

## THE ECONOMIC DEVELOPMENT AND FOREIGN TRADE OF LITHUANIA

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### INTRODUCTORY REMARKS

THE BARE facts and figures of Lithuania's Foreign Trade in the years 1923—1939 wouldn't mean much to the reader of this article without repeating some of the data about Lithuania's general development and economic background.

Lithuania is one of the Baltic nations (the others — Latvia, Estonia, and Finland) situated on the seashore of the Baltic Sea, which is also bordered by Poland, Germany, and across the sea, Sweden.

According to the Peace Treaty of July 12, 1920 with Russia, Lithuania's territory was to be 33,937 square miles and was to have a population of 3.8 mil. However, a large part of it, 12,448 square miles, including the state capital of Vilnius, was occupied by Poland on October 9, 1920, and held until October 1939.

On March 22, 1939, Germany, under the threat of invasion, forced Lithuania to surrender Klaipeda, its only port, and the surrounding territory of 1,100 square miles with its population of 153,793. After Poland's collapse in September of 1939, Soviet Russia seized Vilnius and, according to the Mutual Assistance Pact of October 10, 1939, returned it to Lithuania together with a fraction, 2,569 square miles, of its territory. However, 8 months later, June 15, 1940, Soviet Russia invaded and by its armed forces occupied the whole of Lithuania. A year later on June 23, 1941, immediately after the initial attacks the Lithuanians started a violent uprising against the Russians but shortly afterwards the Germans overran Lithuania and suppressed its newly organized national government. In October of 1944, the Russians seized the country again and, against the will of the population, have occupied it till now as the Soviet Republic of Lithuania, retaining the capital Vilnius, the Baltic port of Klaipeda, 24,058 square miles of territory, and a population of 3.04 mil.

However, our figures, covering only 21,489 square miles of territory and 2.7 mil. population, exclude a part of Vilnius and its inhabitants which was regained only in 1939.

The so-called Soviet Republic of Lithuania, the creation of the Russian Communists' forceful regime, with its territory of 24,058 square miles should have at present a population of at least 3 mil., but, by the newest unreliable statistics, it has only 2.77 mil. inhabitants. This is the result of Sovietization, collectivization, and mainly of the deportation and extermination of those suspected as "enemies of the people".

### LITHUANIA'S ECONOMIC STRUCTURE

76.7% of the inhabitants live on farms and villages and the remaining 23.3% live in the towns, of which the biggest ones are: Vilnius, the capital, with 235,000 inhabitants; Kaunas — 170,000; Klaipeda — 58,000; Šiauliai — 35,000; and Panevėžys — 27,000. The average density of the country's population is estimated at 118.6 per square mile. 80.6% of the population up to 1939 was Lithuanian, 7.15% Jewish, 4.1% German, 3.04% Polish, and 2.34% Russian.

Lithuania is predominantly an agricultural country, with 76% of the population engaged in farming; therefore, the products of agriculture have the dominant position in Lithuania's export. Lithuania is lacking in the natural resources that are necessary to a well-rounded economic life. The most serious economic deficiency is the absence of its own fuel supply, coal and liquid fuel — the import of which makes up almost 10% of the country's total import value. Peat is the only form of domestic fuel, and there are considerable reserves in an area of 162,221 acres. Also, deposits of chalk, as a raw material for the cement, lime, and alabaster industries, are important. Clay, material for the ceramic industry, is to be found all over the country, while the sea shores of the Baltic Sea have been known since ancient times for their amber — "northern gold".

In the years of Lithuania's independence, from 1918 through 1940, successful efforts were made to switch from the comparatively excessive grain crop cultures to the modernized, intensive and more profitable, livestock breeding, the production of dairy products, and the export of eggs, flax, lumber, leather, and numerous other half-fabricated agricultural and forest products.

One economic aspect of great importance in understanding Lithuania's economy and foreign trade is the development of the country's currency, as we will see from the figures below.

