

Lithuania - a gateway to Europe

—How Japanese companies could benefit from investing in Lithuania —

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Aurelijus ZYKAS was appointed the Ambassador of Lithuania to Japan in May 2022. Prior to the current position, he served as Commissioner of the Radio and Television Commission, Associated Professor of the Department of Culture Studies and Head of the Centre for Asian Studies at Vytautas Magnus University.



Lithuania has been working hard to make its economy attractive to foreign market players, becoming one of the most investor-friendly European countries in the process. From business environment and infrastructure to cybersecurity and talent – it has it all in spades.

In 2022, Lithuania and Japan celebrated the 100th anniversary of their official relationship, which includes active cooperation in areas like high-tech, robotics, energy, and IT. Given this long tradition of mutual understanding, as well as today's geopolitical environment and the pressing need for more extensive strategic partnerships, we'd like to invite Japanese investors to explore the business opportunities that Lithuania has to offer, thereby bringing our countries even closer together in 2023 – and beyond.

Without further ado, let's take a closer look at the reasons why Lithuania is a top-performer when it comes to FDI, and how Japan could benefit from that in the years to come.

Business environment

To begin with, Lithuania is currently 5th globally in terms of greenfield FDI. This is also reflected by the country's performance in this area over the course of 2022. FDI income rose by 5.9% to €3 billion, while cumulative FDI grew by 9.7%, reaching €29.7 billion, or 44.4% of GDP.

Lithuania is also 2nd in Central and Eastern Europe (CEE) in terms of economic freedom (EF), which determines how attractive different countries are to investors. Apart from legal framework, monetary policy, and other factors, a key role in EF rankings is assigned to taxation. Lithuania shines even in this regard, being the 8th globally in terms of tax competitiveness.

Furthermore, the country has a strong manufacturing sector, which accounts for 20% of its GDP, and a large presence of German and Nordic capital, 1/3 of which features value-added functions. Key areas include: traditional manufacturing, industrial machinery, life sciences, automotive, engineering, and e-mobility.

Last but certainly not least, in addition to being ranked alongside countries like Sweden and Denmark in terms of business environment, Lithuania also offers an unbeatable cost-to-quality ratio.

Skilled talent pool

With a 1.5 million-strong labour pool (200,000+ working in manufacturing), Lithuania is:

- 4th in the EU by tertiary educational attainment for ages 25-34 (56%)
- 3rd in CEE by the share of students choosing STEM (36%);
- 4th in the EU by the proportion of youth with (above-) basic digital skills (93%);

The country has many modern universities, vocational training schools, and other education institutions. Most of them work closely with their foreign counterparts, as well as local research centres, businesses, and public agencies. This ensures that students could always obtain the most in-demand knowledge and skills, as well as practise them during internships, and find jobs right after graduation.

Over the years, international investors have repeatedly noted the exceptional diligence and skill of their Lithuanian workers. Most of them are also multilingual – a highly prized ability with foreign and international companies.

Physical and digital infrastructure

Lithuania's geographical location makes it highly convenient for businesses engaged in trade, logistics, and manufacturing. Situated at a busy crossroads between the East and the West, Lithuania offers direct rail cargo routes to Western Europe and Asia. In addition, the long-term Rail Baltica project, set for completion in 2025, will connect Berlin to Helsinki via Poland and the Baltics.

The country also boasts multiple connections on the East-West and North-South road transport corridors, used by the large number of local and international logistics companies that have a strong presence here. And Lithuania doesn't merely connect all of these disparate places by road, but does so with a high degree of excellence – it is 2nd in CEE by road quality.

Moreover, Lithuania has an ice-free port in Klaipėda (one of few such ports in Northern Europe) that generates over 6% of the national GDP and is generally recognised as the 1st in the Baltics by cargo turnover.

There are also 3 international airports giving access to major European cities within 2-3 hours, and a fully modern, inexpensive, and convenient public transit system.

Government support

As mentioned at the beginning of this article, Lithuania is pro-active when it comes to making its business environment attractive to global investors. Much of the credit for that is due to the government, which continues to pursue changes in policy and to provide assistance to new and foreign companies – especially startups and other innovators.

One way of doing so has been the establishment of 7 Free Economic Zones. These, in addition to offering 0% Corporate Profit Tax, 0% Dividend Tax, and 0% Real Estate Tax, feature special industrial sites with high-quality, well-developed infrastructure.

Another initiative is the Green Corridor for Large-Scale Development, which offers many benefits to companies in the manufacturing, data processing, and server-hosting areas. Eligible players are exempted from paying Corporate Profit Tax for 20 years, and provided with a massive reduction of red tape: streamlined migration process, rapid construction permits, tailored study programmes, expedited infrastructure development, and more.

The government also covers up to 70% of the costs associated with talent apprenticeship and training, as well as up to 50% of investments into long-term assets. To support innovation, companies are also permitted to deduct their R&D expenses on 3 separate occasions.

Environment and culture

Lithuania is comparable to Japan in more ways than one. For instance, both countries score high in government effectiveness rankings (81.7% for Lithuania, 90.4% for Japan), and prefer to focus on the long-term when it comes to business and planning (82% and 88% respectively), which makes cooperation even more attractive.

The country is also relatively safe in terms of environmental disruption, thanks in part to being situated in a zone of low seismic activity. The risk of tsunamis and extreme heat during the summer is likewise very low. In fact, Lithuania is the least affected country in Europe by temperature rise.

And to top it all off, Vilnius – the Lithuanian capital – has been named the greenest city in Europe by the Husqvarna Urban Green Space Index, and is widely credited as among the TOP 10 globally for work-life balance.

Conclusion

Lithuania and Japan have a long history of friendly relations and many areas ripe for collective action. One of such areas is economic integration. Lithuania can offer Japan a European-class business and investment environment, a large pool of highly qualified talent, a strong manufacturing and cutting-edge technology sector, and extensive government support.

The time has never been better for both countries to consolidate their relationship and become long-term partners in building a brighter future!



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