TRADE RELATIONS OF ESTONIA AS A EU MEMBER STATE, INCL. WITH GEORGIA

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Summary

The paper provides an overview of the trade relations of Estonia as a Member State of the European Union with many countries both in terms of exports and imports. The tables present above all information on the ten most important trade partners. In addition, statistics on Georgia, Moldova and Ukraine have been presented. Trade relations between Estonia and Georgia have been treated more thoroughly. According to the results of the study, although the mutual relations between the two countries are relatively modest, more active efforts should be expected particularly on the part of Georgia as the export volume of Estonia exceeded that of Georgia 2.23-fold in 2014.

The paper emphasises that Estonian businesses, for instance, should focus much less on the Russian market and in parallel systematically search more for other markets as well. This should follow the principle that all eggs should not be put in one basket but in many baskets to achieve success (according to an old saying). Or, in other words – failure in a single large market will bring about a lot of problems. The problems will be much smaller, however, if the activities are on many smaller markets instead of one large market.

Introduction

In the recent years (2013–2014) and particularly in the recent months of 2015, both the political and economic stability in Europe has considerably faltered (this has influenced also the behaviour of other world regions) and behaviours in terms of economic policies have reached a complicated situation. It seems that quite a few politicians and countries do not care about democratic principles. It is as if international law and agreements would not mean anything.

The purpose of this paper is to study the trade relations of Estonia with its most important trade partners. Also the export-import relations (volumes of commodities) with Georgia have been dwelt on but the same general parameters have been presented also for Russia, Ukraine and Moldova. Normal business relations have become nervous, and behaviours related to economic policy have to be reviewed in many countries, also in the EU and in Estonia.

The following subtopics studied have been treated in this paper:

- export relations in Estonian foreign trade;
- import relations in Estonian foreign trade;
- trade relations between Estonia and Georgia.

Estonian foreign trade relations clearly do not depend only on the wishes and possibilities of Estonia but largely also on the economic climate globally and particularly in Europe. However, Estonian relations with Georgia would probably require active developments on both parts. Although the relatively long geographic distance and the related restrictions in transportation opportunities should also be considered as an important factor.

1. Estonian foreign trade – general situation and export relations

In 2014, exports of goods from Estonia totalled 12.1 billion euros (Table 1) and imports to Estonia totalled 13,7 billion euros at current prices. The annual turnover of trade decreased slightly – in 2013, exports amounted to 12.3 and imports to 13.9 billion euros (Table 2). Compared to 2013, exports decreased by 2% and imports by 1% (at current prices) in 2014. The continued decline of trade was influenced the most in 2014 by single transactions made with transport equipment at the beginning of 2013. (Eesti eksportis … 2015; Puura … 2015: 245)

The annual trade deficit in 2014 was 1.7 billion euros, which was 67 million euros more than in 2013. The annual deficit has increased in the years after the economic crisis. The biggest deficit in 2014 was registered in trade with transport equipment and raw materials and products of the chemical industry, and the biggest surplus in trade with wood and products thereof and in trade with miscellaneous products (incl. furniture). (Puura … 2015: 245)

In 2014, electrical machinery and equipment were the most frequently exported commodities, comprising 22% of Estonia's total exports. They were followed by the exports of mineral products, including motor spirits, oil shale and electrical energy (11% of total exports) and agricultural products and food preparations (10%). The decreased exports in 2014 compared to 2013 were mostly caused by a fall in the exports of transport equipment (–20%), raw materials and products of the chemical industry (–14%) and precious stones and precious metals (–43%). The biggest increase was recorded in the dispat-ches of electrical machinery and equipment (5%), wood and products thereof (5%) and mineral products (4%). According to Eurostat, the most important commodity chapters in both exports and imports included machinery and equipment, transport equipment, miscellaneous manufactured articles and mineral products. (Puura … 2015: 245)

The exports of capital goods decreased the most. Based on end use, goods can be classified as capital goods, intermediate goods and consumption goods. The biggest share in Estonia's total exports in 2014 was held by intermediates, i.e. inputs for the production of other goods, with 55% of total exports.

