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FORWARD

The Monograph presenting recent investigations on the issue of co-operation security (private, national, regional, continental and global), its philosophy and implementation methods will help the reader to understand interrelation between globalization and integration processes and national security. The reader is introduced to efficiently different national security concept and its effect to co-operation security in Baltic Sea region and in the context of political and socio-economic decisions of the West and the East.

The collection is addressed for a broad circle of readers from politicians and security specialists, scholars and students, to everyone interested in the issue.

All full papers submitted to The General Jonas Žemaitis Military Academy of Lithuania the International Conference Sciences in 2005 are subject to a peer reviewing process, using subject specialists selected of their expert knowledge in the areas.

Academics, practitioners, and public policy makers at all levels throughout the world submitted original papers for conference presentation and for publication in this Monograph. The result of these efforts produced 39 empirical, conceptual and methodological papers involving all functional areas of institution with a special focus on international aspects. Of the 19 papers accepted for presentation at the conference, 32 papers are published in the Monograph 2006 and in the Monograph CD-ROM 2006. State's of participants: a presentation – from 16 states and publication at Monograph 2006 – 13: Belarus, Denmark, Estonia, France, Georgia, Lithuania, The Netherlands, Poland, Portugal, Russia, Taiwan (R.O.C.), Ukraine and USA.

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ECONOMIC AND SOCIAL SECURITY PROBLEMS IN LITHUANIA

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ABSTRACT. *Complex and constantly increasing tension in economic and social fields forces to engage in a deeper investigation of the problems of economic and social security. The authors analyse the concept of economic-social security, indicators, inner and external threats in the conditions of active integration and globalisation. The tendencies that are born in social realm constitute the biggest risk among internal threats. In terms of the free market, powers of huge potential emerge there, which, however cannot be employed successfully without proper governmental economic and social regulation. Nevertheless, this regulation does not automatically guarantee economic-social security. State strategy of economic-social security must be based on both further strengthening of a state's economic potential and ensuring of the minimal living standard for the poorest segments of the society. To fulfil the following tasks, the role of state in solving the main social and economic problems must be increased and activities of city and vil-lage communities have to be activated.*

INTRODUCTION. Currently, economic-social security problems are becoming more and more important and influence the most important political decisions. The majority of developed states have prepared national strategies of economic-social security. In conditions of accelerating integration and globalisation ensuring economic-social security is becoming one of the main functions of the government. The concept of economic-social security has been grounded in modern society and has become an integral part of national security. Economic-social security cannot be ignored when analysing problems of national security.

The purpose of the research was to indicate the arising problems of the economic-social security and suggest the ways to deal with them. The following tasks were implemented to achieve the purpose [2]:

- Defining the concept of economic-social security
- Indicating the threats of the economic-social security
- Setting the criteria and indicators for assessing economic-social security
- Formulating aims and tasks of economic-social security.

The object of research was to analyse Lithuanian economic and social situation in realms of integration and globalisation.

Methods of investigation: problem analysis, comparative analysis, logical deduction, analytic and sociological methods.

I. THE CONCEPT OF ECONOMIC-SOCIAL SECURITY

The differences and specialties of social and economic interests, the increase in the difference of the living standard and insufficient capacity of administrative apparatus forces to deeper analyse the essence of economic-social security. Ensuring economic-social security is one of the main tasks of state. The government has to guarantee the effective operation of economic and social subjects and the proper level of further development.

Economic-social security is a particular state of economic and governmental institutions, which when it is achieved guarantees the safety of national interests, the singleness of politics in social sphere and adequate economic and defence potential. In other words, security in this sense does not only comprise protection of national interests, but also readiness and capability of governmental institutions to establish the mechanisms of implementation and protection of national interests and to maintain political and economic stability in the society. Criteria of economic-social stability are assessed using various security approaches and include [1]:

- Evaluation of country's potential and its perspectives;
- Effectiveness of exploitation of all sorts of resources, capital and labour; and comparative advantage of these factors in terms of developed countries;
- Competitiveness of various branches of economy;
- Sovereignty, independence and capability of fighting external threats;
- Social stability and avoidance or salvation of social conflicts.

Standard and quality of living, level of unemployment, temps of the growth of economy, budget deficit, the amount of state's loan, and competitiveness in world economy, gold and currency reserves and the scale of shadow economy are usually distinguished in the system of indicators of economic security. Margins of the values of these indicators are more important than the indicators themselves. Exceeding the margins often undermines normal development of economy and creates negative ruining tendencies. Hence, the largest security is achieved when the indicators do not exceed their margins [4].

This concept is not amateur or conjunctive. The concept of national security, which is wider than the concept of economic-social security, includes defence, information, and technological, ecological and energetic security. Economic-social factor, however, cannot be neglected when analysing national security. Economic and social conditions raise the issue of economic-social security to very important position in current society. It is related with differences and specialties of national interests. Lithuania is situated in the field of various geopolitical tensions. The main interest of Lithuanian nation is to preserve its statehood and to widely spread creative powers of the nation. Lithuanians must not forget that other nations can overtake them in fields of economics, science, etc. If strategic issues are left for the element of free-market, the possibility of economic expansion and threats to economic security arises. After defeats in international economic competition, real danger to national interests would arise. Hence the state must firstly assure its economic safety. Economic security is a constituent part of national interests, which has to react to inner and international conditions. It is impossible to unconditionally agree with the recommendations of Lithuanian Free Market institute that state interests must always step down to private interests, and that state has to prevent itself from intervention into economy. In the developed free-market economy state usually not only guarantees the principles of private business, free competition and individual freedoms within the country, but also makes a strong pillar in international economy [3].

The condition of economy and competitiveness of economics, as well as global competition determine Lithuanian economic security as one of the main national interests of the country. Hence, when we seek economic-social stability, we aim at fulfilling national interests at the same time. The developed western states have collected valuable experience in defending national interests in the field of foreign trade. These countries use governmental protection tools for regulation of trade relations for the sake of national producers' interests. Their governments show interest in cohesive development of national market economy and increasing the efficiency of economy. Beside custom tariffs, which have been losing their previous popularity non-tariff measures are increasingly used – economic and administrative. The first, similarly to tariffs influence market mechanism by limiting imported goods. And the latter directly limit accession of foreign goods to national market. Among non-tariff measures, dumping procedures are developing in contemporary economics, which result in international economic conflicts [8].

SOCIAL SECURITY CONCEPT

The complex of actions to secure economic-social security contains improving of demographic situation, fighting unemployment, ensuring proper living standard and quality, guaranteeing accommodation for citizens, developing public health system and making it accessible to everybody, improving common and professional education, accessibility to information and cultural values, ensuring of individual civic security and establishment of ecologically safe environment. Hence, social security should be treated as the system of particular governmental and social actions and prevention measures, guaranteeing civic social security under all the parameters listed above [9].

Economic-social security and social protection of citizens can be considered as implementation of the social function of society carried out by the state and ensuring the development of all social subjects. The main aim of this implementation should be preservation and development of societal gene pool and potential, as well as comprehensive stimulation of national and working activity of all inhabitants and protection of their everyday interests [6].

II. SOCIAL-ECONOMIC THREATS

Comparison of external and internal threats has indicated that the biggest danger to Lithuania is constituted particularly from its inner threats. The roots of external threats (growth of national loan, decrease in export, etc.) are usually conditioned by low economic effectiveness, weak competitiveness of particular branches of economy, etc. this shows that initially they also have internal background. And the biggest risk from inner threats usually comes from tendencies, forming within the social sphere [5].

This sphere plays a key role in ensuring not only economic but also national security. Interests of persons, society, families, segments of society, social groups and of the state are embedded in this sphere. The biggest threat to existence and security of the country stems from clear differentiation of civic income, worsening of the structure of nutrition, the increase in relative and absolute poverty. Today in Lithuania the income of 10% of the richest members of society exceeds the income of 10% of the poorest members of society by 10 times, while in Western societies this difference equals to 5-8 times. Such huge differentiation cannot be justified neither socially nor economically. Not only unemployed persons belong to the category of poor, but also the working people. The tendencies singled out above, as well as increase in unemployment and decrease in accessibility to education, increase in death-rate and decrease in birth rate, influence the quality of living of Lithuanian people.

Big threat to security is also posed by deep depression in the scientific, technological sphere. Sudden decrease in teaching capacity of enterprises and organisations has reduced the supply of scientific and technological orders. Hence, the number of Lithuanian scientists is in constant decline. As scientific-technological potential determines the condition of economy and its capability for development, it is hardly possible to speak of principal perspective changes in this field. The insufficient involvement of the state in identifying internal and external threats to economic security must be emphasised [12]:

- Economic structural deformation strengthens;
- Scientific-technological potential is being devastated;
- Activity in investment and innovations is in decline;
- Dependency on import grows;
- Differentiation of income grows within the society;
- Foreign loan increases;
- Criminal element becomes involved in economic relations;
- The lack of expertise on economic security is visible when considering new budget projects, taking financial and economic decisions, choosing objects for privatisation.

The increase in food import also constitutes threat to economic security of the country. International experience shows that a country can preserve its economic independence only when the share of inner consumption import does not exceed 20-25%. In Lithuania, the share of gross consumption of imported food far exceeds this dangerous limit. The primary tasks in reducing dependency on imported food are financial supporting of local producers, differentiated employment of tariff system, and the guaranteed supply of affordable production to home market. The legal and normative basis of foreign trade must also be reviewed and reformed to meet contemporary international rules [7].

The deepening of income differentiation within the society poses economic-social threat. There are no countries in the world where all inhabitants are rich. The income differentiation is common to every state. But the degree of this differentiation cannot be too big. The abnormal situation is progressing in Lithuania when the society is entering the zone of social instability. Only smaller part of the society adapted to the conditions of market economy and manages their living. The rest of the society cannot adapt to new conditions and are sentenced to poverty. Specific factors even more strengthen economic-social threats. The middle class, which normally constitutes the social fundament for political stability of the state has not formed yet within the

country. The demographic situation is worsening, poor people degrade, the trust in government and its institutions lessens, and the criminological situation worsens. Hence, economic depression – basis of poverty reproduction – has to be liquidated. It is very important to reduce the income differences by introducing progressive tax system and tightening the rules of income declaration [5].

It has to be stated that the risk of involvement of criminal element into economics increases. Criminal economy is a specific field of economics, ensuring big income from criminal activities using grey zones and shortcomings in legislation for relatively small part of the society. The criminological situation worsened in the period of privatisation, when the power of state diminished and corruption among civil servants went up to high level. The shadow economy amounts to 20% of countries economy in Lithuania. Existence and growth of shadow economy reduces possibility to manage the economy of the country, narrows the tax basis and reduces the amount of collected taxes, and helps representatives of shadow economy to influence the government or even to become part of it. This makes macroeconomic regulation of the state more difficult and distorts the economic indicators [2].

Social threats constitute real preconditions for the society to degrade and to violate the vital interests of various social subjects.

Economic-social threats are complex and are determined by many factors. E.g., the condition of health is determined by the public health system only by 8-12%, while it depends on standard and quality of living by 50%, on the condition of living environment – by 18%, and on genetic factors – by 20%. Hence, frontal observation and research is necessary to thoroughly evaluate the threats. Anti-crisis measures need to be implemented to ensure the security of people and their protection in usual and extreme situations [5].

Social rights of people are the main approach in choosing criteria for assessment of economic-social security. Within the concept of social security, goals and principles of guaranteed fulfilling of social rights must be clearly set. This can be done only after analysing the country's (region's) social situation.

The main criteria and indicators of this analysis are [11]:

- Demographic situation;
- Health protection;
- Employment;
- Education;
- Social adaptation;
- Standard and quality of living;
- Accommodation;
- Accessibility to information;
- Accessibility to cultural values;
- Protection of motherhood;
- Social supply;
- Environmental protection;
- Individual security.

Preserving organic connection or integrity among those social security indicators predicts distinguishing of a unified social space. Within this space, the zones of social welfare, social risk, social threats and social degradation can be singled out.

III. ZONES OF SOCIAL SPACE

None of the social security indicators meet the requirements of social space. The indicator that can be treated the closest to the social space is education of inhabitants. In the XXIst century, in the light of globalisation human capital – investment to people through education and health protection – obviously becomes crucial [10].

The higher the education of a person, the higher is his/her correspondence with the demands of information society. And the better the health condition of the members of society, the more of their working time they spend productively. When education and health conditions are improved a positive affect is made not only to economic indicators. Even more important is the social function of these improvements – the social diffraction among the members of the society declines, the life of human beings becomes miscellaneous and comprehensive. Thus, today's societies invest a lot into human capital. In some countries this investment constitutes 8-10% of GDP. It is clear that education of citizens and their health condition have a very important impact on cohesive economic-social development. The speed and qualitative parameters of this development will be determined by civic education. After Lithuania's accession to EU, when the country borders begin to shrink, the obstacles for movement of human capital should also melt. Increasing competition will modify not only traditional branches of economy, but also the human being him/herself, his/her education and health. In the light of this huge competition threat a much more consistent adoption of education to knowledge economy – new qualification and new technologies – will be needed. In the conditions of constant aging of information, a person has to learn the whole life: to obtain new social and professional competence, to renew or to obtain new qualification. It is not possible anymore to "learn once for a lifetime". The knowledge society unavoidably becomes the learning society. Such development and creativity of the society demands essential structural changes in educational system, creating possibility to learn the whole life [2].

The zone of social risk contains many social security indicators, which transit to the zone of social threat in many spheres of life. However, the main reason for social insecurity is the increasing income inequality and poverty. The income of the richest and the poorest differ tremendously in Lithuania. Comparing by the place of living, village people suffer from the inequality the most. But the differentiation is also visible in towns and cities – bigger cities are marked with bigger inequality than smaller ones. When comparing the situation of families, the inequality is more acute among families with children. The biggest fluctuation in terms of income differentiation can be traced when the home economies are grouped by the socio-economic characteristics. The inequality is the biggest among farmers. Farmers also distinguish by the highest level of poverty. The level of poverty in the village exceeds poverty in towns and cities twice [1].

Poverty is also related to education level, field of employment, as well as size and structure of families. Families where education of the head of the family is low (initial, secondary), not-full families with children under 18, and families raising 3 and more children have the biggest number of the poorest families. Not only unemployed and retired people fall under the category of poor. Employed and educated persons are often also living below proper standard: doctors, teachers, professors, artists, cultural specialists. The level of poverty in the society is also indirectly reflected by the number of schoolchildren receiving free-food. Until 1997, 5% of school children were given food from public budget, and in 2000 this number has reached 24% (almost one fourth) of all schoolchildren [2].

The smallest part of the social security space is the zone of social degradation with asocial families as its material background. Recently, the number of such families has doubled in Lithuania. Approximately 50.000 children grow in asocial families. The environment of asocial families results in favourable conditions for criminality growth. The data of the Ministry of interior indicates that children criminals under 18 make 14% of total criminals in the country. Most often 16-17 years-of-age tend to commit criminal activities – 2/3 of all criminals under 18. It is particularly vexing that the number of criminals among children going to school increases. Most children crimes are of economic nature. Thefts constitute more than 2/3 of all children crimes.

The above analysed zones of social security space are basically determined by the complex of the main indicators that was presented earlier. These indicators are dynamic and may leap from one zone into another. E.g., worsening of the demographic situation can extend demographic indicators to the zone of social threat [1].

Not the indicators themselves but their marginal values are highly important to social security. The marginal values are extreme limits, which create negative demolishing tendencies in the field of social security if they are exceeded. The optimal social security is reached when the indicators do not exceed their marginal values.

IV. GOALS AND TASKS OF ECONOMIC-SOCIAL SECURITY STRATEGY

The strategic goal of economic-social security is to create favourable conditions for the development of personality, the social, economic and political stability of the country, and eliminating internal and external threats. The national economic-social security strategy must be oriented towards preserving of the country's economic potential and proper living standard, which could prevent the rise of social tension and conflicts among different segments and groups of the society. This strategy must be implemented through the security system, consisting of legislative, executive and judicial institutions, as well as societal and other organisations. The national economic-social security strategy can only be successfully implemented if the following requirements are met [2]:

- It is necessary to clearly distinguish the functions of president and the government;
- Functions of regional and municipal authorities must be set and rationally divided;
- The functions of national regulation of economy must be properly provided with information.

This strategy is prepared and realised through economic policy, having stability of personal economic situation, stability of the state and the society, respect and protection of civic constitutional rights and liberties, as well as fairness and social justice as the main priorities. It is necessary to clearly define the limits and criteria of the state's involvement into economics, proportionate share of public and private sectors, and to prepare the mechanism of efficient governmental regulation. It would be more difficult to indicate and to clarify the strategic goals of economic-

social security without concretising its tasks and measures, methods and procedures. Thus, the state must implement anti-crisis measures, including every field of economy. Active structural and social politics, active role of the state in the fields of investment, financial crediting and foreign trade relations can be singled out among those measures [10].

The main tasks of active structural politics have to be set on macroeconomic and microeconomic level. On the first level, the following tasks can be singled out:

- Increasing overall demand;
- Stimulating saving and forming favourable investment climate;
- Concentration of financial and productive resources in the most effective fields of economy;
- Encouragement and diversification of exports;
- Regulation of imports with the aim of protecting local producers.

On the micro level, the following tasks can be singled out:

- Support and promotion of efficient enterprises;
- Liquidation and reorganisation of non-efficient businesses;
- Applying norms of market behaviour of economic subjects.

When implementing structural politics, it is necessary to:

- Clarify “points of growth”, i.e. the companies, businesses or organisations implementing the programmes that ensure the real teaching demand in the market;
- Set the place and the role of the enterprises existing in economic system, initiate the processes of reorganisation and bankrupt of non-efficient businesses, and to increase the effectiveness of management of public enterprises;
- Single out strategic objects and ensure that their control stock pack belongs to the state, this way guaranteeing national economic security;
- Implement perspective programmes and projects – scientific and innovative, production and investment – under the requirements of the EU.

The main tasks of social policy are:

- To consolidate the society when stable civic economical situation exists, and to improve the living quality;
- To slow down the process of income differentiation growth. The speed of this process is a destabilising factor, resulting in potential social conflicts;
- To distribute more fairly the difficulties of crisis periods among all segments of the society. An effective mechanism must be created, which would help regulating the increase in income;
- To necessarily reset the main function of salary as of a reward for efficient working. To reduce social tension in the society and to increase the role of the government in solving this problem.

When attempting to preserve and develop the scientific and technological potential, it is worth setting the priorities of national scientific-technological policy, which would coincide with the tasks for ensuring economic-social stability of the country. It is necessary to prepare the programmes of national fundamental and applied science development, and to establish the favourable investment climate by using various forms of stimulation of advanced technologies [12].

CONCLUSIONS

1. The problem of economic security these days becomes of primary importance and is a constitutive part of national economic policy, influencing all the main political decisions. Ensuring economic security is one of the main functions of the state.
2. Assessment of economic security contains economic competitiveness and efficiency, sovereignty, independence and capacities of fighting external threats, social stability and avoidance or solving of social conflicts. The standard and quality of living, inflation and unemployment, economic growth, budget deficit, national loan, export and import, foreign currency reserve and operation of the shadow economy have to be singled out in the system of economic security indicators. The marginal values of the indicators rather than the indicators themselves have high importance to economic security. These values are the extreme amounts, which prevent the economy of proper development and cause negative demolishing tendencies, if exceeded. The highest security is achieved when the indicators do not exceed their marginal values.
3. Comparison of external and internal threats shows that the biggest danger to the country is comes from the internal threats. The causes of external threats – the growth of foreign loan, the decline in export, etc. – result from small efficiency of national economy, and weak competitiveness of particular branches of economy. Thus, they also are in principle internal. Among internal threats, the tendencies forming in the social and scientific-technological fields. Acute income and consumption differentiation, worsening of nutrition structure, as well as relative and absolute increase in poverty are extremely dangerous to economic security.
4. Development of economy raises the task to prepare the national strategy of economic security. This strategy is necessary to indicate the marginal values of economic security indicators. These indicators must be kept into consideration in the highest levels of the government.
5. The main systemic approach when basing the economic-social security criteria stems from social human rights. The maintenance of the organic connection of the system of security indicators foresees distinguishing of united social space. The zones of social welfare, social risk, social threat and social degradation are singled out in this space. From the economic-social security criteria, education has come closest to the requirements of the social welfare zone. In the XXIst century, in the light of globalisation human capital – investment to people through education and health protection – obviously becomes crucial. In the light of the increasing threat of international competition, much more consistent orientation of educational system towards the knowledge society is necessary – new qualifications and new technologies need be developed to create conditions for life-long learning.

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SUCCESS STORIES IN TRADITIONAL SECTORS OF THE PORTUGUESE ECONOMY

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ABSTRACT. *This paper focus on small and medium firms (SMES) success stories in the traditional sectors of the Portuguese economy. Our contribution aims to a better understanding of the relation between firms' goals and organizational configurations. The empirical evidence is based on qualitative interviews with top managers of two Portuguese SMES in the footwear (Marisport) and water heater (Vulcano) industries. Results allow us to draw implications for organizational effectiveness (to review the research and political agenda) in similar emerging economies.*

INTRODUCTION. This paper presents the case of two firms from the so-called traditional sectors of the Portuguese economy. Here, the term “traditional sector” is understood to refer to that sector which has undergone a historical process of evolution guaranteeing it evident maturity in both market and technological terms, so that it shows a framework of properly established rules of industrial organization and widely disseminated technological assets.

Despite the connotations of the term “traditional”, it is considered both possible and necessary to modernize and revitalize these sectors and firms, in particular, through technological and organizational solutions and through the qualification of personnel. The word traditional is not considered to be equivalent to a low level of technological intensity. On the contrary, the aim is to show that the use of new technologies and the introduction of better management practices and innovation dynamics are crucial for competitive survival and greater profitability. It is on the basis of such premises that, in certain periods, circumstances and regional spaces, these sectors can prove themselves to be strong pillars of competitiveness and national growth and wealth. This is the great principle underlying the case studies summarized below.

ON SMES SPECIFICITY AND DIVERSITY OF CONFIGURATIONS

The ability to innovate is a key for competitiveness of Southern European SMES in a globalizing economy. Especially because of the low-wage level, innovation provides a more promising strategy than competition aimed at achieved the lowest costs. Understood in a broad context, innovativeness is not restricted to high-tech industries alone but can also be achieved by traditional low-tech industries. The contribution of small firms to innovation-led growth and job creation has been of renewed interest in recent years. A large body of evidence shows that SMES, especially young firms, contribute greatly and increasingly to the innovation system by introducing new products and adapting existing products to the needs of customers. This explains why economists have reopened the debate on whether some market and systemic failures disproportionately affect small firms, and why governments have generally increased the priority attached to policies directed towards SMES while focusing them more on the promotion of innovation. These policies must take into account the challenges and opportunities that new technologies and globalization raise for small firms. They must also find the right balance between measures addressing generic problems related to size or newness and more targeted responses that are tailored to the varying needs of the main different types of SMES.

Both scale economies and research and development have become more important instruments for competitiveness in the global economy. Since SMES seem to be at a disadvantage for both these factors, many experts predicted the demise of SME competitiveness as globalization increased. While many SMES have indeed succumbed to a deterioration of competitiveness, others have found ways to actually enhance their positions in global markets. The actual record of the competitiveness of SMES in the OECD countries has been heterogeneous and complex due to the sheer numbers of SMES, which span a broad range of economic activities in a disparate set of industries across different countries

Innovation has also replaced efficiency as the crucial focus of much theory building and policy analysis with efficiency becoming a necessary adjunct to innovation. Yet, despite the increasing attention being given to the role of SMES and innovation there is a hiatus between what is understood by way of the general innovation literature and the extant literature on innovation in SMES. Although there is the absence of a common theoretical basis for innovation research more generally, it is apparent that, notwithstanding this, studies of innovation in SMES have largely failed to reflect advances in the innovation literature. This failure to improve our basic understanding of innovation in SMES is disappointing given that, in Portugal SMES account for more than 95% of the businesses. Our main contention is that a revision of existing research perspectives is not only theoretically overdue in the context of SMES it is of practical relevance, given the continued focus on public policy and money on improving the innovative potential of SMES, particularly in mature Western economies.

Child (1997) proposes a theoretical framework on innovation in SMES that is sensitive to the micro-processes of innovation and the institutional processes reflecting the mediating role of dominant institutions. This is consistent with institutional theory , as innovation is believed to involved the relational interplay of the firm context with the political efforts of actors to accomplish their own ends (see for e.g. Beckert, 1999; Kostova and Roth, 2002).

THE STUDY OF INNOVATION IN SMES

Despite the voluminous literature on innovation in SMES the aggregate benefits has, it might be argued, been marginal in explaining the innovation process in SMES. We suggest that this situation reveals limitations in the theoretical and methodological underpinnings of the majority of the literature, which remains wedded to normative-functional studies based on variance methods. For example, many existing studies limit analyses of innovation and the environment to the study of entrepreneurial traits or structural characteristics.

The relationship between firm-level practice and the external environment represents an important focus of research, which has remained underdeveloped in the existing literature of innovation in SMES. Although it is generally recognized that “innovative SMES have dense external networks involving other firms (mainly SMES) in a variety of... relationships involving infra-structural institutions such as universities and private research institutes, little has been said about these connections over time. Due to their small size, SMES often innovate through interaction with other firms and universities and research institutes (i.e. systems of innovation). SMES collaborate with systems of innovation on regional, national or even international levels, dependant on their knowledge and competence needs.

SPECIFIC FEATURES OF SMES

Regardless of the size of an SME, the spectrum of innovation challenges remains the same (for example, pressure for short-term operational action at the expense of long-term strategic objectives, not-invented-here syndrome, intensity and dynamics of market change, hyper-competition). Similarly, management responses must be timely, flexible and make optimal use of all resources – financial, human and technical. However, SMES have strengths as they are start-ups and medium-scale operations that incite imagination, energy, timely responses to the marketplace, intimate customer interface, and the cohesion established from working towards a shared vision and common goals.

Leadership executives within SMES often create theory as a solution to solving day-to-day managerial problems. By definition, many SMES are innovating to create new products or services (or new ways to reach a market or service a market need). Surprisingly, most of the movement, now described as the knowledge economy, has been born of practice and not theory. Consulting firms and academics are now in pursuit of action research to determine patterns in these modern management practices. We are all learning together.

A TYPOLOGY OF LOGICS FOCUSED ON FIRMS GOALS

We can distinguish two types of entrepreneurs (Julien and Marchesnay, 1990):

Type A – The “PIG” (Perennity, Independency and Growth)

The first preoccupation of this type of entrepreneur is to ensure the perennity of its business

(P). He desires to conserve and to accumulate his patrimony. The firm makes part of its personal owning and family heritage, and he is supposed to act as a bonus pater familia. He would like to transmit the firm to the following family-generation or to sell his company at a good market price. Secondly, this type of entrepreneur wants to remain independent (I). Independency is shown by the ability and free will to sell or not to sell his business. Based on this assumption, this kind of entrepreneur will avoid for e.g. long-term bank lending or the increase of non-family related ownership in order to avoid external intrusions or monitoring over his own business. It will be given priority to self-financing investments. Finally, growth (G) appears as a consequence of patrimonial accumulation but it is not the primary goal as it can put at risk the patrimonial identity.

Type B – The “GAP” (Growth, Autonomy and Perennity)

The second type of entrepreneur looks primarily at the industries growing (G) steadily. Otherwise, it looks primarily at his own activities. By following the product life-cycle, when activities reach maturity some other effects should be taken into account (experience, scale, scope) in order to add value to the capital. This type of entrepreneur is mostly “opportunist” (“high profits and high risks” – a risk-taker profile). Secondly, this type of entrepreneur looks for autonomy (A) in decision-making (conversely, in the PIG case, the entrepreneur looks for independency in patrimony-related issues). The focus will be given to owner’s discretionary power. This type of entrepreneurs doesn’t fear making use of bank-lending or is able to open the ownership of the firm to foreign owners, keeping autonomy in decision-making is a vital issue (rent-seeking behaviour).

Finally, the entrepreneur looks at the perennity of the firm if this allows him to “maximize” profits (he does not look only for “satisfaction”). The GAP entrepreneur is more mobile and more individualist than the PIC. However, GAP could transform himself in a PIG if he is able to protect its own market, lowering the vulnerability (i.e. the industry becoming less accessible, low turbulence, low or managed complexity).

Management and leadership style of GAP is more rooted in integration than in differentiation. He needs to adhere (“adhocratic” style), to participate and to embed himself into the organizational nexus of tacit and explicit relationships. The technological and market veil is crucial for GAP business activities. The information system is more complex and diversified than the one needed by the PIG (that entails many operational difficulties).. In particular, the separation between strategic decision-making and operational effectiveness is not always very clear (there is a great fluidity between activities). The need of flexibility is a key success factor.

In summary, it seems that the entrepreneur’s role determines the management system in SMES. Moreover, in practice, both archetypes of these entrepreneurs – the PIG and the GAP – do not exist in their ‘pure’ way. Both types of entrepreneurs are influenced by contingencies in the environment, such as:

- The influence of the social heritage;
- The influence of the nature and level of education, and previous experience (learning by doing)
- The influence of psychological variables (need of achievement, need of affiliation, monitoring...)

Furthermore, additionally to the entrepreneur’s profile, one should take into account the environmental characteristics in order to evaluate success or failure in such a SMES’ system.

CASE A: MARISPORT¹

In a report, Monitor Company (1994) noted that "...since 1960, foreign distributors, agents and leading European firms have been coming to Portugal in search of low-cost production..." Also, some years before Vasconcellos e Sá (1988) wrote that "...the success of Portuguese footwear exports is due to our capacity to manufacture shoes of a similar quality, but at a lower price than European countries such as Italy, France, Germany and Spain..."

Firms were increasing in number, exports were increasing in quantity and the sector was reaching full employment. All this was achieved on the basis of a model of low wages and had inevitable consequences: at the financial level, the profitability of equity, assets and sales was lost (Monitor Company, 1994); and, at the market level, the marketing capacity was lost (Vasconcellos e Sá, 1988).

This paper tries to understand how a firm from the footwear sector and belonging to a traditional Portuguese industry has performed in this increasingly turbulent market. For the case study, a medium-sized enterprise was chosen with roughly 150 workers.

The first part organized as follows. Firstly, we present a brief description of Marisport. Next, we run through the time from the firm's foundation to the current situation, highlighting the main phases in the firm's life. Thirdly, an analysis is made of the firm's life based on the perception that we have formed of its internal environment. Fourthly, we introduce the external environment that interacts with the firm. Finally, we make some comments on the firm, based on the prospects that, in our opinion, the future may and must hold in store for Marisport.

A BRIEF OVERVIEW OF MARISPORT

Marisport is a footwear firm based in the region of Felgueiras (north of Portugal). It is a family-owned business, so that, to some extent, Marisport has been set up like many other firms in the region for the manufacture of sports footwear. It was, however, able to go further than most of the other firms in its region as a result of its concern with quality, differentiation and learning.

Currently, the firm specialises in men's boots and shoes, its main products being safety boots and shoes made in accordance with the EN 345/93 standard. It was, in fact, one of the first firms in Portugal to manufacture approved safety footwear meeting the requirements of the Community Directive regulating individual protection equipment. In addition to this, the firm also manufactures other types of boots and shoes, namely, the "sailing" shoe, fashionable footwear, "pratic", Goodyear, etc.

The firm has a general daily production of about 1200 pairs of shoes, and amongst its personnel are professionals with qualified technical training in the various sectors. It has modern equipment and therefore offers its clients quality and productive reliability. Over the last 10 years, the firm's employment and turnover have increased, albeit somewhat moderately, and the net results have always been positive over time.

¹ Authors gratefully acknowledge Professor Vítor Corado Simões for facilitating personal documents.

It is essentially an export-oriented firm (more than 95% of turnover comes from exports). The firm has been exporting since 1989/1990, a few months later its foundation. Geographical focus of exports is the EU (Germany, Finland, Holland, England, and Sweden), and Japan.

The foreign market is structured into three main areas:

- Wholesalers, who have their own brands (perhaps slightly lesser-known brands);
- Better-known brands. The firm produces for the brands' stores or even for the wholesalers of the brands or shops;
- Chains of shops.

The firm competitiveness is based on small series. These are, however, of a high quality (far superior to Asian shoes, including Chinese) and deliveries are rapid. According to the firm's managers, this form of competition makes the firm less dependent on fashion, requires less stocking and less financial resources.

HISTORY AND PATH DEPENDENCIES

The firm is located in one of the four main centres for the manufacture of footwear in Portugal. Its legal status is currently that of a private limited company whose shares are divided equally between two brothers, Adriano and Manuel Marinho.

THE EARLY YEARS

The firm's early days were not very different from those of other firms in the same industry and area. In fact, both partners began their activity in the footwear industry at a very early stage, being employed by some of the region's firms. The experience that he had acquired and his own spirit of enterprise led Adriano Marinho to create the firm Manuel Leite Marinho, Lda. This firm began by manufacturing sports footwear in particular, not showing any great concern for quality. This footwear was marketed under the brand names of "Marisport" and "Desportimar".

The range of products was a small one: sports footwear, limited to one or two summer models; and boots in the winter season. The firm sold its products across the country basically in the domestic market through market traders, although most notably in the north. Production capacity was low, amounting to roughly 100 pairs of shoes per day.

Exports began in 1982. These were basically indirect exports in which foreign buyers placed orders with many different small firms, taking advantage of their reduced negotiating capacity. Exports brought tax advantages, but at the same time generated dependence. Products continued to be relatively unsophisticated, although production had moved from sports footwear to men's sailing shoes, whilst boots continued to be manufactured. The requirements of foreign clients (the providers of the orders) did, however, lead to a process of learning, resulting in the abandonment of sports footwear (where prices were no longer competitive in relation to the south-east Asian countries) and a greater concern with quality.

With the aim of reducing dependence on the order providers, the firm sought to enter into new markets through direct exports. Family logic continued to prevail here too: the approach to the French market was made in 1986 through one of the owners' brothers, who had been settled in

France for several years. The experiment was not, however, very successful, largely due to the lack of international business experience. Problems arose with irrecoverable debts, which seriously affected the firm's financial stability.

But one also learns from one's mistakes. As Adriano Marinho now says, "business is not a matter of luck." He has learned by his own that business deals must be prepared in advance, customers must be asked for guarantees (the problem is not just selling, but also receiving) and internal resources must also exist to reduce dependence on third parties. On the other hand, exports bring a new awareness of the need for quality and a knowledge of standards, as well as continuous improvement at all levels and the advantage of escaping competition.

The desire to expand the firm's activity led Adriano Marinho to challenge his brother to set up a partnership. As a result, Marisport Calçado Lda. came into being in 1988. By the end of the 1980s, the firm was manufacturing roughly 500 pairs per day and had practically stopped making sports footwear altogether. There was now a need to adopt a new commercial policy, diversifying markets and establishing new relations.

FOSTERING INTERNATIONALISATION (1990-1999)

In 1992, Marisport entered upon a new phase. The firm managed to establish a relationship with a large North American firm (NOME) that owned the "Dickies" brand and marketed footwear under this name in the United States and the United Kingdom. This improved considerably his portfolio of technological assets.

The relationship with the Dickies brand brought up new opportunities for Marisport in terms of quality and certification requirements and the need for a rapid response capacity. From a run-of-the-mill firm, similar to many others in the Felgueiras region, Marisport was forced to improve his manufacturing technology standards. The commercial relationship began with boots of the casual type and then moved on to steel-tipped safety boots certified by international laboratories.

The leap forward made by Marisport between 1992 and 1994 was remarkable not only at the level of technology and quality, but also in terms of the firm's size and productivity. Sales increased from • 3.3 million in 1992 to • 6.5 million in 1994 and the number of pairs manufactured each day rose from 600 to 1100 (cf.. Table 1).. Labour productivity increased from an average of 5.9 to about 7.9 paris/worker/day.

Table 1. Evolution in employment numbers and turnover (1991-1999)

Years	Turnover (Millions of Euros)	Employment
1991	2.94	124
1993	4.54	118
1995	5.99	142
1997	6.48	152
1999	6.48	160

Source: *Marisport*

The relationship with Dickies continued to develop and even led to the signing of an (experimental) exclusive license agreement for the manufacture and sale of footwear under the Dickies brand name in the Iberian Peninsula. For Dickies, it represented a test of the market in mainland Europe, where the brand was seeking to expand. For Marisport, it was an instrument of penetration into the Iberian market, by using of an internationally recognized brand. However, the results obtained did not match up to expectations.

EXPANDING MARKETS THROUGH THE ADOPTION OF NEW STANDARDS (2000-2002)

After consolidation, there came a dormant phase, in which the firm relaxed under the protection of its two main clients: the holders of the Dickies and POD brand names. By 2000/2001, its clients had fallen away quite considerably and, with their disappearance, Marisport's turnover had also declined, since these two main clients had meanwhile opted for mass production in the Far East, namely China, at much lower prices, leaving Marisport with only small orders.

At the same time, brands' life cycle of the brands, mainly POD, began to decline, leading to a fall in the sales of POD in England with visible repercussions on Marisport's operations and sales.

This situation led the firm to invest more strongly in the commercial area, namely in the search for new clients and new markets. This was a slow process, that only produced results in 2002 with the conquest of important new clients, such as Kickers (English), the Spanish firms Maximo Dutti and Zara (Tempe Group) and the English firm Chellys.

Marisport seized the opportunity and, to some extent, won the challenge of diversifying clients and markets. This diversification represented another important step towards guaranteeing a more sustained presence in the market (cf. Table 2).

Table 2. Exports by countries in relation to the total volume of exports for 2001 and 2002 (%)

Countries	2001	2002	Type of Footwear
England	90	60	Fashion+Safety
France	0	14	Fashion
Spain	0	8	Fashion
Holland	0	8	Fashion
Scandinavia	7	7	Fashion+Safety
Total	97	97	

Source: Marisport

New clients also obliged the firm to make some internal adjustments to its technological processes in order to introduce the fashion shoe and the "Pratic" concept, as well as to make some

technological investments in the factory, namely with the introduction of a new assembly line that allowed for a diversification of supply, together with an increase in production capacity. The change from the “assembled” shoe – which 90% of footwear firms can make – to the “pratic” concept, which requires a more sophisticated type of assembly was an important turning point.

Furthermore, another important change was achieved: the certification his products. This was a process that, despite beginning in 1998, was only completed in 2000. According to its managers, Marisport was the first and, so far, the only firm to be certified in the region of Felgueiras /Guimarães.

The investment in certification was an investment in quality and technical recognition and included the recruitment of a quality engineer and the installation of a technical laboratory. Marisport was given the possibility of competing in another special market segment, namely that of national and international competitive bidding, for which certification is an indispensable requirement, particularly for state-run organizations, as is the case with military institutions and their respective ministries.

In this period, there was a fall in both turnover and employment (Table 3).

Table 3. Evolution of turnover and employment (2000-2002)

Years	Turnover(Millions of Euros)	Employment
2000	6.19	158
2001	5.11	157
2002	5.49	155

Source: Marisport

STRATEGIC OUTCOMES

By avoiding dependency from external stakeholders, Marisport reflects the typical case of a “PIC”. Other major characteristics of the firm include relying on internal resources and diversification of the demand. The firm decides to specialize and to stay in stable growth segments.

INTERNAL CONTINGENCIES

HUMAN RESOURCES MANAGEMENT (HRM)

Workers are predominantly women (60 to 65%). The workers are mostly young (under 32 years old). Generally speaking, their level of educational qualification is low: roughly only 5% have at least the 12th year (equivalent to “A” Levels) of school education, although there are a few managers with degrees.

The management team is dynamic and highly committed. Relations between managers and staff are good and are based on the delegation of responsibilities, although there is a constant concern with team work in order to promote learning, innovation and closer relations with clients.

At the factory level, qualification is low, the prevailing logic being a mechanistic one, with activities being allotted according to typical gender roles. Sewing is done mainly by women, whilst cutting and finishing are typically men's work.

Training schemes have taken place based on specific programmes under the scope of PEDIP (Programa Específico para o Desenvolvimento da Indústria Portuguesa – Specific Programme for the Development of Portuguese Industry). It is also common for the firm to receive trainees from a variety of organizations, such as Universidade Portucalense and Cematex.

Personnel are recruited on the basis of personal acquaintance, especially for production. There is a high level of rotation of workers due to the ease with which work can be found at other firms in the sector, so that recruitment is difficult. Contracts are all definitive, “since nobody would agree to fixed-term contracts”, and pay levels are clearly above the Collective Agreement for the sector. Absenteeism is quite high, at roughly 5%.

ENTREPRENEURIAL FINANCE

In recent years, we can conclude that there is some equilibrium in the firm's finances, but it was also noted that such equilibrium unstable. In reality, there is strong pressure from the firm's current liabilities, namely debts to suppliers and banks. Only with the application, transformation and sale of important stocks will the firm achieve such equilibrium. Which shows to a certain extent that the firm understands that at this moment, and more so than ever before, its concern must be directed towards the commercial side, more concretely in looking for new markets and clients to sell its products to.

At the same time, the share of the costs of goods sold and materials consumed in the firm's turnover increased by roughly 5% from 2000 to 2001, which shows a lowering of the firm's marketing margins (poor financial results).

The lowering of the margins is due to the firm's commercial policy, with its relationship with the market being based on the use of agents. Roughly 95% of the firm's sales are to export markets through the clients mentioned earlier: Dickies; POD; Chellys; Kickers; and Tempe. The firm is therefore dependent on agents resulting in the dramatic fall in marketing margins.

Furthermore, due to its model of financing (the use of short-term borrowed capital) and due to the regular flow of exports from the firm, there is a need to work permanently with the banks, whether through so-called pre-finance operations or through the setting up of guaranteed accounts.

SWOT ANALYSIS

The firm's distinctive competencies thus appear to be centred upon three axes: (i) the capacity to respond to challenges and the ability to learn, stimulating the commitment of personnel, especially managers; (ii) guaranteeing the quality of all manufactured products with close links to laboratories and technology centres, not being afraid of technically difficult and/or sophisticated

orders; (iii) close proximity to the client, through its rapid response and modelling capacity.

The firm's decision to internalize most of its manufacturing activity, thereby reducing outsourcing, has less favourable aspects in terms of finance and production, but, on the other hand, it increases customer loyalty, as their confidence is increased both in the firm and its control of its production process.

Another of the firm's important characteristics is the dynamism of its managers. The management's proactive attitude has brought some success. The firm competes exclusively on the basis of prices and generic technology. In turn, the firm's failures are linked to its bold attempts to enter into new foreign markets without the help of agents or to create and enjoy success with its own brands. For some reason, such experiments did not work, but they have provided the management with valuable international experience.

On the other hand, entrepreneurship was has already proven not to produce the desired outcomes only with the short term focus. Examples of this are the certification process, which took more than two years to implement, the heavy investment in technical and administrative know-how in order to meet the specifications of international competitive bidding, the investment in new technologies in the transition from one type of footwear to another. The firm has also been investing for roughly a year in setting up its own agent in the German market.

In the opposite, the firm evidences some weaknesses. Some of the financial constraints produce a fairly tight financial situation (financial distress). Indeed, in the opinion of the managers, a firm that works with very low margins, as is the case here, takes roughly six months to recover from every bad month that it experiences.

EXTERNAL CONTINGENCIES

Portuguese footwear industry has grown significantly over the last 25 years (cf. table 4). In view of international trends, it is possible to understand why the manufacture of sports footwear was abandoned around 1988. It was not possible to compete against the scissors movement of the major brands on one side and the firms of the South-East Asian countries on the other. Against the brand names, the alternative was to compete in terms of prices, but this option was rendered unfeasible by the competition of products at extremely low prices. Furthermore, sports footwear is subject to a certain seasonality and thus requires the manufacture of complementary products for the Autumn/Winter season.

Following the sports footwear, sailing shoes and assembled footwear, and in response to a major challenge issued by an important client, Dickies, the firm decided in 1995 to begin manufacturing so-called safety footwear.

Table 4. The Portuguese footwear industry in numbers

	1974	1984	2001
No. of firms	673	971	1450
Employment	15,299	30,850	54,000
Production (millions of pairs)	15	48	113
Exports (millions of pairs)	5	31	97

Source: *APICAPPS*

In this sense, Marisport began, as from 1999/2000, to feel that the production of safety footwear was also being shifted to the Far East, especially to China. In other words, large-scale mass production was being undertaken in other areas of the world at substantially lower prices. Once again, for the third time in the life of Marisport, history was repeating itself in three aspects:

1. The loss of the capacity to compete through prices in detriment to other countries, especially in the Far East;
2. The reduction of the safety footwear business to small orders, a situation that had already happened earlier and deliberately in the case of assembled footwear, which the firm did not abandon;
3. The need to once again seek new paths that would give Marisport the capacity to compete in other ways than just through prices.

Once again, Marisport had to find a trajectory that would allow it to escape as far as possible from this strong and permanent threat to the sector in general and to itself in particular. It did so by moving towards the concept of “pratic” footwear, which was closer to fashion footwear and required more elaborate technological processes than assembled footwear, namely at the level of assembly. It also chose to enter the market of international competitive bidding, which required greater rigour at the level of technical specifications and in the whole area of administrative and financial management, as well as certification.

This new experience showed that there were opportunities. It also open new markets (for e.g. United States, Japan and Spain), in particular in the segment of shoes for men. The EU enlargement is considered to be a real threat for firms in the industry and that concerns also most Portuguese firms.

Embeddedness in the external environment has been important for Marisport (governmental and institutional bodies). Marisport has privileged different forms of cooperation. First of all in the municipality where it originated, and thereafter at a national and a foreign level. Cooperation in Felgueiras has proved to be very difficult and almost impossible, except for separate situations in which machinery has been transferred and little else. But the firm is working hard and in some depth on its cooperation with other Portuguese firms (Benedita) for the manufacture of the Goodyear footwear and with Spanish firms for joint ventures in international competitive bidding. Marisport has also managed to create relatively long-lasting relationships with its main clients. Such relationships are based on great closeness, complicity and even some freedom at the level of design, which, to a certain extent, has raised an obstacle to the abandonment of foreign clients.

In addition to what has already been said, Marisport has long maintained close relations and partnerships with scientific and technological bodies of recognized merit, such as, for example, the already mentioned English SATRA Technology Centre, one of the most highly regarded footwear technology centres in Europe, by virtue of MARISPORT being the first Portuguese firm to have products certified by this centre.

In short, Marisport has had a difficult and unstable relationship with the external environment.

Marisport's management has succeeded in fairly quickly understanding the strategic trends and has developed alternative technological and commercial trajectories to those that have traditionally characterized the sector. Although Marisport is not a paradigmatic case of a firm with an almost exclusive culture of production, as is frequently the case in other Portuguese firms, it is, nonetheless, a firm that, notwithstanding its efforts, still has a long road to follow in developing a genuine marketing policy that is suitably adapted to modern times. At Marisport, the exclusive culture of production has never become definitively installed, but some of its predominance has delayed development in other areas of the firm.

In this way, and because there is really a great gap between the two solutions in terms of industrial policy, it would be senseless to tell firms to make this transition completely, when they do not yet have either the financial capacity or even a deep-rooted marketing culture. Intermediate solutions therefore always have to be put forward, although, as Marisport has had occasion to note, the path is difficult and must be based at least on:

In this sense, and within the general panorama of SMES Portuguese family firms from traditional sectors, Marisport is a firm that has found its way in an very competitive market.

MARISPORT: TOWARDS AN “ENTREPRENEURIAL” CONFIGURATION?

Aspects of existing firms can be labelled as “entrepreneurial”. For example, risk-taking, innovativeness, pro-activity, and the recognition and the pursuit of opportunities. The entrepreneurial posture is important because of his high social relevance. Mintzberg (1979, 1983) was among the first to address the issue of the configuration of firms. The “entrepreneurial” mode consists of opportunity-seeking, centralized control, risk-taking and growth orientation. Drawing on previous research, Lumpkin and Dess (1996) developed the “entrepreneurial” orientation that is based in five dimensions: autonomy, innovativeness, risk-taking, proactiveness and competitive aggressiveness. Autonomy refers to the independent decision-making actions to bring forth and idea or vision. Innovativeness reflects a firm tendency to engage in new ideas, experimentation, creative processes that may lead to new products, new technology and services. Risk-taking refers to a firm tendency to venture into uncertain or unknown environment or commit a large portion of resources to ventures with uncertain outcomes. Proactiveness occurs when a firm anticipates the future problems, needs or changes. Competitive aggressiveness is characterized by head-to-head confrontation and aggressive responses to rival actions.

The Marisport case includes most of this ingredients (cf. table 7). The firm is embedded in several formal and informal networks to take advantage of entrepreneurial information. These networks can enable the creation of new opportunities (access, timing, referrals).

CASE B: VULCANO - TERMO-DOMÉSTICOS, S.A.

Vulcano is a firm that was set up after the revolution of 25 April 1974, operating on a licensing basis with the German-based Robert Bosch Group (RBG). We now present the main features of Vulcano's historical evolution, (selecting three periods).

OVERVIEW OF THE HISTORICAL EVOLUTION

THE EARLY YEARS (1977-1987)

Vulcano came into being as a result of a licensing agreement with RBG, permitting the local production of water heaters, thereby circumventing the difficulties existing at that time in terms of import quotas. It should be said that the main driving force behind the formation of Vulcano already had a commercial structure for the sale of water heaters in Portugal.

This period was characterized by the firm's initial relations with RBG, in which the latter provided know-how, spare parts and quality control for the production of its brand of water heaters – Junkers – for sale in Portugal. Vulcano, however, also produced small (5-litre) water heaters for RBG (Vulcano was therefore also its supplier), since RBG saw that it could no longer compete with Vulcano in the lower-price ranges. At first, it might be thought that the full justification for this situation would be the low wages paid. However, this explanation must be seen in more relative terms, since labour costs are responsible for only a 10% share of the cost structure of a water heater. Or, in other words, with the development of the process (in the mid-1980s), RBG was not only a supplier of parts, but it was also a client of the complete product. Vulcano sold to Europe through RBG'S commercial structure. From 1984/85 onwards, Vulcano was already Portugal's largest producer (Junkers brand).

In 1983, RBG took the decision to allow only its own commercial chains to market its brands (including Junkers). In subsequent negotiations, as Vulcano already had its own commercial structure set up, it was agreed that the latter firm would launch the Vulcano brand. Consequently, thereafter, the two brands coexisted in the Portuguese market (a situation that still continues today).

A RISING "STAR" (1988-1992)

As can be seen, Vulcano came into being at a fairly difficult time, and the conjuncture only began to change during the 1980s. At that time, Vulcano was passing through an important moment in its history with the need to take a decision about RBG: whether to sever or deepen its connections. Roughly ten years had passed since the initial contract had been signed and a situation had been reached in which licensor and licensee were at the same level (i.e. with the same production capacity and competency), hence the need for such a decision.

It could be argued that Vulcano did perhaps have the characteristics to become autonomous from RBG, but this was not the opinion of its managers. A strategic partnership was thus estab-

lished, in which RBG was left with the majority of the capital. The agreement was signed in 1988. Only in 1999 did RBG take over the whole of Vulcano's capital.

The period under analysis was one of high growth and consolidation of productive structures. At that time, 150,000 water heaters were being produced in Portugal and roughly 200,000 at RBG. Vulcano became the privileged producer of RBG water heaters. In 1992, one of the group's targets was achieved. It became the European leader. Only in 1992 was the German firm Vaillant overtaken.

FROM A LICENSED FIRM TO A LICENSEE FIRM (1993-2003)

The decision to create an R&D department was taken in 1993. The team was led by a German R&D manager. Much of the firm's success was based on this decision. The firm's main advantage in its competition in the market is believed to be found in its own development [R&D]².

It was as a result of this decision that there suddenly began to appear a set of innovations that were to characterize Vulcano's technological and market evolution: the intelligent water heater (1996); heating boilers (1996); the hydro generator (HDG) (2000) and the compact water heaters (2001). Or, in other words, whilst in 1992 the firm was a leader in terms of quantity, with these innovations (with increasing quality and complexity – unique selling points), the firm became an innovator at the world level.

But the main conclusion of this third phase is not only about the firm's capacity to launch new products. It is also the fact that Vulcano changed from being a licensed firm to become the licensing firm of RBG. Vulcano is now RBG'S centre of competencies for the area of water heaters. The firm has autonomy in the strategic development of the product. In two decades, we moved from being licensees to licensors. Vulcano's first licensing agreement dates from 1996.

In short, the first period was that of the creation of the firm and its licensing; the second was one of growth and consolidation (in terms of production); and the third was the development of competencies.

RESHAPING THE VALUE CHAIN: UPSTREAM AND DOWNSTREAM LINKAGES

Also in the case of Vulcano, access to the market is essential, which highlights the importance of a suitable chain of distribution for carrying out such a task. The Bosch Group's chain of distribution is of major importance in this area. External markets represent 85% of the value of production; Vulcano is present in 55 markets and has direct responsibility over France, North and South America and Africa. The firm has no Portuguese competitors. The following graphs and table summarize Vulcano's positioning in relation to its competitors.

Vulcano's privileged position in Europe – its reference market – should be stressed. Given its cost conditions and state subsidies, China is a threat. There is a systematic benchmarking for this country. However, Vulcano's good cost level and its proximity to European markets are important

² Interview with Mr. Alexandre Silva, corporate director of Vulcano.

advantages. In Europe, the trend towards mergers and acquisitions amongst its followers also represents an important threat (for example, Vaillant has joined forces with Fagor...) (cf. Fig. 1).

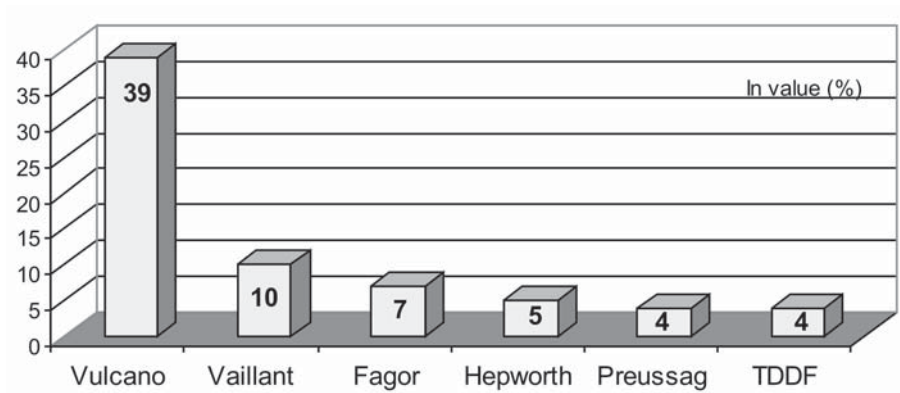


Fig. 1. Market share in relation to main competitors (2001 – EUROPE) (Source: Vulcano, 2002, p. 12)

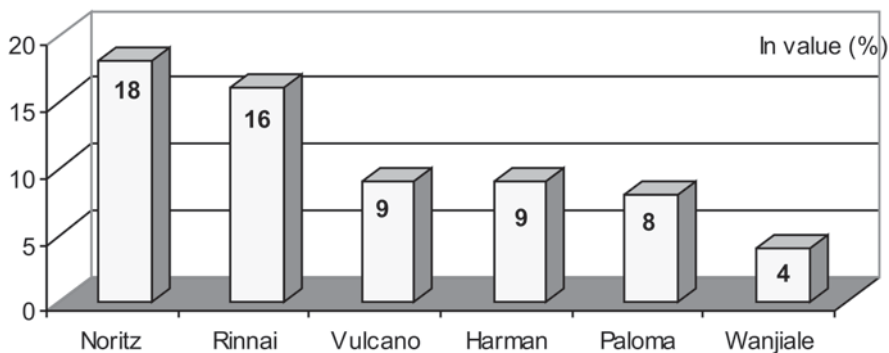


Fig. 2. Market Share in relation to main competitors (2001 – WORLD) (Source: Vulcano, 2002, p. 13)

Table 5. Vulcano’s presence in the world water heater market

	Units	Market share (%)
Europe	955,000	39
China	159,000	4
South America	136,000	21
Africa/Middle East	51,000	25
North America	42,000	55
Oceania	36,000	30
Japan	0	0

Source: Vulcano, 2002, p.14

In terms of market dynamics, the firm has provided an important stimulus, and the outcome was that, after 20 years, the markets are now growing. In turn, the number of customers demanding more and better products increased. This created a new logic that shortened water heaters life-cycle from initially 20 years to only 5 or 10 years. Families can now easily replace water-heaters if the market provides a better product. Therefore, a logic of replacement has been created – a replacement market.

On the other hand, it is important to distinguish the nature of supplies, i.e. to distinguish between raw materials (copper, steel plate, etc.) and components (processed raw materials). The first comes almost exclusively from abroad (essentially Europe – broadly defined -, but also the rest of the world). The second comes mainly from Portugal, although there are special cases, such as Formosa, for example.

ENHANCING ORGANIZATIONAL AND PRODUCTIVITY EFFECTIVENESS

As far as Vulcano’s production is concerned, it can be seen that this doubled at the end of the 1990s, growing at an average rate of roughly 30% per year. This trend has obvious repercussions at the level of production capacity, which is being fully used in permanent terms. The firm has operated far above the level of theoretical/technical capacity, due to existing know-how, which allows for an optimization of the process.

An investment was made at the factory to bring capacity up to 800-900 thousand units/year and the factory rapidly reached 1200 thousand units/year. Therefore, instead of investing in new business premises, Vulcano has invested in people. The firm has invested in processes, systems and skilled personnel (the most highly qualified graduates), with the aim of capturing talent, giving rise to a new dynamics in terms of personnel management.

Yet another aspect should be highlighted in terms of production, one that is symptomatic of the philosophy prevailing at the firm. All workers were given a pamphlet on the Continuous

Improvement Process (CIP) – Seven Principles, with the idea that this would be taken on board by workers and put continuously into practice (rather like “wearing the firm’s shirt”), aiming to improve each individual job and the firm as a whole.

Over the last five years, Vulcano has invested an average of roughly 7.5 million Euros on equipment and tools that make it possible to improve the manufacturing process.

In the case of new products, Vulcano normally replaces all the products that it has on the market (currently more than 800 different references) in the medium term. Thus, on average, 300 new code-numbers are created each year. With an extremely complex logistics, and one that it is difficult to implement, different capacities, different gas valves, different water valves, different types of ignition and gas are combined in the best possible way and existing products are consequently adapted to the market. In this context, a variable geometry production is needed. At Vulcano, 70% of its revenue is obtained with 16% of its references. So why not abolish the other 84%? We don’t abolish them, because this is where our competitive advantage lies, because what we offer is scope. Therefore, the current problem in terms of production is more one of knowing how to manage variety, and less one of managing the production of greater or lesser quantities.

At the organisational level, the information system is vital. The whole process, from the reception of the client to invoicing, is computerised, i.e. the client makes an order; taking into account the product’s resource structure, the system generates the parts that need to be bought and then it generates the daily production plan – which goes as far as invoicing. It’s a sophisticated MRP application. Currently, seven people work in this department.

Apart from information technology and accounting, Vulcano has very few services of its own. The firm outsources the auditing services, cleaning, meals, security, transport, external logistics, or, in other words, everything that is not connected with the core business of water heater/boiler products.

At the end of 2002, Vulcano had roughly 1080 workers, of whom 100 were graduates; 800 worked at the factory (in three shifts). For a number of years, with its highly appropriate and personalised training schemes (technical and behavioural training), Vulcano has been offering more than 30 hours of training each year to each of its collaborators. Capturing the best talents is an important aim in the management of Vulcano’s human resources. The firm has also introduced performance bonuses for its workers. The rate of absenteeism is controlled, with plans existing for its reduction.

The firm has a strategic management plan that is reviewed every two years. This document includes investment plans and plans for approaching the market, and is complemented with Balanced Scorecard tools. In keeping with the spirit of RBG, there has always been a logic of open and frank communication at the firm, both internally (in physical assets, as, for example, the fact that all the offices have transparent glass walls) and in its relations with the outside world (visitors can have access to the actual laboratories). Consequently, all strategic options are formalised in documents: these are clear, well defined and explicit, and are expected to be internalised by the firm as a whole. Only in this way has it been possible to map out a course with such highly elevated targets – especially if we consider that we are talking about a Portuguese firm, even though it is influenced by German business philosophy.

EMBEDDING THE FIRM IN INNOVATION

Being a global player requires permanent feeding of the R&D channel. Vulcano's R&D Department comprises 28 people, with special skills in combustion and modelling. Furthermore, we should take into account what has been designated the "Complementary Group of Competencies", or, in other words, a series of partnerships with technological institutions in Portugal, namely INEGI (Instituto de Engenharia Mecânica e Gestão Industrial – Mechanical Engineering and Industrial Management Institute), INESC (Instituto de Engenharia de Sistemas e Computadores – Computer and Systems Engineering Institute), CATIM (Centro de Apoio Tecnológico à Indústria Metalomecânica – Technological Support Centre for the Metal Machinery Industry) and, more recently, the University of Aveiro.

At the same time, the firm has taken part in some EU-financially supported projects, having become part of a "club" of possible users of technology that is being developed over the medium and long term. The firm finances activities, sets people working and the results then belong to it.

In 2001, Vulcano spent roughly 5 million Euros on R&D, from a total of 170 million Euros in sales. The result is an R&D/Sales ratio of 3.1%, which is an extraordinarily significant figure in the context of Portuguese industry.

Currently, it can be said that Vulcano's vital strategy is that of generating value through innovation. Such innovation must be seen in the broad sense, in which the aim is to manage processes at low costs and introduce high-quality products. From this perspective, innovation must be present in all areas of the firm – which is, in fact, a basic condition for the success of innovation.

To reach these goals, the firm not only had to provide itself with the necessary physical equipment, but also to invest in certain intangible areas, giving special importance to internal knowledge, but without overlooking the value of external know-how.

Vulcano has grown considerably due to public policies – not only in the area of R&D, but also in vocational training and even in the development of the productive apparatus. But we have already paid for this through taxes. Everything that we received was "amortised" in one year's corporation tax.

VULCANO: TOWARDS A "PROFESSIONAL" CONFIGURATION?

According to Mintzberg (1979, 1983), a firm or an organization is driven towards a particular configuration, based on: strength (power) of the various parts of the organization, the ways in which the various parts coordinate, structural design parameters – job specialization, training, formalization, etc – and contingency factors (age, size, environment). Should the firm employ highly skilled workers, producing complex but standard industrial products it will have a strong incentive to decentralize further and to use the "professional" configuration.

Professional bureaucracy relies for coordination on the standardization of skills and its associated design parameter, training and indoctrination (Mintzberg, 1979, 1983), rather than output. It hires duly trained and trained specialists -professionals- for the operating core, and then gives them considerable control over their work. Control over his own work means that the professional

works relatively independently of his colleagues, but closely with the clients he serves. Most necessary coordination between the operating professionals is handled by the standardization of skills and knowledge - in effect, by what they have learned to expect from their co-workers.

As a result of this type of configuration, it seems that to be effective the firm needs more hierarchy not more management (substantial hierarchical division of labour). Career paths have generally been formalized and generally elongated, whilst employment security, if the up-or-out practices are indicative, are declining. These processes are not apparently associated with more bureaucratization, as might be expected.

DISCUSSION AND CONCLUDING REMARKS

Both cases illustrate the difficulties experienced by SMES in traditional sectors in the globalisation of the industries in which firms are involved. Upgrading firms and clusters is essential for emerging economies like Portugal. Traditionally, research on SMES focuses on non-traditional and high tech-industries (e.g. Silicon Valley in the US or Hsinchu District in Taiwan).

By considering the goals of the firm, one can conclude that first case (Marisport) is close of a “PIG” case. The second case (Vulcano) is more likely to be a “GAP” case. According to our analysis, the “PIG” case is associated to an “entrepreneurial” configuration while the “GAP” case is associated to a “professional” configuration (cf. Figure 3 and Table 7).

This study has revealed that it has been possible, conceptually, to model the relationship between the goals of the firm and its strategic configuration. Such “model” gives us an idea about a relative straightforward, iterative and systematic decision. Nonetheless, it is considered that the complexity of the model in itself does not explicitly identify “dynamic factors” or the “supporting routines” that were critical implicit issues and, as such, requires further development.

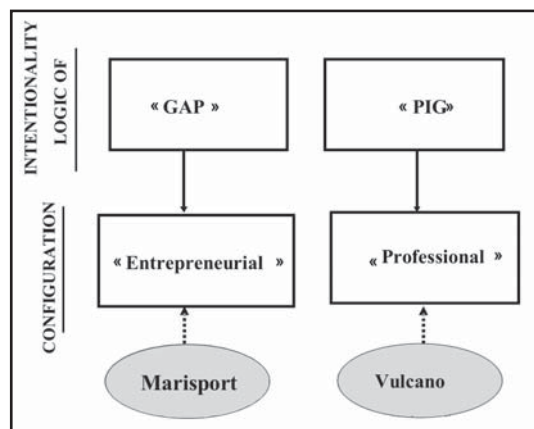


Fig. 3. The PIG and GAP Models and Business Configurations

Table 7. Comparing Both Cases: A Synthesi

	<u>Marisport / "GAP"</u>	<u>Vulcano / "PIG"</u>
Ownership	Family-owned (two brothers) (Founded 1988)	Main shareholder: Robert Bosch Group (Germany) (Founded late 1970s)
Turnover	5,114 million Euros (2001) + 10% (2002)	170, 041 million Euros (ANO ?) + 6.74% (3 years)
Workers	157 (2001)	1200 (ANO ?)
Exports	<ul style="list-style-type: none"> 95% (EM VALOR ?) (initiated in 1982) learning by entering in new markets (e.g. France)	55 markets Around 85% of the production value
Location	Felgueiras (north of Portugal) Footwear industrial district	Cacia/Aveiro (central Portugal)
Competiti on (1975- 2002)	Increasing number of firms in the industry Increasing price-based competition	Rapid technological change No Portuguese competitors China (cost-based manufacturing and state supports) Mergers and acquisitions shaping EU industry (economies of scale, scope and learning)
Activities	Manufacturing of men's boots and shoes (casual and softy) / 1200 pairs/day	Water heaters
Segments	Main : men's boots and shoes (casual and softy) Secondary: "sailing" shoe, fashionable footwear, 'pratic', Goodyear	High-end water heathers
Phase 1 (1980s)	Brand-based competition Not concerned about quality. Reducing dependence from providers Focus on the domestic market Stable Environment Consequences: debts, financial distress (reliance in external resources)	Dependence on external partner (licensing imports from Robert Bosch Group, manufacturing, exports) Influence of the German business culture Competition fierce in the lower-price rangs Government importing quotas
Phase 2 (1990s)	Increasing quality Price-based competition Production of "assembled" boots and "practice" (increasing specialization focus and complexity). Internalization of manufacturing activities Internalization of external resources (technological, certification) Increasing external dependency (exclusive license agreement) Constraints: rising of manufacturing costs Heavy technical and administrative investments Reliance on short-term external sources of finance Long-term trust relations (customers, major scientific and technological bodies and local municipality) Difficulty in achieving local institutional legitimacy	Increasing quality, complexity (suppliers network production, logistics) and variety Internalization and high innovation rate (intensive R&D with 300 new code-number launched each year. From licensees to licensors Cost-competitive when compared with EU competitors Developing long-term trust relations (partnerships with major scientific and technological bodies) Replacement market growing faster and demand for quality Production growing on average 30% per year Payback period: 3 years on average Co-ordination through the information system (SAP, MRP)
HRM (current situation)	"Flexibility" Young workers (mostly under 32 years old) Team work (learning and innovation-oriented) Stimulating managerial pro-activity Mostly undergraduate workers ("A" level) Specialization by genders Training (state programs, EU co-financed) High level of workers rotation High level of absenteeism (> 5%)	High skilled workers Training schemes (technical and behavioural training) Developing an organizational culture Individual stimulus (performance bonuses) Formalization of procedures Outsourcing (auditing, cleaning, meals, security, transport, external logistics) Absenteeism is controlled (tendency for reduction)

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HOW TO MEASURE DEVELOPMENT OF NEW EU MEMBERS'

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ABSTRACT. *The paper deals with evaluation of development level of new European Union members and 3 acceding countries. Authors elaborate existing systems of indicators and modern ranking methods used for indicated purpose. Presented analysis argues for superiority of statistical methods over qualitative ones in process of qualified evaluation of development level achieved by particular countries. New system comprising 12 indicators has been presented. The chosen set of indicators have emphasized three the most important dimensions, which provide stability of countries: economical, social and environmental. Evaluation of development tendencies during the last years of new EU members and ascending countries has been done. Closer look at development level achieved by chosen countries comparing to that of EU-15 has been taken.*

Key words: development evaluation, system of indicators, European Union, new EU members

INTRODUCTION. Evaluation of development level of new the EU entrants and acceding countries have become an urgent issue. At first, equalizing of living and quality standards require of estimation of existing ones. The second, expected synergy of joining of culturally and economically different countries into one alliance could take place in case the process was managed. The third, process of development of each country, especially country in transition, should be measured due to management policy could be corrected, if necessary, as “that good knowledge of the reality of markets, of economic, social and environmental developments, etc., is absolutely a critical element for the success of any policy of an enterprise, of a career“ (Johnston, 2003:1-3).

Hence, the issue of evaluation could be considered as being twofold. On the one hand, enormous amount of information should be estimated and presented in purpose-oriented angles. On the other hand, benchmarking position, needed to compare relative positions of various countries should be adopted.

As scope of presented problem is complex and embraces a lot of discussable questions, authors of presented paper concentrate on new the EU members' development estimation analysis.

DIFFERENCES IN DEVELOPMENT MEASUREMENT OF “OLD” THE EU MEMBERS

The most widely used indicator for countries comparison is GDP per capita. As a necessary condition to being a key economic performance indicator of sustainable development, one of the often - cited limitations of GDP is that it does not account for the social and environmental costs of production; it therefore is not a good measure of the level of over - all well being. Also, with the help of GDP it is hard to evaluate technological development and quality improvements.

Due to the limitations of GDP per capita it became essential to use the set of indicators, which can fill in all gaps and reflect the whole situation and level of development of countries by reflecting all three dimensions: economical, social and environmental.

We need to admit, that there is no other way to measure complex phenomenon than through set of theoretically grounded indicators. ”Indicators can provide crucial guidance for decision-making in a variety of ways. They can translate physical and social science knowledge into manageable units of information that can facilitate the decision-making process. They can help to measure and calibrate progress towards sustainable development goals. (United Nations)

Considering general approach that “we measure what we value, and value what we measure.” (United Nations), the question of prime importance is to decide what to measure. To put it in other way, we need to decide what the best way of country evaluation is, and which statistical indicators should be taken into account and give the most reliable information about the development level.

In accordance with this, let’s start analysis of main systems and methods of statistical indicators used by “old” the EU members.

The next task would be to choose the most relevant set of indicators and evaluate level of development of new the EU members and acceding countries.

There are following main classifications of Sustainable Development indicators:

1. Lisbon indicators (Lisbon sustainable development indicators).

Lisbon indicators are divided in 7 groups:

1. Headline indicators;
2. General economic background;
3. Employment;
4. Innovation and research;
5. Economic reform;
6. Social cohesion;
7. Environment.

2. Eurostat indicators (Eurostat sustainable development indicators).

Eurostat classification of Sustainable Development indicators is very similar to Lisbon classification, but it doesn’t have headline indicators. Eurostat indicators are decided in the same groups:

1. General economic background;
2. Employment;
3. Innovation and research;
4. Economic reform;

5. Social cohesion;
6. Environment.

3. Eurostat task force indicators (Eurostat Task Force sustainable development indicators). Eurostat Task Force Sustainable Development indicators are divided in 10 groups:

1. Economic development;
2. Poverty and social exclusion;
3. Ageing society;
4. Public health;
5. Climate change and energy;
6. Production and consumption patterns;
7. Management on natural resources;
8. Transport;
9. Good governance;
10. Global partnership.

4. United Nations indicators (United Nations sustainable development indicators).

This classification is very different than others. Here indicators are divided in four big groups:

1. Social;
2. Environmental;
3. Economic;
4. Institutional.

5. European environment agency indicators (European environment agency's sustainable development indicators).

6. OECD indicators (Organisation's for economic co-operation and development sustainable development indicators).

“OECD classification has issues, available indicators and Medium term indicators. Issues are these: Climate change, Ozone layer, Air quality, Waste generation, Freshwater quality, Freshwater resources, Forests resources, Fish resources, energy resources, Biodiversity”. Available indicators are indicators for which data are available for a majority of OECD countries. These indicators are: CO₂ emission intensities index of greenhouse gas emission, Indices of apparent consumption of ozone depleting substances, SO_x and NO_x emission intensities, Waste water treatment connection rates, Intensity of use of water resources, Intensity of use of forest resources, Intensity of use of fish resources, Intensity of energy use, Threatened species. Medium term indicators are indicators that require further specification and development (availability of basic data sets, underlying concepts and definitions). Medium term indicators are: Index of greenhouse gas emission, Indices of apparent consumptions of ozone depleting substances plus aggregation into one index of apparent consumption of ozone depleting substances, Population exposure to air pollution, Total waste generation intensities and indicators derived from material flow accounting, Pollution loads to water bodies, Intensity of water resources plus sub-national breakdown, Intensity of forest resources, Intensity of use of fish resources plus closer link to available resources, Energy efficiency index, Species and habitat or ecosystem diversity area of key ecosystems. All indicators are like divided in two groups: natural resources and pollution. But this clas-

sification gives only 10 main indicators and is not comprehensive. There is more attention given to air quality than to other sphere: water, land and others. There are also no coasts, rivers, seas, soil, but if we need just basic indicators, this classification is good and not crowded too much.

7. Statistical indicators benchmarking the information society's indicators (SIBIS) (Statistical indicators benchmarking the information society's sustainable development indicators).

SIBIS classification has 9 groups:

1. Telecommunications & Access;
2. The internet for R&D;
3. Trust and Security;
4. Education;
5. Work, employment and skill;
6. Social inclusion;
7. E-commerce;
8. E-government;
9. Health.

8. Directorate's-General for Enterprise indicators (DG ENTR) (Directorate's-General for Enterprise sustainable development indicators).

DG ENTR classification is different from others. All indicators are divided in two levels: Company level and Member States level. To every indicator is given measure. "There are 13 indicators in company level: Employment, Exploration costs, R&D investment, Transport constraints, Health & safety of employees, Communication to the community, Development of skills, energy efficiency, Water demand, land demand, Land management, Use of dangerous substances, environmental incidents.

Member States level has 7 indicators: Sustainable access to resources, land granted for minerals extraction, Material demand, Contribution to GDP, Trade balance, Sensitivity, External cooperation in sustainable development of the non-energy extractive industry". This classification has some disadvantages. At first from given indicator you can not say what exactly it means. For example, is employment total, males or females? Given measure explains some indicators, but some of them are still obscure. Second indicators are not grouped. They are just divided in two levels. I am analysing Member States, so I use second level, but this level doesn't give the most important information. All given indicators are very obscure: sensitivity, sustainable access to resource and so one. Classification should be more strict and clear.

Complexity of task to choose "right" set of indicators has been illustrated by lack of unanimous approach to considered task demonstrated even by "old" the EU countries.

Hence, each group of countries defines sustainable development in terms of its different components. Other countries rely on flow or capital based models, or on a combination of both. The most common framework adopted by countries is based on the idea of three pillars of sustainability: economic, environmental and social. Indicators in this case are selected to reflect each of these three areas.

Indicated above differences don't mean that countries treat development measurement in principle differently. Vast majority countries use comparatively unified approach to evaluation of development level. Nevertheless, as was mentioned above, different sets of indicators have been

used for practical purposes. Each of these sets reflects the cultural, natural and economic heritage of each country, and is tailored to the specific strategy or plan of that country.

Below we present rather detailed comparison of indicators' sets corresponding to distinguished aspect of development. In the Table 1 a "4" indicates that the indicators' set of a given country contains at least one indicator that is relevant to each specific theme. Assessing whether a country has an indicator pertaining to a certain theme is not always easy because of the diversity of indicators, their different definitions and the different descriptions of the national indicators. There are also classification problems, for example when a country (e.g. the Netherlands) has a multi-dimensional index that is relevant to several themes. (Hass, Julie, Brunvoll, Hoie, 2002:8-14)

Table 1. Comparison of different indicators' sets

UNCS D Categories and themes	<i>Australia</i>	<i>Denmark</i>	<i>Finland</i>	<i>Korea</i>	<i>Netherlands</i>	<i>Portugal</i>	<i>Sweden</i>	<i>Switzerland</i>	<i>United Kingdom</i>	<i>United States</i>	<i>EU struct. indic.</i>
SOCIAL											
• Equity											
Poverty		4	4	4	4	4		4	4	4	4
Gender Equality	4		4	4	4		4	4	4		4
• Health											
Nutritional Status				4							
Mortality	4	4	4	4	4	4			4	4	
Sanitation				4		4		4			
Drinking Water		4	4	4		4			4		
Healthcare Delivery				4		4			4		
• Education											
Education level	4		4	4	4	4	4	4	4	4	4
Literacy						4		4	4		
• Housing											
Living Conditions		4		4	4			4	4	4	
• Security											
Crime			4	4	4	4	4	4	4	4	
• Population											
Population Change	4		4	4			4		4	4	
ENVIRONMENTAL											
• Atmosphere											
Climate Change	4	4	4	4	4	4	4	4	4	4	4
Ozone Layer Depletion		4	4	4		4			4	4	
Air Quality	4		4	4		4		4	4	4	4
• Land											
Agriculture	4	4	4	4	4	4	4	4	4	4	
Forests	4	4	4	4	4	4	4	4	4	4	
Desertification						4					
Urbanization	4	4	4	4				4	4		

(Table 1. Continued)

UNCS D Categories and themes	Australia	Denmark	Finland	Korea	Netherlands	Portugal	Sweden	Switzerland	United Kingdom	United States	EU struct. indic.
• Oceans, Seas, and Coasts											
Coastal Zone	4		4	4	4	4			4		
Fisheries	4	4	4	4		4	4		4	4	
• Fresh-Water											
Water Quality	4	4	4	4	4	4		4	4	4	
Water Quantity	4	4	4	4	4	4		4	4	4	
• Biodiversity											
Ecosystems	4	4	4	4	4	4	4	4	4	4	
Species	4	4	4	4	4	4	4	4	4		
ECONOMIC											
• Economic Structure											
Economic Performance	4	4	4	4	4	4	4	4	4	4	4
Trade		4		4	4	4		4	4		
Financial Status	4	4	4	4	4	4	4	4	4	4	4
• Consumption & Production Patterns											
Material Consumption		4	4	4	4		4		4	4	
Energy Use	4	4	4	4	4	4	4	4	4	4	4
Waste Generation and Management		4	4	4		4	4	4	4		4
Transportation		4	4	4		4	4	4	4		4
INSTITUTIONAL											
• Institutional Framework											
Strategic Implementation of SD		4		4					4		
International Cooperation		4				4		4	4		
• Institutional Capacity											

Source: (Hass, Julie, Brunvoll, Hoie, 2002:8-14)

Table 1 highlights specific country features with regard to sustainable development indicators. All countries include indicators for climate change, agriculture, forests, ecosystems and economic performance. Several include indicators for poverty, gender equity, education, crime, water quality and quantity, species, financial status and material consumption. Only one country has an indicator relevant to desertification. Most OECD countries have already, or are in the process of developing a national strategy or plan for sustainable development. To support these strategies, they often establish indicators to monitor progress being made in their implementation.

The work of international organizations such as the UNCS D, OECD, and Eurostat is contributing significantly to the development indicators at the national level. Testing the proposed indicators in individual countries, providing feedback, and proposing new indicators and methodologies are helping countries to make practical progress towards establishing their own national indicator sets. One problem for international comparability is that countries are choosing selectively from the lists proposed by international organizations: one country's choices from the lists put forward by international organizations do not necessarily correspond to those of another country.

This suggests that international organizations need to focus their efforts on defining indicators at the international or global level, harmonizing data, providing guidance and co-ordination, and building consensus among countries. (Hass, Julie, Brunvoll, Hoie, 2002:8-14)

Talking about development evaluation so far we put emphasis on indicators of sustainable development (having final task to evaluate new the EU countries and acceding ones, we purposefully haven't concentrated on theoretical discussion what sustainable development is).

After rather close look to currently used sets of indicators and aiming to ground shortlist convenient for practical use we are going to continue our analysis in the following way. As indicators of sustainable development vary across the countries, we will overview other systems of development.

STRUCTURAL INDICATORS VERSUS INDICATORS OF SUSTAINABLE DEVELOPMENT

The main statistical agencies- Organization for Economic Co-operation and Development (OECD) and United Nations (UN) provide several systems of indicators: Indicators of Sustainable Development, Structural Indicators and Short-term Indicators. We are not going to stop on Short-term indicators in presented paper, as "it is the long-term that governs" (European Commission, 2002:5-12). It means that system of short term indicators is not the most suitable for comparison of countries development level, because this statistics can't provide a full picture of development process in the time dimension.

The Structural Indicators are politically important socio-economic indicators, covering the policy domains: employment, innovation, economic reform, environment and social cohesion. The European Summit in Nice formally adopted a list of 42 so-called structural indicators. (Keuning, Verbrugger, 2003:7-10)

Table 2. Short list of structural indicators
(Commission of the European Communities, 2003:2-5)

1. GDP per capita
2. Labor productivity
3. Employment rate
4. Employment rate of older workers
5. Spending on human resources (Expenditure on education)
6. Research and Development expenditure
7. Information Technology expenditure
8. Financial market integration (convergence in bank lending rates)
9. At risk-of-poverty rate
10. Long-term unemployment
11. Dispersion of regional employment rates
12. Greenhouse gases emissions
13. Energy intensity of the economy
14. Volume of transport

The European Commission proposed a shortlist of only 14 structural indicators (see Table 2). The shortlist makes it easier to present policy messages and the Member States' positions relative to the key Lisbon targets in the Spring Report thus helping to maintain the momentum of the Lisbon strategy. (Commission of the European Communities, 2003:2-5)

The proposed shortlist of indicators has several advantages. First, the main purpose of the structural indicators, as stated in the Lisbon European Council conclusions, is to allow for an assessment of progress towards the Lisbon objectives in the Commission's Spring Report. A shortlist of indicators makes it easier to present a clear picture of the Member States' positions relative to the most important Lisbon targets. This clarity will help to maintain the momentum of the Lisbon strategy. Using a smaller number of indicators it is also possible to achieve a better coverage of the acceding and candidate countries and to present information on both levels and changes in performance more easily. The shortlist of indicators has a clearer logic. Therefore the policy messages drawn from the progress assessment based on the structural indicators will be soundly based. (European Communities, 2001:2-6)

The list of structural indicators meets the criteria, which have been used for the structural indicators over the last 3 years. The indicators are: (1) easy to read and understand; (2) policy relevant; (3) mutually consistent; (4) available in a timely fashion; (5) available for most, if not all Member States, and acceding countries; (6) comparable between these countries and, as far as possible, with other countries; (7) selected from reliable sources; and (8) do not impose too large a burden on statistical institutes and respondents. (Commission of the European Communities, 2003:2-5)

By accepting provided arguments we need to admit that presented set is more suitable tool for countries evaluation. Eurostat providing comparison statistics refers to this list of indicators.

Comparison of Structural indicators and Sustainable Development ones leads us to conclusion about certain similarities and intersections. The first, both systems have same periodicity – one year. The second both have same dimensions and cover similar areas: economical, social, environmental. The third, some indicators completely coincide in both systems, e.g., GDP per capita, unemployment, poverty rate. Those similarities can lead as to a conclusion that indicators of sustainable development can be treated as one variation of structural indicators.

The main difference, which should be distinguished, lays in targeting of sets being compared. Indicators of sustainable development are more oriented towards evaluation of social and environmental aspects, when structural indicators aim to cover economic side of development.

It should be noted that, indicators of sustainable development haven't been so popular until recently. As it was mentioned, only 22 countries expressed interest in them.

Countries, which are to be analyzed in the paper – new the EU entrants and acceding ones – lack data, which is needed for application of sustainable development indicators.

Consequently, we have chosen approach, which considers incorporation of some basic indicators of sustainable development into shortlist of structural ones. The latter has been used for practical comparisons of new the EU members by the EU.

Now let's concentrate on short list of structural indicators. Examination of available statistical data indicates a fact that data for new members and accession ones lacks statistical coverage. Such indicators as, dispersion of regional employment rate, volume of transport have missing gaps, and another 2 indicators – employment rate of older workers and financial integration - are not presented for acceding countries at all.

Adhering to requirement of statistical data availability, we need to conclude, that out of 14 indicators, which comprise a “shortlist” only 10 could be used for practical purposes.

Despite missing date we can conclude that even 10 left indicators provide possibility to cover and analyze development level (environmental, economic, and social) of considered countries. Having adopted 10 indicators out of 14 suggested, we will complement the set two indicators considered as sustainable development ones, i.e. inflation rate and life expectancy at birth.

As the result of theoretical analysis the following set of indicators suitable for practical evaluation of development level of considered countries has been chosen. (Table 3)

Table 3. Selected list of indicators

1. GDP per capita
2. Labor productivity
3. Employment rate
4. Spending on human resources (Expenditure on education)
5. Research and Development expenditure
6. Information Technology expenditure
7. Inflation rate
8. At risk-of-poverty rate
9. Long-term unemployment
10. Life expectancy at birth
11. Greenhouse gases emissions
12. Energy intensity of the economy

MAIN DEVELOPMENT TENDENCIES OF NEW EU MEMBERS'

Integration of considered indicators into one set of statistically measurable indicators (Table 3) has let to trace main trends and directions of new the EU members development (EUROSTAT data of the last 10 years estimated, depending of availability, has been employed).

Aim is to detect main directions of indicators' change over the time period of accession countries. Statistical values of indicators are not important in this part of analysis. Differences in development levels will be emphasized later

Below trends of indicators are presented (Table 4). Positive (-) and negative () indicators' tendencies give as possibility to visualize, which development directions are characteristic for new EU members and accession countries. Concise reflection of complicated multi-facet phenomenon lets us conclude, that Baltic countries develop towards the majority of directions of our interest. Lithuania among them shows the best results: 10 indicators have positive trends. Next goes Latvia with 9 positive growths of indicators and Estonia, respectively, has 8 positive tendencies.

