ANNEX 4. Overview of Lithuania's export market shares for goods

Introduction

The Annex presents an analysis of how Lithuania's export market has developed from 2000 to the end of 2015 by region and by product group. Such an analysis contributes to the discussion on Lithuania's economic competitiveness, which has been raising increasingly more questions as of late. The analysis of export market shares is one of the many methods that can be used to explore these questions.

1. Lithuania's export market share's definition and data

Lithuania's export market share for goods (hereinafter 'Lithuania's market share') is defined as the portion that Lithuania's exported goods make up in a given market. Two indicators are used to assess Lithuania's market share: 1) the value of products imported from Lithuania within a given country or globally compared to the value of all goods imported into the said country or globally; 2) the value of exported goods originating from Lithuania and imported into a given country or globally compared to the value of all goods imported into said country or globally. Both indicators involve the following features:

- *They only address the value of exported or imported goods.* Only data regarding the trade of goods is used because there is more of it and it is more comprehensive. The value of Lithuania's exported goods is greater than that of its exported services.

- *Mineral products are not included unless specified otherwise.* This product group was one of Lithuania's most important exports, but its export value is prone to significant fluctuation due to changing global oil prices. The exclusion of mineral products produces much more consistent market share data that can be readily analysed. The data used is classified according to the Standard International Trade Classification (SITC-3), thus mineral products fall into group 33, *Petroleum, petroleum products and related materials*.

- *The numerator of the first indicator represents import data.* Import data of a specific country is more readily available than aggregated data on the exports of all countries into a single country, thus the first market share indicator is the main indicator and, unless specified otherwise, will be used to support the data presented here. When non-aggregated data is used, there is less of a need to focus on comparing the different methodologies implemented in each case. However, there will be some methodological differences when aggregating import data from differing markets.

- *The numerator of the second indicator represents export data.* This enables splitting Lithuania's export market share into exports of Lithuanian origin and Lithuania's re-exports. The distinction of exported goods of Lithuanian origin allows us to assess the competitiveness of a country's exports and structural export indicators.

- *The denominators of both indicators represent global import data.* They are used more widely than export data, they are easier to access and global import data do not demonstrate very different levels of fluctuation from global exports.

- *Import data is acquired from the UN Comtrade database.* They correspond to data produced by national institutions, except for the fact that import values are calculated in US dollars. In order to make the data comparable to data presented by Statistics Lithuania, the values calculated by UN Comtrade have been converted to euro at the exchange rates set by Eurostat. Imports are grouped by exporting country, importing country and by imported goods.

- *Import data is aggregated by country and good.* In order to be able to compare aggregated UN Comtrade data, the analysis will include only those countries that declared import data for 2010 and 2015. There were 86 such countries, and exports to these countries made up 92.1 per cent of Lithuania's exports in 2015. Goods were classified into 6 product groups based on how they were produced[13.]

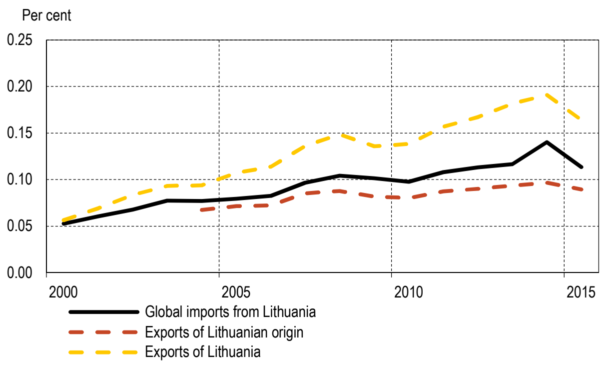
- *Export data provided by Statistics Lithuania.* They cover all of the world's exports and are grouped by country, but not by goods.

There are substantial differences between indicators for Lithuania's market share that have been calculated using different methods. For example, based on import data, the market share for Lithuania in the world (Lithuania's global market share) was calculated as 0.11 per cent, but based on the relationship between Lithuanian exports and global imports, calculations produced a 0.16 per cent market share for 2015 (the export market share for products of Lithuanian origin – 0.09%).

[13] For more details on how goods are classified, see Bank of Lithuania (2015).

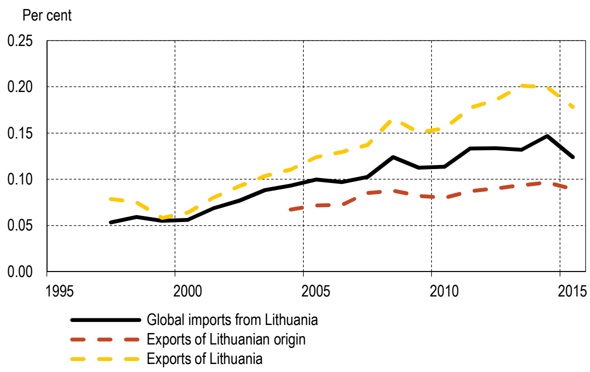
These differences can in part be explained by the incompatibility in data presentation methodologies. Import and export statistics are based on different transport costs of goods (Statistics Lithuania, 2014). In addition to this, some countries do not include Lithuanian re-export data in their data for Lithuanian imports. Charts A and B show that in 2000, none of the indicators differed significantly from the rest; however, later, as re-exports start to grow, their values begin to change at different rates.

