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The Lithuanian Geographical Situation in the EU as the Factor of Strategic Development

The long-term development of the country's economy and its sectors are determined by different circumstances regarded as long-term factors. The Lithuanian geographical situation is also referred to as one of these circumstances. This is a very specific factor, constant in its content, however, characteristic of various aspects of its importance. Due to this reason, there is a fairly sceptical attitude towards the potential of this factor in developing and implementation of strategies. This paper highlights the conditions under which the geographical situation of the country can become a strategic factor and utilized in development of economy and its different sectors. The first part, which deals with the competitiveness conceptions of the economic entities, suggests that the conditions, under which these entities can function, can be regarded as strategic i.e. long-term development factors, provided these conditions contribute to enhancing their competitiveness and operate within the system of other factors. The second part presents models of competitive advantage and systemic competitiveness of the nations as a potential basis for developing strategies. These models employ the geographical situation alongside with other factors determining economic development. The third part emphasizes that in many theoretical and practical studies, the 'created' factors, rather than the 'inherited' ones, are identified as strategic factors. Despite this, there exist examples in the world-wide practice that it is these 'inherited' factors that play the decisive role in the development of the country. The paper also suggests that it is essential to take into consideration the problem of demand and competition in the sector where geographical situation is to be referred to as one of the strategic factors.

Introduction

Great attention is currently attached to strategic planning and reflects concern of the political leaders, politicians, experts and researchers about the country's future and efforts to find ways to minimize the present economic backwardness in comparison with Western countries. The concept 'strategic planning' has been frequently used in an economic and political context. Most often it refers to the process, which involves setting long-term development

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goals of the country as the economic entity and finding ways to achieve them. A high level of standards of living and its anticipated growth in the future has been universally recognized as the primary aim of development of any country. According to Michael E. Porter, the precondition for long-term growth of the living standards of any nation is efficiency of economy¹ (or its different sectors). Efficiency, in its turn, is dependent on conditions both inside the country and outside. The management of every country makes efforts to create such conditions for development of economy and its sectors that its efficiency exceeds that of other countries. This results in competition between countries.

Due to the above mentioned circumstances, in most cases the development of strategies is equalized to the search for competitiveness², i.e. strategy is to ensure a higher level of competitiveness than that of your competitors. This approach facilitates the analysis of conditions determining the efficiency of the country's economy and its sectors since it provides the possibility to apply methods to identify and study the reasons of competitiveness.

In the late 1990's, among the competitiveness theories, models and conceptions, the so-called approach of resources and skills³ was formed in which an appropriate combination (system) of material and immaterial resources was considered as the basis for successful performance of the economic entity (including the economy and its sectors). The conception of the creation of competition strategy based on resources suggests that the initial stage of this process is the analysis of skills and resources available and highlighting of those which can serve as the basis for implementation of long-term goals of the economic entity. To define them, scientific literature uses the concept of strategic factors⁴ (elements). According to the authors of this conception, both external and internal factors (with respect to the economic entity) can be strategic factors. The strategic nature of the factor is determined by common criteria, the most important among which are its uniqueness and durability⁵.

Unfortunately, the Lithuanian economy and community lacks exceptional inherited (natural) or acquired features, on the basis of which long-term development strategies can be created and realized, which may lead to the implementation of the task formulated before: more rapid development than other countries. The greatest problem is that Lithuania, like other post-communist countries, joined the competition struggle almost half a century later.

¹ Porter M.E. *Porter o konkurencji* ['About Competition'], Warszawa: Polskie Wydawnictwo Ekonomiczne, 2001, p. 198.

² The best example of this statement is book of M.E.Porter "Competitive Strategy: Techniques for Analyzing Industries and Competitors", New York: The Free Press, A Division of Macmillan Publishing Co Inc., 1980.

³ For example, Barney J.B., "Firm Resources and Sustained Competitive Advantage", *Journal of Management*, Vol. 17, No 1, March 1991.

⁴ Amit R., Schoemaker P.J.H., "Strategic Assets and Organizational Rent", *Strategic Management Journal*, Vol. 14, No 1/1993.

⁵ Stalk G., Evans Ch., Shulman L., Competing on Capabilities, in.: de Wit B., Meyer R., ed., *Strategy Synthesis. Resolving Strategy. Paradoxes to Create Competitive Advantage*, London: International Thomson Business Press, 1999, p. 221-234.

After World War II our country was not in a position to make independent decisions and be responsible as it was then not independent. At the time when the major part of the world was involved in forming modern socio-economic structure, Lithuania was isolated from the Western European economic and social environment which resulted in the lack of competitive experience and modern competitive advantages.

In this context, the difficulties encountered by developers of economy and strategies of its sectors, as well as by experts evaluating the chances of Lithuania in international economic competition, or by politicians making decisions, become very clear: they have to take into consideration a great many of "almost equal" alternative factors of competitive potential without obvious socio-economic advantages at their disposal. In addition, despite "considerable variety of strategic choices"⁶, modern development trends of world economy fail to provide a wide choice of tools for implementation of these strategies: numerous studies of competitiveness suggest knowledge, innovations, and high-tech-based areas as decisive factors.

Documents of the Lithuanian strategic development as well as the experts' evaluations contain one more, though not very 'modern', factor of competitive potential (potential of development), i.e. the geographical situation of the country. The geographical situation is a specific factor. Unlike other factors employed in the development of strategies, its content does not change with time. Nevertheless, it does not mean that its effect on strategic goals and their realization remains constant. For example, there are no doubts that sufficient resources of labour, good facilities, favourable administrative and legal environment for business are the factors which always help in seeking strategic development goals, while the geographical situation, depending on circumstances, can be both strength and weakness. It cannot be changed (improved), but rather, can be exploited. Due to these reasons, the role of the geographical situation can be viewed but with scepticism. But then, there is a question to be answered: why do not we utilize what in effect is free of charge? This paper addresses the problem of the assessment of the potential of the geographical situation to be a strategic factor in developing the country's economy and its sectors.

