

Lithuania

Status Index (Democracy: 9.25 / Market economy: 8.79)	9.20	Management Index	7.04
HDI	0.852	Population	3.5 mn
GDP per capita (\$, PPP)	11.702	Population growth¹	0.2%
Unemployment rate	N/A	Women in Parliament	22.0 %
UN Education Index	0.97	Poverty	N/A
		Gini Index	31.9 (2000)
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003.			

A. Executive summary

Lithuania's accession to the EU and NATO in spring 2004 marked the two most important events in Lithuania's history since 1990. Lithuania is now a member of a community of market-oriented, pluralistic and free European democracies. Within the security framework of NATO, Lithuania no longer suffers foreign threat, pressure or blackmail from its neighbors as it has in past centuries. However, Lithuania had to fulfill several obligations before it could become a new member of these institutions. Unsurprisingly, Lithuania scores high on the BTI both in terms of its political system and economy. The political leadership's management capabilities are also impressive.

Nevertheless, there have been problems at the highest level. Recently, President Paksas was impeached following a scandal in which he was linked to dubious "businessmen" purported to have connections to organized crime and foreign security institutions. The process of Paksas' impeachment illustrated the strength of Lithuania's democratic system, despite the rancor of political division prompted by the scandal that eventually affected parliamentary elections in fall 2004. The success of the newly founded populist Labor Party in these elections underscored once again the potential for populist temptation. The coalition government of four left-center parties formed in the wake of the elections found it difficult to reach consensus on any major economic issues during its first several months.

Lithuania's economic miracle continued nonetheless. With one of the highest growth rates in Europe, Lithuania now enjoys the benefits of transition reforms implemented during the 1990s. However, despite declining unemployment numbers, the unemployment rate remains relatively high. Further structural

reforms are needed in areas such as health care and education. The progress of structural reforms, a decrease in labor taxation, regulatory and administrative reform, the effective use of EU funds and further economic integration within the single market will determine the speed of true economic convergence with the EU average. Accession to the Eurozone planned for 2007 is the next major step in deepening Lithuania's integration within the EU.

In terms of transformation, although Lithuania has made headway in developing civil society, there are shortcomings that persist. Still too few Lithuanians acknowledge the potential of personal engagement in non-profit organizations or grassroots movements. Political culture in Lithuania is still transforming; the presidential scandal prompted many observers to question the strength of civil society. In the wake of the Paksas scandal, civil society requires more cultivation than many observers had previously thought. Whereas the battle against corruption and a "corrupt" mentality has shown some encouraging results, it has not yet been won. According to corruption surveys, Lithuania continues to suffer from a relatively high level of corruption as compared to other EU states.

In recent years, major efforts have focused on economic and regulatory-administrative reforms in Lithuania. For the first time since 1990, the economic system progressed further than the political system. This is certainly good news, as democracy needs the pillars of a socially responsible market economy.

B. History and characteristics of transformation

Lacking not only the structures for transformation, but statehood itself, Lithuania began completely anew in 1990. Occupied and annexed by the Soviet Union in the 1940s, Lithuania was a Soviet Republic for almost 50 years. Soviet rule had comprehensively reshaped the country, its resources, economy and above all, its people. Lithuanians often use the term "rebirth" in reference to their return to statehood, which represented the starting point of transformation and set the goal of becoming a free and independent state within the community of European democracies. With accession to the EU on May 1, 2004 and to NATO in March 2004, Lithuania has achieved its goals and aspirations set in 1990.

Because the creation of a democratic republic amounted to the end of foreign occupation, the change of political systems met with no opposition. Those who experienced the years 1987-1991 will never forget their fight for independence and the founding of the new state. The legitimacy of Lithuania's democratic order is thus closely tied to the Baltic revolution and the victory of the independence movement that was supported by the vast majority of the population.

