

## ESTONIAN TRADE WITH THE EASTERN PARTNERSHIP COUNTRIES

By Senior Research Fellow Raul Mälk

Joint Declaration of the Prague Eastern Partnership Summit on 7 May 2009 stated “Open markets and economic integration are essential to the sustainable economic development of the partner countries and to underpin political stabilization.” After ten years of Partnership it is possible to say that the potential for trade is not yet used and in general trade amounts are similar to those in 2008. Looking forwards to post-2020 it is clear that further progress in trade is a very important element of the development of the EaP and relations with the partner countries.

Four Eastern Partnership (EaP) countries are members of the WTO - Georgia (2000), Moldova (2001), Armenia (2003) and Ukraine (2008). Azerbaijan and Belarus are still in the midst of their accession process. Belarus expressed the intention to conclude this process before the 2020 WTO ministerial meeting. Absence of WTO membership means that trade relations with respective countries have various legal and technical limits.

The European Union has concluded Association Agreements and Deep and Comprehensive Free Trade Area agreements with Georgia, Moldova and Ukraine. Trade with Armenia and Belarus is seriously influenced by their membership in the Eurasian Economic Union, which has established its own regulatory framework in the area of trade. During the past decade, trade between EU and the six Eastern Partnership countries has had its ups and downs, influenced by the global economic crisis and political tensions like the Russian war against Ukraine in 2014.

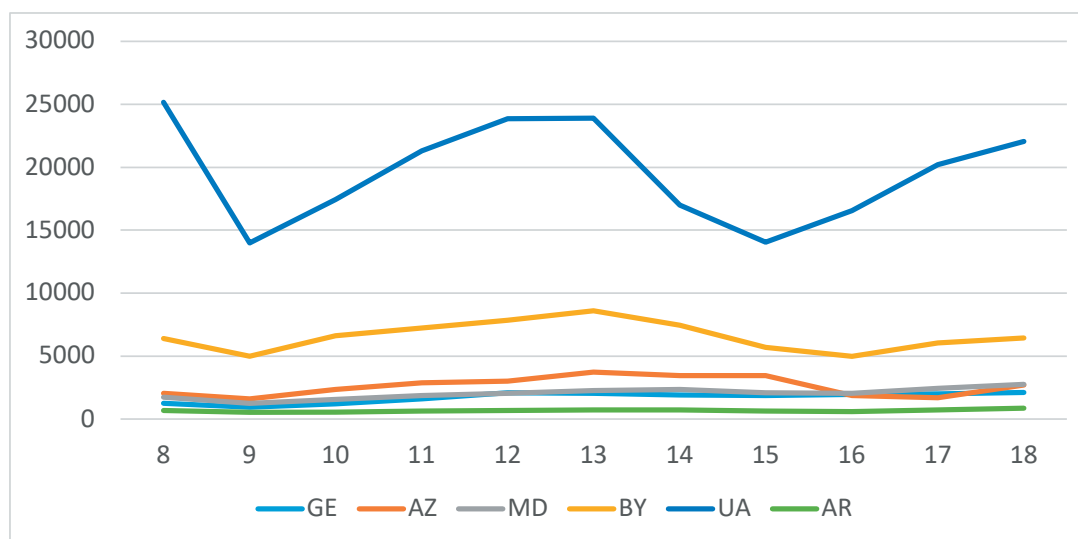
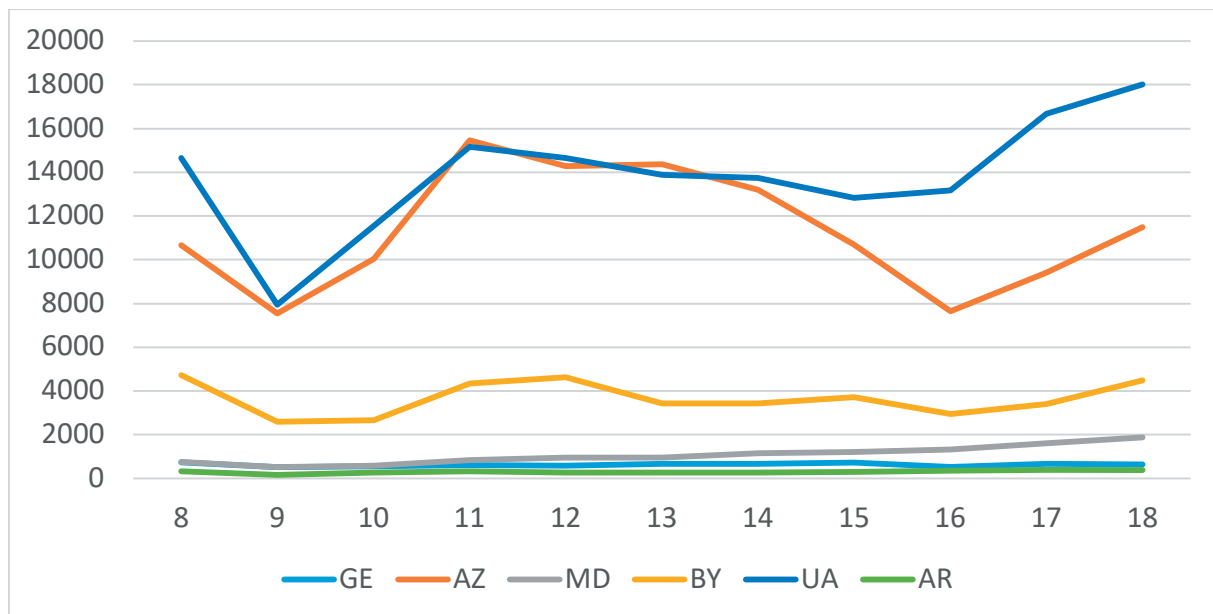


