

LITHUANIAN-POLISH ECONOMIC RELATIONS: MAIN CHARACTERISTICS

In 1990-1991, Lithuania and Poland commenced to re-establish mutual relations, which broke down in the middle of the last century. Modern relations of the two states grew out of the realities of the end of 20th century. In my opinion, relations have been very pragmatic.

During the last decade Lithuania and Poland proved they are committed to advancing economic reforms. These reforms have changed not only the economic life of the two countries; structure of the economy of the states – trading partners of Lithuania and Poland – has been changing as well. In other words, understanding of the dynamics of the economic relations between Lithuania and Poland would be superficial if put aside from the overall context of the emerging global economy.

Original and one of the most important factors in the emerging global economic environment – the process of privatization. United Kingdom was at the heart of the process started in the beginning of the 80s. Recently, OECD published a report on the extent of privatization in the world. The report covered period from 1990 to 1999. During this period of time, the report claims, 850 billion USD have been transferred by the states into the private hands. It is said that 40 percent of the privatized property belong to countries of Central and Eastern Europe. The value of property Polish Government has privatized since 1990 amounts to 12 billion USD. This makes up to 10 percent of the average GDP of this period. During the same period the amount of property Government of Lithuania privatized reached 2 billion USD. *The main result of privatization both in Poland and in Lithuania is the following: today, more than 70 percent of GDP is produced in the private sector.* Videlicet, the level of cooperation between the two states depends on the initiative of private companies, based on the logic of economic utility.

Until 1989, the river of Elbe divided Europe into two political camps with economic lives of their own. In the meantime, ten former communist states carry on membership negotiations with the European Union. Thus, we approach the second

factor important to Lithuanian-Polish economic relations – intensifying relations of the former states with the European Union members. Nearly 50 percent of Lithuania and Poland’s exports are directed to the European Union’s member countries. As a result, economic life of Lithuania and Poland is increasingly dependent on the “health of the economy” of the European Union. The extent varies, however. Respective economies of Lithuania and Poland are characterized by a different degree of their openness, displayed by an export/GDP proportion indicator. In Lithuania this indicator amounts to 35-40 percent, in Poland – to 10-15 percent. On the basis of this data, we may conclude that Polish economy is far more closed than the economy of Lithuania. Besides, it points to the fact that Polish economy is better protected from outside pressures. Degree of economic openness determines the share of attention Government pays for internal and external economic policies. 21 percent of Lithuania’s GDP is produced by exports. Taking this into account, the Government of Lithuania must consider foreign trade as a priority, Lithuania-Polish economic relations including. As regards the Polish Government, it is more interested in finding the solution of internal economic problems. Therefore, speaking about the cooperation of two states on the institutional level, Lithuania took lead over the initiatives in trade sector, given that its stakes are higher.

Dynamics of the economic relations between Lithuania and Poland in 1991-2001 were to a large extent influenced by different internal and foreign policy agendas of these states, i.e. 1990-1992. Lithuania confronted the problem of political independence, Poland, in the meantime, embarked on the original economic reforms, known as the “shock therapy”. In 1992, Lithuania and Poland signed a Treaty on Economic Cooperation and the Protection of Investments. The Treaty laid down the basis for a further economic development of these countries. In the next three years two countries signed an impressive package of interstate treaties and agreements: in 1993-1994 it included treaties and agreements on non-visa regime, on the avoidance of double taxation of capital and income, on the functioning of Kalvarija-Šipliškės customs house. The aforementioned Treaties created favorable conditions for the daily cooperation of businessmen. Later on, in 1994 Lithuania and Poland signed the “Treaty on Good Neighborly Relations”. On June 6th, 1995 Lithuania and Poland signed the “Free Trade Agreement”.

Thus, throughout 1992-1997 period legal basis of the interstate relations has been molded. End of this process, namely, erection of the legal basis, coincided with the completion of privatization of small and medium companies in both states.

