

SECURE AND SUSTAINABLE DEVELOPMENT: LITHUANIA'S NEW ROLE IN TAKING THE PRESIDENCY OF THE EU

Alminas Mačiulis¹, Manuela Tvaronavičienė²

¹Chancellor, Office of the Government of the Republic of Lithuania of Lithuania,
Gedimino av. 11, LT-01103 Vilnius, Lithuania

²Vilnius Gediminas Technical University, Saulėtekio av.11, LT-10223 Vilnius, Lithuania

²The General Jonas Žemaitis Military Academy of Lithuania,
Šilo str. 5A LT-10322 Vilnius, Lithuania

E-mails: ¹Alminas.Maciulis@lrv.lt ²Manuela.Tvaronaviciene@vgtu.lt

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Abstract. The presented paper aims to discuss new Lithuania's in role taking presidency of the EU and to evaluate Lithuania's development process. State of Lithuanian economy is being presented; aims of further development are identified. The context of other European countries is being taken into account. Authors rely on critical analysis of contemporary scientific literature and comparative statistics. Among driving forces affecting process of economic development investments of foreign origin and increasing level of education are being distinguished.. Insights considering a role of the latter driving forces are being offered.

Keywords: secure and sustainable development, Lithuania's Presidency, investments, education

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JEL Classifications: O10, O11, O15

1. Lithuania in a new historic role in pursue secure and sustainable development¹

Contemporary the EU agenda captures the acute issues Europe is currently facing: those of economic security, social sustainability, or put in other way, secure and sustainable development becomes an ultimate aim we pursue. The financial and economic mess that started in 2008 threatens Europe's economic security to this day, and it does not matter which factors you believe are to be blamed for the crisis: whether it's

excess bank lending and risk taking, loose central bank regulation, which neglected the exploding bank balance sheets, or governments, some of which borrowed excessively and lived beyond their means. All these have one thing in common: they are examples of unsustainable actions.

However, historically, Europe has been the most united in times of crises. The greatest manifestation of this is the signing of the Treaty of Rome in 1957, in the midst of the cold war. After two world wars we as a continent have realised that only sweeping changes could prevent a new conflict. It was this treaty that created the Europe that we live in today – peaceful, democratic and prosperous. The on-going economic crisis threatens this order and is once again demanding radical changes, and rightly so. Europe has al-

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ready chosen the path of cooperation in 1957, and the common belief is that it will remain unchanged. Through cooperation secure and sustainable development is most definitely achievable.

Since its independence, Lithuania has strived for secure and sustainable development. To achieve this, we needed to integrate Lithuania into the international economic and political space, which led to setting membership in NATO and the EU as our highest priorities. And now, after almost 10 years in the European Union, Lithuania has begun its Presidency of the Council of the EU and is determined to steer the union towards sustainability and economic security – the values that we as a country had sought it for from the beginning.

It is worth noting that Lithuania is holding the Presidency less than one year before the new elections to the European Parliament, and this will also be the end of the period of five years for which the European Commission plans its tasks. This means that the agenda will be more intensive than usual.

Main goal of Lithuania is to conduct an effective, open and results-oriented Presidency and consolidate its membership in the European Union. The agenda for this Presidency correlates greatly with economic security and social sustainability; it is necessary to show the world that Europe is credible, growing and open. Credibility, confidence in the European markets should be brought back through the development of the economy, fiscal sustainability and stability. During its Presidency of the European Union, Lithuania will pool all its efforts to create favourable conditions for a long-term sustainable growth in Europe and to ensure that these changes are irreversible. To this end, it is important to further strengthen competitiveness of the Member States, continue consolidation of public finances, pursue the necessary structural reforms and restore confidence over the borrowing in financial markets in order to facilitate investment in the economy.