Chart 1: EU exports to EaP countries, millions of euros, data from DG Trade website.

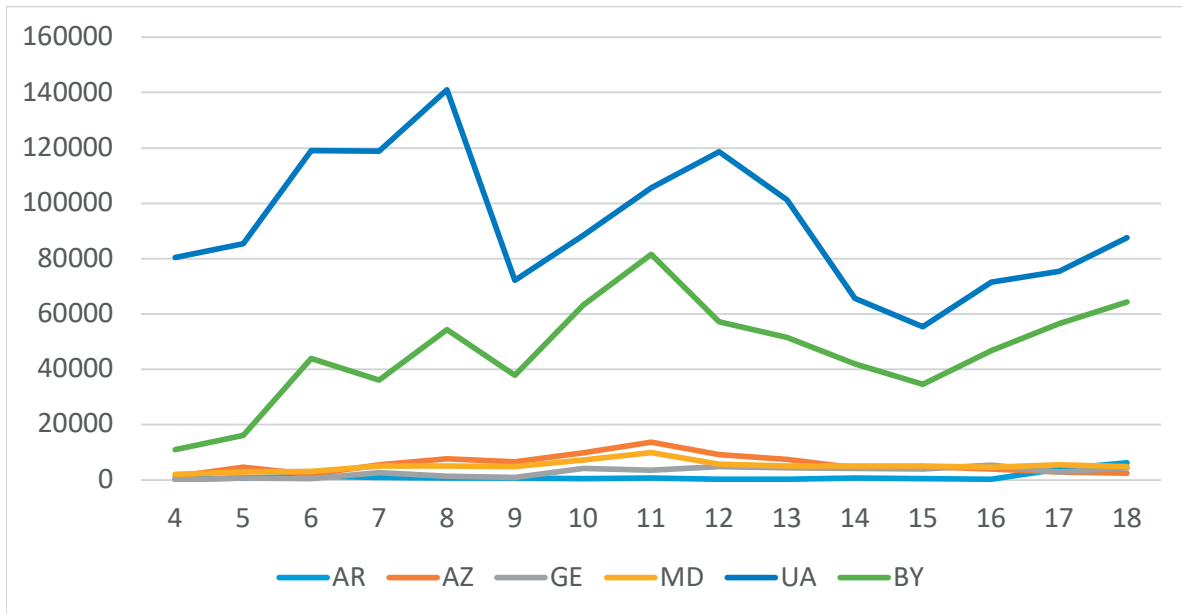


**Chart 2: EU imports from EaP countries, millions of euros, data from DG Trade website.**

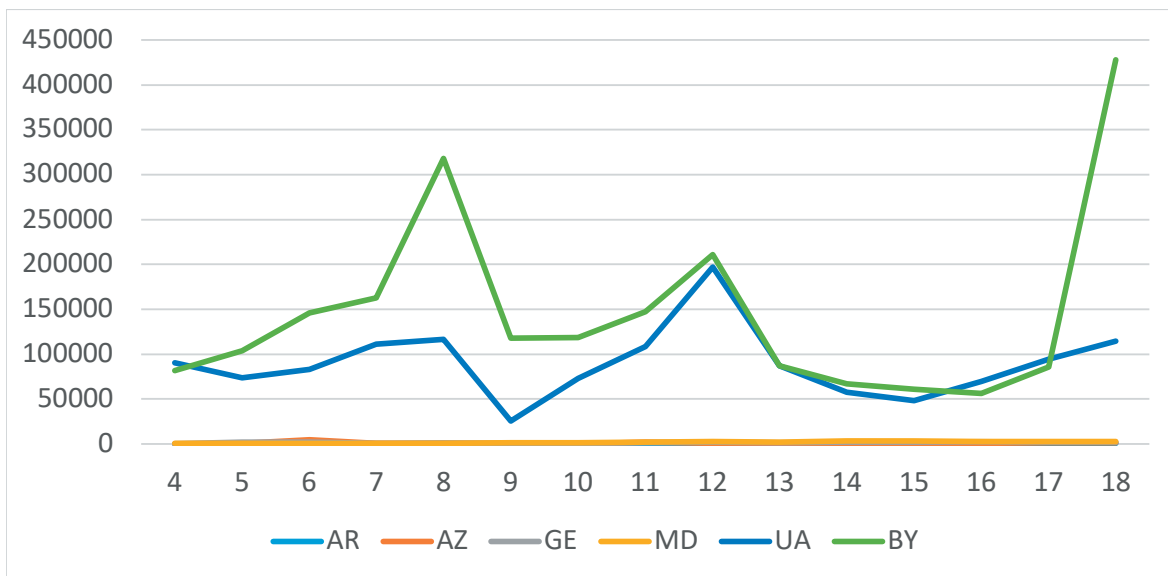
EU trade with Armenia, Georgia and Moldova is rather modest from the EU perspective, it is more significant with Ukraine, Belarus and Azerbaijan. DCFTAs with Georgia, Moldova and Ukraine have only just started to influence trade. Azerbaijan has had in EU imports a much more prominent role than in its exports because of its energy supplies. Looking from partner countries perspective the EU in most cases is one of the top trade partners. More detailed overview of the EU-EaP countries trade we hope to provide in one of our next papers.

Estonian foreign trade with the six EaP countries in general also moved up and down in a rather similar way as EU-EaP trade during the past 10 years. Except Belarus, Estonian trade with the other partner countries is still close to the 2008 level. Trade volume with Armenia, Azerbaijan, Georgia and Moldova is rather modest, especially when we analyze the data about export of goods of Estonian origin. With all four countries Estonian trade balance in 2018 was positive. Trade relations with Belarus and especially Ukraine are wide and there are several long-term flows of goods.

Ukraine is currently Estonian 17th export destination country, other EaP countries are on lower positions. Belarus remains also important export destination.

