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BALTIC REGION DEVELOPMENT AND THE STRUCTURE OF BUSINESS
ENVIRONMENT IN LITHUANIA

Bachelor's Thesis 2012

ABSTRACT

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Baltic region development and the structure of business environment in Lithuania

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Keywords

Logistics, Baltic region, Finnish trade, international transportation.

This study was commissioned by Posten Logistik SCM Oy. The economy of the Baltic region is growing all the time. Baltic region is getting more important also for logistics because of the location and low operation costs. The Baltic region development is fast and there is all the time more businesses moving their operations towards this region.

The aim of this study was to provide useful and current information for the client. The objective was to help the clients operations in the Baltic region and find ways to allocate their resources correctly.

The research method in this study was qualitative. Interviews were used to have wider perspective for the research. Statistical departments and customs were important source of information for this study.

The Baltic region development is faster than in European union in general. The role of logistic is getting more important in the future with the development. The area is attractive because of the lower production costs and taxation system. The client will have many opportunities in this area and they will profit from the growth of Baltic region.

TIIVISTELMÄ

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Baltian alueen kehitys ja Liettuan liiketoimintaympäristön rakenne

Opinnäytetyö

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Tämän tutkimuksen toimeksiantaja oli Posten Logistik SCM Oy. Baltian alueen talous kasvaa kokoajan. Baltian alueen merkitys logistiikan saralla on tärkeä ja tulee kasvamaan, koska sijainti on hyvä ja kustannukset ovat alhaiset. Baltian alueen kehitys on nopeaa ja yritykset siirtävät toimintojaan sinne jatkuvasti.

Tutkimuksen tavoitteena oli tarjota hyödyllistä ja ajankohtaista informaatiota toimeksiantajalle. Tutkimuksen tavoite oli tukea Baltian toimintoja ja auttaa kohdistamaan resursseja hyödyllisillä tavoilla.

Tutkimusmetodi tässä tutkimuksessa oli kvalitatiivinen. Haastatteluja käytettiin, jotta asiasta saadaan hyvä kokonaiskuva. Tilastokeskukset ja tullin tilastot olivat tärkeässä roolissa tämän tutkimuksen tietoja hankittaessa.

Baltian alueen kehitys on nopeampaa kuin Euroopan unionissa keskimäärin. Logistiikan merkitys kasvaa tulevaisuudessa, alueen kehittymisen myötä. Myös alhaiset tuotantokustannukset ja verotusjärjestelmä tekevät alueesta houkuttelevan. Toimeksiantajalla on alueella monia liiketoimintamahdollisuuksia ja he tulevat hyötymään alueen kasvusta.

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1 INTRODUCTION

This thesis was commissioned by Posten Logistik SCM Oy. Posten Logistik SCM is a logistics service provider in Finland. Posten Logistik SCM belongs to PostNord Ab. PostNord Ab was given birth after the merger of Swedish and Danish posts in 2009. The organisation is operating in the Nordic countries and through an affiliate network globally.

The aim of the study is to provide current and useful information of the Baltic region economy for the client. The importance of Baltic region is becoming greater all the time and businesses are expanding their operations in this direction. The emphasis of the study, in order to provide information of the Baltic region economy, is in the trade between Finland and the Baltic countries, the structure of Lithuanian economy and what is going to happen in the future.

The objective of the thesis is to help developing of the Baltic region operations of Posten Logistik SCM. More specifically the study tries, through a market survey of Baltic region, to provide information and suggestions for aiming the resources correctly. The trade between Finland and the Baltic countries will be studied to find out what are the main industries that are exporting from Finland. This information will be useful for the client also in the Finnish market for finding potential customers.

1.1 Transportation industry

Transportation industry relies much on the ongoing economical trends. For this reason many companies have been struggling with the profitability since the recession started at 2008. The competition in Finland is fierce and all the time new companies are entering the markets in order to compete the market shares. Like always the rising energy prices and in Finland the added taxes to petroleum have made the competition even harder.

For Finland the transportation industry is vital because our location in general and also long distances inside Finland. In 2009 the economy started to recover but there are still big challenges ahead. The volumes of trade between Finland and Baltic region has been growing steadily. Success stories from Estonia and integration of European Union have started to interest companies. In the future companies are moving further

south where the labour and operation costs are among cheapest in the EU. This area will become also important for transportation companies because production and upgrading is moving there but end customers can be anywhere.

Growing population and globalization are increasing the need of international transportation all the time. Also the areas that companies are operating are changing because of trade agreements abolishing the barriers of trade. When Baltic countries joined European Union, companies became more active in sourcing opportunities from these countries. This is because attitudes are changing and business environment is getting better. Also the taxation and active policies of Baltic countries have made the area interesting investment target, near the big markets Central Europe.

In transportation industry mergers and acquisitions are happening constantly. Transportation companies are founded and the bigger players usually buy the ones having potential in order to have better transportation networks. In other words it is a natural growth strategy for the big international companies.

Because the economical fluctuations the more and more companies are also outsourcing their logistics services to cut down fixed cost. Services and materials are sourced in larger scale, basically all over the world, which again increases the total need of transportation.

As well as changes in the markets and ways to do business, political agreements are shaping the industry as well. The integration of European Union has changed the meaning of international transportation. Before all the goods that were moving from one country to another would be classified as international freight. But because of EU the goods that are moving inside EU are classified common transit. So when we think about international transportation, in EU this is happening only when the goods are transported outside of EU. (Hokkanen et al, 2007, 23.)

When we are examining Finnish international transportation we can classify to this category all the transportation where the starting point of goods is inside the borders of Finland or the final destination is outside Finnish border and vice versa. Also the transit traffic through Finland can be classified as international transportation. (Hokkanen et al, 2007, 23.)

1.2 Background of the research

The thesis was commissioned by Posten Logistik SCM where the researcher is at the moment working as sales person. The idea was to provide information of the Baltic region countries. This information would be useful for the organisation in order to support the Baltic operations of Posten Logistik SCM. This would be also useful information because the Baltic region is getting all the time more popular among businesses, which means that it is good to know how the business is working there.

The researcher was asked to concentrate on the ongoing situation of Baltic region economy and specify to one of the three countries, which are Estonia, Latvia and Lithuania. There is also a presentation of the organisation and its operations, because this would give wider view of the goals that PostNord, and Posten Logistik SCM as part of it, are heading in the future.

Like stated in the corporate strategy PostNord, the organisation wants to expand the logistic area and this is managed through organic growth and potential acquisition. The goal is to be the leading logistics company in Nordic area. For this reason it is good to be updated of the ongoing trends of the Baltic region and this is the reason for the study. (Postnord A, 2012.)

From the Baltic countries the main focus in this thesis is given to Lithuania. This was because the client made clear that there is more information available from Estonia and Latvia, but Lithuania is not that known. This made the choice easier because when the research would focus on Lithuanian economy and ongoing trends it would provide more value for the client.

For the researcher the study of Baltic countries would be interesting because the knowledge of the topic is inadequate. For the work in the Posten Logistik SCM the study will give more perspective and information for the researcher in order to understand the customers needs what comes to Baltic business.

1.3 Research focus and limitations

This thesis is trying to give an overview of the economical trends of Baltic region and what are the main goods that are traded between Finland and Baltic countries. Special

focus is given to Lithuania and the structure of its economy and what kind of industries are making investments there.

Baltic countries are differing a lot from each other so there is need to study each of these countries. For this reason there will be a short part on each economy and their trade with Finland. With this it is possible to see links between the countries and how is the economy going to change in the future.

As well as the organisation, the researcher himself will benefit from the study. As working in the sales for the organisation the information is going to be beneficial when searching for new customers. Having the understanding of the Finnish exports to the target areas is going to help in order to find potential fields of business and industries that are having export focused operations.

1.4 Research question

The main research question that this study is providing an answer is:

- ❖ *Finnish perspective to the current state of economy in selected Baltic region countries and the future outlook after recession?*

To be able to answer the main question of this study there have to be an answer for the sub-questions also. These questions are related to the topic and will lead the study to into the main problem.

The sub-questions would be:

1. What are the main goods traded between Finland and selected Baltic region countries, which are Estonia, Lithuania and Latvia?
2. The structure of Lithuanian economy and traded goods?
3. What is going to be the role of selected countries in transportation industry?

1.5 Research methods and material

The research method in this thesis is qualitative. There are many different ways to define qualitative research method but the basis of this study is to represent the real life. Another characteristic of qualitative research is that the topics are studied comprehensively in order to find connections between separate events and occasions. It is also important to create a clear picture of the parts that are affecting the study process. (Hirsjärvi et al, 2007, 157.)

Because the economical indicators are changing rapidly and the statistical data is mostly done quarterly, it is hard to find books or other literal material including this information. For this reason the study tries to find important figures from the databases of statistical departments and customs.

These reports were selected because the information was current. From the reports the goal was to find important information for the client. The report of Lithuania was published by CEMAT during this research. CEMAT is a research unit in the Aalto University, focusing on developing markets. It was including important information regarding the research problems. The parts of Estonia and Latvia are written according to the report that was given during the interview at the Finnish customs.

To control the information and have wider perspective, interviews were also used as study method. The interviews were carried out personally and the method was unstructured interview. This would help to find important information and lead the study into right direction. (Hirsjärvi et al, 2007, 200.)

For this there will be an interview of Area Sales Manager of Posten Logistik SCM, Jussi Järvinen. The other interview is about Kari Ylioja, who is the senior inspector of Statistic service in Finnish National Board of Customs. After this it would be easier to focus on the important facts and create steady base for the coming information and handling it in a correct way (Hirsjärvi et al, 2007, 200).

