



MANIFESTATIONS OF ECONOMIC INTEGRATION CONSEQUENCES IN LITHUANIA FOREIGN TRADE

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Received 26 November 2010; accepted 26 February 2011

Abstract. Changes of directions and volumes of Lithuanian foreign trade during the last fifteen years are analyzed in the article. They are understood as the consequences of Lithuania's integration into the EU, which are provided by economic integration theories. The paper consists of introduction, two parts and conclusions. The first part identifies the changes of Lithuanian foreign trade (trade creation and trade diversion) as part of the whole integration consequences system. On the basis of statistic data the scale and directions of trade creation and diversion caused by particular outline of Lithuania's integration – European Treaty enforcement in 1998 and entering the European Union in 2004 – are revealed in the second part. In both cases certain changes occurred in foreign trade – trade diversion refusing one partner and orienting to others as well as trade revival with particular partners. Those changes are named as the proof of Lithuania's economy as the whole and its subjects (enterprises) ability to react to the changes caused by integration processes, which is disclosed in the conclusions.

Keywords: economic integration, foreign trade, trade policy, trade creation, trade diversion.

JEL Classification: F130, F140, F150.

EKONOMINĖS INTEGRACIJOS PASEKMIŲ APRAIŠKOS LIETUVOS UŽSIENIO PREKYBOJE

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Įteikta 2010-11-26; priimta 2011-02-26

Santrauka. Darbe analizuojami Lietuvos užsienio prekybos kryptių ir apimčių pokyčiai, įvykę per pastaruosius penkiolika metų. Jie suvokiami kaip Lietuvos integracijos į ES pasekmės, kurias numato ekonominės integracijos teorijos. Pokyčiai Lietuvos užsienio prekyboje (prekybos augimas (angl. *trade creation*) ir prekybos persislinkimas (angl. *trade diversion*)) yra identifikuojami kaip visos integracijos pasekmių sistemos dalis. Statistiniai duomenys padeda atskleisti prekybos augimą ir persislinkimą, kuriuos sukelia atskirų Lietuvos integracijos metmenų mastai ir kryptys. Užsienio prekyboje įvyko tam tikrų pokyčių – prekybos persislinkimas, atsisakant vienų partnerių ir orientuojantis į kitus, bei prekybos su atskirais partneriais pagyvėjimas. Šie pokyčiai įvardijami kaip Lietuvos ekonomikos ir jos subjektų (įmonių) pajėgumo reaguoti į integracijos procesų sukeltąs permainas įrodymas.

Reikšminiai žodžiai: ekonominė integracija, užsienio prekyba, prekybos augimas, prekybos persislinkimas.

1. Introduction

The concept 'economic integration' can have various meanings. It can be enterprise's integration into a larger concern. It can also have special context, for example, when the integration of region's economy into the country's economy is considered. In this article the concept 'economic integration' is used to characterize the intensity of international economic relations. So the definition of W. Molle is suitable: integration is gradual disappearance of economic boundaries between independent states until economies of those countries start functioning as a unified whole (Molle 2006: 8).

The core element of major integrated economic systems (integration groups) is integration of goods markets – as a certain state and / or continuous process. With the help of legal means (agreements, treaties) states try to repeal obstacles for free mutual trade exchanges. Integration consequences understood this way¹ have begun to be analyzed since the first years of the European Community creation. The first works were attached to the changes caused by classic static consequences, i.e. trade creation and trade diversion (Balassa 1961; Pelkmans 1984). Later, at the end of the 9th decade of the 20th century and at the beginning of the last decade of the 20th century, the new studies related to the analysis of consequences of common market creation and perspectives as well as possible effects of economic monetary union showed.

Lithuania's (as well as of other CEE countries) choice to go on the way of integration to the structures of Western Europe was more of emotional nature that was dictated by rational economic motives. In socioeconomic sense this way was understood as 'suboptimal decision of wealth maximization problem' (Swierkocki, Woreta 1998). Supporters of this way argued their position by the achievements of that time European Community countries, which were derived from integration of those countries' economies. Their opponents stated (and it ran quite convincible) that, first of all, partners' potential and static state in integration processes were very different though, secondly, the present theories referring to which it was supposed to explain the benefit created by the integration, could be inappropriate for such situation (Jovanovic 1997; Molle 2006). In the case of Lithuania those fears were strengthened by the fact that country's economy almost had no direct relations with Western Europe until getting back its independence.

