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Abstract

The article examines international trade of goods and services and foreign direct investments of the Baltic states. The geography of merchandise trade demonstrates that a list of trade partners of the Baltic states become wider, and the share of the Nordic countries is diminishing. Deeper integration of several clusters of industries (especially in food and wood processing) of the Baltic states is taking place. The revealed comparative advantage index is applied to find out the most advantageous product groups of the countries which belong to the wood processing industry. The growth of services exported by the Baltic states has been impressive in recent years and the new areas such as information and telecommunication and business consultancy developed rapidly. The article describes also some specific features of international trade with Russian Federation and the states neighboring the Russian Federation. The article ends with conclusions and policy suggestions regarding international trade of the Baltic states.

Key words: economic growth, international trade of goods and services, foreign direct investments, the Baltic states

1. Introduction

The article covers economic growth, foreign trade and foreign investments in the Baltic states, namely Estonia, Latvia and Lithuania. A particular interest is dedicated to development during the years 2019-2023. The period is characterized by very deep and critical events for economic development, such as the Covid-19 pandemic starting from 2020 and continuing to 2022 and Russia's invasion into Ukraine, which started in February 2022 and continues at the end of 2024. These developments have had a strong impact on the Baltic economies.

The Covid-19 pandemic was accompanied by extremely strong pressure on the medical system of the country and extra deaths of people, closing of public space, decrease of international relationships and economic decline. Russia's invasion into Ukraine in 2022 changed quite a lot of the economic relationships of the Baltic states with Russia and Belarus. The EU sanctions on these states (altogether 14 packages of sanctions by the end of 2024) have had a negative impact on economies (Sanctions against Russia 2024).

Though the sanctions were targeted only on critical products for military industries and state revenues of Russia and Belarus, their impact has been wider. A big number of foreign companies ended their activities in these countries and international trade of goods and services also diminished with them. The moral aspect played an important role also because doing business with these states has been seen in public as support to war mongers. Nevertheless, certain international trade activities of the Baltic states with Russia and Belarus continued. Sometimes these relationships have been substituted with trade with neighboring countries of Russia, such as Kazakhstan.

These developments have had a strong impact on the Baltic economies. The Covid-19 pandemic and closing the countries to limit spread of the disease brought along a deep economic decline in 2020. However, the Baltic economies recovered quite rapidly in 2021, and the economic growth continued until the second half of 2022. Since then, the economic growth has been limited in Latvia and Lithuania, but Estonia experienced a limited economic decline even until end of 2024. That was partly due to the impact of decreased economic relations with Russia and Belarus. That impact was not very critical, partly due to the limited trade with these countries before the invasion. However, some imported resources, such as oil, natural gas, timber and chemicals, have been important for certain industries and their prices increased due to reduced imports from Russia or due to a substitution of those imports with domestic or foreign sources. Ports of the Baltic states continued to handle some Russia's oil re-exports to the world before 2022 though the volumes of these re-exports diminished substantially in comparison with the first decade of the 2000s. These re-exports decreased further in the second half of 2022.

This article describes the GDP dynamics, the development of foreign trade of goods and services and foreign direct investment during 2010-2023. A particular emphasis is given to structural changes in international trade during these years. The Baltic states had differences during that period and possible reasons for that are also discussed here. The article ends with conclusions and policy suggestions for future development of the Baltic states.

2. The GDP dynamics

The economic growth patterns of the Baltic states have been analyzed in several articles (Poissonier 2017; Staehr 2023). Taking a longer perspective, the development trends have been divided into two periods, the economic and financial crises of 2008-2009 being the border line. During the first period, economic growth was based on domestic demand, which was heavily supported by the accumulation of foreign liabilities. Economic growth figures were very high, being in double digit numbers for some years during the period, but that growth was built on unsustainable economic borrowing.

From a balance of payments perspective, that policy was accompanied by foreign capital inflow and the current account deficit. A key challenge of that policy arrangement was that large current account deficits led to accumulation of net foreign liabilities, and this jeopardized economic and financial stability over time (Obstfeld 2012).

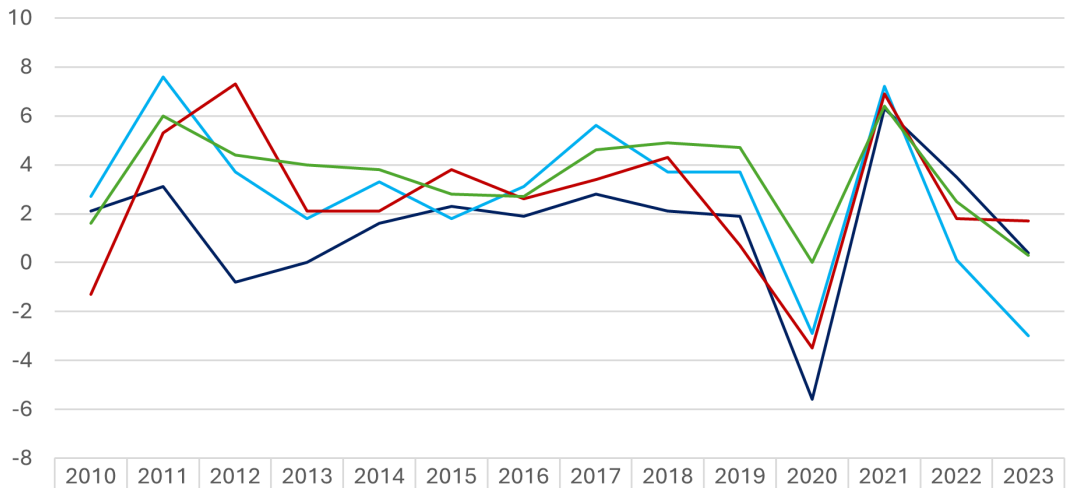
During the second period of economic growth after the economic and financial crises, growth focused in the short and medium terms on external demand. An increase in net exports was accompanied by higher GDP, as demand from domestic consumption and investment were unlikely to decline in proportion to the increase in net exports (Staehr 2023). It should be added that in the long term, growth depends

on accumulation of human and real capital, level of education, proper private and public institutions (Gylfason and Hochreiter 2023).

The Baltic states have been seen from outside very similar. Poissonier makes a summary that the Baltic states have relatively small government sectors and liberal economic policies. They compete to attract foreign investments and in trade. Foreign investors tend to view the Baltics as a single market, having a single local headquarters and sales policy for all three countries. It has also been underlined that the Baltic states have synchronized economic cycles (Poissonier 2017).

In this study, the second period is treated. After the economic and financial crises of 2008-2009, the Baltic states recovered rapidly, but the growth rates were afterwards more modest than during the first period. Figure 1 describes the growth dynamics during the period 2010-2023.

