

# LATVIAN-LITHUANIAN ECONOMIC RELATIONS 1918–1940

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## Abstract

This paper provides an overview of Latvian-Lithuanian economic relations in the interwar period. In the interwar period, economic relations between Latvia and Lithuania were mainly confined to foreign trade, although there were some investments in Latvia from Lithuania, as well as tourism. Latvia's foreign trade in relation to Lithuania was regulated by a number of trade treaties and agreements entered into in 1930, 1933, 1935, and 1936. Latvia's main imports from Lithuania in the interwar period were horses, seed flax, cattle, pigs and piglets, and timber and timber products, whilst Latvia's main exports to Lithuania were coal, machinery (agricultural and industrial), paper, timber and timber products, rubber goods (including galoshes), cement, as well as radios. In general, trade and thus economic relations were of marginal significance to both countries in the interwar period due mainly to similarities in their agriculturally based economic structures.

**Keywords:** Latvia, Lithuania, economic relations, foreign trade, interwar period.

## Introduction

Latvians and Lithuanians are the last remaining descendants of the Baltic language group of people, which were a branch of the Indo-European family of nations. The Baltic language group of people consisted of the Old Prussians, Yatvings, Latvians, Lithuanians and Eastern Galidians and their original territory extended from what is now Moscow to the Baltic Sea. The ancestors of the Latvians and Lithuanians settled in their current territories as early as 1500 BCE and Latvians and Lithuanians have lived there ever since despite wars, foreign occupations, plagues, and other vicissitudes of life.

Whilst in the Middle Ages, Latvia had been conquered and occupied by the German Teutonic Knights – creating Livonia, Lithuania succeeded in remaining unconquered and went on to create a large empire (together with the Poles – the Polish-Lithuanian Commonwealth), which existed until the partitions of Poland-Lithuania in the 18<sup>th</sup> Century, when both Latvia

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(a little earlier) and Lithuania were finally conquered and occupied by Tsarist Russia. In the 19<sup>th</sup> Century, the economic development Latvia and Lithuania was radically different. Under Tsarist Russia, Latvia was industrialising and Riga became the third largest industrial city in the Tsarist Empire after Moscow and St. Petersburg.<sup>2</sup> Lithuania, on the other hand, was and remained an agricultural produce area of Tsarist Russia.

Both countries became independent in 1918, with Lithuania proclaiming its independence on 16 February 1918 and Latvia on 18 November 1918. On 23.10.1919, Lithuania formally recognised Latvia *de facto*<sup>3</sup> and Latvia reciprocated. Similarly, Latvia formally recognised Lithuania *de jure* on 12.02.1921 (See Figure 1) and Lithuania reciprocated.

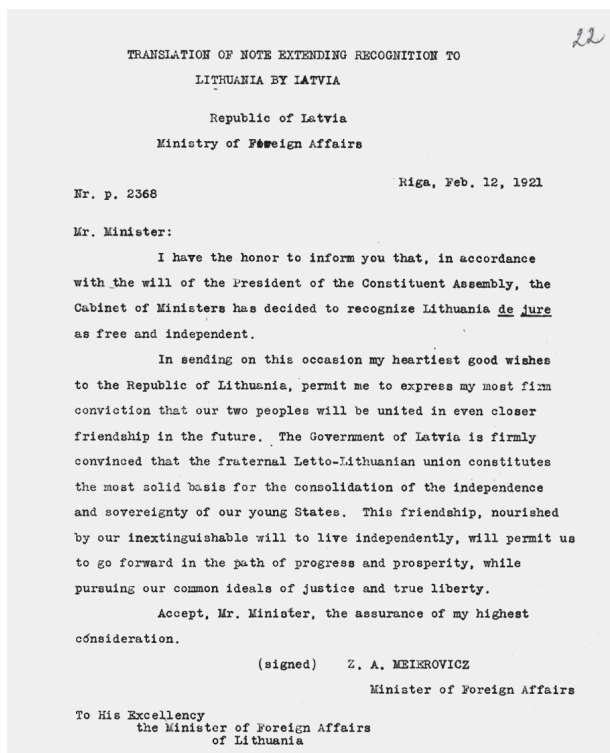


Figure 1. Latvia's recognition of Lithuania *de jure*

Source: E-mail communication from the Lithuanian Ministry of Foreign Affairs (11.10.2021)

<sup>2</sup> For detailed overview of Latvia pre-WWI see Karnups, V. P. (2013), pp. 18–30.

