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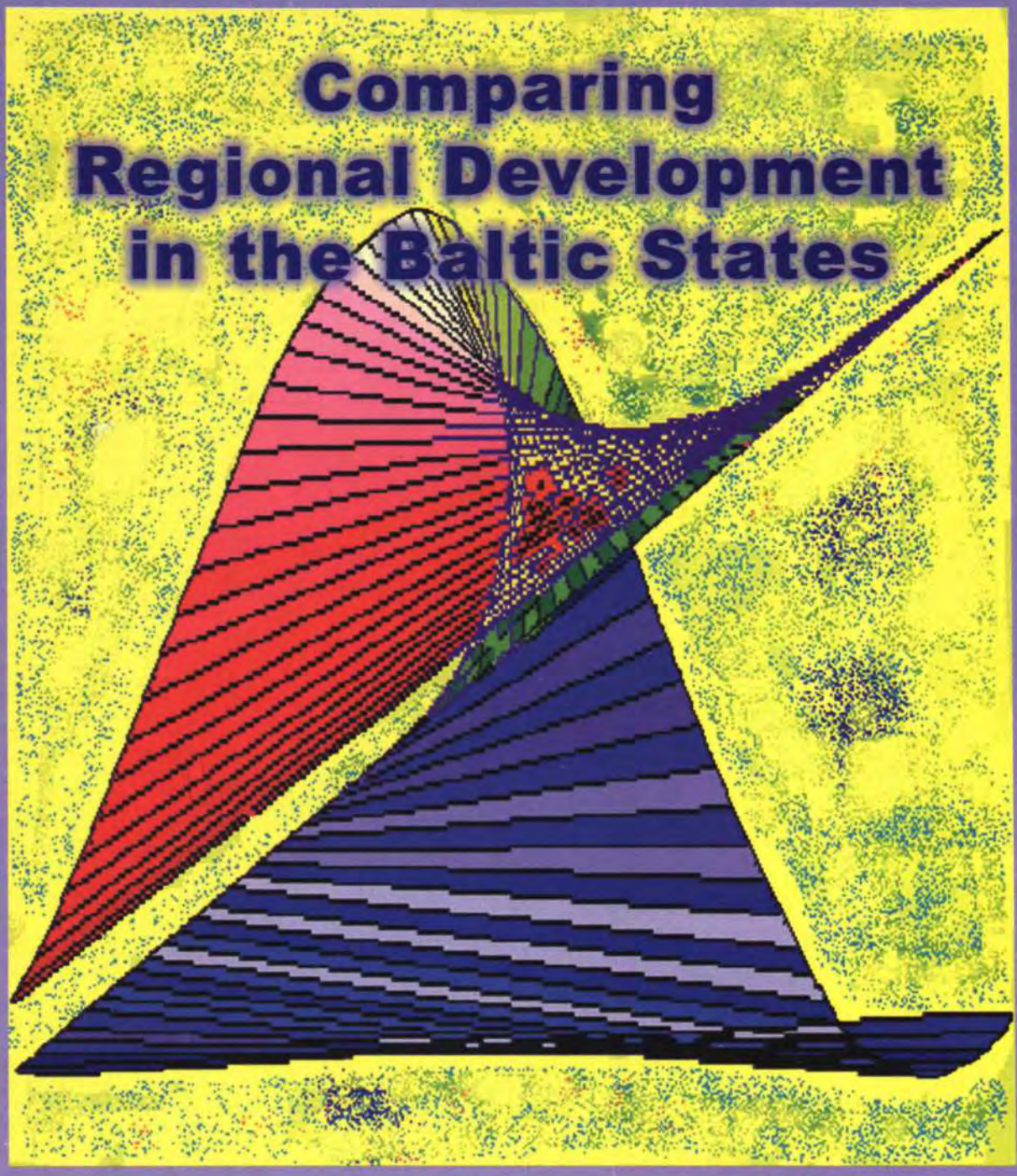

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Societas Geographica Latviensis

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Comparing Regional Development in the Baltic States

Guest Editors

Jussi S. Jauhiainen and **Harald Standl**

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Preface

In August 1991, the Baltic States regained their independence from the Soviet Union. The process of economic and social transition (from a planned to a free market system) was difficult and proceeded with differing intensities and speeds in Estonia, Latvia and Lithuania. But while the number of scientific publications dealing with these structural and functional changes has grown significantly over the last 15 years, comparative rather than just descriptive and analytical studies focusing on the different regional impacts of social and economic changes and on the recent process of integration into the EU are still rare. This was one of the reasons why it seemed highly necessary to organize an international interdisciplinary workshop on "Comparing Regional Development in the Baltic States", in order to gather together researchers with relatively recent work on regional changes in Estonia, Latvia and Lithuania.

However, the purpose of the workshop was not just to give an overview of progress in research, but also to extract the convergence or divergence of post-socialist regional development and to detect fundamental rules or to design descriptive models explaining the differentiations of spatial patterns, especially the problem of growing regional disparities and the negative effects of intensive demographic changes. These are the two most important trends, because both aspects could lead to a massive decrease in economic growth and unbalanced social development in all the three countries. Since 2004, for example, a rising number of migrant workers have been leaving the Baltic States for Scandinavia, the UK and Ireland to get well paid jobs there. One of the consequences is a growing shortage of both well-educated academics and tradesmen, especially in the booming capitals Tallinn, Riga and Vilnius. The rural peripheries in the Baltic States are doubly affected by this kind of brain drain, due to the fact that they are losing population through migration processes directed to the capitals as well as by out-migration. Some officials and politicians even talk about attracting labour from the CIS and other states in Eastern Europe to cope with the demographic problems. In this case, the Baltic States are ideal for such comparative studies, because they are small in size, show some similarities in natural capacities, number of inhabitants and human capacities, and have a common historical background.

A second, but no less important reason for organising such a meeting was to establish a new platform for further joint research among the participants. It was very obvious that intraregional cooperation among Estonian, Latvian and especially Lithuanian colleagues working in the fields of space-oriented human sciences (i.e. geography, sociology and population sciences) was still quite weak and therefore needs to be intensified by integrating as many of them as possible into international scientific networks to create new linkages and a stable, lasting interdisciplinary working group. Before the final concept for such a workshop could be established, an inner circle of geographers from Tartu, Riga, Vilnius and Bamberg (Germany) met twice (February 1 and 2, 2006) in Kääriku, Estonia and in Vilnius (March 31, 2006). The participants agreed on the fact that the international workshop should be held in Riga as the geographical centre of the Baltic States and with easy access from abroad. Professor Dr. Zaiga Krisjane undertook the duty of organizing a three-day conference at the University of Latvia, February 1 - 3, 2007. My own task was to call for papers and to look for funding. I was not overwhelmed not just by the positive reactions to the call, with more than 40 abstracts sent in, but amazed by the fact that the German Volkswagen Foundation decided to cover most of the expenses by giving a sponsorship.

I would therefore like to give many thanks to the foundation, as well as to my dear colleague Zaiga Krisjane and her team for a perfect job as local organizers. I also say thank to the German "Friedrich-Ebert-Stiftung" and its office in Riga for supporting the publication of the papers at hand, the Goethe Institute in Riga for inviting the participants of the workshop to dinner and last but not least to the University of Latvia for the very great hospitality the showed by offering rooms for the workshop and for sponsoring the social events.

The whole workshop was a great success, not only for the reasons mentioned, but because of a very good mix of more than 50 participants from eleven countries. We were extremely happy that a lot of young colleagues came to Riga to present their results on recent fieldwork or current projects, meeting highly experienced colleagues (like Professor Dr. Jörg Stadelbauer, Freiburg University) where they were able to intensively discuss methods and theories in thematic panels.

We hope that the scientific networking that started in Riga will be fruitful in the future as well and lead to many interesting joint international projects.

Harald Standl

Bamberg, November 2007

FIFTEEN YEARS OF TRANSITION AND RESEARCH ON TRANSITION: PROCESSES, PERCEPTIONS, ANALYSES[1]

Jörg STADELBAUER

Abstract

The breakdown of the Soviet Union and the socialist system initiated a series of research works following the transition approach. Consequences of institutional transition were studied in the fields of urban development, rural restructuration, and economic change to a market economy system, geopolitical re-evaluation and social implications of the top-down processes occurring during the transition period. The paper gives a general overview and reflects the results of German geographical research. It also points out the change of methodology and the open questions for further investigation.

Keywords: research overview, transition, restructuration, CIS, Baltic States.

Looking Back: Twenty Years Ago

In 1987, when the Soviet Union still existed, the Secretary General of the Communist Party, Mikhail Gorbachev, tried to implement his political ideas of *glasnost* and *perestroika*. However, the Soviet economy faced massive problems of growth and coherence. The capability of the Soviet economic system to adopt innovations and to reform itself proved to become more and more difficult. Finally, the whole system collapsed. At that moment, Estonia, which in Soviet times had always been the most prosperous republic, was chosen for an experiment: to hand over the entitlement to resources and decision-making about their use to the republics. But this economic experiment planned for 1989 failed to start, and the last Soviet attempt at reform was washed away by history.

The political turnaround began with the declaration of sovereignty and ended with the declaration of independence by the successor states of the Soviet Union[2]. This change was first documented by the breaching of the Berlin Wall in October 1989 and finally led to the dissolution of the Soviet Union in December 1991. Meanwhile, market economics had been introduced mainly by the governing elite as an alternative to the hitherto centrally planned economy. Institutions of a parliamentary democracy started to replace the idea of a socialist society which had never been fully realized. When the Soviet Union proved unable to overcome its structural problems through reforms, a transition process started in the beginning of the 1990s. Transition can be seen as a bundle of political, economic and social measures introduced by the political elite, influencing all aspects of daily life and aiming at the restructuring of policy-making, economic activity and social development [Fassmann 2000; Stadelbauer 2000]. Transition was common to all socialist countries wanting to overcome the Soviet legacy. Shock therapy and gradualism have been described as opposed ideal types of

[1] Address given in German at the Riga Goethe Institute on the occasion of the International Workshop *Comparing Regional Development in the Baltic States*, Riga 2007.

[2] Declarations of sovereignty (in the framework of the Soviet system): Estonia: 16.11.1988, Lithuania: 18.5.1989, Latvia 28.7.1989. Declarations of independence: Latvia 6.9.1991, Estonia 1991, Lithuania 1991.

transition. When they were applied to different states, neither path was able to implement democratic ideas and market economics without complications. Optimists hoped that transition would be successful within a few years. In reality, a process of structural change started which has not yet come to an end.

Therefore, the assessment of the transition process is more cautious today. Most economists argue that the economic transition has been completed as far as institutional change is concerned. But it is generally accepted that transition caused consequent problems within the countries concerned.

In consequence, the following paper will discuss the issue of transition on two different levels. On the one hand, visible and concrete results of transition are presented in a general overview, while on the other the scientific access to these results must be traced. Geographical research and the post-Soviet countries will be focused without neglecting the Baltic States.

Transition and Geographical Research on Transition

Concerning the key terms used in the paper, two short remarks are necessary:

(1) During the 1990s the term "transition" was used not only for the former socialist countries but also for the consequences of political change in Latin America and South Africa. These regions will not be taken into account in our context. The paper only deals with the processes going on since the political change in the socialist block.

(2) In the search for a neutral term not as burdened as "transition", which refers to the total exchange of a politically implemented system, the term "restructuring" was introduced into geographical research. At the same time, the focus moved from the meaning of a political system and its change to the consideration of spatial consequences. This led to a broader temporal horizon than normally used in institutional economics.

Transition as a process of political, economic and social dimensions cannot be studied without taking into account specific contextual conditions responsible for the differentiation of the paths of transition. The historical context for Russia includes the development of a world power always looking for territorial security, whereas for the Baltic States foreign rule has been normal for centuries, giving the whole region an intermediate position between Central and Eastern Europe. In the economic context, Russia belongs to the most important owners and exporters of raw materials and suffers from a permanent lack of capital necessary for modernization. The Baltic region is poor in mineral resources and lays specific stress on agriculture and trade. The cultural context of Russia may be characterized by a high level of education and formation, by the newly increased influence of the Orthodox Church and by belonging to the European cultural tradition. In the Baltic States, a permanent Central European influence can be seen in the tradition of the presence of the Roman Catholic and Protestant confessions.

Changes of Aspects and Themes since the Early 1990s

The extension of the terminological basis allows us to identify many individual processes in the transitional countries and to include their analysis in the design of concrete research work. Without trying to offer a complete list of transitional processes, the following themes taken up in a large number of studies can be mentioned:

- Emergence of new markets after the introduction of the market economy, above all in the spheres of daily work, residence and retail trade,
- Change of the legal system, above all privatization,
- Consequences of a partial breakdown of the economic system, above all by de-industrialization and the dissolution of former trade relations,
- Structural change in urban areas resulting from an economic assessment of locations and sites;
- General questions of the evaluation of land and property,
- Structural change in rural areas caused by de-collectivization,
- Demographic change, in Russia caused by the decrease of fertility and the increase of mortality, new migration flows, labour migration, migration to the homelands and forced migration in conflict regions,
- Political analysis of change and conflicts in the successor states of the Soviet Union, analysis of new border situations,
- On a global scale: aspects of turning modernisation and integration into processes of globalization.

The changes within the system of science can also be considered as a facet of transition. Therefore the conditions for research have to be mentioned initially.

New Methodological Approaches

Geographical research rapidly realized that new possibilities for the countries in transition resulted from the access now open to the countries of Central and Eastern Europe. A broad transfer of methods and the intensification of international collaboration were the consequences. The whole range of spatial analysis could be introduced to the states in transition and new issues could be developed.

Fieldwork

During the 1970s and 1980s, a major concern was that proper fieldwork and the application of empirical methods of social sciences were more or less impossible in the former Soviet Union. Cartographic sketches made on kolkhoz markets in the mid-1980s [Stadelbauer 1991] could never be exact because they had to be carried out "under cover". After the breakdown of the Soviet Union it has become standard to use a wide set of methods of physical geography, cartographic work and of quantitative and qualitative social research. This research work has been carried out by young scholars who have been starting their career with master and diploma theses. Cooperation with colleagues from the post-Soviet universities has become standard.[3]

[3] A series of high quality diploma and master theses has been elaborated, but only few of them were published totally or in large parts [Stein 1997; Habeck 1998; in extracts Klüsener 2003, Mueller 2004, Kirchmayer & Schmidt 2005, Schneider & Stadelbauer 2007]. Some reports on geographical excursions added results of research on a local scale to the regional knowledge [Mattes & Lienau 1994; Billwitz & Klüter 1998]. Unfortunately, no systematic overview of these research works is available thus far in spite of their importance for regional information.

Data Availability

Before 1990, even published statistical material was not generally available; most statistical data were not regionalized or of doubtful quality. Today, the statistical offices of nearly all post-Soviet successor states see a market for and sell data. Normally, the statistical offices run their own shops where data (statistical yearbooks, periodicals in printed and digital form) can be purchased. Maps are normally available up to a scale of 1: 200 000 for settled areas.

Some Processes of Transition and some Results of their Analysis

After 1990, Germany underwent the consequences of transition in the new Bundesländer and therefore experienced the situation of a laboratory within its own boundaries. The unification of old and new Bundesländer illustrated the extent to which even those regions not undergoing any change of the system were indirectly affected by transition processes. These aspects may be ignored in our context, even if they are important in respect to the evaluation of perception and analysis approaches.

Changing Cities and Urban Geography

Soon after the beginning of transition, cities got special attention and developed into focal points of research, whereas peripheral rural regions remained closed for empirical studies to a certain extent. Transition in large cities proved to be more intense than in small towns or remote rural areas [Fassmann & Matznetter 2005; Borén & Gentile 2007]. Above all, the capitals underwent massive changes within a short period. The privatization of housing initiated a new phase of mobility and created new markets, fields of labour and jobs. The result can be seen in studies of real estate development and the socio-economic change of residential areas [Lentz & Lindner 2003, Rudolph & Brade 2003; Kovács & Wießner 2003, 2006], on service spaces [Rudolph 1997, 2001], on the banking systems and retail trade [Pütz 1998, Standl 1998], and on social and ethnic segregation. Finally, general structural analyses were undertaken on intra-urban development, and also on changes at the fringe of urban areas and on the loss of importance of models which the socialist city had had up to then [Stadelbauer 1994]. In a larger context, special research papers studied urban systems under the influence of transition and globalization [Brade & Rudolph 2001; Stadelbauer 2005, 2006].

Within a short period of transition the real estate market, rather unknown up to then in the socialist context, proved to be one of the steering factors of intra-urban development [Lentz 1999]. Under the socialist system theoretically nearly everybody had the same chance to obtain a small living space. The transition to a market economy allowed the emergence of a real estate and housing market. When this process started, mobility and segregation increased; inner differentiation of cities began to correspond to the variety of social and income groups [Rudolph & Lentz 1999]. In a new suburbanization process, urban kinds of housing extended far over the former urban fringe. Suburbanization became a new experience particularly in Russia but also in the other post-Soviet states where construction of houses was restricted by administrative regulations.

Gentrification can be observed in the inner part of the cities [Lentz 1999; Standl & Krupickaite 2004]. During the privatization and initial social differentiation, demand increased for qualitatively high standard residential objects at central locations. At the same time, the privatization of the service sector and the development of a small construction enterprises favoured comprehensive reconstruction works. Besides the structural composition, the allocation in the centre of the cities and a good accessibility play a significant role for this process resulting in further social differentiation.

Reconstruction work already began under the Soviet regime as shown by the examples of Riga, Tallinn and Vilnius, the old Russian towns or even the Central Asian Islamic cities of Samarkand, Bukhara and Khiva. These reconstruction works aimed at the conservation of old structures or followed considerations made in the context of the protection of historical monuments. In reality however, a certain social segregation was initiated based on the criterion of proximity to the Party. Today segregation and the construction of gated communities characterize the development of prestigious residential quarters or condominiums in cities like Moscow or St. Petersburg [Rudolph & Lentz 1999].

Within the socialist city, the process of CBD development played a minor role. Planning authorities tried to extend the allocation of residential quarters to the city centres. Since the late 1980s, increasing modernization can be observed in the larger cities. This development results from the demand for retail trade opportunities and for service areas suitable for offices and new institutions [Axionow, Brade, Papadopoulos 1996; Rudolph 1997]. The intra-urban restructuring of cities and towns of a minor centrality normally followed the change of large cities after a certain time gap.

Due to the lack of modern office space, processes of displacement particularly affected the economically weaker part of the population. After a first wave of privatization, centrally allocated homes changed their function when real estate agents bought them for minimal sums from the ignorant elderly residential population. Even today the availability of inner urban office space is insufficient in respect of the prevailing economic boom situation. Moscow is planning and implementing the project Moskva-Siti (Moscow City) as a kind of relief office quarter combining new office-buildings with an exhibition and a trade centre near the south-western fringe of the inner city [Rudolph, Manz & Burdack 2001].

Remarkable changes have occurred concerning retail trade. Detailed studies show the broadening and differentiation of offers, the establishment of new kinds of selling and the growing importance of branch enterprises. Overall, the inner structure of large cities partly lost its individuality and has developed into a similarity of retail trade structure. Pütz (1998) proposed a model of subsequent types of retail trade on the basis of the example of Poland, whereas Standl (1998, 1999) developed a general typology on the basis of experiences made in the capitals of the Baltic States.

Urban planning and urban governance have reacted in different ways. Therefore, the patterns of actions undertaken are different from city to city and from country to country (Ruoppila 2007 for the example of Tallinn).

Changes in the Countryside: Ecological and Economic Adaptation of Agriculture

During the first years of transition, research did not focus on rural areas. This may be due to the continuity of reduced accessibility, but it cannot be ignored that cities gained the most direct profit from transition. All processes of structural change occurred with higher dynamics in cities than in rural areas. It is difficult to list and evaluate all changes because access to rural areas was restricted in Soviet times so that we only got impressions rather than a comprehensive image. The first general overviews reflected the variety of changes [Buchhofer & Quaisser 1998]. A survey of rural development was undertaken with the examples of the Kaliningrad Region and Latvia. These studies analysed the development of rural settlements, the significance of property rights and new patterns of land-use [Knappe 1993, 2003; Knappe & Krauklis 1998]. The deepened analysis of kolkhozes in high-mountain Tadzhikistan illustrates that the activities of individual actors are the basis of different ways of development [Herbers 2006].

Large-scale maps and satellite images allow detailed ecological studies. A critical assessment of agricultural potentials was made with the example of Ukraine [Bosch & Endlicher 2001; Huhmann 2005]. The general impression of the high fertility of Ukrainian soils has been re-evaluated when the negative heritage of the Soviet economy was taken into consideration, which led to soil degradation, loss of agricultural areas and mismanagement.

A large variety of rural areas can be found outside the Baltic States. The peoples of the far north, like Yakuts and Evenks, but also in Central Asia turned back to forms of nomadic lifestyle and economy adapted to modern demands. In Central Asia, the revival of nomadism is connected to the search for further sources of individual income such as community-based tourism [Kirchmayer & Schmidt 2005; Schneider & Stadelbauer 2007].

The structural change caused by the adaptation of the Soviet model of kolkhozes and sovkhozes in most of the other socialist countries has been studied by several scholars [Lindner 2006; Thorez 2006]. However, post-Soviet de-collectivization still needs further research as far as geographical approaches are concerned. De-collectivization has always depended on the different legal regulations for private property introduced during the transition period by the individual countries. In Russia the privatization of farms remained of secondary importance, and a large part of the rural population preferred to work in cooperatives, agro firms or agrarian companies – large enterprises which seemed to better fit the entrepreneurial conditions of the rural population, because the access by private farmers to the input and output markets remains difficult. Disadvantages arose for the farmers concerned when they turned away from large agricultural enterprises. On the contrary, the large enterprise seemed to guarantee a certain income security. In a manner similar to eastern Germany, the Baltic States experienced two contradictory tendencies: on the one hand, re-privatization of small farms after the dissolution of the kolkhozes and sovkhozes, and on the other hand the growing influence of international agribusiness. Lack of know-how and capital have remained the main problem of small farms, whereas large enterprises are often governed from outside without any consideration for local and regional traditions. By invading the agricultural sector of the Baltic States, enterprises and even farmers from Germany, Denmark, Sweden and the Netherlands created "enlarged work-benches" from were the agrarian markets

of the European Union are served. The example of Latvia takes into account the regionally high amount of agriculturally active people. It documents the time that needed for private property rights to be registered in the land registry, and shows the spatial pattern of property rights and land-use [Knappe & Krauklis 1998]. In other countries following the path of transition, private plots near the farmstead used for cultivation of potatoes, vegetables and fruits have remained one of the most durable elements of the Soviet agricultural system. These plots serve for individual subsistence and – by the delivery to nearby markets – the supply of urban populations.

In most transition countries, the establishment of new agricultural markets has not yet come to an end if in addition to the creation of small regional systems the integration into the world market is discussed, as well as if not only the agricultural production itself is taken into account, but also pre- and postponed positions in the vertical commodity chain. For the Baltic States, the integration into the European agrarian market is of key importance, even if it proves to be an extreme burden unless the overdue change of agrarian structures is carried out. Today, diversification and specialization are the main strategies in order to strengthen the chances of the markets and to increase individual incomes in rural areas after de-collectivization. These processes will change regional patterns of land-use and regional specialization. A problem arising nowadays is the unemployed or underemployed labour force.

The economic and social problems caused by transition in rural areas are accompanied by signs of a decay of the cultural landscape visible in the desertion of settlements, degradation of soil and vegetation, deterioration of the infrastructure, missing investment and other similar processes. The absence of an effective credit system, the lack of a modern formation of labour force, capital poverty of enterprises and deficits in the policy of regional development accelerate rural decay in many transition countries. The agrarian policy of the European Union and the purchase of land by big enterprises are only able to reduce the effects of this decay in the cultural landscape; they cannot stop it outright (Stadelbauer 1995 for the example of the Baltic States; Viehrig 2007 for Poland).

Geography of Economy and Transportation

As far as economic change and transportation are concerned, research work could not keep up with the speed of transition. Initially, institutional changes occurred, such as the development of a system of banks and finance. Then, regional changes were studied. Taking into consideration the high value the global market attributed to Russian raw materials, it is not surprising that several studies laid specific stress on two regional aspects: the development of new oil deposits in northwest Siberian and in the Caspian region have gained more attention with research approaches derived from geopolitical and geo-economical issues. In Siberia, natural resources are seen as a potential given by the natural setting. Therefore, recent research emphasizes the external framework of resource use. For the Kuznetsk Basin it has been demonstrated that growing globalization adds to the problems of an old industrial area which hardly experienced technological innovations [Klüter 1997, 2003].

De-industrialization has gained little attention because the access to the relevant actors is still difficult. Therefore, the use of qualitative methods is problematic and new approaches of industrial geography cannot be transferred.

Visible in the spatial pattern and decisive for the urban economy were changes in the tertiary sector because they already occurred in an early stage of transition. Tourism has been of great significance because it has been the basis for additional incomes in international currency. This is also true for the Baltic States which profited from the European neighbourhood. In Latvia, tourism adds nearly one-tenth to the GDP.

One of the reasons is the change in the transportation links [Buchhofer 1995; Stadelbauer 1999]. The idea of a Via Baltica linking the Baltic States with Finland and Central Europe gained broad acceptance in Europe. The number of flight connections grew rapidly. Today budget airlines bring a lot of tourists to the capitals of the Baltic States (Riga counted nearly 1.5 million passenger arrivals in 2005 and 2.5 million in 2006). The planned enlargement of Riga Airport will raise the capacity to 10-13 million passengers. New challenges arise from logistics, an economic sector in which the cities in the Baltic States are expecting large revenues in future.

Studies in Geography of Population and Social Geography

Whereas research in social geography uses methods of social sciences which up to now have not been fully adopted in the successor states of the USSR, the statistical analysis in the field of geography of population profits from the availability of a large range of statistical data. Population data are generally well processed by the national statistical offices and available even for meso-scale research. Up to now, nearly all post-Soviet states organized a post-Soviet population census that provided relatively recent data.

Under the influence of political change, the question of ethnic problems, especially the status of minorities, has been raised [Kraas & Stadelbauer 2002], taking as examples southeastern Europe [Heller 2007] and the Caucasus [Stadelbauer 2002; Belozerov & Polian 2006]. It seems that the majority of post-Soviet problems could not be solved definitively up to now.