Political transformation progressed smoothly with few problems. The population voted for the constitution in 1992 and in 1993 a multiparty system emerged, marking the successful end of the first phase of political transformation. The

constitution provided for pluralism under the rule of law and established a Constitutional Court—a first in Lithuanian history. The constitution also provided for democratic plebiscites and placed strong emphasis on social welfare.

The political system has proven itself reliable. Transfers of power have been accepted by all actors and Paksas' impeachment demonstrated both the viability of several institutions and the degree to which established rules had been accepted. However, the will of the electorate itself remains subject to fluctuations. Since 1990, no government has succeeded in winning elections and staying in power. During the Republic's first decade, the party system appeared to oppose any new challenges. Vacillation occurred within a moderately fragmented system of five parties. Since 2000 however, the situation has changed as populist parties have made striking gains.

Economic transformation led to massive social inequalities and imposed severe social burdens on most of the population. The Soviet legacy has proved an especially heavy load to bear. The problem here was not merely the planned economy, but the economy's orientation to a market defined by the regions of the Soviet Union. Some sectors of Lithuania's industry were too large, some too small and others almost non-existent. Much of the technology was antiquated and several production processes relied heavily on human resources. At the start of the 1990s, the country attempted to pursue transformation without imposing heavy social costs. This strategy clearly backfired as it initially slowed economic transformation privatization. Like all reform-oriented states in Eastern Europe, Lithuania experienced an economic and social crisis characterized by a sharp decline in GDP and soaring unemployment figures. The worst was over by 1994. After a slump in 1999 (the "Ruble crisis") Lithuania's GDP has shown strong growth since 2000.

C. Assessment

1. Democracy

Established in 1990, the Lithuanian Socialist Soviet Republic had evolved into a consolidated democracy by 2004. Adequately observed rules of the game for democracy were established; these rules are ingrained and accepted within society. NATO and EU accession in March and May 2004 respectively symbolize the democratic achievement of the Lithuanian Republic.

1.1. Stateness

There is clarity about the nation's existence as a state, with adequately established and differentiated power structures. There is virtually no competition with the state's monopoly on the use of force. All citizens have the same civil rights. A

significant majority of the population fundamentally acknowledges the state's constitution. The state is largely defined as a secular order. Religious dogmas have no noteworthy influence on politics or law. The state has a differentiated administrative structure throughout the country, making it possible to extract and allocate state resources on a broad basis.

1.2. Political participation

There are no constraints on free and fair elections in Lithuania. The populace decides in free elections who rules. The municipal, central legislative bodies and the president are elected by direct vote. Citizens have unrestricted freedom of association and of assembly within the basic democratic order. Unrestricted freedom of opinion and of the press is guaranteed by the constitution and functions in practice. The press is investigative and is highly trusted by the people as a kind of "fourth" power that checks politicians and bureaucrats. There are no veto powers; leaders have the effective power to govern.

1.3. Rule of law

There are no restraints on the basic functions involved in the separation of powers, especially mutual checks and balances. Above all, the Constitutional Court is highly esteemed and has a reputation for safeguarding democratic values. The judiciary is free of both unconstitutional intervention by other institutions and corruption. There are mechanisms for judicial review of legislative or executive acts. The fight against corruption has intensified in recent years and now shows encouraging results. However, the level of corruption remains relatively high, despite anti-corruption laws and institutions implemented in Lithuania. The CPI Index 2003 (Corruption Perceptions Index by Transparency International) for Lithuania is 4.7 (the highest score being 10). In October 2002, Lithuania and the United Nations Development Program staged an anti-corruption project that envisions a long-term education program. As a rule, corrupt office holders are prosecuted under established laws, but some loopholes remain. There are no restrictions on civil rights.

