Baltic Pathways from Liberal Trade Model to Neo-Mercantilism in the European Union

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The economic progress of the Baltic States after the restoration of independence has been closely related to the liberal ideology and values of their economies: openness to investments, simple tax system and low tax burden, liberal trade policy, and flexible labour market. Unlike the Baltic States, some of their main partners in the European Union (EU) have focused on promoting their economic growth by the neo-mercantilist way of expanding exports, supported by the economic structure of these countries exporting high technology and capital goods. As a result, when the Baltic States are expecting that in a broader context the other EU member states share the same vision of the liberal market economy, their motives have not been fully understood among their regional trade and cooperation partners. Current study will debate whether the practical implementation and needs of the European neo-mercantilism meet the economic and social needs of the Baltic States. Additionally, the study focuses on the question whether in practice the Baltic countries should be ready for the European neo-mercantilist project in upcoming years.

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Introduction

The economic progress of the Baltic States after the restoration of independence has been closely related to the liberal values of their economies: openness to investments, simple tax system and low tax burden, liberal trade policy, and flexible labour market. After joining the European Union in 2004, the Baltic States started to follow more moderate and social EU strategies when formulating the economic policy, but have retained its reputation as an open liberal economy with modern and business-friendly regulatory environment.

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Openness of Baltic States to the world market has also increased countries’ vulnerabilities to the external shocks, the impact of which was fully felt during the economic crisis in 2008–2011. This has also heated internal debates, whether the liberal trade model or the neo-mercantilist model will offer more welfare and security for upcoming years. Lessons from the financial crisis in 2008–2011 have highlighted that more openness will cause both deeper recession in the beginning of the crisis but also faster recovery. Key variable in minimizing losses will be the existence of emergency reserves (as was the case in Estonia) or decisiveness to use external debts (as in Lithuania).

The contrast between the liberal approach followed in the Baltic States and the neo-mercantilist views dominating particularly in Germany are at the heart of the present study. Current study will debate, whether the practical implementation and needs of the European neo-mercantilism meet the economic and social needs of the Baltic States. Additionally, the study focuses on the question whether in practice the Baltic countries should be ready for the European neo-mercantilist project in upcoming years.

**Theoretical Debates: Advantages and Critics of Liberal Trade and Neo-Mercantilism**

Which are the main arguments in favour of liberal trade model and neo-mercantilist model from the perspective of Estonia, Latvia and Lithuania?

A general discussion whether countries – and specially small open economies – should rely on the free trade principle to improve world welfare or use interventionist trade policy regimes to protect domestic producers, deal with market imperfections and improve the domestic welfare, is one of the fundamental questions of the international trade theory already for centuries. In the academic debates, the advantages and benefits of free trade are associated with the efficient reallocation of resources without price distortions, increased specialization and economies of scale, more intense competition at domestic level leading to the new incentives to increase efficiency, the diffusion of international knowledge through trade and innovation, and a shakeup of industry potentially cre-
Theoretical as well as empirical studies have confirmed the relationship between the country’s openness to trade and the higher growth rates and strong tendency towards economic convergence, with the countries with lower per capita income levels growing more rapidly than countries with higher per capita income level (Sachs and Warner 1995, 8–12). Greater exposure to global opportunity costs, arising from trade policy reforms, would force continuing efficiency in the domestic market as well as in external markets (Kaplinsky 1998, 4).

Particularly in a small open economy, country’s national welfare is theoretically highest with free trade as under perfect competition a small, price-taking country will gain by abolishing the tariffs, whereas any type of intervention by the government reduces the national welfare. Free trade is considered as the optimal policy for small economies with many trading partners, as the increase of imports has both an impact on the domestic price level and on the production volume in domestic sectors competing with imported goods, which contributes to the reallocation of available resources in the most productive sectors. The resources will not be used to produce goods that could be imported at a lower price. Trade liberation also increases the productivity by providing less expensive or higher quality imported intermediate goods and technology, as well as increases the variety of goods (Dornbusch 1992).

From the early 2000s the academic debates have become more diversified, arguing that methodological problems with the empirical strategies employed in the earlier research leave the results open to diverse interpretations, that open trade policies are significantly associated with higher economic growth (Rodriguez and Rodrik 1999). The direct effects of the country’s openness to trade as well as the causality (i.e. is economic growth induced by more trade or vice versa) remain subjects for dispute too. The role of the country’s openness to trade on the economic growth should not be underestimated and should be looked along with other determinants of growth.