Migration processes used to come into the focus of research work more than demographic processes. The research on migration combines methods of mass statistics with questionnaire methods used by combined research projects which are based on primary data. Whilst in Soviet times partly forced, partly voluntary migration to Siberia and the Far East initiated scientific interest, this interest changed to demographic processes which in the 1990s seemed to be contradictory. These processes led to massive losses of population in the far north and in rural areas, sometimes followed by the complete abandonment of individual villages. Migrations were partly caused by ethnic factors, particularly by the deteriorating economic situation in most of the homelands of non-Russian ethnic groups. Since then the available data have allowed the distinguishing of several phases of migration during the transition period [Wein 1999a, Göler 2003, Stadelbauer 2003]. In the social sphere, disparities increased. Until today, two of the main social problems have been unemployment and poverty of large parts of the population.

Revival of Political Geography

The political change in 1989/1991 created new paradigms for scholarly access to East-Central and Eastern Europe. Political geography has seen new horizons as a geographical discipline after its decline and banning which occurred in consequence of the misuse of geopolitics by the National Socialist regime in Germany. After World War II geopolitics were nearly proscribed. The breakdown of the Soviet Union, the development of new states, the re-evaluation of borderlines and conflicts produced new directions in geographical and geopolitical research [Kreutzmann 1997, 2002; Radvanyi 2006]. The transition itself proved to be a political issue. Separation and segregation caused by the new quality of borderlines, but also new interactions crossing political and administrative borders gained the interest of geographers. Conflicts which seemed to be conflicts between ethnic minorities and the titular nations proved to be deeply rooted in history, and the deportations under Stalin were focused on as the main reason for recent conflicts.

The adoption of the model of Euroregions in Eastern Europe created a large number of transboundary regions whose specific development has been studies with special interest because the interactions emerging there could be interpreted as a primary stage of transnational integration [Förster 2001]. Up to now, the Polish-Ukrainian-Byelorussian transboundary region is characterized by a remarkable economic difference which has increased further after Polish integration into the European Union [Haase & Hudseljak 2000; Haase & Wust 2002, 2004]. This political change has attributed a new quality to trans-boundary interactions.

During the 1990s, Russia swung between decentralization and centralism. The evaluation of the actual situation requires us to look back at historical spatial structures and the acting of individual agents. The change from Yeltsin to Putin in the Russian presidency emphasized the necessity of geopolitical research [Heinemann-Grüder 2000; Stadelbauer 2000b; Perovic 2002]. As far as the Baltic States are concerned, the further integration within the European Union seems to be the leading process, including the consequences for the regional policy of the three countries.

Research on the availability of water or of the transnational sharing of water among neighbouring states or societies opens the field for studies in political ecology. These problems have been explained particularly by the regional example of Central Asia [Giese et al. 2004; Schmid 2004; for further references cf. Stadelbauer 2007]. In Romania, the re-activation of gold-mining in the Apuseni Mountains offers another example [Waack 2006].

Environment and Transition

Ecological research and problems of environmental and nature protection are rare in a field of research mainly orientated to socio-economic and political issues, but the emergence of non-governmental organizations, access to better environmental data and the development of monitoring approaches support general analyses as well as detailed studies.[4] Lake Baikal,

[4] Stadelbauer (1998) with a general overview on environmental problems in the CIS; Sittler et al. (2000) on the protection of nature and environment; Kühne (2002) with special reference to the Polish example.

in the focus of environmental research since the late 1970s, has remained a guiding paradigm for the analysis of problems of environmental and nature protection and for applied studies aimed at the establishment of protected areas. Recent studies have focused on practical application and comprehend suggestions for nature protection in the sense of rational land-use development. For the Olkhon Island, for example, sustainable tourism is suggested to foster sustainable economic development. The initial suggestions have been carried out by now [Wein et al. 1999].

In respect to Central Asia, environmental protection was stressed by Succow (2004) reflecting also the Soviet development and actual adaptation. The problems faced by the institution of a biosphere reserve that was created in surroundings shaped by Soviet patterns of acting are explained from a combined perspective of social sciences and political geography by Hünninghaus (2001, 2003). This study takes the Issyk kul biosphere reserve in Kyrgyzstan as an example.

The environmental catastrophe occurring in Central Asia from the water losses of the Aral Sea, the rising water level in the Caspian Sea and the uncontrolled use of natural resources in Kazakhstan are interpreted as a negative legacy of Soviet times [Giese et al. 1998; Bahro & Lindemann 2004].

Is Geographical Research on Transition and Restructuring Coming to an End?

Geographers do not agree that transition has come to an end, because spatial structures undergo a continuing process of changes and teleological thinking does not fit into the main theoretical foundations of the geographical discipline. Geographical research on transition itself has undergone a profound change during the last 15 years. The change of paradigms corresponds to the continuation of transition, restructuring and beginning integration into the new European structures:

- At first, the main interest was directed to an inventory of spatial structures which could not be studied before.
- In a second phase, a transfer of methods and a monitoring of spatial changes followed. Deeper research became possible and has been conducted in cooperation with partners from the countries in transition.
- By now, geographical research is focussed on the perspective of change and development under the influence of globalization.
- It lays stress on the acting of individual agents and acting groups.
- The new generation of studies uses a variety of sociological methods, follows the ideal of personal cooperation and prefers case studies on a micro scale.

In a general overview on the spatial restructuring in Baltic States during the last 15 years, the change from transition to integrative processes in the European context has to be taken into account.

Tasks for Future Research

This reflection brings us to some tasks of future research:

- It is still necessary to broaden the incomplete regional knowledge on the former socialist countries.
- The dynamics of transition and restructuring require continuous monitoring.
- Within the scientific community cooperation has to be intensified by establishing institutional and project-orientated networks.
- New questions and fields of research may be derived from mainstream geography, such as the new cultural geography.
- The consequences of European economic and political integration open a specific field of research which has thus far not attracted many geographers.
- Specific aspects in this field are the analysis of the development of employment markets for new types of migration, as well as:
- Research on spatial consequences of the joint European framework and legal regulations, or:
- The consequences of measures for regional development, above all in transboundary regions.
- And finally – the spatial differentiation within Europe due to socio-economic disparities and political inclusion or exclusion.

In conclusion, transition processes lead to integration in the background of a new stage of globalization. So does research on the transition countries. However, the rapidly emerging research on integration is not the theme of this short report.

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SMOKING FISH – TRACING REPRESENTATIONS AND ACTOR NETWORKS IN THE BALTIC SEA REGION

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Abstract

This article about networks in the Baltic Sea region has three aims. The first task is methodological: to broaden understanding regarding the relationships between humans and nonhumans, with attention paid to representation and nonrepresentational theory. Secondly, alternative case study methods for researching networks, namely the actor- network approach, are elaborated. Thirdly, along with the methodological discussion the article includes a case study about a major shipping company that transports people and goods between major cities in the Baltic Sea region. The conclusion is that geographers should be more aware of spatiotemporal networks around them. Conducted appropriately, case studies are a useful method for achieving theoretically informed geographical knowledge and for grasping complex spatialities.

Keywords: actor-networks, representation, Baltic Sea region, methodology, Tallink

Introduction

The morning of 25 October, 2006, started like any grey, late autumn morning in northern Europe. The sun barely rose above the horizon and grey clouds swallowed the sunshine. The *Silja Symphony* ferry moved slowly forward after having crossed the Baltic Sea during the night. A number of people gathered slowly in the ship's restaurant to have breakfast there. It was an abundant *smörgåsbord*, a Scandinavian breakfast for the travelers on board. Bread, slices of ham, sausages, fish, porridge, juice, coffee, milk, fruit and sweets were just some of the many items available. For many travelers, this sea breakfast is a fundamental part of the trip. It is very nice to watch from the slowly moving ship how the sea waves lap onto the shoreline while eating delicious food and hot coffee provided by the restaurant.

On that day there were many people on board: tourists traveling for pleasure, business persons scheduling the agendas of meetings, staff conducting their everyday work etc. The ship also contained cars, buses, trucks and many types of freight that are transported back and forth in the Baltic Sea region. Obviously, many people were tired after partying late into the night or from having slept poorly on the slightly swaying vessel. There are always curious sounds and voices on board. It had not been a stormy night, but I guess some people remembered how a decade ago a large passenger ship sank in the same area. They checked the emergency exits before entering their cabins and falling asleep. Anyway, nothing particular seemed to be going on.

Rather early in the morning a small group of tired-looking men entered the ship's restaurant in a noisy manner, laughing and commenting on the previous night. This was nothing unusual; on the contrary, it was everyday morning behavior. Then, suddenly, smoke

started to come out of an electric bread toaster. The above-mentioned group of men pointed at the machine and started to laugh even louder. There was a fish, obviously a dead one, inside the toaster. After the toaster was turned on, the metal parts inside became hot. Soon the bread toaster turned into a fish grill in which the fish started to burn and smoke emerged. This was very funny to the men. Other clients were surprised: some looked astonished at these noisy middle-aged men, while others were embarrassed and turned their face away. A few smiled, but moved to a breakfast table a bit further away, just in case. The staff tried to walk a fine line between tolerance and intolerance, how and when to intervene – was there any danger of fire, breaking the toaster, too much annoyance to other travelers, or was it just one of those practical jokes clients come up with now and then? Nevertheless, the staff hesitated on whether and how to intervene. There was something curious about this small group of men that was smoking, or better yet burning, fish on a table on *Silja Symphony* on 25 October, 2006.

This article dealing with networks in the Baltic Sea region has three aims. The first task is methodological: to broaden understanding of the relationships between humans and nonhumans. This requires casting light on the topic of representation, which is a core practice and presence in any geographical study. Representation is also about networks and how humans and nonhumans come together as hybrids in networks. By humans we mean people, and nonhumans consist of many kinds of objects, from raw materials to vegetables, animals, elaborated goods and machines. One should not rigidly separate humans from nonhumans, but consider both as active agents in mutual interaction. These combined human and nonhuman actors are called *actants* in networks or actor networks [Latour 2005]. A specific methodological challenge is derived from combining space and time with the concept of mobility. In a complex world of diverse networked time-space paths [Urry 2003], theories of practice amplify the potential of flows of events in which agency cannot be captured by linguistic expression [Thrift 2007].

The second task involves methods for researching networks. The methods proposed here take into account the epistemological standpoint presented earlier i.e. that humans and nonhumans should be studied together. The study of networks in their multiple varieties is inspired by the actor network approach. It has been used in science and technology studies since the 1980s, and it started to become popular in human geography in the late 1990s. This approach is connected to so-called nonrepresentational theories. These theories are "more than representational" i.e. they stress that research should not focus on representing studied phenomena. Instead, the study should concern *actants* as such. In the methodological section, a scheme for following *actants* in their networks is presented. Networks are always present, but we often pass them unnoticed. Networks often become visible when something goes wrong or when something unusual happens with them.

The third task is to illustrate in practice how human-nonhuman networks can be studied with the actor network approach. The case is about complex networks in the Baltic Sea region. This is related to the re-emergence of case studies in human geography. During the positivist era in the 1960s, many human geographers threw away careful fieldwork conducted with all the senses. However, often this fieldwork was performed naively, based on the idea that a detailed case study could represent the world. With the ascendance of the linguistic

approach in the 1990s, many geographers threw away fieldwork and concentrated on conceptual elaboration or secondary sources. However, in the early 21st century, case studies are being valued again. For example, social scientist Bent Flyvbjerg considers case studies very useful for both theoretical and empirical social sciences. Flyvbjerg (2006, 242) refers to Thomas Kuhn (1987), who argued that a discipline – for example, human geography – without a large number of good case studies is an ineffective one. In this article the case concerns a major logistical company, "Tallink", whose ships transport people and goods between major cities in the Baltic Sea region. Besides logistics and material flows, power issues can also be traced with networks.

Methodological Challenge: Representation

The issue of how to conduct geographical research is a controversial one in academic circles. Rigid positions have been taken between empirically and theoretically inclined human geographers. Recent debate emphasizes once again the importance of case studies. This is at least partly a critical reflection towards so-called "armchair" geography. Such geographical research does not include any fieldwork at all, but is merely based on theoretical and conceptual elaboration. Characteristically, the geographer sits in an armchair, browsing literature and conducting research at a distance.

In human geography there has long been a dilemma of whether the geographical approach should be idiographic or nomothetic. In the idiographic approach, each region is seen as unique, having contingent and enduring differences in its context. On the contrary, the nomothetic approach holds that an ontological regularity in pattern and process exists between two different regions. These opposing viewpoints have been criticized and alternatives have been sought to overcome the binary positions. For example, critical realism stresses a dialectical understanding of the world. However, the challenge of case studies remains unsolved.

The description-oriented vs. abstraction-oriented dilemma in human geography can be methodologically discussed with the notion of representation. Gilmartin (2004, 282) has claimed that geography is representation in its broadest sense: interested in and producing written (academic texts, newspapers, magazines, novels, etc.), visual (maps, photographs, films, etc.) and oral/aural (stories told by people, music, audio recordings, etc.) representations. A further difficulty is that representation is defined in many ways, depending on the academic discipline and the issue discussed. For example, the *Oxford English Dictionary* (1989) finds eight complex definitions for representation, excluding those very specific regarding mathematics, insurance, etc. (Table 1). Representation is rarely conceptually defined in research.

Specific interest in representation began in human geography in the early 1990s. Critique towards the prevailing modernist approach emerged in the discipline. In the critique, geographers were seen to claim academic authority with objective knowledge and not uncovering enough relationships between knowledge production and economic, social and political oppression and exploitation. For example, idiographic, nomothetic and dialectical approaches share a common interest in fixing and stabilizing representation.

Table 1

Definitions of Representation

1. Presence, bearing, air; appearance; impression upon sight.
2. An image, likeness, or reproduction in some manner of a thing; a material image or figure; a reproduction in some material or tangible form; in later use, a drawing or painting (of a person or thing); the action or fact of exhibiting in some visible image or form; the fact of expressing or denoting by means of a figure or symbol; symbolic action or exhibition.
3. The exhibition of character and action upon the stage; the performance of a play; acting, simulation, pretence.
4. The action of placing a fact, etc. before another or others by means of discourse; a statement or account, especially one intended to convey a particular view or impression of a matter in order to influence opinion or action.
5. A formal and serious statement of facts, reasons, or arguments, made with a view to effecting some change, preventing some action, etc.; hence, a remonstrance, protest, expostulation.
6. The action of presenting to the mind or imagination; an image thus presented; a clearly conceived idea or concept; the operation of the mind in forming a clear image or concept; the faculty of doing this.
7. The fact of standing for, or in place of, some other thing or person, esp. with a right or authority to act on their account; substitution of one thing or person for another.
8. The fact of representing or being represented in a legislative or deliberative assembly, spec. in Parliament; the position, principle, or system implied by this; the aggregate of those who thus represent the elective body.

Source: *Oxford English Dictionary* (1989).

To discuss representation in geography in more depth, we can look at James Duncan and David Ley (1993, 2–3), who found four major modes of representation in geographical research. The first mode was the idea of descriptive fieldwork based upon observation. This mode emphasized uniqueness and particularity. It was dominant until the 1950s, especially in cultural geography, but such anthropologic and encyclopedic geography still continues today. Here, representation is not problematized, but interpreted as a valid visual appearance and reproduction of presence.

The second mode of representation is a science-based approach to producing a general, reductionist and abstract description of the world. It became fundamental in human geography in the 1970s, when it leaned on positivism and quantitative methods. The researcher simplifies the elements of the world for specific purposes. The world is transformed into numbers and causal relations. This approach is practiced in contemporary geography, for example, by viewing the world through geo-referenced data available in geographical information systems.

The third mode (originally placed fourth in the categorization by Duncan & Ley) is about interpretation based on interpersonal and intercultural hermeneutics, in which values influence the formation of knowledge. The scholar's task is to represent, however, the

researcher enters into a dialogue with the data i.e. between the researcher and other places and people. The critique towards mimesis of the two approaches presented earlier is significant. Namely, they claim that research could establish a perfect copy of the world.

The fourth mode of representation arose in human geography in the 1980s with the emergence of postmodernism in social sciences. The viewpoint was anti-foundational, rejecting one truth, meta-narratives and the mimetic theory of representation. The playful version was a purposefully ambiguous, incomplete and open-ended way to conduct and write research. This offered a possibility to break earlier descriptive and scientific approaches about representation. However, it turned into relativism, in which anything went as a method. According to Gilmore (2004, 282), many geographers fell into using exclusionary language that expanded the gap between those who theorize representation and those who represent, for example, geography teachers and others who have to overcome representation challenges in their everyday work [see also Pred 2007].

Nevertheless, constructive viewpoints that take representation seriously, with anti-foundational ontology and epistemology, have also emerged in the past decade. From the rather schizophrenic standpoint of geographers on representation, one finds the roots of nonrepresentational, anti-representational and more-than-representational approaches. They are influenced most significantly by post-structuralism and post-colonialism. Today, a broader viewpoint in human geography is that representation means textual, oral, and visual acts woven into any and all social practices. Castree & MacMillan (2004, 470, 475) state that representation is about intervening and a mode for making connections. Representation is mobile performative doings in themselves [Dewsbury et al. 2002].

Eminent geographer Nigel Thrift belongs to those who have shown vital interest in considering representation from new perspectives. Since the mid-1990s he has discussed a nonrepresentational "theory" through which he addresses three key issues in representation; namely distance, codification and a way of knowing and doing [see Castree & MacMillan 2004, 472]. By defining his approach, ironically, as "theory", he extends the critique to academy and earlier academic treatment of representation. Besides showing challenges to human geography, he presents an alternative for conducting geographical research. Obviously, Thrift's viewpoint has been analyzed and criticized [see Smith 2003; Castree & MacMillan 2004; Lorimer 2005]. Many scholars have found alternatives and variations to the nonrepresentational theory, such as hybrid geographies [Whatmore 2002], poststructuralist semiotics [Smith 2003] or complexity theories [Urry 2003].

The following characterization of Thrift's critical remarks towards the ways geographers have dealt with representation is based on his entry in the *Dictionary of Human Geography* (4th ed., see nonrepresentational theory) as well as on his various books and articles on the topic during the past ten years [for example, Thrift 1996; 2002; 2007]. Such a characterization of Thrift's ideas is also found in Castree & MacMillan (2004).

First, by distance Thrift means that geographers (and other academic scholars) often separate themselves from the objects they study. Geographers remain as external observers of the separated objects they are studying. Second, by codification Thrift means that geographers tend to fix the identity of those studied, and by doing that they stabilize their essential nature and character. This is to paralyze those being represented and to underestimate the world's

complexity. The third major problem is that geographers privilege cognition, speech and vision as the foremost, if not the only, ways of knowing and doing. Instead of falling into these three traps, nonrepresentational theory multiplies questions and invents new relations between thought and life in the infinite incomplete encounters between multiple corporeal and inorganic entities. The issue is about creating an open dimension of being. It is a way of doing human geography, as put by Smith (2003, 67–68), committed to mobile practices and notions such as performance. A geographer should be engaged in theories of practice, which amplify the potential of the flow of events. Performance is crucial for making human geographies.

Castree and MacMillan (2004, 474) summarize Thrift's (2002) viewpoints in four arguments. First, academics should intervene in life and politics as only one of many actors, instead of being in an advantageous and privileged position of knowing better than others. Every person possesses various unexpected extended capacities. Second, politics are extended to all agents, even if they have been categorized as technological, nonhuman, and nonlinguistic. In such politics the duty is not to represent or to be represented. The task is to enter into events, to create and illustrate the surprising effects of these networks. In focusing upon practices, one finds how human and nonhuman formations are enacted or performed. This opens possibilities for new kinds of intervention between entities. Third, the contextual specifics of events should take one's attention. Finally, in the analysis one should also take into account various human capacities that are not so obviously considered in academic research. One of these is intuition.

Methodical Challenge: Tracing Actor Networks with a Case Study

According to famous case study methodologist Robert Yin (1984, 23), a case study can be used as a research method to investigate a contemporary phenomenon within its real-life context. Traditionally, a case study has been a privileged method for geographers. Since geography is a discipline for studying places, regions and spatial relations, an interest in studying particular localities with the case study method has remained from the endeavors in the 19th century until today.

The case study is been revitalized as a method in the early 21st century. According to Flyvbjerg (2006), conventional wisdom about a case study as a research method is often misleading. There are five major misunderstandings. First, theoretical knowledge is more valuable than practical knowledge. Second, one cannot generalize from a single case. Third, a case study is most useful for generating a hypothesis rather than for testing hypotheses and building a theory. Fourth, a case study contains a subjective bias toward verification. Fifth, it is difficult to summarize specific case studies because of the good quality of entire narratives. However, all these can be tackled with an appropriate case study practice.

A case study is particularly useful when multiple sources of evidence are used to analyze the boundaries between a phenomenon and a context that are often not clearly evident. A case study as a research approach often means dividing the research process into stages. Soy (1997), leaning on Yin (1984) propose six steps for a case study. First, one determines and defines the research questions. Theoretical propositions are important for a case study and it benefits from them. Second, one selects the cases and determines the data gathering and analysis techniques. Here the new approaches give new insights into analyzing

for example, spatial relations in networks. Third, collection of the data is prepared with new methodological information. Fourth, data is collected in the field. Fifth, one evaluates and analyzes the data. The sixth and final step is to prepare a report and reflect on the research questions and topic.

Castree (2005, 542) points out how, in contemporary human geography, the emphasis on the case study approach is useful even for broad conceptual issues and issues away from the immediate vicinity of the place or region studied. For example, leaning on Cox and Mair (1989), globalization can be understood as a context that is simultaneously multi-scalar. It consists of many 'locals' and specific processes that reach over these locals. By understanding this one avoids the risk of identifying purely formal similarities in networks and not paying attention to differences that outweigh meaningful commonalities. Nowadays it is argued that geography and geographical differences matter because they have constitutive effects on processes, rules and regulations extending over space and time. The world is diverse because of relations present at various geographical scales [Castree 2005, 541]. Therefore, a possibility for geographers as researchers of regions, scales and spatio-temporal relations is to conduct case studies that take into account this complexity.

In the following I present a method that is open to the world's complexity. The method invites the researcher to follow the case studied and stresses the importance of details. In searching for a methodology for studying moving representations, it is worth considering the point made by Dewsbury et al. (2002): paying attention to the material compositions and conduct of representations is significant. A method for tracing complex mobile hybrid networks is the actor network approach that is also called the actor network theory (ANT). It sensitively takes into account the multitudes of circulating forces that surround us [Latour 1999]. It is very suitable for geographical research because it is simultaneously interested in time, space and relations over scales.

The traditional definitions of space refer to space as a fixed clustered container with clear borders or space as a thematic network in which geographical distance is the defining principle. ANT researchers Law and Mol (2001) define space as active mobility: gradually extending fluid space and abruptly expanding movement space. The first is fluid space, a "water space" extending gradually into many directions, but being constrained by infra-structure, which channels mobility. The second is abrupt space, a "fire space" in which topology consists of abrupt and discontinuous movements. Infrastructure cannot constrain the expansion of such space. The simultaneous presence of fluid and abrupt mobile space is like with fire and water – difficult but possible in special circumstances.

ANT has been criticized by conventional geographers and other conservative scientists. Nevertheless, in this article I present one example of how to use theoretically informed ANT with a case study. Castree (2005, 544) argues that in human geography, getting one's hands dirty is often valued more than the hard work of figuring out how best to do case research. The actor network theory and nonrepresentational theory consider performances and practices of *actants* in the networks. Such doings are often behavior that is non-cognitive, improvised or learned and not yet unrecorded (Smith 2003).

ANT is significant because of the complexity of the world of relations turning into networks. Hybrid networks are heterogeneous entities in relation to other hybrid 'things' in

networks, which vary in stability, extension and forms of time and space. Society is held together by active sets of relations in which humans and nonhumans exchange properties in relational space [Murdoch, 1997; Castree 2002]. For a geographer interested in networks, the question arises of how to make sense of networks in one case study. In the following, a five-step scheme for tracing and following networks is presented [see Latour 2005]. It is exemplified with a case study of a ferry moving between cities in the Baltic Sea region.

First, one needs to find the heterogeneous human and nonhuman actors that in interacting create a network. In the actor network theory [see Latour 1999; 2005] these human and nonhuman actors are called *actants* that both empirically and conceptually link material and semiotic relations. The challenge of the researcher is to reject conventional viewpoints according to which one is used to seeing, organizing and representing the world. There non-speaking material *actants* are seen as passive in the background and not influencing the formation and existence of networks. However, society is shaped by interactions between *actants*. Regarding the case study about the Baltic Sea region, one can pose a question: what about *actants* and networks between the cities? This is followed with a case regarding ferries between Helsinki, Tallinn and Stockholm. Passengers, cars, plates, etc. are all *actants*, which act in networks. Upon traveling with a ferry from one city to another, one starts to grasp the complex interaction that makes the trip possible. Events turn each trip into particularities.

Second, one should study the formation of a network i.e. a *forum* between human and nonhuman *actants*. In the actor network theory a forum is a central network. The actors agree that building and defending this network is worth doing. Organization of *actants* into forums is called *translation*. The separation between these hybrids is an exception, not common, as many think. *Actants* get and accept their roles and are mobilized with support by larger masses. These processes are called *intressement*, *enrolment* and *mobilization allies*. Aboard a passenger ferry nearly every actor is a sum of other smaller actors, and these *actants* are in networks. The concept of translation characterizes well how human and nonhuman actors become networks and change by becoming a network. Such networks become vast collectives of social and technical actors blended together as socio-technical hybrids [Graham & Marvin 2001, 10–11]. One may wonder how all these *actants* came together between Helsinki-Tallinn-Stockholm?

Third, intertwining between material and conceptual is found by simultaneously tracing material (between things) and semiotic (between concepts) relations in the network. One should be open to materiality and immateriality, which are constantly a part of networks. To broaden the viewpoint, it is useful to get involved in a case in depth. The case study requires leaving the armchair and taking a boat trip, for example, between Helsinki and Tallinn. On board one starts to recognize human and nonhuman elements in a network. *Punctualisation* means that these many small *actants* in the network, like all technological items, operating staff, passengers, etc, make it work. In practice, recognizing this combined operation requires an open mind, because one often predefines concepts and things in a different way than required by the actor network approach. For example, it is common for a geographer to conceive the world as consisting of geographical scales based on administrative regions. Examples of this are local districts, municipalities, counties, countries and continents. Although globalization has opened eyes to how global decisions and trends influence locality

and are present locally, many still make an essential difference between local and global. *Actants* should be considered with this principle of generalized *symmetry*. The researcher uses the same terms concerning *actants*, regardless of earlier categories of social, technical, environmental, etc. Instead of regarding a dead fish as being essentially passive and separated from an active sea captain, they are actively intertwined. Aboard a ferry linking Helsinki-Tallinn-Stockholm one looks around, reads, thinks and pays attention to networks on flexible scales. Careful analysis shows how space is mobile, intertwining the spatial scales of powerful events.