After the declaration of independence, Feb. 16, 1918, Lithuania was unable to introduce her own bank notes quickly because of the unsettled conditions, and its government signed an agreement with Germany by which the notes of the latter country's "military administration" were to remain in circulation until a Lithuanian bank with its own currency could be organized.

With the establishment of the Bank of Lithuania and the first issue of "Litas" notes on Oct. 1, 1922, began Lithuania's real economic independence — its reorganization.

The Russian pre-war rubles at that time were almost worthless, (0.004 Litas per ruble), and the value of the German "Ob ost" marks was just a fraction of the original value (181.5 marks for 1 Litas). This caused a tremendous loss to Lithuania's population, wiping out everybody's savings and creating chaotic credit conditions. Of course, Russia and Germany were to be blamed and made responsible for these conditions, Lithuania had the right to demand reparations, but, as a matter of fact, she never received a penny from either the Russians or the Germans. Instead, several years later the same "peaceful" powers also took Lithuania's independence along with its savings and prosperity.

The issue activities of the Bank of Lithuania reached an all-time peak in April, 1939, with 181.65 million Litas in circulation and with 49.1% coverage in gold and foreign equities, mostly United States dollars (1 Litas equals 0.150462 gram of fine gold as U.S. Federal Reserve Bank notes represent the treasury's silver deposits, after the redemption of gold parity of U.S. currency, in 1931). The Litas was never devalued and it held its original gold parity until the Soviet occupation on June 15, 1940, which destroyed the financial structure of Lithuania entirely. The ruble was substituted for the Litas at nine-tenths of its value. Later on, the German currency was substituted for the ruble at a rate of one-half mark to a ruble. Nevertheless all the savings accounts of over 1,000 litas (approx. \$165.00) were confiscated by the Bolsheviks. In other words, the Lithuanian population lost all their savings again, with the only difference being that this time they lost their political freedom also.

In order to have a clear picture of the value of Lithuania's foreign trade, here are the exchange rates of the Litas into U.S. dollars: in 1932 \$1.00 equaled 10.02 litas, in 1934 \$1.00 equaled 6.42 Litas, and in 1935 \$1.00 equaled 5.99 Litas. Comparing the present official gold price of \$35.00 for 1 ounce or the unofficial market price of approx. 20 or 30 U.S. cents respectively. The latter parity is undoubtedly closer to the Litas' real buying power.

## **FOREIGN TRADE IN GENERAL**

The value of Lithuania's foreign trade increased until 1930, reaching an all-time high of 333.7 million Litas in exports and 312.4 mil. Litas in imports. In the period of 1930 through 1934, because of economic crises in Europe and because of drastically reduced prices of agricultural products on the world markets, foreign trade decreased considerably, reaching the lowest point of 147.4 mil. Litas for exports in 1934 and 128.6 mil. Litas for imports in 1935. Recovery of foreign trade began in 1936, and in 1938 Lithuania's exports showed a value of 233.2 mil. Litas and imports a value of 223.7 mil. Litas.

Let us note here that in 1924, because of very favorable world market prices for agricultural products, Lithuania's exports exceeded her imports by over 60 mil. Litas, while during the following years, except in 1927 and 1928 which had a red balance and in a few years which had about an even balance, the balance of Lithuania's foreign trade is generally favorable.

Commodities involved in export trade experienced considerable shifting from the first years to the last years covered by our figures. Until 1920 the chief exports of Lithuania were lumber and other forest products totaling 40% of the total export value; flax — 34.3% linseed 12.2%, eggs — 3.7%, and livestock — 1.5%. In the years 1921 to 1923, the export picture changed somewhat. Although forest products still retained the most important position, eggs became one of the leading export commodities for some of the following years, reaching 23% in 1921 and 20.2% in 1922; but in 1927 eggs were down to 4.4% and, since then, livestock export constantly increased, rising to 16.2% in 1926 and 21% in 1930.