The paper aims to reveal the conditions under which the geographical situation of the country can become the development factor of the country's economy and its sectors.

With a view to this aim, the answers to the following question are substantiated:

- Are there factors making it possible to determine the conditions under which a specific circumstance of the operation of the economic unit plays a strategic role? The answer to this question lies in analyzing the

⁶ KTU Verslo strategijos institutas, VšĮ Žinių visuomenės institutas, Lietuvos ekonomikos augimo ir konkurencingumo šaltinių (veiksnių) kompleksinė studija [Lithuanian growth and competitiveness sources (factors) complex study], p. 7, http://www.ukmin.lt/lt/strategija/doc/Kompleksine_studija2006_03_09_galutine.doc, 06 05 2008.

conception of competitiveness of economic units. It has been found that the main criterion to identify this condition as a strategic factor is that it should contribute to the maintenance of competitiveness of this unit and be integrated into the system of other strategic factors.

- Are there competitiveness models applicable in practice where the geographical situation can be included as a separate independent element? Two models, i.e. 1) Porter's 'Diamond' of Competitive Advantage of Nations and 2) the Systemic Competitiveness Model are presented and the place of the geographical situation of the country among the other elements of these models is specified.
- What circumstances should exist for the geographical situation of the country to operate as a strategic factor of the development of the country's economy or its individual sectors?

The paper deals with the role of the positive approach of the strategies' developers to make use of the geographical situation as a strategic factor and with the conditions for the formation of this approach. It also points to the necessity to address the problem of demand and competition in the sectors where the geographical situation could be of importance. Also, the relevant analysis of the Lithuanian transit and transport sector is presented.

1. The Criteria for the Circumstances of the Operation of the Economic Unit to Become Strategic Factors

The possibility to apply study methods of competitiveness in assessing the factors determining the efficiency of the country's economy and its sectors, as mentioned in the introduction, which is actually being done in preparing different strategies, and calls for theoretical substantiation.

Most of the implemented strategies for the country's economy and its individual sectors are worked out with regard to the so-called 'model approach'⁷. According to this model, following the formulation of strategic goals, the assessment of the situation of the economic unit (in this case, the country's economy and its individual sectors) is carried out. For this purpose, the analysis of the environment and the interior of the unit is carried out, and the strategic factors, which in the authors' opinion have influence on the achievement of strategic goals, are highlighted. The factors are divided into such which:

- Are a threat for the development of the economic unit; or
- Provide possibility for more dynamic development;
- Are strengths; or
- Weaknesses.

⁷ For example, Daff R.L., *Management*, Fort Worth: Dryden Press, 1997, p. 253 and further.

The strategic goals are corrected (if necessary), the tasks (i.e. the ways to achieve these goals) to be implemented are spelled out, the functions of public institutions and other participants of the process are set in the following stages of the development of strategies.

The procedure of the preparation of the strategy is undoubtedly not bad, however, it has one shortcoming. As already mentioned, the modern strategy of the country and its sectors should be the strategy of competition. In other words, the answer to the question 'what is to be done' is not sufficient. The strategy should answer an additional question: what is the way to make the country's economy and its sectors more competitive than those of other countries?⁸ In the opposite case, it is possible that strategic goals will fail to be achieved, since all countries seek to occupy most favourable position in the world-wide labour division. It should be noted that at the moment there are no doubts that not only companies, but also countries and country groups are in competition. This fact is acknowledged by one of the most outstanding critics of this approach, the American economist Paul Krugman, who called the application of competitiveness ideology in the international relations a 'dangerous obsession'⁹. Nevertheless, it is impossible to deny the statement that competition among countries is more abstract: the countries compete in developing more sophisticated ways of organizing national economies¹⁰.

In regards to these statements, the strategic factors including those of the geographical situation, should meet the criterion of enhancing competitiveness of the economy and its individual sectors. This fact, in its turn, leads the authors of enhanced competition-oriented strategies to take into account another feature of competitiveness, i.e. relation with a concrete object, time and location.

Competitiveness, apart from the fact that it lacks uniform definition¹¹, is the property of the economic entity, lacking uniform features providing direct measurement (assessment). Despite its fundamental nature, competitiveness is a theoretical concept. As a concept used in economic and management conceptions, models and theories, competitiveness is characteristic of its abstractness. It means that competitiveness as the property of economic entity cannot be assessed unless this entity is related to definite developments in specific location and time¹². Therefore, the Lithuanian geographical situation as a factor of strategic importance should be assessed with respect to Lithuania being a member of the EU. In international exchange, where economic

⁸ According to this principle the Strategy of Lithuania's industry development is formed.

⁹ Krugman P., "Competitiveness: a Dangerous Obsession", *Foreign Affairs*, 1994, Vol. 73, No 2, p.28-44.

¹⁰ Meyer-Stamer J. *Systemic Competitiveness Revisited*, Duisburg, 2005, http://www.mesopartner.com/publications/systemic_revisited.pdf, 17 06 2008, p.6.

¹¹ The fundamentality of the competitiveness concept in most cases of use does not require any definition or explanation. It should be noted that some well-known researchers while using this concept very often do not present its explanation, either. The most typical example can be Porter, his book "The Competitive Advantage of Nations" being regarded as the most outstanding work in this area.

¹² Gorynia M., *Luka konkurencyjna na poziomie przedsiębiorstwa a przystąpienie Polski do Unii Europejskiej [The competitiveness gap on the level of enterprises in context of Poland's entry to the European Union]*, Poznan: Wydawnictwo Akademii Ekonomicznej, 2002, p. 69-81.

efficiency makes itself clearly visible, the country participates by following all common rules, so, in the first place, economy of our country in general and its individual sectors should occupy a better position with respect to economies or sectors of other countries.

