

Lithuanian Economy in New External Environment

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旧社会主義諸国(共産圏)の歴史(「革命」前・体制転換後を含む)と、社会主義や共産主義の思想・理論を対象に批判的検証を志しています。投稿歓迎。

編集者より:

この投稿のテーマは本誌表題から外れますが、ユーゴラビア自主管理研究の第一人者としての筆者による日本の経営管理改革への取り組みに期待しています。

From the editor:

Although the topic of the contributed paper is out of the original title of this journal, I decided to publish it in this journal. The reason is that I am interested in how the author, who is one of the leading experts in studies of self-management in former Yugoslavia, views management reforms in Japan.

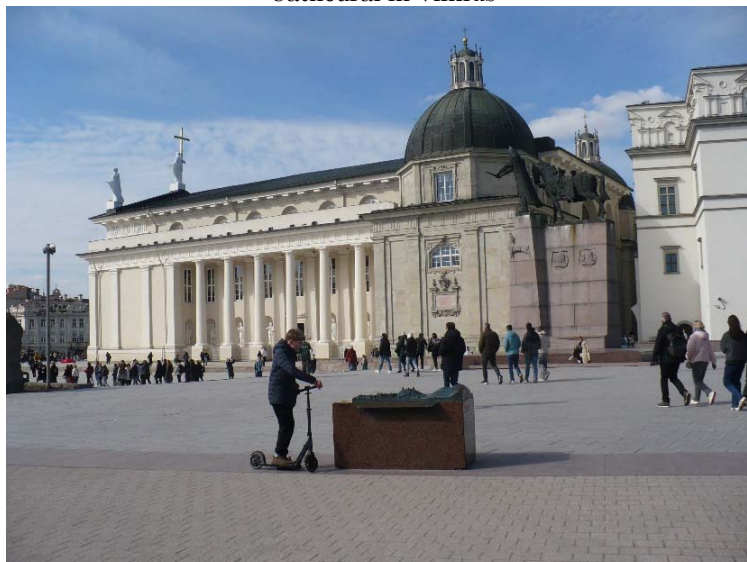
Photos by Koyama, 2026

cover photo: Houses of peasants in the suburbs of Vilnius

Port of Klaipeda



Cathedral in Vilnius



Lithuanian Economy in New External Environment

Yoji Koyama¹

Abstract

Lithuania is a country with its population decreasing at the most rapid pace in the world. In recent years its external environment has drastically changed due to political instability in Belarus and Russia's invasion of Ukraine. The ongoing war has been stimulating the Lithuanian economy. There was an opinion: Its influence on the Lithuanian economy is comparable to that of the Korean war in 1950-53 on the Japanese economy. Taking into account this opinion I examined recent economic trends in Lithuania. Albeit slowly, its economy is developing. Now per capita GDP of the country is 87% of the EU average. People working in the area of electronics and IT engineers who returned home with professional skills are able to earn higher salaries. In such areas their lives in Lithuania seem to be not inferior to those in Western Europe and the USA, taking into account cozy environment and cheaper dwellings in Lithuania. It seems that there are many return migrations in such areas but not so many in other areas. Due to drastic changes in the external environment many people immigrated from Belarus and Ukraine to Lithuania. Around 2000 migrant workers from Central Asia increased rapidly. As a result, the tendency of decreasing population has stopped, and the population began increasing slowly. However, apart from immigration of foreigners, the population is still continue decreasing. Although there is military production by foreign-owned companies, they are not powerful enough to play a leading role in the Lithuanian economy. Therefore, the analogy of the Korean war does not apply to the present Lithuania.

Key Words: Lithuania, population, emigration, immigration, Russia, Belarus, Ukraine, Korean War,

JEL Classification: J6, F22

Introduction

The reason why I pay attention to Lithuania is that along with Latvia this is a country with its population decreasing at the most rapid pace in the world. This country's population was 2.52 million in 1945. The population continued to increase and peaked at 3.706 million in 1992. Since then the population

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continued to decrease. Also the country has a phenomenon of aging population with fewer children. There has been a natural decrease in population (death rate – birth rate). Of course, there have been immigrants, but net international migration (immigration – emigration) has been remarkable. The population in 2019 was 2.79 million, meaning that population has shrunk by about a quarter (24.6%) during 27 years. About 80 percent of the decrease in population was caused by emigration. There were people who called Lithuania's emigration "largest threat", for example, Dr. Vygaudas Usackas, the EU's former envoy to Russia (*BNN*, 2019, p. 2).

In May 2004 together with other post-Socialist Central and East European countries Lithuania joined the EU. Thus workers in new EU member states have become able to participate in the single labor market of the EU. The number of emigrants who left the country for Western Europe has increased sharply². Due to such a long-lasting emigration the Lithuanian society has been greatly changed. Per capita GDP has considerably increased, albeit partly due to a decrease in population, and it approached that of the EU average.

