

# **The effect economic development of Latvia of trade partners economic stability on economic development of Latvia**

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## **Abstract**

**A very old trade partner for Baltic States is Germany. Therefore all trade partners are compared with Germany. Putting the trade of Germany on X-axis, on Y-axis the trade of other countries it is possible to estimate the dynamics of trade with the countries with which Latvia has close trade relations. The bank crisis of Russia has affected export + import of Baltic States.**

**It has been shown that crisis of Russia has been reflected also on the trade of Latvia with SNG countries, but also with Western Europe countries. Estonia has been less affected by Russian crisis than Latvia. That teaches to choose stable trade partners. The most expected trade partners besides Germany are the Baltic States**

**Key words : trade, Baltic States, Russian bank crisis**

## **Introduction**

A very old trade partner for Baltic States is Germany. Therefore all trade partners are compared with Germany. Putting X- axes the trade with Germany, on Y- axis the trade with other countries, makes the comparison.

The crisis in Russia at 1998 has decreased the export of Baltic States. However the decrease is higher in the states with higher orientation to Russia. The GNP in Latvia during the 1999 has decreased. The reason was the instability of the Russian economics. It has been observed in previous investigations that show that the higher export to Russia had Lithuania, the lowest - Estonia. This resulted in better economics of Estonia, in comparison with Latvia and Lithuania as a result of crisis in Russia. Lithuania has orientated its trade to Germany. The currency of Germany has a tendency to fall. That does not stimulate the welfare of Lithuania. Estonia has been less orientated to Germany. Estonia has been orientated to Finland, Sweden and Norway, which are states of a stable economic development. In previous investigations (Skards, Spica 2000) it by pair correlation analysis it has been shown that:

- 1) The orientation of the trade of Latvia, Estonia, and Lithuania to Russia, Ukraine, Germany, Austria, Finland, Sweden and Norway has been a different one. The orientation to Russia, Ukraine and other former Eastern block Countries in comparison with the orientation to Germany did not differ significantly.
- 2) The orientation of the trade of Estonia was very expressed to Sweden Finland and Norway.

It is likely that the lowest point in Latvian economics has been attained in 1999 (Albert Knoenbl 2000) After several years the adverse effect on economy of Latvia has been overwhelmed It is believed that closer trade relations with European countries after the switching of Latvia to EU will not be mentionable.

**The aim of the present investigation** was to show the further development of trade with Latvia with Russia, Belarus and several EU member states are improving in a different

stage, the higher trade relations in comparison with the resident numbers is to Estonia. In absolute values the tightest trade relations are with Lithuania

### Materials and Method

Data have been obtained from Latvian Statistics. On the X- axes have been put down the export values corresponding to Germany, in one figure in dependence of year. On the Y - axes the values of various countries. Such pair correlation analysis permits to investigate the trade development of the countries (D. Greenaway , C. Milner 1993). The indices are the years. The program Quattro Pro did statistics. The slopes were treated as linear regressions. The ratio of the trade values on Y and X -axes are expressed as X - coefficient. If the coefficient is 1 - that means that the trade with the country with the data on X axes is lower than the corresponding value on X axes. If the slope equally fits to all three Baltic States that mean that the policy of states is equal. That means that higher trade with Germany relates to higher trade with other countries – that is, it shows the trade activity of appropriate Baltic States. In several cases the slope has a negative coefficient. That means of a diverse export politics between the various States.