Of no less importance is the factor of time. Competitiveness as the feature of economic unit can be measured at a specific moment of time, for example, at the beginning or end of the realization of the strategy. Since the development of the strategy by its content is a future-oriented process, the element in the structure of the competitiveness conception should be found, which can express competitiveness not as much as a static state, but rather as a transition 'mechanism' from one state to another which can out perform the competitors, because of its balance, organization and management. This problem can be solved by the possibility of differentiating competition into the following structural elements¹³:

- *Competitive potential* is material and non-material factors which are at the economic units' disposal in the competition struggle. So, competitive potential can also be called *competitiveness of factors*. In literature the concept *factors of competitiveness* is found.
- *Competitive advantage* is the combination of factors making up competitive potential which allows the economic unit to develop more efficient competition tools than those of others. This is a state demonstrating the potential of the economic unit with respect to other similar objects.
- *Competitive position* is a place which the enterprise or any other economic unit takes among other similar objects in terms of the achieved results. It can then be called *result competitiveness*. The prevailing opinion is that the better the results (higher position in the line), the higher level of welfare can the members of the unit (i.e. the inhabitants, workforce of the company or branch of economy) achieve.

Competitiveness in a broader sense, i.e. the ability of the economic unit to successfully participate in competition, is the wholeness of these features which can relatively be illustrated by the product (Figure 1).

¹³ Žitkus L., "The Analysis of Competitiveness Relevance for Evaluation of Competitive Abilities of Lithuanian Companies" in.: Kriščiūnas K., ed., *Juxtaposition of European Union Enlargement and Liubon Processes*, Kaunas: Technologija, 2002, p. 91.

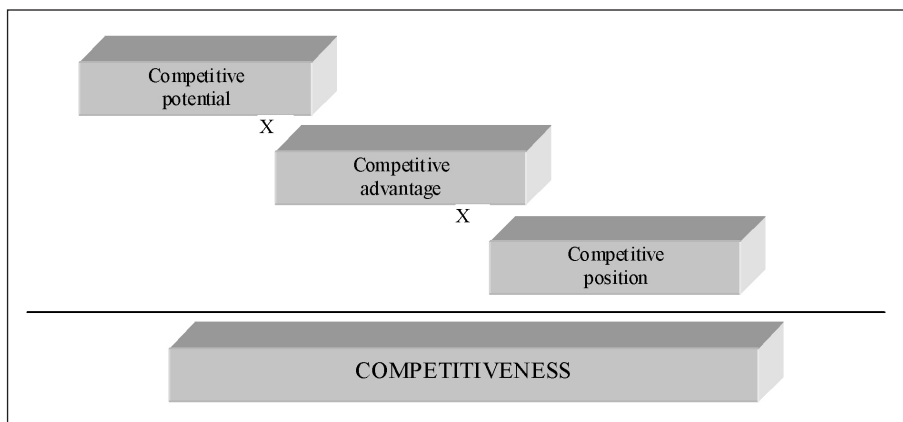


Figure 1. **Structure of Competitiveness**

Such an approach, though incorrect mathematically, best reflects the very essence of competitiveness and importance of its constituent parts: it is evident that the economic unit cannot be competitive if it has no potential for this, or it is not able to create competitive advantage from the potential that it owns¹⁴.

All the specified structural elements of competitiveness show the advantage of one economic unit over another or its disadvantage; however, in measuring these elements, advantages or disadvantages are established for different moments of time: good (quantitatively or qualitatively) factors of competitive potential mean a good start in the competition process, which commences at the moment when the strategy is started. A good competitiveness position means the place gained in competition throughout all the time of strategy implementation. While the competitive advantage is a link between competitive potential and competitive position (beginning and end of strategy realization): during the time of strategy implementation, the competitive advantage as a system of potential factors is developed, maintained and updated, according to internal and external changes in regard of the economic unit. According to some sources those actions are called competitiveness management¹⁵.

Besides, it is to be noted that competition is a dynamic process. Consequently, the allegories of a pyramid¹⁶, diamond (rhomb)¹⁷ or cube¹⁸ chosen for representing competitiveness, or its individual components fail to reflect real situation, as they symbolize stability. Rather, competitiveness is an iceberg (Figure 2), of which only its upper part, i.e. the upper position of the economic

¹⁴ Ibidem, p. 92.

¹⁵ Stankiewicz M.J., *Konkurencyjność przedsiębiorstwa. Budowanie konkurencyjności przedsiębiorstwa w warunkach globalizacji [Competitiveness of enterprise. Competitiveness creation in conditions of globalization]*, Wydanie II, Torun, 2005, p. 175.

¹⁶ Benchmarking the Competitiveness of European Industry, COM- (96)463 final, Brussels, 09 10 1996.

¹⁷ Porter, (note 2).

¹⁸ Garelli S., "Competitiveness of nations: the fundamentals", in *World Competitiveness Yearbook*, <http://www.imd.ch/research/centers/wcc/upload/Fundamentals.pdf>

unit is visible, while its stability is ensured by so-called “underwater” part, i.e. factors of competitive potential and the state of competitive advantage constructed from them by the management of the economic unit.