In 2014, the share of the exports of intermediate goods increased by 1 percentage point compared to 2013. In 2014, capital goods accounted for 21% of Estonia's total exports, staying thus at the same level as the year before. In 2014, the exports of capital goods decreased 4%, mainly due to single transactions made with transport equipment, and that had a strong impact on the fall in total exports. The exports of consumption goods accounted for 20% of Estonia's total exports in 2014 and stayed also at the same level as in 2013. In 2014, the exports of consumption goods decreased 3% compared to the previous year. (Puura … 2015: 245)

Estonia's most important trading partner in 2014 was Sweden (Table 1). In 2014, Estonia exported goods to 169 countries and imported goods from 132 countries. A positive foreign trade balance was recorded in the case of 122 countries. The biggest surplus was recorded in trade with Sweden (984 million euros), followed by Norway (364 million euros) and Russia (335 million euros). The biggest deficit was recorded in trade with Germany and Poland (994 and 801 million euros, respectively). A large deficit was also registered in trade with Lithuania (508 million euros) and the Netherlands (449 million euros). Sweden accounted for the biggest share of Estonia's total exports (18%). Exports to Finland accounted for 15% and exports to Latvia for 11% of total exports. Compared to 2013, there was an increase in exports to several main partner countries in 2014. The largest increase was recorded in exports to Sweden (up 114 million euros or 6%) and to the USA (up 94 million euros or 26%). The largest decrease was registered in exports to Russia (down 225 million euros or 16%) and Finland (down 135 million euros or 7%). (Puura … 2015: 245-246).

Table 1. Exports to main partner countries, 2008 – 2014 (million euros) *

No	Countries	2008	2009	2010	2011	2012	2013	2014
1.	Sweden	1169.5	816.5	1364.8	1876.4	1997.8	2060.9	2173.6
2.	Finland	1557.9	1201.4	1487.6	1811.3	1823.3	1979.6	1848.1
3.	Latvia	843.9	613.3	776.8	957.8	1096.8	1273.3	1294.7
4.	Russian Federation**	880.4 10.4%	601.1 9.3%	844.4 9.7%	1312.50,10. 9%	1515.4 12.1%	1404.1 11.4%	1187.3 9.8%
5.	Lithuania	479.9	308.4	437.2	549.6	675.3	717.4	636.9
6.	Germany	429.1	395.4	454.6	550.5	565.9	560.2	589.7
7.	Norway	279.9	205.8	299.8	360.8	419.7	447.5	469.3
8.	USA	407.4	274.0	330.9	750.0	584.6	358.3	452.3
9.	Denmark	275.3	225.4	217.7	306.9	297.7	283.2	316.8
10.	United Kingdom	226.6	131.2	171.9	241.6	263.8	294.7	285.0
	Total top 10 6549.9		4772.5	6385.9	8717.4	9240.3	9379.2	9259.7
	Total top 10, % 77.3%		73.6%	73.0%	72.6%	73.6%	76.4%	76.6%
22.	Ukraine (2014) ***	141.0 1.7%	72.3 1.1%	88.4 1.0%	105.7 0.9%	118.6 0.9%	101.4 0.8%	65.8 0.5%
…	…	…	…	…	…	…	…	…
…	Moldova	5.15 0.06%	4.77 0.07%	7.29 0.08%	9.93 0.08%	5.82 0.05%	5.05 0.04%	5.05 0.04%
…	…	…	…	…	…	…	…	…
…	Georgia	1.36 0.02%	1.07 0.02%	4.31 0.05%	3.48 0.03%	4.83 0.04%	4.42 0.04%	4.20 0.03%
…	…	…	…	…	…	…	…	…
	TOTAL	8470.1	6486.9	8743.0	12013.9	12549.6	12274.8	12084.9

*** Statistical Yearbook … 2013: 250; Statistical Yearbook … 2014: 254; Statistical Yearbook … 2015; Eesti eksportis … 2015: 260; Eesti ja ÜK suhted … 2015; compiled by the author.**

** In addition to the volume of exports the calculation also shows the proportion of exports to Russia in Estonian total exports in percentages in the respective years.

