

PART III. NATIONAL REPORTING GUIDELINES FOR CSD-14/15 THEMATIC AREAS

C. INDUSTRIAL DEVELOPMENT

Government focal point(s): **Raimondas Martinavicius**
Head of Industry Strategy Division
Responding ministry/office(s): **Ministry of Economy**

Major elements and targets of the National Industrialization Strategy and Plan. Consideration of environmental and social aspects in the design and follow-up of the National Industrialization Plan.

Process of development of the Strategy including multi-stakeholder participation.

The Long-term Economic Development Strategy of Lithuania until 2015 was adopted by the Government on June 12, 2002. The working group to develop the Strategy was established by the Government resolution of November 22, 2001. It included representatives from various ministries and the Parliament. The draft of the Strategy was broadly discussed with business and other representatives of the community.

The following vision of Lithuania's economy was set up in the Strategy:

Geopolitical situation. By 2015, Lithuania will already be among the old-timers in the European Union, which, as it is expected, will include not only the present candidate countries, but also the countries of the former Yugoslav Federal Republic. At that time Ukraine and Moldova may be among the candidate countries of EU. The European Union will be the largest worldwide and efficiently integrated market; it will also be a progressive technological field for scientific research basing its activities on amplified intellectual co-operation. In the sphere of politics, the European Union will have progressed towards federalisation as more and more decisions will be passed by EU Parliament, while the decisions passed by the Council of Ministers will be based on voting rather than general agreement. Voting rules will probably be complex thus seeking to establish the balance between the efficiency of sovereignty and decisions. Lithuania will have good possibilities to influence the decisions passed by EU via its membership in the coalition of smaller countries. It is possible that the coalition will include the countries of the Eastern Europe or the Baltic Sea region. The Baltic Sea region (Scandinavia and the Baltic states) itself will be the most progressive part of the European Union.

Lithuania will also realise its influence on the world politics through its membership in NATO.

Demographic situation. The problem of ageing among the population will be among the topical issues to the whole Europe. This problem is especially important for Lithuania due to the current and future emigration of young people because the labour force of the EU has the right of free movement, as well as due to rather low birth rates within the country. It seems likely that a slight increase in the labour market at the end of the target period will be based on a birth rate boom during the last decade of the previous century, however, later, a sudden decrease in those figures is observed; therefore, it will be virtually important to stimulate re-emigration and even immigration.

Results of macroeconomic development. Upon modernising the economic strategy and the state economic policy as well as using EU financial and technical support, by 2015, Lithuania will increase its GDP by 2-2,5 times. According to GDP per capita, it will be possible to reach more than 50 per cent of the future EU average level instead of the current level of 33 per cent. This will give a possibility for a substantial realisation of the EU social economic model – welfare of the state with low unemployment rates, high labour prices, strong social guarantees, minimum number

of needy families and high levels of social cohesion. Naturally, in Lithuania such model will be realised in smaller volumes if compared with the average model realisation degree in the EU. Somewhere in the middle of the target period, Lithuania will become member of the Economic and Monetary Union. This will also mean that that country is capable of maintaining macroeconomic stability, which is the most important condition for the economic growth.

Improvement of market mechanisms. Within a decade, Lithuania will completely adapt itself to EU economic order with a smoothly operating system of market mechanisms. Legal acts on the establishment, operation and liquidation of enterprises, competition, supervision of monopolies, execution of contracts, proprietary issues, labour market, crediting and the issues relating with the functioning of the economy, as well as their practical implementation will have only slight differences from those applied in the countries of Western Europe. It seems likely that in terms of business culture, Lithuania will still be lagging behind those countries. Progress in the economic situation and improvement of the state administrative skills will substantially decrease the level of corruption and the influence of the criminal world on business. Such decrease will also be marked by a better protection of Lithuania's eastern borders which are also the borders of the EU.

State administrative skills. The state would be incapable of performing its functions without improving its administrative skills. Good administration and transparent activities of the Government are the main conditions for the country's rapid progress. By adapting the experience of the EU in the institutional, administrative and political process (by directly participating in the activities of institutions and the EU policy development process), Lithuania's state administrative skills will undoubtedly change for the better. The society wishes to have a cheaper government providing better services and taking into consideration people's opinions. At present, confidence in government showed by the society as the indicator of the administrative quality is rather low. Confidence in government showed by the society is fundamental to the state; it will undoubtedly increase with the improvement of life quality and state administrative skills as well as with the development of civil society.

Development of factors of the economic growth. Indicators of economic growth, which are labour force, capital, knowledge and enterprising, will be sufficiently developed as Lithuania seeks to become equal with the Western member states of the EU in terms of economic growth within the following 15-25 years. Upon reducing the unemployment, increasing the age of retirement and with the advancement of the new generation in the labour market, the use of labour force will increase by at least 10 per cent. The most important thing is that upon improving the system of education and implementing the system for the improvement of one's professional skills and the system of re-skilling, the educational level of the labour force will become higher. The labour force market will be dominated by the demand in skilled specialists capable of using modern information technologies. The Internet will provide wide possibilities to choose the form of distant studies in the best universities around the world. In general, the level of professionalism in Lithuania will not differ from the Western one. The structure and contents of education will be more directed towards economic demands and the labour force will become more mobile.

Even nowadays, physical infrastructure is not the obstacle for the development process in Lithuania; it should be modernised still in order to establish a closer co-operation with EU member states. Modernisation of the whole infrastructure will be financed from the EU support funds and priority state financing; almost all drawbacks in the sphere of communications and roadways will be eliminated; electricity sector will be completely restructured; the networks of energy supply sources will be connected with the EU networks.

With the increase in investment activity, including direct foreign investments, the technological level of the manufacturing process will reach the European standards. However, this will not ensure the western economic productivity due to the reason that added value (knowledge, education) included in the products and services will be even smaller, and also due to considerable amounts allotted for the entrance into world markets.

Economy based on knowledge is becoming one of Lithuania's priorities. The EU has set a goal to create a society based on knowledge within the nearest decade; in 2015, Lithuania may have reached a similar level in this sphere. A society based on knowledge is a very important challenge to Lithuania and Lithuania may even fail in achieving it should no consensus is not reached between wide sets of society and a strong intellectual political will.