1.4. Stability of democratic institutions

The ensemble of democratic institutions works effectively and efficiently. As a rule, political decisions are prepared, made, implemented and reviewed in legitimate procedures by the appropriate authorities. All relevant political and social players accept democratic institutions as legitimate. The impeachment of President Paksas was executed according to the constitutionally prescribed procedure. In October 2003, the country was shaken by allegations that tied the president (in office since January 2003), his top aides, and his biggest campaign

contributor Borisov to Russian organized crime. Borisov himself urged the president to “pay him back” for his help during the campaign, obviously demanding influence on political decisions. Adding fuel to the fire, Paksas broke every rule of ethical conduct when he informed Borisov immediately of Lithuanian security institutions’ suspicions. The parliament and the Constitutional Court fulfilled the duties provided them by the constitution to impeach the president, a legal procedure that paralyzed the country for months and divided society. In the end, the impeachment of the president testified to the strength of democratic institutions and the rule of law.

1.5. Political and social integration

The party system is fundamentally established, yet remains subject to some fluctuation. In recent years, new populist parties and leaders have achieved amazing victories and focused on high voter volatility. Moderate polarization increased rapidly during Paksas’ impeachment. The consensus on foreign affairs has been important in terms of ensuring that polarization is kept at a moderate level. No party wholeheartedly campaigned against the accession to the EU and NATO. Only one or two party leaders vacillated and raised some very cautiously formulated doubts about the speed of accession. Despite the most recent political events in Lithuania, the party system is firmly rooted in society. However, according to popular surveys, parties are not trusted by the population.

Interest groups are growing in number. Yet, a few strong interests dominate among them, which creates the latent risk of pooling conflicts. Due to Soviet “experiences,” there are some underrepresented sectors of society. Some Lithuanians still mistrust any organization showing societal commitment, as the forced participation in such organizations during Soviet rule remain fresh in public memory. However, as these networks and the number of interest groups grow, it appears that Lithuania is on the threshold of enjoying a closely-knit network of interest groups that are fundamentally cooperative, reflect competing social interests and tend to balance one another. There are no threats posed by anti-democratic or nationalistic groups. Consent to democracy in principle is high, and political protests tend not to call the constitutional framework into question. There is criticism of the daily practice of democracy and the moral and ethical values of the ruling political class. Deep mistrust of the state’s executive institutions is clearly another Soviet “legacy.” Its impact however, is waning gradually. Institutions that did not exist during the Soviet era (e.g. the army, the Constitutional Court, the new social security system Sodra) are receiving better results in opinion polls. Lithuania has yet to achieve the status of a consolidated civic culture, but has made some headway in recent years. There is a robust but heterogeneous web of autonomous groups, associations and organizations, and solid trust among the population. The legal and regulatory framework for NGOs has improved in recent years.

2. Market economy

2.1. Level of socioeconomic development

In principle, the country's level of development permits adequate freedom of choice for all citizens. Social exclusion is quantitatively and qualitatively limited and structurally not ingrained. The Gender-related Development Index (GDI) of the United Nations Development Program is 0.841, which places the country at rank 37 in the world. In recent years, much has been done to combat poverty, particularly among the elderly. However, there are deep rifts between urban areas and the countryside, between young citizens and the older generation. Around 14% of the population enjoy only a minimum standard of living or are at or below the poverty threshold. The poorest 10% of the citizens share only 3.2% of income and consumption. The Gini-Index is at 31.9.

2.2. Organization of the market and competition

The fundamentals of market-based competition are functioning. The legal and institutional framework was adapted to EU standards before May 2004. The role of the state is limited to guaranteeing compliance with the rules of market competition. The informal sector plays a role. The 2004 Index of Economic Freedom for Lithuania is 2.19 (rank 22 worldwide), i.e. the country is classified as "mostly free." Significant shortcomings include the informal sector and burdensome regulations for establishing and running a business. There is a coherent and effective anti-monopoly policy supported by trade policies that are consistent with non-discrimination principles. Foreign trade is mostly liberalized, with uniform, low tariffs and no fundamental state intervention in free trade. The institutional foundation for a solid banking system oriented toward international standards has been laid. This foundation includes functional banking supervision, minimum capital requirements and market discipline. Capital markets are open to domestic and foreign capital; they are sufficiently resilient to cope with speculative investment. Scandinavian banks dominate the financial sector in Lithuania; the last state-owned bank was privatized in March 2002. Government policies do not intervene in the free flow of financial resources or the allocation of credit.

