

Gediminas Miškinis

Economic and Commercial Relations Between Lithuania and Russia

1. The development of economic and commercial relationship between Lithuania and Russia

The Republic of Lithuania pays great attention to the development of economic and commercial relationships with all potential economic partners. At present Lithuania maintains commercial and economic relations with 161 countries of the world. Special emphasis is given to the development of close and mutually beneficial economic ties with our neighboring countries.

Though Lithuanian political and economic priorities are to urge the integration of the country's economy into the world economy and, first of all, into that of the European Union, nevertheless, Lithuania retains continued interest in comprehensive economic and commercial cooperation with its great Eastern neighbor – the Russian Federation. Trade relations between Lithuania and Russia have always been developed on the basis of long-lived traditions and the experience of bilateral cooperation practically in all spheres of the economy.

Until quite recently, the foreign trade partners of Lithuania were mostly the neighboring countries from the East. In the period of 1991-1993, trade with these countries constituted as much as two thirds of the total Lithuanian foreign trade. Later the correlation of trade relations between the East and the West gradually became more balanced. Already in 1996, the annual trade turnover with the countries of West and Central Europe comprised the bulk of the Lithuanian foreign trade and in 1998 reached 65 percent of the total.

After the restoration of the Lithuanian independence, the initial guidelines for the economic cooperation between the Republic of Lithuania and the Russian Federation were established in the Lithuanian–Russian Treaty on the Foundations of Inter-State Relations signed by the Heads of the States of the Republic of Lithuania and the Russian Federation in Moscow on July 29, 1991. On the basis of the provisions of this first Treaty of its kind, economic cooperation between Lithuania and Russia was developed further.

For the purpose of creating the basis for commercial and economic cooperation by means of new, equal and mutually beneficial principles, the Agreement of the Government of the Republic of Lithuania and the Government of the Russian Federation on Trade and Economic Relations was signed on November 18, 1993. By this Agreement, both countries accorded to each other the most-favored-nation status in their trading. This reciprocal status in trade between Lithuania and Russia is still in force.

The analysis of the current situation in bilateral trade between Lithuania and Russia has revealed that, notwithstanding recent fundamental changes in the economies of both Lithuania and Russia, which in their turn had a significant influence on the structure and trends of the Lithuanian foreign trade balance, Russia, nevertheless, until recent years traditionally headed the list of Lithuanian foreign trade partners.

According to the data presented by the Department of Statistics of the Republic of Lithuania, the total foreign trade turnover in January-September 2000 was 27 154 million litas (6 789 million USD), where the export of commodities accounted for 11 392 million litas (2 848 million USD) and import – 15 763 million litas (3 941 million USD).

The share of Russia in the total turnover made up 19 percent (5 155.3 million litas or 1 289 million USD), exports – 6.5 percent (743 million litas or 186 million USD), imports – 28 percent (4 413 million litas or 1 103 million USD).

During the last years (1997-2000), Lithuanian exports to Russia, which used to have the tendency towards increasing annually, fell from 24.5 to 6.5 percent, though the imports rose from 25 to 28 percent. Russia takes the top position among the Lithuanian foreign trade partners according to the volume of import.

Until the start of the 1998 financial and economic crisis in Asia, and especially in Russia, bilateral trade between Lithuania and Russia was developing rather dynamically, though some tendencies to a decrease in commodity turnover had also been observed. That was conditioned by the processes both in Lithuania and Russia of economic restructuring and the reorientation of foreign trade towards the conditions of a market economy.

The share of Russia in Lithuanian exports and imports
(percent)

1997		1998		1999		2000 January-September	
Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
24.5	25.3	16.5	21.2	7.0	20.1	6.5	28.0

Changes in the volume of exports and imports with Russia
(percent)

1999 as compared to 1998		January-September, 2000 as compared to January-September, 1999	
Exports	Imports	Exports	Imports
-65.6	-20.9	23.8	52.3

In 1997 the trade turnover between Lithuania and Russia amounted to almost 25 percent of the total Lithuanian foreign trade turnover. In 1997 the share of Russia in Lithuanian export made up 24.5 percent, where the share of import exceeded export and amounted to 25.3 percent.