In recent years, however, the environment surrounding this country has drastically changed. Mass immigration from Belarus started already in 2020 in the wake of the protests related to presidential election in that year. The Lithuanian government decided to make the country a safe haven for Belarusians who do not want to live under Lukashenko regime. Now there is large Belarusian diaspora, they are spending money here received from EU and other Western countries to support anti-Lukashenko activities. Then the Russian invasion of Ukraine started in February 2022. Two years ago in his e-mail a Lithuanian researcher told me as follows: The ongoing war has a strong stimulating effect on Lithuanian economy which can be compared with that of Korea War 1950-1953 on Japanese economy (the same may apply to Latvia and Poland). Western firms are investing into building and expanding military and related industries supplying Ukrainian army. This helps to create new work places and reduce attractiveness of emigration for indigenous population too.

² The reasons for a rapid increase in the number of emigrants can be explained as follows: 1) As the Soviet Union collapsed and Lithuania was included in the world economy, technology which had been used in the Soviet period has become obsolete. Enterprises equipped with such a technology were closed, and consequently workers have lost their jobs; 2) The government as well as employers pursued neoliberal policies including flat tax leading to an expansion of economic gaps; 3) Poor social welfare; 4) The government made it the first priority to join the eurozone in order to escape from the Russian economic zone and in fact adopted the euro in January 2015. Therefore, when the country faced the 2008-09 global financial crisis employers responded it by slashing workers' wages. The government persisted to make every effort to reduce budget deficit, putting importance on the Maastricht convergence criteria, especially criteria on budget (budget deficit less than 3% of GDP and accumulated public debt less than 60% of GDP), meaning that the government forced the people to accept internal devaluation of the currency (reduction in pension, child allowance, etc.). Such a harsh way of economic management by both employers and the government caused many people's emigration, i.e. 'exit' (which A.O. Hirschman referred to). The reasons are the summary of Koyama (2023).

I wonder whether such a change in the environment surrounding the country gives any influence on the direction of the country's economic development. I would like to add that this paper is based on my book (Koyama 2023) as well as my short visit to Lithuania from late March through early April 2026.

1. New External Environment

Politically Unstable Situations in Belarus and its threat

Belarusian President Lukashenko, Europe's last dictator, won the Presidential election in 2020 and suppressed opposition groups. The Lithuanian government decided to make the country a safe haven for Belarusians who do not want to live under Lukashenko regime. The government has allotted a residence for main opposition candidate Svitlana Tsihanovskaya and other members of Belarusian opposition in Vilnius.

In autumn 2021 Lukashenko began to use refugees as 'a political weapon'. A travel agency, presumably under Lukashenko's instruction, brought those people from Africa and Middle East, who desired to emigrate to the EU, over to Lithuania and then guided them to a border area near Poland, saying "that is Poland". Governments of Poland and the Baltic States were obliged to reinforce their border controls. With funding from the EU and support by Frontex, they constructed fences with barbed wire on their borders (Goeczi, 2024).

Belarus is an export country of fertilizer. Previously this country carried it to the Lithuanian port of Klaipeda by freight trains (a train coupling with 40 wagons carried it twice a day) and exported it from here. As the EU imposed economic sanctions on Belarus on the ground that this country was helping Russia's invasion of Ukraine, Belarus became unable to use this port. Now Belarus is exporting fertilizer to foreign countries via the port of Sankt Petersburg³.

Russia's Invasion of Ukraine

With Russia's Invasion of Ukraine, which began on February 24, 2022, situations in the EU member states including the Baltic States have entirely changed. In the case of Lithuania, for example, the number of emigrants was exceeding that of immigrants until 2018, but since 2019 the number of immigrants was always exceeding that of emigrants. Especially in 2022 the number of immigrants increased 2.1 times in a year and it was 4 times of the number of emigrants. Refugees from Ukraine fled not only to Lithuania but also to Poland, other Baltic States and countries.

Increasing Defense Expenditure

According to a Polish specialist on defense study, since Lithuania's accession to NATO, the state

³ Information provided by Professor Kraniauskas (University of Klaipeda).

authorities have not paid much attention to defense-related issues. The Baltic states, including Lithuania spent a little on defense over the years. After the 2008 global financial crisis, Lithuania reduced its spending in that area to 0.8% of GDP. In 2014, due to the developments in the region, the country pledged to increase its defense spending to 2% of GDP in 2020. In 2016, Lithuania's defense spending amounted to 1.49% of GDP (Wojnarowska – Szpuch, Sylwia 2022). The defense expenditure amounted to 2.8% of GDP in 2024. In order to increase it to 3-3.5% of GDP in 2025-2030, financed by a mix of increased borrowing through defense bond issuance and higher revenue, including a rise in CIT rates and excise duties, as well as an extension of the bank levy by one more year. Defense spending will further rise to 5% of GDP for 2026-30 in line with the new NATO commitment (IMF 2025, p. 7).

A few years ago, a German giant company Rhein Metal in military industry advanced to this country where appeared many subcontractors cooperating with the German company. Such military-related companies are cooperating with many European companies including Ukrainian companies (Lithuania Co-create 2024). Defense-related industries, in particular foreign-owned companies, benefitted from this situation. I heard that domestic companies do not produce highly sophisticated weapons (for example, rifles with optical telescope), but produce ammunition.