Nowadays after almost fifteen years passed since entering into first economic relations with the EU regulated by agreements and the analysis of integration to the EU consequences could help to dispel (or confirm) mentioned doubts. During this period various aspects of international impact on countries economy caused and still cause the interest of scientists in Lithuania (Piesarskas *et al.* 2003; Lietuvos integracija... 2007; Starkevičiūtė 2007; Melnikas 2008; Žitkus, Žitkienė 2008; Davulis 2009; Travkina, Dudzevičiūtė, Maciukevičienė 2009) as well as in other countries: Czech Republic (Kraftova, Kraft 2004), Latvia (Rivza *et al.* 2010), Poland (Stawarska 1998; Kawecka-Wyrzykowska 2001; Niemiec 2008; Olczyk, Wolszczak-Derlacz 2009). The problem – whether the changes, which can be explained by regularities of economic integration, occur in Lithuania's economic relations with other countries – is discussed in this work. Integration consequences, first of all, reveal in foreign trade, therefore they are disclosed by the changes, which occurred in the last fifteen years in this field.

The aim of the work is to identify changes occurring in Lithuanian foreign trade, which could be ascribed to integration consequences formulated in scientific literature.

In order to attain the aim the *following objectives are formulated*:

- to explain development of legal basis of Lithuania's foreign trade relations;
- to determine the position of foreign trade changes in the whole (system) of economic integration consequences;
- to reveal Lithuanian foreign trade changes mostly related to integration processes.

Methods of the research: analysis of scientific literature, legal statements and statistical data, synthesis of information obtained during the analysis.

2. Development of legal basis of Lithuania's foreign trade relations

As supporters of functionalist theory of the European integration state (Jovanovic 2006; Misala 2009; Molle *et al.* 2009), integration process occurs in the following sequence: first of all, international legal basis to eliminate obstacles for economic cooperation is created (agreements, directives and other legal statements); then policies of particular countries and entire integration group are adjusted so that those changes (elimination of obstacles) occur as smooth as possible in order to cause less painful social, cultural, demographic and other consequences; finally, 'real' integration occurs while running market mechanisms when economic subjects using possibilities provided by international agreements develop their economic cooperation.

¹ All economic, political, social and other changes caused by integration process are considered as integration consequences in this article. As well it is believed that economic consequences are initial and show earlier than others, though their reasons can be (and probably are) political (Tsoukalis 1998).

Though impact of the EU integration on the development of Lithuanian foreign trade in the last decade of the 20th century is not estimated homogeneously (Morkeliūnas, Žiaunys 2000; Vilpišauskas 2000; Bražukienė 1998, 2005; Jakutis *et al.* 2007; Bernatonytė, Normantienė 2009), it is obvious that foreign trade directions and amounts of Lithuania as the member of the EU are significantly influenced by single market and common trade policy. As Lithuania gradually is integrating into the EU structures, the strength of economic systems (trade exchange obstacles) changed as well: after corresponding agreements coming into force (Table 1), many favourable conditions for mutual trade formed.

Principles of trade regulation between Lithuania and non-EU countries are much more complicated. The EU member states in their trade relations with the third countries are represented by the European Community by making agreements with them. Due to a great diversity of these agreements between the EC and the third parties, their uniform classification has not been developed. Special literature (Nicoll, Salmon 2002) distinguishes two types of these agreements:

- commercial agreements, including agreements on duty unions;
- mixed agreements covering not only trade, but, also, other issues of economic and political cooperation.

Table 1. The deepening of Lithuania's integration to the EU

Year	Agreement	Integration period
1992	Trade, commercial and economic cooperation agreement	Concession of greatest favour status for partners
1995	The European (Association) Treaty (came into force in 1998-02-01)	Free trade area since 2000 and immediate elimination of export duties and quantitative limitations for Lithuanian goods
2004	Treaty of the EU membership (2004-05-01)	Accession to the EU common market

The nature of commercial agreements might be preferential or non-preferential. Non-preferential contracts designed for goods exchange regulation are not numerous. They are concluded to fix trade conditions for particular goods in compliance with the status of greatest goodwill. With a view to export development, preferential contracts are more important as they provide some advantages for the partners: e. g. reduced duty tariffs and / or lifted commercial restrictions.

Preferential agreements are characteristic of different degree of 'strength'. The higher is the degree of preference, the fewer barriers remain for the products of one country to get into another country's markets. The agreements made by the EC listed in the order of declining preferential strength are the following (Unia Europejska 2001):

- duty union between the EC and third countries,
- free trade zones,
- bilateral preferential agreements,
- trade contracts providing no preferences, but rather confirming cooperation principles fixed by WTO (non-preferential contracts).

The wholeness of the above-mentioned agreements between the EC and third countries constitute a rather complicated system; therefore, to elucidate it, the metaphor of a target can be used. The centre of the target is the home market of the EU, and the concentric circles around the centre are the markets of the third countries, which have made contracts with the EC of different 'strength'. The more barriers in trade are eliminated, the closer to the centre the market of any country moves (Fig. 1).