Chart A. Lithuania's global market share for goods



Sources: UN Comtrade, Statistics Lithuania, and Bank of Lithuania calculations.
Note: calculated based on data from UN Comtrade, data on export of goods of Lithuanian origin from UN Comtrade and Statistics Lithuania

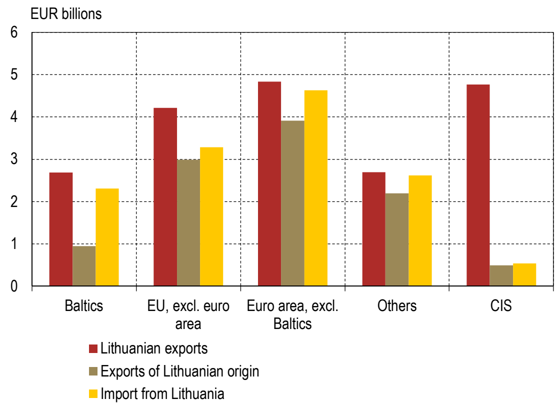
Chart B. Lithuania's global market share for goods, including mineral products



Sources: UN Comtrade, Statistics Lithuania, Bank of Lithuania calculations.
Note: calculated based on data from UN Comtrade, data on export of goods of Lithuanian origin from UN Comtrade and Statistics Lithuania

Differences between market share indicators are most heavily influenced by inconsistencies between import data from CIS countries, especially Russia, and Lithuanian export data. Chart C presents a comparison of foreign trade data published by Statistics Lithuania and Lithuania's import data sourced from UN Comtrade. This comparison shows that the value of imports from Lithuania into EU countries and the value of exports from Lithuania into the EU is similar, whereas the value of imports into the CIS region is much smaller than Lithuania's exports into CIS countries; the import indicator is much closer in value to the export indicator for goods of Lithuanian origin. The similarity becomes even more apparent when comparing exports of goods of Lithuanian origin into Russia or Russia's imports from Lithuania (see Chart D). Data on trade with other CIS countries presents a similar contrast.[14]

Chart C. Lithuania's exports and imports from Lithuania for 2015



Sources: UN Comtrade, Statistics Lithuania and Bank of Lithuania calculations.

Chart D. Exports of Lithuanian origin to Russia and Russian imports from Lithuania

Sources: UN Comtrade, Statistics Lithuania and Bank of Lithuania calculations.

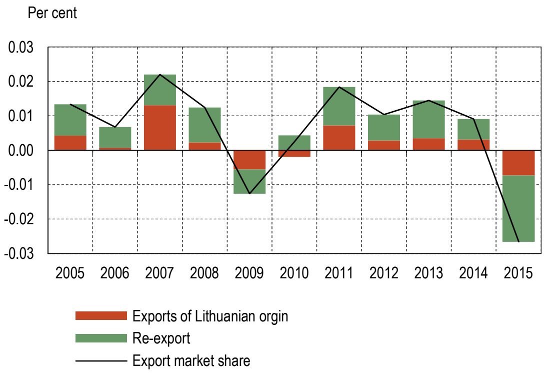
2. Lithuania's global export market share for goods

The indicator based on only import data reveals that Lithuania's market share in 2015 reached 0.11 per cent. This is a greater share than Latvia's and Estonia's market shares (0.06 and 0.09% respectively) or the percentage of the global population (0.06%) and GDP (0.07%) that Lithuania represents. Even though indicators calculated based on import and export data differ, they demonstrate similar growth patterns: during the reference period, Lithuania's global market share

[14] Data published by the IMF shows that during certain periods, CIS imports from Lithuania come closer to the value of Lithuania's total exports and not of exported goods of Lithuanian origin. This is because the IMF models data based on trade partner (in this case, Lithuania's) exports, which differ significantly from exports of Lithuanian origin, when it fails to receive data from a given country. Thus, the data from a number of CIS countries (e.g., Uzbekistan, Tajikistan, Moldova and Kyrgyzstan) sometimes reflects Lithuania's total exports, while other times it reflects only exports of Lithuanian origin.

increased. Both indicators show that in 2000, Lithuania's market share was approximately 0.05 per cent, and this number more or less doubled by the end of 2015. Similar conclusions were reached in previous versions of the Lithuanian Economic Review (Bank of Lithuania 2013a, b) and scientific literature (e.g., Stonys, Grebliauskas 2013). It is worth pointing out that Lithuania lost a portion of its market share in 1999, during the Russian crisis, and in 2009, during the global financial crisis. Over the period of 2014–2015, Lithuania's market share grew less rapidly and even decreased during the deteriorating situation in the CIS.

Chart E. Growth of Lithuania's global export market share for goods (second indicator)



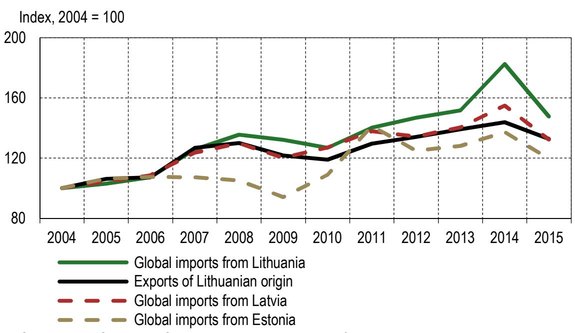
Sources: UN Comtrade, Statistics Lithuania and Bank of Lithuania calculations.

From 2004 to the end of 2015, about 70 per cent of Lithuania's market share growth was the result of increasing re-exports. In 2014, re-exports already made up almost half of Lithuania's exports. In part due to its relatively small wages, Lithuanian re-exporters' knowledge of surrounding markets and Lithuania's convenient geographical position, products were re-exported from Western countries into the Baltic states and CIS countries (see Notten, 2015). The growth of re-exports stopped in 2014–2015, principally due to the deteriorating situation in the CIS region, and especially because of Russia's restrictions on trade and the crisis in Russia. Although some carriers managed to pivot towards other markets, the export market no longer continued to grow. This was also influenced by administrative regulations in Western countries (e.g., Germany), which made it more difficult to compete on the basis of carriers' low wages. With business possibilities few and far between in the eastern countries, Lithuanian carriers became more intensely involved in the carriage of products between Western countries. This improved their situation, but did not result in the growth of re-exports.

