|  |
| --- |
| Photo displaying partial image of two pie charts on a canvas-textured page |
| International Economics: Lithuania |
| |  |  |  | | --- | --- | --- | | Karolis Liubavicius (671752) | 9/30/22 | IB - CEC ECN2A | |

Contents

[Introduction 2](#_Toc115359797)

[Introduction to Lithuania’s economy 2](#_Toc115359798)

[Import/export partners of Lithuania 3](#_Toc115359799)

[Analysis of the 10 most exported product groups of Lithuania 4](#_Toc115359800)

[Overview and Conclusions about Lithuania’s international economy 5](#_Toc115359801)

[Bibliography 6](#_Toc115359802)

[Appendix 6](#_Toc115359803)

# Introduction

Lithuania is one of the three Baltic state countries with 2.8 million habitants and the highest (in Baltic countries) GDP of 42551 thousand dollars per capita, however, the whole region is better known as the Baltic States because of the familiarities in their economies and has more influence on the EU economy than each country individually. (Organisation for Economic Co-operation and Development, n.d.) This report will cover only Lithuania’s international economy. Lithuania’s modern economy started after the collapse of the Soviet Union on 1990 March 11th, when Lithuania got back its independence. “the transition to a market economy had caused high rates of inflation and unemployment” (Stranga, 2022) However, the government was still implementing necessary policies to stabilize the economy. Because of successful policies, by 1995 the inflation had stabilized, and Lithuania’s trade balance was stabilized as well and for the first time, it became positive. (Stranga, 2022) Compared to the other countries Lithuania’s market economy is still young and has a lot of room for development, it is the biggest economy in all three countries.

# Introduction to Lithuania’s economy

Today, Lithuania’s economy is stable and in growth. Based on the Bank of Lithuania, the growth of GDP in the 2nd quarter of 2022 was 1.8%. Meanwhile, the economy’s nominal imports are 31.4% (June 2022) while exports are 17.2% (June 2022). Followed by an inflation rate and consumer prices is 4.7% in 2021 (The World Bank, 2021). The unemployment rate at the moment is 5.2% of the labor force. Because of its convenient location in Europe, Lithuania is a transit country to Russia, Lithuania produces many different products as well and its industrial production grew by 7.2%. It has a low-priced workforce, however, the wage growth in the second quarter of 2022 was 13.7%. The current country’s debt is 40.3% of its four-quarter sum GDP. (Bank of Lithuania, 2022) Lithuania is considered a high-income country.

**Lithuania is a member of trade organizations:**

World Trade Organization (WTO)

European Union (EU)

Organization for Economic Co-operation and Development (OECD)

International Monetary Fund (IMF)

World Customs Organization (WCO)

**Other relevant information:**

The total amount of FDI in Lithuania reached 635.8 million euros in the 2021 4th quarter. Reinvestment was the most popular option, and its growth was 607.9 million euros. The top 4 FDI flows were from the USA (232.6 million euros), Hong Kong (213.1 million euros), the Netherlands (186.9 million euros), and the United Kingdom (155.6 million euros). The flow of foreign direct investment was positive in the same quarter. However, the total FDI for 2021 fell by 43.2%. Meanwhile, reinvestments increased by 34.3% to 1.6 billion euros. (Bank of Lithuania, 2022)

Lithuania’s **trade openness index** was ranked 16th place in the world’s economy with exports plus imports as a percentage of GDP which was 137.72 in 2020. (theGlobalEconomy.com, 2020)

# Import/export partners of Lithuania

|  |  |  |
| --- | --- | --- |
| # | Country | Imported value in 2021 (USD thousand) |
| 1 | Germany | 5,666,740 |
| 2 | Russian Federation | 5,386,475 |
| 3 | Poland | 5,369,096 |
| 4 | Latvia | 3,420,415 |
| 5 | Netherlands | 2,326,527 |
| 6 | Italy | 2,007,385 |
| 7 | China | 1,855,182 |
| 8 | Sweden | 1,700,446 |
| 9 | Belarus | 1,552,882 |
| 10 | Estonia | 1,505,913 |

|  |  |  |
| --- | --- | --- |
| # | Country | Exported value in 2021 (USD thousand) |
| 1 | Russian Federation | 4,421,465 |
| 2 | Latvia | 3,827,477 |
| 3 | Germany | 3,345,658 |
| 4 | Poland | 3,225,141 |
| 5 | USA | 2,556,801 |
| 6 | Netherlands | 2,062,929 |
| 7 | Estonia | 2,001,327 |
| 8 | Sweden | 1,814,641 |
| 9 | United Kingdom | 1,589,807 |
| 10 | Ukraine | 1,550,552 |

