

**The impact of integration into EU on business conditions in
Lithuanian border regions**

Summary of the final report

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SUMMARY

This study was prepared under the agreement with the European Committee under the Government of the Republic of Lithuania, implementing the programme on coordination of the negotiations with EU and Lithuanian participation in the activity of EU institutions and on research of social and economic changes caused by the entering EU. The study was co-financed by the "Local pre-accession assistance" programme of the Danish Ministry of Foreign Affairs.

Integration to the European Union will inevitably make impact on various sides of economic and social activities in Lithuania. There have been studies analysing the consequences of the integration on the whole economy of Lithuania, but the effects on the territories of smaller scale aren't yet clear enough. On the other hand the border regions in various parts of have been researched for a long time. These studies have mostly revealed that these regions develop more slowly and this is due the peripheral location and negative impact of the state borders, which act as a factor limiting economic relations.

The main objective of this research was to find out the main changes of economic conditions in the border regions of Lithuania, related to the integration of the country into EU and to explore possibilities to use forthcoming changes in argumentation and formation of priority initiatives for entering the EU programme INTERREGIII A.

The main tasks of the research were the following:

- to define the boundaries of border regions in Lithuania;
- to examine the main existing conditions of the development of economy in these regions;
- to find out main trends of development of the economy in the border regions;
- to define the main changes of these conditions due to the entering the EU;
- to find out the expectations of managers of enterprises concerning the impact of forthcoming changes

The research itself was based on the studies of three interrelated fields: the first one - conditions, making impact on the economy; the second one - the economy as an object of the

research and finally the third one - business managers as a subject. Their behaviour will affect the final results of impact on economy of the entering EU.

The first part of the study is devoted to the examination of main preconditions for the development of economy in the border regions, trends of the development of social and economic processes in the border regions and to find out how they will change due to the integration into EU. One of the first tasks was to define the territory, which is being affected due to the closeness of state border. The border region of Lithuania was defined (Fig. 1). In general it consists of four sub-regions, which are formed of territories of municipalities experiencing direct impact of being close to the state border. Actually these are 4 independent regions having one common feature – near border location. This was the main object of the research. In the broadest sense the border region can be described as a hierarchical spatial structure, consisting of territories of different level – local administrative units, municipalities, counties, 4 sub-regions and finally the highest one presents whole border region.