The other 30 per cent of the growth in the market share can be explained by exports of Lithuanian origin. These exports fluctuated for many reasons, but this overview will only touch upon changes in investment, competitiveness and the rate of the euro.

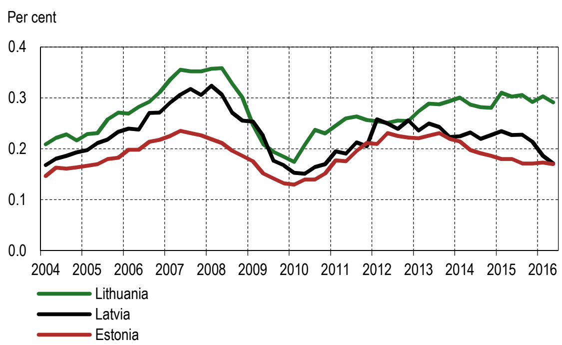
In the long term, the market share for goods of Lithuanian origin changes due to investment and the development of production capacity (see Chart G). From 2004 to the financial crisis, investment in Lithuania and the other Baltic States grew at a greater rate than in most countries (e.g., in the EU), and this allowed Baltic businesses to modernise and expand their market share significantly. Investment in manufacturing was especially important for the growth of Lithuanian exports because exported products from this sector make up 75 per cent of exported goods of Lithuanian origin. Significant investment was attracted by the furniture and chemical industries, the export value of which was among the greatest. However, the investment time line can also be used to explain a slowing in the development of the country's exports. During the financial crisis, investment in the Baltic States dropped, and this drop was relatively more dramatic than in other EU countries. Even though the immediate effect of this produced only a relatively slight decrease in market shares, their growth slowed in the short term. After the financial crisis, investment in the Baltic States picked up again and grew faster than in the EU. This created the basis for further growth of the country's market share. Recent years, however, have shown that the development of investment is not exceptionally favourable in the Baltic States: In Latvia, the share of EU investment has decreased since 2012, in Estonia since 2013, and has remained relatively stable in Lithuania since 2014.

Chart F. Growth of the Baltic States' global export market shares for goods in the



Sources: UN Comtrade, Statistics Lithuania and Bank of Lithuania calculations.
Note: calculated based on data from UN Comtrade, data on export of goods of Lithuanian origin from UN Comtrade and Statistics Lithuania

Chart G. Baltic investment (gross fixed capital formation) as a share of EU investment, excluding residential buildings



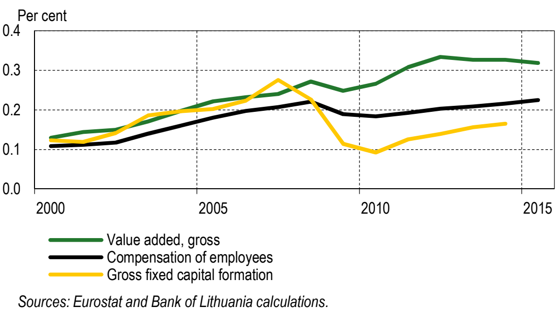
Sources: Eurostat and Bank of Lithuania calculations.
Note: nominal indicators; data seasonally adjusted .

The export of goods of Lithuanian origin can also be affected by the competitiveness of Lithuanian export. One way to determine this is to conduct an analysis of the fluctuations and level of added value and costs, which allows indirect assessment of competitiveness. It is likely that Lithuania's competitiveness would decrease if costs in Lithuania grew more than in other countries (e.g., the cost of employment), and the added value generated failed to reach the growth demonstrated by other countries. It is also likely that Lithuania will be able to maintain a competitive edge if it manages to create greater added value at a lower cost than the EU. Available data can be used to identify the added value generated by certain types of economic activity in Lithuania, employment costs and investment, compare this information with corresponding EU indicators and determine structural parts. Such shares of Lithuania's manufacturing and agricultural sectors were calculated based on added value and employment cost data from 28 EU countries as well as investment data from 20 EU countries, and are presented in charts H and I. This does not include investment data from Belgium, Spain, the United Kingdom, Cyprus, Croatia, Portugal, Romania and Slovenia. These countries make up 25 per cent of the EU's gross fixed capital formation; therefore, Lithuania's market share of the manufacturing and agricultural sector is decreased by 25 per cent.

The indicators calculated show that Lithuania's manufacturing industry was competitive until the economic recession of 2008–2009 and after, but its competitiveness has been waning since 2013. Chart H reveals that more added value was produced by the manufacturing industry at relatively lower costs in Lithuania than in the rest of the EU, and this increases the likelihood of Lithuania being competitive. Until the recession, indicators for the said manufacturing industry changed at a rather steady rate: Lithuania's share of added value generated in the EU grew, but so did its share of employment costs. Because added value and employment costs grew at a proportionate rate for quite a long time, the assumption can be made that Lithuania's manufacturing industry was competitive even though its competitiveness did not change over time. For a while, after the economic recession, added value grew at a relatively fast rate compared to the EU and employment costs decreased. They decreased because comparatively more employees were dismissed and wages also decreased. This demonstrates that the competitiveness of Lithuania's manufacturing industry has improved in that time. As the economy continued to grow, more employees were being hired and wages began to increase, resulting in a more rapid increase in employment costs compared to the rest of the EU. At the same time, compared to the relevant EU indicator, the added value generated by Lithuania's manufacturing industry grew at a rapid rate after the crisis, but ground to a halt in 2013. For this reason, the competitiveness of the manufacturing sector decreased; however, this does not mean that it stopped being competitive altogether.