2.3. Currency and price stability

Inflation and foreign exchange policies are brought in line with other goals of economic policy, and are institutionalized in a largely independent central bank. Lithuania has a very low inflation rate, which in 2002 and 2003 became deflation. The currency board system has resulted in price stability, one of the country's assets. Lithuania's currency is already tied to the euro and joined the Exchange

Rate Mechanism II (ERM II) in June 2004. According to plans at the time of this writing, the EU currency will replace the litas in 2007. A consistent budgetary and monetary policy, pursued even during the Paksas scandal is one source of Lithuania's economic miracle.

2.4. Private property

Property rights and the regulation of the acquisition of property are well-defined in terms of acquisition, benefits, use and sale; they are limited only by basic liberal rights. During the 1990s, the weakness of the judicial system was considered a deterrent for foreign investors trying to enforce their rights in local courts. However, the reform of the judiciary has made tremendous headway in recent years. With the judiciary reform now implemented, Lithuania's property rights score is high. Private companies are seen as the primary engines of economic production, and are given appropriate legal safeguards. Seventy-five percent of the Lithuanian economy is in private hands; the private sector is the main engine behind the country's economic miracle.

2.5. Welfare regime

There is a solid network to compensate for social risks, especially national health care. However, problems persist particularly for those who retired during the Soviet era and for agricultural workers. Low pensions for these individuals, coupled with the rising prices of food, heating, public transport, etc., have had dire consequences. Pensions and wages have risen in recent years and new social safety nets accepted by the population (e.g. Sodra, the national social security system) have been established and are viable. The pension reform currently underway is expected to create long-term conditions for private social safety instruments. Nevertheless, much work still needs to be done. Family and village structures, particularly in rural areas, provide a special kind of "social welfare" not visible in standard statistics. There are several institutions tasked with compensating for gross social disparities, yet they remain inadequate. Women have significant access to higher education, public office, etc. The 2004 GDI is 0.841; in 2000 it was only 0.806. The education level is high; the government is devoted to providing quality pre-school education. The number of children attending such pre-school establishments rose from 52.6% in 1996 to 75.6% in 2002.

2.6. Economic performance

Growth of per-capita GDP is very high. GDP growth exceeding 9% in 2003 was stimulated by private consumption, but investment has also expanded at a brisk pace. Rapid GDP growth is thus related to increased development in almost all

sectors of the economy. This development is associated with positive macroeconomic data, including price stability and a budget with a rather modest deficit of 1.7% of GDP in 2003. Meanwhile, import growth continued to outpace export growth, negatively affecting the overall growth rate. The unemployment rate is still very high. Nevertheless, all experts agree on forecasts of continued GDP growth in the near future.

2.7. Sustainability

Although ecologically compatible growth is considered in essential aspects of economic life, it is often subordinate to growth efforts. Awareness of environmental protection as an issue is clearly overshadowed by the economy's upswing, the change in urban areas and the population's changing attitudes. At the state level, Lithuania complies with international agreements. The state and private sector ensure a national system of education and training, a dynamic research and technology sector, and a viable infrastructure. Due to a strict budget policy, state investment in education and training, research and development is average. Lithuania's well-educated labor force is a strong incentive for foreign investors.

3. Management

3.1. Level of difficulty

Since 2000, the pains of transformation during the 1990s have begun to bear fruit. The goal of membership in the EU and NATO significantly shaped Lithuania's legislation and administrative structures. Modifying the judiciary, administration, laws, etc. to EU norms was not easy. Bringing Lithuania's legal framework in accordance with the *acquis communautaire* lay the foundation for all institutional reforms and readjustments. The structural constraints on governance have therefore been minimal.