Duty Union between the EC and Third Countries. According to this scheme, the closest to the centre (home market) is Turkey, the agreement between which and the European Economic Community on duty union was signed on 12 September, 1963.

In June, 1993 The Council of the European Summit in Copenhagen fixed a new term for the duty union with Turkey. The main principles of this union came into force on 1 January, 1996. Based on this, the tariff barriers between the EC and Turkey for manufactured goods and processed food products were lifted.

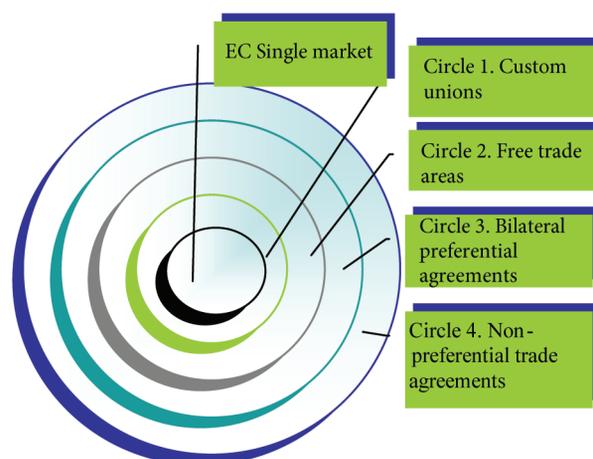


Fig. 1. EC economic boundaries: 'target' metaphor

In addition, Turkey fulfilled a number of the obligations related to the security of intellectual, industrial and commercial ownership (within three years from the creation of the duty union). Some problems in harmonizing the right for competition, particularly in the area of the state's assistance, are felt. All this provides favourable conditions for the partners of the EC in the Turkish market similar to those in the EC.

At the end of the 1980s the Community made a decision to conclude agreements on duty union with Andorra and San Marino. The transitional agreement on trade and duty union with Andorra was signed on 28 June, 1990 (OJL 374/90, 31.12.1990), and with San Marino on 27 November, 1992 (OJL 359/92, 9.12.1992). Even though some points of these agreements (on environment, communications, transportation, etc.) have not been fulfilled yet, the regulatory statements on the functioning of the duty union between these countries and the EC came into effect without much difficulty. It was, most probably, because of the fact that both Andorra and San Marino are small countries (with 72 and 26 thousand of population, respectively), their economies being closely interrelated with the neighbouring France, Spain and Italy, i.e. member states of the EC.

Free Trade Areas between the EC and Third Countries. The countries framing free trade areas with the EC form the second circle of the 'target'. This circle covers the countries of the European Free Trade Association. Since the very start of this organization its members were important trade partners of European Communities. After 1973, when Great Britain, Ireland and Denmark joined the European Community, other EFTA countries, which feared for negative effects of this expansion, concluded bilateral agreements with the EC on free trade in manufactured goods. The main aim of these agreements is bilateral trade development and observance of competition principles. The reduction process of duties and quantitative restrictions was ended until 1977. The above-mentioned bilateral agreements (with Finland excluded) contained so-called evolutionary stipulation providing the possibility to expand cooperation with other countries. Later it was agreed on closer cooperation in transportation, research and environment, and such countries as Portugal, Austria, Sweden, and Finland became the EC member states. With the intensity of integration among the EC countries, EFTA countries started actions for consolidating economic and institutional relations with the main trade partner at the end of 1980. In 1992 the Agreement on the European Economic Area was signed; it came into force on 1 January, 1994 in Portugal (OJL 1/94, 1994-01-03). Switzerland, though signed the agreement, did not join the EEA because the referendum failed.

Presently, most EC Single market regulations are in force in the countries of EEA. It means that economy subjects of the EC countries are not only free to trade in the markets,

but also pursue economic activity in setting up new companies, agencies or affiliates. Provision of services in the EEA countries has been liberalized, i.e. the service providers of outside countries are treated in the same way as the local ones. The principle of free mobility of capital covers most of the forms of capital transactions.

Switzerland, as mentioned above, does not belong to the EA. Its trade relations with EC are regulated by the 1972 agreement on free trade area covering trade in manufactured goods. On 21 June, 1999 seven agreements on free mobility of people, liberalization of land, air and transportation services, agriculture, public orders, mutual recognition of technical requirements of products and cooperation in research and technologies were concluded. In 2001 the negotiations on four more agreements, i.e. on environment, statistics, trade in raw agricultural products and prevention of fraud were started.

Bilateral Preferential Agreements. On signing the EC bilateral preferential agreements the countries form the third circle of the 'target'. In this circle two segments, which differ in a degree of closeness of cooperation between the countries of these segments and the EC, can be distinguished.