We will focus on the future, as during Lithuania's Presidency the first annual the EU budget for year 2014 of the Multiannual Financial Framework (MFF) 2014 – 2020 will be approved, which will give impetus to the implementation of new programmes. What concerns the field of sustainable finances, Lithuania will seek to further restore credibility and support the strengthening of integration of a still fragmented financial market, as well as the adoption of

necessary decisions regarding the approval of a single resolution mechanism of banks, and the preparation for the implementation of a single supervisory mechanism of financial markets as of 1 January 2014. Lithuania will rely on the report made by the President of the European Council “Towards a Genuine Economic and Monetary Union”, and the “Blueprint for a deep and genuine Economic and Monetary Union” by the European Commission, as well as legislative initiatives by the European Commission, and following up on the decisions taken by the European Council in June 2013 on further strengthening the Economic and Monetary Union. In a view of a better economic performance, Lithuania will seek to facilitate for Member States the implementation of important social and economic reforms.

Growing Europe is another priority of the Lithuanian Presidency, and it will be built on the Europe 2020 agenda, making sure that attention is given to the implementation of Compact for Growth and Jobs. Even though the economies of the Member States have undergone structural transformation and gradual restoration of lost competitiveness, the consequences of the financial crisis are still very tangible. This is especially evident for the complicated social situation in some Member states, given high unemployment and slow economic recovery. We will focus on further deepening and integrating the Single Market, including the energy sector, as the main force for economic growth and better employment opportunities.

The MFF agreement foresees increased funding for competitiveness and employment, in particular for research, youth education and employment, as well as the development of transport, energy and telecommunications networks. Taking into account the ever more acute consequences of long-term unemployment and growing social exclusion, youth employment will be a priority for the Presidency. Lithuania will take every step required for the implementation of the youth employment package, with a special focus on implementation of the Youth Guarantee Initiative and encouragement of apprenticeships. With regard to the promotion of social inclusion, Lithuania will encourage the implementation of the Social Investment Package, with a special emphasis on investment in children. Discussions on these topics will be organised in the Council. Better protection of worker rights, including the protection of migrant

workers, will also be included in the list of priorities for the Presidency.

In order to achieve secure and sustainable development, short-term measures to increase the competitiveness of the EU economy must be developed with due regard to long term competitiveness perspective. This can be achieved through a greener economy, renewable energy and better use of natural resources, allowing the safeguarding of growth potential in the future. The Lithuanian Presidency expects to take up and complete on-going negotiations regarding transit measures for the Common Agricultural Policy.

We cannot fail to mention the energy security issues that are of particular importance to the Baltic States. We still remain energy islands within Europe. While we are Europeans in politics, law, economy and culture, we remain dependent on Russia in energy. True, power bridges to Sweden and Poland as well the construction of a liquefied gas terminal could resolve these issues, yet today our competitiveness and sometimes even domestic politics are negatively affected by the high costs of energy resources imported from a sole source, Russia. This is why Lithuania will actively work on the Internal Energy Market. Once established, this will provide a significant impulse for an effective Single Market and the entire EU economy. The EU has set an objective to establish the internal energy market by 2014, and eliminate the energy isolation of certain member states by 2015. Therefore, acting in concert with the European Commission and the Member States, Lithuania will seek to strengthen the implementation of the commitments by the Member States in this field, with particular focus placed on the Third Energy Package and issues of market design, infrastructure and renewable energy resources. In November 2013, Lithuania is hosting a high-level conference, concentrating on relevant issues in developing a modern EU energy infrastruc-

ture, and discussing the first list of energy projects of common interest.

Open Europe - The start of the Lithuanian Presidency was symbolically marked by the accession of the Republic of Croatia – the 28th Member State. During the Lithuanian Presidency, the EU Council will set the EU Enlargement policy guidelines for 2014, where Lithuania will seek to ensure a continuous enlargement process based on principles of own merits and clear conditionality.