## Trade with Russia and Germany, thsd \$ Statistical Yearbook of Latvia

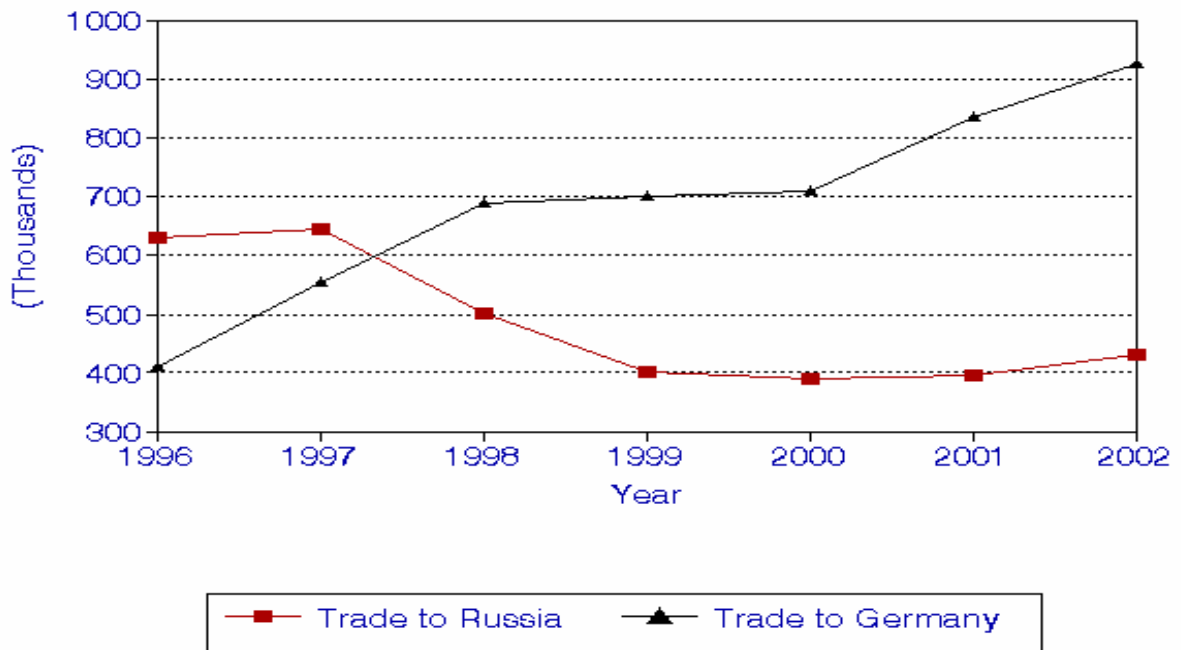


Fig.1.

X=years Y=Trade with Germany/ trade with Russia

Regression Output:

Constant	-531.7	
Std Err of Y Est.		0.15
R Squared	0.942	

No. Of Observations 7  
 Degrees of Freedom 5

X Coefficient(s) 0.267  
 Std Err of Coif. 0.029

The trend reveals that the trade with Germany is more intensive than the trade with Russia  
 Especially low the trade with Russia is after the Russian Bank crisis at 1998  
 During the period of 1998-2000 between Latvia and Germany has also not decreased.

X years, Y =Latvia imports + exports to Russia

Regression Output:

Constant 60586270.  
 Std Err of Y Est. 148794.  
 R Squared 0.187  
 No. Of Observations 7  
 Degrees of Freedom 5

X Coefficient(s) -30158  
 Std Err of Coif. 28119

X coefficient is with a negative sign. That means that trade with Russia has a trend to decrease.