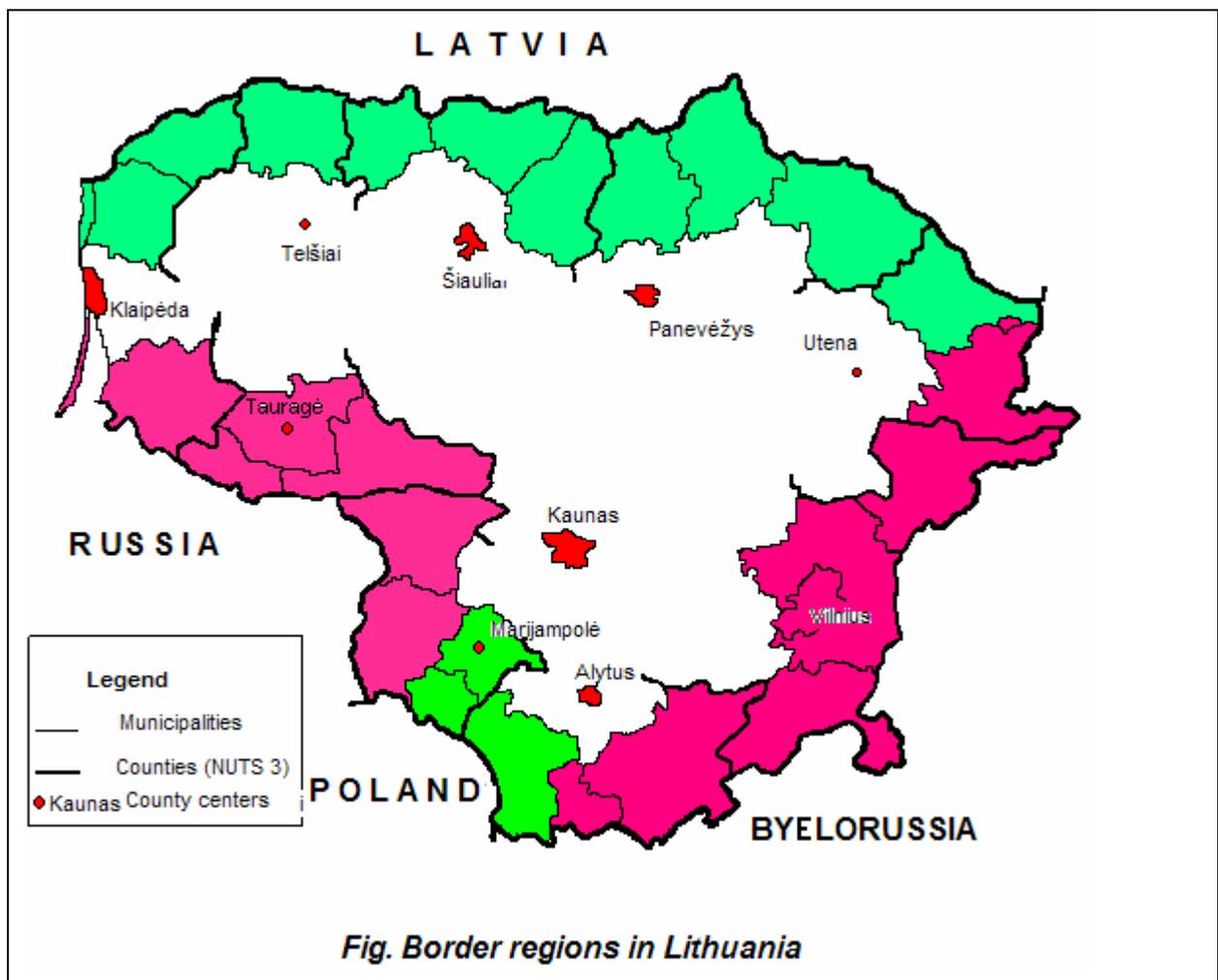


Fig. 1 Border region and sub-regions in Lithuania

The strongest impact of the state border can be felt in local administrative units (smallest administrative level), which however aren't real economic systems and there are no economical data available on this level. This makes the analysis in this level not possible. The highest possible level of administrative territories, which can be analysed as border regions are counties of Lithuania, which however aren't strongly effected by the state border but, on the other hand, are the main units (NUTS 3 regions) for the implementation of regional politics and regional development.

The geographical conditions of environment (both – human and natural), which can make impact on the development of economy of the border region were analysed. The political, economical, social, environmental conditions and their changes in the territories close to state border were investigated in Lithuania and in the neighbouring countries. In general these conditions do not make favourable premises for the future development of the economy.

The type and regime of state borders is one of the most important factors making impact on the conditions of development of international cross-border economic relations. The main distinctive feature in Lithuanian border region is the fact that all state borders (except one with Poland) are relatively new structures, actually existing just for one decade. On the other hand, border regimes have changed in the every section of Lithuanian State border.

One of the factors, which can affect future development of economy in the border region, is territorial administrative system and location of administrative centres. This is also a factor describing possible market of service centres. At present 29 municipalities and 2 county centres (from 10 total) are located in the border region of Lithuania. Most centres of smallest territorial administrative units located near the border are situated 10 – 20 km from centres of municipalities. However some settlements are situated more than 120 km. from the county centres and this is not favourable circumstance for the even development of the economy in the regions. The network of towns generally is better developed in Lithuanian border region that in the territories outside border.

Social processes making impact on economic conditions were analysed as well. Geo-demographic situation and trends aren't favourable for the development of economy. The structure of population and trends are rather poor. In many regions the density of population is very low (less than 5 persons per square km) and is still decreasing. Age structure and education levels do not make satisfactory conditions for their development (table 1).