Table 4. Directions of indicators' change for new EU members and accession countries (time span 10 years: estimated 1993-2004)

	Economical indicators						Social indicators			Environmental indicators	
	GDP per capita	Labor productivity per person	Employment rate	Expenditure on human recourses	R&D expenditure	IT expenditure (for last 4 years)	Inflation rate	Long term unemployment rate	Life expectancy at birth	Green house gases emotion	Energy intensity
EU (15 countries)	100%	100%	↑	~~	↑	~~	↑	↑	↑	↑	↑
Acceding countries	↑	↑	↓	—	—	—	—	—	↑	—	—
Bulgaria ?	↑	↑	~~	↓	↓	↑	~~	~~	↑	↑	↑
Cyprus	↑	↑	↑	↑	~~	↑	~~	↑	↑	↓	~~
Czech Republic	↑	↑	~~	↓	↓	~~	↑	↑	↑	↑	↑
Estonia	↑	↑	↑	~~	~~	~~	↑	↑	↑	↑	↑
Hungary	↑	↑	~~	↓	↓	~~	↑	↑	↑	↑	↑
Lithuania	↑	↑	↑	↑	↑	↑	↑	↑	~~	↑	↑
Latvia	↑	↑	↑	↑	↓	~~	↑	↑	↑	↑	↑
Malta	~~	~~	~~	~~	—	—	↑	~~	~~	↓	~~
Poland	↑	↑	↓	~~	↓	↑	↑	↓	↑	↑	↑
Romania	↑	↑	↓	↓	~~	↓	↓	↓	↑	↑	↑
Slovenia	↑	↑	↓	—	~~	~~	↑	↑	↑	↓	~~
Slovakia	↑	↑	~~	↓	↓	~~	~~	↓	↑	↑	↑
Turkey	—	↓	↓	~~	↑	↓	—	↓	—	↓	↓

↑ - Positive tendency of indicator; ↑ - strong positive tendency of indicator; ↓ - negative tendency of indicator; ↓ - strong negative tendency of indicator; ~~ - indeterminate tendency of indicator; — - no data found.

The following aim was to summarize positive and negative development tendencies due to indicate countries moving faster towards level achieved by “old” European countries. In the table 5 summarized view to development trends of considered countries has been presented.

It should be noted, that development indicators for Turkey haven't been covered sufficiently in EUROSTAT, what, consequently, didn't allow to present generalized characteristics of development mode. Commenting on development characteristics of other considered countries, we need to draw attention, that, e.g. Cyprus, Czech Republic, Hungary, and Poland have the same quantity of indicators of positive tendency: 7 out of 12 go up. Not as good performance (in indicator growth terms) is demonstrated by Romania, Slovenia and Slovakia. Those countries have just 5 growing indicators, while left ones have negative or non- visible trend.

It should be emphasized, that presented type of analysis doesn't provide with possibility to distinguish the best-performers in terms of achieved development level. It aims to indicate a generalized view to modes according which considered countries develop.

Table 5. Generalized characteristics of development mode of new EU members and accession countries (time span 10 years: estimated 1993-2004)

Country	Positive trend of indicators (↑)	Negative trend of indicator (↓)	No visible trend (~~)
Bulgaria	6	2	3
Cyprus	7	1	3
Czech Republic	7	2	2
Estonia	8		3
Hungary	7	2	2
Lithuania	10		1
Latvia	9	1	1
Malta	1	2	7
Poland	7	3	1
Romania	5	2	3
Slovenia	5	2	3
Slovakia	5	3	3

Presented “ranking” allows to distinguish leading country. Cyprus takes 3 the first and 3 the second places. This country shows growth of such indicators as GDP per capita, labor productivity and employment rate, which are considered as being the most important macroeconomic indicators. But what is peculiar, this country occupies last positions estimating by growth of investment percent in R&D and IT.

That returns us to not new discussion about purposefulness of investing into research and development versus investing into information technologies for countries on their way of development. Recall, that evaluation of level of spending on research and development isn't straightforward. On the one hand, adequate R&D funding is commensurate with economic growth as investment in intangible assets could be seen as a major source of productivity growth. On the other hand, the incentives to invest in R&D are also tied to the size of the economy, whether that size is measured as the stock of human capital or the size of the labor force. Larger markets imply stronger incentives to conduct R&D, which in turn leads to faster growth. (Braconier, 2000:244-257).

According to those statements, effectiveness' of R&D expenditure depends not only on the amount, but also likewise on the size of market of the country. Second evidence, which a show how difficult is to evaluate the effect and results of R&D expenditure, is discussed in new growth theory. It states, people devote resources to innovations in the pursuit of above- average profit. The pace of innovation depends on the resources devoted to it. But profitable new discoveries are copied and replicated many times, so their benefits spread throughout the economy without diminishing returns. (Parkin, 1996:31)

In the presented context, it is clear, that importance of spending on information technologies (IT) is beyond question for transition countries, and hence lack of growth in that sector should be evaluated negatively.

Nevertheless, evidences provided by considered countries indicate, that countries can reach good results in economical performance without making big investments in R&D. For example Estonia is the leader by investing in R&D and IT, but it takes only 7th position in GDP per capita ranking. In the same time, such countries as Slovenia and Czech Republic are taking first places by investing in R&D and presenting good results in economical indicators. It shows as, that analysis of connection between GDP and R&D should be continued considering time lag between investments and possibly caused by them results.

BENCHMARKING AND PLOTTING GRAPHICALLY DEVELOPMENT LEVEL OF ANALYZED COUNTRIES

Speculations provided above, prove once more time, how complex relationships between indicators are and how difficult to rank indicators themselves.

Positioning current development level of considered countries requires a benchmark, which would allow estimating relative development state of chosen aspects.

Let's concentrate on Baltic countries. As benchmark we accept level of development achieved by EU-15, it means "old" European countries. In order our chosen benchmark fitted for graphical analysis, we need to select only those indicators, growth of which correspond economic rationale of positive evaluation. I.e. such indicators as inflation rate, total unemployment, green house emotion, energy consumption should be excluded in this respect. Figure 1 presents development level of Baltic countries compared to level achieved by EU-15. Benchmarking indicators represent 100 percent in most cases; spending on human resources, R&D expenditure and IT expenditure are presented as percentage share of GDP, and, finally, life expectance is expressed in years.

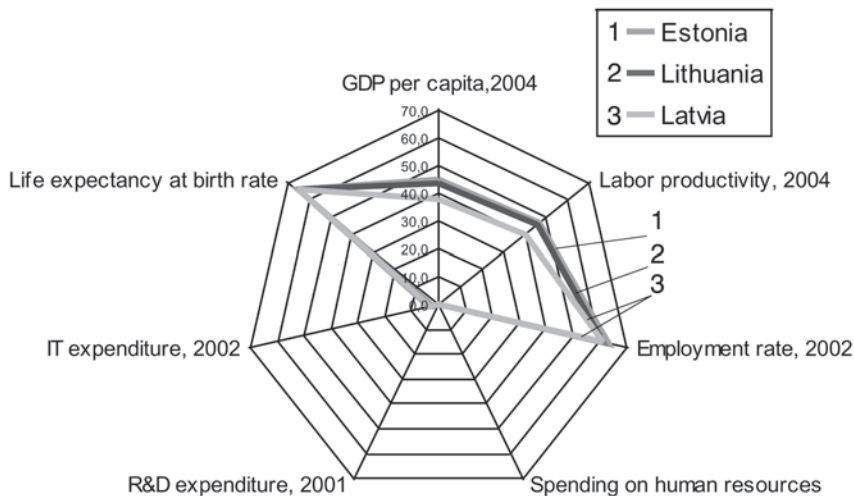


Fig. 1. Development level of Lithuania, Estonia and Latvia

Presented above ranking (Figure 1) evidences the strong connection between Baltic countries. The majority of statistical indicators are rather similar in all 3 countries. To generalize, we could consider them as middle ranked countries, because, it has been shown, they are located in the middle positions. More precise evaluation of their development level leads to conclusion, that Estonia could be treated as the most developed, next goes Latvia and Lithuania lags a bit behind.

The worst performance in terms of achieved development is displayed by Bulgaria and Romania. Their considered indicators take last places. Besides that, Romania has the highest high rate of inflation among acceding countries.

Taking Lithuania, as representative of “average” new the EU member and plotting its indicators on one axe system together with Romania and Bulgaria we can get reflection of development gap (Figure 2). Graphical analysis reconfirms that development of later two countries needs to be accelerated.

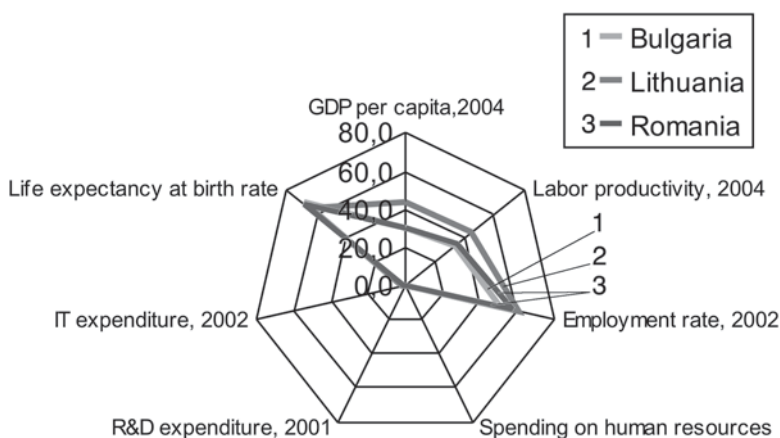


Fig. 2. Level of development of Romania, Bulgaria and Lithuania

Evaluation of development tendencies and comparison of achieved development levels of new the EU members and acceding countries leads to corollary about a big progress, which has been made via integration processes into European Union. Nevertheless, a big gap has still existed between acceding countries and average of EU-15. Graphical presentation of Poland, Estonia and Lithuania (Figure 3) reflects actual underdevelopment especially in terms of GDP per capita, labor productivity, and life expectancy at birth.

Analysis, which has been made above, gives as possibility to evaluate development level of new members of the EU and acceding countries, to compare them by highlighting social, economical and environmental dimensions. Nevertheless, it should be stressed, that this estimation doesn't provide sufficient information, for unanimous ranking of countries. The facets of development are too complex and not always could be objectively estimated, as objectiveness itself could be differently understood from the point of view of different cultural and political prospective.

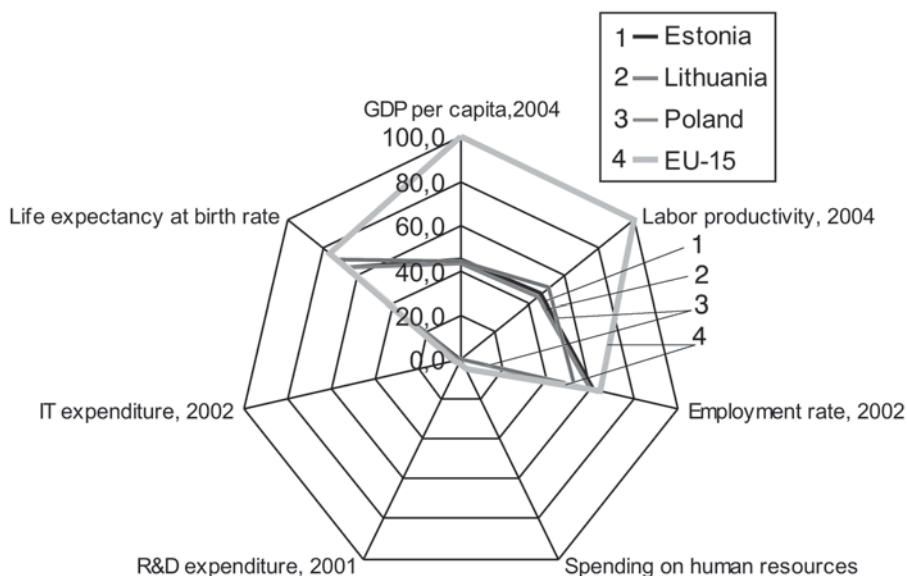


Fig. 3. Level of development of Estonia, Lithuania and Poland related to EU-15

CONCLUSIONS AND POLICY IMPLICATIONS

We based our investigation on assumption of necessity to develop.

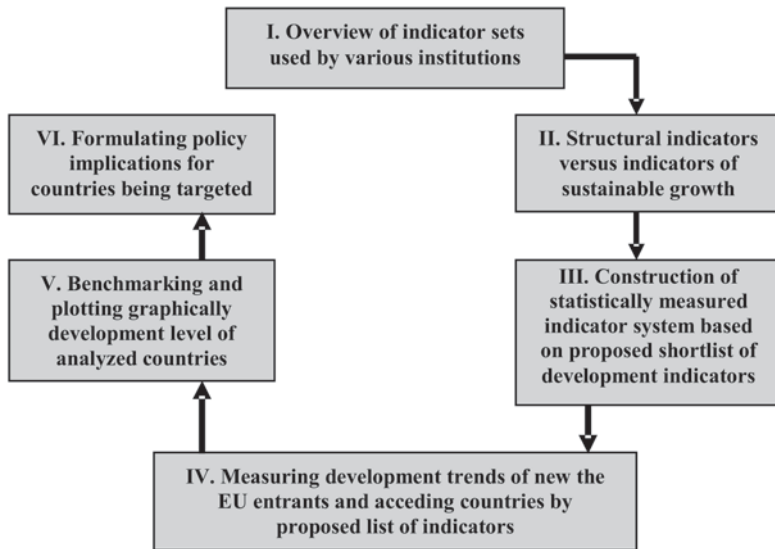
Despite comparatively complex methods are available, the most widely used indicator for countries comparison is GDP per capita. As a necessary condition of being a key economic performance indicator of sustainable development, one of the often cited limitations of GDP is that it does not account for the social and environmental costs of production; and therefore is not a good measure of the level of over - all well being. Also, with the help of GDP it is hard to evaluate technological development and quality improvements.

Due to the limitations of GDP per capita it became essential to use the set of indicators, which can fill in all gaps and reflect the whole situation and level of development of countries by reflecting all three dimensions: economical, social and environmental.

The aim of the paper is to analyze and evaluate existing systems of indicators and on their basis to ground the most relevant set of indicators for evaluation of tendencies and level of development of new members of EU and acceding countries.

Availability of statistical data has been considered as crucial, as - you can manage what you can measure - in process of grounding suitable set of indicators.

The following model of research has been adopted (Figure 4):



Analysis of existing methods and integration of missing facets has led to elaboration of new system comprising 12 statistically measurable indicators.

The available statistical data of each indicator has been collected for the time span up to ten years. This research has overviewed the three different dimensions of the countries' development level: economical, social and environmental. On the basis of 12 indicators, the comparative analysis of development trends and level achieved of new the EU members and three acceding countries (Bulgaria, Romania and Turkey) have been presented.

Elaborate analysis of statistical data let to estimate development trend of each indicator and generalize directions of countries movement towards sustainable development. Providing better transparency of the research, table of main trends of indicators has been created. The table of trends of indicators showed that "GDP per capita" and "labor productivity" has the same tendency of growth in all countries, which were analyzed.

Leading position in rankings belongs to Cyprus. Baltic countries occupy just in middle positions, not taking into account ranking by spending on human recourses and greenhouse gases emission. Also there is need to emphasize, that Estonia takes leading position by investment in IT, what can be very important for the future development.

Romania and Bulgaria displayed the worst performance among all acceding countries. On the way of integration into the EU, a big progress needs to be enforced due to raise level of development of those candidates. Analysis showed that rather big gap between new members and the EU average still exists.

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NORDIC WELFARE STATES: COPING WITH SOCIAL AND ECONOMIC PROBLEMS.

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ABSTRACT. *The Nordic Welfare States has by many been seen as good examples of how to combine flexibility and social security. The Nordic welfare states ability to combine growth, economic prosperity with a high degree of equality has furthermore been a core issue in the presentation of the Nordic welfare states in comparison with other countries – especially in Western Europe.*

This paper will shortly describe the main features of the Nordic welfare state model. Pressures on the model dues to globalization will then be combined with a short description of the development in employment and unemployment in the Nordic and Baltic countries. This due to that the development on the labour market and full employment are seen as a cornerstone of the welfare states ability to ensure economic and political stability.

INTRODUCTION. The Scandinavian Model has been seen as a model, which could combine a high degree of equality with efficiency in delivery, and, at the same time be able to continue its expansion and cope with changes despite the pressure from the gradual more global and international economic development. The model by combining high level of public sector spending on social issues, active labour market policy³ and economic intervention when needed with democracy has been inspiration for many countries around the world. This further due to the relatively high level of economic prosperity.

But pressure, from the internationalisation of economies and the globalisation of nationally defined and managed welfare states, could be a reason for converging trends in welfare states and thereby the end of the traditionally managed Scandinavian model with its high reliance on public financing and universal access to welfare state income transfers and services (Greve, 2002).

Globalisation could also be a reason for developing a better regional cooperation be it, for example, in the Baltic area of the whole Europe. The idea being that if a co-operation exists in regional well defined areas then pressures on the individual state will be reduced.

A pressure from globalisation is it argued is implying that: “the welfare states of the advanced industrial countries should become increasingly similar as the forces of globalisation squeeze them into a market-oriented welfare-state model. In essence it does not matter whether the national institutional contexts are conservative or social democratic, if the welfare state is conservative, liberal or social democratic; or if a leftist or rightist party is in power, the constraints have become so extreme that only market-conforming welfare-state structures will be allowed.” Geyer (1998).

³ This was in Denmark and Sweden even before activation became a buzzword.

This type of argument gained power in the nineties due to the economic difficulties and rising level of unemployment especially in Finland and Sweden. This is one of the reasons for in this paper to look especially at the development of employment and unemployment in the Nordic and Baltic countries.

Even with the increased level of unemployment it seems that "despite undeniable problems posed by economic internationalisation, social democratic welfare states and employment regimes have proven to be highly resilient" (Huber, E. and Stephens, J. D (2002)). This element will be further elaborated below.

Before embarking upon the more specific analysis of the employment/unemployment development the article shortly present the understanding of what a welfare state is, and, herein argues why employment policy is so important. It then proceeds to the discussion on recent labour market trends and ends by offering some brief comments on the differences and similarities both within the region and with the rest of Europe.

WHAT IS A WELFARE STATE

When discussing the impact of changes in welfare policies it is naturally important to know and define what a welfare state is. But then how to define a welfare state? How to define its boundaries, and the connections between it and other aspects of societal development are also important in understanding content of the welfare state.

Historically, the term was introduced already in the 1930's. Despite that, a single, and commonly agreed definition still does not exist (Greve, 2005), and, as Titmuss already in 1962 argued: "The term has apparently come to mean all sorts of thing" (quoted in Alcock et al., 2001). Given that only a very approximate definition of both a welfare state and also on what the Scandinavian welfare state is exist, it is naturally also difficult to agree whether it has come to an end.

Still it seems, though, that in many ways the debate surrounding the changes in the welfare state revolves around the interaction between the relation and shifting boundaries between state, market and civil society. Furthermore, an understanding of what a welfare state and society is includes how the society deals with essentially democratic decisions on issues such as economic prosperity, employment, housing, health, social security and education. In this way the interpretation of what a welfare state is can vary across countries. This is also why that in many ways the theoretical discussion on clustering and making typologies of welfare states has been so elaborated. Many variations exists of welfare states around in Europe - and also outside Europe, cf. also Abrahamsson, Boje and Greve 2005, in relation to especially family policy. Variations often revolving around state, market and civil society's involvement and financing of the welfare state.

These variations in the understanding of what welfare states is can also help in explaining the debate on whether the Scandinavian welfare model is in a crisis, and at the same time it is an indication of the high emphasis on the state's role in the model. Furthermore, "on the rhetorical-ideological level the welfare state has also been claimed to undermine individual initiative, threaten economic prosperity, create 'dependency culture' (as if the market, the family and voluntary organisations do not create dependencies)" (Kuhnle ed., 2000). This conflict has not only been in

relation to income transfers, but especially been clear in the understanding and interpretation between different ways of delivering services (especially state and/or market) as this can be seen as a conflict over who is to be responsible for delivering the different services. Changes herein can be witnessed also in the Nordic countries, and an increase in the use of private providers has taken place.⁴

The balance between state, market and civil society might further help in explaining why many countries label themselves welfare states, even though with a very different approach to delivery and financing of the activities than in the highly service oriented Scandinavian Welfare State with a high degree of state financing.

Central to the understanding of the Nordic welfare states is the characteristic of a high level of employment, including female employment, high levels of taxation, generous social benefits and a low degree of wage differentiation and income inequality (Scharpf, 2000). This is a further reason for looking specifically at the situation at the labour market. Despite the central emphasis on the labour market the Nordic welfare states have also been looked upon as welfare states were the ability to have a decent living standard also outside the market has existed - the so-called de-commodification - effect of the welfare states.

Despite the term the welfare state is not a single clearly defined element, the above discussion indicates some core aspects of the welfare state. It also emphasise the option and abilities to get access to the labour market, despite that the universalistic approach in the nordic welfare states in several areas of the welfare state imply that they do to a lesser degree need access to the labour market in order to be guaranteed a decent living standard. At the same time the labour market is seeing as a core element in integrating people in the wider society and therefore active labour market policy has been part of the Nordic approaches in many years.

The next section will thus look at how the nordic and Baltic countries do in relation to important issues on the labour market.

⁴ For a recent overview of central aspects of the Nordic countries development cf. Nordic Regional Issue of Social Policy & Administration, vol. 38, No. 2, 2004 edited by Bent Greve

LABOUR MARKET INDICATORS

In table 1 some important element of labour market situation in the Nordic and Baltic countries members of the EU are presented.

Table 1. Labour Market indicators 2004 for The Nordic and Baltic countries in the EU

	Employment rate 15-64	Unemployment rate	Employment growth	Youth Unemployment 15-24
Denmark	75,7	5,4	0,1	5,6
Estonia	63	9,2	0	7,5
Latvia	62,3	9,8	1	6,8
Lithuania	61,2	10,8	0	5,9
Finland	67,6	8,8	0,1	10,3
Sweden	72,1	6,3	-0,5	8
EU25	63,3	9	0,5	8,2

Source: Eurostat online employment indicators, <http://epp.eurostat.cec.eu.int>.

Table 1 indicates a clear pattern and division between the Nordic and Baltic countries. A higher employment rates in the Nordic countries, and the Baltic countries being on the average EU-25 level. Unemployment rates are also higher in the Baltic countries, although Finland has a level close here to. Regarding unemployment for the elderly between 55-59 we do witness a higher level in the Baltic countries. The overall level of unemployment in Sweden and Denmark is clearly below the EU-25 level and in this way confirming the thesis of the Nordic welfare states being distinct in relation to employment.

On the other hand when it comes to the creation of new jobs only Latvia is above the EU-25 level with Sweden lacking clearly behind. Naturally, in all areas and cases historical trends and developments have an impact on how the situation is and can be expected to be in the future.

Whereas the picture in relation to employment and unemployment in general confirms the picture of the Nordic model, this is less so when it comes to youth unemployment. Here the Baltic countries and Denmark have the lowest level, and Finland even having a level above the EU-25.

This illustrates that despite welfare models and typologies do give one indication of the direction and structure of a country's welfare profile, it doesn't imply that this is the same in all areas.

In table 2 is shown another dimension of the nordic welfare state, and, then again compared to the Baltic countries: the gender pay gap.

The data in table 2 indicates that the Nordic countries do not perform better than the rest of EU - despite the often expected better position in relation to and ability to achieve a high degree of equality also between men and women. It has naturally to be borne in mind that the differences are very small. Indicators of inequality as measured by the gini-coefficient do although still points to that the Nordic countries (cf. EU:Joint Report on Social Inclusion, 2004 and Joint Report on Social Inclusion in the 10 new member states, EU, 2005) have a higher degree of equality than the other countries.

The pictures of how the various countries wish to maintain a welfare state can, although only more indirectly and with difficulties, be indicated by an overview of the spending on social

security. In table 3 spending on social security in 2001 in percentage of GDP and in purchasing power parities pr. inhabitant in 2000 shown.

Table 2. Gender pay gap in the Nordic and Baltic countries 2003

Denmark	18
Estonia	24
Latvia	16
Lithuania	17
Sweden	16
EU-25	15

Source: cf. Table 1. Note: Data is not available for Finland.

Table 3. Spending on social security in the Nordic and Baltic countries in % of GDP and in purchasing power parities pr. inhabitant.

Country	% of GDP in 2001	Pr. inhabitant in PPS 2000
Denmark	29,2	7641
Estonia	15,1	1297
Latvia	15,3	1123
Lithuania	16,2	1285
Sweden	30,8	7623
Finland	25,5	6007
EU25	27	5335

Source: Eurostat new cronos from <http://europa.eu.int/comm/eurostat>

Table 3 indicates a clear and distinct pattern of spending. Not only is the level pr. inhabitant low, but also a lower percentage of GDP is spent on social security in the Baltic countries compared to the Nordic countries.

The data thus to a high degree confirms that a distinct Nordic model still prevails, cf. also Greve, 2004. At the same time the data indicates that the Baltic countries in part of these areas have the same performance, but this naturally do not inform us about structure, institutional differences and whether we are witnessing a convergence between the countries.

CONCLUSIONS

The Nordic model in relation to welfare states seems still to exist. It has ensured a high level of employment combined with a relatively low level of unemployment. The equality in general is still high compared to other countries, whereas in relation to gender aspects there is still a way to go.

The Baltic countries do also still have scope for changes and improvement especially at the overall level of unemployment and spending on social security, but as shown the gender pay gap is on line with the Nordic countries.

This short article, with only a few data, does naturally not tell the full story. The devil is often in the detail, but it reminds us that welfare states can have different approaches and a historical understanding of what a welfare state, and at the same time be able to continue this despite the more open economies and global impact on the different countries.

Open economies integrated in the European development will naturally have less room for very diverse development than other countries, but still the long time the Nordic countries have been member of the EU, and, the way they have been able to keep the distinctness of the Nordic model indicates that countries do have a choice between various pathways also in the future.

The historical development in the Nordic countries furthermore points to that it is still possible to combine flexibility at the labour market with a high degree of economic security and equality in the society. Globalisation and the internal market in Europe is thus further not necessarily a threat to the continuation and development of the welfare states, but more a challenge to find pathways for how to combine small open economies as the Nordic and Baltic with a social policy which ensures access to the labour market and a decent living standard for all in the society.

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PROBLEMS OF ENVIRONMENTAL SAFETY OF UKRAINE

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ABSTRACT. *This article dwells on the problems of environmental safety in the context of the ecological recourses situation in Ukraine and the problems of economic management of the system “Economics-Ecology”.*

The problems of environmental safety of Ukraine are called forth by rather misbalanced system “Economics-Environment” (nature resource potential)

The consequences of the man-caused type of economic advancement in their hypertrophied form appeared in Ukraine i.e. the development without taking into account ecological limitations according to “cowboy economics” model.

To these consequences, first of all, we should include the following:

- Extensive environment pollution, exceeding assimilating capacity of the natural objects (atmosphere, hydrologic system and land resources)
- Fast and consumptive usage of the unrenewable natural resources and over-exploitation of the renewable natural resources, hat is leading to the deficiency of such vitally important resources as fuel-energy and hydrologic system.
- Abrupt deterioration of the demographic setting

Modern ecological-resource situation in Ukraine should be appraised as very antropogenically tense, and in some regions e.g. littoral, including 6 administrative areas and Crimea even ecologically critical. So over polluted areas occupy 15 % of the territory of Ukraine (Donetsk and Zaporozhyya regions, northern part of Zhytomer and Kiev regions, southern part of Lugansk and Dnepropetrovsk regions)

For the last 30 years, twenty thousand rivers, out of seventy thousands existing in Ukraine, disappeared. 70 % of examined lately water objects are polluted. But in our opinion the given appraisal is underestimated. According to the existing national water assessment just 6 % of the coastal waters of Black and Azov Seas are conditionally clean. The area not spoiled by the economic activity in Ukraine makes 27,4 %, at the same time in Russia – 47 %, in Canada – 65 %, in Germany, France and Great Britain – 32 %.

The country is very poorly supported with the strategic natural resource: water supply and fuel-energy resources. So the water supply a year per one citizen in Ukraine makes 1,02 thousand m³/year (table 1), at the same time in Russia this figure makes 28 thousand m³/year. In certain regions of Ukraine, in particular, littoral, this figure is even lower - 0,1-0,4 thousand m³/year. [1] this situation, according to the international standards, is considered to be negatively extreme. The problem of the water-supply is worsened by the maldistribution of water resources on the

territory. (table 1) For example: in more than 260 settlements of Odessa, Nikolayev and Kherson regions and Crimea water-supply is based on the brought water. There is but one source of water-supply in a whole series of industrial centers (Nikolaev, Simfiropol, Sevostopol). This fact puts the guarantee of the water-supply under the threat. At that the fouling factor of the surface water sources with a certain number of substances is 2 and frequently 10 times exceeds maximum concentration limit. As a result typical water treating facilities are unable to provide proper drinking-water supply quality. The reserves of the sweet underground waters, for example in Odessa region, in the 15 out of 26 settlements are nearly worn out.

Table 1. Comparative assessment of the water supply of Ukraine

Country, area, region	Water storage in the average water-content year, m ³	
	per 1 km ² of the area	per 1 citizen a year
Ukraine	82700	1020
Littoral area including:	16233	265,3
Odessa region	10970	142
Nikolayev region	20300	411
Kherson region	5100	131
Crimea	30700	402/80*
USA	207000	8700
France	332000	3060

**Notes: taking into account recreational use of water.*

The deficiency of the water supply hindrances the development of the perspective seashore recreational areas in Odessa and Nicolayev region (Korolino-Bugaz, Sergejevka, Rybokovka, Koblevo)

Proper energy supply will be enough to meet just 20-25% out of existing in Ukraine necessities (table 2), forest resources will satisfy 30-35 % of the wood requirements.

The deficiency in the resources will reflect not just in economics but also in political and sociological consequences.

So, the growing of the energy-constituent significantly influenced the functioning profitability of the energy-dependent brunches. With that, just 5 % of the gotten minerals are productively used, all the rest go as a waste-pollutant to the environment.

Table 2. The state of the fuel balance of Ukraine.

	Units	Consumption	Production	Import	Export
Coal	mln. t.	85,3	83,8	9,275	0,58
Petroleum, including gas condensate*	mln. t	15,0	4,1	6,86	
Natural gas	mln. m ³	78300	18200	589,5	138,4
Peat	mln. t	0,9954	1,3	-	-
In total	mln. Tone of standard coal	90085,3	20969,4	693,3	159,435

The unfavorable ecological situation is accompanied by the negative demographic figures. According to the statistics reports the increase of the population in Ukraine is 3 times less than in the average in the world. The life interval in Ukraine is 8-10 years shorter than in developed countries. The morbidity growth tempo increased lately at 35-40 % mostly for the sake of the malignant growth, cordial diseases, bronchial asthma, diabetes and allergies.[4]

Nowadays the negative tendencies dominate in the development of “economics – natural resource potential” system as well. In particular the resource-intensiveness of Ukraine increased lately at 10-27 % (table 3) but even before this period the level of the natural resource usage was higher than in the other countries. For example the energy-intensiveness of the end product in Ukraine was 11 times more than in Japan, 7 times than in Germany, 4 times than in USA, 3,2 times than in Brazil, 1,6 times than in India. [3]

The industrial structure greatly worsened toward the growth of the ‘ecologically dangerous’, ‘ecologically pollution’ enterprises. We could name here the extractive industry and the slaughtering of the extracted resources. The part of the ‘ecologically polluted’ brunches increased in 2,2 times during the period of 1990-2002 yy, and made 60% in the industrial structure.

It is very difficult to evaluate tendency in the damage amount dynamics of Ukrainian economics, as the reports appoint just the data about the damage and the inspection committee of certain nature protecting organizations make these reports. The reports testify just their work. For example we have calculated the economic damage caused by the water getting into the Black and Azov Seas from the coastal objects, and it makes 1,5 milliard grn. and 2% considering external gross output, the same time as the summary damage, shown in the Ukrainian statistics it respect of the external gross output makes just 0,2-0,06% (table 5).

Table 3. Resource-intensiveness of the economics of Ukraine.

№№ number	Resources	unit	Resource-intensiveness pf the economics (specific expenses of the resource for the production of GDP)			
			1990 y.	2000 y.	2002y.	2003y.
1.	Electrical energy*	kw/grn	0,74	1,01	0,89	0,85
2.	Petroleum	t/1000grn	0,176	0,055	0,112	0,109
3.	Gas	m ³ /1000grn	295	402,4	336,4	343
4.	Coal	kg/1000grn	338,2	372,4	322,6	318,6
5.	Steel*	t/1000grn	0,14	0,19	0,18	-
6.	Iron ore*	t/1000grn	0,27	0,32	0,3	-

**on the production*

Table 4. The dynamics of the sectoral structure of industry.

№№ III	Sectoral structure of industry	The part sectoral output in the entire production capacity of the industry, %		
		1990 r.	2000 r.	2002 r.
1.	power industry	3,2	12,2	13,2
2.	fuel industry	5,7	10,1	10,5
3.	ferrous metallurgy	11,0	27,4	
4.	non-ferrous metallurgy	1,1	2,5	20,5
5.	chemical & petrochemical industry	5,5	5,8	6,6
6.	mechanical engineering & metal processing	30,5	13,2	12,1
7.	woodworking & pulp and paper industry	2,9	2,3	-
8.	building material	3,4	2,6	-
9.	light industry	10,8	1,6	1,6
10.	food industry	18,6	17,4	19,1
11.	other	7,3	4,9	-

At the same time according to the account of some specialists the part of the factual damage with respect to the eternal gross output – about 18%. Consequently we should establish the fact of the account fallibility of the economic damage in the functioning international system of accounts.

Table 5. The damage-intensiveness of economics on the basis of the international system of national accounts data (System of National Accounts).

№№	The type of the damage	2000y.		2002y.	
		Summary damage in Thousand grn**	Specific damage, kop/1000 grn. Of GDP***	Summary damage in Thousand grn	Specific damage, kop/1000 grn. Of GDP
1.	Damage as a result of violation nature-conservative norms and rules				
	–Ukraine	36196	24.4	32414.9	14.4
	–including Littoral region	23130,7	52.4	11452.2	
2.	Damage as a result of accidental pollution of environment				
	–Ukraine	74825,5	50	11964.4	5.3
	–including Littoral region	16170,8	36.1	8878.0	
	Total damage Совокупный ущерб				
	–Ukraine	110994,5	74.5	44379.3	19.6
	–Including Littoral region	39301,5	88.5	20330.2	
	The part of joint damage of GDP (%)				
	–Ukraine		0,06		0.02
	–Including Littoral region*		0,08		

* The part of the total damage accounted on the Littoral in the general capacity

** Factual prices

*** Converted to price index

Gross Domestic Product (GDP) of Littoral.

In comparison to 1990 we could observe the increase of the pollution intensity of the atmosphere at the 18% in spite of cutting down of the emission at 51%, connected with the setback in the production.

Accounting above-mentioned arguments, negative changes of the industrial structure and the fact that the part of the ecologized technical means in the technical innovations makes just 30-35%, it is obvious that the tendency to the increasing of the damage capacity of the economics is characteristic for Ukraine.

Consequently the scenario of the development of Ukrainian economics is based on the conception “economic growth without economic development”. Plus we may observe the growth of the disproportion between the tempo of the economic growth measured according to the index of GDP, and damage-intensiveness in respect of GDP. So having the average annual growth tempo of GDP, observed now in Ukraine in the amount of 6-9 % (table 6), the factual damage will make 18%. At the same time, in the developed countries of the world this ratio according to the empirical evidence is the following: the growth tempo of GDP – 1-2 % the economic damage will make 6% out of the amount of GDP.

Table 6. GDP Indexes (for previous year).

GDP	2000 г.	2001 г.	2002 г.	2003 г.
Joint	105,9	109,2	105,2	109,4
per head	106,7	111,1	106,3	110,3

So we should suppose, that saving modern, above-mentioned economics development tendencies, ecological situation will be worsened even more. First-rate ecological resource problems are shown in the fig. 1.

In Ukraine Ecological factor began not just restraining of the economics but also threatening vital functions. Thereupon there was a approved a bill “About a zone of emergency ecological situation” in Ukraine (2000y. Verkhovna Rada № 1908-III dated 13,07,2000). Ecologically critical areas of Ukraine were appointed. The Littoral area is among them, though its part in the Ukrainian economics is very significant. They produce about 30% of GDP here.

Thereupon, starting with the 90-s of the past century, great attention is paid to the nature management in Ukraine.

At that the strategic management goals are based on the wide spread ideology of the transmission to in workmanlike manner new type of the economical system development. It is called stable. In our opinion the main goal of this ideology is to regulate economic-ecological systems for their harmonically balanced development. “Ecologization of the economics” is considered to be the main tendency of the transferring to the new type of development.

We consider the following processes to be natural for the realization this tendency.

- Forming of the three-star economic structure. This process presumes creating the third section in the economics - the ecological industry (ecological infrastructure), besides sections of the material production and services. It will assure the recreation of the natural resources potential;
- Ecologization of the man-caused basis of the economic activity;
- Ecologization of the spiritual sphere of activity through the system of the ecologic education of the state population;
- Including of the ecological factors into the system of the finance-economic relations, i.e. accounting of the ecological constituent in the system of the economic indices on both macro- and micro levels.
- In our opinion, the strategic aim of the management of “economics ecology” system is making these processes active. The management effectiveness depends mainly on the degree of the scientific argumentation of the mechanisms, tools used for influencing the economic-ecological relations.

Now in Ukraine the transfer from command-administrative management methods, a priori ones till the beginning of 90-ss, to the administrative-economic ones. The Drawing 2 presents the totality of the administrative and economic methods of nature management, active now in Ukraine. But the usage of this mechanism do not give the expected result, that is improvement of the resource-ecological situation, in spite of deployment of the administrative methods.

What is the cause of this phenomenon? First of all we should mention that the administrative methods are inseparably and naturally connected with the economic methods. They are

based on the economic methods and we think it will be correct to call this mechanism an economic one.

At that the existing normative economic basis is rather polysemantic and paradoxical. For example the assessment of the economic damage caused by the disposal the same polluting substance into the sea, differ in dozens of thousands times, depending on the sources, though it is calculated by the same acting methods. Working compensation mechanism (indemnification of the caused damage) acceptably corresponds with the work system of the feeing for the pollution of the environment.

Normative fee for the resource usage is theoretically baselessly uniting two heterogeneous constituents “rent-creating” and “environment-creating”. In the same way the process of the distributing of the fee is theoretically wrong. “Rent-creating constituent” is not a result of the economic activity, but it is an income of the natural resource owner. This very reference is the basic one, during the state’s choosing the strategy considering the modern meaningfulness of the different forms of property of natural resources. “Environment-creating constituent” should be observed from the renewing point of view, i.e. as the financial source for the recreation of the natural resource potential, similarly as capital allowances for the basic funds. In this case we consider the natural-resource potential to be the production factor, i.e. as ecological capital (economical resource).

This way ineffectiveness of the mechanism of nature management is mainly connected with the insufficiently elaboration and imperfectness of the theoretical-methodological basis of the economic mechanism and its tools. In our opinion, on the modern stage this very problem is considered to be key one in the complex of the ecological safety problems. Economic mechanism, first of all should activate the most important, global process of the including of ecological factor into the system of economical relations. This will allow working out new unified, criteria showing for the economics development in different countries from the point of saving of planet’s ecosystems.

Nowadays there is no systematic approach to its forming, presuming mutual interconsistency, intermateablility, complementariness of the certain tools (economic methods fig. 2) it is presumed in this case to use the functionally aiming approach for forming of the theoretical-methodological foundations for certain tools.

The system of the payments for the nature management has the great importance. It is called to fulfil the function of supplying stable funds for the recreation of the ecological capital in the context of the economic resource. The mentality of the nature resources user should be completely changed: “ecologic expenses” should be considered as amortized deductions and compulsory taxes as socially necessary, productive expenses, without which mankind would lose their natural basis for existence.

But at the same time, basing on the figures of the modern statistics we have found negative tendencies in the dynamics of the “ecologic expenses” of Ukraine. The lessening of the part of the ecologic expenses in GDP is observed though in the absolute counting they grow. (table 7). We think that it is the explanation for the damage-intensiveness of the economics

Table 7. “Ecological expenses” in the modern Ukrainian statistics

№№ III	showing (in million grn.)	1997 г.	1999 г.	2002 г.
1.	Present-day main measures	1628,4	2248,7	3067,5
2.	thorough repairs of the main nature-conservative means	145,9	175	241,3
3.	Investments for protection measures & rational usage of nature resources (nature resource potential)	221,8	174,8	259,2
	Total ecological expenses	1996,1	2626,3	3568
4.	The part of the ecological expenses in GDP	2,1	2,0	1,6

The problem of the feeling for pollution system reformation in the context of the Ukraine Kioto protocol becomes especially actual. The matter is, that existing fee-collection system does not stimulate introduction of new progressive atmosphere-protecting equipment on the level of management subjects. We should notice that, having given the benefits to the countries with the transitional economics, the countries-participants of the Kiotî protocol did not foresee the adaptation of the conditions and principles of the protocol flexible mechanism working concerning these countries (they should be special conditions and principles). Thereupon modern "benefit" may turn into a catastrophe for the courtiers of the postsoviet area in the nearest future.(huge budget expenses for purchasing of emission rights)

In our opinion it is expediently for the counties like Ukraine, during the period of these benefits to create scientific material and technical basis for development of the alternative energy, creating of the progressive, corresponding the world standards of the atmosphere protecting equipment, created on the basis of flexible mechanism of common implantation. It would be beneficial for the world community, because the possibility to lower prices for certain technical devices would appear. A certain number of economic factors would cause it. Consequently it will allow to decrease dividend "ecologic expenses" and to start forming international ecologic infrastructure.

Above mentioned environmental safety problems should be observed in the context of the important global problems, to solve which the international cooperation is necessary.

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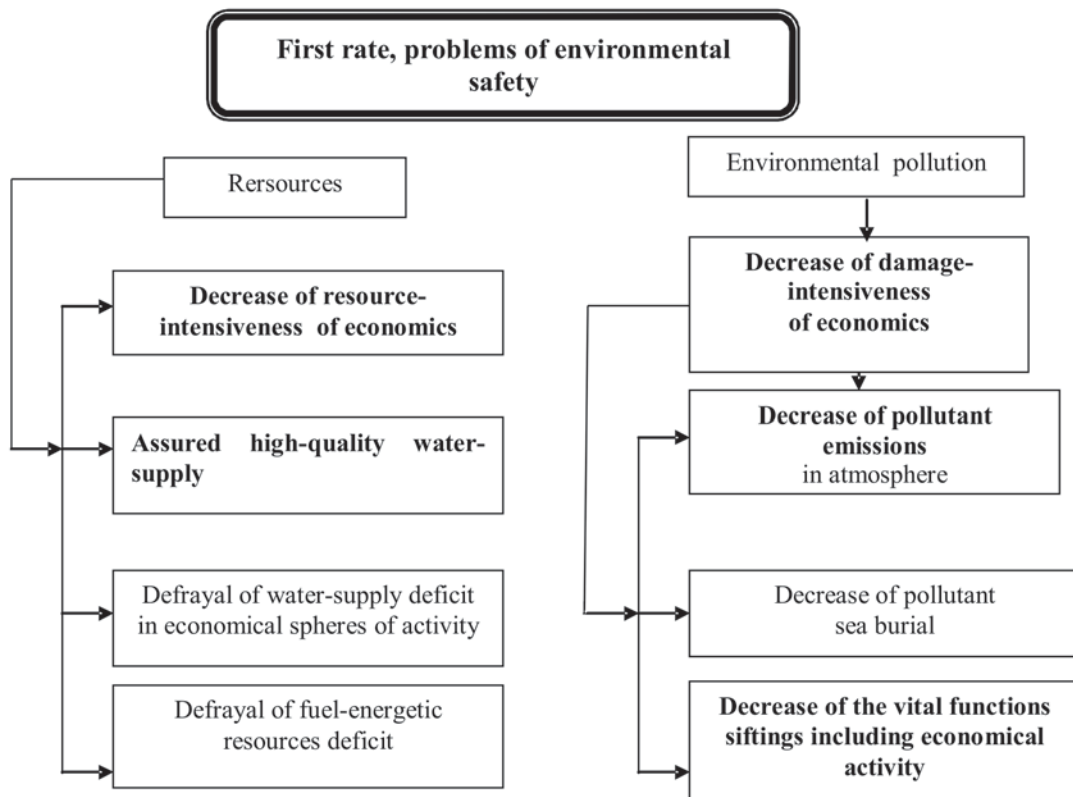


Fig. 1. First rate ecologic resources problems Of the ecological safety of Ukraine

Mechanism of the ecologic-economical relations management.

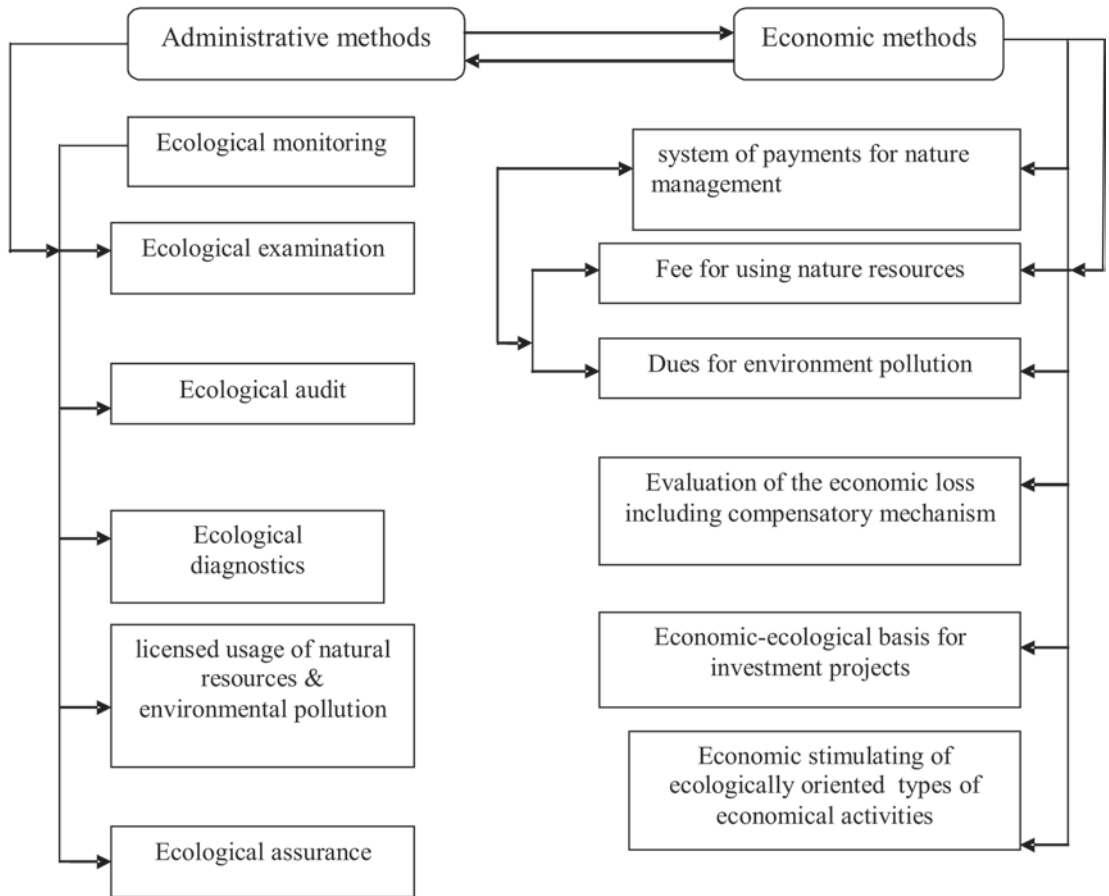


Fig. 2. Mechanism of the nature management.

**The method that is planned to be put in the action.*

NEW PRODUCT DEVELOPMENT PROJECT SELECTION

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ABSTRACT. *Limited by the resources, a company requires to strategically allocating resources in a set of new product projects. A portfolio management decision is usually made on the basis of product value, project risk and business strategies. Due to both the nature and timing of new product development, portfolio selection is associated with uncertainty and complexity. But conventional evaluation methods cannot handle such decisions suitably and effectively. However, fuzzy logic is well suited for decision making with uncertainty. Thus, a method for portfolio selection decision using fuzzy logic is proposed. As the illustration, an IT new product portfolio selection in Taiwan's company is cited to demonstrate the evaluation procedure can be used in new product portfolio.*

Key words: New product portfolio management; multiple criteria decision making; Fuzzy logic.

INTRODUCTION. Currently many companies are facing increasing competition and have realized that accelerated new product development is crucial for their survival and winning of competitive battles. However, resource limitations and consumption not uniform over time requires an organization to strategically allocate resources to a portfolio of possible new product projects. New product portfolio selection is a crucial and vital decision to successful new product innovation. Thus, a large number of new product portfolio selecting methods are developed such as mathematical programming, economic models, options pricing theory, strategic approaches, scoring models and checklists, analytical hierarchy approaches (AHP), as well as mapping approaches [1, 2].

The portfolio management is a complex and dynamic decision process. Companies must allocate a limited set of resources to projects in a way that balances risk, reward, and alignment with its strategies. Complexity, uncertainty and imprecision associated with new product portfolio selection result from the four reasons [1,3,4]:

First, at the time of the decision, usually only uncertain and incomplete information is available. Secondary, the competitive environment is marked by uncertainty and rapid changes in technologies and markets. Third, the criteria for new product portfolio selection are not always quantifiable or comparable; and criteria may directly conflict or interact with one another. Finally, the number of feasible portfolios is often enormous

To assist managers in making better new product portfolio selection, numerous decision tools have been developed with the hope that managers could make better decisions in an uncertain environment [2]. Most of these techniques have both practical and theoretical limitations. The major obstacle is the amount of data required: information on the financial results, resource needs timing, and probabilities of completion and suspect. Further, these mathematical portfolio

approaches historically have provided inadequate treatment of risk and uncertainty; they are unable to handle multiple and interrelated criteria; and they generally fail to recognize interrelationships with respect to payoffs of combined utilization of resources. In addition, they address only some of the above issues. Finally, managers perceive such techniques to be too difficult to understand and use. Generally, in uncertain situations when available information is scarce and mechanisms are not clearly defined, managers often react very poorly [4]. Uncertainty, complexity and scarce or unreliable information become a threat to the effective use of traditional quantitative techniques. However, fuzzy logic allows uncertain and imprecise systems of the real world to be captured through the use of linguistic terms so that computers can emulate the human thought processes. Thus, fuzzy logic is a very powerful tool that can deal with decisions involving complex, ambiguous and vague phenomena that can only be assessed by linguistic values rather than numerical terms. Furthermore, such fuzzy logic has been applied to the evaluation of multi-criteria decision problems [5,6,7]. To compensate the ineffective use of traditional quantitative techniques, a method for new product portfolio decision using fuzzy logic is proposed. The criteria ratings and the corresponding importance weights are assessed in linguistic terms, which are described by fuzzy numbers with triangular memberships function, and fuzzy weighted average is employed to aggregate these fuzzy numbers into fuzzy value index (FVI), fuzzy risk index (FRI) and fuzzy strategy fitting index (FSFI). Furthermore under balancing between product value, project risk and business strategies, the FVI, FRI and FSFI are consolidated into a fuzzy project attractive index (FPAI), Finally, the FPAI are ranked for new product selection decision. The fuzzy logic new product portfolio selection model [FLNPPSM] can efficiently aid managers dealing with ambiguity and complexity in achieving relatively realistic and informative results in the evaluation process.

1. METHODOLOGY

The framework of fuzzy logic new product portfolio selection model is composed of three main stages. The first stage is the new-product pre-screening. In this stage, on the basis of business strategy and new product strategy, the managers will set up a set of critical characteristics which new product must meet to determine a new product is pass or kill. The second stage is individual new product scoring. In this stage, on the basis of the change in business environment, managerial goals and company's competency, the managers will develop a set of criterion which new product should meet to rate the attractiveness of a new product. The third stage prioritizes projects and allocates resource into projects for portfolio selection. A stepwise algorithm is given below:, and the selection process are as fig. 1.

1. Form a committee of decision-makers and collect project related data.
2. Select criteria for scoring project's value, strategy fitting and development risk.
3. Define linguistic variables as well as associated membership functions for measuring the project's value, strategy fitting and development risk.
4. Assess the criteria using linguistic terms and translate them into fuzzy numbers.

5. Aggregate fuzzy numbers to obtain FSFI, FVI and FRI of a new product development project.
6. Alignment of portfolio strategies.
7. Resource allocation and project selection

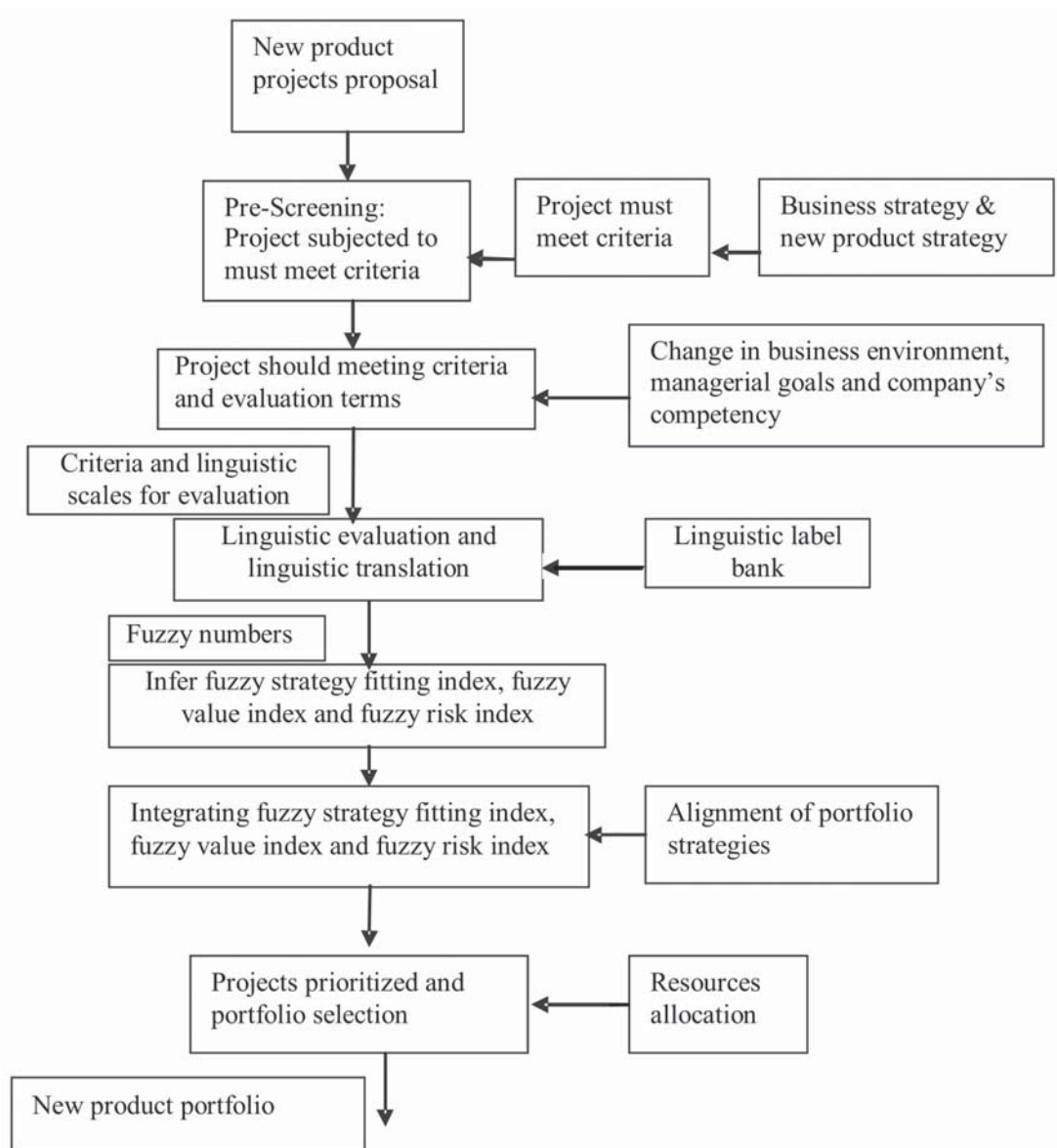


Fig. 1. Framework for new product portfolio selection

2. EMPIRICAL STUDY

In this section a new product portfolio selection of an international IT products company in Taiwan is cited to demonstrate the evaluation procedure, which can be used in new product portfolio management.

1.1. SUBJECT OF CASE STUDY

BIT is one of the top 100 IT companies of 2002 in Business Week's 2002 list of the world's largest technology companies. BIT focuses their product on networked digital lifestyle devices and categorizes them into four business groups: network display, digital media, imaging network and networking & communications. BIT has annual revenue \$4 billion and invests four percent of their revenues in R & D every year. They have more than 2000 talented researchers working in four R&D centers worldwide. BIT is now strengthening integration both vertically, through the value chain, and horizontally, across their key product lines.

1.2. APPLICATION THE FLNPPSM TO THE PORTFOLIO SELECTION

In order to create new platform products to lead to a portable storage device with a built-in wireless display that allows users to both play and record digital information, BIT decides to invest \$300-400 million in 3-5 new platform products development in 2003-2004, and nine new network digital products had been proposed from the four business groups of BIT in 2002. For determining the appropriate product and characteristics to be developed, and pursuant with previous studies, BIT had set up its architecture for new product portfolio selection, which determined the appropriate new project characteristics to be developed. On the basis of its architecture and the procedures of FLNPPSM a decision of new product portfolio selection was reached. The deliberations over how to select the new product projects are summarized below:

1) Form a committee of decision-makers and collect project related data. For evaluating new products, a new product portfolio selection committee composed of five experts/senior-managers from business planning and global strategy, marketing, engineering/technology, new business project office and finance was organized and led by the vice president of business planning & marketing. Before proceeding with the assessment, the evaluators studied data and information related to the new product project. The project managers were asked to hold a briefing session to introduce both market and technical data, as well as to present a cursory financial forecast. Despite the availability of both technical and market data, the "first cut" homework was still marked by ambiguity and uncertainty. Much of the information is simply not available in developing countries, and when it was, its reliability should be suspect. Since the attributes of the new product project may not exactly satisfy the firms' ideal, the decision-makers had to deal with the critical issue of integrating and balancing different criteria. Since experts can easily differentiate between high, medium, and low, but find it difficult to judge whether a value, e.g. 0.2, is low, or another value, e.g. 0.3, is also low, they had found it easier to use linguistic terms to measure

ambiguous events. Furthermore, linguistic variables contain ambiguity and multiplicity of meanings and the information obtained can be expressed as a range in fuzzy set, instead of a single value in traditional methods, thus fuzzy logic was suggested to apply to this decision making context.

2) Select criteria for scoring project's strategy fitting, value and risk. The next step in the product selection process was to decide on the criteria to evaluate the proposed products. A new product selection decision depends not only on the value of the product but also on strategy fitting and development risk. Based on their experience and referring to assessment factors proposed in previous studies [8], the selection committee developed a selection architecture and criteria as shown in Table 1. (Table 1 merely presents what they assess to be the most prevalent and meaningful factors for this case study).

3) Define linguistic variables as well as associated membership functions for measuring the project's strategy fitting, value and risk. For the sake of convenience, instead of eliciting linguistic terms and corresponding membership functions from the experts, some were obtained directly from past data [9] and others were modified to incorporate BIT situations. Finally, the rating scale $R = \{\text{Worst [W], Very Poor [VP], Poor [P], Fair [F], Good [G], Very Good [VG], Excellent [E]}\}$ was chosen for evaluating the rating effect of the different criteria of the project's strategy fitting and value; the rating scale $R' = \{\text{Extremely High [EH], Very High [VH], High [H], Fairly High [FH], Medium [M], Fairly Low [FL], Low [L]}\}$ was used for estimating the possibility of project development risk; the weighting scale $W = \{\text{Very Low [VL], Low [L], Fairly Low [FL], Fairly High [FH], High [H], Very High [VH]}\}$ were used for evaluating the relative importance of the various criteria. All the scales and its associated membership functions are listed in Table 2.

4) Assess the criteria using linguistic terms and translate them into fuzzy numbers: Once the linguistic variables and associated membership functions for evaluating were defined, the experts used the linguistic terms to directly assess the rating which characterizes the degree of the effect/impact of various factors on the attractiveness of the new product development project as Table 3. Furthermore, On the basis of Table 2, fuzzy numbers parameterized by quadruples, Table 4 is the linguistic terms approximated by the fuzzy numbers of new product P_1 assessed by senior manager of marketing.

Table 1. Characteristics of high-performance new product arenas

Major criteria	Sub criteria	Element criteria
Strategy fit (A)	Business strategy fit (A ₁)	Degree of fitting the strategy for the product line and/or business (A ₁₁)
		Synergy with other product/business within company (A ₁₂)
	Strategic leverage (A ₂)	Proprietary position (A ₂₁)
		Platform for growth (A ₂₂)
New product value (B)	Competitive Marketing advantages (B ₁)	Matches desired entry timing needed by target segments (B ₁₁)
		Has unique or special functions to meet and/or special features to attract target segments (B ₁₂)
		Conforms to our salesforce, channels of distribution and logistical strengths (B ₁₃)
	Market attractiveness (B ₂)	Size of the markets (B ₂₁)
		Long-term potential of markets (B ₂₂)
		Growth rates of markets (B ₂₃)
	Technological suitability (B ₃)	Allows the company to use very best suppliers (B ₃₁)
		Degree of fitting R&D skills/resources (B ₃₂)
		Degree of fitting engineering/design skills/resources (B ₃₃)
	Potential for gaining product advantage (B ₄)	Magnitude of effect for customers (B ₄₁)
		New products will meet customer needs (B ₄₂)
		New product differentiated from competitive products (B ₄₃)
	New product development risk (C)	Organizational Risk (C ₁)
Lack of implementation capability (C ₁₂)		
Organizational and/or financial impact (C ₁₃)		
Technical uncertainty risk (C ₂)		Technical gap (C ₂₁)
		Program complexity (C ₂₂)
		The Project time frame (C ₂₃)
Competitive risk (C ₃)		Market competitiveness (C ₃₁)
		Magnitude of defend from competitors (C ₃₂)

Table 2. Linguistic variables and its corresponding fuzzy numbers

Performance rate		Risk possibility		Importance weight	
Linguistic variables	Fuzzy number	Linguistic variables	Fuzzy number	Linguistic variables	Fuzzy number
Worst (W)	(0, 0, 0.2)	Low (L)	(0, 0, 0.2)	Very Low (VL)	(0, 0, 0.2)
Very poor (VP)	(0, 0.2, 0.4)	Fairly Low (FL)	(0, 0.2, 0.4)	Low (L)	(0, 0.2, 0.4)
Poor (P)	0.2, 0.35, 0.5	Medium (M)	0.2, 0.35, 0.5	Fairly Low (FL)	0.2, 0.35, 0.5
Fairly (F)	(0.3, 0.5, 0.7)	Fairly High (FH)	(0.3, 0.5, 0.7)	Fairly (F)	(0.3, 0.5, 0.7)
Good (G)	(0.5, 0.65, 0.8)	High (H)	(0.5, 0.65, 0.8)	Fairly High (FH)	(0.5, 0.65, 0.8)
Very Good (VG)	(0.6, 0.8, 1.0)	Very High (VH)	(0.6, 0.8, 1.0)	High (H)	(0.6, 0.8, 1.0)
Excellent (E)	(0.8, 1.0, 1.0)	Extremely High (EH)	(0.8, 1.0, 1.0)	Very High (VH)	(0.8, 1.0, 1.0)

Table 3. Linguistic assessment of new product P_1 given by senior manager of marketing

Sub criteria	Element criteria	Fuzzy rating	Fuzzy weight of sub criteria	Fuzzy weight of sub criteria
A ₁	A ₁₁	VG	H	H
	A ₁₂	E		VH
A ₂	A ₂₁	G	VH	H
	A ₂₂	VG		VH
B ₁	B ₁₁	G	H	VH
	B ₁₂	VG		FH
	B ₁₃	E		H
B ₂	B ₂₁	VG	VH	VH
	B ₂₂	G		VH
	B ₂₃	G		H
B ₃	B ₃₁	E	FH	FH
	B ₃₂	VG		H
	B ₃₃	VG		H
B ₄	B ₄₁	G	H	H
	B ₄₂	VG		VH
	B ₄₃	G		H
C ₁	C ₁₁	H	H	FH
	C ₁₂	VH		VH
	C ₁₃	FL		F
C ₂	C ₂₁	VH	VH	VH
	C ₂₂	H		H
	C ₂₃	EH		VH
C ₃	C ₃₁	VH	H	H
	C ₃₂	H		FH

Table 4. Linguistic terms approximated by fuzzy numbers P_1 given by senior manager of marketing

Sub criteria	Element criteria	Fuzzy rating	Fuzzy weight of sub criteria	Fuzzy weight of sub criteria
A ₁	A ₁₁	(0.6,0.8,1.0)	(0.6,0.8,1.0)	(0.6,0.8,1.0)
	A ₁₂	(0.8,1.0,1.0)		(0.8,1.0,1.0)
A ₂	A ₂₁	(0.5,0.65,0.8)	(0.8,1.0,1.0)	(0.6,0.8,1.0)
	A ₂₂	(0.6,0.8,1.0)		(0.8,1.0,1.0)
B ₁	B ₁₁	(0.5,0.65,0.8)	(0.6,0.8,1.0)	(0.8,1.0,1.0)
	B ₁₂	(0.6,0.8,1.0)		(0.5,0.65,0.8)
	B ₁₃	(0.8,1.0,1.0)		(0.6,0.8,1.0)
B ₂	B ₂₁	(0.6,0.8,1.0)	(0.8,1.0,1.0)	(0.8,1.0,1.0)
	B ₂₂	(0.5,0.65,0.8)		(0.8,1.0,1.0)
	B ₂₃	(0.5,0.65,0.8)		(0.6,0.8,1.0)
B ₃	B ₃₁	(0.8,1.0,1.0)	(0.5,0.65,0.8)	(0.5,0.65,0.8)
	B ₃₂	(0.6,0.8,1.0)		(0.6,0.8,1.0)
	B ₃₃	(0.6,0.8,1.0)		(0.6,0.8,1.0)
B ₄	B ₄₁	(0.5,0.65,0.8)	(0.6,0.8,1.0)	(0.6,0.8,1.0)
	B ₄₂	(0.6,0.8,1.0)		(0.8,1.0,1.0)
	B ₄₃	(0.5,0.65,0.8)		(0.6,0.8,1.0)
C ₁	C ₁₁	(0.5,0.65,0.8)	(0.6,0.8,1.0)	(0.5,0.65,0.8)
	C ₁₂	(0.6,0.8,1.0)		(0.8,1.0,1.0)
	C ₁₃	(0.3,0.5,0.7)		(0.3,0.5,0.7)
C ₂	C ₂₁	(0.6,0.8,1.0)	(0.8,1.0,1.0)	(0.8,1.0,1.0)
	C ₂₂	(0.5,0.65,0.8)		(0.6,0.8,1.0)
	C ₂₃	(0.8,1.0,1.0)		(0.8,1.0,1.0)
C ₃	C ₃₁	(0.6,0.8,1.0)	(0.6,0.8,1.0)	(0.6,0.8,1.0)
	C ₃₂	(0.5,0.65,0.8)		(0.5,0.65,0.8)

5) Aggregate fuzzy numbers to obtain fuzzy value index (FVI), fuzzy risk index (FRI) and fuzzy strategy fitting index (FSFI) of the new product development project. According to the fuzzy weighted-average definition, the FVI, FRI and FSFI can be obtained by a standard fuzzy operation. For example: fuzzy business strategy fit (FA_1) and fuzzy strategy fitting index (FSFI) are defined as:

$$FA_1 = \sum_{j=1}^2 (A_{1j} \otimes W_{1j}) / \sum_{j=1}^2 W_{1j} \quad FSFI = \sum_{i=1}^2 (FA_i \otimes W_i) / \sum_{i=1}^2 W_i \quad (1)$$

Applying the same processes, the new project P_1 was assessed by other four seniors managers. Finally, mean operation is used for integrating the FVIs, FRIs and FSFIs under the same project assessed by different senior managers. Furthermore, the senior managers assess the other eight new product projects.

6) Alignment of portfolio strategies: For balancing between project's strategy fitting, value and development risk, under the consideration of business environments, company's business

strategy and marketing direction, the steering committee of company sets a directive of the weights of project’s strategy fitting, value and development risk as “Very High”, “High” and “High” respectively. Since the project’s development risk will impact the success of a project, the fuzzy project attractive index (FPAI) of a project is defined as:

$$FPAI = (FSFI \otimes W_A \oplus FVI \otimes W_B \oplus FRI' \otimes W_C) \sum_{i=A}^C W_i,$$

where W_i = A, B, C, are the weights of project’s strategy fitting, value and development risk, and $FRI' = (1, 1, 1)$ Q FRI. Applying this definition, the FPAI of new product project P_1 assessed by senior manager of marketing obtained as listed in Table 5. Applying the same process, the nine FPAIs of new product projects obtained as listed in Table 6.

Table 5. FVI, FRI, FSFI and FPAI of new product P_1 given by senior manager of marketing

Fuzzy project attractive index (FPAI)	Main criteria (FVI, FRI, FSFI)	Sub criteria
(0.37,0.62,0.83)	(0.60,0.81,0.97)	(0.69,0.91,1.0)
		(0.54,0.73,0.93)
	(0.57,0.76,0.92)	(0.61,0.81,0.94)
		(0.53,0.70,0.88)
		(0.64,0.86,1.0)
		(0.53,0.71,0.89)
	(0.55,0.75,0.93)	(0.47,0.67,0.89)
		(0.66,0.83,0.95)
		(0.54,0.73,0.93)

Table 6. The FPAIs of the nine new product projects and its ranking

Product	Cost estimate \$ Million	Fuzzy project attractive index (FPAI)	$\mu(M)$	$\sigma(M)$	Ranking
P_1	85	(0.38, 0.63, 0.83)	0.618	0.0051	8
P_2	90	(0.44, 0.69, 0.88)	0.675	0.0049	1
P_3	93	(0.39, 0.64, 0.85)	0.63	0.0053	5
P_4	84	(0.40, 0.64, 0.84)	0.63	0.0049	4
P_5	105	(0.38, 0.63, 0.84)	0.62	0.0053	7
P_6	98	(0.43, 0.69, 0.87)	0.67	0.0049	2
P_7	86	(0.41, 0.66, 0.86)	0.645	0.0051	3
P_8	83	(0.39, 0.62, 0.83)	0.615	0.0048	9
P_9	97	(0.44, 0.62, 0.83)	0.628	0.0038	6

7) Resource allocation and projects selection

Finally, for allocating the resources into projects, FPAIs are ranked for new product selection decision. According to the fuzzy mean and spread method, a triangular fuzzy number $M = (l, m, u)$, and let $\mu^{(M)}$ and $\delta^{(M)}$ be the mean and variance of M . Then $\mu^{(M)}$ and $\delta^{(M)}$ can be computed as:

$$\mu(M) = \frac{1}{4}(l + 2m + u) \quad (2)$$

$$\sigma(M) = \frac{1}{80}(3l^2 + 4m^2 + 3u^2 - 2ul - 4lm - 4mu) \quad (3)$$

Suppose that the mean values and spreads are calculated for the fuzzy numbers M_i and M_j . The rules for ranking are:

If $\mu(M_i) > \mu(M_j)$, then $M_i > M_j$

If $\mu(M_i) = \mu(M_j)$ and $\delta(M_i) > \delta(M_j)$, then $M_i > M_j$

Applying the fuzzy mean and spread method, the mean and variance of each project are calculated. The results are shown in Table 6.

Since the total investment is set up in \$300-400 million, and the total cost estimation of the four most attractive projects, P2, P6, P7, and P4, is \$358 million, the committee suggests selecting the projects P2, P6, P7 and P4 as new product portfolio.

CONCLUSION

This research has highlighted the importance of new product portfolio selection. Because of complexity, incomplete information and ambiguity in the portfolio selection context, a fuzzy logic-based portfolio selection model, which applies linguistic approximation and fuzzy arithmetic operation, has been developed to address new product portfolio selection. The method incorporates the multiplicity in meaning and ambiguity of factor measurement while allowing for the consideration of important interactions among decision levels and criteria. The company and managers involved in the case study illustrated in this study were generally pleased with the approach. This study has provided potential value to practitioners by offering a rational structure for reflecting imprecise phenomena common in many business environments and has taken into account the uncertainty of each factor to assure a relatively realistic and informative evaluation, and to researchers by demonstrating another application of fuzzy logic.

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RISKS AND CHALLENGES ENCOUNTERED BY TRANSITIONAL HOUSEHOLDS (BASED ON BELARUSIAN AND LITHUANIAN HOUSEHOLDS)

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ABSTRACT. *This paper is an attempt to classify the challenges that exist in a transitional economy at the level of households. For economists and sociologists, households are important units of analysis since they are the initial form of economic life of people. In economic environment households encounter with a number of challenges and risks. We would classify them as structural, political, economic (external or internal depending on the level of economic activities or the degree households can change their living standards by their decisions) and social. We also would like to point out that decisions made by households are not only the product of external forces, but the result of households' active choices based on human capital strength, regional mentality and traditions variety. For our assessment we take Belarusian and Lithuanian households.*

The fact that households manage to organize various sources of formal, informal and household labor could be taken as an evidence of some strategy, planned or unplanned. It is interesting to see how the risks encountered by households in transitional economy could be mitigated through the choice of a proper strategy. It also gives an idea of the importance of households' strategies as a measure to deal with economic insecurity of households. By specifying economic risks from the micro level and analyzing risk mitigation strategies we can assume that households change their living standards, social status and make economic environment on a country and regional level more secure.

INTRODUCTION. Throughout the world, people confront a variety of risks every day. Individual households can suffer on micro level from sickness of family members, loss of job by household breadwinner, crime, etc. Entire societies can be adversely affected by economic recessions, harvest losses, natural disasters, wars. The comparison of everyday life of modern households with the lifestyle of people one or two centuries ago gives a clear picture of how the changed environment poses more threats and challenges for the economic survival. The meaning of the word "survival" has dramatically changed: now we are not speaking about finding food for a starving family or avoiding debtor's prison, but rather how to get a good and rewarding job, give good education for children, purchase goods which are good value for money, meet mortgage and other loan payments, and many other constraints. As a rule, challenges for households depend on the level of economic development of the country a household lives in. Some of the challenges characteristic for households in transitional and developed countries differ, though there is a number of global social trends that are common for families in both economies. For instance, such changes in household structure as more women in the labor force which lead to a different role and level of power of a woman in a household, appearing of non-traditional families. Greater

mobility and various range opportunities for people modify economic environment for households in the “after-children” phase. The above changes are caused not only by moral reasons, but economic ones as well.

It is known that challenges in early transition countries differ from those in medium transition and advanced economies. The emergence of new markets and institutions at an early stage of transition accompanied by various reforms creates a real challenge for households, as they confront arrears in salary payments, social inequality, and poverty. Deeper challenges of the next transition stages are intended to make the markets function more effectively. Households learn to deal with the constraints of private/public sector relationship, to operate in developing financial markets, try new expenditure patterns, encounter unemployment. Institutional and household management issues become most crucial at this stage. However, the process of changing old institutions and traditional behavior is complex and time-consuming because those changes involve learning and acquisition of new experience. Although Lithuania and Belarus are countries of officially declared by international financial organizations different transition stages, the challenges for households are similar and tend to medium and advance transition countries as we will see below.

Challenges are found in various spheres of everyday life of households. They are interconnected and can be differentiated based on various approaches, including the level of influence that the households can produce on those challenges. For instance, economic threats could be perceived as external (macroeconomic) or internal (microeconomic). The first category cannot be influenced by household members directly (i.e. inflation resulting from monetary policy), while the second either directly depends on the quality of household human capital or can be influenced by selecting a proper strategy. It is an interesting observation that people try to analyze external risks more than internal - they often speak about politics, inflation, exchange rates, make their assumptions and projections. External risks are totally out of their direct influence; therefore, they are the subject of the highest concern. Internal decisions and strategies are the areas of personal choice that is why they are not so thoroughly analyzed, family traditions often being the strongest motivator in choosing strategic behavior.

All kinds of various challenges combined with households' fears about the reliability of forecasts for future economic situation in the country, have made economic insecurity a major concern among people across the transition region. Such worries are particularly prevalent among the households with low income, who tend to be more vulnerable to possible economic shocks. Political, economic and social challenges make households migrate, thus changing the whole set of cultural, economic, linguistic backgrounds for whole generations, so directly influencing social reproduction of households.

We take the two neighboring countries for our assessment – Belarus and Lithuania. The uniting base for the comparison is their relative territorial and mental similarity. We assume that despite different stages of transition each of the countries goes through and different political directions they follow, their households have a lot in common due to similar cultural, traditional, and mental identity of these peoples.

STRUCTURAL CHALLENGES

One of the most important factors which determine the level of welfare of a household is its structure, household size and human capital of its members (health, age, education, qualification, etc.), dependency ratio (worker/non-worker); these are the major structural indicators.

The analysis of sociological literature on different household forms shows that a nuclear household model consists of a household head, a dependent/working spouse and dependent children. The current social fragmentation in both transitional and developed societies leads to a situation in which such nuclear households become rather the minority than the norm. Recent household surveys deal in increasing frequency with quite different household types, e.g. 'female-headed' households, single-person households, lodgers, migrants etc.

The current demographic trends are quite alarming and add to the changing structure of households as well. Depopulation of nations (a 5% population decrease in Ukraine, 2% population decrease - in Lithuania and 2% in Belarus as compared with 2000) causes new problems for households by increasing the number of pensioners per worker, thus putting the working population under pressure in terms of taxes and various benefits for the old population. The worker/pensioner ratio in Belarus fell down from 2.2/1 in 1990 to 1.6/1 in 2004. All those changes affect the structure of households. The number of single-person (including single-pensioner households) and single-parent households grows. Today, there are 355,000 female-headed single-parent families in Belarus. Those families are particularly vulnerable. Women are having to work longer and harder at home and workplace. There is also a major threat of unemployment. They are suffering from the spread of rapidly declining living standards.

23.5% of all households in Belarus consist of one person. Households without children become more frequent due to such present-day demographic trends as later marriage and maternity age, increased women participation in labor force and prevailing consumer values. Only 38.7% of Belarusian families have children. The same demographic trends apply to Lithuania as well. In Belarus and Lithuania average household consists of 2.7 persons.

Nevertheless, legislative, taxation, statistical and welfare systems alongside with family planning campaigns in the region are generally based on the nuclear model of households. Current governmental policies fail to take into account these broader structures of rights and responsibilities. The social policies should therefore be adjusted in accordance with the structural changes the households are going through.

POLITICAL CHALLENGES

Political risk is a new kind of risk which became quite obvious for people only in the last century. Political risks are the hardest for households to mitigate, especially in the countries where civil institutions are underdeveloped and the democratization processes are slow. Governmental slogans like social equality and state support for people seem to contribute to the mitigation of transitional challenges for people – but only at first sight. Actually, social anti-market programs

implemented by some governments only deteriorate the quality of human capital of the post-Soviet households which have just started to rely on themselves and perceive emerging markets (labor market, financial market, small business, etc.) as real opportunities for improving their level of living. A change of socialist political regime can pose a real threat for those households that are employed by the state and rely on the social benefits provided by the Government. Such families would need to adapt quickly to the changing environment. The households working in the private sector are more immune to such changes although one cannot exclude that “the rules of the game” (legislation, business environment, etc.) will change with political changes and the position of those households may become more vulnerable, as incomes cannot adjust instantaneously and, what is more important, a low current income may reduce future incomes by eroding family’s physical and human assets base.

Referring to globalization challenges for households as an economic phenomenon that internationalizes markets, it is worth mentioning that nowadays globalization values are accepted not as unconditionally as it was in the past. Globalization notorious side-effects make societies weigh thoroughly all positive and negative sides of the process. However, globalization does not mean that the collective values inherited by transitional countries from the Soviet times as well as their cultural specifics should be abandoned.

We can assume that Belarusian households are more exposed to political challenges in spite of the fact that the Belarusian politicians try to convince the population that the situation in the society is more stable than in other post-Soviet countries. Totally different from the neighbors’ direction of the development of the society, inability to fight globalization processes in the longer terms, big amount of highly-educated people, non-acceptance of present situation in the country by young people makes the situation more risky. Lithuanian households having voted for EU accession left much less unpredictability for the future, although still some political challenges remain.

Political risks for households are closely linked with the issues of inequality of households’ income. In Belarus, in spite of the Government’s political motto of social equality, the Gini ratio is climbing (0.270 in 2000, 0.278 in 2001, 0.272 in 2002, 0.30 in 2004), and now the income distribution gap is quite close to that of Lithuania (0.319).

EXTERNAL ECONOMIC CHALLENGES

By external (or macroeconomic) risks for households we mean those that depend on the macroeconomic policy of a country and could be the results of unexpected (or expected) economic turmoil. The situation on financial markets is crucial for the well-being of households, if commercial banks collapse households might lose all their hard-earned savings. The banking system of Belarus regularly faces tight liquidity. Furthermore, despite certain de-dollarization resulting from the recent stabilization of the Belarusian ruble, a significant proportion of bank loans and deposits are granted in foreign currency while the level of official foreign reserves of the country is low. So, the stability of Belarusian banks can quickly become the cause of concern, for example, in case of an event that can impact the confidence in the ruble and invoke an increase

in foreign exchange deposits. The population of Belarus still has little confidence in the national banking system. In the absence of a comprehensive deposit insurance scheme, “state-agents” banks are enjoying a competitive advantage based on guarantees from the state. Limited lending opportunities and a narrow scope of activities make it more difficult for households to make financial decisions.

The Lithuanian banking system is more developed, with banks being highly liquid from growing deposits. Household credits (consumer loans, credit cards and mortgages) are growing very rapidly. In the middle of 2005, the outstanding amount of loans to households for housing purposes was at the level of USD1.4 bln. The terms of such loans are very attractive for households. The Lithuanian banks give out mortgage loans for 40 years with interest rates typically at 4 to 7 percent per annum. For the sake of comparison, the total amount of outstanding mortgage loans in Belarus stood at USD140 mln at 2004 year end. The loans are issued in USD for up to 10 years at 12-14% interest rate. The local banks in both countries are unwilling to lend to start-ups and newly established businesses. Consequently, the small business continues to suffer from the lack of funding, which makes it impossible for a great number of households to raise their incomes.

Inflation is another problem. Big inflation raises uncertainty of households, which may discourage them from investments and savings. It also takes money from those on fixed incomes, such as pensioners, and redistributes it in favor of those who draw a more flexible income, for example, from profits and wages. Similarly, it redistributes wealth from those who lend a fixed amount of money to those who borrow. In Belarus, the inflation reduced nearly twice from 25.4% in 2003 to 14.4% in 2004, and slowed further to 4% in Jan-Jun 2005, aided by a stable exchange rate on the back of rising households’ trust in the national currency. The return of trust in the more stable national currency (local currency deposits increased by 23% to USD2.2 bln) the combined with higher incomes and remittances from about one million Belarussians working abroad (out of total workforce in Belarus of around 5.0 mln) has resulted in increased savings (up by 18.5% in Jan-June 2005). Much lower inflation in Lithuania still increased in 2004 (2.9%), as compared with 2003 (-1.3%), partly caused by growing domestic electricity and gas prices, transportation prices, rising wage costs, linked to labor shortages, still exert certain inflationary pressure on households.

The state of national labor market can give rise to new challenges for households. Unemployment is one of them. Although the employment rate in Belarus remains high in comparison with Lithuania and some other transition countries (official unemployment rate in 2004 is 1.9%), the number of manufacturing employees has been decreasing since 2001. On the one hand, being an inevitable consequence of the restructuring of the industrial sector, it is a positive trend as cutting down excess labor force is accompanied by productivity growth. On the other hand, climate deterioration for small and medium sector where in Belarus more than 1 mln people are employed (20% of all employees in the economy) creates difficulties for self-employment. If not for this still existing opportunity of self-employment in the country, the unemployment rate in Belarus could exceed 25%. The self-employment opportunity is very important for Belorussian households due to SMEs ability to quickly respond to changing environment. The informal sector has turned into a separate segment of the unorganized labor market covering various population groups. Experts estimate the share of informally employed people to exceed 16 percent of the able-bodied population. The government’s policies of preventing high unemployment rates, but

tight administrative control over small business limit the sector's capacity to contribute to job creation.

The unemployment rate in Lithuania is 12.5% (according to Labor Force Survey, 2003). Over a quarter of the unemployed have been in this position for more than a year, which suggests that structural unemployment remains significant in this economy. A new Labor Code issued in January 2003 was aimed at modernizing the existing system and incorporating key principles of international labor legislation. However, major challenges persist in bringing about a long-lasting recovery in the labor market. The minimum wage is binding and contributes to high unemployment among low-skilled workers. New migration trends since joining Lithuania the European Union show that the number of people leaving the country increase (2002-1976, 2003- 6304, 2004- 9612 people). The migration pattern of Lithuania shows that about 70% of the people leaving the country are in the age bracket of 15-59 years, i.e those who can be the active labor force. This is a very big advantage of Lithuanians in comparison with their neighbors in Belarus (where a very limited number of companies only have a license for job search abroad, as well as complicated visa procedures) and a good opportunity for those who cannot find the job in the country. Belarusian figures of those who is looking for better life abroad is as follows (in 1998 - 3,692 and in 2003 – 6349). Of those leaving to work abroad, 78% are young people under 24. In addition, many are leaving to work illegally on tourist visas.