<sup>3</sup> LVVA, 2570. f., 3. apr., 1126. l., p. 19.

Latvia's first diplomatic representative, Vilis Bandrevičs, was appointed to Lithuania in December 1918 and he was designated Latvia's first Envoy to Lithuania in March 1921.<sup>4</sup> Apart from the Legation in Kaunas (in Latvian Kauņa), Latvia also had consulates in Klaipeda and Šiauliai (in Latvian Šauli). Lithuania's first diplomatic representative, Dovas Zaunius, was sent to Latvia on 13 February 1920<sup>5</sup> and he was designated Lithuania's first Envoy to Latvia in December 1921. Apart from the Legation in Rīga, Lithuania also had consulates in Rīga, Liepāja, Daugavpils and Bauska.

**Table 1. Selected economic indicators for Latvia and Lithuania in the interwar period**

|  | Latvia      | Lithuania  |
|--|-------------|--|
| Population (millions)                                  | 2.0 (1939)  | 2.5 (1936)   |
| Share of urban population (%)                          | 34.6 (1935) | 15.8 (1923)  |
| GDP* per capita  | 4048 (1938) | 2064 (1937)  |
| Average annual growth rate (GDP per capita) 1920–1929  | 5.31        | GDP per capita average yearly growth rate in 1924–1938: 4.3% |
| Average annual growth rates (GDP per capita) 1929–1938 | 4.1         |  |
| % Share in GDP of agriculture and forestry             | 39.2 (1938) | 42.5 (1937)  |
| % Share in GDP of industry                             | 20.5 (1938) | 13.6 (1937)  |

\* GDP measured in 1990 International Geary-Khamis dollars

Sources: Darbiņš, A., Vītiņš, V. (1947); Broadberry, S., O'Rourke, K. H. (2016), Tuskenis, E. (ed.) (1997); Klimantas, A., Zirgulis, A. (2019); Norkus, Z. (2015)

As can be seen from Table 1, Lithuania's population was slightly more than Latvia's and Lithuania was less urbanised than Latvia in the interwar period. In addition, although their economic structures were very similar (primarily dairy farming, forestry, and agriculture), Latvia had less of a % share in GDP of agriculture and forestry than Lithuania. However, Latvia had a much larger % share in GDP of industry (mainly due to the higher level of industrialisation and that Lithuania only started industrialising after achieving independence). Nevertheless, both Latvia and Lithuania had for all intents and purposes agricultural economies. Interestingly, Latvia's average

<sup>4</sup> Jēkabsons, Ē. & Ščrebinskis, V. (eds) (2003), p. 365.

<sup>5</sup> Andersons E. (1982), p. 148.

annual growth rates both pre- and post the Great Depression were similar to that of Lithuania for the same period, however, total GDP per capita in Latvia was nearly twice as high as that of Lithuania. Of course, both Latvia and Lithuania started from a very low base.

## Latvian-Lithuanian Economic Relations 1919–1940

Lithuanian and Latvian trade came into existence soon after the mutual *de facto* recognition in 1919 and prior to the Lithuanian recognition of Latvia *de iure*. In the second half of 1919 (from 08 July to 31 December), Latvian exports to Lithuania totalled 3455.32 lats, but no imports from Lithuania were recorded.<sup>6</sup> A further 4282.24 lats worth of exports were recorded through Palanga (which was Latvian territory at the time<sup>7</sup>), presumably most of which went to Lithuania.<sup>8</sup> In 1920, imports from Lithuania accounted for 0.25 % of total imports, and exports 0.55 % of total exports.<sup>9</sup> In a sense, the pattern of Lithuanian-Latvian trade for the 1920s was set.