Figure 1. Real GDP growth in EU27, Estonia, Latvia and Lithuania
(%, in comparison with the previous year)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
EU27	2,1	3,1	-0,8	0	1,6	2,3	1,9	2,8	2,1	1,9	-5,6	6,3	3,5	0,4
Estonia	2,7	7,6	3,7	1,8	3,3	1,8	3,1	5,6	3,7	3,7	-2,9	7,2	0,1	-3
Latvia	-1,3	5,3	7,3	2,1	2,1	3,8	2,6	3,4	4,3	0,7	-3,5	6,9	1,8	1,7
Lithuania	1,6	6	4,4	4	3,8	2,8	2,7	4,6	4,9	4,7	0	6,4	2,5	0,3

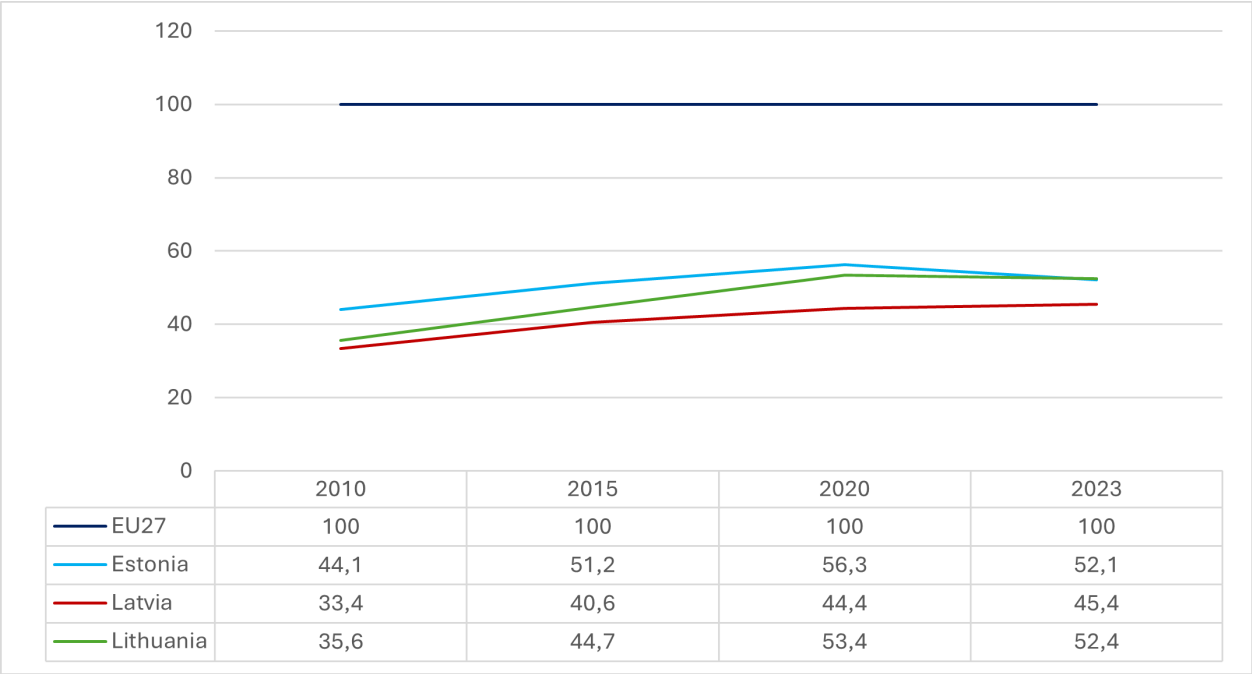
Source: Eurostat, Real GDP growth rates, 2024.

The relatively fast economic growth continued in the Baltic states until 2019. Thereafter, the Covid-19 crises followed. The crisis was accompanied by a partial closing of public places, which had a major negative impact on various service activities, but foreign trade suffered as well. During 2021 less Covid-19 restrictions were applied in economies, and a rapid recovery followed. In 2022, after the invasion of Russia into Ukraine, the next external shock took place.

The Baltic states limited their economic relations already after 2014 when the Russian forces took over the Crimean Peninsula and some areas in Eastern Ukraine. The EU and the USA introduced some sanctions on Russia already in 2014. However, international trade continued still with the Russian Federation. In February 2022, Russia attacked Ukraine, and the full-scale war began. By the end of 2024, the EU has introduced altogether 15 packages of sanctions against the Russian Federation (Sanctions against Russia 2024). The regulations applied in sanctions packages widened step by step, but wide areas of economic activities are still open for trade. Nevertheless, the war influenced the economies of the Baltic states and their economic growth rates went down. Estonia's economy declined from 2023 until the third quarter of 2024. Latvia's and Lithuania's economies did slightly better, but their economic growth was also limited in 2023.

The period of 2010-2023 can in general be characterized by the convergence of the GDP per capita level of the Baltic states with the EU27. Only the years 2020-2023 broke that trend. Figure 2 describes the trend of GDP per capita level of Estonia, Latvia and Lithuania in comparison with the EU27 level.

Figure 2. Real GDP per capita in EU27, Estonia, Latvia and Lithuania
(% of the EU27 average)



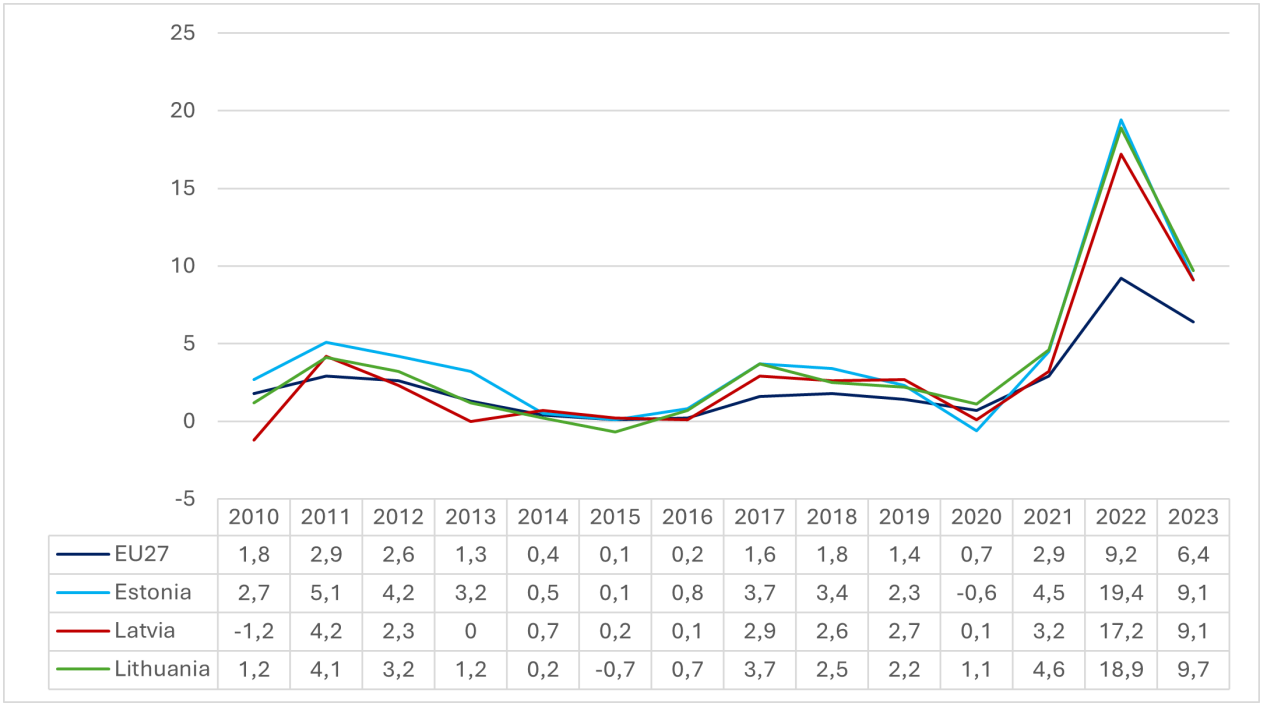
	2010	2015	2020	2023
EU27	100	100	100	100
Estonia	44,1	51,2	56,3	52,1
Latvia	33,4	40,6	44,4	45,4
Lithuania	35,6	44,7	53,4	52,4

Source: Eurostat, Real GDP per capita, 2024.

The figures above describe the real GDP level in 2010 prices. I do not use here very often applied purchasing power adjusted numbers called the purchasing power parity or purchasing power standard figures (PPP or PPS respectively). The PPP or PPS indicators considered also differences in consumer prices of different countries. As the international trade and investments flows concern mainly nominal and real indicators the real prices are preferred here for comparison. It is possible to see that the Baltic states all converged with the EU27 average until 2020. During the period 2021-2023, Estonia and Lithuania gave back some of the achieved level of GDP per capita in comparison with the EU27 and Lithuania slightly surpassed Estonia. Latvia still decreased the gap with the EU27 average, but its level was still below that of Estonia and Lithuania.