Imports and exports differ a little bit, however, the main partners stay the same, countries like Germany, Latvia, Russia, and Poland can be found in many other categories. One of the main reasons for that to happen is Lithuania’s geographical location. For example, Russia is in the top 3 importers/exporters in both categories, because it is located between Belarus and Kaliningrad district. Many products are imported from Poland, because of their fiscal policy, which affects most of the product prices. Poland has lower tax rates for most goods in their country. This makes it logical for businesses to import and sell goods in Lithuania. In both tables, we can find Estonia and Latvia, all 3 countries have close relationship for a very long time, and all three of them belong to the same region, sometimes in international communities, this region is called the Baltic States without separating them from each other. In the imports table, we can find China as well, however, this trend might change in 2022, because of political reasons, since Lithuania’s relationship with Taiwan, China sanctioned Lithuania’s imports because of that.

# Analysis of the 10 most exported product groups of Lithuania

**Balassa Index of Lithuania**



\*Used formulas and calculations can be found in the appendix together with the original tables. Amounts are in thousands of USD.

**Grubel-Lloyd index of Lithuania**



\*Used formulas and calculations can be found in the appendix together with the original tables. Amounts are in thousands of USD.

**Balassa Index overview:**

Balassa index shows the comparative advantage of the country in the chosen economy, in this case, the whole world’s economy was chosen. So, it is allowed to state that these numbers show Lithuania’s comparative advantage in the world’s economy, while the number is higher than 1 country has an advantage in trading that product category. The most exported product category is mineral fuels, however, Lithuania’s Balassa index in this category is 1.002, a very tiny advantage, but while the number is higher than 1 it is still an advantage. The highest level of comparative advantage in the whole list is in the Fertilizer category, with 8.785, compared to other categories in the table, the index shows that Lithuania has an impact on the world’s trade of Fertilizers.

**Grubel – Lloyd index overview:**

Grubel – Lloyd index, simply speaking, shows the ratio of a country’s imports/exports. If the number is closer to 1, that means that the country imports the same amount of value of the product as it exports. However, as closer, as it is to zero, that means that countries tend to only import or export a group of the product category. For example, the furniture category’s Grubel – Lloyd index is 0.345, which means that Lithuania exports way more furniture-related goods than imports. On the other hand, plastic-related goods are imported and exported almost at the same level, which means that Lithuania imports almost the same amount of value in the plastics category as it exports.

# Overview and Conclusions about Lithuania’s international economy

**Conclusion**

Since Lithuania got back its independence from the Soviet Union, it changed a lot in the last 30 years because it turned into a high-income country compared to what was there 20 years ago. Ever since Lithuania joined the EU it improved and gone far away from what it was before. However, Lithuania is a small country by the Baltic Sea and has a small influence on a bigger scale. Meanwhile, the whole region of the Baltics could make a higher impact and would have more power and influence on the world’s economy. So, if all three Baltic countries would be considered as one, it would have a positive influence on all three.

# Bibliography

Bank of Lithuania. (2022, Septmeber 19). *https://www.lb.lt/en/efsa-latest-economic-indicators*. Retrieved from https://www.lb.lt/en: https://www.lb.lt/en/efsa-latest-economic-indicators

International Trade Center. (n.d.). *https://www.trademap.org/Country\_SelProductCountry.aspx?nvpm=1%7c440%7c%7c%7c%7cTOTAL%7c%7c%7c2%7c1%7c1%7c2%7c1%7c%7c2%7c1%7c1%7c1*. Retrieved from www.trademap.org: https://www.trademap.org/Country\_SelProductCountry.aspx?nvpm=1%7c440%7c%7c%7c%7cTOTAL%7c%7c%7c2%7c1%7c1%7c2%7c1%7c%7c2%7c1%7c1%7c1