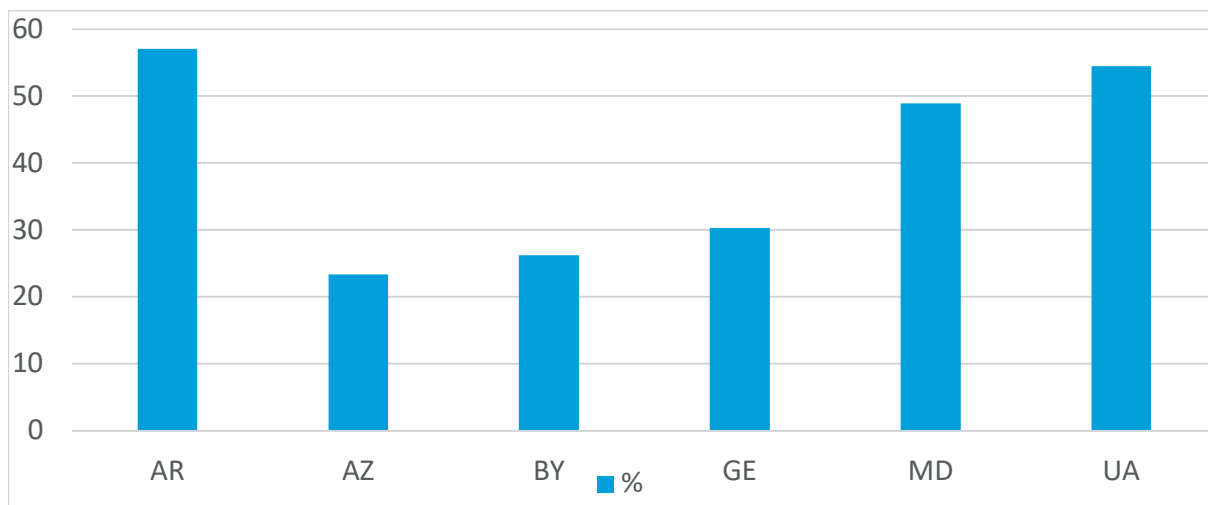


**Chart 3: Estonian exports of commodities to EaP countries 2004-18, thousands of euros, data from Statistics Estonia**



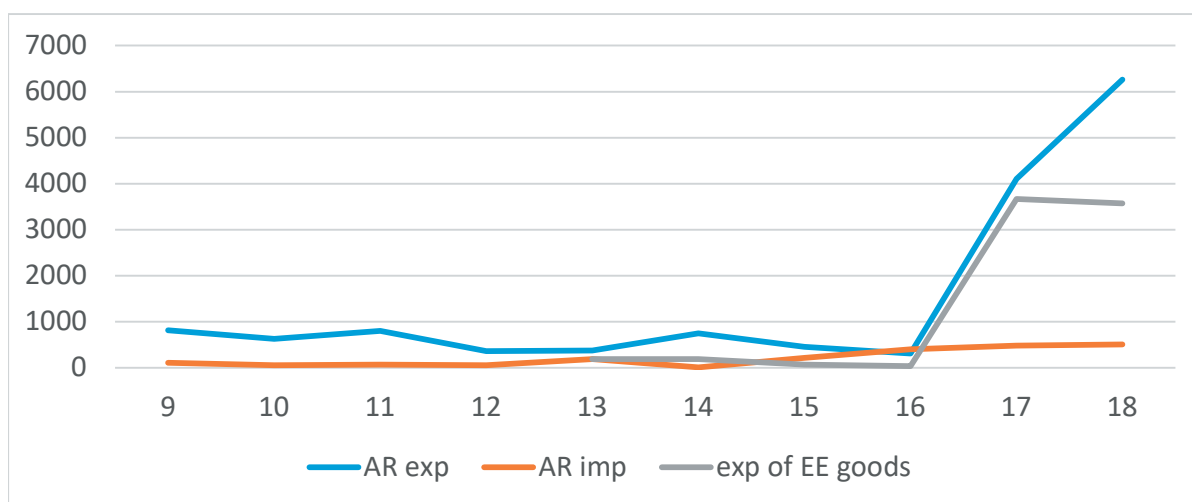
**Chart 4: Estonian imports of commodities from EaP countries, thousands euros, data from Statistics Estonia.**

Data about the Estonian imports reflects again solid trade exchange with Belarus and Ukraine, but modest volumes with the four other partners. Current data from 2019 reflects the same picture, except big reduction of Estonian (mineral) imports from Belarus.