## EXPORT

After 1925, Lithuania's export statistics were divided into the following five groups:

1. the livestock group (horses, cattle, live poultry, etc.); 2. the good products group (meat, dairy products, eggs, fish, grain, vegetables, sugar, liquors, etc.);
3. the raw and semi-finished goods (raw furs and skins, wool, various livestock products, plants, fodder, timber, lumber, forest products, rags, etc.);
4. the manufactured goods (cosmetics, paints, medicines, dressed furs and skins, spun yarn, tobacco, cigars and cigarettes, underwear, woodcraft products, paper and paper products, ceramics, machinery, etc.); 5. gold and silver.

From 1925 to 1939 the value of exports in the food products group increased from 17.12% to 53.04% of the total, while the group of raw and semi-finished goods decreased from 66.10% in 1927 to 29.80% in 1939. The livestock and manufactured goods groups showed great variation, but failed to reveal any decided tendency toward increase or decrease. Livestock shows 16.56% in 1925, increases to 21% in 1930, drops down to around 7% in 1932 and 1935, and ends again with 16.13% in 1939.

As a result of a protective policy of foreign trade and restrictions imposed by the newly established clearing and licensing regime of imports in the European countries in the last decade before World War II, the percentage of export of manufactured products dropped steadily from year to year and showed 7% in 1925 and about 3% in 1937-38. On the other hand, the steady increase of food products exports balanced Lithuania's foreign trade business out favorably. A major part, approximately 80%, of the dairy products exports were handled by the "Pienocentras" (Central Organization of Local Dairy Cooperative Societies), while the "Maistas" (Food) Corporation played the same role in the field of the meat products exports. Chicago's stockyards would be proud to have the four new ultra-modern and deluxe meat packing plants that Lithuania built in the last 15 years before World War II.

## FLAX EXPORT

Lithuania was the third-ranking flax producer and exporter in the world market, being surpassed only by Soviet Russia and Poland. A little more than 3% of the country's arable land or about 200,000 acres were used for flax growing. The income from flax, tow, and linseed exports in the period of 1920 through 1936 was greater than that from other agricultural products and constituted 26% in 1924, 20% in 1928, and 17% in 1939, of Lithuania's total exports. The average year 1925 through 1929 was 364,000 quintals, against Latvia's 221,000 quintals, Estonia's 100,000 quint, and Poland's 561,000 quint. The same figures for the year 1937 are: 313,000, 231,000, 103,000, 381,000 quintals. Since 1936, the strict control measures of the government have raised the quality, as well as the price and profits, of Lithuanian flax on the world markets.

## IMPORT

While the export list contained only about 500 separate items, Lithuania's imports of 1938 showed that 1,125 separate items were involved. The volume of the imports of the first group of products of the above classification, namely livestock, is small and not of much importance in the list of imports. Livestock was being imported only for the purpose of improving the country's breeding stock.

The second, or food products, group comprises, among other commodities, salted herring, rice, fruits, coffee, sugar, and salt. Within the period of 1924 through 1931, the most significant item of food import was sugar, which in 1924 amounted to 14.4 mil. Litas, increased to 31.7 mil. Litas in 1930 and, after Lithuania established its own sugar refineries in 1931-32, dropped down to only 0.2 mil. Litas in 1938. Salt import does not show any major change and decreased only from 2.8 mil. Litas in 1927 to 1.6 mil. Litas in 1938. The same can be said of the other merchandise of the food products group. For instance, salted herring accounted for 5.7 mil. Litas in 1924, 9.1 mil. Litas in 1927, and around 4 mil. Litas in 1939, while fruits and coffee remained unchanged at a little over 2 mil. Litas and around 1 mil. respectively, yearly and rice moved only between 1.5 to 2.0 mil. Litas.