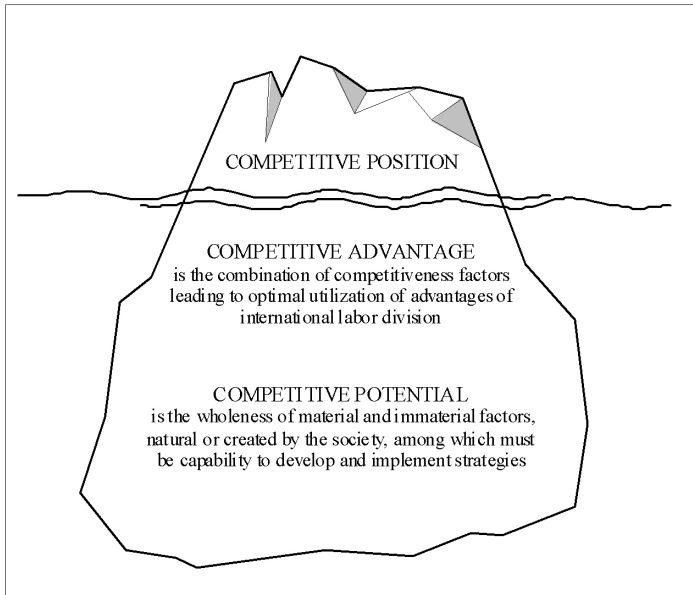


Figure 2. **Competitiveness iceberg**¹⁹

To secure competitive position in the dynamic environment is possible in two ways: to have a unique competitive potential (i.e. factors ensuring long-term development), or be able to create a unique system of factors expressing competitive advantage. Most of the countries rated highly world-wide, make use of the second way, though it is very often that the system of their competitive advantage is based on one or two strong factors of competitive potential.

2. The Place of the Geographical Situation within the System of Other Factors Determining the Country's Competitiveness

As mentioned above, competitive advantage expresses the state of the economic unit (here, the country's), which provides opportunity to optimally utilize the available resources (competitive potential) and to occupy a better

¹⁹ Žitkus, (note 13) p. 93.

competitive position in future, i.e. to attain higher efficiency of performance than the competitors. This state can be achieved naturally, occasionally though due to appropriate artificial combination (system) of factors of competitive potential. The formation of such combination creates the basis for more rapid growth of economic units and, vice versa, its absence leads to backwardness.

Despite these difficulties, competitive advantage as the system of certain elements (factors of competitive potential) and their interrelations in most cases becomes the basis for development strategies of economic units. Consequently, the developers of the strategy make the assumption that this system of factors of competitive potential and their interrelations can contribute to making the economic unit become competitive. The nations very often tend to focus their strategies on the competitive advantage system of more advanced countries, which are similar in size. This is not a very reasonable approach, since there are major differences in the competitive systems of different countries²⁰. The Lithuanian state and its development strategies as well as their realization programs should make creative use of those factors which are not of importance to other countries.

Presently, theoretically well-developed methods expressing the systemic nature of development factors of the country's economy are known. One of them is the famous Porter's model of competitive advantage of nations. In terms of this model, the countries' (nations) potential in competition should be assessed in accordance with four groups of factors making up the diamond of competitive advantage²¹. These groups are: resources (initial factors), demand conditions, the company's strategies and competition conditions, and supporting sectors.

Alongside with the four main groups of factors, the author distinguishes two auxiliary groups of conditions, which in one or another may influence the competitiveness of the sector and of the economy in general:

- *Force majeure* (unpredicted circumstances), under which the influence of the main groups of factors increases;
- Government's actions influencing all groups of factors forming competitive advantage.

In assessing the content of the group of factors distinguished in the model of competitive advantage of nations, the country's geographical situation should be regarded as a specific resource and initial condition, on the basis of which specific areas of economy can be developed (Figure 3).

²⁰ Porter, (note 2) p.192.

²¹ Ibidem, p.207.

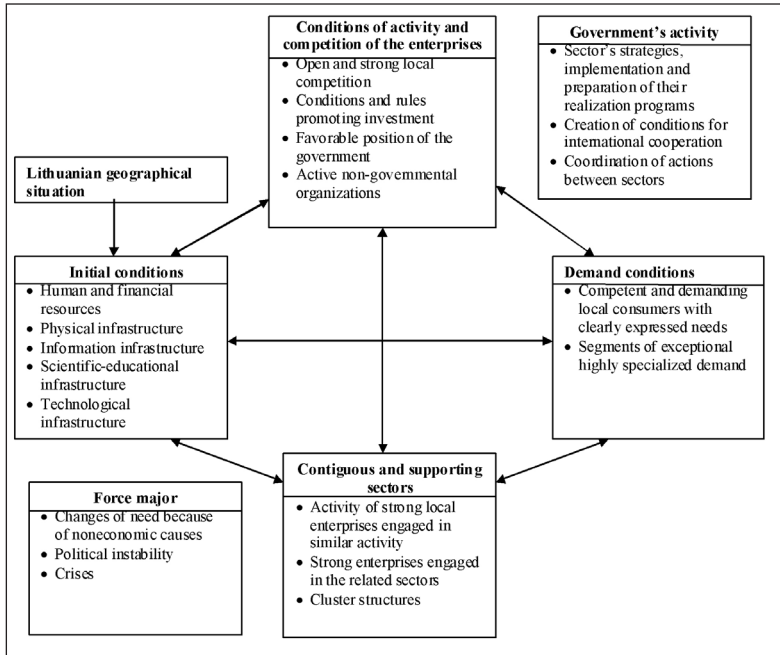


Figure 3. The main factors of competitive potential comprising the system with the geographical situation of the country²²

It goes without saying that these general formulations for a specific sector should be expressed by concrete statements describing what in this particular sector, can be elements of competitive potential.

The second model providing the possibility to analyze the utilization of the potential of geographical situation as a strategic factor and a precondition is so-called model of systemic competitiveness²³. The authors of this model suggest that in order to understand why some countries are subject to more rapid development than others, it is not sufficient to analyze the micro - (enterprises, markets, consumers) and macroeconomic (interest rates, budget deficit, inflation) levels. They suggest using two more levels:

- *Mezzoeconomic* (intermediate) level which consists of factors essential to competitiveness of the companies (and, equally, to the country's or sector's economy), not the ones formed by market economy (Figure 4).
- *Metaeconomic* (super-economic) level which consists of factors of non-economic nature related to the development of the country and society.