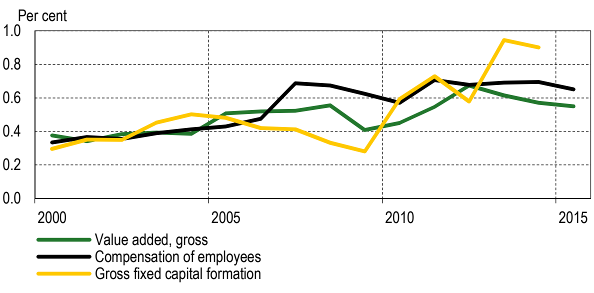
The fact that from 2013, the added value share of Lithuania's manufacturing industry in the EU stopped growing was a significant development of the economy. For a large part, this was caused by external factors: in 2013, petroleum prices began to drop, resulting in the decreased added value of refined petroleum products.[15] In 2014–2015, this was further exacerbated by restrictions on imports applied by Russia and the economic crisis in the CIS region, which reduced the demand for imports of Lithuania's manufactured goods to the CIS countries. However, internal factors were also at play: emerging shortages of employees and decreasing investment. During the economic recession, investment in manufacturing dropped by more in Lithuania than in the rest of the EU. Lithuania's share of investment in the EU is still substantially lower than before the crisis.

Chart H. Lithuanian manufacturing indicators as shares of EU manufacturing indicators



Sources: Eurostat and Bank of Lithuania calculations.
Note: nominal indicators; data seasonally adjusted.

Chart I. Lithuanian agricultural indicators as shares of EU agricultural indicators

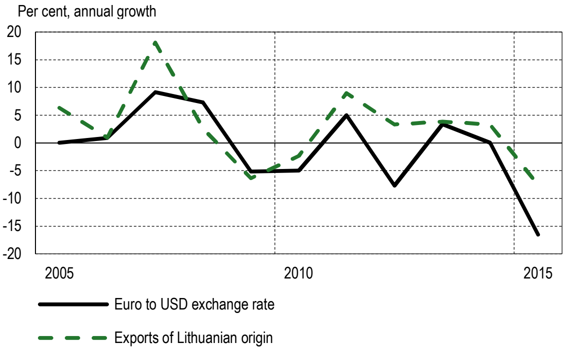


Sources: Eurostat and Bank of Lithuania calculations.
Note: nominal indicators; data seasonally adjusted

Uncompetitiveness poses a danger for the growth of Lithuania's market share in the agricultural sector as well. For more than a year now, the cost of employing agricultural workers has remained relatively stable in Lithuania; however, the added value they generate is comparatively lower than that of their counterparts in the EU. From 2010, investment in agriculture, especially machines and equipment, has been growing more rapidly. Unfortunately, the results of this investment are not yet clearly apparent, unless this is what caused the cost of employment to rise up as much as in the EU, despite the fact that wages are increasing at a greater rate than in the EU.

[15] Because petroleum products make up a substantial portion of Lithuanian manufactured products, the decrease of petroleum prices has a greater effect on Lithuania's results than on other EU states.

Chart J. Growth of the export market share for good of Lithuanian origin and exchange rates



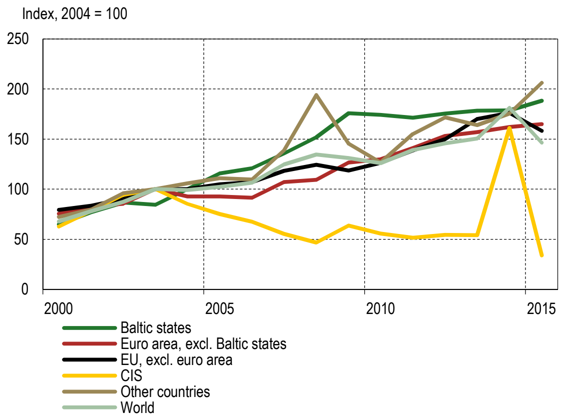
Sources: Statistics Lithuania, Eurostat and Bank of Lithuania calculations.

Indicators for the market share of goods originating from Lithuania react to fluctuations of the euro, thus the sudden decrease in the market share in 2015 might be related to them as well. The fluctuation of exchange rates changes the relative nominal value of exported goods. For example, the devaluation of the euro in relation to the US dollar means that consumers will have to pay fewer dollars for goods valued in euro, and the same amount of dollars for goods valued in dollars. In addition to this, countries whose main currency is the euro have to pay comparatively more euro for goods valued in dollars. In the short term, this decreases the value of Lithuania's market share indicator even though actual exports will not necessarily have changed.

Even though the falling rate of the euro encourages import from other countries selling goods in euro, such an impetus may not be enough to compensate short-term losses of Lithuania's market share. This is determined by many factors, including the fact that it takes time to draw up or amend trade deals with other countries and not all exporters and importers are sufficiently insured against currency fluctuations, or manage to adjust their pricing in time.

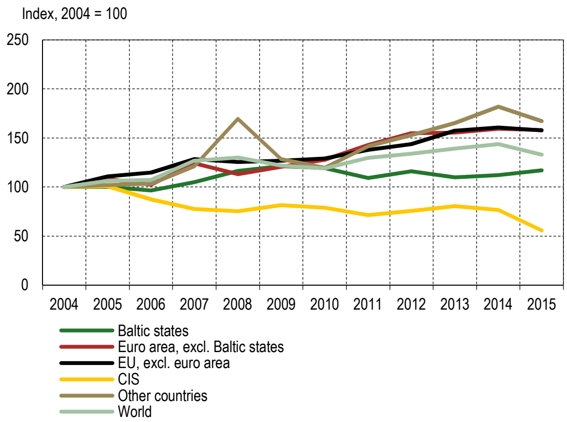
In this case, the fluctuation of the euro is not a sign of the faltering competitiveness of Lithuanian exporters because the fluctuations of the exchange rate of the euro and US dollar depend on much more significant economic factors.[16] However, it can have an impact on Lithuanian exporters, but this applies more to certain product groups. Exchange rates are more relevant to exported goods that can easily be sold in markets experiencing rising prices. Such products include agricultural products and other raw materials necessary for production.