*** Ukraine ranked the 22nd in 2014. Besides the volume of exports this calculation also shows the proportion of exports to Ukraine in Estonian total exports in percentages in the respective years.

In 2014, the share of European Union (EU) countries was 72% in Estonia's total exports and 83% in Estonia's total imports. The trade deficit with EU countries totalled 2.7 billion euros in 2014.

Compared to 2013, the deficit decreased by 218 million euros. Exports to EU countries remained at the 2013 level and imports decreased 2%. The trade balance with non-EU countries, however, was in surplus in 2014 – exports to those countries accounted for a billion euros more than imports from those countries. Exports to non-EU countries decreased by 216 million euros, while imports increased by 69 millions euros. Exports to the euro zone countries accounted for 41% of Estonia's total exports, while imports from these countries made up 51% of Estonia's total imports. (Puura … 2015: 246)

Estonia's exports figures were below the EU average. According to Eurostat, exports grew by an average of 1% in all EU countries in 2014 (down 2% in Estonia). The exports growth of the entire euro zone and the EU was influenced by economic growth in larger countries. Exports in France and the Netherlands stayed at the same level as in 2013, while exports in Germany, Spain, Italy and Belgium increased (4%, 2%, 2% and 1%, respectively). Among industrial superpowers, exports fell only in the United Kingdom (–7%). In the euro zone, exports dropped the most in Malta and Cyprus (–23% and –11%, respectively). (Puura … 2015: 246)

The average increase in imports in 2014 compared to 2013 was 2% in EU countries (down 2% in Estonia). Imports increased in most EU countries. The biggest increase was recorded in Ireland and Cyprus (7% in both countries). Among the most important euro zone countries, imports increased in Germany (2%) and Spain (5%), while in Belgium and the Netherlands imports remained at the same level as in 2013 and in Italy and France imports decreased by 2% and 1%, respectively. (Puura … 2015: 246).

In Estonia, exports amounted to 9.183 euros and imports to 10.438 euros per capita in 2014, exceeding the average values of the EU, which were 9.146 and 8.934 euros per capita, respectively. Exports per capita were the lowest in Cyprus, Croatia and Greece. Exports include not only the country's own output but also the mediation of goods produced in other Member States through the given country (i.e. re-exports). Re-export has the biggest impact on trade in Belgium and the Netherlands, where exports per capita were among the highest in the EU (31.526 and 30.052 euros, respectively). Imports per capita were the highest in Luxembourg (36.395 euros), Belgium (30.292) and the Netherlands (26.282), and the lowest in Romania (2.935), Bulgaria (3.608) and Croatia (3.972). (Puura … 2015: 246).

2. Estonian foreign trade – import

The biggest share in imports was also held by electrical machinery and equipment – 19% of Estonia's total imports. Similarly to exports, they were followed by mineral products (13%) and agricultural products and food preparations (11%). The biggest decrease was registered in the arrivals of transport equipment (–18%), machinery and mechanical appliances (–10%). The biggest increase in imports compared to 2013 was recorded in the arrivals of electrical machinery and equipment (7%) and mineral products (3%). Intermediate goods also held the biggest share (56%) in total imports, followed by consumption goods (22%) and capital goods (15%). The large share of intermediate goods in imports shows that Estonia's manufacturing industry is strongly dependent on imported components. (Puura … 2015: 245)

The imports of consumption goods are a good indicator of the internal demand. In 2014, the imports of consumption goods increased 2% compared to 2013. The continued growth in the exports of consumption goods indicates a recovery in internal demand in Estonia. The imports of intermediates also increased 2% while Estonia's total imports decreased 1%. In 2014, the imports of capital goods decreased the most (–19%), mainly due to single transactions made with transport equipment. The share of capital goods in total imports also decreased by 3 percentage points compared to 2013. The largest decrease (–7%) occurred in the arrivals of other goods, i.e. motor spirits, motor cars and other goods not elsewhere specified. (Puura … 2015: 245)