Big share of non-formal grey labor market is another challenge for the households. The following grey labour markets rules applicable to both Lithuania and Belarus are: in addition to official salaries and wages, cash supplement is received from the employer, unofficial working, commercial shuttling to neighbouring countries. Interesting figures are revealed by comparison of using means of modern technologies at home. 25% of Lithuanians have personal computers and 10% access to Internet at home (2004 data), in Belarus the comparable figure is 39% and 24%. We can only suggest that the difference is explained by more free-lance self-employed people in Belarus which might be a proof of more number of household working under non-formal rules.

The state of the real estate market has always been a major indicator for analyzing the situation with households' incomes. The situation on real estate markets in transition countries is itself a function of the limited history of the real estate markets themselves. There are some common features of Belarusian and Lithuanian real estate markets like low level of construction of new housing, the focus has move to building commercial property plus houses for higher middle class or wealthy people. The lack of appropriate property for purchasing and restricted affordability of mortgage loans lead to the market booming. Liquidity excess is contributing into growing prices and channeled into such assets as houses, which is sometimes the only way for households to invest, since the market of securities is underdeveloped. The present-day climbing prices for real estate cause a new risk for households in the region. Borrowing for home improvement is not yet a common behavior for regional households, but despite the lack of experience in bank loans the attitude seems to be changing lately.

INTERNAL HOUSEHOLD CHALLENGES

Measuring transitional challenges is quite problematic. Some risks are based on perceptions which are different in different countries: what may seem a high risk to respondents in one country might appear acceptable for households of the other one, where culture and experience are different. Although only a limited number of internal risks can be mitigated by decisions made within a household, we still think that it is important to differentiate the risks as external and internal to be able to show the power of human capital in households.

The structure of incomes of households in two countries is similar. Wage employment remains the main driver of income growth. Income from employment and self-employment are absolutely identical in Lithuania and Belarus. Personal agricultural activity is widely spread in the region. The difference between incomes from agriculture is quite big explaining by the level of development of agriculture and more rural population living in Lithuania. Social transfers are slightly higher in Belarus but the difference is negligible for one to stress out the social orientation of economy. (In the table below the statistical data gives Belarusian figures by households and Lithuanian by person, but bearing in mind that the number of bread-winners in a household is on average 1 or 2 we think we can use this data for comparison).

Table 1. Average Monthly Household Income Structure in 2004

	<i>Belarus (USD)</i>	<i>Belarus (% to total)</i>	<i>Lithuania (USD)</i>	<i>Lithuania (% to total)</i>
Total	222	100	196	100
Income from employment and self-employment	145	65	145	74
Income from agriculture	5	2	18	9
Income from property	0.4	0	1	1
Social transfers	54	24	46	24
Other	17	3	12	6

It is very important to mention the purchasing power of income. Belarus' consumer prices rose by 4.8 percent since for half of 2005 compared with 9.1 percent in the same period of 2004. In Lithuania in the first seven months of 2005 consumer prices rose by only 1.2 percent, according to the respective national statistical agencies. It is projected that consumer prices in the country will increase by eight to 10 percent in 2005. Some goods are more expensive in Belarus due to absence of competition and rudimentary market regulators in Belarus. Independent economists project that the rise in prices will increase the cost of the consumer basket of goods by 15-20%. Taking into account the fact that 2/3 of the goods are imported to Belarus from abroad, including food and essential goods, the overall rise in prices and increase of EUR/USD rate badly hit consumers. Many imported goods in Belarus, rents etc. are priced in EUR, and USD devaluated against EUR by 34% in 2003-2004.

The imbalance of households' income and consuming behavior is one the characteristic features of transitional households. The scarcity of goods in the Soviet epoch made people now

starve to consume. The variety of consumer goods and advertising have joined together to create very high expectations for a good life and make people believe they all are entitled to these expectations. During many years of transition, the official statistics reported households' expenditures that actually exceeded incomes (of course, the reported incomes do not include those earned in the grey and black markets). In Belarus, for salaries went up 16% in the first half of 2005 while the internal demand of households increased by 20%. Bearing in mind the unreported incomes (which experts put at 40% of the total in Lithuania and more than 60% for Belarus), the total expenditures are quite high in those transition countries. The analysis shows that people prefer to buy expensive clothes, food, or travel rather than to invest in education, real estate, pensions, etc. Those unsustainable consumption patterns may adversely affect the micro economy of households and growing generations as well as divert households from savings and investments in the economy.

The fluctuation of household incomes and ability to maintain a minimal level of consumption for their members can be seen from the consumption structure of households shown below:

Table 2. Average Monthly Household Consumption Structure in 2004

	<i>Belarus (USD)</i>	<i>Belarus (% to total)</i>	<i>Lithuania (USD)</i>	<i>Lithuania (% to total)</i>
Expenditures total	197	100	221	100
Foodstuffs	86	44	75	34
Alcoholic beverages	5	3	5	2
Tobacco	3	1	3	1
Utilities	20	10	30	14
Clothing and footwear	19	10	19	9
Furnishing and household equipment	11	6	9	4
Healthcare	6	3	11	5
Transport and communication	20	10	32	15
Education, recreation and culture	8	4	13	6
Eating out	4	2	10	5
Other	15	7	14	5

Exhibit 1. The level of living and perception of risks for households is measured, among other, by analyzing the life satisfaction feeling of people in the transition region. The transition to market economy for many households has often been a difficult experience. Recently published research by Peter Sanfey and Utku Teksoz, of the European Bank for Reconstruction and Development, based on data from the World Values Survey, show that there is a rough correlation between wealth and happiness. Alpine Slovenia, with its highly developed export and tourism

industries, is both the richest and the cheeriest; Ukraine, appallingly misgoverned and uncompetitive, is the poorest and the least content. Transition countries are glummer than other places with similar income levels: communist rule can seriously ruin your mood.

But money and history are not the whole tale. Some people (Czechs, for example) are happier than their national income per head would suggest; others (such as Slovaks) are much gloomier. Such variations are partly explained by three things. One is inequality, which is particularly resented in post-communist countries. Second is the extent of economic reform: those that have moved least, like Belarus, are the most miserable. Third, and rather oddly, higher inflation seems to make people happy perhaps because the alternative, curbing it, means cuts in social spending.

Individually, the biggest winners are the well-educated, the self-employed and women. These three categories, especially when combined, show soaring happiness scores. It is clear that life satisfaction is correlated with such socio-economic characteristics as gender, age, income group, and labor market status, though its correlation with external macroeconomic variables such as growth and inflation is still vague. In the transition context, relevant questions may include whether the state of reforms and the degree of inequality are important for households. Inequality places a strong negative effect on satisfaction, which might be inherited from the Soviet times. It has been confirmed that happiness is positively connected with education and income and negatively with unemployment and ill-health. Self-employed are more satisfied than employees. People's assessment of their well-being is often influenced by their economic progress compared with some time in the past, rather than by the absolute standard level of living. Out of former USSR republics Moldova, Ukraine, Russia and Belarus are the ones least satisfied. As we can see Belarus and Lithuania are quite close to each other despite different pace of transition, although Lithuania belongs to the next-to-bottom category. In general, the new EU members score much better, with Slovenia and Czech Republic leading the list.

Lowest percentage	Country	Life satisfaction
0-10	Moldova	4.56
	Ukraine	4.56
	Russia	4.65
	Belarus	4.81
10-20	FYR Macedonia	5.12
	Albania	5.17
	Lithuania	5.20
	Romania	5.23
	Latvia	5.27
20-30	Bulgaria	5.50
	Serbia	5.62
	Montenegro	5.64
30-40	Bosnia & Herzegovina	5.77
	Hungary	5.80
	Estonia	5.93
40-50	Poland	6.20
50-60	Croatia	6.68
60-70	Czech Republic	7.06
70-80	Slovenia	7.23

SOCIAL CHALLENGES

Social challenges for households are quite numerous and we will not list all of them here. We will touch upon only pension system that can seriously affect the household economy.

The area of social benefits in post-Soviet countries remains vitally important due to the sharp fall of the level of living of their population. At present, after years of reforms, there are still households in transition countries which cannot exist without social help: pensioners, households with many children, etc. In Lithuania, a second pillar of the pension system has been recently introduced. During the second half of 2003, nearly 442,000 Lithuanians signed agreements with second-pillar pension funds. Since January 2004, individuals have been able to voluntarily arrange for a part of the state social insurance contributions to be accumulated in private pension funds. The sustainability of the current voluntary contribution system over a long period of time is still questionable though. If the contribution rate cannot be raised through the voluntary system, it could lead to the introduction of some form of mandatory participation.

The average retirement pension in Belarus is USD102.4. An average Belarusian unemployed retiree lives on USD3.4 per day. The contemplated transition to a multiple-tier pension system that combines public and private provision has not been implemented so far. The main constraint to introducing saving-based mechanism is lack of resources for financing such a transition. The unpopular but necessary measures need to ensure the viability of the pension system – such as raising age of retirement, tightening restriction on pensions to working pensioners- have little support so far. Much of the debate on pension reform is based on the misguided hopes of immediate improvement in pension support levels. The projected outcomes do not meet these expectation, which stem from the idea that society, rather than individual is responsible for the welfare of the elderly. The statistics on the social benefits system in Belarus shows the following. The number of total households receiving benefits increased from 62.2% in 2000 to 64.4% in 2004. In urban areas this figure rose from 63.7% to 67.5%, while in rural areas, where the most of poor population lives, this figure decreased from 58.7% to 58.3%. It means the governmental social protection programs do not cover the most needed people and the whole system obviously needs to be rearranged with an emphasis on targeted subsidies and extra instruments like in-kind aid.

CONCLUDING REMARKS

Modern social formations are exposed to big changes, which place the transitional households in the risky and uncertain position. In societies, where a big share of economy is non-formal, the households have to manage a wide range of inside and outside recourses in order to be able to guarantee a social and economic reproduction and make their existence more secure. The article describes and classifies some challenges common to households in transitional societies. The area of special interest is represented by the results of the statistic analysis of households' reactions to those challenges in two countries – Belarus and Lithuania. There is a number of treats the transitional households encounter – structural, political, economic (external and internal) and

social. Due to modern negative demographic trends, there are various structural changes in households. More and more women are joining the workforce, so the role of a woman in a household is changing, so as the households strategies. We suggest that the research of households' behavior should be made at micro- and macroeconomic levels with the following factors taken into account: differences in sub-economies of transition societies (market, Soviet, informal, social, etc.); other markets like financial, labor, housing, etc.; civic and welfare rights; differences in culture, norms and values. Here is the summary of challenges discussed in this paper and possible informal reaction strategies of households.

Table 3.

Type of Challenge	Possible Informal Strategy of Households
Structural	Multiple jobs Cut on expenditures Transfers/Social assistance subsidies
Political	Migration
External Economic	Migration Borrowing from financial institutions, retraining in case of unemployment Investment in human, physical and real assets
Internal Economic	Investment in human, physical and real assets Investment in social capital Selling of assets
Social	Investment in social capital Selling of real assets Borrowing from neighbors Intra-community charity

The choice of a strategy is limited by the level of human capital in a household. The higher the level of capital, the higher is the probability of a choice of an active strategy. One of the consequences of the start of the transition period was the breakage of the existing social relationships. Effective reintegration of the social units into new social systems and newly formed institutes is a very important component of household risks preventive strategies. However, the success of the process depends on the activity of households in changing their social status and creation of new social relationships. Passive perception of the transition changes are less secure and leads to lack of market opportunities. While the households of Belarus and Lithuania have very much in common and the level of human capital is quite high, it is clear that the Lithuanians are enjoying much more market opportunities than Belarusians.

Changing institutional transition environment influence the households behavior, but there exists a backward process of influence of households strategies onto environment. The analyses of households strategies will let us see the level of market and non-market behavior. The importance of the research lies in the fact that a thorough analysis of the households' behavior would help eliminate mistakes of the socio-economic policy in respect to households.

The most important thing from the research point of view is to revise the behavior of those

households who orient on market behavior – those who play the formal rules as it is more profitable for them to play market rules. In transition countries where market relationships are restricted by the government, households playing market rules are found as informal which is making their environment more risky and unpredictable.

**Main statistical indicators of social
and economic development (Belarus and Lithuania), 2002–2004**

Indicator/year & country	2002 Lithuania	2003 Lithuania	2004 Lithuania	2002 Belarus	2003 Belarus	2004 Belarus
Annual average population number, thous.	3469	3454	3435	9951	9899	9849
Unemployment rate, %	13,8	12,4	11,4	3,0	3,1	1.9
Inflation (December compared to December of previous year)	-1,0	-1,3	2,9	36	24	14
Average old-age pension, USD	98	128	140		66	102
Gross domestic product, per capita, USD	4,066	5,320	6,470	1,468	1,767	2,325
Average annual consumer price indices (compared to previous year)	100.3	98.8	101.2	142.6	128.4	119.3
Net migration	-1976	-6304	-9612			-6349
Total employed	1451	1441	1436	4500	4339	4335
Public sector	391	408	400			2258
Private sector	1059	1033	1036			2028
Number of pensioners (at the end of year), thous.	942,4	945,8	929,8	2571		2580
Poverty rate	16.5	16.6	15.9	24.7	22.9	15.9

USA'S VIEWS ABOUT FUTURE OF BALTIC SEA REGION SECURITY

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ABSTRACT. *This paper expresses author's opinions, which do not necessarily constitute views of U.S. government or its officials.*

US media and literature does reflect Baltic Sea regions perceptions of threats to its security, when they occur, however, not always at the same intensity.

Some concerns are reflected about Russian government officials remarking about "near abroad", or their failure to acknowledge the fact of occupation of the Baltic states in 1940, or airspace violations, and unexpected military maneuvers. The US sometimes shows concern about "free rider" issues, potential difficulties in the Baltic about committing forces abroad on missions not directly related to their countries' defense; force structure, "free rider" issues, difficulties to cultural adaptation, and divergent trends in NATO and EU. Last, but not least, are concerns that new NATO members might slide back and begin to fail in their NATO obligations, or democratic policies. The author concludes that the US intends to heal the apparent divergence of relations with Europe, because it feels not just a great kinship of values with the Europeans, but also economic, political and military reasons. That applies to the Baltic Sea countries as well.

I cannot really tell what the "official" US views are on the future of Baltic regional security beyond what I read in open literature, therefore, my views are not necessarily those of any US representative officials or organizations. It is all my opinion. The only official views would be Presidential directives or statements by US key officials.

As a very powerful American view is President's George W. Bush statement during his visit in Vilnius in 2003 after the Baltic states were admitted to NATO, "your enemies will be our enemies" which is essentially Article 5 of NATO - "attack against one ...shall be considered an attack against them all..."(Ref NATO, p-396)

These words are important because they show that the Americans have noticed that the Baltic states have faith in the American values, and are ready to accept common challenges.

The name Baltic Sea Region can mean – Estonia, Latvia and Lithuania. It also can be seen, particularly by Americans, as the entire array of countries around the rim of the Baltic Sea: Denmark, Sweden, Finland, Russia, Estonia, Latvia, Lithuania, Poland and Germany, and even Norway, because those countries interact and very few issues relate to only one small area.

The latter view, seen from a distance, involving all the countries around the Baltic has a fascination for Americans, because the entire Baltic Sea Region is analogous to the Mediterranean Sea Region, one down in the South of Europe. There are historical similarities – naval battles have been fought there for centuries, trade was conducted all along its shores, great wars and invasions were attempted for the sake of gaining hegemony over the region, and there were "tourists" called Vikings. Maybe that's why so many people along the Baltic shores look so much

alike. Just as there is a distinct cultural similarity among Mediterranean peoples, so there is a cultural similarity among the people in the Baltic region. Therefore, the Baltic sometimes is referred to as the Mediterranean of the North. Potentially it is powerhouse for the future. It has some most developed democracies in the world, sound market economies, and some most competent people. Many Americans can understand that very well, and that is not only because every fifth American probably has relatives there. America is genuinely concerned about the Baltic regions security because the interconnectedness with America in many ways, one of them being that Baltic region is part of what is called The West. Therefore, there is a collective interest. By “interest” I don’t mean a narrow selfish interest, but the kind of interest that is based on consideration for the needs of others and aims at a common good. Besides an immense cultural kinship between the US and EU, they are also the drivers of the global economy. Together they generate more than half of trade and investment flows in the world. The business with each other exceeds \$2.5 trillion a year and provides jobs for some 12 million workers.

American business invests 60 percent more in eastern Europe than in China, while Europe provides 75 percent of all foreign investment in the US. (Drozdiak) It makes no sense to ruin all that, and the sensible people of Europe and America will not let that happen.

You know today we hear so much about America and Europe are drifting away because of irreconcilable differences. Don’t believe appearances. America is a free country and the political opposition to the present leadership as well as the press and media do like to fan their views as far as their money and credibility lasts in order to improve their position for the next election.

There is another group - the incumbent leadership and a very large group called the silent majority, that is much more positive and favorably inclined toward Europe, who are not as vocal but whose views will be decisive for the future of American –European relations including the Baltic Sea Region . Later more about that. But now let me say this:

From the geopolitical point of view the countries around the rim of the Baltic Sea have wide distribution of political power. Russia, for example, has the furthest reaching global interests and potential for power projection, while Germany is not too far behind. The average American “on the street” would see Russia’s ambitions far outranging its capabilities, while the Germans are viewed too hesitant to extend their responsibilities world wide, perhaps still being held back by their past experiences. The Scandinavian countries have come out of two world wars with less damage than the rest of their neighbors around the Baltic and they react sensibly and moderately to challenges of today. Poland is a populous country with a potential for greatest economic and political power increase than any other Baltic rim country, when it finally gets going. Now Estonia, Latvia and Lithuania, also children of the Baltic shores and inheritors of the name The Baltic states, are heroic new returnees to freedom from behind the Iron curtain, after half a century of occupation. They have expressed a great presence in the Baltic since the disintegration of Soviet Union, not so much through physical prowess, but through their indomitable spirit.

America has noticed that.

They are the countries desiring to prove themselves the most. They are anxious to show that they can manage their governance socially, politically, economically, culturally, militarily, demographically and even linguistically, because failure in any of these may be fatal to their security.

At this point I would like to turn directly to more specific variables that make-up the framework for the security of the Baltic states region as seen by American pundits, politicians and professional analysts and as these views are reflected in the press, media and the internet.

Now I have selected certain open source American thoughts and opinions. First are the perceptions of threats in the Baltic Region. The Americans are aware of these perceptions, as reflected by outputs from “think tank” and other analysts. For example, some media analysts in America claim that Belarus has resurrected the old values and principles of the Soviet Union, such as political authoritarianism and state regulated economy and created a close political relationship with their mighty neighbor further East. Belarus is the most militarized territory close to the Baltic Sea Region. It is doubtful whether Belarus is going to “de facto” honor the norms of international laws, if a crisis occurs, the analysts and journalists say.

However, a great deal of American attention is focused on the Far and Middle East and therefore may appear to be slightly less sensitive, because in global context problems there might be more important at the moment. Naturally, the Baltic states are most sensitive to what affects them. Maybe the Baltic states could again attract the attention of Americans by improving and intensifying their cooperation with Russia wherever this is possible; helping out in the democratization process of Belarus; enhancing and supporting Ukraine’s efforts to integrate into Western economic and defence organizations. (Rand pXIV)

Evidently, the sense security is directly proportional to distance from threat – the further from threat, the more secure one seems to feel. Therefore, Baltic perception differs sometimes in intensity from American and NATO perceptions as well. For example the concept of “Near abroad “as expressed in Russian Duma and press was considered as a sign of Russia’s imperial ambitions in the Baltic. ”Near abroad” was defined by Russia as unique, and only Russia could bring peace to the Baltic. (Moller 2000 p69)

Another is, a refusal to admit occupation of the Baltic states and damage done during the occupation is another issue that raises perceptions of insecurity in the Baltic. Failure to admit these wrongs to Baltic people and their culture by Russia, the Inheritors of Soviet Union, is not conducive to greater sense of security. I think, that judging by deliberations of American Congress resolutions regarding this issue, one can say that the Americans share the Baltic view. Various unannounced maneuvers, airspace violations, and military power concentrations in Kaliningrad (Koenigsberg) contribute to insecurity sensitivities.

Sometimes, the lack of determination of the US and EU to react to those Baltic insecurities was interpreted as a tendency to engage in appeasement– distant echoes of behavior reminiscent of Munich, Yalta, and Teheran. These apprehensions of threats are being slowly replaced nowadays by “new threats “: organized crime, possible proliferation of Weapons of Mass Destruction, regional and ethnic conflicts variously provoked, natural and men-made disasters and terrorism. However, considering historical experience there are reasons to believe that the Baltic states, may still consider threats emanating from the East as primary concerns while trying to focus slowly but surely on “new threats”. Nevertheless the residual apprehension still persists that some powerful neighbor might attempt an infiltration or coup attack during a time, when the US or even NATO, might be preoccupied with some crisis in the Far East or engaged in warding off a terrorist attack, and then confront the West with a “fait accompli”. In fact, this is how it happened in 1940. France was in last stages of collapse, when the Soviet Union occupied the Baltic states. There are other more abstract Baltic issues that are also known to analysts of the American viewpoint.

- A. There is a need to strike a balance between committing Baltic forces in distant lands for causes of world peace and this may result in not having enough forces left to defend themselves in case of emergency. (Snyder p466).

- B. A similar question of how to configure the Baltic force structures according to standards to fit peace keeping and various other operations, while these may differ from specific configurations required for Baltic defence requirements in their own rough neighborhood in the future. (Morrow p928-929).
- C. "Free Rider" issue. – In military alliances smaller states tend to take on a disproportionately smaller burden. That is they tend to free-ride by providing less in military capability of the total allied effort. While attempting to contribute practical capabilities Baltic states have considerable physical constraints and some internal problems. It looks good, to the Americans, however, when the Baltic states support the operations led by the NATO and those carried out by "coalitions of the willing" in Iraq, and keep their defence spending close to 2 percent of GDP.
- D. Difficulties to adapt to "culture" of the NATO alliance in the planning process, joint work in alliance's staff organizations, acceptance of Alliance's view on geopolitical environment, and to socialization of military personnel into NATO's working procedures, standards and norms. This can be achieved through improved communications and for this, I think, it is extremely important to learn the common languages of NATO and EU.
- E. Divergent trends in NATO and EU Security organization. Part of NATO, mostly led by the US, may have to operate far away, to meet terrorist threats in their country of origin. At the other end there is a pan-European security organization, a more multilateral Euro-centric organization. This may result in some division of effort in the EU and Baltic Sea Region. I think that the Americans are much more positive about certain operations, i.e, Congo Macedonia, Bosnia, recognizing them as EU unique concerns.
- F. Americans may be concerned that the newly admitted NATO States may backslide in the NATO integration process, or in democratic consolidation of their countries, or fail to meet NATO standards, etc. Since they are in NATO now, how can NATO exert control if any member fails to live up to the expected obligations? (Rand, pp. XI-XIV)

So the US views can be summarized by two divergent and contrary streams of thought, which apply also to the Baltic Sea Region, as follows, first the bad news:

1. US should end its support for EU integration because the EU constitution (if it ever passes) will ruin the transatlantic alliance and would be damaging for US influence in Europe. Europe now is too weak, too introspective and lacks will-power and sense of responsible, doable worldview. It is full of ambition to become a counterweight to US power, although it really lacks the wherewithal to do that. Since trust has eroded on both sides, US should support only its overt friends and divide and rule. (Cimbalò) "Europe sees the United States as high-handed, unilateralists, unnecessarily belligerent, the United States see Europe as spent, unserious, and weak." Furthermore and after all "Europeans are from Venus and Americans are from Mars"(Kagan). Now the good news:
2. US should carry out the will and values of Republican internationalists (Drozdiak) who really are the drivers of US policy creation today, which is based on the

conviction that US needs a strong and confident Europe as an ally and partner to solve the political, economic and military threats to common interests in Europe and outside of it, and so to provide legitimacy and sustainability which is hard to do even with European support, and impossible without it. “It should do so in the same spirit as the Eisenhower and Kennedy administrations did in the 1950s and 1960s: to create a strong and coherent Europe capable of working with the United States as a more equal and more effective partner.” (Asmus et al)

How will those problems be resolved remains to be seen, I am optimistic. However, this is my opinion. Thank you for your attention.

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RECRUITMENT OF PERSONNEL AS A CONSTITUENT ELEMENT FOR FIXING SALARIES

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ABSTRACT. *The article deals with the analysis of peculiarities of recruiting personnel to foreign firms. These peculiarities are connected with mechanisms of motivation and stimulation of employees. A lot of attention is paid to specific national features of a company, the so-called corporative culture, as well as to requirements to future employees.*

Key words: personnel, recruitment, corporative culture, motivation, requirement, professionalism.

Realization of the policy of reward starts at the recruitment stage when a candidate for a vacancy is given information about payment terms. There exist some peculiarities of this procedure in foreign companies that nowadays enlarge the scope of their activity in Russia, increasing the number of Russian employees. For example, Coca-Cola has recently opened four new plants – in Vladivostok, Krasnoyarsk, Nizhniy Novgorod and Rostov-on-the Don. Accordingly, more and more Russian citizens become employees of this organization. It is useful to take into account the experience of such organizations that have a long business history in the process of management of personnel. This article mainly deals with the recruitment of personnel to foreign firms from the point of view of motivation and financial incentives of their employees.

In Russia it is traditionally believed that foreign companies pay to and treat the staff according to foreign standards. That's why the majority of Russians associate the work in a foreign company with "a beautiful life".

A recruitment agency "Empire of Manpower" questioned 125 its candidates about what foreign companies they would like to work-in. It turned out that 53% of them preferred American firms, 21% - Western European (Benelux, Germany, Italy and France). For 26% of respondents the "nationality" of the firm didn't matter. None expressed a desire to work for a Japanese or any other company [1]. Many Russian citizens already have an experience of working in a foreign company, not always successful as not everyone is ready to follow the traditions and rules existing in foreign firms (in the language of recruiting consultants it is called corporative culture). But if an employee intends to work in such a firm then he will have to accept its rules.

In corporative culture of different foreign firms alongside with common features there are their own peculiarities starting with recruitment stage and finishing with internal traditions that largely depend on the "nationality" of a firm. This aspect demands thorough research as partial transition of corporative tradition to Russian business is absolutely necessary. A Russian employer prefers talented and initiative employees while foreigners demand prompt fulfillment of official instructions and orders.

British, German and American firms recruit employees through recruitment agencies or select candidates on the base of resumes sent to them. It is not easy to find a job there through personal contacts of relatives or acquaintances. For example, the company Rank Xerox where according to the manager Englishmen have a lead relatives of the employees are not taken at all, but still it is not worth while neglecting personal recommendations. According to the survey made by a recruitment agency "Contact", they are paid attention to by 37% of French, 73% of Italian and 49% of Switzerland firms. All foreigners approach the procedure of selection of candidates very thoroughly. Thus, in a German company Kraft a candidate will have to be interviewed three times, in an American firm 3M – six times, one of which with the head of Moscow office [10]. Being late to an interview is out of the question. A Russian firm will have a negative impression of a candidate for this reason but a foreign firm won't speak to him at all. Foreigners have standard requirements to candidates: higher education, knowledge of a foreign language, working experience. Many American companies carry out an aggressive policy in conquering the market. That's why they hire very dynamic, capable and decisive employees. Melancholic and phlegmatic people will hardly be taken.

For Americans the desire to work in their company is extremely important. Germans will treat such a zeal more calmly." Professionalism is more important for us, only enthusiasm won't do", says the personnel manager of Kraft. They will prefer serious, pedantic type of an employee. One of German firms issued an order for their employees to use the reverse side of unnecessary documents as rough paper. French and Italians are remarkable for their sociability and gentleness, for them it is important that an employee be dynamic and could work in a team. Japanese and other eastern firms value loyalty, controllability, collectivism added to professionalism. Not every Russian can work for Japanese. "Prison and fascist regime" in such a way our citizens characterize the norms of corporative culture of such organizations. In American companies a team spirit is developed. It is expressed even in the fact that superiors and subordinates sit in the same room at the tables close to each other. So the distance between them is minimal. Many employees can tap their general director on the shoulder and ask him how things are. But a smile and energy are only external demonstration of corporative culture. Those who don't know Americans think that they encourage initiative. But it is not really so: there it is necessary not only to put forward an idea but also implement it. Some specialists are known to have been dismissed only because they constantly proposed different projects but did nothing to implement them.

It is not an American tradition however democratic they might be to solve a problem without informing the immediate superior. The same with Englishmen. In German firms it is necessary to make an appointment to see the chief in advance. A German chief should be addressed not only by his first and last name but also his position. Usually in foreign companies a respectful attitude not only to superiors but to all colleagues is cultivated. One English company implements the "policy of obligation": you must help your colleague if he asks you for help and in some days inquire how he is getting on.

Life in a foreign firm is strictly regulated. It doesn't concern American firms, though, where it is important that employees carry out their tasks disregarding when they can do it. Germans, on the contrary, don't like their staff to stay at work late [2].

There are also different dress codes in companies. Japanese prefer official business style – dark costumes, white shirts. In American firms even in summer everybody wears long-sleeved shirts and ties. According to the director of an American agency people in American companies

feel as if they were put into vinegar, soaked thoroughly and then reduced to the same level. If in Russian companies the main portion of a compensation pack is a salary, in foreign firms – bonuses and perks. In an American company employees sometimes get free lunches, company's cars, mortgages, family medical insurances in addition to high salaries. At present in foreign companies it is included into a compensation pack.

Thus, to get on in a foreign company a Russian employee will have to obey numerous requirements of its corporative culture. It is corporative culture that many Russian companies lack, from the point of view of motivation of personnel. Many Russian firms already have a positive experience in personnel management according to western standards, the result of which is quickly growing productivity of labor as well as unity of the team ready to do its best for the prosperity of their company.

Let's consider practical aspects of recruiting personnel together with a motivation component on the example of a branch office of the company "Lucent Technologies", the former subunit of AT&T. This branch has existed in Russia since 1997, recently there has been established a subsidiary company "Avaya". Lucent Technologies is the largest manufacturer and supplier of communication equipment in Europe and the USA and covers a large number of products: from office mini-auto telephone stations to fiber optical nets and multiplexers for cell providers such as Personal Communications (SONET, Transtelecom, MG TC and others). The branch office of Lucent Technologies in Russia carries out the following missions: direct sales of its equipment to large Russian companies, development and improvement of dealer nets in all regions of Russia, establishment of qualitative service. These missions are carried out by sales departments, departments of development and planning of the net, service department and department of supervision of projects. In their everyday activities they are supported by advertising, marketing and public relations services, logistics (placing and transferring orders) and financial services and additional personnel (drivers etc.). The personnel service of the branch office is represented by personnel managers the main tasks of whom are recruiting and running all the work connected with the employees (documentation, official instructions etc.), evaluation and attestation of the personnel, working out training programs. Lucent Technologies started working approximately at the same time as many other foreign companies.

On the other hand, foreign businessmen who came to Russia were representatives of a definite, with long traditions macro (on a country's scale) and micro (on a definite enterprise's scale) culture, active conductors of corporative traditions of running a business, who have precise understanding of its strategic goals and interests of the company as a whole.

On the other hand, they had a very vague idea about peculiarities of our country where they had to develop their business, about economy, culture and people. Not all representatives had time and strength to study social, cultural and psychological peculiarities of local people, the whole complex of language, behavior and value peculiarities. In such a difficult for a foreign businessman situation a very important role at the stage of establishing a company and recruitment of personnel was played by the first Russian employees who were hired by a chief-foreigner. At the initial stage the search for employees for foreign companies was rather chaotic: through embassies, consulates, chance meeting with suitable at first sight people on planes or at exhibitions, recommendations from acquaintances, newspaper advertisements in foreign editions in Russia and only in extreme cases through recruitment agencies. The staff of such agencies was not numerous as at that time many companies carried out sort of market research at the lowest

expenses possible. Not much was spoken about serious influence of corporative culture of a foreign enterprise on Russian employees. Cross-cultural barriers both cognitive (absence of knowledge of the country's culture etc.) and that of behavior influenced a perception of local "labour force". It was easier with people who spoke a foreign language as a foreigner in a different language surrounding felt ill at ease and needed advice. Accordingly, the main criterion of selection of recruits at that time was the knowledge of a foreign language.

A not less important criterion was a certain "universality" of an employee, his range of interests and flexibility in switching from one kind of work to another which was determined by the principle of minimization of the staff. At that time it was often possible to meet a former graduate of an institute of foreign languages who worked both as a sales manager having the right to sign international commercial contracts on behalf of the firm and an interpreter, accountant, secretary as well as a driver to go to an airport to meet foreign employees. Such people were well paid as the company saved money and they were highly loyal to the company. It was little thought that the possibilities of career growth for such employees were very little: they lacked all necessary qualifications and their activity had a superficial character which badly influenced the company's competitive capacity. Being too busy with the work kept them from getting special education in Russia. In such conditions the progress of employees depended mainly on their individual abilities and consistency of goals: some were quite satisfied with their work and didn't think it was important to improve their knowledge. At present some firms that had a negative experience of unsuccessful recruitment in the past look for possibilities of leasing an employee from a recruitment agency. Now there are a number of agencies that are ready to render such services. It has some advantages in comparison with a usual labor contract, as it is always possible to part with an employee at any time and replace him by a new one. If an employee is very useful for an organization there is a possibility to come to an agreement with the agency to "purchase" him. Today the main requirements of foreign employers to candidates can be divided into three groups: professionalism, social competence and conformity to the requirements of corporative culture. The most important of them is professionalism: if a person is super-professional his personal weaknesses influence the efficiency of labor and relations in the team to a lesser degree. A professional, as a rule, is confident in his knowledge, his competence, he is not afraid of "unhealthy" competition, intrigues, he doesn't need to play political games. Such people are stable and efficient as they invested a lot of their time, energy and money into their professional progress which presupposes the ability and desire to work well.

Many foreign organizations have recently introduced the practice of outsourcing, that is they don't take an employee on the staff but sign a contract with him for a definite time. Thus, a personnel manager and an immediate superior always have a possibility to test a hired employee (additionally to a probation period) and at the same time they grow their own personnel from graduates of higher educational institutions investing a lot of money into them. It is often justified as young people are more flexible for apprehension of new corporative culture, more energetic, creative and efficient, they can become very good specialists. A failure is not completely impossible in cases when the ability to study and self-development of a candidate was not well prognosticated. There may be failures of another kind: a company grew a remarkable specialist having spent a lot of resources on his studies but he left the job because a competitive company offered a higher salary and because he wasn't fully absorbed in the corporative culture of his company and wasn't loyal to it.

High professionalism presupposes in the first place professional education got in Russia. It is good if an employee has a bachelor or master degree, finished specialized professional courses with good grades and recommendations. At least three years' experience of work in a certain profession especially in a large company is also necessary. Personal traits of a candidate should correspond to his professional sphere. For example, an accountant should possess high concentration of attention, good memory, ability to make decisions, take responsibilities etc., a sales manager should be communicative, sociable, able to hear the person he is talking to and understand his psychology etc.

The second requirement to a candidate for a vacancy is the existence of the so-called social competence. It means the ability to understand his place in the system of existing relations in the team, the ability to build his relations with other employees both with colleagues and superiors, ability to work in a team, to help if it is necessary, be sincere in his relations.

Thus, knowing the main requirements to a candidate it is essential before the beginning of the search to have a clear portrayal of a future employee. Such a portrayal is drawn up by the personnel department together with the chief of a certain subunit.

They take into consideration the following: educational and professional level, professional habits, additional knowledge, experience of work, the company it was gained in, degree of responsibility at the last place of work, personal traits, ability to study, to progress, work motivation and other characteristics. It should also include other criteria according to which a specialist will be selected: age, sex, existence of a driver's license etc.

A professional portrayal is based not only on full information about the position, main and additional duties and expected results of this activity but also people who a specialist will be communicating with, and the language of communication. This portrayal for different market segments is not the same. (table 1).

An example of a complex professional portrayal of the head accountant of a subsidiary branch of a foreign company will be the following: a man or a woman, age 30-40, higher education corresponding to the work, certificates from refreshment courses, certificate of an auditor, knowledge of modern Russian bookkeeping, tax, currency, bank, international trade legislation as well as a European system of bookkeeping and computer means of bookkeeping, knowledge of English and appropriate terminology, ability to express his/her opinion on professional questions in taxation organizations, not less than three years' experience of work as a head accountant, character references from the last two places of work, rare change of work and only for serious reasons, experience of work with foreign companies. He/she must be accurate, honest, efficient, responsible, hard-working, energetic, motivated, open-minded, loyal to the company, reliable, ready to go on business trips. He/she should have a passport for traveling abroad and a driver's license as an advantage.

Having compiled a professional portrayal of a desirable specialist an organization goes on to the way of searching for a candidate. Surely, every personnel manager has his data bank as all foreign and large Russian organizations get daily a lot of resumes from people looking for a job. It is important to keep this bank in order so that it could be easy to find a suitable specialist.

Managers of foreign firms in search for a suitable candidate often look through their data bank. It has both advantages and disadvantages. Firstly, the candidate could find a job already, secondly, it is not exactly known if the description of the candidate corresponds to the reality, thirdly, checking if his diplomas and certificates are authentic is time consuming. Though, some specialists can be found by studying their resumes and extended efforts are justified [6, 7, 8].

Table 1. Requirements of Different Market Segments to Women Accepted to a Job

Requirements	Foreign firms, joint ventures, large Russian firms	Small and medium business	Private business and small enterprises	Large industrial (former state), state enterprises
Age	25-35 years	20-40 years	35-45 years	30-40 years
Education	Higher preferably and Western	Higher and secondary special	Any	Higher and secondary special
Special skills	PC, foreign language, office equipment	PC, office equipment	None or in accordance with specialty	None
Family, children	None	Yes, grown-up children	Yes	Yes, grown-up children
Appearance	Business style	Business style (more casual)	None	None
Employment procedure	Full scope, multi-step	Recommendations, interview, sometimes testing	Long procedure of registration	Recommendations, interview, occasional-other procedures
Personal qualities	Ambition, self-reliance, motivation of achievement, purposefulness, competence, eagerness to studying, independence	Loyalty, independence, conflict-free, efficiency, personal devotion, fellowship	Adaptability, disposition to risk, high level of personal control, responsibility	Discipline, conflict-free, ability to work in group, low level of pretensions
Prospect of growth	Maximum- average management level	Growth is only under expansion of enterprise possible	Growth is unlimited	Growth is possible, sometimes up to average and higher level
Problems	Scornful attitude of foreign managers, low career chances, private requests to wait for family for uncertain time, strict work conditions, family problems possible	Uncertainty of situation, absence of guaranties and social basis, violation of legislation (overtime, holiday pay etc.), arbitrariness of leadership, the first one to be dismissed	Absence of support, relying only on oneself, risk of going bankrupt, emotional heavy duty due too high responsibility, absence of stability, everything at own expense (education, medical cure etc.)	Low salary, not much training, slow professional growth, less competitive in the labour market

It is possible to address to a recruitment agency. The experience of work with several such agencies helped employers find out such a regularity: what is important is not the name of a firm and scope of business but professionalism and conscientiousness of its managers. Employees of recruitment agencies should have their own ways of getting information about a client's needs as very often he himself doesn't know exactly what he wants.

To select a candidate correctly a recruitment agency should be given a detailed professional portrayal of the necessary specialist, it should be informed about a corporative culture of the company, psychological atmosphere, style of supervisors and those employees who the future specialist will deal with. An agency usually inquires about the prospects of career of the candidate and those benefits that he will get in addition to his salary. Besides, it also learns about the peculiarities of the organization's business in Russia and its economic prospects.

Furthermore, it is important to determine priorities in the requirements to a candidate. Excellent knowledge of a foreign language may be an obligatory requirement, while age limits may not. So, all the qualities of the professional portrayal are ranged according to their importance and the most essential ones are determined. A recruitment agency should also be informed about the form and contents of candidates' resumes which will be sent to the organization-employer for primary assessment as well as ways to determine this or that quality.

For example, it is desirable that the knowledge of a foreign language be tested by a teacher of a language institute while personal qualities – by MMPI tests or any other. Checking the accuracy of the information given by a candidate is an important aspect of selecting which should be included into the contract with the agency. There were cases when an agency having such a term in the contract didn't check the documents, which led to dismissal of an employee because he/she didn't have a passport for traveling abroad for permanent business trips.

The process of selection consists of several stages. The first is work with resumes and documents of a candidate. If a resume was written by a candidate himself the attitude to such an "auto reference" should be critical. "Excellent knowledge of a foreign language" may not be that excellent. Such a resume may only give a general impression of a candidate and lead to a decision of whether to invite him to an interview or not. Though it is possible that clear, accurate, correctly written resume in which the main aspects characterizing a candidate are logically marked is really one of his characteristic features provided it is written by the candidate himself. A resume sent by an agency deserves more confidence but it is necessary to check the information contained in it all the same. The documents given by a candidate or an agency are as a rule the same: diploma of education, certificates from professional refreshment courses or additional courses and character references from the previous places of work or study etc. Companies have a right to decide what documents about a candidate are needed. In some cases a passport for traveling abroad and a driver's license are needed. It is also necessary to mention the peculiarities of work with letters of recommendation and character references given by candidates. In some countries the practice of working with character references is widely spread. For example, in Germany it is a must for a firm to give a character reference for a leaving employee though weaknesses are as a rule not mentioned. In our country such references are given only if required and most of them are full of appraisals to a leaving person because the former employer wants to look kind hoping to get rid of an unsuitable worker. Besides, to write a really accurate character reference it is important to know the person very well, to know his strong and weak points. But very often they are signed by superiors who even don't know what their former subordinate did in their company. Therefore, it is desirable to check a character reference in person (or on the phone) by addressing to the former superior or colleagues, thus getting very valuable additional information. It is good if there is a possibility to prepare questions that will be asked in advance. The questions should be clearly formulated and concern the behavior of the wanted person in definite situations (for example, if an employee conscientiously carried out his duties, if there were cases of refusal to go on business

trips, conflicts with his superior, violation of discipline, his sickness record, his relations with colleagues, cases of refusal to help them when it was not directly connected with his duties etc.).

One more important document is a questionnaire filled in by a candidate. As a resume doesn't often contain all the necessary information the questionnaire should be worked out taking into consideration the peculiarities of the company and definite position, be at most effective and informative [8, 9].

1. Such a questionnaire can be filled in at the first meeting (if there are no other ways it is possible to exchange faxes). In case of searching for a candidate through a recruitment agency it may be asked to send a questionnaire together with the candidate's resume.
2. At the last meeting all members participating in a selecting commission estimate a candidate according to all the points given in table 1.
3. A negative opinion expressed by an expert about professional qualities of a candidate is not disputed. In other cases there may be a discussion with argumentation to each opinion and a general characteristic to the candidates is given.
4. All the points to each candidate are summed and the total point is calculated. At the end of the final discussion about the candidates the selecting group comes to a general decision about the most suitable candidate. Sometimes it decides to continue the search and one of the discussed candidates may be left for further selection.
5. In case of a positive decision the candidate is informed about all the necessary documents he must have to be taken for a job (passport, diploma, income tax sheet , pension card, photos etc.) and the date when he can come to discuss the project of the working contract.
6. Up to that day on the base of a typical contract worked out by lawyers the project of a working contract with all the peculiarities of the position is designed and discussed by the superior of the subunit.
7. The candidate includes his changes into the project and it is further discussed until the compromise decision is found.

CONCLUSION

1. A corporative culture of different foreign firms has some common features but at the same time every foreign company possesses its own specific peculiarities that largely depend on its “nationality”. This should be taken into consideration by a Russian citizen while looking for a firm to work in.

2. The main requirements to a candidate on the part of foreign employers may be conventionally divided into three groups: professionalism, social competence and conformity to the requirements of the corporative culture. The preference is given to professionalism as personal qualities of a candidate influence the efficiency of labor and relationships in a team to a lesser degree.

3. The important role in a qualitative selection of candidates for work in a company is played by their professional portrayal. Such a portrayal is worked out by the personnel management department together with the superior of a subunit.

4. The search for specialists can be exercised by different ways, each of them having its advantages and disadvantages. In the process of searching some requirements may be reconsidered, the most attention being paid to checking the documents submitted by candidates.

5. An important document is a questionnaire filled in by a candidate. It is worked out with consideration of peculiarities of a company and a definite position.

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PROBLEMS OF ENTERPRISE'S COST MANAGEMENT IN REGIONAL ECONOMICS

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ABSTRACT. *The aim of work is to analyze the difference between the capitalized cost of the enterprise and the value of the assets gives the business value. For the analyzed enterprises in most cases the difference between the market and balance sheet of a single share is a negative value. Thus, the business value is also a negative value. In this connection it is necessary to create economic, ecological, social-psychological and organization basis of optimization of business cost, to develop the republic stock exchange. It will promote the increase of competitiveness of Byelorussian enterprises in conformity with innovation receptivity economy policy.*

DETERMINANTS OF ENTERPRISE'S COST MANAGEMENT

During the period of changing over to the market relations in conditions of the radical transformations multiplicity in the economics' the most important becomes the task of the value management of subjects optimization process. Among the cost determinants of the enterprise value is possible to separate the next groups of the external and internal factors: material determinants: immobilized and current, connected with the fixed and working (circulating) capital formation; market determinants; ecological, intellectual and financial determinants. Internal and external factors are intercomplementary and they determine through the enterprise results its possibility of development, its terms and the positions on the market.

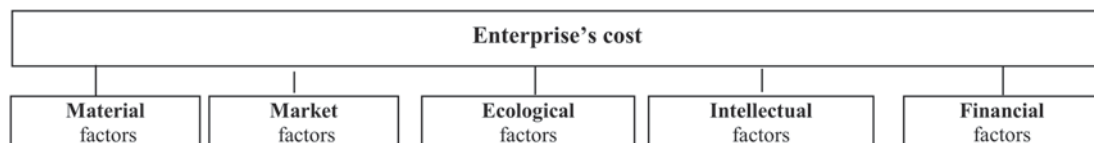


Fig.1. Determinants of enterprise's cost.

The first group factors determine the activity in the field of the assets and capital reorganization. Among them are activation, jointing, division, capital split, leverage level, shares emission, redemption of the own property shares. The researches carried out on the West demonstrate that this activity may cause positive or negativity influence on the stock exchange shakes price.

Some investors estimate the activity of this type in the light of the prism of cash flow projection generation and by means of the profit dynamics.

The second group factors determine some directions of the market activity of enterprise, among them are activity strategy, market position, competitiveness of the enterprise; and also the indices which characterize the investments payback, demand for shares, conjuncture, rate.

As ecological determinants we can refer the next: external-external ecological situation influence of the enterprise cost: at present moment the estimation of the assets depends on the great influence of the ecological situation in the Republic (meanwhile, the consequences of Chernobyl nuclear power station disaster; internal-internal ecological state of the proper enterprise.

The intellectual group includes a row of factors: the reputation of the enterprise, personal capital, organizational and structural capital, non-material capital, business relations and the other components of the intellectual capital of the enterprise which defines the stock of the personal knowledge and of the knowledge of the labour collective, production experience, habits and motivation, structural ability of the company for self-arrangement, for the maximum utilization of the employees.

The group of the financial factors possesses a number of indices, which characterize the financial results of the enterprise activity, its investment attractively. One of the most important determinants of the important determinants of the investment risks in the enterprise is its level of debts.

Strategy of management must favour the maximization of the proper capital profitability or light share rate maintenance, must maintain emission capability or create the protection for the competitors. The mechanism of the cost enterprise management, its growth stipulation determines the preconditions of the cost as a strategical goal of enterprise. Therefore the cost of the enterprise becomes not only the criterion of the decision-making, but simultaneously is the aim of the decision-making. Hence it is possible to make an accurate construction of the tree of decision through the selection of the best decision in such conditions, the possibility of the expenditures reducing.

The cost of enterprise as the precondition of the taking managerial decisions may be used only in terms of the market economy when the enterprise becomes a commodity (it has a price, use value, it is an element of the market where the demand and the offer for this commodity are faced). The second condition of interpretation of the cost in the role of one of the parameters of decision-making is the owner's interests in the increasing of the price of the available property and possibility of protection of owner's interests.

Theoretically, the managerial decisions are reasonable only in the cases when they augment the cost of enterprise. The decisions which increase the value of enterprise give profit for their owners: in a form of the growing dividends, which will be paid them, in a form of the cost of their shares, etc.

PROBLEMS OF THE OBJECTS COST ESTIMATION

One of the most important problems of selling state inventory and privatization is adequate evaluation of the privatization is a well-grounded opinion of independent side about the real market price of the property. Registered on authorized fund of joint-stock company, creating in the process of the privatization is determined by using the standardized value procedure of the integral property complex of the enterprise. The standardized evaluation of the integral property complex for the authorized fund of the society determination, founded on the base of the inventory of state enterprises (except the property of state farms, another state agricultural enterprises and enterprises of fishing industry) is made on the base of the property inventory of the enterprise, data of the endorsement balance of the enterprise, composed against the date of evaluation this balance describes the results of revaluation of the enterprise assets on the basis of experts estimation, tenancy agreement with the appendices for it (among them balance enclosed to the tenancy agreement); another additional information which requires the privatisation commission for the property evaluation. List of property which is an integral part of the total inventory complex includes [1]:

- fixed assets (Af): production capital funds, intangible assets, non-finished construction, long-finished construction, long-term financial investments long-term debtor's liabilities, delayed tax assets, another non-turnover assets);
- current assets (Ac): reserved bills of exchange, debtor's liabilities for the goods, work, services, debtor's liabilities for payments and the others current debtor's liabilities, current financial investments, another turnover assets);
- expenses for future periods (Ef).
- With the aim of the pure cost of the integral property complex the total cost of the abovementioned complex reduces for sum:
 - - guarantee of future expenses and payments (Pf);
 - fixed liabilities (Lf),
 - current liabilities (Lc).

This, the cost of the integral property complex of the enterprise (IPC) is calculated by the formula:

$$IPC = (Af + Ac + Ef) - (Pf + Lf + Lc). \quad (1)$$

During the process of determining of the authorized fund of any open joint-stock company the pure cost of the integral property complex should be corrected with the cost of the state housing fund, objects free from privatization, property relatively to which is established special regime of privatization, and also for the surplus value of the inventory received as a result of using of financial restructurization measures.

As the result of above-mentioned corrections we determine the amount of the authorized fund of the open joint-stock company (AF), created on the base of the state enterprise assets by the formula:

$$AF = IPC - HF - If - Osr + Vr, \quad (2)$$

where HF - the cost of the housing fund; Of – the cost of objects free from privatisation; Osr - the cost of objects, relatively them is established special regime of privatisation; Vr - surplus value of the state property received as a result of measures of financial restructurization.

But such formed result of the object cost frequently is not justified for its very high price. Its dollar equivalent with the time doesn't decrease but has a tendency for growth. Besides it is very labour-consuming method, based on expenditures' evaluations.

The most expensive are the objects with big volumes of commodities and material values, non-established equipment, etc. The enterprises which don't have excess of facilities and equipment become cheaper. Here we can face with the possibility of various faults, inexactitudes, etc.

For the labour body the privatization in the form of open joint-stock company is very often more preferable, because during auction sales, by competition is decreased the possibility of purchasing the objects into the possession by the proper labour team thanks to the growth of its price. In consequence of this phenomenon we propose to sell on the auctions and by competition in the first place small unprofitable and with low paying concern enterprises. One of the ways of privatization is the selling of the state property objects by means of the state property objects by means of the auction. This, it may be obtaining in the property by natural or juridical (artificial) person during the open auction when the buyer is not realize any terms (auction without any clauses) or when the purchaser must realize determined conditions (auction with clauses). The clauses are established by the body of privatization. When the state property object is sold by the auction with clauses the buyer must execute one of the next conditions: maintain the same profile and the purpose of the privatization object, maintaining or creation of new working places, execution of the investment programs, keeping the historical features of the privatization object, which is of historical-cultural value. It is not tolerable to declare the terms not foreseen by the auction is the maximal price.

Selling of the state property object by competition (by contest) is its obtaining by any legal person in the own property when the purchaser is required to realize special terms, established by the privatization body.

The winner of the contest should propose the offer which is the more suitable for the declared criteria. If another proposals are equal the winner of contest should be the person which declared the highest price.

As far as it refers to the privatization cost of the object, which is put up for auction, for the approximation of methods for evaluation of state property to the market factors are approved methodical recommendations of the cost of the real estate market price evaluation and property rights for it.

The evaluation according this methods may be realized using the next accesses: extravagant, income (capitalization of the profit) and comparative (market) [1].

Since the property complex cost of the privatized object which was made by the extravagant way is sometimes very high the labour body or team which is a real initiator of the privatization can really receive for money and individual privatization cheques "Property" which are from 4 up to 10% of the authorized or registered fund of the founded open joint – stock company.

The contribution of the own money of the workers in shares, using even 20% discount is non-significant. Meanwhile before the finishing of the cheque privatization is foreseen the moratorium for the selling of shares purchased by the reduced price or using the cheques "Property".

The perspectives of the dividends receiving, especially in after privatization period are very illusory. This phenomenon in a great scale decreases the stimuli for the privatization of the members of the labour bodies. Profit methods are used in the next cases: in the case of the availability of the reliable data for the objective evaluation of the future money flows of the enterprise deter-

mined that those flows have positive values; when the enterprise doesn't have big assets, but has considerable money flows; in case of forecast possibility of the future rates of growth and in the number of another.

Using comparative way the cost of property is determined by the real market transactions analysis and comparison of the objects of transactions with the evaluating object. The essential idea of this way is the suggestion that informed buyer will not pay for the property more than it will be paid in case of buying any similar inventory which has the same level of utilization. However, in the terms of the transitive economy the information is not so complete and may not have the necessary grade of truth. The total information about the transaction very often is very difficult to obtain because of the instability of the prices conjuncture fluctuations for various (even short-term) periods of time are considerable. Each from the indicated methods has its own advantages and disadvantages, in determined situations.

The disadvantage of the income method is in that it represents infinitely long in the period of generation through the enterprise the incomes, originated from various sources. Extravagant methods doesn't take into the consideration influence of the time interval, needed for recreation ameliorated analogue utility. It's using it specialists don't into account the business perspectives, the levels of profit, assets profits and other features. Comparative market methods are preferable in the conditions of the existence of the object comparison market, that in the conditions of the transitive economics causes considerable difficulties. The methods are based on the past events, so making calculations it is necessary to use a number of corrections with the goal to take into account future expectations. In some situations no one way of access may be used in a pure form.

Thus, some western researchers propose to use mixed innovation accesses which include methods, based on the reputation cost, which take into consideration the coast of reputation with its amortization, methods of average cost and of the cost increasing.

CORRELATION BETWEEN THE MARKET COST AND BUSINESS VALUE

Some evaluations prove that the market value of 500 medium companies from the list of the list of the Standard & Poor is 6 times more than the cost of the pure possession which are available in the pure statements. It significant that the balance assets comprise in average approximately 15% of the real company cost, meanwhile the business cost will be in average about 85%. Therefore in traditional industries the share of the business cost will be 20-40% of the total cost of the company, in the industries connected with the high technologies – 60-80%, in the industries linked with the last achievements in the field of the computer technologies more than 90%.

We cite the data from the magazine "Fortune" list that includes 500 largest industrial companies of the USA.

Table 1. Business value of Companies (Fortune 500) [3]

Companies	Market cost, mln. doll.	Assets, mln. doll.	Business value, mln. doll.	Part of business value, %
Intl. Business Machines	98322	81449	16873	17,2
Hewlett-Packard	65060	31749	33311	51,2
Compaq Computer	36052	14631	21421	59,4
Xerox	31829	27732	4097	12,9
Digital	7101	9693	-2592	X
Dell Computer	41294	4268	37026	89,7
Sun Microsystems	16614	4697	11917	71,7
Apple Computer	3449	4233	-784	X
Gateway 2000	6242	2039	4203	67,3
Pitney Bowes	14036	7893	6143	43,8

From the table 1 it is seen that the share of the business value of the Companies, which produce computers, and office equipment is great and in its market price and at times in some times is superior of the assets cost. How long it is possible to reach such correlation? For instance, company “Compaq Computer» had only three workers when it was converted in the corporation. The first year was devoted to the product perfection and the sales volume was equal zero. In 1983 it started the promotion of the new computer in the market and the sales volume achieved 111 million dollars/ it is a record for the recently created firm. In 1986 “Compaq” was already included in the list of the magazine “Fortune” of course, it is a quite phenomenal success, but and usually in the first years the rate of growth of the new firms comprise from 100 up to 1000 percent a year (Is the created produce received market recognition) [2, p.206]. It may occur vice versa situation, for example, with the well-known Company Apple Computer when the rate of its shares fell below the level of the balance cost and the cost of business became negative. It is characteristic the surplus market cost of the enterprises in comparison with the cost of their assets for the USA and for the countries of the Western Europe. However, in many countries of the eastern and central Europe is contrary. The Republic of Belarus is one in this row.

INDEXES OF THE ENTERPRISE’S VALUE MANAGEMENT IN BELARUS

As private indexes of cost management of the enterprise it is possible to present the next:

1. **P/E** – price-earning ratio – correlation of the market value of the share (P) and of the profitability of one (E). It is one of the conditions of the developed market which characterizes the degree of the investors’ interests in the given enterprise. P/E reflects the relations between the

enterprise and its shareholders. This coefficient shows how many money units agree the shareholders to pay for one money unit of the pure profit of the company.

The highest is the value of this index, the highest is the investors' appreciation of the investment qualities of the company at the moment. An important characteristic of the given index is not only its level, but its dynamics in comparison with the dynamics P/E of other enterprises and with the general dynamics of the market. It is particularly important for the investors which examine long-term aspect of investment.

Let's calculate the ratio of market value of the share and its profit for Byelorussian joint-stock companies (table 2).

Table 2. Market activity indexes of the enterprises in 2002-2003 years

Indexes	Enterprises			
	All	P/E > 0,3	P/E > 0,8	P/E > 1
2002				
Dividends / Pure profit, %	13,3	18	92,7	93,2
Dividends / Profit, %	10,4	11,1	22,3	22,3
Dividends / Numbering of worker	57	237	166	170
Profitability, %	12,2	24,7	39,9	41,0
Number of enterprises	1414	71	33	16
2003				
Dividends / Pure profit, %	3,6	18,5	33,6	54,1
Dividends / Profit, %	2,4	11,8	20,8	27,1
Dividends / Numbering of worker	52,8	248	658	750
Profitability, %	18,7	14,9	22,8	14,9
Number of enterprises	1530	121	22	15

The investors can evaluate the repayment of the investments, examine the condition of the facilities of the enterprise by the use of the index of profitableness. Let's calculate some indexes of market activity of the enterprises which characterize the dividends' level and profits of enterprises. Four groups of enterprises are taken into consideration: 1) all enterprises; 2) the enterprises in which ratio P/E is more than 0,3: one monetary unit of the pure profit the shareholders can pay 0,3 monetary units; 3) the ratio P/E is more than 0,8; 4) the enterprises in which P/E is more than 1. It means that for one monetary unit of the pure profit of the enterprise the shareholders agree to pay no less one monetary unit.

Investigating Byelorussian enterprises according the value of the coefficient P/E for the last three years we determined, that the level of this index for the majority of the subjects is rather low. In 2003 15 subjects had correlation P/E superior than 1. It means that for one monetary unit of the pure profit the shareholders agree to pay no less one monetary unit. The share of such enterprises is 1% of the total number of enterprises.

The number of the enterprises with the ratio P/E more than 0,8 (0,8 rouble for one rouble of the company's profit) increased from 33 up 22 units in 2003 in comparison with the year 2002. The value P/E more than 0,3 (0,3 rouble for one rouble of the company's profit) in 2002 – 71 enterprises, and in 2003 it is number increased up to 121 enterprises (7,8% of the general totality).

Table 2 shows that with the growth of the value P/E increase all the indexes, connected with the level of dividends. It is a logical conclusion of the calculation formula P/E: the value P (market value of the enterprise) is equal the value of dividends of one share, corrected by the value of the bank's interest. Such tendency for the level of profitability is not determined.

2. **P/ Pbal** – is the correlation between the market price value (P) and balance cost of one share (Pbal), provided by it's inventory which are pure assets.

After calculations were determined that during two years only 8-10 enterprises of total quantity had the surplus market value against their balance cost.

The difference of the capitalized cost of the enterprise and of the cost of assets gives the value of the business value. It is obviously, that for the majority of the analyzed enterprises this difference is negative. Therefore the business value calculated using these methods is also a negative value.

Excess capitalized cost calculated by pure profit and pure assets may be considered partially as the business cost, because during determination of the cost of the business was not taken into consideration the influence of the intellectual capital and other factors on it. In conditions of the wear stock exchange market cost of enterprises may be only of conditional character.

Let's calculate the same indexes of the market activity of the enterprises which characterize the dividend's level and the level of profitableness of the enterprise (P/Pbal), the results we will classify by the next groups (table 3).

Table 3. Market activity indexes of the enterprises in 2002-2003 years

Indexes	Enterprises			
	All	P/ Pbal > 0,1	P/ Pbal > 0,5	P/ Pbal > 1
2002				
Dividends / Pure profit, %	13,3	10,0	13,5	0,05
Dividends / Profit, %	10,4	9,5	13,7	3,3
Dividends / Numbering of worker	57	104	82	26
Profitability, %	12,2	15,7	13,7	18,8
Number of enterprises	1414	33	15	10
2003				
Dividends / Pure profit, %	3,6	12,5	4,7	3,7
Dividends / Profit, %	2,4	8,6	3,3	2,6
Dividends / Numbering of worker	52,8	247,6	89,6	80,3
Profitability, %	18,7	9,6	8,1	8,3
Number of enterprises	1530	38	9	8

1) all enterprises;

2) enterprises which have ratio of market and balance value more than 0,1. Otherwise, when the market price is more than 10% of the pure assets value. There were such 38 enterprises in 2003;

3) enterprises which have the ratio of the market and balance price more than 0,5. Hence the market price forms no less than a half of the property price;

4) enterprises which have the market and balance ratio more than 1. Their market price exceeds their balance cost. Their number is 8. It is possible to speak about the availability on these enterprise of the business value.

Table 3 shows that the level of the market activity indexes (1 group) differs from the corresponding values of the other groups in 2003:

- dividends share for the pure profit rouble in the first group (determined by all enterprises) is below the similar index of the second group for 8,9 per cent points, by the third for 1,1 per cent points, by the fourth by 0,1;
- dividends share for the balance profit rouble in the first group is below for 6,2 per cent points than in the second one, 0,9 per cent points than in the third one and for the 0,2 per cent points than in the fourth;
- in addition, it is possible to mark the analogous tendency for one employee in the first group in comparison with the three others;
- the production profitability level is vice versa in the first group in comparison with the rest of groups.

The results of analysis show that the enterprises of Belarus in general appropriate insufficient quantity of money for the dividend's payment. However, the direct dependence between the ratio P/P_{bal} and the indexes of the market activity is not equal. The indexes of the second group are of higher values than the similar coefficient of the third and the fourth groups with the higher level of P/P_{bal} . It can be explained as non-correspondence of the market and balance share value, and therefore between the market price of the enterprise and the price of its property. The causes are the fails of the appraisal of the enterprise property as well as its market price.

The results of analysis illustrate the lack of attention for the "cost of business" at the enterprises and it is the difference between the market value of enterprise and its assets. Cost of the business formation may be linked with the profitability and profit values excess of the present enterprise over the overage profitability (by the industry, regions, analogues, etc.) Hence, the basis for calculation of the enterprise cost value may be not only the property of enterprise, but a possibility of generation with it incomes, and also the profitability of the capital. However, such methods in Byelorussian economy are insufficiently.

Business market, as a rule, is a subject of more rapid and strong changes than the real estate market. Thanks to it the costs in both named markets change with the different rates. This statement is specially actual for so-named "poor" markets of real estates. The property usually is evaluated independently for the loan capital availability. Evaluating business should be taken in consideration the value of difference between the amount of assets and liabilities (pure assets). The reasonable utilization of the enterprise property may not decrease but increase the cost of enterprise, simultaneously a number of assets has wearing tendency that leads to the reducing their cost. The definition "enterprise" is more mobile than "property" especially if it is spoken about real estate.

Potential shareholders which wish to purchase the shares of the enterprise wait for its profit generation to have a possibility to pay dividends. Thus, waiting for the future values of the cost of business will make a substantial influence on the share price changing of the enterprise. The more reliable is the forecast, the less it will be the fluctuation of the share rates. The analysis of the data of the above-mentioned table leads to the paradox result: in case of the business value as a difference between market cost and pure assets this value will be negative for the majority of Byelorussian Companies. It result that without taking into consideration such group of factors as intellectual capital, it decreases their market cost. This situation may be explained from the economical point of view.

Among all the elements of intellectual capital only one human or personnel capital will be always positive. Three another elements may be estimated both positive and negative. Organizational and structural capital become positive only in case if the structure of company contributes to the maximum utilization of the employees potential for the achievement of high financial result. Vice versa the abilities and knowledge will not be required. We face with such type of situation, probably in many Byelorussian enterprises. The majority of the employees are highly-qualified, however, their knowledge and potential are not realized, because the organizational structure of the firm doesn't stipulate them to work hard. Intangible assets are very complex product. Their utilization is directed to guarantee the profit of the enterprise, to augment the competitiveness of its production, amelioration of the business reputation of enterprise, increasing of the innovative potential, growth of enterprise stability for the external medium fluctuations. The cost of patents, licenses, know-how, etc., makes positive or as a last resort zero influence. Trademark of the company may cause both positive and negative influence. Well-known trademark may stipulate the quantity of sales and correspondingly the increasing of the profit. Unknown trade mark or trade mark with a bad reputation will decrease the growth of sales, will make the manufacturer to decrease the price and therefore will produce negative effects. It is one more problem of Byelorussian enterprises, because the majority of them are unknown on the biggest markets, and the production of the Byelorussian manufacturers is considered as also the production of the former socialist countries as the production of low quality.

Such elements as business relations may cause positive or negative effect on the sales volume, price and profit. Good-established business relations favour the growth of profit, guarantee the continuous process of the capital movement and all the other production processes. The absence of reliable relations, vice versa, decrease the level of the financial indexes of the enterprise and it changed the business value level.

In this connection it is necessary to create economic, ecological, social-psychological and organization basis of optimization of business cost, to develop the republic stock exchange. It will promote the increase of competitiveness of Byelorussian enterprises in conformity with innovation receptivity economy policy.

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INTEGRATION PROCESSES AND THE SENSE OF SECURITY IN THE POST-COMMUNIST COUNTRIES

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ABSTRACT. *Integration should be considered in many dimensions: global and local, social and individual, political and cultural. In each of these dimensions there take place the phenomena which affect the way in which integration is socially and individually perceived. They are connected with the profit and loss account especially in the context of the sense of security on different levels and in different periods of the integration process.*

Key words: integration, the European Union, security

Integration, as a multidimensional phenomenon, cannot be narrowed down solely to the characterisation of the international systems of political, economic and social links which occur and function in the remote distance from our everyday life. It has also got a local and individual dimension and from this perspective it is also evaluated and experienced. The process of European integration leads to the situation in which we live in more and more “one world” and in which we become more and more interdependent.

Integration is often presented as a solely political phenomenon. Its legal aspects are highlighted and a lot of attention is focused on the economic problems such as multinationals and their impact on the global production and the international division of labour as well on the developing foreign trade. Certainly economy constitutes an integral part of the integration processes and the necessity of facing up to the competition on the global markets was the most significant incentive to integrate.

The unification of Europe, although it is aimed at the realisation of political, economic and social interests of the united countries, constitutes also a result and a form of globalisation. However, due to the fact that it links the countries of one continent it is sometimes treated as a form of inclusion. Opposing this position I assume that without globalisation, based on the development of telecommunications infrastructure and a new conscious perspective in the perception of the necessary integration on the market of global competition, the communal policy in Europe would be impossible.

These processes are accompanied by justifiable tensions between localness and globalness, between particularism and universalism. To carry this further it could be stated, following the observations of Roland Robertson, that we are the witnesses and participants of the phenomena based on the interactions between the universalisation of particularisms and the particularisation of universalisms (R. Robertson, 1992: 100). These processes evidently occur in the United Europe making it one of the centres of the globalisation processes, at least in the economic aspect.

To put this issue more closely, we can observe both the creation of international systems, that is the systems in which national states are the main subjects, as well as global systems, in which transnational institutions or structures of political, economic, religious, cultural and crimi-

nal nature constitute the main subjects. Therefore, we can observe both the strengthening of international relations within the European Union and the change in the position of the United Europe on the international arena. These processes take place in the times characterised by the information and telecommunications revolution and by an unprecedented increase in the role of knowledge, information and the time needed to obtain it. It is also characterised by an increase in the significance of changes in the consciousness of people, of the ability to adjust to these changes, and of creating new values. Precisely from the essence of these changes, from the nature of these times – “the age of information”, from the knowledge-based society arises the crucial role of the convictions, attitudes, knowledge, preferences, skills or the lack of skills of the people who participate in these changes.

The integration processes analysis should be considered both on the objective and subjective plane. Mutual links and determinants existing between these two planes should also be taken into account. If we look at the European Union from a different point of view we can perceive it as a political and economic structure but also as a socio-cultural space in which occur modernisation, detraditionalisation, relativisation being the effect of the meeting of different convictions and behaviours as well as homogenisation in many dimensions.

On one hand, common European market, stimulated competition and deregulation which is being introduced enforce the modernisation of economically backward regions and the change in the structures responsible for this status quo. But on the other hand, integration in the social sphere accelerates the diffusion of cultural patterns and of the ideas which disturb the traditional cultural relations, the ways of thinking and acting. Consequently, the intensifying modernisation processes contribute to further integration by the uniformisation of the living conditions and of the consciousness of people. It is possible that this modernisation will be enforced not only by the international cooperation within the union structures but also by the international technological race and the aspiration of some countries to political or economic domination. It is worth reminding that the very idea of establishing the European Union derived from the sense of necessity of modernisation and improving the position of the European countries on the arena of the global economy.

The phenomenon of modernisation is accompanied by detraditionalisation based on departing from the customary ways of acting, on their modification or on adopting those pertinent to other people, which is parallel to the decrease in the role of tradition as a means of conveying values. These processes result in the progressive unification of lifestyles but also of accepted values. At the same time there can occur syncretism of the national and local cultures with the cultures of the dominating centres, local transformation and adoption of the foreign cultural patterns and not necessarily their uniformisation. To put the issue more closely, in Europe the national cultures are not of equal status. France, Germany or England exert a more powerful influence than for instance the post-Communist countries.

The political and legal current seems to be the most powerful. It is followed by the economic one whereas the social current is the weakest. The collapse of the Communist system, the democratisation of this part of Europe, the progressive unification of the political structures along with the introduction, at different rates, of the union structures form the objective bases for developing a common identity. The united market is accompanied by the changes in the communication and management systems which reorganise the international flow of capital. The progressive deregulation of trade relations and labour markets contributes to the integration of national markets but also to the redefinition of national interests. These processes and facilitated communica-

tion lead to the “opening “ of national societies to other societies, cultures but also problems.

Under the conditions characterised by the direct contacts, stereotypes, prejudices of various provenance, the perception of common and disparate interests are verified. The area of mutual contacts and relations expands considerably and forces us to take into consideration other people’s values and preferences, to relativise our and other worlds, in whatever dimensions this takes place. The flow of massive information, the attitude prevalent in the public opinion favouring new communal affiliation take place under the conditions of progressive social life liberalisation. However, this consent on the multitude of solutions constitutes both the determinant and the effect of the complex reality.

Social and cultural relativisation, understood as the necessity of referring to other structures and values, encompasses one more aspect. If our individuality and localness want to function in United Europe, they must be formed with reference to its structures. It concerns both the countries which have belonged to the European Union only for a short time but also its old members and the bilateral influences and dependencies.

The diversity of links between the UE countries, the intensity of contacts, facilitated communication and cultural relativism certainly enforce and contribute to the detraditionalisation and modernisation processes.

Mutual relations between countries, urban centres and outskirts or half-outskirts are sometimes more complex than it could be expected when considering the power of centres and wealthy countries. Mass communication, its commonness and accessibility make the presence of outskirts possible and evident. The omnipotence of mass culture as an antidote has in turn created the necessity of acknowledging individuality, regionality, localness.

The complexity of the processes which take place in the United Europe still being in the process of unification can be observed at many levels. Its course and results are not fully identified. As I wrote before, first and foremost, we face the objective but also formalized changes in the union structures, in economy and in culture. The subjective perception of these results along with the changes concerning consciousness does not necessarily correspond to the objective transformation of reality. The relation between the objective changes and their subjective perception is also of dynamic nature.

The multiplicity of processes which take place in the EU, their diverse course and the lack of analogous experiences in the past enable to predict changes in people’s attitudes and behaviours only to a limited degree. There exists an evident necessity of carrying out methodologically unified all-European research and of finding common solutions to many problems.

It is beyond doubt that the sense of security considered both with reference to individuals and to social groups constitutes a vital part of the social consciousness. The sense of security is not constant, it was not determined along with the establishment of the European Union but it remains under the influence of the changing conditions. It seems to be the most interesting finding that the same event or fact can positively affect growth whereas in another aspect it can lead to the decrease in the sense of security.

In the political dimension the European Union expanded the security area, both in the opinion of its older and new members – from the post-Communist bloc, by creating common political structures, defining common policy based on democratic principles, “lifting” borders and other decisions. The old members feel the increase in security due to the expansion of the security area and by the ability to control and influence the democratisation processes in the post-Communist

countries whereas for the new members the sense of security results from the awareness of their affiliation to the world of democracy, the ability to move and establish contacts but also from the existence of the international system of control. The factors which increase the sense of security of one group can raise concerns in the other. The West can for instance fear the influx of immigrants, criminal structures, disorganization of current order. All members can cherish hope that a new effective structure will be created or express fears that this will not happen and that these actions will get out of control.

The creation of the common European identification can meet with resistance on the part of those who will be anxious about limiting the role of states and the state structures. Consequently, nationalisms can revive, although the underlying idea of the European Union is conducive to openness of people to otherness and to the increase in the level of their tolerance. The Union can offer the sense of security to different minorities, but even they may feel endangered in the face of the cultural unification .

State political elites may also feel endangered in the situation of the necessary limitation of the scope of their power. However, there appears a possibility of their resorting to extrastate measures and of their interference in other states' policy, which can constitute peculiar compensation.

The sense of economic security is connected with the expansion of the scope of responsibility from the economy of a concrete state to the economy of all the united states. Common economic policy is aimed at offering equal opportunities and living conditions to all European Union members and at the same time at giving the sense of power and real power on the global arena. Poorer states and their citizens can count on additional funds but also on the flow of foreign capital. Investment, the flow of capital, economic links take place beyond state borders thus falling outside any state and national identifications. The Union offers opportunities to the more powerful and more active and raises concerns in the weaker – poorer, less educated, less enterprising. Similarly in the case of firms, this challenge may entail the opportunities connected with entering the wider market or liquidation, limited profits in the situation of increased competition. The threat of monopolisation becomes a problem but also the fight against monopolies becomes transnational. The change of perspective in the economic activity from short- to long-term enforces acquisition of knowledge, gaining information and contacts, which can be linked with the sense of insecurity, the lack of the sense of direction, the fear of the unknown or with the real inability to face up to new challenges.

The diverse level of economic development of the member states constitutes a problem. Poorer countries can count on the flow of new technologies but they are right to be anxious that they will become a base of cheap labour, an area of natural resources exploitation or an area characterised by destroyed natural environment.

The European Union definitely constitutes an area of fierce economic competition encompassing the labour market. This aspect triggers complex reactions. For the people looking for work in the countries characterised by a high unemployment rate the possibility of finding employment constitutes an important asset of the United Europe. Those looking for better-paid jobs who are ready to change their place of residence, should such a necessity arise, will also be more satisfied. Anxieties concerning the influx of emigrants looking for work and possibly willing to permanently settle in the country they emigrated to constitute an important component of the attitudes fostered by the citizens of the older European Union states towards the newly enrolled members. They base their approach on stereotypes, the experiences they have had or irrational

fears. The fact connected with the influx of emigrants is sometimes used as an explanation for these states' own problems which are not actually related to the inflow of foreign population. However, migrations can raise concerns connected with one's own employment, with the salary rate, with the share accounted for by emigrants in social benefits, with the right to permanent residence and to citizenship and with other factors.

Massive flow of goods on the European market also affects the mental state of the Europeans in a complex way.

General availability of different goods and services as well the speed with which they can be obtained are viewed as positive effects. However, there arises at the same time a need to protect one's own national market, one's own producers, one's own brands, one's own consumers also from uncontrolled quality in some cases.

The proper completion of the tasks entrusted to the state in terms of economic and social policy requires the right decisions very often conflicting with the interests of other states, which is best visible during the sessions of the European Parliament. This creates the basis for anxieties, fears and withdrawal from the union cooperation.

It seems that particularly in the early period the post-Communist countries experience many anxieties and fears connected with the inclusion of their economies in the sphere of the European Union economy. Legal, linguistic, financial, bureaucratic, conventional and mental barriers prevent from grasping the opportunities which can emerge on the common market. All the more that the previous experiences, for instance connected with the Council for Mutual Economic Assistance (CMEA), did not raise optimism due to the great politicisation of the economic decisions.

The cultural dimension of the European integration is also beset with grave fears. They are connected with the anxieties about the loss of the sense of national identity, cosmopolitanism, being dominated by another nation, which can still constitute a significant problem if we take into account the history of Europe which is rich in struggles for national independence, world wars and other events of this kind.

The fears can be also related to the religious values. Very religious countries can be anxious about secularisation and the less religious countries, secular countries may feel apprehensive about the aspirations of other members to greater interference of the Church in the political or private life of the citizens. There may also appear concerns connected with the increase in the role of the Muslim religion present in Europe, as in the case of Turkey.

The fears connected with the clash of values must be really grave as in the latest survey carried out by the European opinion poll centres among 10 European Union member states only 38% of the people polled replied in the affirmative to the question whether the member states of the European Union share the same values. The Poles most often gave a positive reply (55%), they were followed by the English (51%) and the Italians (51%) whereas the rarest occurrence of positive replies was noted in the case of the Dutch (24%), the Finns (35%) and the French (37%) [Religijni i prorynkowi, 2005: 2].

The European Union gives the sense of security to minority groups referring to the need for tolerance. Being tolerant seems to be an obligatory attitude, on which the whole idea of the union is based. The requirements of tolerance accompanied by a low sense of common values, by reluctance to refer to religion as the value responsible for establishing social order and by problems connected with the economic cooperation can pose a threat for the European Community in the future. However, regardless of the sentiments, fears and conscious actions we can observe the

unification of needs, lifestyles, aspirations and many other aspects of everyday life. We can risk a statement that the mass media, television, the Internet and easy and increasingly cheap direct communication contribute to the creation of the European Union. The media unify our everyday life, the way we dress, the way we dwell, our eating habits but also the preferred form of entertainment and consumer preferences – from the washing powder to cars. It is particularly important for the citizens of the post-Communist countries who until recently lived in the economy characterised by shortages, who suffer from complexes based on the negative evaluation of the material conditions. Such a unification of living conditions seems to be of importance for the integration processes by the subjective acceptance of the citizens. If this process goes on faster than the perception of the existing inequalities and the perception of the possibly deepening gaps between the citizens of different countries and regions than such a state will be safe for the European Union.

The consciousness of the EU citizen only begins to shape. There appears the consciousness of common interests, of common necessary solutions and of common problems. There appears a new dimension of security based on a common fate and undoubtedly at the same time in the global perspective – on the sense of greater power.

The European Union seems to be a structure which is still in *statu nascendi*. It is by no means certain that the consciousness of benefits connected with the perception of belonging to the European Union will outweigh the consciousness of the integration costs. In the situation characterised by very strong national identifications, the lack of vision of Europe of interests and Europe of values, the sense of insecurity concerning new identifications can outweigh the benefits which are still undetermined as they are connected with the future.

A Union leader Jean-Claude Juncker being aware of this threat said on 22 June 2005 in the European Parliament: Our generation has no right to destroy what was built by the previous generations as after us there will come new generations which will want social, competitive Europe based on solidarity and having a stronger position in the world. [Na ratunek Europy, 2005: 10].

Robert Cooper (2003) – a British diplomat in the EU, considering the issues regarding order and chaos in the 21st century draws attention to the opportunities posed by the European integration regarding the forming of a new balance and security model in the world. According to him, the European Union is cemented by the will to give up force when settling conflicts. It is a new doctrine which can be juxtaposed with chaos and the law of the jungle.

It can be added that it is another stage of the non-violence activity.

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RUSSIA IN THE CONTEXT OF EURO-ATLANTIC AND BALTIC SECURITY

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ABSTRACT. *The author reminds us that history has intertwined fortunes and security interests of the Russian and Baltic peoples which for long periods have been united within the Russian Empire or the USSR. During the perestroika President Gorbachev took quite drastic decisions affecting the Soviet security, upon Western promises that NATO would not be expanded and that there would be a second edition of Marshall Plan for the USSR, but none of those promises were fulfilled. Under President Eltsin Russia has made a genuine attempt to find its place in the Euro-Atlantic security context with the establishment of NATO-Russia Council in 1997, but its work was blocked in 1999 with the NATO attack against Yugoslavia. After Russia was the first to offer cooperation to the USA in the fight against the international terrorism in 2001, political conditions were created to revive NATO-Russia Council which has since achieved substantial progress. However, its activities have now approached a line the crossing of which would require bold political decisions and higher level of trust on both sides which presupposes the recognition by NATO of the vital importance of the CIS states for Russian security. In the author's view, the way forward goes via more active steps to accelerate interoperability and military-to-military cooperation, Russia's indirect participation in the process of NATO transformation through NRC and development of cooperation in the field of military technology. As the author sees it, the genuine security of the three Baltic states lies not so much in their NATO membership as in their willingness to develop closer regional political, military, economic and ecological cooperation which would take into consideration basic security interests of all the other states in the region, including Russia.*

BRIEF HISTORIC OVERVIEW

Ever since Russia has become a major power under Peter the Great, Russian vital strategic interests have been quite closely linked with the overall security and strategic situation in the European and Baltic regions (for the purposes of this report by "the Baltic region" I mean the present territory of Estonia, Latvia and Lithuania). This close link which has combined both concurring and competing security interests of the main actors in these regions and has been based at times on cooperation, at other times on confrontation, has been corroborated throughout the history by Russia's active diplomatic efforts with the aim to secure its western borders and a

good dozen of wars with Sweden, Poland, Prussia, France and Great Britain fought with the same goal in mind.

So far as the Baltic region is concerned, whether we like it or not, the history of our peoples has been intertwined. As early as in IX-XI centuries first joint Russian-Viking princedoms which had come into being around the cities of Polotsk and Novgorod, used to collect tax from Baltic tribes and to include Baltic warriors into their armies during military campaigns. In the middle of XI century first Russian fortresses were built in the Baltic region to watch over the Western and North-Western borders of Russian princedoms. But from late XII century German crusaders began to make their presence known in the Baltic region and they founded several small states while Russian princedoms from XIII to XV century were fully preoccupied with the fight against the Mongol invasion and were unable to defend their Western borders.

However, since late XV century the Princedom of Moscow began to restore its positions in the Baltic region both for the defence of its North-Western borders and for the development of trade routes with Western Europe. After the Great Northern War (1700-1721) the Russian Empire, in alliance with Poland and Denmark, actually managed to acquire almost the whole present territory of the Baltic region finalizing its control over the region in 1795⁵.

Also more recent history has kept reminding Russia of this vital link – thus, twice in the XX century first the Russian Empire and then the USSR have been invaded from the West through the Baltic region, both times with enormous human and material losses for Russia. It has to be added that soon after 1945 the security context within which the USSR had to find a solution for its own security, had changed as well – this solution had now to be found not just within the European but actually within the Euro-Atlantic context as the USA has come to Europe to stay.

So it was only natural that after the Second World War the main Soviet strategic interest was to establish conditions which would preclude a new invasion from the West against the USSR. Joseph Stalin hoped to achieve that – and thus to establish a place for the USSR in the post-war Euro-Atlantic security context - by two means agreed upon by the Allies at the Yalta conference early in 1945.

First, by accepting the idea of devising spheres of influence of the West and the USSR in Central and Eastern Europe originally proposed by Winston Churchill to Joseph Stalin at their bilateral meeting in Moscow in October 1944, with a view to establish friendly regimes there and thus to create a strategic defensive barrier at the Western border of the USSR.

By the way, with reference to the recent public discussion about the Yalta and Potsdam agreements, I would like to remind you that in 1945 there was no doubt in the minds of the Allies that Estonia, Latvia and Lithuania should keep their status of Soviet Republics. After all, for almost 200 years, since the Russian-Swedish Nystadt Peace Treaty of 1721, they had belonged to the Russian Empire until they were occupied by Germany in 1916 during the First World War. As President Putin reminded us in May 2005, during the latest Russia-EC summit, in 1918 as a result of the Brest peace treaty a deal was struck between Germany and Russia, under which Russia transferred some of Western parts of its territory under German control, and that was actually the starting point for the present statehood of three Baltic republics. In 1939, President Putin continued, another deal was made between them, Germany agreed to return those territories to the

⁵ For a more detailed historic review of Russian strategic interests in the Baltic region see a recent instructive study by Dr. Tatyana Mosel – Т.Н.Мозель. «Балтия, Россия и Запад». Изд-во «Научная книга», М.2001. 303 стр.

USSR, and in 1940, after only 20 years of independence, they had again become part of the USSR. For better or for worse, President Putin concluded, such was the history at that time when the fate of small states was just small change for great powers; those were the realities of the epoch as was the colonial past of many European countries or slavery in the USA⁶.

It is too easy now, in time of peace, for some statesmen including President Bush, to be wise 60 years after the event, to try to write off the Yalta agreements and “to lecture” Franklin Delano Roosevelt, one of President G. W. Bush’s late predecessors and an incomparably more intelligent and talented politician, on the morale of international relations (President Bush’s recent “reprimand” to FDR, by the way, found no support in the USA outside his neo-conservative environment)⁷. However, we have to remember that these agreements had been signed at the time when the Allies had not only one but two wars to win and that norms of international law at that time were entirely different from contemporary law. Any attempts to apply contemporary norms of international law which went into force after the Second World War, to the events that happened before that War, serve no useful purpose whatsoever. Unfortunately, as Arvidas Brazauskas, former President of Lithuania, reminds us in his memoirs, “one shouldn’t entertain any illusions that destinies of small states are of importance to great powers”⁸.