2 POST NORD AB

Posten Norden Ab was born in June 2009 due the merger of Post Danmark A/S and Posten AB. This was the first merger in the world between national post offices. The company is nowadays operating under the name PostNord AB and it is delivering world-class communication and logistics services in the Nordic region. PostNord is owned by Swedish government (60 percent) and Danish government (40 percent). The headquarters is in Solna, Stockholm. Decision-making is divided equally by the states of Sweden and Denmark. (Postnord B, 2012.)

There are four main business areas that the PostNord AB group operates in. These are Breve Danmark, which is the postal service provider in Denmark and Meddelande Sverige, which is the postal service provider in Sweden. The two other fields are transportation logistics and finally information logistics running under Strålfors. (Postnord B, 2012.)

PostNord AB is the leading service provider in communication and logistics in the Nordic. It employs over 40 000 workers and the main focus is in moving goods and information efficiently to, from and within Nordic. About 29 million deliveries are handled by PostNord every day and the turnover last year was 4,7 billion Euros. Because of the diminishing number of physical letters, companies are looking for new ways of doing business. This is also one of the biggest reasons of the merger. Even bigger players need strong partners and many businesses are seeing the Nordic region already as one market. For this particular reason PostNord AB wants to build strong alliances and cooperation. (Postnord B, 2012.)

Sweden deregulated its postal markets already in 1993 and rest of Europe is following. This means that all the service providers can freely compete on the market so the competition is growing all the time and during the next few years the wind of change will be blowing in the Nordic transportation sector. Even though the letters are getting more infrequent, the logistic need is greater than ever. Logistics is the biggest gainer when we start to think about internet and globalization. When the barriers of trade are abolished and people are able to order their goods, with a click of a mouse, from any place any time the need for logistics is growing all the time. Besides Scandinavia PostNord wants to grow on the Baltic region. Estonia, Latvia and Lithuania are growing markets and more and more production intensive industries are heading there. My

goal is to find these companies and this will be the main focus of this thesis. Next we are going to take closer look at Posten Logistiks SCM Finland, which is responsible of the Baltic operations among logistics in Finland. (Postnord B, 2012.)

2.1 Posten Logistik SCM Oy

Posten Logistiks has been operating in Finland since 2009, after the merger of Post-Nord and the acquisition of four different logistics companies. These were DPD Finland Oy, HIT Finland Oy, Suomen Logistiikkatalo Oy and Sal-Trans Oy. Because all of these companies have unique history, I will briefly explain about the history and how these companies came to Finland. What we have today is brand that operates all the services of these late companies. This way it will give a wide view of the services of Posten Logistik SCM Oy. (Postenlogistik A, 2012.)

2.1.1 DPD Finland Oy

DPD stands for Dynamic Parcel Distribution. In the beginning when DPD was founded in Germany it meant Deutscher Paketen Dienst. Basically it is a franchising brand that operated through affiliate service producers of separate geographical destinations, forming a global transportation network. In Finland the brand has been operating since 1995. Posten Ab, which is the former post of Sweden, bought it in 2001 and it has been operated from Finland as part of Posten Logistik SCM Finland since 2008. (Postenlogistik B, 2012.)

2.1.2 HIT Finland Oy

HIT- Hultberg Inrikes Transporter Ab was founded by Swedish daily newspaper companies Aftonbladet and Expressen, in 1973. This parcel-forwarding company changed over the years and started to specialise in-night freight forwarding. Since 1986 the company has been owned by Posten Ab and the operations in Finland started in 2001 (Postenlogistik B, 2012). Today HIT In-Night offers timetabled night distribution services and for example all the spare parts of BMW are delivered by this service. (Hit-europe, 2012.)

2.1.3 Suomen Logistiikkatalo Oy

Suomen Logistiikkatalo was founded in 1996 in Turku. It was offering third party logistics and grew rapidly over the year expanding its services first to Helsinki area, then in Lahti and finally till Estonia. Before it was bought by Posten Logistik in 2007 it was the biggest 3PL-service provider in Finland. The main focus of the company was warehousing of consumer goods and car spare parts. One of the former owners of Logistiikkatalo, Jari Rinnekoski, is now the country manager of Posten Logistik Finland. Today warehousing is, among other services, an important part of Posten Logistik SCM's service assortment. (Postenlogistik B, 2012.)

2.1.4 Sal-Trans

Sal-Trans was founded in 1990 and the core business was timetabled car parts and spare parts delivery in Finland. Posten Ab bought Sal-Trans in 2006 and today Posten Logistik SCM handles these operations through HIT In-night service. (Postenlogistik B, 2012.)

2.1.5 Operations today

Posten Logistics SCM is a full service logistic operator. In Finland Posten Logistik have offices in Vantaa, Lahti, Tampere and Turku. Besides these offices there are 19 distribution terminals that the material flow is handled. For third party logistics there are 75 000 square meters of warehouse space in total and customers can choose from various different services that are needed to create extra value for their products.

In Finland Posten Logistik is employing over 300 people and the growth has been strong during the last years. Now the biggest challenge that we have is to find new export intensive companies. What makes it hard is first, the other freight forwarding service providers in the industry and continuing recession of global economy and furthermore uneasy situation of EU in general.

3 INTERNATIONAL TRADE

Like seen from the last chapter the client of this study is part of bigger organisation. This can be seen in every sector of today's business. Companies are crossing borders when they are looking for growth opportunities. The goods are moving long distances before they are taken from the shelves of vendor. Companies are sourcing the raw materials and labour from all over the globe. This is made possible because efficient infrastructure and various different trade agreements.

International markets are growing faster than the domestic ones. This can be seen in the fact that the world trade has been growing faster than the output of world. The companies in these markets are facing global competition instead of local. If the companies want to survive in these markets they need to be competitive and this forces them to source materials, technology and human resources globally. In the year 2007 the total trade of goods and services were 16.8 trillion dollars. (Cherunilam, 2010, 1.)

Today the trading of goods is accounting more and more of the national production. Foreign trade-GDP ratio, which tells the ratio of exports as percentage of the value GDP usually grows when the economy is developing. This ratio used to be higher in the developed countries but in 1990's the course was changed. For example the developing countries in Asia have been export oriented and the foreign trade-GDP ratios are high compared to the developed countries. The numbers of the trade-GDP ratios in high income countries were in 2006 49 percent and corresponding number in developing countries were 60 percent. (Cherunilam, 2010, 5.)

The biggest traders are generating about 30 percent of the world trade. These countries were in 2007 Germany, United States of America, China and Japan. When taken the fifty biggest traders they are accounting half of the world total trade but the numbers have been decreasing during the last decade which tells about the divergence of the trade. The trade have gone towards intra-regional trade instead of global. This can be seen in the case of European Union and some of the asian markets where the regional markets have been growing rably. (Cherunilam, 2010, 6-8.)

Trading of services is growing fast and some estimation is stating that one fifth of the world's trade. Also the growth rate is higher than in goods. As well as the trade of goods also the service trade is driven by the developed countries. The biggest three

exporters of services, United States of America, United Kingdom and France made about 30 percent of the total trade. Travelling and transportation are the biggest contributors of services trade. Though these have been the biggest ones also banking and financing, construction, information and computer services have been growing fast. (Cherunilam, 2010, 18-19.)

Countertrade is also taking a bigger role in international trade. Countertrade happens when the importing of some goods is covered by exports of some other goods. There can be compensation in money but the idea is that countries could skip the buying and benefit from the trade of goods or services without monetary exchange. There are many reasons why countertrade is carried out. The fluctuations in the value of currencies made countertrade popular between the east-west trade and because companies are operating all over the globe, countertrade is made possible due to the transactions between these countries. Also the communist countries were utilising the countertrade possibilities because this was easier in the centrally planned economy and opening up the trade for developing countries. (Cherunilam, 2010, 14-16.)

The international trade is based on the fact that some country could have advantages over other countries by specialisation. This means that if two countries are trying to make all the goods they are not using their resources as efficiently as possible. For this reason countries need to specialise in some products and trade which means that both countries will be more efficient and gain from the trade. This has been the basis of international trade though the assumption is not corresponding to today's business environment. (Cherunilam, 2010, 23.)

International trade can also be seen as a result of availability and non-availability of goods. This means that all the countries have different resources and sources of materials. For this reason some goods that are plenty in the country can be exported and vice versa the goods that are not found in the domestic markets are imported. The factors that are affecting this are natural resources, technological progress, product differentiation and government policies. These factors are giving reasons for the international trade. When country A is abundant in natural resources but they do not have the technology there is usually trade happening with the country B who has the technological solution for processing the natural resources to goods. This means that both countries are gaining from the trade. (Cherunilam, 2010, 40-41.)

Trade is happening also because the resources are sourced from all over the world. Outsourcing of at least part of the operations is getting more popular because the materials are found in many different areas. For example the production of mobile phone is taking resources from several different locations and the final assembly can happen close to the consumer. (Cherunilam, 2010, 41.)

The trade of intermediate goods and global sourcing of materials were made possible by the efficient transportation. In the past the lack of transportation was hindering the trade. Nowadays there are fast, low cost and reliable networks all over the world which are making the trade possible. This is making the prices more equal in the global scale. When companies have operations all over the world the supply is also possible to a larger amount of consumers. The sourcing is done globally because the prices of goods is changing all the time in different markets. Weather conditions, fluctuations in the currencies and economy are opening opportunities for companies that have efficient network and connections to the materials. With transportation the communication technology have made the international trade possible and profitable. (Cherunilam, 2010, 43-44.)

4 INTERVIEWS

4.1 Jussi Järvinen - Area Sales Manager of Posten Logistik SCM Oy

For the research it is important to get ideas from the client before starting to study the topic. For this reason The Area Sales Manager Jussi Järvinen was interviewed. The interview was conducted as an open interview. With open interview the benefits are flowing discussion and wider pool of ideas, also outside the planned topics. The following information is written according to the interview.