Table 1. Proportion of population with higher education

LITHUANIA	11,2
LATVIAN BORDER REGION	6,1
BYELORUSSIAN BORDER REGION	7,8
POLISH BORDER REGION	6,6
RUSSIAN BORDER REGION	7,0

Environmental conditions in the border region also do not make positive impact on economic cross-border relations. The dense hydrographical network (700 km of state border runs along the rivers, 30 lakes are located on the state border), more than 24 big (500 ha) forests, 21 big wetlands may complicate the construction of new communication links, but on the other hand make favourable conditions for the development of some types of collaboration in the environmental field. The existing dense network of protected natural territories (30) illustrates the environmental potential, though it may act as a limiting actor of development of economic activities in these territories.

The general economic conditions were analysed as well. Though there exists a few centres of industry, but in general the level of economy in the border region on both sides of the state border is rather poor and the trends are the same. On the other hand, the network of transport infrastructure is rather well developed in Lithuania and the accessibility of main economic centres is rather good.

One of the most important impacts on conditions of development of economy makes the differences of macro-economic systems across a border. Usually existing border regimes help to mitigate the consequences of such differences. It could be stated that in the border regions where such sufficient differences (first of all differences of price levels) exist, they aren't favourable for the development of economy in the Lithuanian part of the border regions. It means that the stricter enforcement of the border regime (Russia, Byelorussia) will make positive impact. The sections of the border, which will lose their present regime (Latvia, Poland), divide the countries with very similar economic systems the current price and income levels are very similar, so in general there should be no negative impact.

The second important task was to establish the main trends of development of the economy in four different border regions of Lithuania. The general trends of economy, the situation in labour market and the tendencies of the development of main sectors of economy were discussed. Actually the state of whole economy (excluding the capital city Vilnius) is rather poor. The main trends of the development show the growing discrepancies of the level of the economy between border regions and the main economical centres of Lithuania. The figures 2 and 3 illustrate the differences and trends of GDP per capita in municipalities in border region. It is important to stress that the best and the worst developing municipalities can be found in the border region.