Chart K. Lithuania's market share for goods in the world and specific regions (first indicator)



Sources: UN Comtrade and Bank of Lithuania calculations..

Chart L. Market share of goods of Lithuanian origin in the world and specific regions (second indicator)



Sources: UN Comtrade and Bank of Lithuania calculations..

Certain factors influencing the country's market share can also be observed by grouping Lithuania's exports based on regional markets. From 2000, especially with Lithuania's accession to the EU, Lithuania's market share changed unevenly in various regions of the world, increasing in most and decreasing or remaining the same in the CIS region (see Chart K).[17] Lithuania's market share saw tremendous growth from 2000 to 2008 in the Baltic countries and other (non-EU and non-CIS) countries. During this period, the market share tripled, largely due to re-exports, while the export of goods of Lithuanian origin was less affected (see Chart L). From 2009, Lithuania's market share in the Baltic States essentially remained unaffected. Its market share in other (non-EU and non-CIS) countries decreased drastically over 2009–2010, later growing until 2015. As of late, these countries have noticeably contributed to the growth of Lithuania's market share: in 2015, exports into these countries made up around 20 per cent of Lithuania's total exports. Lithuania's exports to the USA, Ukraine, Norway and Saudi Arabia are significant. The lead-up to 2008 saw the enlargement of Lithuania's market share in the euro area and EU countries not in the euro area. It continued to grow even after the global financial crisis, as Lithuania's open economy began to pick up. On the other hand, Lithuania's market share in the CIS region decreased until 2008, and did not change in any essential way after the global financial crisis, except for the past year.

[16] The ECB identified two factors that influenced fluctuations of the value of the euro in 2015. These were different cyclical positions and monetary policy stances across major economies (ECB, 2015).

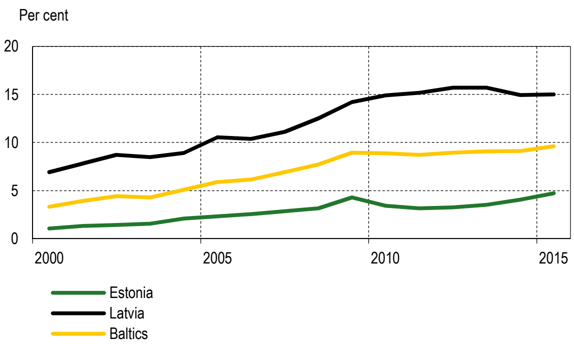
[17] UN Comtrade data shows that Belorusian imports from Lithuania grew by a factor of 7 from 2013 to 2014 (especially due to imports of fruit and vegetables, cars and equipment); however, data provided by Statistics Lithuania and the IMF points to a decrease in trade. These inconsistencies are likely the result of different trade accounting systems.

3. Lithuania's export market share in the EU

Lithuania's market share in the EU was analysed by separating the market of the Baltic States from the EU market.

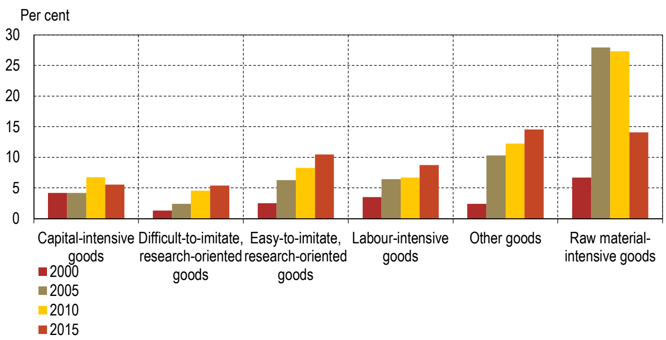
Lithuania's market share in the Baltic States is rather substantial – almost 10 per cent. The market share for certain smaller products is even larger. In 2015, Lithuanian products made up almost half of the vegetable oil and seed imports in the Baltic countries, over 40 per cent of tobacco and tobacco product imports, around a third of dairy products and bird eggs as well as grain and grain product imports. Since 2010, Lithuania's market share in Latvia has remained at the 15 per cent mark (see Chart M). Lithuania's market share in Estonia is smaller, at around the 5 per cent mark, but it is increasing.

Chart M. Lithuania's export market share for goods in the Baltics



Sources: UN Comtrade and bank of Lithuania calculations.

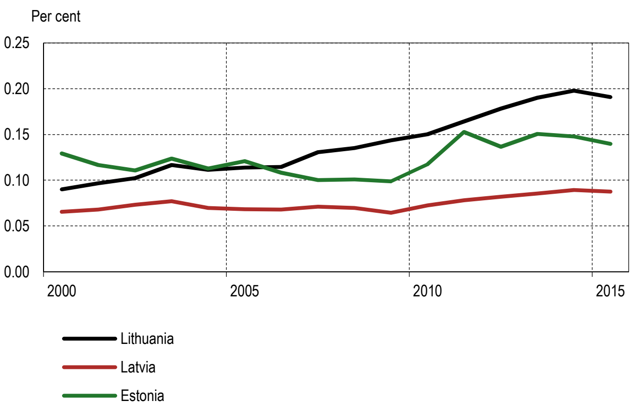
Chart N. Lithuania's export market share for goods in the Baltics by product group



Sources: UN Comtrade and bank of Lithuania calculations.