Jussi Järvinen has been working in the industry for years. He has been previously working also for Itella, the Finnish postal and logistics service provider. With his knowledge and experience the study would have deeper views into the clients business and the environment that it is operating in.

According to the interview Finnish transportation industry is today under severe competition, which cannot continue for long anymore. The services providers that are partly or wholly owned by government have, in order to protect the positions in the markets, lead the market pricing in to unhealthy state.

Customers are not willing to pay for transportation because they have used to get the services so cheap. Big logistic companies are selling services at costs that are barely covering the expenses, in order to obtain the key customers and keep up a good network. At the same time taxes of fuel was raised again, meaning more expenses. The atmosphere is at times like “cutting off one’s nose to spite one’s face”.

In the next five years there will be only very big service providers in Finland and of course the local, smaller companies that are operating in particular areas and serving only few customer. The middle-sized companies are going to extinct because it will be not profitable anymore to compete against the big players that have bigger operating areas and better systems. Also the tracking is very important in order to give the customer the opportunity to see all the time where the delivery is going. This can be problematic to the smaller companies.

Last month United Parcel Service (UPS) bought TNT Express. The value of the deal was 5.2 billion euros and the turnover is about 45 billion euros. It is a good example of today’s business where cooperation and savings are sought by mergers. Good examples about tuff competition have been seen also in Finland. Itella gave up the operations in Sweden where they have invested quite a bit of money. Also the Russian takeover has not been that successful. Here the world financial crises have also been a reason because the businesses have faced hard times meaning smaller quantities in the transportation industry.

One important issue that was raised up many times during the interview was the politics. For example the rising energy prices and the relationships between governments are playing vital role in the international trade. With good relations in the politics also the business is doing better and trading opportunities are more fertile for companies.

One big challenge for Finland is Russia. The relationships should be fostered and there should be more transparency at the other side of the border also. Like in the case of border crossing to Russia, when trucks are waiting in long lines for hours. Some-

times it can be the customs but also the Russians are quite protective towards their own economy.

This will be one of the key questions for Finland because the Baltic countries have been getting the transit traffic after the recession. Before Finland was the main route for goods travelling to or from Russia. In the future when Baltic countries are getting more secured and stable, the transit traffic will be lost at least partly from Finland.

With transit traffic, which has been an important part of Finnish exporting also, the harbours are playing a vital role. Here the problem is the power of Finnish unions that can stop all the harbours at the same time. This problem is also political and the companies cannot really affect the occurring strikes and slowdowns. Because Russia has been investing on their harbours, Finnish industry is under a pressure all the time. For Finland the harbours are vital because almost 80 percent of the international trade is going through waterways. If the transit traffic is lost the whole harbour network is in danger.

The meaning of Baltic countries Jussi Järvinen saw vital in the future. Many companies have been transferring the labour intensive companies to Estonia, Latvia and Lithuania, meaning more transportation to and from this area. Company X, for example is ordering material for clothes from China and the goods are transported to Kaunas area. There the materials are upgraded to clothes for kids and the final products are travelling back to Finnish markets. This kind of business will be growing in the future and those companies are important to Posten Logistik SCM.

In the Baltic area he sees that the affiliate network (DPD) is working at the moment so well that there is no need for making investments to build up a new network. Services are bought according to clearing prices, depending from the starting point of the goods. In other words the goods are transported through local DPD-network to the next area and the pricing is counted from each particular area. Posten Logistik SCM also has a legal filial in Estonia, as a business support and for connections near the markets there.

From Baltic region he sees that the most important business at the moment would be finding companies that have operations there but the markets for end products are in the Nordic countries. Also the e-commerce will be developing fast in Estonia, Latvia

and Lithuania meaning that big Nordic companies can have good markets there when the people are getting more into e-commerce. Many companies have also filials in these countries because of the tax reliefs so finding these ones would be important.

4.2 Kari Ylioja - Senior Inspector of Statistic Service of Finnish National Board of Customs

In the beginning of the research the problem was the amount of databases and statistics. In Finland, according to Kari Ylioja, we are one of the best in statistics. We have good and on-time statistics, which is not the same for example in the eastern neighbour of ours. With an interview it was easy to get important information about the current state of trade. The following information is written according to the interiew of Kari Ylioja.

Kari Ylioja saw the global recession the biggest threat to Finland. The Finnish trade was first time a deficit since the oil crises in 1974 and 1975. The re-exportation that has been a major part of Finnish exports has been slowing down. Finland has been for a long secure and good place to do needed modifications and upgrading for the products near the Russian markets. The problem is that after the crises this traffic has been moving towards Baltic countries.

Also the transportation reforms in Russia are threatening Finland. The plan of Russia is to have all the incoming goods to their own harbours till 2020. This of course is depending from many variables and there have been discussion before also but if the plan would succeed the Finnish harbours would loose a lot of traffic. The modernisation has been fast during the past years.

The effect is big to the transportation industry but also for warehousing. When the upgrading and modifications have been taking place in Finland the need for warehousing has been noticeable. Kari expected that the re-exportation is not going to decrease anymore in Finland.

What comes to international trade, Kari saw the integration of European union good but there are also troubles in the single market area. For customs as well as for consumers it is hard to know where the goods are coming from. When the goods are cleared through the customs in the European Union single market area, the goods are not compiled into statistics anymore when they are transported to other countries in-

side the EU. This makes it hard to know when and where the parts became one shoe. All the goods are classified in the CN-categories (Combined Nomenclature) and when the parts become a shoe the classification is changed and the product is ready.

The moving of products and also capital is the major problem according to the interview. Because nowadays many companies have subsidiaries the capital is moved according to the market situation to the place where it is cheapest to repatriate, in other words offshore companies are used to avoid extra costs.

Taxes are avoided and currencies are changed in order to have maximum profits. He saw this as a slight problem in the Baltic countries. Also in the past in Soviet Union and later in Russia the classifications of the products were changed. For customs it was impossible to know the real values if the classification was changed because the value of the shipment is determined according to the classification and weight. He said that in the Baltic countries the EU membership is going to make the operations more transparent but it is going to take time till it is totally changed. Also the corruption is still high compared to Finland and there have been stories about lost shipments.

Kari saw the Finnish situation problematic because the big industries that have been the engine of trade before have been cooling down. The re-exportation and labour intensive manufacturing is moving in the future to Estonia, Latvia, Lithuania and other countries that have lower costs of production. Still he was hopeful about the trade getting better after the global economy starts to catch up again.

5 BALTIC COUNTRIES AND THE TRADE WITH FINLAND

In this chapter the main focus is in the Baltic region countries. There will be a slight introduction about the development of the economy after the independence. Then we are going to take a closer look of the goods that are moving between Finland and the selected countries. The main focus is in the goods that are considered to be important for the client. The findings are analysed in the next chapter after having a wider view of the trade. Also the part of Lithuanian trade and structure of the economy will be analysed in the next chapter.

5.1 From independence to present day

After the Soviet Union breakdown the Baltic countries started to interest Finnish companies. Before the Soviet Union controlled everything that was related to the trade towards these countries. There had been a lot of speculation about the possibility of independence before 1991 but still it was a big surprise when it came into reality. For a while there were also insecurity and the darkest fears were including military intervention, which did not happen. Anyway a new era had begun though there was uncertainty about the future. (CEMAT 2005, 1-3.)

After the independency the attitude towards Baltic countries, especially towards Estonia started to change. Businesses started to see opportunities in the economy. Cooperation begun and soon there were many companies getting footage of the markets in Estonia. The reasons were partly the same that today. The markets had huge opportunities of growth and the operation cost and salaries were much cheaper than in the home markets in Finland. (CEMAT 2005, 1-3.)

The hindering factors were high risks and uncertainty. The Baltic countries had a reputation of smuggling and corruption after the Soviet era. These factors were slowing down especially bigger investments. Still companies could not skip the possibilities of cheaper cost of production and the positive experiences started to spread. (CEMAT 2005, 1-3.)

In 1992 the Nordic Council of Ministers started an investment program in order to help small and medium sized companies to start operations in the area. Also educational reasons were important in this program. European investment bank and Nordic investment bank were also taking part of this program. During 1992 – 1998 the program managed to generate more than 180 million euros worth of investments to the Baltic countries. (CEMAT 2005, 1-3.)

In 1997, because of the negotiations with European union were turned on, it started to be certain that the Baltic countries would be part of the European union during the next ten years. The business environment started to become more western like and the companies started to see the area even more attractive. (CEMAT 2005, 1-3.)

Finnish companies were all the time sourcing for more cooperation opportunities. The cost of production was cheap and the taxation system was lucrative. Many companies had subsidiaries in Estonia. It was really easy and the distance was not too long. Companies that had steady footage of the markets started to expand the operations and new companies, especially big retail companies from Finland wanted to get their piece of these markets. (CEMAT 2005, 1-3.)

In 2004 the because of the membership of European union a new are begun again. From this point the markets were harmonized and the operations were made even easier. Finland has had an important role in the development of Baltic region. Finland has been active on investing. For example in the case of Estonia, only Sweden has been making more investments. The Finnish companies have been most active in retail, construction and telecommunication sectors. (CEMAT 2005, 1-3.)

Today the gap between rich Nordic countries and Baltic region is getting smaller. The operation cost is still lower than ours but companies have to be more innovative and always looking for new fields of business. The cooperation between Nordic countries and Baltic region is going to get tighter. This will be hopefully good for to whole area.

5.2 Estonia

Estonia counts about 2 percent of the Finnish export being the 13th in respect of total export from Finland and 11th in importing. Through the last decade the trade between Finland and Estonia was steadily a surplus and the best years were 2006 and 2007 when altogether there was roughly half a billion surplus per year (Figure 1). In 2008, after the news about the recession started to roam inevitably towards Europe, the trade towards Estonia dropped more than importing and this has been the tendency during the last years also. So Finland has been loosing its exports and also the transit traffic through Finland has been escaping towards Baltic region. (Tulli A, 2012.)