**Chart 5: Goods of Estonian origin, per cent from all exports, 2018, based on data from Statistics Estonia**

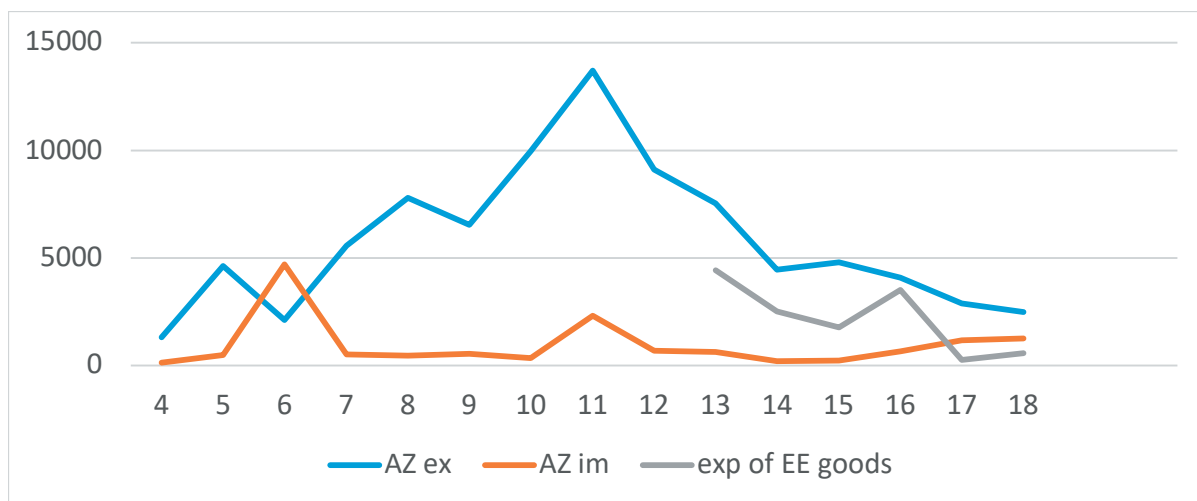
The Estonian economy is highly integrated with the global markets, we are traditional transit country for many trade partners and so it is normal that large part of our exports consists from goods of not Estonian origin. Those goods are in many cases exported together with goods of Estonian origin and with applied Estonian commercial and other services. In Estonian trade with Azerbaijan, Belarus and Georgia most export commodities originated from other countries. (Trade statistics about exports of goods of Estonian origin is available from 2013.)