Lithuania has no strong historical tradition of a civil society. Before 1990, Lithuania experienced a democratic statehood only once, during the years 1919-1926. However, civic engagement is now on the rise. The pervasive memory of forced participation in "social" institutions during the Soviet era hinders civic engagement somewhat. Civil society has developed steadily in recent years, and the legal and regulatory framework for NGOs has improved. Since 2002, NGOs have been exempt from the profit tax; corporate donations of up to 40% of taxable profits are tax-exempt. In 2000, there were approximately 7,000 NGOs in Lithuania; many of them were not Lithuanian institutions. NGO activity focuses on educational, social and health care initiatives. A moderate tradition of civil society appears to have developed. In contrast to neighboring Baltic States, Lithuania has no ethnic, religious or social conflicts. Native Lithuanian speakers

constitute approximately 80% of the population; ethnic minorities (mainly Poles and Russians) and the majority nation have developed a good working relationship. Some complaints expressed by minorities are aimed at reform within the system, not against the system. Minority rights are guaranteed by the constitution.

Profile of the Political System

Regime type:	<i>Democracy</i>	Constraints to executive authority:	3
System of government:	<i>Parliamentary</i>	Electoral system disproportionality:	4.9
		Latest parliamentary election:	24.10.2004
		Effective number of parties:	5.5
1. Head of State:	<i>Valdas Adamkus/ Rolandas Paksas</i>	Cabinet duration:	07/01-11/03
Head of Government:	<i>Algirdas Brazauskas</i>	Parties in government:	2
Type of government:	<i>coalition majority</i>		
2. Head of State:	<i>Rolandas Paksas/ Valdas Adamkus</i>	Cabinet duration:	12/03-10/04
Head of Government:	<i>Algirdas Brazauskas</i>	Parties in government:	3
Type of government:	<i>oversized coalition</i>		
Head of State:	<i>Valdas Adamkus</i>	Cabinet duration:	11/04- present
3. Head of Government:	<i>Algirdas Brazauskas</i>	Parties in government:	4
Type of government:	<i>oversized coalition</i>		
		Number of ministries:	13
		Number of ministers:	13
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: $\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}$; v_i is the share of votes gained by party i; p_i is the share of parliamentary mandates controlled by party i. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

3.2. Steering capability

The political leadership is committed to constitutional democracy and a socially responsible market economy. Its policies give these goals priority over short-term expediency. Even during the president's impeachment, Lithuania's economic policy remained consistent. One of the country's clear advantages throughout the last 15 years has been the tacit agreement on the part of all governments on the country's strategic goals. These strategic priorities were maintained through periods of crisis and stalemate.

Since 2002, several important changes have been made regarding the civil service and local governments. Further decentralization of state governance was one of the goals partially achieved. The lack of funds needed by municipal governments to meet their expenditure obligations remains an unresolved problem. Local

authorities are not authorized to introduce or collect taxes, because municipal revenues are raised and transferred by the central government and approved by parliament. Judicial reform was completed in recent years and a new civil code, aligned with EU law and international legal acts, came into effect in July 2001; the new code on civil procedure came into force in 2003. This is the first national legal act in Lithuanian history that systematically regulates civil law relationships. A new code of penal procedure took effect in May 2003, and the much-debated new labor code contains language that is more flexible and less restrictive regulations on the termination of labor contracts. The government can clearly achieve its reform goals, although there are some restrictions focusing on over-regulation and intervention.

The ambivalence of Lithuanian policy was particularly apparent during the presidential scandal. The political system stumbled onto a scandal and experienced a deep political crisis, because the stubborn president used every means available to portray himself as an innocent victim of political intrigue and characterize his foes as overpaid conspirators with disregard for the welfare of the Lithuanian people. Political elites fought against this “strategy” aimed at polarization and the division of society and strictly observed the rules of impeachment laid down in the constitution. In the end, democracy and civil society won. Paksas was banned from holding office; Valdas Adamkus was re-elected as president.