Fourth, the task of the researcher is to grasp what is a network. It is challenging, because one is routinely assuming networks are naturalized like a frame to a picture. This frame is the epistemological background of the researcher. Latour (2005) states that a frame makes a picture look nicer, but it does not add anything to the picture. For example, the complexity of interacting networks aboard the Tallink ferry, called *quasi-objects* or *tokens* in the actor network terminology, easily passes unnoticed. An unusual moment is needed to recognize the networks. The duty of the researcher is to follow networked *actants* and find their engagements, motivations and objectives. These moments or events are important because networks become particularly visible when the material-semiotic network (i.e. between things and concepts) breaks down and relations within the network do not work well. With this break, *punctualisation* ceases and one suddenly uncovers the network. This can happen, for example, when *actants* meet in unconventional circumstances, such as a dead fish entering an electronic bread toaster, facilitated by a person moving on board along with various *tokens*, as presented in the introduction.

Fifth, one needs to (re)consider the study objectives and actors. It is a reflection of the problem: Helsinki-Tallinn-Stockholm, networks, agency, power, etc. There is a necessity to reconsider *problematisation*. How are human and nonhuman actors involved? What roles do *actants* take in the network? Are *actants* supported and by whom and how? What is taking place? One has to reconsider time and space, subject and object and grasp the world in its networked (im)materialities. The interdependency of traveling on board is linked to the new paradigm of how all mobilities often entail highly embedded and immobile infrastructures and to the critique of sedentary social sciences recognizing these (im)mobilities [Sheller & Urry 2006, 210]. The actor network method follows the link *actants* make among themselves. These elements would have looked completely incommensurable if one had followed normal research procedures. It is important to let *actants* have room to express themselves: it is work, movement, flow and changes that should be stressed [Latour 2005]. On board one thinks about, senses and feels networks. This is a nonrepresentational approach and a performative case study connected to the actor network theory, although Thrift has not keenly established this connection. Nevertheless, practical engagement facilitates interest in uncovering networks.

Consideration

In this short article it not possible to open the complexity of networks in the Baltic Sea region. However, I indicate traces of what came out by following the networks. The case started with a small episode of smoking fish, presented in the introduction of this article. As

mentioned, it took place aboard a large passenger ship, *Silja Symphony*, on 25 October, 2006. The small, loud group of men consisted of two Estonians and one Finn. They had had a meeting on board, and it had continued with less formalities. All three, Enn Pant, Andres Hunt and Keijo Mehtonen, belong to the management board of AS Tallink Grupp. AS Tallink Grupp is a network of networks. It manages various ships and leisure complexes in the Baltic Sea region. In July 2006 this Estonian company bought the formerly Finnish shipping company Silja Line, including the ferry *Silja Symphony*. The not-so-well behaving men were owners and managers of the ferry. But how on Earth was their behavior and the purchase possible?

I have traveled aboard Tallink ships dozens of times since the mid-1990s, and have wondered about the complexity of each trip and noticed changes in the ship's ownership. After starting to follow the actor networks with a seemingly trivial event, a contested performance of smoking fish in 2006, a complex material-semiotic network erupted. I entered the field with a nonrepresentational theory and started to become aware of various networks. In tracing these networks one finds a complex web of financial and political power linking the late Soviet regime, formal and informal public and private sector deals, offshore banking operations and money transfers, and everyday politics and business in Estonia and in the European Union, not to mention the lives of thousands directly and millions indirectly connected to Tallink.

The actor network theory facilitates tracing of human and nonhuman interaction around Tallink. The idea is not to create a mimetic representation, but follow how *actants* become *translated* through *intressement*, *enrolment* and *mobilization*, and how and when their *punctualisation* takes place. Actually, the origins of Tallink date back to 1989, when the company was founded as a Finnish-Soviet joint venture. Later the financial maneuvers behind Tallink have become very complex. Many top public and private sector persons have been involved in the network, including serving or future directors of the state tax office, the president of the Bank of Estonia, the minister of finance, and CEOs of many enterprises, including the Estonian Shipping Company and the Union Bank of Estonia. Huge ships have been bought and sold and millions of passengers and goods transported from one place to another [Raidla 2005]. From a nearly bankrupt small company renting one boat in the mid-1990s, Tallink has become a company listed on the Tallinn Stock Exchange, owner of dozens of large passenger ferries and other property worth of over half a billion euros [Tallink 2007]. In this article I do not trace the actor networks further, but they shake the foundations of state, politics, democracy and business in Estonia and elsewhere. Smoking fish can make a difference.

Conclusions

Every day consists of almost infinite relations that network people and places together. Geographers live in and through the complex spatiotemporality of these networks, but are often not conscious enough of that. To open and follow the networks, one needs theoretically informed case studies that provide something more than mimetic representations of the world.

Researchers of networks are continuously in the field. In tracing networks one notices being a part of them. The nonrepresentational approach facilitates overcoming traditional

binary positions between researcher and researched, between academy and non-academy and between cognitive humans and non-cognitive materiality. Geography moves further with the actor network theory. This mobile ethnography (see Sheller & Urry 2006) is an advantage rather than a constraint.

It is vital to remain open and flexible to networks around oneself and to catch the moment that facilitates following the network. Theories of practice give both openness and depth to conceptually informed case studies. The introduction of this article illustrates how even a dead fish can make a difference when it enters a bread toaster instead of falling directly on a plate. Humans and nonhumans are in an interactive network. Events expose networks to the careful participant. Being and participating in the network links oneself to power, social (in)justice and (mis)representations.

Conducted appropriately, a case study is a useful mode for achieving theoretically informed geographical knowledge and for grasping complex spatialities. The geographer has to remain simultaneously epistemologically open and methodologically grounded. A further issue is to broaden geographical expression from visual (gaze) and linguistic (representation) modes into more expressive non-representational corporeal tones.

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THE DEVELOPMENT OF SMALL TOWNS IN CENTRAL EUROPE AND THE BALTIC STATES

Joachim BURDACK and Elke KNAPPE

Abstract

Small cities are often the only settlements in peripheral areas that have the size or critical mass to function as growth poles and to assure the efficient provision of basic services. In this paper, small city population developments in Latvia, Lithuania and Saxony (East-Germany) are analysed, and selected results of household surveys conducted in five sample cities (Colditz, Leisnig, Rietavas, Šilalė, Valka) on perceptions of local attachment, urban problems and perspectives of development are presented.

Keywords: small towns, peripheral areas, urban development

Introduction

The process of transformation in Central and Eastern Europe led to new disparities in spatial development. The "winner" regions of this polarised economic development have been the dominant metropolitan areas. These function as gateways for the national economies and benefit from the growth of tertiary activities and foreign direct investment. Peripheral rural areas, on the other hand, often suffer from the decline of agriculture and the reduced transfer of resources to rural areas. Transformation often entails the effects of redistribution that favour large urban areas at the expense of small towns. Many small towns in transformation countries suffer not only from de-industrialisation but from overall 'de-economisation' [Hannemann 2003a], that is a reduction of employment opportunities and functions across a whole range of activities. Small towns are, however, not only important as employment locations and central places but also as living spaces and centres of everyday life for a significant part of the population.

The paper presents the first results of a project on small town development in Central and Eastern Europe. The project focuses on the local scale i.e. on an analysis of local networks as self-produced local assets. Key concepts are social capital, urban governance and small towns as localities. The project uses a comparative approach and works with case studies. Two sample towns are analysed in each study area ((East)-Germany, Latvia, Lithuania and Poland). In the article we will present the preliminary results from five case studies in Latvia, Lithuania and Saxony (Germany).

For practical purposes, we define small towns as urban places (communities) with a population of less than 20,000 inhabitants. Aside from this formal definition of small towns as an urban size class, there are other, more substantial characteristics that distinguish smaller towns from larger cities and that make them a distinct object for urban research. Some of these more qualitative differences of small towns are lower levels of agglomeration economies and diseconomies, less differentiated job markets and less complex social structures of the population. Face-to-face communication and co-presence of actors on a local

level are assumed to have a higher level of significance in small towns [Wood 1996, 67] and social relations are often characterised by "Überschaubarkeit" (straightforwardness) [Hannemann 2004; Mackensen 1990].

We argue that small towns should be viewed as "localities", as "setting(s) for social interaction" [Cooke 1989a, 12] of individuals and groups in their every day activities. This view of small towns as localities applies to small towns in rural settings and their surroundings which are employment centres or "sub-poles" [Courtney & Errington 2003], but not to suburban commuting towns. The approach followed by the locality studies does not interpret localities as passive objects of structural change, but rather stresses that they are "actively involved in their own transformation"[Cooke 1989b, 296]. Cooke calls this "proactive capacity" [Cooke 1992, 50]. It is obvious that the development of small towns or small cities is not fully determined by internal factors and local networks but that small towns are also subject to forces acting on different scales (regional, national, global). However, the local level has so far attracted little attention in small town research.

The paper will present some general information on differences in small town development in Latvia, Lithuania, Saxony (East-Germany) and selected results of household surveys conducted in five sample towns on the topics of perceptions of local attachment, urban problems and perspectives of development. We will start by presenting a short overview of recent studies on small towns in Central and Eastern Europe.

Studies on Small Towns in the Transformation Process

Small towns are often considered to be among the 'losers' in the process of transformation and globalisation. For instance, many small East German towns lost their importance as centres of industrial production because the enterprises that were installed under the planned economy were not competitive in the market economy. There are not many current studies on small town developments in Central and Eastern Europe that incorporate theoretical perspectives and are not merely descriptive. Andrle (2000) studied determinants of current small town growth in the Czech Republic. He identified external factors like proximity to a larger city, attractive landscapes with potential for tourism, good traffic accessibility and proximity to the Western border (EU) as the decisive factors explaining growth patterns. Vaishar et al. (2001) and Vaishar, Kallabová & Trávníček (2002) conducted a study on structural change in small towns in Moravia. The development paths of a total of 16 small towns were examined, and statistical indicators show a strong differentiation in the development of the towns. Manufacturing cities suffer from high unemployment and population loss, while small towns near larger urban centres show growth tendencies. In studies by Kwiatek-Soltys, similar results were presented concerning Polish small towns in the Krakow Region (2001, in Małopolska) and Zuzańska-Żyśko (2003, concerning demographic trends in Silesian small towns). Sokołowski (2001) analysed the changing functions of central places in post-socialist Poland. Kaczmarek & Allman (2002) studied aspects of socio-spatial differentiation in two small towns in central Poland. Nagy & Turnock (1998) argue that proximity to the EU is the key factor for the positive development of certain Hungarian small towns. Ianoş (1994) presents a typology according to central place functions. Gugisch & Maier (1998) identified significant differences in development between small

towns near large urban areas and those in peripheral regions. Concerning the Baltic States, Krisjane (2001) analysed the demographic change of Latvian small towns before and after transformation, and Rozite (1993) examined the importance of new industrial premises for small town developments during socialist times. Eglite (2003) analysed population development in small towns in non-metropolitan areas.

In general, the aforementioned theoretically-oriented studies of Central and Eastern European small towns in the transformation process mostly adopt the themes and theoretical approaches of "classic" western small town research of the 1960s and 1970s. Noteworthy exceptions are studies by Hannemann (2002; 2003b; 2004) on East German small towns. She concentrated on internal aspects of development and the question of how specific internal networks and endogenous potential may form the basis for development.

Some General Patterns of Population Development of Small Towns in Central Europe and the Baltic States

Large parts of Saxony and (Eastern) Central Germany (Mitteldeutschland) are characterised by population losses. This is especially true for rural and peripheral areas. The small towns fit into this pattern of development. Only 30 small towns (9.1%) of a total of 327 had a population increase between 1990 and 2005. Most of the small towns with population growth are located in the suburban rings of large urban agglomerations or in locations with good accessibility close to the Autobahn. Many small towns in peripheral locations, especially those located close to the Czech and Polish borders, for instance Oberwiesenthal (-38.1%), Seifhennersdorf (-32.0%) and Ebersbach (-30.3%), suffered from high population losses between 1990 and 2005. Another group of small towns with high population losses are mining towns like Johanngeorgenstadt (-40.5%), Lucka (-30.3%), Kitzscher (-29.2%) and Hettstedt (-26.0%). On average, small cites in Central Germany lost 11% of their population (-0.85% per year) between 1990 and 2005.

Many small cites in Latvia - like the majority of the larger cities – suffered from population losses between 1989 and 2005. Small towns in the suburban fringes of the capital Riga are exceptions. This is the case for cities along the Via Baltica like Salacgrīva, Ainaži und Saulkrasti and also for Ikšķile, Ķegums und Lielvārde which are located along the major axis to the East. The possibility of living in an attractive landscape close to the Baltic Sea or the Daugava River in commuting distance to Riga prompted many families to move out of Riga. The economically lagging region of Latgale in Eastern Latvia shows an overall decrease in population.

In Lithuania, both the small town population and the overall population of the country are declining. Only the suburban small town Nemenčine near Vilnius and Gargždai located close to Klaipeda show stable and slightly positive developments. Neringa on the Curonian Spit is also experiencing some population development. The town was incorporated as a city in 1961, when several settlements on the Peninsula merged. Increasing tourist activities created new job opportunities and induced in-migration and population growth to the peninsula.

Characteristics of the Case Study Areas

An overview of the five case study towns shows that Leisnig, Valka and Šilalė have similar population sizes, while Colditz and Rietavas are somewhat smaller (Tab. 1). All of the case study towns are located in peripheral or semi-peripheral locations beyond the commuting fields of large cities, so they are not the focus of suburbanisation movements. They are also similar in the sense that they have somewhat mixed economic bases. All of the towns suffered from population losses due to out-migration in the 1990s, which was fuelled by a lack of employment opportunities in the towns. The situation in Colditz and Šilalė was especially problematic because the principle employers closed down their operations in the process of transformation.

Table 1

Characteristics of the Case Study Areas

City	Inhabitants (2005)	Special features	Economy
Leisnig	6,963	'City with a castle'	SME, tourism
Colditz	5,188	'Colditz story'	SME, tourism
Valka	6,413	'Twin city'	SME, transport
Rietavas	3,937	'City of progress'	SME, 'window to the future'
Šilalė	6,157	'Young city' (town rights 1952)	SME

Source: Statistical Yearbook of Latvia 2006; Statistical Yearbook of Lithuania 2006; www.statistik.sachsen.de

The economic basis of the five towns is presently dominated by small and medium enterprises. Tertiary activities are of importance in all of the towns. Some efforts are have been made in Colditz and Leisnig to increase tourism activities. Both towns are members of an association to promote tourism in the region ("Tourismusverband Sächsisches Burgen-und Heideland"). The Lithuanian city Rietavas promotes itself as a "city of progress", pointing out its history of early adoption of electrical street lighting and telephone connections. The city wants to support the use of modern information technology with the program "window to the future". Šilalė is a county seat and administrative centre. Central institutions for the surrounding area such as the county library and hospital are located here. The proximity to the motor way connecting Kaunas, the second largest city in Lithuania, and the port of Klaipeda might prove to be an asset in the city's development.

The Latvian case study city Valka is a border town on the Estonian border whose economic development was hindered by the demarcation line. The EU-membership of Estonia and Latvia led to a more permeable frontier and gave the city a new function as a transportation centre and gateway. The city hopes to develop into a centre of logistics activities. As a county seat, the city also has a number of central functions like a hospital, cultural centre, high schools and banks.

Selected Results of Household Surveys

One of the principle sources used in the project to generate information on the sample small towns is household surveys with standardised questionnaires. The questionnaires also included open ended questions to be filled in by the respondents. The objective was to conduct about 200 interviews in each case study city in order to have a minimum sample size of at least 5% of households (assuming an average household size of at least 2.0). This goal was approximately achieved in all towns except for Šilalė, where only 104 interviews could be completed. A total of 915 questionnaires were completed in the other five towns. The sample adequately reflects the age structure of the population in Colditz, Leisnig and Valka. The sample is somewhat skewed towards the younger population in Rietavas and Šilalė i.e. the proportion of elderly households in the sample is rather low. The questionnaire covered a range of topics relating to urban development, in particular the image of the city, local attachment of the population, urban problems, citizens' participation, social capital and perspectives of development. Only some basic, selected results can be presented here. They cover aspects of local attachment/attractiveness of the city, the perception of urban problems and perspectives of development.

In an initial question the respondents were asked to express their subjective satisfaction with living in a small city (Fig.1). The responses show comparable levels of general satisfaction with living in a small town setting in all towns. A total of 66% of the respondents state that they like living in their city. This is a standard result, because in many surveys about two thirds of the population express a general satisfaction with their local area of residence. In Valka, almost three quarters of the respondents (74%) affirmed that they enjoy their living environment. The two East German towns have significantly different figures: 73% for Leisnig but only 62% for Colditz. The higher level of satisfaction in Leisnig than in Colditz seems to reflect the general economic situations in those two towns. Leisnig has a higher job density and a lower unemployment rate.

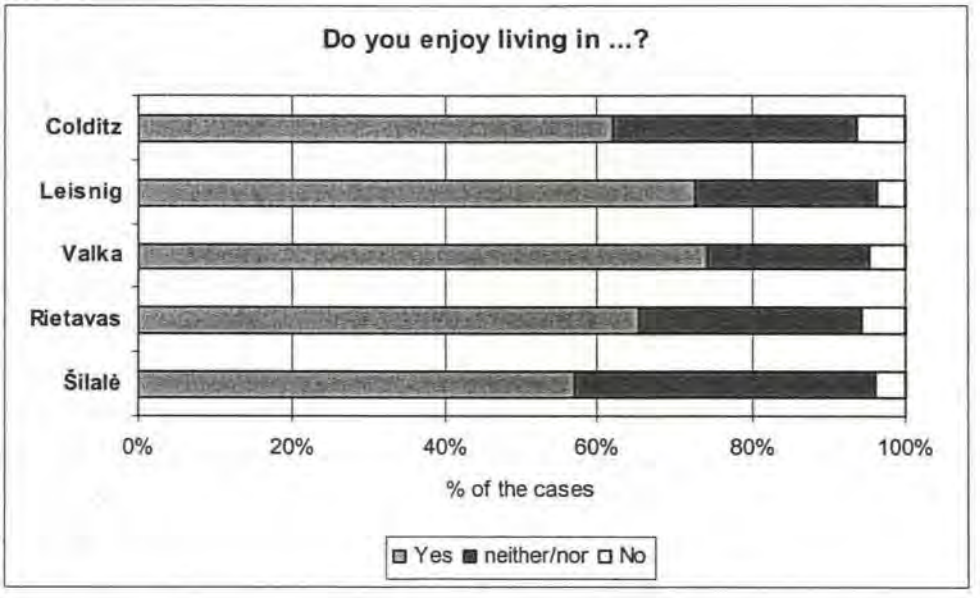

Figure 1. Pattern of answers to the question "Do you enjoy living in ...?"
Source: own survey

The statement "The city is an attractive city to live in" aimed for a more detached, objective judgement of how the city is perceived by the inhabitants (Fig.2). The responses show clear differences between the East German towns on the one hand and the Latvian and Lithuanian towns on the other. Colditz and Leisnig are generally not considered to be very attractive places to live in by their inhabitants. Only a minority in Colditz (41%) and Leisnig (42%) agree (fully or partially) with the statement that their city is an attractive city to live in. The corresponding values for the towns in the Baltic States are significantly higher: Valka 59%, Rietavas 59%, Šilalė 69%.

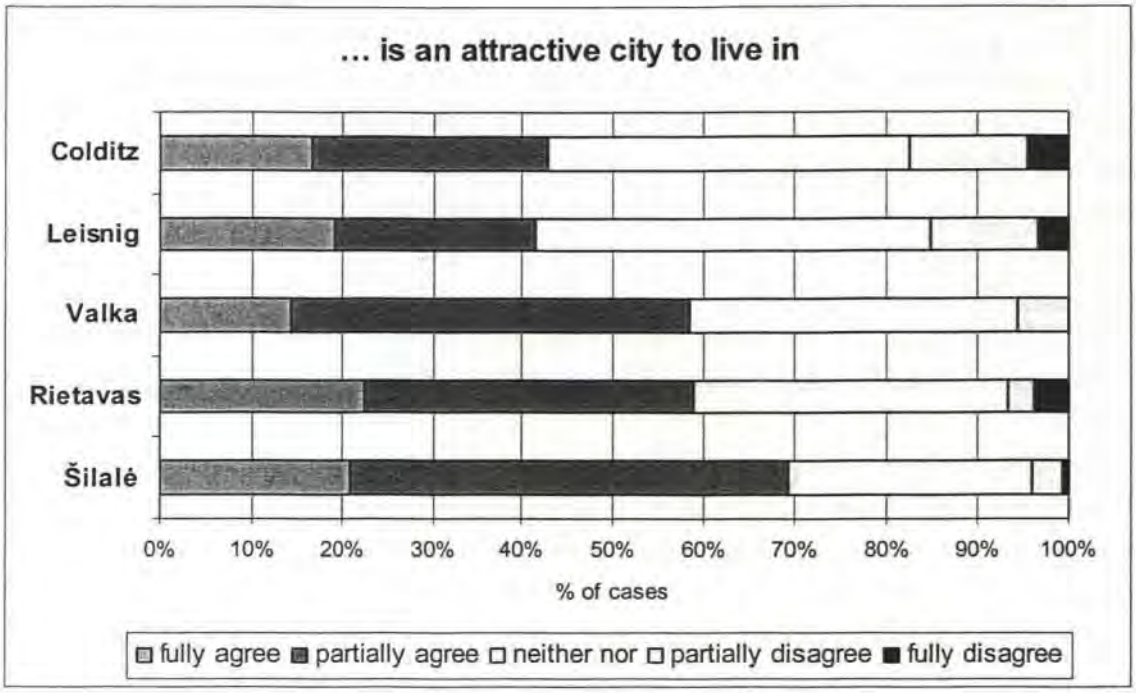

Figure 2. Pattern of answers to the question "... is an attractive city to live in"
Source: own survey

The question "Would you encourage a good friend to move to...?" is again aimed at the less emotional and more rational judgement of the issue (Fig. 3). Valka (55%) stands out as the only city with a majority that would advise a friend to move there. The Lithuanian towns show identical values in both towns: 42% would recommend a move. The East German towns are again at the end of the list. In Colditz only 31% would encourage a friend to move to the city. We also asked for the reasons that the respective recommendations to move or not to move are based on. It became very clear that a lack of job opportunities is by far the most important reason for a non-recommendation in all towns, with percentages ranging from 33% in Leisnig to 38% in Šilalė. On the positive side, the answers show that Šilalė and Rietavas are considered to be "peaceful towns in an attractive landscape".

Around 10% of the respondents plan to move away from a small city in the next two years. This can be considered as quite a normal exchange rate. The figures identified in the survey for Colditz and Leisnig quite closely match the real migration rates in recent years. The rates of out-migrants have been 4% to 6 % per year since 1999. In-migration was usually

somewhat lower (3 to 4%). Šilalė and Rietavas stand out as towns with high migration propensities. In Rietavas, 19.6% of the respondents planned to move, and in Šilalė 14.9%. In the case of Rietavas this may be influenced by the age structure of the sample with a low proportion of elderly people.

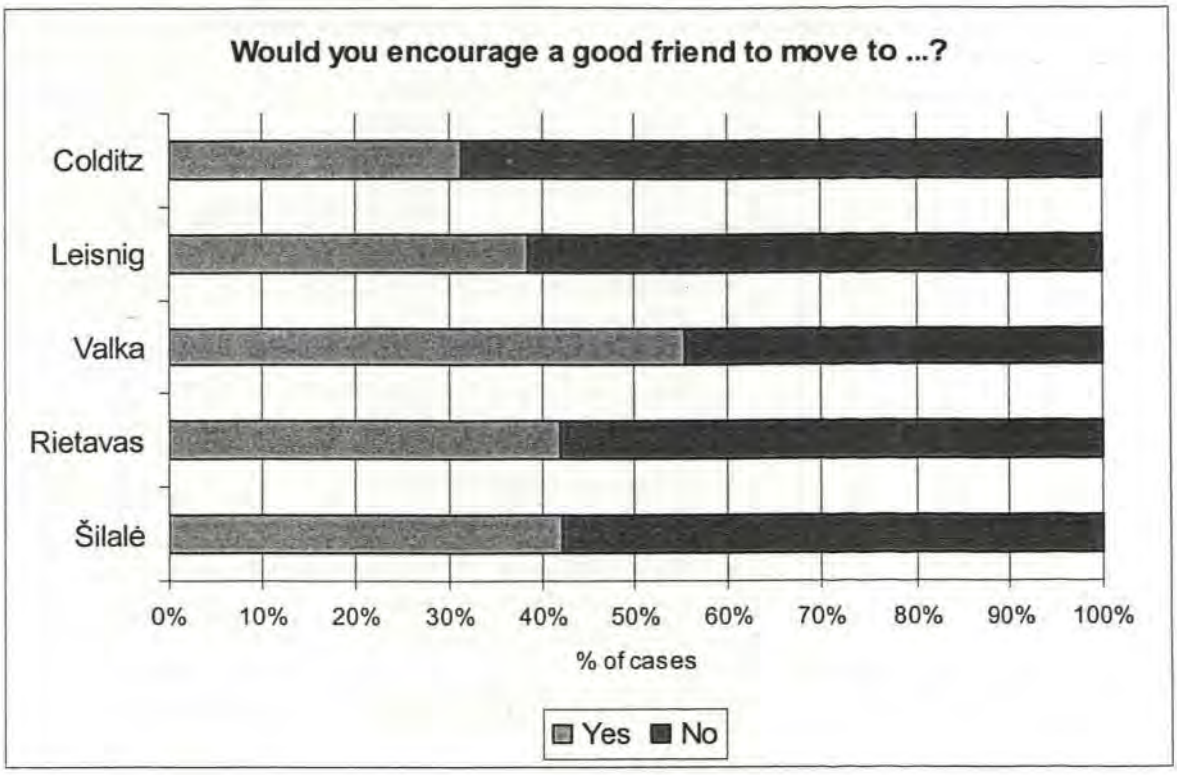

Figure 3. Pattern of answers to the question "Would you encourage a good friend to move to ...?"
Source: own survey

Urban problems as perceived by the citizens of the towns were another topic in the survey. The interview respondents were asked to identify problems that they felt needed more attention and improvement in their city. In the answers to this question some common problem areas in the towns were identified but also some locally specific issues appeared (Tab. 2). Schools and education are of particular concern to the citizens of Colditz and Leisnig while they are not identified as major problems in the Baltic States case studies. The importance of school related issues in Colditz must be viewed against the background of the recent closure of a high school. Similarly, the recent closure of the railway passenger service to Colditz may have caused the citizens in Colditz to identify public transport as a field that needs improvement. In all towns except for Colditz, shopping opportunities are identified as an area where improvement is needed. Rietvas stands out in this respect with 81% of responses. Deficits in cultural and leisure activities are mentioned in all towns except for Valka. The respective values are especially high in the Lithuanian towns. On the other hand, the physical appearance of the city is not considered to be a major problem in Rietavas and Šilalė, while it figures prominently as a problem in Leisnig and Valka and is also mentioned in Colditz.