Energy

Until recently this country depended on the Soviet-era power grid, controlled by Moscow. During the Soviet era the Baltic States shared a common power grid with Russia and Belarus, based on BRELL (Belarus, Russia, Estonia, Latvia and Lithuania) agreement. The project to decouple the power grid of three Baltic states from Russia had been in the works since 2000s. Due to technical and financial constraint, this project progressed very slowly. After about 10 years negotiation the countries concerned basically agreed in 2018. It became urgent necessity for the Baltic States to decrease its dependence on Russia after Russia's full-scale invasion of Ukraine. Funding by the EU (1.2 billion euros) prepared the region for decoupling from the old grid, covering about three-fourths of the total cost. Finally, the region became able to decouple their power grid from the old grid and integrate them with the European power grid via Poland, Sweden and Finland (Moyer 2024; Karciauskas 2024).

Russian pipelines for natural gas are still running through Lithuania, but now the country does not utilize it completely.

2. Recent Economic Trends

Economic Growth

Albeit slowly, this country continues economic development (GDP growth rate was 0.7%, 3.0% and 2.9% in 2023, 2024 and 2025 respectively). Its per capita GDP is approaching the EU average and reached 87% of the EU average in 2024. Its unemployment rate decreased from 7.1% in 2024 to 6.9% in 2025, but there

remains structural mismatch (European Commission 2026). What factors have been supporting the country's economic growth? First, an increase in consumption to which money remitted by migrant workers in advanced EU member states to their families in Lithuania. The amount of the remittance from foreign countries to Lithuania in the period 2004 – 2026 averages €228 million in a year (Tradingeconomics.com 2026). Second, public investment including the EU's Recovery and Resilience Fund which was established as a countermeasure against Covid-19 (€3, 841 billion in 2013 corresponding to 5.22% of the country's GDP) and funds from the EU's Cohesion Fund. Third, inward FDI. In 2022 the largest amount went to the area of finance and insurance (34.6%), followed by manufacturing (16.5%) (Official Statistics Portal 2023). Fourth, foreign trade can be mentioned. Let us examine it more in detail.

Lithuania's Foreign Trade in 2024

Mineral fuels, oils and distillation products rank top in both its export and import. There is an oil refinery, the largest in the Baltic States, in Mazeikiai. This oil refinery with its annual capacity of 15 million ton started its operation in 1991, and it was acquired by a Polish company PKN Orlen SA in 2006. Previously this oil refinery imported crude oil from Russia and exported the refined oil and other derivatives to foreign countries from a terminal in the Baltic Sea. Now the refinery does not import oil from Russia, but instead it imports crude oil from Norway and Arab countries.

The Lithuanian export is rather diversified with ever increasing share of higher value industrial products⁴. Currently they have around 25-30% of exported goods. Lasers and photonics, biotechnology and pharmaceuticals, machinery and automation equipment, electronics, medical products precision engineering, ICT-related manufacturing. At the same time, products of traditional industries dominate in the Lithuanian export. Petro-chemical goods (refined oil, plastics, fertilizers and other mineral goods) have still the biggest share in its export. Traditional furniture and similar manufactured articles are important, accounting for about 11%. Machinery and electrical equipment are also important, accounting for about 9%.

ITC's trade map tells us growth rates of exports and imports for each sector in the past 5 years (2021 – 2025). Pharmaceutical products increased at the annual rate of 9%, followed by electrical machinery and equipment and parts increasing at the rate of 8%. Mineral fuels, mineral oils, etc. increased at the rate of 4%. As their amount is very large they seem important, but at the same time the amount of their import is also very large. As the amount of re-export of their import is also large it cannot be said that this area has been leading the country's economic growth.

In addition, exports of high-value-added products (laser, optical, biotechnology products and

⁴ Dr. Donatas Burneika, a specialist of economic geography at the Institute of Social Sciences, provided me with general information on Lithuania's foreign trade.

medicine, machines, electronics, precision engineering and ICT related manufacturing) has been increasing in recent years. Probably there seems to be a considerable amount of military supplies among them. For example, a powerful optical module that allows drones to see important details even from an altitude of 1,000 meters, a sensitive thermal camera for night missions, lasers, anti-drone devices and unmanned aerial vehicle, etc. are exported.

It is noteworthy that service trade has been playing an important role in recent years. The country's export structure has been completely changed since 5 years ago, and service accounts for 48.4% of the total export. Goods export now accounts for only a little more than one third of total export. Previously raw materials account for a large share in the country's total export, but the share of knowledge-intensive service, products of engineering and high-tech products in total export has greatly increased⁵.

Traditionally Lithuania has been good in transportation services (still accounting for 40-50% of total service export). Road freight transportation's contribution to Lithuanian export increased from 5% of GDP in 2021 to 6% in 2022. IMF (2023, p.6) explains the reasons for the success of the transportation service are as follows: 1) The growth in the sector accelerated after Russia's annexation of Crimea and the subsequent sanction forced to shift towards the EU market in 2014, rendering the sector the main driver of large and increasing services trade surplus; 2) Cost advantage vis-à-vis other European economies, namely, taxes and charges on transportation in Lithuania are the lowest in the EU, partly reflecting vehicle taxation unrelated carbon emissions; 3) modest labor unionization (in other words, very weak trade unions in this country in my opinion). I would like to add that transportation company Girtėka is a large company owning 11,000 trucks and employing 30,000 drivers⁶.