Limited growth of Lithuania's market share in the Baltic countries in recent years, especially in Latvia, can partially be explained by two factors: the decommissioning of the Ignalina Nuclear Power Plant and the discontinued development of fertilizer exports in the region. This is apparent in Chart N, where electricity is attributed to capital intensive goods, and where fertilizer is attributed to material intensive goods. In 2015, compared to 2010, the market share of capital intensive goods decreased because electricity imports from Lithuania decreased with the decommissioning of the Ignalina Nuclear Power Plant. Lithuania's market share, excluding electricity and mineral products, increased in the Baltic countries, even though this growth was slower prior to 2009. There was a steep drop in the market share of Lithuanian fertiliser in the Baltics: it made up 44 per cent in 2007 and only 14 per cent in 2015. Russia's market share increased by the same amount; thus, Lithuania's market share was taken over by Russian exporters. However, fertilizer exports to other countries grew, so Lithuania's market share in global fertilizer exports did not decrease.

Chart O. The Baltic countries' market share for goods in the EU, excluding the Baltic market



Sources: UN Comtrade and Bank of Lithuania calculations..

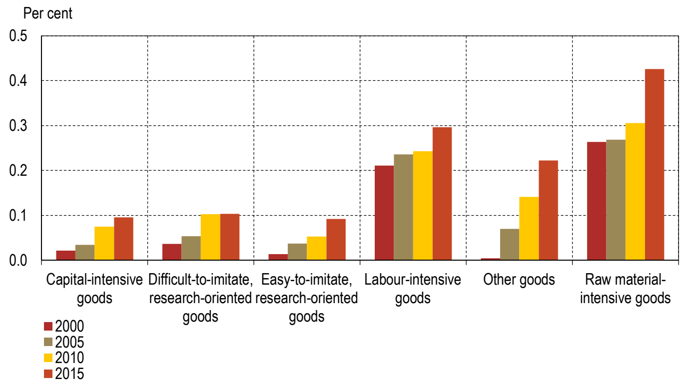
Lithuania's market share in other EU countries is substantially smaller than in the Baltic countries. However, according to data for 2015, exports to the EU, excluding the value of exports to the Baltic States, have grown by a factor of 3.4, and the majority of products are goods of Lithuanian origin. Lithuania's market share in the euro area, excluding the Baltic States, is about 0.16 per cent, and its market share in the EU, excluding the euro area, is around 0.28 per cent. However, certain product groups take up a larger share of the market: In 2015, Lithuania had 7.2 per cent of the EU market share, excluding the euro area, for raw hide and fur imports, 6.4 per cent of fertilizer imports, 3.7 per cent of tobacco and tobacco product imports and 3 per cent of furniture imports. Lithuania's market shares in the euro area (excluding the Baltic market) were similar, except for in the raw hide and fur product group (the latter was much smaller).

Although Lithuania's market share in the EU is small, it began to increase rapidly since the early 2000s and especially after Lithuania's accession to the EU. By 2015, it nearly doubled and substantially surpassed the market shares of the other Baltic States. In 2000, the market shares of all three Baltic States were similar (especially in the euro area), but by 2015, Lithuania's market share had surpassed the market share of the other Baltic States by a factor of two. The market share in other EU countries grew largely due to increased exports of products of Lithuanian origin. From 2004 to 2015, the market share for goods of Lithuanian origin increased by 67 per cent. The market share of most goods increased, demonstrating competitiveness (see Chart P). This increase was largely the result of increases in exports of Lithuanian furniture[18], fertilizer, tobacco and tobacco products, meat and meat products, milk and dairy products as well as fish.[19]

From 2014 to 2015, competition increased in certain EU markets and this made it difficult for Lithuania to compete, especially in the dairy and furniture markets. This increase in competition was the result of newly-instated import restrictions by Russia. These had a significant impact on dairy product exports. Because both Lithuania and the EU export more dairy products than they import, the closing Russian market produced a surplus of such products. Milk prices dropped and the need to sell in other foreign countries increased. Lithuanian dairy producers sold comparatively less product than the dairy producers of other countries, resulting in a decreased market share for Lithuania's dairy industry. This decrease meant that Lithuania found itself in a deteriorating competitive position; however, some positive insights can be gleaned from the situation. For example, in the past year, as milk prices fell, the manufacturing costs of EU dairy producers have gone up (EU Milk Market Observatory 2016). It is likely that some of them are operating at a loss in order to preserve their market share in the short term. This situation should not be sustainable in the long term. The reviving economies of the southern EU states also contributed to the greater competitive environment. These countries began to expand the production of certain products and increase exports. Portugal, Spain, Greece and Cyprus increased furniture exports to the EU and this expansion effort surpassed Lithuania's export growth. Although these countries do not necessarily compete with Lithuania in the same regions, competition has, in general, increased in the EU. However, the latest data shows that the rate of growth of the southern countries' furniture exports is slowing, whereas Lithuania's is picking up speed, thus the changes that Lithuanian exports are undergoing can be viewed as short-term trends.