Since 1997 relations between Lithuania and Poland developed to obtain institutional structure. Following institutions are established: the Assembly (it is formed out of the members of the Seimas of the Republic of Lithuania and Seimas of the Republic of Poland), Consultative Council of the Presidents, and the Council on Cooperation between the Governments of Lithuania and Poland (first session of the latter was held in August 1997). 1998 saw the establishment of the Council on Economic Cooperation.

Today some of the most pressing economic issues on the interstate institutional level are related to the customs system. Already in 1998 the list of taxed commodities was highly asymmetric: Poland collected taxes from 2800 commodities manufactured in Lithuania, whereas Lithuania taxed only 700 titles of Poland-manufactured commodities. This asymmetry the list of the industrial goods charged with taxes bore has been constantly diminishing, however. Figures shown in Table 1 (*Amount of foreign trade between Lithuania and Poland*) reflect this.

Table 1

Lithuania–Poland foreign trade balance* (Mln. litas)							
	1991**	1997	1998	1999	2000	2000**	2001***
Exports	0,7	360	449	545	832	5,5	316
Imports	-	1.104	1.272	1.095	1.076	4,9	356
Balance		-744	-823	-550	-240		-40

* Based on the sending country.

** Comparative proportion in total exports or imports

***Exports or imports, January-April.

In Table 1 we may see that in 1997-2000, Lithuania's exports to Poland increased by 131 percent; imports decreased by 2.5 percent. Trade balance between Lithuania and

Poland is still negative; on the other hand, trade deficit decreased by 67 percent. Moreover, it is evident that during the period from January to April of this year, Lithuanian companies exported commodities amounting to 316 million litas. This figure almost equals the level of exports as of 1997.

According to the data on exports as of 2000, Poland occupied the fifth spot (5.5 percent of total exports of Lithuania) behind Latvia, Germany, United Kingdom and Russia. In 2000, Poland was third in imports (4.9 percent of total imports) keeping behind Germany and Russia.

On June 1st, 2001 Lithuania became member of the World Trade Organization (WTO). Membership of Lithuania and Poland in this organization provides for new opportunities and bases as regards the regulation of the interstate economic relations, settlement of disagreements on trade including.

Total amount of exports of Lithuania augments very fast. However, the structure of exports shows signs of deterioration, i.e. the degree of diversification of commodities shrinks constantly. Table 2 displays the fact that almost 50 percent of exports refer to mineral products.

Table 2

Structure of commodities, Lithuanian exports to Poland, %

	1997	1998	1999	2000
1. Mineral products	26,9	31,3	31,0	48,1
2. Pulp of wood or of other fibrous cellulosic material; paper and paperboard and articles thereof	16,9	14,8	11,7	10,7
3. Plastics and articles thereof	14,4	5,4	2,8	1,0
4. Textiles and textile articles	11,1	11,8	14,1	9,3
5. Machinery and mechanical appliances	9,5	9,6	9,4	6,4

At the same time the structure and amount of imports from Poland to Lithuania have remained stable for many years (see, Table 3).

Table 3

Structure of commodities, Lithuanian imports from Poland, %

	1997	1998	1999	2000
1. Products of the chemical or allied industries	22,1	18,1	17,6	17,7
2. Machinery and mechanical appliances	13,7	16,9	13,1	12,3

3. Plastics and articles thereof	12,2	12,1	12,0	11,7
4. Prepared foodstuffs, food stuff, alcohol and non-alcohol drinks		9,3	7,8	7,5
6,3				
5. Pulp of wood or of other fibrous cellulosic material; paper and paperboard and articles thereof	7,9	8,1	9,3	10,3

It is known that foreign trade is closely related to the *transport sector*. Table 4 shows that Lithuanian exports reach Poland via railways, motorways and on the board of sea transport. Amount of sea-transported goods increased in the aftermath of the Bank and financial crisis in Russia, 1998. Major part of imports from Poland (92 percent) reach Lithuania by means of motorway transport.