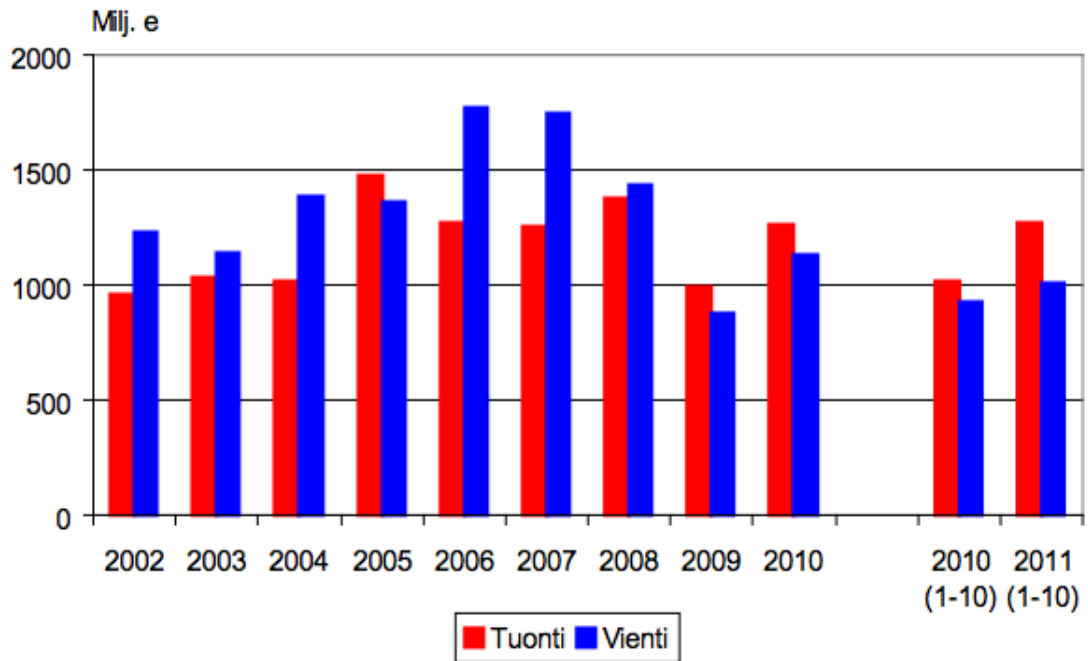


Figure 1 Finnish trade with Estonia: 2002 – 2011 (1-10) (Tulli A, 2012)

Last year between January and October, exporting to Estonia rose 9 percent from previous year to 1 billion euros in total. In comparison importing rose 25 percent meaning 1.3 billion euros in monetary terms. Estonia is still by far the biggest trade partner among the Baltic countries for Finland. With Lithuania and Latvia the comparable numbers are about the fourth of Estonia's. (Tulli A, 2012.)

Biggest volumes Finland has in metal products that counted 14.6 percent and the value of export trade last year till October was 147 millions. More interesting is the machines, devices and engines that counted 8.8 percent of the export valuing 89 million euros. The most interesting examples in this category are electric generators and engines not to mention the agricultural equipment and machinery, which altogether counted 21 million euros. (Tulli A, 2012.)

Cars have been one major product that has been moving through Finland and the value was 30 million euros. Car parts were exported from Finland to Estonia with 12 million euros. This category is important part of Posten Logistiks's customer base so it will be handled later more closely. (Tulli A, 2012.)

Another important product category for Posten Logistik is the electronic devices. Cable, electricity transformers, electronic switches, data processing equipments and telecommunication generated 114 million euros last year from January to October. (Tulli A, 2012.)

Alimentation has been growing unsteadily and this is reason of the fluctuation in need and world market prices. Alimentation among chemistry and oil products are not ideal for Posten Logistik and for this reason there is not that much speculation about this category. Of course there are some products among these categories, like plastic, which can be seen potential in the respect of transportation. In Finland the plastic companies are export oriented. (Tulli A, 2012.)

Textiles, clothes and shoes are important exports and the growth last year ended in 20 percent. The value of the last category was in the 2011 January-October 58 million euros. Paper and cardboard (45 million euros) are somewhat interesting but Posten Logistik is not interested in bulk in general. The value of lighting equipment from Finland to Estonia was 24 million euros during the examination period. (Tulli A, 2012.)

5.3 Latvia

Like in the case of Estonia the trade with Latvia has been a surplus since 2000 (Figure 2). But after 2006 it started to change and this was mostly because of the exporting in general was stagnated. In the year 2010 the surplus started to increase again. The best year was 2006 when the surplus was 337 million euros and for comparison the worst year 2009 the surplus were, because of the recession, only 45 million euros. Last year till October the surplus was almost 80 million euros. (Tulli B, 2012.)

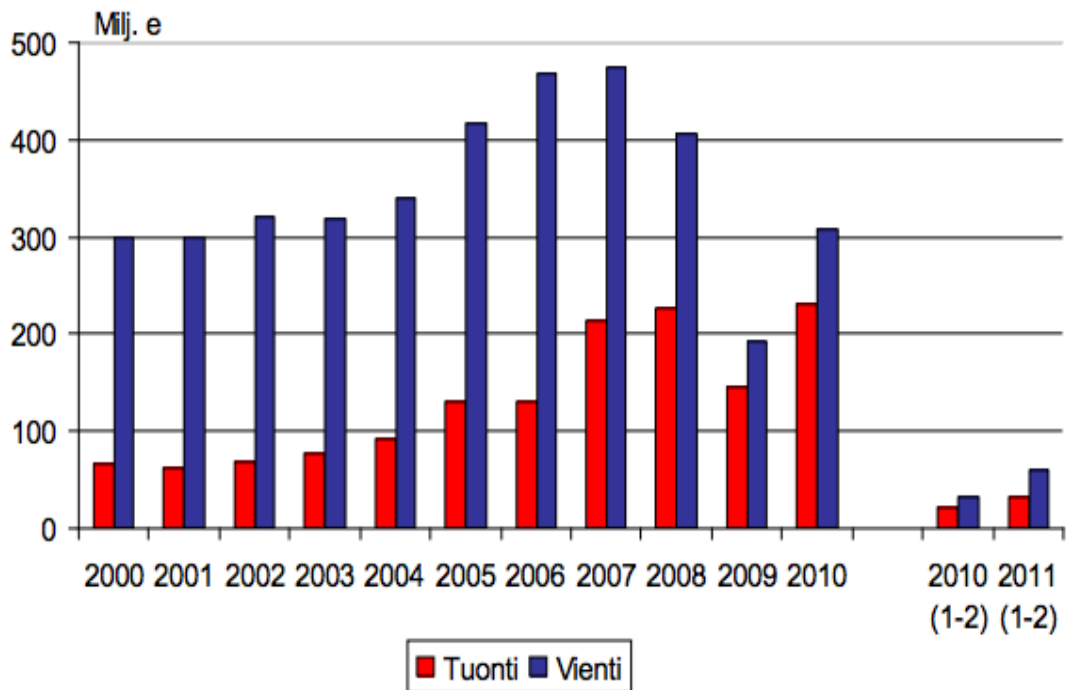


Figure 2 Trade between Finland and Latvia: 2000 – 2011 (01 – 02) (Tulli B, 2012)

Latvia's part of Finnish trade is far less than Estonia's and in the year 2010 the export was 0.6 percent of the total export and importing was 0.4 percent of total import. When we look at the total exporting figures of the year 2009 we can see that the Finnish trade to EU countries has diminished compared to 2008 when the recession started. The total exporting to other EU countries fell 32 percent and importing 28 percent. What is interesting in this is that during this time the trade with Latvia and other Baltic countries was recovering much faster than trade among EU countries in general. (Tulli B, 2012.)

In the year 2010 the export into Latvia grew 61 percent from 191 million euros to 309 million euros. The largest single export is diesel oil producing 35.6 percent of total export in the year 2010 when it was just 3.7 percent year before. Paper and cardboard turned to 16 percent growth valuing 22 million euros. (Tulli B, 2012.)

As well as in Estonia machines, devices and engine products exporting in 2010 was growing compared to previous year 22 percent ending to 22 million euros in the case of Latvia. Export of data processing equipment grew by fourth and cars and trucks export was recovering a bit from previous years. (Tulli B, 2012.)

Telecommunication sector has been freezing and the value has come down from 20 million euros in the year 2008 to 4 million in the year 2010. Chemical industry's trade grew by fifth in the year 2010, but was still below the 2008 level. Textiles, clothes, shoes and leather products were exported as much as in the previous year but the value in respect of whole trade grew. (Tulli B, 2012.)

5.4 Lithuania after the recession

Lithuania became during the last decade the strongest economy in Baltic region. The average growth rate during the last decade in Lithuania was 5.3 percent when the correspondent rates were in Estonia 4.6 percent and in Latvia 4.3 percent. The reason for these is the fact that Estonia and Latvia were hit harder than Lithuania by the recession that started in 2008. Still the Baltic region is seen as one of the most brightest investment destination as whole. (Heliste et al, 2012, 1.)

The economy of Lithuania has been growing more or less because of the foreign investments. Before the recession there was a belief that the growth is driven by the productivity growth and diversifying financial sector. But the reality was more similar than all over the world. The numbers kept growing because banking sector was giving money in order to fight the market shares, which let to a situation where people were spending much more than they actually should have been. (Heliste et al, 2012, 1.)