The enterprising of the state is increasing primarily because of its experience in the market economy and a closer co-operation between the participants in our economy with their foreign partners. Within fifteen years, the private and public administration sectors will see many young specialists with university diplomas in economics and management issued by Lithuanian and foreign schools of higher education. Business consultation services will be developed. The society's position towards business will become more positive. All the aforementioned factors will substantially increase the state enterprising resources and improve their quality.

Social development. The structure of the state economy guarantees a comparatively high level of employment. Unemployment is not exceeding the reasonable level. Active labour market policy measures have been implemented, flexibility of labour market achieved, a system on life education efficiently functioning and regional differences reduced. Labour force is comparatively mobile and competitive in the EU; it is also more oriented towards the search for work in its own country. The quality of workplaces in terms of salaries, working relations, labour protection, etc., is similar to the one in the EU. The principle of equal opportunities is being constantly followed.

The systems of social insurance and social support spanning the whole population and covering all social risks, are well-coordinated and successfully operating. Income for the old is guaranteed by co-ordinating the current financing and accumulation mechanisms. The purchasing power of the pensions from the current financing is gaining approximately the same pace as the purchasing power of the average salary.

Social support is oriented towards such persons who are in real need of such support; its priority is to help the people who are capable for work, to renew their economically active activities. More attention is paid to the prevention of disability, poverty and social exclusion. Extreme poverty has been eliminated. Social support is implemented by co-ordinating the efforts of state, municipal and non-governmental institutions.

Constant increase of the income received by the population gives grounds to plan a universally accepted progressive consumption structure.

After expanding certain legal, economic and administrative measures, all families now have a possibility to provide themselves with homes.

Economic environmental factors ensure a harmonised and stable development of Lithuania (balanced development), adjusted with the goals on the protection of air, water, biological diversity, the Baltic Sea and the Curonian Lagoon as well as regarding waste management defined in the Lithuanian Environmental Strategy, and co-ordinated with the international undertakings and EU standards as well as with the state economic possibilities. The system of economic, administrative and legal levers on environmental protection is being implemented the integral parts of which will be as follows:

Norms of environmental pollution and systems of environmental management and audit complying with EU standards;

A flexible system of pollution taxes embracing economic and environmental goals, including and co-ordinating taxes for the emission of pollutants and taxes for the products and users;

A deposit-refund system supplementing taxes for products, applied on recycled waste of multifold usage;

Circular pollution permits applied in uniform and local pollution cases;

The structure of the state budget income possessing features of „Green budget“.

Regional development. Economy of regions is developed and their competitiveness is increased taking into account the resources available in the given region and priority directions of

its development by highlighting the peculiarities of such region. Transport, communication and other physical infrastructure is developed as the integrated network by reasonably using EU and national funds. Virile rural areas and the increased mobility of the population connect towns with villages. The proper environment for the preservation of the nature and cultural heritage alongside developing tourism and recreation has been created. Regional institutions co-operate on an international level, thus implementing the goals of both national and EU regional development policies.

Lithuania is the country with high economic and cultural potential for tourism, providing various tourism products of high quality, which meet individual tourists' demands and comply with the EU directives on tourism.

Structure of the economy and development of its branches. Lithuania's economy is already integrated into the economic, digital and information space of the European Union where global processes are constantly increasing, and the country's economy is developed by mostly adapting to those processes as well as using them.

The sector of *communications and informatics* takes the dominant position in the structure of the country's economy and efficiently stimulates the development of the remaining branches of Lithuania's economy. Manufacturing and sale of the products (goods and services) of the said sector account for 25 per cent of Lithuania's GDP and not less than 50 per cent of the said products are being exported abroad. Communication and computer networks are expanded under free and open market conditions, and the demand in the information products shown by the population and organisations is fully satisfied. Non-paper information technologies (electronic documents, electronic settlement) have found their legal practical application in state administration, business, trade, service, financial and other spheres (education, health care, social insurance). Information technologies are widely applied in order to reduce social and demographic inequalities and implement the equivalent information provision to all sectors of the population (towns, cities or provinces). State regulation ensures safe data usage, while the country's information economy (registers, cadastres, information systems) is integral and open. National laws efficiently protects privacy and confidentiality of the information.

Development of the *financial* sector will be evidently more rapid if compared with the industrial branches of the economy, therefore, in 2015, the contribution of the financial mediation sector to GDP will account for approximately 7-10 per cent. Participation in the Euro zone will provide with a better possibility to take over the novelties (*know-how*) in the sphere of financial technologies. The role of the latter, as the consumers of financial services, will also increase with the increase in the living standards. In 5-10 years' time, the largest part of the country's population will be purchasing long- and medium-term articles of consumption (vehicles, houses or flats, furniture, accommodation equipment as well as goods and services for leisure), by taking loans and using other financial services (leasing, etc.).

Various financial institutions (commercial, investment banks, private pension funds, enterprises of corporate investment, mortgage banks, non-banking financial institutions, etc.) having a good legal basis and a clearly segmented market will be operating in Lithuania at the end of the target period. Still, the nucleus of the financial system will be made up of universal commercial banks providing a wide range of financial services and performing the functions of retail banking.

Electronic banking and other services of the financial mediation based on modern information technologies will outrival "live" financial services and will become the dominant form for settlement and other financial transactions. On the other hand, we will be facing the nostalgia for the direct human contact, and this service will be widely used by the so-called priority clients.

Eventually, the role of financial institutions of local origin or controlled solely by the Lithuanian capital will become minimum or such institutions will completely disappear, thus giving way to transnational companies or structures and alliances formed by them. National names of the

financial institutions, as a business virtue, will lose their current meaning.

The structure of the **industry** and the strategies applied by enterprises adequately reflect a constantly changing influence of the global competitive forces. Lithuania is becoming attractive to the industrial and service companies with local and foreign capital, competitive in the international markets, using high technologies and the resources open to scientific research as their priority and seeking to establish their offices here. Industry is operating in the environment, which is favourable to innovations and relevant quality, promotes professionalism, honest competition as well as uses advantageous infrastructure reducing expenses from the activities. The development of industry is promoted by the legal environment, which is favourable to companies and ensures stability and reliability to investors.

Manufacturing, processing and sale of **agricultural** products is the aggregate of modern environment-friendly branches with a widely developed infrastructure, modern technologies, skilled employees, is capable of adjusting to the constantly changing business environment and having the aim to provide the markets with competitive products and services of high quality.