²² Adapted from Porter M.E., "The Competitive Advantage of Regions", Presentation at the Indiana Leadership Summit, Indianapolis, May 13th, 2003, www.isc.hbs.edu, 06 06 2008.

²³ *Ibidem*.

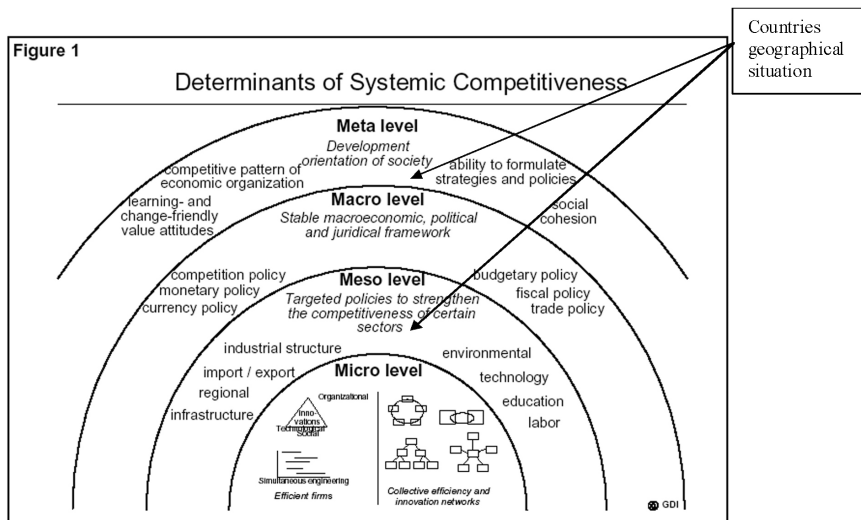


Figure 4. **Place of countries geographical situation in systemic competitiveness model**²⁴

Unlike in the model of the nations' competitive advantage discussed above, the place of the factor of the country's geographical situation as of the factor influencing development, within the model of systemic competitiveness, is not finally defined. On the one hand, it can be understood as a factor enhancing the competitiveness of individual economic units and the factor of mezzo level. There exists a certain similarity to the model of competitive advantage of nations, because a geographical situation falls among such factors as infrastructure, technologies, education, etc. On the other hand, the country's geographical situation by nature can be ascribed to the meta-level as other inherent, as well as country and society-related, factors: change and improvement-oriented values, abilities to form strategies, social cohesion, etc. Consequently, the geographical situation as other factors of this level becomes an initial precondition and prerequisite ensuring dynamic development of the country.

3. Analysis of the Potential of the Lithuanian Geographical Situation to be One of the Strategic Factors

As mentioned above, such instrument, which to a certain degree can contribute to the growth of the economy of the country, or its sectors, can be referred to as a strategic factor. Besides, its function is to provide a specific

²⁴ According to Meyer-Stamer, (note 10) p. 3.

advantage against its competitors (i.e. economies of other countries or their sectors), since these countries seek to create conditions ensuring better conditions for their economic units in the international labour division. In this respect, it is essential to spell out what makes the authors of strategies identify some factors as strategic, and others as unimportant, some as strengths or possibilities, others as weaknesses or threat.

Developers of strategies differentiate these factors as threats or possibilities on the basis of their knowledge and experience, though a considerable role here is played by a mere intuition. In analyzing strategies of the Lithuanian economy sectors and the strength of their realization, a clear tendency has been observed to rely on the examples of more advanced countries; therefore, the strategies mentioned above identify such factors as scientific potential, good infrastructure, abilities to create new products and services, potential to internationalize activities, etc., as the strengths of Lithuania. A knowledge-based economy, implementation of technological and other innovations, attraction of direct foreign investments, i.e. developments characteristic of advanced economies are considered as main preconditions of development and, on the contrary, the absence of these conditions is considered as a weakness threatening development of one or another sector.

The modern conceptions of managerial competitiveness, which serve as the basis to create new conceptions as said in the first part of this work, also stress the created elements of competitive potential rather than inherited, i.e. from educated society to modern economy of the country. The authors of the conceptions present examples of such countries as Japan, Switzerland, Germany and South Korea²⁵. These countries lacking exceptional long-term natural (inherited) resources, which could be the base for economic growth, have achieved high level of development. Some authors of competitive advantage conceptions maintain that resources, even the 'created' ones, fail to provide any advantages in the long run. According to these authors, everything is determined by the ability to consolidate all resources and acquire 'core competencies' providing potential to perform more efficiently than the competitors²⁶. Such approach substantiates the idea of the former sections of this work, to regard the strategy forming factors as a whole system.

In scientific literature Peter Maskel's work is an exception. The author admits that small but open economies based on low and medium - low technologies are capable of successful development due to "local possibilities". Though the author relates the concept of "possibilities" with the developed resources, the basis of their emergence and, what is most important, their utilization is considered the inheritance of earlier times²⁷. This, for example, might be the geographical situation.

²⁵ Porter (note 1), p. 196.

²⁶ Prahalad C.K., Hamel G., "The Core Competence of the Corporation", *Harvard Business Review*, May-June, 1990

²⁷ Eskolinen H., Hannibalson J., Malmberg A., Maskell P., Vante E., *Competitiveness, Localised Learning and Regional development: Specialization and Prosperity in Small Open Economies*, London: Routledge, 1998, p. 50-58.

