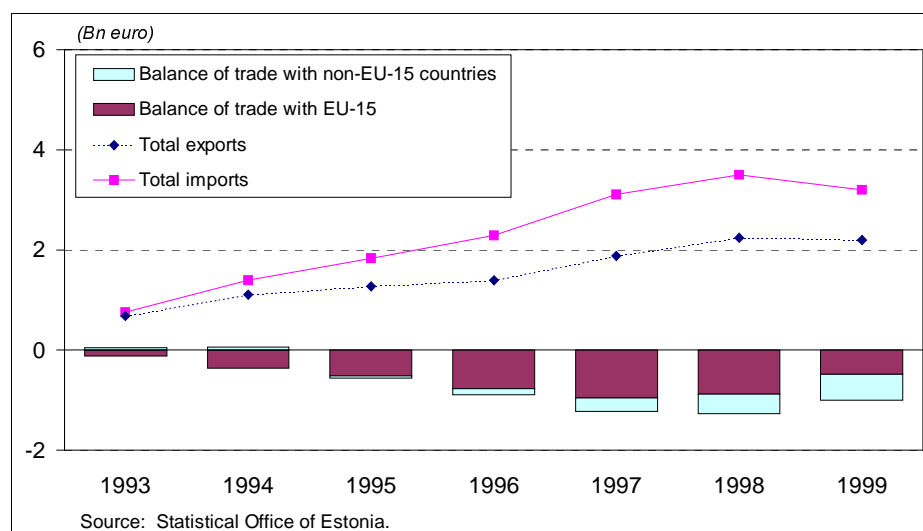


Estonia and the European Union

Tim Allen

Estonia has developed into a remarkably open and trade-oriented economy. Import and export growth has been substantial throughout the decade, but the effects of the Russian crisis have seen its trade figures slip back in 1999. A clear shift in external trade towards the EU has been taking place over the past years, while Estonia has also benefited from transit trade due to its geographical location. Scandinavia and in particular Finland are major partners while assembly and re-export of high-value added electronic parts is taking an increasing share in its trade statistics.

Fig.1 Estonia's foreign trade



A trading nation

Estonia is in population terms (approx. 1.4 million) one of the smallest of the candidate countries and a remarkably open economy. Up to 1999 it had no external tariffs and only very limited restrictions on international capital mobility. Its currency - the Estonian kroon - is fully convertible under a currency board arrangement (meaning that the central bank guarantees to exchange the kroon at a fixed rate for a particular currency), which has seen its exchange rate to the German mark remain unchanged at 8:1 since 1992. Furthermore, the magnitude of its GDP per head in purchasing power standards placed it 6th among candidate countries (behind Cyprus, Slovenia, the Czech Republic, Slovakia and Hungary) in 1998, while inflation has been steadily falling over the past years (see also page 3 for comparison with EU). However, Estonia suffered a downturn in economic activity in the aftermath of the Russian crisis of 1998 (as did many other Eastern European countries). As a result, its previous respectable GDP growth came to a halt with preliminary figures for 1999 showing a year-on-year contraction of around 1.4 %. This contraction is also reflected in declining import figures for 1999 (see figure 1), while its overall trade figures over the past ten years have more than tripled. Interestingly, Estonia's trade deficit was almost exclusively vis-à-vis the EU upto 1995, but by 1999 more than half of its trade gap was with non-EU countries.

As mentioned above, Estonia has integrated itself smoothly into the global trading system. Its fondness for foreign trade has grown over time to the extent that its degree of openness (average of imports plus exports to GDP) was

Statistics in focus

EXTERNAL TRADE

THEME 6 – 15/2000

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highest among all candidate countries in 1998. Also, ratios measuring both its imports and exports in relation to GDP fit in well among those of the top trading nations in the EU, as figure 2 shows.