Lithuanian villages are attractive places for work, living and recreation, because they have manufacturing and social infrastructures, communities of educated and initiative people, a healthy environment as well as a very beautiful landscape.

Two directions for the development of agricultural holdings will become distinctive: specialised agricultural holdings manufacturing traditional products and capable of competing in the EU market, supplying their products to processing enterprises and trade organisations, on one hand; and the agricultural holdings manufacturing natural and ecological products and engaged in non-traditional activities, operating in market niches, on the other hand. Smaller, co-operative agricultural holdings will be developing alongside large marketable agricultural holdings.

Regions with the concentrated agricultural activity will be dominated by grain, swine-breeding and dairy marketable agricultural holdings. The number of large specialised agricultural holdings with large areas of grain, rape and flax will also increase. More products with increased added value (milk, meat) will be manufactured. It is forecasted that the cultivation of fruit and vegetables will also increase.

More beeves and sheep (especially in infertile areas) will be bred. Priority is given to natural and ecological products.

Fishery, fish processing industry and trade as well as fish-culture is the modern sector of economy, integrated into the national economy, environment-friendly, having developed infrastructure and efficient technologies, skilled employees and the system of their training, capable of providing food products, which are both competitive and of high quality.

The following kinds of non-traditional and small agricultural business will be developed: cultivation of herbal plants, mushroom, rabbits, turkeys, ground game, apiculture, fishery from the local waters as well as such alternative activities as village tourism, handicrafts, services and other kinds of small business.

Measures for the environmental protection in the agricultural sector complying with the relevant EU directives, will ensure environment-friendly development of the agricultural sector, preservation and cultivation of the natural resources.

The **energy** sector supplies cheap, reliable and safe energy to all branches of the economy, makes favourable conditions for the further national progress, has been integrated into the Western and Eastern energy systems and is capable of competing in the open international energy market. The future sector of energy will be well-balanced and environment-friendly.

The transport infrastructure has been modernised and integrated into the major motorways and TINA networks, and via them - into the transEuropean network. A safe and environment-friendly transport system has been formed. Multimodal transportation processes have been developed and logistics centres in Kaunas, Klaipeda and Vilnius opened. The possibilities of the streamlined European transport corridors I and IX have increased transit volumes to a greater degree, the Lithuanian carriers have integrated into the transport service market of the Baltic Sea region and the continental Europe.

The branch of **construction** efficiently satisfies construction demands in the Lithuanian economy as well as the demands showed by the population, has been integrated into the EU economic space, and provides construction services and products capable of competing on the international level.

The following state mission was set up in the Strategy:

In the sphere of growth and structural development it has been universally agreed that the state mission will be:

- to guarantee the country's macroeconomic stability;
- to guarantee the development of the human capital;
- to strengthen the culture of the economic development (unbiased policy for the promotion of the growth);
- to improve the physical infrastructure (transport and communications, energy);
- to improve market mechanisms;
- to proceed with the further liberalisation of the financial, telecommunication, transport, electricity and gas markets;
- to introduce effective rules creating a favourable environment for business;
- to promote competition;
- to support scientific research and the development of technologies;
- to create a system of innovative development and the relevant culture within the country;
- to create favourable conditions for foreign trade;
- to organise social partnership in order to achieve the country's progress;
- to support the reforms directed towards the increase of employment and flexibility of the labour market;
- to promote investment into education, training and scientific research, as the measure increasing competitiveness;
- to seek smooth integration into the European Union.

In the sphere of **social policy and employment**, the state mission is to create conditions for each individual who wants and is able to work, to make the relevant living standard by his/her own work. It is necessary to gradually implement the active policy for the development of employment and human resources, which will ensure the professional level and flexibility of the labour force thus meeting demands of the labour market and making preconditions for the stable employment. The system of continual training should also be expanded and maintained

It is important to create and implement such social policy, which will safeguard all the residents of the country against the most important social risk factors and will promote the motivation for the economic activity. By shaping the policy it is necessary to consider the principles of social justice, subsidiarity and solidarity through co-operation with social partners and other interested persons.

In the sphere of **environmental protection** it is necessary to seek that the development of all branches of economy were co-ordinated with aims to maintain clean and healthy environment. The state mission in this sphere is defined by the following positions and goals:

- ◆ implementation of the internationally recognised "polluter-pays" principle in Lithuania, by including the financial consequences of the environmental pollution and irrational use of natural resources into the general accounting for production costs;
- ◆ orientation towards the prevention of the negative impact on the environment (and not towards the regulation of "the tailpipe"), by promoting the use of the best production means (technologies) and the use of harmless substitutes instead of dangerous substances;
- ◆ promotion of the producers' responsibility and initiative for the protection of the environment and rational use of natural resources, by introducing the rule of "green (public) purchases";
- ◆ supplementing of the economic environmental protection management levers by flexible

- instruments facilitating the adaptation of economic entities;
- ◆ application of the principle of carefulness – improvement and introduction of the system of economic factors of environmental protection must be based on forecasts, sequence and precaution while assessing the possible environmental and economic consequences of the passed decisions.

The sphere of **regional development policy** should: ensure the possibilities of a stable and high level of living to all communities of the country; increase cohesion between regions by reducing differences in the economic, social, cultural, educational conditions and administrative skills; ensure a harmonised development of the regional economy and increase regional competitiveness by taking into account the peculiarities of each particular region; gradually develop the physical and social infrastructure of the regions; ensure effective use of the regional local resources, rational financing of the regional development by using both country's and foreign financial funds; and ensure the vitality and development of rural communities.

It is necessary to create the social, economic and technological infrastructure for small and medium size business (SMEs), legal and institutional environment favourable to SMEs and the system of co-operation with scientific and educational institutions.