Table 2

What should be improved in the city? (multiple answers, partially open question)

	Fields of improvement (answers of > 30% of the cases)
Colditz	• Schools and education (73.0%) • Public transport (52.4%) • Leisure activities (43.4%) • Cultural activities (41.6%) • Urban appearance (38.9%)
Leisnig	• Leisure activities (57.1%) • Schools and education (51.2%) • Urban appearance (47.9%) • Cultural activities (42.1%) • Retail trade/shopping opportunities (41.7%)
Valka	• Retail trade/shopping opportunities (57.3%) • Urban appearance (45.9%) • Roads and traffic (37.3%)
Rietavas	• Retail trade/shopping opportunities (81.4%) • Leisure activities (65.7%) • Cultural activities (44.1%)
Šilalė	• Leisure activities (67.6%) • Cultural activities (65.5%) • Retail trade/shopping opportunities (44.3%)

Source: own survey

Enquiries about expectations concerning the future development of the city were also interesting. The interview respondents were asked what they think the city will be like in 20 years time. In an overview of all the sample towns, two answers stand out as particularly relevant (Fig. 4): The belief that there will be an increase in the proportion of older people and the assertion that many young people will have left the city. Population loss, a high rate of housing vacancies and high unemployment are also expected by more than 30% of the respondents. On the positive side it can be noted that many citizens expect a well-kept urban appearance and only very few assume dilapidated infrastructure. There seems to be a double-sided pattern, with negative expectation concerning the "human capital" of the city and a more positive outlook on the built-up environment.

Some of the sample towns show specific deviations from the overall response patterns. The East German towns Colditz and Leisnig have very similar response profiles. They both have rather "gloomy"/negative outlooks on the future: high vacancy rates (Colditz: 65.2% and Leisnig: 69.8%), high unemployment (77.9% and 70.2%), population loss (74.0% and 78.8%), "no future" (43.6% and 38.8%) and more old people (85.6% and 86.5%). The profile of Valka, on the other hand, shows significantly higher than average values in positive expectations, especially "economic boom" (42.7%) and "new impulses brought by the EU" (45.4%), and much lower values in negative expectation like "population loss" (16.8%), "high

unemployment" (18.9%) and "no future" (9.2%). A reason for this more optimistic outlook may be the location at the Estonian border with the expectation of economic stimulus form increasing trans-border traffic.

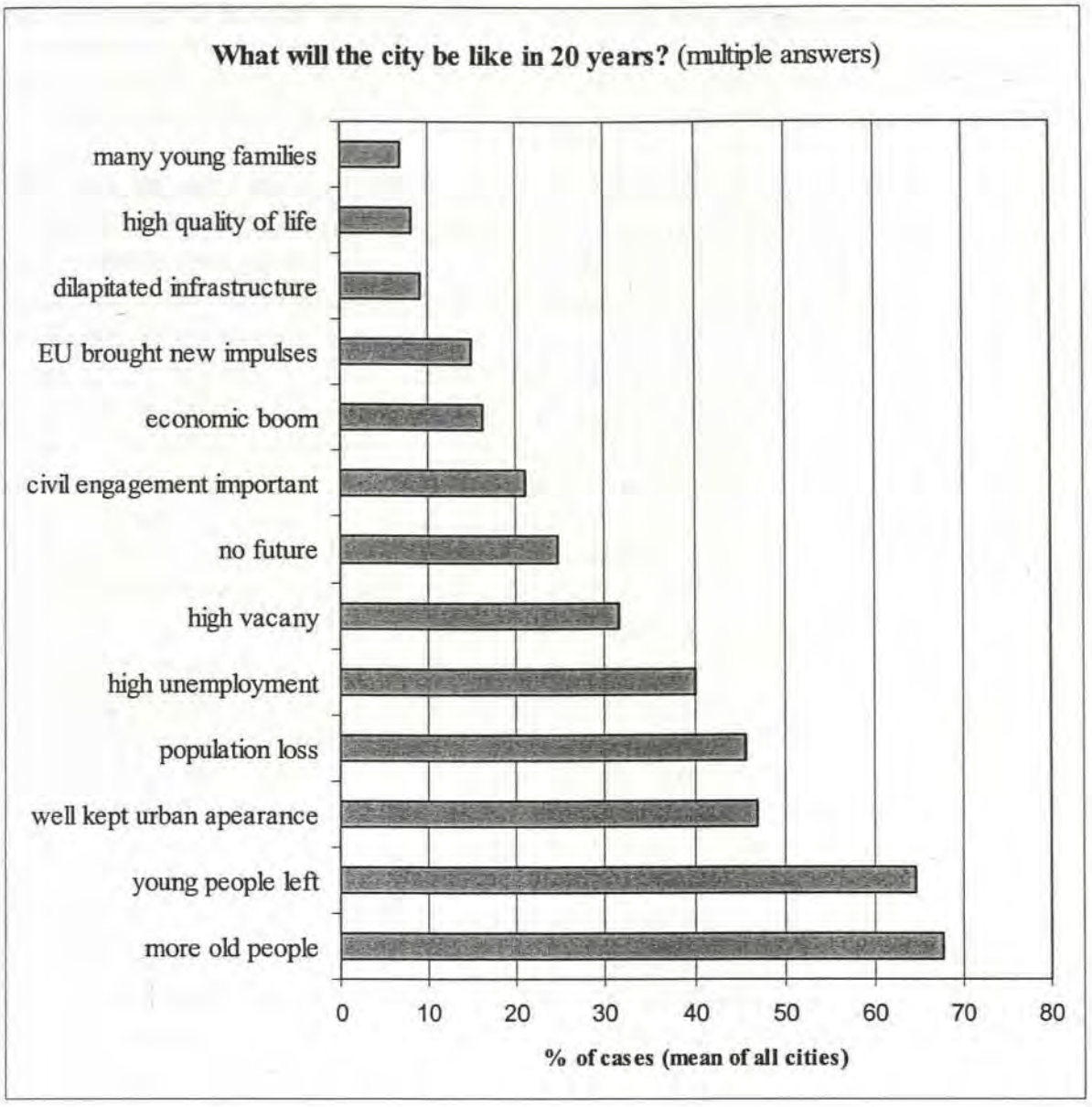

Figure 4. Pattern of answers to the question "What will the city be like in 20 years?"
Source: own survey

Conclusion

The processes of transformation and globalisation have favoured the growth of metropolitan areas to the detriment of rural, peripheral regions. Such unbalanced patterns of spatial development work against the objective of sustainable development and against the goals of the European Spatial Development Perspective (ESDP). A strategy that aims to stop the decline of peripheral areas and to implement the ESDPs objective of polycentric spatial structures has to also focus its attention on small towns in peripheral regions. Small towns are

centres in rural space that are the only spatial structures with the relevant size or critical mass to function as growth poles in peripheral areas and to assure the efficient provision of basic services. Small towns seem to face numerous problems in their struggle to adapt to the market economy and the forces of globalisation. Local governance has to play an active role in the development of social capital, the formation of urban networks and the development of the local economy.

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MEASURING REGIONAL DEVELOPMENT IN LATVIA: REPLACE GDP WITH MUNICIPAL TAX INCOME

Juris PAIDERS

Abstract

According to national legislation, the objective of regional policy in Latvia is to try to achieve a similar level of development of Latvia and its regions to that of other European countries. EU regional policy has accepted gross domestic product (GDP) as the most important indicator of regional development. Unfortunately, the Central Statistical Bureau of Latvia (CSB) does not calculate GDP for areas smaller than a district.

The objective of this paper is to analyze the size of GDP per capita for a group of municipalities that are beneficiaries of EU structural funds.

The paper analyzes data from the Central Statistical Bureau of Latvia, Treasury of the Republic of Latvia, Latvian Investment and Development Agency (LIDA), and the State Regional Development Agency (SRDA).

There is a significantly high correlation between GDP per capita in 2004 and municipal tax income per capita in 2004. There is a difference in approach towards spatial distribution of EU structural funds managed by LIDA and SRDA. Such a policy will make it possible to decrease regional inequality in Latvia. On the other hand, structural funds distributed by the LIDA management will help to achieve a level of development in Latvia similar to that of other European countries.

The author concludes that municipal tax income per capita can be used to replace GDP per capita in regional development level measurements.

Keywords: GDP, EU structural funds, measurements of regional development levels

Introduction

Accession to the European Union created beneficial conditions for faster growth of the Latvian economy. Latvia is already receiving and will continue receiving until 2013 significant EU capital for economic development. One of the goals Latvia has set for itself after entering the EU is to achieve a faster rate of approaching the average economic development levels of the EU [Vaidere et al. 2006]. At the same time, significant territorial economic inequalities are observable within the country. The consequence of increasing regional differences is the migration of economically active residents away from economically less-developed regions and territories, which further increases the regional imbalance.

Under these circumstances, finding a way to evaluate the regional development level and the influence of regional policy on territorial development is an urgent matter. In order for regional policy to be effective, it is important to know how different socio-economic indicators interact on a territorial plane. Here there are two main approaches. The first mainly uses one variable - regional per capita income - while the second uses a number of variables

such as education, migration, employment, public services and consumption [Lipshitz 1993]. Debates about the better approach to measure development levels and finance efficiency reveal different positions and solutions [Barca 2006; Western et al. 2005; Batterbury 2006; Bradley 2006; Streimikiene et al. 2007 etc.].

The main conclusion of these debates is that there are a number of difficulties in producing accurate estimates of the employment and other net economic impacts of community economic development [Armstrong, Wells 2006]

Unfortunately, research done in other countries is not directly applicable to Latvian territorial analysis. However, at the same time, the Latvian experience can be used as an example in European and world contexts when carrying out investigations of territories with notable regional imbalances.

Although there are a considerable number of scientific publications on Latvian territorial and regional development in the 21st century have generally been researched up to the regional level [Krastiņš et al. 2005; Baumanis 2004; Zvidriņš 2002; Titarenko & Meļihovs 2006 etc]. In Latvia, there is at present a lack of analysis of economic parameters of territorial units, the base unit of which would be a civil parish or a town or which would include municipalities from several regions, and the placement of which would not correspond only to the administrative division of the regions. There is a shortage of research and analytical interpretation in Latvia regarding the causal relationship of the formation of inner territorial dissimilarities [Šķiņķis 2007].

The objective of this work was to evaluate the GDP per capita for municipalities which have already participated in or have concluded a contract of participation in entrepreneurship support programs between Latvia and the EU. As data of the Central Statistical Bureau of Latvia (CSB) are not available at the level of the smallest administrative units of Latvia, in order to accomplish this objective a number of tasks had to be carried out.

Firstly, a qualitative evaluation had to be performed to find a parameter that could be used as a replacement for GDP in regional development level measurements.
Secondly, it had to be clarified whether the chosen parameter will provide credible results.

Thirdly, when performing the evaluation of the level of recipients of Latvian and EU entrepreneurship support, the rules for distributing support had to be evaluated in terms of whether they contribute to the policy of equalizing regional differences.

Material and Methods

In this research, CSB databases have been used to obtain data on the number of residents in Latvian municipalities, the areas of the municipalities, and the GDP per capita of Latvian regions and cities. Data on municipal tax income (cash flow) were obtained from the public database of the State Treasury of Latvia.

Information on the implementation of EU entrepreneurship support was obtained from publicly available information on enterprises which have concluded a contract for receiving funds. Two programs administrated by the State Regional Development Agency (SRDA) and the Latvian Investment and Development Agency (LIDA) were analyzed.

On 20 September 2006, a list of information was obtained from SRDA regarding 110 (up to that date) concluded support project contracts to receive financing from the state

support program "Entrepreneurship (business) development in specially supported territories". This program has been approved by the European Commission as No. LV/08/2003 and is being implemented within European Regional Development Fund's grant schemes: "Support to investment in business development in specially supported territories".

The amount of support (LVL) and number of projects were drawn up by Latvian administrative units, based on the registration address of the enterprise provided by SRDA.

On 10 August, 2006, a list of information was obtained from LIDA regarding concluded contracts and sums which had by then been distributed to 222 structural funds projects. The LIDA information was summarized for all state support programs under its administration: "Support for development of new products and technologies", "Support for the modernization of business infrastructure", "Support for consultations and participation of enterprises in international exhibitions and trade missions", and "Support for qualification raising, retraining and further education of the employed".

The amount of support and number of projects were drawn up by Latvian administrative units.

A method of statistical processing was used in the work, namely regression analysis.

Microsoft Excel standard procedures were applied (in evaluation of) to evaluate the statistical credibility of the regression model [Zaharčenko 2004, 137]. The relevance level of the linear determination coefficient was calculated according to Fischer's distribution and the F test

$$F_e = \frac{r^2}{1-r^2} \times \frac{n-m-1}{m} \qquad (1.),$$

where F_e - the empirical coefficient of the F test; r – coefficient of linear correlation; n – number of observations; m – number of factors in the regression equation.

F-empirical (F_e) was compared to F-critical (F_k) for a relevance level of 0.05. If

$$F_e > F_k \qquad (2.),$$

where F_e - F-empirical, F_k - F-critical, the zero hypothesis was rejected.

The statistical significance of the regression coefficient was tested in turn [Vasilev 2004, 434] by using Student's t-criterion

$$t_e = \frac{b}{\sigma_b} \qquad (3.),$$

where t_e - t-empirical; σ_b - the standard error of the regression coefficient; t-empirical (t_e) was compared to t-critical (t_k) for a relevance level of 0.05. If

$$t_e > t_k \qquad (4.),$$

then the zero hypothesis was rejected.

Data characterizing living standards often form a lognormal distribution [Krastiņš & Ciemiņa 2003]. Data on GDP and tax income per capita were tested by checking their conformity with a logarithmically normal distribution, according to the Hi squared method. Since the zero hypothesis regarding correspondence to logarithmically normal distribution could not be rejected, in the regression analysis the log-log model was also used, applying a methodology suggested by Arhipova and Bāliņa [2006].

Results and their Interpretation

It is assumed in the EU regional cohesion policy that the main indicator for determining economical differences is the gross domestic product (GDP) and related values. In the European Union, the main indicator of regional development levels is GDP [Cziraky et al. 2006]. In research aiming to evaluate territorial development levels, the determining indicator is GDP per capita; this has been used by Mozumder and Marathe [2007], Schmidt-Thome et al. [2006], Wolde-Rufael [2006], Spagat [2006], Weisz et al. [2006]. GDP growth rate per capita has also been used as an indicator [Echevarría & Iza 2006; Maasoumi et al. 2007; Hasler et al. 2006; Janssen et al. 2006 etc].

The Latvian CSB defines GDP as follows: "Gross domestic product is the total value of goods and services produced in the state territory within a year. It can be calculated by using data on domestic production, demand (expenditure) and income in real or comparable prices [The Latvian Statistical... 2006, 11]. The scientific problem of GDP estimation and forecasting is directly related to two values: the amount of goods and services produced within a territory and the number of residents. As an alternative to GDP, measures related to the average income of residents can be considered. After a comparison of different parameters, municipal tax income per capita was chosen as an alternative indicator which is available also on a parish and town level.

Since publicly available data on GDP have been obtained for 2004 and are available at the regional and republican city levels, let us first examine the territorial distribution of the data (Table 1). In the 2004 estimate of GDP per capita, pronounced territorial dissimilarities were observable. The four regions with the lowest GDP are located in Latgale –Daugavpils, Rēzekne, Ludza and Krāslava. A relatively low GDP per capita was found also in Jūrmala and the regions of Jelgava and Alūksne.

Municipal tax income per capita was chosen as an indicator comparable with GDP per capita. Population income tax forms the largest part of municipal tax income and has been sufficiently researched and used in total and per capita [Krastiņš et al. 2005; Vaidere et al. 2006 etc].

Municipal tax income is the sum of two tax incomes (population income tax and the real estate tax). Municipal tax income characterizes both the income of residents (population income tax component) and territorial development (real estate tax component).

Looking closely at the territorial distribution of municipal tax income per capita in 2004 (Table 1), similar tendencies can be found as when examining the territorial distribution of GDP per capita. Evaluating municipal tax income per capita in 2004, it was observed that the five regions with the lowest tax incomes were the regions of Rēzekne, Krāslava, Daugavpils, Ludza and Balvi. The highest municipal tax income per capita in 2004 was found in Ventspils, Riga, Jūrmala and Riga region. Among republican cities the lowest municipal tax income per capita in 2004 was in Latgale – Daugavpils and Rēzekne.

It can be observed that in Jūrmala the GDP per capita is considerably lower than in other republican cities. In 2004, Jūrmala had a GDP per capita of LVL 1,160, but the municipal tax income per capita (of 2004) in Jūrmala was one of the highest in 2004 – LVL 202 per capita. It can be assumed that part of Jūrmala residents work and produce GDP in Riga, while being registered as residents of Jūrmala and paying their taxes there. Data on Jūrmala were excluded from the regression analysis.

Table 1

GDP per capita in 2004 (LVL), municipal tax income per capita in 2004 (LVL), ratio between GDP and municipal tax income for Latvian districts and republican cities

Territory \ year	GDP (LVL per capita) in 2004	Municipal tax income (LVL per capita) in 2004	Ratio of GDP and municipal tax income
Republican cities			
Rīga	5881	225	26,14
Daugavpils	1856	109	17,03
Jelgava	2183	154	14,18
Jūrmala	1160	202	5,74
Liepāja	3692	144	25,64
Rēzekne	2597	132	19,67
Ventspils	5459	248	22,01
District			
Aizkraukles	1789	134	13,35
Alūksnes	1305	102	12,79
Balvu	1348	80	16,85
Bauskas	1429	111	12,87
Cēsu	1874	126	14,87
Daugavpils	859	73	11,77
Dobeles	1613	127	12,70
Gulbenes	1435	99	14,49
Jelgavas	1187	107	11,09
Jēkabpils	1495	98	15,26
Krāslavas	1120	69	16,23
Kuldīgas	1473	103	14,30
Liepājas	1433	101	14,19
Limbažu	1471	125	11,77
Ludzas	1156	77	15,01
Madonas	1812	103	17,59
Ogres	1573	165	9,53
Preiļu	1434	78	18,38
Rēzeknes	882	64	13,78
Rīgas	2782	196	14,19
Saldus	2596	110	23,60
Talsu	1609	119	13,52
Tukuma	1437	116	12,39
Valkas	2114	123	17,19
Valmieras	2391	139	17,20
Ventspils	2252	127	17,73

When examining indicators of connection between GDP per capita and municipal tax income per capita in 2004, a close linear correlation is observable (Figure 1). The results of regression analysis indicate that, if assuming GDP per capita of 2004 as the resulting indication and municipal tax income per capita of 2004 as the factorial indication, the connection can be expressed in the equation

$$y = 23{,}6x - 880{,}8 \qquad (5.)$$

where y – GDP per capita in 2004 and x – municipal tax income per capita in 2004. The determination coefficient of this linear equation is 0.74, the F-empirical of the determination

coefficient is 87.2, which means a relevancy level of $2.2*10^{-10}$. The standard deviation of the intercept of the regression line is 323.8 with a t-empirical of -2.7, but the standard deviation of the regression coefficient is 2.5 with a t-empirical of 9.3. The results testify that this connection is statistically significant and can be used in GDP approximation calculations.

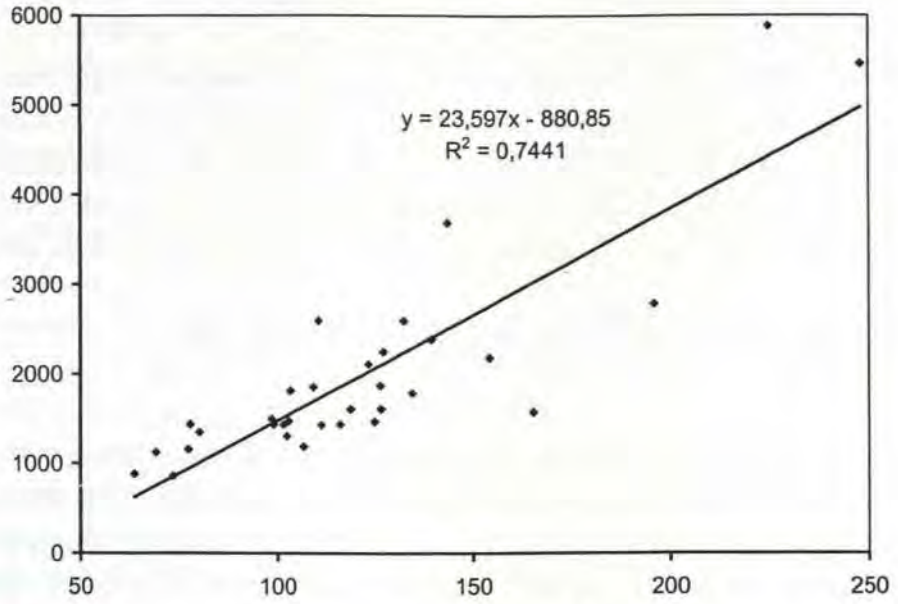

Figure 1. Regression between GDP per capita in 2004 (y) and municipal tax income per capita in 2004 (x)

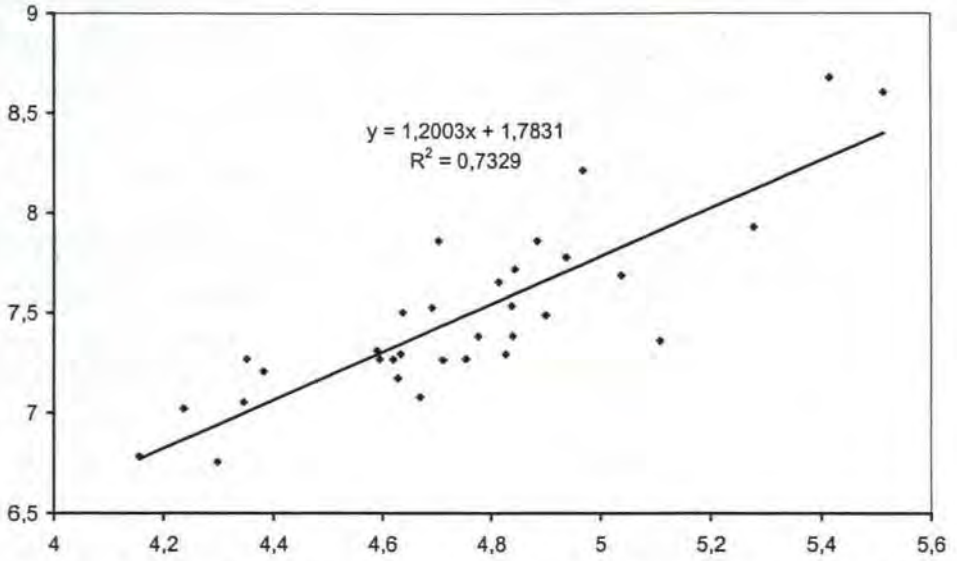

Figure 2. Log-log model regression between GDP per capita in 2004 (y) and municipal tax income per capita in 2004 (x)

Quite similar results can be obtained when examining a linear regression equation between parameter logarithms (the log-log model – Figure 2). Assuming the natural logarithm of GDP per capita in 2004 as the resulting indication and the natural logarithm of municipal tax income in 2004 as the factorial indication, the connection can be expressed in the equation

$$y' = 1{,}78 + 1{,}20 * x' \qquad (6.)$$

where y' - the natural logarithm of GDP per capita in 2004 and x' - the natural logarithm of municipal tax income per capita in 2004. The determination coefficient of the equation is 0.73, the F-empirical of the determination coefficient is 82.3, which means a relevance level of $4.2*10^{-10}$. The standard deviation of the regression line intercept, in its turn, is 0.63 with a t-empirical of 2.8, but the standard deviation of the regression coefficient is 0.13 with a t-empirical of 9.1. The results show that the connection is statistically significant and can be used in GDP approximation calculations. However, it should be taken into account that the log-log model has faults that are characteristic of all linear data models [Krastiņš 2003]. The credibility interval of such a model, if calculated according to standard deviations of the regression coefficient and the regression intercept, is much larger both absolutely and relatively.

Formula (6.) is transformable to an order regression, expressing

$$y = 5{,}95 * x^{1{,}11} \qquad (7.)$$

where y – GDP per capita in 2004 and x – municipal tax income per capita in 2004.

Formulas 5 and 7 are two different ways of approximating GDP to any group of municipalities if the municipal tax income per capita of 2004 is known. Unfortunately, since Jūrmala was excluded from the data set, there are certain limitations to the usage of these equations. There is, however, a third method to be recommended for approximating the GDP for small territories. It has been established that GDP and municipal tax income per capita are mutually correlative and have a high determination coefficient. However, big differences in the ratio of GDP and municipal tax income can be observed (Table 1). It is probable that within the confines of one region the ratio between GDP and municipal tax income is much closer to the average ratio of the region than it is to the average ratio of all Latvian regions and republican cities. Hence, the GDP of one (j) regional municipality could be approximated as

$$y_i = k_j * x_i \qquad (8.),$$

where y_i - GDP of municipality i in 2004, x – municipal tax income of municipality i in 2004, k_j - the ratio between GDP and municipal tax income in region j, where municipality i is located.

The GDP of a selection of municipalities from different regions could be approximated as

$$y = \frac{\sum y_i}{\sum s_i} \qquad (9.),$$

where y – GDP per capita in 2004, y_i - GDP of 2004 in municipality i, which has been calculated using formula (8.), s_i - the number of residents in municipality i.

In the result three methods of expressing GDP have been obtained:

Linear regression, formula (5.);

The log-log model, formula (7.);

The proportionality model (according to the ratio between GDP and municipal tax income of each region), formula (9.).

Now it is possible to carry out GDP per capita measurements for municipality groups that receive structural funding.