The political system seems to be coping with populist tendencies as well. In addition to Paksas and his “liberal” party, which won votes by using crude populist slogans and inflaming social tensions, there are new populist voices emerging, such as Victoras Uspaskichas and his Labor Party (*darbo partija*). Uspaskichas, whose party was founded in the autumn 2003, is of the Russian minority and speaks Lithuanian with an accent. Uspaskichas was elected to the European Parliament in spring 2004 and to the Seimas in autumn 2004. His message crudely combines Soviet nostalgia and paternalism with rhetorical criticism of present-day Lithuania, which is characterized by weakened ties of interpersonal solidarity. His message is clearly aimed at the losers of the transformation process. It should come as no surprise that the Labor Party receives votes primarily from the elderly in the countryside. The Labor party holds 39 of 141 seats in parliament.

The flexibility of the Lithuanian political system was illustrated by the fact that the Social Democrats (20 seats) together with their Prime Minister Brazauskas and the New Union/Social Liberals (11 seats) formed a coalition with the Labor Party, thus integrating the populists within the political system. The fourth partner in this coalition is the Union of the Farmers and New Democracy.

Prime Minister Brazauskas emphasized the continuity of Lithuanian policy in his first speech following re-election. All Lithuanian parties signed a “treaty” committing themselves to membership in the EU and NATO as part of foreign

policy. Clearly, the political system is capable of cooperation and integrating new groups and forces. Nevertheless, the future of the aforementioned coalition is unclear; on December 14, 2004 only 68 of 80 members of the coalition voted for their own government. Prime Minister Brazauskas himself has been criticized for breaking his election promise not to form a coalition with the Labor Party.

3.3. Resource efficiency

The government uses most available resources efficiently. The public administration system was overhauled in 2002. A new law defines the responsibilities of public employees and those overseeing them. Comprehensive administrative reforms are still needed to enhance efficiency, responsibility and accountability in public administration. The responsibilities of local government are delegated as independent functions and duties. These include municipal development, primary and secondary education, primary health care, environmental protection, social services and public utilities. The professional skills and managerial abilities of local officials vary significantly. Civil servants are inclined to intervene and influenced by political connections and cronyism. In 2003, 17.5% of the budget was spent on personnel expenses.

The government coordinates its policies effectively and acts in a coherent manner. However risky and unstable the new coalition may be, its political leadership succeeded in maintaining a coherent policy despite the Paksas scandal. Furthermore, the leadership found a way out of the possible deadlock following the Seimas election in autumn 2004. Generally, trade-offs between policy goals are balanced and reflect the variety of political forces and parties.

Lithuania has made special efforts to combat corruption. These include a National Anti-Corruption program, a Law on Corruption Prevention, and a Law on Public Procurement. The Special Investigation Bureau (SIB), an independent institution set up in 1997 to carry out official anti-corruption activities, is in charge of implementing the National Anti-Corruption Program. The program focuses primarily on eliminating legal loopholes, simplifying the issuance of permits and licenses, and easing customs procedures. The program also seeks to make public officials personally responsible for enacting inadequate legal provisions, regulations and administrative decisions. According to the Law on Civil Service, civil servants are not allowed to sit on corporate boards, represent enterprises or make contracts with related entities. While Lithuania has certainly made substantial progress in the fight against corruption, much work remains to be done. An opinion poll in April 2002 indicated that 77% of Lithuanians and 60% of those in business consider corruption a serious impediment to civil and economic development. However, the same study revealed that 37% of the residents and 36% of those in business have given bribes at least once in the last five years.

3.4. Consensus-building

All major political actors clearly agree on building a market-based democracy. Veto actors are rare in Lithuania. The most outspoken populist slogans do not criticize the democratic system in principle, but emphasize a slower, more socially oriented path. Even the Labor Party defines itself as occupying the midpoint of the party spectrum, and decidedly counters any attempts to portray the party as “leftist” or (less often) “rightist.” Paradoxically, the most dangerous threat to the democratization process has been former President Paksas. Had he not been ousted, democracy in Lithuania would have suffered a significant setback. The integration of the populist Labor Party into the political system illustrates the capability of the Lithuanian government in establishing a basic consensus.