Alongside the general position of the country, its mission in the specific branches of the economy will be as follows:

Information technologies and telecommunications. The state should: direct Lithuania's economy towards the production of intellectual products and provision of intellectual services in such a way that by generating the income, it became full-fledged, capable of co-operating and competing in the world markets; develop the information technologies based on gradually upgraded means of telecommunications and information; provide the whole population of the country (in towns and rural areas) with equal opportunities to study, improve professional skills via various means of information; promote investments for the improvement of the possibilities and use of computer networks (traditional and mobile); reorganise the activities of state and municipal institutions by making use of the information technologies; make conditions for the substantial acceleration of the development of digital economy and the use of electronic documents; liberalise the telecommunication market and promote competition; promote the establishment and development of new profit-bringing business enterprises basing their activities on knowledge and information technologies; support business, scientific and educational integration by manufacturing competitive products and providing competitive services; make conditions for those living in distant places and the handicapped persons to start active working activities via the information technologies; prepare and implement the instruments blocking the leakage of information specialists abroad and promoting those who have left to return back to Lithuania; promote the creation of demonstrative samples, stress the importance of visual communications and information technologies on the economic development; improve the laws protecting the security and privacy of the information provided by people.

In the sphere of **finances** the state should: create favourable legal conditions for the development of investment culture and integration of the capital market into foreign and especially EU markets; develop market possibilities to attract the capital and invest safely and efficiently. By creating a favourable legal environment, the state should further liberalise the financial market.

In terms of **industry** the state mission is to create such industrial and business environment, which will promote investments in Lithuania by competitive local and foreign capital companies using modern technologies as their priority and basing their activities on scientific know how and balanced philosophy of the development. It is necessary to take care that the resources necessary for the activities of such companies were increased and improved.

In the sphere of **rural and agricultural development** the state policy should: ensure smooth (balanced) economic, ecological and social development, creation of the legal, economic and

institutional environment favourable to productive agricultural holdings, agricultural and other rural business enterprises for them to be able to act independently in a competitive market and earn for living and the development of their business; promote innovations, manufacturing of competitive products and services with larger added value by developing the infrastructure of intellectual, technological, technical, financial and information supply; create legal and economic preconditions in order to use the financial and material capital of economic entities for investing into the modernisation of the manufacturing process in agriculture and developing non-traditional and alternative business more efficiently; complete the restitution of ownership rights to land, forests and bodies of water; create legal and economic preconditions for the consolidation of land use and rational use of natural resources; guarantee the stability of agricultural and rural development policy.

The state will implement the general EU policy on *fisheries*, the aim of which is to coordinate fishing with fishing resources, to regulate competitive relations between the states, which have fishing crafts, and to modify social consequences of the structural reorganisation. The policy is comprised of four major parts: administration of fishing resources, structural, market, price and social policy. The state mission is to create a favourable legal, economic and institutional environment for the implementation of this policy.

In the branch of *energy*, the main position and aspects of the state activity are to create the national energy policy by assessing the main aspects of the EU energy policy and the dominating tendencies of energy development world-wide; to prepare the necessary legal basis and to create appropriate institutions responsible for energy administration and regulation; to envisage the means for the implementation of the energy policy on the basis of the detailed analysis, optimisation calculations as well as accumulated and systemised statistic information regarding balanced development of the national energy sectors in order to ensure the vitality of the national energy, its economic competitiveness, reliability, efficiency of energy consumption and as smaller impact on the environment as possible.

In the *transport* sector, the state mission is to guarantee through the modernisation of the transport infrastructure, its smooth integration into the EU system by using the support provided by Cohesion and other EU funds and by participating in joint projects on the development of the transport sector; to achieve that that Lithuania's major motorway and road units were recognised and were recognised as the part of the transEuropean network (TEN-Tr.); to seek full liberalisation of the transport services market, which will ensure equal conditions to all participants in the transport market; to improve the reciprocity of transport types by developing multimodal transport processes; to take initiative for the development of the international co-operation in the sphere of transport throughout the Baltic Sea region and Europe by looking for any possibilities to expand transit services not only in the northern-southern direction, but towards the western-eastern direction as well, by attaching particular attention to the ports of southern Sweden and northern Germany.

In the branch of *construction* Lithuania should have aim that its construction and products became competitive, attractive in the Lithuanian and foreign markets; to support the activities helping the development of the progressive construction and the application of information and Internet technologies for the organisation and administration of construction.

It is also necessary to create and implement a reasonable *tourism* policy by creating favourable legal and investment conditions to all participants in tourism business; to create attractive tourism products for the internal and international markets ensuring the rational use of Lithuania's natural, cultural and social potential which is a good precondition for the competitive integration into the European and world tourism markets. Upon assessing competitive advantages of tourism and taking into consideration the specificity and differentiation of Lithuania's tourism resources, the following priority types for the development of tourism show up during the integration into the EU and implementation of strategic goals and tasks for the development of

Lithuania's tourism: cultural and cognitive, objective or business, resort, water (sea or river), ecological and village tourism.

The following strategic goals were set up in the strategy:

Strategic goals have been detailed and specified into three levels by systemising them into the so-called tree of goals. The first level reflects the general goals, i.e. provides the description of Lithuania's economic development until 2015 oriented towards the development of the country's material and spiritual welfare, the increase in human capital, ensuring as many possibilities for people as possible. Strategic goals of the second level describe the major development trends for the development of social and economic aspects as well as the major trends in the development of other sectors of economy. In the third level those major trends of development are analysed by providing more detailed strategic goals of each particular aspect and sector.

The general strategic goal is to create the environment favourable to the development of the country's material and spiritual welfare which is generally described as:

stable economic development,
healthy natural environment at present and for future generations,
person's safety in terms of physical, legal and social aspects,
development of the human capital,
development of the civil society.

It is necessary to develop the possibilities for a person to choose in any of the aspects of his life - either economic, social, cultural or political; to strengthen the person's powers by investing into his education, training and health care (increasing the human capital), which should include all the population of the country; to create conditions to use of one's own powers for economic and cultural activities, in politics, public life and for leisure.