In the interwar years, Latvian and Lithuanian economic relations was mainly confined to foreign trade and investment although other forms of economic relations such as tourism were also important<sup>10</sup>.

Latvia's foreign trade in the interwar was based in large measure on a system of commercial and trade treaties. By 1929, Latvia had concluded commercial treaties with all important European states (except Spain). They provided the regulatory framework within which were stated the obligations undertaken by Latvia in its foreign trade relations with its trading partners up to 1931. All these treaties contained the Most Favoured Nation (MFN) principle, as well as in practically all, the Baltic and Russian clause. The Baltic and Russian Clause stipulates that the priority rights and privileges, allowed to Estonia, Finland, Lithuania, and Russia, may not be made applicable to other contracting states by virtue of the most-favoured-nation principle. Lithuania in most cases also included the Baltic and Russian clause in their commercial treaties.

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<sup>6</sup> *Ekonomists*, 1920, No. 3, p. 90.

<sup>7</sup> On settling the border between the two new states, and as Lithuania had not yet annexed Memel (Klaipeda), in a gesture of goodwill, Latvia agreed to forego its claim to the coastal strip as far as Palanga (which had been part of Kurzeme province) so that Lithuania could have access to the fishing port of Svetoji to develop it as an international shipping port.

<sup>8</sup> *Ekonomists*, 1920, No. 3, p. 91.

<sup>9</sup> *Latvijas statistiskā gada grāmata* (1920), p. 119.

<sup>10</sup> In 1930, 25268 tourists ( or 30.4 % of all foreign tourists) from Lithuania visited Latvia (*Ekonomists*, 1931, No. 20, p. 738).

In the early 1920s, the Latvian Foreign Minister, Z. Meierovics, tried to involve Finland, Estonia, Lithuania, and Poland in the creation of a political and economic bloc, but to no avail.<sup>11</sup> In relation to Lithuania, the main stumbling block was Lithuania's on-going conflict with Poland over Poland's occupation and later annexation of Vilnius and the surrounding territory.<sup>12</sup> Although Latvia offered some morale support to Lithuania over the issue, it did not want to become involved, which soured political and diplomatic relations between the two countries.

On 01 July 1925, the Latvian Foreign Minister, Z. Meierovics signed the Kaunas Protocol to begin negotiations for a trade treaty with Lithuania.<sup>13</sup> The Protocol provided for 1) differentiated tariffs based on lists of goods and 2) that in the fullness of time talks regarding a customs union should be commenced. Negotiations began in December 1925; however, they did not progress due to Lithuanian insistence on special privileges for Lithuanian agricultural products to which Latvia would not agree.<sup>14</sup> By 1928, when Latvia introduced a new customs tariff, Latvia and Lithuania still did not have a trade treaty. However, Lithuania did not discriminate between Latvian and other foreign goods and in 1928, Latvia passed a law, which *de facto* accorded Lithuanian imported goods most-favoured-nation treatment, that is, accorded them the minimum tariff rates.<sup>15</sup>

Finally, on 24.11.1930, Latvia signed a Commercial Agreement between Latvia and Lithuania based on the most favoured nation principle and minimum rates of customs tariffs.<sup>16</sup> Similar to the 1928 Treaty with Estonia, it contained a protocol consisting of lists of goods – List A, goods from Latvia to Lithuania and List B, goods from Lithuania to Latvia – which would receive preferential treatment. The protocol also contained an additional two lists of sections of the respective tariffs of the two countries (List C for Latvia and List D for Lithuania). The Agreement was within the stipulations of the Baltic and Russian clause and therefore did not apply to third countries. The Agreement was for two years, but could continue indefinitely unless denounced by either party.