Segment 3A: Countries of the Mediterranean Sea Basin. The basis of the EC policy with respect to these countries was so-called Barcelona Declaration (COM 72/95). This declaration was signed by EC countries and 12 states of the Mediterranean Sea Basin: Morocco, Algeria, Tunisia, Egypt, Israel, Jordan, Palestinian Autonomy, Lebanon, Syria, Turkey, Cyprus and Malta. The Barcelona Declaration provides the establishment of 'Euro-Mediterranean Partnership' in economic, financial, political and socio-cultural areas until 2010 (this partnership at the moment does not include Malta, Cyprus and Turkey), alongside with the issues of the establishment of economic stability areas, development of human resources, etc., the partnership aims at the establishment of the Mediterranean Free Trade Area – MEFTA. This area (covering only the trade in manufactured goods) has to be created based on bilateral agreements of the Association (Table 2).

Segment 3B: The Countries of Africa and of the Basins of the Caribbean and Pacific Oceans. The relations between the countries of these regions and the EC are controlled by partnership agreements signed on 23 June, 2000. The main aims of these agreements are consistent with development of the economy of the countries of the above-mentioned regions and integration into the world economy. The principles of mutual trade set forth in the agreements, provide unilateral preferences (in compliance with the 4th Lome Conference) and their amendments. Between September 2002 and the end of the transitional period (i.e. up to the end of 2007) the negotiations on the Economic Partnership Agreements between the EC and several countries of the

Table 2. Bilateral Association agreements between the European Community and the countries of Mediterranean Sea Region

Country	Expiry of negotiations	Signing of agreements	Agreement coming into force	Announced
Tunisia	June, 1995	1995-07-17	1998-03-01	OJ L 97/98, 1998-08-30
Israel	Sept., 1995	1995-11-20	2000-06-01	OJ L 147/2000, 2000-06-21
Morocco	Nov., 1995	1996-02-26	2000-03-01	OJ L 70/2000, 2000-03-18
Palestine	Apr., 1996	1997-02-24	1997-07-01	OJ L 187/97, 1997-07-16
Jordan	Apr., 1997	1997-11-24	–	–
Egypt	Apr., 1997	–	–	–
Lebanon, Algeria, Syria	negotiations in progress			

region were planned. One element of these agreements will be the principles of free trade between partners to come in force starting with 1 January 2008.

Non-preferential Agreements. Among countries, which have signed ordinary (non-preferential) agreements, several groups comprising individual segments of this circle can be distinguished.

Segment 4A: Commonwealth of Independent States. In the 1990s the EC signed Agreements of Partnership and co-operation with the countries of this group (Table 3). The countries involved in this agreement provided the most favoured status in their trade relations; however, this does not prevent the establishment of free trade areas or even duty unions. It was agreed not to apply any quantitative restrictions for the trade in manufactured goods. Besides, the agreements provided a tax-exempt policy on goods from partner states. This provision also covers transportation, distribution and sales of goods, as well as making use of these goods. The non-discrimination principle is applied for direct investment, too. The countries also undertook to observe the laws on the intellectual and industrial property protection.

Apart from Partnership and co-operation agreements some CIS countries signed sectoral agreements with the EC ensuring an easier way for so-called ‘sensitive’ goods (mostly, textile products) to get into a single market. These are, however, unilateral commitments of the EC.

Table 3. Partnership and Cooperation agreements between the EC and CIS

Country	Signing of agreements	Agreement coming into force	Announced
Ukraine	1999-06-14	1998-03-01	OJ L 49/98, 1998-02-19

Russia	1994-06-24	1997-12-01	OJ L 327/97, 1997-11-28
Moldova	1998-11-28	1998-07-01	OJ L 181/98, 1998-06-24
Kazakhstan	1995-01-23	1999-07-01	OJ L 196/99, 1999-07-28
Kyrgyzstan	1995-02-09	1999-07-01	OJ L 196/99, 1999-07-28
Armenia	1996-04-22	1999-07-01	OJ L 239/99, 1999-09-09
Azerbaijan	1996-04-22	1999-07-01	OJ L 246/99, 1999-09-17
Georgia	1996-04-22	1999-07-01	OJ L 205/99, 1999-08-04
Uzbekistan	1996-04-22	1999-07-01	OJ L 229/99, 1999-08-31
Turkmenistan		negotiations started 1997-05-23	
Belarus	1995-03-06	1996 relations frozen due to political reasons. Transitional agreement in force (1995)	COM (95) 245 final, 1995-03-25
Tajikistan		trade and cooperation agreement of 1999 in force	

Note: The Partnership and Cooperation agreement between Ukraine and Russia is a constituent part of EU strategy (04.09.1999) with regard to these countries.