Strategic goals of the second and the third levels:

1. To ensure macro-economic stability by enforcing the anticyclic fiscal policy:

1.1 The major goal of the fiscal policy for the medium term period is to reduce the fiscal deficit seeking to strike a balance in the budget before the accession into the EU;

1.2. In the long term and after the accession into the EU, to pursue the principles of the Maastricht Treaty on the fiscal policy, seeking membership in the European Monetary Union; to reach the surplus in the state budget and reduce the burden of the state debt.;

1.3. To ensure that upon Lithuania's accession into the EU, the financial support provided by the European Community will significantly expand the investment activity in our country (and as a result will increase the employment and the growth of GDP) and will reduce retardation from the EU average economic indicators;

1.4. To form the integral and independent state financial policy within the European Union.

2. To achieve that development of science and technologies were among the priorities within the nearest 10-15 years while developing the country's economy and that country's society achieved more benefit from the scientific research and innovation activities, and that the limited resources in that area were used under the most optimum conditions:

2.1. Within the nearest 15 years, to seek that Lithuania became the country with its society based on knowledge (information), while the nuclei-clusters the economic knowledge became impulsive forces for the creation of a postindustrial society in Lithuania;

2.2. Within the nearest 10 years, to ensure that development of science and technologies became the main factor for the increase of industrial, agricultural, construction and service efficiency and competitiveness in the world market;

2.3. Within the nearest 7-10 years, to ensure that development of science and technologies were reoriented towards the harmonised development seeking to ensure a healthy and active life in conformity with nature and saving its resources;

2.4. To ensure such budgetary financing of the development of science and technologies that within the nearest 12-15 years and based on the development of science and technologies the

general public quality management became an integral part of the society and the state, a naturally understandable and used instrument for the maintenance of the country's competitiveness;

2.5. Within the nearest decade, to achieve that the system of scientific and industrial interaction operated in accordance with the model of modern innovations, the promotion of innovations became long-term and purposeful and were implemented on the highest governmental level.

3. Within the period up to 2015, to seek that the development of the country's economy and its separate sectors, structural reforms of the economy and the state economic policy accelerated the development of the most necessary and sufficient economic factors ensuring social development and employment of the population:

3.1. Within the nearest 12-15 years, to overcome the negative consequences of the structural economic reforms and external consequences of the employment of the population, to reach the level of employment to 70 %, reduce and maintain low and not larger than 6-7 % level of unemployment;

3.2. Within the nearest decade, to achieve bigger flexibility and mobility of the labour market;

3.3. Within the nearest 7-10 years, to ensure the implementation of the necessary requirements regarding working conditions and relations, salaries, labour protection, health care, etc.;

3.4. Within the nearest 12-15 years, to overcome uneven regional development in terms of labour market, employment and social development;

3.5. By co-ordinating social insurance and social support measures to ensure the overall social security for the population; to increase the norm for the changes in the income guaranteed by the social insurance contributions, primarily by pensions; to guarantee the accuracy and the amount of social support measures which would allow a person receiving such support to have such income which would allow him not lose his own dignity;

3.6. Within the nearest 10-12 years, to reduce poverty and social isolation, to overcome the extreme poverty;

3.7. To implement legal, economic and administrative measures expanding the system for the acquisition of homes in such a way that within the nearest 12-15 years, each family will have its own home.

4. Within the period up to 2015, to seek that the country's economy, the development of its sectors, structural reforms of the economy and the state economic policy accelerated the creation of necessary and sufficient economic factors ensuring protection of the nature:

4.1. Within the nearest 10 years, to reform the system of taxes for the emission of pollutants by strengthening its stimulant character, supplementing taxes for pollution with widely applied taxes for the product and energy;

4.2. Within the nearest 5-10 years, to introduce the system of circular permits for pollution on a limited scope, which would include the possibility for the local polluters of air and bodies of water to "trade" in pollution and the environmental burden on the local level;

4.3. Within the nearest 8-15 years, to create the economically well-founded and vital system for the management of public waste, which would ensure the saving of resources and collection, use and processing of secondary raw materials;

4.4. By 2015, to implement the "green" reform of the state budget ending Lithuania's state budget with the environmental orientation;

4.5. Within the nearest 10-15 years, to introduce a principle of the subsidiarity regarding the management of environmental protection by vesting the local authorities (municipalities) with more rights to apply economic levers while solving local environmental problems;

4.6. Within the nearest 5-7 years, to create the economic compensation mechanism for the regulation of economic activities in protected territories.

5. To develop and efficiently make use of the factors ensuring rapid and stable growth of the national economy by forming, until 2015, a solid basis for Lithuania's approximation to the average

EU level within 30 years in terms of GDP to one resident:

5.1. To ensure stable annual economic growth rates where 7 per cent is the optimistic level, 6 per cent – average and 5 per cent – pessimistic level.

5.2. Within the nearest 5 years, to ensure complex development of all direct and indirect factors of the economic development and their efficient use by preparing and implementing annual and medium-term (for 3-7 years) programmes on the measures and actions for the acceleration of the economic development;

5.3. Within the nearest 5 years, to create and develop the following mechanism of the economic development priority factors and their effective use: political and macro-economical stability, hi-tech and information technologies, human capital, private internal and foreign direct investments, orientation of the development towards export;

5.4. Within the nearest 12-15 years, to ensure the transfer from extensive to intensive economic growth by making the maximum use of the extensive growth possibilities in order to accelerate the rates of economic development.

6. Within the nearest 12-15 years, to complete the restructuring of the national economy by transferring the integrated Lithuanian economy via the EU general economic space towards the world economy:

6.1. To joint the policy of the structural development of the economy with the necessity to ensure the universal and continuous satisfaction of the demands showed by the country's population with the help of locally manufactured goods and services of high quality;

6.2. To link the policy of the structural development of the economy with the goals on the acceleration and stabilisation of the national economy growth rates by joining it with the goals on the increase of export diversification and national competitiveness in the world market;

6.3. Within the nearest 5 years, to achieve that hi-tech became the main factor of the structural development of economy by promoting such goal;

6.4. The policy of the structural development of economy should to pursue a principle that the adaptation of the national economy to the changes in the world market is of the same importance as the industrial and financial power;

6.5. To joint the policy of the structural development of economy with the requirements for the balanced and stable development of the national economy and national security;

6.6. To attach priority to certain sectors of economy if the state is capable of justifying its intervention by economic, social or state security arguments.