After the denunciation of the 1930 Agreement by Lithuania, Latvia concluded a new Commercial Agreement between Latvia and Lithuania

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<sup>11</sup> See Varslavans, A. (1988) for a more detailed examination of this period.

<sup>12</sup> For details see Kaslas, B. J. (1976), pp. 147–148.

<sup>13</sup> *Latvijas Kareivis*, No. 150, 10.07.1925, p. 4.

<sup>14</sup> *The Latvian Economist* (1928), p. 151.

<sup>15</sup> *Latvijas Vēstnesis*, No. 78, 04.04.1928, p. 2.

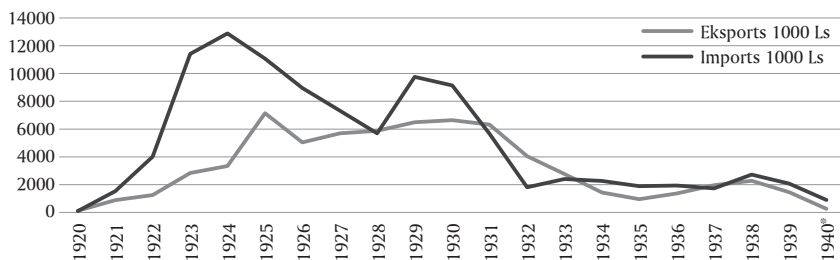
<sup>16</sup> League of Nations, Treaty Series, Vol. CXII, 1931, pp. 417–431.

on 01.12.1933,<sup>17</sup> which in essence was a copy of the 1930 Agreement, but with changes in the protocol lists. This Agreement was for one year, but could continue indefinitely unless denounced by either party. On the same date, Latvia also concluded an Agreement between Latvia and Lithuania regarding Miscellaneous Trade at the Frontiers,<sup>18</sup> which contained a list of goods and their quantities, which could be traded on the border between Latvia and Lithuania free of tariffs.

As a result of problems brought on by the Great Depression, on 10.04.1935, Latvia and Lithuania signed a new Commercial Agreement between Latvia and Lithuania,<sup>19</sup> which again was essentially a copy of the 1933 Agreement, but with changes in the protocol lists. This Agreement was also for one year, but could continue indefinitely unless denounced by either party. On the same date, Latvia also concluded a Clearing Agreement between Latvia and Lithuania,<sup>20</sup> which contained an Annex of a list of Lithuanian products payment for which shall be made independently of the clearing arrangements.

## Latvian-Lithuanian Trade 1920–1940

As noted previously, some Latvian-Lithuanian trade had occurred in 1919. The value of Latvian imports from and exports to Lithuania in the interwar period can be seen in the Figure 2.



\* 1940 for January–March only

**Figure 2.** Latvia-Lithuanian Imports and Exports 1920–1940

Sources: *Latvijas statistiskā gada grāmata* [Latvian Statistical Yearbook]. 1921–1939; *Mēneša Biļetens* Nr. 10, oktobris 1939 [Monthly Bulletin, No. 10, October 1939]; *Strukturbericht über das Ostland*. Teil I: *Ostland in Zahlen* (1942); LVVA, 1314. f. 5. apr., 100. l., pp. 39–40

<sup>17</sup> *Valdības Vēstnesis*, No. 288, 21.12.1933, pp. 1–4.

<sup>18</sup> *Ibid.*, pp. 4–5.

<sup>19</sup> League of Nations, Treaty Series, Vol. CLIX, 1935–1936, pp. 305–319.

<sup>20</sup> *Ibid.*, pp. 321–327.

As Figure 2 shows, from a low start, imports increased dramatically in the early 1920s. This was probably due to the land reform and the needs of the new farmers for horses, cattle, seeds, etc. Imports reached their highest point in the interwar period with a pre-Depression peak of some 12 882 thousand lats in 1924. Interestingly, imports declined sharply after the signing of the 1930 Commercial Agreement and continued to decline to the end of 1932. They recovered slightly from 1933, probably due to the 1933 Commercial Agreement and the end of the Depression. Imports reached their post-Depression peak of some 2730 thousand lats in 1938.

