

# Lithuania

<b>Status Index</b> (Democracy: 5.0 / Market Economy: 4.6)		<b>9.6</b>	<b>Management Index</b>		<b>7.7</b>
<b>System of government</b>	Parliamentary Democracy		<b>Population</b>		3.5 Mio.
<b>Voter turnout</b>	58.6 %		<b>GDP p. c. (\$, PPP)</b>		8,470
<b>Women in Parliament</b>	10.6 %		<b>Unemployment rate</b>		16.5 %
<b>Population growth</b>	0.2 %		<b>HDI</b>		0.824
<b>Largest ethnic minority</b>	-		<b>UN-Education Index</b>		0.94
			<b>Gini-Index</b>		36.3 (2000)
<p>Figures for 2001 – if not indicated otherwise. <sup>a)</sup> Annual growth between 1975 and 2001. Sources: European Commission: Regular Report on Lithuania's Progress toward Accession. Brussels 2002, S. 35. UNDP: United Nations Lithuanian Human Development Report 2001. UNDP: Human Development Report 2003.</p>					

## 1. Introduction

Development in Lithuania from 1997 to 2002 was influenced mainly by the country's aspirations to membership in the EU. At the end of 2002, the Baltic nation stood at the threshold of the European Union—undoubtedly a great success for a country with which the EU was still unwilling to even begin accession discussions as recently as spring 1998. The breakneck pace of development in foreign policy (Lithuania's accession to NATO may well take place concurrently with or even before its accession to the EU - most likely in May 2004), had consequences for its internal situation. Accession negotiations led to a wave of legislative and economic-policy measures to bring the country closer to the EU states and the basic values they stand for. Reform policy was largely defined by an acceptance of the obligations resulting from the pending EU accession, which also dominated the further transformation of the country with intended and unintended effects.

Hence, as in the case of all other candidates for accession to the EU, the present assessment faces the analytical difficulty of accurately distinguishing the transformative effects of "external" influences. No doubt the further direction of transformation was to some degree predestined—in other words, the players' leeway for discretion was limited more to the pace of change than to its content.

## 2. History and characteristics of transformation

The starting point for transformation in Lithuania was not merely a change of system within a state, but the actual re-founding of the state itself. Lithuania had been a Soviet Republic since 1940. Fifty years of Soviet rule had comprehensively reshaped the country, its resources, its economic order and its people. Hence Lithuania's transformation began practically from zero. The return to statehood not only represented a starting point but also set a goal, because the re-founded state was constituted as a democratic community.

The *change of political systems* met with no opposition within either the political elite or the population at large, because for Lithuania, establishing a democratic system amounted at the same time to ending occupation by a foreign country. Thus even today, the legitimization of the Lithuanian Republic through the struggle for independence represents one of the most important factors for the country's internal stability and the acceptance of the system.

The change in systems in the political sector proceeded relatively straightforwardly and quickly. The first phase of the change in systems was complete by around 1993, with the 1992 adoption of the constitution—which follows the structural type of pluralist democracies under the rule of law, including a strong emphasis on direct-democracy and social-state components—followed by the establishment of a multiparty system. By now the political system has repeatedly demonstrated its viability and functionality. Transfers of power have taken place democratically, and extremist parties have met with no response from Lithuanian voters (though, as the most recent presidential elections show, the population is in part receptive to populist slogans). However, the will of the sovereign people fluctuates sharply, as all political parties have discovered to date. Parliamentary elections have regularly thrown ruling groups out of power. The Lithuanian situation seems especially viable because the degree of polarization is moderate, and voters have changed their preferences in the political center and did not vote for extremist parties.

*Transformation toward a market economy* has imposed severe social burdens on the population. These still persist today. The Soviet heritage has proved an especially heavy load to bear. The real problem here was not merely the planned economy, but even more significantly the economy's orientation to the Soviet Union. Lithuania's industrial structure was vastly oversized in some sectors, while other sectors hardly existed at all. The problems were exacerbated by antiquated technology and personnel-intensive production methods, so that one can fairly speak of a complete reconstruction in the economic sector.