The harmonized index of consumer prices (HICP) describes the annual change in prices in comparison with the previous year. Figure 3 demonstrates that the changes in the price levels of the Baltic states have been much higher than in EU27. During the period 2010-2023, the EU27 average price level increased by 36%, Estonia had price level increase of 70%, Lithuania 62% and Latvia 62%. The high inflation in the common currency area of the euro means that the nominal production costs in the Baltic states increased more than in the countries with lower inflation. Keeping in mind that the Baltic states belong to the Euro area, that also means that higher inflation brought conditional appreciation of the real exchange rates of the Baltic states compared to the other EU27 members. That was parallel to appreciation of real exchange rates with countries using other currencies and having lower inflation rates than the Baltic states if that difference in inflation rates was not compensated for by the respective change of exchange rates of the currencies of these countries and the Euro. If other things remain the same, these developments meant a loss of competitiveness of the countries with higher inflation in comparison with their trading partners.

Figure 3. The HICP in EU27, Estonia, Latvia and Lithuania
(%, in comparison with the previous year)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
EU27	1,8	2,9	2,6	1,3	0,4	0,1	0,2	1,6	1,8	1,4	0,7	2,9	9,2	6,4
Estonia	2,7	5,1	4,2	3,2	0,5	0,1	0,8	3,7	3,4	2,3	-0,6	4,5	19,4	9,1
Latvia	-1,2	4,2	2,3	0	0,7	0,2	0,1	2,9	2,6	2,7	0,1	3,2	17,2	9,1
Lithuania	1,2	4,1	3,2	1,2	0,2	-0,7	0,7	3,7	2,5	2,2	1,1	4,6	18,9	9,7

Source: Eurostat. HIPC, 2024.

3. International trade of goods

3.1. General development

Estonia, Latvia, and Lithuania are small open economies, that is evidenced by high proportion of merchandise exports to the GDP. All the Baltic states had a merchandise deficit and service surplus practically for all years during the period 2010-2023. Lithuania has a stronger total balance of merchandise and services than Estonia and Latvia. It is possible to see from the figures in Table 1 that 2022 was a year of largest total trade deficit, the reason being Russia's attack on Ukraine, starting a full-scale war, which had a strong impact on international trade. At the same time, the negative impact of war on merchandise trade seems to be much stronger than on trade of services. During this period, the proportion of services in total trade increased in Estonia and Lithuania and declined slightly in Latvia. The clearest increase in the share of services in total foreign trade took place in Lithuania where the share of services increased from 17% in 2010 to 34% in 2023. The largest share of services was in Estonia, where the figure stood at 39% in 2023.

Table 1. GDP, exports and imports of merchandise and services of the Baltic states
(USD mn, current prices, and %, 2010, 2015 and 2019-2023)

	2010	2015	2019	2020	2021	2022	2023
ESTONIA							
GDP	19535	22882	31082	31370	37191	38049	40327
Exports, merchandise	12811	13908	16807	16902	22303	23600	20108
Imports, merchandise	13197	15732	18669	17764	24203	27536	23437
Net exports of merchandise	-386	-1824	-1862	-862	-1900	-3936	-3329
Exports of services	4734	5862	8046	6529	10178	11318	12615
Imports of services	2946	3987	5736	6389	9058	8811	9798
Net exports of services	1788	51	2310	140	1120	2507	2817
Total net exports of merchandise and services	1402	51	448	-722	-780	-1429	-512
Exports of services/total exports, %	27.0	29.7	32.4	27.9	31.3	32.4	38.6
Merchandise exports/GDP, %	65.6	60.8	54.1	53.9	60.0	62.0	49.9
Merchandise exports and imports/GDP, %	133.1	129.3	114.1	110.5	125.0	134.4	108.0
LATVIA							
GDP	23964	27352	34226	34391	39443	40878	42681
Exports, merchandise	8851	11650	14447	15197	19459	21795	20329
Imports, merchandise	11143	14096	17768	17315	21461	27001	24797
Net exports of merchandise	-2286	-2446	-3321	-2118	-2002	-5206	-4468
Exports of services	4038	4851	6257	5531	6299	7625	8124
Imports of services	2321	2617	3542	3319	4283	6585	6626
Net exports of services	1717	2234	2715	2212	2016	740	1498
Total net exports of merchandise and services	-569	-212	-606	94	14	-4466	-2930
Exports of services/total exports, %	31.3	29.4	30.2	26.7	24.5	25.9	28.6
Merchandise exports/GDP, %	36.9	42.6	42.2	44.2	49.3	53.3	47.6
Merchandise exports and imports/GDP, %	83.4	94.1	94.1	94.5	103.7	119.4	105.7
LITHUANIA							
GDP	37138	41419	54809	56965	66799	70878	77869
Exports, merchandise	20814	25411	33151	32791	40698	46502	42626
Imports, merchandise	23378	28176	35759	33314	44476	55110	48418
Net exports of merchandise	-2564	-2765	-2608	-523	-3778	-8608	-5792
Exports of services	4330	6691	13282	12474	16051	18332	21860
Imports of services	3053	4741	7740	6723	9624	12024	13597
Net exports of services	1277	1950	5542	5751	6427	6308	8203
Total net exports of merchandise and services	-1287	-815	2934	5228	2649	-2300	2411
Exports of services/total exports, %	17.2	20.8	28.6	27.6	28.3	28.3	33.9
Merchandise exports/GDP, %	54.3	61.3	60.5	57.6	60.9	65.6	54.5
Merchandise exports and imports/GDP, %	119.0	129.4	125.7	116.0	160.9	143.4	116.9

Source: UNCTAD Database, author's calculations.

3.2. Geographical pattern of merchandise trade

The geography of international trade partners of the Baltic states depends on the sources of raw materials and closeness of different markets. The EU integration and trade arrangements played an important role after the year 2004, when the Baltic states joined the EU. Future development of international trade reflects structural changes of the Baltic economies and changes in international political environment. Some economists have emphasized the similarities of these states and treat them as a single market (Poissonnier 2017). Some common features are there. For example, all three states imported natural resources from Russia and Belarus and used them as an input for their industries. Especially in the 1990s, the imports and re-exports of Russian oil was an important business activity. Lithuania has also a large oil refinery, which provided the region with oil products, most important of that is gasoline. Estonia and Latvia developed a large wood processing sector, which used the imported inputs as well. However, political events have had an impact on that trade. Russia's occupation of Crimea and some part of East Ukraine in 2014 was the first event diminishing the so-called East-trade. Russia's invasion into Ukraine in February 2022 and the accompanied sanctions by the EU and the USA on Russia decreased the foreign trade further. However, the sanctions influenced only a part of international trade with Russia and Belarus. The Baltic states are on the customs border of the EU with Russia and a large part of imported goods from other EU states are re-exported to Russia. Merchandise statistics also reflect that trade. A part of these

exports were officially targeted Russia's neighboring countries. A special section of the current article presents analysis of these trade flows.

Table 2 describes the value and proportion of merchandise trade of the Baltic states with different trade partners. The table works in the following way: columns describe the exports to the country described in the respective row. For example, number 1023 in Estonia's column for 2010 on a row for Latvia represents Estonia's exports to Latvia in 2010.