**Chart 6: Estonian trade with commodities with Armenia, thousands euros, data from Statistics Estonia**

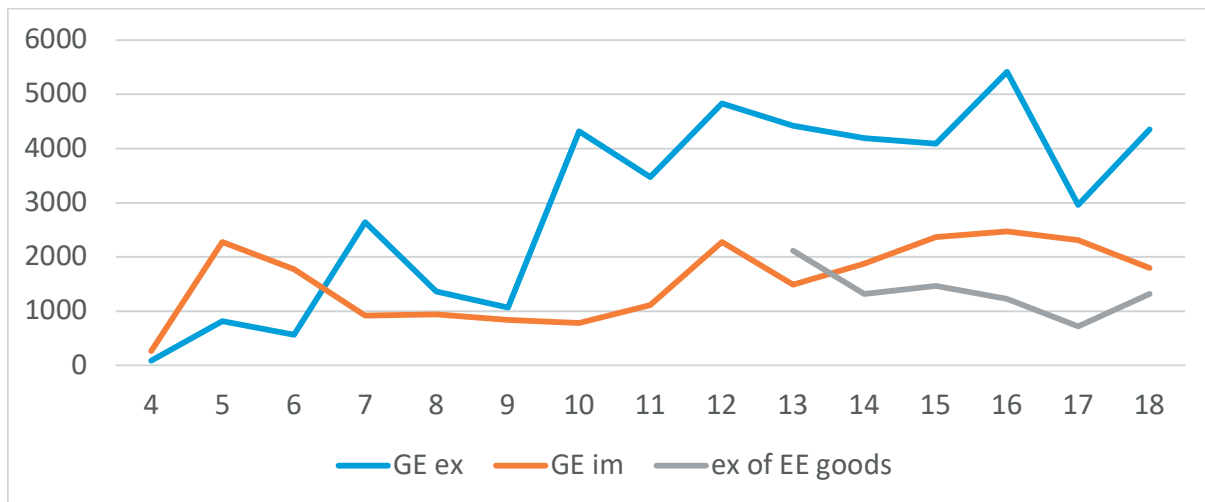
Trade with Armenia is rather minimal, especially import from Armenia, trade balance in 2018 was positive for Estonia (6.3 mill euros versus 0.5 mill euros). There are many reasons for low level of trade starting from long distance and difficult logistics, Armenian

participation in Eurasian economic cooperation and lack of the DCFTA with EU. Estonian exports in 2018 included mainly spare parts for machinery and metals, biggest import were alcoholic beverages. Armenian trade with EU benefits from GSP+ regime, which reduces EU custom tariffs for its goods. Estonian import from Armenia was in 2018 only 0.5 million euros and import of the Armenian origin goods was also around 0.5 million euros.