Early in the nineties, the country attempted to organize the inevitable change of systems along socially compatible lines. This, coupled with the lack of knowledge

and moderation of some policy makers, initially slowed economic transformation and privatization. The policy did not produce the desired results. Essentially like all transforming countries in Eastern Central Europe, Lithuania hit bottom economically and socially, with a sharp decline of the GDP and soaring unemployment. Since around 1994-95, the country has been on the right track economically, apart from the growth slump in 1999, which resulted from the economic crisis in Russia in August 1998 and contributed to the restructuring of Lithuanian foreign trade flows and the economic structure.

### **3. Examination of criteria for democracy and a market economy**

#### **3.1 Democracy**

A functional democratic system has grown up in Lithuania since 1990. Its fundamental acceptance is not in question. The country's pending admission to the EU and NATO is the symbol of this development.

##### **3.1.1 Political organization**

(1) *Stateness*: There is no problem with state sovereignty in Lithuania. The state has an unrestricted monopoly on power. There is no controversy over who is a citizen and who is not. All citizens have the same civil rights. There is separation of church and state. The political process is secularized. A differentiated administrative structure exists throughout the country, enabling a broad-based collection and allocation of government resources. The military is under civil command.

(2) *Political participation*: There is effective universal active and passive suffrage, and elections are conducted properly and without restraints. The elected representatives respect the principles of an open, competitive electoral process. They possess the effective power to govern. *Freedom of choice* for political and civil-society organizations is guaranteed without restriction, and also includes ethnic cleavages, which moreover are specifically protected by the constitution. There is unrestricted freedom of association and assembly in Lithuania. Freedom of opinion and freedom of the press are fully developed within the basic democratic order.

(3) *Rule of law*: Government powers are consistent with a fundamental democratic order, and there are mutual checks and balances. The judiciary is free from unconstitutional arrangements. Judicial review is performed primarily by a constitutional court that has already earned great esteem. Abuses of power by those in government positions are generally prosecuted under fixed laws.

Additionally, members of parliament must disclose their income, and their tax returns are open to the public (“glass” representatives). There are no restraints on civil rights. Suits for redress are allowed.

### **3.1.2 Political patterns of behavior and attitudes**

(1) *Institutional stability*: Institutional stability again made great strides in the past few years, especially in the judiciary and administration. As a rule, democratic institutions are operating effectively and efficiently. Political decisions are generally prepared, made, implemented and monitored under proper procedures by the cognizant institutions. All relevant political and social players accept democratic institutions as legitimate.

(2) *Political and social integration*: Lithuania has a multiparty system that is solid in its core but still subject to a certain level of fluctuation. Its degree of fragmentation can still be called moderate (effective number of parties = 5). The degree of polarization, especially in matters of foreign policy, is low. Voter volatility is relatively high, but moves within the political center. The party system is well rooted in society, although in the aftermath of the euphoria just after 1990 there are signs of a political “lack of enthusiasm” in some parts of society, as is also familiar in Western Europe. There is an increasingly dense network of interest groups, but some segments (such as unions) are underrepresented because of the Soviet experience. There is no potential threat from antidemocratic or nationalistic groups. The population’s level of consent to democracy as a form of government is high per se, although the practical work of institutions is viewed less positively and according to popular surveys some institutions such as the parliament and the political parties have a low level of popular trust. Certainly the constitutional framework and the fundamental democratic order are not in question. There is a still-evolving network of autonomous, self-organized groups, associations and organizations that enjoy a solid degree of trust from the society.

### **3.2 Market economy**

Since the Russian economic crisis of the late nineties, Lithuania has been able to return to its rapid growth rates of 1994-1998. During the last couple of years Lithuania as well as the other two Baltic states have been the fastest growing economies in Europe and are forecasted to remain so for the years 2003-2005. Weaknesses in the banking system and legislation have been overcome in the past few years.

### **3.2.1 Level of socioeconomic development**

The key indicators show a high level of development. Measured in terms of HDI, the country's level of development permits adequate freedom of choice for all citizens. There is no fundamental exclusion due to poverty, education or gender discrimination. But the situation is tense for parts of the population (including pensioners, rural residents, and young families with many children), because Soviet-era state subsidies for food, housing and energy have been eliminated in the transition to a market economy, and thus the cost of living has risen massively in every sector. Residents of Lithuanian cities have greater options and opportunities for education than rural residents. Equal rights for women have advanced significantly in the past few years, and have now become more than a mere declaration of intent codified in the constitution and legislation. In 2000, 16 % of the population lived below the statistical poverty level (less than 50 % of the expenditures of an average household). Distinct regional (rural areas) and vocational (agriculture) emphases are evident here.