Table 4

Imports and Exports of Lithuania and Poland by means of transport, 1997-2000 m.
(mln. tons)

Means of transport	1997		1998		1999		2000		2000, perc.	
	Export.	Import.	Export.	Import.	Export.	Import.	Export.	Import.	Export.	Import.
Motorway	158,8	212,4	175,6	252,2	228,9	265,2	277,8	274,7	35	92
Railway	180,2	30,0	350,7	41,3	329,9	22,4	463,3	20,6	59	7
Sea	2,7	2,6	6,5	6,0	28,6	20,2	49,2	22,9	6	0,8
Air	0,02	0,07	0,04	0,09	0,07	0,09	0,11	0,09	0	0
Transport on its own Motion	0,35	0,47	0,27	0,34	0,19	0,09	0,27	0,29	0	0
Iš viso:	342,1	245,6	533,1	299,9	587,7	289,8	790,7	297,9	100	100

Tables display the obvious: there are only three means of transport important to Lithuanian-Polish trade, namely, motorway, railway and sea transport. The importance of any given mean of transport for the state, Lithuania or Poland, is not symmetrical, however. For Lithuania railways are important (59 percent of total commodities transported). Motorway transportations take the 35 percent share of total amount of transportations. Amount of commodities transported by sea has been growing as well (6 percent of the total). Speaking about Poland, road freightage matter above all (92 percent of total commodities transported). It implies that the flow of commodities in Lithuanian-Polish trade, given the means of transport, is asymmetric: Lithuania is highly interested in developing cooperation in almost every segment of transport whereas Poland – in the motorway segment alone.

Motorway, railway and sea transport infrastructure is closely related to the activities of the customs (border passage facilities). Disorganization of their functioning affects the volume of trade between Poland and Lithuania. Activity of the border passage facilities is regulated on the level of interstate institutions.

Therefore, foreign economic policies – custom duties, activities of border passage facilities, etc. – of both Lithuania and Poland is still an important factor that bears repercussions on the total amount of trade between the two countries.

Polish investors are more active than Lithuanian investors. As for January 1st, 2001, there were 111 Polish investors registered in Lithuania. Total amount of their direct investments reaches 204.93 million litas. As regards the total of foreign direct investments in Lithuania, Poland is eleventh (2.19 percent of total foreign direct investments in Lithuania). The amount of foreign direct investments increased by 25.77 percent in 2000.

As for the January 1st, 2001 there were 526 joint companies with Poland and 238 Polish capital companies recorded in the Register on Companies, Republic of Lithuania. Proportion of the Polish capital within the founding capital is valued at 62.49 percent, or 120.61 million litas.

Thus, because of high activity of the Polish investors in Lithuania, the Government of Poland is concerned with the legal aspects on the protection of investments in Lithuania.

Investments of Lithuanian companies abroad are very low. The same applies to their investments in Poland. As of January 1st, 2001 direct investments of Lithuania into Poland amounted to 1.444.000 litas, which made up for 1.23 percent of the total direct investments of Lithuanian companies abroad. In year 2000 Lithuanian companies' foreign direct investments fell more than two times, i.e. by 50.7 percent.

Table 5

Polish investments in Lithuania
(beginning of each year, thousands. US dollars)

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Number of investors						Direct foreign investments					
1996	1997	1998	1999	2000	2001*	1996	1997	1998	1999	2000	2001*
49	62	112	107	113	111	5340	7120	9675	28990	40735	51232

*Number of investors and the amount of investments, January-April.

Development of the Lithuanian-Polish relations sways certain economic stereotypes characteristic to Lithuania's businessmen. For a long time Poland acted as a transit country for Lithuania. Commodities from Lithuania crossed it to reach Western Europe. Nowadays, numbers of Lithuanian businessmen finally realize understand that Poland is a huge market, one of the largest markets in Europe. They noticed what great potential lies in that market. Given this, the volume of trade between Lithuania and Poland is bound to be growing.

Translated by Mindaugas Žičkus