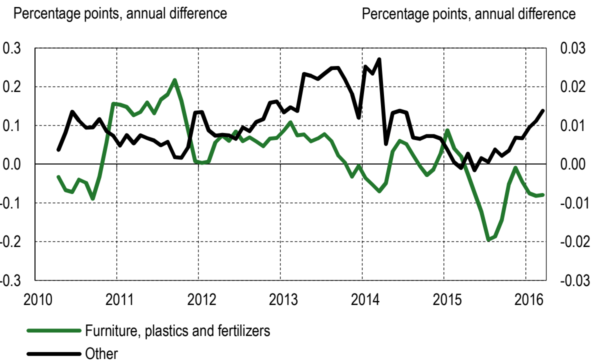
It is difficult to state that Lithuania is encountering competitiveness issues in the EU, unless the focus shifts to several specific markets. Because the market share of two large product groups (furniture and plastics) is decreasing, this negatively affects the general growth of Lithuania's market share in the EU. If these product groups and the fertiliser[20] product group were to be eliminated, the remaining share of the product market would demonstrate growth from 2011 (see Chart R). It is worth pointing out that from 2012 to 2013, it increased slightly more significantly. This was the result of the temporarily deteriorating situation in the southern EU states. 2011 saw a second wave of recessions sweep across the southern EU states (e.g., Spain and Italy) which resulted in their decreased imports as well as the decreased exports of their most important trade partners (e.g., Germany, the Netherlands, other southern EU states). Because Lithuania has comparatively few trade relations with the southern EU states, and exports to other EU countries continued to grow, Lithuania's market share in the EU increased more rapidly. With the revival of the southern economies in 2013–2014, Lithuania's market share within the EU once again started to grow at a slower pace. Over the entire course of the reference period, Lithuania did not lose its market share in the southern EU states. In some cases, this market share even increased, for example, in Spain, where Lithuanian furniture exports began to grow, followed by the increasing exports of plastics, fertilizer and grain. Spain became one of Lithuania's most important trade partners in the euro area.

Chart P. Lithuania's export market share for goods in the EU, excluding the Baltic states, by product group



Sources: UN Comtrade and bank of Lithuania calculations.

Chart R. Annual growth of Lithuania's market share for goods in the EU, excluding the Baltic states (3 month averages)



Sources: Eurostat and Bank of Lithuania calculations..

[18] This refers to SITC product category 82: *Furniture, and parts thereof; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings*.

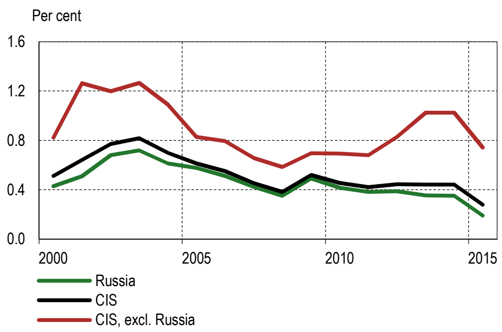
[19] SITC product category 3: *Fish (not marine mammals), crustaceans, molluscs and aquatic invertebrates, and preparations thereof*.

[20] Even though the market share for fertilizer grew until 2015, fertilizer exports are prone to significant fluctuation because they are manufactured and exported only by a few companies.

4. Lithuania's export market share in the CIS

Lithuania's market share in the CIS countries amounts to 0.28 per cent.[21] It had declined from levels observed in the early 2000s and the decline hastened after Lithuania's accession to the EU. Even though Lithuania lost a portion of its market share in the CIS countries before the financial crisis, this tendency changed over the course of the past few years, with its market share still decreasing in Russia but increasing in other CIS countries, at least until 2014.[22] In 2015, the market share in the entire CIS region decreased substantially because of Russia's newly-instated restrictions on imported goods and the general economic downturn in the region, which had a negative effect on trade conditions with these countries.

Chart S. Lithuania's export market share for goods in the CIS



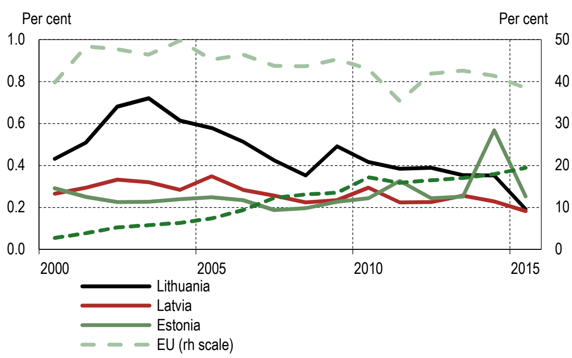
Sources: UN Comtrade and bank of Lithuania calculations.

The expansion of Lithuania's trade relations with CIS countries is constantly affected by instability in the region. Russia experienced economic crises in 1999, 2009 and 2015. Lithuanian exporters also encounter difficulties at the customs office, which lead to losses. In addition to this, Russia announced in 2014 that it was placing restrictions on imported products (e.g., meat and dairy products), which played a significant role within the structure of Lithuanian exports. Under these circumstances, Lithuanian exporters began to look to the growing appeal of alternative markets, such as the EU.

However, Russia's market and the CIS region can be very profitable, so Lithuanian businesses still look for ways to break into the market and insure themselves against risk at the same time. One way to do so – for Lithuania to invest in the CIS – contributed to the decrease of Lithuania's market share indicators within the region. The furniture industry, one of Lithuania's largest exporters, has taken to setting up companies in Russia and Belarus, thereby reducing the demand for furniture exports from Lithuania. Russian labour costs are relatively low, there are fewer transportation costs, customs taxes are not applied to locally produced goods, customs issues can be avoided and the impact of the fluctuating rouble can be mitigated.

Increasing competition within Russia is also an important factor. Over the past five years, the share of exports to Russia in about two thirds of SITC product groups, including furniture, has decreased.[23] Russian import data shows that over the course of the reference period, Lithuania and the majority of EU countries lost their market share, while China's market share in Russia increased (see Chart T).[24] The greatest increases occurred in export shares of product groups that require greater labour resources, Chinese products and other groups: easily reproducible, research-oriented Chinese products. Each market share exceeds 30 per cent. Thus, decreases in Lithuania's market shares in certain sectors (e.g., clothing and footwear) can be linked to the growth of Chinese exports. On the other hand, China exports fewer goods requiring greater resources of raw materials. Therefore, Lithuanian businesses expanded more in this area, at least until 2014, when restrictions on food products came into force (see Chart U).

Chart T. Lithuania's and selected coutries' export market shares for goods in Russia



Sources: UN Comtrade, IMF and Bank of Lithuania calculations.