For banks the situation turned into unprofitable investments because the households could not support the growth with their expenditure. For some time the situation kept going and more depths were granted, causing the market saturation. The first signs of this were noticed in the last quarter of 2008 when the GDP declined by 2.3 percent (Figure 3) after several years of steady growth. The next year was not better when the Lithuania economy was one of the biggest sufferers of the recession and GDP declined by 14.8 percent. (Heliste et al, 2012, 1.)

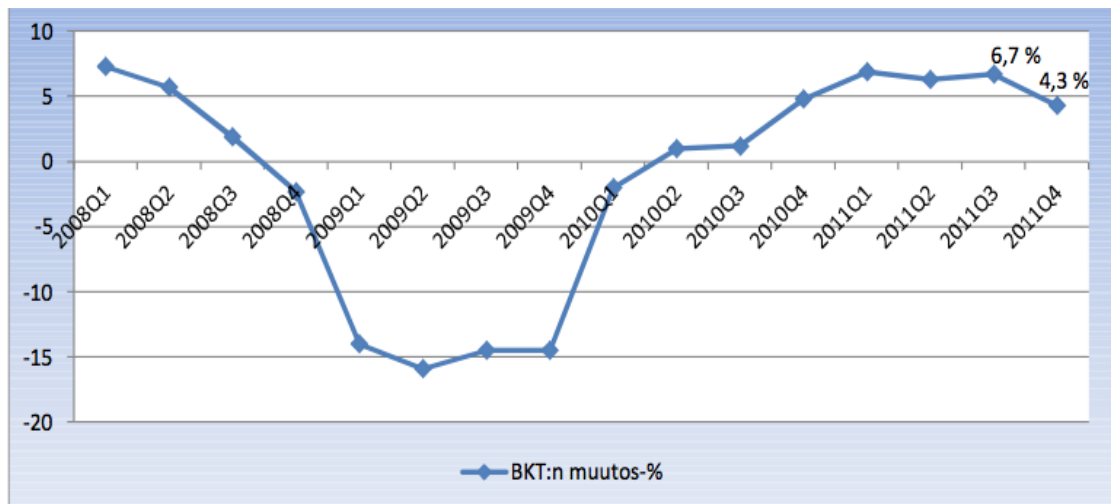


Figure 3 GDP change of Lithuania 2008-2011, quarterly compared to last year's corresponding value (Heliste et al, 2012, 2)

In couple of year Lithuania has recovered though very fast and the biggest reasons have been strong exports, domestic demand, side by side with the growth of production and productivity. The growth has been positive in almost every sector like contraction, retail, manufacturing and banking. For these reasons the more people got jobs and new places are created all the time. The recovery right after the recession has been one of the best in EU but the biggest recovery keeps on waiting still. Strong argument for this is the fact the last year's final quarter the GDP growth slowed down and the real GDP of the year 2011 were only slightly better than in 2006. (Heliste et al, 2012, 2.)

In Lithuania, like other Baltic countries also, the effect of the grey economy has still a foothold of the whole economy. Lithuania is number 7 in respect of the grey economy in EU and the value is estimated to be 29 percent of the GDP. Some estimation is stating that almost half of the companies in the market are carrying out illegal business operations. These operations are usually containing smuggled goods like tobacco, alcohol and petrol. (Heliste et al, 2012, 2.)

Also payments for workers are made under the table and some workers are not even working for the business in the records. The economy is also differing a lot by the regions. In cities people are getting more used to western habits and lifestyle when on

the other hand the countryside has not changed that much. Investments and EU-subsidies are targeted quite often to already developed areas. Especially the northeast part of Lithuania is far away from the development. (Heliste et al, 2012, 2.)

Like stated before the recovery has been better than average in Lithuania. Different research institutions are forecasting 2.0 – 3.8 percent growth for the year 2012. There are also many threats that could hinder the growth. Because of the more developed neighbouring economies the brain leakage is high and educated people are sourcing possibilities to get higher salaries than those in Lithuania. The population is getting older and fertility rates are low. (Heliste et al, 2012, 3.)

Other factors hindering the growth are low education level, corruption, bad strategic decision, problems in financing and difficult taxing system. Also the problems in the financial in general causing problems because the exports are concentrated on certain markets so fluctuations in the global demand are affecting to the exports. For example if the demand of United States is going down the German exporting is affected and for Lithuania this means weaker demand from German side. Also the problems in global economy is cutting down the value of foreign investments towards Lithuania. (Heliste et al, 2012, 3.)

5.4.1 Structure of the Lithuanian economy

Lithuanian economy relies on industrial production and trade. In 2010 the industrial production counted 22 percent of the GDP. The part of retail was 34 percent of GDP and financial and real estate sector 16 percent in the year 2010. Construction has not still recovered till the best year's level at 2007 when it counted 11 percent of the GDP and it was in the year 2010 6 percent. Compared to the neighbouring countries, Estonia and Latvia, the growth rates of industrial production has been better than in Lithuania during the first half a year of 2011. The estimation of the value of industrial production in 2011 was 66.1 billion LTL. Manufacturing was growing because of the record high exports. Overall the production was slowing down towards the end of 2011 but compared to previous year the tendency was positive. (Heliste et al, 2012, 8.)

In the next years the industrial productivity is forecasted to get better because businesses are implementing new and more sophisticated information and communication technology. The productivity of the labour and factories will also increase and the ec-

onomy as whole is moving towards value-adding operation from labour intensive manufacturing. This is vital in order to compete the emerging markets like China and India. (Heliste et al, 2012, 9.)

Manufacturing will be growing steadily during this decade and it will be great part of the GDP and on the other hand the service sector will decrease slightly. The manufacturing will in the future be concentrated to investment goods and the part of consumer goods will go down. Vehicles, metal, machines and goods for construction will be important and growing part of the manufacturing industry. (Heliste et al, 2012, 10.)

Wood and furniture industry take greater part of the industry because the capacity of production is high and companies are ready for greater demand. Like stated before the Lithuanian exports are connected tightly to EU markets where 80 percent of manufactured goods from Lithuania are heading. Overall number of exports towards EU markets is 50 percent. So if the EU economy as whole will get healthier the Lithuanian industries will have success as well. (Heliste et al, 2012, 10.)

The retail industry has not been growing as much as manufacturing and for example in the beginning of 2011 the value was less than in 2005 which was the peak year. During the year 2011 the retailing recovered a little and the especially Christmas sales gave a positive influence into the retail business (Figure 4). Compared to Estonia and Latvia the retailing is growing faster in Lithuania. One reason for strong growth was cars, which were bought a lot before the taxation system was changed in July causing 4.6 percent drop for the retail industry value compared to June (Figure 5). In the whole year the car sales were up to 67 percent from 2010. (Heliste et al, 2012, 10-11.)

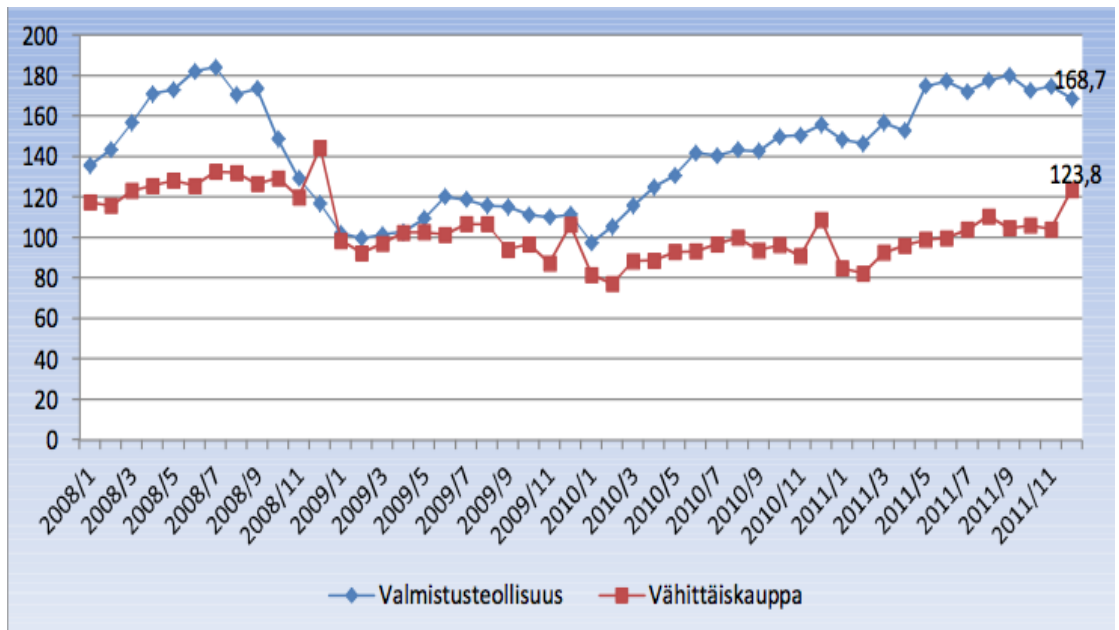


Figure 4 Indices of turnover in retail (red) and manufacturing (blue), 2005=100 (Heliste et al, 2012, 11)