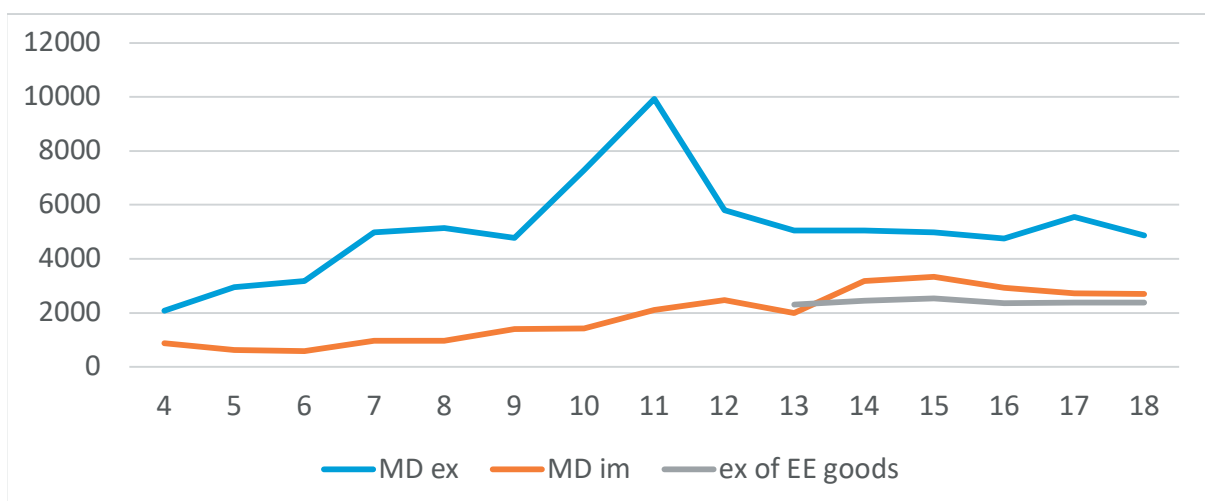
**Chart 7: Estonian trade with commodities with Azerbaijan, thousands euros, data from Statistics Estonia**

Estonian trade balance with Azerbaijan is positive (2.5 mill euros versus 1.2 mill euros in 2018). Estonian exports to Azerbaijan included some larger amount of non-Estonian origin goods in the beginning of the decade, but now the export of goods of Estonian origin and import from Azerbaijan are small, especially taking into account that Azerbaijani economy is relatively large compared to Armenia, Georgia and Moldova. Estonian exports of goods of Estonian origin included in 2018 fish as a biggest group of goods, other exports included machines and spare parts, land transport vehicles. Estonian imports from Azerbaijan included metals and fruits. Import from Azerbaijan was in 2018 1.2 million euros and import of Azeri goods 1.3 million euros.



**Chart 8: Estonian trade with commodities with Georgia, thousands euros, data from Statistics Estonia**

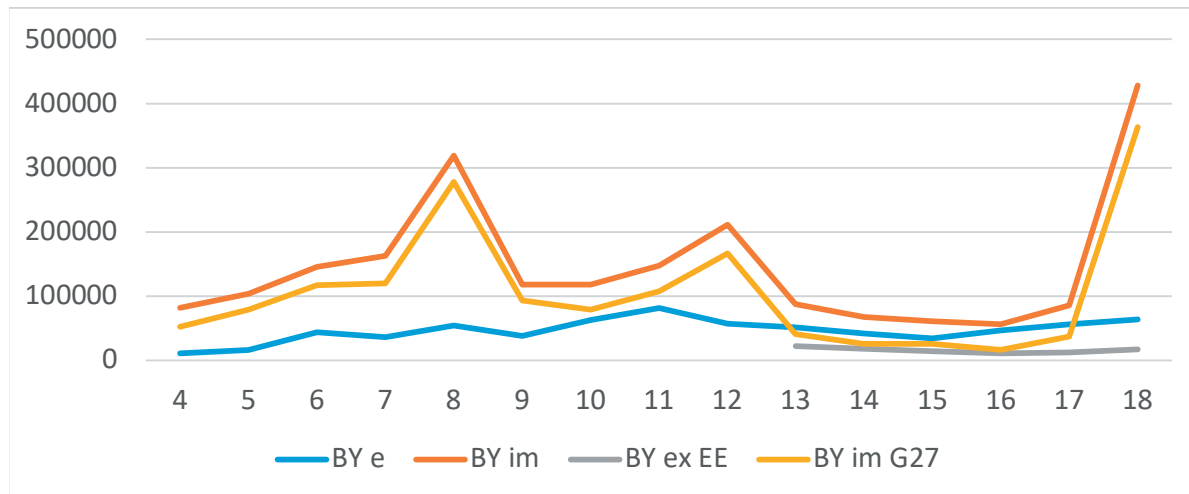
Estonian trade balance with Georgia is positive (4.3 mill euros versus 1.8 mill euros in 2018). Estonian exports to Georgia included in 2018 timber and live animals as goods of Estonian origin. Exports also included transit of equipment. Estonian imports from Georgia included mainly alcoholic and non-alcoholic beverages. Direct import from Georgia was in 2018 1.8 million euros, import of Georgian origin goods was much bigger- 4.7 million euros, so on many occasions the commodities arrived through transit countries and through the companies there.