In municipalities that received SRDA administrated EU structural funds support, the average GDP per capita in 2004 was LVL 1.803 according to a linear regression equation, LVL 1.746 according to the log-log model, and LVL 1.677 according to the proportionality model. Since the average GDP per capita in Latvia in 2004 was LVL 3209 (LVL 5881 in Riga), then, according to all methods, the average GDP of recipients of SRDA administrated structural funds was lower than the Latvian average by LVL 1400 – 1530. It can be concluded that, from the point of view of levelling out Latvian regional differences, SRDA distribution of funds promotes flow of funds to territories with lower development levels; hence such distribution of funds could be effective from the point of view of regional equalization policy and would encourage the reduction in regional differences in the future.

When calculating the average GDP for municipalities that receive LIDA administrated structural funding, it must be taken into account that among the recipients are all seven republican cities with known GDP for 2004. Using the methods offered, GDP must be calculated only for municipalities for which GDP is not published, and then, knowing the total number of residents within a group of municipalities, the average group GDP per capita can be calculated for 2004.

In municipalities that received LIDA administrated EU structural funds support, the average GDP per capita in 2004 was LVL 4 397, according to the linear regression equation, LVL 4 333 using the log-log model, and LVL 4 246 according to the proportionality model. In all calculations, the average GDP of municipal structural funding recipients in 2004 exceeded the Latvian average by at least LVL 1 000. It has to be concluded that, from the point of view of levelling out Latvian regional differences, funds distribution by LIDA encourages extra flow of funds to territories with a higher level of development, and such distribution of funds might not be effective in terms of regional equalization policy and might not facilitate the reduction of regional differences in the future. However, such distribution of funds corresponds to the prior aim of LIDA to reduce the gap between average levels of the EU and Latvia. Money is directed to those territories that show fastest growth rates.

Even though the money distribution policies of SRDA and LIDA differ, the amount of finance is greater in programs administrated by LIDA. Within the considered period, SRDA had concluded co-financing contracts for LVL 5.5 million, while LIDA had already distributed LVL 24.8 million of EU support funding. In Latvia an inconsistency is observable when part of the EU funding is directed to reducing the regional disproportion, but another part of the EU money stimulates the increase in this disproportion. A similar conclusion has been made by Brikše et al. [2005], who concludes that in determining projects co-financed by the EU, aspects of Latvian regional developments are little considered.

Conclusions

Reducing the regional development level measuring into GDP or municipal tax does not show all the dimensions of economic and social potential of areas. Indicators like GDP / income tax are not helpful as indicators of regional development to describe economic development out of the legal and taxable economy.

Therefore such measuring could be used in evaluating regional development levels in territories smaller than a region for which GDP data are not available.

The methods used – the regression model, the log-log model and the proportionality model – provide similar results, and the choice of model would depend on the research objective.

There are substantial differences between the territorial distribution of EU structural funds in programs administrated by LIDA and SRDA.

From the point of view of leveling out Latvian regional differences, SRDA distribution of funds promotes extra flow of funds to territories with lower development levels, and such distribution of funds could be effective and contribute to a reduction of regional differences in the future. On the other hand, LIDA distribution of funds corresponds to the prior aim of LIDA to reduce the gap between the average level of the EU and Latvia.

For future research it is important to study relations between different indicators and EU cohesions policies implementation.

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ECONOMIC ASPECTS OF REGIONAL DISPARITIES IN LITHUANIA

Donatas BURNEIKA

Abstract

The article presents an attempt to establish main spatial regularities and trends of spatial development of economy in Lithuania in the post-Soviet period. The author tried to calculate differences of GDP per capita in municipalities of Lithuania and to establish main trends of economic development during this period. The author identified the main trends of spatial development of economy during the period of big fluctuations of economy, which lasted until the new millennium. Tendencies of economic development of Lithuanian territory, which had been taking place during recent period of its stabile growth, were analysed as well. The spatial discrepancies of economic development, which were increasing until the new millennium, have started to decrease in recent years, when growth of economy started to spread from the cities to wider regions and the fastest economical growth was evident in peripheral municipalities.

Keywords: regional development, economical disparities, Lithuanian economy.

Introduction

All three Baltic States have experienced rather similar social – economic development during the post-Soviet period, what was related with rather similar social, economic and political conditions of development in transition period. The economic fluctuations, which took place during the last two decades, as a consequence also were rather similar. Market economy reforms, disturbances of trade with the falling apart Soviet Union, tremendous inflation, crisis in banking sector and most recent economic crisis in Russia have made deep impacts on the economies not only in the Baltic region but in all post-Soviet countries. These general impacts are rather clear and do not raise a lot of questions. Such a similarity of processes permits us to expect that rather similar spatial outcomes of such processes in all transit countries could appear. But on the other hand, these similar driving forces are taking place on a different background. Different spatial structure of society and economy, differences of socio-cultural heritage, different geographic location and other factors have caused different spatial outcomes of similar processes in different countries. Looking from the European perspective, this region looks very even, however regional analysis can reveal substantial differences. Some authors have already noticed such similarities and differences of development of Central European countries. It was stated that, though fastest development of economy of all countries is concentrated in capital cities agglomerations, the degree of concentration is different [Bachler & Downs 1999].

In fact, due to many reasons it is rather difficult to establish and explain the peculiarities of socio-cultural and economic development on regional level in Lithuania. First of all it is because of the lack of reliable statistical data. This article concentrates on analysis of regional

differences of development of economy in Lithuania during the post-Soviet period. The first part of this period lasted until 2000. More or less steady and constant growth of economy during this time was evident just in the capital city Vilnius and in lesser extent in the port Klaipeda [Burneika 2004]. All other municipalities experienced very great, mostly negative fluctuations. However the last crisis has occurred more than 6 years ago and the whole economy of Lithuania is on the steady rise. Though the pace of development of economy in Lithuania was one of the fastest in Europe, its inner spatial effects are not still clear enough. There were studies made, which have tried to evaluate regional differences of development of economy in post Soviet period in Lithuania. Most of them concentrated on analysis of some special single economic indicators like unemployment, industrial production, and differences in earnings or attractiveness for foreign investments. These studies mostly revealed substantial differences in development of different economic indicators in Lithuania but it was quite difficult to understand spatial trends of development of whole economy [Baubinas 2000; Burinskiene & Rudzkiene 2004].

There are a lot of speculations in various publications concerning much faster economic development of big cities, especially Vilnius, however there are no data illustrating the actual pace of economic growth in smaller territorial units than Counties. Preliminary calculations suggest that GDP per capita levels differs inside county much higher than between counties and so County level cannot be regarded as a reliable dimension for analysis of regional differences of economic development. Calculations of changes of GDP per capita in 72 municipalities instead of 10 counties could reveal much more accurate spatial differences of economic growth in Lithuania.

The main aim of this article is to find out main spatial trends of economic development in Lithuania in the post-Soviet period trying to establish the main regularities of spatial development of economy during the periods of decline and stable growth of economy.

Methodology

The article analyses the general trends of economical development not trying to observe structural changes of economy of Lithuania or its regions, though of course these two processes are mutually dependent. The GDP per capita usually is supposed to be the best indicator for measurement of economic development; however the Statistical services do not calculate this indicator on municipal level. Trying to solve this problem, the author has elaborate a methodology for calculating this indicator. The calculations are based on the adjustment of existing data concerning GDP per capita on State and County levels according to differences of employment and average earnings in different municipalities. The same methodology was employed during earlier researches and is described in earlier published articles [Burneika 2004]. The received data has certain bias and can be used just for comparative purposes. For example, high level of GDP of a county can make certain raising impact on calculated level of GDP in less developed municipalities in the same county. Though previous research permits to state that these effects cannot make decisive impact on the results, some disturbances must be considered. For this reason, measuring and comparing general economic development of municipalities, author employed data from State Tax Inspection. Profit composes the second important part of GDP (calculating it according to

income method) so the data of State Tax Inspection concerning gathered profit taxation were analysed in the article as well.

Main Trends of Spatial Development of Economy in Lithuania until 2001

Analysing spatial patterns of economic changes one must always keep in mind not only the economic situation but also the spatial structure of whole society. Lithuania was a relatively evenly developed country at the beginning of the 90-ties. The urban system of Lithuania was artificially designed during the Soviet period according to the scheme and some ideas of W. Christaller and A. Lösch. The idea was adapted to Lithuania urban scheme and later modified by the local architects led by K. Seselgis in 1960-ies – 1970-ies. Some authors, involved in regional studies, argue that this was the beginning of scientifically reasoned regional politic in Lithuania [Kavaliauskas 2000].

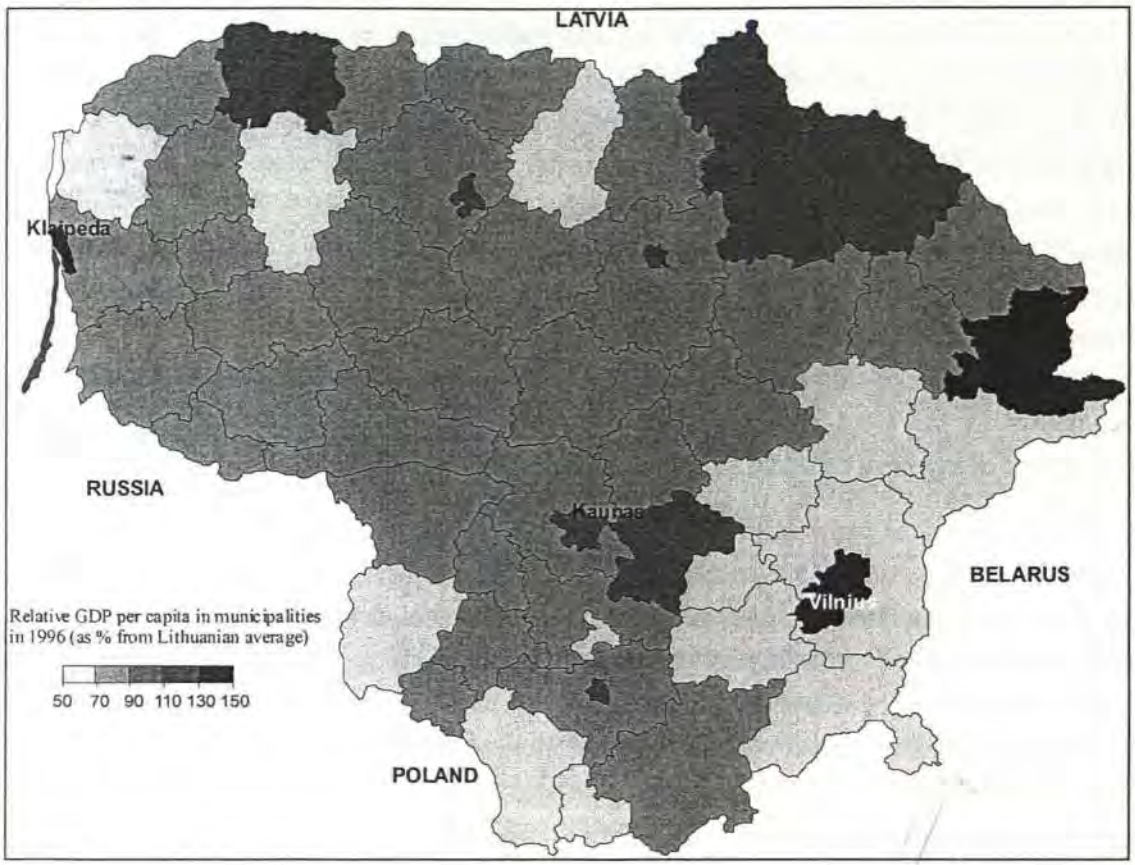

Figure 1. Differences of GDP per capita in the municipalities of Lithuania in 1996 (% from Lithuanian average)
(Author calculations from the data of Statistical department of Lithuania, www.stat.gov.lt)

No other country had such a big reorganising top–down redevelopment of urban system in Europe. As a consequence of implementation of these ideas and Soviet ideology Lithuania did not have one big main city (though the "Central place" existed in the schemes of mentioned geographers), it had relatively dense and even network of big and medium cities (50 000 – 600 000 inhabitants) and did not had network of separate farmsteads in agricultural

areas. In fact, Lithuania became a polycentric country in the sense of its socio-economic relations. The persons living in the west of the country had very weak relations even with the capital city Vilnius. Such an idea of development of Lithuania finally meant that development of Vilnius was artificially slowed. Nor its size neither its economy were as big as they could potentially be in free market-based population system.

Previous researches of spatial development of economy in Lithuania revealed huge and still growing disparities of GDP per capita in different municipalities in the period until 2001. Analysis of main tendencies, which took place in 1996–2001, have shown that almost all territory of Lithuania has been going to the great economical depression and the growth of economy was concentrated in the very few points, which include the capital of the country Vilnius, port Klaipeda and, in smaller scale, very few smaller cities with competitive giant enterprises from the Soviet period. There was no spatial influence from growing centres on the surrounding territories at this stage. The best and the worst municipality, from the sense of the GDP per capita, were located inside one Vilnius County. Figure 1 illustrates spatial outcomes of the development of economy since the declaration of independence and beginning of economic reforms in the early 90-ties. The country went through deep depression, which reached its maximum in 1992–1993 and was followed by the growing period later. All these huge fluctuations had very uneven impact on the development of economy at local and regional level.

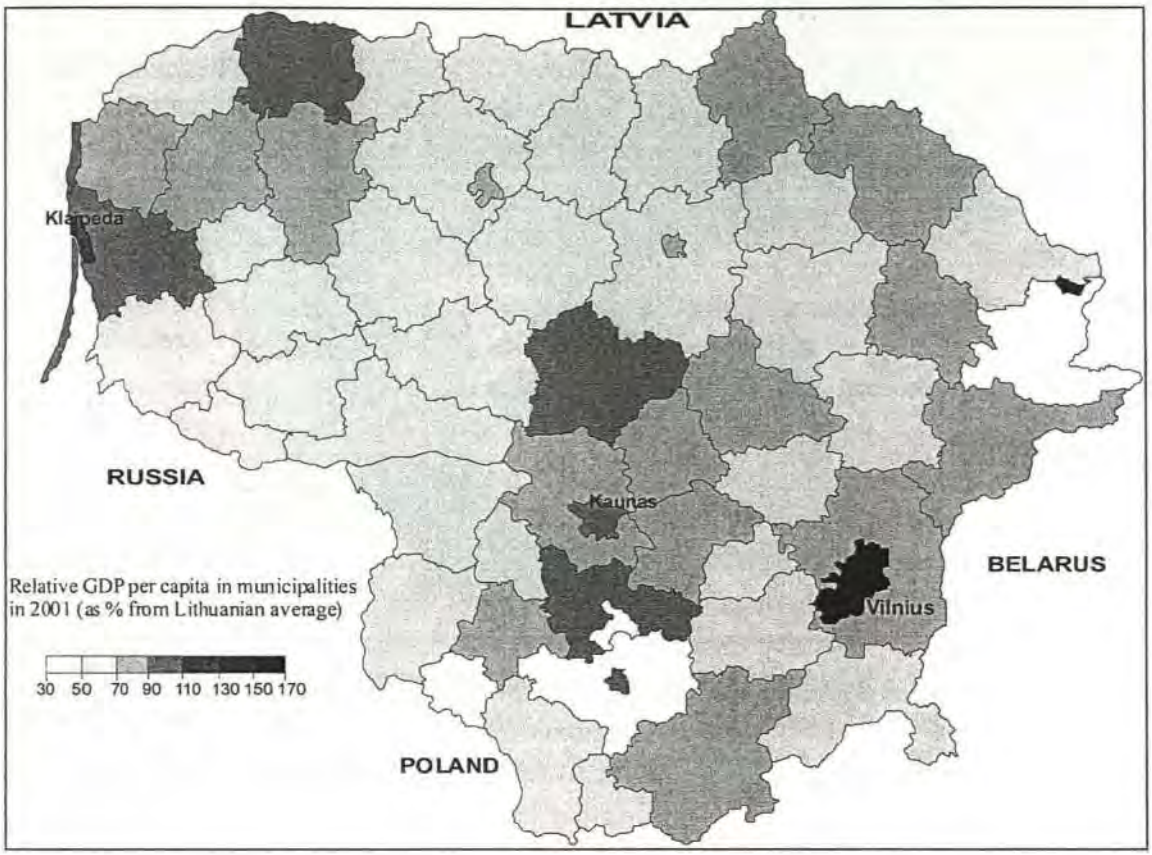

Figure 2. Differences of GDP per capita in the municipalities of Lithuania in 2001 (% from Lithuanian average)
(Author calculations from the data of Statistical department of Lithuania, www.stat.gov.lt)

Another recession related to the Russian financial crisis in 1998 struck Lithuanian economy once again at the end of previous millennium. As a consequence, the spatial differences of GDP per capita in municipalities increased again. The difference of GDP per capita in the best and the worst developed municipalities reached 5 times in 2001, though in fact a picture of spatial differences of GDP per capita had not changed drastically (Figure 2). The major part of the country went in an even deeper depression comparing with the strongest from the economical point of view cities.

Consequently, three, rather mute, growing regions could have been distinguished in Lithuania in 2001 (Figure 3). These included more or less compact territories consisting of 3–4 municipalities around Vilnius and Kaunas as well as around Klaipeda, though the last one was not so uniform [Burneika 2004]. In general, cities presented the most developed and the fastest developing territories. While municipalities surrounding them developed a little bit slower.

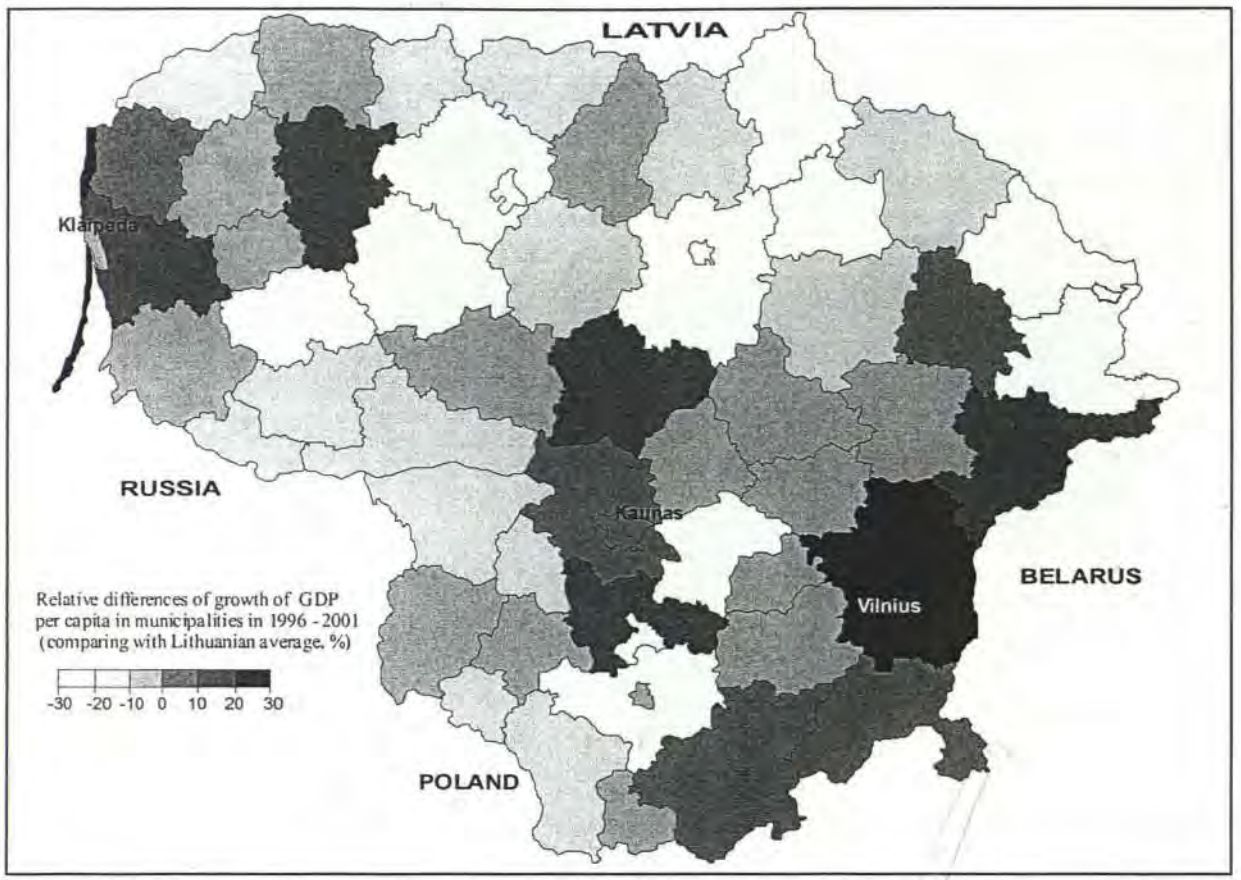

Figure 3. Differences of growth of GDP per capita in the municipalities of Lithuania in 1996-2001 (% from Lithuanian average)

(Author calculations from the data of Statistical department of Lithuania, www.stat.gov.lt)

The growing municipalities were these, which developed new or renovated traditional branches of economy. These regions did not correspond completely with the strongest municipalities from the point of view of actual amounts of GDP per capita – not all municipalities with high GDP numbers were developing so well.

The confirmation of the statement that the GDP differences on the County level cannot be used for illustration and analysis of spatial differences of development of economy. In Lithuania can be easily received taking look at Figure 4. It is clearly seen that the differences inside one county are much higher than between them.

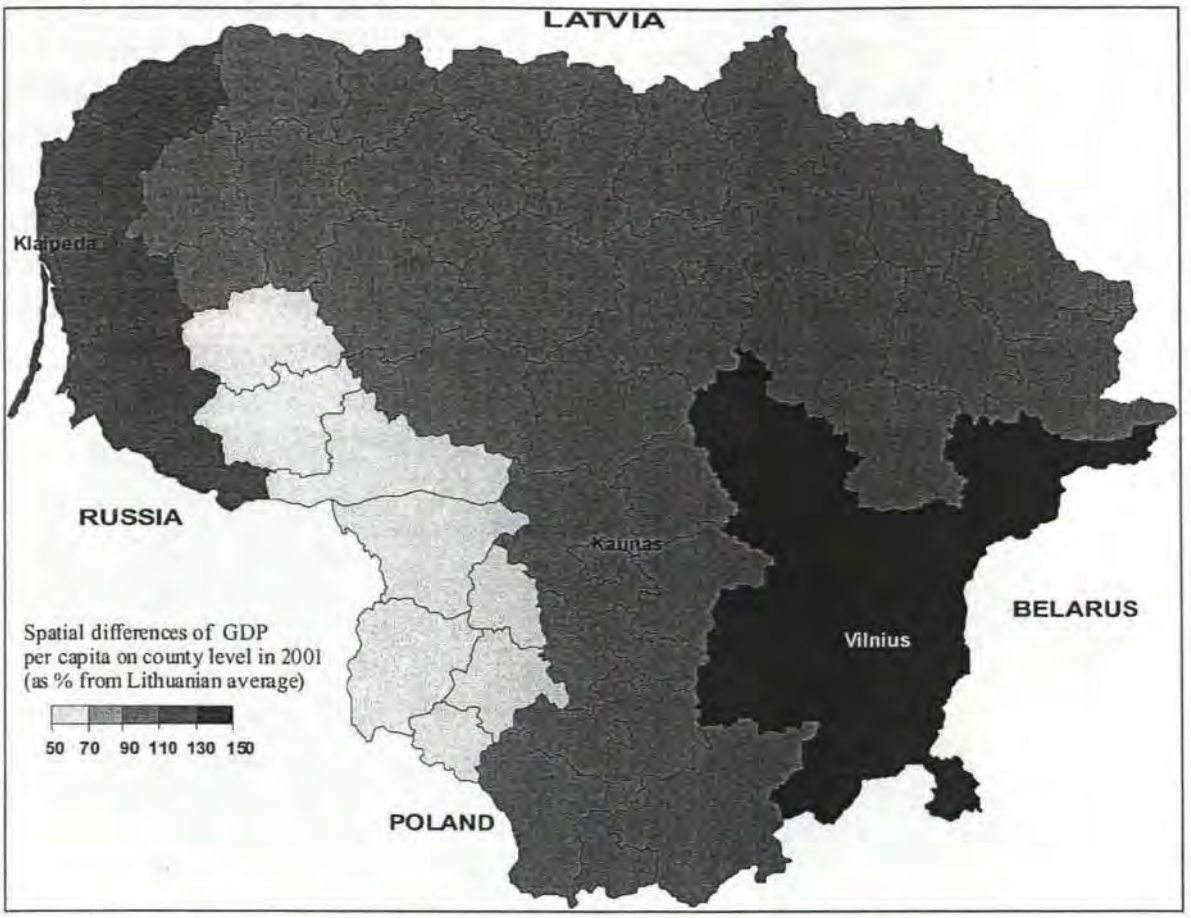

Figure 4. Relative differences of GDP per capita in the counties of Lithuania in 2001 (% from Lithuanian average)
(according to the data of Statistical Department of Lithuania, www.stat.gov.lt)

The implemented researches permit to make an assumption, that the highest spatial economic disparities appear during periods of great economic recessions, while during periods of relatively stable economic development spatial differences evolve much slower. The research of regional differences of economic development on municipality level proves that a County is not a suitable territorial unit for measurement of tendencies of spatial economic development because County is not a single territorial market or coherent spatial economic system. There is no such a phenomenon as "Economy of County".

The analysis of processes, which took place in Lithuania until 2001, permits to make an assumption that spatial economic disparities have mostly appeared during the big fluctuations of general economic development (Russian crisis, etc.), when the actual development was noticeable only in some cities. At the beginning there were almost no spatial impacts of the development of cities on the surrounding regions. They appeared later.

The research accomplished in 2005 revealed some changes of spatial economic development in Lithuania, though the main economical centres are the same.

Peculiarities of Differences of GDP per capita in Municipalities of Lithuania in 2005

Though the picture of spatial differences of economic development in Lithuania in 2005 did not change very drastically comparing with 2001, some clear changes in some particular cases can be easily spotted (Figure 5). First of all it should be mentioned that some new centres of economic growth appeared, where GDP per capita reached values, which approximately are equal to Lithuanian average. Most of theses positive changes happened in the municipalities, which have giant enterprises built during the Soviet times and which play the dominant role in their economy. Among these Jonava, Mazeikiai, Kedainiai, Elektrenai should be mentioned. The structural changes in European economy and improving conditions for foreign trade made these enterprises quite profitable once again. In other cases the growth is related to different factors. For example, in Marijampole and in Klaipeda district municipalities the growth is mostly related with new activities, based on export.