Now knowledge-intensive service accounts for 44.2% of total service export (see Table 3). The share increased by about 16% over 5 years. Financial services stood out most sharply. Their exports grew by an average of 53.4% a year and increased by €1.7 billion. Computer services exports increased more than threefold over the same period. This type of export is usually less dependent on physical logistics and more dependent on specialists, data, software system and trust from foreign clients. For this reason, Lithuania has succeeded in services export (infoerdve.lt redakcija 2026).

⁵ Infoerdve.lt redakcija (2026).

⁶ Information provided by Dr. Jurga Bucaite-Vilke, University of Kaunas Institute of social and human sciences.

Table 1 Lithuania's Foreign Trade in 2024, Top 10

Rank	Export			Import		
	Items	Amounts	%	Items	Amounts	%
1	Mineral fuels, oils, distillation products	\$6.1 billion	14.31%	Mineral fuel, oils, distillation products	\$9.61 billion	19.85%
2	Vehicle other than railway, tramway	\$3.21 billion	8.40%	Vehicles excl. railways, tramway	\$5.68 billion	11.73%
3	Furniture, lighting signs, prefabricated buildings	\$3.2 billion	7.53%	Electrical, electronic equipment	\$4.18 billion	8.64%
4	Vehicles	\$3.1 billion	7.27%	Machinery, nuclear reactors, boilers	\$4.14 billion	8.55%
5	Machinery, nuclear reactors, boilers	\$2.52 billion	5.91%	Plastics	\$1.97 billion	4.07%
6	Plastics	\$2.2 billion	5.16%	Pharmaceutical products	\$1.78 billion	3.68%
7	Wood and articles of wood, wood charcoal	\$1.51 billion	3.54%	Optical, photo, technical, medical apparatus	\$1.08 billion	2.19%
8	Optical, technical & medical apparatus	\$1.27 billion	2.98%	Articles of iron or steel	\$1.08 billion	2.09%
9	Cereals	\$1.22 billion	2.86%	Iron & steel	\$0.97 billion	2.01%
10	Pharmaceutical products	\$1.17 billion	2.74%	Beverages, spirits and vinegar	\$0.91 billion	1.89%
Source: Tendata, 2024						

Table 2 Lithuania's Main Exports in 2025, by products, with annual growth rates

HS Code	Product label	Value exported (US \$)	Lithuania's share in world exports (%)	Lithuania's ranking in world exports	Annual growth in export (2021-2025)	Annual growth in export (2024-2025)
27	Mineral fuels, mineral oils & products	5.7 bn	0.23	53	4	1
85	Electric machinery, equipment and parts	3.5 bn	0.09	47	8	7
94	Furniture; bedding, mattresses	3.3 bn	1.1	18	-2	5
87	Vehicles other than railway or tramway	2.4 bn	0.13	40	0	0
39	Plastics and articles thereof	2.3 bn	0.3	41	-4	-1
84	Nuclear reactors, boilers, machinery, etc.	2.2 bn	0.07	48	-8	3
44	Wood and articles of wood: wood charcoal	1.6 bn	1.1	28	-4	10
30	Pharmaceutical products	1.5 bn	0.15	36	9	11
90	Optical, photographic, cinematographic, ...	1.3 bn	0.18	39	3	12
31	Fertilisers	1.1 bn	1.1	19	-10	49
Source: ITC Trade Map						

Table 2 is very interesting because it shows rates of increase and decrease in exports and imports by sectors in the past several years. When we pay attention to areas in which exports increased most rapidly, pharmaceutical products come first (9% annually) followed by electric machinery and equipment (8%

annually) and Optical, etc. (3% annually). Mineral fuels are important because their export grew by 4% annually and the amount is large. At the same time, however, the amount of their import was also large. It means that substantial part of the import was exported. It cannot be said that this area (mineral fuel, etc.) is playing a leading role in the economic development. Exports of products by manufacturing industry including traditional industry such as furniture, etc. are important. In addition, exports of products of high value added (for example, laser and optical products, products of biotechnology, pharmaceutical industry, machine, electronics, precision engineering and ICT related manufacturing) have been increasing. Presumably substantial amount of military-related products are included in the exports. For example, a powerful optical module that allows drone to see important details even from an altitude of 1,000m, and sensitive thermal camera for night missions have been exported (Lithuania Co-create 2024).