In the second half of 1998, however, with the start of the crisis in Russia, exports to Russia fell up to 16.5 percent and import – to 21.2 percent and the bilateral trade turnover both of Lithuania and Russia decreased to 19 percent. Especially notable plunge in the foreign trade occurred in 1999, where the total commodity turnover with Russia decreased even by 35.6 percent and constituted 15 percent of the total foreign trade turnover, and the volume of exports fell even by 65.5 percent, i.e. decreased by 2.9 times, the import went down by 20.9 percent.

The main reason for that was the devaluation of the rouble in Russia. At the end of 1999, the exchange rate of the latter fell from 6 to 27 roubles for 1 USD, i.e. by 4.5 times. For Lithuanian exporters that meant the loss of their traditional markets, because with the Currency Board system operating in the country, the exchange rate of the litas remained stable.

The decrease by almost three times in the exports of Lithuanian products to Russia (where in 1998 the export to Russia constituted 16.5 percent of the total export volume, in 1999 it was 7 percent) negatively affected the total volume of Lithuanian exports, which was a strong factor in the slow-down in the growth rate of the gross domestic product (GDP). In 1999 Lithuanian exports, in comparison to 1998, decreased by 19 percent and the GDP fell by 4.1 percent.

The greatest impact on the total decrease of exports was produced by the fall in the exports of petroleum products, the main part of which consisted of the export to Russia, and the decline in electric energy exports. In 1999, as compared to 1998, the export of the above-mentioned commodities decreased by 37.6 percent, which amounted to over one third of the value of the total decrease in commodity exports.

The export of vehicles slumped as much as 72.1 percent (19.5 percent of the total commodity export decrease), export of foodstuffs – by 27.8 percent (20.3 percent of the total export decrease).

In the export of transport services, the decline in the volume of transit carriages to Russia and other CIS countries (in the period of 1999, the export of transport services decreased by 8 percent and made up 36.6 percent of the total service export decrease) was the main reason which determined the decline in the total export of services in 1999.

The crisis in Russia also conditioned the disruptions of the export of construction services to that country which in the period of 1999 fell as much as 55.6 percent and amounted to 1.7 percent of the total decrease in the value of service exports. With the loss of the Eastern markets, Lithuanian construction enterprises were forced to reduce their production output.

With the disruption of Lithuanian exports to Russia and other CIS countries, Lithuanian producers started a vigorous search for openings to the Western markets. Lithuania made an attempt at re-orienting its exports to the markets of the EU countries. In the first quarter of 1999, there came a breakthrough in the structure of Lithuanian exports, with the export to the EU countries exceeding the 50 percent limit. However, now this amount has slightly decreased (for the first three quarters of 2000 it makes up 47.8 percent).

Nevertheless, the Russian economy is recovering after the crisis and there has lately been observed a rapid growth in its economy – in the period of the first three quarters of 2000, the growth of GDP amounted to 7.3 percent, industrial output increased by as much as 9.7 percent and, what is especially important, the economic growth is based on the strengthening of the internal market and internal demand; the increase in investments (the rate of increase is 17.5 percent) exceeds the growth rates of the GDP and the rate of increase in industrial output; the situation in the spheres of the incomes of population and consumption has also improved – during this period, the real wages increased by 23.6 percent and inflation in the third quarter of 2000 was only 4.1 percent.

The rapid development of the Russian economy favorably affected also the volume of Lithuanian exports and imports. In the period of the first half of 2000, exports to Russia and the CIS markets recovered and increased by 29.7 percent, as compared to the corresponding period of the previous year.

The export of petroleum products increased by as much as 55 percent and accounted for 35.9 percent of the total increase in the value of Lithuanian commodity exports. There was also a considerable increase in the export of vehicles – by 72.2 percent, the bulk of

which was made up by the re-export of cars to the markets of Russia and the CIS countries.