In the 3rd group — raw and semi-manufactured products — the most significant import items were fertilizers, metals, liquid fuels, coal, cement, and tobacco. Most of these items were very important and irreplaceable by any substitutes. That is why the imports in this group increased from around 21% of the total import value in 1925 to 35.21% in 1939. If we consider the years 1924, '28 and '39 as the average years, the import figures of the above items for these years are as follows: In 1924 the imports of fertilizers account for 6.0 mil. Litas. metals — 5.1, coal — 9.5, liquid fuel — 4.4, cement — 1.9, and tobacco — 1.5. Importation of some of these items doubled a few years later. Therefore, in 1928 the value of fertilizer imports was already 13.2 mil. Litas. metals — 10.7, coal — 11.3, liquid fuel — 9.6, cement 4.7, and tobacco — 3.2. In 1938 the import figures were: fertilizer 10.90, metals — 17.73, coal — 11.00, liquid fuel — 7.35, cement — 6.26, and tobacco — 1.65 millions Litas.

From the 4th and last group, because gold and silver import was of no significance at all, the most important manufactured goods were chemical products, textiles, machinery, metal goods, automobiles, motorcycles, rubber products, and a variety

of apparatus. This group of imports increased a bit every year and accounted for 53.29 percent of the total import value in 1925 and 59.82 percent in 1939.

## TEXTILE IMPORT

Although Lithuania made considerable progress in developing its own textile industry in the year we have mentioned, and in 1939 was already employing 6,561 textile workers, and although it did not export any textile fabrics, the imports of textile products were increasing from year to year. This may be accounted for partly by the fact that rising living standards increased the demand for these products. If the breeds of sheep had been improved to the same degree as were the breeds of cattle, Lithuanian woolen goods would also have improved considerably in quality. Lithuania has no raw cotton and the entire supply must be imported. This is why the manufacturing of cotton fabrics is undeveloped and their import value of 42.3 mil. Litas in 1928, 52.7 mil. in 1930, and 23.0 mil. in 1937, almost half was paid for cotton fabrics, followed by woolen fabrics, cotton spun yarn, and woolen spun yarn.

## FOREIGN TRADE

Great Britain and Germany were the biggest partners in Lithuania's foreign trade and absorbed 66.18% of the total exports and 53.30% of the imports in 1938. The following countries were next in importance in Lithuania's foreign trade: Soviet Russia, Belgium, Czechoslovakia, the Netherlands, France, Switzerland, Denmark, Sweden, Latvia, and the United States.

In 1938 about 40% of Lithuania's exports went to Great Britain and 31% of the imports came from there. Until 1932 Germany held first place and Great Britain second place in Lithuania's foreign trade; after 1932 Great Britain advanced to first place and held this position until the outbreak of World War II in 1939. In 1938 Lithuania's total exports to Great Britain amounted to about 92 mil. Litas, and butter took first place among the commodities involved, amounting to 31.83 mil. Litas. It was followed by bacon for 24.1 mil. Litas, then flax and tow 12.5 mil., lumber — 5.26 mil., etc. In the same year the following items were also imported from Great Britain: coal for 8.5 mil., woolen yarn — 7.5 mil., cotton yarn — 5.3 mil., cement — 4.7 mil., etc.

From the first year of Lithuania's independence, Germany, as her nearest neighbor of the West European countries with its important market for agricultural products, was the dominating country in her foreign trade. In 1929 the exports to Germany rose to 59.4%, and since 1932 they decreased sharply every year. Some political factors, the Klaipeda controversy and the like, and a German attempt to obtain political concessions through exerting economic pressure, also played a role in this decrease. The lowest average was reached in 1935, when Germany started a real economic warfare against Lithuania. Exports to Germany that year dropped down to 3.57% and imports to 11.4%. After 1936, when a new trade treaty was concluded between these countries, trade increased considerably; however, it never again reached the heights of 1929 and before.