7. To use the possibilities of the integration into the EU and the world economy efficiently, to overcome the threats for the economic development, to expand the involvement of the national economy in the international economic exchange via the open economic principles and to increase the country's export potential by strengthening the competitiveness of its economic sectors:

7.1. Upon accession into the EU and within the first two years, to pass on to the general policy of Lithuania's economy, consisting of three parts: internal policy (budgetary, industrial, agricultural and rural development, etc.), policy of the economy within the Community and the policy of economic relations with regards to the third countries;

7.2. To improve the analysis of the Russian, CIS and Asian markets taking into consideration the fact that they possess the potential of rapid expansion based on the forecasted activity of the Chinese and Indian economies and their influence on the economies of Russia, Ukraine and Kazakhstan;

7.3. Within the nearest two years to create the action plan for the promotion of international production relations having the aim to gain competitive advantages in the sectors of professional work and hi-tech by 2015;

7.4. Taking into consideration the energetic security, Lithuania, as the future member of the EU and NATO will have to put all its efforts in order to diversify the supply of energy resources;

7.5. To renovate constantly the measures accelerating the development of prospective sectors basing their activities on modern technologies, to increase the export potential and improve the territorial distribution of economic activities (promotion of such activities in rural areas) with

the help of direct foreign investments;

7.6. Within the nearest 10 years, to pay more attention on the development of the sectors of education, professional training and higher education by assessing that the said sectors will greatly influence the realisation of Lithuania's strategic goals in the policy of economy;

7.7. By 2008 to create a programme for the regulation of labour resources part of which will consist of the migration policy after Lithuania's accession into the EU;

7.8. Within the nearest four years to direct the state support to those sectors of economy which are most successful in their activities and possess obvious prospects having orientation towards the development of the open economy.

8. By developing the system of taxes, to ensure its efficiency (both regarding the payment of taxes, and their administration): collection of taxes should be based on the principles of voluntary payment of taxes, the system of taxes should not deform the motivation to pay taxes, the system of taxes should be efficient in terms of administration costs:

8.1. To seek the stability of taxes which in this case, is understood as the ability to evade groundless and radical changes of taxing principles as well as especially rapid coming into force of necessary essential changes, i.e. stability of taxes should not be as an end in itself – in case of necessity, the valid tax laws are amended and improved by all countries;

8.2. To ensure neutrality of the system of taxes which can be achieved via the refusal to apply various exemptions and exceptions. The system of taxes should not be involved in the problems of individual economic entities, it should not be used as the lever for the solution of social problems. The aim of the system of taxes is to ensure the financial resources of the state;

8.3. Within the nearest 10 years, to ensure a more rapid development of the financial system, its priority towards electronic transactions and satisfactions of various needs with the help of financial services;

8.4. To link the issues regarding consolidation of the supervision over various financial institutions with the need for the administration of the systemised risk in the financial sector; to co-ordinate the development of institutions with supervisory functions by considering the best EU practices;

8.5. Within the nearest 5-7 years, to guarantee Lithuania's gradual involvement in the Euro zone and smooth integration of the Bank of Lithuania into the European system of central banks;

8.6. Within the nearest 5 years, to promote long-term savings by business entities and especially among the population; to transfer the centre of the bank crediting over to the accumulation of loans for small and medium size business;

8.7. Within the nearest five years to achieve that enterprises of corporate investment became equal alternatives with the individual investments into securities, increased market liquidity and improved administration of stock companies;

8.8. Within the nearest decade to achieve that the capital market infrastructure ensured safe and efficient investments into local and foreign securities;

8.9. Within the nearest five years to create such conditions that the co-operation between the institutions of Lithuania's and EU capital market infrastructure in the sphere of information exchange smoothly transferred into the involvement of such institutions in the most progressive general European structures and alliances with regards to law and technologies;

8.10. To promote further consolidation of financial broker's and other non-banking financial institutions, as well as their integration with foreign capital and the development of services, to increase their competitive immunity against commercial banks and foreign financial institutions.

9. To achieve that the development of information technologies and telecommunications became of particular importance for the development of the national economy, that information technologies and telecommunications became effective components of the physical and economic infrastructure ensuring stable and balanced development of the economy and its efficient functioning:

9.1. By 2005 to expand works in the spheres of electronic business, public administration, competence of the population, use of the Lithuanian language in computers set forth in Lithuania's

strategic plan on the information society;

9.2. To ensure that by 2005 not less than 40 % of the state registers and databases operated within the general state data collection system;

9.3. To ensure that by 2010 all state registers and all databases operated within the general state data collection system;

9.4. To achieve that by 2010 the information necessary for business and people were acceptable via computer networks as public services;

9.5. By 2010 to reform the state institutions and municipalities in such a way that their activities were based on the use of electronic documents;

9.6. By 2010 to achieve the availability of universal information technologies and telecommunication services (telephone and Internet) throughout the whole Lithuania;

9.7. By 2015 to ensure that the manufacturing of and trade in the products (goods and services) of the sector of information technologies and telecommunications accounted for approximately 25 % of Lithuania's Gross Domestic Product and that not less than 50 % of such production were exported abroad.

10. By 2015 to accelerate the modernisation of the transport infrastructure, improve the interaction between various types of transport, increase transit volumes, integrate into the European transport services market, create safe and environment-friendly transport system:

10.1. By 2015 to accelerate the modernisation of the transport infrastructure by integrating into the major transport motorways belonging to TINA networks and the transEuropean transport networks (TEN-Tr.);

10.2. Within the nearest 5 years to improve the interaction between various types of transport by accelerating the development of multimodal transportation processes;

10.3. Within the nearest 5 years to complete the implementation of structural changes influencing market relations in the Lithuanian transport sector;

10.4. Within the nearest 5 years to accelerate the integration of Lithuanian carriers into the transport services market of the Baltic sea region and the continental Europe;

10.5. By 2015 to increase transit volumes by 2-3 times by using the possibilities of currently modernised European transport corridors I and IX more efficiently;

10.6. Within the nearest decade to open the centres of logistics in Kaunas, Klaipeda and Vilnius and integrate them into the network of transport logistics centres ("cargo villages") of the Baltic sea region and the continental Europe;

10.7. Within the nearest three years to align the legal basis of the transport system with the EU legal norms;

10.8. By 2015 to create safe and environment-friendly transport system.

11. Within the period up to 2015, to reach the reliability of energy supply and efficiency of its usage complying with EU standards; to put into practice the principles of market economy in the system of energy; to integrate into the EU energy systems; to expand regional co-operation; to increase the portion of shifting energy resources in the general balance of primary energy by up to 12 %:

11.1. Throughout the whole period to ensure a reliable and safe supply of energy by means of smallest expenses and minimum environmental pollution; to increase the efficiency of energy usage;

11.2. Within the nearest 5 years to introduce the principles of market economy in the sphere of energetics; to privatise production and distribution of electricity;