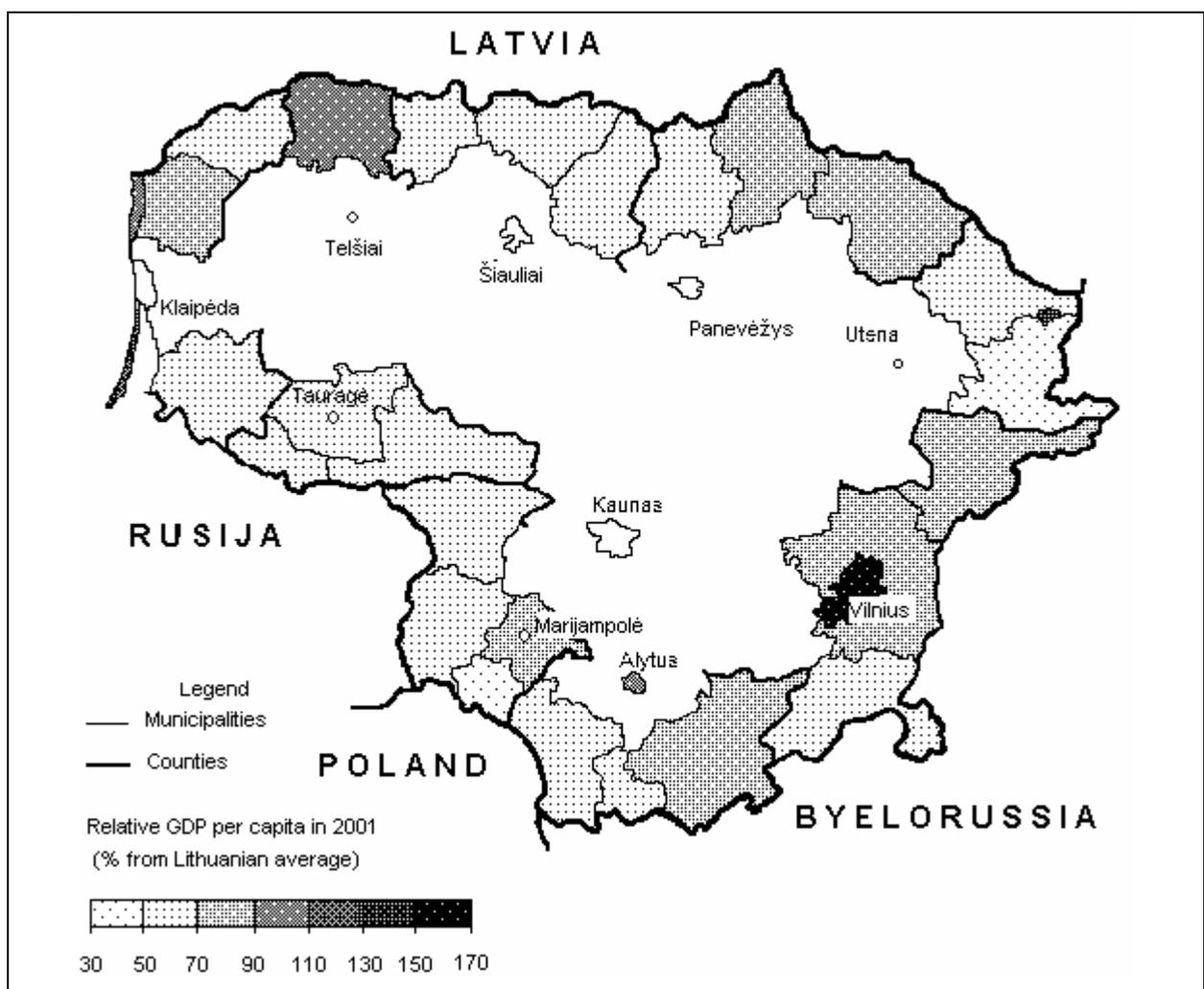


Fig. 2 The GDP per capita in municipalities in border region in 2001 (comparing with national one, %)



Fig. 3. Relative differences of GDP per capita growth in municipalities 1996 – 2001

The main causes of these growing differences are related to the peripheral location of most municipalities of the border region. The levels of investment (both – material and direct foreign investments) also differ very much in the border regions, though the main trend – very low levels comparing with whole state. Especially bad situation is in the Lithuanian – Russian border region.

The situation in labour market is also rather poor (Fig. 4). Municipalities with the highest unemployment rates are situated in the border region of Lithuania. Especially rapid growth of unemployment in border region was observed after the Russian economic crisis and this confirms the negative impact of being close to border while on the other hand illustrates the low degree of adaptability of the economies of the region.