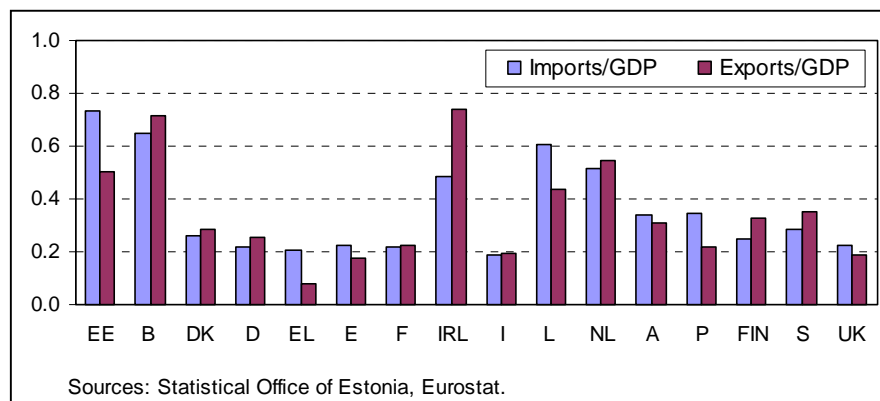
Shift towards EU

Overall, Estonia reported to have imported goods worth 3.2 bn euro while it exported 2.2 bn euro worth in 1999. Over the past years, the direction of trade has shifted quite notably towards the West and away from Russia and other members of the CIS (see table 1). Trade with Finland - with which Estonia shares a similar language – and Sweden across the Baltic Sea has taken a large share in total trade (roughly 40% in 1999) in recent years – although figures for 1999 are affected by the overall fall in trade. In particular export figures to Russia have plummeted, but first signs of a recovery in Russia in the last quarters of 1999 (arguably due to very high oil prices and a strong devaluation of the rouble) might have a positive long-run impact on Estonia's trade with Russia. By contrast, the EU has become an increasingly important trading partner: the share of exports to EU countries has risen by roughly a fifth since 1993 to more than 70% in 1999.

Gateway to Russia

Estonia has clearly benefited from its highly favourable geographical location. As in the days of the *Hanse* several centuries ago, its geographical location on the crossroads between the East and West together with access to sea shipping have made it flourish as a transit location. Nowadays, it is mostly raw materials exported from Russia and other NIS countries – in particular oil shipments – which are reflected by large increases in service receipts (see figure 3). The tourism industry has also been a major source of service receipts in recent years – in particular the Finns have acquired a taste for Estonia and its capital Tallinn.

Fig. 2 Estonia in comparison to EU Member states, 1999



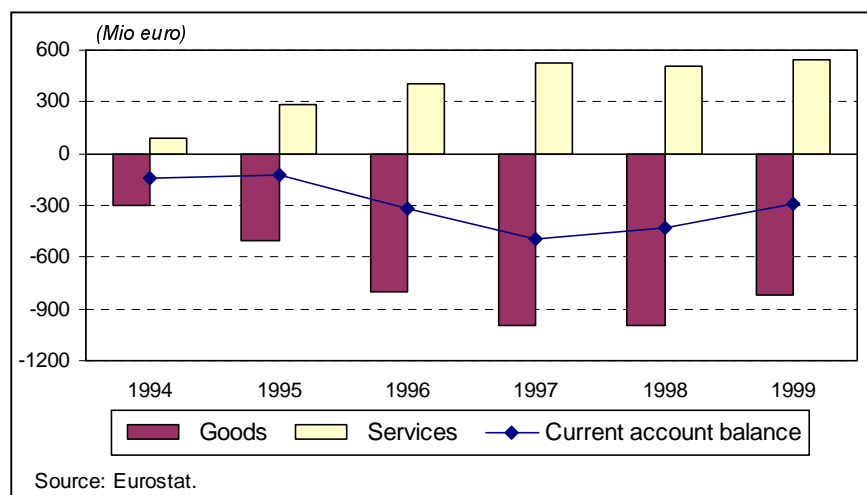
Tab. 1: Estonia's trade by main partners¹, 1999

Partners	Rank	Value in 1999			Share in total		Annual variation 99/95	
		Imports	Exports	Balance	Imports	Exports	Imports	Exports
		(Mio euro)			(%)		(%)	
Total		3 221	2 217	-1 004	100.0	100.0	15.2	14.9
EU-15		2 086	1 600	-487	64.8	72.2	14.0	22.1
Finland	1	835	522	-313	25.9	23.6	8.0	15.3
Sweden	2	341	504	163	10.6	22.7	21.2	35.4
Germany	3	333	190	-143	10.3	8.6	16.8	19.6
NIS		347	127	-220	10.8	5.7	2.5	-18.1
Russian Fed.	4	257	74	-183	8.0	3.3	-1.0	-22.8
CEC		261	289	28	8.1	13.0	25.7	13.8
Latvia	5	76	184	108	2.4	8.3	19.8	18.1
Japan	8	173	6	-167	5.4	0.3	50.6	-2.5
EFTA	10	71	71	-0	2.2	3.2	23.0	22.8
US	12	90	43	-47	2.8	1.9	18.6	7.4
Others		193	81	-111	6.0	3.7	30.2	34.9

¹ See definitions of NIS, CEC and EFTA aggregates on page 3.

Source: Statistical Office of Estonia.