Chart U. Lithuania's and China's export market shares for goods in Russia within specific product groups

Sources: UN Comtrade and Bank of Lithuania calculations.

[21] This data does not cover a large portion of re-exports, which in 2015 made up 90 per cent of all exports to the CIS region. It is, therefore, more suitable as a statistic for assessing the competitiveness of Lithuania's industrial and agricultural sectors as opposed to analysing total exports.

[22] UN Comtrade has thus far only published 2015 data for five CIS countries. Their data for 2014 has been modelled on data from 2013 due to the specific nature of data from Belarus.

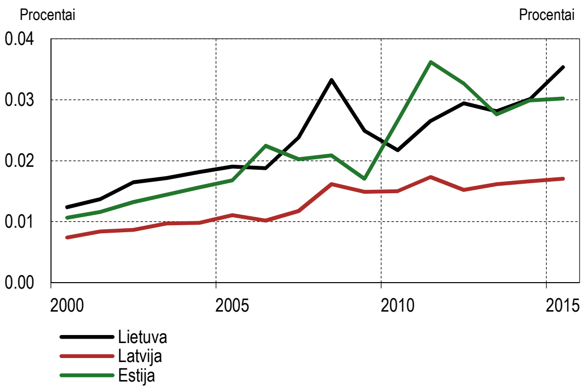
[23] An important exception is fertilizer export. Market shares also increased in products groups such as sugar, sugar products and honey, drinks, non-organic chemicals, cork and wood, various food products and mixes.

[24] Estonia is an exception. It successfully maintained a relatively stable Russian market share for 15 years; however, this was largely the result of Estonia's exports of remote communications (telecommunications) and sound recording/replaying devices and equipment. Excluding these products, Estonia's market share decreased.

5. Lithuania's export market share in other countries

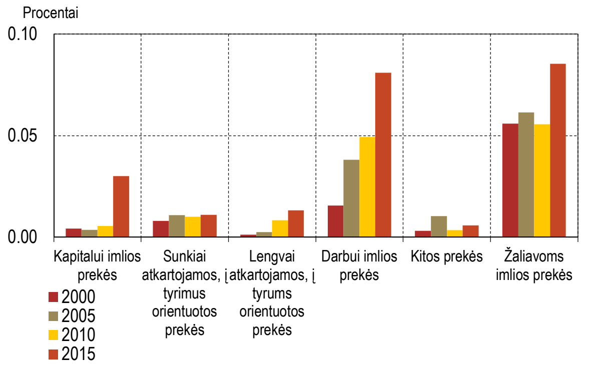
In other countries, Lithuania's market shares increased over the reference period, but only reached 0.04 per cent by 2015. The market shares of the other Baltic countries followed similar trends (see Chart V). Substantial market share growth was experienced in the USA, Norway, Turkey, India and Japan. After the financial crisis, Lithuania's market shares in Norway, Turkey and India increased at a slower rate, but grew more rapidly in the USA and especially Japan (due to tobacco and tobacco product exports). Lithuania's market share in China also grew, especially over 2014–2015.

Chart V. Growth of Baltic market shares for goods in other countries



Šaltiniai: „JT Comtrade" ir Lietuvos banko skaičiavimai.

Chart Z. Lithuania's market share for goods in other countries by product group



Šaltiniai: „JT Comtrade" ir Lietuvos banko skaičiavimai.

Lithuania's market shares grew in the majority of product groups (see Chart Z) demonstrating competitiveness here as well. Market shares in these countries grew largely due to fertiliser and furniture exports (althoughthe expansion of these slowed due to the global financial crisis) as well as tobacco, grain, cork and wood product, metal product and prefabricated building exports (the growth of the market share for these products increased at a faster pace after the financial crisis). In 2015, with the devaluation of the euro, the furniture market share dropped, especially in the USA; therefore, it is likely that the exchange rate of the euro and US dollar had an important impact on the growth of market shares in the said countries.

Exports to said countries involve a greater concentration of products. Four product groups (furniture, fertiliser, grain and tobacco) make up 44 per cent of Lithuania's total exports to these countries while the exports of these product groups make up 27 per cent of all Lithuania's exports to the EU. For this reason, changes in the export of these products have a great impact on market shares in the said countries. For example, because of increased exports of fertiliser to India in 2008, Lithuania's market share experienced significant growth (see Chart U), later experiencing a corresponding decrease due to a fall in fertiliser exports. This rather substantial concentration of products can be explained by the fact that Lithuania does not have many large enterprises manufacturing products that could be exported to faraway markets. In addition to this, general EU regulations do not apply in these markets, thus in order to expand exports here, exporters must invest more into exploring markets, maintaining business relations and adapting products for local markets.

Conclusions

Lithuania's global market share consistently increased from 2000, except during the years of economic recession. The present analysis shows that the growth of Lithuania's market shares can largely be attributed to re-exports and investment. Lithuania's market shares grew in the majority of regions and various product groups, only decreasing in the CIS region. This can be explained by Lithuanian companies reorientating themselves towards alternative markets, Lithuanian investment in the CIS and increasing competition from developing market economies, for example, China.

From 2014 to 2015, the growth of Lithuania's market shares slowed. This change of pace was brought about by decreasing exports due to newly implemented Russian restrictions on trade and increasing competition with the EU. 2015 saw a fall in the value of the euro, which could have also had an impact on the drop in market share indicator values over the short term. Even though competition is growing and wages are increasing in Lithuania at a faster rate than in most other EU countries, there is so far no basis for stating that Lithuania's market shares are no longer growing due to increased labour costs: first, market shares are showing negative growth only in several product groups and the CIS region; second, the ratio between labour costs and added value in the manufacturing sector, which contributes the most to Lithuanian export, increased significantly less than in other EU countries ever since the global financial crisis.

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