Table 2. Exports of the Baltic states by trade partner
(USD mn and %, 2010 and 2023)

EXPORTS	Estonia				Latvia				Lithuania			
	2010		2013		2010		2023		2010		2023	
	USD mn	%	USD mn	%	USD mn	%	USD mn	%	USD mn	%	USD mn	%
TOTAL	**12811**	**100**	**21108**	**100**	**8851**	**100**	**20330**	**100**	**20814**	**100**	**42626**	**100**
Estonia					1099	12.4	2017	9.9	1051	5.0	2324	5.5
Latvia	1023	8.0	2334	11.6					1988	9.6	4586	10.8
Lithuania	580	4.5	1636	8.1	1354	15.3	3787	18.6				
Baltic states		12.5		19.7		27.7		28.5		14.6		16.3
Denmark	289	2.2	566	2.8	304	3.4	826	4.1	625	3.0	976	2.3
Finland	1962	15.3	3104	15.4	270	3.1	642	3.2	288	1.4	818	1.9
Norway	415	3.2	672	3.3	235	2.7	406	2.0	478	2.3	1063	2.5
Sweden	1795	14.0	1839	9.2	529	6.0	1166	5.7	742	3.6	1697	3.9
Nordic countries *		34.7		30.7		15.2		15.0		10.3		10.6
Germany	603	4.7	1282	6.4	714	8.1	1304	6.4	2046	9.8	3310	7.8
Poland	189	1.5	655	3.3	326	3.7	737	3.6	1608	7.7	3944	9.2
Netherlands	269	2.1	769	3.8	200	2.3	681	3.3	1151	5.5	2528	5.9
UK	227	1.8	415	2.1	438	4.9	1005	5.0	1019	4.9	1620	3.8
Ukraine	179	1.4	250	1.2	91	1.0	404	2.0	747	3.6	1330	3.1
USA	517	4.2	551	2.7	154	1.7	585	2.9	599	2.9	2041	4.8
China	155	1.2	276	1.4	35	0.4	232	1.1	37	0.2	158	0.4
Russia	1893	14.8	1183	5.9	867	9.8	1245	6.1	3240	15.5	2316	5.4
Others	2715	21.2	5576	22.8	2235	25.2	5293	26.1	5195	25.0	13955	32.7

* Nordic countries are here Denmark, Finland, Norway and Sweden, i.e. Iceland is not included.

Source: UNCTAD. Trade Matrix, 2024.

A general feature is related to the integration of the Baltic economies with EU countries. The Nordic countries played a special role in that process. An especially significant role in that process was played by Finland and Sweden. Large parts of technology for manufacturing, retail and wholesale, transport and construction companies came to the Baltic states by foreign direct investments (FDI). In 2010, the FDI from Sweden and Finland created close to 60% of total FDI stock in Estonia and Latvia and 50% in Lithuania. Afterwards the following main features took place: (1) continued integration of the Baltic market is evidenced by increasing volume and proportion of trade between Estonia, Latvia and Lithuania; (2) trade with the Nordic states created still a quite big part of the total trade, the proportion of it practically did not change in Latvia and Lithuania and in Estonia even declined; (3) Germany's share in exports of Estonia increased and in exports of Latvia and Lithuania it decreased. At the same time, Germany's importance as a source of imports increased in all the Baltic states; and (4) Poland's increasing share in trade of the Baltic states is remarkable. The role of Poland is particularly significant for Lithuania, which tendency in trade reflects also increase of integration of Lithuania´s economy with Poland. Increase of FDI from Poland into Lithuania also supported the aforementioned process. The analysis of commodity structure of traded goods provides additional information on trade development with different partners. Table 3 describes the geographical patterns of merchandise imports of the Baltic states.

The analysis of trade flows between the trading partners is complicated by data problems. In principle, the exports of Country A to Country B should be equal to the imports of Country B from Country A. In the trade matrix for some countries, the difference between exports and imports has been quite large. In

treating trade between the Baltic countries, the exports figures have been used where the discrepancy between exports and imports data occurred. For example, if there was difference between Latvia's exports to Lithuania in comparison with Lithuania's imports from Latvia, Latvia's exports data were applied.

The increasing importance of Poland to the Baltic states is even more evident in imports. For Latvia and Lithuania, the imports from Poland surpassed the total imports from the Nordic countries in 2023 and were quite close to the respective Germany's figure. Estonia traded still more with the Nordic countries, but both the share of Poland's exports and imports increased.

As the Baltic states are small countries, the single trading events could change quite substantially also the aggregate trade figures. In imports from China, the purchases of electronic components by international ICT companies working in the Baltic states increased notably the respective figure for some years (including 2023 in Table 3). That issue is reflected in Estonia's trade with the USA and China, and Lithuania's trade with China.

Table 3. Imports of the Baltic states by trade partner
(USD mn and %, 2010 and 2023)

IMPORTS	Estonia				Latvia				Lithuania			
	2010		2013		2010		2023		2010		2023	
	USD mn	%	USD mn	%	USD mn	%	USD mn	%	USD mn	%	USD mn	%
TOTAL	**13197**	**100**	**23437**	**100**	**11143**	**100**	**24979**	**100**	**23378**	**100**	**48418**	**100**
Estonia					1023	6.3	2334	9.3	1051	4.5	2324	4.8
Latvia	1099	8.3	2017	8.6					1353	5.8	3787	7.8
Lithuania	1051	8.0	2324	9.9	1988	13.6	4586	18.4				
Baltic states		16.3		18.5		19.9		27.7		10.3		12.6
Denmark	233	1.8	417	1.8	181	1.6	406	1.6	398	1.7	751	1.6
Finland	1567	11.9	2784	11.9	366	3.3	894	3.6	414	1.8	1133	2.3
Norway	213	1.6	224	1.0	87	0.8	155	0.6	79	0.3	2445	5.1
Sweden	1795	13.6	1839	7.8	300	2.7	698	2.8	763	3.3	1944	4.0
Nordic countries *		28.9		22.5		8.4		8.6		7.1		13.0
Germany	1470	11.1	2604	11.1	988	8.1	2602	10.4	2553	10.9	6669	13.8
Poland	732	5.5	1583	6.8	667	6.0	2387	9.6	2065	8.8	6414	13.3
Netherlands	395	3.0	1125	4.8	328	3.0	1053	4.2	1029	4.4	2612	5.4
UK	280	2.1	336	1.4	171	1.5	326	1.3	370	1.6	916	1.9
Ukraine	118	0.8	90	0.4	121	1.6	296	1.2	231	1.0	534	1.1
USA	187	1.4	407	1.7	156	1.4	571	2.3	241	1.0	3106	6.4
China	674	5.1	1162	5.0	416	3.7	881	3.5	570	2.4	1846	3.8
Russia	1355	10.3	1334	5.7	2562	23.0	1484	6.0	7637	32.7	357	0.7
Others	2028	15.4	5197	22.1	1789	16.1	6306	25.2	4624	19.8	13580	28.0

* Nordic countries are here Denmark, Finland, Norway and Sweden, i.e. Iceland is not included.

Source: UNCTAD. Trade Matrix, 2024.

Because Lithuania has a large Mazeikiai oil refinery, its purchases of oil from different countries also have influenced Lithuania's trade figures. As the EU introduced sanctions on the Russian Federation and the package number six from 3 June 2022 banned imports of crude oil and refined petroleum products from Russia, Lithuania's imports of crude oil and total imports from Russia decreased in 2023 substantially (Sanctions against Russia 2024). At the same time, crude oil and liquefied natural gas (LNG) were imported from the USA which increased Lithuania's total imports from the USA in 2023. Table 4 presents the merchandise trade balance of the Baltic states in 2010 and 2023.

The total trade balance is negative for all the Baltic countries. Among the Baltic states, Lithuania did better that Estonia and Latvia and has a trade surplus with both of them. With the Nordic countries, Estonia and Latvia had a positive trade balance, while Lithuania had in 2023 net deficit due to LNG imports from Norway. All the Baltic states had the deepest net deficit with Germany and Poland. Germany was during the whole period the main provider of machinery and technical equipment for private consumers and industries. Poland increased its role as a supplier of food and consumer products for the

Baltic states. China's large imports and a negative net trade from the point of view of the Baltic states were linked to purchases of components by large international companies located in the Baltic states.