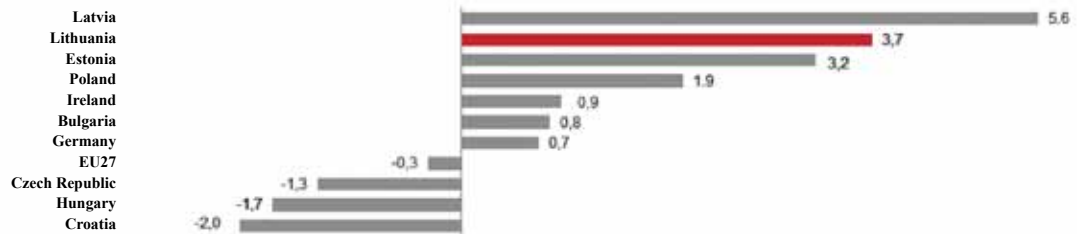
In a broader sense, the EU competitiveness, sustainable economic growth and jobs can be safeguarded, provided that the EU citizens feel safe, and that the EU institutions remain active in their protection of fundamental human rights both within the EU and abroad. For this purpose, the EU, acting through concerted effort of the Presidency and the EU institutions, has to promote further democratic principles in the neighbourhood, ensure regional stability, openness for trade, promote interpersonal contacts and development aid, and together with international partners tackle global challenges.

This is why must also not forget our neighbours in the Mediterranean region and Eastern Europe. We cannot be indifferent to the spread of European ideas outside the EU borders. Our eastern neighbourhood is a living laboratory of the same European idea. Lithuania expected that an Association Agreement with Ukraine would be signed during the Eastern Partnership Summit in Vilnius this November. Alas, this aim, seems, to be postponed.

Despite all the difficulties after 2 years of the recession, our country returned to growth, and while the euro area is mired in stagnation, Lithuania has once again emerged as one of the fastest growing economies in the EU. Its GDP grew by 3.7 % in 2012, following a 6 % growth in 2011 (Fig. 1)

Lithuania is one of the fastest growing economies in the EU

Real GDP Growth Peer Comparison (2012)



Source: Eurostat, <http://epp.eurostat.ec.europa.eu>

Real GDP growth



Source: Statistics Lithuania, Ministry of Finance forecasts (April 2013)



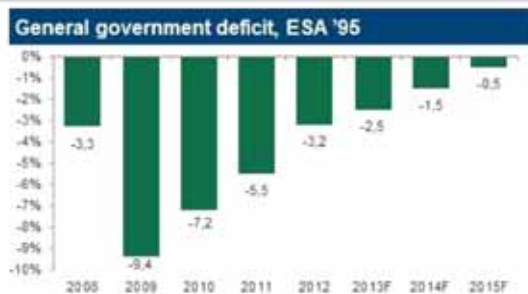
Fig. 1. Lithuania's economic growth among other selected European countries

Source: composed using Eurostat data

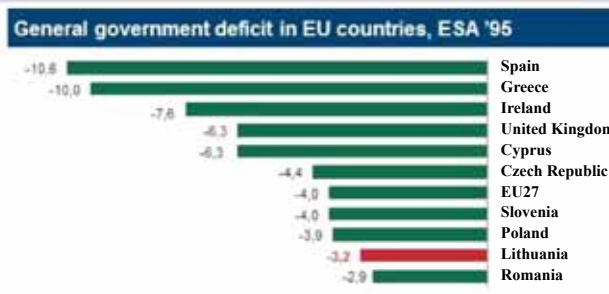
According forecasts of Ministry of Finance of Lithuania, the economy is expected to expand again by 3% in 2013. During the crisis, we took tough decisions to ensure sound public finances. Fiscal tightening measures produced a budgeted balance improvement totalling about 12% of GDP between 2009 and 2010. Our budget for 2013 is on track for the target deficit of approximately 2.5%. This

was achieved without external help from organisations such as the IMF. Furthermore, the government debt was at 40.7% of GDP at the end of 2012 – the sixth smallest among EU member states. It is no surprise that the international rating agencies such as Moody's, Standard&Poor's and Fitch rate Lithuania above most of its Central and Eastern European peers (Fig. 2).

Lithuania's sound public finances



Source: Ministry of Finance (forecasts April 2013)



Source: Eurostat, <http://epp.eurostat.ec.europa.eu>



Fig. 2. Lithuania's public finances

Source: Eurostat; Moody's; Fitch Ratings

Economic recovery was in a large part helped by flexible labour force. A drop in unit labour costs led to enhance competitiveness gains and laid the foundation for an export-led recovery. Lithuanian unemployment rate is now decreasing and is projected to continue that way in 2014 (Fig. 3).