Second, Stalin hoped to have an additional guarantee of security for Soviet borders through the establishment of a new international security system on the basis of what would become later known as the UN Charter, with its Security Council bearing the main responsibility for the maintenance of world peace in which the USSR would have a veto right.

As we know now, the hopes to continue the wartime cooperation between the Allies also after the Second World War was over, had failed. The world became polarized, and pretty soon we had the Cold War raging, first of all in Europe. In 1949 the USA and the Western Europe established the North Atlantic Treaty Organization (NATO) which was both a product and a tool of the Cold War and which was used by Washington not only as a military instrument to rebuff what was perceived as “the Soviet threat” but also as a tool for political control over the Western Europe. In 1955 on the USSR initiative the Warsaw Pact Organization (WPO) was established which was actually used by Moscow for the same purposes – as a defensive barrier against NATO and for political control over its own partners.

For the next 30 years the USA and the USSR, NATO and WPO lived in an atmosphere of confrontation, sometimes actually fighting each other in various remote corners of the world directly or by proxy. A couple of times they have actually found themselves to be on the brink of a nuclear war although after the Cuban and Berlin crises common sense little by little started to prevail, and the two superpowers commenced to work together to reduce the threat of a nuclear conflict and to achieve détente.

The onset of “the perestroika” in the USSR has led to the end of the Cold War and to highly dramatic, though sometimes tumultuous and confused, political and economic changes in the country. What is important to keep in mind at all times – and what politicians in the West tend to

⁶ See: Пресс-конференция по итогам встречи на высшем уровне Россия-Европейский Союз от 10 мая 2005 г. (<http://www.kremlin.ru/text/appears/2005/05/88013.shtml>).

⁷ ABC News. Bush:U.S. Had Hand in European Divisions”. <http://abcnews.go.com/Politics/print?id=738056>

⁸ See: А.Бразаускас. «Пять лет Президента». ЗАО «Унипринт», М.2002, стр.150.

forget – is the fact that those democratic changes have been brought about as a result of a voluntary decision of the peoples of the USSR to support the internal political forces which have advocated them. Therefore the Cold War was neither “won”, nor “lost” by anyone – it just ended because one of its two participants has ceased to exist for purely internal reasons, and not because it was defeated in an armed conflict.

The main change in the sphere of international security came with the understanding reached by the Gorbachev-Shevardnadze team with the political leadership of the West that now, when ideological motives were out of picture, the strategic and security interests of the USSR did not contradict those of the West. Anyway President M. Gorbachev thought that he had reached that understanding. On the basis of that understanding he took a number of decisions of great importance both to Soviet and Euro-Atlantic security. Thus, he agreed to start talks on German reunification and later on he also gave his consent not to object to NATO membership of the reunited Germany, he began a drastic reduction of the USSR armed forces at home and a pullout of Soviet troops from WTO member-states while troops temporarily remaining there were ordered not to get involved into internal political developments.

Although President M. Gorbachev was under strong criticism for his one-sided concessions at home, it has to be said in his support that he actually got a lot of lavish promises from the West at the time, especially from US President George Bush-senior, US Secretary of State G. Baker and German Chancellor H. Kohl. The most important promises were that in exchange for this NATO would not be expanded and that the West would start a kind of a second edition of the Marshall Plan – this time for the benefit of the USSR. He was also promised that no Western nuclear weapons would ever be deployed in Europe outside their present location, that there would be no new bases or relocation of considerable troop contingents in Central and Eastern Europe. However, the trouble was that some of the most important promises were not kept and probably had never been meant to be kept in the first place – already at that time plans for NATO expansion were under consideration in Washington, and promises of a new Marshall Plan have never materialized.

All this, coupled with an inept economic policy, created a massive wave of disappointment at home with President M. Gorbachev’s policy and led to a clumsy attempt of a coup d’etat against him by senior CPSU leaders, Soviet Army and KGB officers in August 1991. But clumsy as it was, this attempt was effective enough to severely weaken President M. Gorbachev’s position which was skillfully used by Mr. B. Eltsin and his ambitious entourage who staged a new coup d’etat in December 1991, this time fully successful: the USSR ceased to exist and Boris Eltsin became the first President of the Russian Federation.

FIRST ATTEMPTS TO ESTABLISH COOPERATION BETWEEN RUSSIA AND NATO

After the end of the Cold War new Russia under President B. Eltsin has made a genuine attempt to find a place for Russia in the context of Euro-Atlantic security and through establishment of mutual understanding and cooperation with NATO as the main forum – at that time, at least, – of the Euro-Atlantic security. In 1994, Russia joined Partnership for Peace Program, and Russia's participation in the implementation of the Peace Agreement for Bosnia and Herzegovina was viewed by NATO Headquarters as “a particularly significant step towards a new cooperative relationship”, since “for the first time Allied and Russian contingents worked side by side in a multinational military operation”⁹.

By signing the NATO-Russia Founding Act on Mutual Relations, Cooperation and Security in May 1997, Russia hoped to institutionalize and substantially enhance the cooperation with NATO. Both parties committed themselves to a further development of their relations on the basis of common interests and created a new forum to achieve this goal - the NATO-Russia Permanent Joint Council (PJC) as a principle venue for consultation between them.

And indeed the PJC had all the necessary prerequisites to be able to build increasing levels of trust by providing a mechanism for regular and frank exchange of views. At that time Moscow pinned great hopes on the PJC with regard to a closer cooperation in the field of international security, to finding as a matter of priority a common denominator for the Euro-Atlantic and Russian security. The fact that after 50 years of the Cold War the PJC started with pragmatic issues rather than with fundamental problems of international security, disappointed nobody in Russia, all the more so that a number of first projects of the PJC were of considerable practical interest to Moscow (like submarine crew rescue technology). However, what had seriously disappointed Russia and undermined Russia's trust in cooperation with NATO, was the way NATO had compromised the PJC in 1999 when the USA and their NATO allies had ignored its existence and had unleashed an attack against Yugoslavia instead of using the PJC to find a realistic solution to the crisis which actually had been the primary cause for its establishment.

After the tragic events in the USA on 11 September 2001 which created a tremendous global wave of sympathy for the USA, Russia was the first to offer Washington full cooperation in the fight against international terrorism. Thus the necessary political prerequisite for the establishment of a new principal structure and venue for advancing the relationship between Russia and NATO – the NATO-Russia Council (NRC) has been created. The NRC has revived hopes for the establishment of a genuine strategic partnership between Russia and NATO which have not been realized within the framework of the PJC. The Rome Declaration of 2002 which has established the NRC, has set the NRC the task to serve as a mechanism for consultation and consensus building, for cooperation, joint decisions and joint actions by Russia and NATO member-states on a wide spectrum of security issues in the Euro-Atlantic region. Operating on the principle of consensus, it works on the basis of continuous political dialogue on security issues with a view to the early identification of emerging problems, the determination of common approaches and the

⁹ See “NATO Handbook”, published by NATO Office of Information and Press, 1100 Brussels – Belgium, 2001, p.80.

conduct of joint operations, as appropriate¹⁰. Unlike the PJC, the NRC which comprises today 27 members, works not on the basis of “19 plus 1” model when representatives for NATO member-states would coordinate their position before meeting Russia but they are supposed to act in their national capacities and to work out decisions from a clean slate¹¹. As knowledgeable experts note, items which are on the NRC agenda, might be taken up for discussion by the NATO Council only if the NRC has not arrived at a consensus¹².

INTERIM RESULTS OF WORK OF PJC/NRC IN 1997-2005

The Rome Declaration tasks the NRC with the same goals that the 1997 Founding Act set the PJC. These goals include the fight against terrorism, crisis management, WMD non-proliferation, arms control and confidence-building measures, theatre missile defence, logistics, military-to-military cooperation, defence reform and civil emergencies, new threats and challenges including civilian and military control over airspace.

It has to be noted that the NRC has achieved substantial progress over the years. Special mention should be made of the adoption of the document entitled “Political aspects of the basic concept of joint NATO-Russia peacekeeping operations” in 2002. NRC expert groups have started an exchange of intelligence information – something unthinkable even a few years ago – and managed to prepare intelligence evaluations of threats to the security of the Allied forces in Kosovo and of terrorist threats by “Al Qaeda”, including threats to civil aviation. Besides, joint intelligence evaluations of terrorist threats by regions have been prepared which might serve as a basis for joint operations in future. Of considerable importance is the work of the NRC expert groups which evaluate the danger of WMD proliferation and of access of terrorists to WMD but here progress is sometimes blocked by a rather inconsistent US policy on WMD proliferation and on terrorism, as well as by occasional US unwillingness to share intelligence information. All this has sometimes led to diverging expert evaluation of threats emanating, for instance, from Iran or Syria, on the one hand, or from Pakistan or Saudi Arabia, on the other¹³. Moreover, cooperation is well under way in the field of uniform training of special forces for anti-terrorist operations, as well as in the field of theatre missile defence and joint or coordinated control over airspace.

¹⁰ See: “NATO-Russia Council. The NRC’s authority, tasks and responsibilities” – <http://www.nato.int/issues/nrc/tasks.html>.

¹¹ This last point shouldn’t, however, be taken too literally, all the more so that NATO documents remind us that the NRC member-states even acting in their national capacities, do so “in a manner consistent with their respective collective commitments and obligations” (see foot-note 5). Usually, members of international organizations coordinate their positions not during formal sessions but rather during informal contacts in the *couloirs*. As follows from talks with the people from NATO headquarters, “NATO member-states continue to more or less coordinate their positions before taking up the matter for a discussion with Russia” (see: Независимая газета. 2003. 14 мая).

¹² See: Загорский А.В. Совет Россия-НАТО: старое вино в новом кувшине? // Европейская безопасность: события, оценки, прогнозы. М.: Центр по изучению проблем европейской безопасности ИНИОН РАН, 2002. №5. стр. 4-8.

¹³ See: Известия. 2002. 10 декабря.

Since 2003 Russia has also taken steps to assist the peacekeeping operation that NATO has been conducting with the UN approval in Afghanistan. Moscow has used its influence to involve the so-called “Northern Alliance” (a loose alliance of local Afghan tribes of mainly Tajik origin) on the U.S. and NATO side in the fight against Taliban, has made available for NATO Russian intelligence information, logistics and transportation support and has offered to conduct rescue operations in Northern Afghanistan, around the Tajik-Afghan border¹⁴.

After an interruption caused by the NATO attack against Yugoslavia, Russia and NATO have resumed efforts to achieve interoperability of their armed forces. In April 2004 new NATO Secretary-General Jaap de Hoop Scheffer signed an agreement with Russia creating a legal basis for a prolonged stay of Russian armed forces in NATO member-states and the other way around, as well as agreements on the expansion of the NATO Mission in Moscow and on the establishment of Russian liaison groups in major NATO headquarters in the USA and in Europe which will be primarily busy with the matters of interoperability and coordinated training of Russian and NATO forces¹⁵. In April 2005 an agreement on status of forces within the PfP Program (SOFA) was signed which deals with legal protection and status of military personnel from NATO member-states on the Russian territory and from Russia on the territory of NATO countries. Speaking on this occasion, Mr. de Hoop Scheffer underlined that the agreement provided not for a permanent but for a short-term stay of armed forces on each other’s territory during joint exercises or transit of equipment and personnel while conducting joint peacekeeping operations in third countries. Nor does it automatically allow any kind of transit rights – every time any transit has to be agreed upon first. This agreement, as he quite correctly underlined, without affecting sovereignty of the parties to the SOFA, has significantly enhanced our ability to take joint action in response to common challenges, both in support of NATO operation in Afghanistan and in further development of interoperability of our forces¹⁶. Altogether in 2004 Russia and NATO had 34 cooperation events¹⁷.

The horrible terrorist act against schoolchildren in Beslan in September 2004 which was severely condemned by NATO, has pushed both sides to a more active military-to-military cooperation. In October 2004 the NRC meeting in Rumania decided to accelerate the work on interoperability of their armed forces¹⁸. In autumn 2004 joint large scale naval exercise took place in the Atlantic, and this practice continues in 2005¹⁹. Work has also started on military-political guidelines to establish interoperability during joint operations²⁰.

¹⁴ See: М.Ходаренок. Москва-Кабул: поворот на 180 градусов.//Независимая газета. 2003. 27 мая.

¹⁵ See: А.Куранов, Д.Суслов. Нечёткое партнёрство Россия-НАТО. // Независимая газета. 2004.9 апреля.

¹⁶ Statement by NATO Secretary General, Jaap de Hoop Scheffer at the press conference following the Informal Meeting of the NATO-Russia Council at the level of Foreign Ministers, 20-21 April 2005, Vilnius. (<http://www.nato.int/docu/speech/2005/s050421b.htm>). See also Opening Statement by Jaap de Hoop Scheffer at the NATO-Russia Council at the level of Foreign Ministers. Vilnius, 20-21 April 2005. (<http://www.nato.int/docu/speech/2005/s050421a.htm>).

¹⁷ See: Независимое военное обозрение. 2004. № 26, 16-22 июля.

¹⁸ NATO-Russia defence meeting focuses on terrorism // NATO Update. 2004. 14 October. <http://www.nato.int/docu/update/2004/10-october/e1014a.htm>.

¹⁹ See: Российский курьер. 2004. 30 декабря.

²⁰ И.Франсуа. Интернет страшнее, чем НАТО. //Независимое военное обозрение. 2005. № 8, 4-10 марта.

In December 2004 the NRC approved Plan of action to combat terrorism – an important step which enables the NRC countries to pass on from declarations to joint actions, including use of force, in their fight against this common threat. The Plan provides for three levels of interaction – in prevention of terrorist acts, in fighting terrorists directly and in dealing with consequences of terrorist acts. It comprises exchange of intelligence information, cooperation in training and exercises of anti-terrorist units, joint work on explosives detector devices, adoption of effective procedures to respond to terrorist acts against airplanes and of their defence from earth-to-air missiles etc. The Plan is already being realized, and Russia insists on speeding up of this process²¹.

After lengthy discussions, an agreement was also reached on legal and procedural parameters of Russian participation in the NATO counter-terrorist operation “Active Endeavor” in the Mediterranean, and since November 2004 two Russian naval ships started occasional joint patrols with the NATO naval force; in 2006 Russian ships will participate in the operation on a regular basis²². On the Russian initiative the NRC Plan of work for 2005 includes, along with theatre missile defence development, WMD non-proliferation, crisis management and interoperability, also measures to accelerate work on joint control over airspace and management of air-traffic which would do away with a dividing line between Russia and NATO in anti-aircraft defence.

All this has given Minister for Foreign Affairs of Russia S.Lavrov reason to underline several times in 2004-2005 “substantial progress achieved by the NRC” and “success in the development of political dialogue and practical cooperation in this format which, in our common view, has entirely justified itself”²³. In the same spirit de Hoop Scheffer in his speech at the NRC session in Vilnius in April 2005 pointed out “two extremely important pillars of NATO-Russia partnership – political dialogue which assumes ever greater importance, as our practical cooperation deepens in facing the security challenges before us - terrorism, WMD and regional instability”, and “practical cooperation between our armed forces which continues to strengthen”²⁴.

Yet, speaking about the prospects of further progress of the NRC, one should take a sober view of things. Little by little the NATO-Russia interaction goes forward but today the cooperation within the NRC has approached a line crossing of which presupposes a qualitatively higher level of mutual trust. Meanwhile the present, clearly insufficient level of trust between Russia and the USA, Washington’s trend to conduct global military operations in a unilateral manner, without the UN Security Council approval, stands in the way to this higher level of mutual trust and precludes a full use of the NRC potential for a genuine coordination of military doctrines and security concepts of Russia, the USA and NATO, or for a closer military-to-military cooperation. The lingering mistrust hinders also reaching an understanding regarding the questions which arise in connection with modernization of NATO military infrastructure around Russian borders, ratification of the adapted treaty on force reduction in Europe, joint control over the airspace in

²¹ See the record of a press-conference by Mr. S.Lavrov, Russian Minister for Foreign Affairs, after an informal meeting of the NRC in Vilnius, 21 April 2005, in the Press-bulletin of the Russian MFA, № 807 of 21 April 2005.

²² See: Независимое военное обозрение. 2004. № 43, 12-18 ноября, as well as Minister S.Lavrov’s statement, *ibid*.

²³ See Press- bulletins of the Russian MFA: 2004, №№ 1488 and 1490, 29 June; № 2628, 10 December; 2005, №807, 21 April.

²⁴ Jaap de Hoop Scheffer, *op. cit.* (see foot-note 12).

the border areas of Russia and NATO member-states and over the air traffic to avoid unintended incidents. There still remain doubts in some military and political circles in Russia that as NATO ignored the PJC and the UN Security Council in invading Yugoslavia in 1999 and as the USA and Great Britain attacked Iraq in 2003 ignoring the NRC potential for consultation and crisis management, likewise the agreements achieved within the NRC might not stop NATO member-states, acting under their 1999 Strategic Concept, to behave in the same manner regarding the NRC.

One can thus draw a conclusion that that the NRC, with its somewhat improved decision-making procedure as compared to the PJC, gives both Russia and NATO a good legal and organizational basis for an effective military and political cooperation but in the long run everything will depend on the political will of the USA and NATO member-states to make use of this basis. In the case of the PJC and Kosovo the West has not shown that will.

CHANGED POLITICAL CLIMATE OF RUSSIA-NATO COOPERATION

However, during the last eight years, from 1997 to 2005, the political climate of Russia-NATO cooperation has undergone serious changes affecting both parties.

So far as Russia is concerned, the transition from President Boris Eltsin to President Vladimir Putin has in principle resulted in a more coherent foreign policy and has led to the course which promotes growing economic and military potential and thus greater political influence of Russia in support of a multipolar world order, the international law and the UN authority. True, this course has not always been realized in a consistent manner. Still, the policy of firmer defence of Russian interests both in the “near” and “far abroad”, including vis-à-vis the NATO, has been reestablished, and this our NATO partners have taken note of.

No less important changes have meanwhile taken place also in NATO. The tragedy of 11 September 2001 that has originally united NATO members around the USA, has at the same time started a chain of events which have in the long run led to an unprecedented split among them in 2002-2003 in connection with the US and British invasion of Iraq, yet this war itself appeared to be only a pretext. The genuine reason for this split was a fundamental difference of views on the post-Cold War international order between France, Germany and a number of smaller European countries, on the one hand, and the USA supported by a group of other NATO members, especially newly admitted ones, on the other. This difference of views was born soon after the end of the Cold War, it surfaced for the first time during discussions in the NATO Council on the eve of the attack against Yugoslavia and led to a split and strong criticism of the US policy after President Bush’s Administration published its new strategy of preventive strikes in September 2002.

In 1999 France and Germany had in the end removed their initial objections to the adoption of a new, US initiated NATO Strategic Concept which provided for global military operations without the UN Security Council’s consent, only because they assumed that in any event the USA would not take a decision to strike at another country without taking into consideration the views of their Allies. But in 2002-2003 they saw that in international relations the US Administration would be guided exclusively by their own interests ignoring not only the views of their Allies but also the international law, including the UN Charter. The steps taken by France and Germany (as

well as by Russia) to restore the decorum in their relations with the USA after the end of Phase I of the Iraq War in May 2003, did not at all mean that they had reconciled themselves to their prescribed role of yes-men. And after the Iraq War it will not be an easy job to predict how NATO allies may react in future to a new US call to arms somewhere far away.

The Euro-Atlantic atmosphere has not been improved by the fact that the US Administration, unwilling to be bound in its policy by the principle of consensus within NATO, has decided to conduct future global military operations by “coalitions of the willing”, i.e. by the most loyal allies and not by NATO as a whole. Pushing NATO off to the background when taking decisions – something not everyone likes in NATO, – Washington at the same time makes use of military personnel of NATO member-states and “partners” to reinforce US military contingents in Iraq, and uses their territory to transfer military equipment and contingents to out-of-NATO areas.

This is why Chancellor G.Schroeder, reflecting the views of the US key NATO Allies, stated at the traditional security conference in Munich in February 2005 that “NATO was no longer the primary venue where transatlantic partners discuss and coordinate strategies”. And this is why he proposed to establish a blue-ribbon panel to discuss the way to improve transatlantic relations in order “to restore the culture of strategic dialogue within NATO”²⁵. However, the USA and the NATO Headquarters have blocked G. Schroeder’s idea and suggested instead to hold this discussion within NATO itself where, naturally, only official representatives for NATO member-states would participate bound by governmental instructions, and not independent former statesmen and scientists of high repute as G. Schroeder had originally proposed.

At the same time as “The “NATO Revue” magazine reminds us, Nicholas Burns, former US Ambassador to NATO and present US Under-Secretary of State, proposed to renovate NATO’s goal suggesting that NATO should now offer “the banner of freedom, security and peace to the peoples and countries in the South and in the East”. But the question is, as the magazine notes rather doubtfully, “whether it will be the banner that Europeans will follow”²⁶. Also Foreign Ministers from NATO countries at their last meeting in Vilnius in April 2005 as the British “Financial Times” remarks – and this newspaper usually knows what it writes about – “haven’t been able to overcome their disagreement regarding the direction in which NATO will develop, and its future political role”²⁷.

The debates at the spring session of NATO’s Parliamentary Assembly (Ljubljana, Slovenia, May 2005) served to illustrate the timely nature and widespread support for G.Schroeder’s concern as well as growing foreign policy differences between the USA and Europe. In the Political Committee there was support for the establishment of a High Level Group on political transformation of NATO and for a major review of the role of NATO Council and “of outdated political mechanisms of decision-making”. The main topics to be addressed by the Group were identified as the role of the UN in the field of international security, the legitimacy of the use of force either for humanitarian interventions or for self-defence, and the issue of using force pre-emptively. Members generally expressed strong concerns about the prospect of legitimizing the preventive use of force without the authorization by the UN Security Council. There were also serious doubts as to the advisability of support for a US idea of advancing Western-style democracy in far-away

²⁵ See: Henning Riecke. The need for change / NATO Review / 2005, Spring issue. <http://www.nato.int/docu/review/2005/issue1/english/art2.html>

²⁶ Ibidem.

²⁷ <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/hi/russian/press/ne>.

places like Afghanistan. “While NATO is increasing its military capabilities and developing more flexible, deployable and sustainable military power”, some parliamentarians said, “there is fewer and fewer agreement on the purposes these armed forces should be employed to achieve”²⁸.

In the Defence and Security Committee question was asked “how it was possible to transform a military organization without political consensus on its new objectives”²⁹.

In both Committees the conclusion was made that unless the allies can find a consensus on all those differences (Iraq, Iran, Greater Middle East, the issues of preventive or pre-emptive use of force and the UNSC role), “NATO will be gradually undermined”. “NATO faced a choice”, it was said, “between slowly dying and continuing on a completely new basis”. Yet the debates also showed that there was no clear idea what kind of “a completely new basis” that might be, except for exotic ideas of drafting a new North-Atlantic Treaty encompassing the entirety of the Atlantic, including South America and Africa. At the same time the debates also showed that there was a growing understanding of lack of common transatlantic values and of the need for the EU to retain an autonomous capacity to act along the full spectrum of European tasks³⁰.

Also NATO Secretary-General Jaap de Hoop Scheffer firmly supported at the Assembly session Chancellor G.Schroeder’s plea for a more effective political transformation of NATO. He pointed out that differing perceptions of threats and responses, including the use of force, had the potential to cause serious frictions among the allies, thus making sustained dialogue all the more important without which effective multilateralism would remain no more than just a catch phrase. NATO is more, he said, criticizing in fact the American approach, than just a mere contributor of troops, it also needs to be much more involved in the political process of decision-making³¹.

RUSSIA IN THE PRESENT CONTEXT OF BALTIC SECURITY

Two last waves of NATO expansion have raised its membership to 26. Though in military terms this hasn’t led to a decisive change in the Russia-NATO balance of forces, Russia cannot just ignore the fact that NATO has received a sizeable addition to its military potential at the Russian border and that we shall have now to reckon with added Russo-phobia sentiments in the NATO Council, after new – and often prejudiced - members from Eastern Europe and Baltic states have joined NATO. Nor can Russia ignore the fact that new US military bases on the territory of new members will close the ring of bases along the periphery of Russian borders with modernized air-fields and depots with military equipment, that the Baltic membership in NATO began with fighter patrols along the Russian border uncoordinated with Russia, and with the erection of new radar stations capable to control the Russian territory at a strategically important depth. At his press conference after the Istanbul Summit Russian Foreign Minister S. Lavrov underlined Russian concern that NATO expansion was accompanied by “the military develop-

²⁸ See: NATO doc. 040 PC 05 E, rev.1, pp. 1, 2, 8, 10; NATO doc. 248 PC 04, rev.1, p.2.

²⁹ See: NATO doc. 189 DSC 04 E, p.1.

³⁰ See: NATO doc. 040 PC 05 E, rev.1, p.2; NATO doc. 189 DFC 04 E, pp. 2-3.

³¹ See: NATO doc. 032 SESP 05 E, p.6.

ment of the new members' territory by the Alliance" and by "strengthened military presence around Russian borders" – and all that has been happening against the background of a complete absence of mutual threats from Russia or NATO and of "normal working and candid relations between partners"³².

The Baltic membership in NATO is now a fact but politically the Baltic security context is of course much wider than Lithuania, Latvia and Estonia, it includes also some other NATO members on the continent and in Scandinavia as well as non-NATO states – Russia, Sweden and Finland.

What, in my view, should be the role of our three closest Baltic neighbors and Russia in the context of Baltic security? An answer to this question has to take several circumstances into consideration. The first is that today military or ideological threats in the region are absent. The second circumstance to be taken into consideration is that the territory of our three Baltic neighbors in practical military terms is indefensible, whether they are NATO members or not. True, they have now got NATO security guarantee against a non-existent threat from Russia but at the same time their NATO membership, combined with their geographic location, have made them the potential battlefield № 1 in a theoretical case of a NATO-Russia conflict. Besides, their NATO membership has drastically reduced their political weight – everybody would be interested in the views of neutral Baltic neighbors but if one is interested in the views of NATO, one will rather address key players in the block, I am afraid.

Today Lithuania, Latvia and Estonia have no reason to believe that any other state might attack them. Neither is there a strong risk that they may be regarded by international terrorists as a tempting aim to attack, compared to larger Western states. This is why today genuine security of our Baltic neighbors, as I see it, depends upon the development of ever growing and closer regional cooperation – first of all with Russia - in political, military, economic and ecological fields. This cooperation is also entirely in Russian interests, and this is why its development should, in my view, constitute the primary role and task both of Russia and our Baltic neighbors.

It is also time to realize that the security interests of states in the Baltic region which we have hitherto promoted separately or with our closest allies, now should be promoted on a joint, regional and transparent basis. The positive effect would be immediate both in military and political terms. We could start with joint or coordinated Air Force or Navy patrols of the Baltic Sea and of the regional airspace and with joint military and civilian air-traffic control in the Baltic region. The idea is of course not to involve non-NATO states in NATO activities which has their own specific tasks, - the idea is to set up cooperation efforts on a regional basis with equal participation and partnership. Had we established this practice earlier, we could have prevented yesterday's force majeure accident with a Russian fighter crashing in Lithuania. And I fail completely to understand the reason why, for instance, Latvia, according to mass media, opposes a Russia-NATO project on the exchange of information between air controllers over border areas and on a uniform procedure of decision-making in crisis situations alleging that it would limit Latvian sovereignty³³ – as if it would strengthen Latvian sovereignty if there follow other accidents with planes which would fly over the border by mistake.

³² See: Press bulletins of the Russian MFA, 2004, № 1488 and 1490, 29 June.

³³ «Латвия против». «Независимое военное обозрение», № 22, 17-23 июня 2005 г.

The same should be the pattern of economic and ecological cooperation, and in fact this is exactly what the Baltic States Council is doing.

But are we up to it? So far as Russia is concerned, I do not think Russia has given its three closest Baltic neighbors any reason to suspect Moscow of deliberately disregarding their security preoccupations. What happened yesterday, was caused by force majeure. Within its present limited economic possibilities, Russia is doing its best to contribute to the regional stability. In addition to the Russian-Lithuanian border treaty signed earlier, this was once again confirmed by the signature of the Russian-Estonian border treaty on 18 May 2005. On that occasion Russia's Foreign Minister S. Lavrov expressed a hope that this treaty "would contribute to the strengthening of our relations with Estonia which Russia wants to be based on good-neighbourliness and mutual benefit and which would create prerequisites for the solution of problems still remaining in our relations, including the status of the Russian-speaking population"³⁴.

Unfortunately, we do not see the same concern for strengthening the regional security on the part of some Baltic states. It would seem that the primary concern of any responsible state leader should be to secure state borders as a basis for the development of good and stable relations with neighbor states. Yet in the spring of 2005, at the very final stage of Latvian-Russian border talks, the Latvian Parliament approved a declaration containing the language which, as Riga knew for sure, would be unacceptable for Russia. As a result, in early May 2005 Russia had to refuse to sign the border treaty with Latvia which was in all other respects practically ready for signature. Having this in mind, during the parallel Estonian-Russian border talks Tallinn had repeatedly promised that Estonia would not complicate the signature of its border treaty with Russia with any controversial declarations. Yet in June 2005 the Estonian Parliament ignored the promises of its own government and adopted a similar declaration which led the Russian Foreign Ministry to start internal procedure to withdraw the Russian signature under the treaty³⁵. And although in June and July 2005 our Baltic neighbors pushed through the European machinery statements of support for their position on the issue of border treaties, this will not influence the Russian position, rather it might complicate relations of the Parliamentary Assembly of the Council of Europe and of the EU with Russia³⁶. As President Putin told Western newsmen on 5 September 2005, this attitude to border treaties "is totally unacceptable for Russia" also because it may lead to a revival of endless territorial disputes in Europe, including the German-Polish border³⁷.

This is a good illustration of how negatively nationalistic feelings of some Baltic political circles can affect the policy of our Baltic neighbors (which have been also demonstrated in connection with recent celebrations of 60-th anniversary of victory over the nazism). This kind of petty politicking around really important national interests Russia – not only the Russian government but the Russian public opinion as well – fails to comprehend. Of course, we understand that

³⁴ See: Press-bulletin of the Russian MFA № 1130 of 18 May 2005.

³⁵ See: BBC Russian.com – http://news.bbc.co.uk/go/pr/fr/-hi/russian/russia/newsid_4626000/4626000/4626763.stm as well as «Договоры отменены, вопрос вновь открыт», «Независимая газета от 28 июня 2005 г.

³⁶ See: «ПАСЕ говорит об «оккупации Прибалтики» (http://news.bbc.co.uk/go/pr/fr/-hi/russian/news/newsid_4121000/412/090.stm, 23.06.2005.), а также Андрей Терехов. «Евросоюз сделал балтийско-азиатский ход». «Независимая газета», 20 июля 2005 г.

³⁷ See: «О банановых республиках, олигархах и идиоте». «Независимая газета», 7 сентября 2005 г.

there are elections pending in the Baltic states but does it really make sense to turn national border security interests into election propaganda and to sacrifice them for the sake of problematic election gains? The time has come to understand that it is physically impossible to walk forward while looking all the time back. As Arvidas Brazauskas reminds us in his memoirs, “history has repeatedly proven that to indulge in unpleasant events of the past has no future in international politics and diplomacy”³⁸. The kind of nationalistic fundamentalism that we see now in some ruling circles of our Baltic neighbors, leads both politically and in practical terms into a blind alley from which there is no way forward. After all, it didn’t occur to anybody to blame the USSR for the atrocities of tsarist Russia. Yet some people try to blame the new democratic Russia for the atrocities of the former Soviet totalitarian regime under Stalin although the new Russia has rejected this totalitarian regime, had nothing to do with those atrocities and actually the Russian people have suffered more from them than any other people of the USSR.

Somehow leaders of our Baltic neighbors have to recognize that they cannot rewrite history or change geography. Russia is their powerful neighbor today and, I am sorry to disappoint some of them, it will stay there tomorrow. In fact, we may be on the eve of conducting major joint peacekeeping operations by Russia and NATO which can be a success only if Russia and NATO countries, including our Baltic neighbors, cooperate as true partners if not allies. So it is really time for the Baltic state leadership to change policy vis-a-vis Russia and to chart a more constructive course. As the late Pope, John Paul II said addressing the diplomatic corps in Vilnius in 1994, the Baltic states and their neighbors “are united by long history which we have to take into consideration even if one has to regret torments, wounds, misunderstandings; we have to see prospects of brotherhood and hospitality”³⁹. This wise message was echoed in August 2005 by Presidents of Russia and Poland who “expressed their common opinion that the cooperation between their countries should be shaped not by phobia of various variety or by retrospective appraisals but by their concerted contribution to the implementation of promising projects of the bilateral cooperation”⁴⁰. In my view, this is also a very useful advice for the development of bilateral relation between Russia and its closest Baltic neighbours.

NATO’S PROSPECTS AND POSSIBLE AVENUES FOR RUSSIA TO FIND ITS PLACE IN THE EURO-ATLANTIC SECURITY CONTEXT

Looking now at a wider Euro-Atlantic context, what would be the most promising avenues for Russia to find its place in the Euro-Atlantic security context?

To all extents and purposes, NATO today has outlived its original task – to offer assistance to its members in case of an aggression against them in Europe or North America. There are no more outside threats to NATO members except from international terrorists, but those threats NATO is hardly suited to respond to. The U.S. sponsored NATO Strategic Concept of 1999 is

³⁸ See: А.Бразаускас. *op. cit.*, стр.288

³⁹ *Op. cit.*, стр. 161.

⁴⁰ И.Сас, А.Терехов. «Кто следил за поляками». «Независимая газета», 15 августа 2005 г.

definitely out of date after Kosovo and Iraq, and the role of NATO as a kind of a benevolent global policeman invading other countries under that Concept without a UNSC decision or without a request from a receiving state, does not find support from the non-NATO world. Moreover, there are strong doubts that today the US Administration and other key NATO members can agree on a next strategic concept any time soon, especially the one which would echo President Bush's call to offer "the banner of freedom" to the peoples of South and East because the way the USA have offered this "banner" to the people of Iraq, has sobered up a lot of people in Europe and the world at large. This also accounts for an active development of common foreign and defence policy of the EC.

The expansion of NATO to 26 member-states has made it heterogeneous to the extent when it becomes difficult to manage and to arrive at consensus. Recent EU history has clearly shown that when the appetite for expansion of international organizations for mostly ideological – or you can call them "idealistic" – reasons prevails over the common sense and the capability "to digest" the new members, this may lead to serious problems. Thus, we witness today a constitutional crisis in EU, and I do not exclude that NATO may be approaching a similar crisis as well.

The haste with NATO expansion is also the primary proof that the USA regards NATO today mostly as a tool for political control of Europe and does not intend in future to undertake new military operations through NATO machinery and its decision-making mechanism, especially after the split within NATO in 2002-2003 and after mass demonstrations of protest against the U.S. war in Iraq. There are very few people in Europe - including the Baltic states - who support this war with the enthusiasm of President Vaira Vike-Freiberga or President Mikhail Saakashvili. This is also an explanation why the USA prefers now to form "coalitions of the willing", rather than to try to secure support from NATO as a whole. And the primary aim of these "coalitions of the willing" is actually no longer the fight against international terrorism – having failed to find proof of WMD in Iraq, Washington now prefers to define this aim as "promotion of freedom and democracy". Yet as a rule first candidates for this treatment somehow happen to be states which either are major producers of oil and gas, or which control main oil and gas transportation routes. Of major concern to Washington are also the CIS states where a campaign is well under way to put to power young pro-American leaders not "compromised" by holding leading positions during the Soviet period, and we can trace here an intention to limit Russian influence in this region of vital strategic importance for Russia or, better still, to isolate Russia.

So it looks like NATO is entering now a kind of an interim period during which serious internal discussions will be held concerning NATO's political future and its strategy. Simultaneously similar and no less important discussions will be held in New York concerning the future work of the United Nations. Actually, under these new circumstances, having lost its original reason to exist, NATO, with its unique experience of coordinating widely different national military machinery, could ideally pass as the backbone of the revitalized Military Staff Committee of the UN Security Council. I am not sure though that NATO is psychologically ready for that today but it might be a good idea to start thinking in this direction.

Moscow is well aware of all those developments. Still, considering that at present the main threats to Russian security come from the South and the East, Russia's participation in the Euro-Atlantic security cooperation is at present, in my view, a strategic imperative for Russia, and this goes not only for Russia-NATO cooperation but also for the bilateral cooperation Russia-USA. Another matter is that this cooperation should be based not only on the US but also on Russian

conditions, it must proceed from a coordinated evaluation of strategic threats to Russia and NATO, it should take into consideration the concerns expressed by both parties for their security and, last but not least, the transition to such cooperation demands that both parties take resolute political steps to overcome their remaining mutual mistrust.

I see three main avenues to develop further this cooperation.

First. Present NRC efforts to expand military-to-military cooperation and to achieve interoperability should be made considerably more active and energetic with a view to get ready to conduct joint operations to fight international terrorism, WMD proliferation and drug trafficking. It goes without saying that these operations should take place on the basis of international law and the UN decisions, and their scenario should take into consideration Russian opinion and assessment of the situation.

An obligatory prerequisite for this kind of trustful cooperation should be that both parties respect basic strategic interests of each other, and Russia's traditional and vital strategic interests are connected with the CIS states. With this in mind, Russia, NATO and EU should work out clear "rules of the game" in the CIS region. It is evident, as Russian Foreign Minister S. Lavrov noted recently, that Russia, NATO and EU would pursue their own interests in the CIS states but we shouldn't confront them with a choice – to stay either with Russia or with the West. "In the practical sense", - S. Lavrov wrote, - "this common policy should be based upon the recognition of the fact that integration processes in the East and in the West contribute to an equal extent to the establishment of Greater Europe without dividing lines"⁴¹. For instance, taking into consideration the vital strategic importance of the CIS states for Russia's security, any disposition of armed forces or military equipment from NATO countries close to the borders of Russia, or admission of CIS states to NATO may take place only upon common understanding between Russia and NATO. Likewise, any internal developments in CIS states should take place solely on a constitutional basis, without undue interference either from the East, or from the West including financing preferred local political actors or teaching local "activists" the technology of arranging of all kind of exotically named "revolutions" through organizing civil disorders and destabilizing internal political situation.

This is purely security reasoning and it has nothing to do with the so-called "imperial reflexes" of Russia or any "spheres of influence" which European and some Baltic media love to mention so much. Nor does Russia wish to curtail the sovereignty of the CIS states – they are free to declare their own foreign policy and security intentions. But this does mean that NATO should not automatically hasten to accept any such intention without modifying it so that it would become acceptable also for Russia – if, of course, Brussels wants Russia to be NATO's strategic partner. In case NATO agrees to it, fine; if not, Russia should stop hypnotizing itself about Western virtues and should proceed only with those projects of cooperation which are of pragmatic interest to Moscow.

Second. Russia should indirectly participate in the process of NATO transformation through the NRC. Today this transformation is mostly of a military nature – NATO is changing its operational planning and training from preparation of a total war against the non-existent USSR to preparations for local operations in far away places. The present military potential of NATO members is being rebuilt accordingly while the NATO Strategic Concept of 1999 claims that NATO already now has a self-assumed "right" to use force without the UN permission in out-of-

⁴¹ See: Press-bulletin of the Russian MFA, 2005, 11 May.

NATO areas, in violation both of the UN Charter and in fact of the North-Atlantic Treaty of 1949.

However, nobody outside NATO agrees that a closed military block has such a right. So one of Russia's tasks in the NRC should be to work out a concept of joint responsibility for the maintenance of peace and stability in the Euro-Atlantic region. It would make NATO more acceptable to the non-NATO world, especially if it has a strong link with the UN Charter and the status of the UN Security Council.

Third. Finally, there are mutually advantageous opportunities to develop cooperation in the field of military technology. There still are large stocks of Soviet-made weapons in the armies of a number of NATO states which could be modernized, and such deals have been made with Germany, Hungary and some other former WPO states. In 2003 an NRC Working Group was established on the exchange of experience in the field of defence industry and anti-terrorist technology⁴², since 2003 there are several Russian proposals on the NATO table on the Russian participation in the US Program of National Anti-Ballistic Missile Defence and on joint production of new weapons together with France, Italy and Germany⁴³. But more often than not, the reaction to the Russian proposals in this field is pessimistic or just negative – in the case of the anti-ballistic missile defence we often hear the argument about “a limited technological compatibility” though the real reason lies in the Pentagon's unwillingness to cooperate with Russia in this sensitive field. In other cases the Pentagon and leading American and European weapon producers simply do not want to give Russia access to the European weapon market.

However, we have to remember that this particular branch of industry is sensitive also for Russia, and that trade in weapons is a two-way street. And, moreover, one can hardly think of a more effective way to develop transparency and mutual trust than to establish cooperation in this field between partners.

In conclusion I would like to reiterate that although the course of political rapprochement and cooperation between Russia and the USA has led to new forms of more active Russia-NATO cooperation, today Russia and NATO have exhausted the original, rather limited cooperation potential. To move further would require some important political decisions on both sides. All of us feel that this cooperation is still burdened by the Cold War mentality and the unwillingness to take into consideration strategic and foreign policy interests of each other. It is in principle a mutual phenomenon but we in Moscow clearly feel that it certainly is more pronounced on the NATO side.

NATO today faces a major discussion and – hopefully – a sincere reappraisal of its goals. I hope it will find solutions which will make it possible to make Russia-NATO partnership genuine and sincere.

* * *

Finally, several comments to the statement made by our American colleague prof. Algirdas Kanauka. Unlike the great powers of the world which have agreed that the most serious threats to be dealt with, are the international terrorism, the danger of proliferation of WMD and drug-

⁴² See: Независимое военное обозрение. 2003. № 43, 5-18 декабря.

⁴³ See: Бабаева С. Новая квартира. НАТО стремится стать компактнее и практичнее // Известия. 2003. 16 июня.

trafficking, prof. Kanauka has decided that they are not enough and has invented some additional “threats”.

Thus, he considers a Russian concept of “near abroad” to be “a threat of aggression” which, of course, is a complete nonsense. We have to realize that for 74 years the USSR existed as a single economic entity. Hundreds of thousands of industrial enterprises depended on each other for economic cooperation, spare parts, raw materials and job security. And quite often this cooperation continues also today. We have also to remember family ties – millions of people have migrated and found jobs in other republics of the USSR. They settled down, married, had children, visited regularly their parents and grandparents from Russia. Billions of roubles have been invested into development of higher education, science, medical care, cinema and theaters in national republics, and the Russian language was the linguistic link between them. How then we can see no difference between the former national republics of the USSR (“near abroad”) with which we have thousands of ties, and other foreign states (“far abroad”) with which we have mostly formal relations ?

Prof. Kanauka saw then “a threat” in Russian displeasure with attempts to recruit Ukraine as a NATO member. But, first, half of the population there are against it. Second, it is wrong to confront Ukraine with a choice –to stay either with Russia or with the West because the integration processes in the East and in the West contribute to an equal extent to the establishment of Greater Europe without dividing lines. Let Ukrainians themselves, without undue interference find their own way.

Next, to present a military parade in Minsk as a witness of “a threat to the West” and therefore to invite everyone to join a campaign “to promote democracy in Belarus” sounds like a bad anecdote. The way the USA has been “promoting democracy” in Iraq will hardly help to find volunteers for the same kind of campaign with a focus on Belarus. Already now the West is driving a psychological warfare against Belarus, and Lithuania, unfortunately, has made its own unorthodox contribution to it by placing a graveyard of nuclear waste 700 metres from the Belarus border.

Then prof. Kanauka sees a threat in Russian refusal to apologize for what he called “an occupation”. I shall not at this late hour go into a discussion with him on the legal definition of an occupation but he has got to understand one thing. It didn’t occur to anyone to blame the USSR for the atrocities committed by the tsarist Russia because the USSR was a totally different state with different political and social system. Yet it is fashionable in the Baltic state to demand an apology from the new democratic Russia for the atrocities of the former totalitarian Soviet regime under Stalin although the new Russia has rejected this totalitarian regime, had nothing to do with those atrocities and actually the Russian people has suffered more from them than any other people of the USSR.

Finally, prof. Kanauka spoke of Kaliningrad as another “threat” because, in his view, its status has not been finally resolved. He quite correctly referred to the Potsdam agreement which gave Russia administrative rights over Kaliningrad pending the final settlement of the German question. Yet, he forgot to add that at the same time, in 1945, the governments of the USA and Great Britain pledged to support the Russian rights over Kaliningrad, and in 1975 the Helsinki Final Act declared the inviolability of European borders, including, naturally, Kaliningrad. If somebody now is irresponsible enough to start the discussion over Kaliningrad, how long, you think, it will take, for instance, German right wing circles to reopen territorial dispute over the German-Polish border ? Please, think about it.

REGIONAL SECURITY AND ECONOMICO-ECOLOGICAL VENTURES

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The formation of management machinery of State and economic regulation with peculiar market reorganization of independent Ukraine takes place in unfavorable ecological conditions and is accompanied by the growing quantity of accidents, catastrophes and other emergencies.

In this connection the most difficult and acute task of this transition period is fundamental reconstruction of economic activity and increase of ecological safety as integral part of national security. Its provision should be based on scientifically substantiated conception of regional type oriented towards specific features and environment of the region.

Besides the defined targets, principles, tasks, organized structure and other essential elements it should be based on the mechanism of realization.

The formation of complex economic and ecological mechanism of state and market regulation of coastal budgetary activity falls under the category of regional problems of the local character. Nevertheless all those complicated and contradictory processes which have happened in our country for the past 15 years influence its elaboration, formation and realization.

Any official documents determining the basis of social and economic development of Ukraine contain the notion of stable growth as the principal ideology. But the modern processes of socio-economic transformations in Ukraine take place in complicated conditions of industrial and ecological ventures.

In other words the state of modern Ukraine is characterized with the disastrous factors in economy and ecology and amalgamation of these factors in time, acuteness and intensity of development. Hence it follows that there can and should be found a way out of unified economic-ecological crises. Otherwise it will be impossible to stop economic decrease and intensification of demographic disaster. That is to say that the stable economic development cannot be accomplished without stabilization of ecological situation.

At present while establishing new ecologically dangerous objects one should bare in mind not only the degree of their hazard and synergetic aspects of combination with other dangerous aspects but also a factor of international terrorism. Moreover this factor should be a part of long-term planning of production functioning.

Nowadays we pay attention basically to antiterrorist security of nuclear power - stations. But there exist a lot of oil and gas, chemical and other industries (enterprises), which will cause ecological catastrophes in case of terrorist attacks.

Ukraine unlike Russia has not been the sphere of interests for international terrorism. Nevertheless there exist premises for these attacks if to take into consideration the situation in Iraq, Crimea and other countries.

Terrorists are not only fanatical islamists who unleash the terror against the population of a country, terrorism can become a method of a competition when the world lacks Christian morality. Man – made ecological disasters are possible and they are hardly to be predicted but it is essential to take into consideration these factors while establishing new enterprises.

In 1992 having become independent Ukraine saw to the problem of energetic security as it extremely lacked oil and gas resources. Accordingly Ukraine as well as the whole Europe was and still is dependent on Russian resources of oil and gas. But it typical for European countries to diversify energy resources, they get petroleum not only from Russia but also from Moslem countries and from their own deposits in the North Sea. Furthermore they invest great sums of money for the elaboration of alternative energy resources such as wind energy.

Energy assurance has become a serious problem for the majority of European Countries in connection with the growth of Muslim extremism and the increase of prices for oil three times as large.

Correspondingly for the past 13 years Ukraine has been bringing up a project of new Odessa oil terminal calculated to transport 40-160 million tones of oil a year in addition to the existent oil terminal (10 million tones of oil a year). He need of Ukraine for oil is 20-25 million tones a year and this need is satisfied by Russian suppliers, thus the principal volume of oil is intended to be transported on exported. Besides in 2005 there have been worked out a project to build the second large oil refinery in the same dangerous area.

The point is that there is large seaport “Southern” located in immediate proximity from Odessa, in Adjuliksky (Grigorevsky) lagoon with ammonia – pipe stretching from it. Alongside with other vessels, dangerously explosive ships transporting ammonia are loaded there. The largest chemical factory is also situated there, Odessa citizens struggled hard for the closing of this factory. In case of catastrophe at this factory, the toxic cloud may poison half of Odessa inhabitants. There were cases of explosion of these vessels with heavy consequences.

And now someone took a decision to combine ammonia and petroleum, their transportation, crossing and refining near the city of many millions.

They intended to put into operation the first part of the oil terminal near the seaside during the first year without the sufficient economic and ecological substantiation. The second part was planned to be built 12 miles away from the coast. However in world practice such powerful oil terminals even on the oceanic coast are built 28-30 miles away from the coast.

Almost all scientific marine organizations and ecological institutions have acted against this dangerous project. As a result, for to prevent ecological danger, oil terminal has been transferred to Adjuliksky lagoon, and the risks of industrial disasters and terrorist acts increased. The construction of the terminal and oil pipeline “Odessa – Brody” has lasted for 13 years. The long-term negotiations with Poland and other European countries about extension of this oil pipeline abroad Ukraine are conducted. However the number of experts states the reasonable fears, that Russia can undertake such counter - steps, that the transportation of petroleum will become unprofitable. Huge sums of money have already been invested, but the targets are not achieved. Moreover, such concentration of highly dangerous productions near Odessa increases the ventures of extreme situations. The risk of collision of the large vessels transporting oil and gas with supertankers is increasing. We all remember Canadian Halifax demolished during collision of two vessels in its port in 1916.

Hurrah - patriots accuse scientists and experts in lobbying the Russian interests. However even if we totally reject Russian petroleum there is enough oil available in civil and military

terminals to supply (provide) Ukraine with, even without taking into consideration new Odessa oil terminal. Their location alongside the coast reduces ecological and industrial danger.

In a favor to satisfy political and private commercial ambitions the supporters of oil terminal are ready to justify the name analogy of the Black Sea with Chernobyl⁴⁴. Someone decided to make a tale come true and built an atomic power – station near the city with prophetic name. And now the Black Sea is in turn.

Besides of late natural catastrophes under the effect of climatic changes has become so violent and fierce that they result in enormous destruction and damages as it happened in the Southeast Asia and the USA. In this connection excessive concentration of extremely dangerous productions close to densely populated cities is inadmissible.

Ecological safety of the Black Sea region should be given a priority. Otherwise, consequences will be irreversible.

The economic activity on sea is greater connected with ventures of ecological violations, failures and catastrophes than on land. It is stipulated by stochastic, probable character of processes occurring in the marine environment.

Ecological ventures, in our opinion, should be considered from the point of view of direct or indirect effect of the industrial violations per capita which lead to (cause) degradation or environmental destruction. These ventures evaluation influences the cost parameters and they acquire economic - ecological character.

Any decision concerning marine economy should be based on a choice of the most rational variants out of multitude alternatives on the view of economical and ecological factors. Therefore, the forecasting of ecological consequences of that or other decision and the consideration of ecological risks in economic accounts have a very important meaning. Evaluation of risk of decision taking concerning large-scale projects realization such as the construction of Odessa oil terminal, output of petroleum and gas on marine water areas, overloading of chemically dangerous cargoes in seaports, damping etc. is especially urgent.

Petroleum is the most dangerous polluter in ecological point of view. Its outflow while output and transportation results in ecosystems' destruction, and especially to water ecosystem ruination. Atmosphere pollution takes place during oil refining and combustion, which causes climate aggravation, cancer diseases and other problems. Oil output in Ukraine is decreasing because of investments' scarcity. So they found the easiest way to extract petroleum from bowels of the earth, which is to construct oil terminal. But shall we pass the consequences over in silence?

The splits of petroleum while tankers' collisions present the greatest danger and causes huge damages. As the world experience shows, it is hard to avoid these petroleum splits but the ecological and economical damages are rather significant. Under existing conditions of the Black Sea ecosystem degradation, the construction of powerful oil refiner is immoral. That is why the given project has roused ecologists' indignation.

In case of sea-arrangement of the oil terminal there is a risk of heightened aggressiveness of marine environment (tankers breakdowns, damaging of oil refining devices and pipelines), probability of collision of tankers with ammonia transporting ships and other vessels.

⁴⁴ Black tale

The marine environment is especially polluted near Odessa city, where wastes of economic activity are 4 times higher, than in adjacent regions. In these conditions the creation of powerful tanker fleet and the oil refiner's functioning may result in ecological disaster with hard consequences of petroleum splits in large volumes, even if all the rules are strictly observed. Proceeding from this, the Odessa area that is now a zone of risky agriculture will become a zone of risky residing.

The global practice shows, that the economic damage on marine water environment at the ejection of one ton of petroleum is evaluated from 20 up to 3000 thousand dollars. Transporting from 40-160 million tones a year, more then 1700 tones of oil gets into the sea only while unloading. And how much oil gets into the sea in case of tankers' collision? Dozens of thousands of tons all at once. Depending on amount of tankers transporting petroleum, the probability of failure is evaluated from 2 up to 10%.

The large tanker's collision may result in economic catastrophe. For example, the Ukrainian tanker's collision in the Black sea similar to the crush of American tanker "Axon Valdiz" near Alaska, may cost the sum of money equal to national budget of Ukraine for to pay the fines and liquidate the consequences of the accident only... However the casual splits (losses) of petroleum in territorial waters of foreign countries, while exploitation of large tankers fleet will result in too high fine payments for our country's budget. The rates are too costly, as we will have to pay in accordance with international norms. (In 1992 Ukraine signed the International Convention concerning the Black Sea protection from pollution; so being an independent sovereign state, Ukraine must accomplish demands of the International convention MARPOL 73/78, Appendix IV "Prevention of vessels pollution").

In case of lagoon variant realization, it is possible to reduce ecological risks, connected with navigation and splits of petroleum by capital investments rise, but there appears a problem of lagoon bottom deepening and utilization or damping of great quantities of lagoon slits.

Ecological risks at sea will come to naught, if petroleum is transported overland. It is necessary to take into consideration the Black Sea vulnerability, which is at 87 % polluted with sulphureted hydrogen, which water balance is infringed in consequence of geomorphological factors, intensified with reduction of rivers' drains and progressing water pollution.

The experts - designers of the terminal should know also, that, despite the advanced means of overloading more than 160 tones of oil, transported by tankers get into the sea while loading and transportation (17-43 tones) accordingly, because of breaks of pipes, hoses, inattentive attitude of the people, responsible for transportation, even without consideration the rate of accidents. As a result of, gets from 160 T, From them for want of to loading and transportation 17 T and 43 T.

Designers do not take into account enormous sulphureted hydrogen pollution of the Black sea (87 %), disastrous antropogeneous situation and other ecological factors.

Depending on the choice of a foreign petroleum source (Russia, Kazakhstan or Azerbaijan) the costs on overland variant can increase or be reduced in comparison with marine variant.

In conditions of uncertainty the economic-ecological risks are connected with the probability of those or other events.

And how can we evaluate numerous human victims in case of collision of the tanker with ammonia near Odessa City? It is a social risk already.

It is essential to elaborate the scripts of such catastrophes and consider the connected with them probable accidents and their consequences.

The model of risks' determination in case of construction and functioning of the terminal can be presented schematically (fig. 1).

One of the most difficult scripts of an accident is the collision of the tanker with petroleum with the tanker with ammonia on the approach to the port "Southern". In this case different consequences are possible:

- One of vessels is holed and sank or remained afloat;
- Either petroleum or liquefied gas, or both run out of the hole;
- There is an explosion;
- There is a fire.

If there is no explosion or fire, the stain of petroleum or liquefied gas will appear on the sea surface as a result of the ship hole. In case of split of the liquefied gas it turns into gasiform and moves to the wind. Besides accounting the probability of accidents, their consequences and scale, it is necessary to determine whether the wind is blowing towards the populated area and define its speed at certain meteorology.

Having calculated all the probable variants, it is easy to count the total probability $F(x)$ of undesirable consequences by multiplying probabilities in accordance with the following formula:

$$\Sigma F(x) = \sum F(x/A_i) \cdot F(A_i),$$

Where: $F(x/A_i)$ - probability of undesirable consequences in an amount of certain accidents; $F(A_i)$ - annual probability of realization of the script.

In case of Odessa oil terminal under X we imply the death of biota (economic damage) or people (social damage).

The process of decision making is organized under the following circuit:

1. The generation of possible alternatives including variants and subvariants. In our case this includes variants of petroleum delivery of, various ports of acceptance, unloading in marine water area or in port etc.
2. Evaluation of the probability of the variant. Availability of the additional information about the task as far as technical, economic, social, ecological and other limitations is concerned. So, the construction of oil terminal in explosively dangerous port "Southern" bordering with ammoniac factory, imposes a great number of limitations In connection with increase of a degree of risk of emergencies.
3. The definition of a criterion of optimality in accordance with which the best variant is chosen. The criterion of optimality should contain economic-ecological contents including a lowered threshold of venture.
4. Direct choice of alternative in accordance with criterion of optimality. The general scheme of the analysis of the best decision making is shown at Fig. 2.

The decision making is based on two types of information:

- Possible effects of object and consequences of choice making of any of considered variants;
- The system of values of a person who makes a decision, which is used to evaluate these effects.

In our researches, the first kind includes the information about ecological and economic effects that are caused by considered object. This information is collected during the search of

available data and during special researches, with usage of models describing possible influences, and expert opinions.

The system of values of a person making a decision includes his attitude to ventures, value parity between various effects is revealed for to evaluate alternatives.

The system of values of a society gradually alters. Because of noticeable aggravation of a state of an environment the ecological values become much higher than they used to be 10 years ago.

Naturally, all the ecological problems concerning oil terminal technically can be solved. But what will be the price? And how will this increase the price of already expensive oil? It is much cheaper to develop derelict oil-extracting enterprises, the output of which falls because of lack of investments. In scientists and experts opinion we should rely on elaboration of our own (Ukrainian) colossal energy resources. These are traditional resources: coal, petroleum (including new large depositions), gas (including on a shelf) and untraditional: gas - methane in Donbass, gas hydrates of a shelf, secondary resources of industrial manufacture, wind power, waves, sun etc. Potential of these resources allows Ukraine to decide power problems even without development of dangerous atomic engineering. At the optimal combination of investments on elaboration of our own recourses the expenses and the ventures will be lower and the economic effectiveness will be higher then at the realization of oil terminal project construction. But in case of oil terminal construction the huge external debts will essentially increase, and the next generations of Ukrainians will have to pay them.

In connection with above-stated and being guided by main directions of development of policy relative to industrial and ecological safety, it is necessary on the regional level to develop main directions of development of the policy of industrial, ecological and antiterrorist safety of the sea.

The following factors should be given a special attention to:

- evaluation of development and allocation of potentially of ecologically dangerous objects;
- risk of industrial accidents and catastrophes;
- the analysis and control of a state of the marine environment;
- the guarantee of safety of population and marine natural objects in extreme situations of industrial character;
- maintenance of industrial and ecological safety in marine environment usage in conditions of normal regimes of exploitation.

So, taking into account social, economic and ecological interests of Ukraine it is necessary to reject the projects of transformation of health resort city Odessa into petroleum capital of Ukraine by recurrent oil terminal construction on top of already existing oil-refiner in port "Southern" and oil terminal near Odessa. We should work out a program of multi versioned optimal provision of Ukraine with petroleum from different countries using different ways of transportation with preference to the ecologically safe variants. We can examine the variants of petroleum sea shipping in volumes adequate to existing powers of coastal objects of a sea transport of Ukraine, with the account of necessary reconstruction of berths, equipment and systems of ballast waters purification. Diversification of petroleum terminal is also essential from the point of view of antiterrorist security.

The realization of the project of large oil-refiner construction in the indicated volumes and on stipulated conditions of investments, in aggregation with potential economic losses during the

tankers accidents, can cause creation of the negative tendencies in economy directed on a destabilizing of the monetary system of Ukraine.

As a whole it is necessary to mark the necessity of decision making of a considered problem within the framework of the program of maintenance of national safety of Ukraine.

The variant of large-scale delivery of petroleum through Ukraine to Europe as alternatives to the Russian pipelines is disputable not only from an economic point of view but also from the point of view of the safety of Odessa region.

The diversification of the sources of petroleum provision is really essential, but it should be reasonable and it should proceed from the interests of population and from the ecology of seaside region with the account of industrial, economic-ecological ventures and antiterrorist safety of the considered projects but not from the interests of politicians or the individuals who want to double their private capital.

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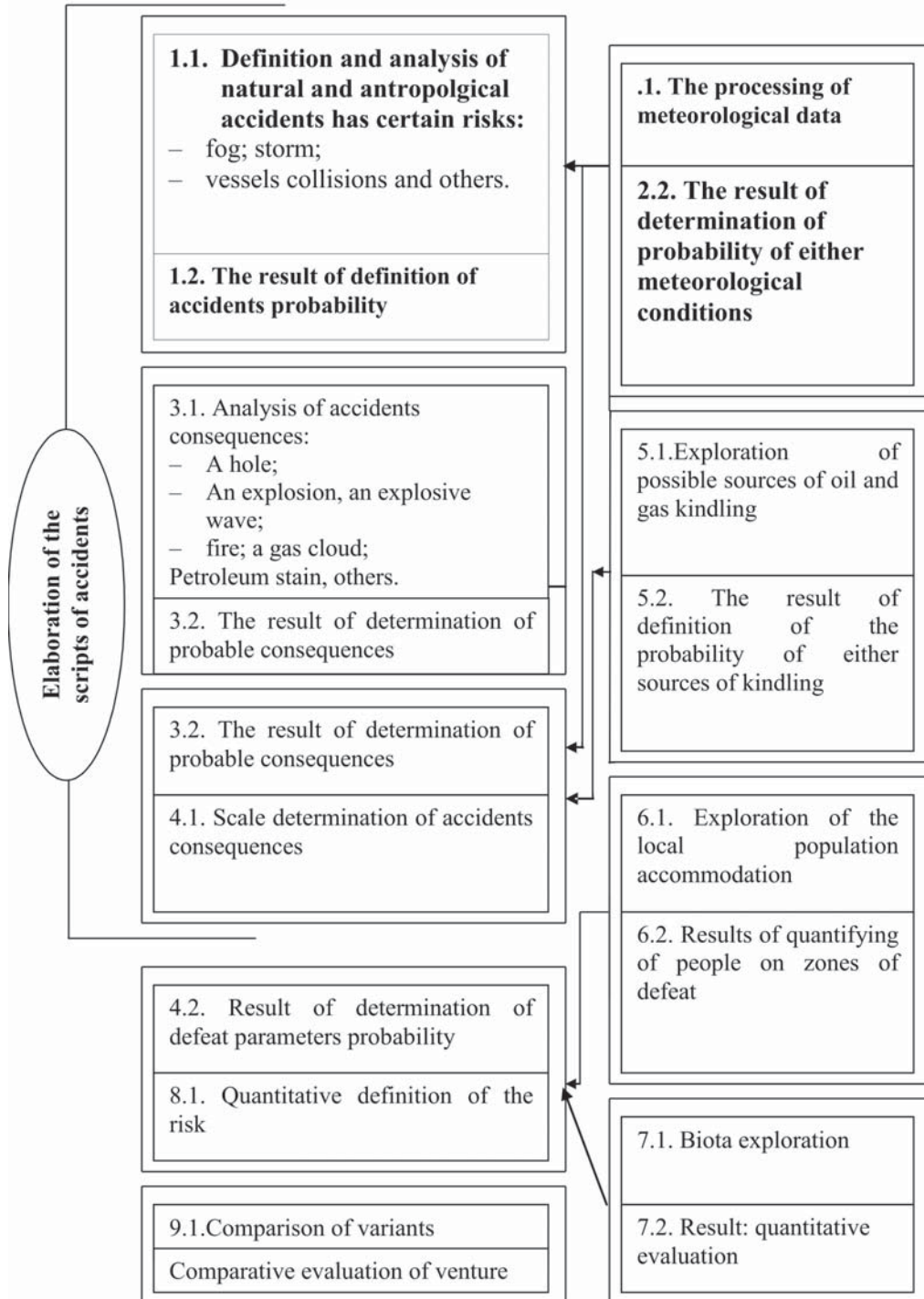


Fig. 1. Stages of evaluation of risk, connected with Odessa oil terminal

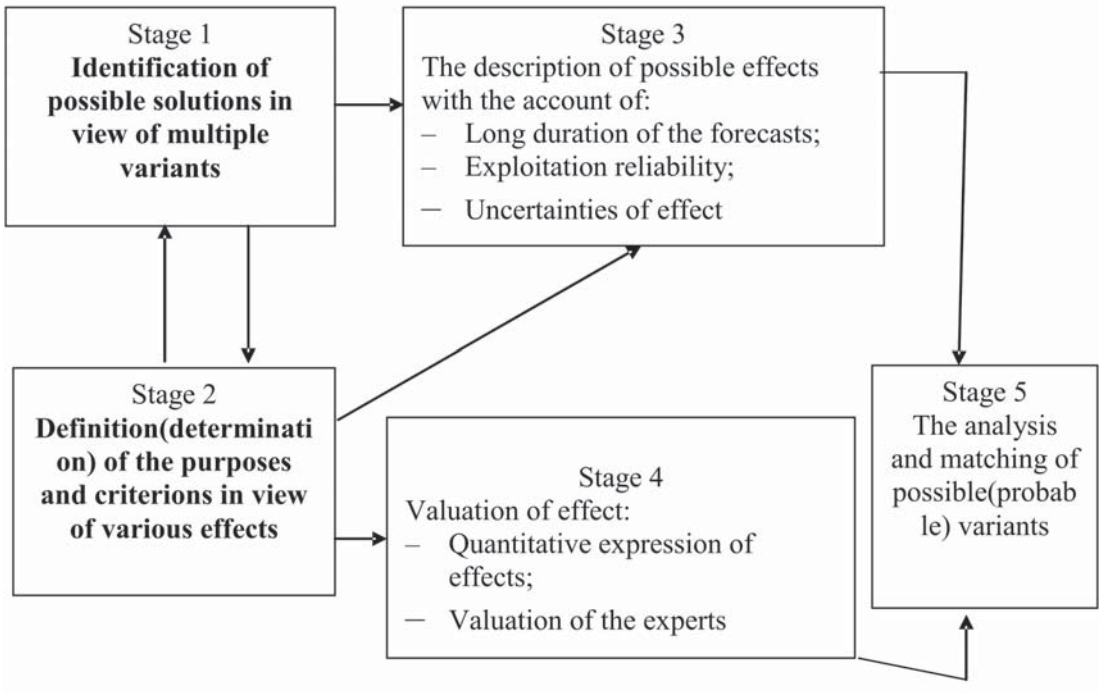


Fig. 2. The scheme of process of the analysis of solutions at the choice of variant

GEORGIA AND CAUCASUS IN THE EURASIAN INTEGRATION PROCESSES

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We can consider the 21st century as the beginning of large global changes. In such conditions the priority of the west orientation of Georgia becomes the non-alternative political strategy. According to this, Georgia and Caucasus find themselves in the global political centre of big states. In the conditions of Eurasian integration, the geopolitical situation of our country will become more obvious. The U.S.A. with its famous law issued in June of 1999 – “The strategy of Silk Road “; formed the U.S.A. geopolitical interests in the region and the confirmation of this was the visit of George Bush in Georgia.

Eurasia with its industrial or energetical potential covers almost half of the work. This huge space appears as the subcontinent of Eurasia where Georgia has important geopolitical superiority. These profitable geographic location often made a bad influence in the social-economic development of historical processes. Strategically our country represents the peculiar buffer of strategic spaces _Caucasus, the Black Sea, Near East and the Caspian Sea. All these provoke such western orientation that is proper to the country’s mentality.

It is sometimes hard and inadmissible for Asia to understand the democratic values of the World. This is a big World and unlike Europe, full of religious beliefs and original cultural habits. The West countries initiative and prolonged work for peaceful life causes deep contrast and conflict between these two separate worlds and the same may occur even in peaceful countries.

In such conditions, it is interesting, what Caucasus and especially Georgia will have to do in such political situation existing in the World, which represents the zone of contrasts and clash of different civilizations. Here the opposite sides are Christianity and Islam in addition to the desires of the West. It’s important to admit, that bloody conflicts always appear at the boundary of civilizations. [2, 35]. This region is in danger and the development of strong cultural contrasts is available in future. This difference defined the political orientation of Georgia towards Europe since XII century. The clear example of it is the history of life and fight of the kind of Georgia David the Restorer.

Nowadays Caucasus has become the most explosive region in the ex-soviet space.

The hot point of Caucasus is the Chechen region. The conditions cannot be considered hopeful. The renewal of other conflicts, like Abkhazia, Karabag and others is also expected. Here are lots of others interests, especially in energetic. Opposing of geopolitical plans will provoke the interference in the internal affairs of sovereign countries [3, 42].

Unfortunately, the geo-strategic interest of Russia lies in it. According to some western experts, Russia by means of conquering Caucasus tries to achieve self-identification. The clear example of this is the global and historical conflict of Abkhazia. In 1918, during the first year of the October Revolution in Russia, Sochi was taken away from Georgia. At that time there were 18 Georgian villages around Sochi, but now, not a single village belongs to Georgian. 100 years ago

Georgian written language was taken out of use and everything was rearranged in Russian manner. More than 80% of its citizens became the citizens of Russia at that time. So called “peace-keeping forces” carry out the same politics. In this case we are facing a global antihuman paradox. The historical territories of Georgia are misappropriated and the base of this is the citizen’s passport system.

We can fight against this disease only by the united force and the answer to this will be only the unification. A new geopolitical space should be created in the post-soviet countries in the territories of the Black, Caspian and Baltic Seas. In this process we can involve experienced scientific potential and proceed investigation, taking into consideration the strategy of NATO-“Expansion to the East”, under the name “New Geopolitical Space from Baltic Sea to the Black Sea”

It is well known that ex-Soviet spaces are very important for the geopolitical and strategic plans of the U.S.A. the president of the U.S. G.Bush once again concretized it on the 10th of May in 2005 in Tbilisi. He admitted: “Leaders know that settling conflicts peacefully is important for their integration to the transatlantic alliance. At the same time everybody should respect the unity of Georgia. It is obvious that Caucasus is a crossroad of the geopolitical interests of the super countries

Zbignev Bzhezinski with his political analysis points to the regressive role of Russia in Balkan, Caucasus and the whole Eurasia. The striving of Russia to arrange the new “Eurasian Balkans” in the countries of Caucasus and Caspian Sea is vivid. In the preface of the book by Zbignev Bzhezinski “The big chess desk” the author writes: “To my student for the better imagination of the tomorrow’s World”. Of course it is meant not only for American students, but for us too. As the destiny of tomorrow’s Georgia depends on the appropriate image of the tomorrow’s World.

From the designed analysis of Z.Bzhezinski the one, which concerns the future of Caucasus is especially interesting. For example, we would like to design the symbolical title –“Eurasian Balkans “. From the scheme we can perceive that Georgia and Caucasus are in the list of chief interests. The “Rose Revolution” increased these interests and our duty is to decide it positively, to avoid the establishing of “Eurasian Balkans “in Caucasus.

The scheme also shows the way out. Let us observe the “Caucasian Chalk Circle” with its 4D: To the North Orthodox Russia with its old and new imperial ambitions. To the South Muslem Turkey and Iran – the old enemies and friends of Georgia and Caucasus, who, as well as Russia, are interested in Caucasus and the Black Sea. To the west Catholic “Continental Alliance “ with its 450 million citizens and with the huge political and trade-economic potential, as to the East Muslem Caspian Sea and Middle Asia with the same potential.

According to all these factors is very important to solve the Caucasian problems in a civilized way for the further development of Eurasian integration processes and for the formation of the “New World Order”. The scheme of Bzhezinski itself shows this way.

It is symbolical that the conference of the Caucasian people’s representatives for the creation of “The United Caucasian House” was held in Geneva in 1876. We can consider this idea as a fantasy, but the past, present and future of Caucasus gives us hand to realize this idea.

Caucasus can and must become a connecting point of the New World Order, where according to ILia Chavchavadze “The agreement between the opposition parts is available without any enslavements and profanation”. It will be the most effective and strategically winning motion on the large Eurasian chess desk.

Old Greeks considered the Caucasus as the united region metaphorically calling it “The brow of the World”. Some imperial forces tried to unite the Caucasus as a whole region. Such experiments took place among the people living in Caucasus. Russians called all Caucasians “Caucasian man”. Our duty is to successfully end the third unification of Caucasus for the prosperity of our region, Eurasia and the whole World. Of course, it will be very difficult to revive and accomplish the old ideas about “the United Caucasus House” among with all kinds of military, political, cultural, religious and social-economic situations.

To avoid the danger of turning into” Eurasian Balkans “and to guarantee the safety of Caucasus it is important to work out courageous and long-term strategic program .The success of the New World Order is unimaginable if Caucasian peoples do not join the active integration process of globalization. The success of Caucasus, Eurasian integration and new world order is impossible. It mainly concerns Russia. According to the historical perspective the success here depends on the victory of the “pro-western part” of Russia and the democratic transfiguration of Russia-the country, justly called by Bzhezinski “the black hole”. That is why all the problems must be dealt with.

Tactics has no less importance for the success of integration process. To our mind the process should be started by the extension of the trade-economic relations and by creation of the original “Common Market” of Caucasus .Nothing but economy makes people closer. It used to be that way in the past, it is the same nowadays and it will always be like that in the future. The perfect example of this is “The Silk Road “.”The Silk Road”,the first step in the integration process begins with the trade-economic relations.

Thanks to the creation of the “Caucasus Common Market” and the economic integration of the region the political ideal of Georgia “the United States of Caucasus “will come true. All the existing obstacles and “hot points” will gradually disappear.

Economic makes the World united and the same will happen in Caucasus.

The development of cultural, scientific, technical, instructive and athletic relations are also important. Ivane Javakhishvili,the founder of the first university in Tbilisi, had the intention to form it as a Common Caucasus University. In the early 20-ies and 30-ies very important researches took place in the University concerning Iberian-Caucasus languages and history. Caucasian people have many things in common-from traditions, ways and habits, to the lifestyle. All these features make a good precondition for the Caucasian integration. Historically, all the Caucasian nobles and the members of Royal families were closely interconnected. Even the dynasty of Bagrations, having Jewish roots, is considered to be the dynasty of the whole Caucasus, as their tradition allowed marriage with any Caucasian and it was conditioned by the political interests of the country.

The development of sport and tourism is also important for the Eurasian and Caucasian integration. According to the historical perspective heir importance will soon increase. It will be good, if tourism in Caucasus becomes more coordinated in the nearest future and different sporting games or even summer and winter Olympic Games will be held with the help of Caucasian countries. It’s the strong means of connecting people.

Of course, there are many resources for the integration of Caucasian people and countries, but political will is very important in setting them up into motion. All these depend on politicians.Of course it will be good if the same coordination and co-operation occurs in this way. This will help us to imagine “the better World of tomorrow” and to make the right move on the Eurasian chess desk.

We have concrete proposals connected with the above-mentioned problems and for directing the united scientific- research work among the University of Tbilisi and the political centre of the U.S.A. And the Europe .It'll be very good if the international conference of politics is held on the theme –“Caucasus and the New World Order” Global problems must be globally settled.

CONCLUSION

NATO is gradually acquiring political functions and from this standpoint, it is very important to determine the chief strategic directions of the modern world political development. Primarily these strategic directions include overcoming the total regime and ideology still existing from the “Cold War “period and the formation of the world democratic spaces. In this context, Eurasian subcontinent appears to be the object of chief interest. It is the very place, where many post communist countries are situated and their democratic transformation is very important for peaceful and stable development of the world.

According to recent political analysis, Eurasia is considered potential danger for the current anti-terrorism campaign. Eurasia may be labeled as “the source of conflicts “.so our duty is to avoid all the possible complications that threaten to turn into war and bloodshed.

In this context, Caucasus and the Caspian Sea region are especially dangerous spaces. According to some political prognosis, “new Eurasian Balkan “may emerge on that territory, with its tragic outcomes. To avoid all the possible complications and to let the democratic processes develop we will need the help of NATO.

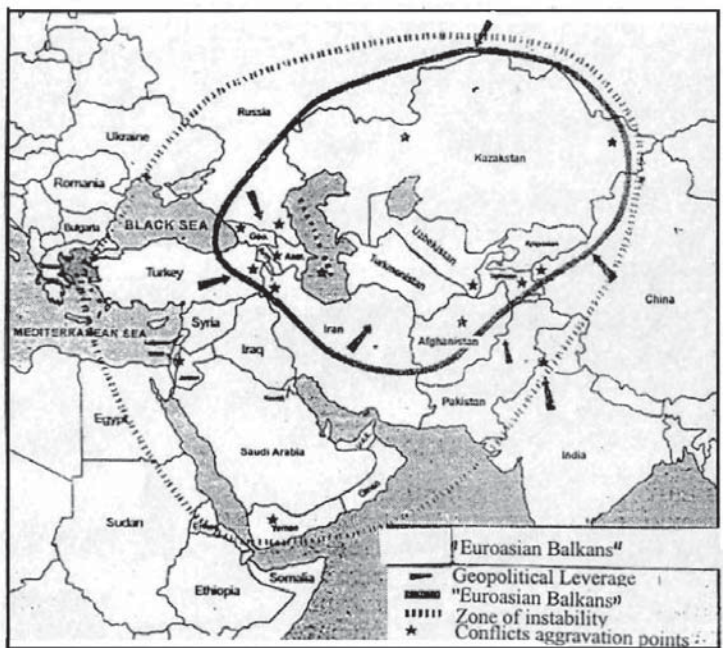
Caucasus has turned into the region, where drug business, illegal trade of weapons and terrorism has become democratic countries existing in that space must actively back NATO to decide all ex the problems. has become very frequent. The neighboring country uses the separatist Apkhazeti and Oseti territory to conduct illegal activities. The tunnel of “Rocky” is actually used for the transition of weapon and narcotics. We must put an end to all criminal activities.

In this connection, Georgia, having found itself in the very head of democratic changes of the region after the rose revolution, can fulfill the function of the leader in the region. This is mainly connected with the realization of the “Baltic, Black and Caspian sea strategy”. The mentioned spaces are expected to achieve decisive importance in solving the problems of post communist era. For this reason, all the democratic countries existing in that space must actively back NATO to decide all the problems.

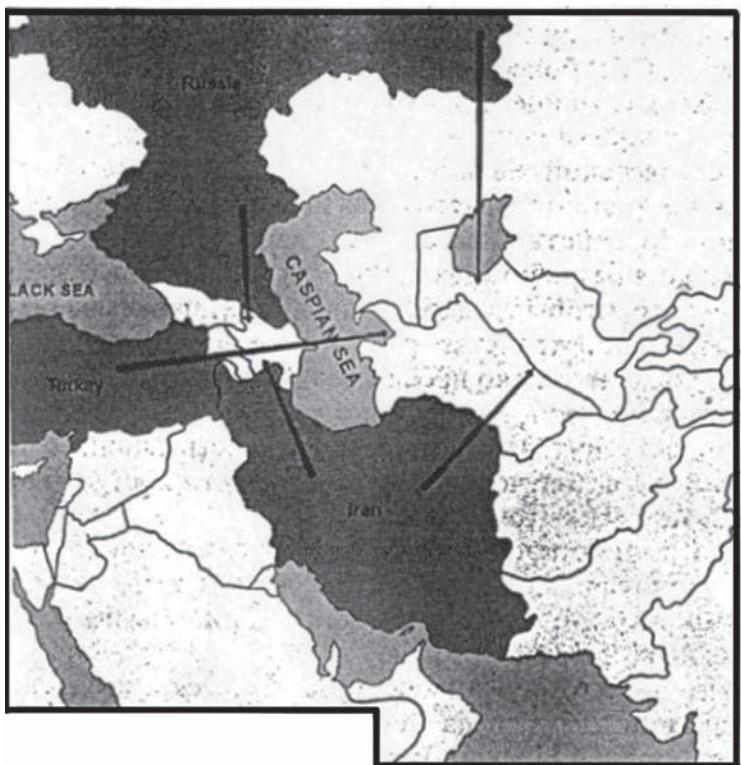
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„THE BIG CHESS-BOARD“



„Euroasian Balkans“



A FISCAL CONSTITUTION FOR THE EU: HOW TO SECURE REGIONAL COOPERATION

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ABSTRACT. *The French and Dutch “no” against the proposed EU-constitution has many aspects of being a revolution. If it is a fiscal revolution, a better fiscal constitution could be the solution. A typical EU-constitution, bearing on the European cultural and political diversity and spread of knowledge among individuals, must offer the maximum of freedom for national authorities and individual citizens: a limited government. A fundamental separation over different authorities of the competences regarding the determination of fiscal rules and the power to make policy within the boundaries of those rules could be the answer. Instead of, as was proposed in the draft of the EU-constitution, to decide democratically about the both of them together. The last is also the practice in today’s European Parliament and European Commission. In due course the separate “taxation chamber” can grow into an organ where all legislation in the EU is made independently of the direct use in concrete policies thereof.*

INTRODUCTION. After the French and Dutch voted “no” against the proposed European constitution in two referenda in the spring of 2005 to speak of a (revised) fiscal constitution of the EU does not seem to be a priority. It seems more opportune first to look at the more general lines for possible cooperation among countries; the fiscal constitution is a point of later care. If, however, the “no” of the French and Dutch citizens is a revolution, the truth counts also that at least half of all revolutions in world history were fiscal revolutions. A fiscal constitution takes center stage.

The Dutch and French government both do pretend that nothing has happened. Yet here too rules the historical wisdom that authorities are free to the extent that people can overthrow her. From that point of view the North-Korean authorities do have all the freedom of the world. For the Chinese authorities, however, the power did shift in recent years to the other side of the spectrum. The Dutch and French authorities are still further at that other side. It is telling that it is the fiscal policy regarding the amount of the Dutch contribution to the EU-budget and the income support of the French farmers by the EU-budget on which both authorities do have to hold the line to please their citizens. The situation regarding the stability pact is just as illustrative. The 3% EU-norm of a maximum allowed budget deficit is in fact a standard that no longer needs to be observed and, if observed, has lost its beneficial effect. With the recently revised rules of the stability pact, you can always get away with a larger deficit. Larger deficiencies are allowed if they are temporarily, are exceptional, caused by an economic recession or have not been created by government policies. Moreover, the 3% EU-norm broken by, e.g., France and Germany openly and Greece and Italy secretly, without punishment by the EU-Commission, all positive influence of the norm has disappeared. It is as by raising kids. To say, “O.K, just for once”, is fatal. A fiscal constitution, also, becomes a priority and can direct a general reform of the EU-constitution.

We answer three questions. What basic value is the guiding value of Europe? A value every constitution has to incorporate. What form of constitution does follow and hence which reform of the EU-constitution is necessary?

MEN DIFFER IN PREFERENCES AND KNOWLEDGE

Why does the EU-constitution have individual freedom as one of its basic values? Indeed, it is a good in itself. And hence does give rise to institutions such as: “the rule of law with its universal and nondiscriminatory application; separation of powers; and universal and open franchise. This means guaranteed protection of person, property, and contract, with periodic elections, open entry into competition for political office, and constitutional limits on the extent of governmental action (Buchanan, 2005, p. 1). It is, however, also a necessity for our economic order: the market economy. After all, not only, quite visible, the climate and the physical characteristics of the different countries in the EU do differ, but, less visible and of more interest, also men in their preferences and knowledge do differ. The problem, and the strong point of a market economy, as has been emphasized by the Austrian-born economist Friedrich Hayek, is to make an optimal use of those differences in knowledge (Hayek, 1982, Vol. 1).

The problem in a market economy is not to give the central authorities, be it Brussels or a local government, all the knowledge it needs to pursue a certain policy. The problem is to give each individual all the extra knowledge he needs, mostly in the form of price signals, so he can decide for himself how to pursue his own goals. In this way society does make use of often unique knowledge of circumstances and preferences that do differ in time and place. Knowledge that is difficult to centralize. Often for the reason because individuals do not explicitly know that they do have a certain knowledge or skill before the need arises to actively use it in a certain situation which is of particular interest to them.

AUSTRIAN ECONOMICS

Let us first expend a little bit on the knowledge that is needed in a market economy. In other words we are looking at the core of Austrian economics. A form of economic thinking that indeed started in Austria but has presently its main advocates in the US. In Austrian economics knowledge dissemination and the discovery thereof takes center stage. In 1871 Carl Menger’s (an Austrian born economist living in Vienna) value theory turned the value theory of the classical economists upside down. The classical (Ricardian) theory held that cost of production determines the normal value of consumption goods. In contrast, Menger’s theory held that the value of consumption goods ultimately determines the cost of production. Value is an expression of judgments concerning future usefulness in meeting consumer wants. Hence does follow one of the Austrian fundamentals of taxation, “No tax can be shifted forward” (Rothbard, 1970, p. 88). Prices, as we

just said, are never determined by costs of production; the reverse is true. Think of it. There is no reason to expect the producer to wait on, e.g., a general sales tax to increase his prices if he could have done so before. Since the selling price is already set at a “maximum”; a rise in costs, i.e. an imposed general sales tax cannot raise the price any further. The price is determined by the total stock in existence and the demand schedule for it on the market. Hence the fact that the sticker price of a product does show a certain amount of sales tax does not prove that it is shifted forward towards the consumer. The price for the producer for a good on the market is not the market price minus the sales tax. It is just that market price. The price minus the sales tax the producer gets might well have been reduced to allow for the payment of taxes. So it makes the income the producer receives less. Hence a sales tax is an income tax on the production factors (Rothbard, 1970, pp. 88-93).

Israel Kirzner describes modern Austrianism as an authentic extension of Menger’s older static subjectivism: a consequent dynamic subjectivism. In modern Austrianism, the two central figures are Ludwig von Mises ([1949], 1966) and Friedrich Hayek. Both authors focus on market adjustment processes. Kirzner, building his theory as Mises and Hayek did, believes that one of the greatest failures of neoclassical (equilibrium) analysis is that it assumes equilibrium is actually brought about. The real problem for modern Austrians is to describe the possible realization of an equilibrium as the result of “the systematic way in which plan revisions are made as a consequence of the disappointment of earlier plans” (Kirzner, 1962, p. 381).