Recovered export to the Russian markets was the main factor which conditioned a considerable increase in the total volume of Lithuanian exports during the first half of 2000 – by 26.1 percent, compared to the same period in 1999, the imports increased by 10.3 percent.

In the period of January-September 2000, as compared to the same period in 1999, there was an increase in the volume of the commodities both exported to Russia and imported from there: exports – by 23.8 percent, imports – by 52.3 percent.

In the period of January-September 2000, exports to the CIS countries constituted 16.1 percent of the total Lithuanian exports, while imports from the CIS – 32.2 percent of total Lithuanian imports. During January-September of that year, as compared to the same period in 1999, export to the CIS countries increased by 13.4 percent and imports from the CIS increased by 43.6 percent.

Russia takes the fourth place according to the amount of exported commodities after Latvia, Germany and United Kingdom, and ranks first according to the volume of imports.

In the period of the first nine months of 2000, 742.5 million litas worth of commodities were exported to Russia, where the export of processed goods accounted for 66.2 million litas (8.9 percent) and export from customs warehouses – 170.7 million litas (23 percent). At least 4 412.8 million litas worth of commodities were imported from Russia to Lithuania, where 369.9 million litas (8.4 percent) accounted for the import to customs warehouses. The trade balance remains negative – 3 670.3 million litas. In September 2000, as compared to August of the same year, exports to Russia increased by 9.3 percent and imports rose by 10.5 percent.

In the Russian markets, notwithstanding the constantly increasing competition on the part of other countries, Lithuanian goods traditionally enjoy great demand, especially meat, dairy products and other foodstuffs, textiles and textile articles, quality furniture which is cheaper than that imported from western countries, refrigerators, likewise articles of wood, chemical products, electrical and electronic equipment, household appliances and other products.

The main import items from Russia include energy resources (oil, gas, nuclear fuel) as well as metals, machinery, mechanical equipment, chemical raw materials and other industrial-technical production.

The inflation in Russia and the rouble exchange rate has at present been stabilized. The revival of the purchasing capacity of the Russian inhabitants and a stronger rouble will be the principal determinants for the opening of export routes to that country. However, the improvement of trading conditions with Russia will apply not only to Lithuanian exporters but to the business from other countries as well, therefore, the competition for the Russian markets will in the nearest future become quite strong.

2. Principal trends for the development of commercial relations between Lithuania and Russia

For Lithuania it is economically beneficial to develop its foreign trade both in the Western and Eastern directions. Lithuania is further prepared to continue trading on

mutually acceptable terms, the country is interested in the energy resources of Russia, ferrous and non-ferrous metals, industrial-technical equipment and other products. The economic interests of Lithuania impel it not only to preserve, but also to expand and ultimately strengthen the country's position in Russian markets. Lithuanian businessmen are quite well acquainted with the particularities of the Russian market, the trading traditions of both partners and the mentality of the Russian people, there is also no language barrier. We hope that the economic interests of Russia are similar in this aspect. The priorities in the economic cooperation between Lithuania and Russia are the following:

- Development of bilateral trade;
- Regional cooperation (joint conferences, exhibitions, consignment warehouses and terminals, tourism, etc.);
- Development of economic relations with the Kaliningrad district;
- Cooperation with Russia in information exchange and marketing research in the CIS countries with the aim of encouraging Lithuanian commodity exports.

Both countries, as before, have recently been taking active measures for the development of bilateral trade.

As early as 1997, by mutual agreement, the Lithuanian-Russian Governmental Commission for Bilateral Commercial and Economic, Scientific, Technological and Cultural Cooperation was formed on the inter-governmental level. On the Lithuanian side, the Commission is headed by the Minister for Foreign Affairs and the Russian Commission is headed by the Minister for Transport. The Commission comprises ten working groups for dealing with commercial, financial, transport or any other important issues. The Commission and its working groups regularly hold their joint sessions, meetings and round tables in turn both in Vilnius and Moscow, where the most important issues of bilateral cooperation are discussed, with ensuing decisions taken and recommendation passed.