Until the Pakas scandal, the overwhelming consensus on the strategic goals to be achieved had been a key asset of Lithuania’s polity. Political divisions were contained and disagreement dispassionate. Paksas’ impeachment changed this state of affairs. The vast majority of Lithuanians, the intelligentsia, the media (excepting one Paksas-oriented newspaper) and the entire political class stood in defiance of those in support of the president’s narrative of conspiracy and innocence. For the first time in the history of Lithuania’s democracy, a clear rift divided the population between “them” and “us.” It is too early to say whether the political leadership will be able to heal the wounds afflicted on the body politic by this affair. The participation of the Labor party in the ruling coalition is a sign of political inclusion. However, as the Labor Party’s election promises are forgotten in the long run, new populist politicians may emerge.

Most members of the political leadership successfully promote and develop social capital among social groups and citizens. Re-elected President Adamkus, who has spent most of his life in exile in the United States, is an outspoken champion of civic engagement and solidarity in Lithuania. President Adamkus has repeatedly emphasized the importance of civil society over independence, free elections and individual rights. The political leadership thus assigns an important role to civil society actors in deliberating and determining policies. In recent years, social capital has been on the rise within the country. NGOs have some influence, but most importantly, citizens are beginning to shed their Soviet inherited mistrust of voluntary associations. Interest groups may take part in the political process through policy advocacy, counseling and other forms of participation. Business associations and to a lesser degree trade unions are the most active and influential players in the policy-making process. Lobbying was legitimized in July 2000. Registered lobbyists are subject to reporting requirements regarding their clients, commissions and other remuneration.

The relatively pragmatic view of the Soviet past has helped Lithuania with reconciliation in the 1990s. Historical research has shed light upon collaboration and resistance during Soviet rule. Currently, the communist past plays no role

whatsoever, with the important exception being those Lithuanians who had ties to Soviet security organs, especially the KGB.

3.5. International cooperation

EU accession clearly proves the high regard for international cooperation among the political leadership and the population. In May 2003, Lithuania's population illustrated their commitment by voting 91% (63% turnout) in favor of EU accession. During Lithuania's long and sometimes painful path to EU membership, the country learned to use the support of international partners to improve its domestic reform policies. Embedded within the foreign policy of the European Union, Lithuania has earned a special role as a neighbor of the Russian exclave in Kaliningrad. Together with the Polish president, the Lithuanian president has engaged in negotiations with the Ukraine in an effort to bring the country closer to the EU. The Lithuanian president's efforts here illustrate the commitment of the political establishment to playing an active and constructive role in the region.

4. Trend of development

4.1. Democratic development

Whereas the Pakas scandal and the populist victories in the last election signify setbacks to democratic development in Lithuania, Pakas' constitutional impeachment and the incorporation of the Labor Party within the political system constitute important steps forward. The outcome therefore is balanced. Democratic institutions illustrated their stability and weathered a crisis. However, Lithuania's political culture continues to produce politicians who, like Paksas, lack a reliable instinct for public opinion and the democratic rules of the game. Former President Paksas simply could not acknowledge the incompatibility of his behavior with a free civic society.

Mistrust of the state, cultivated in the years after 1940, is now infused with new ideas from Western Europe. Many Lithuanians have learned that Brussels is to be equated with over-administration and arbitrary bureaucratic regulations. The contempt for politicians in Western Europe is migrating to the east. Politicians are considered corrupt, greedy, and lacking morals or ethics. If asked whether politics is a "dirty business," most Lithuanians would agree.