## Trade with Belarus, thsd \$ Statistical Yearbook of Latvia

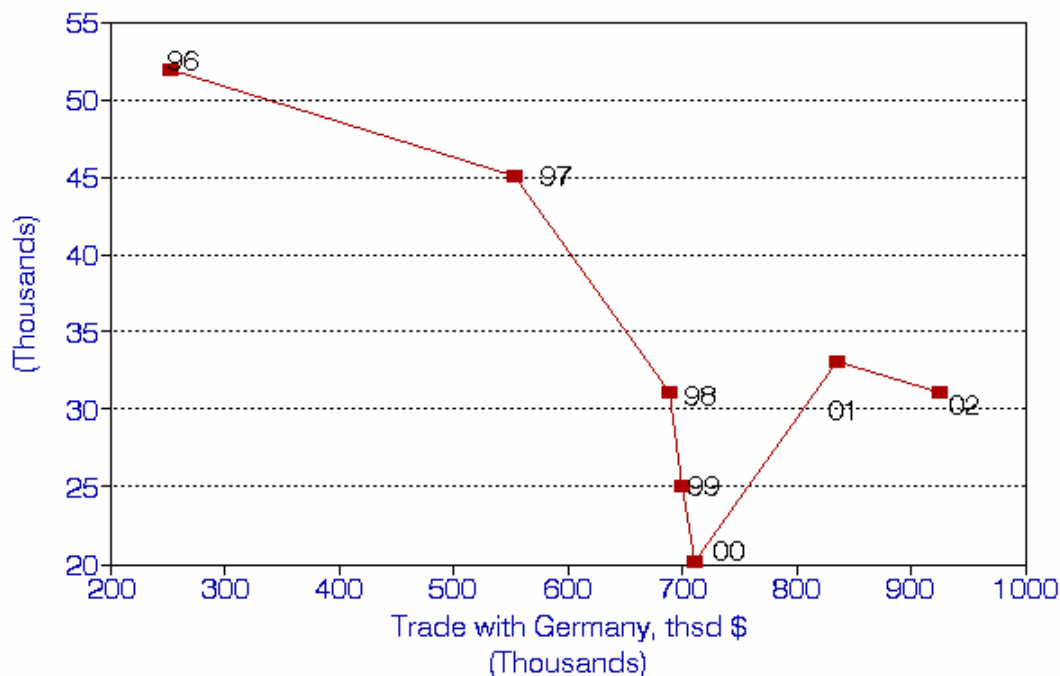


Fig. 2

X= trade with Germany Y = trade with Belarus  
 Regression Output:

Constant	58694	
Std Err of Y Est		8294
R Squared	0.532	
No. of Observations		7
Degrees of Freedom		5

X Coefficient(s)	-0.0372
Std Err of Coef.	0.0155

X coefficient is with a negative sign. That means that trade with Belarus has a trend to decrease. A drastic decrease can be observed at 1998 that is after the Bank crisis of Russia. Though Belarus is tight bound to Russia and its economics is strong influenced by Russia. Belarus has not revealed as safe trade partner to Latvia.

## Trade with Finland, thsd \$

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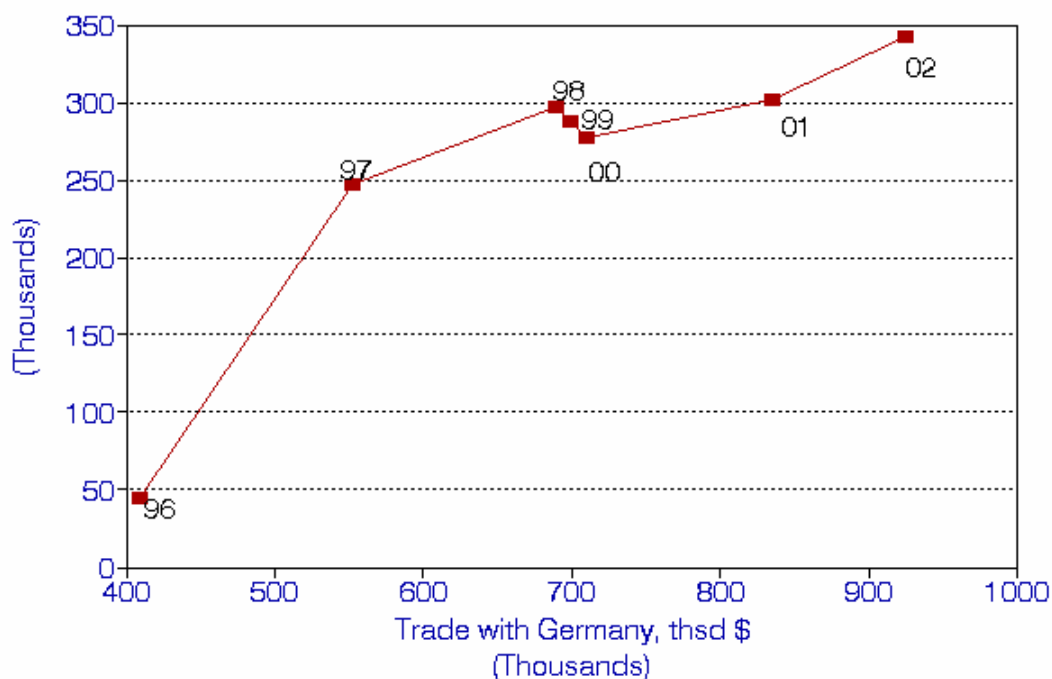


Fig.3. X= trade with Germany Y = trade with Finland

Regression Output:

Constant	-90417	
Std Err of Y Est		50731
R Squared	0.775	
No. of Observations		7
Degrees of Freedom		5
X Coefficient(s)	0.505	
Std Err of Coef.	0.121	

Finland shows an increment of trade with the time. That shows the positive X coefficient. However during the period of Russian bank crisis a set back period of trade to Finland has been observed.