Segment 4B: Agreements with South American Countries. In 1995 the EC signed the Inter-Regional Framework Cooperation Agreement with Southern Common Market (MERCOSUR) countries. This agreement came into effect on 01.07.1999. The agreement provided closer relations in the areas of product standard harmonization, simplification of customs procedures, protection of intellectual property, investment, research and other areas of economic cooperation.

In November 1999 the negotiations on the new agreement providing the association between the EC and MERCOSUR were launched. The trade matters (reduction of duty taxes) started to be discussed only in 2001. The free trade area between the EC and MERCOSUR was established in 2005. The negotiations also discussed the issues of protection of intellectual property, competition, politics, public orders, trade in services, etc.

Segment 4C: Asian Countries. Early in 1990 the EC started negotiations with the Association of South-East Asian Nations (ASEAN), which led to the conclusion of the framework agreement. This agreement provided the development of trade relations beneficial for both parties. The EC's interest in this region started in 1997. The programme *New Dynamic* aimed at the improvement of border control and customs system with a view to attract the investors' attention to the region of South East Asia; was launched. The reason is the formation of the ASEAN Free Trade Area (from 1992), which was to be finished until 2003. In 2006 Vietnam joined this area, in 2008 – Laos and Myanmar and in 2010 – Cambodia. Thus the ASEAN market will cover about 500 mill. consumers.

On 1 January 1990 the EC agreement with Gulf Cooperation Council countries (United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait) came into force. The main idea of this agreement was promoting economic relations between the two groups focusing on trade development, technical and industrial cooperation, environment, and since 1996 – research. The countries declared the offshore status for the imported goods from these countries.

Beyond the 'Target' borders: relations with the countries of the 'Triad'. The fact that the EC trade and economic relations with the most developed countries of the world have not been regulated for a long time by any bilateral legal documents is one more paradox of economic organization of the modern world. The emerging conflicts in trade have been and are still solved by applying the dispute settling procedure of the World Trade Organization.

Since May 1998, the relations between the USA and the European Community have been built by the agreement of the Economic Transatlantic partnership. It provides the removal of barriers in bilateral trade (especially, technical) in the framework of WTO, rather than in that of bilateral agreement.

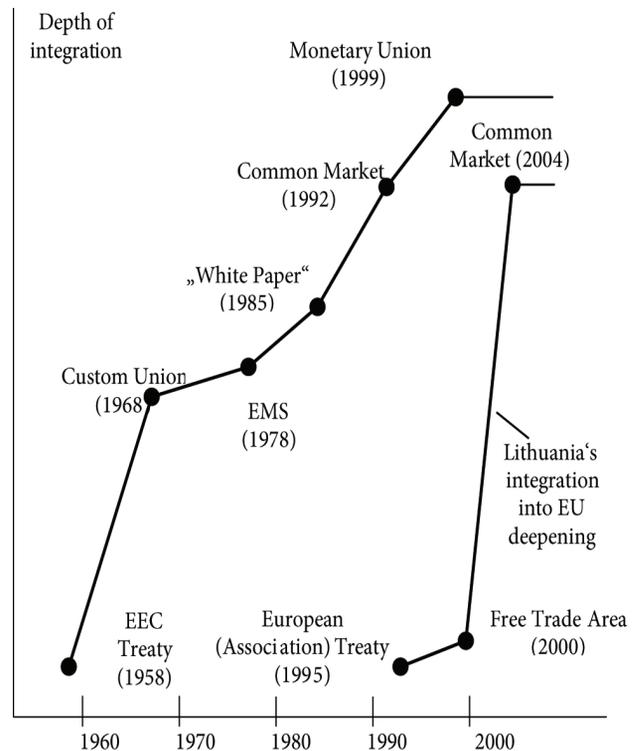


Fig. 2. Comparison of deepening of mutual EU countries and Lithuania's integration to the EU processes (created by the authors according to Dorrucchi *et al.* 2003: 177)

The analogous situation exists in the relations between the EC and Japan in which the regulatory role is performed by insignificant bilateral agreements:

- common declaration on cooperation of 18 June, 1990;
- the structures formed in the framework of the EU – Japan Industrial policy and Industrial Cooperation Dialogue of January 1993;
- Trade Assessment Mechanism (1993), aimed at facilitating the export of EC goods to Japan.

Within the framework of the new approach to the relations with developed countries the European Summit meeting adopted the decision on intensive economic cooperation programme between the EC and Japan (June 1999). One of the elements of this programme should be agreements on the security of research and technologies exchange and competition.