**Chart 9: Estonian trade with commodities with Moldova, thousands euros, data from Statistics Estonia**

Estonian trade with Moldova is rather stable but the amounts are modest. Trade balance is positive for Estonia (4.9 mill euros versus 2.7 mill euros in 2018). Among Estonian exports are goods of Estonian origin - live animals, fish, chemical products for con-

struction works, also machines and equipment from other countries. Among imports important are vegetables, fruit, alcoholic beverages, also some spare parts to industrial equipment. Import from Moldova was in 2018 2.7million euros and import of goods of Moldovan origin 2.9 million euros.



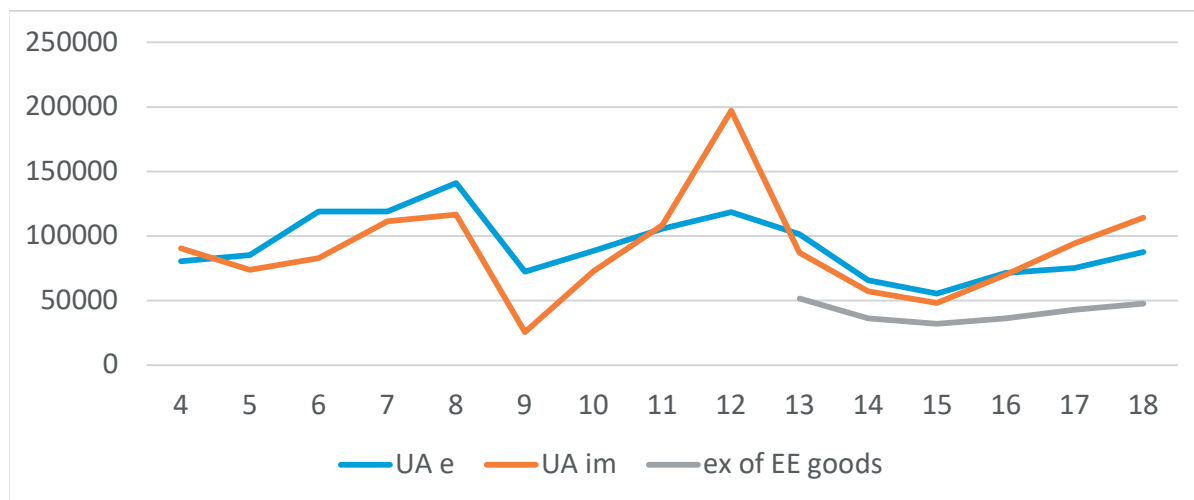
**Chart 10: Estonian trade with commodities with Belarus, thousands euros, data from Statistics Estonia**

Estonian trade with Belarus is larger than with previous states and the first reason for that is geographical proximity, the second a large volume of import of mineral products (goods group 27) from Belarus. The balance for Estonia is negative (64.2 mill euros versus 427.9 mill euros in 2018).

From all exports from Estonia to Belarus only a little bit more than one quarter are goods of Estonian origin, there is a large amount of transit trade – in 2018 for example export of fish was 7.1 million euros, but from it only 0.9 million euros were goods of Estonian origin. Export of cocoa and cocoa products was worth 3.8 million euros, from that 1.5 million euros worth cocoa products of Estonian origin. From 4.3 million euros worth export of chemical products, 3.7 million euros worth goods were of Estonian origin. Export of timber and wood products was 1.4 million euros and mostly of Estonian origin. There is some amount of export of machines and equipment, but it is mostly transit – from 15.1 million euros of exported machines and spare parts, only 3.2 million were of Estonian origin, half of it equipment for high-voltage electricity networks.

Estonian import from Belarus was in 2018 427.9 million euros. Estonian import of the goods of Belarus origin was 467.9 million euros. Volume of import from Belarus is closely related to the amount of mineral products imports (commodities group 27 especially oils from coal and crude) from Belarus. This group of commodities import from Belarus in 2018 was record high – 363 million euros. In 2019 group 27 import continued to be significant, but on a much lower level than during the previous year. Mostly these

products are of Belarus origin but their products from crude are distilled from the imported Russian oil. Significant part of the mineral imports just went through Estonia as transit trade.



**Chart 11: Estonian trade with commodities with Ukraine, thousands euros, data from Statistics Estonia**

In general, Estonian trade with Ukraine is rather large, as it is a big country, not so far from Estonia and transport connections are not as complicated as in the case of Southern Caucasus countries. During the last years, there has also been growing outsourcing of some Estonian industries to Ukraine, especially in textile industry, which influences both export and import. For some periods trade balance was positive for Estonia, for other periods negative. In 2018 the balance was negative for Estonia (87.2 mill euros versus 114.4 mill euros).