Also, systematic criticism has been made on (global) liberal trade policy, e.g. Reinert (2004), Reinert and Reinert (2011), and Chang (2002), and on the effect of the Washington consensus and the IMF free trade policies in Latin America and Africa, where authors refer that liberal trade policy has reduced the wealth, or at least diminished the growth rates when compared to the protectionist ‘bad policy’ years, of several coun-
tries and increased poverty among some social groups. Mercantilism as a wider economic concept and protectionism as an actual practical tool are main alternatives to liberal trade model (in addition to autarky and mixed models). Although theoretical literature often feels apprehensive about the protectionism, in recent history waves of interventionist and protectionist measures have occurred across the countries, imposing barriers to imports from other countries, controls on capital movement, etc. The trends of protectionism stem from the concepts of mercantilism and economic nationalism, stipulating that the wealth of a country should be measured by its currency reserves, stock of precious metals and a political intervention in economic affairs is necessary to maximize that stock. Thus, the gains from international trade rise solely from exporting and country’s commercial policy should be based on extensive government regulation of international trade and creating conditions in the domestic economy that enable country to prevail over other countries in a contest for export supremacy (Irwin 1991; Rankin 2011). Early ‘balance of trade’ argument was strongly related to the view that ‘one man’s gain must be another man’s loss’ (Finkelstein 2000 in Reinert and Reinert 2011, 13).

The more recent concepts – neo-mercantilism and transnational mercantilism respectively from the early 20th century and the early 2000s – have widened the scope of mercantilism, stressing the importance of promoting economic growth by expanding exports, seeking for a balance of trade surplus and increasing the level of government foreign reserves, to achieve social or political objectives (Cesaratto 2010; Reinert and Reinert 2011). Neo-mercantilist countries encourage state promotion of sectors related to the production of goods which will be exported abroad to ensure that these companies will be competitive internationally and to decrease the foreign competition in the local market, promote large companies to compete with international industries, as well as manipulate monetary policy for the purpose to increase the competitiveness of local companies in international markets.

The views that in a global general equilibrium, if some countries increase net export, some other countries must increase their net imports, have been outlined (Stiglitz 2012), stressing that countries with persistent trade deficits might face difficulties to finance the deficit as well as high levels of net imports weaken aggregate demand which might lead to the fiscal deficits. The logic of ‘net importers versus net exporters’ has been outlined as applying to the EU trade policy (Papadimitriou and Wray 2011, 3).
At the same time, the effects of trade openness on budget balance are unclear. For example, according to Combes and Saadi-Sedik (2006, 3):

[...] while in theory, the net effect of trade openness on budget balance is ambiguous, empirically trade openness increases country’s exposure to external shocks regardless of whether it is related to the natural openness, which is based on structural determinants of trade openness, e.g. the size of the country and its geographical characteristics; or to trade-policy openness, which is determined by decision makers. Additionally, trade openness affects budget balance directly, and here the effects of natural openness and trade-policy induced openness go in opposite directions: contrary to natural openness, trade-policy induced openness improves budget balances. [...] Governments, including for developing countries, may often resist liberalizing their trade regimes, arguing that their budget situation is already difficult and reducing tariffs will lead to larger budget deficits. Even if trade openness increases a country’s exposure to external shocks and thereby adversely affects its budget balances, an outward looking policy strategy should lead to an overall strengthening of its budget balances.

To conclude, in the early mercantilist views balance of trade-argument was based on the zero-sum game approach. Thus, according to the mercantilist views the gains from international trade will result from exporting, in generalised terms the effects to the deficit countries as well as surplus countries should be analysed, especially in an economic bloc without the absence of a mechanism redistributing surpluses.

The systematic effects of modern mercantilism and related problems to both sides of partnership (net-exporters and net-importers and the need for a ‘surplus recycling mechanism’) have become visible during the on-going Eurozone crisis, especially related to the German-Greek trade partnership (Varoufakis 2011). The issues can hardly be solved without an institutional agreement on the European level.