## Trade with Estonia, thsd \$

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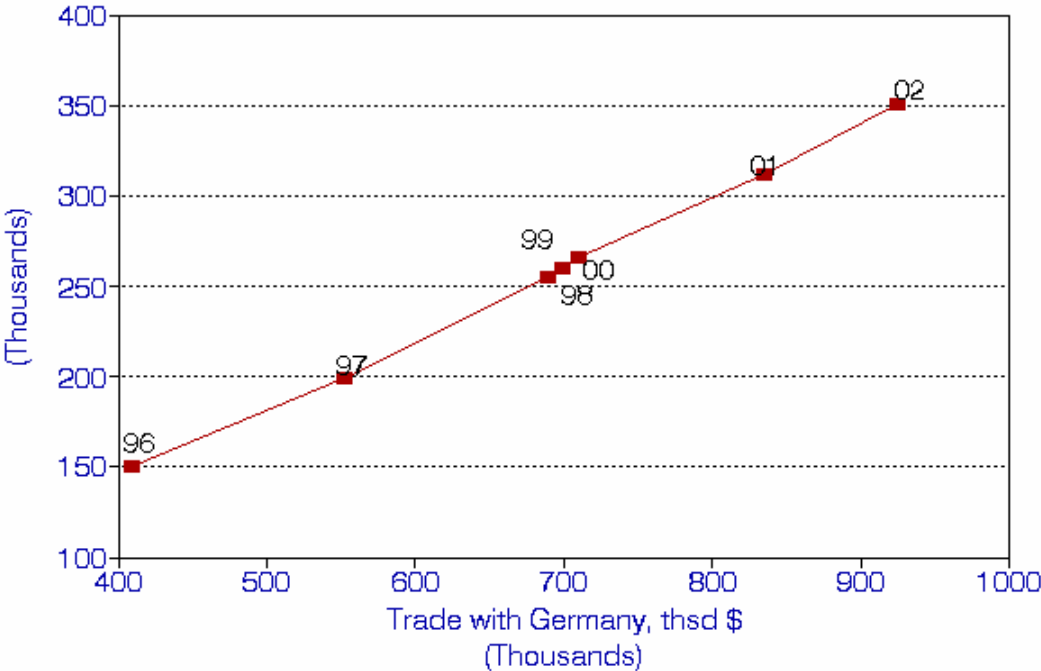


Fig.4.  
 x= trade with Germany Y = trade with Estonia

Regression Output:

Constant	-13110.	
Std Err of Y Est		2648.
R Squared	0.999	
No. of Observations		7
Degrees of Freedom		5
X Coefficient(s)	0.3907	
Std Err of Coef.	0.0063	

The trade with Estonia is increasing through the whole observation time  
 An increase has been observed also through the time after Russian bank crisis.  
 The evenness of increment is illustrated also by high correlation coefficient and high ration of X coefficient to the standard error of it.