### **3.2.2 Market structures and competition**

The foundations of market economy competition are safely assured. The macroeconomic and microeconomic rules of the game are clearly defined, and are guaranteed by the state. All market participants have largely the same opportunities. There is a coherent and effective anti-monopoly policy, which is ensured and monitored in Lithuania by a "Competition Board." Foreign trade has been relatively liberalized with the average conventional import duties lower than those of the EU, in particular in the case of agricultural trade. Banks and the capital market are fully differentiated and internationally competitive. In principle, they are oriented to international standards, and the capital markets are open to both domestic and foreign capital. Deficiencies remain in the still-pending takeover of the interbank payment and billing system, and in money laundering (despite massive legislation).

### **3.2.3 Stability of currency and prices**

A consistent policy of the Currency board arrangement resulting in low inflation and stable exchange rate with regard to the base currency was pursued during the period under study. The Lithuanian central bank is largely independent. The very low, stable rate of inflation is one of the most important successes of the past few years. As part of accession to the EU, the Currency Board, formerly pegged to the U.S. dollar, was changed over to the euro as of February 2, 2002—a decision on

basic principles that both possesses strong political symbolic value and will ultimately enable the trouble-free introduction of the euro. The change of the pegging currency proceeded smoothly and without pressure on the financial markets, thanks to far-sighted political management. State entities support economic development with disciplined budget management and a solid tax policy, so that it is appropriate to speak of a continuous policy of stability (some important changes have been made to tax policy due to the adoption of EU taxation norms).

### **3.2.4 Private property**

Property rights and the acquisition of property are adequately defined. Property rights and the procedures for acquiring property are well regulated. Land reform, i.e. the privatization of land, is almost complete. In 2001, moreover, a system of property rights was introduced in corporate law that is similar to that in developed economies. Private business people are the chief drivers of economic production (over 70 % of GDP in the period under study). Their rights are protected by law. Improvements are particularly needed in bankruptcy law. Here the problem lies largely in the still insufficient implementation of existing provisions of law (administrative capacity). The privatization of state enterprises is almost complete with mainly electricity and transport infrastructure companies left to be privatized, and must be considered a success, especially since increasing emphasis has been set over the past few years on criteria for medium-term economic profitability.

### **3.2.5 Welfare regime**

There is a social safety net to compensate for poverty and other such risks. Considerable efforts have been made over the past few years to expand this net and make it more efficient. There is a nationwide healthcare system. Lithuanian society has rather homogeneous characteristics, with egalitarian attitudes. There are facilities to adjust for gross social differences. Since poverty is especially evident in rural areas, assistance mechanisms from traditional village structures have also taken hold. Women have roughly the same access to higher education and public office, guaranteed by law. There is a gradient in education possibilities between cities and rural areas.

### **3.2.6 Strength of the economy**

The indicators from the past few years indicate solid growth in the Lithuanian economy. The rapid recovery from the Russian economic crisis started to become evident in 2000 through high growth rates in the GDP (see Table 3). Price

stability, an almost balanced budget, and reasonable indebtedness have especially favored development.

### **3.2.7 Sustainability**

Economic growth is strong and dynamic. The Lithuanian economy has been able to cope with difficult external conditions, and to develop prospects for the future. Environmental awareness is relatively underdeveloped, and is overshadowed by the push for growth. Lithuania's human capital can be considered positive. On the whole, the economically active population is well educated. The academic and vocational education system is present nationwide. In 2000, the country spent 6.64 % of the GDP on the educational sector. Since 1997, the number of students has risen 54 %, a clear sign of the attractions of academic training. Investment in research and technology is a relatively low 0.56 % of the GDP.