**Ideological Preferences of Baltic States in 1991–2014**

After the restoration of the independence, all three Baltic States chose the liberal path with the aim to ensure macro-economic stability, attract foreign investments and become members of the EU and the NATO. Reforms were introduced in various areas from privatisation and liberalisation of prices and trade to institution building, monetary policy and
financial sector, public finances, and so on. The reforms have led to the significant inflows of foreign direct investments and resulted in high economic growth rates of 8–9% per year on average in real terms and more than doubled levels of national real wealth in 2000–2008 in Estonia, Latvia and Lithuania (Veebel and Loik 2012, 170).

The preference for market liberalism in political and economic landscape of the Baltic States was in many aspects caused by the the pendulum effect of the society to the domination of the state and the central planning during the Soviet era. However, it could also be interpreted as an expression of individualistic ‘culture’ dominating in Estonia. For example, unequal treatment of the members of society is legitimated by the popular maxim that ‘one deserves one’s own success.’ Thus, if you do not succeed, it is your own misfortune (for the individualistic views in the Estonian society, opposing the former collectivist approach from the Soviet period, see Veebel, Namm and Tillmann (2014, 9–10).

In Estonia in the first years of the restoration of independence, liberal ideology was considered as an integral part of the new Estonian economic model by the political elite, opposing the central planning during the Soviet era. This approach has been mainly inspired by the works of Milton Friedman and Friedrich Hayek as well as the foundations of the Thatcherism.

Until the beginning of the financial crisis in the second half of 2008, Estonia has been commonly described as the good example of (neo-)liberal state model reflecting the economic success story in the CEE (Thorhallsson and Kattel 2012). (Neo-)liberal ideology has also been followed by the Estonian Reform Party occupying the prime-minister’s seat in last decade since 2004. The ideology of the main opposition party and the ruling party in the Tallinn city council, The Centre Party, is officially also based on the liberal values and aims, but instead of neo-liberalism it puts forward the values of ‘new liberalism.’ Hence, in practice the ideology is following more populist and left-centrist values. Accordingly, among the parliament parties in Estonia only the Social Democratic Party is clearly opposing liberal model (while being at the same time in governmental coalition with liberal Reform Party).

From the economic perspective since the mid-1990s, all the Baltic countries were mainly focused on deeper integration with the EU and started to adjust to the European rules. The main motivation was to benefit from the free trade area and customs union, as well as country’s attractiveness to the international capital flows and finding guarantees
for investors trusting the local currency. However, the liberal ideology has been seriously challenged both during the negotiations on the free trade agreement between the EU and the Baltic countries in the mid-1990s and the accession negotiations in the end-1990s, particularly in the area of foreign trade regime, regulatory norms and agricultural policy (Toming 2011; Vilpišauskas 2004). In 1995, Estonia decided to sign a free trade agreement with the EU without any transition periods protecting Estonian market and local producers, to underline the desire for deeper integration, which definitely allowed to speed up the accession negotiations with the EU later (Veebel 2009). Hereby, Latvia and Lithuania initially requested for transition periods both to preserve the trilateral free trade area of the Baltic countries should all three Baltic countries not join simultaneously the EU and to have a transition period in phasing out the free trade agreements with Ukraine. Although the need for transition periods disappeared during the negotiations, the fact itself reflects the importance of liberal economic policies for Latvia and Lithuania. Despite the radical changes in the Baltic countries during the European integration process, all three countries have retained the reputation as open economies with business friendly regulatory environment.

How liberal have the Baltic States been before and after the EU accession and how as the accession of euro area impacted the economic freedoms in Estonia and Latvia?

According to the Heritage Foundation’s Trade Freedom Index during the period 1999–2005 Estonia was the country with the most liberal trade policy. In comparison to the other Baltic countries, the Economic Freedom Composite Index was highest in Estonia during the whole period 1995–2014, showing high values especially in the areas of investment freedom, trade freedom, and business freedom (figure 1).
In comparative Global Mercantilist Index carried out by the Information Technology and Innovation Foundation, all Baltic States ranked as ‘low,’ which represents a ‘least egregious’ trade policy. In fact, all of the ranked countries of the EU fall under this category. From Baltic perspective it is important to note that Russia as one of main trade partners is ranked among countries with a ‘moderate high’ mercantilist approach (Jakobsons 2014, 28).

However, assuming that neo-mercantilist countries encourage promotion of exporting sectors by the state to ensure that these companies will be competitive internationally, in practical terms, the shift from the liberal ideology prevailing in Estonia in the early years of the independence, to the neo-mercantilist views offering support to the Estonian firms exporting abroad, could be observed. More precisely, in total 22 million EUR have been used for export grants and loans delivered by Estonian Enterprise and Kredex, supporting 541 Estonian companies and their export capability development during the years 2004–2009.

