

DETERMINANTS OF THE EXTENSIVE TRADE MARGIN IN LITHUANIA, LATVIA AND ESTONIA

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ABSTRACT

The paper examines the spread of the extensive trade margin of the three Baltic countries: Lithuania, Latvia and Estonia after the collapse of the Soviet Union in the 1990s. We use the gravity modelling technique including 3 countries of origin, more than 150 countries of destination and a large number of products to empirically estimate which factors were the most important for the spread of the number of export markets in these countries. For our econometric analyzes we take the main gravity model variables, such as the GDP, the distance between the countries, the number of current export markets of a country of origin, previous exporting (both serve as proxies for the experience of the country of origin), the growth of import in the destination country, common spoken languages, the stock of migrants in the destination country, free trade agreements and belonging to the same economic and political unions. The main research question is to examine, how the importance of these factors evolved during the first decades of the independence of Lithuania, Latvia and Estonia and if the influence of any of these factors was different for each of the three countries. Results show that the three Baltic countries demonstrated very similar determinants of the increase in the number of their export partners.

Keywords: international trade, extensive export margin, trade development, gravity modelling, Baltic countries

INTRODUCTION

In the 1990s Lithuania, Latvia and Estonia became independent from the Soviet Union and started building their own trade relations with the outside world. Therefore, the paper examines the spread of the extensive trade margin of the three Baltic countries after the collapse of the Soviet Union. The novelty of the paper is its focus on the emerging markets rather than on the matured and developed economies (as for example in [12]) and the attempt to examine the factors that were the most important for the development of the extensive export margins of Lithuania, Latvia and Estonia from their very opening to the international trade market.

The main research questions are the following:

- which factors were the most important for the spread of the number of export markets in these countries?
- was the influence of any of these factors different for the three Baltic countries?
- how the importance of these factors evolved during the first decades of the independence of Lithuania, Latvia and Estonia?