Organisation for Economic Co-operation and Development. (n.d.). *https://data.oecd.org/lithuania.htm*. Retrieved from https://data.oecd.org: https://data.oecd.org/lithuania.htm

Stranga, A. (2022, September 22). *https://www.britannica.com/place/Lithuania*. Retrieved from https://www.britannica.com: https://www.britannica.com/place/Lithuania

The World Bank. (2021). *https://data.worldbank.org/country/LT*. Retrieved from https://data.worldbank.org: https://data.worldbank.org/country/LT

theGlobalEconomy.com. (2020). *https://www.theglobaleconomy.com/rankings/trade\_openness/*. Retrieved from www.theglobaleconomy.com: https://www.theglobaleconomy.com/rankings/trade\_openness/

# Appendix

**Grubel – Lloyd index**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Code | Product | Lithuania's exports (thousand USD) | Lithuania's imports (thousand USD) | Grubel-Lloyd index |
| 27 | Mineral fuels, mineral oils, and products of their distillation; bituminous substances; | 4,158,923 | 7,463,785 | 0.716 |
| 94 | Furniture: bedding, mattresses, mattress supports, cushions, and similar stuffed furnishings | 3,344,913 | 696,196 | 0.345 |
| 84 | Machinery, mechanical appliances, nuclear reactors, boilers; | 2,895,051 | 4,386,845 | 0.795 |
| 85 | Electrical machinery and equipment and parts thereof; sound recorders and reproducers | 2,650,081 | 3,573,354 | 0.852 |
| 39 | Plastics and articles thereof | 2,479,772 | 2,382,594 | 0.980 |
| 87 | Vehicles other than railway or tramway rolling stock, and parts and accessories thereof | 2,190,824 | 3,969,247 | 0.711 |
| 44 | Wood and articles of wood; wood charcoal | 1,749,767 | 1,258,539 | 0.837 |
| 38 | Miscellaneous chemical products | 1,725,145 | 885,300 | 0.678 |
| 31 | Fertilizers | 1,365,782 | 525,471 | 0.556 |
| 90 | Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical equipment | 1,209,179 | 971,101 | 0.891 |

Formula used:

GL27 = 1 – (|Xi - Mi| / Xi + Mi)

Calculation example:

#27 GL27 = 1 – (|4,158,923 - 7,463,785| / 4,158,923 + 7,463,785) = 0.716

**Balassa Index**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Code | Product | Exported value in Lithuania in 2021 (USD thousands) | Worlds exports of a product | Balassa Index |
| 27 | Mineral fuels, mineral oils, and products of their distillation; bituminous substances; | 4,158,923 | 2,236,134,738 | 1.002 |
| 94 | Furniture; bedding, mattresses, mattress supports, cushions, and similar stuffed furnishings | 3,344,913 | 328,030,100 | 5.541 |
| 84 | Machinery, mechanical appliances, nuclear reactors, boilers; | 2,895,051 | 2,479,490,168 | 0.629 |
| 85 | Electrical machinery and equipment and parts thereof; sound recorders and reproducers | 2,650,081 | 3,412,189,476 | 0.418 |
| 39 | Plastics and articles thereof | 2,479,772 | 802,377,215 | 1.668 |
| 87 | Vehicles other than railway or tramway rolling stock, and parts and accessories thereof | 2,190,824 | 1,488,567,019 | 0.793 |
| 44 | Wood and articles of wood; wood charcoal | 1,749,767 | 185,596,478 | 5.119 |
| 38 | Miscellaneous chemical products | 1,725,145 | 281,385,670 | 3.318 |
| 31 | Fertilisers | 1,365,782 | 84,984,839 | 8.785 |
| 90 | Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical equipment | 1,209,179 | 680,803,811 | 0.957 |
| Total Lithuania's exports | 40813701.00 |  |  |  |
| Total worlds exports | 21,953,101,377 |  |  |  |

Balassa Index formula:

BLi = (An exported value of the product in Lithuania / Total exports of Lithuania) / ((Exported value of the product in the world – An exported value of the product in Lithuania) / Total exports value in the world)

Calculation’s example:

BLi = (4,158,923 / 40813701) / ((2,236,134,738- 4,158,923) / 21,953,101,377)