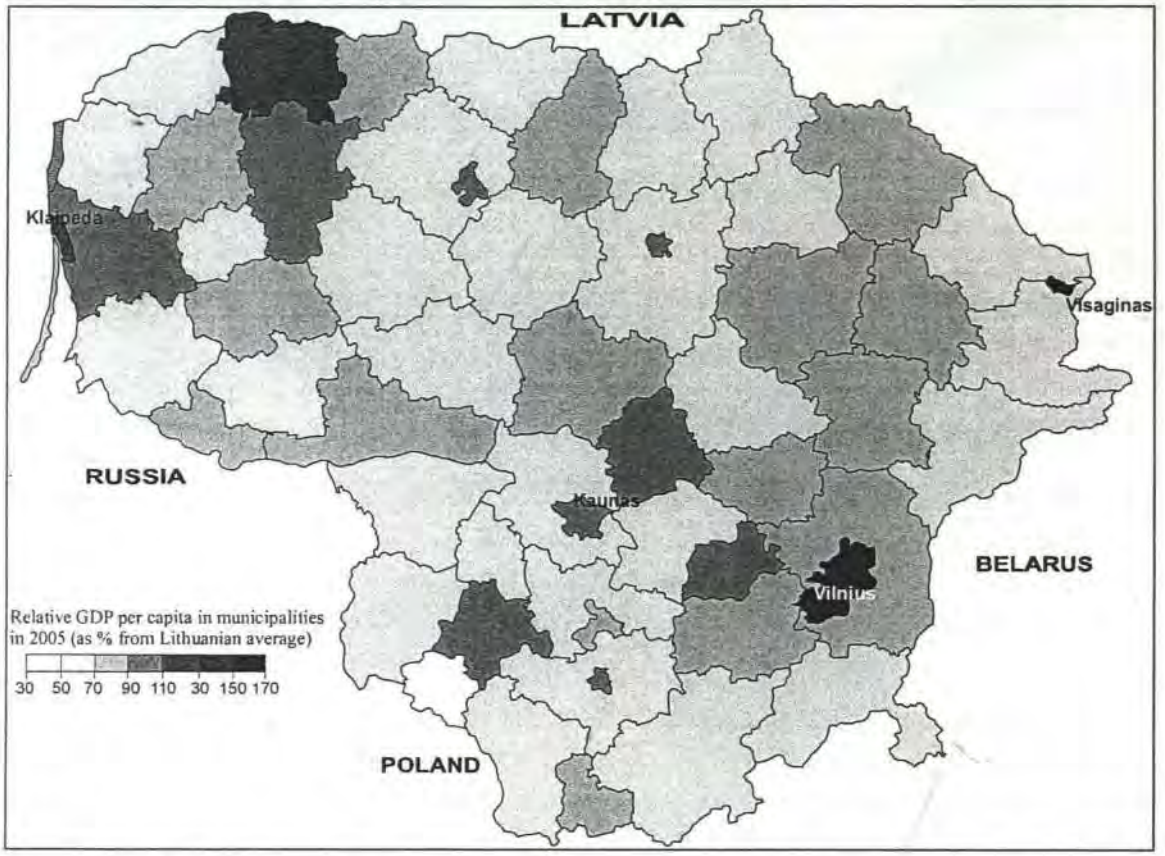

Figure 5. Differences of GDP per capita in the municipalities of Lithuania in 2005 (% from Lithuanian average)
(According to the data of Statistical Department of Lithuania, Counties. 2006)

Notwithstanding these new trends, the great misbalance between Vilnius and remaining territory of Lithuania still exists. Though according to Department of statistics of Lithuania only approximately 16,5 % Lithuanian population live in Vilnius [Counties of Lithuania... 2006], the economy of Vilnius is so important, that majority of other municipalities hardly can reach an average GDP per capita of Lithuania. That's why the situation, when there are

just few relatively well-developed territories and vast areas remain in relative economic depression, still exists.

The change of the pattern of spatial differences of GDP per capita in Lithuanian is a consequence of changes of trends of development of whole Lithuanian economy. Previous researches revealed great differences of pace of growth of economy, which reached 60% in the period since 1996 till 2001. The differences of GDP per capita, which existed in 1996 increased during that period considerably [Burneika 2004]. Cities and cities regions like Vilnius or Klaipeda developed much faster than country regions. Analysing the situation over recent period we would find out that situation was considerably different. Though Figure 5, which illustrates differences of GDP per capita in 2005, does not show big differences comparing with the 2001 but actually spatial processes have changed seriously. Figure 6 illustrates differences of pace of economic development during the recent period.

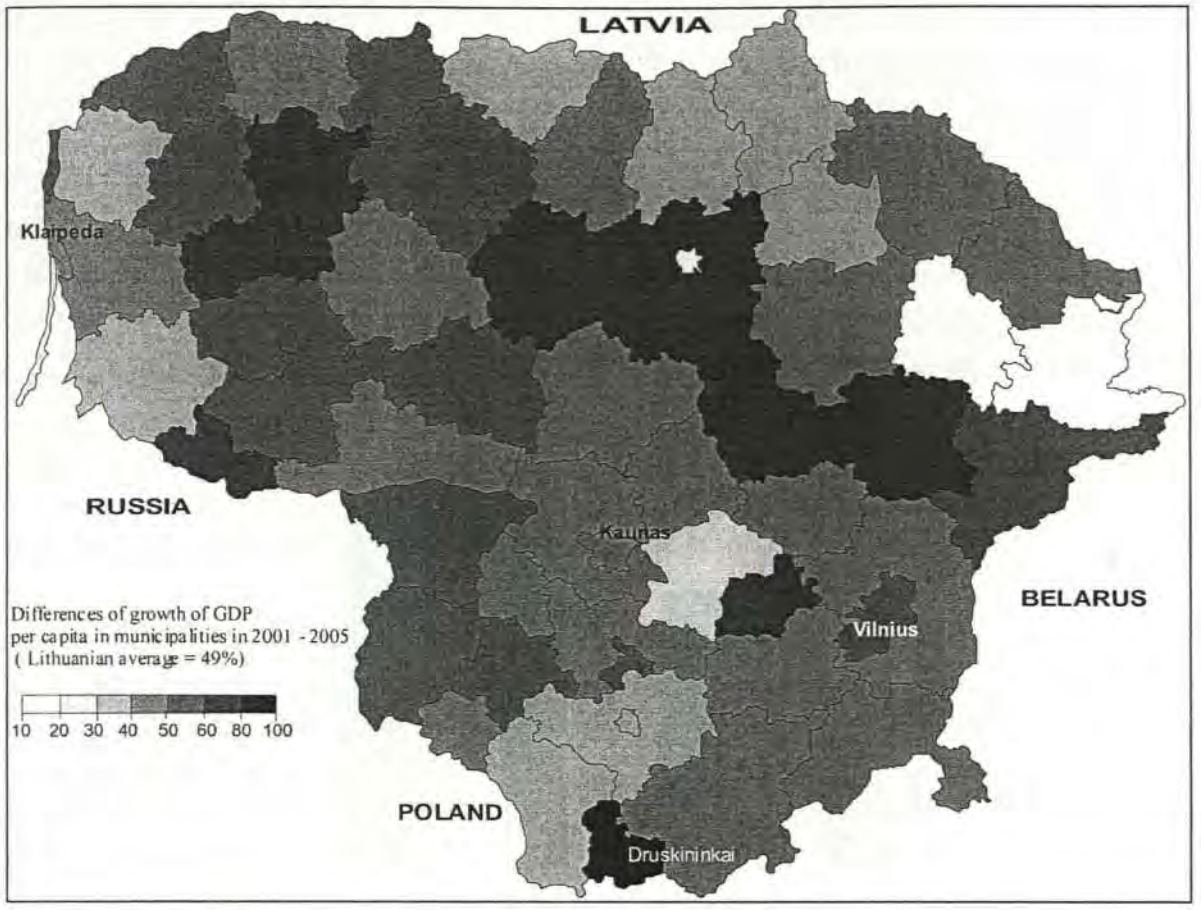

Figure 6. Differences of growth rates of GDP in municipalities of Lithuania in 2001 – 2005 (as % from Lithuanian average)

(According to the data of Statistical Department of Lithuania www. stat.gov.lt)

The differences comparing to the previous period can be explained by the spatial processes, which took place in recent years. Figure 6 illustrates the pace of development of economy during the years of stabile growth of Lithuanian economy. Also there were no changes of the territorial administrative system of the country during the recent years. In

general it may be stated, that there were no clear bigger regions of growth or decline in Lithuania during these five years. The main trend is faster development of relatively poorer municipalities but there as well can be found some exceptions. Anyway, we may summarize that in the recent years the misbalance of economical development has decreased considerably. The fastest growth was common for many agricultural municipalities and in some case in municipalities, which previously suffered from big structural problems due to the collapse of main enterprises (Telsiai, Ukmerge). Fast grow was also common for newly established small municipalities. The fastest growth of economy was characteristic of Druskininkai municipality where GDP per capita has doubled during 5 years. This happened due to revitalisation of the SPA resort, which is related to good management (supply side factors) and growing demand for such services in Lithuania and abroad.

Summarising the analysis of spatial economic processes, which have been taking place in Lithuania in recent years, one could make an assumption that the growth of economy spreads to wider regions during periods of stable growth of economy of the whole country. The pace of development of economy in the majority of state municipalities exceeded average pace of growth of economy during recent years in Lithuania. This shows spread of development from previously just few growing points to whole country. On the other hand, spatial location of growing municipalities shows that this growth is more related to factors of macro-economy or to the growth of whole country but not for the spread of growing potential from core development regions. In fact a range of direct spatial impact of best developed big cities (Vilnius and Klaipeda municipalities) is quite small and involves just closest territories (Vilnius district and Klaipeda district municipalities).

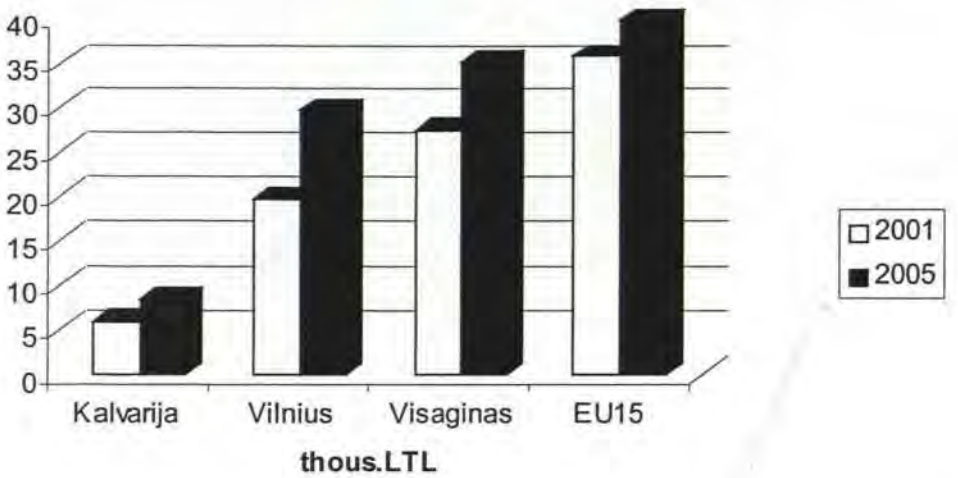

Figure 7. Highest differences of GDP per capita in Lithuania in 2001 and 2005 (thousnd. LTL)
(According to the data of Statistical department of Lithuania, Counties.. 2002, 2006)

Spatial Differences of Profitability in Lithuania

Calculations of GDP per capita in municipalities were based on the differences of employment and salaries, which make the main impact on GDP. However, second important component of GDP (calculating according to income method) – profit, was not evaluated. Trying to fully evaluate real spatial differences of development of Lithuanian economy, the author has analysed differences of gathered profit tax in municipalities. Profit is a part of income, which changes very quickly depending of trends of development of economy. A rather rapid increase of amounts of gathered profit tax, what is absolutely normal in the after recession period, is the general trend of Lithuanian development. The gathered amount of profit tax was negative in almost half of municipalities back in 2001 [www.vmi.lt]. The clear trend of increase of gathered amount of profit tax during the last 4 years illustrates fast development of economy but on the other hand stable amount of gathered income taxes permits to state that benefits of this growth mostly goes to business makers but not for employees.

Spatial pattern of gathering of profit tax was rather similar to the one of GDP with the exception that differences were much higher. This is quite expectable situation, because headquarters of many companies are located and registered in central cities and pay taxes there. On the other hand the profit itself is a much more flexible dimension. Because of these reasons, central municipalities of counties such as Utena district pay more profit taxes, though calculated GDP per capita is there not so exceptional.

Such a pattern of spatial differences of profitability permits to state that in general previously presented GDP per capita scheme is accurate enough though on the other hand it may be stated, that established differences of GDP per capita should be even higher. Differences between biggest cities and surrounding regions should be higher as well. However these differences are related to some stochastic factor, which can vary a lot in time and so cannot be used very directly defining economical development of the territory.

Conclusions

1. Main regional misbalances of development of Lithuanian economy appeared during the period of great economic fluctuations after collapse of Soviet Union and they tended to increase until the new millennium. Rapid changes of condition of economic development concentrated economic growth into few areas, which have highest relative advantages in the new circumstances.

2. Main regions of growth of economy in Lithuania remain the same but their spatial structure is on the change. Stable growth of economy of the country makes premises for spreading of growth processes into wider regions, which started to grow faster than central city municipalities.

3. Spatial distribution of growing municipalities in recent years shows that this growth is more related to factors of macro-economy or to the growth of whole country but not for the spread of growing potential from core development regions.

4. Analysis of spatial structure of gathered profit tax in general confirms established regularities of inner spatial differences of GDP per capita in Lithuania, with the exception that differences between central cities and surrounding regions should be even higher.

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TEMPORARY CLUSTERS WITHIN KNOWLEDGE DISSEMINATION: A CASE OF NETWORKS TOWARDS A CROSS-BORDER SMALL BUSINESS ENVIRONMENT

Tarmo PIKNER

Abstract

There are various projects to encourage international knowledge dissemination in entrepreneurship and a creative economy. Temporary clusters are one organisational form to support this process. This paper analyses the spatiotemporal dynamics of the cross-border initiative between the Helsinki and Tallinn regions, and asks how organisational practises influence knowledge dissemination for entrepreneurship development. The role of temporary clusters is discussed in the case study. The research material consists of eight interviews with the managers of incubation centres participating in the cross-border project. In addition, information brochures of the project are used. The research shows that temporary clusters may operate through vision-oriented professional gatherings and common learning associated with the entrepreneurship environment. However, there is a challenge to include different agencies within cross-border knowledge arenas that can also support inter-firm networks.

Keywords: temporary clusters, cross-border, networks

Cross-border co-operation is often carried out in short-term projects involving various partners from the private and public sectors. "Cross-border" is seen as emerging activity spaces that include heterogeneous practises brought together within interaction. These initiatives, as temporary clusters, may operate as one way to organise interregional networks towards increasing coherence and competitiveness in the Baltic Sea area. This is also part of the European Community's cohesion policy. It is important to understand the spatiotemporal dynamics of these organised practises. These dynamics describe changes in international knowledge dissemination and learning practises in entrepreneurship development.

The research analyses the formation of cross-border organisational innovation networks and dissemination of knowledge for entrepreneurship services. The role of temporary clusters is important to understand the spatiotemporal dynamics of cooperation between involved actors. Material has been gathered about one development initiative that brings different agencies together to exchange information and learn from each other's practices. I am also interested in the formation of new nodes and related socio-material flows within interregional collaboration. Temporary clusters form (territorial) platforms, but also create movements of people, texts, objects etc. Therefore analyses of cross-border cooperation include both structural and relational aspects of network formation.

The paper analyses one cross-border initiative related to knowledge-intensive networks. The research material is based on a case study of the Interreg IIIA project, "Cross-border small business environment", involving managers and workers of business incubators from southern Finland and Estonia during August 2005-December 2007. The main participants in

the project are university-related (Tallinn University of Technology and Helsinki School of Economics) organisations and managers of incubation centres and technology parks. There are many of these kinds of projects, so why is this initiative important? The temporal activity space brings an understanding about the more general dynamic of governance of international innovation networks.

The research material consists of eight theme interviews with persons participating in the project. The respondents are employees of six Estonian incubators and one Helsinki incubator, and the project manager is also interviewed. Altogether there are 15 incubators or science parks from Estonia and the Uusimaa area in Finland involved in project activities. Therefore, the research material mainly describes the practises and experiences of the Estonian participants (seven organisations). The interviews are transcribed and speech-text is used to describe practices and associations between different agencies. The research material is presented through narratives integrating case-project process and concrete opinions of participants. This approach allows us to understand the (future) projection and actual scales of cross-border co-operation practices.

Questions were asked about the following topics:

- The enrolment process for project activities;
- The dynamics and materials of learning practises;
- The practical use of case studies about incubation practises;
- Planned changes within local entrepreneurship services for firms.

Temporal Clusters within Cross-border Knowledge Dissemination

Castells (2004, 37) argues that in the network society, the "spaces of flows dissolve time by disordering the sequence of events and making them simultaneous, thus installing society in structural ethereality: being cancels becoming". And, spaces of flows co-exist with the spaces of places as fragmented and diverse temporalities. Therefore the information flows cannot be analysed as separated from infrastructure networks and situated practices of various agencies. Analysis of the network society puts at the centre the "networking capacity of institutions, organisations and social actors, both locally and globally" [Castells 2004, 42]. Temporary clusters are considered as one organisational arrangement for knowledge creation and dissemination. The temporary dimension (e.g. inter-firm projects; professional gatherings, conventions) of networking operates together with the quasi-permanent dimension (stable networks and clusters) [see Maskell et al. 2006, 1005]. This means that temporary clusters must be analysed together with more stable networks and specialised clusters in order to understand interregional dynamics. The certain events of clustering demonstrate an aspect of collaboration that is more goal-oriented (e.g. concrete projects) or vision-oriented (e.g. larger conventions). Temporary clusters are part of an organisational transformation to correspond to openness and information-sharing within the network society. On the other hand, the term "cluster" refers to certain specialisations in the (regional) economy.

Knowledge is not strongly attached to particular sites (geographical locations or network sites) rather it circulates through heterogeneous interactions. Amin and Cohendent (2004, 102-103) argue that the "stickiness" of knowledge in these sites be they clusters or R&D units or brainstorming events, stems from the unique interaction and combinations of bodies,

minds, speech, technologies, and objects, crystallised in the set of local practises of doing, interpreting, and translating. If there is a boundness to the knowledge generated in each site, it is a feature of its entrapment and nodal position within specific actor networks of varying spatial composition and reach, not a feature of local confinement. This thought indicates the importance of communicative practices within collaboration networks that can overcome spatial distances between agencies. Temporary clusters are assembled together, some are more open than others and targeted for some (professional) group(s), therefore management practises are involved. Thrift (2005, 135) talks about managerial governmentality that includes spaces of sight (new spaces of visualisation), cite (new spaces of embodiment) and site (new spaces of circulation) that support creativity and innovations. Temporary clusters as inter-organisational projects or professional gatherings may include aspects of these three stages operating through devices that are adaptable to different viewpoints and robust enough to keep their identity across them [Star, Griesemer 1989; see also Knorr-Cetina 1997]. These heterogeneous devices (e.g. communication technologies, certain plans or instructions) make the formations of networks between various sites and agencies visible for description and interpretation.

According to Lambooy (2006, 226), there are three main groups of knowledge workers: generators, appliers and disseminators. The present case study deals with persons and organisations involved mostly within knowledge dissemination that requires translation of tacit knowledge (e.g. silent experience in heads and hands) into codified texts, programmes etc. Various associations and co-operation can be seen as organisational venues to provide additional channels for disseminations that can be translated into innovations of products, brands or processes. "Governance systems, based on co-operation, enable economic actors to fully utilise and expand their competences. They also encompass governments and organisations that specialise in building cognitive competencies (learning, research) and in setting up inter-firm networks" [Lambooy 2006, 230]. However, the effects of (temporal) clusters on proximity and innovation need critical reflection, because proximity has different dimensions and challenges [see Boschma 2005, 71]. Ala-Rämi (2007, 1058) argues that still today face-to-face contacts and geographical proximity matter in collaboration to create a product innovation between high-technology enterprises. New communication technology is complementary in cooperation process. Proximity is also practised and organised through various socio-material infrastructures [Graham, Marvin 2001]. The communication technologies make possible to exchange information across large distances that also creates bases for new ways of embodiment and circulations within collaboration networks. Therefore the spatiality of organisational practices and knowledge dissemination become much more complex. Obligatory points of passage indicate different stages in network formations depending for example on common goals and shared material settings of practises. Therefore the connections between the agencies are considered as relational- or scale-effects within cross-border entrepreneurship services.

Temporary clusters of cross-border knowledge dissemination can be seen as a part of the (national) innovation system and its co-existing boundaries. Therefore, some explanation is needed about connections between the system and the environment of innovation networks. Högelius (2005, 24) argues that boundaries of innovation systems can be defined in terms of

geography and/or in terms of product areas or technological fields. "In a national system of innovation the national borders are seen to coincide with the system boundary. Organisations, institutions and activities in foreign countries are in this interpretation not seen as being part of the system, but belong, instead, to the environment of the system". Learning from the foreign environment is dependent upon "resonance" at the system boundary. It means that international connections are important for innovations. Such resonance is more likely to "occur when the cross-border communication takes place with foreign environments that are located in geographical and cultural proximity of the system" [Högelius 2005, 300].

Terms like "governance" and "cross-border" also refer to state practises and related de/reterritorialisation processes that bring various places and things together through spatial articulations and materialities, including infrastructures. Therefore the discursive sphere and materialisation process of different policies operate together. Urry (2003, 109) argues that "states thus can be said to increasingly act as a legal, economic and social regulator, or gamekeeper, of practises and mobilities that are predominantly provided by, or generated through, the often unpredictable consequences of many other entities". This means that several agencies are active in cross-border networking and the role of state related agencies should not be made too important. Social regulation is both necessitated by, and is only made possible through, new computer-based forms of information gathering, retrieval and dissemination. Communication technologies have increasing role of regulating cross-border practices.

Urry (2003, 48-49) also describes the dialectical relationship between heterogeneous moorings (as binding) and mobilities (as moving objects) to understand the social complexity of globalisation. This perspective demonstrates that new socio-material flows require additional spatially embedded links. Yet, when describing the temporary clusters of organisational innovation networks, there is no need to start by drawing everything together by region(s), because this may make us blind to the networks and circulating socio-material entities within the social topology [Law, Mol 1994]. The spatiality of cross-border network formation is multiple where regions or regionalisation operates together with networks and socio-material flows. The description of the political arena(s) as different initiatives can free itself from the obsession with the time of succession (chain of following activities) and also recognise the material settings of these arenas; "objects become things, that is, when the matter of facts gives way to their complicated entanglements and becomes a matter of concern" [Latour 2005, 41]. These kind of emerging concerns bind locations and things with certain purposes and make various networks visible between agencies.

Nodes within Cross-border Organisational Innovation Networks

Helsinki and Tallinn (together about 1 million inhabitants) function as centres that attract people and capital from Finland and Estonia. There is a concentration of know-how resources in the cities, but the differences between Tallinn's and Helsinki's urban areas are large in terms of the knowledge-based economy. There are obvious cross-border knowledge links, for example, from persons working in the field of Estonian telecommunication to Finland and Sweden [Högselius 2005, 291]. The co-operation links of Estonian innovative firms are mostly concentrated in Europe, and much less towards the United States and Asia.

The main partners in the field of innovation were found in corporate firms, sub-contractors or customers. Here the role of universities, research institutes and especially public R&D organisations is considered much less important compared with the average in the European Union [Kurik et al. 2002, 45-46]. Estonian companies that are partly based on foreign capital or belong to international corporations are about twice as innovative as Estonian domestic companies [Tiits et al. 2004, 7]. There are several on-going initiatives in the Tallinn-Helsinki region to create a common know-how area, but the results of the co-operation activities are not clear or easily found yet [see Persson et al. 2004].

What interests me in this case is the formation of new nodes in organisational cross-border innovation management, movement of expert-knowledge and co-working. Firms make investments across the border and re-situate their new offices. There are also various projects and programmes that envision and organise new spaces to offer support for the internationalisation process. The starting point in this case is also one of these new, moving nodes of knowledge dissemination. The Helsinki School of Economics (HSE) established its own Small Business Centre (SBC) in the Tallinn Technology Park in 2004. These two organisations have been working together since 2001. The reason for the new location was to situate close to emerging markets, firms and the university across the Gulf of Finland. The centre is small; it includes one rented room and one person working in Tallinn about half the time. She has organised different projects together with persons from Tallinn Technology Park (Tehnopol) and the Tallinn Technical University (TTU), including firms and various R&D institutions. The manager of Tehnopol[1] comments on co-working as follows:

> This contact point supports our activities; it is easier to co-ordinate activities and to communicate. Additionally they also arrange the visits of Finnish partners, and training programmes and seminars for firms wishing to get familiar with the Estonian business environment. They also arrange co-operation between the economic department of TTU and HSE. Based on our initiative, these universities have signed an agreement and there is also an exchange of teaching staff and students.

The SBC is a passage point materially situated in the newly renovated incubation centre of Tallinn Technology Park. The SBC attracts additional funding for cross-border training programmes and seminars. Of course, it is only one part of the overall activities of the larger organisation. HSE also has similar small business centres in Helsinki, Mikkeli and St. Petersburg. These mediating organisations gather and disseminate knowledge about entrepreneurship through various networks based on previous work and also electronic databases that make it possible to deliver information packages to profiled firms by e-mail. As the Tehnopol[2] manager describes it:

> We have about 40 firms on both sides of the gulf, who are aware of our cross-border training and other activities, and they are the objects of our services. It does not form a large part of our database, but they are firms which we know are interested in the direction of the Finnish market and to whom we offer information when some things come up.

[1] The manager of Tehnopol network services, interview on 5th January 2007.

[2] The manager of Tehnopol network services, interview on 5th January 2007.

Entrepreneurship knowledge moves across the borders between Tallinn (Estonia) and Helsinki (Finland), but where it goes and what it exactly carries is not visible yet. Additionally, the nodes made by various associations electronically mediate information about technological innovations to members across Europe (e.g. Innovation Relay Centre). The study of the activity field as a temporary cluster initiated by HSE SBC and Tehnopol is one layer of many simultaneous practices of networking that aim to establish connections between different agencies. The "cross-border small business environment" clusters together the managers of incubation centres and firms through formulated common goals and shared temporal spaces of practise. This can be analysed by describing the spatiotemporal dynamics of the project activities.