Table 4. Merchandise trade balance
(USD mn, current prices, 2010 and 2023)

	Estonia		Latvia		Lithuania	
	2010	2023	2010	2023	2010	2023
TOTAL	**-386**	**-3329**	**-2286**	**-4468**	**-2564**	**-5792**
Estonia			76	-317	471	688
Latvia	-76	371			684	781
Lithuania	-471	-688	-634	-781		
Nordics*	653	917	404	887	299	-1619
Germany	-867	-1322	-274	-1298	-507	-3359
Poland	-546	-926	-341	-1650	-457	-2470
Netherlands	-126	-356	-128	-372	122	-84
UK	-53	79	267	679	649	704
Ukraine	61	160	-30	108	516	796
USA	330	144	-2	-14	358	-1065
China	-519	-886	-38	-649	-533	-1688
Russia	538	-151	-1695	0	-4397	-1959
Others	687	379	446	-1013	571	375

* Nordic countries are here Denmark, Finland, Norway and Sweden, i.e. Iceland is not included.

Source: UNCTAD. Trade Matrix, 2024.

3.3. Commodity pattern

Table 5 presents the structure of exports and imports of the Baltic states by SITC level 1 classification.[1] The figures cover the re-exports of products as well. The main structural changes of exports were the following: the share of exports of food and live animals (Commodity Group 0) increased from 2010 to 2023 in Estonia and Latvia, but the highest level of 14% of total exports was in Lithuania in 2023. Exports and imports of mineral fuels declined substantially in all the Baltic states, the reason for that was the decline of imports and re-exports of crude oil from the Russian Federation. Lithuania still imported crude oil for its big Mazeikiai oil refinery from other countries than Russia in 2023. Lithuania also imported LNG from different new sources, for example, from the USA. The exports and imports of electric current also belong to that commodity group and as the Baltic states are members of the Nordpool electricity exchange, the electric current flows related to selling, buying and stabilizing the joint system contributed quite a large part of exports and imports of that product group.

A share of exports of chemicals and related products was largest in Lithuania and its share has increased. Lithuania has a relatively large chemical industry which imported various chemical products and exported manufactured products. The proportion of manufacturing imports and exports was largest in Estonia and that share has increased between 2010 and 2023. The reason for that was above all that Estonia has the large ICT company (Ericsson Estonia AS), which imported many electronical components into Estonia and exported final and semi-final products from Estonia to other countries. All the Baltic states have a large cluster of wood manufacturing companies and that is reflected in exports and imports of product group (wood in chips and simply worked), Group 6 (veneer, plywood and wood manufactures) and Group 8 (furniture and parts thereof). A more detailed analysis of international trade of those products is presented in the next section.

1 Commodity groups of SITC Rev 3, level 1 is following: 0. Food and live animals; 1. Beverages and tobacco; 2. Crude material, inedible, except fuels; 3. Mineral fuels; 4. Animal and vegetable oils, fats and vaxes; 5. Chemicals and related products; 6. Manufactured goods classified by materials; 7. Machinery and transport equipment; 8. Miscellaneous manufactured articles; and 9. Goods not classified elsewhere in the SITC.

Table 5. Exports and imports of merchandise of Estonia, Latvia and Lithuania
(%, SITC Rev. 3, Level 1, 2010 and 2023)

	Estonia				Latvia				Lithuania			
	2010		2013		2010		2023		2010		2023	
	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
0. Food	7.7	9.4	9.1	10.1	10.9	9.6	13.9	11.2	14.3	9.9	14.0	9.5
1. Beverages	1.5	2.2	0.8	1.7	2.7	2.2	4.2	3.8	2.0	1.7	3.4	2.2
2. Crude materials	8.0	3.1	8.0	3.8	15.5	3.1	12.1	3.4	4.4	3.2	4.9	3.0
3. Mineral fuels	16.5	15.5	8.7	8.7	11.0	27.6	7.5	12.1	23.3	32.0	14.3	19.8
4. Animal oils, fats	0.4	0.3	2.7	1.3	0.3	0.5	0.6	0.8	0.2	0.5	0.3	0.6
5. Chemicals	5.9	10.8	5.8	11.6	9.5	11.4	9.0	11.6	12.9	13.4	14.3	13.7
6. Manufactured goods	15.2	16.2	14.3	14.8	20.0	13.1	15.8	11.3	10.0	11.2	10.3	11.2
7. Machinery	26.9	33.0	31.2	31.3	17.4	20.0	19.1	27.0	17.7	19.4	20.6	27.5
8. Miscellanous	14.8	9.7	13.1	9.8	8.8	8.1	10.0	9.5	13.6	6.1	15.6	8.7
9. Others	4.1	6.3	5.6	6.9	3.9	4.2	7.9	9.0	1.6	2.3	2.1	3.4

Source: UNCTAD. Trade Matrix, 2024.

3.4. Revealed comparative advantages in the Baltic states

Revealed comparative advantage (RCA) is a concept that makes it possible to find out exported products of a country which present some advantages of that country. The concept is based on the idea that this advantage is expressed by a larger proportion of a respective product in the total exports of the given country in comparison with the proportion of that product in the total exports of the world (Baldwin 1994).

The RCA measures the proportion of product in exports of a country in comparison with the world average. Table 6 presents the RCA indexes of highest value for the Baltic states.

Table 6 demonstrates that the wood processing is a dominating activity in all the Baltic states: in Estonia and Latvia five and in Lithuania four groups from six represent that sector. The data also demonstrate similarities of the Baltic economies. How should one interpret this information?

On the one hand, it is possible to see that timber as a natural resource is a base for industries, which have a long history in the Baltic states. On the other hand, it is possible to see that the relative advantage of the Baltic states lies in quite simple processing and there are limited capabilities to produce higher value-added products. The development of domestic manufacturing capacity of more advanced industries (such as chemical industry based on use of timber) applying domestic R&D or using technological advantages of large international companies is a question for future.

Noteworthy is that in Table 6, the SITC Product Group 322 'Briquettes, lignite and peat' and which is important for Estonia and Latvia, consists dominantly of peat (including peat litter), whole or not aggregated, and is exported to more than twenty countries and used widely in agriculture and gardening.

Table 6. The RCA indexes for Estonia's, Latvia's and Lithuania's merchandise exports (2023)