11.3. Within the nearest 5 years to prepare and start the implementation of a complex of measures facilitating the implementation of EU environmental directives in the sphere of energy; to ensure the requirements of safe nuclear energy;

11.4. By 2005, to decommission Unit I of the Ignalina Nuclear Power Plant taking into account the conditions of long-term and essential financial support provided by the EU member states, countries of group G-7, other countries and international financial institutions; to prepare for the disposal of radioactive waste and long-term storage of spent nuclear fuel;

- 11.5. To integrate Lithuania into the EU energy systems within the nearest 10 years;
- 11.6. By further developing regional co-operation within the nearest 5 years to create the common electricity market of the Baltic states;
- 11.7. To proceed with the implementation of the active policy of electricity and oil products by promoting transit of electric power and natural gas; to use the capacity of Kronys pumped storage plant more efficiently;
- 11.8. To modernise and expand the systems of centralised heat supply, to achieve that at the end of the target period, the portion of electricity generated by heat power plants accounted for not less than 35 % within the general balance of generated electricity.
12. By 2015 to achieve that more industrial enterprises operating in Lithuania became competitive internationally and industrial and business structures connected with the industry as well as the portion of the national products could be comparable with the same structures in the developed countries:
- 12.1. Within the nearest 5-7 years to create a stable and favourable to business macro-economic and infrastructure environment promoting investment into the development of modern industry;
- 12.2. Within the nearest 5 years to prepare and implement a complex of measures strengthening general factors influencing competitiveness of the national industry;
- 12.3. Within the nearest 7-10 years to create the efficient system of national innovations which would guarantee favourable conditions for the integration of science and production, creation and dispersion of new technologies and methods of activity;
- 12.4. Within the nearest 5 years to prepare and start the realisation of the strategy for the creation of the national industrial clusters;
- 12.5. Within the nearest 5 years to create favourable legal and infrastructure conditions for the development of small and medium size business;
- 12.6. By 2015 to improve corporate administration of the industry promoting co-operation between enterprises and various interested groups;
- 12.7. Within the nearest 5 years, to create state administration instruments for the realisation of the strategy for the development of industry on the state level.
13. To achieve that by 2015 more construction organisations in Lithuania became competitive internationally and the portion of the national products created in the construction sector corresponded with the same level in the developed countries:
- 13.1. Within the nearest years to take over the European construction standards, to promote that Lithuanian construction enterprises were granted with certificates issued by the attesting institutions accredited in Europe;
- 13.2. Within the nearest years to prepare and start the implementation of the measures for the use of EU structural funds reserved to the construction sector and the possibilities of the participation in the projects for the development of the infrastructure financed by the EU;
- 13.3. Within the nearest years to create the system of legal acts and regulations providing legal basis for construction business aligned with EU requirements by taking into account the best practices worldwide;
- 13.4. By applying energetically efficient and most environment-friendly technologies, to reduce by 2015 a negative impact on the environment and the use of energy resources as much as possible, to expand the use of industrial waste in the construction sector;
- 13.5. To achieve that by 2015 the structure of the living fund and its quality complied with demands expressed by various layers of the society; to solve the problem of poor living places, to increase the construction of social living places for those with low means of subsistence and to attract international financial resources for the financing of living places;
- 13.6. By 2015 to ensure conditions for a wider application of the electronic business and the use of the information technologies in the construction sphere;
- 13.7. Within the nearest 7-10 years to create a system of distant training for construction specialists from all sectors of construction, providing both professional and complex education

(economics, management, psychology, etc.);

13.8. By 2015 to ensure conditions for the development of science and technologies in the system of construction, conditions for wider innovation activity, for the dispersion of achieved results in the scientific research and modern technologies.

14. Constant and balanced development of agriculture and food economy which is economically potent and competitive, open to innovations, capable of adapting to constantly the changing business environment, has a modern productive infrastructure, and provides the population with products and services of good quality:

14.1. By 2010 to implement a balanced complex including manufacturing, processing and trade in agricultural products, oriented towards consumers' demands;

14.2. By 2015 to improve the structure of agricultural and food branches of the economy, the structure of agricultural holdings and enterprises, to expand co-operation and consolidate land use;

14.3. To seek the creation of such agriculture and modern processing industry which would be progressive, applied best technologies and modern management methods;

14.4. To achieve that within the nearest decade the internal market were supplied only by such food products, which were of good quality and healthy;

14.5. Stable increase of export volumes of the products having competitive advantages in the EU and other markets;

14.6. To seek gradual development of the agricultural infrastructure by 2015 ensuring appropriate provision of business entities with production and financial services, consultations and information;

14.7. Before the accession into the EU, to raise intellectual and administrative capacity in order to align with the AQUIS as well as the principles of national and EU general policy on agriculture;

14.8. To expand economically and ecologically balanced economic activities reducing negative impact of the agricultural sector on the environment and blocking erosion processes of the soil;

14.9. By 2015 to create an economically productive fishery system complying with the EU criteria and ready to act in accordance with the EU requirements regarding the general fishery policy.

15. Stable and balanced development of the rural areas seeking to ensure favourable business, working, living and social conditions for village residents, being close to the average level nationwide for the strong rural community to be able to preserve, expand and properly use a positive material and spiritual heritage of the village:

15.1. Within the nearest 10-12 years to ensure employment and labour protection and social security for village residents and the system for the maintenance of regionally differentiated level of the income received by village residents;

15.2. To develop a variety of economic activity in the village which would ensure employment and income to village residents;

15.3. By 2015 to establish a system of measures for the organisation in villages of education and training, health care, leisure and recreation by taking into account their specificity;

15.4. To promote a stable village community capable of preserving and transferring the positive material and spiritual heritage of the village over to the public as well as enriching it by its own and world experience;

15.5. To implement the programmes on village and steadings dislocation and renovation, preservation of village cultural heritage by adapting such objects to modern living requirements as well as village tourism and recreation;

15.6. To preserve historical and archeological objects and natural monuments; purposeful restoration activity and improvement of the agrarian landscape.