The intricacy of the EC relations with the third countries leads to a complicated problem in the efforts to systematize them. The 'strength' of the EC economic boundaries is outlined not only by trade matters; but also by a multitude of other nuances discussed in different meetings. The metaphor 'target' offered here as well as others, e.g. 'preference pyramids' (Unia Europejska 2001) is purely of the illustrative nature.

3. Position of foreign trade changes in common system of integration consequences

It should be noticed that deepening of the EU integration of Lithuania and other CEE countries was going on much faster than mutual integration of old EU countries (Fig. 2). This fact also increased the doubts about Lithuania's ability to "absorb" integration consequences.

Summarizing abundant enough information about variety of integration consequences (Molle 2009: 19) the following criteria of their classification can be distinguished:

1. Manifestation field of consequences.
2. Manifestation time of consequences.
3. Manifestation level of consequences.
4. Nature of consequences.

Figure 3 shows the classification of integration consequences according to the above-mentioned criteria.

Broadening the classification scheme provided by W. M. Orłowski (Kawecka-Wyrzykowska 1999), the following qualitative economic consequences can be distinguished:

1. Classic static short- and middle-term consequences:
 - trade creation;
 - trade diversion;
 - reviving 'terms of trade' with the third countries.
2. Classic dynamic middle- and long-term consequences:
 - growth of competitiveness and activity efficiency;
 - scale economy effect of production;
 - allocation optimization of production factors;
 - derivative consequences:
 - investments growth;
 - growth of number of large enterprises;
 - "learning" effect;
 - development of technological advance;
 - effect on "benefit spread".
3. Specific long-, middle- and short-term consequences of adoption to the rules of single market:
 - growth of technical, social, work security, environmental, health security standards;
 - growth of activity efficiency due to formation of more rational structures, specialization deepening;
 - growth of production flows due to abolishment of physical obstacles;
 - spread lightening of new products, technological innovations, and growth of the role of information systems.

4. Specific consequences of establishing common currency:
 - decrease of costs related to currency operations;
 - decrease of risk due to fluctuating currency exchange values;
 - growth of prices stability and clearness and growth of trust in single market (and integration processes in general) related to it.

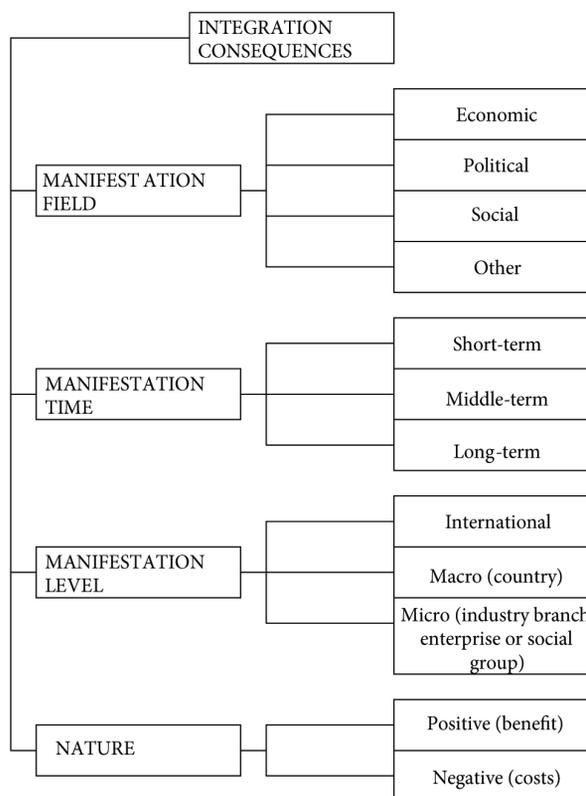


Fig. 3. Integration consequences and criteria of their classification (created by the authors)

In order to attain the formulated aim it will be searched for effects of trade creation and trade diversion in Lithuanian foreign trade in the next part of the article. According to economic integration theories (Pelkmans 1984; Molle *et al.* 2006) trade diversion is refusing one of trade partners and orientating to the other ones with whom integration group is being created; trade creation is sudden increase of trade volumes due to better trade conditions. Those two effects are ascribed to economic short-term (also called as static) consequences by the above-mentioned theories.

4. Lithuanian foreign trade changes related to integration processes

Lithuanian economy is characterized by significant openness. The ratio of export and GDP between the years 1996 and 2007

grew up from 32.4% to 43.7% and that of import from 47.3% to 62.3%². The figures show that Lithuanian economy is largely dependent on the possibilities of trade and cooperation with foreign partners. Integration processes have been created and keep those tendencies. It should be noted that the formation of the integration group means not only the strengthening of cooperation with some partners; but also dissociation from other partners, which do not fall into this group (Molle 2006: 11). When the conditions of mutual trade provided by certain agreements change, the volume of mutual trade also changes. Such changes are conspicuous in Lithuanian trading relations with the main partner groups, i.e. countries of the EU and CIS (Union of Independent States) (Fig. 4).