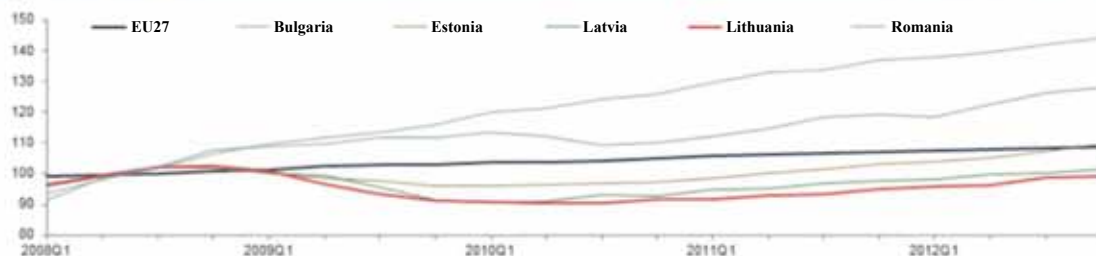
The recovery success story leads us to the next big milestone for Lithuania: European currency - the euro. We intend to adopt the new currency as soon as we meet the Maastricht euro convergence criteria – currently the target year is 2015. Once this is done, the final step in integrating our country into Europe will be complete. But the work never ends, and it has to be emphasized that Lithuania seeks social and economic sustainability by integrating itself not just into the European, but the world economy as well. We are planning to open talks with OECD in 2015

aiming to join the organisation as soon as possible.

Let me assure you, economic growth and social inclusion are not just the European buzz words for us. Economic growth and social inclusion has been and will be a priority for the Government of Lithuania in the coming years. We have agreed on the national goals for economic and social growth by approving the National Development Programme 2014 – 2020. This document is a roadmap for growth uniting the institutional efforts and financial resources, including the EU financial assistance. Moreover, we have approved Government priorities for 2013 and 2014 which spell out very specific actions and projects that our ministries and other institutions intend to carry out in the coming years to support the achievement of economic and social priorities.

Lithuania's flexible labor force

Hourly labour cost index



Source: Eurostat, <http://epp.eurostat.ec.europa.eu>.
 Index (2008=100) and percentage changes

Unemployment rate



Source: Eurostat, <http://epp.eurostat.ec.europa.eu>. European Commission forecasts (winter 2013). Statistics Lithuania. Ministry of Finance forecasts (April 2013). Note (1) IMF Country Report No. 13/081 as of March 2013

Fig. 3. Lithuanian hourly cost index and unemployment rate

Source: Eurostat; European Commission forecast (winter 2013), IMF Country Report No. 13/081 as of March 2013

Employment, competitiveness, business environment, science and innovation, social inclusion and regional development will be our main directions for work and action. In order to move toward indicated targets and foster secure and sustainable development in Lithuania and other countries appropriate economic policy is needed. Design of such policy is seen as a process rather than an act. Hence, analysis of driving forces and their performance in different conditions stands as key target and aim of scientific analyzes. Investments both domestic and, especially, foreign are seen as fundamental factor accelerating economic growth. The high level of education, which serves as competitive advantage of Lithuania has to be exploited more intensively and efficiently. Anyway, impact mentioned and not mentioned here driving forces of secure and sustainable development remains an important object of ongoing scientific investigations.