The discussed situation of the understanding, of geographical situation as the factor of competitive potential, can partly be explained by the fact that the creators of commonly recognized competitiveness theories, conceptions and models have never faced the unique situation of the Baltic States. According to Borisas Melnikas, “the application of western models under the conditions of transformations occurring in the East and Central European countries, can be regarded as an area of independent study”²⁸, whereas the above theories dealing with the competitiveness phenomenon were developed at the time when success in the international competition was determined not by inherited, but, rather, by created elements of competitive potential (more exactly, their systems and complexes). Under the present conditions of globalization of competition, and competitiveness becoming a certain ideology of the country’s development, new specific phenomena of competition and their regularities emerge, which are to be comprehended and summarized²⁹.

It has to be noticed that in the practice of economic development there are examples revealing another extremity. The most significant among them are the countries of the Persian Gulf, which possess huge resources of oil. The basis of welfare in Norway, one of the richest countries of the world, is also natural, i.e. inherited resources³⁰. It goes without saying that natural resources are essential, but at the moment are not the only factors of economic development. They meet the criteria of a strategic factor (i.e. they are unique and long-term), but the most important thing is that they are only a constituent part of the factor system of the development of the countries, which partly ensures competitive advantage.

An obvious practical example illustrating how ‘passive’ inherited conditions, such as geographical situation and civilization heritage, can be utilized as factors of competitive potential is the tourism sector of Egypt. This sector involves about 51% of the available workforce, and its contribution to the country’s GDP is 45.1% which is higher than those of industrial sector (41.1%) and agriculture (13.8%)³¹. It is evident that the activity of this sector is based on historical values. Despite this, holiday tourism is dominating over educational one, the former attracting about 86% of holiday-makers. Certainly, favourable climatic conditions, beaches, warm sea, etc. also contribute to the success of this sector; however, it is commonly recognized that services marketing, good facilities, human resources, (i.e. created elements of competitive potential) have become a driving force of the tourism sector in recent years. Also, new business niches are being searched for; for example, sports, and healthcare, as well as shopping tourism are being developed³².

²⁸ Melnikas B., *Transformacijos [Transformations]*, Vilnius: Vaga, 2002, p. 541.

²⁹ Melnikas, (note 28) p. 542.

³⁰ The fact that Norway is not a part of EU (it doesn’t want to ‘share’ possessed resources with other European countries), shows that large nature gases and fish resources in the North Sea is an important factor of the Norwegian economy’s development.

³¹ Central Intelligence... (note 23).

³² American Chamber of Commerce In Egypt, *Tourism Sector Developments In Egypt*, March, 2008, <http://www.amcham.org.eg/BSAC/studiesSeries/Report51.asp>, 12 06 2008.

It is only natural that the geographical situation in Lithuania as a strategic development factor, in terms of its strength fails to be equal to the resources presented in the above examples. It is due to the factors of oil of Persian Gulf countries and gas resources of Norway, followed by cultural heritage of Egypt, because there is a lack of competition for this factor. Despite this, the Lithuanian development strategies, government programs, expert's evaluations and numerous studies identify the geographical situation as a basis (potential) for the expansion of activities to the east, west, south and north. This relates to the functions of the 'bridge' or 'transformer', the execution of which is facilitated by other circumstances which in the 1990's were understood as Lithuanian business strengths: good knowledge of Eastern markets and awareness of the necessity for competition, which led to readiness to overtake the Western methods of work and all market economy philosophy in general³³.

The opinion of the mentioned authors, that the Lithuanian geographical situation can be the factor of the country's economic development, is by virtue correct, however it requires substantiation.

Firstly, some questions should be answered, such as: is there a demand for the sector in which the Lithuanian geographical situation can be utilized as a specific strategic factor for products and services? Is the demand sufficient? Is it a long-term demand? A limited scope of this work and its theoretical character are a stumbling block for the search of answers to these questions, but even generalizing facts show that some sectors of the Lithuanian economy have the potential to make use of the geographical situation to achieve strategic goals.

The Lithuanian geographical situation as an element of competitive potential is most closely related to the sectors of transportation and logistics. In the country's "Transport and transit development strategy" it is referred to as "favourable for transit" and ranks first among the strengths of the sector³⁴. Also, of interest is the fact that the two European countries leading in the area of transit, Austria and the Netherlands also make use of their geographical situation to their best advantage: the Netherlands is situated on the delta of the Rhine, and in Austria there is the biggest passage in the Alps between the north and the south. It is obvious that the situation of Lithuania between the European Union and Russia (and Asia in general) is related to the possibility to participate in exchange between these two geo-economic areas. The study carried out by the Finnish transport and Communications Ministry shows that the dynamics of transport flows between the EU and Russia will be dominated by the tendencies of rapid growth in volume for the coming few decades with the remaining constant distribution of these flows (Table 1).

It should be noticed that the Lithuanian sector of transport and transit can expect benefit not only from exchange between the EU and Russia, but

³³ Melnikas, (note 28) p.542.

³⁴ Lietuvos Ūkio ministerija, *Ekonomikos augimo ir jos struktūros plėtotės strategija iki 2015 m.*, dalis "Transporto ir turizmo plėtotės strategija" ["Long-term economic development strategy of Lithuania until 2015", part "Transport and transit development strategy"], 2004, p. 1.

also from transport flows between the European east and west. The Eurasian continent demonstrates great differences in distribution of natural resources and their demand: the carriers of raw materials and energy are concentrated in the centre of the continent, while density of population and level of industrial development are higher in the east and west. Such a situation is a guarantee for long-term demand for energy resources, raw materials, and the transportation of their initial processing products. Besides, differences in living standards and costs (especially, labour) ensure the flow of consumer goods from East to West³⁵. As European Conference of Ministers of Transport indicates “transport flows from East to West grow more than 6% per year and double every 10-12 years”³⁶.