The value of exports to Germany in 1938 was 62.5 mil. Litas, of which butter took first place with 11.15 mil. Litas, live pigs — 10.08, flax and tow — 5.9 mil., etc. In the same year the following items were imported from Germany: machine parts for 1.86 mil. Litas, machinery — 1.74 mil., chassis — 1.57 mil., motor cars — 1.23 mil., and smaller amounts of textiles, iron rails, etc.

Soviet Russia, although it is another close neighbor, never played an important role in Lithuania's foreign trade. For instance, in 1925 Soviet Russia's part of Lithuania's total exports was 2.77% and in 1929 only 0.39%. In the last decade before World War II the trade between these two countries increased, but in no year reached the level of trade that existed with Great Britain or Germany. In 1938 exports to Soviet Russia amounted to 13.34 mil. Litas or 5.72%, of which live pigs accounted for around 11 mil. Litas. Soviet Russia held a somewhat better position in Lithuania's imports. In 1938 the imports from Soviet Russia amounted to around 15 mil. Litas or 6.7%. In that year 3.24 mil. Litas was paid for Russian liquid fuel, 2.03 mil. for lumber, 1.5 mil. for fertilizer, 1.41 mil. for coal, and 1.04 mil. for salt.

After the outbreak of the war in 1939, Soviet Russia suddenly became interested in Lithuania's market and used this opportunity to advantage in its preparation for occupying Lithuania in 1940. The allied blockade of Germany and the latter's counterblockade, of course, jeopardized the trade between Lithuania and her Allies. The Soviets stepped in and on Oct. 16, 1939, signed a commercial treaty which stated that the turnover of goods between the two countries was to be increased to 40 mil. Litas — 300%. Belgium's part in Lithuania's trade in 1938 was 4.6% of exports and 3.86% of imports; Czechoslovakia had 4.13% and 3.79%; Holland — 3.47% and 4.76%; France — 2.49% and 3.17%; Switzerland 2.2% and 2.84%; and Latvia participated with 1.17% of exports and 1.10% of imports.

Lithuania's trade relations with the United States began in the early years of its independence and was regulated by a commercial agreement dated Dec. 23, 1925, with an "unconditional most-favored-nation treatment". In 1938 the United States took 2.41% or 5.624 mil. Litas of Lithuania's exports, while the imports totaled 8.24 mil. Litas or 3.68%. The peak of Lithuania's imports from the United States was reached in 1925 with 18.31 mil. Litas or 7.25%

## CONCLUDING REMARKS

It is a difficult task to give a sufficiently full and clear picture of Lithuania's economic development and her foreign trade in the limited pages of **LITUANUS**. It must be noted that only the period from 1923 through 1940 has been under observation. No account has been given of the economic development in the period prior to and immediately after World War I; likewise, the present period of Soviet occupation was not included.

When speaking of Lithuania's economic development in the said years, three important factors, limiting to a degree this very development, must be taken into consideration: seizure of Lithuania's capital, Vilnius, in 1920 by Poland, together with almost one third of the State's territory; loss to Germany of the country's only outlet to the sea, the port city of Klaipeda; and finally, the occupation of Lithuania herself in 1940 by the forces of the Soviet Union. However, even, under these tremendous political upheavals, so characteristic of the age, Lithuania succeeded not only in surviving as an economic unit but actually made a progress which was surpassed only by very few other states. Evidence of this progress was the great land reform; the organization of the cooperative system; the unusually quick development of communication and transportation systems; the enormously expanded construction of highways, schools, hospitals, public buildings, etc. Indeed, the progress achieved was of such scope as to give — at least in the case of Lithuania — an indication of what many have doubted; namely, that it is possible for an independent country, although small in size, to prosper economically, a fact which may be envied by some of the largest states of both East and West.

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*\*\*\* One hundred and fifty Catholic priests were arrested in Lithuania during the first year of the Soviet occupation. Every priest had to choose one of two courses to follow: to be deported to Siberia or to spy on other priests and his parishioners. \*\*\**

*Bishop V. Brizgys*