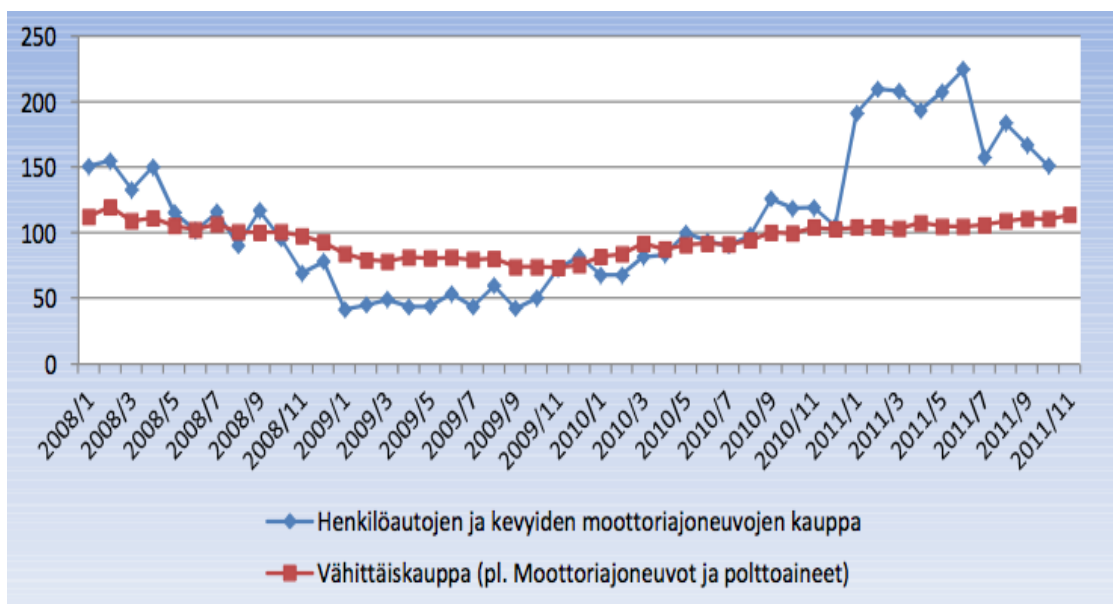


Figure 5 Index of motor vehicle sales compared to last year's comparable (=100) (Heliste et al, 2012, 12)

Other positive signs was recorded textile, clothes and shoes where the sales grew almost 13 percent during January-November compared to year 2010 and electronics, furniture and durable goods sales grew 20 percent on the same time period. Also second hand goods sales had record high numbers. There are lots of second hand goods

coming for example Germany when they return goods bought by mail order. (Heliste et al, 2012, 11.)

The retailing is forecasted to grow in the future after the demand gets higher and people have money to spend again. In the beginning of 2012 there was a survey asking about general attitude towards the markets and the results were positive compared to previous year when only 8 percent saw the situation good and the number this year was 30 percent from the respondents. Also the new laws that are applied are supposed to help retailing. This refers to the new accounting laws that are forcing the retail shops to use cash machines, when before only alimentary stores applied them. (Heliste et al, 2012, 12.)

When the communication is getting better and trust between sellers and buyers are accomplished people are getting used to online shopping. In Lithuania the process is just starting and in the year 2010 the value of e-commerce was 12 percent more than the previous year. Still there is lot to do to get on the average EU level, where 46 percent of the population was shopping online during 2010 and the Lithuanian average was 29 percent on the same time. For Lithuania the average growth per year is forecasted to be around 20 percent in e-commerce. This is because the prices are cheaper and the operators have started to put more effort on the marketing, in order to get people used to make purchases via internet. (Heliste et al, 2012, 13.)

Construction sector has not still recovered from the recession but the situation seems brighter than the past years. The overall value of construction industry was about 6.6 billion LTL during the year 2011. From this building engineering counted 55 percent, other than residential construction 38 percent and residential construction 7 percent. During the past year's the Lithuanian residential building was concentrated to main cities but especially Vilnius which accounted 46 percent during 2010. Last year other areas got footage also among construction and Klaipeda was very popular site for building. For the decade the construction sector growth is expected to be 6.7 percent yearly. (Heliste et al, 2012, 13-14.)

Service sector has shown positive signs and last year the tourism and transportation inspired the whole sector to 11.3 percent growth during the January-November period. Biggest masses were coming from Russia and Estonia. Lithuania has many airports and last year there were 18 percent more travellers compared to previous year. More

passengers mean more business to hotels and transportation service providers. For these reasons the expectations among the service sector were positive and 61 percent of the businesses saw the future business bright when previous year the number was 39 percent. (Heliste et al, 2012, 14-15.)

Lithuania has recovered better than many other countries in European Union. In the home markets the demand has risen and exports have been strong which have made the profitability better for companies. Some sectors have already achieved the past recession levels and earnings of all the businesses during first three quarters were 81 percent bigger compared to 2010 earnings. Also fewer bankruptcies were recorded. The government is also trying to find solutions for businesses and new, easier business forms are planned facilitate establishment of small and middle-sized businesses. This is supposed to help especially small sized family businesses that have had problems with the Lithuanian bureaucracy. (Heliste et al, 2012, 16.)

5.4.2 Investments kept increasing but expectations still weak

The overall investments in fixed capital increased last year by 22 percent in Lithuania during the year 2011. This was a positive sign but the amounts were not still close to those before the recession. The changes since 2008 on investments to fixed capital can be seen from the figure 6 below. Construction was biggest sole target and the total value of investments were 8 billion LTL, which was 57 percent the whole year's investments. Machines, devices and transportation vehicles accounted for 43 percent of total investments with monetary value of 5.1 billion LTL. From the investments 42 percent came from public sector and greatest amount of this was for construction. Private sector investments flowed more to machines, devices and transportation. (Heliste et al, 2012, 19-20.)



Figure 6 Investments on fixed capital quarterly, billion of LTL (Heliste et al, 2012, 19)

Investments were made for construction because real estate markets started to wake up and machines were invested for manufacturing. Foreign trade gave sprung to logistics operators and this explains the investments on transportation as well as the fact that after 2007 only mandatory investments were carried out. Although last year the numbers were increasing, Lithuania is still behind EU average. This means that the productivity will not grow as fast as it could. What makes it even harder is the fact the Lithuania is loosing all the time young and educated people to other EU countries where they have changes to earn more money. This leads to structural unemployment in some sectors. (Heliste et al, 2012, 19-20.)

Also the weak business expectations are hindering investments. Industry and trade indicators are still negative and in the beginning of 2012 only service sector has positive outlook. Manufacturing and retail as well as construction have been suffering since the recession. These are all because trade is tight to other neighbouring countries and overall situation of Europe where threats of new recession are still current. (Heliste et al, 2012, 22.)

Inflation, taxation, unemployment and economical situation have kept also the consumer expectations negative (Figure 7). This trend has been present since 2007 and

Lithuanians are below the average EU level on their expectations towards business. In a survey conducted by Lithuanian statistic department (2012) revealed that only 9 percentage of people saw their economical situation better than year ago and 41 percent of the people though it was worse. The expectation about employment were not that bright either when 41 percent told it was worse than previous year. (Heliste et al, 2012, 22-25.)

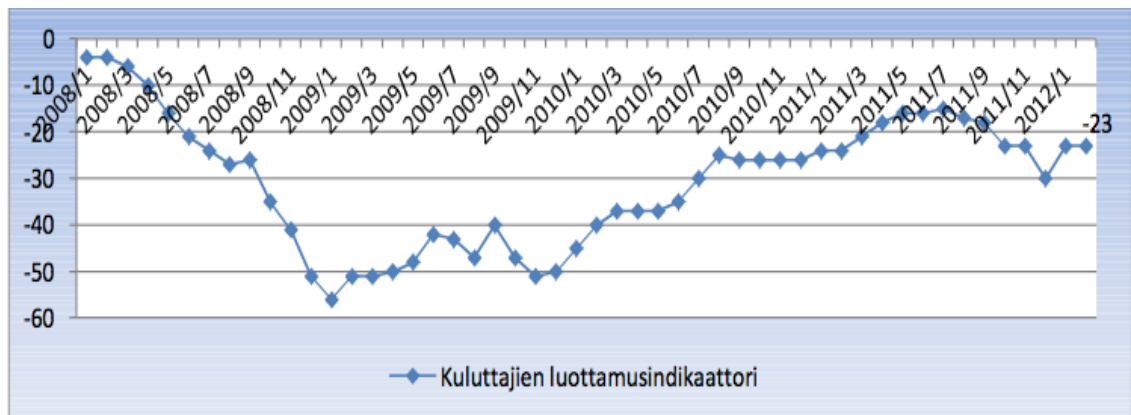


Figure 7 Consumer expectation index of Lithuania (Heliste et al, 2012, 23)

In the past Lithuania was suffering from rapidly changing inflation but during the last years with the help of recession it has been slowing down. In the end of 2010 the inflation of consumer goods and services was 3.8 percent. To give an example of the past, in 1994 the inflation was 45 percent and ten years after in 2004 only 1.2 percent. For 2011 the estimated inflation was 3.4 percent. Mostly the prices have risen in alimentation, living, transportation and industrial products. (Heliste et al, 2012, 26-27.)

For living costs the problem is fluctuations in energy prices. The monthly changes have been from 6.3 to 13.6 percent so the heating is cutting more from the earnings. Lithuania is dependent Russian operator Gazprom and this is the reason for rapidly changing energy prices. Energy is hindering also businesses because in Lithuania the cost of energy does not always form from the usage but the space of building. This leads to situation where there is no reason to cut down energy consumption because the costs would not get down anyway (Heliste et al, 2012, 26-27.)

In real estate business the prices have been low since the end of 2007. The problem in Lithuania is that there is no real estate tax so during recession owners do not want develop them. The only cost are coming from heating so it is better to wait for the econ-

omy to get better and then the prices are going up also. There has been conversations about new laws that would add a tax for real estates worth over 290 000 euros. The tax would stop the owners from keeping the real estates empty and force them to invest and develop them. (Heliste et al, 2012, 29-30.)

Among business premises the tendency has been same and markets are stagnated. There is lots of empty premises still and construction is slow. Only warehouses have had demand because the exports were getting up, which meant more business and need for logistics operators. The prices have gone up also because new warehouses are not built and the existing ones are getting full. In the biggest cities, Vilnius, Kaunas and Klaipeda the rents has gone up average 5 to 10 percent yearly. Businesses have been seeking for savings also by moving to cheaper premises. (Heliste et al, 2012, 30.)