The biggest share of goods imported to Estonia in 2014 came from Finland (Table 2), which accounted for 15% of Estonia's total imports. Finland was followed by Germany (12%), Sweden and Latvia (each accounting for 9% of total imports). Compared to 2013, the biggest increase was recorded in arrivals from Germany (up 118 million euros or 8%) and the Netherlands (up 74 million euros or 11%). The most significant decrease occurred in imports from the United Kingdom (down 136 million euros or 23%), Latvia (down 129 million euros or 10%) and Lithuania (down 91 million euros or 7%). (Puura … 2015: 246)

Table 2. Imports from main partner countries, 2008 – 2014 (million euros)*

No	Countries	2008	2009	2010	2011	2012	2013	2014
1.	Finland	1540.1	1047.2	1378.1	1605.9	1981.1	2034.2	2094.7
2.	Germany	1455.7	774.3	1046.3	1306.6	1410.1	1443.6	1583.3
3.	Sweden	1091.1	610.7	1007.5	1332.2	1400.1	1381.8	1475.5
4.	Latvia	987.6	764.7	1012.2	1363.1	1315.6	1298.7	1172.6
5.	Lithuania	966.1	792.9	725.0	1038.3	1182.8	1220.0	1133.7
6.	Poland	497.5	410.5	586.7	852.6	868.6	1084.2	1043.4
7.	Russian Federation**	832.4 7.6%	597.4 8.2%	762.8 8.2%	1044.2 8.2%	933.2 6.7%	787.3 5.7%	852.2 6.2%
8.	Netherlands	362.2	257.4	308.5	466.1	526.1	449.5	486.7
9.	China	232.3	145.4	281.6	454.8	479.4	458.9	486.5

10.	**United Kingdom**	**315.9**	**162.4**	**199.2**	**436.6**	**525.0**	**571.1**	**442.3**
	Total top 10 8280.9		**5562.9**	**7307.9**	**9900.4**	**10622.0**	**10729.3**	**10770.9**
	Total top 10, % 76.0%		**76.5%**	**78.8%**	**77.8%**	**76.5%**	**78.6**	**78.5**
26.	**Ukraine (2014)*** **	**116.5** **1.1%**	**45.5** **0.6%**	**71.7** **0.8%**	**102.1** **0.8%**	**197.0** **1.4%**	**87.3** **0.6%**	**57.3** **0.4%**
…	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**
…	**Moldova**	**0.97** **0.06%**	**1.41** **0.07%**	**1.42** **0.08%**	**2.11** **0.08%**	**2.75** **0.05%**	**2.00** **0.04%**	**3.18** **0.04%**
…	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**
…	**Georgia**	**0.94** **0.01%**	**0.83** **0.01%**	**0.78** **0.01%**	**1.12** **0.01%**	**2.28** **0.02%**	**1.49** **0.01%**	**1.88** **0.01%**
…	**…**	**…**	**…**	**…**	**…**	**…**	**…**	**…**
	TOTAL	**10896.4**	**7269.9**	**9268.3**	**12 728.8**	**13 877.8**	**13 648.8**	**13725.4**

*** Statistical Yearbook** … 2013: **251, 255; Statistical Yearbook … 2014: 254; Statistical Yearbook … 2015: 261; Eesti eksportis … 2015; compiled by the author.**

** In addition to the volume of imports the calculation also shows the proportion of imports from Russia in Estonian total imports in percentages in the respective years.

*** Ukraine ranked the 26th in 2014. Besides the volume of imports this calculation also shows the proportion of imports from Ukraine in Estonian total imports in percentages in the respective years.