2. Driving factors of secure and sustainable development: investments and education

In order to achieve a set of goals indicated above, a general and sustainable path leading to secure and sustainable development has to be maintained. Secure and sustainable development can be achieved through acceleration of economic growth, which has its driving forces. There are a lot of theories of economic development (e.g. Vosylius *et al.*). Research of economic growth causes and their outcomes comprise an area of economic science, which will remain urgent for many decades or even centuries. Despite intensive discussions about forces of economic growth and significance of their impact on GDP growth, importance of investments remains unquestionable. Investments can be of different origin: local and foreign. In macroeconomics and comparative economics dealing with an array of theories if economic of growth, it is in principle unanimously assumed that major driving forces of secure and sustainable development are investments and la-

bour force. Investments have their sources. The main source is local private investment, which is very much related to savings' level. Of course, public investments are very important as well, but their source is state budget, which, in its turn is directly dependent on economic growth and, respectively, is partly conditioned by private investments, which come from savings. Having in mind, that it is rather difficult to increase level of savings in any country, investments of foreign origin are being emphasized. Globalization processes, which are very much related to movement of capital, facilitate channelling investment from one country to another. Expectations, related to inflow of foreign capital especially boosted interest in that phenomenon already in 1990's. The issue of foreign capital attraction and consequences of inflows of foreign capital have remain an urgent issue (e.g. Adewumi 2006; Sahoo 2006; Šimelytė, Antanavičienė 2013).

As it was already mentioned, the role of foreign direct investment (FDI) gained significant importance during the 90s as a tool for accelerating growth and development of economies. In the 9th decade of previous century positive effects of FDI were especially emphasized. One of the most prominent scientists of that time was Dunning (Dunning 1997; Dunning, Narula 2002) He introduced a concept of the investment development path (Dunning 1997). If to rephrase his ideas, FDI intensity depends on level of countries development. The more country develops, the more FDI it receives and, at the same time, invests abroad (Dunning and Narula 2002). Despite cited ideas are not very novel, it seems, the insights preserve their value and are valid in contemporary conditions (Tvaronavičienė, Lankauskinė 2011; Tvaronavičienė *et al.* 2013). FDI inflows into Lithuania remain much lower comparing to develop the EU countries, e.g. Austria, Belgium, Netherlands (Tvaronavičienė, Grybaitė 2013), most likely because of differences of development level..

Despite controversial estimation of impact of FDI on host economies at various countries in different stages of their development (e.g. Busse *et al.* 2007; Tvaronavičienė *et al.* 2009; Tvaronavičienė, Kalašinskaitė 2010; Lankauskienė, Tvaronavičienė 2011; Tvaronavičienė, Lankauskienė 2011), initiating of inflows of foreign capital stands a priority of economic policy of Lithuania. Here we need to put emphasis that each case, especially related to strategic investments is context sensitive, and direction toward

FDI attraction is not unconditional. Nevertheless, the direction itself remains clear enough: additional capital inflows are seen as important driving force of secure and sustainable development of Lithuania.

This aim, we believe can be achieved through improving business conditions in the country. Despite a lot of indicators, reflecting business environment can be listed (e.g. Tvaronavičienė, Grybaitė 2012), tax burden remains an important characteristic of business environment among all other indicators. Lithuania exhibits the lowest total tax burden at 26.0 % of GDP (including social contributions) in the EU. Compared to the two other Baltic countries the Lithuanian tax-to-GDP ratio is close to that of Latvia (27.6 %), but 6.8 percentage points lower than the one of Estonia (32.8 %). In terms of revenue structure, Lithuania relies most on indirect taxes (11.9 % of GDP and 45.6 % of total taxation). VAT revenue in GDP terms has been stable at 7.9 % in 2010 and 2011 while revenue from excise duties and consumption taxes decreased during last two years (from 3.5 % in 2009 to 3.3 % in 2010 and further reduction to 3.1 % in 2011). At the same time, the ratio of direct taxes to GDP continued to decrease for the fourth year in a row (9.3 % in 2008 to 4.4 % in 2011) leading the country to have the lowest share of direct taxation in the EU-27 (Taxation. Country Chapters). Low tax burden, we believe, serves as indicator of favorable business conditions for both, local and foreign market players, hence make Lithuania more attractive capital destination in comparison with other countries.

Quality of human capital cannot be overestimated. Efficient adoption contemporary technologies have to be paired with increase of education level, otherwise a country can finish with underused equipment and facilities. Education level rises in all counties, and Lithuania is found among leading countries in that respect (Fig. 4). Another issue is, which is being tackled now: increase level of employment of youth in aging society and prevent emigration of qualified labor force to better economically developed counties.