As the next step, all three Baltic States have also decided to join the euro area. In Estonia, the main efforts started in 2005 and the initial target was to join the Eurozone in January 2007. Latvia has joined the Euro area in 2014 and Lithuania in 2015.

According to the views of Bank of Estonia (Bank of Estonia 2013), in 2005 the main motivation behind Estonia’s decision to join the euro area was related to the benefits of the monetary union through increased trade and financial integration, as well as higher economic growth and real convergence. The goal has been to ensure the trust in the currency and be open to the international capital flows’ (Parts 2013, 273).

However, the euro area accession of the Baltic countries could also be to some extent interpreted as a step away from the liberal path and towards neo-mercantilist model, as the countries have joined the currency union where neo-mercantilist views were already dominant and thus, they were forced to follow common rules based on neo-mercantilist values. Of course, here it is the question if export-orientedness as a value counts more than the inner logic of the trade regime, which could be seen as locking the countries tightly into deficit or surplus positions (Papadimitriou and Wray 2011).

The global economic recession hit the EU’s new members hard. The economies of the three Baltic countries, all of which previously enjoyed substantial growth, revealed their structural imbalances and exposure to fluctuations in external financial and commodity markets. As a result, the...
economic recession eventually contributed to rising awareness and determination in those countries (to varying degrees) to stabilize, strengthen, and modernize national economies, to attract investments, and search for favourable outside markets and partners (Spruds 2014, 3–4).

Liberal trade and economic openness has also had its price to the foreign trade balance. The Baltic economies had severe problems of competitiveness in the early twenty-first century. In 2000–2008 the external trade deficit (for goods and services) in the Baltic States was between 10 and 20 percent of the GDP annually, the situation escalated after joining the European Union (in 2004) as trade deficits immediately exceeded 15 percent of the GDP and reached 20 percent in 2006. Most of the escalation could be attributed to the factors that boosted domestic demand – lending and consumption boom triggered by consumer optimism, loose government spending, and loss of external competitiveness due to unfavourable real exchange rate dynamics (higher domestic inflation). Moreover, the negative trade balance has also meant something what mercantilists of the past would have probably not appreciated – the external debt was rapidly accumulating in these countries (Jakobsons 2014, 31).

In Estonia, mainly based on the rapid increase in domestic demand during the boom years in 2006 and 2007, the trade balance has been in the European Union’s favour in the trade relations between Estonia and the EU too. Firstly, the higher growth rates of Estonian exports and imports should be stressed, especially starting from 2005. In last ten years, Estonian external trade with other EU member states has annually increased on average by 9.5% and with third countries outside the EU by 9.7%, in comparison to the EU-28 external trade annual growth rates, which were, respectively, 3.5% and 6.3%. Even despite the temporary setback in 2009 induced by the economic crisis, particularly, Estonian exports to third countries outside the EU increased remarkably (annual average growth rate 16.4%). Thus, a preliminary conclusion could be drawn that Baltic States have, in general, managed to survive the financial crisis relatively well, by showing deeper decline rates but also faster recovery.

However, in year 2014 the economic growth in Baltic States was fastest in the only non-euro member (Lithuania), which also indicates, that while common currency is contributing in terms of stability and security, it might have slowing effect to economic growth.

Lithuanian exports have expanded robustly since the economic crisis and the growth has been faster compared with both the EU average, and
the other Baltic States. Lithuania’s export growth is especially impressive given the significant challenges stemming from the crisis of 2008–2010, competitive devaluations by important trade partners (Poland, Russia, and Belarus to some extent), political problems with Russia (the most important export partner of Lithuania), and sluggish growth in the Eurozone. However, the perspective of the attraction of investments is not very rosy. Traditionally, Estonia has been more successful in attracting FDI than Latvia and Lithuania, and has a substantially higher stock of accumulated FDI. Nevertheless, the difference in FDI inflow has decreased in recent years (Kuokšytė and Kuokštis 2014, 127).

According to the external trade statistics, the most export-oriented country among the Baltic States appears to be Estonia with 12 200 EUR of exports per inhabitant in 2013, followed by Lithuania with 10 200 EUR per inhabitant, and only then by Latvia – with only 6 900 EUR of exports per inhabitant (Austers 2014).