## **4. Trend**

(1) *Democracy*: The political order meets the requirements for a constitutional democracy under the rule of law. Over the past five years, further progress has been evident in the expansion of political participation and in the rule of law. This is particularly the case in administration, where Lithuania has made massive efforts both to provide training to personnel and to improve administrative efficiency and the infrastructure. The success of these efforts is becoming increasingly obvious. The structural reform of the judicial system in the 1990s is complemented by better-qualified staff, which has been especially beneficial to the administration of justice. But inefficiencies in the appeals process (average length of proceedings) have also been reduced. The degree of consolidation of democracy has thus improved further. The country's level of development rose sharply between 1995 and 2000 (HDI 1995: 0.750; 2000: 0.803), and has reduced social exclusion. Nevertheless, the social gradient remains substantial. Many people rely on aid from the state, and have hitherto benefited little from the economic upswing of the past few years. In education, further progress was achieved through legislative measures and improvements in staffing and equipment. The weaker representation of women in the current legislative term should be considered more a transient condition than a trend, as is evident from the strong rise in the GDI index.

**Table 2: Development of socioeconomic indicators of modernization**

	<b>HDI</b>	<b>GDI</b>	<b>GDP index</b>	<b>Gini index</b>	<b>UN Education Index</b>	<b>Political representation of women<sup>a</sup></b>	<b>GDP p.c. (\$, PPP)</b>
1997	0.761	0.759	0.62	-	0.91	15.6	2,013
2000	0.803	0.806	0.71	36.3	0.93	10.6	7,106

<sup>a</sup> Percentage of women delegates in parliament after 1996 and 2000 elections. Sources: UNDP, Human Development Report, 1999, 2002, <<http://undp.org/hdr2000.english/FAQs.html>>, <<http://undp.org/reports/global/2002>> [accessed Oct. 22, 2002].

(2) *Market economy.* The fundamental developmental indicators show a clear improvement in an already high level of development during the period under examination. Lithuania has a functional market economy. The institutional framework has improved clearly once more since 1997 across several subsegments of the economy, in anticipation of accession to the EU. Overall economic development has made great strides both quantitatively and qualitatively. The 2002 EU Report on the progress of Lithuania assumes that the country is able to cope with competitive pressure and the European internal market.

Once the effects of the Russian economic crisis had been surmounted, a macroeconomic stabilization occurred, borne primarily by high export output and significantly reducing the deficit in the current account balance. In combination with a strict budgetary policy and a low rate of inflation, economic development must be regarded as strongly positive. The distance the Lithuanian economy has traveled since 1997 is greater than in any other sector studied. Nevertheless, there is room for improvement. The problem of unemployment in particular, which intensified even further during the period under study, still awaits a solution (although it started declining in 2002). Here the large number of unemployed young people and unskilled workers in rural areas is especially troubling. The agricultural sector is still suffering from large personnel expenses combined with comparatively low aggregate economic output.



**Table 3: Development of macroeconomic fundamentals (1998–2002)**

	1998	1999	2000	2001	2002 (1/4)
Growth of GDP in %	5.1	-3.9	3.8	5.9	4.5
Exports in USD m	3,962	3,147	4,050	4,415	5.1
Imports in USD m	5,480	4,551	5,154	5,618	7.8
Inflation in % (CPI)	5.0	0.7	0.9	1.3	1.8 (July)
Unemployment in %	12.5	10.2	15.6	16.5	-
Budget deficit in % of GDP	-3.1	-5.6	-2.7	-1.9	-
Current account balance in % of GDP	-12.1	-11.2	-6.0	-4.8	-

Sources: Commission of the European Communities, Regular Report on Lithuania's Progress toward Accession, Brussels 2002, p. 35; Freedom House, Lithuania ([www.freedomhouse.org/ratings/lithuania.htm](http://www.freedomhouse.org/ratings/lithuania.htm)).

There is no doubt that the course the country has adopted is stable and irreversible. Coherence intensified during the period under study, and the effects of synergy from the EU accession negotiations are obvious. Lithuania is a market economy-oriented democracy.