Table 3 Lithuania's Exports

	Value (€ billion)	Share (%)
Share of Services in Total Exports		48.4
Share of Lithuanian-origin Goods in Total Exports		35.5
Share of Re-exports		16.2
Service Exports	2.54	
Goods Exports	36.9	
High-technology Goods Exports	2.4	
Source: Infoerdve.lt redakcija (2026)		

Noteworthy in Table 3 is a point that an important role is played by service trade in recent years. The structure of export has changed completely from 5 years ago. In 2025 service accounted for 48.4% of total export, and goods accounted for only a little bit over a third. Previously raw materials accounted for a large share in total export of the country, but in the past 5 years the shares of information-intensive services, engineering and high-tech goods have greatly increased⁷. Traditionally Lithuania has been good at transportation services, which account for 40-50% of total service export. The reason for better performance of road freight service consists in enhanced international interconnectedness by the EU membership, and the lowest taxes and charges on road transportation, which is related with weak trade unions in the country (IMF Report 2023, p. 6). I would like to add that Girtėka group is a large transportation company which owns 11,000 trucks and employs 30,000 drivers⁸.

In recent years the role of service trade in total foreign trade has become important (for example,

⁷ Infoerdve.lt redakcija (2026).

⁸ Information provided by Dr. Jurga Bucaite-Vilke, University of Kaunas Institute of social and human sciences.

share of services in total exports was 35.1%, and share of services in total imports was 23.1%). Transport and logistic services, traditional Lithuanian specialization, account for still 40-50% of total service export. In addition to these, higher value services such as fintech, digital services, ITC have an increasing role with their share being around 15-20%. Lithuania has one of the largest numbers of licensed fintech companies in Europe relative to population.

Changes in Rural Regions and Agriculture

The share of population living in rural areas (56.2%) is one of the highest in the EU. However, this number includes people living suburbs of cities⁹. Indeed, rural areas in Lithuania are defined as villages and towns that are outside the administrative boundaries of the city. The share of people who are engaged in agriculture of total working people has sharply decreased from about 20% in 1999 to less than 5% in 2025. The number of agricultural holdings is about 150,300, of which individual holdings accounting 99%. Owing to integration of farms, sizes of farms have become enlarged.

Since the transition to a market economy there has been strong depolarization. Many people concentrated in suburbs of 3 metropolitan areas (Vilnius, Kaunas and Klaipeda), and depopulation further proceeded in peripheral regions. Depopulation is considerable especially in western region (near Kaliningrad) and north-eastern region (near the Latvian border).

Depopulation has been proceeding in rural areas, and many peasants left agriculture. Some migrated to cities, and others emigrated to foreign countries. Young people tend to migrate to cities, and educated people also tend to migrate to cities. However, there has been migration of people from cities to rural areas, and there has been migration from rural areas to other rural areas in the peripheral regions. Some rural settlements have disappeared. However, most of rural areas continue to exist. In areas where population has decreased supply of services has decreased. Opportunities of education and employment have also decreased. Business services are concentrated in metropolitan areas.

There are geographers (Pociute-Sereikiene, et al, 2019) who analyze problems using term 'spatial exclusion' which means geographically disadvantageous places. According to Daugirdas (2013), one of the first Lithuanian geographers who used this term, spatial exclusion is related to social exclusion, and means that areas are located on the periphery, away from national or regional centres, with institutions providing the principal services, thus far away and less accessible. Self-awareness among the residents of such areas is changing, the latter increasingly inclined to consider themselves peripheral, living "on the periphery of the world", forgotten by the state, condemned and let to their own devices¹⁰.

Ubareviciene (2017) says, "The challenge lies in maintaining a good balance between the needs of the residents and the financial capacity of the state. ... It might make sense to plan for further population

⁹ This point was instructed by Dr. Ruta Ubareviciene.