5.4.3 Investments by industries towards Lithuania

During the year 2011 the biggest investments were made for manufacturing industry, finance and insurance services, wholesale and retail and construction. Total value of these investments was 2.95 billion LTL, from which the manufacturing industry accounted for 1.76 billion LTL. The manufacturing industry has been for same time now the interest point of foreign investments and the total reserve of investments reached almost 12 billion LTL during last year. (Heliste et al, 2012, 76.)

The biggest investors have been Poland, Germany and Sweden. Poland has interest to Lithuania of course because of the geographical location and on 2006 they bought the biggest energy company Orlen Lietuvan. Swedish interest has been the financial sector of Baltic states and this has brought money also to Lithuania. The problem has been that investments have gone to service sector which are less capital intensive. In the future there will be more investments to manufacturing and Russian are forecasted to invest more into big projects in Lithuania, especially banking sector will have some Russian banks in the future. (Heliste et al, 2012, 76-77.)

During the first decade of 21st century the investments towards Baltic countries were quite even. Estonia has been the biggest receiver but Lithuania has been reaching Estonia during the past years. This is result of heavy marketing by the government. What makes Lithuania interesting according to the government is low taxation, competitive business environment, skilful labour and support from the state. This has

worked and some organisations are listing Lithuania the best investment target among the Baltic countries. In the future there will be more investments to information technology, retail, manufacturing and also new energy technologies. (Heliste et al, 2012, 78-79.)

There is still lot to do to make it easier in the future to receive more investments. The biggest problems are complicated taxation system and the fact that there has not been enough investments to new technologies and machines that would in a long run raise the productivity. The average spending from GDP was 4.5 percent during the year 2010, which meant the Lithuania left only two countries behind. When companies have a feeling that the bureaucracy would be too hard and the investment could be in danger they are not willing to invest at all. Also the economic policy has not been coherent, corruption is still common and the business climate is not supporting always companies and especially for small-sized companies it is too risky to invest in a country like this. The conditions are supposed to get better because of the EU and WTO membership but it takes some time. (Heliste et al, 2012, 80-81.)

5.4.4 Lithuanian trade with Finland

During the last years the trade between Lithuania and Finland has been growing and the surplus has become greater for Finland. Last year Lithuania's importing from Finland was 2.1 percent from the overall importing. Exporting towards Finland declined slightly making in the end 1.3 percent of the total exports of Lithuania. In 2010 the comparable numbers were in importing 1.8 percent and in exporting 1.4 percent. The best year of imports from Finland, were before the recession in 2007, when Lithuania imported goods for 1.7 billion LTL so last year was almost as good meaning 1.6 billion LTL. (Heliste et al, 2012, 72.)

The balance of trade with Finland has been long a deficit for Lithuania (Figure 8). Exporting to Finland was highest in 2008 when the output was 761 million LTL. After this in 2009 the exports started to slow down and this continued till 2010 when the numbers started to grow again and the total exports were 752 million LTL. 2010 the exports to Finland kept on growing and in the end of the year it generated 993 million LTL. (Heliste et al, 2012, 72.)

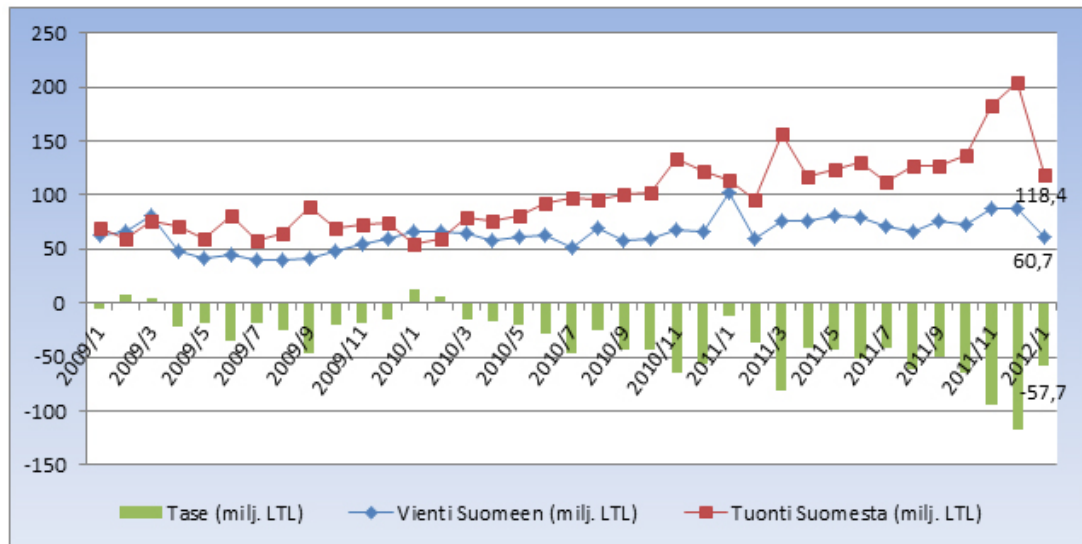


Figure 8 Lithuanian trade with Finland (Heliste et al, 2012, 72)

When looking at the goods by CN-categories there have not been significant changes compared to the previous years. Tobacco products and plastic rule exporting from Lithuania and after these optical appliances and instruments, measurement and medical supplies are the main goods that contribute the Lithuanian exports. (Heliste et al, 2012, 73.)

The Lithuanian importing from Finland is dominated by; steam boilers, machines and mechanical appliances and also the supplies for these. Like other Baltic region countries the electrical machinery and equipment and parts thereof are almost as big as the first category. These altogether are about two thirds of the total import. The main importing has been traditionally dominated by the machinery and electronics among paper and carton products, which are the strong export goods of Finland. (Heliste et al, 2012, 73.)

During 2011 Finland was third most active investor towards Lithuania after Poland and Sweden. The amount of investments has though not increased but the amounts have been bigger. In 2011 January-September period the value of investments was about 304 million LTL and the reserve of Finnish investments about 1.93 billion LTL. (Heliste et al, 2012, 86-87.)

From Finland the investments were mostly targeted to wholesale and retail industry, manufacturing, financial sector and construction (Figure 9). S-chain has been active in

Baltic region. To Lithuania they opened a supermarket in 2010 and the other one is planned to be opened on 2012 (S-kanava 2010). Neste Oil has been active and the petrol station network is growing all the time. To manufacturing the biggest investments were made by Finnfoam, which opened a manufacturing plant to Kaunas. The value of the investments was nearly 30 million LTL. Also Fortum, YTJ and Lemminkäinen have been investing and achieved to get projects from Lithuania. Most of the big investments took place on 2010, which gave a positive signal although the crises was still going strong. (Heliste et al, 2012, 86-87.)

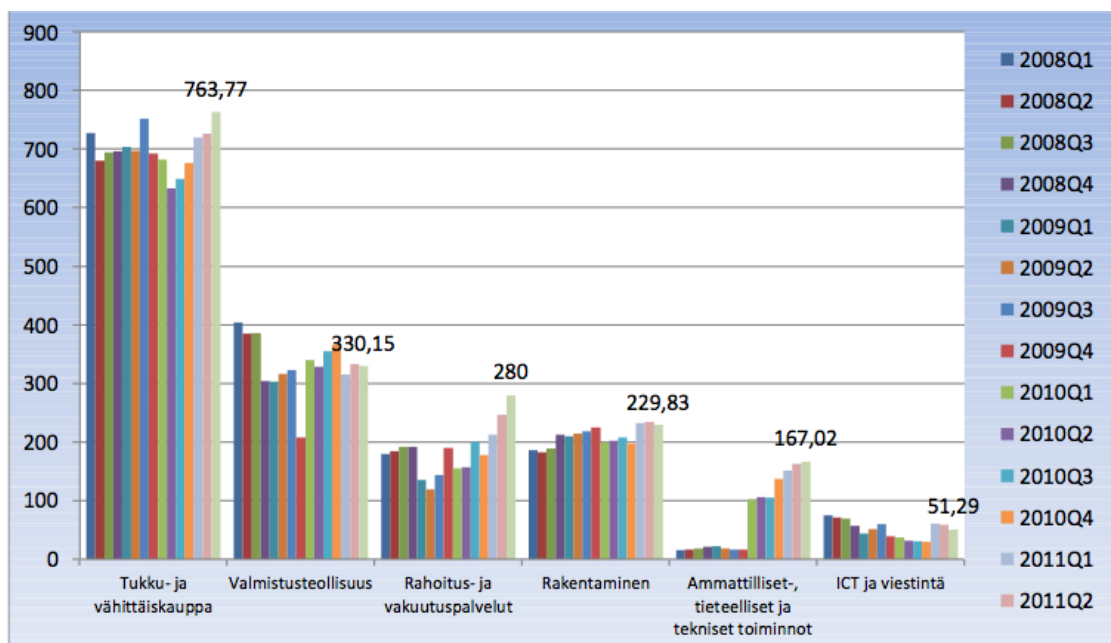


Figure 9 Finnish investments on retail (first section left) (Heliste et al, 2012, 87)

5.4.5 Transportation and logistics

Lithuania is located in the prime position when thinking about the big neighbouring markets. It is in the crossroads of North, East and West, where Commonwealth of Independent States have about 250 million consumers, Baltic sea region about 110 million people and in the Western European markets about 340 million consumers (Figure 3). Because of the location it is handling more and more cargo passing between these markets. Compared to for example Finland the port of Klaipėda is ice-free which is cutting down the operating costs. The railroads are also important and growing transportation mode and altogether there are 79,500 kilometres of roads and the

condition is getting better with projects like Via Baltica and also EU support is used to make the infrastructure better. For air freight and passenger there are four international airports serving and the operators are increasing in the market. (Investlithuania, 2012)