4.2. Market economy development

The HDI shows the clear and rapid progress Lithuania has made over the last few years. In 1997, the HDI was 0.761; it increased to 0.842 within five years. This

upsurge lifted the country from rank 62nd to 41st in the world. It is hoped that EU accession will give another boost to the country's economy. Due to accession, Lithuania's institutional framework has improved. Many reform packages and amendments of legislation had already been implemented in 2002. Consequently, improvements through May 2004 are considered modest. Lithuania has experienced one of the highest growth rates in the Western world in recent years. Overall, economic performance has thus improved significantly, both quantitatively and qualitatively.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	4.0	6.5	6.8	9.7	5.8 (1-3 quarters of 2004)
Export growth in %	28.1	20.3	10.7	8.7	21.5 (1-3 quarters of 2004)
Import growth in %	13.0	15.1	12.4	4.9	19.6 (1-3 quarters of 2004)
Inflation in % (CPI)	1.4	2.0	-1.0	-1.3	0.3 (1 st quarter of 2004)
Investment in % of GDP		21.8	22.5	24.4	20.8 (est.)
Tax revenue in % of GDP	19.5	19.5	20.8	20.4	
Unemployment in %	16.4	17.4	13.8	11.7	10.6 (Oct. 2004)
Budget deficit in % of GDP	-1.3	-0.4	-1.1	-1.7	-2 to 2.25 (est.)
Current account balance (% of GDP) in billion \$	-5.97	-4.85	-5.17	-6.86	-9.3 (1-3 quarters of 2004)

Sources: *Statistical Yearbook for Lithuania, 2003*; *Economic and social development in Lithuania, 2004*; *F.A.Z.-Institut: Länderanalyse Baltikum, Oktober 2003, April 2004*; www.worldbank.org; *Ministry of Economy of Lithuania, Review of economic and social development of the Lithuanian Economy, 2000-02*; *Department of Statistics to the Government of the Republic of Lithuania*

D. Strategic perspective

The years after 1990 were dominated by the goals of EU and NATO membership. Since reaching these strategic goals, Lithuania must now formulate a strategy to mobilize the population for democracy and civic society. Although the political system is essentially stable, political culture in Lithuania suffers from some shortcomings as democratic understanding is gradually giving way to the temptations of populism. The attempt to integrate the Labor Party within the government coalition is therefore more than a political tactic. This attempt will

serve as an indicator for the shape of further developments in the political system as a whole. Fluctuations in the party system coupled with voters' volatility make it difficult to predict the future developments in the party system.

The social safety net must be reformed further in the near future. Those currently lacking the support of a social safety net must be integrated within the social security system. Lithuania should build on recent efforts to balance social protection with financial viability of the social security system.

Lithuania's economic performance shows some very encouraging results. For the first time, opinion polls in the first quarter of 2004 showed a majority of Lithuanians assessing their own economic situation and the economy as a whole as 'good.'

Future economic development is tied closely to the European economic zone. The next several years will prove whether the Lithuanian economy and business can bear the dynamics of free trade and free competition within the European Union. Planned for 2007, introducing the euro is the next important step and will constitute the completion of Lithuania's "return to Europe." Given the tight resources, maintaining steady growth that utilizes the economy's maximum potential poses a more challenging task.

Despite these indicators of continuing economic growth, many young Lithuanians continue to seek their fortune abroad. Providing new opportunities, EU membership has facilitated this trend by allowing an increasing number of young, highly educated Lithuanians to find lucrative jobs elsewhere in the West. Reversing this trend is a key issue to be resolved in the near future.

Lithuanian civil society lacks depth and a full commitment to the possibilities of modern democracy. In the years to come, the relics of the Soviet era will literally become part of the past and no longer hinder engagement within civil society. The fight against corruption will benefit from this change. Although corruption remains pervasive in many parts of society, much progress has been made in recent years to combat corruption.

Within a short 14 years, Lithuania has made the transition from an authoritarian, dependent Socialist Soviet Republic to a chiefly open-minded democratic state with a market-oriented economy that is a member of the EU and NATO. Considering Lithuania's starting conditions as a country without independent institutions and its own state for almost 50 years, Lithuania's achievements are noteworthy.