Table 1. Scope and distribution of transport flows between European Union and Russia³⁷

Russia-West direction						
Year	Scope		Ports of Baltic states, %	Ports of Russia, %	Ports of Finland, %	Corridor II DRUŽBA, %
	mln t per year	%				
2003	74	100	36	54	5	5
2030	169	100	37	52	3	8
West-Russia direction						
2003	26	100	39	43	7	11
2030	97	100	37	48	3	12

The existing demand for transportation and transit services cannot be analyzed in isolation from another very important question, which is: what are the possibilities to meet this demand? Figure 5 represents maps, which show not only the growth of this demand, but also the fact that Lithuania is far from being the only applicant to perform the function of the ‘bridge’ between the East and the West. It is obvious that Lithuania can claim only a small portion of flow of goods. Even though the predicted growth of land transport flows through Lithuania is the greatest (Table 2), it cannot be regarded as the guaranteed competitive advantage. Much will depend on the behaviour of competitors. It is very important under such circumstances that the Lithuanian geographical situation be seen as a constituent part of the system of competitive advantage of the sector being analyzed requiring ‘support’ from other elements of that system.

³⁵ Ministry of Transport and Communication Finland, *Transport Connections between EU and Russia. Current Status and Outlook for the Future*, Helsinki, 2005, <http://www.lvm.fi/web/en/publication/view/278729>, 17 06 2008, p. 21.

³⁶ European Conference of Ministers of Transport. *Transport Links between Europe and Asia*, 2006, p.23.

³⁷ According to Ministry of Transport..., (note 35) p. 42-44.

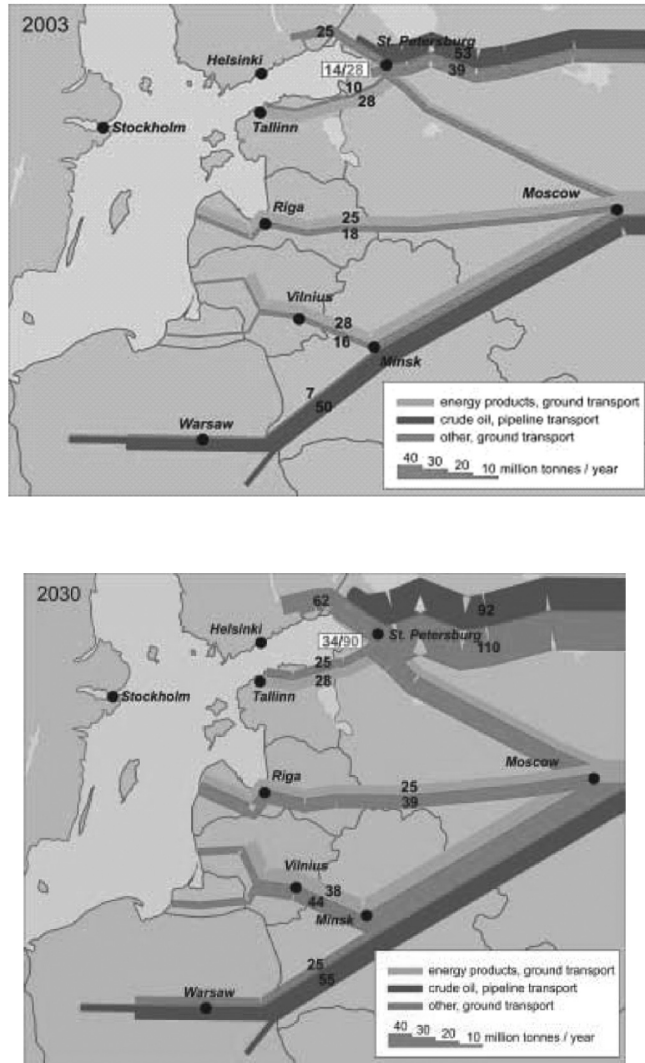


Figure 5. Transport flows through Lithuania and neighbour countries and their changes³⁸

Probably the most important ‘supporting’ element in the arena of transportation and transit is the appropriate external relations in transportation and transit development, which ensures the demand for transportation of cargo through Lithuania. The development of such relations falls into the group of elements of the government’s activities within the Porter’s Model of Competitive Advantage of Nations, or is the element of meta-level (ability to formulate

³⁸ According to Ministry of Transport..., (note 35) p. 42-44.

and execute relevant policies) within the model of systemic competitiveness. It is natural that other factors making up competitive advantage of transportation and transit sectors should not be neglected; however, it is obvious that for Lithuania, the biggest problem now is not the infrastructure of the sector, human resources or interrelations with other sectors, but rather the geopolitical situation of the central part of Europe characterized by the attempts of Russia to isolate the Baltic countries and Poland, which tend to be critical towards it and the wish of the greatest powers of EU to 'punish' those disobedient, pro-American Member States.

Table 2. **Changes of land transport flows between European Union and Russia in 2003-2030³⁹**

Direction	2003 mln t per year	2030 mln t per year	Growth in times
Finland	25	62	2.48
Estonia	10	25	2.5
Latvia	18	39	2.16
Lithuania	10	44	4.4
Poland	7	25	3.57

The geopolitical situation of the country and of all Central as well as Eastern Europe plays a significant role in Lithuania's economic marginalization process, since it prevents the country from becoming a "nobody's land"⁴⁰. Lithuania, like other countries of the region, is within the zone of direct contact with Russia and the Euro-Atlantic system, so it was forced to make a choice. Lithuania's choice of integration into the Western European structures could not but lead to Russia's discontent. There are signs that since 2000 Russia has sought cooperation with separate countries of the organization, rather than with the European Union as a whole⁴¹. The biggest countries, as Germany, France, Great Britain and Italy have been chosen for cooperation. Such a situation is beneficial to Russia in order to influence Brussels' decisions through bilateral agreements with other states⁴² neglecting the interests of smaller countries, especially, the new member states. The attempts of the latter to stop this process give rise to discontent of Russia and unfortunately, of Western allies.