Forming a Network between the Incubation Centres

Intermediary persons and organisational networks select information, alter its contents and then select channels and goals for transmission between agencies [Lambooy 2006, 224]. The manager of HSE SBC in Tallinn forms an activity space together with the manager of Tehnopol by writing the project "Cross Border Small Business Environment" (CBSBE). It receives funding and involves other actors. The aim of the project[3] is "to carry out a network between Finnish (southern Finland) and Estonian business incubators and to develop business activities and competitiveness in the time frame of August 2005 to December 2007". Further on I connect the different sites and map the spatiotemporal dynamics of knowledge dissemination. This means that movement of people and objects carrying information is brought to the foreground.

The initiative involves managers and workers of incubation centres and technology parks. HSE SBC invites participants from all 16 incubators of the Uusimaa area and Tehnopol informs about the initiatives of the Estonian incubation centres located around Estonia. The initiators attract into the project the managers of eight Uusimaa technology parks and incubators (five located in Helsinki) and seven from Estonian incubators (three located in Tallinn, others in Tartu, Pärnu and Haapsalu). Some of the persons have longer experience. Other participants from Estonia have worked within the field only half a year. This pattern of enrolment shows the focus on the actors of capital cities. On the Finnish side there is intention to enrol participants from one area. On the Estonia side the suitable partners are from all over Estonia. One should not remain in the topology of a region that just clusters things together as spatial fixes. Instead, one should consider the related dynamics within the case of cross-border networks.

The first stage of the initiative is benchmarking. This maps in general the present states of the incubation centres and their needs for common training. The managers of HSE SBC and Tehnopol have gathered information about the firms and services of the incubators, also through previous co-operation activities, which also formulated three specialisation fields of the Helsinki-Tallinn cross-border innovation clusters[4]: information and communication technology, new materials and biotechnology. The same clusters are defined by the national policy strategy for all of Estonia as technology fields of innovation [Tiits et al. 2004, 8].

[3] The information brochure from the project manager, interview on 9th January 2007.
[4] The manager of Tehnopol network services and the project manager, interviews on 5th and 9th January 2007.

Based on the mapping, the general content of further cross-border training of the incubators' managers and additional running support services for firms are formulated. The benchmarking takes place only in one direction; the Estonian participants visit the incubators of the Helsinki area.

The second and main part of the CBSBE is common training and education of the managers of the incubation centres and technology parks. It gathers about 40 persons together during four training days that take place in the Uusimaa incubators or Tallinn Technology Park. The themes of the training[5] are the following:

- case methods, the role of incubators in supporting entrepreneurship;
- marketing of services, internationalisation and exchange of firms;
- enrolment of stakeholders, stages of incubation services;
- best practises of incubators, presentation of plans.

It is important to recognise that the training practises are temporally situated mainly in the Uusimaa incubators or technology parks, which provide possibilities for the participants to access the social contacts also familiar with the materialities of places (e.g. changing settings of interaction) related to entrepreneurship development. Temporally situating also aims at creating a common arena for an exchange of practises and intercultural communication. As a participant[6] of the initiative describes it:

> Training takes place mainly through group work. For example, we had a case where the incubator is part of the university and there are very many different interest groups included in the process. ...The cases are based on the real situation of the incubators of the Helsinki area. There are four to five teams, to which belong Finns and Estonians; the members of the groups change during the training sessions. The ideas will be carried out on paper and mapped, and from that comes some material. ...It is not clear how it will be delivered, maybe printed. Later this material can be used when some similar questions arise in the work.

The third component that runs along with the training activities of the incubators' managers includes cross-border information services for companies. This brings further previous entrepreneurship activities for firms, from which some are formed into profiled databases through previous cross-border project(s). There are theme seminars arranged as partnership events for firms and R&D organisations in three innovation fields (see above), legal consultation, and supported market research for companies. At the beginning of 2007, seven Estonian technology-related companies (from Tallinn) were enrolled in research on the Finnish market. The internationalisation of entrepreneurship activities is also supported by a new affiliate of one Uusimaa incubation centre. It rents two rooms and employs one person, offering information and office space for Uusimaa companies in Tallinn Technology Park. These activities are in the very early stages and without concrete results yet. This activity towards (temporal) mobility of enterprises is part of more general programmes in Europe (e.g. Euro-office initiative).

[5] The information brochure from the project manager, interview on 9th January 2007.
[6] The manager of Tallinn Ülemiste incubator centre, interview on 7th March 2007.

Bringing the Networks Together

The temporary cluster brings together the managers of incubators and technology parks to exchange experiences and learn about new ways of working in entrepreneurship services. Knowledge dissemination is combined here with possibilities of forming new social contacts. In practise, this is more important for the Estonian participants, because there the system of incubation management is less developed and for some project participants it was the first training course in the field. The themes of the entrepreneurship services were also ahead of the real situation of the new incubators[7] in Estonia. The growing number of firms would also require better-formulated packages of entrepreneurship services. One participant[8] in the training argues concerning the practical results:

> During the project we have agreed with the person from Arabus to organise a personal visit to get familiar with their incubator of creative economy in Helsinki. We want to establish something similar in Tallinn. It has been useful to drink coffee together with these people and communicate directly. I can now take a phone and ask directly, for example, when some our firms will have interests for the Finnish market.

Another field of common learning has been the use of information and communication technology in incubation services, which is still in the initial phase in Estonia. This aspect is considered important because some firms are not located physically in the technology parks and therefore communication needs to find new ways[9]. In addition, the participants argue that there is a need for regular temporary meetings such as monthly morning coffees where some firms or investors can present themselves. Some Finnish partners[10] would expect more open exchange of ideas from both sides, where people talk about their practises and organisations, and the communication would continue after the benchmarking visits. As Högselius (2005, 316) argues, the formal institutions are not a problem in Estonia, but rather there is a lack of processes that hold various parts together in innovation systems and generate the will to change.

Stepping aside from the direct activities of the initiative and looking at the preparatory phase, the Southern Finland/Estonia Interreg IIIA programme and related financial interests come into play. The programme has a wide target area[11], which partly directs the choice of networking partners and the delivery of finances. The "cross-border small business environment" with its practises is projecting and operating across the boundaries of national innovation systems. The projection of a "common environment" still mobilises actors along the participation boundaries of Estonia and the Uusimaa area. Nevertheless, the project initiators and participants are interested in bringing similar training and co-operation activities (e.g. including common sporting summer days) also to Sweden and Latvia. Here the EU

[7] The manager of development centre in Haapsalu, interview on 8th March 2007.
[8] The manager of Tallinn Ülemiste incubator centre, interview on 7th March 2007.
[9] The project manager of Tartu Biotechnology park, interview on 13th March 2007.
[10] The business adviser of Institute of Art, Development and Education, interview on 13th March 2007.
[11] Including following areas from Finland: Varsinais-Suomi, Uusimaa and Kymenlaakso; and from Estonia nine counties located on the sea-coast (Harjumaa, Järvamaa, Lääne-Virumaa, Raplamaa, Ida-Virumaa, Hiiumaa, Läänemaa, Pärnumaa and Saaremaa). Additionally there can participate partners (with limited finance allocation) from the neighbouring counties of the target area (Kanta-Häme, Päijät-Häme, and whole Southern Estonia: Põlvamaa, Jõgevmaa, Tartumaa, Valgamaa, Viljandimaa and Võrumaa), [http://www.interreg-finest.net/?id=1348] (accessed 10th December 2006).

cohesion policy offers three dimensions of co-operation: cross-border, trans-national and interregional co-operation [EC, 2006], which include infrastructure links (e.g. roads, railways) and more intangible networks (e.g. shared knowledge) towards territorial integration [see also Jensen&Richardson 2004]. The current initiative can be looked at through de/reterritorialisation processes regarding multiple mobilities and moorings that emerge through the "obligatory passage points". These points are formed by the shared purposes and material settings of new nodes/agencies that disseminate information. De/reterrirorialisation appears as spatialising practise to focus activities and involve actors.

The co-existing processes of mobilities/moorings as spatial flows and fixing become visible when looking at practises and things within temporary clusters. Preparation of the cross-border initiative mobilises initiators to discuss and write applications. Then the project and its implementation through the institutionalised decision-making process binds practices with spatial projections as kind of territorialisation, making the incubation centres part of wider co-operation within Baltic Sea area. The training sessions again deterritorialise (making international event) knowledge through interactive co-work that can be translated into further practises. Temporality does co-exist here with the existing points of passage (e.g. HSE SBC office in Tallinn, database of firms, project applications, common training seminar materials) or emerging ones that support new mobilities (moving people, objects, etc.) in the field of transboundary entrepreneurship services (e.g. office space for Finnish firms in the Tallinn Technology Park).

It is not possible to describe here in much detail the multiple materialities (e.g. knowledge objects, working settings, etc.) within the cross-border knowledge dissemination. However, the existing and emerging passage points can be seen as part of policies that support the capitalisation of certain knowledge. This means that different nodes-agencies are actively involved within the formation of cross-border networks. In the present case, the EU programmes with related finances and bureaucracy support new points of passage that mobilise business know-how and activities across the borders towards new capitalisations as products and services. This aspect shows that temporary clusters can have real effects for interregional coherence. Such EU-related policies (for example the Lisbon criteria) are in operation, but of course this is not the first and only aspect that holds social networks together.

Discussion

Networking within CBSBE takes place through spatiotemporal clustering of professsionals in the field of organisational innovation management. The temporal co-work as visioning and learning aims to support quasi-permanent dimensions (more stable) of business clusters and inter-firm networks. However, the interregional spatial reach and enrolment into the temporary clusters is rather sparse involving limited number of agencies. The dynamics of networking clearly follow the lines of "managerial governmentality" [Thrift 2005]. It uses benchmarking reports and visits to incubators as visualisation, training sessions and situated office space as temporal embodiments, and common case materials and contact events as spaces of circulation. These spaces of co-work are oriented towards learning and competitiveness in a rather traditional sense that includes some small arrangements of temporal proximity e.g. involving members of working teams.

The temporal co-works deal here mostly with the geographical dimension of proximity to enrol professionals across international borders. The common training component and case materials show steps in cognitive proximity as mental process of understanding in entrepreneurship services without narrow specialisation of technology fields. Shared office spaces point towards institutional proximity that allow flexible arrangements of working places. There are some concerns with making this kind of cross-border co-work more regular. But as Boschma (2005) argues, in innovations the dimensions of proximity will evolve in the right configurations, for example too tight spatial closeness may cause "lock-in" effects. Amin and Cohendent (2004, 155) argue that "hybrid forums have to be equipped with specific procedures, a common grammar and rules, specific interfaces between the common platform and each community". This means that information exchange needs shared communication codes and infrastructure. This requires strong public policy willingness to modify the active connections between the "expert" and "everyday" communities of knowledge that can support also different fields of creativity (e.g. product design for certain target groups). The cooperation between universities, public sector and entrepreneurs is important for innovations and regional development [see Jauhiainen 2006].

The case study also shows that temporary clusters operate through and towards capitalisation as multiple "points of passage" [Law & Hetherington 2000], that support interregional specialisation through shared activity priorities, disseminated best-practices and also shared common working settings. Therefore there is possible to see some scale effects as cross-border connections in organisational innovation networks. The knowledge dissemination within the temporary clusters (also the present case) may be understood by following assembled materials that are made mobile in shared practices across geographical scales and state borders. The description of these dynamics can go into much more detail, but it would require direct participation in the activities. Regional space is here only one form of spatiality that the state-related practises carry out to bring additional value into organisational networks between incubation centres. Regionalisation can operate only through links and flows connecting different agencies within networks. Therefore temporary clusters operate through the multiple spatialities (region, networks and flows) to support knowledge dissemination.

One may wonder about the impact of the CBSBE initiative. It will last only two and half years and directly involve a limited number of professionals. Maybe there are already enough conferences and technologically equipped arenas for communities sharing common interests to be able to exchange knowledge. This will be forwarded to new cross-border initiatives to support inter-firm networks and their working environments. The present case shows that there are continuing lines of activity that go further and materialities (e.g. databases, training materials, office spaces) between project-based activities of cross-border organisational innovation. Therefore, it is possible to argue that there are some contact points and activities between Estonian and Finnish innovation systems that are influenced also by the wider processes of cross-border governance (e.g. Interreg programming). The current study cannot argue about the intensity or efficiency of these linkages, but the direction is that Estonian actors of innovation management learn from the Finnish system focusing on the Helsinki area. There is a challenge to link the use of already existing strengths to build up new linkages to

foreign systems of innovation, and to encourage learning and knowledge dissemination in both directions across the organisation boundaries.

As Högselius (2005, 311) argues, efficient system-environment interactions as agencies interacting across the borders cannot compensate for weak domestic dynamics; "it is only through far-reaching domestic processes that system-environment interactions can make an influence on domestic structure and style and therefore on innovation". Therefore the cross-border networks in the field of organisational innovation management do not have to bring any direct effects on concrete product innovations of firms. For a change, it is necessary to translate management knowledge into local organisational practises that can create and uphold new relationships towards innovations. It is possible to see signs that managers of Estonian incubators are on the way to transforming new knowledge into concrete organisational changes e.g. combination of regular face-to-face seminars with the improved communication environment of the Internet; offering services as branded packages and improving communication between different incubators and technology parks.

Conclusion

This paper discusses the formation of cross-border organisational innovation networks and dissemination of knowledge for entrepreneurship services. The case study about Helsinki and Tallinn cross-border networks shows that the dynamics operate through temporary clusters of professional gatherings and common vision-oriented learning that associate various actors related to business incubation services. The temporary clusters as stages for learning and social contacts also operate through heterogeneous materialities (e.g. agendas, shared study materials, etc.) that make social networks, their "direction" and simultaneity visible. The spatiotemporal dynamics of (temporal) knowledge-intensive networks can (re)open new perspectives when to recognise the multiple spatialities within network formation and collective practices.

Common temporal practises associated within the cluster e.g. shared case study materials, group discussions and new social contacts between the incubator's managers, form the basis for more integrated entrepreneurship services. But, learning from foreign environments requires further translations of knowledge into everyday practises. The present study indicates that there are concrete signs of learning networks between the innovation systems of Estonia and the Helsinki area. The more permanent (scale) effects of the networks are not present yet. However, there is a challenge to involve knowledge of different fields towards regular cross-border arenas that are able to support creative inter-firm networks. The technologically equipped arenas do not have to include wide territories, but should enable integration of different types of know-how. A large part of knowledge disseminations and applications certainly take place through a self-organising way and interregional initiatives may have quite limited influence. Therefore the cross-border organisational innovation networks will not be over emphasised here.

It is useful to understand the logic of the three partly co-existing activity spaces as visualisation, embodiment and circulation and to analyse the semi-public cross-border initiatives from the perspective of changing dimensions of (temporal) proximity. I think temporary clusters will be able to co-evolve with these three activity spaces for creative co-

work, which may (partly) happen also in a virtual environment. It is important to recognise that temporary clusters of organisational innovation networks bring further the capitalisation process of associated know-how. This means that the best practices are realised through interregional cooperation. This takes place through (communication) infrastructure and devices that are able to create and maintain the points of passage as shared goals and activity spaces. These things make possible networking practices between different agencies.

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TRANSITION AND TRENDS IN THE TOURISM SECTOR ON THE ESTONIAN-LATVIAN BORDER: A CASE STUDY OF VÕRU AND ALŪKSNE DISTRICTS

Antti ROOSE

Abstract

The tourism and transit sectors make a substantial contribution to the economy of the Estonian-Latvian border areas, providing substantial income annually and supporting hundreds of jobs. There has been massive growth recently in rural tourism in the area although, inevitably, there are considerable sub-regional variations in its relative significance. Tourism reveals clear trends in local socioeconomic development, profiles cross-border co-operation and embodies spatial features of investment policies, wealth, local pride and environmental values. The article assesses developments and trends in the tourism sector, investment programmes and tourism strategies as a case study of the cross-border districts of Võru in south-eastern Estonia and Alūksne in north-eastern Latvia during the 2000s. The changing context of tourism is discussed, reflected by the spatial and behavioural aspects of tourist flows in border areas related to investment and infrastructure developments. The emphasis is put on the transformative capacity of tourism, which is crucial for transition economies. Economic diversification through tourism development is increasingly characteristic in rural Estonia and Latvia.

Keywords: tourism, diversification, socio-economic impact, rural, Estonia, Latvia

Introduction

Economically, tourism is of growing importance to many nations and is recognised as the largest export earner in the world and an important provider of foreign exchange and employment [Wall&Mathieson 2005]. The notion of tourism gain has led to the exploitation of host communities, their cultures and environments. Rural areas are suffering a variety of problems, including economic decline, depopulation, adverse impacts from agricultural restructuring and a loss of rural identity. Transition countries such as Estonia and Latvia use it as a means of economic restructuring and it can be used to generate multiplying revenue effects with other developmental activities. Throughout Europe, tourism has been widely promoted as a means of counteracting the social and economic challenges facing rural areas, primarily those associated with the decline of traditional agrarian industries [Lane 1994; Williams&Shaw 1998]. Tourism has been viewed as a significant agent for the economic redevelopment of rural regions because of the attraction of landscapes, hills and lakes, and the interest in second-home or investment opportunities at lower prices. Many tourism businesses also serve other sectors, thus raising the question of the extent to which suppliers can be considered as primarily suppliers of tourism. The many components of the product, supplied by a variety of businesses operating in a number of markets, create problems in analysing tourism supply [Sinclair&Stabler 1997]. But, in addition to these economic returns of tourism, tourism also offers social, cultural and environmental benefits that position tourism as a top of

priority. Both national and local authorities seek to enhance the size of the tourism phenomenon. They do this in order to secure greater public funding, favourable fiscal policies, political influence, local public support and a welcoming image. In fact, much is at stake when tourism development in this context requires financial investment, favourable political climates, expensive infrastructural support, subsidies and other support mechanisms [Hall&Jenkins 1998].

With changing industrial patterns and dramatic restructuring in regional Estonia and Latvia, tourism has gained increasing currency as an agent for regional economic development. Limited research has been undertaken into the fast phase of rural diversification into tourism. The paper focuses on how effective a catalyst for rural development and regeneration tourism is. It gives a quantitative and qualitative analysis of the development of rural tourism in Võru and Alūksne district, demonstrating its economic and social importance. The growth of tourism in rural areas is encouraged by increasing sales in internal as well neighbouring destination markets. In order to meet the growing demand, tourism policy has concentrated on the infrastructure of enterprises associated with points of interest, sightseeing points, accommodations, services and leisure, and on the infrastructure of the tourist regions themselves such as roads, communications, water and waste management. The main emphasis was thus not efficient marketing, but fulfilling the needs of a growing market. This article discusses the significant trends and excessive growth features which rural tourism districts have had to face in order to be capable of keeping pace with fast growth in other districts. The second part of the paper explores the dynamics of flows of international and internal tourists in the rural district. Assessment of changes helps to explain organizational and structural development of the tourism sector.The role of tourism in restructured rural areas, in particular their social impact, is also discussed. This paper reports on development potential as an analytical tool in service-based tourism and, through cases studied, identifies the vital attributes of tourism that are lacking in the least economically successful region in the study area.

The Changing Context of Rural Tourism

The tourism sector has gained a special position for the export of services and regional development and entrepreneurship in Estonia. The same applies in Latvia. Tourism constitutes 8% of Estonian GDP and the same percentage of employment. Export of tourism services was almost 1 million euros in 2005. The growth of the sector has been both demand and supply-driven. EU accession in 2004 caused record growth of 15% and a 23% increase in accommodation [Statistical office of Estonia]. A decline in accommodation figures occurred in last years due to a decrease in Finnish tourists staying overnight. Most target markets, such as Russia, Latvia, Norway, and Germany continued to grow at varying rates.

Socio-economic and Environmental Constraints on Tourism Development

However, there are several constraints in the Estonian tourism sector which hamper the sector's sustainability and growth. Visits of foreign tourists are short-term due to poor diversity of services and a lack of appropriate information to motivate foreign tourists to

prolong their stay. Another risk factor is the overwhelming dominance of Tallinn and Finnish tourists, which may affect the entire sector upon reaching saturation. Tourism is very seasonal as there are few off-season attractions. The sparse Estonian settlement system and limited public transport restricts travel by individual tourists. The quality of tourism services should be improved, despite a permanent shortage of qualified personnel in rural districts [Estonian national tourism development plan 2007-2013]. Poor product development and service quality, restricted volume of catering and few ATMs are the major local constraints in tourism. The development curve of tourism in southern Estonia and in north-eastern Latvia reflects national trends. The growth has a positive effect on the local business sector and brings life to communities. Although expectations about returns, profitability and employment were higher in the phase of fast growth, it is important not to surpass natural thresholds or to disturb the social values of communities.

The cultural landscape, its characteristics and strength for tourism, is though changing rapidly due to excessive growth. Tourism geared around nature and landscapes is restricted by overexploitation, conservation rules, and strict property rights with fewer public access areas for recreation purposes. In pursuing nature-based opportunities, tourism development should inherently avoid locations where the land's fragile or pristine condition cannot sustain any development impacts, such as in areas of special rural character or landscape, native vegetation, biodiversity and water resources as this reduces the tourism potential and environmental value of areas. According to the survey, these areas are of immense importance for developing sustainable tourism and recreation.

Implications of Tourism Growth in the Võru and Alūksne District

According to its natural and cultural features and tourism services provided, the destination is quite homogenous and dominated by major rural tourism features. Widely quoted and publicly accepted tourism assets in the districts include rich cultures and landscapes, dense networks of tourism operators, genuine environments affording privacy, and a four-season climate. These implications are represented in the visitor's survey, as visitors most highly value the environment, authentic cultural heritage, creative environment, the personal touch, comfort, convenience and good service, and privacy when desired. In the satisfaction survey (191 international respondents, 2005), visitors stressed the importance of landscapes and nature, hiking and sports activities, local food and handicrafts. The visitors were most satisfied with nature.

The driving forces in tourism development are resource-oriented services, major events, importance of weather, and robust marketing tools such as word-of-mouth. Landscape, rural heritage and also lately gastronomy are being used in an attempt to establish a distinctive market position. Still unexploited resources include making use of the full season, especially spring; better event marketing; poor infrastructure for active tourism such as walking, biking etc. tracks; and weak penetration of the Latvian and Russian market in the case of Võru District. The marketing problems originate from the national and county border and are exacerbated by weak product development, inconsistent image and poor collaboration with travel companies. In regions such as Southern Estonia and Vidzeme, the diversification of the already existing tourism industry has been more important. Tourism has been seen as a means

of regional rejuvenation in many rural localities in Võru County faced with the challenges of economic restructuring.

Recent tourism development has often been associated with the emergence of sports, leisure and hobbies. Haanja has grown fast as a leading sports, skiing and tourism centre in Võru District. In recent years, Haanja, the nation's mountain district, has been actively promoted as a national and international rural destination based on brand new infrastructure and facilities. It is also a tourism catalyst for the neighbouring areas. Suur Munamägi, the highest peak in the Baltics (318 m), is a national landmark located in Haanja, attracting 53 000 tourists (2006). 10 new jobs have been created, and the flow of tourists has increased by 10% compared to 2005 due to new infrastructures and facilities [Tourism development plan of Haanja 2006]. Ticket revenue has risen to 83 000 euros. Neighbouring Rõuge is a domestic destination based on its landscapes and rural character, which has attracted increasing numbers of professional visitors in recent years, many of whom are drawn by the outdoor and adventure activities available. The prevailing client segments are active leisure (95%), families and friends (90%), and companies (81%) [Haanja-Rõuge destination 2005]. Young couples, retired people, event participants, and naturalists are also among the visitors.

Regarding the Latvian area of the survey, Vidzeme Region is located in the north-eastern part of the country bordering Estonia and Russia, and is frequently referred to as the "Latvian Switzerland" since it is home to the highest hills and most beautiful landscapes in Latvia. For to this reason Vidzeme has always been a favourite travel destination among tourists, in particular active tourism participants. Alūksne District has the most peripheral location in Vidzeme, which causes slippage in tourism development.

The statistical basis for evaluation of tourism growth is inadequate in rural areas, because data of most small enterprises are not collected. Table 1 is far from telling the whole story of accommodation for rural tourism. It includes only "officially" approved accommodation, mainly in hotels and hostels and rarely on farms. The extent to which this may underestimate the amount of rural tourism accommodation is illustrated by the case of Rõuge Municipality, where are no hotels and few hostels but plenty of tourism farms. Consequently, there is a need to apply other surveys and indicators to follow tourism trends and to estimate policy impacts.

Table 1

Growth of overnight tourists in southern Estonia and Vidzeme, regional share, overnights, %, [Statistical Office of Estonia and Latvia]

	S.Estonia 2000		S.Estonia 2005		Vidzeme 2000		Vidzeme 2005	
	Overn.[1]	%	Overn.	%	Overn.	%	Overn.	%
Tourists-residents	73 000	25	128 000	30	14 000	7	42 000	12
Non-resident	49 000	6	98 000	7	4 000	1.5	20 000	3

[1] Overnights

The growth of overnight visits is potent in absolute figures in both southern Estonia and Vidzeme. At county level, the share of overnight visits has grown from 2.9 % to 4.6 % in Võru district in 2003–2005 [Võru tourism development plan]. The number of accommodation places increased by a quarter, though the utility rate of beds has remained exceptionally low at 16%. Net occupancy is still very low, remaining below 35% in summer season and 25% in

winter season and as low as 15% in off season (Fig. 1). Aware of the two peaks season, promoters try to offer off-season activities and packages such as specialised training (yoga, other health-related events, company retreats and relaxing long weekends).