When comparing the Estonian trade relations with Georgia with other countries, the situation is relatively modest. For instance, according to the Annual Yearbook of Statistics Estonia, which lists the top 50 countries by Estonian volumes of goods and services in terms of exports and imports, Georgia has not belonged to this top 50 of countries as trade partners for many years. However, Ukraine (which is, true enough, a considerably larger country than Georgia) ranked the 18th in Estonian exports in 2013 and 22nd in 2014, and in terms of imports 23rd in 2013 and 26th in 2014. But the top 50 of trade partners in terms of export volumes includes such countries located far from Estonia as China, Mexico, Canada, South Korea, Japan, India, Saudi Arabia, Kazakhstan, Australia, Brazil, Kenya, Morocco, United Arab Emirates, Togo, Uzbekistan, Hong Kong and Vietnam. In terms of import volumes, the top 50 of partners includes such countries as Hong Kong, Taiwan, South Korea, Kazakhstan, Thailand, Japan, Brazil, India, Canada, Malaysia, Indonesia, Pakistan, Saudi Arabia, Vietnam, Chile and Singapore. (Statistical Yearbook …. 2014: 245–253; Statistical Yearbook … 2015: 243–261)

3. Trade relations between Estonia and Georgia

A review the trade relations between Estonia and Georgia above all by commodity sections and commodity groups published according to statistical methods shows that the supply of goods by Georgia is particularly modest (Table 3). But Estonia is not particularly outstanding either. However, the Estonian export level is 2.23 higher than that of Georgia.

The proportion of **Estonian exports to Georgia** in 2014 was the highest in Commodity Section XVI (machinery and mechanical appliances; electrical equipment; parts thereof, 32.6%), followed by Commodity Section IX (wood and articles of wood, charcoal, etc., 14.0%) and Commodity Section XX (miscellaneous manufactured articles, 14.0%). The fourth important proportion was in Commodity Section VI (products of the chemical or allied industries, 8.8%) and the fifth important proportion in Commodity Section XV (base metal and articles of base metal, 8.5%). The following commodity sections were I (live animals and animal products, above all with fish and milk products; 4.7%), XVII (vehicles and associated transport equipment, 4.7%), VII (plastics and articles thereof, rubber and articles thereof, 3.9%), XVIII (optical, photographic, cinematographic, measuring, checking, precision, medical and other instruments and apparatus, 3.7%) and the tenth by proportion was XIX (arms and ammunition; parts and accessories thereof, 1.5%). The proportions of the remaining commodity sections exported were less than 1% (including the commodity section ranking the 19th by proportion). There was no export in three commodity sections (III, XIV and XXI).

Table 3. Exports-imports by commodity section and chapters from Georgia, 2014 (million euros)*

Sectio n	**Commodity chapters**	**export**	%	**import**	%
I	… ; Fish and crustaceans, molluscs; Dairy products, birds eggs, natural honey; …	0.197	4,7 (6-7)**	-	-
II	… ; Products of the milling industry, malt, starches; …	0.031	0.7 (11-13)	1.019	54.2 (1)**
III	Animal or vegetable fats and oils, waxes	-	-	-	-
IV	… ; Sugar and sugar confectionery; Preparations of cereals, flour, starch or milk, pastrycooks' products; Preparations of vegetables, fruit, nuts or other parts of plants; Residues and waste from the food industries, prepared animal fodder; …	0.029	0.7 (11-13)	0.849	45,2 (2)

