

## **Lithuanian experience with WTO membership**

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After six years of entry negotiations, on May 31, 2001, Lithuania formally became the 141st member of the WTO. The Lithuanian way to the full fledged WTO membership started on September 1992, when Lithuania became GATT observer. Formal Lithuanian WTO membership negotiations started on September 1994 and lasted unusually long. Lithuania was in fact the last of the new EU countries to enter the WTO. Delay was caused mostly by the tough Lithuanian position on farm subsidies and restrictions on imports of agricultural produce, also by internal fears mostly from agricultural and textile industry groups.

Now, when almost five years have passed since Lithuanian WTO entry it can be conclusively stated that WTO membership brought in significant benefits for Lithuanian economy. Membership in WTO liberalised the Lithuanian trade regime and freshened up the Lithuanian economy. Membership in WTO opened to Lithuania markets of 140 countries along with a status of most favoured nation and non-discrimination principle.

Without a doubt WTO entry helped Lithuania to finally recover from the recession induced by the Russian economic crisis of 1998-1999. Tough WTO entry requirements required Lithuania to enact legal reforms in line with WTO standards in the fields of trade regulations, customs procedures and customs valuation, fito-sanitary requirements for imports. All this came in line with the EU entry conditions, hence WTO membership did advance Lithuania's EU accession. Moreover, Lithuanian membership in the WTO gave Lithuanian industries closer access to the EU markets even before the EU accession, thus allowing better preparations for the Common Market conditions.

As a result of WTO entry, Lithuania became more attractive for foreign investment and business outsourcing, since the WTO membership is a token of predictable trade policies outside and inside the country, preventing political experiments that are limited by WTO membership obligations. WTO membership also certifies more guarantees to local and foreign investors through more transparent, reliable and predictable trade rules.

At the enterprise level WTO membership gave better access to international financial markets, export markets for Lithuanian produce, even though it also revealed the need to increase innovativeness, efficiency, and productivity of the national economy. WTO membership also opens up local market for cheaper imports, thereby increasing competition. This is directly advantageous to consumers, which can divert their earnings for better quality of life, and is indirectly beneficial to the businesses by requiring them to gear up for the competition in the global markets, focus on prospective product, phasing out of non-competitive products, and in general more efficient country economic policies.

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-To illustrate the above consumer benefits it is worthwhile to mention that as a result of the WTO entry Lithuanians reduced gasoline import duties from 15% to 10%, what drove gasoline prices and general consumer prices (most of which account for the gasoline price changes) down. As a result of the WTO entry Lithuania had to repeal sugar excise tax and reduce sugar import tariffs, what contributed to decrease in consumer prices for sugar and most sugar containing products. Reduced bureaucracy and market access can be illustrated by significantly reduced stamp duties and licensing requirements for import and wholesale of alcohol, oil products and certain financial services. The WTO accession

facilitated and increased pace of inevitable reforms, especially reform of agricultural policies, privatization, etc.

Despite the fears, WTO membership did not brought-in any liberalization revolution for Lithuania – 60% of all foreign trade was effectively unrestricted (no import duties or import duties below WTO requirements), while following the WTO membership import restrictions on 40% of imports were mostly reduced. This has somewhat resulted from a lengthy entry negotiations, since Lithuania took time to gradually decrease import duties and restrictions on certain goods (e.g. textiles, leather products).

Neither microeconomic nor macroeconomic data suggest any WTO entry shock for Lithuanian economy. It must be noted that Lithuanian economic indicators were growing prior to WTO entry and even picked a healthy pace after the WTO entry. Immediately past the WTO entry in 2001 Lithuania GDP grew at 6.4% annual rate and accelerated to the record 10.5% in 2003. Lithuanian exports to WTO members noticeably increased past WTO accession and continue to grow. Summary of Lithuanian foreign trade can be seen in the table below:

|             | Export  |          | Import  |          | Balance |          |
|-------------|---------|----------|---------|----------|---------|----------|
|             | mln. Lt | mln. USD | mln. Lt | mln. USD | mln. Lt | mln. USD |
| <b>1999</b> | 12015,2 | 3003,8   | 19337,9 | 4834,6   | -7322,7 | -1830,8  |
| <b>2000</b> | 15237,5 | 3809,4   | 21826,0 | 5456,6   | -6588,5 | -1647,2  |
| <b>2001</b> | 18332,0 | 4583,0   | 25413,2 | 6353,4   | -7081,2 | -1770,4  |
| <b>2002</b> | 20290,7 | 5475,6   | 28562,2 | 7709,4   | -8271,5 | -2233,8  |
| <b>2003</b> | 22145,1 | 7162,4   | 30268,7 | 9803,8   | -8123,6 | -2641,4  |

It must also be noted that impact of liberalization on some fragile traditional economic sectors was dampened in Lithuania by the WTO allowed exceptions (transitional 5 years period to reduce import duties). Lithuania took advantage of transitional import tariffs for traditional beer and mead industries.

Additionally, further advantages of the WTO membership shall be mentioned. WTO is increasingly becoming the forum for further liberalization of world trade – e.g. cutting of farm subsidies in the developed world and opening markets for imports from developed countries, as suggested by the results of the Doha rounds of negotiations.

WTO also provides a working mechanism for resolving international trade disputes, resulting in enforceable solutions. Best examples of such mechanism working is the EU lost case on agricultural produce export subsidies or the US lost case on steel import tariffs, introduced by Bush administration during the first term. If not the WTO mechanisms, the above would have led to lengthy and mutually disadvantageous trade confrontations.

Summarising the above it shall be noted that despite numerous fears WTO membership is clearly beneficial for economies of the transition countries, as clearly proved by the Lithuanian case. WTO membership clearly brought export driven benefits for Lithuanian businesses and cost saving advantages for Lithuanian consumers. All this contributed to the considerable growth of the Lithuanian economy past the WTO accession.

It must be recognised though that the importance of WTO membership for any country will depend upon the ability of institutions, officials, businesses and consumers to make use of all the benefits, rights and obligations the membership provides – it is not enough to be passive partner, the country has to be active and make use of all that the WTO can give.

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