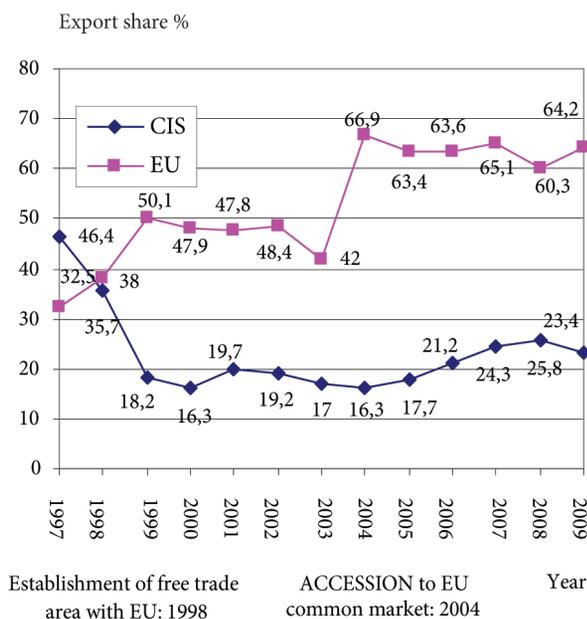


Fig. 4. Range of Lithuania's export to the EU and CIS countries (own calculation on the basis of Lithuania's Statistics Department data)

Within the period under discussion, the cases are distinguished when Lithuanian export to the countries of both groups and import from them faced dramatic changes. Between 1998 and 1999, when the European Treaty came into force, Paragraph 3 of which 'Free movement of goods' provided the establishment of free trade zone for industrial goods, the essential reorientation of Lithuanian export occurred³. The so far dominating export to the East (CIS) succumbed to the export to the West (EU).

² Authors' calculation on the basis of Lithuania's Statistics Department data. It should be noted that during past few years (probably due to the crisis) import slightly decreased the ratio of export and GDP was 44.5% in 2009.

³ Though it was fixed in the treaty to create free trade zone until 2000, customs and quantitative limitations of export from Lithuania to EU countries have been repealed as soon as the treaty came into force (1 January 1998) following the principle of asymmetry.

Lithuania's entering into the EU (in 2004) did not cause the increase of trade diversion effect: the increase of export share to the EU is explained by increase of member states of this group and decrease of export share to the CIS was insignificant. Besides, later this share grew up slightly probably due to the export increase of certain groups of the goods (most likely food and cars).

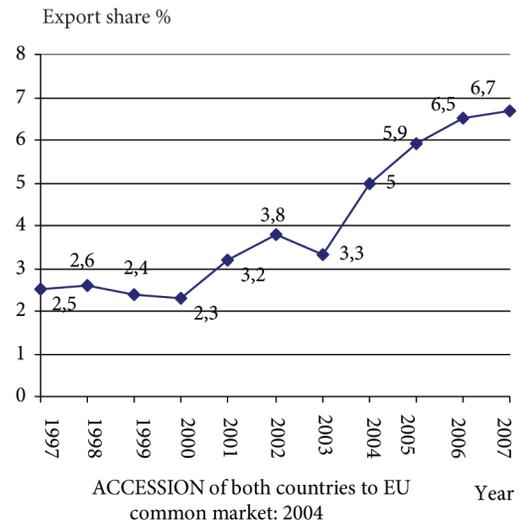


Fig. 5. Range of export of Lithuanian goods to Estonia (own calculation on the basis of Lithuania's Statistics Department data)

It should be noted that Lithuania's accession to the EU customs union eliminated the economic borders with the new Member States. As a result, the trade exchange between them and Lithuania has been developing at an accelerated rate. Lithuanian export to as many as 9 new states, up to 2003 ranging around 18%, in the year 2004 amounted to 21.4%, and in 2007 – 26.6% of the total export. The import grew from 17.3 % in 2004 up to 23.3% in 2007, respectively. In the year 2004, the Lithuanian exporters 'discovered' Estonia, which led to the change in the tendencies of goods flow from Lithuania to this country (Fig. 5). In turn, Lithuanian market was 'discovered' by Polish manufacturers (Fig. 6).

Of course, changes in foreign trade are caused not only by integration processes. Another event, which made significant influence on the change of 'strength' of economic borders between Lithuania and other countries, was the accession of Lithuania to the World Trade Organization (WTO) in 2000. Following the year 2000, the export to such countries, as Turkey and the USA almost doubled (Fig. 7). After Lithuania joined the EU (2004), the export to the USA increased significantly. It is explained by so-called effect of terms-of-trade changing: the EU and the USA having certain agreements till that time which controlled mutual trade while Lithuania had no such agreements.