Exports, on the other hand, increased more slowly with a pre-depression peak in 1925 and a value of 7140 thousand lats. Exports started to fall from 1930 and declined sharply to 1935. Thereafter they increased somewhat from 1935, probably due to the 1935 Commercial and Clearing agreements and reached a post-Depression peak of 2284 thousand lats in 1938, but then continued to decrease to 1940.

As Lithuania and Latvia had very similar economic structures based on agriculture, Latvia's main exports to Lithuania were manufactured goods. The exception being forestry products. On the other hand, Latvia's main imports from Lithuania were agricultural products, particularly livestock.

Generally, imports exceeded exports throughout the interwar period.

## Latvian Exports to Lithuania

Latvia's main exports to Lithuania were Timber and timber products (including plywood), Machinery (agricultural and industrial), Coal, Paper, Rubber goods (including galoshes), Radios and Cement (See Table 2).

Coal was an important item of export to Lithuania in the 1920s. Obviously, as Latvia does not have coal mines, the coal was coal imported to Latvia and then re-exported to Lithuania. In part this was due to the fact that Latvian industry was still recovering from WWI and had excess supplies of coal. From 1933 its place was to a certain extent taken up by the export of radios, reaching a peak of 233 thousand lats in 1936. Latvian-made radios were popular throughout the Nordic and Baltic region.

An important and consistent export to Lithuania was cement, mainly in the 1920s (reaching a peak in terms of volume in 1932), but declining in the late 1930s. Machinery (agricultural and industrial) was also an important export to Lithuania throughout the interwar period. Rubber goods (including galoshes) were steady export reaching a pre-Depression peak of 1627 thousand lats in 1931, but declined thereafter and in the final years of the 1930s were no longer exported. Paper was a significant and steady export product throughout the interwar period.

Table 2. Latvia's Main Exports to Lithuania (1921–1939)

| Year  | Coal              |                   | Machinery (agricultural and industrial) |                 | Paper  |                 | Rubber goods (including galoshes) |                   | Timber and timber products (including plywood) |                 | Cement            |                   |
|-------|-------------------|-------------------|---|-----------------|--------|-----------------|-----------------------------------|-------------------|--|-----------------|-------------------|-------------------|
|       | Tonnes            | Value (1000 Ls)   | Tonnes                                  | Value (1000 Ls) | Tonnes | Value (1000 Ls) | Tonnes                            | Value (1000 Ls)   | Tonnes   | Value (1000 Ls) | Tonnes            | Value (1000 Ls)   |
| 1921  | Less than 1 tonne | Less than 1000 Ls | 313                                     | 193             | 95     | 101             | 0                                 | 0                 | 456  | 32              | 17                | 11                |
| 1922  | 288               | 13                | 180                                     | 107             | 72     | 28              | 0                                 | 0                 | 1911   | 10              | 108               | 11                |
| 1923  | No data           | No data           | No data                                 | No data         | 35     | 66              | No data                           | No data           | 3996   | 128             | No data           | No data           |
| 1924  | 5404              | 230               | 353                                     | 445             | 126    | 52              | 39                                | 278               | 5427   | 62              | Less than 1 tonne | Less than 1000 Ls |
| 1925  | 6700              | 250               | 693                                     | 731             | 327    | 184             | 77                                | 521               | 7579   | 201             | 424               | 17                |
| 1926  | 2860              | 103               | 647                                     | 642             | 359    | 176             | 143                               | 981               | 5485   | 61              | 318               | 16                |
| 1927  | 1130              | 46                | 829                                     | 840             | 554    | 319             | 177                               | 1337              | 10970  | 72              | 103               | 6                 |
| 1928  | 1281              | 43                | 1137                                    | 989             | 822    | 418             | 156                               | 1311              | 9971   | 68              | 274               | 13                |
| 1929  | 1150              | 37                | 581                                     | 611             | 736    | 416             | 166                               | 1474              | 18389  | 169             | 1104              | 67                |
| 1930  | 358               | 11                | 519                                     | 582             | 818    | 478             | 162                               | 1337              | 14199  | 96              | 7421              | 377               |
| 1931  | 664               | 17                | 733                                     | 851             | 883    | 475             | 264                               | 1627              | 12344  | 102             | 8471              | 349               |
| 1932  | 510               | 13                | 275                                     | 197             | 725    | 301             | 248                               | 1123              | 17227  | 135             | 8558              | 247               |
| 1933  | Less than 1 tonne | 18                | 307                                     | 143             | 311    | 126             | 296                               | 946               | 23659  | 226             | 1731              | 52                |
| 1934  | 6                 | 32                | 97                                      | 58              | 175    | 65              | 56                                | 107               | 16426  | 119             | 1056              | 30                |
| 1935  | 14                | 82                | 161                                     | 91              | 100    | 66              | Less than 1 tonne                 | Less than 1000 Ls | 1586   | 160             | 992               | 31                |
| 1936  | 33                | 233               | 156                                     | 112             | 335    | 161             | 3                                 | 14                | 5337   | 36              | 963               | 32                |
| 1937  | 15                | 178               | 253                                     | 255             | 262    | 191             | 0                                 | 0                 | 2446   | 173             | 928               | 51                |
| 1938  | 15                | 196               | 296                                     | 354             | 351    | 397             | 0                                 | 0                 | 9797   | 490             | 477               |                   |
| 1939* | Less than 1 tonne | Less than 1000 Ls | 2                                       | 10              | 86     | 56              | 51                                | 194               | 0  | 0               | 0                 | 0                 |

