

Lithuania in the Baltic Sea Rim after EU Enlargement

by Audrius Brūzga

Lithuania's accession to the EU along with Latvia, Estonia and Poland, has brought about 'tectonic' changes in the Baltic Sea Rim. The Eastern littoral states of the Baltic Sea are now firmly locked in a 'jig-saw puzzle', called Europe. They are also an integral part of the Baltic Sea Area, a most dynamic and promising region in Europe. We, in Lithuania, see plenty of opportunities opening before us in this new environment. We know there are also challenges ahead and an ever-growing urge to work together with partners for a common interest.

Here is Lithuania, a new EU member, in a nutshell: a future cohesion Member State with a dynamic economy, a borderland state with 922 km of eastern EU border, a country bridging the Baltic Sea and Central Europe and advocating a strong trans-Atlantic link. How does this translate in real life? Lithuania will continue to advocate the EU Cohesion policy as a means to narrow the economic and social gap in the enlarged European Union. The disparities between the countries are even more visible in the Baltic Sea context. At the moment Lithuania accounts for only 42% of GDP per capita among the EU-25. The 'catch-up' process, therefore, is an essential element in the economic performance of the country.

This is also one of the reasons why Lithuania supports the Lisbon process. We think that it is absolutely imperative for the EU to become a dynamic, competitive and knowledge-based economy in order to be able to compete on the global level. It is also a 'win-win' strategy for Lithuania and her fellow EU neighbours. Today we know that the Lisbon strategy is in need of good 'repair' because it is failing. Perhaps, the working group of Mr. Wim de Kok will come up with solutions on how to make these repairs, but first and foremost, we need faith in the declared goal for the EU to have the best economy in the World. Without it and without the commitments of the governments concerned, the efforts will be in vain.

Part of the problem in many EU countries is the economy itself. In sharp contrast, the economy of Lithuania is doing extremely well. It is perhaps the major driving force in the development and progress of the country. The impressive growth of GDP, a low budget deficit and low inflation rate are indicative of a healthy and vibrant economy. "Ballistic Baltic" - that's how US investment bank Goldman Sachs characterised Lithuania.

EU membership, of course, is a key factor here. The opening of the single market, substantial EU financial assistance and a significant increase in FDI will be beneficial for the entire country. Specific sectors, such as the manufacturing industry, wholesale and retail and also agriculture are expected to gain even more from the EU enlargement than others. In the years 2004-2006 Lithuania will receive financial assistance from the EU in the amount of EUR 2.7 bn, which accounts for 1.5 - 2.0 % of GDP growth.

However, for the most part the economy is growing because of reformed taxation, finance and market regulation. Generous foreign and national investments, expanding exports and growing domestic consumption have played their important roles in stimulating the Lithuanian economy. Expectations are that in such an environment, a sustainable annual GDP growth of 6 to 7 % in the medium term looks very realistic.

EU membership has also brought along some not-so-welcome changes, particularly those affecting trade regimes with third countries. Of special interest and importance are relations with our neighbours in 'Wider Europe': Russia, Ukraine, Belarus. According to an EU Membership Impact Study, commissioned by the Lithuanian Ministry of Economy in 2003, import to Lithuania from third countries will be 5.9 % more expensive than before. On the other hand, the increase in import costs from Russia will be 'cushioned' by the EU's General System of Preferences (GSP). As far as exports are concerned, Ukraine, as a target market for Lithuanian manufacturers, will become more expensive by some 12-13%. Perhaps, a certain comeback is possible when Ukraine joins the WTO and negotiates a trade regime with the EU. Lithuania is certain to advocate a speedy conclusion to such an agreement, and actively promotes EU perspective for Ukraine. We think that Ukraine belongs to Europe and that she

has to be integrated into the EU's single market. This may happen gradually, over a period of time, when adequate reforms are implemented. Successful and consistent reforms, as indeed in Russia and one day in Belarus also, will have a direct positive effect on economic growth of our entire region.

And then there is also the Kaliningrad Region, another EU borderland in the Lithuanian neighbourhood. Given the favourable geographic location and the positive EU enlargement fall-out effect, the region is in a good position to turn into a very attractive place for business. The long-awaited Targeted Federal Programme for the Development of the Kaliningrad Region up to 2010 should lay the foundations for the economic transformation of the region and provide favourable conditions for foreign investors. In addition, Lithuania is a strong advocate in the EU of adopting a special EU programme or action plan for the economic and social development of the Kaliningrad Region. The transit of people and goods from Russia to Kaliningrad through the territory of Lithuania goes according to the rules agreed by the EU and Russia, to the satisfaction of all the parties involved. However, this operational transit regime is only one important element in the efforts to foster better access and engagement with Kaliningrad. Entrepreneurship is the road to success. Lithuania already happens to be a major partner with the Kaliningrad Region, coming third after Poland and Germany in terms of FDI and first in terms of the number of companies with foreign capital. There are at least 600 Lithuanian enterprises doing business in Kaliningrad. Most of the Lithuanian investments went into the food-processing industry, manufacture of furniture and electrical appliances, the service sector and construction.

The interest of our business people in the markets of our Eastern neighbours is only natural. It is, of course, profit-oriented. But there is more to this than meets the eye. Integrated regional economies will boost our global competitive powers and will bring about stability and prosperity to the whole region. There is, however, one important issue to address in this context, and that is infrastructure. The development of cross-border infrastructure networks is instrumental in building a modern and competitive region. Furthermore, without the adequate infrastructure we will not be able to connect with the rest of Europe.

Construction of the 'Via Baltica' motorway, a major transport artery running through the Baltics and Poland to Central Europe, has been a priority project for the countries involved for a number of years now. As the 'Via Baltica' is nearing its completion, this cooperative approach needs to be put to work in another no less ambitious project known as 'Rail Baltica'. The increasingly congested European roads point to only one viable alternative - railroads. The European Commission has placed strong emphasis on the development of modern railway networks. It is no accident then, that 'Rail Baltica', a brand new European gauge rail track, with high-speed trains running from Tallinn to Warsaw, has been included in the Quick Start programme. The estimated cost of the project, partly financed by the EU, is EUR 3.9 bn. The first stage, a track from Kaunas to Warsaw, is expected to be completed by 2010. This requires rapid and effective cooperation among the countries involved, both in their public and private sectors. A good network of roads and railways, together with the motorways of the Baltic Sea, will help to build an integrated multimodal transport system, which is beneficial to the whole region. Transport and energy issues, of which the construction of a new gas pipeline through the Baltics and implementation of the Power Bridge electricity grid connection to Poland will continue to feature on the Lithuanian agenda. The Baltic Sea Area will not 'breathe' at full capacity if it has no proper outlets to the outside world. EU policies and directives have to be complemented by the New Neighbourhood opportunities and enhanced by the trans-Atlantic partnership. A combination of these three ingredients is also likely to produce the most desirable results for the countries on the Baltic Sea Rim.

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