When analysing the Baltic experience from a theoretical perspective, it must be noted that trade openness does not necessarily generate high deficit. Continuing deficit is either the consequence of mistaken specialization or lack of competitiveness, or both. Therefore, structural reasons have to be included in the analysis of long-term trade deficit. Dependence and structural features which have developed during decades of belonging to the Soviet Union, and the division of labour established in the ‘Soviet economic space’ are still reflected in the foreign trade structure of all Baltic countries (to a greater extent than in other EU member states from the CEE countries).

The asymmetry in the form of continuing trade deficit from the Baltic States’ perspective could partially be explained by the neo-mercantilist characteristics of Germany economy, focusing on trade surplus, wage moderation, etc. However, based on the composition of the bilateral trade relations between Baltic States and Germany, one could argue that the dynamics of the external trade is in accordance with the liberal trade theory, stipulating that large countries are supposed to be net exporters in scale-intensive industries

**The Options for Baltic States in the Neo-Mercantilist ‘German Game’?**

The Baltic States, being newcomers to the modern inter-national economic system and choosing for open market approach, have learnt the trade quickly. However, economy size, availability of human resources,
the number of available instruments, and promotional capacities are essential elements, occasionally preventing a more successful implementation of Baltic economic interests by using liberal trade model while many of their European partners prefer neo-mercantilist approach (Bukovskis 2014, 135).

In analysing the economic performance of the Baltic countries in the EU, firstly the higher growth rates of the exports and imports of the Baltic countries should be stressed, particularly starting from 2005. However, in the trade relations between the Baltic countries and the EU as a whole, the trade relations between the Baltic countries and the EU are asymmetrical, reflected in the constant trade deficits from the point of view of the Baltic countries. In other words, total imports have exceeded total exports, leading to continued discussions about the beginnings of this problem, as well as possible steps to be taken (Jakobsons 2014, 34).

In the intra-EU trade, the largest trade deficit in all three countries occurs in trade with Germany, showing some signs of reduction of the deficit during the years of economic recession, but rapidly increasing again from 2010. The Baltic countries are mainly exporting machinery and equipment, wood and wood products, and other manufactured goods to Germany, and importing machinery and equipment, metals and metal products, and transportation vehicles. In addition, trade relations with Germany, one of the most influential countries in the EU, are extremely important for the Baltic countries, whereas they only rank as second-order trading partners from German perspective.

Although the recent global financial crisis has led to some adjustments in the trade balances of the member states of the EU, the trade between the member states of the EU is still affected by large and persistent imbalances. For more than a decade, a group of the EU countries consistently runs high surpluses both in the intra-EU trade and in global arena, as based on the data on trading of goods Germany, the Netherlands, Belgium, Denmark and Ireland are the only member states of the EU both with the permanent intra-EU trade surplus and the total balance of trade surplus during the period 2002–2013. Although the trade volumes have decreased during the recent financial crisis, the trade balance of these countries has remained positive during the whole period, whereas in other EU member states, including also countries which had long-standing surpluses already from mid-nineties, such as Sweden and Finland, the trade deficits particularly vis-à-vis intra-EU trade partners occurred during the recent financial crisis.
The persistent trade surplus of these five countries has been associated with the high degree of competitiveness, which is also reflected in their rankings in the Global Competitiveness Index. In 2013–2014, Germany ranked 4th place, the Netherlands 8th place, Denmark 15th place, Belgium 17th place and Ireland 28th place. However, the roots of the trade surpluses do not derive only from the high degree of competitiveness. The trade surplus in the Netherlands and in Belgium both within the European Union and in the total world trade has also been associated with the ‘Rotterdam effect’ (refers to the phenomenon that goods from non-euro area countries are recorded at the port of arrival). The surplus in Ireland has been interpreted as a result of the large share of multinational companies in the country’s economy due to the Ireland’s attractive corporate tax system, so that the country serves as an export platform for multinational enterprises (Office for National Statistics 2015, 1). The same applies to Denmark, accompanied with the advantages stemming from the country’s location on the Baltic Sea and being the only Scandinavian country which is connected to the mainland Europe. In Germany, the trade surplus has been associated with the neo-mercantilist views dominating in this country.