## 5. Transformation management

### 5.1 Level of difficulty

In 2000, per-capita GDP (PPP) was USD 7,106. In other words, it was in the upper medium-income range. The population's level of education is very high (UN Education Index: 0.93). Although Lithuania's population is not ethnically homogeneous (the proportion of ethnic minorities is around 20 %), this is a secular society without irreconcilable ethnic, religious or social conflicts. The background for the lack of minority tensions is the liberality that led to the decision back in 1989 to offer citizenship to any resident who could document primary residence in Lithuania. Lithuania had an undemocratic history from 1926 onward, both between the wars and in the Soviet era until 1989-91. Hence the country began the past decade with only weak civil-society traditions. Since then, participation in public life has risen steadily, as has the number of NGOs. The rule of law and institutional stability have improved appreciably in the past few years, not least of all because of the incipient positive effects of basic and continuing education for administrative and legal personnel. Thus even at the beginning of

the period under study, the country already had important structural and political requirements in place, some of them of high quality. The difficulty of transformation from 1997 onward must thus be considered rather low.

## **5.2 Reliable pursuit of goals**

The government pursues and communicates strategically consistent reform goals. Despite frequent changes of government, Lithuania's strategic priority has been firm since 1990: integration into the western community of values. This priority has been absolute, and all governments and governing personnel have identified with it. It has played a critical role in every domestic-policy decision on reform. The desire to accede quickly to the EU especially prompted a consistent, coherent policy of reform, which in turn has had a positive and reinforcing effect on the reliability and steadiness of Lithuanian policies. Thus the policy of reform gained in consistency and coherence compared to earlier years. Expectations of success and time horizons now largely parallel those of the EU. The government's policies are reliable and consistent. There is an assurance of justice, reliable macroeconomic conditions and physical safety from war. It is important that the reliability of expectations in the economic segment, which fluctuated for a time during the Russian economic crisis, has been not only restored but expanded by the government's efficient crisis management and the subsequent growth.

## **5.3 Effective use of resources**

The use of available resources has improved massively over the past few years, so that one can speak of generally high efficiency. In administration, which was a problem child for transformation after 1990, continuing education programs are beginning to show results. Moreover, the performance of the administrative apparatus underwent an evaluation up to the end of 2002. Even if this was just a formal exercise in some cases, it will lead to a performance-based allocation and remuneration of personnel starting in 2003, and thus further enhance efficiency. Structurally, the reform of the administrative organization was completed a good while ago, and local bodies for autonomous administration exist for the first time in Lithuanian history. During the period under review, decentralization spread, and the legal and financial autonomy of municipalities and districts has created entirely new political rules of play and strengthened regional identities. At the same time, a quite controversial but problem-oriented and politically goal-oriented program for coordination with central authorities has arisen in the matter of allocation of funds. Some inefficiency still remains within the administrative apparatus, but the situation has clearly improved over the past few years. The use of budget resources, as already discussed, is under strict and intense discipline. All in all, the government largely makes efficient use of available staff, financial

and organizational resources. The policy of reform has been largely successful in the past few years. Public services promote development, though there are certain discrepancies in the healthcare and educational systems, especially when one compares urban and rural areas. Lithuania has all the necessary structural and legislative tools to fight corruption, and has made considerable progress in the past few years. However, bribery still remains a problem, especially in the case of the police, and in the customs and healthcare systems. The government has now adopted rules of professional ethics and a code of behavior for public officials. The special investigative service in charge of corruption was expanded further in 2001, both in staffing and institutionally, and its scope of authority was enlarged. Lithuania's view of itself as a part of (Western) Europe—as symbolized most of all in the medieval Archduchy of Lithuania and the Lithuanian language, which is the closest to Indo-Germanic of any European language—lends legitimacy to the political path “back to Europe,” both for the government and for society.

#### **5.4 Governance capability**

The closer Lithuania has come to the EU, the more flexibly its political leaders have acted, proving their ability to learn. The dispute over the Ignalina nuclear power plant came to an end, after initially tough confrontations, in a compromise acceptable to both sides. And during the Russian economic crisis, the political class was able to abandon its doomed protectionist economic policy within a short time. Not least of all, this contributed toward a rapid reorientation of Lithuanian markets to the West, and was thus a central influence in overcoming the crisis. Here the government also got its way in the face of opposition from the Russian-oriented export industry. This example also shows that governments have the political authority to achieve their objectives, and have now learned to avoid economic misallocation. The learning curve from the past few years is evident as well in the steps toward reform and the tools employed, whose management has improved substantially.