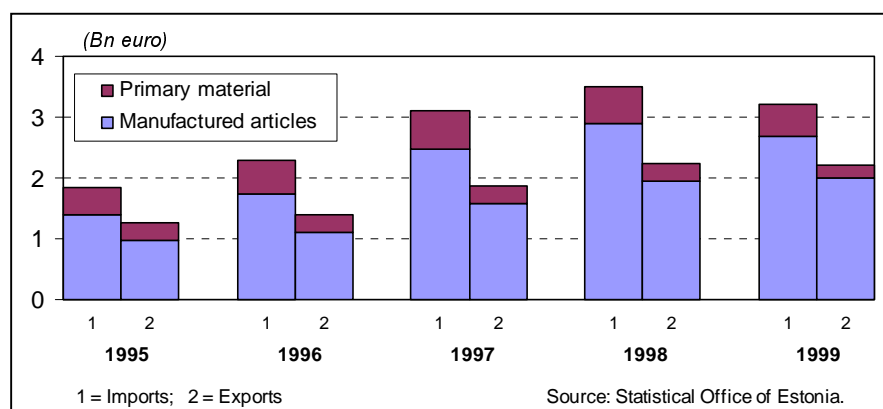
Fig. 3 Estonian balance of payments : goods vs. services



Mobile phones

It appears that Estonia has developed into a favourable location for Scandinavian and other Western high-technology firms seeking to outsource assembly. Other candidate countries have experienced similar changes. European car manufacturers for example have found Eastern Europe to be a very attractive location to outsource the assembly of vehicle parts to – a well-qualified labour force together with a low wage structure have been striking arguments. For Estonia, the car industry has been less important, but its trade patterns have also undergone changes. Share of manufactured exports (see figure 4) in the commodity composition of trade has increased substantially. The EU imported notable amounts of consumer and equipment goods from Estonia, while almost half of exports were in intermediary goods. A closer look at these figures (4-digit HS level) reveals that the EU (and in particular Sweden and Finland) exported substantial amounts of electronic parts to Estonia. In return the EU, particularly Swedish and Finnish telecommunication companies, received assembled parts for mobile phones from Estonia. It has thus found a niche for its manufacturing industry by riding the recent boom in telecommunications, which is in part driven by companies from Finland

Fig. 4 Estonia's trade by product group



Tab. 3 EU-Estonia trade by product classified by type of use, 1999
(Reporter: EU-15, partner: Estonia)

Product groups (CEA)	Imports	Exports	Share in total		Annual variation 99/96	
			Imports	Exports	Imports	Exports
	(Mio euro)		(%)		(%)	
Total	1 870	2 401	100.0	100.0	19.9	12.7
Agricultural products	179	43	9.6	1.8	35.3	15.5
Food products	52	189	2.8	8.0	17.3	-2.3
Consumer goods	429	379	23.0	16.0	19.9	11.6
Automobile	19	159	1.0	6.7	28.7	4.3
Equipment goods	401	504	21.4	21.3	44.0	13.8
Intermediary goods	658	1 013	35.2	42.7	15.8	23.0
Energy	124	70	6.6	3.0	-8.2	-14.9
Miscellaneous products	8	14	0.4	0.6	21.0	-25.1

Source: Eurostat.

and Sweden. Also, the relatively large percentage of imported agricultural products was due to imports of wood and wood products.

ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

The country aggregates: EU: EU-15.

NIS (New Independent States): Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Uzbekistan, Russia, Tajikistan, Turkmenistan, Ukraine.

CECs (Central European Countries): Albania, Bulgaria, Hungary, Poland, Romania, Estonia, Latvia, Lithuania, Bosnia-Herzegovina, Croatia and Slovenia; Czech Republic, Slovakia, Serbia Montenegro and the FYROM.

EFTA: Switzerland, Iceland, Liecht., Norway.

Data sources: Customs sources. Eurostat Comext database: Phare domain for Estonia's trade with the rest of the world; EEC special trade domain for bilateral trade between the EU and Estonia. Divergences

between the two sources on figures concerning bilateral trade can be partly explained by the use of different methodologies and concepts.

System: Special trade (1993-1994: general trade).

Classification: in figure 4: primary products: sections I-V of the Harmonised system (HS); manufactured articles: HS sections VI-XXI. The nomenclature used in table 3 (CEA or Classification for Economic Analysis) facilitates the analysis of macroeconomic issues (production, investment, consumption, employment, etc.) by offering indicators that are less geared to production analysis.

Statistical values: EU: values CIF for imports and FOB for exports; Estonia: CIF/FOB.

In this report, 1 Bn euro = 1000 million euro

Basic figures for 1999

	Estonia	EU-15
Population (Mio)	1.4	375.3
GDP/capita (in PPS)	7 700	21 190
Unemployment rate	11.7%	9.2%
Inflation rate	4.6% ⁽¹⁾	1.2%

(1) PROXY HICP.

See also "Eurostat Statistics in focus, External trade, no 13/98, Estonia's foreign trade" which you can order.

For further information, please consult www.europa.eu.int/comm/eurostat/

Further information:

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