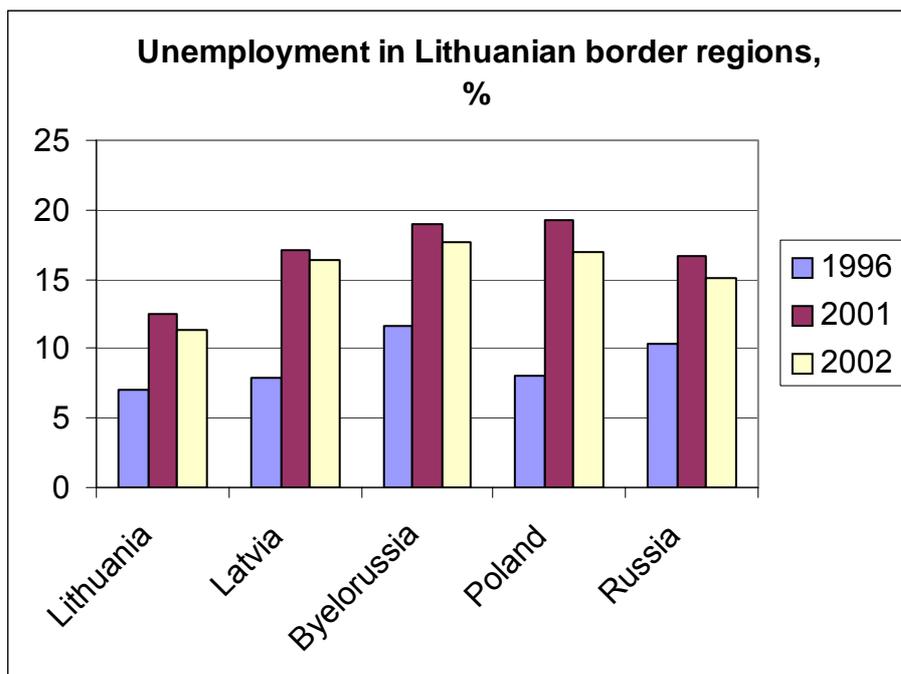
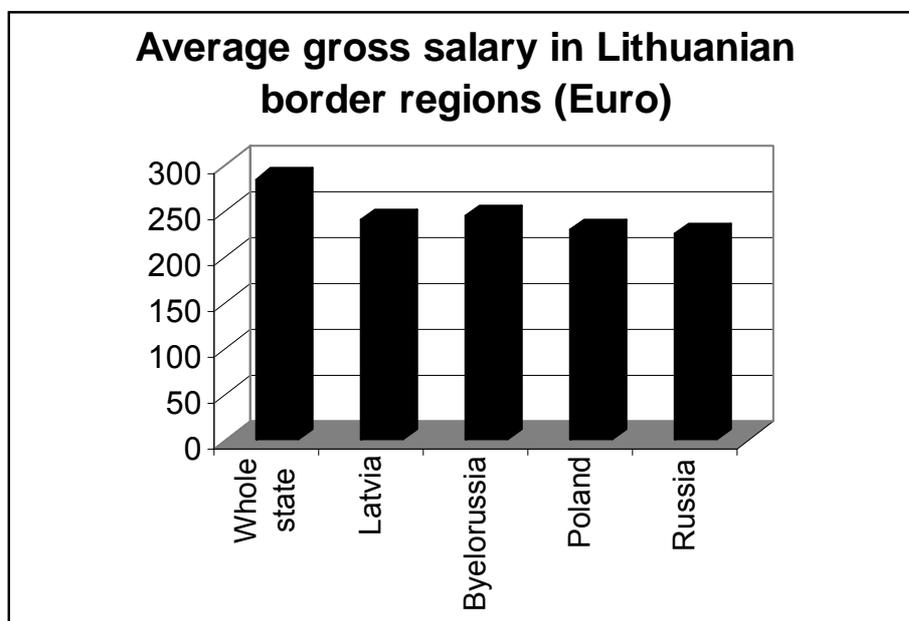


Fig. 4. Unemployment levels in the Lithuanian border region in 1996 – 2002.

The levels of gross salaries in the region also are sufficiently lower than Lithuanian average (Fig. 5) and again, the lowest one is in the Lithuanian – Russian border region.



The analysis of different sectors of economy also confirmed the slowness of the development of economy in the region as well as the great spatial disparities among the municipalities. (Fig 6 illustrates the differences of intensity of agriculture and shows the territories where the traditional agriculture has very poor conditions of the development. The industrial

development also has very great differences in the region. There are few centres but in general the great decrease of industrial production occurred after the collapse of the Soviet Union and municipalities with very low proportion of industry prevail in the region.



Fig. 6. The yield of grains in 2002 (cnt/ha)

The development of the services wasn't so poor, but large disparities between regions exist. The turnover of retail trade in Lithuanian Polish and Lithuanian – Latvia border region is close to one of whole Lithuania. But the turnover in other regions, located near the countries with lower price level, is more than twice lower.

The next part of the research was devoted to the summarisation of possible changes of the conditions of development of the economy in the border regions, which will occur due to the entering EU. The impact, which will be felt in the whole state, was examined. The is clear enough that the impact experienced by the whole economy of the state will inevitably be felt

in the border regions and the impact from the changes of border regime will be felt in the context of the general one.