Estonia	Latvia	Lithuania
811 Prefabricated buildings RCA 42.7 Exports in 2023: USD 457 mn Norway 19%, Sweden 18%, Germany 16%, Finland 14%	**245 Fuel wood** RCA 67.0 Exports in 2023: USD 138 mn UK 50%, Sweden 10%, Norway 7%, Finland 6%	**035 Fush, dried, salted** RCA 16.0 Exports in 2023: USD 224 mn Italy 33%, Belgium 13%, Germany 11%, France 9%
246 Wood in chips or particles RCA 31.4 Exports in 2023: USD 336 mn Denmark 46%, Finland 17%, Sweden 11%	**246 Wood in chips or particles** RCA 47.0 Exports in 2023: USD 509 mn UK 28%, Denmark 25%, Sweden 19%, Finland 9%	**245 Fuel wood** RCA 15.7 Exports in 2023: USD 68 mn UK 38%, Netherlands 15%, Denmark 7%
245 Fuel wood RCA 23.3 Exports in 2023: USD 45 mn Finland 26%, Sweden 21%, Denmark 19%, Norway 16%	**322 Briquettes, lignite and peat** RCA 41.9 Exports in 2023: USD 300 mn China 18%, Italy 10%, Germany 9%, Poland 5%, Netherlands 5%, USA 5%	**811 Prefabricated buildings** RCA 11.5 Exports in 2023: USD 262 mn Norway 25%, Germany 16%, Sweden 10%, UK 8%
322 Briquettes, lignite and peat RCA 22.7 Exports in 2023: USD 161 mn China 22%, Netherlands 13%, Spain 8%, France 5% Germany 5%, USA 4%	**247 Wood in rough or roughly squared** RCA 31.1 Exports in 2023: USD 356 mn Sweden 42%, Finland 15%, Estonia 15%	**635 Wood, manufactured** RCA 8.2 Exports in 2023: USD 553 mn Germany 21%, UK 10%, Norway 10%, Denmark 7%, Lithuania 7%, Sweden 5%
635 Wood, manufactured RCA 17.0 Exports in 2023: USD 540 mn Sweden 20%, Finland 16%, Norway 12%, Germany 5%	**248 Wood, simply worked** RCA 22.2 Exports in 2023: USD 817 mn UK 38%, Estonia 7%, Germany 5%, Denmark 3%	**269 Work clothing and other worn textile articles** RCA 8.2 Exports in 2023: USD 93 mn Ukraine 25%, Belarus 17%, Kazakhstan 10%, Latvia 5%
634 Veneers, plywood RCA 10.5 Exports in 2023: USD 386 mn Germany 28%, Denmark 17%, Poland 8%	**634 Veneers, plywood** RCA 20.7 Exports in 2023: USD 770 mn UK 15%, Germany 9%, Finland 5%, Sweden 4%	**821 Furniture & parts** RCA 7.0 Exports in 2023: USD 2756 mn Germany 13%, Sweden 12%, UK 10%, France 7%, Norway 7%, Denmark 7%

Source: UNCTAD. Trade Matrix and RCA index, 2024.

At the same time, the only massive segment is furniture and parts segment in Lithuania, which has exports value of USD 2.8 billion. The segment increased in volume due to working in the network of the large international company, IKEA.

Telecommunications industries creating a large volume of exports in all the Baltic states (respectively USD 911 mn or 4.5% of Estonia's exports, USD 757 mn or 3.7% of Latvia's exports and USD 997 mn or 2.3% of Lithuania's exports) do not have high RCA index values. The RCA for SITC 764 'Telecommunication equipment and parts' was 1.7 for Estonia, 1.4 for Latvia and 0.9 for Lithuania (UNCTAD. RCA Index 2024). That records relative importance of that commodity group being above the world average for Estonia and Latvia and very close to the average for Lithuania. Those industries accumulated big exports revenues for the Baltic states, but those products are an important part of exports basket in many other countries as well, thus lowering their RCA value.

3.5. International trade with Russia and some of its neighboring countries

The Baltic states are on the customs border of the EU with Russia and Belarus, and a large part of imported goods from other EU states are re-exported. Merchandise statistics also reflect that trade. Though the EU and the USA introduced several packages of sanctions on trade with Russia and Belarus, the sanctions influenced only a part of international trade with Russia and Belarus. Table 7 presents the merchandise trade of the Baltic states with Russia and Belarus.

Table 7. International merchandise trade of the Baltic states with Russia and Belarus (USD mn, 2019-2023)

	Partner	Exports or imports	2019	2020	2021	2022	2023
Estonia	Russia	Exports	1408	1414	1426	1379	1183
		Imports	2018	1984	3306	3159	1334
	Belarus	Exports	90	102	115	114	133
		Imports	239	179	464	117	24
Latvia	Russia	Exports	1085	1087	1190	1298	1245
		Imports	2700	1958	3001	2763	1484
	Belarus	Exports	158	151	179	172	191
		Imports	317	295	482	294	163
Lithuania	Russia	Exports	4632	4384	4416	2880	2316
		Imports	5190	2979	5309	2838	357
	Belarus	Exports	1282	1178	1208	1503	1839
		Imports	877	874	1165	820	302

Source: UNCTAD. Trade Matrix, 2024.

Table 7 shows that Estonia's and Lithuania's exports to Russia decreased in 2023 and Latvia's exports stayed approximately on the 2022 level. On the other hand, Estonia's imports from Russia decreased by 60%, Latvia's imports by half and Lithuania's imports by 90% in 2023 in comparison with the previous year. As in the imports from Russia, oil and natural gas used to contribute the largest share and the EU's sanction package number 6 banned the imports of oil, that seems to be the reason for the substantial decline of Baltic states' imports from Russia.

Estonia's and Latvia's international merchandise trade was limited during the period 2019-23 and no noteworthy changes occurred. In Lithuania's case, it is necessary to keep in mind that Lithuania does not have a common border with Russia (except the 262-km border with the Kaliningrad region on the coast of the Baltic Sea) and road and railway transport to and from Russia must go through Belarus. It could be that some part of the substantial decrease of Lithuania's exports to Russia has been substituted with the increase of exports to Belarus in 2023.

Table 8 describes some changes in commodity structure of exports of the Baltic states to Russia and Belarus during the period 2019-2023. A specific characteristic of the selected examples is that the value of exports of those products increased at the time when the total exports decreased substantially. In Estonia's international merchandise trade, Product Group 072 'Cocoa' is a specific case. Cocoa is imported from Indonesia and Malaysia to Estonia, and its total import value was USD 215 mn in 2023. Cocoa was re-exported from Estonia to other countries for value of USD 174 mn (value of exports to Russia was USD 109 mn) (UNCTAD. Trade Matrix 2024). There is a long-term supply chain of that product, which is transported to Estonia by ships and transported further by land transport vehicles. Russia has still been supplied with the product, partly because there are no sanctions on it. Agricultural machinery seems to be another product group whose exports have been increasing in recent years. There could be several reasons for that, including the smaller total output in Russia. Another reason could be that the product group consists also machinery parts, which could be used also for military purposes.

Table 8. Exports of some merchandise from Estonia, Latvia and Lithuania to Russia (USD mn, SITC Rev. 3, Level 3, 2019-2023)

	Partner	Exports	2019	2020	2021	2022	2023
Estonia	Russia	**TOTAL**	**1408**	**1414**	**1426**	**1379**	**1183**
		072 Cocoa	63	84	89	100	174
		422 Fixed vegetables fats	106	150	220	356	408
		721 Agricultural machinery (excluding tractors) & parts	6	4	6	20	50
		872 Instruments & appliances for medical etc.	25	26	23	27	38
Latvia	Russia	**TOTAL**	**1085**	**1087**	**1190**	**1298**	**1245**
		112 Alcoholic beverages	284	248	223	367	511
		542 Medicaments	122	75	115	116	100
		625 Rubber tyres	5	5	9	28	42
Lithuania	Russia	**TOTAL**	**4632**	**4384**	**4416**	**2880**	**2316**
		112 Alcoholic beverages	270	282	294	290	385
		553 Perfumery, cosmetics	238	208	239	190	288
		721 Agricultural machinery	66	81	85	76	83
	Belarus	**TOTAL**	**1282**	**1178**	**1208**	**1503**	**1839**
		112 Alcoholic beverages	11	12	19	18	37
		721 Agricultural machinery	28	27	26	37	56

Source: UNCTAD. Trade Matrix, 2024.

The rapid increase of international trade between the Baltic states and with several other states of the Russian neighborhood after the invasion of Russia into Ukraine has been a peculiar phenomenon. The international trade policy investigation tools do not provide a full and comprehensive picture about that trade and do not reflect movements of arms and ammunition but there are several merchandises which are in one or another way connected to military activities. Some product groups present so-called double use options, meaning that they can be used for civilian as well for military purposes.

The preliminary investigation gave a picture that the trade of Estonia, Latvia and Lithuania was marginal or did not change substantially or was just very limited (exports less than USD 50 mn per year) with Azerbaijan, Georgia, Tajikistan and Turkmenistan. From other cases the author chose the most exceptional. The trade statistics do not provide exact reasons for big changes in the value of international trade flows, we took them as given. Here it is important to keep in mind that re-exports are included in the overall exports, which means that the country of origin could be different than the Baltic states.