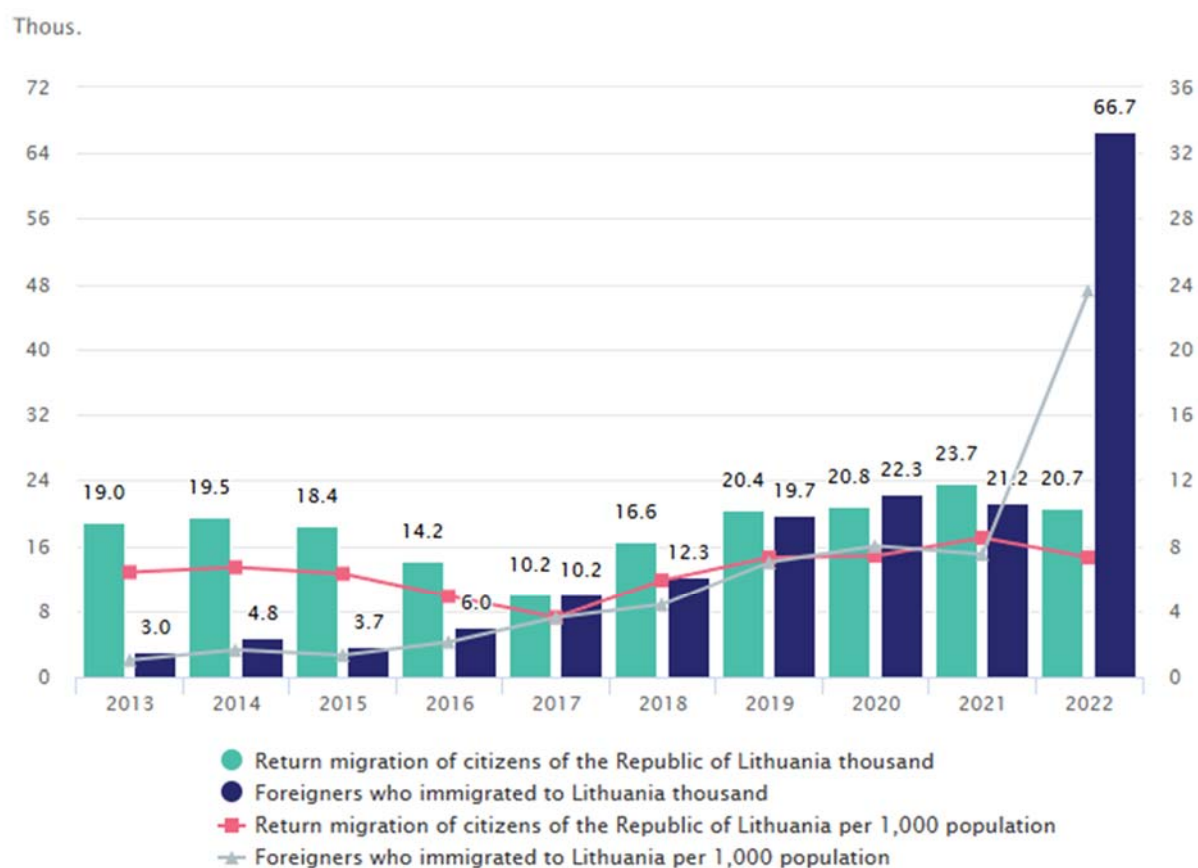
¹⁰ Quoted again from Pociute-Sereikiene, et al (2019), p.7.

concentration in Lithuanian cities. In declining areas, the most efficient strategy would be to accept decline and concentrate services in accessible regional centres” (p.245).

Return Migration and Foreigners living in Lithuania

From a long ago the government of Lithuania has been requesting Lithuanian people living abroad to return to their mother land and make a full use of their knowledge, skills and experiences acquired in host countries for development of the mother country. In recent years the number of return migration increased a little, due to Brexit¹¹ and Covid-19, but a rapid increase in the number of foreigners’ immigration draws our attention.

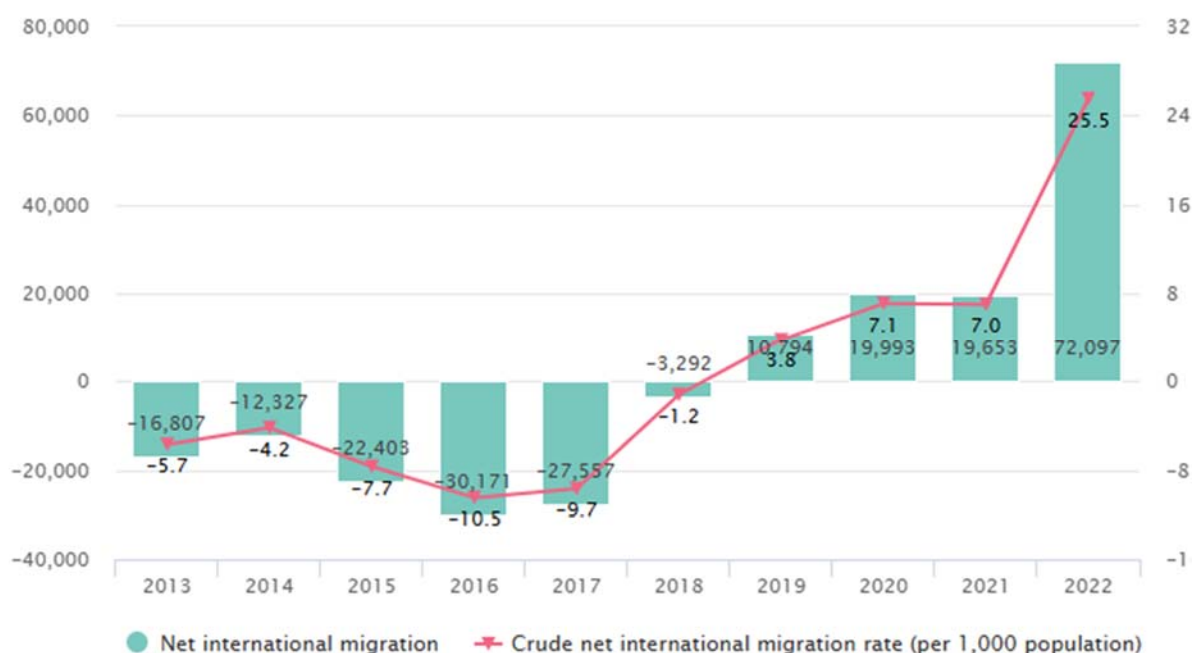
Graph 1 Return Migration of Citizens of the Republic of Lithuania and Foreigners Who Immigrated to Lithuania, 2013-2022



Source: Official Statistics Portal of the Statistical Office of Lithuania

¹¹ The UK’s exit from the EU (Brexit) was decided by referendum in June 2016. Then negotiation between the UK government and the European Commission over conditions about relation between the both, etc. continued. It is the end of 2020 that Brexit was officially approved. Presumably, this official decision about the Brexit had an influence on behavior of Lithuanian people in the UK.