In the current situation of the euro area, Germany represents a good example of mercantilist economy in the context of state building and industrialising, as the country has focused, among others, on trade surplus, production and productivity, wage moderation, compression of domestic consumption, etc (Cesaratto 2010). The same model can also be seen in broader context, when analysing the Germany’s hegemonic position in the EU, the relative weight of export-led accumulation in the ‘Model Deutschland,’ country’s ‘ecological dominance’ in the euro zone, as well as institutional flaws in design of euro (Jessop 2012). It has even been argued that the German neo-mercantilism has caused current economic recession in Europe, and that the causes of the recent economic and political situation in the European Union are related to the linkage between capital accumulation and export surpluses, ‘a situation in which, as is the case in Germany, most of the net external balance, are realized within Europe itself.’ According to critics, ‘in Germany it destroyed the dynamics of the domestic markets and provoked vulnerabilities of trading partners that will backfire on Germany.’

Thus, the situation also involves risks for the countries with trade surplus (Flassbeck 2012). In last ten years, Germany, but also the Netherlands and Austria have been implementing a neo-mercantilist trade policy, ex-
panding their exports within the EU and the euro zone and increasing the competitiveness compared to their partners (like Greece, Spain, Portugal, Romania, Bulgaria, Hungary, etc.), where trade deficit with respect to Germany and other stronger European economies has increased gradually (Toussaint 2013).

Thus, in practical terms neo-mercantilist views are prevailing in some EU member countries, supported by the economic structure of these countries exporting high technology and capital goods. In practical terms, during the period 2000–2010, Germany was the only economy among the EU-15 member states, who managed to increase their share in the world export as well as in the European Union’s total export. Hereby, at the EU level, practical trade policy work seems to be inspired to a greater extent by neo-mercantilism as well, as some elements of mercantilism like promotion of exports and the pro-active role played by the EU-Commission actively intervening abroad in the interest of European based companies as well as dismantling trade barriers of third countries.

As stated, the absence of an intra-European mechanism for redistributing surpluses requires the deficit countries to undertake the adjustment by going into recession. The surplus countries will therefore suffer negative repercussions on their exports and on the related level of employment. They may still maintain their net position with a trade surplus, but at a reduced overall level of activity, with, thus, higher levels of unemployment, as Germany has today.

However, at least in Estonia political priorities (mainly security related) have prevailed over economic logic and needs without deeper debate. As stated by the current Estonian President, T. H. Ilves, ‘it would be difficult to imagine the recovery of the European Union and the euro zone without Germany taking the lead’ (Ilves 2013).

Conclusions

Estonia, Latvia and Lithuania have been commonly described as good examples of liberal state model. However, some of the main trading partners (such as Germany, the Netherlands, Austria, as well as Scandinavian countries) of the Baltic States have been described as neo-mercantilist countries promoting their economic growth by expanding exports, seeking for a balance of trade surplus and increasing the level of government foreign reserves. This approached is also supported by their economic structure exporting mainly high technology and capital goods. This has created situation, which is both economically unfair and not sustainable.
for Baltic States, but is neo-mercantilist protectionism a better option for Baltic States?

Among Baltic political elite protectionist measures are in general considered ineffective in small open economies, given their small size relative to some of their main trading partners. Thus, free trade is considered optimal for an economy, whereas trade policy is an inefficient tool for redistribution of income. But in practical terms it must be admitted, that the country’s manipulative ability depends on the relative size of trading partners, it leaves less bargaining power to the small countries. Also, as small countries are in general highly dependent on imports and exports, and their exports are geographically specialized, small countries are more vulnerable to exogenous economic shocks to the export; thus, due to the country’s smallness its? strategic policy tools – like neo-mercantilism, protectionism and subsidies – are per se limited. At the same time, this conclusion should rather be interpreted in the context of a small country with a growth potential depending on its export capacity, than a fundamental shift from the liberal model to protectionism. In a longer horizon, particular attention should be paid on avoiding drastic changes in aggregated demand (including the changes in the dynamics of export and import).

Because of deeper European integration, Baltic States’ openness to trade has also resulted in high trade deficits and current account deficits until 2009, as well as asymmetry, particularly, with regard to the trade relations with Germany. At the same time, there has been no diplomatic reaction to the asymmetry in trade – instead of it, Estonia for example, has continuously stressed Germany’s role as an engine of the recovery of the EU after the crisis. The author also stipulates that the future challenges of the Baltic States in the EU should deserve also institutional attention and could not be solved successfully at the member state level.

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