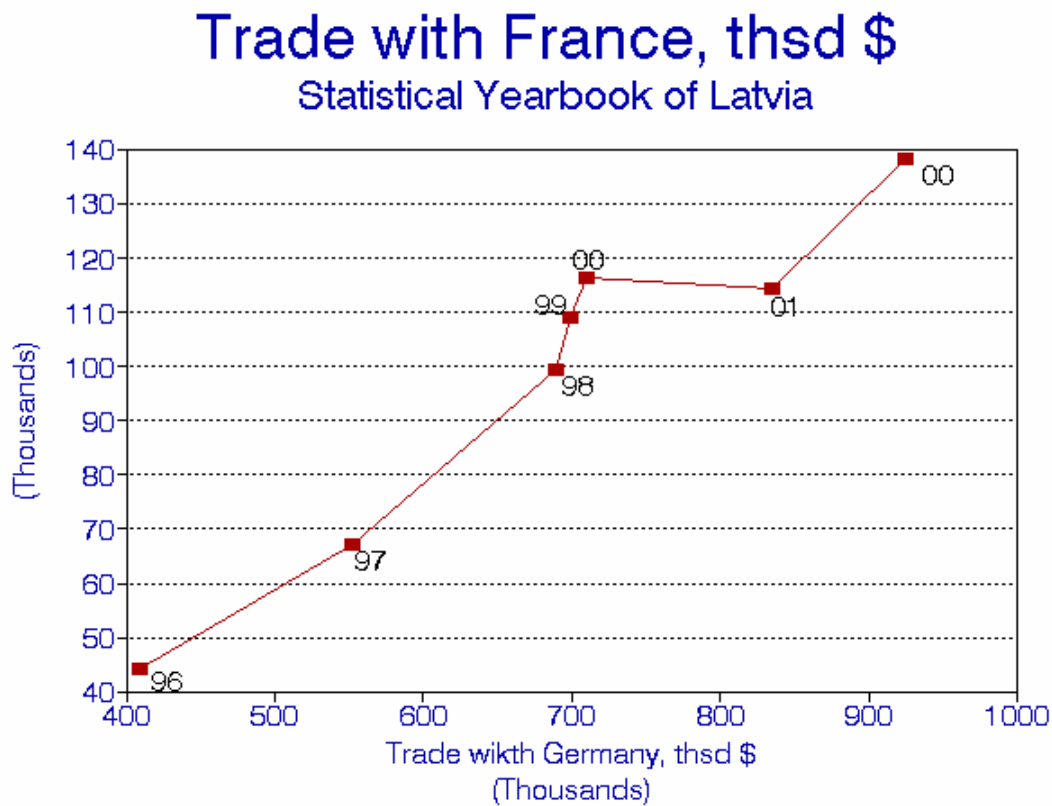


Fig.5.  
 x= trade with Germany Y = trade with France

Regression Output:

Constant	-26666.	
Std Err of Y Est		9592.
R Squared	0.926	
No. of Observations		7
Degrees of Freedom		5
X Coefficient(s)	0.181	
Std Err of Coef.	0.022	

The trade with France is increasing during the observation time. The increment has been observed also during the Russian bank crisis. However the increment is less pronounced at the year 2001. The correlation coefficient is less than in the case of Estonia.