Figure 10 Strategic location of Lithuania (Investlithuania, 2012)

Because the location is so good the government is supporting also the building of logistical centres, which would be in the prime location, near the ports and railroads. There are plans to create so good transportation services that exporting these services could be one major factor of the GDP. There is still lot to do but the conditions are favourable and after the recession there have been a tendency towards Lithuania especially among transit traffic and handling of goods, which requires labour. From Finland this business is moving to Lithuania and other place where the labour is cheaper. (Investlithuania, 2012)

When thinking about the manufacturing and the role of China and other Asian countries, Lithuania is again in the prime location because more and more traffic is passing through it on the way to European markets. Lithuanian logistics centres will also be major player of futures handling of goods, not to mention the value adding services, which is good to handle near the home markets. Altogether there were approximately 700,000 square meters of warehousing space in the end of 2010 and the prices have gone down because of the recession. According to Invest Lithuania the prices of warehouses, depending from the location, were from 0.9 to 4.1 Euros per square meter in the year 2011. The prices of real estate and also the salaries are making Lithuania all the time more interesting investment target. (Investlithuania, 2012)

5.4.6 Future prospects of Lithuania

Growth of the Lithuanian economy was one of the best in European Union during 2011, although the end of the year it started to slow down. Because Lithuanian economy is relying much of its exports, demand of the main European countries and also American market have straight effect on Lithuanian economy. The ongoing uncertainty in financial industry did have an effect also and it seems that the strongest period of growth has ended and the close future will be quieter. (Heliste et al, 2012, 92.)

Anyway because Lithuania survived the last recession without any support from International monetary fund or European union but if the economical situation would lead to a new recession, the price of loans would get higher when they could not survive. The other reason is that turbulences in the big trading partners would cause serious damage in the exports, which make up more than half of the GDP. Still the conditions of Lithuanian economy are far better compared to 2008 start of the recession. (Heliste et al, 2012, 92.)

In the future it is important to have more investments on the sector where it is easy to increase productivity and create competitive advantages. During the past year most of the investments have flowed to sector like construction and healthcare, where the prices are according the national level and it is not easy to increase productivity. The cost of labour, in other words payments are also playing greater role in the future and it is important to balance it with the productivity growth as well as make changes in the policies in order to keep the business environment attractive. This means good

policies with taxation, support from the government and keeping the inflation under control. (Heliste et al, 2012, 92.)

6 CONCLUSIONS

This chapter will conclude the findings of the research and some guidelines for future aspects are handled. There will be also suggestions for further research considering the topic.

6.1 Results

The balance between Finland and Baltic countries has been a surplus for long time but the situation is going to change in the future. The production intensive industries were the first ones investing to Estonia and after those many companies has seen the attractiveness of Baltic countries what comes to investments.

The economical gap between rich Nordic countries and poorer Baltic countries is not going to last for long. The Baltic countries are in general recovering much faster compared to average rates in Europe. Also the growth numbers and potential of these developing economies are better than average in Europe.

When thinking about the situation in Southern Europe, for investors and companies in Central Europe the Baltic countries are at the moment much more secure place to put the money. People are educated and the modernization of the economy is fast. When more and more companies are investing to Baltic countries the development is happening fast. (Lithuaniantribute A, 2012.)

To make this development faster the governments are trying to launch reforms in order to facilitate the operations of companies. The new rules for re-exporting have made the procedures much faster so the businesses can supply products to other markets. These kind of new regulations are making the area even more lucrative. Some estimations state that the export growth in 2011 compared to 2010 were partly driven by these reforms making the operations easier for the businesses. (Lithuaniantribute B, 2012.)

Between Finland and Baltic states textiles and clothes are moving more all the time. The cost of production is cheap and the delivering is not taking more than one day. The companies that have operations towards Baltic states tend to have freight to both ways. At the moment this is a problem for the client because there are no services for importing to Finland. Still there are lots of companies that have something to distribute here in Finland. When companies from Nordic countries are moving their production intensive operations to Baltic countries there will be more to transport back because the consumers are still here.

In the Baltic countries the productivity will be rising fast in the next years. This is due the investments in the information and communication technology. The people are getting more educated, though there is a big problems due the brain leakage, when young and educated people are heading towards better salaries in the central Europe. But when the economy is developing the people might also realise the possibilities of their home countries and the experience comes back. This has been the case in many Asian countries. People go abroad and get some international experience and take the money earned back to their home countries.

The e-commerce is going to be a future business in the Baltic countries. The modernization and availability of internet is still differing a lot in between Estonia, Latvia and Lithuania. The internet access rates per household between the countries are quite the same (Figure 11) and the average rate is about 60 percent.

Still the quality is not the same and some parts for example in Lithuania are not that well connected to the internet. But as seen in the chapter of Lithuania the average growth rate in e-shopping is expected to be around 20 percent yearly. There is still way to EU average which when 46 percent of the population is shopping online and Lithuanian average is 29 percent. Like the internet access also the security of payments and the general attitude are still developing. Still e-commerce is going to be growing. The competition of these markets is fierce but there will be many Nordic service providers also and this will mean in the future more transportation in this area.

	Internet access				Broadband connections			
	2006	2007	2008	2009	2006	2007	2008	2009
EU27	49	54	60	65	30	42	49	56
BE	54	60	64	67	48	56	60	63
BG	17	19	25	30	10	15	21	26
CZ	29	35	46	54	17	28	36	49
DK	79	78	82	83	63	70	74	76
DE	67	71	75	79	34	50	55	65
EE	46	53	58	63	37	48	54	62
IE	50	57	63	67	13	31	43	54
EL	23	25	31	38	4	7	22	33
ES	39	45	51	54	29	39	45	51
FR	41	49	62	63	30	43	57	57
IT	40	43	47	53	16	25	31	39
CY	37	39	43	53	12	20	33	47
LV	42	51	53	58	23	32	40	50
LT	35	44	51	60	19	34	43	50
LU	70	75	80	87	44	58	61	71
HU	32	38	48	55	22	33	42	51
MT	53	54	59	64	41	44	55	63
NL	80	83	86	90	66	74	74	77
AT	52	60	69	70	33	46	54	58
PL	36	41	48	59	22	30	38	51
PT	35	40	46	48	24	30	39	46
RO	14	22	30	38	5	8	13	24
SI	54	58	59	64	34	44	50	56
SK	27	46	58	62	11	27	35	42
FI	65	69	72	78	53	63	66	74
SE	77	79	84	86	51	67	71	80
UK	63	67	71	77	44	57	62	69
HR	:	41	45	50	:	23	27	39
MK	14	:	29	42	1	:	23	34
TR	:	20	:	:	:	17	:	:
IS	83	84	88	90	72	76	83	87
NO	69	78	84	86	57	67	73	78
RS	:	26	:	37	:	7	:	23

Figure 11 Internet access and broadband connections by households, 2006 – 2009 (%) in EU (Eurostat 2009, 2)

The problem seems to still be that companies are sometimes considering the law and taxation system too complicated. Grey economy is still flourishing in some parts and this makes some investors and companies think about the risk. The signs towards transparency have been seen and the effect of EU and governmental programs are going to reshape the business culture. The attitudes are not changed in a day.

The Baltic countries are export oriented and this means that the overall situation in the Europe and also globally are having straight impact on their exports. For example for Estonia the stagnation of Finnish and Swedish markets is having major effects because these are huge markets for Estonian exports (Lithuaniantribute C, 2012). The situation is quite the same in Latvia and Lithuania. The Baltic stated are heading towards slower growth period.

The cooperation Between Nordic countries and Baltic stated will increase in the future. The companies are starting to see the whole area as home market. (Lithuaniantribute C, 2012.)

Construction and machines with transportation are the biggest targets of investments. Like seen before also companies from Finland have taken part of big projects in these areas. Still the situation is that most of these machines and devices are imported. Finland is not the biggest partner in trade but we have lots of this technology. The importation is going to be growing in the future because the manufacturing is growing fast and productivity growth is sought from these renewals.

Machines, electrical appliances and devices and spare parts are main goods that are taken to Baltic countries from Finland. The main manufacturing industries in Baltic countries are yet not that developed. For this reason, spare parts, devices and electrical appliances will be also in the future major imported products to Baltic countries. When the manufacturing is more developed and more complicated manufacturing is getting footage in Baltic countries also.

The position of Baltic stated is optimal. In the east they are close to Russian market with more than 140 million people. Also the gateway towards Asia is in the future going to have bigger role. There the rail transportation is main focus. For Baltic sea countries there are ice free ports. These too transportation modes are going to get more important in the future because the rising energy prices and the policies of European union are taking the development towards this direction. Then the Central European big markets are on the west.

When thinking about the expenses of the real estates the Baltic countries are having a strong position. The nearby markets are much more expensive and the need for warehousing is getting more important. Like stated in the last chapter the location is perfect for serving the nearby markets. For this reason more companies are looking for opportunities to locate their warehouses and upgrading of the products to this area.

6.2 Suggestions for further research

During the research there were many interesting topics, which would have earned more concentration in the research. Unfortunately the time was limited and to answer the main problems the research focus was limited. The situation of the economy is all the time changing so during the research there have been progress in the Baltic countries and the policies are changing as well.

The real estate business and cheap warehousing opportunities will interest more companies in the future so the major trade areas would be good topic for further research. These areas have been pulling investments so the importance of these areas is growing.

Also the political changes and integration to European union are still in process. This means that the business environment is getting easier and the system is going to get more western like. To be up to date and have ideas of how the area is going to develop in the future there is need for deeper research of this topic.

For the researcher the overall knowledge of logistics is still inadequate. There were many questions arising because of this reason. In the future the Nordic cooperation with Baltic countries is going to get deeper which means that the relations between these areas would also need further research.

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