The 'bridge' conception occurred at the moment when Russia and other

³⁹ Ibidem, p. 42-44.

⁴⁰ Milczarek D., "Jaki system bezpieczeństwa dla Polski? Uwarunkowania modelu europejsko-euroatlantyckiego" [Which system of security for Poland? Preconditions for Euro-Atlantic model], in Machinska H., Milczarek D., Skoczny T., eds., *Studia Europejskie*, Warszawa: Warszawski Uniwersytet Europy Centralnej, 2/2002.

⁴¹ Legocka A., Rosyjska wizja Unii Europejskiej [Russian vision of European Union]. *Bezpieczeństwo narodowe*, I-II-2007/3-4.

⁴² Bodio M., *Stosunki między Unią Europejską a Federacją Rosyjską. Stan i perspektywy rozwoju [Relations between European Union and Russian Federation. State and development perspectives]*, Warszawa: Elipsa, 2005, p. 50-51.

republics of the former USSR made attempts to get over great internal economic difficulties. The import of goods from the West in exchange for raw materials and energy resources at that time seemed a logical and realistic way to overcome these difficulties. Lithuania and other countries of the Baltic region saw themselves as mediators in this exchange. Currently, due to positive changes in economy and especially to political reasons, these countries (especially Russia) do not wish for the Baltic countries to act in some significant role in their relations with West European countries. The latter, in dealing with their economic problems, follow the principles of pragmatism, rather than seeking benefit of all Europe as an integrating power. The best example is the project of constructing a gas pipeline from Russia to Germany on the bottom of the Baltic Sea. This project is a clear indication that the absence of common power development policy steer the states of the eastern part of the EU towards the situation of energetic isolation dangerous to their security.

The most characteristic example illustrating these suggestions is the project of the construction of the gas pipeline on the bottom of the Baltic Sea. In addition, there are plans to extend the wide railway-line from Kosice town in Slovakia to Vienna. A major cargo terminal capable of receiving and distributing goods flows from Russia, China, and other Asian countries is being planned in Vienna⁴³. This will establish a new and very competitive route of transportation of goods from the East to the EU countries. The decision is very advantageous to West European countries (specifically to Germany), but it completely ignores the interests of such countries as Poland, Lithuania, Latvia and Estonia.

Undoubtedly, the new EU Member States do not have sufficient influence to change the situation by means of direct actions (i.e. 'forbid' the West European countries such behaviour), nevertheless, their actions lack rational approach. The countries like Poland and Lithuania should abandon the role of a disturber of peace, but, rather, take the position of a 'stiff negotiator'. In their relations with Russia, they should try to forget the past wrong, the way it was done by France and Germany in due time and take the course of a pragmatic dialogue. Hopefully in the future, the Lithuanian foreign policy will make a more significant contribution to the economic growth of the country.

Conclusions

In spite of the specific nature of the factor of the geographical situation in the development of the country's economy and its individual sectors, its attribution to strategic (long-term) factors employed for development of strategies in economics and its sectors, is determined in effect by the same criteria as of other

⁴³ Kowalski B., *Szerpkie tory do Wiednia i geopolityka [broad railing to Vienna and geopolitics]*, 2008 04 13, www.blog.boguslawkowalski.pl/szerokie-tory-do-wiednia , 06 06 2008. Note: Boguslaw Kowalski was Poland's Minister of Transport from 2006 May 23 until 2007 November 23.

factors: there should be the possibility to see the geographical situation of the country among the elements of competitive potential which can be included into the system of competitive advantage, i.e. 'manageable' combination of all factors of competitive potential leading to development, maintenance and improvement of the competitiveness of the country's economy and its individual sectors in the process of strategy realization. In a dynamic international environment, the geographical situation within the system of other strategic factors is supposed to maintain consistent development and achieve strategic goals.

The competitive advantage of the country's economy and its sectors as the system of factors of strategic development should be the basis for the formation of relevant strategies. We assume that such system can assist all economy in general and its individual sectors in becoming competitive and occupy a more favourable position in international labour division. The creation of the system of strategic factors determining competitiveness is possible on the basis of two models which are developed theoretically, i.e. Porter's 'diamond' of competitive advantage of nations or the systemic competitiveness advantage model. In both models, the geographical situation falls into one group with such factors as physical, technological, financial, etc., facilities, also, technologies, research, human resources, etc. The model of systemic competitiveness reveals one another feature of the geographical situation as of the strategic factor: in some cases the geographical situation becomes a necessary prerequisite for development of some activity. For Lithuania, this can be the transit of sources of energy, raw materials, and industrial production.

The developers of strategies, in attributing the operation conditions of the economy or its sectors to the strategic factors, more often than not are guided by knowledge and experience gained in studying theoretical aspects of developing strategies and practical examples. It should be noted that both theoretical and practical examples stress the importance of the 'created' strategic factors (elements of competitive potential), rather than the 'inherited' factors, which, in fact, is the geographical situation of the country. In the practice of world-wide economic development there are numerous examples that it is inherited factors, i.e., huge natural resources or historical and cultural heritage that serve as the basis for development of the country. This is the main argument for utilizing the geographical situation as the factor of strategic development. For Lithuania, the utilization of the geographical situation as the strategic factor is for the most part associated with the sectors of transit and transportation. Currently, there is a sufficient long-term demand (economically) for the services of this sector; accordingly, there is competition between other countries of the region. The division of transit flows will be stipulated by conditions created and to be created by the countries competing for these flows. Besides, government actions are also of importance in developing relations with the countries of the East, in the first place, with Russian Federation which, in terms of politics, can ensure the demand for transit services through Lithuania.