\* January–August 1939 (with commencement of WWII, Latvia ceased publication of detailed foreign trade statistics)

Sources: *Latvijas statistiskā gada grāmata* [Latvian Statistical Yearbook]. 1921–1939; *Latvijas ārējā tirdzniecība un transits – 1924–1939* [Latvian Foreign Trade and Transit. 1924–1939]; *Mēneša Biļetens* Nr. 10, oktobris 1939 [Monthly Bulletin, No. 10, October 1939]



Interestingly, Latvia exported fairly large quantities of timber and timber products (including plywood) to Lithuania despite the fact that for Lithuania itself such products made up a significant part of their exports. Exports of timber and timber products to Lithuania reached a peak in terms of quantity in 1929 (18 389 tonnes) and value in 1938 of 490 thousand lats.

Latvia also exported various quantities of crockery, metal products (such as nails and wire); bicycles, seeds, hides and furs, and fish and fish conserves, as well as small quantities of other goods.

### **Latvian Imports from Lithuania**

Latvia's main imports from Lithuania were Horses, Seed flax, Cattle, Pigs and piglets, and Timber and timber products. The amounts and value of Latvia's main imports from Lithuania in the interwar period are shown in Table 3.

Horses were an important part of Latvian farm production as the level of farm mechanisation was very low.<sup>21</sup> Imports of horses from Lithuania were the dominant import in the interwar years (although Latvia also imported horses from Estonia). Horses from Lithuania were imported mainly in the 1920s, reaching a peak in 1924 with 15207 horses imported. As the number of horses from Estonia diminished in the 1930s, Latvia came to rely on imported Lithuanian horses, reaching a peak of 5763 horses imported in 1933.

Seed flax was an important import from Lithuania, reaching a peak in 1929 of 3400 thousand lats in value. Lithuania was the 4<sup>th</sup> largest European producer of flax in the interwar period. In the 1920s, cattle were a significant import from Lithuania, reaching a peak of 932 thousand lats in value in 1924. The amount of cattle imported decreased sharply in 1930s. Similarly, pigs and piglets were important import items in the 1920s, but also practically disappeared in the 1930s. Timber and timber products were a small, but consistent import from Lithuania, reaching a peak in 1930 of 11327 tonnes in volume and 444 thousand lats in value.