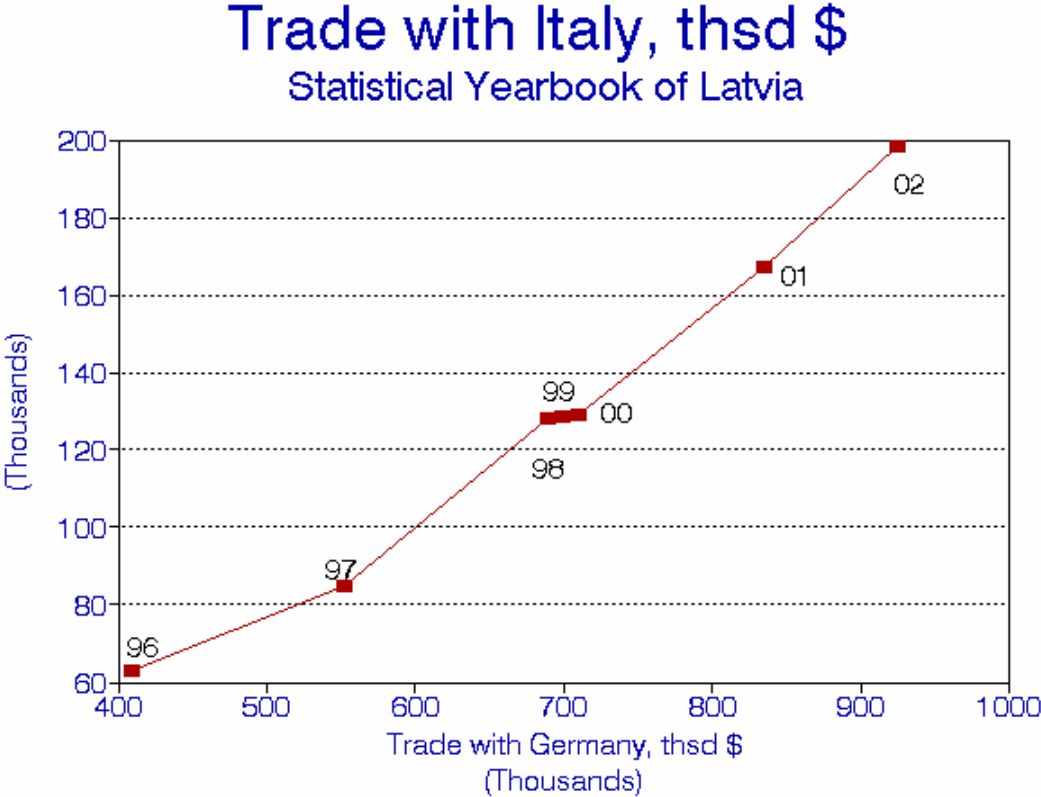


Fig.6.  
X= trade with Germany Y = trade with Italy

Regression Output:

Constant	-54978.	
Std Err of Y Est		6386.
R Squared	0.984	
No. of Observations		7
Degrees of Freedom		5
X Coefficient(s)	0.266	
Std Err of Coef.	0.015	

The trade of Italy goes parallels with the trade of Germany. However the increment is less even as in the case of Estonia.

## Trade with Lithuania, thsd \$

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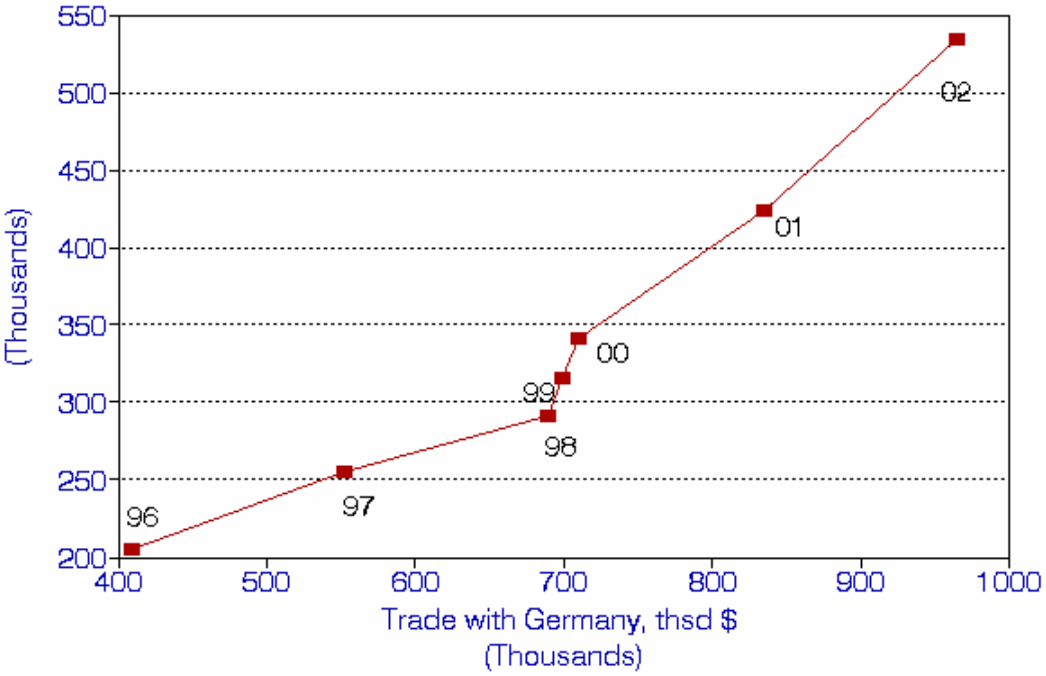


Fig.7.  
 X = trade with Germany Y = trade with Lithuania

Regression Output:

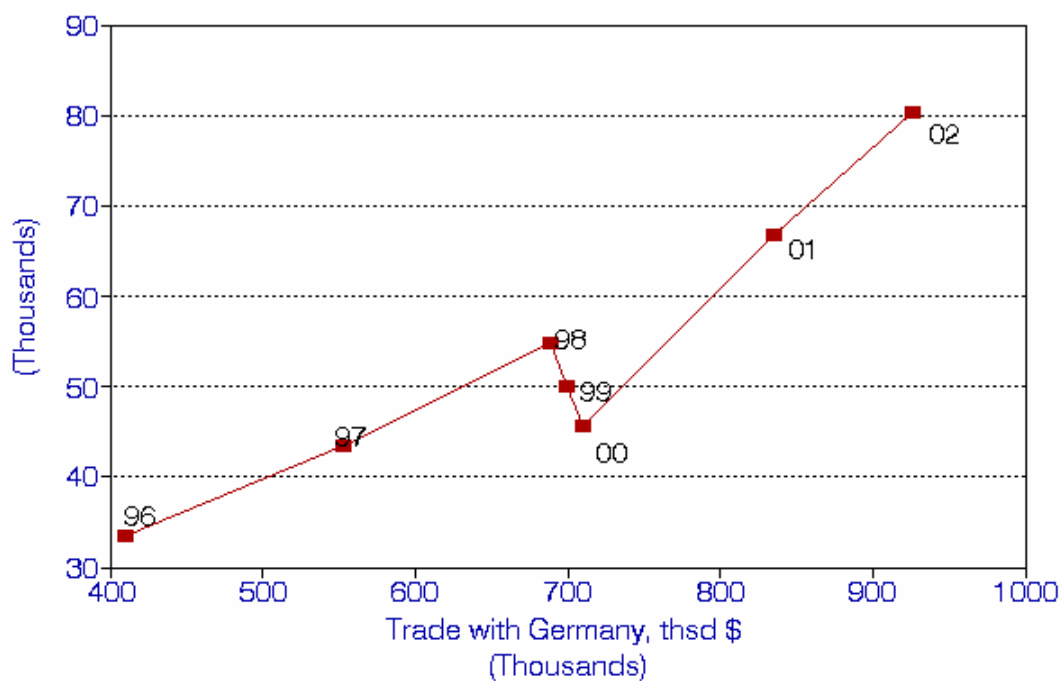
Constant	-71962	
Std Err of Y Est		32539
R Squared	0.927	
No. of Observations		7
Degrees of Freedom		5
X Coefficient(s)	0.591	
Std Err of Coef.	0.073	

The trade of Lithuania goes parallels with the trade of Germany. The X coefficient is the steepest one of all reviewed countries. Especially steep the increase is during the Russian bank crisis and after the crises. Thus Baltic States are the most reliable trade partner's for Latvia.



## Trade with Norway, thsd \$

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Fikg.8.  
 X = trade with Germany Y = trade with Lithuania

#### Regression Output:

Constant	-6025.	
Std Err of Y Est		5914
R Squared	0.882	
No. of Observations		7
Degrees of Freedom		5
X Coefficient(s)	0.086	
Std Err of Coef.	0.014	

Trade with Norway is low in comparison with Baltic countries. That is evident from the low X coefficient. The increment is not very stable one. During the period of Russian bank

crisis the increment is lower than that of Germany. After the year of 2000 the increment is again increasing.