More than half of Estonian exports to Ukraine are products of Estonian origin - 54.5% in 2018. Estonia is a transit country for many goods, for example from Nordic countries. There are several flows of goods that are traditional, stable and with a significant share of Estonian goods. Fish export was in 2018 10.8 million euros and from that 10.3 million euros were goods of Estonian origin. Estonian traditional dairy products export was 1.0 million euros and nearly all of Estonian origin. Export of fish (mainly) and meat prepared food was 3.0 million euros. Estonian export of pitch coke was 4 million euros and it was of Estonian origin. From 4.0 million export of paints, 2.9 million were goods of Estonian origin. From 6 million euros export of different chemical products for construction works (mastics etc.), 5.2 million euros were of Estonian origin. From 1.1 million euros wood export, 0.8 million euros was of Estonian origin. Most of the 10.2 million euros worth of textile exports was of Estonian origin and there was a rather broad range of different products, including products designated for textile industry subcontractors. From 3.4 million euros of metals export, only 0.6 million euros were goods of Estonian origin. From 12.5 million euros of machine export just 5.5 million euros were of Estonian



origin. From 3.9 million euros export of vehicles and other transport equipment only 0.3 million euros were of Estonian origin. Traditional Estonian furniture export was in 2018 1:8 million euros from which 1.6 million euros were of Estonian origin. During the first eleven months of 2019, Estonian export to Ukraine was 125,9 million euros, clearly surpassing the 87.2 million euros of the full previous year.

Imports from Ukraine are also diverse and with many traditional trade flows. 6.3 million euros of vegetables and grain, but also 6.3 million euros of imported prepared food-stuffs and beverages reflect Ukrainian large agricultural and food exports potential in general. Among imported mineral products 13.8 million euros worth are mineral oils. 11.5 million euros was the volume of wood import from Ukraine. 4.7 million euros of textile import includes some products of sub-contracting. Traditional import of iron or steel and products from them from Ukraine was 27.5 million euros. The biggest part of 29.6 million euros machinery import was monitors and projectors for 24.2 million euros. Furniture import from Ukraine was 1.4 million euros. Estonian import from Ukraine was in 2018 114.4 million euros and import of the goods of Ukrainian origin 123.9 million euros, so the role of the transit partners was not significant. During the eleven months period of 2019 Estonian imports from Ukraine were on the similar level with 2018.

In conclusion, in the beginning of 2020 it is realistic to expect that Estonian trade with Ukraine and also with Belarus remains large as there are many established ties between the enterprises. We will see not so much progress with the four other Partner countries, where geographical distance and logistical issues limit trade flows. It is also clear that trade progress is influenced by the economic development of the EaP countries which depends on continuation of reforms and political stability.

**Data:**

<https://ec.europa.eu/trade/policy/countries-and-regions/>

[http://pub.stat.ee/px-web.2001/Dialog/varval.asp?ma=FT2&ti=EXPORTS+AND+IMPORTS+BY+COMMODITY+CHAPTER+%28CN+2%2DDIGIT+CODE%29+AND+COUNTRY+%28MONTHS%29&path=../I\\_Databas/Economy/11Foreign\\_trade/03Foreign\\_trade\\_since\\_2004/&lang=1](http://pub.stat.ee/px-web.2001/Dialog/varval.asp?ma=FT2&ti=EXPORTS+AND+IMPORTS+BY+COMMODITY+CHAPTER+%28CN+2%2DDIGIT+CODE%29+AND+COUNTRY+%28MONTHS%29&path=../I_Databas/Economy/11Foreign_trade/03Foreign_trade_since_2004/&lang=1)

[http://pub.stat.ee/px-web.2001/Dialog/varval.asp?ma=FT09&ti=EXPORTS+AND+IMPORTS+BY+COUNTRY+%28MONTHS%29&path=../I\\_Databas/Economy/11Foreign\\_trade/03Foreign\\_trade\\_since\\_2004/&lang=1](http://pub.stat.ee/px-web.2001/Dialog/varval.asp?ma=FT09&ti=EXPORTS+AND+IMPORTS+BY+COUNTRY+%28MONTHS%29&path=../I_Databas/Economy/11Foreign_trade/03Foreign_trade_since_2004/&lang=1)

*January 2020*