The working groups on Trade and Economic Cooperation and on Transport Problems have to handle the greatest workload and the most complicated issues and are under the responsibility of relevant Ministries (in Lithuania, the Ministry of Economics, in Russia, the Ministry of Commerce), therefore the Ministers of both countries find these issues very important and give them their utmost attention.

The role of these Ministries became particularly evident in preparing important inter-governmental agreements which were signed by the Prime Ministers of both countries on June 29, 1999 in Moscow. These documents include agreements on: the avoidance of double taxation; promotion and mutual protection of investments; long-term cooperation with the Kaliningrad district; cooperation in fisheries and other areas.

It is especially important that this meeting of the Prime Ministers resulted in signing the painstakingly prepared Joint Statement on the Measures Directed towards the Liberalization of Trade between Lithuania and Russia. This Joint Statement received acclaim from both Lithuanian and Russian businessmen as enabling to open the way for further liberalization of trade and to diminish the existing restrictions. It is hoped that both countries, as well as all institutions related to the bilateral trade and business structures, will take all the necessary steps in their everyday activities to ensure that the

ideas and principles enshrined in this Joint Statement become instrumental for the further development of close cooperation between the two countries.

With the complicated economic processes taking place in Russia, and taking into consideration the constant changes in the federal structures and governance of that country, Lithuania increasingly pays attention to the development of regional cooperation. This orientation also possesses quite serious future potential as the administrations of major Russian regions are increasingly obtaining greater independence in deciding a considerable part of the issues related to commercial and economic cooperation.

Lithuania orients itself towards the conclusion of inter-regional agreements, first of all with the major Russian cities and industrial centers where Lithuanian businesses still retain or have formed commercial relations and contacts. At present Lithuanian ministries, counties and towns have already signed cooperation agreements with fourteen major Russian cities and regions. One should note the agreements with St.Petersburg, Karelia, Chuvashia, Tatarstan, the districts of Yaroslavl, Archangelsk, Moscow and other regions. The development of economic cooperation with Russia might be favorably complemented by the expansion of the network of joint companies. On December 1, 2000, there were 1073 enterprises registered in Lithuania with the participation of capital from Russia, among them – 839 joint enterprises and 234 enterprises of Russian capital. However, the capital investments there are more than modest – a mere 16.2 million USD, or 1.3 percent of total foreign capital investments in Lithuania. According to the amount of capital investments, Russia ranks 15 out of 112 countries which have invested their capital into the economy of Lithuania.

Lithuanian has submitted a proposal for such cooperation to be implemented within the “triangle” system, that is, institutions of the Republic of Lithuania, the Federal administration of Russia, and regional administrations. This system is quite inclusive and acceptable to all participants of the commercial-economic process. This system was discussed at the Bilateral Working Group on Trade and Economic Cooperation of the Inter-governmental Commission and appeared to be mutually agreeable.

In practice this system operates in the following way: an authorized institution of the Republic of Lithuania (most often, the Ministry of Economics) or the administration of a county (town) signs an Agreement for Trade and Economic Cooperation with the relevant region of the Russian Federation. The administration of the Russian region, together with the relevant institutions of the Russian federal administration (usually the Ministry of Commerce of the Russian Federation), analyze the main aspects of such an Agreement and its conformity to the provisions of the legislation of the Russian Federation. In its turn, the conformity of such agreements to the legislation and economic interests of both countries is also discussed at the meetings of the Working Group on Trade and Economic Cooperation.

The institutions of the administrations of both countries encourage and support the signing and realization of such regional agreements and, whenever necessary, also render assistance in resolving the problems which arise in the course of implementing such agreements. For example:

- in organizing exhibitions, fairs, conferences;

- in providing, within the quotas possessed by the regions in question, access to the pipeline mains for commodity transportation or permission for unobstructed crossing of the borders of their customs territories;
- in providing certain securities for the agreements concluded by the entities of their states, etc.