## Trade with Poland, thsd \$

### Statistical Yearbook of Latvia

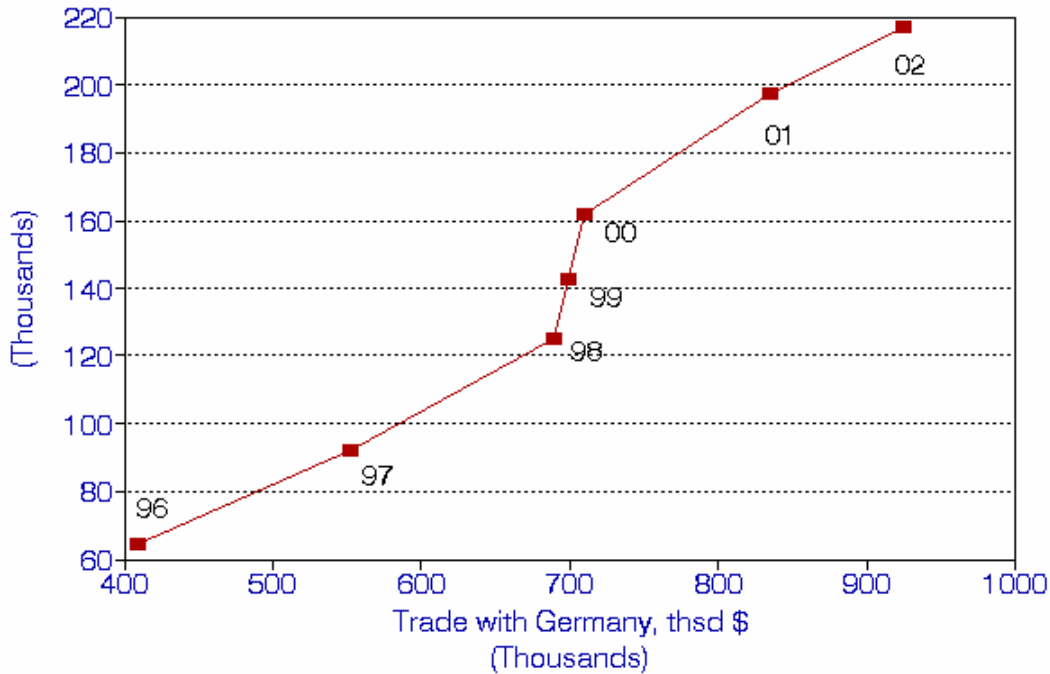


Fig.9. X = trade with Germany Y = trade with Lithuania

Regression Output:

Constant	-73543	
Std Err of Y Est		11945
R Squared	0.960	
No. of Observations		7
Degrees of Freedom		5
X Coefficient(s)	0.315	11
Std Err of Coef.	0.028	

Trade with Poland is low in comparison with Baltic countries. That is evident from the low X coefficient. The increment is not lowered by the Russian crisis time. During the period of Russian bank crisis the increment is even higher than that of Germany. After the year of 2000 the increment is again at the same rate than the increment before Russian Bank crisis.

### Conclusion

Trade relations of Latvia with Germany are the highest ones and have a trend to increase

Trade relations of Latvia with Russia at the beginning of the period of independence have been very high however they have a trend to decrease. Especially high the decrement was at the period of Russian bank crisis. The trade relations have a strong trend to decrease.

Also Belarus is in the category of decreasing trade with Latvia.

X coefficient is with a negative sign. That means that trade with Belarus has a trend to decrease. A drastic decrease can be observed at 1998 that is after the Bank crisis of Russia. Though Belarus is tight bound to Russia and its economics is strong influenced by Russia. Belarus has not revealed as safe trade partner to Latvia.

The trade with Estonia is increasing through the whole observation time. An increase has been observed also through the time after Russian bank crisis. The evenness of increment is illustrated also by high correlation coefficient and high ratio of X coefficient to the standard error of it.

The trade of Italy goes parallels with the trade of Germany. However the increment is less even as in the case of Estonia.

The trade of Lithuania goes parallels with the trade of Germany. The X coefficient is the steepest one of all reviewed countries. Especially steep the increase is during the Russian bank crisis and after the crises. Thus Baltic States are the most reliable trade partner's for Latvia.

Trade with Norway is low in comparison with Baltic countries. That is evident from the low X coefficient. The increment is not very stable one. During the period of Russian bank crisis the increment is lower than that of Germany. After the year of 2000 the increment is again increasing.

Trade with Poland is low in comparison with Baltic countries. That is evident from the low X coefficient. The increment is not lowered by the Russian crisis time. During the period of Russian bank crisis the increment is even higher than that of Germany. After the year of 2000 the increment is again at the same rate than the increment before Russian Bank crisis. It is likely that special attention should be made to maintain good trade relations with Baltic States. Thus pair correlation method can be applied for forecasting trade relations between States.

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