Latvia also imported various quantities of tobacco and tobacco products, textile products, poultry, seeds, and hides and furs, as well as small quantities of other goods.

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<sup>21</sup> On 01.07.1940 there were 1314 tractors in the whole of Latvia. (Strods, H. (1992), p. 165)

Table 3. Latvia's Main Imports from Lithuania (1921–1939)

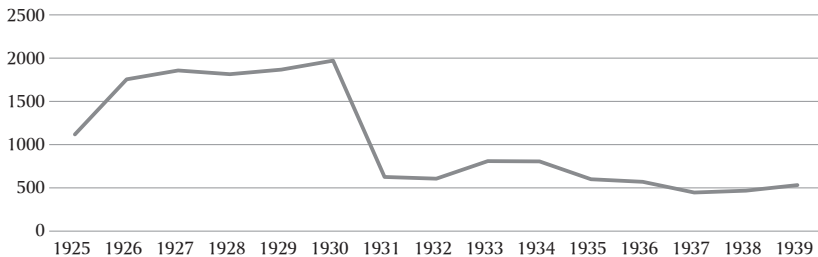
| Year  | Horses        |                 | Seed flax |                 | Cattle            |                   | Pigs and piglets  |                 | Timber and timber products |                   |
|-------|---------------|-----------------|-----------|-----------------|-------------------|-------------------|-------------------|-----------------|----------------------------|-------------------|
|       | No. of horses | Value (1000 Ls) | Tonnes    | Value (1000 Ls) | Tonnes            | Value (1000 Ls)   | Tonnes            | Value (1000 Ls) | Tonnes                     | Value (1000 Ls)   |
| 1921  | 3035          | 888             | 145       | 48              | 0                 | 0                 | 0                 | 0               | 0                          | Less than 1000 Ls |
| 1922  | 7513          | 1885            | 1592      | 527             | 2                 | 129               | Less than 1 tonne | 8               | 263                        | 22                |
| 1923  | 11650         | 3094            | 6350      | 2347            | 3                 | 241               | 5                 | 109             | 587                        | 12                |
| 1924  | 15207         | 3826            | 6368      | 3125            | 12912             | 932               | 13463             | 316             | 3437                       | 58                |
| 1925  | 9617          | 2553            | 8853      | 3472            | 6740              | 456               | 8316              | 216             | 126                        | 541               |
| 1926  | 7062          | 1742            | 4636      | 1654            | 7369              | 778               | 11213             | 272             | 2573                       | 148               |
| 1927  | 5558          | 1138            | 8265      | 3179            | 2511              | 250               | 9283              | 177             | 355                        | 59                |
| 1928  | 3051          | 590             | 4139      | 1780            | 1384              | 45                | 2816              | 59              | 200                        | 12                |
| 1929  | 3613          | 996             | 7478      | 3400            | 613               | 109               | 5599              | 360             | 1796                       | 137               |
| 1930  | 4985          | 1437            | 4312      | 1373            | 428               | 69                | 2615              | 157             | 11327                      | 444               |
| 1931  | 4061          | 1185            | 1712      | 436             | 31                | 5                 | 301               | 21              | 6149                       | 422               |
| 1932  | 2892          | 534             | 3282      | 671             | 0                 | 0                 | 0                 | 0               | 230                        | 25                |
| 1933  | 5763          | 1084            | 3577      | 687             | 0                 | 0                 | 0                 | 0               | 498                        | 27                |
| 1934  | 5061          | 977             | 2942      | 554             | Less than 1 tonne | Less than 1000 Ls | 9                 | 8               | 1331                       | 111               |
| 1935  | 2750          | 690             | 3482      | 646             | 0                 | 0                 | 0                 | 0               | 1455                       | 145               |
| 1936  | 2899          | 834             | 2625      | 554             | 0                 | 0                 | 0                 | 0               | 1198                       | 99                |
| 1937  | 1728          | 655             | 1862      | 543             | 425               | 45                | 0                 | 0               | 2426                       | 170               |
| 1938  | 3265          | 988             | 938       | 255             | Less than 1 tonne | Less than 1000 Ls | 0                 | 0               | 3914                       | 232               |
| 1939* | 2179          | 777             | 1090      | 334             | 0                 | 0                 | 0                 | 0               | 106                        | 16                |