#### **5.5 Consensus-building**

The political and social consensus about the primary goals of Lithuanian policy is quite high. Market economy-oriented democracy is a model for which there are no alternatives. Thus veto powers are either practically nonexistent, or they hover at the extreme margins of the political spectrum. Because of the high level of consensus, profound cleavages have been successfully avoided thus far. The society's willingness to show solidarity is high, evident in the mass demonstrations during the fight for independence, and the nation's patience during the catastrophic economic collapse of the early 1990s. Yet everyday civic engagement is still modest. But this has less to do with the policies of any given

government than with the problematic legacy of the paternalistic Soviet system. Thus some segments of the population regard civic engagement with great skepticism, since many people have not yet absorbed the difference between “organized” social activities and “compulsory” ones (such as the “May demonstrations”). Many Lithuanians are still skeptical about the state and its representatives, and have adopted a reserved posture. The way in which representatives of the old Soviet regime are treated has been highly pragmatic. Only those people who were responsible for the January 13, 1991, bloodbath at the Vilnius television tower have been charged with crimes. Another primary concern has been Lithuanians who collaborated with the KGB. From today’s viewpoint, coping with the past no longer plays a role in the political arena. The Soviet period has by now become a focus of historical research, and the population shows great interest in publications on the subject.

## **5.6 International cooperation**

The country’s political players are willing to cooperate with outside supporters and advisers. Lithuania’s pending accession to the EU and NATO demonstrates the country’s great willingness to cooperate internationally. Despite some complaints about the EU’s political demands and the tone with which some Brussels functionaries treat “petitioners” from Eastern Europe, Lithuania’s cooperation has carried it to the threshold of the western alliance and the EU—surely a success story for Lithuanian policies as well. In foreign policy, Lithuania has good relations with all its neighbor states (even Russia), and there are no territorial aspirations. The reputation for reliability that Lithuania enjoys internationally is also evident in the fact that together with Poland, the country will soon have to man the EU’s external border with Russia’s Kaliningrad exclave. This problem has by no means adversely affected the accession negotiations. Indeed, from the EU’s viewpoint it offered a certain relief as to the question of the future of the Kaliningrad region, since Lithuania is not only regarded as a reliable representative of EU interests, but has been accepted as a fair negotiating partner by the Russians. A point to be emphasized is the strategic partnership with Poland, which must be considered a particular political success, given the countries’ history of tense relations (the Vilnius Question of 1918-1939).

## **6. Overall evaluation**

(1) *Initial conditions:* In 1997, Lithuania had already achieved important objectives of systemic transformation, or was on the right track toward them. Thus the initial conditions in 1997 must be rated as favorable, and the following years up to 2002 can be characterized as a continuation, fine-tuning, and partial

improvement of the reform process, with a clear emphasis on economic and public administration reforms.

(2) *Current status and evolution*: The distance the country has traveled in *democratic transformation* is relatively short, since a highly evolved democratic system already existed in Lithuania in 1997. In the details, however, there are clear signs of further consolidation and qualitative improvements in the political order. Thus the performance of democratic institutions has clearly improved over the past five years.

Progress in acceptance among the population has been less substantial. As already mentioned, the causes for this lie primarily in the Soviet heritage and the associated profound skepticism about the state itself and its representatives. The party system is rooted within society, yet still relatively open. Moreover, the phenomenon of low enthusiasm about political parties, also known in developed democracies, is also appearing in Lithuania. The degree of fragmentation in the party landscape did not change between 1997 and 2002, although the period saw extensive voter migration among parties, and a newly founded liberal grouping grew up almost from nothing to become one of the strongest parties in the parliament, or Seimas. It is not impossible that a multiparty system may evolve. Parties' victories and defeats are linked—and here again Lithuania is paralleling the “Americanization” of Western Europe—more and more clearly with individual leading personalities, and are less rooted in the parties' platforms and basic convictions. Heavy voter turnover and the relatively extensive fragmentation of the party landscape must, however, be understood against the backdrop of what should be considered a very low level of polarization; consensus about fundamental foreign-policy issues crosses party boundaries, as does loyalty to the basic democratic order. This may be another reason why Lithuanian politics are highly personalized, and the parties find it hard to stand out from one another.