Graph 2 Net International Migration, 2013-2022



Source: Official Statistics Portal of the Statistical Office of Lithuania

Now people working in the area of electronics and IT engineers who returned home with professional skills are able to earn higher salaries. In such areas their lives in Lithuania seem to be not inferior to those in Western Europe and the USA, taking into account cozy environment and cheaper dwellings in Lithuania. A report tells a Lithuanian lady's experience who obtained BA in international business and worked in the USA for 20 years. "She was also motivated to exchange the skyscrapers of San Francisco for the forests of Lithuania by realizing that a higher salary is not always a reflection of a quality life". This report also tells us that Lithuania has already caught up with Southern European countries in terms of salaries. As for the workers in other areas, however, the difference in their wages from Scandinavian countries or the UK are still quite large (Madein Vilnius.lt 2023).

Recently I learned that in addition to increasing Ukrainians and Belarusians, the number of workers from other Soviet Republics, namely Uzbekistan, Tazikistan, Kyrgyz, Azerbaijan are increasing in recent years. 90% of such immigrants from Central Asia are male, and they came here alone. They work in the area of construction, logistics and transportation.

An important factor to be considered is the linguistic and cultural background shared by many migrants from former Soviet republics. A considerable number of Central Asian workers speak Russian, which facilitates communication with employers and colleagues and lowers barriers to labor market integration. Even if they do not speak English, they speak Russian. Also, their employers, immediate

bosses and colleagues in Lithuania speak Russian because they were taught the Russian language during the Soviet period. Therefore there are no problems in their communication. Traditionally, Russia was the primary destination for labor migrants from Central Asia. However, economic uncertainty, changes in migration regulations, and the consequences of the war in Ukraine have encouraged many workers to explore alternative destinations. At the same time, employers in Lithuania and other Eastern European countries have become more active in recruiting workers from Central Asia through recruitment agencies and established migrants networks¹². It is said that some of them work diligently in the hope that after obtaining permanent residence status here they move to more affluent EU member states¹³.

In Lithuania there is a large transportation company called Girtėka Group which possesses 11,000 trucks and employs 30,000 trucks. According to IMF Report, the reason for better performance of the logistic area in this country lies in the following points: improvement of international mutual connections owing to the EU membership, burden of tax on road transport and freight fare is the cheapest in the EU. Therefore, companies in this area are able to get many customers. I think that the last point is related to weak trade unions in this area. Anyway, workers from Central Asia have been playing a great role in the development of transportation service in Lithuania (IMF 2023, p. 6).

Table 2 Foreigners Living in Lithuania

as of early 2018				as of early 2019			as of December 31, 2023			as of December 31, 2025		
Rank	Country	number	%	Country	number	%	Country	number	%	Country	number	%
1	Russia	12,810	25.9	Ukraine	16,927	29.2	Belarus	15,817	23.6	Ukraine	79,808	36.8
2	Ukraine	11,892	24.1	Russia	12,529	21.6	Ukraine	10,632	15.9	Belarus	50,723	23.4
3	Belarus	9,229	18.7	Belarus	12,204	21.0	UK *	6,719	10.0	Russia	13,723	6.3
4	Latvia	1,057	2.1	Latvia	1,100	2.0	Uzbekistan	4,440	6.6	Uzbekistan	10,545	4.9
5	Poland	775	1.6	India	826	1.4	Kyrgyzs	3,216	4.8	India	7,908	3.6
6	Germany	752	1.5	German	768	1.3	Tajikistan	3,214	4.8	Tajikistan	6,601	3.0
7	India	685	1.4	Poland	736	1.3	Norway	2,076	3.1	Kyrgyzs	4,499	2.1
8	China	441	3.9	China	470	0.8	Russia	2,037	3.0	Azerbaijan	3,233	1.5
9	Israel	367	0.7	Israel	445	0.8	India	1,985	3.0	Philippine	2,734	1.3
10	Kazakhstan	357	0.7	Kazakhstan	357	0.6	Azerbaijan	1,739	2.6	Turkey	2,278	1.0
Total		49,387		Total	58,022		Total	66,920		Total	217,067	
Source: Prepared by author based on various issues of Migracijos Metraštis.												

* Note: It seems strange that the UK ranked the third with 6,719 people (10.0%) only in 2023. According to Dr. Ruta Ubareviciene, however, this table shows more exactly from which country people arrived in Lithuania. In 2023 out of people arriving from the UK 6,581 people were Lithuanians and the number of foreigners was 138

¹² In description of this paragraph I am indebted to Dr. Gulzat Akmatbekova from Kyrgyzs.

¹³ Shigematsu (2026).

including 111 UK citizen. The case of Norway ranking 7th (2,076 people accounting for 3.1%) in 2023 should be understood in the same way.