Mises and Hayek made it possible to describe adjustment as a systematic sequence of decisions. Mises’s extension of subjectivism was to describe the individual decision unit not only as maximizing, but also as finding out the relevant ends-means relationship. This opened the way for incorporating learning into our understanding of market processes. Hayek’s extension of subjectivism was to describe the process as one of learning by discovery. Endogenous change in the ends-means relationship—says Kirzner—is possible with the entrepreneurial element in each individual market participant: alertness. Alertness is “the propensity [...] toward fresh goals and the discovery of hitherto unknown resources” (1973, p. 34). A disequilibrium situation points to market ignorance. From it emerge profitable opportunities that are exploited by alertness. Alertness gives a more realistic image of human action (and hence real choice) and makes possible the description of the market as a unified discovery process. “[The] ‘alertness’ view of the entrepreneurial role rejects the thesis that if we attribute genuine novelty to the entrepreneur, we must necessarily treat entrepreneurially generated market events as not related to earlier market events in any systematic way. The genuine novelty [...] attribute[d] to the entrepreneur consists in his spontaneous discovery of the opportunities marked out by earlier market conditions (or by future market conditions as they would be in the absence of his own actions)” [...] “[These] entrepreneurial discoveries are the steps through which any possible tendency toward market equilibrium must proceed” (Kirzner, 1985, pp. 11-12).

In the last centuries, the goal of a market economy in which everyone aims at his own interests and uses his own knowledge has been a basic economic value in Europe. For James Buchanan this is all a part of the superiority of the Western value system (Buchanan, 2005, p. 1). In the 19th century John Stuart Mill already wrote, “it is now recognized, though not till after a long struggle, that both the cheapness and the good quality of commodities are most effectively provided for by leaving the producers and sellers perfectly free, under the sole check of equal freedom to the buyers for supplying themselves elsewhere” (Mill, [1859], 1974). John Maynard

Keynes spoke in similar words a century later, “The advantage to efficiency of the decentralization of decisions and individual responsibility is even greater, perhaps, than the nineteenth century supposed; and the reaction against the appeal to self-interest may have gone too far” (Keynes, [1937], 1964, p. 380).

A PRINCIPLE VERSUS PROCESS BASED CONSTITUTION

If freedom of choice and free initiative of citizens is the rule, a constitution must contain a principle-based limitation of and constitutionally guarded role of government. As this, for instance, is the case in the constitution of the U.S. The EU, therefore, cannot have a constitution in which the process of democratic decision-making is paramount. A constitution must do more than just indicate how countries and citizens democratically have to come to a decision: if certain constitutional rules are satisfied, everything is well. If the last is the case, the result is that there are in practice no limits to the tasks of the government. Moreover, if a majority has to decide, this does have the effect, time and again, of the organizing of majorities to support a particular policy: interest groups must be satisfied financially, often at the expense of minorities. A growing government budget and state involvement in the economy is the result.

If the problem is how to establish a limited government, for the citizens in the U.S. and the EU two authorities are of interest: the authorities in each of the states or countries separately and the central authorities in Washington or Brussels. Is that not too much government? No, not if both authorities compete with each other in the sense that they each have their field of power. A branch of power is supported through a constitution and hence can be guarded. As has been said by James Madison, one of the founders of the American constitution, in the U.S. constitution the central authorities do have little and limited and the states do have many and large competences (Carson, 1983; cp. Markman, 2005). The former has powers related to foreign policy and national defense. The latter has powers related to the criminal justice system and the protection of the family. In the EU, however, the opposite seems to be the case: there seems to be little that does not fall under the jurisdiction of Brussels. The proposed constitution describes tasks that the EU has to do under all circumstances, tasks that they can appropriate if necessary and tasks in which they do act supportive.

But power wants more power, all to the good or to the bad. Every possibility, how artificially, will be used to enlarge it. Even by an explicitly described small task for the (federal) central authorities, as described by the U.S constitution, there are many examples thereof. For instance, according to the US-constitution interstate trade is a task of the federal authorities. Just as the EU-authorities do have a stake in border crossing interests. That, however, is a license for government involvement in approximately everything. Look at what did happen in the US. The federal authorities may not meddle with the agriculture in the separate states. Yet---with the rule and power of the authority over interstate trade in hand---it states how many acres in the separate states have to remain wasted. How can the federal authorities motivate this? A farmer did grow grain on his “wasted” land and fed the grain to his cattle. No interstate trade you would say. But did the Supreme Court argue if the farmer did not had grown grain on his wasted land, he should

have bought it and in that way influenced the price of grain on the market and so interstate trade (Snyder, 1998).

In short, even if there is a clear delineation of tasks as in the US, central government often grabs the possibility to enlarge its powers. Think of federalism as (1) the division of powers of government between the national government and the states. (2) the separation of powers in which each branch of the national government—the legislative, the executive, and the judicial branch—has distinct responsibilities, yet is subject to the checks and balances of the other branches. And (3) there is the principle of limited government in which the national government is constrained to exercise only those powers set forth by the constitution (Markman, 2005, p. 2). What then to expect of a description of tasks in the proposed EU-constitution, by which the tasks of Brussels in principle are many, and (badly) hold in check in a democratic decision-making process? A process in which everyone thinks that other people do pay for a certain policy and changing majorities have to be bought, time and again, with new money to spend. An ever increasing government budget is the result.

POLITICAL AND CULTURAL DIFFERENCES

Next for economic reasons, cultural and political reasons too make it difficult to have a fiscal constitution in the sense of a democratic process. Fiscal policy and democracy are hard to reconcile. It is an almost impossible combination to ask for; it simply cannot go together. In the middle of the previous century Hayek (1939; cf. Hayek 1949, pp. 255-272) wrote that democracy can only under very restricted conditions be transposed to a supranational organization. And a little later his American counter-ego Milton Friedman said the same. If you apply both ideas to the situation in Europe we have to conclude that the EU is not only missing the necessary homogeneity to form policy goals in a democratic way as well as misses the stimuli not to waste the money of the EU.

Why is it hard to expect any concrete policy and fiscal constraint from the European parliament—the most democratic institution we do have in the EU? Of course, very general objectives, as prosperity for everyone, will be easy to agree on. After that, however, it becomes difficult. Concrete objectives will be difficult to formulate. The countries of the EU differ too much in culture, history and economic development. Every choice supposes a balancing of the pros and cons. The service guideline of the EU is an example thereof. The recently weakened service guideline is supposed to show the social face of the EU. No worker from Eastern Europe, however, will be glad with that revised rule that should protect him from himself. Within a relatively homogeneous country like the Netherlands, however, the original guideline would be no problem. Every plumber from the north of the Netherlands is welcome in the south of the country. Likewise the Netherlands is supporting with a low price of gas a national pride: the agriculture of vegetables in greenhouses in the west of the country. Every Dutchman is willing to pay for it. But the very same solidarity for a Spanish national pride is something completely different. And the other way around!

The solidarity that is necessary for concrete policy is within the EU very tenuous. Even within one country if things do differ like language (Belgium), religion (North-Ireland) or economic development (North and South-Italy) solidarity is hard to find. All of these situations do characterize the situation within the European parliament. Hence, of an (in the future) democratically chosen Chinese parliament with its approximately 3000 members we can expect more priority setting than by the 700 members of the European parliament. China with its fifty minorities but overwhelming majority of almost 95 per cent Han-Chinese is more a unity than the 25 members of EU is.

If a parliament can give no objectives for administration and, hence, also cannot meaningfully be asked for advice, the European Commission remains *de facto* the administration. Often below the guise that it concerns only a technical affair. But that is hard to maintain. Over a change in policy, no matter how technically it does look like, the parliament belongs to decide. Moreover also the Commission has to do with the various wishes of countries that do make up the members of the Commission.

No matter how, large countries will never transfer their economic power to Brussels. The course of events around the reformation of the stabilization pact in the EU is characteristic thereof. It is naïve to expect the same reforms if a few small countries had broken the rules. Therefore it is to be expected that, as proposed in the constitution, the rule that if at least ten countries with 65 per cent of the EU-population do agree, that a proposal is accepted, will be violated if it should be of disadvantage to large countries.

The EU, also, has hardly any incentives not to waste money. The best guarantee not to waste money is that the same person both owns and does spend the money (Friedman, [1979], 1981, p. 146). You loan on the penny and see to it that you do get value for your money. Members of parliaments or commission members, however, do spend others men's money, on behalf of, often again, other men. That is almost a guarantee for ineffective and inefficient spending. Of each member of a local parliament some restraint in spending the taxpayers' money of his own citizens can be expected. But what to think of an Eastern-European member of the EU-parliament who does spend the money of West-European taxpayers at projects in Eastern-Europe? To satisfy the parliamentary members of Western-European countries pork-barrel legislation will rise. Not much different as is presently the case in the US. Where often the support of congressmen of several states has to be bought with financial presents (pet projects) for their local constituents. In short, we will see more signs along the roads which state, "This project has been realized with the help of the EU". A project if the country had to decide for itself it would not have spent the money on.

The referendum over the EU-constitution had also nothing to do with a choice for or against a more liberal or more socialist Europe. The whole point was that policies no matter how good its intentions, that are certainly possible for each of the countries separately, are no option for the totality of the EU. Europe lacks the necessary homogeneity; priorities cannot be set. To transfer authority and hence policy to Brussels has its limits. The pause that has arisen after the refusal of the EU-constitution can become the most fertile period in the history of the EU. A 'no' against the constitution forces authorities to come up with a fiscal alternative.

SEPARATION OF POWERS: DETERMINATION OF VERSUS TO ACT WITHIN FISCAL LAWS

These days fiscal decision-making is mostly based on the rule that policies have to pose as little resistance as possible for the majority that must approve of them. The feeling, often, dominates that someone else pays (Spicer, 1995). Ever growing government tasks and a growing government budget and corresponding taxation are the result. Besides, it is most likely that “rates of government spending will always be higher than the revenue from the taxes legislatures are willing to impose on their constituents” (Buchanan, 2005, p. 2). This since decisions on the spending side of the budget are to be made independently of the decisions on the taxing side. If, however, the problem is to carry over tasks to supranational authorities, as is the case in the EU-constitution, we do feel best protected if these supranational authorities only can act on the basis of a fiscal framework stated by yet another organ (Nef, 2002).

Which reformation of the EU-constitution is necessary? According to Hayek there has to be established an authority that states the fiscal rules separately from one that within those rules does administrate (Hayek, 1982, Vol. 3, note 2). These fiscal rules have to be general; they must be valid for yet unknown future cases. The specific effects of following the rules often will not be known to us in advance. They are, in other words, not goal-directed rules. Just as the traffic rules are not goal-directed rules. We do drive at the right side of the road and we do stop for red traffic lights. They give to each of us the possibility to reach our own separate goals. In this way everyone knows in advance which, if he votes for a particular policy, part of the expenses he and those who he represents must carry. A distribution the body that makes the policy cannot alter.

CONCLUSION: WHAT WE HAVE AND CAN KEEP

If fiscal dissatisfaction in the EU is the result of a process in which majorities do decide, within that framework it can also never be solved. A majority gives differing majority coalitions political authority. A majority that in the proposed EU-constitution by means of the European Commission and the European Parliament does set the fiscal rules as well as does make policy inside those rules. A solution proposed by Hayek is to make a division of the fiscal powers on the basis of principally and constitutionally assigned tasks: a legislative and executive branch of government. The establishment of a separate branch of government that does state the principles of taxation and hence reform of the EU fiscal constitution is necessary.

This means, paradoxically, not more government, but just an active limitation of it. In due course the separate “taxation chamber” can grow into an organ where all legislation in the EU is made independently of the direct policy thereof. In that way we can do justice at what Ben Franklin, one of the framers of the American constitution, answered when someone did asked him what he had given them. “A limited government, if you can keep it!” (Goldwater, 1960, p. 27).

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ASYMMETRY OF KNOWLEDGE AS A KEY FACTOR OF ECONOMIC SECURITY IN AN ORGANIZATION

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ABSTRACT. *The traditional assets of an organization in a post-modern world become meaningless. It is knowledge that has been emerging as the main asset of an organization. The traditional model of transactional relations between organizations is no longer compatible with ongoing transformations. The changing way of organizations' behaviour compels them to abandon the vertical diversification, and to move towards the horizontal diversification and the network organization. The further perspective will see the shift towards a virtual organization after organization's nodes have become self-reliant. Another new asset of an organization in a network are relations between organizations. The Internet and the freedom of information exchange imply the full symmetry of information and the asymmetry of knowledge among organizations.*

INTRODUCTION. Beck and Giddens [3] claim that immanent features in the late modernity as seen from the post-industrial and post-modern perspective are undefinability, intransparency, lability, chaos, and high risks. The natural states of an organization are change and temporariness. Globalization which used to define extending markets and transferring production in order to reduce costs as compared with local economies, no longer significantly defines the behaviour of future organizations because the lack of borders, entry barriers, and of temporal and spatial restrictions implies the omnipresence of an organization as its natural state.

In the post-industrial era we enjoy the unlimited access to knowledge, therefore we do not distinguish the near environment from the farther or global one. When assessing opportunities and threats in our decision-taking process we consider those fields of environment which correspond with the mission and the goals of organizations in the process of developing the strategy of development.

A new type of an organization with a network structure, i.e. a network organization, challenges the modernistic way of thinking about an organization. It confirms the predictions of post-modernism about the results of incoherence and fragmentation of an organization in the post-industrial era. The network effect modifies a traditional image of economic activity. Network organizations eliminate the traditional spatial and temporal barriers such as restrictions resulting from the geographic location and barriers between business sectors. A market entry or new market creation are no longer associated exclusively with the amount of capital employed but first of all they are a function of the access to knowledge and to making use of the network effect.

Assets in a knowledge-based organization are strongly connected personally with people and with organizational culture of network organizations, and thus they change the rules of business game. The rules applicable in the case of a traditional organization become invalid. The traditional economy used to value the rare goods whereas according to the new rule the more

spread is a good, the more valuable it becomes. The development in the traditional economy was self-restricting under the law of diminishing returns while the network organization sees an opposite process with sharply increasing non-linear function of development depending on the number of network's elements. The organization's behaviour does not result from the simple determinism of links between organizations but it is relations between the sets of particular goals [8].

According to Epicurus, one may separate any organization's activity into three processes: strategy, tactics and politics. Regarding an organization as a goal-oriented system we shall label strategy as a choice of goals referring to organization's resources, tactics as an optimal choice of means and activities leading to selected goals, and politics as relations of an organization with its environment, considered within strategy and tactics. A new approach towards strategy, tactics and politics must be concerned about the fact that network structures no longer apply the classic principle of command management or Taylorian division of labour.

The entities of a network organization are connected with each other by means of organizational links of many types including:

- hierarchical,
- functional,
- co-operational,
- informational,
- informal.

The links between organization's elements are secondary with respect to the goals put forward for those elements. While formulating given relationships between the goals of particular organizations as primary categories with respect to links we specify the properties of those relations. If hierarchical and functional linkages disappear, a network organization turns into a virtual organization. In a network organization activities are not strongly formalized in order to inhibit people's inventiveness and independence. A network organization creates the conditions in which mutual trust and communication are improved followed by the unhampered exchange of information and knowledge.

The development in IT technologies and communication caused that knowledge has become the main element of reducing entry barriers and that new natural processes considering the dynamics of qualitatively new business processes and new rules of the market game are now globalization, change, and evolution of an organization. Thus, one may formulate the ten rules for the new economy:

- decentralization is omnipresent, thus resulting in smaller nodes and exploding numbers and qualities of linkages,
- the value of a network increases with the square of the number of its elements,
- spread goods are the most valuable ones whereas the traditional economy valued mostly the rare goods,
- a network-organization based economy sees the increase in supply of products although their prices decrease; contrary as in the traditional economy,
- development of network,
- positioning of the firm's place in the market,
- a place in space; location is not important; the firm's place in a network and network's size are important,
- changes are continuous process,

- the essence of a relation results from all the aspects of firm's inclusion to a network,
- stable natural growth and evolution [5].

ENVIRONMENT AND ORGANIZATION'S KNOWLEDGE

The environment of network organizations is becoming decreasingly transparent. The lifetime of products is shorter, and so is the lifetime of organizations and of relations between them. The main asset of an organization becomes knowledge and its relationships with other organizations in a network. In the post-modern and post-industrial reality uncertainty is no longer a temporary nuisance which can be mitigated or even removed⁴⁵. The perceived end of the order as the termination of the order established "once forever" results in an uneasiness which – according to Baudrillard – is different from the familiar anxieties producing feverish activity and revolt by its quality of being distracted, unfocused, with no connection points, with "unspecific" disorders [1], expressed not as a reflection on rationalizing available choices, not as an optimal choice for the future, but instead, as a pragmatic choice related to self-interest of an entity or an organization in the near future, with no long-term claims. One can point at several trends reshaping the economic reality:

- focus on knowledge,
- increasing network returns and effects,
- faster response time,
- transparency, symmetry of information, asymmetry of knowledge,
- low costs of supplier's switch, binding a customer with a company, disclosure of calculation,
- module innovations and recombinations,
- hasty, short-lived alliances,
- products as experiences [10].

The growth in computer technologies has been accompanied by the development of communication technologies as well as by the global increase in the access to the Internet, practically autonomous and unfounded in any business plans. The communication platform based on the Internet is nobody's property and is not subject to any licence or regulation. Nevertheless, it revolutionized nearly all the areas of business and social activities. Paradoxically, the Internet – a platform of exchange and unlimited access to information and knowledge – is not a product itself. The product is the access to a network. This commodity is offered by many competing providers and many technologies so that no monopole or restrictions of growth are likely now. The access can be provided by traditional phone lines, mobile telephony, channels offered by railways, energy companies, satellites, radio, cable television, digital television decoder, or dedicated solutions of a broad band access.

⁴⁵ Peter Drucker specified this problem in the best way: we have just been going through one of those important historical periods coming every two or three hundred years when people no longer understand the world, and the past is no longer adequate to explain the future [2].

The post-industrial environment is characterized by the following features:

- global competition,
- de-concentration of capital,
- market segmentation and levelling, global decentralization of production,
- shorter lifetimes of products and organizations,
- a principle do not ask your customer what he wants; tell your customer what he should want is invalid; it is customers who decide what should be produced and what is useful for them,
- consumer has the choice of goods on a manufacture-to-order basis,
- economy of services instead of production,
- pluralism, differentiation, localism [4].

The main determinant of traditional organizations emerging as post-industrial was the development in IT and communication technologies. The unlimited access to information and knowledge by means of the Internet platform eliminates most entry barriers in business activities, thus changing on a daily and hourly basis the above picture of a post-industrial organization. Organizations of today and near future will further evolve to yet another quality of the following characteristics:

- autonomy, self-education, self-creativity, individualization of creativity as a method and experiment in vivo,
- standard are small, mobile, dynamic organizations, including self-employment,
- lack of entry barriers, licence requirements, limits, spatial and temporal restrictions,
- evolutionary development, revolutionary changes in form and contents of Kuhn's meaning dependent only on the current needs,
- shorter time perspective of action plan,
- shorter lifetime of an organization,
- diffusion of organizations, temporary alliances, substitution of activities,
- office-less organization: no geographic address, no secretary,
- the success of an organization will depend on the form of interactions and synergies with a customer who will be organization's on-line real-time partner over the network in his free and unlimited choice of the best utility,
- uncertainty, chaos, unpredictability as natural elements in decision-taking process,
- knowledge of customer, intuitiveness embracing the chaos of dynamics in changing utility will underlie the decision-taking process instead of mechanical analysis of historical data,
- the main resource is knowledge of workers, with an unlimited access,
- the fundamental categories of social relations in an organization implying its success are: trust, group loyalty, no hierarchy of governance, common interests.

KNOWLEDGE AND RELATIONS BETWEEN NETWORK ORGANIZATIONS

Knowledge in an organization is mainly empirical and subjective, related to some specific requirements (organization's resources, history, relations with the environment, etc.). We shall assume about organization's knowledge that information is represented by all that is processed, collected, selected and verified by the IT systems. Information itself does not carry any contents. Such elements as data and facts processed to information result among other things in knowledge, and when acquired in the IT systems they represent potential knowledge. The actual knowledge is assigned to a specific person – organization's worker – in the form of well-founded conviction [6]. Knowledge conversion is connected with people's activity and spoken beliefs, and can be performed in the four ways:

- socialization – from tacit knowledge to tacit knowledge,
- externalization – from tacit knowledge to explicit knowledge,
- combination – from explicit knowledge to explicit knowledge,
- internalization (learning) – from explicit knowledge to tacit knowledge [9].

Organization's knowledge is not a straightforward sum of knowledge shared by organization's people and of potential knowledge acquired in the IT system.

Knowledge in a network shall be discussed with respect to the relations between organizations. The relations implied by the links between organizations are static and it would be difficult to point at the connections with organization's knowledge conversion. The relation on the other hand, with respect to organization's goals can identify important differences between knowledge in a network from the viewpoint of knowledge conversion among organizations [7]:

- Organizations interrelated by the conflicting goals: there is no knowledge conversion by socialization (tacit to tacit) or externalization (tacit to explicit) unless one assumes the extreme case of business espionage; combination (explicit to explicit) and internalization (explicit to tacit) are possible.
- Organizations interrelated by tolerant goals: all types of knowledge conversion between organizations are possible.
- Organizations interrelated by similar goals: all types of knowledge conversion between organizations are possible.
- Organizations interrelated by equivalent goals: all types of knowledge conversion between organizations are possible.
- Organizations interrelated by superior (inferior) goals: there is no knowledge conversion by socialization (tacit to tacit) or externalization (tacit to explicit) due to the threat of losing the rank in hierarchy; combination (explicit to explicit) and internalization (explicit to tacit) are possible.
- Organizations interrelated by neutral goals: all types of knowledge conversion between organizations are possible.

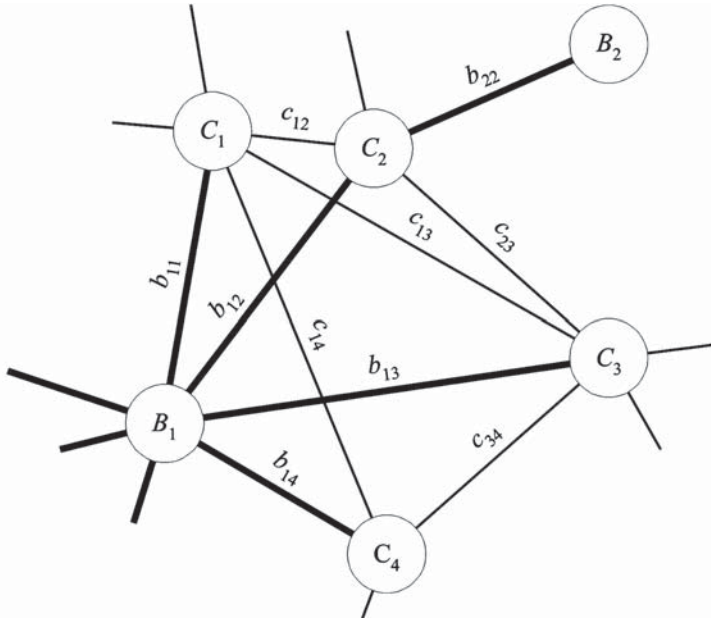


Fig. 1. A section of a network organization mapped into a b2c model (Source: Author's own)

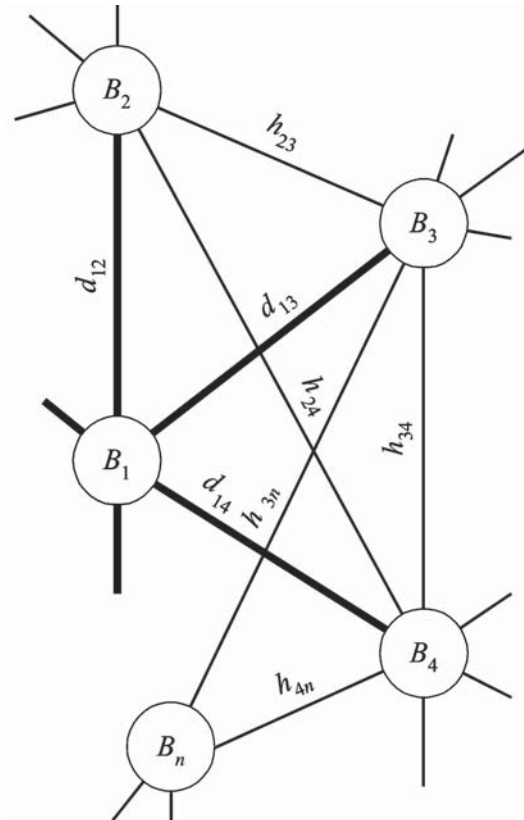


Fig. 2. A section of a network organization mapped into a b2b model (Source: Author's own)

In a network a customer is its node. We shall consider a customer as a singleton organization and therefore, a fully empowered member of a network. So far, an organization such as company (in the traditional transactional models $b2c^{46}$, $b2b$, $b2g$, $g2c$, $c2c^{47}$, $c2b$)⁴⁸, including one-person company (self-employment) – in the transactional model $b2b$, used to be considered as a business customer, whereas a physical person buying goods and services in the transactional model $b2c$ – as a retail customer. Straightforward application of transactional relations to the e-business in a network economy divides it into classes with a non-empty intersection. This division does not comply with the reality of network e-business where knowledge and relations between network's elements are primary resources. Figure 1 presents a section in the case of a network organization mapped into a $b2c$ model.

The relation between nodes B_i and C_j , denoted by b_{ij} , cannot be reduced to transaction itself. The relation b_{ij} represents tolerance containing a stream of functional, informational and informal linkages where we deal with asymmetry of information and as far as the conversion of explicit and tacit knowledge is concerned we deal with asymmetry of knowledge. The relations between C_n and C_m denoted by c_{nm} in a $b2c$ model are not included, however, in reality we deal with informal linkages as well between other $c2c$ transactions, e.g. through eBay and Allegro, or pointing also at more connections with other organizations in a network of B category, e.g. between $C2$ and $B2$.

Figure 2 presents a section in the case of a network organization mapped into a $b2b$ model.

The relation between nodes B_i and B_j , denoted by d_{ij} , cannot be reduced to transaction itself. The relation d_{ij} represents tolerance containing a stream of potentially hierarchical, functional, informational and informal links where we deal with asymmetry of information and as far as the conversion of explicit and tacit knowledge is concerned we deal with asymmetry of knowledge. The relations between B_n and B_m denoted by h_{nm} are not included in a $b2b$ model, however, in reality we deal with informal links as well with those between other $b2b$ transactions.

Figure 3 presents a section of such network organization where a customer of a business organization is also a business organization and a retail customer, e.g. Internet shopping, eBay transactions, which cannot be mapped directly into any above described models.

⁴⁶ $b2c$ – business to business; $b2c$ – business to customer; $b2g$ – business to government; etc.

⁴⁷ eBay is an example of such transactional model.

⁴⁸ Knowledge about network and relations between its nodes and linkages can be reduced in practice to transactions and their servicing, both off-line and on-line. Therefore, classic CRM and e-CRM using knowledge about customers and transactions no longer conform with the new network reality. In a sense, KCRM is slightly ahead.

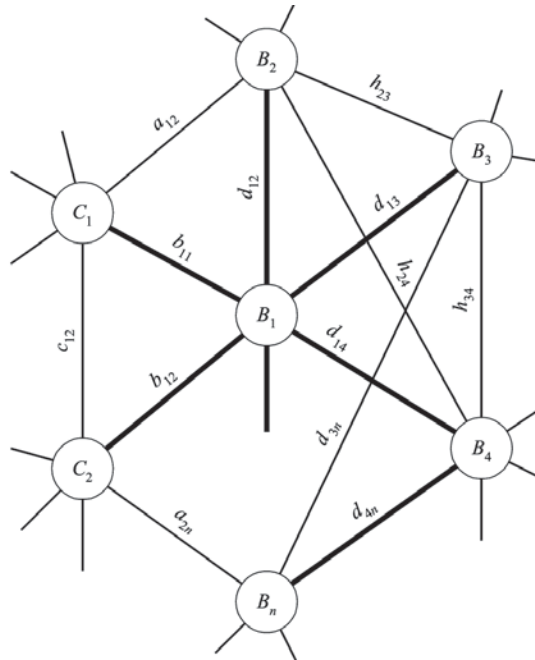


Fig. 3. A section of a network organization which cannot be mapped directly into any of b2c, b2b, b2g, g2c, c2c, c2b models (Source: Author's own)

CONCLUSION

A competitive advantage is no longer a simple consequence of differences in the amount of capital, but first of all it results from asymmetry of knowledge and relations with other organizations in a network organization. In the case of full symmetry of information flow in a network the most advantageous position will be held by those organizations which will enter alliances and coalitions with other organizations and gain advantage over remaining organizations by means of the conversion of knowledge from the allies.

The most successful organizations in the e-business have been maintaining the relation of tolerance between their goals and those of their customers, and enjoying all the types of knowledge conversion. A network organization is not an ordinary sum of its elements. The knowledge of a network organization is not a sum of knowledges of particular organizations. The goals of particular elements of a network organization create the behaviour of a network organization, and yet do not change themselves, therefore we deal with a problem of determinism of behaviour and activities in a network organization. The tradition 4P marketing is no longer applicable in the current e-business. A customer is no longer a statistical sample element, but a company targets its offer directly according to its knowledge about the customer. The knowledge transfer is two-way and real-time. The transactional models: b2c, b2b, b2g, g2c, c2c, c2b, will gradually evolve to-

wards a conventional partner to partner model $\pi 2\pi$ ⁴⁹.

The customer relationship management based on the knowledge of a pair in a network as a new model p2p, with tolerant goals and all the types of the knowledge conversion, is different from the traditional CRM or e-CRM. The significant differences among others are the following:

- co-operation with a customer is long-term (a customer is a party),
- a company and its customer in a network are equal partners sharing their knowledges and a customer co-operates to produce a purchased good – a conventional $\pi 2\pi$ model,
- a customer co-operates to add value; price is an open matter,
- a customer communicates with the whole organization, not only with the front desk or call centre,
- all connection and communication points are on-line,
- a response time is practically immediate,
- a link between a company and its customer is not transactional but co-operative,
- the company's direct goal is not to increase returns but first of all to sustain relationships⁵⁰.

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⁴⁹ As $\pi 2\pi$ has already been used for a peer-to-peer relation, a notation $\pi 2\pi$ was chosen.

⁵⁰ The e-loyalty analyses claim that a several percentage points increase in customer retention index results in an increase of organization's income by dozen to tens percent.

SECURITY COOPERATION: THE VIEWS OF LITHUANIA

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ABSTRACT. *The paper analyzes the global economic factors of security cooperation in the Baltic Sea region that have an effect on the present and future development of national markets in separate states of this region within the development of the common market of the European Union (EU). It is noted that the EU principal market factors of today: the free movement of people, goods and capital destabilizes the development of a separate state market in the Baltic Sea region, and the tasks of a national state in the future will become still more complicated. The work provides the research results of the factors of a specific geopolitical environment in the Baltic Sea region; the ways and methods are foreseen for solving the future political, economic and social problems in this region under the conditions of globalization.*

INTRODUCTION. The Baltic Sea region has been and will be of special importance owing to its unique geopolitical environment, since the following states: Denmark, Norway, Sweden, Finland, Russia, Estonia, Latvia, Lithuania, Russia (Kaliningrad region – the subject of the Russian Federation), Poland, and Germany (10 national countries) are situated within this space and they are linked together geographically by the Baltic Sea, historical past, the reality of today and future forecasts of the complex development of national countries. The Baltic Sea region has the population of about 153 million people (together with 1 million of people inhabiting the Kaliningrad region). Since the population of the EU constitutes about 460 million people, and the Baltic Sea region has the population of 153 million, thus share of this region in the EU accounts for 33.3 %, therefore the Baltic Sea region is of special importance for West–East and East–West political, economic and social relations in the world [7, 11, 14, 16, 17].

Historical past is noted for incessant global, continental, regional and national conflicts, the results of which are the present.

Present-day reality is distinguished by different political, economic and social orientation of the states and societies: West–East (an eternal dilemma of search for conflicts), the European Union (EU – the Constitution and the constantly perfected system), the Commonwealth of Independent States (CIS – without the specific character and without the future of real prospects), neutrality (Norway with its economic development), and NATO (the guarantee of global, continental, regional and national security cooperation) [19, 23, 26].

Ensuring of the future complex unity of political, economic, and social environmental factors of national states and societies in the West–East and in the world under the conditions of global economy, which accelerate the accumulation of big capital and development at an inter-continental level or the monopolistic activities of the big corporations of the world on the markets of Europe, Asia, Africa, Australia, and America. The result of those activities is positive and negative [27, 29, 30, 31].

Positive result is defined by the development of progress, which is insignificantly affected by the borders of separate states and political decisions adopted, as well as by the creation of a new product and the transfer of new jobs into Asia, the lack of jobs existing in Europe and by the rapid migration of people from Asia into Europe (especially to the Scandinavian countries), who agree to work for the significantly lower wages (even the minimum wages, established in separate states). This is useful for the development of business cooperation, since in the interim result it is possible to reduce the cost price of a new product and to increase business competitiveness at the level of global economy on the world market [1, 2, 4, 6, 10].

Negative result is characterized by the instability of social environment in separate Western (EU) and Eastern (CIS) states, since political and economic environmental factors have a negative impact on social environmental factors in all the states without exception (EU: Germany, Denmark, Sweden, Finland, Estonia, Latvia, Lithuania, Poland and other countries: Norway, Russia, Belarus, Ukraine). The EU and World Bank experts acknowledge unanimously that separate states are not capable of solving complicated negative problems of social environment, and these problems reduce regional security cooperation in the Baltic Sea region, Europe, Asia and the world. Today and in the future, people cannot feel secure in any state, since the privacy of man and family, which is the basis of global, continental, regional and national security, is infringed [3, 5, 7, 8, 9, 10, 21, 32].

Theoretical and practical problem of the work is characterized by the fact that a separate state alone is not capable of resolving of the main tasks of national security in the state and society development, since due to the impact of global economy, internal threats to the national state increase faster than external threats, and this tendency is spreading in the world because of a rapid decrease in natural resources and an increase of human resources.

Research objective is to analyze security cooperation in the Baltic Sea region.

Research tasks are to study internal and external environmental factors of the Republic of Lithuania, to determine tendencies in the development of political, economic and social environment, and to forecast the place of the Republic of Lithuania in the Baltic Sea region between West and East.

Research objects are political, economic and social environmental factors of regional security cooperation in the Baltic Sea region.

Research methods cover analytical, statistical, data collection and processing, analysis and synthesis, expert, comparative, and other integral methods.

Research results are forecasts of the development of regional security cooperation in the Baltic Sea region.

Data sources are newest works of foreign and Lithuanian authors, proceedings of international scientific conferences, data of research performed in the years 2000–2005, as well as statistical and other official sources of the World Bank, EU, CIS, and individual states.

The selected topic also predetermined the structure of this work, which is constituted of three principal levels of security cooperation in the Baltic Sea region under analysis, namely:

- Strategic survey of political environment.
- Strategic survey of economic environment.
- Strategic survey of social environment.

At the end of the work the generalization of research results, conclusions and recommendations for strengthening of security cooperation in the Baltic Sea region are provided.

STRATEGIC SURVEY OF POLITICAL ENVIRONMENT

People and private security form the basis of security cooperation in the state for the changes in the political environment, in the Baltic Sea region for the political environment in Europe for all the states in this region, between West–East and East–West [16].

In December 1999, in Sweden, the Estonian politicians advanced the idea of the Yule-land (Christmas countries) territory, encompassing the Scandinavian countries, Great Britain, and Estonia. In 2001, in Estonia, a discussion took place whether it was worth to change the name “Estonia” in the English language into “Estland” to sound it more attractively and to replace the striped flag by a cross to look it better. On the one hand, these are geopolitical tendencies in foreign policy for solving international problems in Estonia; on the other hand, this is a real thinking of people regarding the solution of national problems inside the country under conditions of global policy. Thus Estonia attempts to withdraw from the map of the three (Lithuania, Latvia, Estonia) Baltic States [34].

The politicians drew a map of the three states of the Baltic region in Potsdam in 1945 [16].

In Lithuania, analogous processes occur. Politicians of Lithuania moved the vector of the development of the state and society not to the north but to the southeast. For more than ten years already we are not just the country at the Baltic Sea, but also the state in Central Europe. Historians of Lithuania had discussions and in 2002 we made attempts to prove scientifically that Lithuania belonged to the different geopolitical region than Latvia and Estonia. In the geopolitical environment Lithuanian politicians would like to draw closer to the Ukraine and substantiate this by the historical past [34, 38].

If these geopolitical tendencies go on developing, Latvia in the Baltic Sea region will remain the one whose politicians face a dilemma where to move to and this dilemma in Latvia is being accelerated by the “problem of Russian-speaking population”.

It is probably therefore that the former ambassador of Latvia to the USA O. Kalnins when asked how to identify Latvia answered that in historical and national terms Latvia seemed to him similar to Ireland [34].

The policy of development of Poland and its vectors remain not specified geopolitically [14, 16]:

- West and East?
- East and West?
- West–East and East–West?

Currently, the Estonian representatives proposed for the Baltic Assembly to get united with the Nordic Council. This idea complies with the initiative of a Northern Dimension of the EU, advanced by Finnish politicians, which should encourage political, economic and social security cooperation of the Baltic Sea region states [34].

It is possible to state that the process of disappearance of the three existing Baltic states (geopolitical formation – Lithuania, Latvia, Estonia) has already started, since otherwise it would be difficult to explain all political debates [14, 15, 16, 40].

It is hardly worthwhile for politicians to fear as regards the allying or separation of separate states, since the processes of globalization may both unite the states and separate them equally. In the geopolitical environment an eternal problem persists, it being the state neutrality and national

security, therefore in a policy of the development of states an important role belongs to military cooperation and military security, and in other spheres it is security cooperation differences rather than advantages that are increasing [4, 5, 10, 11, 12, 13, 15, 22, 24, 25].

It is to be noted that not only a policy of the EU enlargement to the East but also a policy of the integration of Russia (the past, present and future policy of which is based on a model “divide and rule”) into the West played an important role in the disintegration process of the Baltic Sea region states. Russia today formulated a new vector: a status of a “foreign territory” to the Kaliningrad region, this being stated on February 11, 2005 by I. Klebanov, the Russian presidential envoy to the Northwest federal district. At a meeting on the issues of the development of the Kaliningrad region, all the participants formulated a conclusion that a status of a “foreign territory” assigned to this region of Russia would stimulate investment processes from the West to the East. The Kaliningrad region is a specific region of Russia, which requires non-standard political solutions for regulation of political, economic and social problems that came forth due to the EU enlargement into the West when Kaliningrad became an “isle” of Russia in the common EU and NATO space, as a result of which “national interests” of Russia and its foreign policy in the West strengthened (this was stressed on September 13, 2004 at a joint symposium of NATO and Russia in Moscow by all representatives of the Russian side, they also spoke of “national interests” of Russia in the East or the South: Georgia, Azerbaijan, Ukraine, Belarus, Moldova and even in the states of the world, situated further away from the borders of Russia) [1, 2, 6, 7, 10, 12, 17, 18, 23, 24, 35, 37].

Russia also perceives its direct “national interests” in Lithuania, Latvia, Estonia and Finland. Russian politicians base these interests on the common space of Russia with NATO (geopolitical environment both in the Baltic Sea region and other regions of the world) [3, 12, 13, 20, 22, 25, 35, 42].

Currently, one can notice new problems being formed between Moscow–Berlin, Berlin–Paris, Paris–Moscow, also between Finland–Russia and Poland–Germany. These are results of globalization processes, and new political initiatives and political normative acts adopted due to their solution have an impact on security cooperation in the Baltic Sea region, as a result of the political factors of which the changes increase internal political, economic and social threats in separate states of this region: Lithuania, Latvia, Estonia and others [8, 9, 17, 18, 19, 26, 28, 31, 32, 35, 37, 42, 43]. We may present as a result the political events in Lithuania in the years 2003, 2004 and 2005 that were broadly commented in the information sources of the world, whereas the real consequences persisted [7, 14, 16, 38, 40, 42, 43].

On the other hand, the political factors in Europe and the Baltic Sea region form the political environment, the absolute result of which is the system of normative acts, constituted of five main trends [7, 8, 9, 11, 12, 13, 15, 17, 20, 22, 24, 25, 28, 37, 39, 41]:

- International normative acts of the world community.
- Normative acts of international organizations.
- EU normative acts.
- NATO normative acts.
- Normative acts of a national state (both Western and Eastern).

No ideal systems exist in theory and practice. All systems are vulnerable externally and internally by applying the system of normative acts of political environment [17, 27].

A good example here could be the Kaliningrad (Königsberg) land on the Baltic Sea coast, which in the 2nd century belonged to Prussians, and in the period of the 5th-9th centuries Prussians

were called the Balts, in the 8th-12th centuries – Prussia, from the 13th to 16th centuries these lands were under the rule of the Crusaders, in 1701 the Kingdom of Prussia (European state) was formed, and from 1871 it became a constituent state of Germany.

World War II altered in the essence the borders of the European states and the adopted political decisions brought the real result today – the Kaliningrad region with the state borders in the common EU and NATO territory, which belongs to the Russian Federation [35].

This situation is very unfavourable to the Kaliningrad region population (with over 1 million inhabitants): for free movement of people, goods and services, and capital, and these factors cause real external political, economic and social threats. These threats have an effect on the economic development and due to them the investment environment in Lithuania is unfavourable to foreign investors, freight flows through the Klaipėda seaport (in the Baltic Sea region) became reduced, etc. [7, 14, 21, 26, 33, 36, 39].

Russia has geopolitical interests in the Baltic Sea region, and afterwards this region becomes a space of interests of global economy, where in the 21st century vectors of political decisions of the West and the East (the world) are changing [1, 2, 3, 6, 8, 9, 10, 13, 15]. These vectors are difficult to be controlled by the small states in the Baltic Sea region (Lithuania, Latvia, Estonia), having the population of 7.4 million people (in Lithuania – 3.6 million, Latvia – 2.4 million, Estonia – 1.4 million), this accounting only for 4.8 % of the total number of the population in this region (or 1.6 % in the EU), and national security tasks are hard to be solved by using the system of normative acts of a separate state, which is intended for strengthening the private security of the individual and family [7, 11, 14, 17, 33, 38, 39, 40, 42].

Private security is the basis of national security, which must ensure the positive economic environment inside and outside the state.

STRATEGIC SURVEY OF ECONOMIC ENVIRONMENT

The economic environment factors form the economic environment: the economy of a separate state and national market. When exploring the economic factors, it is necessary to evaluate them by means of macroeconomic and microeconomic indicators in such a manner as it is accepted in the international organizations of the world, the EU, NATO and institutions of separate states [18, 31, 32, 33].

Macroeconomic and microeconomic indicators may be detailed and it may be agreed as regards the key indicators with the help of which under the conditions of global economy it would be possible to evaluate the economic factors and economic environment in separate states, the Baltic Sea region, the EU, as well as between West and East, that we could forecast positive and negative factors [33].

These forecasts are necessary for management of the economic development of separate states and changes on the national markets by using the system of normative acts, which should ensure democratic processes and progress development [4, 5, 14, 17, 18, 21, 27].

The system of macroeconomic indicators is comprised of the five main groups of factors [14, 16, 17]:

- Gross Domestic Product.
- Export volumes.
- Import volumes.
- Inflation.
- State debt (obligations).

The system of microeconomic indicators is constituted of the five main groups of factors [14, 16, 17]:

- Average net income per capita in the country.
- Average real consumption normative per capita in the country.
- Cost price of product and its analogues (goods or services).
- Profit of product and its analogues (goods or services).
- Price of product and its analogues (goods or services).

Application of the system of macroeconomic and microeconomic indicators ensures an optimum analysis of the factors of economic environment (of economic and national market, as well as of a separate organization) of the country. Other economic criteria used are interim, not basic ones, that are necessary for optimization of the activity of man, family, organization, and society, for reaching an optimum (not maximum) result and then a risk of activity will be minimum (it will be also optimum) in the fixed time and space [26].

These economic problems are important for all states of the world, organizations and people, and in the 21st century the tasks of this economic problems will become still more complicated, since they are affected and will be under the effect of the rapid development of progress and the key factors of the global economy of the world [19, 20, 23, 28, 29, 30, 36, 41].

The system of progress consists of the five key groups of factors [14, 16, 17]:

- New product (satisfaction of consumers and their new needs on the world market).
- New materials (created or discovered by man, for the creation and realization of a new product on the world market).
- New technologies (for increase of competitiveness of an organization on the world market).
- New operating means (for increase of competitiveness of an organization on the world market).
- New labour efficiency (establishment of new jobs, modernization of the existing ones, and *training of people for increase of competitiveness of an organization on the world market*).

The system of global economy is comprised of the three key groups of factors of a free market [14, 17]:

- Free movement of people (on the world market).
- Free movement of capital (on the world market).
- Free movement of product (goods or services) (on the world market).

It is possible to notice that the borders of a separate state (for example, Lithuania, Latvia or Estonia) in the 21st century cannot ensure any more security cooperation of the people, and the necessary condition for a national state is to constantly improve the system of normative acts, which would balance the development of the state and society under the conditions of globalization, would ensure democracy and progress development in the Baltic Sea region, the EU, and the world [7, 14, 36, 38, 39, 40].

On the other hand, the economic environment rallies people for common activities where the individual has the opportunity to sell his physical and intellectual work (as a good), which has its own real value on the national, regional, the EU and world market, and the purpose of a modern state is to permanently improve the political, economic and social environment where the individual lives so that the value of his work on the national market would constantly increase. Today, the existing living environment of the individual and his family in separate states of the Baltic Sea region (Lithuania, Latvia, Estonia, Poland, Germany, Finland, etc.) cause real anxiety, since political, economic and social factors are unfavourable for the development of the working activities of the individual and for guarantee of the private security of family [33].

In 2004, export of Lithuania constituted USD 9,643 billion, and import – USD 12,780 billion. Export-import balance of the then development of the state and society in 2004 was negative and made USD 3,137 billion, or 24.55% from import volumes and 32.53% from export volumes [36].

These macroeconomic indicators engender complicated tasks for business organizations and public institutions, since it is necessary to permanently increase the export volumes of the national product and to reduce import from other states and thus to create favourable conditions for the development of the working activities of the Lithuanian people in the national economy, to increase the labour value of the people on the national market [14].

In economic terms, the economic environment is to be created where the individual would sell his work and would receive the permanently increasing income on the national market. Thus the volumes of the Gross Domestic Product would be increased, export-import balance would be improved, and the purchasing power of the Lithuanian people would be increased on the national, EU and world market [14].

For a business organization to solve successfully these tasks, one condition is necessary: to reduce the product cost price, to increase wages of people, to improve the ratio of supply and demand on the national market so that the national market in the Baltic Sea region, EU and the world would be competitive [14].

For solution of these problems it is necessary to improve the investment environment in Lithuania and the Baltic Sea region, which is under the negative impact of integral political, economic and social factors of the development of global economy, the EU, and national states (West and East). Due to these factors, separate business organizations are non-competitive, since modernization processes are slow, progress is not applied, and therefore the national product is non-competitive on the national, EU and world market [14].

For example, a political decision adopted by the EU to shut down the powerful nuclear power plant in Lithuania increases at a rapid pace the prices for all energy resources (e.g., the current oil product prices in Lithuania exceed twice those existing in the USA), thus making a negative direct impact on the cost price of the national product (cost price goes up and therefore the real wages of people in business organizations get reduced: two evils of the national economy put together), due to which the national product actually cannot compete with the imported product analogues from Asia (this is a specific region of Asia with the Asian global economy, into which the business organizations of the EU great states transferred jobs) [7, 14, 17].

The cost price of a product is an indicator of microeconomics, which is the main factor of competitiveness in the fixed time and fixed market segment [14, 17].

Under conditions of global economy, only two main trends exist for reducing of the product cost price [16]:

- Increase in labour efficiency with the application of progress.
- Reduction of the constituent part of wages in the cost price.

Management of microeconomic factors in a business organization depends on the strategy of the organization on the market and in separate market segments, where it is necessary to constantly increase the sales volumes of a product and to master new markets and their segments [14, 17].

These tasks may be actually solved only by modern business organizations (since a law in economy exists: “that labour efficiency in a modern business organization has to go on increasing faster than an increase in wages “), which constantly use progress [14, 17].

Unfortunately, this requires large amounts of financial investment for modernization of the activities of a business organization and extensive annual action programmes for the development of activities. Due to these factors, private capital gets united and organizations develop their activities according to new conditions being formed under global economy in the 21st century (business – without state borders) [1, 2, 4, 6, 10, 18, 19, 20, 21, 26, 27, 31, 32].

These tasks are hardly implementable in the small states of the Baltic Sea region (Lithuania, Latvia, Estonia), therefore it is not real to anticipate the rapid development of economy in Lithuania on the common EU and world market [7, 14, 17, 26, 36, 38, 40, 43].

Data of the Eurobarometer survey conducted by the European Commission show the approach of people to the current political, economic and social environment in the EU and individual states. During the survey it was established that the average of the EU population satisfied with their life accounted for 81%, whereas in [40]:

- Estonia – 70%;
- Latvia – 55%;
- Lithuania – 54% (the Lithuanian population is most dissatisfied with the life in the EU).

Most satisfied with the life is the population of the Scandinavian countries: in Finland – 94%, Sweden – 96%, and Denmark – 97% (most satisfied is the population of Denmark in the EU) [40].

However, the population of the small states in the Baltic Sea region sees the future more optimistically than in other EU states. Positive changes in life are anticipated, on the average, by 35% of the Europeans, whereas [40] in:

- Estonia – 42%;
- Lithuania – 40%;
- Latvia – about 33% (less than the average of the Europeans only in Latvia – 35 %).

The data provided are subjective, but these documents reflect the tendencies of separate states of the Baltic Sea region and of the development of societies, which make an effect on the economic and national security of regional cooperation [26].

National security is the basis of regional security cooperation, which must ensure the positive social environment inside and outside the state.

STRATEGIC SURVEY OF SOCIAL ENVIRONMENT

Under the conditions of globalization, political and economic factors make a decisive impact on social factors, which form the social environment of the life of people in a separate state in time and place [17].

During survey, conducted in 2000–2005, in the Baltic Sea region states (in Lithuania, Poland, Germany, Latvia, and Estonia) and the countries of the East block (in Belarus and Russia) in all the mentioned states under the conditions of globalization five tendencies, analogous for the 21st century, are established that [26]:

- Political factors have a direct impact on economic factors.
- Economic factors affect directly political factors.
- Social factors are remote from political factors and have an insignificant influence on social factors.
- Economic factors exert a negative effect on social factors.
- Social factors are remote from economic factors and have an insignificant influence on economic factors.

Research methods are based on the real results of the development of political, economic and social factors [17]:

- Political environment was evaluated according to the conformity of normative acts to the development of progress and democracy in time and space (Strategic survey of the political environment of security cooperation).
- Economic environment was evaluated according to macroeconomic, microeconomic indicators in time and space (Strategic survey of the economic environment of security cooperation).
- Social environment was evaluated according to the criteria of social factors, normatives, results in time and space.

Criterion is a unit of measurement (existing in kind, money and mixed).

Normative is the measurable size of the optimum activity result in the fixed time and place, which can be really achieved, but no opportunities exist for exceeding it (according to the activity optimization methodology, methods and the 21st century management methods in an organization).

Result is the work performed per time unit.

During research it was established that in all the states the real calculation of normatives of human activity does not ensure methodics and methods for optimization of the activities in separate organizations, and evaluation of real results is approximate and thus their comparison between the states, in the Baltic Sea region, the EU, and in the world does not comply with the reality of the social environment of the life of people in the fixed time and space [17].

It would be necessary to agree that the system of evaluation of the social environment of the life of people would be comprised of the five key indicators [17]:

- Standard-of-living index.
- Unemployment rate.
- Poverty level rate.
- Rate of satisfaction in life (political, economic, and social environment) of people.
- Human life universal quality rate.

Other indicators of the social environment of society and the state remain for calculation of the key indicators, then we could compare more precisely the vectors of changes in the human life private security in the social environment in the 21st century in the fixed time and fixed place. Such calculation results, probably, would form the information data bank for forecast of the vectors of political and economic changes in a separate state, the Baltic Sea region, the EU, between West–East and East–West in the world community [26].

We shall characterize the methods for calculation of the key indicators for evaluation of the social environmental factors [17].

Standard-of-living index is a measurable value when the average net income per capita in the country is divided by the average real consumption normative per capita in the country in the fixed time.

Unemployment rate is a measurable value when a real number of the unemployed is divided by the real (entitled to work) normative of human resources in the fixed time.

Poverty level rate is a measurable value when the number of the population of the country living below poverty level is divided by the real number of the population of the country in the fixed time.

In the world, however, no uniform agreement exists what poverty level is and how its indicator (value) is measured, and therefore it is necessary to acknowledge that poverty level in a separate state is the real index of life level of people equalling the unit in the fixed time (then the capital accumulation function in the life of man is equal to zero) [17].

Rate of satisfaction in life of people is a measurable value when the real number of people in the country dissatisfied with life is divided by the real number of the population of the country in the fixed time.

Human life universal quality rate is a measurable value when the real indicator (indicators) of life quality of people is divided by its normative (their normatives) in the fixed time. Human life universal quality indicator is an integral indicator which is constituted of the sequence of indicators for evaluation of political, economic and social environmental factors of the state, subdivided into two main groups [17]:

- According to the environment of man.
- According to the environment of society.

According to the environment of man, five key groups of indicators are distinguished [26]:

- Labour values (criteria of satisfaction with work).
- Family values (criteria of satisfaction with life).
- Life infrastructure values (communications, roads, transport, landscape, servicing, education, culture, cooperation, informativeness, other criteria).
- Moral values (feeling of happiness, behaviour, belief, other criteria).
- Heritage and accumulation values (transfer of family heritage, capital accumulation and development: increase of reduction criteria).

According to the environment of society, three key groups of indicators are distinguished:

- Political values (Strategic review of the political environment of security cooperation).
- Economic values (Strategic review of the economic environment of security cooperation).
- Social values (Strategic review of the social environment of security cooperation).

Key indicators for evaluation of social environmental factors cover changes in the development of political, economic and social environment in time and space. These indicators are common in forecasting of the vectors of development of global economy of the world, macro- and microsystems (where man works and lives), namely: to establish internal and external threats to security cooperation of a separate state in time and space (the Baltic Sea region, the EU, and the world) [26].

It may be stressed that external threats to global economy, security cooperation of West–East and East–West, the EU and Baltic Sea region in Lithuania tend to permanently increase internal threats to national security (the population of Lithuania numbers 3.6 million or 2.35% in the Baltic Sea region and 0.78% in the EU). The EU territory, however, in the East borders Russia (population amounting to 143.8 million) and Belarus (population of 10.3 million), therefore social factors are formed in the sphere of cooperation, which the EU in the Baltic Sea region constitutes 152.10 million people (excluding the Kaliningrad region, a constituent part of the Russian Federation), and in the East 153.9 million of people with political, economic and social interests [26].

Research data show in the Baltic Sea region the geopolitical interests of security cooperation in the world, as well as the importance of Lithuanian national security in the Baltic Sea region for strengthening of security cooperation in the direction of West–East and East–West. National security, however, should ensure the positive development of the factors of social environment in the life of people, and therefore it is necessary to balance the factors of political and economic environment, which would make a positive impact on social factors in Lithuania and the Baltic Sea region [26].

The United Nations experts forecast that in 2050 Lithuania will have the population of 2.5 million, Latvia – 1.6 million, Estonia – 0.75 million (in total: 4.85 million, it will reduce by 34.5 %). These forecasts may become proved, since about 0.4 million young people emigrated from Lithuania in 1992–2004, and in 2005 this emigration goes on increasing [33].

Statistical data confirm that in separate states political and economic factors are constantly moving away from social factors, as a result of which in the world in the 21st century security cooperation of people will be very vulnerable, and special attention should be devoted to the strengthening of national, regional, continental and global security.

CONCLUSIONS

Research factors of regional security cooperation in the Baltic Sea region under the conditions of Lithuania's integration into the EU and NATO revealed wide opportunities for a comprehensive analysis of external and internal threats to national security as well as for evaluation of the impact of the changes of political, economic and social factors on the geopolitical environment of Lithuania in time and space. Conclusions are based on the methodological principles in investigating external and internal threats to regional security cooperation in the Baltic Sea region, methodics and methods of their implementation.

1. Political factors affect directly economic factors, on the developmental processes of which the weakening of external and internal threats to national security is dependent.
2. Economic factors are remote from developmental tendencies of social factors, due to which external and internal threats to national security are strengthening.
3. Social factors have an insignificant influence on developmental processes of political factors, due to which a considerable gap exists from developmental tendencies of economic factors.
4. It is the harmonization of the development of political, economic and social factors that will assure the balanced development of the state and society under conditions of Lithuania's integration into the EU and NATO.
5. Integration into the EU and NATO creates positive conditions for strengthening regional cooperation security in time and space (*in Lithuania, the Baltic Sea region, the EU, between the East–West and the West–East, in the world*).
6. Today, however, the existing political, economic, and social factors of the internal environment in Lithuania are unfavourable to the investors from the EU and other countries, since the tax system (the scale is highest in the EU, the tendencies towards further increasing are observed) and price policy on the international market constantly increase the cost price of the national product for business organizations, as a result of which the compatibility of business organizations go on reducing on the national, EU and world markets.
7. The institutions of the Republic of Lithuania must review in the essence the national tax policy (at the present moment taxes should be reduced by 20-25 %), create favourable conditions for investment of national and foreign capital into Lithuania's economy.
8. The national business organizations due to the tendencies towards increasing the product cost price do not possess the real economic conditions for wage increase of the employees (today the monthly normative of wages is USD 210, whereas according to the price index of the national market it should reach USD 500-1000), and because of these reasons the purchasing power of the population on the national market goes on decreasing, the annual inflation rate amounts to over 3 %, and the social environment is becoming worse.
9. The factors of the social environment accelerate the emigration of young people, its scale going up, and within the nearest 5-10 years over 250,000 young people will emigrate from Lithuania, the demographic environment will become worse for a long period, as a result of which the number of the population in Lithuania in 2005-2015 may go down from 3,500,000 down to 3,250,000.
10. The national business organizations should search other economic methods and ways for their integration into the activities of international corporations under the conditions of global economy: to develop the market to the East.
11. The institutions of the Republic of Lithuania must solve the problems of reduction of import flows from the East (to 50 %) and limit the import of unqualitative goods (to 100 %) into the national market.

The conclusions and problems presented above are characteristic of all the states in the Baltic Sea region, the regional security cooperation between West-East and East-West in the common EU and the global space are being dependent on their solution.

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THE PLACE AND ROLE OF MILITARY SECURITY IN THE SYSTEM OF NATIONAL SECURITY IN THE REPUBLIC OF LITHUANIA

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ABSTRACT. *The article deals with the problems of the place and role of military security. They are especially relevant nowadays when no country in the world is able to resist the threats to the national security alone. The content of military security and ways towards its strengthening are revealed as well as a negative role of militarism for the national security.*

Key words: security, national, military, threats, weapons, militarization.

INTRODUCTION. In the modern world all countries are facing potential and constantly changing internal and external dangers of different kinds which under certain conditions can grow into threats. The very fact of their existence make the authorities and the whole society of every state take certain actions to predict, reveal, eliminate or lessen those negative effects and consequences which may appear as their result. This vividly demonstrates the desire of each member of the society to provide his personal, family and social security and a true realization of the necessity of collective actions. Dangers exist in all spheres of national social life and human activities: political, economic, military, informative, legal, cultural. The force of their influence and degree of concentration are not stable, they constantly change their intensity, time, place and concentration. Thus, there exist such separate but interdependent and interconnected concepts as political security, social security, economic security, military security, informative security, legal security, cultural security and so on, which together constitute the content of national security. National security is a general concept which characterizes the ability of a country to preserve integrity, to solve political, economic, social and other problems independently and to act as a sovereign subject in the system of international relations [15].

After restoration of independence the Republic of Lithuania carried out some reforms of vital importance to strengthen its military security. The most significant of them are joining the NATO and EU [11]. Constant attention is paid to strengthening the armed forces. Nevertheless, growing threats of terrorism, its transition from individual and local level to the level which threatens national security of every country puts forward a question of the place and role of military security in the system of national security.

THE PROBLEM OF MILITARY SECURITY IN THE MODERN WORLD

Military security is the most significant structural element of national security which occupies the central place in its system and will be such for a long time to come.

In the military security the most important factor can be considered the use of military force, means of military violence. In other words, military security characterizes the ability of a country and its armed forces to protect or prevent its national security from any damage by means of military violence. This is the main mission of military security.

The significance of military security in providing national security was formulated by an American political scientist, W. Lippman a representative of the school of thought of political realism, who stressed that a nation is in a state of national security when it doesn't have to sacrifice its interests by refusing to use military force and when it is able to protect those interests if necessary by means of war [3]. This principle is confirmed by historical experience. Thus, the pacific policy of "reconciliation" of an aggressive neighbour which was carried out by Chamberlain and Daladier in 1938, the pact of Molotov - Ribbentrop in 1939 caused serious problems in the whole world.

The content and activities of military security of any country depend on its ambitions to be either an ordinary or a regional state, or a superpower.

An ordinary state doesn't possess all necessary means to protect its sovereignty, that's why it has to provide its security jointly with different international blocs.

The specific feature of a regional state consists in the fact that it is more influential than an ordinary state but less so than a superpower. A regional state doesn't influence different processes of world significance directly; it yields to the interests of international blocs.

A superpower or empire is a state that alone can protect its national interests. Accordingly, the army of an ordinary state, as a rule, can solve the problems of providing its internal security, allocates a certain portion of its means and forces to carry out joint peace-establishing operations.

In a regional state priority is given to land forces and air-borne forces, then come naval forces. Strategic aviation, intercontinental ballistic missiles and space aviation are paid less attention to. Such an army cannot be a complete guarantor of national security but it is able to allocate a large amount of its means and forces to joint peace-establishing operations.

In a superpower the main role is played by space forces such as air defence forces and space defence forces. Then come nuclear weapons capable of destroying nuclear weapons of other countries or affecting a psychological component of a person, and intercontinental means of its carrying. A powerful navy is used to solve strategic missions by means of submarine and land forces. Land forces must be able to carry out offensive, defensive, anti-terrorist, peace-establishing missions.

In the interests of its military security Lithuania uses its favourable unique geopolitical and geostrategic position, especially now that Lithuania became a member of NATO and EU; a rich positive experience of cooperation with neighbour countries; a unity of Lithuanian nation in solving problems of democracy, independence, originality and protection of its national interests [8, 9, 10].

THE PLACE AND ROLE OF MILITARY SECURITY IN NATIONAL SECURITY OF LITHUANIA

To provide national security it is necessary to use a complex approach which will help [15, 16]:

- to detect dangers in time determine their character and possibilities of growing into treats;
- on the base of long-last predictions to envisage preventive actions to provide national security;
- to carry out such a policy which is based on the system of governmental guarantees of human rights and values, mutual responsibility of the state and society to provide those rights.

Realization of this approach is possible only as a result of an agreed policy of legislative, executive and court authorities and also public control of such a policy in these spheres.

After restoration of independence in 1990 the creators of the concept of national security had to formulate goals and determine protective measures of national security practically anew. The approved strategy of national security is based on the Constitution of the Republic of Lithuania, laws of foundations of national security, treaties of NATO and EU. It helps, in our opinion, to eliminate threats to national security [7, 10, 11, 12].

Military security of any country is characterized by the unity of its two sides: internal and external. The external side deals with the possibility and ability to prevent or neutralize the influence of military force from abroad, the internal side characterizes the possibility to exclude, prevent or localize its internal destructive forces.

From the position of the modern state of the system of international relations military security must characterize the ability of a country to take actions against unleashing war or drawing it into war and to minimize its negative consequences.

In other words, military security characterizes, on the one hand, a country's own possibilities to take actions against the military force of other countries and, on the other hand, the state of the system of international relations, especially on their military-political level. It means that military security is directly connected with the state of military-political situation at a global and regional level and also with the national defence of a country.

In the modern world there is a completely new military-political situation, which is characterized by the absence of the global threat of war with the use of conventional let alone nuclear weapons.

But two world wars and a specific "cold war" of the 20-th century as well as different local wars and conflicts, terrorist acts of the 21-st century, constant improvement and creation of new more powerful and destructive military weapons make people strive for security by any possible means: political, military, diplomatic, economic. Particular attention is paid to armed forces [2, 4, 5].

The authorities of the Republic of Lithuania realize that the armed forces of one separate country can't counteract the armed forces and coalitions of the enemy without joint efforts with its allies. Policy is determined and carried out by people that are why its content and direction are connected to a large extent with their psychology and ability to analyze and use rich experience of international relations [9, 10].

The authorities of those countries which were subjugated with the use of force can have stereotypes of being constantly persecuted by political, diplomatic, economic, military and other means. That is why they create their armed forces, join new unions due to not only objective but also subjective reasons.

At the same time the authorities of the countries which lost their power can possess stereotypes not allowing them to deal with the former subjugated countries on equal terms, they can be worried and even insulted by independent views and policy of those countries. Historic stereotypes are especially harmful as having appeared in the past they can still exist at present. Joint efforts and mutual desire are necessary to get rid of those stereotypes. A famous German military theoretician Clausewitz stressed that it is impossible to understand war without understanding the epoch.

Regarding a military-political situation as a state of the system of military-political relations it is necessary to analyze and estimate it using structural and functional analyses.

A functional analysis is expected to take into account the law of homeostasis that is stability of the system of international relations, which provides it's functioning in this quality and prevents it from disintegration.

If applied to military-political relations the homeostasis of the system is characterized by such important parameter as military-political stability, which reflects the ability of the system to preserve its quality despite contradictions and various military-political goals of different countries. Such stability is achieved by the structure of the system, that is developed bilateral and multilateral relations of states in different spheres. Military-political stability is guaranteed by existing military-political unions and existence of nuclear weapons which play in modern conditions not only a military but also a political role of deterrence. Obviously, the higher level of military-political stability, the higher the military security of the states involved in the system of international military-political relations.

The structural analysis of the system of international relations allows to single out its main structural elements, that play the role of its key points and centres of contradictions. It is clear that nowadays the main structural elements of the system of international military-political relations are highly developed countries and their military-political unions, as they have rather stable military-political goals and save as a basis for stability of the system of international military-political relations. Developing countries where the social structure is unstable and there are a lot of contradictions in economic, political, religious, national-ethnic and other spheres bring destabilization to the system of military-political relations [1]. Therefore, to preserve military-political stability and military security military-political unions of developed states as well as separate countries - "superpowers" will for a long time play the role of the factor of stability of military-political relations. They can come out as intermediaries in disputes, side with an attacked country using their military force, make the aggressor give up his expansionist plans.

Thus, the military security of a state is to a large extent determined by a military-political situation and its stability. Nevertheless, a military-political situation can contradict to national interests if it is based, for instance, on subordination or subjugation of one countries by others. Therefore, to study problems of military security it is more productive to analyze the position of a country in the system of interstate military-political relationships from the point of view of their conformity or nonconformity to international political and military-political goals and the degree of their involvement into international events including military-political events.

At present the situation in the Republic of Lithuania is the most favourable. Its independence has been legally approved by the world community, friendly relations and cooperation have been established with the neighbour countries, the democratic control over the army has been introduced. Lithuania doesn't face any military threat, its policy is not directed against national interests of any other country. Lithuania together with its international partners contributes to the provision of security and stability in other regions of Europe and the whole world and envisages the use of help on the part of international allies in case of a critical situation.

The diagram (Fig.1) shows that the most possible threats to the security of Lithuania have a non-military character, though they can reach such a scope that to eliminate them it will be necessary to use force. Moreover, the possibility of such threats is increasing [13].

Therefore, a modern military-political situation does not exclude the use of force for subordination or subjugation. Therefore, alongside with activities directed towards stabilization of military-political situation every state has to find some other ways to strengthen its own military security, the most important of which is to strengthen its defence potential. The main elements of the defence of a country are military power, existence of allies and alignment of forces of opposite military-political unions.

Usually military power is defined as totality of material and spiritual potentials of a society which are used by the state to wage war or to solve missions with the use of military force.

Military power is determined by economic, scientific, social, spiritual and military potentials of a country. It is the central element of the defence as it determines the possibility of a country to counteract the military force from outside by means of military aggression. But in modern conditions the growth of military power evokes responsive actions on the part of opponents, destroys military-political stability.

Another traditional way of strengthening defence potential is integration of a country into a suitable military-political bloc, which allows to increase its military potential at the expense of military forces of the allies.

A very important role in strengthening defence of a country is played by its policy directed towards gaining favourable alignment of forces, including military, to those countries which count on the use of military force on international arena. Therefore, it is important to establish an international system of collective military security. This problem can be solved by international organizations and associations that resolutely counteract the aggressive military-political course. The most representative of such organizations is UNO.

Some negative aspects can be mentioned in connection with attempts to strengthen national defence by the growth of its military power:

Firstly - undermining the economy, irrational exhaustion of national resources. At present expenses for military purposes achieve hundreds billion dollars. If the years 1992-1996 were marked by a certain decrease of expenses for military purposes from 847 billion dollars to 722 billion dollars, in 1997 they increased again and in 2001 reached 772 billion dollars.

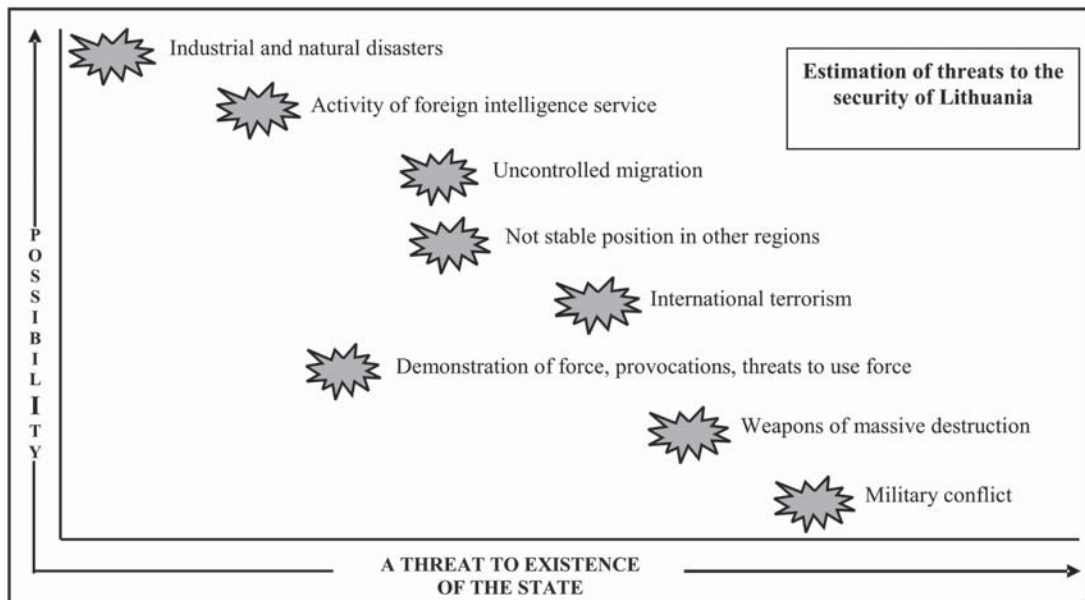


Fig. 1. Estimation of threats to the security of Lithuania

Military expenses for one citizen show (table 1) that some countries (USA, Russia, Japan) don't decrease their expenses for military needs, in some countries (France, Germany, Great Britain) that decrease is only temporal.

Table 1. Military expenses for one citizen (In prices of 1999)

Country	1998			1999			2000		
	Military expenses (bill. dol.)	Part of NGP (%)	One citizen	Military expenses (bill. dol.)	Part of NGP (%)	One citizen	Military expenses (bill. dol.)	Part of NGP (%)	One citizen
USA	279,702	3,1	1034	292,147	3,2	1061	294,695	3,0	1059
Russia	57,107	5,3	390	56,8	5,1	386	58,81	5	400
Japan	38,482	1,0	264	40,383	0,9	319	44,417	1,0	351
China	38,191	5,3	31	39,889	5,4	32	41,167	5,3	32
France	40,834	2,8	693	37,811	2,8	642	34,292	2,6	580
Great Britain	38,093	2,7	650	36,368	2,5	619	33,894	2,4	576
Germany	33,802	1,5	412	31,182	1,6	380	28,229	1,6	343
Estonia	0,061	1,3	42	0,071	1,4	50	0,079	1,4	57
Lithuania	0,139	1,3	38	0,107	1,0	29	0,196	1,8	53
Latvia	0,04	0,6	16	0,058	1,0	24	0,07	1,0	30
Poland	3,491	2,2	90	3,222	2,0	83	3,191	2,0	82

Reference: "The Military Balance" (2000-2001 and 2001-2002), issued by international institute of strategic research (London).

As it is stated in the document "Po Prahos ir Kopenhagos: naujas puslapis Lietuvos saugumo ir gynybos politikoje (New Chapter of Lithuanian White paper on Defence)" [13] military expenses will increase to this or that extent (Table 2).

Table 2. Prediction of dynamic of military expenses in different countries (bill. dollars)

	2000 m. (Fact)		2015 m. (Prediction)		2030 m.(Prediction)	
1.	USA	291	USA	337	USA	375
2.	Russia	60	Russia	80	China	100
3.	Japan	45	China	71	Russia	90
4.	China	42	Japan	50	Japan	70
5.	France	35	France	43	France	51
6.	Great Britain	34	Great Britain	40	India	47
7.	Germany	28	Germany	38	Great Britain	45
8.	Saudi Arabia	18	India	34	Germany	45
9.	Taiwan	17	Saudi Arabia	29	Saudi Arabia	33
10.	India	14	Taiwan	21	Taiwan	26

Reference: Joint Doctrine and Concepts Centre, UK MOD: Strategic Trends: Military Dimension, 2003, p. 5.

Planning the defence of Lithuanian Republic is based on national and realistic consideration of possibilities of the state. In 2004 eleven main political parties of Lithuania agreed on the priorities of defence policy and directions of development and finance of the army in 2005-2008 [6]. Such political agreement is an important factor for providing succession of reforms of the army, its adequate financing and forming the image of Lithuania as a reliable member of the NATO.

Not all the money allocated to the department of defence will go directly to strengthening the military power (Fig. 2). Thus, in 2004 1147,495 million litas, or 2, 01% of GDP (57068 million litas) were allocated for that purpose, out of which:

- 868,6 million litas or 1,52% of GDP were allocated to the department of defence;
- 278, 8 million litas or 0, 49% of GDP – to other institutions, which don't have direct connections with the military defence [12].

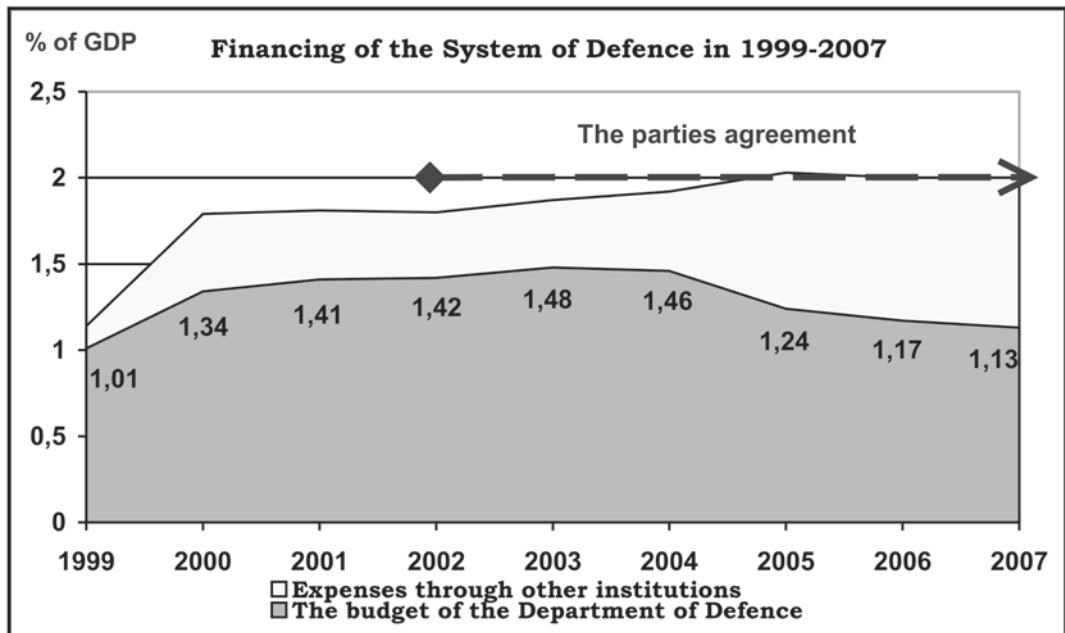


Fig. 2. Financing of the Department of Defence in 1999-2007.

Therefore, the authorities of the NATO and USA criticize the declared expenses of Lithuania to the defence – the expenses through other institutions are characterized as a not effective way to spend money for the defence. Allocation of 2 % of GDP to the defence taking into account the economic position of the state is considered to be optimal financing [13].

Accordinging of official statistics the USA annually spend 6% of GDP for its defence and the Western countries – 3%. The military expenses of the former Soviet Union were approximately 25 – 35% of its GDP.

Secondly – militarization, brought to life by accumulation of military power, leads to appearance of military-industrial complexes which strive to act as an independent subject of the policy of a state. Representatives of military industry, army elite and state bureaucracy impose their will and block any progressive changes.

Thirdly - militarization leads to considerable quantities and qualitative growth of the army, intelligence, military organizations of different types. There exists a danger of direct dependence of the military security and defence on the size and strength of the army. As a result, instead of providing military security it becomes a source of threat for national security of a country.

Fourthly – militarization can negatively influence the public consciousness. Created image of the enemy, militarization of all spheres of social life, militarization of culture with its exaggerated military-patriotic problems can have a negative effect on the spiritual state of the nation.

The leadership of the Republic of Lithuania tries to take into account these aspects, exclude their negative influence and provide the balance between the plans to strengthen its military power and resources available for their realization.

Militarization of the social life doesn't lead to strengthening the defence potential and can't be used as the main means of formation of the system of military security of a country. The

historical experience of many countries shows that military security in modern conditions is a result of purposeful policy towards the formation of the system of international security, achievement of such balance of forces that will be inadmissible for the aggressor, maintenance of the military power at the level appropriate for the defence of a country.

CONCLUSION

1. From the point of view of its functional role the system of military security of Lithuania must present a mechanism that should transform conceptual views and political directives in the sphere of providing national security into coordinative activities of the organs of legislative and executive power as well as all other elements of military organization of the country.

2. The mission of the armed forces of Lithuania is to create an effective defence potential rationally using their resources. The existing experience in the military sphere proves the necessity of using the principles and requirements that objectively reflect modern realities.

The most important of these principles are the following:

- accordance of the activity to provide military security of a person, society and the state to the Constitution and laws of the Republic of Lithuania;
- unity and correlation of military security with other types of national security of Lithuania;
- dependence of the structure and composition of the system of military security on possible military threats to national security, priority of actions (political, economic, informative, military) as well as missions to provide military security of the state.

3. The analysis of international and domestic situation in historical perspective so that the system of providing military security could not only react to external and internal threats and challenges but also predict them and take all the necessary measures to prevent and eliminate them.

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DEVELOPMENT STRATEGIES FOR EUROPEAN UNION: THE KNOWLEDGE BASED SOCIETY AND INTERNATIONAL SECURITY

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ABSTRACT. *Possibilities for the development of new forms of economic, social and technological headway designed to create and further improve economies based on knowledge are analyzed here.*

The main emphasis is put on national and regional economic specialization and creation of new networks of clusters in the situation of the development of the European Union. We have found that clusterization oriented towards the increase of efficiency of various national and regional economies is a critical precondition for successful creation of modern economy based on knowledge, both in the whole space of the European Union and particular countries.

Another idea - a concept of creation of regional and cross-regional clusters and their networks also known as „economic oases“ - is suggested here. It is explained in the paper that in the economies based on knowledge development of clusters and their networks will soon become one of the core forms of economic and technological advancement.

Further on, the variety of clusters and their networks is defined, and the idea of clusterization generally oriented towards creation and promotion of high technologies is given.

In addition, some typical factors of the economic and social development of the European Union are being described here, and it is subsequently proved that these factors reflect on the common context of creation of the knowledge based economies. Understanding of these factors allows us to consequently implement strategies of two types that could create the economies based on knowledge: first, these are the strategies oriented towards integration of the processes of economic and social development, along with the strategies oriented towards the syntesis of the results of the economic endeavours and technology advancement of different origins

The need for implementation of these strategies of two types mean that new types of management will have to be developed in the situation of knowledge based economies: these patterns will be built on the ideas of integration (the patterns of this kind are designed to create new formations), along with the patterns based on the ideas of synthesis (these patterns are designed to create quantitatively new quality systems).

The use of the both patterns in the future will be critical within both the processes of clusterization and creation of other economies based on knowledge.

The promotion of the patterns based on the ideas of integration and synthesis is a core prerequisite for encouragement of innovations and improvement of technology transmission systems. Further research dedicated to the patterns mentioned above, is a promising trend of the science of management and administration directly connected to the needs for creation of knowledge based economies.

Key words: networks of clusters and economic „oases“, European Union, high technology, knowledge - based society and economy

INTRODUCTION. The future of the European Union lies in the creation of the knowledge based society and knowledge based economy. This means that key issues that require strategic decisions are to be considered as issues of creation of the knowledge based society and knowledge based economy.

The essence of these issues could be revealed in the following:

- what should the knowledge based society and knowledge based economy be in the future in the European Union?
- how should the knowledge based society and economy be created in the European Union?

Striving to find answers to these questions determines the necessity of elaboration and implementation of appropriate strategies for creation of knowledge based society and knowledge based economy. In its turn, in order to ensure elaboration and implementation appropriate concepts and methodologies of preparation and justification of strategic decisions should be used.

This publication analyzes a new approach towards the way how long term strategies designed to create knowledge based economy in the European Union should be prepared. This approach is a result of scientific research the object of which has been creation of the knowledge based economy in the situation of the enlargement of the European Union.

The objective of the completed research has been the proof of the fact that key priorities for creation of the knowledge based economy is the urge of technological advancement and enhancement of compatibility and productivity using such opportunities as specialization of national and regional economies, creation of clusters and their networks, as well as the development of so called economic “oases” and hyper-clusters in the entire economic space of the European Union.

The main result of the completed research is the concept of strategies oriented towards integration and synthesis, the basis for which is the universal principle of „creation of a new quality“: we should utilize this principle in elaborating and implementing the strategies for creation of knowledge based economy in the European Union.

Key tasks of the completed research have been the following:

- demonstrate the fact that knowledge based society and knowledge based economy in the European Union should be created according to the universal principle of „creation of a new quality,
- reveal the essence of the rational specialization of national and regional economies,
- show the necessity of creation and expansion of regional, cross-regional and international networks of clusters and economic “oases” in the European Union,
- prove the necessity to create and apply the strategies oriented towards integration and synthesis.

These tasks have been of a priority when attempting to create a modern knowledge based society and knowledge based economy in the European Union.

KNOWLEDGE BASED ECONOMIES IN THE EUROPEAN UNION AS A SOCIAL AND ECONOMIC CONTEXT OF THE CREATION OF NETWORKS OF CLUSTERS AND ECONOMIC “OASES”

New challenges for the European Union. The development of the European Union is a very complex process of both quantitative and qualitative transformations.

The necessity for the changes within the European Union is determined by a number of problems which analysis and systematization is described in various scientific papers (Melnikas, B., 2002; Melnikas, B., Reichelt, B., 2004).

Main problems typical to the European Union as a system which require essential and radical decisions are the following:

1. Within the territory of the European Union there are *very limited sources of energy and raw-materials*. In the environment of the development of the economy needs for these resources have been steadily growing which means that the European Union becomes more and more dependent on the possibilities for the increase of these resources: we suggest that *prospects of economic development* of the European Union, along with *economic and energetic security* of the European Union has been influenced by various economic and political factors characterizing export of these resources to the European Union;
2. Within the countries of the European Union *very high standards of living are being implemented here* including the spheres of social security and social warranties, as well as environmental protection. As a consequence, all economic endeavors within the territory of the European Union require substantial expenditure which subsequently means that the *cost price* of the products manufactured in the European Union is *very high*. The increase of the cost price which is disproportionate to the quality of products determines the fact that products manufactured in the European Union become increasingly *incompatible*;
3. Key indicator for the well-being in the European Union is the ability to manufacture products to the increasing extent and more massively both in their local and global markets, and sell products of high quality and price. This means that in the European Union the need for more markets in order to sell their own products has increasingly growing (besides, it is of crucial importance that there is an adequately high purchase power). Inadequacy of such markets threatens the development of the economies of the European Union.

Necessity to respond to these problems determines main challenges to the European Union and its development:

1. *Quantitative increase of the European Union* is orientated to the following:
 - European Union could win possibly more markets to sell their production,
 - European Union could possibly gain better “direct” access to the countries in Eastern Europe, Central Asia and the Near and Central East where huge supply of energy and raw materials is accumulated and where great potential markets for the products manufactured in the European Union;

2. *Qualitative development of the European Union* is oriented to the goal to create *the knowledge based society and knowledge based economy* in the territory of the European Union: This could ensure the following:

- ability to create within the European Union the alternative energy sector and other sectors of economy, which could allow strongly decrease the dependence of the economies of the European Union on the import of traditional energy and raw materials,
- ability to create and widely distribute brand new products and technologies in the global which could allow the European Union to become a worldly leader in many spheres of economic and social life.

It is worth mentioning that over the last decade greater possibilities to ensure quantitative increase can be observed in the European Union, whereas in the sphere of qualitative development numerous difficulties and unpredicted obstacles can be seen (Melnikas, B., Reichelt, B., 2004). For this reason qualitative development of the European Union should receive priority consideration: we suggest that prospects of the European Union are basically influenced by creation of the knowledge based society and knowledge based economy.

