap.org/Bilateral_MQ_TS.aspx (accessed 22.10.2024).

can no longer be explained by ‘the Russian factor’, but rather by unfavourable general economic conditions in their domestic economies and in those of their current trade partners, as well as by long-term problems and an actual stagnation of the EU economy.

The Baltic states are characterized by a high degree of interdependence and regional trade integration. Only Lithuania’s exports stand out from the overall trend of the growing mutual trade intensity index, which is explained by the country’s heavy reliance on trading with Poland and Germany.

The main long-term (decade-long), politically motivated structural shift within the framework of Brussels’ general confrontational policy towards Russia was to squeeze our country out of the internal markets of the EU and the Baltic states. For this purpose, the instrument of sanctions was utilized; initially with limited success: while visible, the downward trend in the Baltic states’ trade with Russia had remained relatively unpronounced until 2022.

The main short-term structural shift in trade with Russia, which took only a few months, happened in 2022. As shown by our study of a long series of monthly data from January 2022 to March 2024, the Baltic states’ imports from Russia decreased many times over. As a result, imports from Russia had to undergo an unprecedentedly deep restructuring. Russian energy imports were reduced to statistically insignificant figures. It can even be said that now Russia has stopped participating in the energy supply to the Baltic states.

At the same time, for a significant range of products, the Baltic states’ trade relations with Russia both in terms of exports and imports have managed to withstand the weight of the problems that have emerged. For goods that are not subject to sanctions, the trade between Baltic and Russian companies remains relatively resistant to both economic and geopolitical challenges, albeit with lower intensity than in 2021. There has even been an increase in trade turnover indicators for certain types of products (certain foodstuffs, products of the light industry, and some branches of the manufacturing industry). These constitute the product niches where, in our view, Russian companies could maintain and/or strengthen their positions in trade with the Baltic states.

In 2022/2023, Baltic exporters also achieved significant success in competing with other European companies for the Russian market in a number of non-sanctioned commodity groups. Thus, during these years, the share of the Baltic states in the total volume of EU manufactured goods exported to Russia more than doubled and amounted to 6.4 % in 2021, 10.1 % in 2022 and 13.2 % in 2023.

All this testifies to the high adaptive capacity of a certain segment of the Baltic business, whose products were not subject to sanctions, to withstand geo-economic and geopolitical stresses. It also points to the businesses’ ability to navigate the complex conditions of contemporary trade in foreign markets, including that of the Russian Federation. Many of the Baltic companies with trade ties with Russia are looking for opportunities to maintain them and, as our research has shown, even expand them in certain product niches. This is understandable,

because conquering new foreign markets is a long, complicated and painstaking process, and trade with Russia has always been a well-known, well-established, and profitable endeavour for the companies in the Baltic states.

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