Particular attention is paid to the issues of the economic, commercial and cultural cooperation with the neighboring Russian region – the Kaliningrad Oblast. Intergovernmental agreements between the Republic of Lithuania and the Russian Federation on long-term cooperation with the Kaliningrad Oblast have been prepared and updated.

The agreement with the Kaliningrad Oblast is likely to have great future prospects because the Russian Government has provided the Oblast with the status of a Special Economic Zone, therefore, with the creation of corresponding conditions and the relevant model which conforms to the GATT requirements, Lithuanian commodities, especially agricultural products and foodstuffs surplus, could more easily and without greater restrictions, reach other regions of Russia as well.

The Kaliningrad district views Lithuania as one of its major partners in commercial and economic cooperation.

The proportion of Lithuanian commodity exports to Kaliningrad constitutes 27.3 percent of the total Lithuanian export to the Russian Federation, though, the import from Kaliningrad accounts for only 1.5 percent.

Taking account of the complicated rules for the determination of the origin of goods which function in the territory of Russia, Lithuanian producers have lately become increasingly active in establishing joint enterprises in the Kaliningrad district.

There are at present 304 joint enterprises of Lithuanian and Russian capital registered in the Kaliningrad Oblast, sixteen branches of Lithuanian enterprises and seven representations of Lithuanian firms. According to the number of joint enterprises in the Kaliningrad district, Lithuania ranks second (after Poland). In 1998 alone, in the Kaliningrad district 56 new joint enterprises of Lithuania and the Kaliningrad district were registered, and in the first quarter of 2000, 16 more enterprises with the participation of Lithuanian capital.

There should be mentioned several major investment projects of this kind. They are: the confectionery manufactory of Šiauliai Chocolate Factory “Naujoji Rūta” in Sovetsk; investments of the joint stock company “Klaipėdos Maistas” in the construction of sausage and tinned food manufactory in the Kaliningrad district; the television assembly shop in Kaliningrad for the Šiauliai “Taurus” enterprise; a workshop for the production of furniture “Rambynas” in Neman; the battery assembly shop in Gvardeisk; the paper recycling factory in Zelinogradsk, etc.

For the purpose of fostering further growth of the Lithuanian economy and encouraging exports, the search for new markets and their research, which is important in political, economic and social aspects, acquire great significance. Nevertheless, Lithuanian export markets, especially those in Russia and in separate CIS countries, are not observed systematically, and there is also a lack of special market research, analysis and prognostic evaluations, nor is there an institution which could deal with the following issues:

- To enhance the position of Lithuanian products in the markets of Russia and other CIS countries, it would be necessary to observe, analyze and predict the changes in these markets, to form close cooperation with the representatives of the businesses in these countries. That might be one of the cardinal solutions for the sake of increasing Lithuanian exports to the markets of Russia and other CIS countries and supporting the development of commercial relations between both countries.
- Traditionally existing contacts between Lithuania and Russia, the absence of any language barriers and the understanding of the mentality could be used as a solid foundation in assisting the EU to better comprehend these markets and, at the same time, could create for Lithuania a certain niche of an intermediary between the East and the West.
- Regular market research in Russia and other CIS countries might also be used for the development of Lithuanian business by employing the provided information, consultative assistance and recommendations on the existing situation in the Eastern markets and their prospects. It might be expedient to establish in Lithuania a research center for the analysis of the markets of Russia and other CIS countries. Such a center, providing there is a relevant assistance, could be established under the currently functioning Lithuanian Economic Institute.

Thus, Lithuania is actively involved in pursuing constructive cooperation on the level of the State and business structures. Lithuania believes that it will bring tangible results in the efforts of both countries to overcome the effects of the slump in the bilateral trade of Lithuania and Russia which was brought about by the crisis.

It is necessary to emphasize in this context that positive tendencies have lately been observed in the trade dynamics of both countries, which may be expected to continue developing in the future. These tendencies give reason to hope that the negative effects of the Russian crisis on the economy of Lithuania will continue to recede and, in the future, commercial and economic relations will develop dynamically for the mutual benefit of both countries.