Still large social disparity

In its report of 2017 the European Commission recommended the Government of Lithuania to introduce income tax with more progressive rate. Under President Nauseda, who took office in May 2019, a tax reform with progressive rates was implemented, although it was still lukewarm. It is said that wealthy people were against this reform. As voters always allowed opposition parties to win, governments changed in every 4 years, and consequently a full-scale tax reform has not been implemented.

Gini coefficient for this country is 0.36, which is the second highest among the EU member states next to Bulgaria (0.395). As for countries with low Gini coefficients, Slovakia (0.238) and Slovenia (0.247) can be mentioned (World Bank Data).

Mizgirde (2026) reports that poverty in rural areas is almost twice as high as in cities and that border regions in particular tend to face greater poverty risks and higher unemployment.

5 Analogy with the Korean War

I visited Lithuania this April for my research. I asked several researchers about similarity between present Lithuania and Japan at the time of the Korean war. Most of them were negative. A researcher says, “The population continues decreasing in Lithuania, and it is complemented with immigration of foreign workers. The fertility rate is low (1.2), and there is a forecast that population will decrease further. In such a situation is difficult to presume that the economy will get on track of high economic growth”.

I visited Klaipeda, the third largest city and a port city facing the Baltic Sea. Its population used to be 200 thousand and now it is about 150 thousand, and its population continues decreasing now. Fishery and its related industries as well as shipbuilding industry are in a slump. It seems that this city could attain economic development if there were good relationship with its hinterland, i.e. Belarus and Russia.

Viewing the country’s structure of foreign trade, exports of services grew faster than exports of goods in the past 5 years. Export of knowledge-intensive services (financial services and computer services) together with transport services is increasing remarkably. It seems that they are now leading the economic development of Lithuania.

Looking at the structure of foreign trade, we find that export of services grew more rapidly than export of goods in the past 5 years. Export of knowledge-intensive service (financial and computer service) as well as transportation service grew remarkably, and it seems that they are playing a leading role in the economic development. Overall, however, the country’s economy is developing slowly. It cannot be called a dynamic development.

As western companies have invested in Lithuanian military-related industries which supply the Ukraine army, the Lithuanian economy has been in good shape. Giant companies in military industry advanced in this country and many subsidiary companies emerged. Although the country does not produce weapons, it produces ammunition. As mentioned above, although it may not be called weapon, the country produces and exports laser using equipment, etc. In the sense that with Russian invasion of Ukraine as turning point foreign giant companies in military industry advanced in this country and got many indigenous subsidiary companies, it might be said that the present situation in Lithuania is similar to that of Japan at the time of the Korean War.

Conclusion

First, the analogy of the Korean war does not apply to the present Lithuania as it is. Giant companies came to this country, and there emerged many subsidiary companies. The country does not produce sophisticated weapons, but produces ammunition. In addition, although not called weapons, high-tech products such as laser machines, border surveillance solutions, etc. are produced and exported. With Russian invasion of Ukraine as a turning point, a great number of Lithuanian companies began cooperating with giant military companies in Germany, producing and exporting high-tech goods. In this regard, it might be allowed to say that the present situation in Lithuania is similar to that of Japan at the time of the Korean war. Aside from emigration of foreigners (Ukrainians, Belarusians and people from Central Asia, etc.), however, the country's population continues decreasing and its economic growth has not been so rapid. Probably, different from Japan's case at the time of the Korean War, Lithuania has been on a growth track, for example, growth led by service trade.

Second, although Lithuania attained economic development after its EU accession to the EU, the country faces several important challenges. Social gaps remain still large (Ilkeviciute 2026). In its report of 2013 the IMF already criticized that the consolidation of the budget deficit conducted in the course of the economic crisis heavily relied on the cuts of expenditure in Lithuania while the tax structure remained almost unchanged. The share of capital and wealth taxes in total tax revenue is very low in Lithuania (9%), compared with EU averages (20%). The IMF recommended increasing taxes on capital and wealth and raising the progressivity of income taxation for the upper income deciles of the population. Recommendations by the IMF and the European Commission have been practically ignored until new President Nauseda appeared in May 2019. Under the new President taxation reforms, albeit still lenient, have begun. However, wealthy people were against them. As in the elections of members of the Parliament most voters supported opposition parties at that time, the government always changed between center-right and center-left (Antonowicz 2025). Due to this, full-fledged taxation reform made almost no progress. The progressivity of income taxation is low (European Commission 2026, p. 3). As for Gini coefficient, it is 0.34 in the case of Lithuania, considerably high, next to Bulgaria (0.38). Among

new EU member states there are member states with very low coefficient such as Slovakia (0.22) and Slovenia (0.23). It is said that the percentage of people at risk of poverty is about 25% in Lithuania and that it is high especially among elderly persons and rural inhabitants (about 59%).

Third, the European Commission's recent report (European Commission 2026, pp.19-20) points out that for the further economic development it is necessary to improve medical care, decrease the number of young people in NEET, train young people strong at STEM (Science, Technology, Engineering, and Mathematics) and improve treatment of teachers who train those young people.

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