V	… ; Mineral fuels, mineral oils and products of their distillation; …	0.015	0.4 (14-15)	-	-
VI	Inorganic chemicals, …; Fertilizers; Tanning or dyeing …; Essential oils and resinoids, perfumery, cosmetic or toilet preparations; Soap, washing and lubricating preparations … ; Albuminoidal substances, glues, enzymes; Explosives, pyrotechnic products, matches; … Miscellaneous chemical products	0.371	8.8 **(4)**	0.0002	0.01
VII	Plastics and articles thereof; Rubber and articles thereof	0.165	3.9 (8)	0.000	0.0
VIII	… ; Articles of leather, saddlery and harness, travel goods, handbags and similar containers; …	0.007	0.2 (17)	0.000	0.0
IX	Wood and articles of wood, wood charcoal; …	0.588	14.0 **(2-3)**	0.0009	0.05
X	… ; Paper and paperboard, articles of paper pulp …; Printed books, newspaper, pictures and other products of the printing industry, manuscripts	0.018	0.4 (14-15)	0.0002	0.01
XI	… ; Special woven fabrics, tufted textile fabrics, …; Impregnated, coated, covered or laminated textile fabrics, … ; Articles of apparel and clothing accessories … ; Other made-up textile articles …	0.031	0.7 (11-13)	0.0002	0.01
XII	… ; Headgear and parts thereof; …	0.0003	0.007 (19)	-	-
XIII	… ; Ceramic products; Glass and glassware	0.004	0.095 (18)	0.0003	0.02
XIV	Natural or cultured pearls, …	-	-	0.000	0.0
XV	Iron and steel; Articles of iron or steel; Copper and articles thereof; … ; Tools, implements, cutlery, spoons and forks of base metal; …	0.355	8.5 **(5)**	0.0001	0.005
XVI	… ; Electrical machinery and equipment and parts thereof, sound recorders …	1.370	32.6 **(1)**	0.001	0.05
XVII	…, rolling stock and parts thereof; … ; Aircraft, spacecraft and parts thereof	0.199	4.7 (6-7)	0.002	0.11
XVIII	Optical, photografic, cinematografic, measuring, etc instruments and apparatus; …; Musical instruments, parts and accessories of such articles	0.155	3.7 (9)	-	-
XIX	Arms and ammunition, parts and accessories thereof	0.063	1.5 (10)	0.002	0.11
XX	Furniture, bedding, mattresses, lamps …. ; Toys, games and sports requisites, … ; Miscellaneous manufactured articles	0.589	14.0 **(2-3)**	0.002	0.11
XXI	Works of art, collectors pieces and antiques	-	-	0.004	0.2
XXII	Supplies for foreign vessels and other unspecified goods	0.010	0.24 (16)	-	-
Total		4.199	100.0	1.880	100.0

*** Statistics Estonia 2015: 31.07.2015; compiled by the author.**
** the figures presented in brackets in this column show the ranking of the commodity group among commodity groups presented.

Estonia imported from Georgia mainly products from two commodity sections: II (vegetable products, 54.2%) and IV (prepared foodstuffs; beverages, spirits and other goods, 45.2%), in total 99.4%. Goods imported from all other commodity sections were marginal, only 0.6% in total. Goods of six commodity sections (I, III, V, XII, XVIII, XXII) were not imported by Estonia from Georgia in 2014. In one commodity section and group (III, animal or vegetable fats and oils, etc.) there was neither export nor import between the two countries. We can state that Estonia is more active than Georgia both in terms of exports and imports and may also have better opportunities. This is evidenced also by the respective volumes of goods in 2014: The Estonian export was 4.199 million euros and import only 1.880 million euros. Thus the trade surplus was 2.319 million euros for the benefit of Estonia. In other words – both countries have certainly some room for development, Georgia should probably be more active if we want to see balanced trade in goods in the future.

Conclusion

Although trade relations are somewhat unstable both in the world and in Estonia, we should still strive for stability and through that success. Although there is a trade deficit in Estonia and for a long period already, there is nothing catastrophic about it as Estonia is a small country and unable to produce everything necessary, and a lot of different equipment, machines, apparatuses and technology has to be purchased from other countries to organise modern production operations. Also the instability of trade due to relations between Ukraine and Russia can be overcome – i.e. also other markets should be actively sought to avoid relying too much on the Russian market and to work with many other markets in parallel. This applies also to other EU Member States. This assumes systematic and consistent efforts on the part of businesses, local governments and the state. That way also the current problems caused by instability can be solved (or at least considerably alleviated). When looking at the dynamics of the export-import volumes with Russia, for instance, the decline in the recent years is not so significant that it could not be replaced with other markets in the course of time as a result of serious efforts.

Trade relations with Georgia should also be more active on both sides but Georgia should surely proceed with its economic reforms and work more on motivating individuals and businesses to increase their economic activity. The business climate could probably be optimised more through emphasising the importance of following fair, honest and responsible practices. Also fair competition is an important factor in the development of a reasonable and successful economic and business climate. Amendment and development of legislation can probably also contribute to all that.

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