16. To create a modern tourism infrastructure complying with the EU and world qualitative requirements, allowing the creation and provision of the international tourism markets with tourism

products which are of good quality and competitive, ensuring constant increase in the volumes of local and foreign tourists thus approaching the portion of tourism in the Gross Domestic Product to the average level in the EU:

16.1. To ensure that the quality of the national tourism infrastructure and living environment complies with the EU qualitative requirements seeking to achieve the present general goals for the economic development by 2015 as well as goals for the prospects in future;

16.2. To develop living sector capacities, a variety of services and entertainment ensuring high quality of provided services;

16.3. To create a system forming the image of international tourism and Lithuania as an attractive country thus promoting the development of arriving tourism;

16.4. To use reasonable the national cultural heritage and natural values thus creating the values strengthening the image of Lithuania as the country with its own identity, and thus matching the duality of the economic profit and preservation of the environment.

17. It is necessary to achieve that in 2015 the number of tourists arriving in Lithuania exceeded 6 million, the average annual tourist increase rate accounted for 3%, and the average amount of expenses per one foreign tourist in Lithuania reached the average world level of the year 2001:

17.1. By 2015, to develop in Lithuania cultural and ecological, remedial and village, water and business tourism as priority spheres; within the nearest five years to accelerate the creation of conditions for the development of those priority spheres;

17.2. By 2015 to develop tourism and recreation economy as the sector of small and medium size business;

17.3. Within the nearest 5 years to prepare and start the implementation of measures improving legal and institutional environment, reducing criminality, ensuring co-operation between the government, business and the public as well as co-ordination of their interests;

17.4. Within the nearest 7-10 years to ensure a closer cohesion between tourism business and environmental protection by promoting Lithuania's cultural-historic potential;

17.5. Within the nearest 5-7 years to improve the monitoring over the quality of tourism services, to create the system for the investigation of tourism business, training of specialist and improvement of their professional skills.

18. By 2015 to create such small and medium size business sector which is ecologically productive, capable of competing in the internal and foreign markets, bases its activities on innovations and the use of information technologies:

18.1. Within the nearest 5 years to create a favourable economic, legal and crediting environment for the development of small and medium size business, to develop the institutional business infrastructure;

18.2. Within the nearest 5-7 years to prepare and start the implementation of measures increasing competitiveness of the sector of small and medium size business on the basis of the use of innovations and information technologies by developing international co-operation in this sphere;

18.3. Within the nearest 5 years to create conditions ensuring availability of business information, training and consultation services to the representatives of small and medium size business;

18.4. By 2015 to create such conditions which would strengthen the financial capacity of small and medium size businesses and promote co-operation between large and small and medium size businesses as well as co-operation between small and medium size businesses;

18.5. Within the nearest period to prepare and start the implementation of measures ensuring the development of small and medium size business in all regions of the country, especially those which are lagging behind;

18.6. Within the nearest years to prepare and start the implementation of measures improving the financing of small and medium size businesses.

19. By developing regional economy until 2015 it is necessary to ensure a stable high level of living in all regions of the country:

19.1. Within the nearest 10 years to achieve that the physical and social infrastructure of all regions were developed in accordance with the principles of balanced development and the investment promotion mechanism in terms of regional economy;

19.2. To create a legal and administrative environment ensuring successful implementation of the policy on regional development;

19.3. Within the nearest 5-7 years to expand the functions of the administration of economic development (planning, implementation, co-ordination and control) within county administration offices and municipalities;

19.4. Within the nearest 5 years to expand the creation of the society based on knowledge towards the regional level by developing the information infrastructure of the region;

19.5. By 2015 to promote partnership of Lithuania's regions on national and international levels.

Efforts to reduce administrative procedures and cost related to business start up and operation

In the World Bank survey Doing Business in 2005 Lithuania is on of the highest rank among EU countries. To start business in Lithuania is needed to complete 8 procedures and it takes only 26 days.

Capacity Building and Research and Technologies

In 2003, the Government of the Republic of Lithuania approved the updated **Programme for Innovations in Business**. This Programme is aimed at better distribution of priorities and means in order to promote investments in innovations and ensure better competitiveness of Lithuanian industry by intensifying the application of new scientific results, technological solutions and organisational initiatives in business. Its implementation measures have been developed pursuant to the five priority guidelines: propagation of innovations, increase of the public awareness in the field of innovations; encouragement of cooperation between science and business society; reinforcement of the basis for scientific research and technologies, enhancement of its employment effectiveness; improvement of the financial conditions for innovation and development of its support infrastructure; activity coordination of the performance of authorities building the policy of innovations, scientific research and technology development and strengthening their administrative capacities.

In order to foster the development of high technologies and increase their use by enterprises the **Long-Term Strategy for R&D and the Programme for High Technology Development** have been adopted by the Government of the Republic of Lithuania in 2003. The main task of the Long-Term Strategy for R&D is to strengthen a national potential of science and technology. Besides it should be better employed to increase the advance and competitiveness of the country. Another strategic task of the Strategy is to reach the EU Lisbon strategy goals; however, they seem to be not easily attainable. At present, investments in R&D account for 0,69 % of GDP and from the private sector only 0,2 % of GDP in Lithuania. Thus, we can see that private investment volumes in R&D are about 6 time lower than the EU average (1,3 % of GDP). That is why the governmental assistance is needed and is being provided to promote private sector and industry, in particular to expand the application of high technologies.

The Programme for High Technologies provides for immediate concrete action in the sphere of high technologies. The Programme is targeted at five technology sectors: **biotechnology, mechatronics, laser technologies, ITT, nanotechnology and electronics**. Lithuania has approved these branches for several reasons: Lithuania has a big scientific potential for development of these high technologies; investments in these branches gave positives results, which decrease the risk of investments. Growth of the Lithuanian economy should be guaranteed by high-tech industry, the share of the generated value by which should increase in GDP.

Finance. Measures to strengthen to facilitate long -term financing for infrastructure and industry.

INVEGA, state owned agency, provides guarantees on business loans to banks crediting micro, small and medium-sized enterprises with up to 100 employees that meet the conditions laid down in the Law of the Republic of Lithuania On Small and Medium-Sized Business.

The maximum loan secured by a guarantee issued by INVEGA is LTL 2 million. In case the guarantee is issued for the implementation of projects financed from the EU Structural Funds, the maximum loan secured by a guarantee can be LTL 3 million.

INVEGA does not provide guarantees for loans which may be used for non-supported activities as established by the Government in the List of the Types of Non-Supportable activities by the state. INVEGA also does not provide guarantees for loans that will be used for personal (not business) purposes.