Is the European Union an integral space or an integrated system of various spaces? Processes of the enlargement of the European Union arising currently are very intense.

These processes reflect on two-fold approach towards the European Union and its enlargement:

1. European Union could be perceived as a *multicultural space*. We suggest that *the common cultural space* of the European Union is comprised by various ethnic, religious, social and other cultural spaces represented by their *regional*, as well as *quantitative and qualitative* indicators. It is of crucial importance that the development of *common cultural space* in the European Union imply both processes of *integration and synthesis*: this means that *integral culture common to the entire society of the European Union* inevitably develops in the European Union;
2. European Union could be perceived as the *organization of the states belonging to Europe*. This means that it is possible assume that the European Union is generally *an organization of organizations* because *a modern state* broadly speaking can be defined as *a societal organization of the superior degree of the development*. The enlargement of the European Union as an organization of states is going in the way of integration of the new states into this organization, therefore, we suggest that the enlargement of the European Union are followed by the processes of *integration*. At the same time it is important to notice that the European Union as an organization has gradually started executing functions of the *common state* of the countries that belong to the European Union and this means that the European Union is gradually turning into the *super-state*. The development of the European Union as a new super-state simultaneously expresses processes of *synthesis* typical to the enlargement of the European Union as an organization.

We may conclude that both processes of integration and synthesis develop in the enlargement of the European Union as a multicultural space and as organization of the states. Therefore,

the character and condition of the enlargement of the European Union in the future will be determined by what processes of the enlargement will dominate, and whether processes of integration or processes of synthesis will dominate.

Depending on the fact whether in the future the processes of integration or processes of synthesis dominate, it is possible to draft two alternative visions of the future of the European Union:

2. The *processes of integration will dominate* in the enlargement of the European Union. In this case, *multicultural space of the European Union* will manifest as a *common space* comprised by *various national cultures* and where *various nations* live. In this case the European Union will continue functioning as the *organization of various national states*;
3. The *processes of synthesis will dominate* in the enlargement of the European Union. In this case *a new type of common European nation* will gradually develop in the space of the European Union, whereas the European Union itself will transform into *the integral European super-state*. In this case modern national states will become *administrative and territorial sub-divisions possessing rather wide autonomy* in the future European Union as a super-state. Besides, we may assume that in the future members of the European Union will rather *identify themselves* with the *integral European nation*, rather than with *current nations of its own*.

It is natural that both of these alternative visions are hypothetical. At the same time it is worth noting that the second vision (the vision of the domination of the processes of synthesis) generally is just a continuation of the first vision (the vision of the domination of the processes of integration). This means that both of these visions as a complex can be considered as a common hypothesis dedicated to the future of the European Union: in this common hypothesis two stages could be emphasized: the first one (the stage of integration processes) and the second one (the stage of the synthesis process).

It is necessary to mention that regardless the combination of the processes of integration will characterize the enlargement of the European Union; whatever the case is, the development of the knowledge based society and knowledge based economy will manifest in the European Union. The knowledge based society in the future will represent to the entire space of the European Union.

Transformations in the “enlarged” European Union and typicalities characteristic to the development of the integral space in the entire European Union. Main typicalities have developed over the recent decades in the integral economic and social space of the entire European Union. Among those the following could be identified:

- general typicalities characteristic to the development of all large economic and social spaces that make known not only in the situation of the development of the European Union, but also appear in the evolution of all civilisations and cultures,
- specific typicalities characteristic to the development of the European Union in particular, manifesting as historically unique phenomena of the development of civilisations and cultures.

There is no strict boundary between general and specific typicalities characteristic to the development of the integral economic and social space in the European Union.

As general typicalities those can be considered that, drawing an analogy in one way or another, have already evolved in the history of the development of other civilizations and cultures. As specific typicalities we can conceive those of the exceptional origin of the European Union, its economic and social space and transformations of this space. It is important to note that among the specific typicalities as most substantial should be respected those that allow to reveal the specificity influenced by various regional factors, including the countries of the Eastern and Central Europe.

There can be enumerated a great number of general typicalities characteristic to the integral economic and social space of the entire European Union. Among those these can be considered as the leading ones:

1. Typicality of the *priorities of the quantitative growth and qualitative advancement* manifests the fact that the development of the economic and social space in the entire European Union is characterised by the two *main priorities*: quantitative growth (territory; population numbers; accumulated capital; trade and consumer growth) and qualitative advancement (formation of new life styles and new multicultural spaces; creation and implementation of modern technologies and organizational patterns in all spheres of life; dissemination of new values and living standards; and rise of new opportunities of further growth). This typicality demonstrates that in the situation of the development of the integral economic and social space of the European Union there forms *an integral European civilisation of a new type*, completely harmonized with the overall system of the Western civilisation, and actively participating in multifaceted co-operation with all modern civilisations and cultures;
2. Typicality of the priorities of democratic attitudes, humanism, human rights and common human values proves that striving to implement the ideals of democracy and humanism is the most intrinsic value towards which the development of the European Union is oriented;
3. Typicality of the *increasing complexity of the structure of multicultural spaces* indicates that in the situation of the development and enlargement of the European Union not only the diversity of the cultures, that appear in the space of the European Union, increases but also *processes of the increasing complexity of those cultural systems and structures occur: new characteristics and dimensions* of multicultural spaces develop, that testify the increase of the variety of ethnic, confessional, regional, demographic, social, economic, political, ideological, mental and other factors. This trend allows us to state that in the situation of the development and enlargement of the European Union not only the variety of cultural and multicultural spaces inevitably augments, but also qualitatively new problems influenced by this variety arise;
4. Typicality of *the balance in general and local factors* demonstrates that in the situation of the development and enlargement of the European Union an *integral European civilisation of a new type* is forming that possess *twofold* characteristics: first, *general* characteristics, typical to all spheres of life within the *whole*

space of the European Union; and second, *local* characteristics, expressing typicalities of different countries, regions and societal layers. Combinations of general and local characteristics *make possible to define adaptability of any local space in the common space of the European Union*, at the same time indicating the level of the inner harmony within the multicultural spaces;

5. Typicality of *predominant norms and standards* implies that in the situation of the development and enlargement of the European Union the *uniform norms and standards* have been steadily prevailing in the integral economic, social and cultural spaces. This typicality embraces *all* spheres of societal life – the sphere of economics, business and public administration, social behaviour, political and societal life, as well as people’s everyday life and even their private lives. The uniform norms and standards comprise both formal and informal rules for behaviour and acts in various life situations, development and dissemination of values and technologies of interpersonal communication. Origination and increasing dominance of uniform norms and standards is a key precondition for gradual development of the integral and undivided European civilisation and culture, where *general* characteristics have already been prevailing, if compared to national, regional or local characteristics of other kind;
6. Typicality of *non- synchronical development* suggests that in the situation of the development and enlargement of the European Union more and more *uneven changes* emerge. As it is known, societal development and headway, and processes occurring in the society may evolve in the way of various *discrepancies*. These discrepancies can be very diverse, including discrepancies between the pace of the development: they vary from country to country, region to region; they appear to differ in different sectors of economic and social life and different societal layers. Discrepancies in changes can cause conflicts and issues of different kind;
7. Typicality of *cyclical development based on the “wave” principle* refers to the fact that all processes of the development of the European Union are undergoing cycles: each cycle includes a certain *stage* of development, that can be outlined by both quantitative and qualitative changes. This means that the transition of these stages can be compared to certain “waves”: where each wave witnesses the *stepping stone of the potential* of the European Union, as an integral economic and social space;
8. Typicality of *increasing differentiation and differentiation variety* exhibits that in the situation of the expansion of the European Union, within the integral economic and social space new manifestations of differentiation occur, and the range of differentiation expands. It is especially notable for the reason that in the actual routine of the development and expansion of the European Union rather substantial *contradiction* appears: on one hand, following political declarations, it is sought to align regional structures, which by the level of their development are rather unequal; economic sectors or societal layers; on the other hand, a real “alignment” is of limited scale and applies only to particular spheres of social and economic life. It is quite probable that actual differentiation is generally

increasing: various discrepancies between different regions, economic sectors and societal layers deepen, within *actual opportunities for improvement and modernisation*, as well as *actual well being* and *social security*. This factor is essential, estimating prospectives for *stability* and *internal security* in the space of the European Union;

9. Typicality of *balance of centripetal and centrifugal forces* in the situation of the development and expansion of the European Union is seen in the simultaneous manifestation of *two opposite tendencies*: on one hand, it is a tendency of *striving to enter the common system*, expressing the priority of obedience to the system; and on the other hand, a tendency of *striving to strengthen the sovereignty and autonomy in the common system*, expressing the priority of *the self-assurance of personal wellbeing at the expense of the system*. Those two tendencies are advantageous for the wellbeing of the European Union, provided they are mutually *well balanced*; such balance in its turn, can have different manifestations, including rational combination of basics of *centralisation, decentralisation* and *self-government* in the systems of managing and administering processes of expansion and development. (It is noteworthy mentioning that in cases, when the balance among centripetal and centrifugal forces fails, more threats for the performance of the *entire system* emerge: disproportionate *prevalence of the centripetal forces* may lead to inefficient management and determine loss of adaptability skills in the ever-changing environment, whereas disproportionate *prevalence of centrifugal forces* impels fragmentation and self-destruction of the system itself. This means that vulnerability of the balance mentioned above is a very dangerous and undesirable matter.);
10. Typicality of *predominance of traditional leaders* proposes that in the situation of the development and expansion of the European Union the priority interests to be implemented are those developing in greater countries of the Western Europe, such as, first Germany and France (these countries have historically formed as traditional leaders of the European Union). Despite the fact that in the situation of the development and enlargement of the European Union one can observe a great variety of concerns of different countries, regions and layers of the society (moreover, this variety causes internal disagreements within the European Union), prevalence of traditional leaders and their concerns is long-lasting and steady. By the way, the concerns of the traditional leaders play as a key factor for the development of norms and standards, typical to the space of all the European Union;
11. Typicality of the *expansion potential* expresses the idea that the European Union as an *integral system* has been increasingly operating within *global* economic, social, cultural, informational and political spaces. With this regard, the increasing expansion of the European Union, as an integral system, towards the spheres of the world economies and the process of the entire political, social and economic development;
12. Typicality of the *adaptability in the consistently changing external and internal environment* suggests that in the situation of the development and enlargement

of the European Union *multifaceted processes of adaptation* arise: the new member states of the European Union need to adapt in the new to them space of the European Union, whereas the “old” members of the European Union have to adapt to the “enlarged” European Union and “accept” new members as equal partners; besides, all European Union as an integral system needs to adapt to the consistently changing external environment. All this allows us to admit that adaptability is a crucial precondition for the further development of the European Union as an integral system.

The typicalities described above, characteristic to the development and enlargement of the European Union as an integral system, within the group of typicalities of this kind could be considered as of the most importance. At the same time, among very important and critical several specific typicalities exist.

Specific typicalities characteristic to the development and enlargement of the European Union as an integral system, are multifaceted. Some of these typicalities reflect on the specificity of a particular époque, whereas the others express specificity of particular regions, spheres of social and economic development or certain layers of the society.

Among specific typicalities expressing current era these are the most notable:

1. Typicality of *regulated and controlled liberalisation* that reveals rather contradictory processes typical to the current development of the European Union. A key feature of these processes is the following: on one hand, traditions of *liberal democracy* have been increasingly implemented in the society and there are apparent signs of *economic liberalisation*; on the other hand, both in economic and social life the “masked autocracy” has been observed which is executed by various forms of increased bureaucracy, growing regulation and limitation of the activities in different spheres, along with the increasing austere rule. In modern world in many spheres of life one can observe a substantial decline of norms and ideals of liberalism, despite the “formal” promotion or declaration of liberalism. We may admit that in the modern European Union the new kind of society has been increasingly developing, with both liberalism and social awareness, where, however, liberalism will be regulated and controlled with the increasing power: every subject of any activity in all spheres of life will have opportunities of liberal choice and self-determination with increasing boundaries and decreasing “degree” of freedom. (It is a paradox that in the modern European Union, in the situation of promotion of liberal values, bureaucratic and clerical arguments of the societal development have been strongly increasing, and new trends of centralised management emerge, that manifest in many spheres of political, social and economic life);
2. Typicality of *promotion and predominance of the concerns of large economic subjects* demonstrates that both in *overall situation of globalisation* and in the specific economic and social space of the *European Union* processes of *concentration of economic activities* have steadily happening. The actual situation in both economic space of the European Union and global markets has been increasingly influenced by activities and opportunities of *large economic subjects* (here we consider large economic subjects those *large enterprises* that operated

in international markets, *networks* and *organisations* of small and medium enterprises, and various *international corporations* and *international economic organisations*). In the situation of the development and enlargement of the European Union more and more obvious becomes promotion and predominance of the concerns of large economic subjects: on one hand, this situation reinforces *competitive abilities of economic subjects representing economic spaces of the European Union*; on the other hand, opportunities to develop free competition and initiative are *violated* (the violations of this kind have been increasingly growing, although public policy in economies of the European Union *proclaims* provisions for free competition and initiative support).

3. Typicality of the *declining role of the state as a structure for the organization of the society* indicates that in the situation of the development and enlargement of the European Union in national countries the state as a key organisational structure for any society of any country has increasingly losing its previous importance and a number of opportunities to immediately influence situation in the country. In the environment of the development and enlargement of the European Union the situation in its member states has been steadily influenced by *overall processes of development and enlargement of the European Union as a system* on one hand; and potential, development and growth of the *non-governmental, non-state* and *private* sectors. The declining role of states has been determined by such processes as development of common economic and social space in the European Union, where the principles of liberal labour force mobility, capital mobility and product and services mobility are implemented; moreover, the increasing enhancement of globalisation, and international economic, cultural and informational relations has been also influencing the overall decline of the significance of particular states;
4. Typicality of *manifestation of threats and issues of a new kind* allows us to conceive that each stage of the development and enlargement of the European Union reveals *new threats* and cause *new issues* that are determined by various factors of moral, ideological, cultural, political, social, economic, ecological, military and informational character. Ability to immediately understand these threats and issues, as well as develop and implement effective means for prevention in the modern situation in principle expresses the typicality of the development and enlargement of the European Union.

The analysis of the typicalities described above is very important for creation of knowledge based society and knowledge based economy in the European Union.

STRATEGIES DESIGNED TO CREATE NETWORKS OF CLUSTERS AND ECONOMIC “OASES” IN THE SYSTEM OF KNOWLEDGE BASED ECONOMY

Universal principle of the „creation of the new quality“ as a basis for solutions of key issues arising in the course of development of the knowledge based economy in the European Union. Creation of the knowledge based economy as a key priority of the further enlargement of the European Union could be defined as especially complex process oriented towards formation of the brand new society and the qualitatively new life style. What is more, this process can be described as of “double” complexity as it reflects on orientations towards the striving for the new quality in the following two aspects:

- the knowledge based economy is being formed which if compared to the “traditional” economy is by all means considered as qualitatively new,
- forming of the knowledge based economy is completed in the situation of the enlargement of the European Union, which means that qualitative changes have been happening in the entire space of the European Union.

Examining possibilities and prospects for creation of knowledge based economy in the European Union it is recommended to apply the “universal principle of the creation of new quality”. This principle could be applied in various situations of life; it is suitable when examining both processes of the development of the knowledge based economics and common processes typical to the European Union, and its political, social and economic development and enlargement.

Universal principle of the creation of a “new quality” could be defined as follows: new quality always develops by the amalgamation when elements of different origin that never had belonged to the same system collide. This principle expresses the idea of the developing and using the synergy effect, and demonstrates that qualitative transformations always require actions and means necessary to join elements of different origin to the common system.

Applying the universal principle of the creation of new quality“, it is important to consider the fact that as a subsequence of amalgamation there is always new quality created. At the same time it is worthwhile mentioning that the processes of amalgamation can be very different and in the most common case can represent two types:

- processes of integration,
- processes of synthesis.

Processes of the *integration* usually prove that in the course of amalgamation elements that collide *never lose their* major primordial features: this means that the result of the integration marking the new quality can be disintegrated according to previous features of the amalgamated elements.

Processes of synthesis demonstrate that elements colliding in the course of amalgamation miss their major primordial features; this means that that the result of the synthesis possessing new quality cannot be disintegrated according to the previous features of the collided elements. We may state that qualitative changes within the synthesis are never recurrent, whereas qualitative changes within the integration in some cases may recur.

Understanding the meaning of the processes of integration and synthesis as processes of creation of a new quality allows broadly applying the principle of creation of the universal “new

quality”, examining very complex manifestations of the enlargement of the European Union, including creation of knowledge base economy. When analyzing these manifestations, it is critical to assess to what extent the enlargement of the European Union is based on the processes of integration and to what extent the processes of synthesis determine the enlargement of the European Union.

Elaborating and implementing the strategies of creation of the knowledge based economy it is necessary to logically forecast various vehicles designed for expansion and development of the integral economic, social and culture space of the European Union: among these vehicles there should inevitably be the vehicles oriented towards both processes of integration and synthesis.

Rational complementation of the vehicles designed for integration and synthesis can be a basis for implementation very effective strategies of creation knowledge based economy in the European Union Subsequently application of the universal principle of creation “of the new quality” should be considered as a priority when elaborating and implementing strategies designed for the enlargement of the European Union.

Strategies oriented towards integration and synthesis and possibilities for their implementation. Creation of the knowledge based society and knowledge base economy in the European Union requires elaboration and implementation of appropriate development strategies.

Understanding that processes of the enlargement of the European Union are two-fold (they are processes of integration and synthesis) it is possible to assume that in the situation of the enlargement of the European Union strategies of two types could be implemented:

- strategies oriented towards the processes of integration,
- strategies oriented towards the processes of synthesis.

Strategies oriented towards the processes of integration should ensure that the main emphasis is put on the following priorities:

1. Priorities of the *quantitative growth*, including:
 - integration of the new countries into the European Union,
 - economic growth inside the European Union,
 - increase of the economic viability of the European Union as a system in global markets;
2. Priorities for *interrelation improvement*, including:
 - enhancement of the interrelations among the member states of the European Union, co-ordination of the policies of the states in various sectors,
 - enhancement of the interrelations among various national and regional economic systems, efforts to lessen economic and social differentiation between various regions,
 - enhancement of the co-operation among business and public sector,
 - enhancement of the co-operation between central, regional and local administrative divisions, either in business systems or public sector,
 - enhancement of the co-operation between various societal layers in some countries in particular and the European countries in general;
3. Priorities for creation and development of the integrated *systems of common use*, including:
 - creation and development of information systems of common use and database in all major spheres of social and economic life, with the provisions for integration of appropriate national systems and databases within these systems,

- unification of norms and standards regulating various spheres of social and economic life and incorporation of national systems and the systems of particular sectors into the integrated systems of the norms and standards of common use,
- creation of infrastructure of common use, especially in the sphere of communications and transportation,
- unification of national and regional energy systems to the systems of common use,
- unification of national and regional legal, ecologic and other security systems to the systems of common use,
- creation and development of other integrated systems of common use or the systems of other character.

Strategies oriented towards the processes of synthesis should ensure that their main focus is put on the following priorities:

1. Priorities for *quantitative changes*, including:

- development and distribution of novel common European values, new patterns of lifestyles and societal behavior stereotypes expressing common European dimensions in the entire space of the European Union,
- development and distribution of novel common priorities: orientation towards the requirement that being part of the common knowledge based society in the European Union, along with innovativeness, creativity and ability to create and implement new technologies in various spheres of life are priority values,
- prevalence of multicultural and especially multinational communities and organisms in all major spheres of social and economic life;

2. Priorities for *human resources training, enhancement of intellectual capital and creation of common system*, including:

- creation of human resources training systems, uniform in the entire European Union, starting with university sector and other sectors of higher education,
- creation of systems of science and technology development, uniform in the entire European Union,
- creation of “lifelong learning” systems, adapting them for the needs of the developing common labor market in the European Union;

3. Priorities for *creation of common economic system*, including:

- transformation of main economy sectors into the existing integral economic systems in the entire space of the European Union,
- transformation of national economic systems into the common economic systems in the entire European Union or economic systems of its large regions,
- creation and implementation of legal acts and norms regulating economic endeavors, and common system for the entire European Union,
- execution of common monetary and fiscal policies on the scale of the entire European Union,
- execution of common policies in the sphere of foreign trade on the scale of the entire European Union,
- execution of common policies in the sphere of investment on the scale of the entire European Union,

- execution of common policies in the energy sector as well as environment protection and use of natural resources on the scale of the entire European Union,
- execution of common policies in specific sectors of economy (industry, transportation, agriculture, fishing) on the scale of the entire European Union,
- execution of common policies in the spheres of technology advancement, especially, high technologies on the scale of the entire European Union ;

4. Priorities for *creation of common systems of political, social, cultural development and security protection*, including:

- execution of common policies in the sphere of employment and social security, as well as health protection, education, science and studies on the scale of the entire European Union,
- execution of common policies in the sphere of culture, as well as mass media and other adherent to culture spheres on the scale of the entire European Union,
- execution of common policies in the sphere of frontier protection, public security and legislation on the scale of the entire European Union,
- execution of common policies in foreign policy and security on the scale of the entire European Union.

The strategies described above, oriented towards the integration and synthesis, are designed for the further enlargement of the European Union. These strategies should address the creation of knowledge based economy: the integrity of such strategies expresses the attitude of the modern society towards key transformations that are meant to happen in the future.

It is critical to note that strategies oriented towards integration and synthesis can be also designed for the entire European Union as a whole, and particular spheres of social and economic life in the European Union. One of these spheres is development of national and regional economic systems and creation of cluster based economy of a new type.

Networks of clusters, economic „oases“ and rational specialization of regional economies as a priority prerequisite, ensuring possibilities for creation of knowledge based economy in the European Union. Contemporary economic principles and practices confirm that in efficiently operating economic systems their surplus value is created at greater extent. This statement works in all cases where ways to increase efficiency and compatibility on the scale of both particular economic subjects and large national and regional economic systems (Boldrin, M., Canova, F., 2001; Bond, E., Syropoulos, C., Winters, L.A., 2001; Chortares, G.E., Pelagidis, T., 2001; Dutta, M., 1999; Guy, M., 2001; Redding, S., Venables, A.J., 2004; Sangmon, K., 2002)

The main precondition to ensure high efficiency and compatibility of any economic system is to achieve that any economic system should be properly specialised. Hummels, D., Ishii, J., Kei – Mu Yi, 2001; Huseman, R.C., Godman, J.P., 1999; Melnikas, B., 1997; Olsen, T.E., Osmundsen, P., 2003).

Under the proper specialisation we understand the situation where the range of products produced within the economic system guarantees magnification of the surplus value within this system: the economic system should be exceptionally oriented towards the series of products, services and activities, whose structure allows to achieve potentially greater surplus value or higher velocity of the increase of this value.

For the sake of the rationalisation of the national or regional economic system various means may be implemented. These means should create a solid complex, and have to be long-term and

consecutive. The idea of the means should ensure that the entire economic system of particular region or country is developed as a large macro-cluster or hyper-cluster. These large macro-or-hyper-clusters may be multi-profiled and oriented towards creation of different and diverse final products, and it is very important to create final products that are compatible in global markets.

It is obvious that large macro – or- hyper- clusters in particular countries or regions should meet the following requirements:

- large clusters of this kind function as open systems, maintaining both internal and external economic and technological relations in international and global markets,
- inside of the large clusters of this kind various specialised clusters can be created within incorporated diverse institutions of science, research and education, enterprises of production and services, business incubators, parks of science and technology, centers for innovation, and industrial, trade, transportation and communication companies.

Development of large economic systems in a way of clusterisation may be of great variety. A very prospective method to implement this way is creation of regional (territorial) or sectorial “oases”.

In general “oasis” can be explained as an economic system, possessing extremely advantageous political, legal, economic and other conditions for activities and development. These conditions are as a rule exclusive and in their presence the “oasis” as economic system receives various privileges or extremely beneficial environment is created for it. “Oases” can be established on behalf of political will of a state or even a group of states: by the way, the idea of regional “oases” is very viable in the improvement and implementation of regional policy of the European Union, with the intentions of creation of “oases” not only in particular countries, but also regions, comprised of regions of different countries.

Regional “oasis” is one where exceptionally advantageous conditions for economic development are created in a territorially outlined area (region). This area may coincide with systems of administrative territorial division of particular countries or may not.

Sectorial “oasis” is one where exceptionally advantageous conditions are created for particular branch of economy, and particular segments of business or public sector.

Creating and developing “oases” it is very important to consider demographic situation, possibilities to attract, concentrate and efficiently utilise human and financial and other resources, as well as possibilities rapidly expand various innovations.

The idea of the “oases” and opportunities to promote this idea in the situation of the development of the European Union has been described quite comprehensively (Melnikas, B., 2002, 2003, 2004).

Summarizing the statements given above, we may confirm that the concepts of proper rationalization of national and regional economic systems, as well as concepts of creation of macro-or-hyper-clusters and “oases” are of great importance, ensuring progress in the entire space of the European Union.

The idea of clusters, their networks and “oases”, oriented towards rationalism of specialization of regional economies is very promising, when creating the knowledge based economy in the European Union. The implementation of this concept should be based on the universal principle of „creation of a new quality” when planning to prepare and implement appropriate strategies oriented towards integration and synthesis.

Priority strategies oriented towards integration and synthesis designed to create knowledge based economies in the European Union. In order to create knowledge based society and knowledge based economy in the European Union we should purposefully and consecutively implement the strategies oriented towards integration and synthesis embracing all major spheres of social, economic and cultural life.

Considering the fact that when creating the knowledge based economy the key priority should be put on clusterization, networks of clusters, economic “oases” and rational specialization of regional economies we suggest that: for the benefit of creation of knowledge based economy in the European Union it is necessary to prepare and implement a complex of strategies for clusterization and rational specialization of regional economies.

The strategies for clusterization and rational specialization of regional economies should include both the strategies oriented towards integration and the strategies oriented towards synthesis: the strategies oriented towards integration and the strategies oriented towards synthesis are characterized by different purpose and different content.

The idea of the strategies oriented towards integration is to ensure high efficiency and compatibility of different regional economies and different sectors of both in the integral economic space of the European Union and in global markets. These strategies should draw upon the following key decisions:

- each national or regional economic system should shape up one or more priorities oriented towards creation of modern state-of-the-art technologies and products based on them: based on such priorities one could define or develop rational specialization of each national or regional economy,
- each national or regional economic system according to the regional priorities, should form regional economic „oases“ and clusters; whereas general „oases“ and clusters can be transformed into macro - or hyper - clusters on the scale of large regions or the entire country (the clusters of this kind can be of a broad scope, multi-scope and limited scope, functioning as specialized clusters in particular sectors of economy),
- creation of „oases“ and clusterization should ensure that the major role in the growth of economy is to be played by intellectual resources and technological advancement. The idea of the strategies oriented towards synthesis is to achieve that major sectors of economy on the scale of the whole European Union operate as integral undivided systems.

Each sector of this kind as a system should possess a very high level of technological development and should be a leader in the corresponding sphere of economy on the worldly scale. Orientation towards the challenges of this kind requires that within these strategies the following decisions are made:

- on the scale of the entire European Union the networks of regional and sector clusters as well as “oases” should be created and mutually developed: each element in the networks of this kind could become rationally specialized which would allow to make sure that the network as a system is of a state-of-the-art level of productivity and technological advancement,
- the networks of regional and sector clusters as well as “oases” should be specialized: subsequently, the networks of this kind on the scale of economic space of

the European Union are mutually complementing and function based on partnership,

- the networks of regional and sector clusters as well as “oases” that are created in the European Union can operate outside the European Union: this will ensure the viability of economic structures of the European Union and their compatibility in the global markets,
- the networks of regional and sector clusters as well as “oases in the future should be an organizational basis for the economies of the entire European Union: the networks of this kind should be understood as the key structural elements of the economy of the European Union, as well as a key organizational structure of the knowledge based economy (it is obvious that in any of these networks high intellectual, information technical and other potential should be accumulated ensuring rapid and efficient headway of technologies and leadership in the global markets).

Implementation of the strategies explained above is a very important factor to achieve that creation of knowledge based economy and knowledge based society in the European Union become a reality.

To conclude the statements given earlier it is also worth noting that purposeful and consecutive development and implementation of the strategies oriented towards integration and synthesis ensures that integral and undivided and highly efficient knowledge based society and knowledge based economy gradually form within the European Union.

CONCLUSIONS AND RECOMMENDATIONS

Creation of the knowledge based society and knowledge based in the European Union is a very complex, long-term and ambiguous process.

Key challenges and priorities that require main attention when creating the knowledge based society and knowledge based economy are the following:

1. Creation of knowledge based society and knowledge based economy in the European Union should be oriented towards the solution of the following *problems*:

- problems of insufficiency and increase in the cost of energy and raw-material, as well as problems of secure and reliable import of these resources, along with problems of creation of alternative energy and economies oriented towards alternative raw materials,
- problems of new prospective markets necessary for implementation of production in the European Union, and problems of its development and introduction,
- problems of the required potential development for state-of-the-art products, as well as problems of compatibility of the products oriented towards high technologies in the global markets,
- problems of social security, economic well-being, as well as social, legal and ecological environment improvement;

2. The basis for creation of the knowledge based economy in the European Union is the implementation of *the universal principle of „creation of a new quality“* designed to complete the following:

- development of the society and economy of a new type is going under concurrent processes of integration and synthesis,
- when creating the knowledge based society and knowledge based economy in the European Union integral cultural space should be created,
- when creating the knowledge based society and knowledge based economy in the European Union the strategies oriented towards integration and synthesis should be created and implemented;

3. In the *strategies* designed to create the knowledge based economy in the European Union main emphasis should be put on the following *priorities*:

- rational specialization of national and regional economies, ensuring high compatibility both in the European Union and in global markets,
- transformation of national, regional and sector economies into the macro –or hyper –clusters and systems of such clusters,
- development of clusters and networks of economic “oases” in the entire space of the European Union,
- further development of clusters and networks of economic “oases” as key organizational structures characteristic to the system of the European Union;

4. In the situation of the further development of the European Union the following provisions should be implemented:

- issues of modernization and compatibility increase for the national, regional and sector systems should be tackled in the strategies oriented towards integration,
- issues related to creation of the integral and undivided knowledge based society and knowledge based economy should be tackled in the systems oriented towards synthesis in the entire space of the European Union.

Further scientific research and practice dedicated to creation of strategies for the knowledge based society and knowledge based economy in the European Union are greatly promising and important.

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PROBLEMS OF SECURITY OF AN ORGANIZATION IN THE PROCESS OF WORKING WITH RECRUITS

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ABSTRACT. *The article deals with the problems of security of an organization in the process of recruiting personnel. There are analyzed different ways and recommendations how to check the information given by candidates as well as the role and functions of recruitment agencies.*

Key words: Organization, security, personnel, recruitment agencies, candidate, character reference, check.

INTRODUCTION. Today while hiring employees it is becoming more and more important to take into account the security of organization-employer.

But a potential employee also wants to find such a job which will suit his ideas about security and reliability. Reliability is one of the necessary components of professional suitability of employees of both state and non-state organizations. Employees who possess such a quality have moral stability and loyalty towards the company they work for, feel strong links with it. The work itself is of a highly motivated significance for them and the lost of it is regarded as serious failure in life. Reliability is a very complex quality and it is not permanent. The degree of reliability depends on many factors and can change in different conditions, especially in non standard, emergency (extreme) situations. In such situations it is very likely that people who do not feel obliged to moral requirements or possess some personal weaknesses points will reveal their unreliability. Let us regard the problem of security in the situation of selection from the point of view of both an organization and an employee [9].

SECURITY OF AN ORGANIZATION

The problem of security of an organization is not specially discussed at the time of hiring of employees. It is not the main task. The most important thing is to select people for the available vacancies according to the requirements of the employer. Therefore, the department of personnel management and a hiring agency when it is looking for or selecting the most suitable candidates for vacancies don't often consider security of the company as their primary mission. The most important for them is effectiveness of the applicant who will be selected. But it should be taken into account that the wrong selection of new employees who can deliberately or by chance harm

the company in this or that sphere will lead to the loss of its security. The most important instrument providing security of an organization that uses the service of a hiring agency is the guarantee they give that selected employees will be the most suitable for the organization. Such a guarantee can be given not only because the methods of selection and verification of the information provided by candidates are highly reliable but also because many agencies have been working for quite a long time with people included into their data base.

While selecting potential employees the following risks should be taken into account:

- material;
- professional (the degree of conformity of an employee to the determined requirements);
- social.

Verification of the information given by the candidates and getting additional information about them help decrease the possibility of any of these risks.

Security from the point of view of an organization presupposes a number of different aspects [5, 7]:

- desire to protect the company from any people connected with criminal organizations.
- desire to put a barrier to people having an inclination to stealing. Besides, the higher the position that such a person will occupy the more economic damage he can cause to the company that will hire him.
- checking if a candidate has an inclination to alcohols and drugs.
- providing informational security of a company. It includes not only the protection of know-how of the company but also the protection of data bases, results of market researches, plans connected with transactions of contracts with other companies and other information important to the maintenance of its competitiveness.
- conformity of a candidate's personality to the requirements of organizational culture ("our" person or "not our" person). This aspect of security is underestimated in the process of selection of new employees, though it is evident that a person who has destructive orientation can cause a lot of damage to an organization. It may lead to aggravation of moral-psychological atmosphere, working and executive atmosphere, intrigues, conflicts etc.

There are several approaches to the problems of security in the process of hiring employees. The first is to invite relatives and acquaintances (especially to high responsible positions) to work in an organization. This method guarantees availability of maximum information about a new employee. Besides, it is supposed that people who recommend him will carry full personal responsibility for him and will be asked for mistakes and failures of newcomers.

No doubt this method has a right for existence but the problem has only one "trifle" – "our" person devoted to the director and loyal to the organization is not always a good specialist or a good leader. There may happen a situation when the desire to provide security by this old approved method may come in conflict with the main task of the company – to provide maximum effectiveness in all spheres of its activity.

Today a large number of organizations come to the conclusion that it is necessary to search for other means of providing its security. The most known approaches are the following.

Security service. It is possible to use the organization's own security service to check candidates and the information given by them. For instance, such a service is obligatory for banks. As a rule there work former officers of law enforcement agencies who have a lot of useful contacts and possibilities. While checking the candidates the security service can act in coordination with the personnel service. The security service checks if a candidate has any criminal records, connections with criminal world, any claims concerning his reliability and honesty from the previous employer.

It can also check if a candidate had any car accidents and if he is reliable enough to use an automobile of a company. In some firms a potential employee can be asked to bring a note from a police office that can prove the absence of any problems with law.

Personnel service checks the information given by a candidate by appealing to people who know him and asking for references from his former place of work. A special role in providing security of a company is played by the personnel manager. He should be a good psychologist, should understand people well, look them "through" (this ability doesn't always accompany the diploma of a psychologist). His acumen understanding of people's psychology help recognize "problematic" candidates that is people who if hired can cause the organization a lot of problems leading to undermining of its security. These problems may refer to both economic and informational or personnel spheres (aggravation of psychological atmosphere in the team, the best employees' leaving the company).

Many companies study thoroughly the documents given by candidates. In some cases the information presented by a candidate during the interview may contradict to the contents of the reference and the information in standard documents. Sometimes dirty documents, crossing outs and untidy notes may arise suspicion. An important way to provide security is also checking references given by a candidate. Some advice given below may be useful while doing this task [10].

Useful recommendations to check references:

- References are relevant only when they include information concerning the job. Demanded information should concern knowledge, skills, abilities and other qualifications of a candidate necessary for successful work. Special attention should be given to those qualifications that can distinguish efficient workers from inefficient.
- Checking of references should be fair and valid. If the system of checking of references unjustly discriminates any group or has nothing to do with successful work it is necessary to be changed or rejected. Without it checking of references will be not only legally unacceptable but somewhat doubtful as to the ability of an organization to select competent employees.
- While checking references it is necessary to use objective information (bibliographical or observe candidates' behavior) but not subjective (for example, expert evaluation of personal qualities).
- Recruits should be asked for permission in the written form to contact with those people who gave them references so that it would possible to find out how long he or she has known the candidate and which position he/she occupies. It may appear useful to find out if the information included into the reference is true, substantial and valid and if he/she is authorized to give references.

- People who check references on the phone or in private contacts should go through special training in order to be able to interview the person who gives references. It is necessary to know how to formulate questions correctly and write them down to increase their objectivity.
- All the information received during the check of references should be fixed in the written form.
- If a candidate gave a reference that cannot be checked it is advisable to ask for an additional reference. To give a job to a recruit whose information wasn't fully checked is very risky.
- Check all the data given in the form "Information about a Candidate" and in the resume. In particular, it is important to check the information from the school where a candidate studied and the institute he/she graduated from, confirm the existence of honorary diplomas and medals for excellent successes in studies, check the correctness of all dates, positions, duties from his/her former places of work. Any discrepancy in the information is a signal to pay special attention to such a candidate.
- Use all the negative information received in the process of the examination of the documents with care as it can be used as a reason for rejecting the candidate. Before using it the negative information should be confirmed by other sources. Besides, decisions taken about different candidates must be consistent (similar decisions should be taken on the base of similar information) [4].
- Addressing to special firms that check security (mainly the existence of criminal records) on commercial basis. Sometimes companies-clients address recruiting agencies so that they will check if their future employees have any contacts with criminal organizations, if they were under trial etc. Often companies are interested in the information about a candidate's trustworthiness from the point of view of the absence of any cases of inaccurate handling with the material assets of the company, leaking of confidential information, internal and external conflicts. Once a year the majority of recruiting agencies update their data bases. This helps to follow the business career of certain people, gives positive feedback about the effectiveness of methods used in the work with candidates and companies-clients. While selecting candidates for leading positions it is necessary not only to check the information given by them but collect all possible additional information from different sources (the former superior, former subordinates, wife/husband, friends, parents, neighbors) , which makes it possible to have full impression of a person.
- Sometimes a person shows his/her unreliability at the interview stage – gives a lot of unnecessary information from the former place of work, names and salaries of the employees, their duties etc. An interview often helps reveal motives and goals of the person who tries to hide them behind the desire to work in the company.

While hiring people for the leading positions many companies avoid giving their names in advertisements in mass media, ask recruiting agencies not to fully reveal the name of the company that is looking for candidates for vacancies. It is relevant as in case of leaking of such

information competitors, clients or partners will come to the conclusion that there are no top executives on key positions of the company.

Mistakes at the recruitment stage fraught with threat to a company's security are often made by not enough qualified recruiting officers. It is extremely important that specialists working in the sphere of selection of candidates have special training, improve the methods of their work and have a clear understanding of the forms of its organization.

It should be taken into account that applicants also try to do their best. They are becoming more and more prepared for the interview, it means that the level of professionalism of recruiting officers should also increase.

It is fairly easy to see if an employee is careless or harms the company deliberately already at the probation stage during the first year of work by the following evidence:

- discrepancy between incomes and expenses
- facts (implicit or explicit) of disobeying the superior's orders
- contacts with criminal organizations
- indecent life style
- attempts to take initiatives of bringing changes to the financial-economic activities of the company
- facts of working while being drunk
- outside contacts connected with the work
- involvement of "the third parties" into arbitration of conflicts in the organization
- claims raised against the employee by state authorities
- facts of being involved into leaking of information and thefts of equipment and other material values
- facts of participation in actions connected with high unjustified risks, facts of being involved into not returning or untimely transferring money to the organization's accounts
- facts of being involved in sabotage of economic programs.

At the probation stage a candidate can be asked to work overtime at weekends, he/she can be sent on a short business trip, that is offered some unusual situation.

It is not impossible that the candidate will leave before the end of his/her probation period. When he/she is at the probation stage, when he/she doesn't feel as a true member of the team the organization may serve as a step to another job.

Security of an employee. Applying for a job a recruit pays a lot of attention to different aspects of his personal security, the most important of which are the following:

- financial security: the way he will be paid: by cash or by check?
- today in many non-state organizations salaries are divided into two parts: open – the one that is fixed in official documents, and hidden – that is paid to employees but officially is not declared. What is more important for an employee? Real money or uncertain security?
- desire to choose a reliable job. A candidate makes inquiries about the firm: what kind of firm it is, how long it has been in business (it is an important indicator of reliability of a firm), whether the business is legal, whether he/she won't be

involved into conflicts with law while working in it, who the organization works with?.

- organizational culture to which a code of behavior which the organization supports refers. To work in a team where there is a favorable psychological atmosphere and good relations with the superiors is very important.
- the desire not to have any psychological stresses while carrying out the duties.
- applicants also take into consideration physical conditions of their future job: whether they will have to work outside or inside, if it can negatively influence their health, what the environment is etc.
- many people are worried about their social security: what social guarantees they will be offered (the length of vacations, medical insurance, sick list payments), if the organization follows the requirements of the code of safety of labour, if there is a service that protects the employees' rights, which the status of personnel service is?.
- the duties that a candidate will have to fulfill: if they correspond to his education, experience and expectations?
- observing certain ethical principles of selection. Sometimes some incorrect actions on the part of representatives of an organization employer who violate ethical norms in the sphere of recruitment can threaten a candidate's security [9].

The most important ethical principles are the following:

- the necessity to get an agreement from a candidate to check the given information by addressing to those people who gave him the reference
- addressing only the former places of work, not the company where the candidate is working at present about checking the information about him

To provide his personal security a person should apply for a job only to well-known, reliable companies that have been successfully working for the last several years.

CONCLUSION:

1. The problem of providing security to an organization while working with recruits demands systematic and complex approach to its solution. It presupposes interconnection of both an organization's security and that of future employees.
2. The solution of the problem of security of an organization is impossible without defining potential threats and measures to their elimination at the recruitment stage.
3. While hiring employees it is necessary to take into consideration peculiarities of different methods that help solve problems of an organization's security.
4. An important role at the recruitment stage is played by the check of the information given by candidates. This demands high professional qualities, the knowledge of human psychology and observance of ethical norms on the part of the personnel of recruitment agencies.

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HAUSHOFER MEETS SUN-TZU: BELARUS' REGIONAL INFORMATION WARFARE?

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ABSTRACT. *Recent years have seen multiple conflicts sparking between the Belarusian regime and its domestic and foreign opponents, critics and even allies, which are already fitting some recurrent patterns. This article suggests that the official Minsk is learning the craft of information warfare.*

Recent years have been marked with various conflicts sparking between the Belarusian regime and its domestic and foreign opponents, critics and even friends and allies.⁵¹ However the growing frequency and intensity of these political conflicts, monitored by political analysts often obscure the fact, that they are already fitting some recurrent patterns. These are no single isolated campaigns, but what amounts often to coordinated efforts not simply to control the information space, but to “disable” those actors at home and abroad that are perceived as hostile. Belarus’ state propaganda, diplomatic mechanisms, special services, etc. are being combined into a system to form a “megamachine” that has an added negative potential.

Information warfare: E pluribus unum

There is no universally accepted definition of an information warfare (IW). While the “softest” extreme stipulates that it is as old as human society, the other “technocratic” one holds that it is in fact a “cyberwar,” with new information and communication technologies involved. Yet another division line can be drawn between a military and non-military (political) IW.

David Alberts is defining the scope (battlespace) of information warfare and strategy (IWS) by a three-dimensional interaction among the players, which include not only nation states or combinations of nation states, but also various non-state actors (political, ethnic, and religious groups; organized crime; international and transnational organizations; and individuals empowered by information technology) who are able to engage in information attacks and to develop information strategies to achieve their desired ends (Figure 1).⁵²

Martin Libicki is proposing the following definitions and taxonomies for IW:

⁵¹ See, for example: Pazdnyak, Vyachaslau. *Whence the Möbius strip of Belarusian politics?//Belarus: Youth, Politics and a European Perspective*. Analytical materials. Minsk, 2005. – Smolensk: Neoprint, 2005; Idem. Pazdnyak, Vyachaslau. “Belarus in the Geopolitics of the ‘New Near East’: an independent variable?” // *Enlarged EU - Enlarged Neighbourhood. Perspectives of the European Neighbourhood Policy*. Ed. by Nicolas Hayoz, Leszek Jesien, and Wim van Meurs. (Interdisciplinary Studies on Central and Eastern Europe, Vol. 2, ed. by Rolf Fieguth and Nicolas Hayoz). - Bern: Peter Lang, 2005. *Belorusskii Ezhegodnik 2004* [A collection of review and analytical materials on the developments in the Republic of Belarus in 2004]. Institute of Belarus; Public Association “Social Technologies”; website “Nashe Mneniye” (www.nmn.by); Axiometric Laboratory “NOVAK”/Compiled by Alexander Feduta. Ed. By Svetlana Naumova. – Vilnius: Vilnius University Press, 2005.

⁵² Alberts, David S. *Defensive Information Warfare*. National Defense University Press, August 1996.

1. command-and-control warfare [C2W];
2. intelligence-based warfare [IBW];
3. electronic warfare [EW];
4. psychological operations [PSYOPS];
5. hackerwar software-based attacks on information systems;
6. information economic warfare [IEW] war via the control of information trade;
- and
7. cyberwar [combat in the virtual realm].⁵³

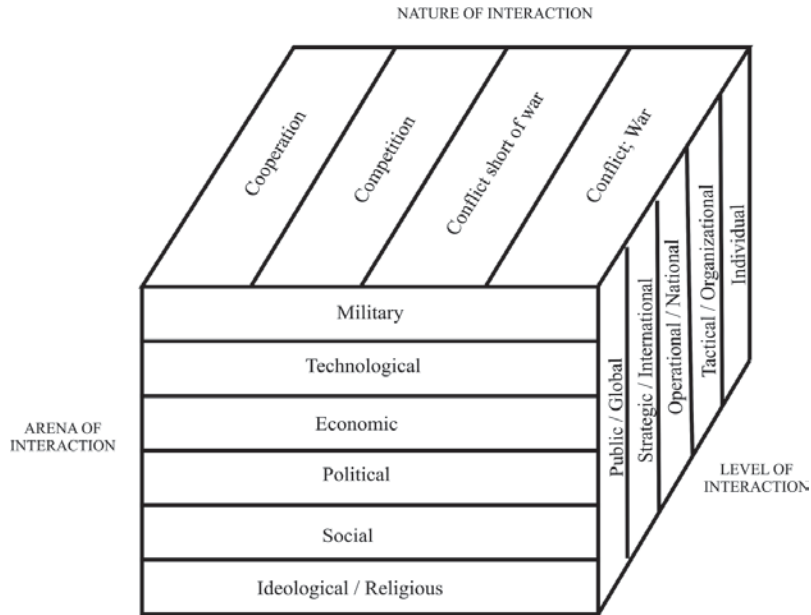


Figure 1. Scopy of IWS

Charles Hawkins points to a close interrelation among the four of these IW forms to be joined soon by hackerwar. He is maintaining, however, that information economic warfare is its own domain, larger than military conflict, and would blur the model, if included (Figure 2). In his view, IW is a “feature of military conflict where information systems are attacked or defended, directly or indirectly as a means to dominate, degrade or destroy, or protect or preserve data, knowledge, beliefs or combat power potential.”⁵⁴

⁵³ Libicki, Martin C. “What Is Information Warfare?” *Strategic Forum*. Number 28. Institute for National Strategic Studies. National Defense University, May 1995.

⁵⁴ See: Hawkins, Charles F. *Coming to Grips with Information Warfare: A Western Perspective*. Beijing Special Lecture. China Defense Science & Technology Information Center. A Hero Report, March 1997. Available: <http://www.herolibrary.org/iwa4web.htm>

Primary Domain of Military IW

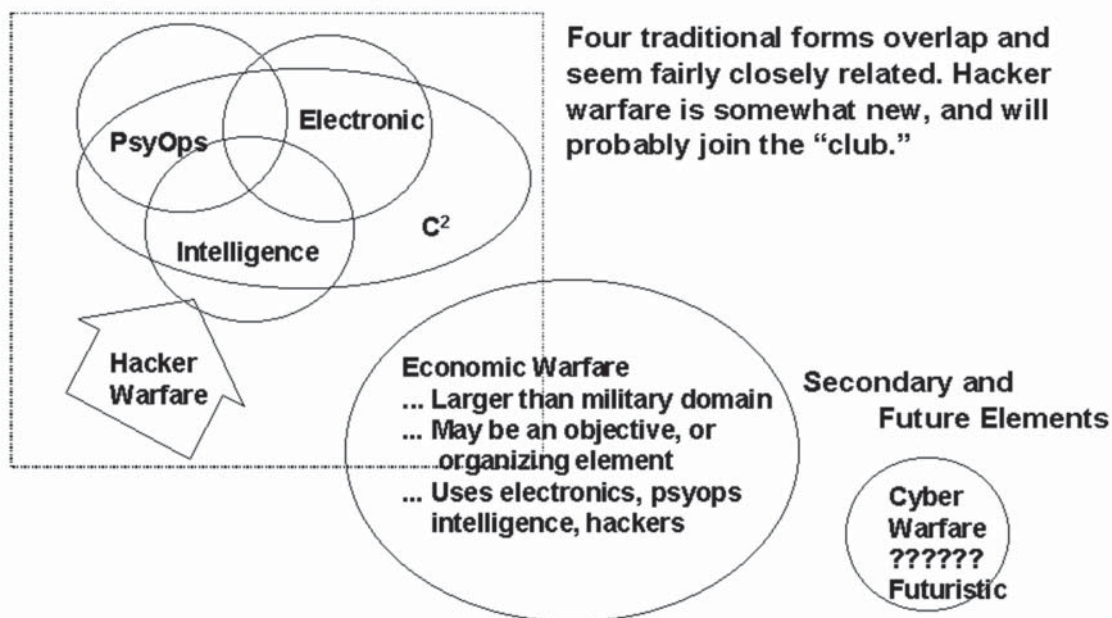


Fig. 2. Forms of IW, with context and relationships added

Dan Kuehl considers IW as “those offensive and defensive warfighting actions in or via the information environment to control or exploit it.”⁵⁵

Gregory Copley is emphasizing that “information warfare” recognizes the primacy of images (visual, electronic, audible, etc.) and the means of transmitting and receiving them (human or otherwise).⁵⁶

In academic literature one can encounter numerous “hybrids,” which combine IW with older traditional concepts of propaganda, psychological campaigns, political conflicts, etc.⁵⁷ The approach followed in this article belongs to a “middle ground” and goes beyond cyberspace or

⁵⁵ Kuehl, Dan. “Defining Information Power.” *Strategic Forum*. Number 115. Institute for National Strategic Studies. National Defense University, June 1997. Available: <http://www.ndu.edu/inss/stforum/SF115/forum115.html>

⁵⁶ Copley, Gregory R. “PsyOps is a Distinct, But Integral, Part of Information Warfare.” *Defense & Foreign Affairs Strategic Policy*, August 1997.

⁵⁷ See in particular: Arquilla, John, and Ronfeldt, David. *In Athena’s Camp: Preparing for Conflict in the Information Age*, Santa Monica CA: RAND Corporation, 1998; Scott Johnson, L. “A Major Intelligence Challenge: Toward a Functional Model of Information Warfare.” Available: <http://www.cia.gov/csi/studies/97unclass/warfare.html>; *Politicheskije kommunikatsii* [Political communications. In Russian]. Ed. by A.I. Solovyov. – Moscow: Aspekt Press, 2004; Rastorguev S.P. *Informatsionnaya voina* [Information War. In Russian]. – Moscow: Radio i Svyaz’, 1998; *Informatsionnye vyzovy natsional’noi i mezhdunarodnoi bezopasnosti* [Informational challenges to national and international security. In Russian]. Ed. By A.V. Fedorov and V N. Tsigichko. – Moscow: PIR-Center, 2001; Manoilo A.V. “Informatsionno-psikhologicheskaya voina” [Information-psychological war. In Russian]. Available: http://www.auditorium.ru/aud/v/index.php&a=vcon&c=getForm&r=thesisDesc&id_thesis=2786; Turonok S.G. *Informatsionno-kommunikativnaya revoliutsiya i novyi spektr voenno-politicheskikh konfliktov* [Information and communication revolution and the new spectrum of military and political conflicts. In Russian]. – *POLIS – Politicheskije Issledovaniya*. 2003. No.1.

purely military applications of information technologies. Instead, a wide spectrum of media, propaganda, diplomatic and other hostilities and means of psychological pressure is implied, including, inter alia, symbolic demonstrations of force capability (e.g. military exercises).

To sum up, an IW is aimed at disrupting, damaging or modifying information resources and people's knowledge about themselves and the outside world. It includes impacts on public and elites' opinions, diplomatic instruments, propaganda and PSYOPS, subversive activities in politics, economy and culture, military, paramilitary and intelligence operations, misinformation, penetration into media channels, computer networks and databases, legal, organizational and criminal actions, informational and technical support to "dissident" groups, to mention only a few.

On the actor side, it can take the shape of traditional interstate or intrastate conflicts with both state and/or non-state entities involved, while the point of contention may range from "high politics" to minority, human rights, religious or ecological issues.

We would specially underscore here the role of coordination and "orchestration" of multiple IW elements. At the same time, a "multipronged approach does not always apply, especially in technical attacks on computers and networks. In fact, these cases can be almost exactly opposite—a single attack generates multiple effects on multiple targets."⁵⁸ Our vision is basically premised on the classical volume "The Power Shift" by Alvin Toffler, where the multiple facets of information warfare – a "third-wave war" were set forth.⁵⁹

INFORMATIONAL STRATAGEMS OF THE BELARUSIAN LEADERSHIP

Belarus leadership claims that the country is confronting a "cultural and ideological aggression of the Western world," and "the time, the destiny and the situation have nominated Belarus for a great role of the spiritual leader of the Eastern-Slavic civilization."⁶⁰ Fully in line with this view Belarusian specialists in national security have inferred that "prevention and neutralization of threats to national security in the humanitarian sphere require, first of all, an open declaration of an official state ideology, which is acceptable for the majority of the population and is taking into account the cultural and historical traditions of the Belarusian people. Only based on such an ideology is it possible to work out clear criteria for identifying threats to national security, as well as the main priorities and state policy in this sphere."⁶¹

Belarusian armed forces have placed a strong emphasis on the development of the information component of warfare. As Belarus Defense Minister Leonid Maltsev points out, informa-

⁵⁸ Scott Johnson, L. "A Major Intelligence Challenge."

⁵⁹ Toffler, Alvin. *Power Shift: Knowledge, wealth, and violence at the edge of the 21st century*. – New York: Bantam Books, 1991; Jensen, O. "Information Warfare - Principles of Third-Wave War", *Air Power Journal*, Winter 1994;

⁶⁰ <http://www.president.gov.by/rus/president/speech/2003/seminar/>

⁶¹ Kochneva A., and Petrakou M. Informatsionnaya bezopasnost Respubliki Belarus i novye realii informatsionnogo obschestva [Information security of the Republic of Belarus and the new realities of the information society]. In: Myasnikov M.V., Puzikau V.V., Byaspalyi V.O., et al. *Natsionalnaya bezopasnost Respubliki Belarus: sovremennoye sostoyaniye i perspektivy* [National security of Belarus: current status and prospects]. Minsk: Pravo i ekonomika, 2003. P. 417.

tional and psychological operations are becoming a special type of war.⁶² A new Information Directorate of the Defense Ministry was established to perform analytical, informational, methodological and coordinating functions⁶³ and an autonomous Center for Foreign Information and Communications under the Defense Ministry of Belarus was set up. A complex system of informational support and ideological work for the military and civilians has been created and tested for the first time in the course of an exercise “The Clear Skies-2003.”⁶⁴

Military and civilian specialists in Belarus consider that today the main field of struggle among states and other geopolitical actors is the condition and quality of people’s minds. Therefore, when conducting information and psychological operations, instead of authentic documents priority should be given to propaganda materials to be further heightened by the mass media.⁶⁵

Belarusian propagandists draw a long list of objectives that the West allegedly pursues in its “ideological war” against this country: inculcation in the minds of Belarusians of the ideas of a hopeless situation of the state; absence of an opportunity to reach the level of the developed countries; requirement to subdue to world leaders; depicting Belarusians as uncivilized people who need a tutorship of more advanced nations; imposition of Western, primarily an American value system and assertion of its advantages over the national culture; criticism of Belarus government as an authoritarian regime responsible for poor relations with the West; discreditation of the state’s domestic policies; creating an image of a totalitarian Belarus; representation of the policy aimed at integrating with Russia as a treason of national interests and an abandonment of sovereignty; shaping a positive image of the political opposition as a truly patriotic segment of the population being supported by the advanced part of society. Meanwhile, the opposition is seen as a major player in the ideological aggression carried out by the West against Belarus.⁶⁶

The normative basis for information security in Belarus is the new National Security Concept (NSC), adopted in July of 2001 to replace the previous one that had been in force since 1995. The new NSC lists among the main functions of the system of insuring national security “control over the activities of state organs, organizations, including public associations, as well as citizens, involved in the sphere of national security, and informing citizens on issues of ensuring national security.” According to the document, the system of insuring national security is a “complex of bodies insuring national security, which are united by the objectives and tasks of protecting the vital interests of individuals, society and the state and which are performing coordinated activities within the framework of law.” This system includes state organs, organizations, public associa-

⁶² Maltsev, Leonid. *Suschnost’ voiny i vooruzhennoi bor’by: vzglyad v budushee* [The essence of war and military combat: a look into the future]. Available: <http://www.sh2004.mil.by//pub/first/>

⁶³ *Pri podderzhke prezidenta Lukashenko plany voennogo stroitelstva v Belorussii vypolneny polnostyu* [With President Lukashenko’s support military construction plans in Belarus have been fully implemented]. *VPK [Voyenno-promyshlennyi kur’er]*. 14 (21). 4-10 February 2004.

⁶⁴ Vladimir Makarov: “Informatsionnaya deyatel’nost’ v armii dokazala svoyu effektivnost’” [Informational work in the armed forces has proved to be efficient]. Available: <http://www.bpc.by/search/NewsDoc.asp> 01.06.2004.

⁶⁵ “Soznaniye ludei segodny yavlyaetsya otnyud’ ne metaforoi...” [“People’s mind today is not a metaphor, but a target for a precisely calculated impact and operation,” – holds Belarus Defense Ministry Information Directorate Chief Vladimir Makarov]. *Vo slavu rodiny*. 01.07.2004.

⁶⁶ See: *Osnovy ideologii Belorusskogo gosudarstva* [Basics of the ideology of the Belarusian State. Handbook for higher schools]. Ed. by S.N. Knyazev and S.V. Reshetnikov. Academy of management under the President of the Republic of Belarus. – Minsk: Publication Center of the Academy of management under the President of the Republic of Belarus, 2004.

tions and citizens and is directed by the President through the Security Council and the Council of ministers.⁶⁷

An all the more integrated system providing for information campaigns is being built to include the state-owned press, TV and radio, legal and organizational mechanisms for control, manipulation, suppression, subversion with the assistance of force structures and special services. A network of state bodies has been created with specialized information departments at the Foreign, Defense, Interior and other ministries, the State Security Committee (KGB), state Teleradio company, the state telecommunications monopoly Beltelecom, state information agency BelTA, National Press Center, state printed press etc., which are being orchestrated by the Ideology Directorate of President's Office and the Security Council.⁶⁸

“DOMESTIC” IW

On 31 March 2005 Freedom House released at the United Nations Commission on Human Rights in Geneva, Switzerland its annual report “The Worst of the Worst: The World's Most Repressive Societies 2005”. The report lists Belarus among the eighteen countries of the world with the most dire human rights situations.⁶⁹ Pressuring of Belarusian opposition parties, democratic NGO's, the independent media, and Internet providers continues. Only from 1 December 2004 to 1 June 2005 thirty-eight public organizations in Belarus were liquidated by court rulings or were forced to self-liquidation.⁷⁰

Belarus government regards new information and communication technologies as predominantly a tool for raising its operational efficiency. The political opportunities, which they can offer are viewed with caution at best and are often perceived in the context of security of the political regime and its vulnerability to the alleged threats from domestic non-state actors (political opposition, independent mass media), as well as foreign players. There are politically motivated plans and specific actions on the part of the Belarusian authorities aimed at putting the Internet under a strict legal, organizational and technical control.

Meanwhile, the Internet was included into the media outlets listed in the new draft Law on Press and other Mass media. The draft defines Internet as a “global information media”⁷¹ and equates Belarusian web-sites to the printed mass media with meticulous responsibilities before the state authorities, including licensing. Under the pressure from the Belarusian authorities, who are attempting to restrict political deliberations in the internet, Belarusian portal TUT.BY intro-

⁶⁷ Kontsepsiya natsional'noi bezopasnosti Respubliki Belarus [The National Security Concept of Belarus]. *Sovetskaya Belorussiya*. 18 July 2001.

⁶⁸ For more details see: Pazdnyak, Vyachaslau. “Belarus' Information Space: Status and Trends” [In Russian] // Proceedings of the International Conference “The Rising Information Society in Russia.” Moscow, 14 November 2003. – Moscow: Institute of Radiotechnics, Electronics and Automation (Technical University), 2004.

⁶⁹ *World's Worst Regimes Unveiled*. Press Release. Available: freedomhouse.org/media/pressrel/033105.htm

⁷⁰ Alherd Nevyarouski. “Belarusian authorities are pressuring NGO's” [In Belarusian] (6 July 2005). Available: <http://www.svaboda.org/articlesfeatures/politics/2005/7/E5EF4451-614B-4839-88E4-E4407E79DE08.html>

⁷¹ “Belarussian Legislation Survey.” *Interfax: Business Law Report* (4 November 2003).

duced a compulsory registration for its fora users (there were 20,000 registered TUT.BY fora users in April 2005), otherwise depriving them of access. Along with that TUT.BY fora pages feature citations from the Criminal code warning of particular punishments for “slandering” and “slandering the president.”⁷²

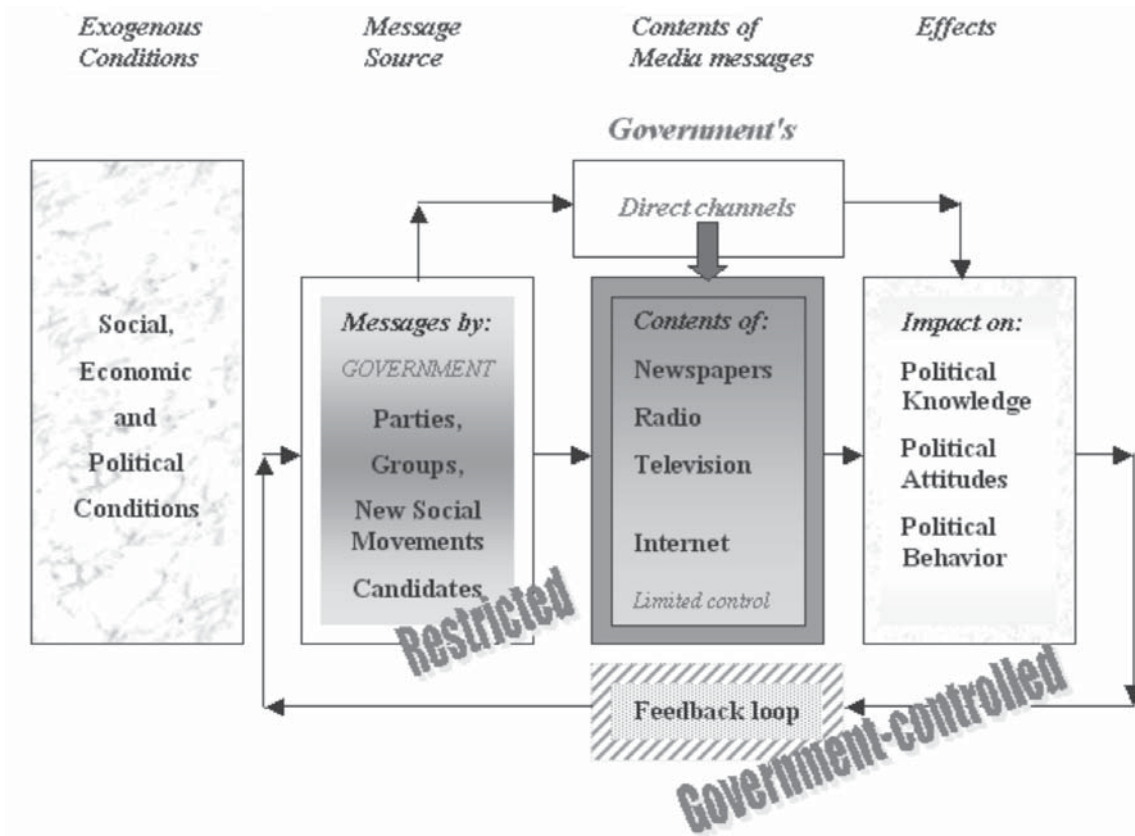


Fig. 3. Systems Model of the Political Communications Process in Belarus
Adapted from: P. Norris (2004). “Political Communications.” In Encyclopedia of the Social Sciences.

State monopoly for outer channels has many negative aspects. Firstly, it opens up ways to control the traffic. This was demonstrated during the presidential elections on September 9, 2001, when the Belpak router blocked IP addresses of the internationally placed websites, and in this way users in Belarus were denied access to opposition web-sites. In recent months there have been reports that in addition to routine “confiscations” of computer equipment from NGO’s by the Belarusian authorities, there have also been numerous attempts by unidentified hackers to paralyze the functioning of the websites of the United Civic Party and the Belarusian Popular Front.

⁷² Na belorusskikh forumakh vvodyat tsenzuru [Belarusian internet-fora are being censored]. *Vebplaneta* (19 April 2005). Available: <http://webplanet.ru/news/internet/2005/4/19/censor.html>

The Belarusian authorities are expanding the veil of secrecy and control over information, which is motivated by political and ideological calculations reminiscent of the Soviet times. As a result, there is a confluence of several tendencies: centralization of the management in the information sphere, its infusion with state ideology, tightening of the administrative control over the mass media, and over the production, distribution and consumption of information. This is being done against the backdrop of the continued dominance of the state in political, economic and property relations. The net result is sort of a thrombosis of the system of political communications (Figure 3).

INTERMESTIC IW

After the adoption of the U.S. Act on Democracy in Belarus in 2004 and especially in the wake of “orange revolutions” in Georgia, Ukraine and Kyrgyzstan a special concern of the Belarusian leadership has been “Western plans to overthrow it by all means.”⁷³ The Belarusian authorities are applying a more systemic and coordinated approach to the information and psychological campaigns aimed at suppressing dissent inside the country and to “neutralizing” its foreign critics.

2005 has provided numerous cases of such activities and illustrative examples of rather complex techniques approximating IW, to which Minsk resorted. One such case is the Belarusian-Polish conflict that originated as a seemingly internal, even local issue and grew to the magnitude of a problem that had to be tackled by the European Commission and the European Parliament.

On the formal side, there was a disagreement in the Union of Poles in Belarus (ZPB) on the legitimacy of the Union’s leadership elected in March 2005. This controversy, however, reflected a political conflict between Belarus regime and civil society, the former’s desire to subjugate all influential independent public organizations, plus its suspicions that the Polish national minority in Belarus – the second largest one after Russians – may pose a serious threat as an opposition force.

As Polish analysts observe, despite the fact that the Polish authorities have taken active measures to ease the conflict, the Belarusian side has been “deliberately escalating tension by stepping up repression against the ZPB’s activists and launching a massive anti-Polish propaganda campaign in the media.”⁷⁴

Diplomatic moves, propaganda, psychological operations and other actions taken by Minsk with regard to Warsaw at the height of the conflict included a broad selection:

Diplomatic:

⁷³ Lukashenko gotovitsya otrazit’ intervensiyu SShA [Lukashenko is preparing to defend from the U.S. intervention]. <http://lenta.ru/news/2005/07/27/intervention/>

⁷⁴ For details see: “The Polish-Belarusian conflict is worsening.” *East Week*. Analytical Newsletter for Eastern Europe, Russia, Caucasus, Central Asia. Centre for Eastern Studies. Issue 6, 11 August 2005.

- Ousting Polish diplomats on various pretexts.
- Belarus Foreign Ministry statements⁷⁵

Parliamentary:

- Joint Statement of the commissions for international affairs and relations with the CIS and for human rights of the lower chamber of the Belarusian Parliament, the House of Representatives (09.08.2005) in response to Polish Sejm resolution.

Police and special services:

- Preventing the ZPB leaders from entering their office.
- Intimidation and pressure on Union members.

Border guards:

- Prevention of the delegation of the European Parliament from crossing the Belarusian border (08.08.2005). The delegation was planning to meet with ZPB leaders.

Massive media campaign in the press, on the radio and on the Belarusian TV, which, in addition to reports misinforming on the situation in the ZPB and the Warsaw position on the conflict, showed a film on the Polish Embassy's "espionage and subversive activities" allegedly connected to the "destructive and venal" political opposition in Belarus.⁷⁶

Performative actions – e.g. sawing down to pieces the "tree of Belarus-Polish friendship in front of the Polish Embassy in Minsk – a "youth initiative," apparently approved by the authorities, who allowed the show to go on for days without a hindrance.

Taking into consideration a wider strategic and psychological context, one should recall that in the spring of 2005 large-scale military exercises were held in the western part of Belarus, where a military conflict was simulated.

All these facts serve as an illustration of an "intermestic" nature of Belarus information campaigns.

According to Belarus Foreign Ministry, the creation of a single information space in the country implies the utilization of information technologies as a means of shaping a new type of global relations, where Belarus would have the right not only to make use of the global information resources, but also influence their formation.⁷⁷

⁷⁵ Zayavleniye press-sluzhby Ministersva inostrannykh del Respubliki Belarus # 459 03.08.2005. Available:

http://www.mfa.gov.by/rus/index.php?id=1&d=press/statements&news_id=182 This Statement is a harsh response to the Statements of the European Union and the U.S. on the suppression of NGO's and the Polish ethnic minority in Belarus and warns them that they are provoking an international discussion on minority rights issues in the EU, etc.

Zayavleniye Ministerstva inostrannykh del Respubliki Belarus. 22.07.2005. Available:

http://www.mfa.gov.by/rus/index.php?id=1&d=press/statements&news_id=180

Commentary of the Head of the Belarusian MFA press service Maria Vanshina in view of the actions of the Polish party, directed to the complication of the relations between Belarus and Poland. 15.07.2005. Available:

http://www.mfa.gov.by/eng/index.php?id=1&d=press/statements&news_id=83

⁷⁶ See also: Belarusian TV again Accuses Foreign Diplomats. 08/09/2005. <http://charter97.org/eng/news/2005/09/08/tv>

⁷⁷ "Belarus supports the working out of a program that would allow countries obtain real benefits from their integration in the global information society." *Belta* (28 February 2003). Available: <http://belta.press.net.by/page.cgi?id=112929>

Belarus' Minister for Information Uladzimir Rusakevich (former Ambassador to China) stated that the country had not been surprised by the declarations about "an intensified information war waged by the West against Belarus," which is prepared to "rebuff the Western information expansion."⁷⁸ So as to "neutralize" foreign media programs Belarus-TV satellite Intelsat 904 channel will be broadcasting daily for 16-17 hours in Russian and Belarusian languages. Belarus-TV channel programs include Belarusian news and analytical programs, documentaries and feature films produced by Belarusian filmmakers, sports and entertainment programs, etc.⁷⁹

CONCLUSIONS

On the "domestic front" the official Minsk is waging a permanent IW against the democratic political opposition, which includes political parties, movements, free trade unions, youth associations, NGO's, civil rights groups, civic initiatives, independent mass media and prominent public figures.

As a reaction to recent "orange revolutions" or their attempts in the former Soviet Union, cooperation has been growing among the governments of the post-Soviet states, including Belarus, in the informational domain so as to control the information space, the Internet in particular, to preclude the use of the territory of the participating states from hosting opposition information outlets and to exchange information on people and organizations involved.

Over the last two years these campaigns have acquired a permanent character and high intensity, whereby they serve already only as a routine background for periodic massive information attacks and "counter-attacks" by the state specially designed for acute situations.

There has been a growing connection between the internal and external dimensions of Belarus' information-psychological campaigns. They are closely linked to the task of strengthening and prolonging the political regime.

On the international plane, the information-psychological campaigns by the Belarusian state, however, mainly fall short of full-fledged IWs. They are characterized by a "defensive aggression" produced by the feeling of insecurity and anxiety in an international environment, where there is an on-going discussion as to how to promote democratic changes in Belarus. Meanwhile, information resources of the Belarusian state remain extremely limited for any counter-action on the international level.

Nevertheless, because information space has no border, Belarus quasi-IWs pose some threat for the targeted "audience" and negatively affect the political climate in the neighboring countries and the whole region, thus damaging the opportunities for cooperation generally and, more specifically, hindering the realization of the programs of people's exchanges, slowing down other projects and solution of issues (e.g. facilitation of border, visa and customs control, cooperation on new transborder challenges, etc).

⁷⁸ "The Belarusian regime is going to control the Internet" [In Russian]. Available: <http://charter97.org/rus/news/2004/12/06/net>

⁷⁹ <http://www.e-belarus.org/news/200502091.html>

Internationally, Belarus' information campaigns remind a multi-tiered construction combining a number of messages (images):

- The “bad West” – Western Europe, the U.S. and NATO conspiring against Belarus staying its own course.
- The “bad Western Europe” – the EU and the CoE unfairly and treacherously treating Belarus.

Through its propaganda “megamachine” the Belarusian regime is conducting an information-psychological aggression with a view to misinforming people and discrediting the European Union, its member-states and their policies not only inside Belarus itself, but also beyond its borders. Such communicative actions and campaigns are “constructing” a regional threat and constitute its main agent. Regular large-scale exercises of Belarusian force structures where operations on the neutralization of regional and local conflicts are practiced serve as a demonstration of national power, but also marks a “Belarusian threat” in the European security space.⁸⁰

- The “bad new EU members,” especially the neighboring Poland, Lithuania and Latvia – both mistreating Belarus and, at the same time, “suffering from their thoughtless entry in the EU and NATO.”
- The “badly mistaken Ukraine,” which is taking the consequences of the “orange revolution” and should not take a “pro-Western” line, in particular, with regard to Belarus.
- The “badly mistaken Russia,” which should better emulate the “Belarusian model” and should seriously revise its relations with Belarus.

The U.S. is present in the European and subregional perceptions of the Belarusian authorities both as part of a “sinister Western conspiracy,” as a hostile individual power per se pursuing its egoistic geopolitical interests in Eastern Europe, and as a negative model of development that “tramples down on the fundamentals of a Slavic civilization” for the internal consumption.

The above brief analysis is clearly indicating that the Belarusian state apparatus is learning the craft of information warfare, both domestically and internationally.

Meanwhile, encompassing a broad range of military, governmental and civilian information capabilities that enable national-level exploitation and dominance of the information environment, national information power does not rest solely with the national government. The civilian component of national information power includes many diverse elements,⁸¹ including the opposition and critics, who are being methodically suppressed. This diversity not only prevents state information control from becoming absolute, but also, ironically, demonstrates to the world the vulnerabilities and abnormalities of national information power of a closed society⁸² and produces a paradox characteristic of an authoritarian state: the stronger its information power, the weaker it is.

⁸⁰ About the security relationship between Belarus and the EU see: Pazdnyak, Vyachaslau. *Evropeiski soyuz i Belarus: transit (bez)opasnosti* [The European Union and Belarus: a transit of (in)security. In Russian]. Friedrich Ebert Stiftung, 2005 (forthcoming).

⁸¹ See: Kuehl, Dan. “Defining Information Power.”

⁸² As Alvin Toffler wrote, “Power granted to a regime should be just sufficient to provide a degree of safety from real (not imagined) external threat, plus a modicum of internal order and civility... Order imposed over and above that needed for the civil society to function, order imposed merely to perpetuate a regime, is immoral.” – Toffler, Alvin. *Op.cit.* P.470.

A MODEL OF PREVENTION OF JUVENILE DELINQUENCY THROUGH COLLABORATION: THE ASSUMPTION OF SOCIAL SECURITY

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ABSTRACT. *Collaboration between the school, social services and the police is investigated in the article. On the basis of the experience of regional collaboration the Danish model of juvenile crime prevention (the school, social services and the police) through collaboration and the summary of its implementation in the Lithuanian context is presented. The article is based on the following methods: the meta-analysis of documents and specific literature, the systematic study, assessment, and the event analysis of the empirical application of the SSP model. On the basis of the methods the conclusions that lead to the solutions to the problems of local social education were made.*

Keywords: prevention, juvenile delinquency, SSP model, collaboration.

INTRODUCTION. One of the most urgent problems, as far as the safety of regional collaboration is concerned, is criminality – a social phenomenon that no country manages to escape – if we consider both the present situation and the future perspective. It should be noted, that this problem is no longer at the command of the law science only. In the process of the globalization of social transformations and the present society, the phenomenon of criminality should also be analyzed from the point of view of social pedagogy. According to the data of the Lithuanian Centre of Crime Prevention (www.nplc.lt), the crime rate is increasing (in 1970 - 11240; in 1980 – 14161; in 1990 – 37056; in 2000 – 82370; in 2004 – 93419 criminal acts were recorded), and the qualitative expression is altering (it is growing more serious). Besides, as one of unfavourable tendencies, the increase in the number of crimes committed by people under age has become noticeable (see figure 1). The strategy of national security involves the investigation of the variety of threats that occur within a state and of their content and forms.

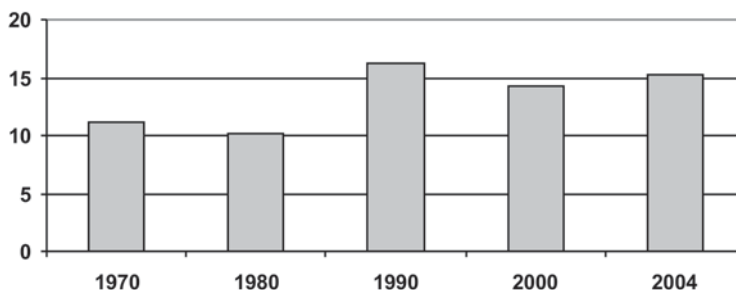


Fig. 1. Crimes committed by people under age (%)

Having analyzed the concept of the threat to national security, E. Nazelskis [15, p. 7-8] states that it is an action or a sequence of events that shows an alarming tendency to lower the level of citizens' welfare within a short period of time; or to limit the range of political choice for the government of a state; or to threaten the private non-governmental subjects within the state. The concept of such a threat evokes a deeper consideration of the problem: is criminality, as a social phenomenon, often followed by drug addiction, prostitution, etc. It does not influence the very genome of a nation, and the deepest sources of the power of spiritual and physical culture.

The aim of the article is to present the realization of the Danish model of juvenile crime prevention through collaboration in the Lithuanian context on the basis of the experience of regional collaboration.

The article is based on the methods of qualitative research – the meta-analysis of documents and specific literature, the systematic study, assessment, the event analysis of the SSP model.

Juvenile delinquency is a specific part of criminality in the general sense. The statistical data of crimes and the theory of criminology show that every third recidivist was a teenager at the time of his first crime [9, p 2-4]. The younger the person is at the moment of his first crime, the more likely it is that he will commit another crime in the future [3, p. 198]. It is commonly known that the youth are society's future, while juvenile delinquency is a "reserve" of criminality. A. Dapšys [5] states that juvenile delinquency is in some way the beginning of general criminality, its potential reserve and a model of prognosis for the future. Thus, the earlier the prevention of juvenile delinquency, the more likely it will be to decrease criminality in the future.

Juvenile delinquency and violent crimes were investigated by many Lithuanian and foreign authors: S. Abelcev, G. Babachinaitė, C. Bortollas, A. Čepas, A. Dapšys, A. Drakšienė, J. Galinaitytė, L. Gauchman, S. Gečėnienė, J. Gilligan, V. Justickis, P. C. and L. D. Kratcoski, J. Kürzinger, S. Lamnek, E. Melnikova, I. Michailovič, V. Pavilionis, H. J. Schneider, R. C. Trojanowicz, M. Morash and others.

In the works of the above-mentioned authors the reasons for and the prevention of juvenile delinquency are analyzed, together with the individual problems of the young offender, the prevention of early juvenile delinquency, etc. Although the authors from different countries noticed a lot of common traits of juvenile delinquency in different countries in the course of their research, it should be noted that the condition of juvenile delinquency and the methods of crime prevention differ from country to country. That is determined by various social, economic, legal, and religious aspects of the approach to and analysis of the problem.

The authors of the article carried out a closer analysis of the Danish model and observed its implementation in a concrete Lithuanian community. The Danish collaborative model of crime prevention was tried in Trakai d. Lentvaris Motiejus Simelionis secondary school in 2003-2004.

SSP MODELS

At the beginning of the 80's the Danes noticed that the existing system of crime prevention (i.e. the application of punishment for the sake of threatening people against crimes) did not produce desirable results. On the contrary, it sometimes produced quite an opposite effect. There-

fore, on the basis of the country's legal acts and laws on Social help, Education, etc. the approach to the problem was fundamentally changed – the concept of SSP was formulated [23].

SSP brings to light the parental collaboration among schools (S), social workers (S) and the police (P), both vertical and horizontal. However, the vertical network of the three levels is retained (see figure 2). The management level includes heads of the departments of social services, education and police. The co-ordinating level consists of heads of local educational institutions (schools, clubs), centres of social services and the police. The social workers, the teachers, the policemen from the department of crime prevention, and the members of youth clubs, who work in concrete communities belong to the third level of the network, i.e. the implementation level. Many independent implementation groups (their number depends on the size of a city, on the number of students from risk groups, etc.) often function on the third level.

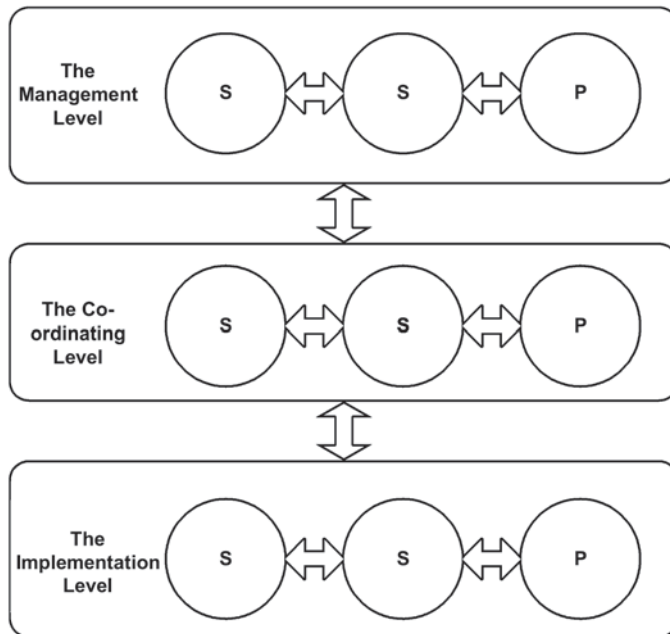


Fig. 2. The network of SSP levels

The main goal of the specialists from every level is as follows: crime prevention among children and young people, reduction of crimes in and out of schools, and protection of young people against the negative impact of crimes. These goals are based on the educational system (creating harmonious relationships and positive atmosphere among children at school, looking for various communicative and collaborative ways) of the famous Norwegian teacher D. Olweus (www.clemson.edu/olweus/), which induced teachers, students and parents to unite for common activity. It is commonly known, that school communities take greatest pains to protect themselves from accidents, thefts, bullying, mobbing, sexual and racial discrimination, vandalism, drug addiction, arsons and asocial gangs.

While solving everyday problems of school life by means of anonymous questionnaires, observation, biographical writings, organization of student occupation and other methods, diag-

nostic, interventional and rehabilitation goals were achieved. Not only the police, but also social workers became real members of school communities. Owing to the collaboration, the importance, realization and support of the communication between the community and the family was more clearly understood.

Table I. The range of police-school interventions on five dimensions [18, p. 4]

Dimension	Range of interventions	
Basic philosophy	Preventive E.g. educational and supportive visits, activities, teaching, undercover drug investigations.	Deterrent E.g. uniformed presence, surveillance, searches.
Intervention	Proactive E.g. interventions to prevent problems arising such as gang recruitment, drug trafficking, shoplifting. Formal & informal presence.	Reactive E.g. responding to calls from schools or public; investigating incidents. Formal presence.
Target group/region	All schools or pupils E.g. elementary or secondary level activities, general education initiatives.	Targeted pupils or areas E.g. drug users, those at risk of drop-out, truants, schools in disadvantaged areas.
Programme outcomes	Single or short term goals E.g. eradicate drug trafficking.	Short, medium and long term goals E.g. establish safety plans and reporting procedures, develop mentoring programmes to reduce drop out, train in conflict resolution to reduce violence, change attitudes to offending to reduce delinquency.
Type of partnership	Bilateral or police-centred E.g. police work directly with the school or education authority, no involvement of other sectors.	Multi-lateral - police are part of a broader network E.g. police and school work with youth services, health services, community organizations.

REALIZATION OF THE SSP MODEL IN THE LITHUANIAN CONTEXT

Having acquainted with the model, the principle of individual approach was chosen. This is an exceptional principle of the capacity of general pedagogy ('capacity' here means the pedagogical state that can act and, by means of the actions, acquire the rights and duties the student is responsible for). For example, J. Laužikas [13] states that an individual approach in the educational process is a pedagogical effort, taking into consideration the level of the student's development, the world's depository of learning, individual psychic peculiarities, the up to then prevalent educational methods, the framework of relationships, the dynamic stereotype in life and the educational process, as well as the instantaneous psychic condition [13, p. 105]. V. Justickis [10] has

noticed that individual work is an inseparable part of any preventive activity. It is also the basis of the mechanism of individualization [10, p.98]. It has been noticed that owing to the individual approach principle, the teacher has a greater possibility to see not only what the student is at the moment of speaking, but also to recall what he was before and to foresee what he will do in the future. However, while working with the children that show tendency to break the law and commit crimes, it is necessary to take into account the psycho-pedagogical individual approach principles. B. Bitinas [2] points out the following principles:

1. Systematic research of students.
2. Setting the nearest pedagogical objectives while working with a student individually.
3. The choice and usage of the most productive pedagogical means.
4. Distinction and analysis of the results.