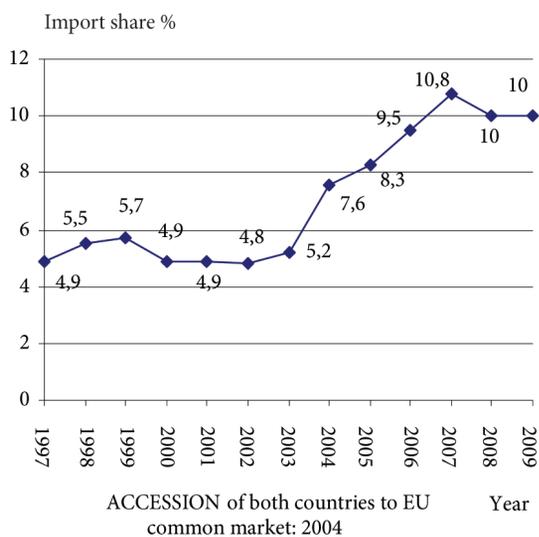


Fig. 6. Range of import of Polish goods to Lithuania (own calculation on the basis of Lithuania’s Statistics Department data)

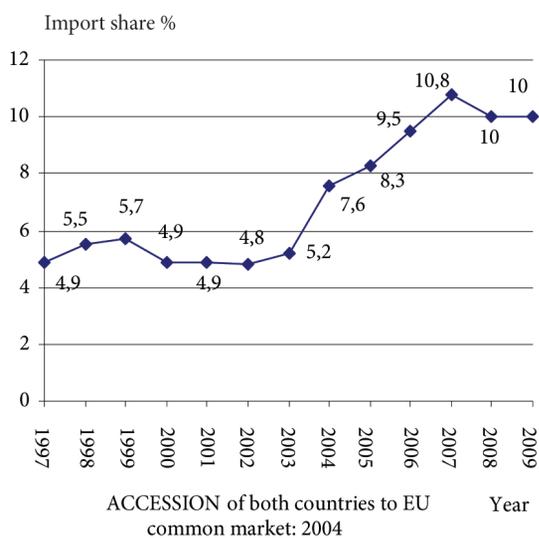


Fig. 7. Lithuania’s export to Turkey and the USA (created by the authors on the basis of Lithuania’s Statistics Department data)

Of course, changes in foreign trade are caused not only by integration processes. Another event, which made significant influence on the change of ‘strength’ of economic borders between Lithuania and other countries, was the accession of Lithuania to the World Trade Organization (WTO) in 2000. Following the year 2000, the export to such countries, as Turkey and the USA almost doubled (Fig. 7). After Lithuania joined the EU (2004), the export to the USA increased significantly. It is explained by so-called effect of terms-of-trade changing: the EU and the USA having

certain agreements till that time which controlled mutual trade while Lithuania had no such agreements.

A limited coverage of this paper prevents detailed analysis of the changes in Lithuanian trade exchange, the index of disappearance or emergence of economic borders. The analysis of trade with certain EU or CIS countries, or of the movement of certain goods groups, would, beyond doubt, provide a wider and more convincing picture of the phenomenon of the emergence, existence or disappearance of economic borders under the influence of integration processes.

Conclusions

1. Despite the mentioned remark, the provided information shows that in Lithuania’s relations with other countries integration processes perform the role that is provided by economic integration theories. Disappearance of economic boundaries with the major part of Western Europe countries gives opportunities for Lithuanian economic subjects to expand goods exchanges with particular subjects from other countries. As the derivative result of this expansion more rational industrial structure of our country develops, disposed resources are used better, effects of scale and learning appear, other changes occur named as long-term (dynamic) integration consequences in the first part of this article.

2. The greatest change of Lithuanian foreign trade related to the integration is so-called effect of trade diversion. After the European Treaty came into force significant over-orientation of Lithuania’s export from ‘East’ to ‘West’ occurred in the period of 1998–2000. New orientation remained unchanged for the whole decade. Probably, despite greater competition in Western Europe countries Lithuanian manufacturers choose the activity in more stable politically and economically markets of those countries. Though it is not spoken about it in the article, it should be noted that there was not such significant effect of trade diversion in the case of import. It can be explained by the fact that major part of the import from CSI is set from raw materials (for industry and energetic) that cannot be changed by the import from Western Europe.

3. The facts under discussion have the reflection at microeconomic (enterprise) level too. Goods manufactured by enterprises are the objects of trade exchanges, therefore changes of Lithuania’s export and import correspondent with the statements of integration theories show the ability of country’s enterprises to react adequately to the changes caused by integration processes.

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