The changes related to the EU membership for the development of economy in border regions, mostly include changes in border the regime that already are under implementation and changes in social – economical environment in the surroundings of state border and changes in the possibilities of regional politics. The possibilities of EU Structural policy and INTERREG initiative were analysed.

Experience of functioning of other Euroregions was analysed. Generally speaking the impact of the Euroregions on economic conditions is positive though it is not easily estimated and it differs depending on the situation. The most effective euroregions are located in the territories, which historically used to be integral regions. There are very few positive effects on cross-border economic relations in cases when euroregion exists among the states with different types of economic systems (e.g. entirely different macro-economy, business legislation, taxation, price levels or even type of economy).

The impact of integration on the social-economic environment in the border region was analysed too. There are no signs that the social, demographic or similar processes will be affected by the changes of the border regime, though the political conditions will be different. The direct impact on the development of industry or agriculture is also not expected.

After the analysis of main conditions of the development of economy the possible behaviour of enterprises (business makers) in these conditions was analysed through the survey of 200 enterprises (through standard questionnaire). In order to understand possible changes of the development of economy after entering EU, it was necessary to find out the expectations of the owners and managers of the enterprises, which will possibly be under the impact. Opinion of the managers of enterprises concerning present state of their business and existing impact of state border was surveyed. Though the opinions concerning present state of their business were mostly positive and the impact of the state border has been perceived as rather mute. Lithuanian managers in the Latvian and Polish border regions were more optimistic about the present business conditions.

Another task was to find out the existing knowledge concerning future changes in border regime and new possibilities of EU financial support. The request allowed to state that at

present the knowledge of managers concerning forthcoming changes is very low and that human factor will not be positive factor in adopting the economy for new conditions and possibilities. The situation is more positive in the regions, which are located close to the future EU countries, especially Poland. The expectations and experience there are the highest. The situation in bigger enterprises is better. They have better foreign relations, their knowledge is deeper, and their interests are wider, expectations higher. The expectations as well as present estate of managers in Belarus and Russian border regions are worse. Some examples are presented fig. 7.