Encouraged by the above-mentioned theoretical insights, the authors of the research took into consideration the pedagogical effectiveness of school monitoring [19, p. 61-62]: when the application of the individual approach helps to make optimum opportunities that allow teachers to study children systematically. According to this principle, teachers have to take into account a concrete situation, i.e. in what circumstances the student's behaviour was positive or negative, and what educational methods are the most appropriate to apply in reaction to the situation.

In order to implement the Danish SSP model, a group of teachers, social workers and police officers was formed in the Trakai district. It was affirmed by the decree of the head of the district. The Centre of Modern Didactics from Vilnius Pedagogical University collaborated with the Trakai d. Lentvaris Motiejus Simelionis secondary school. The project of the implementation of the model was carried out in 2003/2004.

The newly formed SSP group did their activity by three stages. During the first stage the problem was posed, and the general conception of the problem was determined by the specialists of different professions (during the study the problem of attendance was chosen as a prerequisite for juvenile delinquency), together with the competencies of every member of the group. In the course of this stage statistical analyses of the data were constantly performed (see figure 3), hypotheses of students' behaviour were formed, and conditional groups of students (according to their behaviour and acts) were created.

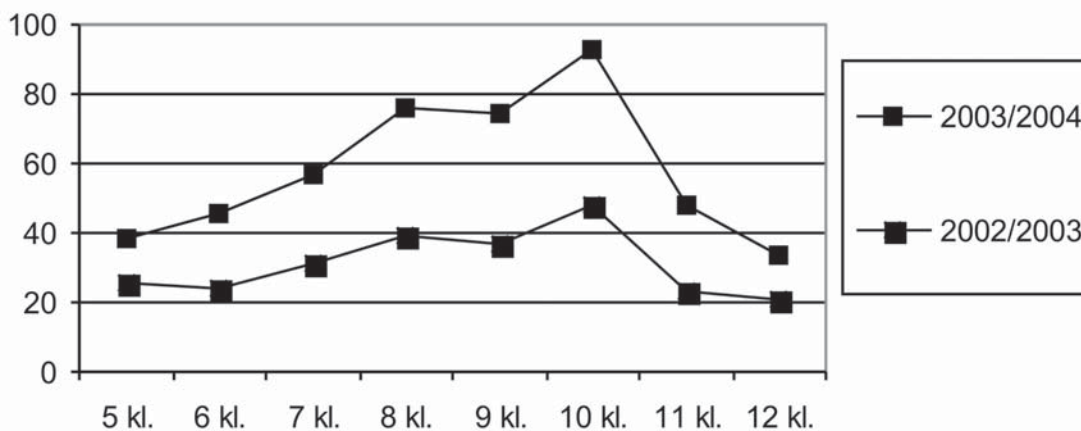


Fig. 3. Comparison of attendance (in 2003/2004; in 2002/2003)

At the second stage the activity was based on three levels of crime prevention (see figure 4).

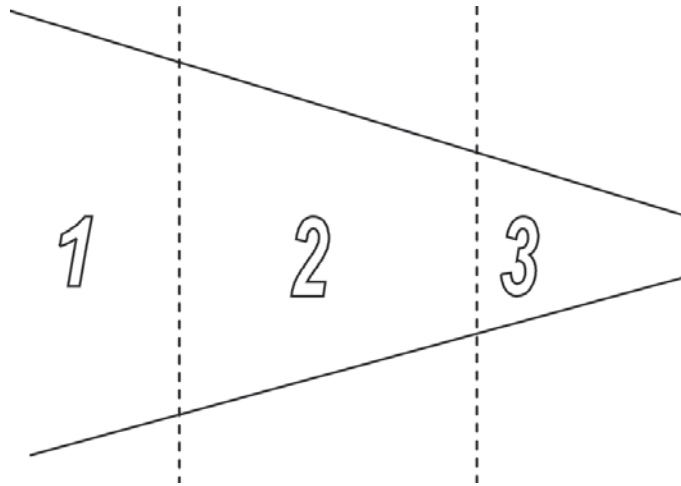


Fig. 4. Levels of crime prevention

1. Early prevention – the first level; it includes all students. It is general activity and prevention of possible negative activity (in Denmark this group is said to consist of 35,9% of children and young people).
2. Help – the second level that encompasses mostly the children from the risk groups, therefore this activity is aimed at the prevention of the expression of concrete groups' negative behaviour (in Denmark this group is said to consist of 57,5% of children and young people).
3. Rehabilitation and reintegration – the third level that encompasses the children and young people of delinquent behaviour who have already committed crimes. The activity is aimed at the prevention of the strengthening of recidivism (in Denmark this group is said to consist of 6,6% of children and young people).

In order to analyse the reasons for negative behaviour and the productivity of separate social-pedagogical effects, during the research children's behaviour was observed and the actions of the SSP group members were recorded. At this stage major attention was paid to the variety and productivity of the methods applied.

At the third level the work of the SSP group, the obstacles, and the results were assessed in the form of constant reflections. The gradual three-level solution to the problem enabled the group members to concretize time intervals and the importance of roles played. It was only on the third level that the necessity for results and the importance of collaboration between the management, co-ordinating and implementation levels came to light.

It should be noted that in the course of project implementation not only the school attendance of children and young people changed, but also the level of juvenile delinquency went down: in 2003 one crime under Article 178 of the Penal Code and three crimes under Articles 174 and 178 of the Administrative Rights Violation Code were recorded. However, in 2004 only one criminal act under Article 174 of the Administrative Rights Violation Code was committed.

CONCLUSIONS

In accordance with the experience of regional collaboration and the Danish model of the prevention of juvenile delinquency through collaboration, as well as its realization in Lithuania, we found out that:

- It is very likely to achieve positive results, when specialists of different domains take care of one problem;
- The same problem is solved by professionals of each domain, who propose their individual approach principles and methods;
- Although all the professionals work together in order to achieve the same goals, the limits of professional activity of every professional, which define their professional experience and competences, are preserved.
- Realization of the model in the Lithuanian context helped us solve local problems of social education:
- The community participated actively while trying to solve the problem of school attendance;
- The number of lessons missed by the students decreased;
- The number of law violations among children of school age decreased.

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NEW EUROPE AND NEW TRANSATLANTIC COOPERATION

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1. IMPORTANCE OF THE TRANSATLANTIC RELATIONSHIP

The Northern -America and Europe are different, but the basic values that underpin the transatlantic relationship remain intact. The USA, Canada and European States remain “determined to safeguard the freedom, common heritage and civilisation of their people, founded on the principles of democracy, individual liberty and the rule of law”, as it says in the preamble of the 1949 North Atlantic Treaty. Very few can deny that transatlantic relationship remains vitally important to both sides’ interest.

The threat of international terrorism and the spread of weapons of mass destruction make transatlantic cooperation even more important. In spite of that USA and some European big states increasingly do not agree on the nature of the international challenges they face, let alone on the solution.

The history of transatlantic relations underscores both the importance of transatlantic partnership and cooperation and the dangers of competition and bickering. Today, after enlargement of the NATO and the EU, Northern-America and Europe is really the crucial couple for global security, economy and environment. Even more, progress in nearly all areas of international affairs depends critically on the USA and EU pulling the same direction. Therefore strategic competition between the USA and EU would be disastrous in many aspects and favors the other major powers of the world, including international terrorist’s organizations. Open competition between USA and EU would accelerate the trend in international relations away from multilateral cooperation and towards great power competition.

During the last decade, the USA has become the only global superpower, with unmatched military and economic recourses. The EU by contrast, despite being an important international player, is far from being a coherent international actor.

In the same time it becomes clearer that USA strategy, which is based on military strength, is often less effective than uses diplomatic and economic tools first, with military power in the background. Equally, European attempts to influence international events without the potential to use force could lack credibility.

Due to the global changes and new trends in North America and Europe during the few last decades the old strategic bargain between North America and Europe, made for Cold War period, is outdated and even harmful to American interest.

Therefore new security and economic bargain needed, which is mutually more profitable and thus more stable and enduring. If the relationships between America and Europe were not

mutually enough profitable, then they will not last. And this is first of all not in Europe's interest.

The fact that eight European countries signed up behind the Americans during the Iraq conflict, the ones called "New Europe" shows that many European countries want closer contact with USA not only in military, but also in other fields.

Great Britain, Spain and another six countries (among them Poland, Lithuania, Latvia and Estonia) look ahead to closer transatlantic links in a globalised world.

2. REASONS AND STRUCTURE OF DIVISIVE ISSUES IN CURRENT TRANSATLANTIC RELATIONS

The deterioration of transatlantic relations have been seen since September 11th, 2001 events in New York and Washington and culminated before Iraq War.

However, transatlantic tensions were rising already long before terrorism moved up the US agenda. According to Charles Grant- director of the Centre for European Reform, the most divisive issues have been as follows:

- The growing gap in economic performance;
- The increasing mismatch in military capabilities;
- The ambitions of the EU in foreign and defense policy;
- Disagreements over the solving problems in Middle East (1, pp. 24-25).

The Transatlantic declaration: how to overcome the division, signed in May 2003 by number of worldwide famous politicians and institutions, dealing with international relations (including RAND Corporation, German Council on Foreign Relations and others) indicates also some other divisive issues in USA- EU relations as follows:

- Iraq, Israel- Palestine, Iran;
- Terrorism and weapons of mass destruction;
- World trade, development and fight against poverty;
- Global climate change;
- International Criminal Court (1, pp.107-113)

2.1. THE ECONOMIC IMBALANCE BETWEEN THE USA AND EU

From 1980 to 2001 the USA economy grew by an average of 3, 1 percent a year, and the EU- 15 by 2, 2 percent. In 2002, 2003 and 2004 this imbalance became even bigger due to the recession in two largest economies in the EU- Germany and France. In employment, USA has outperformed the EU, also. Today around 75 per cent of USA working age population is employed and unemployment stays below 6 per cent, while in EU corresponding figures are below 70 per cent and above 9 per cent. These imbalances have strategic implications, because it affects the social and psychological aspects of transatlantic relations. The Americans believe that they are

superior even in economics, the principal area, where the Europeans have succeeded for a long time so far in pooling their interest and defending their advantage as region with high level of social capital. In reality Europe is relatively small by territory and is becoming smaller as a share in the world population and economy.

Also the ageing of Europe's population has strategic implications. After the EU 2004 enlargement the population of EU is about 450 million, while USA population is below 300 million. However the American population is rising fast (fertility rate in USA is over 2, while in Western-Europe has dropped to 1, 4. According to the US Census Bureau forecasts North America would have over 550 million inhabitants by 2050 and American economy would then be twice as large as EU 25. According to some demographers estimates by 2050 the American median age will be 36, 2, and that in the EU 52, 7. (1, p. 27). This means, that in 2050 the number of people over 65 will be the equivalent of 60 per cent of the working age population in Western Europe, compared with only 40 per cent in America. Moreover, demographic change in America will decrease soon the share of population with European ancestors below 50 per cent, which may lead Americans to place an ever-greater emphasis on ties to continents other than Europe.

2.2. THE WIDENING IMBALANCE IN MILITARY CAPABILITIES

The ratio of defence spending between NATO's European members and USA was relatively constant till 1999, while Europeans spent about 60 per cent as much as USA alone. But the USA defence budget rose from 280 billion US dollars in 1999 to 400 billion in 2002, while European spending stayed about the same. Due to that Europe's role decreased to 40 per cent. But this is only part of the problem. Most European armies lack the new military communications technologies and big European military units cannot move outside the EU at any point in time. In Iraq the Americans were relieved that they only had a real military cooperation with the British troops. The bigger this gap grows, the easier it is for Washington's unilateralists to argue that if USA need to assistance of other countries, it is better off with ad hoc coalitions than long-term alliances.

2.3. THE EU COMMON FOREIGN AND SECURITY POLICY AND NATO

The EU has set itself ambitious new targets, with the Common Foreign and Security Policy (CFSP) announced in 1992 and with European Security and Defence Policy (ESDP) announced in 1999. There have been some real achievements, for example in April 2003 the ESDP took over NATO's small peacekeeping mission in Macedonia, and right now is taking over peacekeeping in Bosnia. In June 2003 the EU launched its first really own military peacekeeping operation in Bunya (Congo), without any help from NATO. But still ESDP does not have enough credibility even in Europe. When some leaders of EU big member states proposed during the defence summit of April 2003 their own scheme for European military planning staff, distinct from NATO, they risked damaging not only NATO, but also the ESDP.

EU enlargement made already functioning of EU more complicated. The process of drafting the new EU constitutional treaty, which coincided with Iraq crisis, divided European states in many aspects. As Constitutional Treaty will set up a European defence capability separate from,

and even rivalling, NATO, a new division lines among European states were greeted. There are not so much division any more between large and small, rich and pure, even between federalist and intergovernmentalist, but between so-called New and Old Europe, between core Europe and outsiders. Many West-European and especially East-European countries are instinctively in favour of new transatlantic agreements between the EU, USA and Canada, because these countries do not like the idea of a core group led by France and Germany. Great Britain and also Spain, Italy and Poland want to play more important role in a new European Union.

3. NEW EUROPE AND DEVELOPMENT OF TRANSATLANTIC RELATIONS.

A confident and outward-looking European continent is vital for the stability of the world – and of Europe itself. This should be a Europe which is more open and cooperative, a Europe whose openness to global change and its strategic global partners is made possible by the assurance that comes from making its own policies and inspirations more open, more responsive and more credible to its citizens.

Today all Europe's hopes for its future development depend upon recognition and positive response to the currents of global change. No a European State, even a most powerful, can by itself mount an effective response to the unprecedented threats and challenges that face Europeans today in a globalize world.

Widening of the Europe and its cultural and political values, its soft powers, is possible to the East, South and West. EU has already coherent strategy for cooperation with Russia and other East European countries, and also with Mediterranean and North African countries. But divisive issues mentioned above does not allow developing fruitful cooperation between EU and United States. As Romano Prodi said during his speech on Transatlantic relations International Advisory Board –Citigroup meeting (Paris, 12 March 2003), “hard thinking will continue on both sides of the Atlantic”. He added: “There is the possibility of creating a common research area. Europe and United states are also considering the possibility of working together in new ways to stimulate economic growth. We want to strengthen the Positive Economic Agenda and further step up the integration of our economies” (2).

This was well understood also by new US administration after 2004 presidential elections. Formally, the road for President George W. Bush's successful tourney in Europe at the beginning of 2005 was paved by the new charming leader in foreign policy – the Secretary of State Condoleezza Rice. Yet, practically Europe had to forget its earlier dissonance with the same Bush, with whom a great difference in mind was apparent only a few years ago. Limited resources and economic recession in Europe has constrained Europeans to alter their understanding of the security of a national state and international co-operation

Meeting president Bush all the European leaders declared that at least in the field of security and economic policy Europe and America have much more in common than different. Even more, the President of France Jacques Chirac considered the further intensification of transatlantic ties appropriate to achieve stability in Iraq and to prevent nuclear risk from Iran.

Persistent fear of terrorism, increasing political and economic pressure from the Middle East and different countries in the Far East has forced the European leaders to co-operate more closely both with the USA and Russia.

Modernization of the economic area in Eastern Europe, including Russia, and Middle East is understandably in the centre of the economic interests of Western Europe and America as well. Bush's - Pupa's meeting in Slovakia also gave some signs of it, as after the meeting the Russian president announced bulky co-intentions to transport Russian oil and especially gas to the USA starting from 2011. Two months later, in April 2005, German State Chancellor G. Schröder also concluded a new gas agreement with Russia.

WHAT EUROPE SHOULD DO MORE FOR DEVELOPING CREDIBLE TRANSATLANTIC COOPERATION?

First of all Europe should enhance his military capabilities and spend more money on the crucial capabilities they lack today. During NATO's Prague summit in 2002 European states agreed to take responsibility for the implementation of eight specific capability goals. All European countries need to prepare higher number of professional troops ready to fight against terrorists. But recent cuts of defence budget in some of EU member countries have damaged the quality of European arm forces. Europe should agree also to spend more money for research and development related with defence and fight against terrorism.

Secondly EU governments and EU Commission should push ahead strongly with the Lisbon 99 agenda of economic reform to make European economy more competitive in the world. Stronger European foreign and security policy is impossible without higher economic growth and competitiveness. Higher growth is not possible without trade liberalization, tax competition, technological innovations, efficient governance and other factors of high competitiveness. Europe should pass also painful pension and other social policy reforms to tackle better new demographic situation.

Today the Transatlantic economy accounts for some 50% of the world GDP and 40 % of world trade. Europe and United States are largest trading partners in the world and largest investors into each other's economies. But already more than half of the growth in global economy comes from East and South-East Asia. Asia is, since 1993, Europe's fastest-growing export market. Japan and China are already among the six biggest economies in the world.

Recognition of these facts should be a good basis for further cooperation and opening of trade and harmonization of trade and economic policies between the EU and the United States. Harmonization is needed first of all in civil aviation, agricultural policy, competition policy and issues relating the development of the E-economy.

Stronger economic cooperation between EU and United States should be somehow also institutionalized. Already number of initiatives has been taken in this field. In 1997 the European Commission issued with The New Transatlantic Marketplace initiative. In 1998 the EU-USA Summit meeting passed the declaration of the Transatlantic Economic Partnership (3, p.26-27). Today already much wider cooperation needed and establishment of the North-Atlantic Eco-

conomic Area (NAEA) might be a solution, where EU, NAFTA and EFTA countries should agree on free trade agreement and should afterwards work together in many other fields of economic policy on the basis of intergovernmental cooperation, multilateral systems and mutual respect.

As the UK is the closest European strategic partner for the USA (about 40% of America's direct investments into Europe go to Great Britain, more than into Germany and France in total), UK should play more important role in fostering of transatlantic relations. Great Britain and other EFTA countries should renew their cooperation framework, stimulate cooperation with Nordic and Baltic Sea area countries, and even join to US initiated Enhanced Partnership in Northern Europe partnership organisation (EPINE). This will help to build bigger alliance of countries, which appreciate economic freedoms and want to increase competitiveness in Europe.

Thirdly Europeans should overcome the division between New and Old Europe; they should overcome two rival philosophies about how to deal with US powers. Not only three, but big six European countries should take a lead in trying to work out a common approach how to overcome decline of European hard powers. From other hand Europeans should help Americans to overcome decline of American soft powers. For strengthening of Transatlantic cooperation there is urgent need to find new formula how to combine American military and economic strength with European soft powers and high level of human capital. This is possible with preparing of new Transatlantic Treaty with the aim to create North-Atlantic Security and Economic Area (NASEA) with common transatlantic institutions. This might help to overcome stagnation and stimulate reforms in old EU and also UN institutions. North-Atlantic cooperation should become a new form of regional cooperation in globalise world, as European integration played crucial role in keeping peace and developing prosperity in Europe after II World War.

Whatever form closer cooperation between EU and US takes, this must be done in a way that it is not seen as an alliance against the interest of the other countries. WTO Cancun meeting teaches that even good EU-US agreement is not enough to meet the challenges of the 21st Century.

4. POSSIBLE ROLE OF BALTIC STATES

The Baltic States are known today as a small, but rapidly and positively changing country, which have lot of experience in the field of foreign and security policy, social, economic and political innovations. Baltic States have passed number of interesting economic experiments during the period of transition from totalitarian planned economy to the modern market economy. We can say that today's extreme liberal economic policy of Estonia is also experiment, at least in EU context. Heritage Foundation's report "2005 Index of Economic Freedom" credits Estonia with having the 6th freest economy in the world. So Estonia still offers one of the most liberated economies not only in the East of Europe but also in all Europe.

Now all Baltic States can work together in preparing and implementing economic reforms in Europe. Rapid economic development and small dynamic societies could contribute positively also towards increasing Europe's global competitiveness. Tony Blair explored this idea during EU British Presidency in 2005.

Northern region of Baltic Sea Area can become an incubator of economic growth for the whole of Europe. But today overregulated EU economic environment, 23 thousand of regulations and directives have tendency to eliminate the factors of competitive advantages of free economies in transition countries. To keep at least part of the present economic freedoms there is need in some fields (for example agriculture and regional policy) to reduce EU competences in accordance with subsidiarity principle. Some countries in transition can live without complicated and expensive CAP if resources allocated for supporting agriculture might be used for other purposes. These countries do not want to give up most of their present economic achievements and this is also in Europe's interest, that the most competitive new economies in Europe will not fall apart in EU overregulated economic environment.

The EU Commission should be interested first of all that Baltic States would continue with present conservative and liberal economic policies and even become a model for Europe, at least for East and Central-Europe. During Soviet times Baltic States had such an opportunities to implement economic instruments different from general economic policies and in some areas these countries were known as a field for economic experiments. Baltic States could play a similar role also in EU. Implementation of this idea depends up on the political will of leading political parties in Baltic States and as well of EU institutions and most of EU member state.

In conclusion there is need to underline that Transatlantic cooperation should become the driving force for reforming of European economy, as Franco-German reconciliation played crucial role for European economic integration so far.

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ENTREPRENEURSHIP DEVELOPMENT SPECIFICS IN THE WESTERN BELARUS REGIONS

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ABSTRACT. *Attempt of comparison of enterprise activity of inhabitants of western and east regions of Belarus with use of materials of population census, statistical data and results of social researches is undertaken. The research was carried out with the INTAS support within the project “Cross-border Cooperation and Partnership in selected NIS countries and the Consequences of EU-Enlargement: Fostering Entrepreneurship in the Ukraine, Belarus and Moldova” (grant № 04-79-6991).*

INTRODUCTION. In modern theories of regional development small entrepreneurship is considered to play an important role as a factor of economic growth in the certain territory [1]. Especially impressive is the contribution of small business to solution of employment problems and to innovation activity intensification in industrially developed countries. At the same time, many experts consider the growth of disproportions in social and economic development between western and eastern regions to be one of important features characterizing the changes in spatial structure of Central and Eastern Europe (CEE) countries' economies. In western regions, as a rule, economic linkages with west-European partners develop faster; new competitive productions grow more intensively. In western regions of CEE countries the level of unemployment is on average lower [2, p. 9].

In the line of Soviet-Polish border of 1921-1939 years Belarus is clearly divided into two regions, the population in which possesses the differing historical experience and in some cases – the specific regional subculture. The territory of Western Belarus makes about 40% of the countries' territory. Three million people out of ten million inhabiting the country live in the west of Belarus.

Western Belarus is a half agricultural region, where the viable traditional rural culture has been preserved; Eastern Belarus is an industrial region, where the large cities lay in the background of regional cultures. Industrialisation of western part of the country has started to develop only before collapse of the Soviet Union [3]. During the years after World War II different regions of Belarus had different economic specialization; but also the different social and economic structure has been established in them. In Eastern Belarus 76% of population live in cities and 24% in villages. In Western Belarus 60% of population is urban and 40% is rural [4].

In the end of XIX – beginning of XX century the level of industrial development did not differ significantly between eastern and western territories of Belarus; neither did the level of entrepreneurial activity of landlords and noblemen. For example, the largest quantity of plants and factories belonging to nobles have been established in Mogiliov (which belongs to eastern part) and in Grodno (which belongs to western part) provinces [5, p. 12].

In the years 1921-1939 Western Belarus was a relatively backward rural suburb of Poland and was used overwhelmingly as a source of raw materials and low-priced labour force, and as a sales market for Poland's industry. In industrial respect only Bialymstok industrial district has been developed (only two regions of it belong to territory of Belarus nowadays: Grodno and Volkowysk regions). This being said, on data of 1928, about 2 thousand enterprises have acted in Western Belarus, 80% of them have employed from 5 to 20 persons; craftsmen amounted to about 50 thousand [6, p. 421].

In Eastern Belarus, small entrepreneurship has developed most intensively during the New Economic Policy course (1921-1922). Small and medium-sized industry during that period has taken the determining position in industry of Belarus. On number of employed and on volume of production in 1923 it has considerably left behind the large industry. Its gross product has amounted to 60% of production volume of the whole industry of Belarus. However, already starting from 1923 the government of USSR has set the task of destroying the bourgeoisie as a class [7, p. 113].

We will try to analyse whether nowadays there exist differences between eastern and western regions of Belarus from the viewpoint of conditions and the level of entrepreneurship development.

REGIONAL FACTORS OF ENTREPRENEURSHIP DEVELOPMENT IN THE REPUBLIC OF BELARUS

Small enterprises are unevenly distributed in the territory of the country. Their main share (56%) is concentrated in the capital city Minsk. The relatively high level of entrepreneurship development is also typical for district centers and industrially developed cities; complementary to urbanization, this is connected with influence on this indicator of the higher educational level of population, which is an indicative feature of cities of such a type. This is confirmed by a sociological survey carried out by international team of scientists within TACIS project "Revealing the needs of support of small enterprises in Ukraine, Belarus and Moldova for development of support programs on national and regional levels": 80% of interviewed respondents - owners of small and medium-sized enterprises - out of those who got into the sample group, - have received the high education. As noted in the short report on this survey, this makes up the distinguishing feature of countries with the transitive economy in comparison with countries with more mature market economies [8].

On results of population census 1999 in Belarus one can receive one of indicators characterizing the generalized level of entrepreneurial activity of population in regions of the country – the share of employers and people working at their own expense, in the whole employed population. Spatial distribution of this indicator's value allows noticing the higher entrepreneurial activity of population in Brest and Grodno districts as well as some western regions of Minsk and Vitebsk districts, comparing to Eastern regions of the country.

Conclusions drawn from population census results are confirmed by correlation analysis of data in regions and large cities of the country, which was done with help of indices of entrepre-

neurship development factors. Analysis of entrepreneurial activity dependence separately for regions and cities of Western and Eastern regions has shown that besides industrial development of the territory and level of population education there exist some additional factors, which facilitate the entrepreneurial development of inhabitants in particularly Western region, because, by the same value of generalized index of population' educational level and volume of industrial production per head of population in Western and Eastern regions and cities of the country, the Western are featured by at the average higher values of entrepreneurial activity of the local population.

One of possible reasons for such difference is the shorter period of existence of plan economy in Western regions of the country, hence the higher degree of preservation of social and psychological stereotypes featuring the market economy. An important influence on such mentality of the local population is doubtlessly imposed also by ethnical and confessional factors. For instance, in national structure of Grodno district population the Poles constitute almost one forth – 24.8 % [9, p.355]. Historically it has been so that in western districts of Belarus the share of population in catholic confession, which is dominant in the neighboring Poland and Lithuania, is much higher than in eastern regions of Belarus. The attitude of Catholic Church to the personality of contemporary entrepreneur is indicative. At the conference “Globalization and social responsibility of the entrepreneur” in Vatican, March 2004, the president of the International Confederation of Entrepreneurs Etienne Vibaux has remarked that entrepreneurs in spite of high tensely of competitive struggle are the personalities who save their own dignity and the dignity of others, respectfulness to personality [10].

On the other hand, a certain influence could be imposed by cross-border cooperation with countries which have achieved certain successes on their road of market transformations (Latvia, Lithuania, Poland). So, by the beginning of 2004 in two western districts of the country (Brest and Grodno) 522 enterprises with foreign investments have worked, whereas in three eastern (Vitebsk, Gomel and Mogilev) – 487. Herewith, the population of two western districts has constituted 2.6 mln. people, and of three eastern districts – almost 4 mln. As of same point of time, in Belarus there have worked 692 organizations with investments of western neighbors – Latvia, Lithuania and Poland, - and 579 organizations with investments of the eastern neighbor – Russia. Noteworthy, the total population of western neighbor countries is 44 mln. people, of Russia – about 145 mln. people [4, p. 50, 51, 53, 591, 592; 11, p. 153-154].

Western countries which are the neighbors of Brest and Grodno districts are for them the important partners in external trade as well. So, in the total volume of international trade of Brest district Poland takes the third place (after Russia and Germany); in Grodno district Lithuania takes the second place (after Russia), and the third place is taken here by Poland, which outpaces Germany here [9, p. 136, 137, 449, 450].

The citizens of Belarus take the third place between citizens of other countries on visits to Poland (after citizens of Germany and Czech Republic). The citizens of Belarus also take the third place as for total sum of currency spent on its territory and on the sum of money spent in Poland per one visiting Belarusian citizen. About 80% of all purchases in Poland in the Polish territory is done by Belarusians on the depth of to 20 kilometers from common border. Thus, even on the level of small trade, the neighborhood with the wealthier West enriches primarily the western Belarusians. Similarly, such phenomena is observed in Poland in the regions which neighbor to Germany. The larger investments, the best opportunities to find the job in Poland are available close to border with Germany [3].

A possible negative factor which influences the entrepreneurial activity of population in the southern part of Eastern region is the radioactive contamination of the territory. The regions of Gomel, Mogilev and Brest districts, which have suffered from the accident at Tchernobyl Nuclear Power Plant (NPP), have the much lower level of entrepreneurship development.

For the more objective analysis of regional factors of small entrepreneurship development in the country the data is required on attitude of population to entrepreneurship, the estimations of small enterprises' managers of external environment favorability (business-climate) in the given territory, and other qualitative characteristics which can only be received by means of sociological investigations (inquiries, questionnaires, interviews and so on).

PECULIARITIES OF ENTREPRENEURSHIP DEVELOPMENT IN WESTERN AND EASTERN DISTRICTS OF THE REPUBLIC OF BELARUS ON RESULTS OF QUESTIONNAIRE-BASED INQUIRY OF ENTREPRENEURS

As a part of research of the project „Competitiveness of region by transition to market economy. International comparative analysis” in a framework of the Committee for Science Investigations (KBN) of Poland grant №5H02C02221, awarded to Torun university named after N. Copernicus, in particular regions of Belarus, Lithuania, Latvia and Poland in the years 2002-2003 the inquiry of entrepreneurs has been undertaken. In Grodno (western) and Vitebsk (mainly eastern) districts of Belarus 124 managers of enterprises have been interviewed: 60 in Vitebsk district and 64 in Grodno [10].

The acceptable in the given locality qualification of the labour force has proved to be an important factor for allocation of small enterprises, which confirms the conclusions about necessity to increase the educational level of population in order to stimulate the small entrepreneurship development. In a cross regional view, this factor is more often mentioned as a reason for activity organization by managers of small enterprises of Vitebsk district. In the Grodno district, creation of small entrepreneurial structures is noted to be facilitated by the good transport connection and the proximity of suppliers (table 1).

Table 1. Reasons for organisation of activity of the enterprise in the given locality
(per cent to number of responded in each group)

	All enterprises	Including the districts	
		Vitebsk district	Grodno district
Acceptable qualification of labour force	25.8	30.0	21.9
Suppliers' proximity	20.2	8.3	31.3
Good transport communication	18.5	13.3	23.4

Structure analysis of procurement and sales at enterprises by particular types of markets evidences that entrepreneurs of both surveyed districts predominantly work on local market. However, the enterprises of Grodno district to the larger extent than these of Vitebsk are oriented on foreign market, both in sales and in procurement (table 2).

Table 2. Structure of procurement and sales of enterprises by particular types of market (per cent to number of responded in each group)

Markets	At all enterprises		Including the districts			
	procurement	sales	procurement		Sales	
			Vitebsk	Grodno	Vitebsk	Grodno
Local	35.9	59.7	30.3	41.3	61.7	57.8
Regional	17.2	17.5	23.4	11.3	16.4	18.6
National	23.8	13.0	26.3	21.5	14.5	11.4
Foreign	23.1	9.8	20.0	26,0	7.4	12.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Making a decision on directions of investing, the managers of enterprises of Grodno district pay higher attention to product or service quality improvement. 73.7% entrepreneurs who have mastered investments in Grodno district have pointed out this direction of investments, whereas in Vitebsk district – only 42.9%. Grodno entrepreneurs considerably more require the high-quality economic information and the usage of joint advertising possibilities (table 3). This all evidences of sufficiently high level of competition in this region. The higher the competition, the more important it is to pay attention to the quality of production, and the more the information is needed, including the information about markets of sales and the prices at these markets.

Table 3. Which support from local government bodies would the enterprise like to receive in the future? (per cent to number of responded in each group)

	All enterprises	Including districts	
		Vitebsk	Grodno
Provision of high-quality economic information	25.0	18.3	31.3
Possibilities of the joint advertising	16.9	6.7	26.6

Analysis of responses of enterprises' managers has allowed revealing some differences in mentality of entrepreneurs in western and eastern districts. So, when answering the question which support from local government bodies for development of the company the entrepreneur would like to receive, most respondents from western region have chosen the option "economic freedom, non-interruption of authorities into activity of the firm". At the same time the East-Belarusian managers of small enterprises from Vitebsk region have mostly wished different kinds of assistance in receiving the financial resources to be gained from interaction with authorities.

Analysis of questionnaire survey results has allowed confirming some earlier drawn conclusions about regional factors of small entrepreneurship development and about necessity to improve the system of state support of it with due account for regional specifics.

* * *

Thus, the differences in entrepreneurial activity of the population in the western and eastern territories of Belarus, from one side, have been caused by cross-border collaboration with the countries which have achieved certain success on the way of market transformations. But on the other side, undoubtedly, it also is the consequence of different attitude in the society to the enterprising people, which reflects on the consciousness of people through 2-3 and more generations, being an essential factor hindering or facilitating the development of the private entrepreneur's business on the base of mentality, ethnical, confessional and other characteristics of the local population. This circumstance should necessarily be taken into account when developing the national and regional strategies of entrepreneurship development.

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THE INFLUENCE OF ECONOMIC DEVELOPMENT TO THE NATIONAL SECURITY: THE CHANGING PERCEPTION IN THE PROCESS OF GLOBALIZATION

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ABSTRACT. *Despite the central importance of economic development and national security, relatively little is known about their interdependency and synergy in combining new global threats and exploring new opportunities. The research setting provides a distinctive perspective for examining the relationships between economic development and national security in the process of globalization. The research is pointing out three ways in which the security concept is assumed. The first one is the strategic-military view that embraces the territorial integrity of sovereign states. The second one is based on human security and embodies individual personal surroundings and community. The third concept of security points to a broader perception of surroundings and involves global environmental tendencies in the issue of security. Despite the differences between these three concepts, the issues are interrelated and comprise a joint system of national security.*

Key words: economical development, national security, human security.

INTRODUCTION. The protection and expansion of democracy is the national security interest of the many democratic countries around the world. Based on that, there was an unassailable argument about the dependency of national security on economic development. This argument rolled out, that standard stimulus for democratization, as one of the security issues, has been economic development [6]. The changing environment conditions, new threats for national security, and a new opportunity for economic development separate these two dimensions. Despite the central importance of economic development and national security, relatively little is known about the synergy of their relationship in combining new global threats and exploring new opportunities. The research setting provides a distinctive perspective for examining the relationships between economic development and national security in the process of globalization. In particular, the research focuses on the new perception of economic development, its role, and its impact on the national security in a changing environment.

The impact of economic development on the national and regional security is not a new idea. Economic stability and development was the initiative of G.C. Marshall's plan, which embodied the European recovery as well as the sustained peace in Europe. The economic development and stability in the environment are the main points in today's EU construction. The declaration of European Space Agency, which is responsible for the sustainable development, security and defense, is based on the idea that "the provision of the necessary instruments for economic development, communications, transport and energy infrastructure, environment protection, and

peacekeeping cannot be left to others” [11]. Economic development and its impact on the national security as on as to the peace in the world was and remains one of the main ideas.

Problem: The transformation in Central and East European countries led to a different security perception and a different defense policy. It is interesting to discover how new threats to security after terrorist attacks on New York, Madrid, and other places alter the role of economic development in the concept of state security. This perception in Central and East European countries particularly catches attention. *The research setting provides a distinctive perspective for examining the relationships between economic development and national security in the process of globalization.* In particular, the research focuses on the new perception of economic development, its role, and its impact on the national security in a changing environment.

Objective: The presented research had two main aims: (1) gain a new perception of national security in a changing environment of the 21st century and (2) to gain a better understanding of the impact that economic development has on the national security issues.

Methods: Two types of analysis were used for these aims: qualitative theoretical research and quantitative content analysis. While the theoretical research was based on the literature of social and political science, the official documents about national security were selected as a base for the quantitative content analysis.

1. NEW PERCEPTIONS OF SECURITY: THE CHANGE FROM GENERAL TO HUMAN SECURITY IN THE GLOBAL ENVIRONMENT

The concept of national security involves the part of an entire security model, which is based on political, military, economic, social, environmental, and human aspects. Each of these aspects is the main topic in political and social sciences; therefore the security area is very broad. Numerous definitions connected with ‘security’ have been proposed. Scholars from different disciplines have offered contradictory of the issues of security and there is no agreement as to what the definition of security should involve. In spite of this, there seem to be new trends in the perception of “security”, which are important when analyzing the interdependency of the idea of security and economic development. Therefore, this part of the article highlights the main tendencies in the literature about security, which are moving from state security to human security within a global environment.

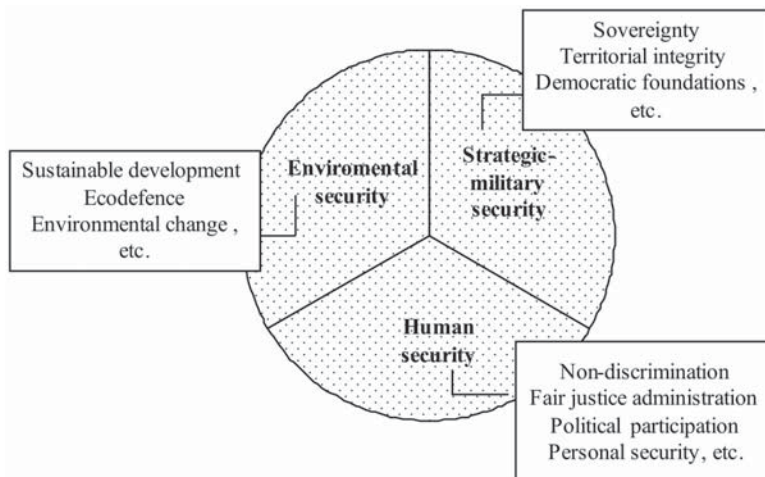


Fig. 1. Security concept

There seem to be three approaches to the security concept in the development of a national security system (Figure 1). The first one is the strategic-military view. It involves the territorial integrity of sovereign states. The second one is based on *human security* and embodies individual personal surroundings and community. The third approach to security points to a broader perception of surroundings and involves *global environmental tendencies* in the topic of security. Despite the differences between these three concepts, the issues are interrelated. They comprise a combined system of national security.

1.1. STRATEGIC-MILITARY APPROACH TO THE SECURITY ISSUES

The *strategic-military* approach to security embraces the territorial integrity of sovereign states and highlights military action. This view is dominant in the international relations. For example, the main point of the United Nations Charter is the protection it accords the domestic sovereignty of its member states [31]. Security studies and the security establishment have long focused on foreign and defense policy mechanisms to avoid, prevent, and if need be win inter-state military disputes [6]. This view in particular is heightened in those countries where the real threat to territorial integrity is the highest.

For example, Miroslav Baros in his research found that people's right to self-determination and a state's right to preserve its territorial integrity was broadly analyzed in case of Macedonian [1]. The increasing activity in preserving current borders was analyzed in Russia's case, where the former Soviet republic of Georgia has stated its desire to join NATO [13].

The traditional view on security prompts greater investment in the defense system. Lord Robertson, former Secretary General of NATO, by focusing on new security threats like terrorism, failed states, and the proliferation of weapons of mass destruction, called upon countries to "put stronger emphasis on the long-range application of force, deployability, sustainability and effective engagement" [23]. By moving away from the inefficient "threat-based" strategy to the new "capabilities-based" approach, the concept of state territorial integrity is remains.

Nizar Messari, in his article *The State and Dilemmas of Security*, calls such perception as realistic. According to the author, “states aim at self-protection. However, the unintended consequence of pursuing such a policy is to create a feeling of insecurity among one’s neighbors. Thus, one state’s efforts to ensure its own security become a source of insecurity for other states...If realists argue that the only way to neutralize the security dilemma is through the logic of balance of power, this is because they define security exclusively in military and strategic terms” [20, p.13].

Messari disagrees that the security of the state *ipso facto* guarantees the security of the individual. According to OECD definition, security concerns not only the stability of the state and the security of regimes; it also involves the safety, well-being, and freedom from fear of a nation and its people [26]. Barry Buzan, who was one of the first to define not only military, but also social and economic security, in his new book *Regions and Powers: The Structure of International Security* argues that regional security complex is based on dominant social structures. Consequently, the traditional view on national security is changing according to new international threats but not enough. It does not include all aspects of security.

1.2. HUMAN SECURITY TOPIC IN SECURITY ISSUES

Another view on security focuses on social issues and shapes the perception of human security. Many national and international security strategies point out the importance of human security. For instance, the Amsterdam Treaty by spelling out five fundamental objectives of Common and Foreign Security Policy (CFSP) for the European Union, points to the development of democracy and the rule of law, including human rights [30]. Sergio Vieira de Mello, former UN High Commissioner on Human Rights, states, “...today all states recognize their legal duties to respect, protect, and fulfill the civil, cultural, economic, political and social rights of people”. At the same time, he argues, “...where states are unable or unwilling to do so, a fundamental failure of the essential function of government is manifest. Allow this situation to deteriorate to its logical end and a failed state is the result. More broadly, such a trend could lead to the failure of multilateralism in the post World War II system of international relations” [27, p.2].

Nizar Messari argues, “...that even if the state represents a solution to the security needs of one group of people, it may be a source of threat to another...this is so because the construction of the state is necessarily an exclusive process, and those who are excluded in some cases become a source of threat, ...in addition, the state sometimes represents a threat to its own people” [20, p.13]. The globalization process, based on the quick movement of goods, money, information and people, transforms relationship between countries. No state can fully cope with these realities by strengthening traditional state control mechanisms alone [24]. A sustainable economic and social development based on a unified standard in addition to broad a legal system can prevent such threats. A unifying event occurred in 1994, when the United Nation Development Programme (UNDP) issued its *Human Development Report* focused explicitly on the topic of human security [21, p. 26]. Human security was perceived as a concern for human life and dignity. The report points out, “...the concept of security has for too long been interpreted narrowly” and accentuates four essential characteristics of human security: it is universal, the components are interdependent, it is easier to ensure early prevention, and it is people-centered [33]. The theoretical defini-

tion of human security was bordered in a number of studies, and it involves many indicators from environmental, economic, social and institutional environments. In contrast, the practice of human security shows very narrow understanding of this issue. UNESCO–ISS Workshop Peace noted “a close overlap between <...> understanding of security and the term ‘peace-building’” [32].

UNDP proposed seven categories for grouping the issues of human security: economic security, food security, health security, environmental security, personal security, community security, and political security. In 2004 Sadako Ogata, Co-chair of the United Nations Commission on Human Security argued that, “...human security, through the protection–empowerment framework, provides better means to realize human rights. It gives equal importance to civil and political as well as to economic, cultural and social rights, thereby addressing violations in integrated and comprehensive ways” [24].

According to de Mello, “the indicators of human security are the rights enumerated in the four pillars of the great structure of international law that have emerged since World War II: *human* rights law, humanitarian law, refugee law and international criminal law” [27]. On the other hand, “taken together, these carefully articulated and agreed norms and standards address every aspect of human security: rights to food, health, education, personal security, political participation, fair justice administration, asylum and non-discrimination” [27]. The legitimating of the main core of human security fosters deeper analysis of this issue. The UN Commission on Human Security (in its report *Human Security Now 2004*) examines six areas of human security, which are deeper than the proposed categories in 1994. Two areas address the protection of people in a situation of conflict and the transition phase between war and peace, others deal with human security in peacetime:

- 1) protecting and empowering people on the move,
- 2) protecting and empowering people in post-conflict situations,
- 3) economic insecurity - the power to choose among opportunities,
- 4) health for human security, knowledge, skills and values - for human security [15].

An earlier proposed broad definition of human security is becoming narrower and more stressful for an individualized person in a global environment. At the same time, human security studies are focusing on new challenges. Paul M. Evans in his article *Human Security and East Asia* gives circumstantial analysis of the new environment for human security and points to “...the increasing significance of intrastate as compared to interstate conflict; the emergence of a new form of diplomacy that connects states, international institutions, and civil society actors; and, more fundamentally, the deepening of globalization that brings with it new information networks and media capacity, which have exacerbated the problems faced by failed and failing states, and which have produced new forces for democratization” [12]. Human security is facing the same threats as national security and it makes these concepts, unlike previously, complementary. “Defense of the “enlightened self-interest” leads one to affirm the central tenets of human security and the organization of human security on the international level leads to a respect for national security” [34]. This perception influences the concept of national security, and fosters not only the state but also human protection against harm.

1.3. ENVIRONMENTAL APPROACH TO THE SECURITY ISSUES

The third concept of security is based on *environmental tendencies*. It focuses on environmental issues and involves global environmental security, which can be issued in a non-military way. Professor Max G. Manwaring in *Environmental Security and Global Stability* suggests that the newest perspective of stability and peace is so broad as to include the environment as a security issue [10]. He points out the link between environmental degradation and instability, and conflict and, at the same time, proposes a non-military solution to this problem. Mary Jo Larson in her study on ecological security offers a cooperation and collaboration approach based on the theory of systems. According to her, the system theory “suggests that capacity-building can contribute to ecological security by enabling low-power groups to appreciate, influence, and manage their strategic interests” [17]. On analogy with the involvement of small and big stakeholder, a new perception of global security is developing. Many international organizations, like UN, OSCE, NATO, have implemented these principles in their practice.

Concerning the above, the different concepts of security are becoming more narrowly defined. At the same time, scholars, viewing security from different perspectives, investigate identical environments and perceive the same threats and similar solutions.

2. ECONOMIC DEVELOPMENT AND ITS INFLUENCE ON NATIONAL SECURITY

There is an agreement on the theoretical and practical levels about the interdependency between economic development and national security. Several studies on security and economy done in the past years show the main tendencies in these topics: (1) the bent for corporate security through cooperation in economy; (2) negative impact of unsustainable economic development on the national security; (3) economic development for stabilizing the environment of countries in crisis.

2.1. CORPORATE SECURITY AND COOPERATION IN ECONOMY

At the theoretical level the bent for *corporate security and cooperation in economy* is clearly seen from current studies. Murdock and Sandler in their research estimate inverse proportion between civil wars and per-capita income growth in the state, and establish significant damage on economic growth in neighboring countries [21]. Recently, Toshihiro theoretically investigates the economic growth and defense potential in the state [29]. He finds both national security and capital move in the same direction due to the optimizing behavior of each country. Such outcomes extend the understanding of corporate security in the region and inspire new practice into countries foreign policy. On the practical level, we have the European security system, which is going to be based on economic integration. It is generally agreed that EU enlargement expands the European zone of peace, security, and stability [3]. The stabilization effect is extending through

the economic and institutional cooperation in Bulgaria and Romania, the countries of the western Balkans, and Turkey. An enlarged EU generates stability through closer economic relations with its eastern and southern neighbors. In such a way the economic development tends to avoid new “iron curtains” in a post-Cold war Europe [3].

2.2. UNSUSTAINABLE ECONOMIC DEVELOPMENT AND NATIONAL SECURITY

Economic development creates special conditions and is this influencing national security. Such an indirect impact can increase or decrease the secure environment, because of the development, which can be sustainable or unsustainable. Marvin J. Cetron and Owen Davies are assessing the security of a nation through a set of indicators-certain specific conditions or events. These indicators show twelve important tendencies, two of them therefore are directly related to *unsustainable economic development*. One tendency is related to international conflicts, because the gap between the world’s have and have-not nations will continue to widen. The second tendency is related to terrorism threats and based on further economic disruption in the Pacific Rim as a result of the current slowdown in the American computer industry, which could lead to the creation of new terrorist organizations, the growth of existing movements [5].

2.3. ECONOMIC DEVELOPMENT FOR STABILIZING SECURITY ENVIRONMENT

Economic development, as one of the key security factors, is the main task for management in many *crisis countries*. Robert J. Barro in *Nothing Is Sacred* explains a lot of successful and unsuccessful ways to implement economic stability in post-conflict or post-regime countries [2]. In the last years, especially hard economic tools were implemented in Hong Kong, Bulgaria and Estonia to achieve economic stability and make a big skip to strengthen the secure environment. The interdependency of national security and economic development is analyzed mostly in the studies of developing countries. Lawson and Saltmarshe analyze the case of North Albania from the point of view of the economic consequences of a breakdown of security [18]. Saunders and Shang examine the market economy impact on the security of China [25]. These studies lead to the idea that “the weaker the state, the lower is the tax compliance, which in turn curtails the ability of the state to provide the security” [18].

Currently, studies of national security propose *broad perception* of the topic. Such a broad view is useful because the security environment in the 21st century is different like before. Previous predictions that the 21st century is going to be the most difficult in overcoming “real threats of ecological disasters, economic turmoil and financial crises, are not enough comprehensive” [8]. Currently, there is a popular understanding that separately from social, political and technological support the economic solutions cannot solve all national security problems. For example, Kim Cragin and Peter Chalk concluded that economic development policy does not eliminate terrorism, and only when economic development properly supported by social and others policies, it can inhibit violence [16].

The new threats in a global environment are changing the impact of economic development. The attribute of the 21st century - globalization problems were not as much important when

Christopher W. Hughes in *Japan's Economic Power and Security* developed his theoretical model. The author discussed the possibility to apply economic power like a substitute for military power by slowing down Japan's security threats from North Korea. Hughes supposed that less economically developed countries lack economic security. This generates military behavior. In the author's theoretical model security problems serve to solve economic issues, just like unsustainable economic development of powerful, and economic insecurity of weak countries. Hughes proposes only economic solutions to these problems. Such a split approach to the national security problems is not applicable today.

The latest research results in economic development and national security show the global area of these issues and demonstrate the indirect connection between them. Nevertheless, the traditional direct impact of economic development on national security remains. Therefore, the economic impact on national security should be analyzed on two levels: primary and secondary.

3. THE EFFECTS OF ECONOMIC DEVELOPMENT ON NATIONAL SECURITY

The importance of economic development to national security is varying by the field of analysis. In the strategic-military field we have a direct budgetary impact; in human and environmental security fields we find both a direct and an indirect impact. Before an assessment of different impacts of economic development on national security some views have to be discussed.

3.1 PRIMARY EFFECTS OF ECONOMIC DEVELOPMENT ON NATIONAL SECURITY

Primary effects of economic development on national security include the effects that could have a direct result on the rise or reduction of national security. Initially it is about *additional economic resources* that can be used for the national security system. As noted by Casetti, "economic development brings about a surge in political, economic, and military power" and it can propel large countries "to 'major power' or 'super-power' status" [4]. Such a view is conversed in the latest works, like in Joseph S. Nye book *Soft Power*. The author argues, "a strong economy not only provides resources for sanctions and payments, but can also be a source of attractiveness" in international politics [22]. It can create 'soft power' and increase the level of national security.

While going deeper in to the interdependency between economic development and national security, the expression '*economic security*' is used. Economic security deals with open borders and it means opening one's borders to allow one's neighbors to cross when bearing goods to trade or money to invest in companies and to spend on goods [8]. According to the International Labour Organization (ILO) report, economic security has a positive impact on the happiness in the countries, herewith it promotes growth and stability [9].

Since economic development is no more understood only as a gross domestic product, turnover of retail trade or level of investments, it involves many other economic indicators, proposed

by researches in the field of economy. For example, the ILO analysis shows that the global distribution of economic security does not correspond to the global distribution of income (South and South- East Asia have greater shares of economic security than their share of the world's income) [9].

There is a broad theoretical discussion concerning indicators for economic security and many proposals about this issue are given. In my view, Marvin J. Cetron and Owen Davies gave the deepest and most controversial concept about the indicators of economic security that have primary effects on national security. They argue that economic indicators, like percentage of home ownership as well as the increased numbers of expensive homes on the market make big influence on national stability (table 1).

Table 1. Economic indicators for National Stability [5]

Economic indicator	The way of influence on national security
Percentage of home ownership	A high rate of home ownership suggests that wealth is being distributed relatively fairly and indicates that much of the population has a stake in the country's continued stability and prosperity.
Percentage of imports	In the absence of some balancing factor, the need to import an unusually high fraction of a nation's goods suggests the absence of a native manufacturing base, and perhaps the existence of widespread poverty.
Percentage of exports	Strong exports of manufactured goods suggest a prosperous economy, and therefore a stable nation; an export economy based on raw materials suggests the reverse.
Difference in income and wealth between the richest and poorest deciles of the population.	A wide gap between the rich and poor is one of the most reliable warnings of social and political instability.
Transfer of wealth to other countries	In the absence of other investment incentives, this may suggest strong doubts about political stability among those well positioned to make such a judgment.
Increased sales of diamonds	This may reveal conversion of wealth to easily portable form, a traditional sign of instability
Increased numbers of expensive homes on the market	Another harbinger of impending flight by the wealthy.
Growing investment in homes or real estate	This strongly confirms the previous indicator
Form in which workers are paid	Payment in goods or credit--in any form other than a regular salary--indicates a severely unhealthy economy in which unrest is likely.
Access to drug funds	Drug money represents a convenient and lucrative way both to support terrorist activity and to make it pay

3.2. SECONDARY EFFECTS OF ECONOMIC DEVELOPMENT ON NATIONAL SECURITY

The secondary effects of economic development on national security are displayed indirectly. We have an economic influence on *social, personal, environmental* and other fields of securities which have a direct impact on national security. Such a circuitous impact is also very important and the numbers of studies done confirm this idea.

Economic development research institutions proposed many economic indicators that make an influence on national security. Some of examples are given in table 2.

The OECD's *Main Economic Indicators* gives a general view of short-term economic developments through the presentation of economic indicators. Most of these indicators are important instruments for the formulation of economic policy by the countries. They are familiar for and broadly composed and used by those countries and by international organizations. In addition, the methods for their collection and compilation are well established and generally adequately documented within each country [19]. Consequently, it is logical to use OECD economic indicators as a starting point in the context analysis described below.

Based on this theoretical foundation, *hypothesis* for empirical research can be formulated as follows: economically developed countries focus more on social issues in national security; they focus neither on military, nor on economic issues.

Table 2. Proposed economic indicators that make influence on national security

Federal Statistic office (Germany) [7]	Institute of Economic and Social Research (Great Britain) [14]	<i>Main Economic Indicators, (OECD)</i>	Economy reports (CNNfn) [28]
1) GDP 2) Gross value added by industry 3) Use of the gross domestic product 4) Gross fixed capital formation 5) Gross national income, disposable income and net national income 6) Inhabitants and employment	1) Short interest rate 2) Real effective exchange rate 3) Dwellings started authorized 4) Share price index 5) Long bond 6) Production tendency 7) Industrial prospects 8) Order book level 9) Capacity utilization 10) Optimism Index 11) New car registrations 12) Change in hours services 13) Consumer condense 14) Change in construction costs 15) Productivity index	1) National accounts 2) Production 3) Business and consumer opinion surveys 4) Composite leading indicators 5) Manufacturing 6) Construction 7) Domestic trade 8) Labour market indicators 9) Producer prices 10) Consumer prices 11) Interest rates 12) Share prices 13) Exchange rates 14) Foreign trade 15) Balance of payments	1) Consumer Confidence 2) Retail sales 3) Leading Economic Indicators 4) Manufacturing Activity 5) Industrial Production 6) Jobs Growth 7) Inflation

CONCLUSIONS AND LIMITATIONS

The presented research had two main aims: to release new perception of national security in the changing environment of the 21st century and to gain a better understanding of the economic development impact on national security issues. A qualitative theoretical analysis was used for these aims.

Given the exploratory character of the question, primary research findings sustain the idea about the existing influence of economic development on national security. However, no clear difference was detected for changes in the national security concept between more or less eco-

nomically developed countries. Based on this theoretical foundation, *hypothesis* for empirical research can be formulated as follows: economically developed countries focus more on social issues in national security, they focus neither on military, nor on economic issues.

The future empirical research should use a qualitative content analysis, and apply qualitative methods in catching up with a deeper understanding of the issue. Therefore, two topics for future investigations can be proposed. The first is based on the qualitative analysis and should bring an understanding not only about the new concept of security, but also about the new concept of economic development. A deeper view will bring a clear understanding of the systematic interdependency of these two ideas. Such a system is useful in creating new national security strategies as guidelines for future development. The second topic will be connected with the quantitative analysis and should embrace the comparison of the countries with differences in economic development. Such a comparison will show the distinctions between the economic development impacts on singular systems of national security.

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SOCIAL CAPITAL AND EFFICIENCY MARKET ECONOMY

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Value of idea of social capital is that, it accepts about many more realistic foundations relating of working of economic system, than of many economic theory. Especially it refers to explanations of economic processes, across social institutions. These considerations among other things refer researches about immaterial sources of economic development and also about factors creating social welfare. Theory of social capital is based on institutional analysis. D. North sees institutions as formal rules, irregular norms, customs and sanctions that help to put them into practice. Institutions are rules of game in society or more formally they are limitations invented by people, which shape mutual human interactions. According to T. Parsons institutions are rules conducting social relations, connected with moral system, which in turn qualify, of what we have to expect from other people in a given situation. Institutional process relies on defining, by means of social norms, basic rules of activity individuals, of groups and of social organizations. In other words, this is process of creation and of spreading basic institutions that qualify functioning rules of economic, political and cultural subjects important for society.

Cultural system of society determines the range and manner how market economy functions. Social institutions qualify the kind of economic system working in general order. Economic process always takes place in a definite social order, which influences the level of maximization of benefits that come from economic exchange. Type of social order, the content of which are social institutions, creates social capital. System economic is embedded in cultural system of society. The form of social capital(e.g. level of loyalty, solidarity, social trust, skill of life in community, enterprising mentality, whether ability to cooperation) decides about economic development. Economic process and economic behavior are the function of social structure and culture.

According to J. Coleman social capital is the ability of interpersonal cooperation within groups and of organizations in order to realize common business. It concerns to such features of society organization as confidence, norms and connections, which can enlarge efficiency of society making easy coordinated activities. The author gives such forms of social capital as authority relations, duties and expectations, trust, sanctioned social norms and ability of joining into groups, in order to realize founded aims. J. Coleman special meaning gives to norms and to values shared together. They make activity easy, but unfortunately they also limit others, sometimes many profitable activities. Generally seizing, social capital are institutions, which individual perceives as own supplies, increasing his benefits from cooperation and exchange [see 8; 5, p. 300-321; 9, s. 258-265, see 10]. Instead E. Wnuk - Lipiński social capital defines as all informal social connections, thanks to which the individual increases his own probability of entry to elite or keeps the position in this elite [12, p. 161]. A. Matysiak qualifies the capital as common good not private good as Wnuk-Lipiński says. Apart from this A. Matysiak classifies social capital in three forms: a. social trust, b. legal institutions that normalize relationships among men and their authorizations to supplies, c. norms of reciprocity. He calls them: tools to attain economic aims [7, p. 61].

Classical economic theory skips influence of social capital on economic relations and considers that stability of economic system depends on mechanism that redresses the balance market. This is reduction, which completely skips social norms, slighting this way influence of social - cultural system on economic process. As A. Matysiak says social capital is a common good, which cause reduction of uncertainty, that concurrent to all economic transactions. Precisely social capital reduces the costs of transaction, and that is why it makes easy economic exchange and cooperation and it civilizes market competition [7, p. 117]. In other way social capital define J. Nahapiet and S. Ghoshal, they see it as the sum of actual and potential supplies, settled inside, accessible across and descending from nets of relations possessed by person or social individual [13, p. 243]. The authors differentiate three dimensions of social capital: structural, relative (interpersonal relations) and cognitive [15, p.10]. Structures are network connections, described with help of thickness of connections, which can make easy achieving the aims; relative embraces the elements and features of social ties, created through interactions, such as trust, reliability, controlled socially norms and sanctions, obligations and expectations and identity and identification with social groups. While cognitive dimension means together shared imaginations, interpretations and systems of meanings, and in particular language, cultural codes, tales and myths [13, p. 243].

R. Putman believes that social capital creates such features of social organization as social networks, norms and level of trust, which make it easy to co-ordinate the activities, cooperation in order to attain mutual advantages” [9, p. 14]. Generally one can say, that sources of social capital is a normative system or more widely cultural system, in which every member of society moves. Thanks to this system different layers of social trust, norms of reciprocity, and also kinds of legal institution normalizing relations between men come into being. The main role in this complicated process play family, community local whether nation. These are places where every individual learns how to trust, he/she learns skills of cooperation and reciprocity, generally he/she assimilates institutional obligatory order. The important element that decides about social capital is a kind of social control - types of sanction given to individual for not obeying obligatory cultural and legal norms, which specify interaction patterns. All this influences the quality of social capital and decides about rapid of economic development. The influence on forming social capital have all institutions that are responsible for socialization and assimilation of culture - institutions educational, public and private media, all kinds of secondary groups(associations, firms etc) and state.

If we accept, that civil society is a society, in frames of which was formed thick and open network of horizontal connections, that means that the intensity of relations is a generator of a definite type of social capital. Thick network of ties stepping out between individuals and with social groups(market and independent from market [17, p. 12]) favor assimilation of legal and cultural norms and also develop processes of economic exchange, what influences the level of social trust and the quality of norms of reciprocity [9, p. 251-283].

High quality of social capital in form of thick social networks(indication is civil society), characterized by large degree of trust, together shared with values, with accepted legal influences directly on affectivity, both in economic and social sphere. The higher quality, the greater guarantee of efficiency and competitiveness of economic system. Normative system has influence on economic development, because the values and norms influence relations between men, also those about economic basis. The High level of honesty, loyalty favors to exchange market and

economic cooperation, as it arouses trust. The increase of trust lowers the level of uncertainty and risk, which always accompanies market economic relations. Besides it also makes easy undertaking common decisions and activities and enlarges accessibility to essential information, which are indispensable, to undertake rational economic decisions. This causes lowering of costs, because it diminishes outlays on gaining over of information about environment market and promotion. The low level of social trust in a given society causes the necessity of carrying these expenses. That is why culture of a given society can be the source of economic superiority [18, p. 181]. Normative system influences on competition forms, but also cooperation between men, what generates relationships between social groups and organizations.

The quality of social capital is diverse in different countries, so as the culture of these countries is diverse. These differences move more to structure and type of this capital. Not every culture generates the high level of social trust and brotherly norms of reciprocity. Ethos of market economies orders to use their own possibilities to a maximum, to maximize economic advantages, at rational utilization of possessed supplies. Other element are values regulating relations between men: honesty, keeping of promises whether punctuality. these Values favor to effective exchange market and economic cooperation; they condition the efficiency of market system. The quality of social capital stepping out in a given society, which answers these requirements, it favors to attain economic success. If content of normative system is the same with so called "spirit of capitalism" so it influences on increase of economic superiority of a given society. One can suppose, that in the most difficult situation are found societies, which normative systems are contradictory or discordant with ethos of market economy. This is an important problem, especially for those societies, which at present are on stage of creation and of developing of their own free-market organism. The question whether the culture of these societies favors whether is a barrier for development of market economy is an essential research area. Accumulated in a given society social capital, which favors economic affectivities, enterprise and economic cooperation influences on competitiveness of economic system, and this way it is the essential factor to create welfare of this society.

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THE INFLUENCE OF STRUCTURED R&D ON THE INNOVATION PROCESSES AND THE COMPETITIVE MARKET POSITION OF COMPANIES AROUND THE LUBLIN AREA

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ABSTRACT. *The report presents the outcome of a project exploring how R&D processes affect innovation in companies around Lublin between 2002 and 2004. The results prove the existence of a tendency of the local R&D infrastructure to shrink. The scientific-research expertise in the analyzed institutions is systematically decreasing, which does now and will, in the future, negatively affect the innovative potential of the manufacturing firms.*

Companies around Lublin are increasingly using the available and proven foreign technological solutions waiving or limiting own research. As a result, their competitive potential diminishes and profits plummet as the costs of innovation are rising. Satisfying foreign demand or purchasing ready-made technological solutions, while allowing the businesses to stay on the market, does not, in the long run, promote growth or development.

Key words: innovation, R&D, product, technological solutions, companies

INTRODUCTION. The scope of R&D activity and its contribution to the domestic business systematically decreases owing to the shrinking scientific research potential. The businesses prefer to use ready-made and widely accepted foreign technological solutions quitting or minimizing own research. Even the brand leaders are beginning to sublet their manufacturing resources to other firms as their main type of business activity (co-production with the world leaders) rather than make an effort to elaborate their own innovative product. The reasons are different: fear of competition, low self-esteem, risk of failure etc. The outcome of such an attitude is a decreasing competitive position of businesses and shrinking profits. Answering foreign demand or purchasing ready-made technological solutions significantly increases operational costs of the businesses, which cannot even be compensated by lower labor costs compared to the developed countries.

1. THE OBJECT AND SCOPE OF RESEARCH

Unfavorable transformations involving both national and local R&D base prompted the author of this report to undertake his own research of local businesses around Lublin in 2002-2004. The object of the study is to estimate the influence of structured D&R on the companies of the Lublin area and their ability to create a new product as well as implement manufacturing processes that would result in their innovation and competitive position on the market.

The empirical study involved 46 businesses of the Lublin area. The companies were grouped according to the trade in the following way:

- food Industry – 8 companies
- building industry – 10 companies
- chemical industry – 6 companies
- electromechanical industry – 12 companies
- electronic industry – 10 companies

All the companies apart from being divided according to the trade were further divided into 3 subgroups i.e. small businesses (14), medium (22), and large (10). We were not discriminating between the companies according to public or private profile due to the similar market operating terms. The organizational and legislative structure was not taken into account either, or whether some businesses were fully independent or branches. The introduction of such a division would not basically change the actual status of innovation risk management in the studied companies, although the author agrees, that such an insightful analysis might answer many more questions.

2. THE DEGREE AND SCOPE OF THE R&D PROCESS

The R&D process of a company is a broad notion and cannot be unequivocally defined. For the majority of the engineering and technical staff in the analysed companies R&D work involves all enterprise prior to launching a new product regardless of the amount or quality of those preparations. The significant criterion of rating those activities as R&D is the very fact that they are conducted at the R&D Centers or the Development Departments within a company. It is an oversimplification, though, because although most preparation activities connected with a product launch are now located at the R&D C's or at the Development Departments, not all the recent output of those departments is a result of their *sensu stricte* R&D activity.

In the case of the companies within the Lublin area, a new product is usually a result of:

- purchase of foreign technological solutions, e.g. license,
- purchase of new manufacturing machines,
- own R&D in the company,
- updating the existing product,
- modernizations currently manufactured goods.

Study suggests, however, that in the case of the local businesses around Lublin own R&D activity (as a continuation of basic and applied research) is not of much significance for their development (the situation is especially unfavorable for medium and small businesses) (fig. 1).

Purchasing technological solutions e.g. in the form of license or know-how is not very relevant for the companies that we were studying either. The contribution of those technologies to the overall development of a company is relatively small. It is, however, higher for large companies. It is understandable as large companies have a higher potential to accurately spot a license provider (through licensing research) and adapt the purchased solution to the specific conditions of the production.

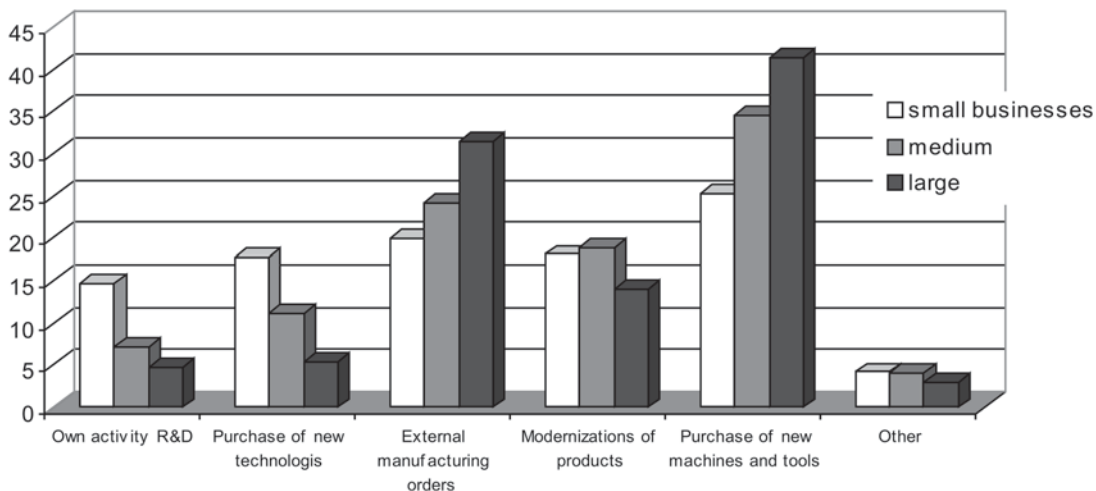


Fig. 1. The scope of innovation activity in the local companies of the Lublin area for the analysed period of time.

External manufacturing demand plays an increasingly important role in the structure of a new product. The analysed companies agree that the contribution of such orders is systematically rising. The main reason for that is the limitation of own R&D (especially applied and developmental research) and the overwhelming globalization forcing cooperation between countries. The degree and scope of the technological complexity of the order varies, from implementing an intermediate and final product, to designing technological workings of a new product, the final look of which has been outlined by the commissioner.

The most significant contribution to the structure of the new products in the Lublin area concerns the purchase of machinery and manufacturing tools. Modern tools have increasingly powerful manufacturing potential. They are usually specialist computerized devices used for manufacturing larger and more technologically advanced fragments of the intermediate or end product. The acquiring of such machinery is usually associated with the implementation of new quality products, which allows the company to introduce a new generation product onto the market or change the existing manufacturing profile. Computerized NC machines, industrial manipulators require the application of specialized technological and organizational changes in the system of measures for the implementation of the new product.

Traditionally, though to less extent, the source of the new product is the updating of the old one. Updating account for about 15% of the total amount of the newly introduced product on the market. Their largest contribution can be seen in the electrotechnical (20,5% on average) and electronic industry (18,3% on average). Whether the modernization or modification of the product can be treated as innovation depends on the complexity and scope of those changes. However,

the engineering and technical staff consider this type of activity an example of innovation regardless of the scope of the changes. Reality suggests that on the local market modernization turns out to be efficient tactics as it extends the life cycle of the product, which renders the companies unwilling to forgo this opportunity (fig. 1).

3. PROSPECTIVE ACTIVITY OF R&D INSTITUTIONS

This activity, although very important, is often ignored and eliminated from R&D scope of interest. It has been confirmed by the study, which unequivocally points demonstrates that 82% of the analyzed companies conducting R&D work do not bother with prospective research. The basic scope of their interest is current problem solving for developing a new product. Even those that admit to doing prospective research (the remaining 18%) are not fully aware of what such research should consist in because their activity in that area is usually limited to patent clearance and studying available professional literature.

4. PROVIDING R&D BASE WITH TECHNOLOGICAL INFRASTRUCTURE

The analyses show that the condition of the scientific research equipment in companies around the Lublin area is on an average level (fig. 2). In such industries as chemical, electromechanical and electronic the situation looks better as the equipment is fairly or very modern. In the food and construction industry the outlook is less favorable as the equipment there is mostly outdated or of medium quality. However, compared to the results of our previous analysis from 1998-2000, the situation looks definitely better now. The majority of the companies acknowledge that failing research work does not pay. Therefore, those firms that consciously decide to develop it are trying to secure proper financial and technological resources. Otherwise R&D work does not make sense.

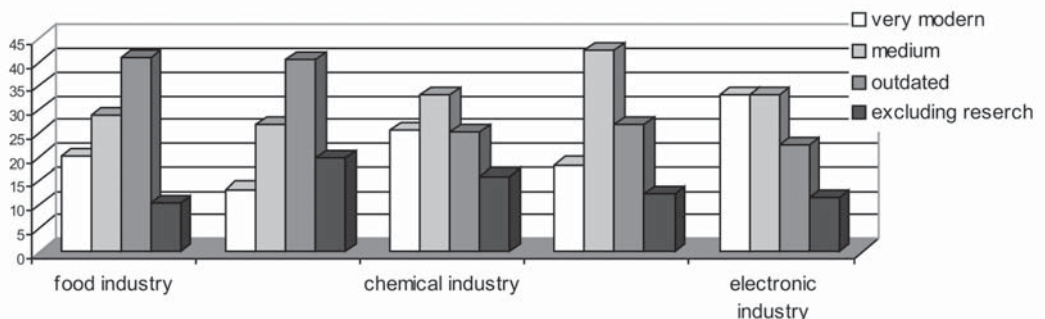


Fig. 2. The condition of the scientific research stock according to modernity standards as found in the analysed manufacturing firms (all firms)

The drawback of the studies is that although they are capable of assessing the tools and measuring instruments necessary for research, they do not tell us anything about the ways in which the equipment satisfies the sophisticated needs of research and development specialists. Talking to some scientific research personnel found them complaining about poor diversity of the instrument base, which largely limits the scope of their R&D activity. Current measuring instruments are highly specified tools often designed to do one particular task. Therefore, having a lot of different kinds of measuring equipment significantly affects the progress, effectiveness and competitiveness of their work.

5. ACCESSIBILITY AND MANAGEMENT OF SCIENTIFIC-TECHNOLOGICAL INFORMATION

The effectiveness of structured R&D depends not only on the kindness of the company authorities but also on the assigned means. If the firm is interested in this form of technological development, it must create proper working and financial conditions but also provide the innovators with basic professional knowledge meeting the world's highest standards as well as with the know-how concerning the necessary innovating techniques.

Unfortunately, as the study found, the engineering and technical personnel of the firms under scrutiny shows a considerable lack of innovation awareness (as of now, it is not being spread around the company). The situation looks bleak also as far as the employees' access to the current professional literature on the world's technological update is concerned. The study has shown that the situation looks especially bad in the area of invention. About 60% of the inquired workers think that the literature at their workplace is insufficient. The studies also confirm that in many analysed companies there are no independent specialists responsible for designing and elaborating patent information to use by those companies. According to the authors, those are the main reasons why there is such a small amount of world-scale patents on the projects submitted by the employees. Another reason is a limited access to current professional information concerning global technological development. This is the opinion of about 58% questioned employees. A considerable amount of companies, due to their poor financial condition, have limited their activity to importing only a few professional magazines from the highly developed countries. The limited access does not force or inspire the workers to conduct research on innovation at a high enough level. Sooner or later, this will affect the quality and value of their projects. Hence, among other things, poor technical and technological quality of the submitted innovation projects in the analysed firms compared to the innovation done at the corresponding firms in highly developed countries..

Systems of information management (MSI) can be built using the current computer technology as well as basing on the traditional technical and organizational resources, e.g. for document archiving we can use computer disk stations (electronic documentation) and xerox copier machines, microfilms, microfilm viewers, filing system or even office cabinets. The decision as to the choice of the information management system chiefly depends on:

- the size of the company
- its financial resources
- the importance of information in the innovation process
- workers' competence

It follows from the study that among the large companies, about 94% has implemented MSI, out of which only 44% fulfill the MRPII system standards. In the sector of the medium companies only about 55% of them have it and only 20% fulfill the standard. In small companies traditional management systems of information dominate, sometimes supported by small local computer networks (usually a few computers).

6. EVALUATION OF THE INNOVATION STATUS OF THE BUSINESSES

One of the most frequently applied indicators for the assessment of a company's innovation status is the number of new products launched on the market per time unit. The method, however, should be treated carefully because there is no grounded knowledge in the society (including the employees) about what the definition of a new product is. Different people mean different things when they use the notion of "a new product". For some, a new product is a product modified against the existing one; for some others, it will be a new version of the existing product; for others still, a new product may mean a new design, pattern or decoration of the case as compared to the existing product. However, a new product should be defined as something that performs a new function, satisfies new demand or something that is based on new technical or technological solutions, replacing the existing product in this respect⁸³.

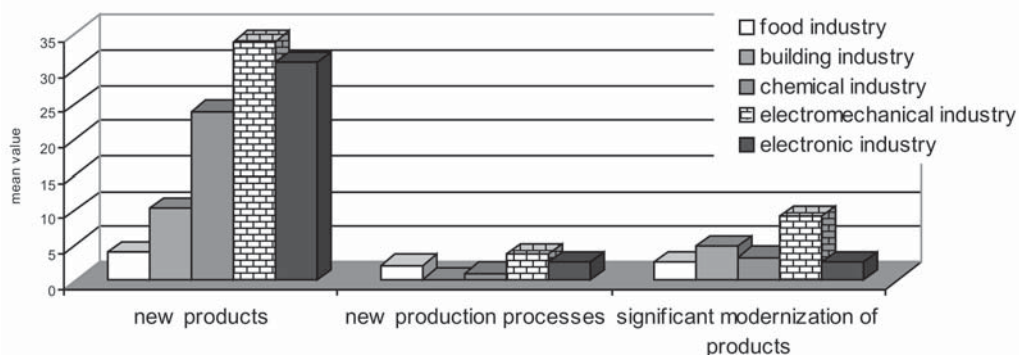


Fig. 3. The number of new products introduced to the market within the last 4 years (all industries)

⁸³ According to interpretation of The General Statistical Institute

It follows from fig. 3. that the essential symptom of innovation in the analyzed firms is product innovation. The results obtained can, however, raise doubts as to the proper understanding of the definition of “a new product” as the results are unexpectedly positive. E.g. for the electromechanical industry the mean value of the newly introduced products within the last 4 years is about 35. However, taking into account such elements as actual contribution of the analyzed firms to the market and their competitiveness, it can be assumed that most product innovations are examples of modernization or subsequent versions of the existing products or the products manufactured on the basis of the purchased (mostly recent) technological documentation from highly developed countries. It follows from fig. 3. that there is one more upsetting detail, i.e. a small amount of the implemented manufacturing processes in the analyzed firms. On the one hand, it confirms the existence of a small amount of the actually introduced true product innovations⁸⁴, and on the other hand it proves that companies do not care about the leveling of the differences between them and the highly developed countries. The technological regression has and will in the future have a very negative impact on the overall condition of the companies, because closing the distance will be extremely costly.

The same studies broken down into small, medium and large companies unequivocally suggest that large firms in the studied area introduce into the market definitely more new products than small and medium firms. For all the large companies the mean value within the period of the last 4 years amounts to about 40 new products, whereas for the medium and small firms the mean value is only about 9. It contradicts the commonly promoted idea of medium and small companies being more efficient and better adapted to the requirements of the market.

Also interesting are the results concerning newly introduced products that were a success on the market. It follows from the study that for the entire number of analyzed companies, 80,3% of all the introduced products on average were a market hit and the production of only 17,4% of all the products had to be cancelled (fig. 4)

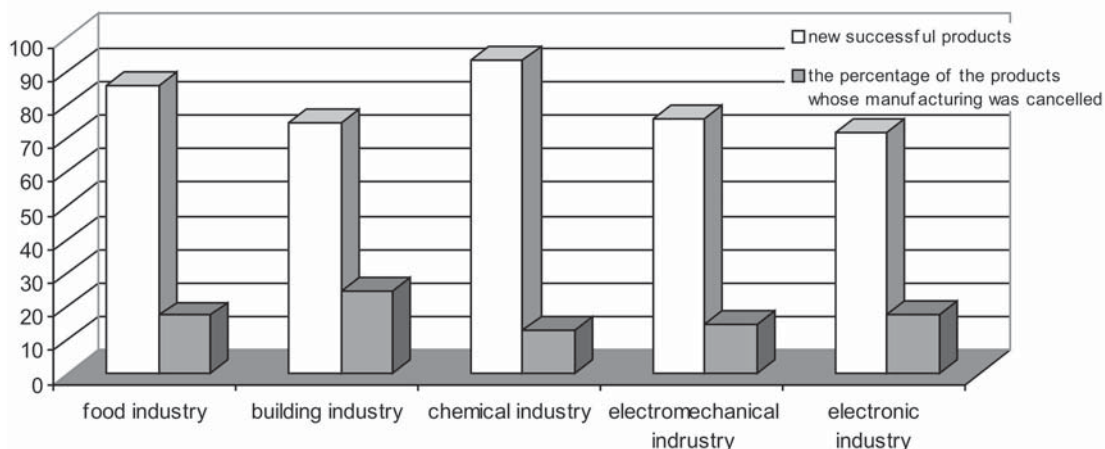


Fig 4. The percentage of the products that had achieved success on the market within the last 4 years

⁸⁴ Introducing an innovative product is often associated with mastering and applying novel manufacturing processes

CONCLUSION

The results are surprisingly good as compared to the firms' actual offer so they should be thoroughly analysed. According to the author the results may prove:

- small degree of innovation of the introduced products as for the truly innovative products the risk of introducing them into the market is definitely higher (it has been confirmed by foreign research that only about 60% of new products are a market success),
- small risk of the introduction of the new products, which means that they had been expected by the customers,
- new products are usually directed at the local market that is familiar to the manufacturers and where the needs are known
- minimal requirements of the market caused mainly by poor purchasing power of the consumers.

ECONOMIC INCENTIVES OF RETURNING THE TERRITORIES LOST AS A RESULT OF SEPARATIVE MOVEMENTS IN POSTSOVIET PERIOD AFTER THE EXAMPLE OF GEORGIA AND ITS REGIONS (ABKHAZIA, SOUTH OSETIA)

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ABSTRACT. *The building of the system including economic levers of returning the territories lost as a result of separative movements is considered as still unstudied issue and in special literature it is not elucidated. That's why the given work is dedicated just to the elucidation and study of such issues. It reflects political and economic aspects of returning the territories lost as a result of separative movements in postsoviet period, is built and offered the system of economic incentives of such return, are mapped out the ways of concretization of the system, are exposed the possibilities of their use etc.*

Last century entered the annals as a distinctive time period, when side by side with colossal progress there was fixed a great regress. Progress includes: the formation of highly developed people with regard for potential abilities; the creation of the basis for the formation of postindustrial society; the beginning of transition to qualitatively new (intensification) stage of scientific-technical revolution; the termination of contradictions of capitalist and socialist systems; the destruction of colonial systems; the beginning of global system formation etc. To regress might belong: two world wars with their destructive effects, negative political, social, economic and other results, caused by the collapse of socialist system including the Soviet Union etc.

Nineties of the XX century when postsoviet period had begun, are characterized by the strengthening of separative movements in the sphere of former socialist countries and republics. The wave of such movements covered the former republics of the Soviet Union including Georgia as well.

Separative movements mainly dramatized by external forces caused the “de facto” loss of former territories of the above mentioned countries and republics. For example in that period Georgia at first lost South Osetia (former Samatchablo) and then Abkhazia (with former Samurzakhano) with the hidden and strong support of Russia to the separatism.

The territories lost in such a way conditionally might be divided in two main parts: the first is the part which has an old, real, historical claim with the state including it and the second – having no such a claim. For example, South Osetia and Abkhazia should not have such claims to Georgia, because they have no a real historical basis for this. Though we consider that such reliance on historical foundations is not firm because they are conditional and historically can be changed in one or another nation's favor (in addition the facts certifying such claims often are not enough and reliable). Thus, in such cases, to obtain justice we should follow the facts of territorial belongings of the last period (80-90-ies of the last century).

Lost territories which are “de facto” still in the hands of separatists with the hidden support of external forces, and “de jure” in the structure of countries including them, expose political, social, economic etc. danger not only to the countries having claims on these territories, but other countries and the whole world run the danger as well.

It is clear that the returning of these territories to their legal owner countries should be one of the significant and urgent goal of all progressively thinking men of modern world and ourselves (it is inadmissible to justify or support such kind of separatism; the country supporting it will early or late get its harmful results as boomerang).

Naturally the following question is raised – how these territories should be returned in the current situations? By force (using armed forces) or by other means? We consider this question very complex, though it should be noted that one part of the society has a single meaning about this question – the returning of this territories should occur by force (using armed forces). To their opinion otherwise it is impossible, even because of some simple reasons: 1. At present the situation in the world is as follows: the most of decisions and resolutions of international organizations are not fulfilled and they have no effective force. That’s why standards of international laws are often broken. 2. Separatists and their protective forces do not give up these territories voluntarily, disinterestedly. 3. Legal owners of these territories have no possibilities to redeem them by means of secret agreements or giving incentives to any strong country to do this.

It seems that these arguments are not so weak.

In spite of this, we consider that in current situation the returning of these territories by force (using armed forces) is not possible (this will complicate the current situation and all the same the result will not be achieved). The evidence of this are the facts that, first, legal owner countries of these territories are not so strong that their armed forces could defeat separatists and armed forces of strong countries which are backing them secretly; the second, the world now follows the democratic way of life, and the society will not support and justify the returning of these territories by force (by means of armed conflict); the third, the violence and bloodshed will often cause new violence and bloodshed, that might strain and complicate still more the current situation.

This shows that the returning of “de facto” lost territories is not a simple problem. It is so complicated and complex problem that the successful solution of which requires multidisciplinary scientific approach to it. Indeed it should be solved not only legally, politically and socially but economically as well.

The building of the system including economic levers of returning the territories lost as a result of separative movements is considered as still unstudied issue and in special literature it is not elucidated.

That’s why the given work is dedicated just to the elucidation and study of such issues from definite point of view.

The system including economic levers of returning the territories lost as a results of separative movements in postsoviet period might be schematically shown by the system on the first scheme (see scheme 1).

Fig. 1 shows that the system under discussion consists of six main links. The first link consists of the complex of measures reflecting economic blockade and sanctions to be taken by international organizations towards the territories lost as a results of separative movements. The second link consists of the complex of measures reflecting economic blockade and sanctions to be taken by international organizations towards the states supporting territorial units lost as a

result of separative movements. The third link consists of the unity of economic incentives to be given by international organizations to the territorial units lost as a result of separative movements for such social, economic and cultural-educational measures, which will help to accelerate mutual understanding and reconciliation process of the units and countries which are legal owners of these territories. The fourth link consists of the unity of social, economic and cultural-educational measures to be taken by the countries – legal owners of territorial units lost as a result of separative movements for the aim of their return. The fifth link is the unity of those economic measures to be taken by international organizations that are necessary to stimulate the realization of peaceful policy of states – legal owners of the territories. The sixth link is a coordinative part. It coordinates and unites the first five links in one common system. Its functioning aims to create economic incentives to return territories lost as a results of separative movement to the states – legal owners of these territories.

The first five links of the system are divided into sub links etc.[7], taking part in the creation of the VI-th coordinative link i.e. in the creation of a common system.