Table 9 gives evidence of a huge increase in certain exports. For example, during the period of 2019-2023, Estonia's exports to Kazakhstan increased by nearly three times, to Armenia by 14 times and to Kyrgyzstan by 50 times. Simultaneously, Lithuania's exports to Kyrgyzstan increased by almost five-fold. Based on trade statistics, it is not possible to say, whether those trade goods were re-exported to some other country (probably the Russian Federation), or whether they never arrived at the final point of the customs declaration and stayed just in a country these products were transported through. Table 9 presents some examples of that analysis.

Table 9. International trade between the Baltic states and some other states of the former Soviet Union (USD mn, current prices, 2019-2023)

	Partner	Exports or imports	2019	2020	2021	2022	2023
Estonia	Armenia	Exports	1.7	1.6	1.9	29.2	23.8
		Imports	0.6	0.7	1.0	1.6	1.1
	Kazakhstan	Exports	38.2	42.6	33.1	122.5	137.6
		Imports	14.3	7.8	34.5	125.3	126.2
	Kyrgyzstan	Exports	1.6	21.3	0.7	16.7	80.5
		Imports	0.6	1.3	1.8	2.4	2.4
Latvia	Kazakhstan	Exports	56.8	39.3	44.2	86.4	166.5
		Imports	26.3	16.6	19.4	112.0	182.9
	Uzbekistan	Exports	208.9	159.9	183.3	328.9	329.0
		Imports	12.1	16.3	78.2	115.8	107.8
Lithuania	Kazakhstan	Exports	482.2	447.2	420.5	896.1	745.1
		Imports	761.4	684.8	1286.5	589.7	142.6
	Kyrgyzstan	Exports	84.5	37.9	36.3	332.7	418.0
		Imports	76.9	46.7	50.1	48.4	3.2

Source: UNCTAD. Trade Matrix, 2024.

The examples in Table 10 demonstrate that there are some product groups, such as alcoholic beverages, medicaments, agricultural machinery, measuring, analyzing and controlling apparatus, where exports increased substantially, sometimes dozens of times within a year or two. As the war in Ukraine continued through 2023, there is a probability that those additional products were used in the Russian Federation for civilian and military purposes. To get a comprehensive overview of this kind of use of exported products, we need further analysis.

Table 10. Exports of some merchandise from the Baltic states to Kyrgyzstan or Kazakhstan (USD mn, 2019-2023)

	Partner	Exports	2019	2020	2021	2022	2023
Estonia	Kyrgyzstan	**TOTAL**	**1.5**	**21.3**	**0.7**	**16.7**	**80.5**
		721 Agricultural machinery (excluding tractors) & parts	-	-	-	0.2	5.5
		784 Parts & accessories of vehicles of 722, 781, 782, 783	-	-	-	0.5	5.4
		784 Measuring, analyzing & controlling apparatus	-	0.01	-	0.9	3.5
Latvia	Kazakhstan	**TOTAL**	**56.8**	**39.3**	**44.2**	**86.4**	**166.5**
		112 Alcoholic beverages	10.0	6.4	9.1	9.9	19.5
		542 Medicaments (including veterinary medicaments)	11.0	11.5	12.4	11.7	22.9
		764 Telecommunications equipment & parts	1.6	2.4	2.8	11.9	16.1
		874 Measuring, analyzing & controlling apparatus	4.0	0.1	0.2	1.1	20.0
Lithuania	Kazakhstan	**TOTAL**	**482.2**	**447.2**	**420.5**	**896.1**	**745.1**
		112 Alcoholic beverages	7.7	6.5	12.0	11.7	14.3
		541 Medical and pharmaceutical products, excluding 542	7.2	7.5	5.9	5.7	15.7
		542 Medicaments (including veterinary medicaments)	1.1	4.2	11.9	8.7	19.3
		721 Agricultural machinery (excluding tractors) & parts	4.5	7.6	11.2	23.7	22.9

Source: UNCTAD. Trade Matrix, 2024.

4. International trade of services

International trade of services is a rapidly growing area in international trade. The figures in Table 1 demonstrate that all the Baltic states have a positive net value for the exports of services. The share of services in the total trade of goods and services increased in Estonia from 27% in 2010 to 39% in 2023, in Lithuania respectively from 17% to 34% and only in Latvia the share of services declined from 31% to 29%. The absolute value of the exports of services increased during the whole period and there was no such a structural crisis as in international trade of merchandise due to Covid-19 and the invasion of Russia to Ukraine. The situation has probably been more complicated in Latvia because in Latvia's service sector the proportion of transport services was larger than in Estonia and Lithuania. Table 11 describes the dynamics of the exports of services.

Table 11 suggests that the value of the exports of services increased in all the Baltic states. At the same time, significant structural changes took place in the exports. In 2010, close to a half of the services were provided by the transport sector (in Lithuania the share was 53%, in Latvia 45% and in Estonia 39%). Though the value of transport services increased during the following years, the growth of other subsectors was larger. Most rapid was the growth of exports of telecommunications and other business services. Lithuania's exports of financial services increased very substantially. Though the growth dynamics of services exported by the Baltic states has been impressive, the structure of exported services also reflects some general weaknesses of the economic structure of the Baltic states. The relatively small value of goods related services is connected to the issue that relatively simple merchandise exported by those economies does not need additional support of services during and after the sale process. The same is true even more in the case of charges for use of intellectual property. For example, in Finland that figure amounted in USD 3.2 bn in 2023, in Estonia the figure was USD 131 mn, and in Latvia and Lithuania around USD 10 mn per year (UNCTAD. Trade of Services 2024). In other words, there is still room for improvement in the service sector and the service exports of the Baltic states.

Table 11. Service exports of the Baltic states (USD mn, current prices, 2010 and 2023)

	Estonia		Latvia		Lithuania	
	2010	2023	2010	2023	2010	2023
TOTAL	**4734**	**12615**	**4038**	**8124**	**4330**	**21900**
Goods related services	153	632	138	55	321	1038
Transport	1864	2737	1831	2576	2300	10210
Sea	816	1030	538	254	159	-
Air	112	249	343	740	146	-
Other	929	1379	939	1582	1995	10210
Travel	1073	1500	642	1312	967	1795
Construction services	214	418	78	417	64	709
Financial services	128	217	440	195	63	1755
Charges of use of intellectual property	21	131	12	10	1	16
Telecommunications, computer and information services	402	2995	213	1367	138	2283
Other business services (R&D, professional & management consulting services)	813	3755	609	2127	1575	3783

Source: UNCTAD. Trade of Services, 2024.

5. Foreign direct investments

In the economic development process, foreign direct investments (FDI) are the way to increase capital within a country which does not have enough domestic savings. In a later development stage when income level and saving opportunities are larger, the FDI between countries reflects the search for investment opportunities in other states and industries. FDI makes it possible to develop a more sophisticated economic structure in the country and support the provision of more complex and high-level goods and services. In addition, the FDI also move together with exports and imports of goods and services between different countries and are quite often substitutes for foreign trade of goods and services.

Since the 1990s, the Baltic states have been net receivers of FDI, having much larger inward than outward stock of capital. FDI played an important role in integration of the Baltic economies with the Nordic countries. Particularly important role has been played by capital inflows from Sweden and Finland. In the 2000s and especially after the 2008-2009 economic and financial crises, the economic ties between the Baltic countries intensified, and even more importantly, economic relations with some large economies, such as Germany and Poland, increased. The general trend of inward and outward FDI stocks is described in Table 12.