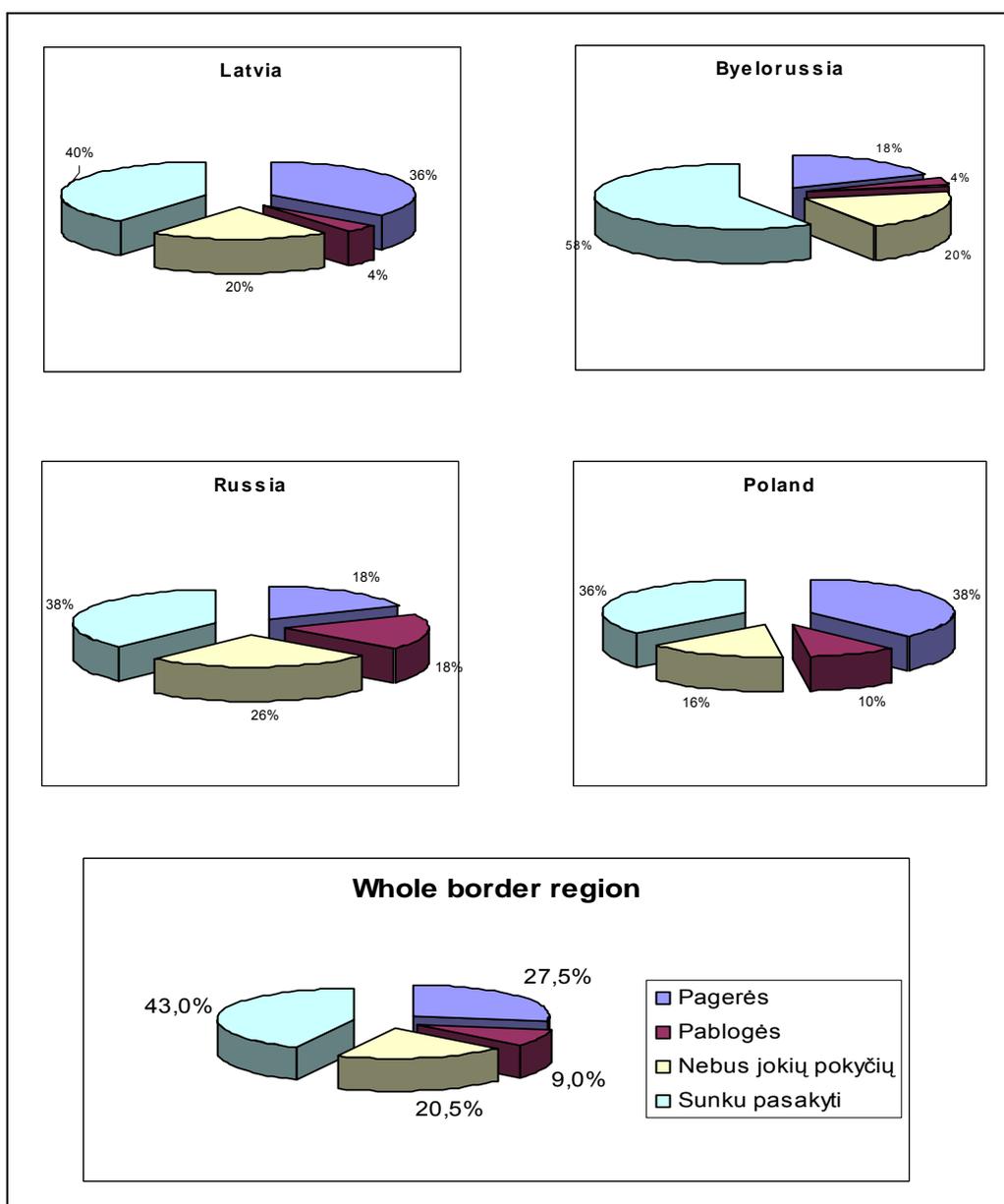


Fig. 7. Opinion on changes of the conditions due to the changes of border regime (will grow better – 27.5%; will grow worse – 9%, there will not by any changes – 20.5%, it's hard to say – 43 %).

The perspectives of the enterprises, according to the opinion of business makers are rather mute. In most cases nor the present impact of the state border, nor forthcoming changes, neither impact of entering EU aren't clear for them. Notwithstanding that the opinions are more positive than negative, it can be summarised that **the uncertainty** prevails.

In general, the research revealed the main cause of the slowness of the economic development in the border region, which is mostly related to its peripheral location and therefore as the measures of development of the region, that constitute to reduction of this cause are very welcomed. Also it is clear that the impact of new state border regime and all other factors on the conditions of the development of the economy in border regions will be mostly positive, especially in Lithuanian – Poland and Lithuanian – Latvian regions. However the impact of analysed factors will be less important comparing with the changes that affect whole state. The existing conditions for the development of economy, the current trends of economy and administration capacity in Lithuanian border regions will not play positive role helping to use the forthcoming changes and possibilities. The pace of development of the economy in border region will be slower than in the whole country, especially in the regions, located near future borders of EU.

When choosing the priority measures of the development of economy in border regions, first of all it is suggested that factors of slowness are targeted. Any measure, which will reduce the peripheral location and will help to develop human resources of the region, will have to be seen as favourable for the development of the regions. Mostly these include the development of transport and other communications, language skills, increasing accessibility of information and etc. On the other hand the situation is very different in different parts of the border region of Lithuania. The regions located near the future inside border of the EU should focus their attention on the development of the cross-border economic relations, while other regions (bordering Russia and Byelorussia) should try to mostly co-operate in other fields, where existing differences between regions on the both sides would not be determinant to the results of project. Environmental protection, cultural links can be an example of the fields where co-operation can be developed even in cases when economic and political systems are different. Also the slowness of the development will require another kind of measures of regional politics and development in these areas.