The distance traveled in *transformation toward a market economy* was far greater. The political decision-makers were able to stabilize macroeconomic development and demonstrate efficient crisis management. Lithuania has made great progress in virtually every sector since 1997. Here the dynamics of EU accession must be considered the most important catalyst. In its first position paper, in 1997, the EU was still speaking of Lithuania's “serious difficulties” in coping with the competitive pressure and market forces within the union in the medium term (Agenda 2000—Commission Opinion on Lithuania's Application for Membership in the European Union, Brussels, 1997, p. 132). At that time the Commission did not dare to offer even a projection of when Lithuania's judicial system would be “ready” for accession. From this one can see—even granting all the political motivations for enlarging the EU—how profoundly the past five years have changed Lithuania economically.

(3) *Management*: Management by the political players has made great advances since 1997. Expensive “detours” like the one of the early nineties, and legislative targets that could be achieved only with difficulty or at excessive administrative expense, are now a thing of the past. The transformation process of the past few years has been characterized by an ability to learn and adapt. Management has undoubtedly been “facilitated” by the EU, whose strict criteria had to be implemented. But the Lithuanian players recognized relatively early what an opportunity they were facing, and very quickly opened up a frank, constructive dialog that will bear fruit in 2004.

Overall, Lithuania, which had already achieved a high level in 1997, has made great progress, especially in the economic sector and in management, and has almost finished its “journey to the West.”

## **7. Outlook**

Lithuania’s future is inseparably linked to the country’s admission to the EU and NATO. Final consent to accession will be given not by the political elite alone, but by the Lithuanian people. Article 9 of the Lithuanian constitution prescribes a referendum for the “most important matters that affect the life of the state or the people.” Just over 50 % have always indicated approval for accession, and approval climbed to 70 % after the short December 2002 visit of U.S. President Bush, who assured the Lithuanians that they would never again in their history face an aggressor alone. But there were certainly also euro-skeptics, so that while approval could have been assumed at the time, surprises were not entirely out of the question. In a referendum in May 2003 an overwhelmingly large majority of 91,04 % of the population decided in favor of the Lithuanian EU membership.

The break with the past that accession to the EU represents should not be underestimated. For Lithuania, which just escaped a different “Union”, membership in an international community will mean waiving some of the sovereign rights it just regained in 1990-1991, and partially surrendering control to outside influences. This psychological position could lead to substantial anti-EU feeling in the event of a subjective or objective failure to achieve the economic improvement the country expects to enjoy alongside the confirmation of its political and cultural affiliation with Europe. Since economic hopes, especially in the primary sector, are based mainly on an influx of EU subsidies, a certain degree of disappointment will be inevitable and could be quite a test for the management and communication abilities the political leadership has demonstrated in the past few years. By contrast, joining NATO is relatively uncontroversial, because many Lithuanians feel that only the transatlantic alliance can really guarantee their country’s external security.

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Since integration into the Western system has been the great political goal of all players since independence, and thus represented an exceptional aspiration, the political class will have the task of developing a new vision and a new integrating policy concept. The country must define and find its position and role within the EU. Many of the past decade's measures that have burdened the population were feasible only in the light of the "return to Europe." In the future, unpopular cuts will surely meet with less tolerance among a population that is slowly but steadily developing into a self-aware civil society.

The great domestic-policy challenges of the next few years will undoubtedly lie in social and labor and education policy. Hitherto, economic growth has had no positive impact on high unemployment. But a further substantial increase in the GDP (2003: 4.0 %) is expected and this could then affect the labor market. During the period under study, the income gap between the public and private sectors began to close. It is to be hoped that this trend will continue. The discrepancy that persists between the cities (especially the three main cities of Vilnius, Kaunas and Klaipeda) and the country should be reduced. This desirable restoration of balance is connected with the agricultural question. Though the primary sector represents only 7 % of the GDP, it still employs 16 % of Lithuanian wage-earners. Finally, because of the low rate of inflation, the risk of deflation is not entirely out of the question.

Lithuania has arrived at a new turning point, which this time will affect the entire continent. The enlargement of the EU to the East is one of the great defining moments in European history. The successful end of the transformation toward a market economy-based democracy thus represents a new beginning for more than just Lithuania alone.