At one time this system was created by us. Hence we know well that the links, sub-links, sub sub-links etc. sometimes reflect such measures taking of which now is impossible for any international organization. But, we raise the question about the revision of the regulations of organizations, a significant expansion of their rights and responsibilities, the increase of their activity and efficiency of their functioning.

A practical realization of independent functioning of a discussed system is possible and will be effective for some cases, but it will not always have a necessary result. To our mind the functioning of this system will by all means be effective only in the case if it, as a subsystem together with other subsystems (legislative, political and social), will create a single multidisciplinary complex system and will serve the functioning of such a common system.

We simplified and concretized this system and brought into line with the data of Georgia and its territorial units (Abkhazia and South Osetia) “de facto” lost as a results of separative movements (and hidden support of Russia) in the nineties of the XX century. The readers might be interested if we elucidate here main reasons of contradictions between Georgia as a postsoviet state and– its territorial units still lost “de facto” (Abkhasia, South Osetia).

It is known that Georgia is a country of ancient civilization, rich cultural heritage and favourable geostrategical position. In spite of its ancient and rich historical past it is a small newly liberated, forcedly developing but still weak state with the territory of 69.7% hundred sq. km and the population 4.5 ml.[5].

It is also known that Georgia in postsoviet period as a result of separative movements (and hidden support of Russia) lost “de facto” its ancient territories, now occupied by present Abkhazia and South Osetia (i.e. Samachablo).

Abkhazia occupying 8,6 hundred square km. is situated in the north part of West Georgia and is contiguous with the Black Sea.

Georgia lost Abkhazia “de facto” by the end of 1992, when the main part of its population (45.7%), i.e. Georgians were driven out forcedly from their old native lands. South Osetia (i.e. Samachablo) occupying 3.9 hundred square km, is situated in the north of middle Georgia and is divided from North Osetia by the Caucasian mountains. These territories from the ancient times belonged to Georgia. They were governed by such territorial units as Samachablo and Kartli.

The “de facto” loss of South Osetia (i.e. Samachablo) took place at the beginning of 1992

when the great part of its population (29%) i.e. Georgians were forcedly driven out from their old and native lands.

It is clear from the above mentioned that with the “de facto” loss of Abkhazia and South Osetia Georgia has really lost significant levers of its independence. Naturally Georgia and its people will never accept the situation i.e. the loss of its territories.

In this connection no wonder that present government of Georgia within the limits of the possible does everything to return the above mentioned territories. One of the peaceful ways to return these territories is a practical realization of the project worked out on the basis of concretizing the system shown in the first scheme and its bringing into line with the data of Georgia, Abkhazia and South Osetia.

Though this project and the discussion of concrete system of incentives connected with the project is very interesting, it still is the state secret and therefore we abstain from its publication.

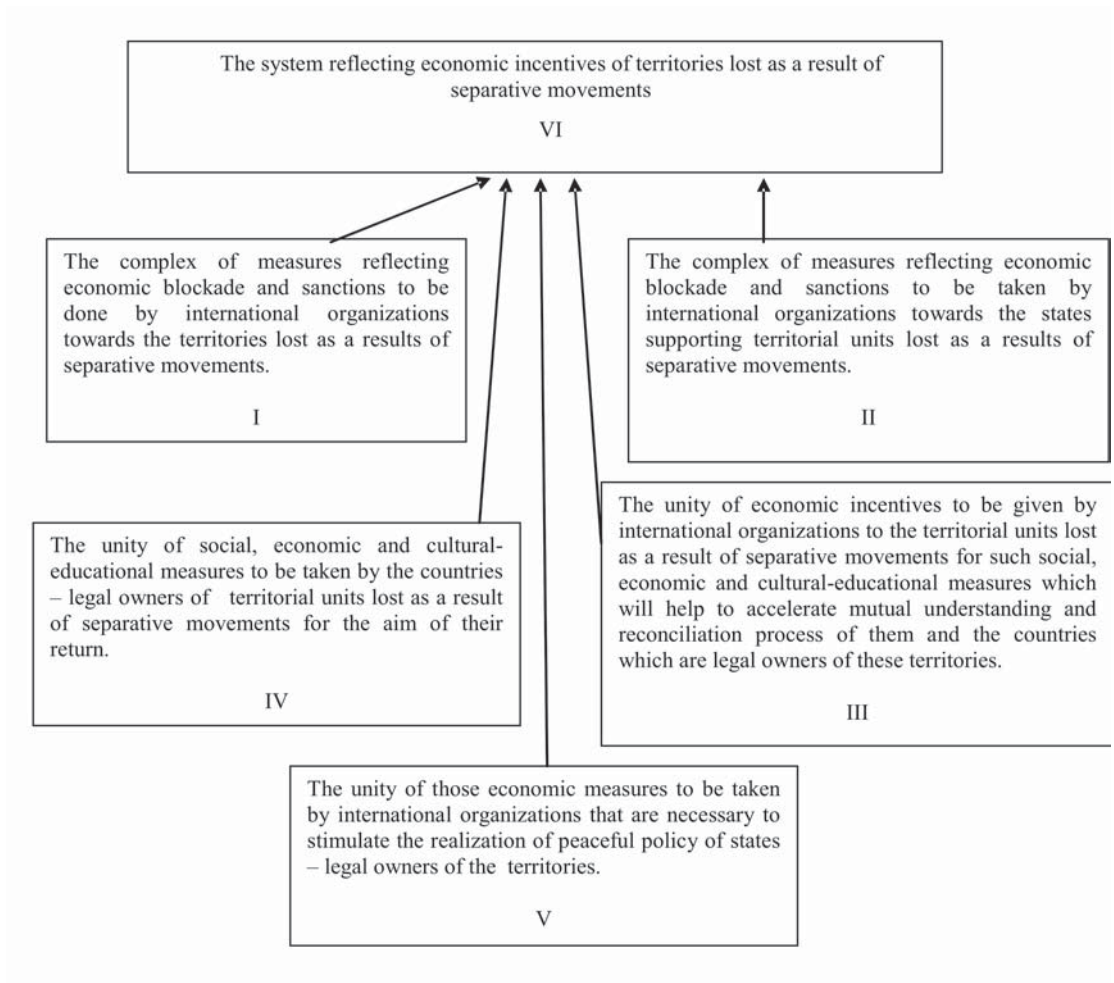


Fig. 1.

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MARKET ECONOMY. NEW CHALLENGES TO LITHUANIA'S ECONOMIC AND SOCIAL FUTURE

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ABSTRACT. *The article analyzes new challenges to Lithuania's economic and social future. It provides a detailed analysis of the problems regarding Lithuania's economic development and assessment of the present economic situation. A lot of attention is paid to analysis of Lithuania's economic reserves and potentials. The article may be of interest to those who are not indifferent to the economic and social issues in Lithuania.*

New challenges of Lithuania economical and social future are analyzed in this article. Problems concerning the development of Lithuania economics are thoroughly described and the evaluation of present economic situation is portrayed. Much effort is put into development of Lithuania economics reserves and capabilities. The article is orientated for those who are interested in questions involving Lithuania economics and social life.

1. MARKET MECHANISM AND GOVERNMENT'S ROLE PURSUING MONETARY AND FISCAL POLICY.

The system of a country's economy consists of: companies, households, state institutions, banks and communications, goods, services and money. Productivity of an economic system is described by the value of final goods produced within a certain period, i.e. gross domestic product (GDP) per capita in the country.

Productivity of an economic system depends a lot on its management. The common worldwide view is that the most reliable economic system, which is also self-regulating, is market. Usually this system is called market economy.

Theoretical foundation for market economy was first set by a Scottish economist A. Smith in his most influential book "An Inquiry into the Nature and Causes of the Wealth of Nations", published in 1776.

The practice has shown, however, that market economy in its pure form, does not always act as self-regulating instrument, as market economy tends to fluctuate. Recession is followed by unemployment. Economic crisis may last for quite a long period. (see Fig. 1).

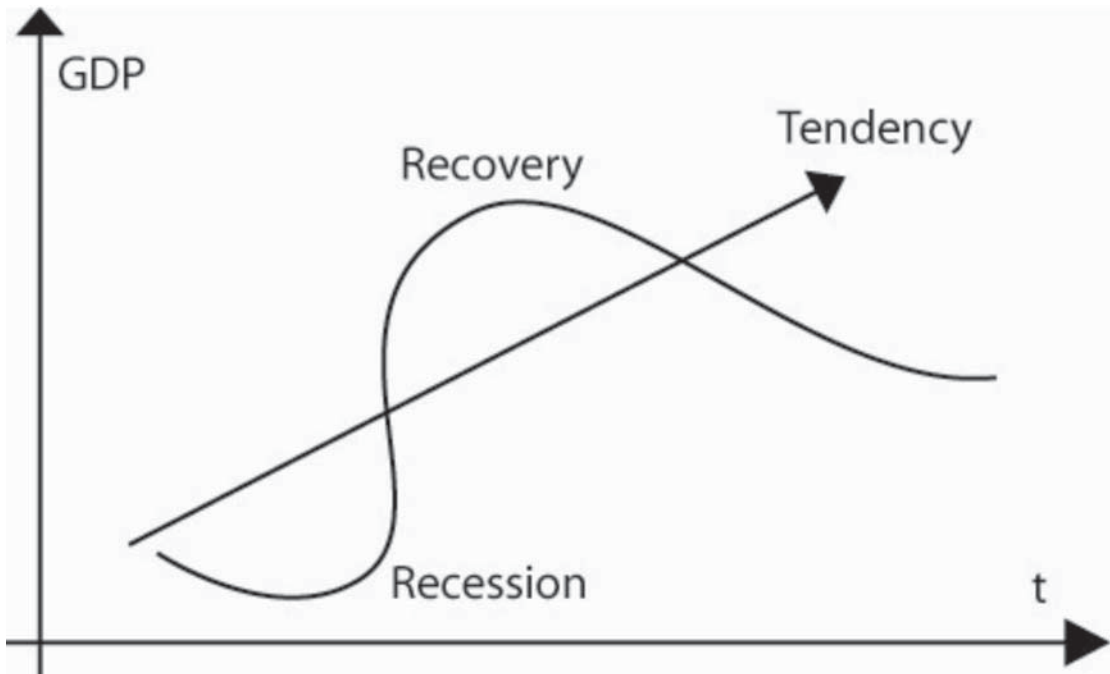


Fig. 1. Market fluctuations

J. M. Keynes, an English economist, created a theory on reasons of crisis, which is presented in his work “The General Theory of Employment, Interests and Money”, 1936. In his opinion, the main reason of a crisis is money, the “blood circulation” of an economic system, which, by going from hands to hands disturb the balance between the savings and investments. If savings are not employed, production is hampered and starts declining. At the same time unemployment starts growing. Income of the population starts decreasing and so does their purchase power. That means that savings decrease too.

It is government who has to find a way out of this vicious circle and to regulate the situation. It has to make investments by itself and, moreover, to encourage other investments.

Although investments are seen as a major factor for economic development, too much investment may trigger another problem – inflation, which is at the opposite end of the scale than unemployment.

Consequently, market economy has to be mildly regulated by the government. At present, two major means are employed to regulate market economy:

1. monetary policy;
2. fiscal policy (taxes, budget) (see Fig. 2).

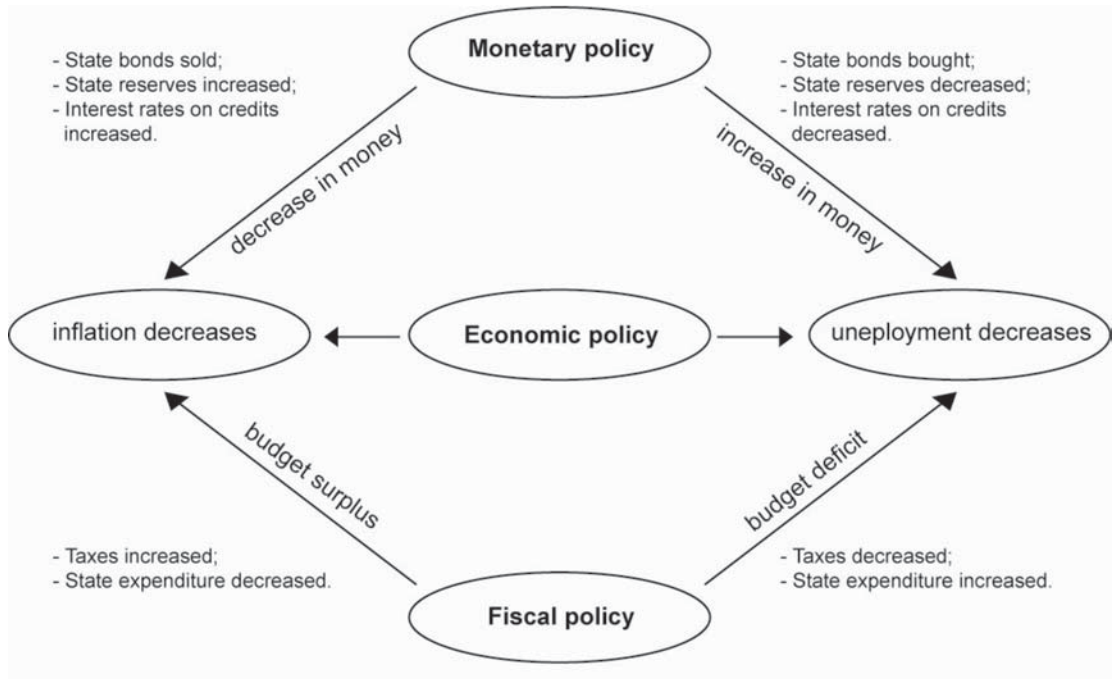


Fig. 2. Essence of monetary and fiscal policy

Market economy is an open system. Once principles of open market economy are realized, there are no serious restrictions for trade with foreign countries. Results of trade with foreign countries, i.e. export-import ratio, gain significant importance. Today, only export of top quality production and strategic raw materials is economically useful. The latter, unfortunately, are not found in Lithuania. That's why it is essential that we specialize in one or another field and concentrate all scientific potential and applied research in that particular field. That requires investments. Individual companies lack such resources; so targeted state support is absolutely necessary.

Furthermore, it should be emphasized, that the concept of public welfare includes not only material prosperity. Cultural values are equally important. Competition-driven market mechanism does not accept any principles of morality. Competition dooms the weak. Only the state can humanize economic relations. "No society can be really happy and prosperous if the greater part of it is the poor and miserable", says A. Smith in the above-mentioned book.

In the theory and practice of economy two extreme approaches to state economy management are observed: socialism and liberalism. Most debates arise because of the understanding of social justice. Socialists understand it as unification of income, while liberals understand it as unification of possibilities. The first argue, that the main cause of all social injustices is private means of production (private capital) and unlimited meanness of businessmen. The latter see private property as something that encourages responsibility, initiative and creativity. So, the first are for maximum state interference and the others are for maximum freedom for activity. The truth, as always, is in the "golden middle".

At present, in practically all countries of the world we observe market systems that are more or less regulated by state. Lithuania is no exception in this aspect.

The right market economy system has to create not only material, but also social welfare. In today's world, efficiency of market economy systems is estimated by many criteria, namely:

1. GDP and tempo of its growth
2. unemployment level
3. inflation level
4. real income of the population, family budget
5. social security
6. environmental protection
7. poverty level and percentage of the poor
8. ratio of export and import
9. state debt, etc.

At present the welfare of different countries of the world is compared in three aspects and using three factors: GDP, education and average life expectancy. Arguably, only a rich country may achieve high economic indicators and at the same time successfully tackle social problems.

The Government of the Republic of Lithuania, by its decision No.1645 of 22 December 2003, approved a High Technology Program. This program is oriented to the development of 5 industries (biotechnology, mechatronics, laser technologies, information technologies and nanotechnologies, and electronics). Lithuania develops these industries and produces competitive products. Implementation of this program will require concentration of funds and specialist efforts, development of the already existing in the world competitive high-tech production, creation of jobs for high qualification specialists and encourage investments into high-tech production.

Moreover, the Government of the Republic of Lithuania by decision No.1656 of 22 December 2003 approved a long-term strategy of scientific research and experimental development. The strategy aims at improving the country's scientific – technical potential and ensuring that it is efficiently used for increasing company competitiveness. The long-term strategy of scientific research and experimental development set forth the following major strategic goals:

- by 2015 Lithuania has to become a knowledge society;
- Within the forthcoming 7 years Lithuania has to achieve, that interaction between science and production would match the European practice of innovativeness.
- By 2010 expenses for scientific research and experimental development from all sources of financing should reach up to 3% of GDP, and private expenses for scientific research and experimental development should amount to 2% of GDP;
- Within the forthcoming 10 years the high-tech production should reach about 20% of GDP.

2. TOPICAL ISSUES, PROBLEMS AND EVALUATION OF THE PRESENT SITUATION

Sixteen years ago Lithuania regained its independence and since then it has been successfully employing principles of free market – market economy.

The year 2004 was very significant to Lithuania, since it became a member of NATO and acceded to the European Union (EU) as a full-pledged member. During the past decade Lithuania has managed to restructure its economy and got ready to compete with the other countries of the EU. However, decisive measures taken to reform the country's economy were very costly in terms of social welfare. The positive achievements were overshadowed by such shortcomings as small foreign investments, low average wage, emigration of the population, lack of qualified labor force, miserable pensions, superficial reforms in education and health care, ever-increasing discrepancy between the poorest and the richest.

The worst situation is, probably, in the field of education. During all these years of Lithuania's independence, the system of education has been undergoing constant modifications, one reform followed another. Employees in the system of education can hardly adapt to the ever-changing requirements. Their workload has been increasing. In order to earn more, many people took up several jobs. In such situation, what quality of their direct responsibilities or scientific work can we talk about? People simply do not have time for that. The 2004 Study of Lithuania's investment climate, conducted by the World Bank, states that at present the reformed system of education seeks quantity but not quality.

Economic development has been observed in all sectors of economy, and first of all in those of industry, construction, transport and hotels.

The country's average monthly wage at the end of 2004 was 1144LT/month, in Latvia – 1018LT/month, in Estonia – 1531LT/month. For the sake of comparison we may look at the average monthly wage of the same period in Germany. It amounted to 12072LT/month. Thus, the average monthly wage of Germans was more than 10 times higher than the average monthly wage of a Lithuanian. And the average monthly wage in Denmark is 19448LT/month and exceeds the average monthly wage of Lithuanians even 17 times. According to the forecast for 2005, the average wage should grow by 8% and reach 1235LT/month.

As to the purchase power, in 2004 the GDP per capita in Lithuania made up only 39.3% of the EU average and was one of the lowest among the newcomers of the EU. A sudden increase in the export to the EU countries, forecasted by the specialists of the Lithuanian Free Market Institute for the period of 2002-2004, was not observed. In 2004 Lithuania's total trade deficit was 8.6bn. Litas, and trade deficit with the EU countries amounted to 4.4bn. Litas. At the end of 2004, export to the EU countries made up 66% of the total export of Lithuania.

Since similar processes were also observed in other post-socialist countries, it may be assumed, that such social phenomena as unemployment, low wages and pensions, are unavoidable when old production technologies and management methods are being radically changed. Positive effects of reforms for the country's economy and growth of income of different social groups are only observed after some time. Rapid growth of Lithuania's GDP, which in 2001-2004 exceeded the average of the EU countries more than 4 times, and growth of labor productivity by 6.1% on average show, that the restructured economy has created preconditions for rapid growth of national income. That offered new possibilities for a greater number of people and fostered growth of standard of life, especially in cities.

Unfortunately, it has to be noted, that Lithuania today does not have its niche in the international market and operates in the fields that offer low added value. Growth of Lithuania's economy is based on traditional activities – processing locally grown production (agricultural production, fishery, and forestry), processing imported raw materials and export of traditional production (furniture, oil refinery products, textiles, transport). In the context of the EU economy, such activities have no prospect, as competition in this market sector is extremely high because of production made in Asian countries, which enjoy much cheaper labor force. [6]

Economy must be oriented to production that gives big added value, and it had to be done five or six years ago. Today we already have a national country development strategy, which envisages ways of efficient usage of the country's intellectual activity. Foreign experience shows, that high-tech production and intellectual services guarantee the highest added value. Moreover, not only new products give high added value, but also they gain competitive advantage, which, due to information technologies, determine development of those products and their penetration into absolutely all economic sectors. And all this create favorable conditions for growth of the country's GDP.

In 2005, the World Economic Forum announced new data on global competitiveness. The data reveals one, at the first sight quite controversial and hard to understand phenomenon: three out of six leading (in terms of competitiveness) countries are Northern countries: Finland is number 1, Sweden is number 3 and Denmark takes the 4th position. The other countries of the top six countries are: USA (2nd position), Taiwan (5th position) and Singapore (6th position). Lithuania, in terms of competitiveness, overtakes only a few newcomers of the EU. According to the index of competitiveness, in 2005 Lithuania took the 43rd position (in 2004 it was in the 36th position), overtaking such neighboring countries as Latvia (44th) and Poland (51st), which, although lagging behind, have not worsened their situation if compared with 2004 – in 2004 Latvia was also 44th, while Poland was 60th. [13]

As we see from the above data, Lithuania has not improved its competitiveness; on the contrary, during the last three years it has worsened. Today Lithuania's position is determined by good macroeconomic indicators. However, taking into consideration negative tendencies of the recent years, the government should pay more attention to the problems with public administration, revealed by the research, such as a high rate of crimes and corruption, too slow and inefficient reform of the systems of education and health care.

How can we explain such success of the Northern countries? The authors of the research point out the following factors determining the economic success of the Northern countries: strong macroeconomic management, good legal environment and efficient institutions, rapid implementation of new technologies in the private sector. Besides, their economies are oriented to long-term programs. Therefore, it is obvious, that the main factors determining development and competitiveness of a modern economy of information society are ideas, innovations and long-term programs, but not labor, capital and short-term objectives. [3]

With a view to gaining advantage from innovations, it is necessary to change one's way of thinking, to improve macroeconomic management and, through long-term programs, influence development of new technologies in the private sector. Usually, changes in the country's economic management are very painful, especially to the labor force. Introduction of innovations sometimes triggers a situation, when skills of labor force do not correspond to the new working conditions and people have to change their qualifications, adapt to the new situation, to acquire

new skills. Although it is hard, but it is time to understand, that life in the new and ever-changing market environment requires constant change and life-long learning, as only then we will be able to participate fully and productively in the constantly renewing production processes and compete with the employees of the EU countries.

Very often the concept of knowledge economy is understood as information technologies business and education. Actually, as Margarita Starkeviciute, an economist, points out, successful functioning of knowledge economy is determined not only by economic activities, the main factor of which is knowledge and creativity, but also activities, which disseminate and actively use information – brochures, popular articles and various scientific publications. [9, 45p.]

Today, the input of knowledge economy in GDP generation is growing. That is basically determined by the growth of high-tech industry, communications and financial services. In 2004, traditional businesses accounted for a greater part of GDP. They accounted for 71.2% of the GDP, while knowledge economy accounted for 28.8% only. It is noteworthy, that high-tech industry accounts for a really insignificant part in the general economic structure and at the end of 2004 it was only 1.1%.

In 2004, expenses for research and investment accounted for 5.9% on average of all company's expenditure. The forecast for 2005 is that expenses for research and investment will reach 6.5%. [13]

With a view to ever-increasing significance of knowledge economy, it is necessary to mention, that the main factor of the growth of knowledge economy is intellectual capital. Intellectual capital – knowledge and creativity – highly affect the outcome of the economic development. Creative energy tries to find ways how to use more efficiently insufficient resources, how to invent or create resource replacements or find other alternatives.

It is obvious, that in the future only those EU countries will create powerful knowledge economies, which will manage to encourage creative potential of the population and create favorable conditions of that. That is why one of priorities of modern economic policy is to develop and nurture culture as a foundation for creativity. Only people of high culture are capable of developing service sector that guarantees new quality life. The following figures could be used for the sake of comparison: at present, Lithuania's service sector accounts for 63% of GDP, while in the European Union the input of service sector into GDP is about 72%.

3. RESERVES, POTENTIAL AND HESITATIONS

Comparison of the added values of different sectors of economy, i.e. products and services created per 1 hour, with those in the EU countries shows, that traditional sectors – agriculture, hunting and fishery – have the lowest growth potential. The added value of these sectors is 54% of GDP per capita. But this result can be explained by a high number of people working in these sectors, as productivity of these traditional economic activities is only 15% of the EU average. That means, that sectors of agriculture, hunting and fishery have a high potential for introduction of advanced technologies with a view to increasing productivity.

At the moment, 18% of all the country's labor force is employed in the agricultural sector. It is obvious, that innovations will have a negative effect on employment. Those who remain jobless will have to find work in the sectors of services or new high technologies.

The added value per capita generated in industrial and energy sectors is below 25% of the EU average. This again means, that these sectors have a high potential for innovations and advancement.

The sector of production is dominated by low added value products, while intellectual products with high added value account for just a tiny portion of all production. Export of high technologies, as analytics claim, makes up only about 5-6% of total export.

According to this indicator, Lithuania and Latvia are at the bottom of the list among all the EU newcomers. [6] Only by increasing production of products that generate high added value, Lithuania may expect to increase income per capita and gain a chance within the nearest 20 years to get closer to the average indicators of the EU countries.

The Ministry of finances of the Republic of Lithuania forecasts, that in 2005 the country's GDP will reach 7%, in 2006 – up to 6%, and in 2007 – up to 5.3.

Lithuania has under-developed sector of services, which already today is giving 2-3times higher added value. For example, post and communications generate 72LT, and financial services and insurance – 50LT of added value per 1 hour.

At the same time it should be noted, that Lithuania is overtaking all neighboring post-soviet countries by its rates of production growth in the traditional sectors of activity. However, the added value generated in these sectors is low. For example, production of motor vehicles, trailers generate about 26LT, and production of electric and optic equipment generates 25LT of added value per hour.

It should be noted, that during the past three years the service sector of our Baltic neighbors, Latvia and Estonia, has been developing much more rapidly. Latvians exceeded the average EU indicator by almost two times, and indicators of Estonia were also better than those of Lithuania.

One of the main reasons why the service sector in Lithuania is so poor and why we are so lagging behind in implementing new information technologies is that both employees and employers have paid too little attention to acquisition of new knowledge.

To keep pace with technological advancement, organizations and institutions of modern economies regularly hold qualification improvement courses, in which employees gain knowledge from the increasingly growing worldwide knowledge fund. In such courses trainees not only acquire some information, but also learn to adjust it to local needs as well as for creation of innovations generation of ideas.

Investment of Lithuanian companies and their employees into qualification improvement was one of the lowest among all newcomers of the EU. Fewer funds for increase of labor force efficiency were allocated only in Romania. Expenses for qualification improvement in Lithuania account for less than 1% of total labor cost. In Denmark, for example, such expenses account for more than 3% [9, 47p] Scandinavian countries (Sweden, Denmark) realized a long time ago that countries without extensive natural resources can take a decent place in the global market only on the condition that they have high quality human and social capital. Therefore, for more than half a century they have been investing into education, science and institutions [3].

Last year in Lithuania most funds for employee training were allocated in the sector of financial services – 1.6% of labor cost; in the sector of real estate and rent – 1.1%, in processing industry – 0.6%, in trade – 0.5%, in social sphere – just 0.2%.

Today, in order to reach the level of the leading EU economies, proper and efficient usage of the EU structural funds for restructuring the country's economy gains vital role.

According to the European Commission's directives on funds allocation, in 2005-2008 Lithuania is to receive over 10bn.Lt. That is quite a significant amount of money that almost equals the yearly expenditure of the state. [4] Long-term results and efficiency of absorption of these funds depend on how properly the state will design its expenditure policy and on its priorities. It is necessary to use effective methods of project selection with a view to providing financial support only to those projects, which will generate high added value. The state, taking such decisions, should be oriented not to resolving short-term objectives, but to long-term state programme goals, which would ensure efficient economic development that would lead to decreasing regional differences. Therefore, following the provisions of the General programming document, which establishes directions of the EU fund absorption in Lithuania, it is necessary to encourage development of knowledge economy, ensure efficient usage of the allocated funds and proper administration.

Rational usage of financial resources is possible only in the situation of transparency, which excludes corruption. Efficient usage of the EU structural funds for the development of knowledge economy depends very much on principles and criteria of selection, which ensure optimal state expenses for separate programmes. However, the problem is that criteria of efficiency in social sphere are very hard to define, and it is employees of that sphere, who usually, with rare exceptions, represent interests of their professional groups, define them. And this, naturally, creates preconditions for improper usage of the funds, which eventually will lead to poor results and people's disappointment.

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SOCIO-POLITICAL DETERMINANTS OF THE SUBREGIONAL COOPERATION FOR SECURITY. THE POLISH EXAMPLE.

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ABSTRACT. *The aim of this article is on one hand to identify the basic challenges and threats as regards the security policy of the countries which have been lately incorporated into the structures of the EU and on the other hand to determine the basic reasons of a socio-political nature for the difficulties in this cooperation. The cooperation should be based on the concept of security “to something” and it should be to a greater extent directed at the Eastern neighbors of Poland in order to eliminate from the political thinking and the political activity the syndrome of Poland regarded as a border country.*

Key words: security and subregional cooperation, institutional cooperation, challenges, threats, economic disparities, international migrations, multiculturalism, organised crime.

INTRODUCTION. The discussion concerning security centres around two of its aspects: an internal and external one. The internal security usually means homeostasis, harmoniousness of a given individual or group subject whereas the external security is defined as the lack of threat on the part of other subjects. Obviously different problems appear when we define the sense of security in purely psychological terms, when the perception of threats can remain in various relations with the actual status quo, and when we think of security in terms of a conflictual situation, that is such a situation, in which danger appears objectively and subjectively. This model of security analysis, in which some phenomena treated as actual or potential threats (thus having a negative connotation) are identified as challenges for the security policy of the countries, is in the modern and institutionised approach very inspiring and stimulating for different political subjects as regards their seeking diverse solutions. The very essence of the international security encompasses various norms, mechanisms and conditions which give the subject of international relations the sense of security and the ability to develop harmoniously without any arbitrary external pressure (Fehler 2002: 171).

The problem of the regional cooperation for security in Europe constitutes one of the issues which to a greater or lesser extent need to be approached from the perspective of the new institutionalization of the European order. The new perspective is first and foremost the result of: the collapse and the demise of the real socialism system in the countries of the Central and Eastern Europe in the early nineties, which initiated very thorough restructuring of the international political order, the collapse of the Eastern bloc and the division of the federal countries (the USSR, Yugoslavia, Czechoslovakia). According to R. Zięba *The issue of institutionalization in the field of security is regarded by politicians and scientists as one of the most significant issues on the way to a new peaceful international order in the post-Cold War Europe* (Zięba 2004: 14).

Therefore the aim of this article is on one hand to identify the basic challenges and threats concerning the security policy of the countries and the European institutions, especially as regards those which have been lately incorporated into the structures of the EU, and on the other hand to determine the basic reasons of a socio-political nature which hinder cooperation both within the framework of the institutions of the EU and on the subregional plane.

1. THE BASIC CHALLENGES AND THREATS FOR THE EUROPEAN SECURITY POLICY

The new challenges for the security policy of the European countries and institutions encompass:

- a) The transformation of the political order in Europe and the destabilization of the political systems of the former socialist countries. The main factors leading to the destabilization of the political systems of the countries of the Central and Eastern Europe are high social costs of the implemented market reforms, slow development of the new systemic institutions, the lack of professionalism, experience and political maturity of the new political elites, emerging populist and authoritarian tendencies.

If these deliberations are to refer only to Poland, it can be noticed that the majority of the public discussion concerns the institutionalized character of the Polish democracy, which by more and more Polish citizens starts to be regarded as such a systemic solution which enables political capitalists to derive benefits at the cost of the underinformed society. At the same time, the society is convinced that the Polish state institutions and the controlling mechanisms are generally weak. The growing distance towards the institutionalized solutions of the Polish democracy overlaps with the distance towards politicians. The reason for the distance towards politicians results not only from their poor factual skills but first and foremost from their unethical and corrupt behaviours and from the negligence manifested by them as regards the protection of the common interest. According to L. Kolarska – Bobińska, *Nowadays, in the eyes of the public opinion, democracy malfunctions also due to the fact that its governing principles are of a pathological nature. There emerges a picture of the country appropriated by the elites which set the rules of the game in accordance with their own group, party or occupational interests* (Kolarska – Bobińska: 2004: 14).

- b) Economic disparities between countries occurring under the conditions of accelerated internationalisation which also concern the member states of the European Union. This tendency is enhanced by the decrease in the social security in the countries of the Central and Eastern Europe which convert to the market mechanisms. The economic potential of these countries is relatively low; in 2002 it accounted for 5.2% of the global gross domestic product (to the exclusion of

the countries belonging to the Commonwealth of Independent States – 2.3%). The same rate in the case of the European Union countries of the time was several times higher – 19.7% (World Economic Outlook 2003: 164).

- c) International migrations which after 1989 acquired a new character in Europe and which started to pose a serious challenge of an economic, social, political, demographic, cultural, religious or even environmental nature to the societies which take in immigrants and refugees (Zięba 2004: 76-77). These processes are usually perceived as a threat to the internal stability and their adverse influence is exaggerated especially by extreme rightist often nationalistic political groups of the Western Europe. By and large, the point is that an inflow of a large number of immigrants to the countries which are not prepared for that and which are characterized by a tendency to xenophobia and tensions on the labour market (unemployment) can lead to the radicalization of social attitudes and behaviours.

When considering the European Union dimension of security from the point of view international migrations and the dilemmas of multiculturalism K. Iglicka focuses her attention on several significant issues, especially on the relations between international migrations and the internal security.

After 11 September 2001 the phenomenon of international migrations in Europe started to be perceived as one the real threats to the internal security. When in the late 1990s in the majority of the countries of the present European Union immigrants started to account for 5-10 % of the population they were no longer regarded as a factor which can enrich the culture of the taking in country but as an economic threat and a threat to the national identity and culture. The kind of justifications put forward in order to explain the French rejection of the Constitutional Treaty of the European Union can serve as a characteristic example. The main reasons which exerted an influence on the French encompass among other things the proverbial cheap Polish plumber who deprive the French of jobs.

The relation between migrations and the internal security considerably influences the directions in which the national migration policies develop as well as the migration policy of the European Union.

New measures and mechanisms of border control and the flow of people control are introduced as well as the regional exchange of personal data (The Schengen Information System – SIS, Eurodac and Europol). At the same time, the governments of several European countries carry out special programmes aimed at eliminating xenophobia and discrimination against immigration communities.

Unfortunately, when focusing attention on Poland it is necessary to acknowledge the evident weakness of the migration policy. This weakness can be partly explained by referring to the historical context. Poland, like other countries of the Eastern Europe which for centuries experienced the loss of independence and its constant regaining and which actively participated in unification and political divisions, is accustomed to maintaining cultural homogeneity. Therefore, the migration policy of these countries needs to be based on clear answers to several basic questions such as those formulated by F. Heckmann and W. Bosswich (1995) among other people: How many immigrants can be taken in? What kind of immigrants do we need (when taking into consideration the socio-demographic features)? On what terms should the inflow of foreigners take place? What status should they obtain? What kind of relations should occur between ethnic

groups and the local community? However, the basic question is connected with the dilemma whether to create a pluralist model of the society in which multiculturalism is promoted, an integration model or an assimilation model. Quite often these models are wrongly considered equivalent although the differences between them are clear. In Poland the problem regarding the inflow of immigrants will exacerbate in the nearest future. The immigrants coming to Poland will encompass both the people from the Third World countries, whose inflow will be connected with the fact that Poland is a EU border country (labour and political immigration), as well as the people from Poland's neighboring countries which might not become members of the European Union in the next 20-25 years.

The analysis carried out by K. Iglicka (2004: 9) shows that annually 500 thousand people in Poland work illegally. Most of them come from the countries of the former USSR – the Ukrainians occupying the first place. For several years there has occurred a systematic increase in the long-term and settlement migrations to Poland of the citizens of Ukraine who lodge applications for a temporary stay (up to 10 years), for a work permit, applications for a settlement permit and for a permit for marriage with a Polish citizen.

Such crucial notions concerning the migration policy as integration, assimilation and multiculturalism cannot be used interchangeably. When commenting in the media (the Polish Television) on the terrorist attack in London the President of the Republic of Poland A. Kwaśniewski stated that sooner or later Poland will become a multicultural country. However, the multiculturalism model assumes acceptance of the otherness of the immigration communities regarded as ethnic groups in the cultural dimension, granting the immigrants equal rights in all the spheres of the social life without expecting them to give up their otherness. However, it is assumed that the members of these immigrant ethnic groups will in the course of time adjust to the key values of the in-taking country. The multiculturalism model is realised basically in two ways: in the American way where the state plays an important role in incorporating immigrants and in the Australian way where a new immigration policy has been conducted since the 70s. After the failures connected with the model of the 60s, which was based on the idea of absorbing the culture of the minority by the dominant Anglo-Australian culture, this model imposes changes in the state institutional structures, interventionism in the social policy sphere (offering help to immigrants as regards finding a job, organising language courses, providing translation services, et cetera).

From this perspective the Polish migration policy possesses no experience. What is more, according to K. Iglicka, in Poland a situation was incautiously allowed to arise in which some groups of immigrants (for example refugees) were socio-economically marginalised which in turn led to the emergence of a substantial grey area of migration. Therefore, the challenges posed for Poland, which is willing to participate in the subregional cooperation in this field, are really great. All the more that the 10 countries which joined the European Union neither have extensive experience in dealing with immigrants. Furthermore, each of these countries practically has its own concept for conducting the migration policy. Thus developing a relatively consistent policy in this respect within the whole area of the countries of the Central-Eastern Europe can be regarded as the priority but at the same time as a very difficult task when considered from the perspective of security including the perspective of the anti-terrorist activity protection.

This cooperation carried out on various levels should also take into account Russia, Ukraine and NATO. Some of the thesis presented in the CIA report (2000) also reflect this point of view. The report acknowledges that in order to safeguard global security it is necessary to strengthen

the managerial role both of the nation states and of international structures: both regional and global.

However, this demand remains in opposition to the thesis according to which such a controlling function can be successfully performed by international business institutions, the transborder capital concentrated in international corporations.

From the point of view of a sociologist it can be stated that although the concept of „controlling by capital” seems to be very attractive, when it is confronted with the intensification of the terrorist activity it reveals its weaknesses. Thus more and more researchers dealing with the social, political and economic global processes assume as a starting point for their deliberations the theses put forward by the authors of the public choice theory (among others J. P. Gunning, K. J. Arrow, M. Buchanan Jr.), who explain the more and more significant function of the political power including the nation state (J. P. Gunning 2001).

- d) Nationalisms and ethnic conflicts which after the collapse of the Soviet Bloc constitute serious and at the same time new challenges for the European security. Specialists draw the public attention to the fact that the nationalisms and ethnic conflicts in the former socialist countries are a dangerous phenomenon not because of their intensity and the dynamics of occurrence but due to their tendency to spread. This results from the fact that in the vast area of the Balkans, The Central Europe and the territory of the former USSR there occur numerous national minorities.
- e) Transnational organised crime which, as defined by the Ad Hoc Group for Organised Crime appointed by the European Union, takes place when (...) *two or more people are engaged in a common criminal project for a long or indefinite period of time in order to gain power and derive benefits and when particular participants have been assigned to certain tasks within the organisation which consist in: (1) doing business or carrying out related activity, (2) using violence or intimidating, (3) exerting influence on politicians, media, economy, administration or the system of justice by controlling a specific territory or when they are planning to commit deeds which from the general or the individual point of view are regarded as serious crimes* (Politi 1997: 4-5). Many authors (W. Afanasjew, N. Kuzniecova, L.I. Shelley among others) pay attention to the fact that both the quantitative as well as the qualitative development of this phenomenon took place in Europe after the collapse of the real socialism and the demise of the Soviet Bloc. The countries going through the systemic transformation period, and especially through the period characterised by the liberalisation of the political institutions, which implement market reforms in their economy are particularly susceptible to the development of the organised crime (taking advantage of legal loopholes, destabilisation in the region, a decrease in the efficiency of the enforcement agencies, corrupting of the political elites, using transnational ethnic networks created as a result of migration and the like). The growing threat connected with the political terrorism and drug smuggling is brought into focus.

The new challenges and threats for the security policy of the European countries and institutions encompass a number of other factors such as military threats (weapons trafficking, nuclear

weapons and the threat connected with proliferation) or ecological threats (air pollution, water pollution, soil degradation, waste disposal, degradation of the environment – radioactive threats). What are then the institutional activities undertaken within the framework of the EU and the European subregions for safeguarding security?

An overview of the initiatives, agreements, contracts or legal regulations concerning the last few years enables us to state that the nation states are aware of these challenges and threats but cooperation between particular subjects is not always undertaken despite the existing formal frameworks.

2. EVALUATION OF COOPERATION FROM THE PERSPECTIVE OF THE EU AND SUBREGIONS

It would be hard to perform a thorough overview of all the institutional solutions for the sake of security. In this connection I am going to focus only on selected areas.

First, it is necessary to acknowledge that after the collapse of the Soviet Bloc arose an urgent need in the Central and Eastern Europe for the prevention of the emergence of the “grey area” of limited security in the countries of this region. The initiatives launched by individual countries were very different: a hassle-free and quick accession of these countries to the Western European structures (which turned out to be more difficult than expected), establishing of the subregional cooperation based on the experiences connected with the common opposition struggle (Poland, Czechoslovakia and Hungary – The Vyshehrad Triangle, Lithuania, Latvia, and Estonia coordinating their activities in the period of leaving the structures of the USSR in 1990-1991), setting up of the Central European Initiative as a way to prevent possible hegemony of Germany, setting up of the Baltic Council by Lithuania, Latvia, and Estonia, whose aim was mainly to enhance the independence of these countries. Non-political reasons connected with the internationalisation of different negative phenomena such as illegal migration, terrorism and organised crime or ecological threats also played a vital role in working out subregional agreements.

Such groups first and foremost encompass the Black Sea Economic Cooperation (BSEC), the Council of the Baltic Sea Countries, the Barents Euroarctic Region (BEAR), the Arctic Council (AC), the Nordic Council and the Nordic Council of Ministers.

These organisations operate on many planes and their signatories undertake cooperation on many levels and in many forms. The initiatives concerning the sectoral cooperation and the cooperation with the EuroAtlantic and European Union security institutions are worth highlighting.

What kind of institutional potential can we talk about when considering the role and place of Poland, a European Union member state, in the structures acting for the sake of the international security?

By way of introduction, it is necessary to state that in December 2003 the Council of the European Union adopted the European Security Strategy (ESS) which as regards policy is very close to the new National Security Strategy of the Republic of Poland which was adopted in September 2003 in Poland.

This strategy clearly corresponds to a number of European legal solutions created in 2001-2004 which concern the combating of the organised crime and terrorism. However, none of the Framework Decisions was introduced in all the member states until the terrorist attacks in Madrid which took place in March 2004.

These legal frameworks are as follows:

- a) European Arrest Warrant (2002)
- b) European List of Terrorist Organisations (2002)
- c) European Definition of Terrorism (2002)
- d) Appointment of task teams (2002)
- e) Setting up of the European prosecutors' agency - Eurojust and establishing the police-prosecution cooperation (2002)
- f) Setting up of the European agency for protecting borders
- g) Incorporation of the special services into the cooperation of the police forces
- h) Combating money laundering
- i) Impounding of evidence and crime profits

The workings of the European Commission in 2004 were directed at increasing the competence of Europol and Eurojust. The accession of new members to the European Union resulted in a proposition to create an "integrated external borders management system" and in a proposition to unify the asylum-immigration system of the member states. However, in the end of 2004 pro-integration enthusiasm concerning the European security issues subsided and according to A. Podolski, *The projects of the new European Union institutions were replaced by the ideas of the enhanced cooperation of the bodies of individual countries, defining or strengthening of the role of different task groups* (2004 a: 4).

This reformulation of the institutional activities strategy brought in effect an adoption of the Hague Programme in November 2004 during a session of the European Council. The programme outlined the concept of an "international" way of organising activities and the exchange of information as regards the European Union internal security. At the same time, this creates a base for undertaking the regional cooperation; all the more that the new European Union member states from the Central-Eastern Europe share a number of threats specific to them, which are connected among other things with the inflow of illegal immigrants, who often treat the countries of this region mainly in terms of the border countries of the EU. According to A. Podolski, under the present conditions of divided Europe (...) *the maximum integration in the field of the internal security and the system of justice can be attained by accepting the development of community legislation in this field and especially by the unification of the criminal law and the mutual recognition of the decisions of law protection bodies (especially prosecutor's bans)* (Podolski 2004 a: 5). After making an overview of different reports and specialist studies concerning the position of Poland on the issue of the European internal security and justice policy (IHA), it can be stated that this position is quite diversified. On one hand, Poland has undertaken attempts aimed at an earlier accession to the Schengen zone (in 2007) but on the other hand it does not display sufficient initiative and support for the establishment of community institutions operating in this field or for the extension of the competence of the existing European Union agencies such as Europol or Eurojust. Poland joined Europol (01.11.2004) as one of the last new members states. First, soon after the accession to the EU, seven countries were admitted to Europol: the Czech Republic, Cyprus, Lithuania, Latvia, Slovakia, Slovenia and Hungary. Poland, Malta and Estonia failed to

deliver the necessary documents on time. The dilatoriness of Poland is bewildering, the more that according to M. Otrębski, a representative of the Polish police in the EU (...) *Poland is regarded as a leading country in the process of establishing official relations with Europol. (...) We were the first to submit the official documents including the answers to the basic questions. The Report on the Situation in Poland was also one of the first reports made by Europol* (Otrębski 2002: 79).

Poland maintains a clearly negative position on the issue of establishing the European Border Corps and on the issue of setting up the European Asylum Office.

Europol, in its present legal shape, has been operating since July 1999. The basic reason Europol was set up was an increase in the organised crime and the internalisation of this kind of crime connected with the globalisation processes. Another reason was the free flow of people in the European Union along with its consequences and the lack of adequate cooperation as regards the system of law and detectability of crime by the police.

This organisation has at its disposal a specific scope of activities resulting from the so called mandate (Otrębski 2002: 73). This organisation is entitled to deal with the following cases concerning the organised crime as long as this activity is carried out on the territory of at least two European Union countries: drug trafficking, people smuggling, stolen vehicles trafficking, people trafficking and pornography with children participation, money and other legal tenders counterfeiting, radioactive materials trafficking, terrorism and money laundering. To these areas of the organised crime constituting Europol's activities target in 2002 were added: crime against life, health and freedom (homicides and severe body injuries, human organs and tissues trafficking, kidnapping, taking hostages, racism and xenophobia), crime against property (including computer crimes and corruption) and trafficking and crimes against the natural environment (among other things hormonal substances trafficking).

Under Article 30 of the Amsterdam Treaty Europol was empowered to organise common investigating teams, connected with a very difficult and delicate issue such as the right to pursue process and operational activities on the territory of a foreign country.

This has certainly required a number of additional agreements and legal regulations at the level of the whole EU, of its subregions or at the bilateral level. In the concluding document of a special session of the European Council, which was held in 1999 in Tampere, there was mentioned an obligation addressed at the member states concerning the prompt setting up of common teams to combat the transborder crime connected with drug trafficking, people trafficking and terrorism. In my opinion the events connected with the terrorists attacks in Madrid and London, which took place in the last two years, will accelerate the process of implementing the provisions concerning Europol.

However, there are clear barriers regarding consciousness among a great number of policemen concerning the conveying of information to the Europol database and the lack of adequate professional competence to undertake this kind of international cooperation. The sole knowledge of foreign languages will certainly not suffice.

When summing up the questions raised in this article which refer first and for most to the prospects concerning the security of subregions encompassing especially the EU member states situated in the Central-Eastern Europe it should be stated that:

- The institutional international cooperation should take place parallelly on two planes: on the plane of creating additional mechanisms of cooperation concerning the internal security and on the plane of working out a common system of external EU borders protection,
- The political cooperation should be supported by the organisations of the civil society of the EU countries which will carry out the activity aimed at combating xenophobia, stereotypes and at promoting the idea of multiculturalism.

One of the basic socio-political reasons for the subregional cooperation for security is first and foremost the departure in the security concepts from the security “from something” (war, a military conflict et cetera) to the security “to something” (justice, peace, multiculturalism, freedom), which took place as a result of the transformational changes connected with the creation of the civil society, state democratic institutions and the free market economy. At the same time, there occurred an increase in the significance of the activities aimed at preventing different kinds of threats (terrorism among other things) within the framework of mutually complementing organisations and the forms of bi- and multilateral cooperation (Gryz 2002).

The most essential constituents of this policy, conducted from the perspective of the membership in NATO, the European Union and The Western European Union, are as follows:

- the development of the bilateral cooperation with the countries of the Western Europe, the USA and Canada in all the fields;
- the development of cooperation based on equality and reciprocity with all the neighbours, and especially with the Eastern neighbours such as Russia, Ukraine and Lithuania;
- active participation in the development of the regional cooperation, especially in Poland’s closest neighbourhood, which would correspond to the political, economic and military potential of the Republic of Poland;
- reinforcing stability and the security of the Euroatlantic community by participating in the organisations and operations aimed at settling conflicts and disputes;
- the cooperation with NATO within the framework of the Euroatlantic Partnership Council, the ‘Partnership for Peace’ programme, the Process of Planning and Evaluation.

These priorities formulated in 1998⁸⁵ are not executed with equal intensity in all the points. The cooperation with our Eastern neighbours, especially with Russia, does not develop satisfactorily whereas the initiatives aimed at the regional cooperation are of little significance and are not consistently implemented.

Another vital reason for undertaking the subregional cooperation for security is the adjustment of Poland to the requirements of the III pillar of the European Union.

It is worth mentioning at this point that the European Union is based on three pillars. The first pillar consists of the structures proposed in the Maastricht Treaty (1992) regarding the European Communities where decisions are taken at the community level. At the same time, in accor-

⁸⁵ Foreign Affairs Minister Bronisław Gieremek’s address on the basic directions of the foreign policy of Poland in 1998 delivered in the Sejm of the Republic of Poland on 5th March 1998, Ministry of Foreign Affairs, Department of Promotion and Information.

dance with the Amsterdam Treaty (it came into force in 1999), the two Schengen agreements of 1985 and of 1990 were included under the first “common” pillar. However, Poland still does not function in the Schengen system and thus the so called Schengen Action Plan, a plan aimed at implementing the Schengen requirements, constitutes a task that lies before Poland. This plan encompasses the requirement to start using the so called multifunctional ID connected with the Information System, which entails the requirement to extend our PESEL (personal identity number) and to further reinforce the Police. Poland is the European Union member state which shares the longest border with a territory which does not belong to the EU. The problem of the Eastern border of Poland, which is at the same time the Eastern border of the whole European Union, posers the greatest challenge for the security policy.

In the second and third pillar decisions are taken at the intergovernmental level.

According to A. Podolski, on one hand the threat connected with the Islamic terrorism which Europe is confronted with and on the other hand the difficulties concerning the working out of a common position on the issue of coordination and cooperation of secret services constitute a reason to think about (...) *the justifiability of the traditional division into the internal and external security and analogically into security services and secret services.* (Podolski 2004 b: 14)

The more that the same kind of threat regarding terror may originate from the outside as well as from the inside of a given country or the whole European Union.

The legal and institutional solutions in Poland took a different direction. In the year 2000 the State Protection Office (UOP) was divided into two agencies: the Intelligence Agency and the Internal Security Agency, which certainly does not facilitate the activities concerning coordination and exchange of information. Presently the following organisations deal with combating terrorism in Poland: the Internal Security Agency (ABW), the Intelligence Agency (AW) and the police whereas the Military Information Services (WSI) operate in the wider dimension of threat to the military forces in Afghanistan and Iraq. The thing which raises the greatest concern and which was widely discussed in Poland after the terrorist attack in London is the lack of adequate legal conditions, mechanisms or institutions which could coordinate operations and ensure a clear and unambiguous division of competence among particular services. Therefore, the process of Poland’s joining in the regional cooperation concerning the combating of international terrorism will be quite slow. The more that, according to specialists, the Interdepartmental Centre for Combating Organised Crime and International Terrorism set up in 2002 is only a legal creation and not an actually functioning body.

Little changed as the result of establishing within the framework of the EU the Situation Centre (SITCEN), which is regarded as an institution in which the state of the EU security is evaluated. This specific unit, composed mainly of the employees of the Department of Intelligence of the European Military Staff and delegated intelligence officers of seven member states, is definitely an institution in which the intelligence information exchange can take place. However, the problem lies in the fact that if Poland was invited to exchange information within the EU it would certainly experience difficulties regarding the presentation of common information or the evaluation of the situation agreed upon by the internal security services, classic intelligence and criminal intelligence.

When commenting on the terrorist attack of 7th July 2005 B. Luft draws the public attention to the fact that the activities aimed at security require not only efficiently functioning services, systems and procedures responsible for the antiterrorist security, which entails the integration of

professional protection systems. What is also needed is the determination of the heads of states and the European societies to neutralise and eliminate the reasons for mad after all terrorist activities. The above mentioned reasons first and foremost encompass the growing gap between the rich and the poor part of the world and the reaction of the wealthy West to this situation. In a special statement issued by the leaders of G8, who were in session in Scotland during the terrorist attack in London, it was asserted that – We will not let violence change our societies or our values. However, the author mentioned above wonders whether these common European values did not mean first and foremost: our prosperity and our comfort and not the sense of solidarity with the poor part of the world (2005).

The security of Poland has been anchored in two ways: by Poland's participation in the Euroatlantic and European structures. This results mainly from the location of Poland between the relatively cohesive and safe West and the scarcely stable East. In a geopolitical sense we are situated in the area of several countries characterised by a very diverse economic potential, level of civilisation development, territory and number of population. From this stem the consistent activities aimed at extending the Euroatlantic and the European Union security zone, mainly by supporting the development of the European Identity, Security and Protection with the participation of NATO, in order to eliminate the border country syndrome.

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SOCIAL-CULTURAL BARRIERS OF ENTREPRENEURSHIP ON RURAL AREAS

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“The information can substitute most of the material resources”, these are the words of one from the most often quoted precursory author who have foresighted the arrival of new technological revolution. It would have changed the hitherto ways of valuing in next societies generations. Alvin Toffler in the “Third wave ” introduced a model of social development based on change the ways of transforming energy, production articles and their redistribution .His thoughts are prospered to quote in further considerations on rural areas development context⁸⁶.

Life of the first wave societies had been organized round agriculture and village⁸⁷ . The soil and physical work had placed the highest positions in a social valuing system structure. They had guaranteed the existence of whole family. The lack of work distribution, homogeneous structure blocking the possibility of social promotion, strong social control, power leaning on strength, had been the main attributes of the agricultural feature civilization⁸⁸ .

However they'd been real differences among the individual societies who had lived in the same historical times. First wave had also brought the births of trade culture increasing profits from selling natural crops, and others produced from them articles. They had been distributed not only to the local recipients, but more often abroad. In the same period of time, far away in another country, people had started petroleum extraction, creation the beginnings of system named many ages later the bureaucracy by Weber. Municipal metropolises had also been settled then

The industrial revolutions have been the next decisive event for further differentiation of societies connected with the idea of Toffler's second wave and generally with industrialism⁸⁹ . The change of energy sources drawn from undeniable mineral fuels have then influenced on founded social system transformation. Work specialization, larger social motility, new model of family, mass production of goods, have been the main passwords using with industrial epoch context.” The second wave life technology ” haven't held out the pressure of new strength. In spite of continuous development in all fields of life, the process of implementation innovations based on industrial philosophy must be stopped.

The information have became the new source of energy soon. Requiring the creation of different methods of her uncovering, processing and using to enlarging the economic societies results. The tender card on third wave's international market game, which is happening just now are the access to new informative technologies, the suitable skills of using the technological innovations. As well as the social capital of human communities.

⁸⁶ A. Toffler, *Trzecia fala*, Państwowy Instytut Wydawniczy, Warszawa 1997, s.67

⁸⁷ *Ibidem*, s.59

⁸⁸ *Ibidem*, s. 60

⁸⁹ *Ibidem*, s.64

Toffler's three waves models are not closed. The clashes between societies possessing more of the first, second and third wave characteristic features are still being observed. The cultural differences in perception and valorization of chances and threats carried on waves of global changes are still being recovered. Especially in the societies respecting some kind of tradition. The main axioms of everyday life, and especially of work issues, are often conflicted then with systems of value and models of development offered on related market.

The analyze of the differences in using financial help designed by European Union on leveling economic background in members states are very interesting in further context of the considerations into social-cultural barriers of entrepreneurship development in rural areas. Not every states are able to use these material means.

So arises the question about what is it this "entrepreneurship" which appears in all discussions led by politicians and scholars? In a modern manner aiming to discovery the social medicine on the unbalanced economical development of the world. The notion of enterprise are often connected with considerations over economic changes. Their push aside on social life margin these who are not able to find themselves out in new market realities and couldn't understand the new rules of game⁹⁰.

In thought of neoclassical economy principles, the role of government and different ranks' subjects responsible for supporting the local social initiatives, should be reduced to creation such economic conditions which would have been restricted by a free market rules only. The "entrepreneurship" will appear then spontaneously, as a result of natural logical process⁹¹.

A lesson drowned out of experiences from putting varied revitalizations programs on rural areas into execution, have thought us about great meaning not only economical factors in formation pro - enterprising activities⁹².

The entrepreneurship, in general sense, going beyond the narrow way of defining her through psychological guilds, it is of course a state of human mind causes the way of undertaking economic decisions⁹³. However this state of mind does not exist as an independent thought. Living in a concrete society, means also in natural way ,our participation in a process of internalization of its norms, patterns of behavior and others cultural elements. They keep the whole generations knowledge on subjects connected with the way of making business. The enterprise is the main motor of deep social changes. It creates and promotes the innovative ways of interpretation every day reality. Its being however closely related with cultural factor, which affects on market chances uncovering processes and on the patterns of interpretation the information's from outside⁹⁴.

The main barrier of entrepreneurship development in rural areas is miss adapting the revitalizations programs to the specific cultural conditions. The most often committed mistake, is thoughtless transferring centralistic conceptions of social-economical development⁹⁵.

Economic crisis roots, which touches the majority of local communities, living in the country areas of states, should be seek not only in a bad economic conditions. Diagnose of his social,

⁹⁰ J. Laskowska-Otwinowska, *Przedsiębiorczość polskiej wsi*, In: *Kultura i społeczeństwo*, rok XLVI, nr 1,2000, s.189

⁹¹ *Ibidem*, s.189

⁹² A. Kaleta, *Rewitalizacja obszarów rustykalnych Europy*, Tom III, s.37

⁹³ J. Laskowska-Otwinowska, *Ibidem*, s. 191

⁹⁴ *Ibidem*, s.191

⁹⁵ A. Kaleta, *Ibidem*, s.7

cultural and ecological dimensions also deserves a closer attention. The development of entrepreneurship on rural areas will not happen automatically, as a result of announced by order of superior authority program. The potential is in people. Therefore the local community should be treated not like the object, but first of all like the subject of local self-development⁹⁶.

The reliable diagnose of critical phenomena of present should precede all theoretical considerations on deep changes in local enterprising sphere. The processes of rural areas adaptation to free-market economy are being mainly difficulted by demographic problems. Treating country inhabitants like a main supply population with enterprise potential, implicate the new way of thinking about development barriers builded by the social structures. We're becoming now the witnesses of deepening economic crisis of villages. Their residents are still getting poor. This difficult situation is the effect of:

- progressive depopulation of peripheral areas of states
- social pathologies growth
- pushing out the traditional agricultural system by free-market rules
- progressive degradation of natural environment
- disappearance of the unique regional cultures
- enfeebling the inhabitants' possibility to deciding about their own environment of residence and realization of specific needs resulting with feeling of local cultural identity
- the physical liquidation of the symbolic local social space for community
- uncritical transfer municipal examples of modernization and development⁹⁷

The analysis of definitions of communities living the agricultural terrains, permits to specify several characteristic features which influences on enterprising potential of village. Country areas and their inhabitants, are not only the geographical area and living it territorial distinguished group⁹⁸. The special type of interaction and social relations, are better attributes of the specific of local cultures, being based on such features like:

- the similar conditions of everyday life
- the subjective feeling of membership to common, special place of residence, private motherland
- the characteristic type of team solidarity,
- the superiority of direct informal channels of communication,
- the low coefficient of institutionalization,
- the large coefficient of self - sufficiency in satisfying the main needs, material and spiritual, and the lack of interest in the external environment⁹⁹

Characterizing the specific of social potential of communities living in the country areas, which can be stimulus to the pro - enterprising economic actions ,we also should mention, their cultural subsidiaries:

- common norms and values, symbols, myths and ideas, passed on from one generation to another and conditioning the way of interpretation and perception inflowing from environment signals

⁹⁶ A. Kaleta, *Ibidem*, s.17

⁹⁷ A. Kaleta, *Rewitalizacja obszaró1) rustykalnych Europy*, Tom I, s.10

⁹⁸ *Ibidem*, s.30

⁹⁹ *Ibidem*, s.30

- the characteristic culture organizing the local tradition and underlining the relative homogeneity of village people¹⁰⁰

It is seen, the tests of defining present country entrepreneurship without appealing to her genetic features, cannot be successful.

On first place, should be named the special role of physics work in the system of social meanings, glorifying the sense of hard village life¹⁰¹. Analyzing the literature of subject, we can distinguish three types of attitudes of country population to the ground and farm generally. Oldest generation of inhabitants treats them as main goods. Conditioning about the material and social existence of whole family. In this group of people not only small changes, but first of all the innovations in technology of ground tillage are hardest putted into execution. As well as the new social currents.

The farm can also play a part of source of income, and so a place of work¹⁰². It is some kind of additional protection before possibility of loosing others then agriculture source of earning for living. The soil gathers the functional value especially for average generation of country population.

At last for the youngest generation, the land and farm could become only instrumental values, enabling achieving different than only continuing the ancestors' tradition, directed aims¹⁰³. This group, is the most susceptible for innovations appearing in field of production technology and marketing of services. The progressive depopulation of country areas is being caused by the high coefficient of migration the youngest and the best educated population to cities.

The private businessmen who decides to solid change of place of residence and settle down in villages where they can start small business activity base on specialized agricultural farms are the different category of people. Mechanism of the local leaders' imitation is very strong. Although the inflowers are not always being accepted by local community. The proportions among scale of the youngest emigration and immigration to the rural areas are not balance. The first coefficient is higher.

The negative relation to ostentatious consumption is the second characteristic feature of genetic country enterprise¹⁰⁴. Profits getting from tillage of animals' and farming, are mainly intended on further investments in increasing already possessed material capital. Buying new machines, current repairs, enlarging the acreage of the ground hold first position in needs hierarchy of whole family. The consumptive style of life, so often quoted in a modern manner with a growth of social prosperity, haven't gained the social legitimacy of village community yet.

The community of traditional values of work and land is still winning in clashes with policy of straight line. In people opinion it's nothing else like simple economic usefulness. The liberal language of discussion led on subjects of country development differs from axiological language functioning among farmers. Entrepreneurship without ethical elements are being set against valuable honest work¹⁰⁵.

¹⁰⁰ Ibidem s.31

¹⁰¹ A.Kaleta, Rewitalizacja obszarów(2) rustykalnych Europy, T II, s.42

¹⁰² Ibidem, s.209

¹⁰³ Ibidem, s.209

¹⁰⁴ A.Kaleta, Rewitalizacja obszarów rustykalnych Europy, T II, s.42

¹⁰⁵ J. Laskowska-Otwinowska, s.204

The issues of social-cultural barriers of entrepreneurship development in rural areas focused more interest of specialists now. Plans and programs of economic development of every country are taking into account the momentous meaning of food economy shape in led policy¹⁰⁶. The question of country areas influences on created political conceptions of local, or else, regional subsidiary¹⁰⁷.

One of mail coefficients of social development is a positive change in the poorest social layers¹⁰⁸. Analyzing the level of incomes in family, public and hidden unemployment, access to education, the country population will placed one of the lowest rungs in majority societies hierarchy¹⁰⁹.

Globalizing world economy does not stay without influence on directions of social-cultural transformations of villages. The overproduction of food affects on general fall of profitability of agricultural activity. The governments are trying to create protective centers, which in foundation should behold the agriculture before negative influences of external market processes. They often bring only temporary advantages. The immanent change of country areas will not happened without change of social mentality.

Toffler's "three waves" fight still lasts. Society more or less agricultural, industrial and informative are still rubbing of. A common market plane marks the valid rules of game.. Unfortunately, economic success, very often links with the irreversible changes of cultural heritage. Local cultures loose with world integration.

The process of globalization brings also a great paradox. In a mc' world of identical products, local social-cultural variety, could be promoted as a very market good. A real brand will always win in a competition with cheap, masses produced articles. Locality also means unique. It is known that short series of brand-named collections are always best sellers.

CONCLUSIONS

The entrepreneurship development on rural areas is still focused the specialist interest. The question of country's changes influents on created conceptions and political strategies. The author's thoughts are being concentrated on asking the question what is this "entrepreneurship" in general and how it could be stimulated by the market processes.

¹⁰⁶ G. Zabłocki, *Rozwój zrównoważony- idee, efekty, kontrowersje*, Uniwersytet Mikołaja Kopernika, Toruń 2002, s.101

¹⁰⁷ *Ibidem*, s.102

¹⁰⁸ *Ibidem*, s. 97

¹⁰⁹ *Ibidem*, s.98

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GEO-ECONOMICS IDENTITY OF BELARUS

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ABSTRACT. *In modern economic and political practice there is a set of stereotypes about geo-economics development of Post Soviet space of new countries. There is an ascertaining of a situation, but its essence remains outside of quantitative measurements. On the other hand, statistical parameters contradict real economic and business practice. The author gives new estimations of development of economy in the beginning of new century. He formulated paradigm of new geo-economic identity of Byelorussia. The essence of it consists in expansion of export flows in EU, reduction of presence in the Russian market.*

GENERAL ESTIMATION OF A SITUATION: THE FACTOR OF COGNITIVE DISSONANCE

Economy 2005 there was a surprising paradox of a cognitive discord. The official propaganda services of the Belarus continue to assert the theses about trade growth between two countries: Russia & Belarus. There are many words about intensifications of connections on the East vector, formation of new community and “Uniform State”. These arguments are presented to public opinion, parliament, and media.

However in first half of 2005 there is a basic change of the external economic vectors of the country, there is a new quality of geo-economics orientation of Belarus. In fact, Belarus leaves from Russia, the flows of the goods to Russia already make all about all 1/3 export flows. Simultaneously there are strong and weak signals of fall of efficiency of the Byelorussian export in the Russian markets, there is its imperceptible wide replacement by other countries.

As to economic interaction on more perspective directions of integration, on these segments is observed certain freezing of the situation. The reason is old “socialist type” economic policy of Belarus. The direct and latent subsidizing of the Byelorussian industry and agriculture not simply proceeds, and passes in an active phase. The program of revival of village will be costs tens billions dollars, there is a practice of the indirect grants to the large enterprises. The state ownership in Belarus can not be reintegrated with a private property in Russia. The government of Belarus constantly carries out measures on replacement of the Russian goods, entering quoting, and restriction on commodity assortment. As the result, 80 % of the sold goods in the enterprises of retail trade are the Byelorussian goods. But in the free markets there is the domination of the Russian articles of food¹¹⁰. This situation takes place already some last years.

¹¹⁰ All accounting and economic parameters are made by the author on the basis of official statistics of the Byelorussian government

On «to a dead point» there is a project formation of joint currency and future introduction of Russian rouble in Belarus. Absolutely prepared, the technically balanced variant of uniform currency in essence has appeared unacceptable for the Byelorussian side. The reason of this is following: ideological and value incompatibility of economic policy of two countries. In general, as to economic policy, they indeed in Belarus essentially are not compatible with Russian or Ukrainian. The given moment very much frequently falls, is withdrawn on the second plan, though it and separates the countries, more, than another.

What ways can be in development of the relations of two countries? On our sight, now there are 3 basic variants of development of the relations between Belarus and Post Soviet Space countries (+Russia):

- Inertial models. The Union Belarus and Russia continues to develop slowly, leaving from basic questions and problems
- Innovative strategic models of the “4”. Within the framework of this geopolitical and geoeconomical project Russian Federation and Belarus develop in uniform economic space on the basis of the account of interests of all four parties. Even Ukraine can be the active participant of the given process, if it will occur structurally.
- Models « of a Post soviet withering ». Belarus and Russian Federation are the members of CIS and their relation develop in a common context of changes of the organization of CIS. This model can worsen automatically on a background of ambiguous realization of inertial bilateral model of the relations of Russia and Belarus.

Despite of the serious enough legislative documents and appropriate political advices, the real political practice shows, that the phenomenon of the uniform state has no the future, if to consider a modern position of the Byelorussian official part. In the period with 1996 for 2001 this paradigm mattered in the given project. Later, the situation since 2003 has changed. The Byelorussian president unequivocally has defined a position of the country, as sovereign, as preservation Byelorussian statehood. The part of elite, including opposition, has approved the given orientation.

Now the situation has changed. The economy of Belarus Беларусі as a sample of 2005 began to differ by new dynamics. It has plus and minuses. Negatively - that the Russian market the subjects of economy we began to lose. By the way in physical measurement it is more, than on 1/6. The restoration of positions on East flank becomes not only operative, but also strategic task.

There is also alternative - to refuse activity in the Russian market in general and to engage in markets, farther and interesting to us, of Latin America and Africa.

New features - the growth of activity of sales in the markets of EU while is under « is familiar of petroleum » and can quickly be finished. It will create new difficulties for national economy, which while extends quantitatively, but is not qualitative. The readiness for such turn of events should be high and the measures on stimulation of the new markets should be accepted already now, instead of then.

THE BASIC PRINCIPLES OF NATIONAL ECONOMIC POLICY

Officially in the country there is «a Byelorussian model» of economy. It is already included in educational program of universities. Simultaneously government force scientists to develop “the theory” of such model. The situation reminds USSR, when the models of the “advanced socialism” were created. In a result it turns out political, apologetically model. Practically, it has ideological importance. And no more.

At the same time, the Byelorussian economy has distinctive features. Among them it is possible to show such important elements:

- Economy of demand
- State regulation
- Stimulation of the incomes of home economy
- Subsidizing of the enterprises
- The state investments

The «economy of demand» long time is used for stimulation of a home market. This method has given the appropriate effects at a crisis condition of economy. Then it was modified in methods of increasing of the home incomes. The growth of wages now exceeds rates of growth of the basic parameters of economy, including GDP. The second feature - the high role of state regulation, presence of a state ownership as economy dominant elements. The state regulation includes also direct subsidizing of the state enterprises, which receive privileges and preferences. The bankruptcy for this reason actually is absent, though is present both appropriate law and state institutes.

Interfering formation of the private and individual capital, naturally, the government incurs a role of the strategic investor. The basic part of the investment - internal. A nature of such investments - state. In aggregate all set of such tools also gives “state model” of economy. It, some kind of, new socialism. The elements of the market and capitalism are in essence alien, are inconsistent incorporate in state monopoly of the economy.

As for economic policy in the last years we could see some new features. For example – prices. The high prices for petroleum rescued in the past of socialism, and now they have given «a window of opportunities» to all Post Soviet states having the relation to production of petroleum and (or) its processing. Anybody from the analysts and strategist did not give importance to effects of the prices in the global markets. Actually, everything, that was simulated and was written on themes of development was very much is refined clever, thin and very professional. How many own models and projects were built in Russia next countries that only it was not offered and it is not offered till now by representatives of parties, independent science. But all has developed differently, without ours economic and social fantasy.

Let’s name it - as the first and main paradox of successes of the Byelorussian economy. The key to surprising economic successes was and while is at western politicians, which not so predicted the own political and international actions. More precisely they predicted the first consequences. For itself and opponents. In the closed world of courses and projections of results. It has turned out is surprisingly volumetric and it is not simple. Unexpectedly well for all those who became victims of long war between two systems of values. West has rendered invaluable service to us. However, to estimate it is possible only in economic measurement, that is visible on rates of a gain “4” of the countries of CIS.

With what there came our countries leaving from “crises” per 2005? The results are surprising, the figures (diagram) are amazing which any expert from IMF and World Bank can envy. It is enough to look at parameters of GDP dynamics in 2004.



Fig. 1.

The situation is those that the economic space of Russia and her partners develops by high rates. The given phenomenon has some reasons. The prices for petroleum are important, but are not the exclusive factors. There is a «new economy» in Kazakhstan, Russia. Ukraine varies literally « on eyes ».

The geo-economics development becomes more complex substance. So, in 2005 August on the part of the official persons of Ukraine have followed some inconsistent applications for an exit from “4”. There is certain geopolitical game now. The essence of a situation - entry of Ukraine in EU is not «a task of day». The long time will be necessity to use potential of Russia, her power resources for growth of national economy. Equally it concerns and to Byelorussia.

The geo-economics space of CIS now develops by higher rates, than integrative formation of Europe and America. For this reason the orientation to own near economic space is objective necessity. As from this it is possible to take essential financial resources. Many experts consider that, for example, using of Ukraine in calculation with Russia real world prices (gas, energy) will cause a situation of financial crash of Ukraine. It also is modern geo-economics paradox of the given regional economy.

Certainly, for Byelorussia the orientation to Russia is also long-term political priority. Number one. As the result, is possible to ascertain presence of precise geo-economics orientation in 2004. It can be seen on the appropriate graphic diagram.

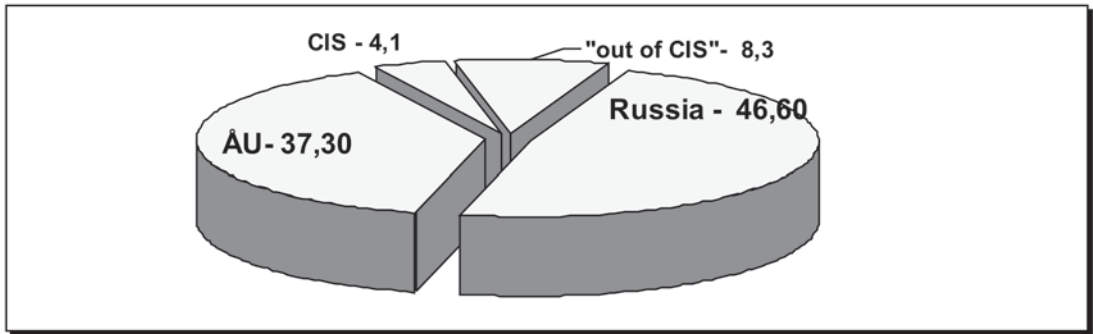


Fig. 2. Geo-economics of Belarus-2004, in %

Certainly, the expansion of EU should affect external vectors of economy of Byelorussia. The consequences were predicted by politicians and economists of many countries. There were positive and negative estimations. The opinion was declined to negative consequences, especially in the long-term prospect. It will be a problem for regional cooperation still certain time. To put a point early, but the first results of development of a line of geo-economics development East - West have appeared in 2005.

NEW SITUATION: OIL AS “MAIN STREAM”

The time and experience was placed on the table both export, and import, the special acts of government and laws. To the beginning of new century we were protected from the external market by new tariff restrictions. The own industrial and agrarian management initiated the decisions of government and new regulations rules, which made an internal competition inefficient, if not reduced it in general. Simultaneously began to fall competitiveness of the Byelorussian goods in the Russian market. In the beginning of 2005 we already hardly sold the goods, the fall made up to half of sales of the last year of machine tools and 1/6 lorries. Thus the continuing space rise of dairy products became paradoxical which the Russians began to buy in 1.5 times more. Anybody and never in the Byelorussian government predicted of such situation.

The official way strengthening of an export potential by means of support of mechanical engineering, motor industry have appeared under impact. There is a suspicion that the traditional algorithms of the external economic activity vary, and we get in new external economic measurement. In it there is something, for example, new: economic innovations constructed on new philosophy of consumption, brands and new algorithms of behavior of the buyers. But it is new rationality in new variants. Thus vary everything, but someone is late and - loses. How to not get simultaneously in traps of new market measurements?

In the whole new distinctive properties of the Byelorussian economy began to be shown as follows.

- New asymmetry
- Mirror changes
- Leaving from Russia
- Growth of the European vector
- Dualism of situation

The rates of GDP grow, the volumes of output by the enterprises are increased. However, there are problems of competitiveness of national production not only on external, but also on a home market.

There is a question: what is in quality as an active market power? A gain GDP, as such, or export and incomes as mixed combination. Taking into account realities and priorities of national economic policy, it is possible to allocate main: GDP dynamics was set by rates of sales in the external markets and rates of a gain of wages. The general result has developed as follows: everyone 2.3 % of wages (in real terms) enabled of a gain GDP on 1 %. Equally and 2 % of a gains of export “cost” approximately 1 % of a gain of release of final cost of the goods and services in the Byelorussian economy. As there was a ratio - question special, but we shall note presence of known synchronism 2:1.

The algorithm of economic policy developed not so systematically, though the efforts on maintenance of parameters of the shaft and growth are undertaken too large for the given stage of development of national economy. It is necessary to predict - the growth of expenditure and price leads to non-competitiveness of our production. Situation is overestimated of aggressive policy of the incomes. Socially it is positive, but economically causes fears.

To the beginning of new century there was a situation that in export branches and enterprises is engaged up to 20 % of an economically active labor. These workplaces are locomotives of technological growth both introduction of new engineering and technologies. But such representations began to vary recently. In practice of the external economic sales the growth of export of the foodstuffs, usual household goods began to show, that we have new quality of the external relations. Belarus - the agrarian country is claimed objectively. But, at the same time being too causes dilemmas in a choice of effective external economic strategy.

The situation of 2005 bears in itself traces of changes. First, since May, 2004 the Baltic countries have come in EU and it influenced flows of export and import. Secondly, in trade with Russia the new rules of collection of the VAT on the country assignment are used, that deformed a situation in accounts of the exporters and importers a little. In a result the flows of the goods are characterized by the following importance of parameters.

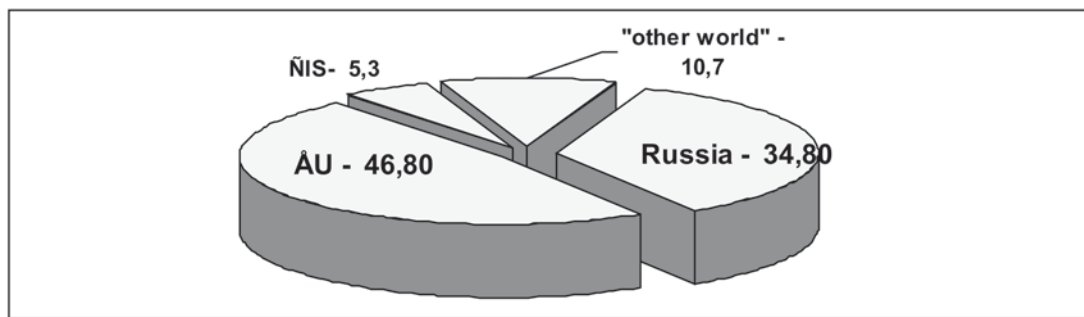


Fig. 3. Geo-economics of Belarus-2005, in %

But, simultaneously began to vary units of export basic clusters of economy and on this theme we shall stop in more detail. What occurs? The urgent theme develops objectively, as, in itself: geo-economics strategy - new challenge or special historical chance?

It is real challenges both politics and economists of the country. A challenge, which can stimulate prosperity of a nation or her stagnation. About what there is a speech? First, whether Belarusian can compete in the external markets? Yes, but on what? Tajikistan and China or Germany and Canada? There is a question. Secondly, whether dynamics of the external markets will change the basic of all Byelorussian economy? Thirdly, what necessary reforms and changes should be realized on ways to global economy? Whether the list of measures necessary for the introduction in WTO will suffice only. And this membership can appear strong impact on national economy. As a matter of fact we open a home market for cheap production of the countries of Southeast Asia. If Western countries send through a low consumer side, which frightened them, we remain on adequate outsiders at the technological level. We can not sell highly technological production for the exclusively high prices and change less developed countries.

What is in an active list? Tractors and automobiles, which we sell in the developing world? KCl & fertilizer for the farmers of Brazil and peasant of China? They, thanking these consumers also will make helpless our collective farms and state farms. So long as we shall eat own and expensive production of agriculture. Up to, that by a road, the doubts should not be. Official projects about financing on revival of village of new billions dollars soon will pull money from the budget. What can turn out from that policy, which we build last years?

Actually speaking, in given practical export dynamics, Belarus has own «the export face». We - country, which makes and takes out on the world markets products of oil processing, fertilizer (own resources, minerals, which have objective limits), metals. Certainly, the level of oil refining industry can be technically high, equally, as well as manufacture of black metals. But it not branches “high tech”, not the newest directions of global economy. Neither information product, nor new production of microelectronics we do not make in significant amount. Moreover, given nomenclature in general is not present in the list 30-ies of the major export goods.

It is necessary to pay attention that the strange image distributed export on the strategically important geo-economics vectors. The petroleum and Kali give about 4 billions dollars and it - export of production for limits of CIS. On western vector really we earn money. Very large on ours account the currency receipts, that not be given by any other clause of export. We became some kind of small trader for world economy, but thus we confirm, that the main partner Russia. It is correct only in a part that from it we “«extract” petroleum for our oil refining giants. All other export goods of first tens obviously concede to strategic export of petroleum and Kali. Out of the Russia, on West, there, where «us do not wait».

What represents involved in the beginning 21 centuries an export potential by ours small, open economy? A national facilities, which receives the significant incomes of processing the Russian petroleum, collection from country of salt and manufacture qualitative metal. Perhaps, only the Globin metal works also is perspective in many respects potential exporter. Neither another’s petroleum, nor part own «the bodies of ground» can not be recognized as conducting, shock force in our export economy. Ascertaining of the given situation to not add optimism in an estimation of a modern export national economy.

It is possible to build logic of export strategy in account on oil processing. It is possible to balance on the prices of the world market and to adhere to the optimistic forecasts of growth of

consumption of petroleum. Yes, the global economy grows, is especial at the expense of China and India, which increase consumption of energy, petroleum. Yes, in nearest 3-5 years are possible to build positive logic of our commodity flows in the external markets. But what will be in 10 years? And in next 20 years? Whether we behind ourselves shall keep ability well to earn in the external markets. And the buyers of petroleum also adapt for new conditions of the market. They quite prudently can construct own oil refining factories and refuse our petrol and black oil.

What still it is possible to accept in account? As in sports, it is necessary to pay attention to the following commodity groups, which descend in first ten. Let's look at them. Lorries, clothes, milk, refrigerators, spare parts, furniture, and tractors. Clothes, furniture and milk are bought in basic Russia, where the given goods can be made at a competitive level and in enough. Yes, to keep export of milk and furniture follows on tradition, and market of Russia too large. On it there will be a place to the Byelorussian goods simply as parts of general assortment. Especially it concerns to clothes, though it to sew any more There will be no also consumer niche. On the other hand, on this group to create all new and «checkpoints brands» faster. Such as «Cawuskin Product», which already works in the Russian market, has decent reputation. With furniture of business are a little, there is certain abstract brand «a Byelorussian furniture». While it is enough of it. But the time changes also behavior of the consumer. For this reason there are some chances for national economy of Belarus.

What has to do Belarus in such situation? To become on a way of the Baltic countries and to search for variants fastest entry in EU? To strengthen uniform processes with Russia. Or to pay attention to other forms and mechanisms of interaction in region? A new Baltic – Black Sea initiatives?

Such questions become more and more importunate and persistently require the answer. How to act to the Byelorussian economic and political elite? Especially in a modern situation of split of the Slavic countries. This split for the present has not developed in certain institutional formula, but the time will allow carrying out it. How to choose the most effective geopolitical and geo-economic formula of development?

In such situation the exactest tool of Belarus actions is the adjustment of all actions and mechanisms of cooperation on the purpose of realization of own national economic interests. Certainly, it is necessary to do from the reasonable bases and at an articulation of own national interests. We can not require any more and stipulate the prices for resources at a level of the internal Russian prices. It is similarly difficult to achieve protectionism in the Russian market. Besides, what exactly the Russian market is most serious warrant of the current economic safety Belarus.

The development of the attitudes with Russia can pass the logic and to become realistic cooperation and interaction. In a number the set of variants and offers is possible to accept for a basis two clear and obvious priorities:

- Cooperation in joint production of petroleum and gas by means of mechanisms of formation of the new economic subjects, using the joint-stock capital of Belarus and our labor. The given variant is especially interesting by development of petroleum and gas. On Russian monopoly of oil market the penetration of the Byelorussian joint-stock companies becomes the powerful factor of change of a situation. It should arrange of present Russian governance of Putin. The reason is simple - elimination of nonsuitable Oligarchies in raw branches of Russia.

- Simultaneously, the Byelorussian side can generate as the economic subject «the Byelorussian national joint-stock company», which could engage in development of gas and petroleum deposits for Belarusian economy. Such “«national” company becomes a counterbalance (social and political) existing private companies of Russia. Simultaneously it will create precedent in development of the new economic forms of interaction of two countries.
- Similarly with participation of the Russian capital it is possible to create processing complexes in Belarus, using really working now chemical and petrochemical factories. The principle - new proprietors are not oligarchy - is important. Transparency of “«ours” TNC can become a completely new economic phenomenon, which will lower presence egoistical both exclusive subjects and proprietors who have appeared at the first stage of an absolutely inefficient privatization in Russia.
- Creation of compatibility, simple and working system of social policy in Russia and Belarus. Actually, such system can include and others to the country, question - quality of the social decisions.
- The realization of such system of strategic partnership in social sphere can be aimed at unification or simple compatibility of insurance institute’s Belarus and Russia. The first question - medical aid within the framework of the uniform insurance policy. Second - uniform documents on residing. Any registration and any registration in Belarus for the Russians, Byelorussians in Russia.

It is possible to continue this list of the offers and measures, which can be realized particularly and realistically to format a new environment for the citizens of two and more countries. Such variants will be ever more and more. In a result will disappear the dividing countries economic lines and social axes. Certainly, it is extremely «most - most ».

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