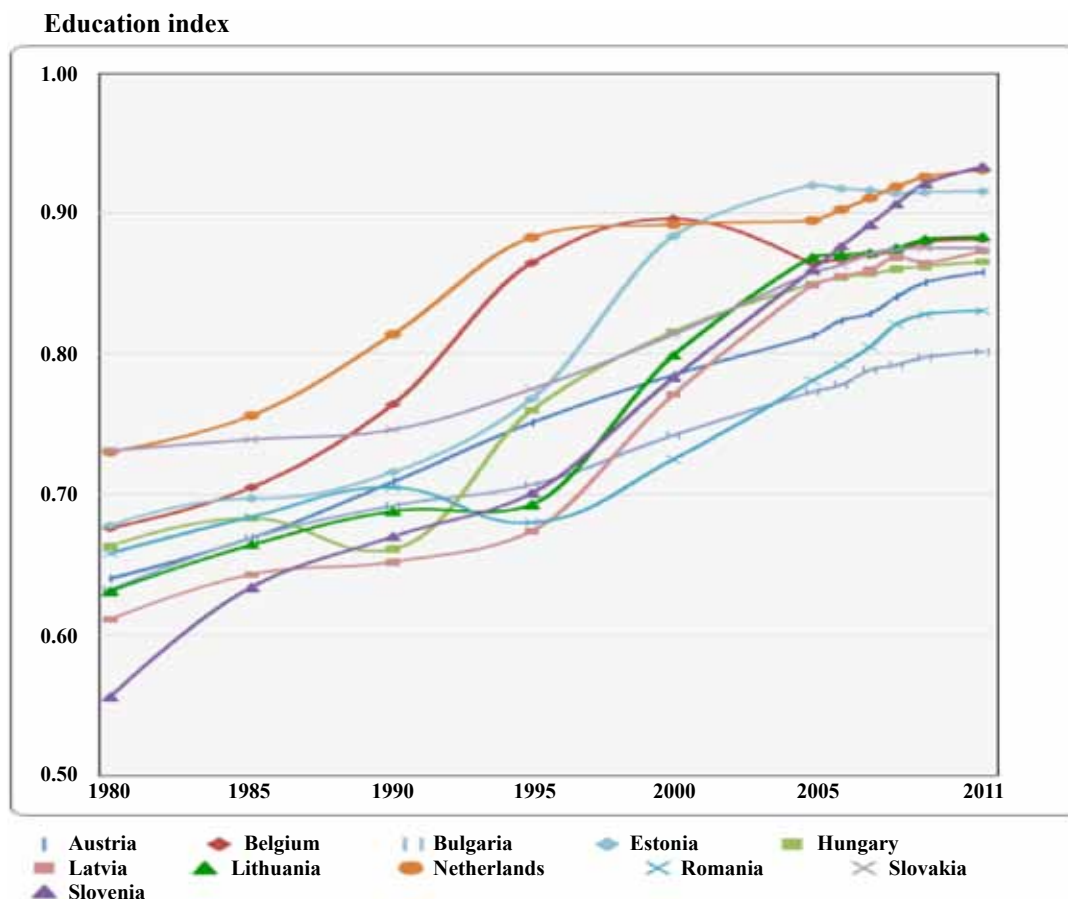


Fig. 4. Education index

Source: UNDP. Education and Human Development indexes, <http://hdrstats.undp.org/en/indicators/default.html>

3. Concluding remarks

Lithuania is the first Baltic State taking over the EU Council Presidency. Creation of favourable conditions for long-term secure and sustainable development of Europe, restoration of confidence in economies of European countries serve as several goals out of list, which additionally tackles diminishing of unemployment, especially among youth, supervision of banks, diminishing energy security issues.

Secure and sustainable development can be facilitated or hindered by economic policies, devised by countries. Among a variety of driving forces of economic development, investments, and where appropriate, investments of foreign origin are emphasized. High level of education of Lithuanian labour force has to be better employed in order to accelerate secure and sustainable development of host country.

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