\* January–August 1939 (with commencement of WWII, Latvia ceased publication of detailed foreign trade statistics)

Sources: *Latvijas statistiskā gada grāmata* [Latvian Statistical Yearbook], 1920–1939; *Latvijas ārējā tirdzniecība un transitis – 1920–1939* [Latvian Foreign Trade and Transit, 1920–1939]; *Mēneša Biļetens* Nr. 10, oktobris 1939 [Monthly Bulletin, No. 10, October 1939]

## Lithuanian investments in Latvia 1925–1939

Foreign capital in Latvia was mainly invested in banking, industry, transport, and trade. By 1927, over 60 % of the equity capital of all Latvian joint-stock banks<sup>22</sup> was foreign owned, while foreign capital comprised 27.8 % of aggregate capital in insurance, 33.9 % in trade (commerce), 63.1 % in transport and about 50 % in industry.<sup>23</sup> Many investors hoped that from Latvia they would be able to expand in the huge Russian market. Figure 3 provides an overview of Lithuanian investments in the interwar period.



**Figure 3. Lithuanian investments in the Company Capital of Latvian Undertakings (as at 1 January) 1925–1939 (1000 lats)**

Sources: *Latvijas statistiskā gada grāmata. 1929, 1939* [Latvian Statistical Yearbook 1929, 1939]; *Latvijas PSR statistikas tabulas* (1940)

From Figure 3, it can be seen that up to 1930 Lithuanian capital investment increased to a peak in 1930 with a value of 1971 thousand lats, and then decreased during the Depression. However, they recovered slightly in 1933 and remained at more or less the same level for the rest of the 1930s. Lithuanian investments in 1930 were mainly in the chemical industry, real estate, paper industry and textiles. By 1939, the only notable investment sector was the textile industry.

## Conclusion

In the interwar years, Latvian and Lithuanian economic relations was mainly confined to foreign trade and investment although other forms of economic relations such as tourism were also important. Nevertheless, despite geographical proximity the fact of similar export products made significant inter-state trade between Latvia and Lithuania unprofitable.

<sup>22</sup> For a brief overview of banking in Latvia in the interwar period see Hiden (2000), pp. 133–149.

<sup>23</sup> *The Latvian Economist* (1928), p. 24.

In 1929, when Latvian foreign trade reached its pre-Depression peak, Latvian exports to Lithuania made up 2.37 % of total Latvian exports, and Lithuanian imports made up 2.69 % of total Latvian imports. However, in 1937, when Latvian foreign trade reached its post-Depression peak, exports to Lithuania were only 0.8 % of total Latvian exports, and imports from Lithuania were only 0.7 % of total Latvian imports. One suspects that the figures from the point of view of Lithuania would be similar. In other words, trade and thus economic relations were of marginal significance to both countries in the interwar period.

It is interesting to note that in 2020, Latvian exports to Lithuania were 16.3 % of total Latvian exports. Whilst imports from Lithuania totalled 17.9 % of total Latvian imports.<sup>24</sup> Trade with Lithuania has increased significantly since both Latvia and Lithuania joined the EU in 2004. At the end of 2020, Lithuanian FDI was 7.6 % of total Latvian FDI.

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<sup>24</sup> Data from LIAA [Latvian Investment and Development Agency]. <https://www.liaa.gov.lv/en/foreign-trade-statistics> [accessed 17.10.2021]

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