Table 12. Inward and outward FDI stocks in the Baltic states (USD mn, 2010, 2015, 2020 and 2023, end of year)

	FDI	2010	2015	2020	2023
Estonia	Inward	15551	18447	33589	40490
	Outward	5545	5606	10443	14204
Latvia	Inward	10869	14773	10614	26595
	Outward	941	1838	2560	6304
Lithuania	Inward	15455	16046	21354	31564
	Outward	2647	3670	5639	9736

Source: UNCTAD. Trade of Services, 2024.

Table 12 illustrates the growth of both the inward and outward FDI stocks. In Estonia, the growth rate of both types of the FDI stock has been approximately equal on the level of 2.6 times. In Latvia, the inward FDI stock grew by 2.4 times, but the outward FDI grow by 6.8 times. Latvia used to have the lowest outward FDI level in the Baltic states and the fast growth of the outward FDI stock started from a very low level. Lithuania also had higher outward stock growth in comparison with the inward FDI growth, respectively 2.0 and 3.7 times during the period 2010-2023. That reflects partly the integration of the Baltic market, which was accompanied by FDI inflow from one country to another within the Baltic region.

Table 13 describes the geography of the FDI stocks at the end of 2020 and 2023. Changes in the FDI stocks could be explained in various ways. A large part of the outward FDI from one Baltic state to another has been the movement of capital between the departments of the Nordic banks located in the Baltic states (Kilvits and Purju 2003). As the outward FDI of Estonia, Latvia and Lithuania target mainly the other Baltic states and the financial sector FDI contribute the largest part of FDI we could conclude that this is a quite important part of the outward FDI from the Baltic states even until the recent years.

Nordic and Baltic countries dominate the FDI geography of the Baltic states. FDI from the countries recognized as the financial centers of international capital (i.e. the UK, Luxembourg, the Netherlands, Switzerland and Cyprus) was quite notable as well, increasing in Estonia and being stable in Latvia and Lithuania. In turn, FDI from Germany played a more important role in Latvia and Lithuania than in Estonia. FDI from Poland has recently increased substantially in Lithuania.

The financial and insurance activities with a 27% share dominated in Estonia in 2023. The corresponding figure in Lithuania was 36%. In Latvia, the aforementioned sector contributed to 15% of the total inward FDI stock and was the second after the professional, scientific and technical activities. The aforementioned activities covered 21% of Latvia's total FDI. FDI into the last-mentioned activities have increased rapidly in Estonia and Lithuania as well. A quite large share of that part of the FDI is related to purchases of equipment for scientific research by public sector higher educational institutions for the EU structural funds means. Quite important in all the Baltic states is still the real estate activities sector contributing 17% of the total FDI in Estonia, 12% in Latvia and 7% in Lithuania. The share of FDI in manufacturing was highest in Lithuania with 14%, followed by 12% in Latvia and 9% in Estonia (Bank of Estonia 2024; Bank of Latvia 2024; Bank of Lithuania 2024).

Table 13. The inward FDI stock of the Baltic states (USD mn, 2020 and 2023, end of year)

Estonia			Latvia			Lithuania		
2020	2023	Change	2020	2023	Change	2020	2023	Change
TOTAL 33589	**40490**	**+6901**	**TOTAL 20614**	**26595**	**+5981**	**TOTAL 21354**	**31564**	**+10210**
Luxembourg 3507	9718	+6211	Sweden 3407	7877	+4470	Germany 4694	5151	+457
Finland 6725	7964	+1239	Estonia 2727	3610	+883	Netherlands 1819	3785	+1966
Sweden 5831	4413	-1759	Lithuania 1547	2083	+536	Estonia 2591	3183	+592
Latvia 887	3150	+2263	Germany 1441	1578	+137	Sweden 3193	2964	-229
Belgium 149	1700	+1551	Cyprus 1541	1484	-57	Latvia 464	1887	+1423
Switzerland 490	1563	+1073	Russia 1830	1293	-537	UK 495	1879	+1384
Lithuania 1451	1474	+23	Netherlands 1157	766	-391	USA 315	1586	+1271
UK 840	1352	+512	Denmark 808	1014	+206	Cyprus 1210	1490	+280
Netherlands 2042	1280	-762	Luxembourg 818	766	-52	Luxembourg 1170	1391	+221
Norway 383	1065	+682	Finland 560	445	-115	Poland 811	1267	+456

Source: UNCTAD. FDI; Bank of Estonia 2024; Bank of Latvia 2024; Bank of Lithuania 2024.

6. Conclusions and policy suggestions

The geography of merchandise trade demonstrates that a list of foreign trade partners of the Baltic states has become wider and is moving slowly away from the Nordic countries. Wood industry, being an important manufacturing cluster in the Baltic states, still sold many products to the Nordic countries, but at the same time, the industry enlarged its sales in large markets, such as the UK and Germany. The Baltic states food industry cluster integrated into the region, which is evidenced by the increased trade flows between these countries. Simultaneously, Lithuania's food industry particularly has integrated with the respective industry of Poland. In addition, Poland has increased its share as a provider of food products in the Baltic states. Moreover, Poland also started to be a large supplier of a wide set of various consumer products, for example, kitchen equipment for households.

The article provides some analysis based on tools of the UNCTAD trade matrix making it possible to look at quite detailed structure of international trade between the countries. That information gave a basis for analysis of merchandise exports and imports of the Baltic states and comparative advantage of their major products. The statistics demonstrate that wood processing is a dominating activity in all the Baltic states. That industry uses mainly domestic resources and restrictions related to international trade have only limited impact of its development.

The data shows similarities between the Baltic economies. On the one hand, it is possible to see that timber as a natural resource is a base for industries, which have a long history in the Baltic states. On the other hand, it is possible to see that the relative advantage of the Baltic states lies in quite simple processing and there are limited capabilities to produce higher value-added products. The development of domestic manufacturing capacity of more advanced industries (chemical industry based on use of timber) applying domestic R&D or using technological advantages of large international companies is a question for future.

It is possible to see that those industries contributing big export revenues for the Baltic states, such as telecommunications in Estonia, have a low RCA index value. That is evidence that those products are an important part of the export basket in many other countries and there is relatively low comparative advantage for the Baltic states.

The analysis provided also some initial ideas to examine the trade flows between the Baltic states and Russia and Russia's neighboring countries to estimate movement of goods possible to use for civilian and military purposes. The analysis provides just a brief outlook of the issue, but these figures already demonstrate that there is a quite large movement of these products over the state borders. This issue needs deeper investigation and should be considered in policy making.

The growth of services exported by the Baltic states has been impressive. In addition, the structure of exported services reflects some general weaknesses of economic structure of the Baltic states. A rather low value of goods related services is because relatively simple merchandise does not need additional support from services during and after the sale process. This is true even more in the case of charges for use of intellectual property, indicating that there is still room for improvement in the service sector development and service exports of the Baltic states.

FDI stocks have increased in the region. Moreover, one can witness an increase in the FDI between the Baltic states, evidenced by the larger share of another Baltic state in the inward FDI stock. FDI flows between the Baltic states serve as the basis for a future integration of the region.

The analysis of different aspects of international trade and investments in the Baltic states makes it possible to conclude that there is going on a deeper integration of the Baltic economies. Thus, this research is in line with the earlier observations presented in several other studies (Poissonier 2017; Staehr 2023).

As the economic growth of the Baltic states is based on exports of goods and services, the stable price level is important for competitiveness of the economies. That is underlying the importance of fiscal discipline for limiting inflationary pressures which very often bring wage increase not connected to increase of productivity of industries. The increasing domestic costs due to such wage increases diminish penetration capacity of exporting industries on foreign markets.

The changing economic and political environment in Europe due to war in Ukraine creates additional complications for economic agents of the Baltic states and comprehensive analysis of different trends, advantages and problems is necessary to get reasonable answers to those problems.

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