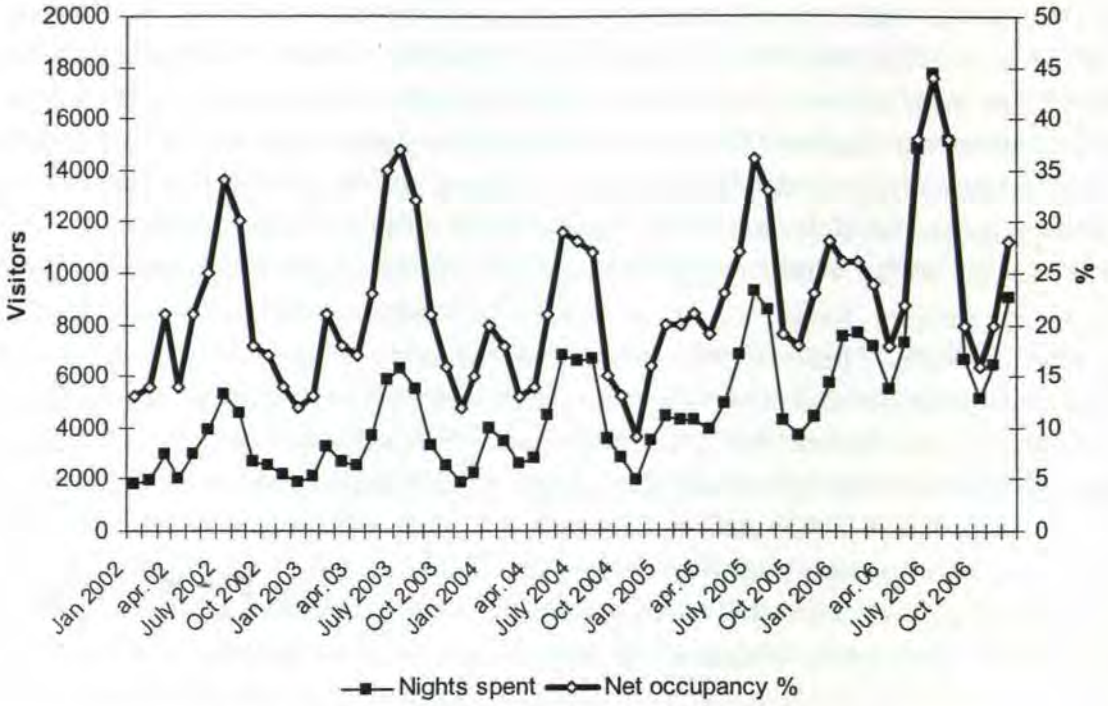

Figure 1. Tourism seasonality in Võru County 2002–2006

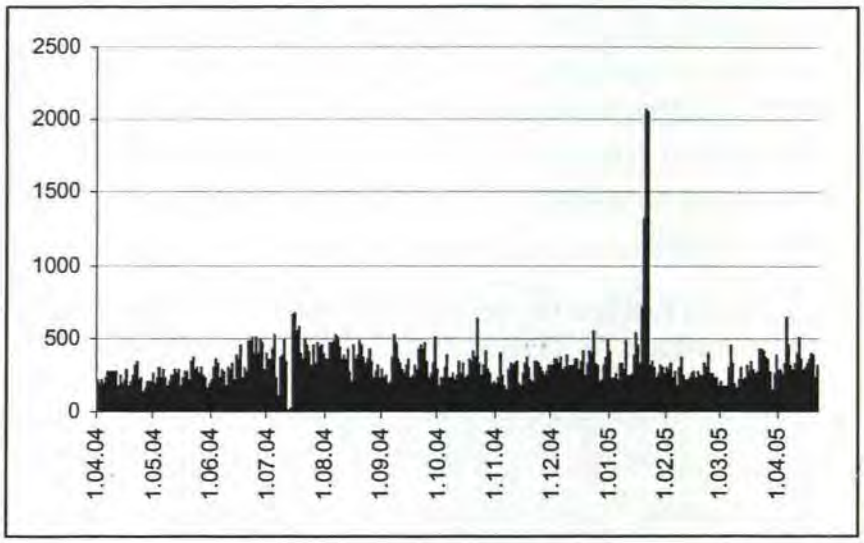

Figure 2. Call activities of international visitors and tourists in Võru County

The temporal and spatial dynamics of international tourists in Võru is assessed by the mobile positioning method [Ahas et al. 2007]. In total 125 976 roaming call activities were registered from April 2004 to May 2005. The correlation of monthly sums of accommodation data and call activities in Võru County was 0.68, which is much lower than the Estonian

average due to transit visitors. The distribution of visitors by countries for this period is given in Table 2. This also differs considerably from the average, which is dominated by Finns and Swedes [Estonian and world tourism review]. The difference is quite obvious compared with visitors to Tartu. Regarding Poland, Lithuania and Latvia, a large share consists of transit track drivers well marked by weekly dynamics. The tourism peaks appear slowly in summer and in winter according to mobile data (Fig. 2). The exceptional peak above 2000 daily call activities in late January 2005 represents an international rally event. Hence the mobile method is not able to distinguish the rural tourism segment from business-related transit.

Table 2

National distribution of call activities in Võru County in 2004–2005

Country	Number of call activities	%
Latvia	34466	27.4%
Finland	28225	22.4%
Lithuania	17671	14.0%
Poland	14812	11.8%
Russia	7884	6.3%
Denmark	4693	3.7%
Sweden	3581	2.8%
Germany	3151	2.5%
Norway	1956	1.6%
Slovak Republic	1470	1.2%
Other	8067	6.4%

The Importance of Local Authorities and EU Grants for Rural Tourism

The development of rural tourism in Estonia and Latvia gained impetus from two quite different forces. One stems from the forced restructuring of the national economies, the decline of traditional rural activities (principally agriculture) and the consequent demographic changes, especially depopulation and an increasingly elderly population. The second force is the perceived need to diversify the Estonian and Latvian tourism product away from traditional mass city tourism characteristic of the 1990s, related to launching the Baltics as a brand new European destination. The first of these forces has been obviously stronger, as district governments and local authorities have looked to tourism as a major instrument of economic restructuring and employment creation.

The major initiator setting the terms and preconditions for tourism has been local authorities and the public sector making large investments in infrastructure, launching new attractions and arranging decisive marketing campaigns. Needless to admit, that the destination capital growth via public investments buffers the investment risks in the private sector. Consequently, a majority of municipalities acknowledged the importance of tourism. Project-based tourism development began in the mid 1990s. Municipalities have invested in development, built trails and improved the general appearance of sightseeing locations. Local authorities have begun to pay attention to visual identity and marketing, training, information

and publishing, and institutions have started regularly participating in trade exhibitions. In the Võru District, public investment has been concentrated in two main development centres, Haanja and Rõuge. The leaders of Haanja and Rõuge in Võru County have been exceptionally dedicated and focused on tourism development. The surveys and analysis presented below focus dominantly in two municipalities, Haanja and Rõuge, as these are the most tourism-based areas and very indicative. The Haanja Municipality invested 1.726 million euros in the period 2001–2005, followed by the Rõuge Municipality with 0.703 million euros (Table 3) [Haanja-Rõuge destination 2005]. Simultaneously, municipalities urge private investors and local tourism actors to initiate tourism development by providing them with support services. In addition, state forestry (RMK) and nature protection agency (LKK) have contributed in tourism projects.

Table 3

Investments in the district in 2001–2005

Authority, institution	Direct investment EUR
Haanja Municipality	1 726 000
Rõuge Municipality	703 000
National Forestry (RMK)	15 600
Private businesses	1 087 000[1]
Total	3 531 600

[1] period 2000-2005

Private investments are much lower than public ones, estimated at around 1.1 million euros in 2000–2005 [Haanja-Rõuge destination 2005]. Governmental grants were provided for diversification of rural areas (151 000 EUR), start-up support (30 000 EUR), and exhibition support (2 600 EUR) in these two municipalities in 2002–2005. The objectives of private tourism investments have been as follows: 71% for launching new products and services; 38% for standards and requirements; and 29% for improving service quality. Investors plan to invest in the same range during 2005 – 2010, although the present wave of investments will be primarily targeted at increasing the volume of services and to launch new services. Steady growth in capital investments is foreseen next years. High investment costs, low returns or a lack of appropriate training may limit the benefits. The impact on local economies is difficult to assess, because impacts are distributed among many branches of business (travel, accommodation, rental and other services).

Tourism has benefited greatly from the financial support offered through various European financial instruments. Since the period since 1997, EU programmes have financially supported the development of tourism businesses, services and infrastructure. The Commission allocated funding for sustainable tourism-related projects through the European Regional Development Fund (ERDF) in support of socio-economic development. Under the "convergence", "competitiveness and employment", and "European territorial cooperation" objectives, the ERDF supported sustainable patterns of tourism to enhance cultural and natural heritage. Since the mid-1990s, the Phare programmes have been mainly addressing issues that prepared the EU candidate countries for accession, including technical assistance, public campaigning, networking and marketing in the field of tourism. The Phare Cross

Border Cooperation (CBC) Programme tackled specific problems faced by border regions and promoted cross-border co-operation. The tourism sector, as such, is not in the front line of priorities of the Tacis programme, nevertheless tourism projects were supported through Tacis as well. Last years Interreg replaced Phare programmes and continues to promote cross-border tourism and co-operation to regenerate social capital. Since tourism is a potential source of additional income in rural areas and needs an intact environment as a basic resource, certain measures that contribute to the development of rural tourism are eligible under the programme. The Estonian and Latvian SAPARD plans also included the development of rural tourism.

Rural Tourism and Diversification

The rural tourism sector may offer substantial new employment and income generation opportunities [Watford, 2001]. The advantage of Võru and Alūksne is the fact that the region may offer a wide range of active tourism products both during winter and summer seasons [Võru tourism portal]. In summer lakes, trails and visiting rural heritage is popular, while in winter the destination offers skiing. In order to be able to welcome all the guests, adequate infrastructure should be developed in the region (Table 4).

Table 4

Tourism infrastructure in Võru and Alūksne District

Service/ Activity	Võru 1999	Võru 2006	Alūksne 1999	Alūksne 2006	Trend
Accommodation Establ. /beds	50 / 853	52 / 1359	20/ 389	38/ 792	+
Catering	37	37	16	15	0
Hiking trail	12	17	6	8	+
Swimming	15	23	?	?	+/?
Ski centre	5	8	2	2	+/0
Boat rental	2	6	4	6	+
Fishing farm	2	6	2	4	+

By the mid-2000s, rural tourism had reached its highest saturation point. Rural tourism must be able to react adequately to fast changes in tourist markets, changing demands and the business environment. Clearly, new instruments and market incentives created chaotic development in which players and stakeholder are no longer capable of adapting to new challenges. Given the "neglected" status of Võrumaa and Alūksne and their dependency on domestic visitors, the region is dominated by small and locally owned tourism firms which have evolved as the region's tourism potential was more widely recognised in the 2000s. High investment costs, low returns or a lack of appropriate training may limit the benefits of diversifying into tourism. Operators rely on the secondary local labour market and part-time employees who represent nearly one third of all tourism workers in the district [Haanja-Rõuge destination 2005]. The Võru region has almost twice less employment ratio in the rural tourism than the Estonian average (4.3 employees per firm). It is also widely acknowledged

that tourism is not necessarily a "magic wand" that will speed up economic progress in rural areas [Hoggart et al. 1995]. In particular, studies have consistently demonstrated that tourism contributes relatively little extra to farm incomes [Oppermann 1996]. This applies to the Võrumaa and Alūksne rural tourism destination.

Financial considerations, specifically the search for extra income, have influenced the decision to diversify. Farm tourism enterprises tend to be small-scale and supply a highly seasonal market, but there are a number of other challenges facing successful diversification of farms into tourism [Sharpley&Vass 2006]. The first constraint is location i.e. not all rural areas are equally attractive to tourists. Popular scenic areas create a "neighbourhood effect", such as Haanja and Rõuge (Fig. 3) [Haanja-Rõuge destination 2005]. The provision of accommodation facilities does not necessarily guarantee demand; the total product package must be sufficient to attract and retain visitors. The development of clusters is considered to be an important factor for the successful development of rural tourism businesses. Innovation in the field of tourism services is as important as in other sectors to increase competitiveness.

Figure 3. Rural tourism neighbourhood in Haanja, Võru District

The second constraint is investment capacity. Diversification may require significant investment beyond the means of the small farmer. In such cases, diversification may only be possible if applications for public subsidies or grants are successful [Embacher 1994; Fleischer&Felenstein 2000]. Such support is given through SAPARD programme. Given the potential investment costs of diversification, the availability of financial support is often claimed to be vital to encourage diversification.

Marketing creates additional backward effects. Individual tourism businesses normally possess neither the skills nor the resources for effective marketing [Embacher 1994]. Word-of-mouth/personal recommendation, internet marketing or a combination of the two provided with governmental support are considered to be the most effective means of marketing rural tourism farms. In this case, the quality of products and services provided by rural tourism enterprises must meet tourists' demands and expectations as advertised and marketed. In Võru and Alūksne, tourism services tend to be resource-oriented. Local heritage is still a poorly exhibited and unexploited attraction. Here the risk is of too robust commercialization and chaotic development [Tourism development plan of Haanja 2006]. For comparative advantage the product must be original and innovative without concessions in the

quality of service. The notion of client management is an undiscovered area of business for rural tourism. The destination tourism calendar is not filled with feasible events and activities in, for example, late summer (August and September). Events which usually last just one day do not support hostelling and other services. To summarize, there is strong proof that marketing is a business area with great potential for improvement.

Impacts of Rural Tourism Development

There is a key interest in promoting a tourism sector stressing local characteristics, supporting local economies, and providing employment in rural areas.

It should be emphasised that the link between tourism market share and economic contribution is not always obvious [Wilson et al. 2001; Witt 1987]. Thus several studies of tourism's economic contribution to an area reveal that the expansion of tourism will often "crowd out" other economic sectors, resulting in a change in the composition of industry rather than an expansion of economic activity [Dwyer et al. 2003]. In the case of the Estonian-Latvian border areas, the tourism sector has replaced traditional agriculture. The economic impact of tourism will depend upon industry structure, profile of traditional exports and import-competing industries, exchange rate regimes and current government macroeconomic policy positions [Dwyer et al. 2000]. The majority of the cited factors support tourism's economic potential and revenue in the area. The mix of activities and life-styles possible within a destination is an important tourism attractor. These can include recreation and sports facilities – summer facilities (beaches, tennis etc); winter facilities (skiing); water sports (swimming, boating, fishing); facilities for special interest visitors such as adventure tourists, ecotourism, heritage tourism and biking trails. The more diversified a destination's portfolio of tourism products, services and experiences, the greater is its ability to attract different tourist market segments (Table 5). A destination's seasonal constraints may be partly overcome when tourism enterprises expand the range of seasonal experiences available. Recent trends in the destination show investing in service quality and lifestyle attractions.

Table 5

Tourism sectors' trends in Võru and Alūksne districts in 2005–2006

Tendencies in tourism sector	Trend
Establishing new firms	-
Impact on employment	-
Proactive role of municipalities	+
Steady private investments	+
Investing in service quality	+
Importance of euro-funding	+
New active leisure and lifestyle attractions	+
Growth of Lat./Est. segment	+
Growth of Russian segment	+
Growth of domestic segment	+

In order to protect ecosystems and economic benefits and to distribute the latter equitably, tourism should be developed and managed within a hierarchy of controls, ranging from the local to county and national level, and even to the international level, which applies directly to Estonian-Latvian-Russian border areas. Tourism planning requires an understanding of the meaning of sustainable development. It requires that communities are sufficiently aware of tourism development and its impacts. Participatory planning, consensus building, and conflict resolution among all stakeholders should be business a usual. Simpson has developed the concept of Community Benefit Tourism Initiatives (CBTI) [Simpson 2008]. Differing from the Pro-Poor Tourism concept, CBTIs consider the wider socio-economic context and are designed to convey benefits to the community as a whole, not just to a predefined section of society. In this way, stakeholders may be more willing to embrace the activities that can ensure the delivery of appropriate and proportionate benefits to the community. The local communities in Võru and Alūksne districts support the notion of tourism development, but the majority is against domination in the local budget and mass tourism [Haanja-Rõuge destination 2005]. Community support for tourism development and the attitudes and hospitality of local tourism workers is important for successful tourism. Equally important is cooperation between local government and entrepreneurs [Lane 1994]. While strong personnel networks are a strength feature of rural communities, coordination and cooperation between local government and the business community do not always occurs easily [Tourism development plan of Haanja 2006]. While informal networking in rural communities is embedded in their tradition and culture, the creation of formal networks within rural areas is somewhat harder to achieve. There are cases of co-operation among promoters, service providers and operators, though these are still singular and incidental. Competition within the sector is quite harsh. Business owners are mostly lifestyle entrepreneurs or autonomy-seeking business owners, who with the additional source of income try to maintain their lifestyle and traditional rural activities.

For conventional industries the product or service is brought to the consumer; whereas for tourism, the consumer is instead brought to the product or service i.e. the tourism destination. Unlike traditional exports, the tourism industry imports tourists and takes their money off them by selling them products and services at the destination. The tourists' act of consumption is enjoying the scenery, people, culture and activities of the host community [Higgins-Desbiolles 2006]. The commodification of tourism evident in the "tourism as industry" discourse has overshadowed awareness of the transformative capacities of tourism as a social force and a resulting outcome is a diminishing of tourism's potential [Davidson 1994]. In the 1990s, many analysts acknowledged the power of tourism as a social force [Cohen&Kennedy 2000]. Tourism acts as a social force in rural Estonia and Latvia. It is important to qualify the emphasis on tourism's economic contributions by highlighting its other positive impacts such as improving individual wellbeing, fostering cross-cultural understanding, facilitating learning, contributing to cultural protection, supplementing development, fostering environmental protection, promoting cross-border co-operation, and enhancing civil society.

Tourism is of great economic importance and significance for the rural border areas in Estonia and Latvia. But to an increasing degree, low productivity resulting from the small

business structure of the rural peripheral areas is weakening the economic and social leadership of tourism. In the last few years, overcoming these difficulties has often involved substantial governmental and EU grants, supporting of institutionalised tourism organisations with the intention to enlarge cross-border tourism and attracting international visitors in order to be competitive in the internal markets. Change in new destination tourist markets demands the pursuit of completely new strategies, particularly because the small-business structure in the past has always been the basis for the many positive effects for the local and regional population alike. By keeping its function of balancing regional economic growth, tourism policy's main future responsibility in the rural areas of Estonia and Latvia will be to create the prerequisites required for an adaptation to the new situation in the tourist markets. In addition, the investment support of tourism operators is needed for achieving destination success, which cannot be realised by individual products and entrepreneurs in the small-structured tourist industry [Getz&Carlsen 2000]. The key to adaptation lies in the improvement of infrastructure and quality of services. This improvement should lead to the development of networks as a basis for the strategic transition to flexible and market-oriented destination management companies. A strategic sub-regional and cross-border planning approach which is still largely missing should be encouraged. These strategic plans would involve extensive public and industry consultation and integrate positioning analysis, other marketing initiatives, local environmental and tourism resource analyses to determine where there is scope and opportunity for tourism development.

Conclusions

The transformative capacity of tourism is very broad and crucial for transition economies. It is clear that rural tourism has enjoyed massive recent growth in Estonia and Latvia although, inevitably, there are considerable regional variations in its relative significance. Although not manifest everywhere, and in places somewhat fragile, economic diversification is increasingly characteristic in rural areas. Yet the extent to which this can be described as a fundamental process of rural restructuring remains uncertain and the evidence presented in this paper is patchy. More formal research and additional survey data is needed on the extent to which rural tourism is leading to a radical restructuring of the rural sector and to investigate the extent to which the large scale and recent growth in rural tourism is, in the areas affected, producing new social and economic relationships. Such areas are undoubtedly experiencing new forms of activity but the interesting question is whether or not the structure of these rural areas is being changed in ways that are quite fundamental.

Two border districts share many similarities in almost every aspect of their tourism settings and the consequences of tourism development. The most important is keeping things running, local investors and small farms happy, to enliven handicraft masters, heritage, lifestyle and reality activities. Tourism is very often a major investment in the village. As proven in this survey clusters are a vital success factor. The district should develop its tourism appeal further, positively transforming its image, as stated in the *Welcome to Estonia* brand. Development of joint cross-border tourism supports innovation and improves competitiveness. There are measures taken to improve co-operation between operators to strengthen client-based supply, introducing quality standards and investing in tourism

infrastructure to meet needs from new target groups and destination markets. Large-scale landscape planning should be an integral part of tourism planning. More comprehensive information e.g. on the social and economic impact of nature tourism is needed for decision-making.

Many new flagship developments, events and other place marketing activities are justified by image benefits. The research agenda could involve identifying the mechanisms through which the region's tourism branding of genuine values, *Mahe ja Muhe, Umah ja hää* in the Võru district, works and integrating these ideas into the development of future initiatives [Võru tourism development plan 2006]. Examining the effects of destination promotion and branding on the region's destination by identifying changes in consumption patterns, tourist receipts and visitation levels could be important for investment and decision-making by ascertaining tourism's contribution to physical, social and economic regeneration. It is possible to rebuild social capital alongside economic development, establishing networks and norms that facilitate coordination and cooperation for mutual benefit.

One factor is the large-scale involvement of public sector bodies. This is not always successful, especially in the case of some smaller municipalities lacking capacity and know-how, but elsewhere the public sector has been effective in making things happen, even if the chief beneficiaries have not necessarily been local residents. It is certainly the case that initiatives have been facilitated through a high degree of networking between all sorts of stakeholders in many localities. Secondly, tourism produces low revenue and creates few job opportunities. Development of tourism in Estonian and Latvian rural areas is at a crucial emerging stage. Estonia and Latvia both have perfect opportunities to enhance rural tourism unifying elements of their four-season climates, natural characteristics and genuine socio-cultural entities. Rural tourism is seen as a tool of rural development [Estonian national tourism development plan 2007]. The rural tourist product is a great competitive advantage for Estonian and Latvian tourism on the ever growing and demanding international tourist market.

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A TERRITORIAL EXPRESSION OF GEOPOLITICAL ORIENTATION IN THE LITHUANIAN PRESIDENTIAL ELECTIONS

Valdas PETRULIS

Abstract

The political system in post-communist Central and Eastern Europe countries started to develop due to a geopolitical cleavage. Pro-Western and pro-Soviet geopolitical orientations split society into two major parts. An impact of the geopolitical cleavage as the main cleavage to the state's political system has never been tested in a geographical sense in Lithuania. This paper tests the hypothesis that geopolitical orientation was the main political-territorial cleavage in Lithuania from 1990 to 2004. The territorial cleavage in electoral geography is revealed in the country's regional structure. In this regard, the regional structure of geopolitical orientation divides Lithuania into three separate regions. Geopolitical regional structure is compared with the regional structure of political preferences in the main direct elections in Lithuania. The second round of presidential elections when voters must choose between two candidates reveals the essential political-territorial divide in Lithuania.

Keywords: geopolitical orientation, presidential elections, electoral geography, territorial cleavages, political system, Lithuania

Introduction

There is a problem in identifying the main political-territorial cleavages in Lithuania as well as in many post-communist Central and Eastern Europe countries. Respectively, the main political cleavages have a territorial (spatial) expression in the sense of electoral geography [Taylor, Flint 2000, 237-241]. A traditional formulation of the political-territorial cleavages [Rokkan 1970, 1980] was occasional for the Western Europe countries. In the 1990s most Central and Eastern Europe societies started development of democracy, but the knowledge of basic political-territorial cleavages in the incoming democracy is still not clear. There are many reasons for the complexities behind the main cleavages in post-communist countries: a rapid change in the economic system, unstable and numerically large party systems, unclear formation and consciousness of social classes etc. However, the necessity of identifying the main political-territorial cleavages in separate post-communist societies is unquestionable.

Among the general theories put forward for identifying the most important political cleavages in Central and Eastern Europe societies since the 1990s [Kitschelt 1992; Ost 1993; Reisinger et al. 1994; Evans, Whitefield 1993; Whitefield 2002; Duch, Palmer 2002; Roberts 2003; Guérin et al. 2004; Lubecki 2004] the theory of geopolitical cleavage has been dominant. In most studies by Polish electoral geographers [Zarycki, Nowak 2000; Zarycki 2002; Kowalski 2003] the geopolitical cleavage is predominant among the basic political-territorial cleavages in the state's political system. The same (although not so general) influence is expressed by other electoral geographers from Central and Eastern Europe

countries [Koulov 1995; Kovacs, Dingsdale 1998]. The Lithuanian political system must be evaluated in accordance with this background. The thesis that geopolitical orientation is an essential cleavage in Lithuanian socio-political system of values is tested in this paper. A few steps of territorial interpretation of electoral data for testing the proposed thesis are distinguished. Firstly, the regions with different geopolitical attitudes are defined. Secondly, the territorial structure of the results of presidential elections is clarified. The second round of the direct Lithuanian presidential elections when people vote for one of two politicians is considered to be the best evidence of the main political-territorial cleavages. People usually vote according to the main political cleavage(s) in these elections with two alternatives. Thirdly, the regional structure of geopolitical orientation and the regional structure of political preferences in the presidential elections are compared using an ecological approach. The proposed thesis is proved if the regional system, including its core-periphery structure of geopolitical orientation and presidential preferences, is the same or very similar. Certainly, the regional system of both selected preferences has also to be similar in from a qualitative point of view for proving the hypothesis.

An important element in forecasting the location of geopolitical attitudes on the Lithuanian electoral map in the near future arises while revealing the geopolitical cleavage as the main cleavage in the Lithuanian political system. The period since 1990 gives an opportunity to evaluate regional differences in the geopolitical impact on voting behavior. Correspondingly, the role of geopolitical cleavage at the general country level and in different regions of Lithuania can be forecast. A spatio-temporal (time-space) approach allows the identification of the diffusion patterns of geopolitical cleavage as the main sociopolitical cleavage for voters. The other cleavages (rural-urban, religiosity-secularization, working class-middle class etc.) in the political system are not under consideration in this paper, but some of them could be found in a quite general understanding of the geopolitical cleavage. Geopolitical orientation is based on civilizational background comprising the understanding of freedom, economics, social stratification, work ethics, lifestyle and other values.

A Territorial Expression of Geopolitical Orientation in Lithuania

In the first years after the restoration of Lithuania's independence in 1990 the main political cleavage in the political system was the attitude to the Soviet period (1945-1990). The political right in Lithuania, as in other post-communist Central-Eastern Europe countries (Latvia, Estonia, Poland, etc.), arose out of a strictly negative attitude towards the Soviet past. The political left arose from the practical view (with some positive and some negative aspects) to the period under the Soviet Union. The political system at the beginning of the independence period was based on the geopolitical cleavage in Lithuania, which was influenced by the peripheral role in Western civilization and the fact of bordering with the Russian sociopolitical area. Traditional geopolitical orientation is regarded as pro-Lithuanian, pro-Western and anti-Soviet (Russian) geopolitical attitudes. A rise in anti-traditional geopolitical orientation means a rise in political tension. The identification of political tension in various aspects of political life has been proposed [Kavaliauskas, Petrulis 2004] according to the theory of a socially balanced field.

The tension in the traditional axis of geopolitical orientation in Lithuania after the restoration of independence is most clearly defined by the results of referenda. Two referenda during the latter 15 years were especially significant from a geopolitical point of view: the referendum on Lithuania's independence in 1991 and the referendum on Lithuania's entry to the European Union (EU) in 2003. The territorial structure of Lithuania's geopolitical orientation only slightly changed during both referendums. EU accession places special restrictions on Lithuania's sovereignty. However, saying "yes" to Lithuania's independence in most part meant gravitation towards the Western geopolitical space. There are slight differences in interpretation of the chosen referenda results [Central Electoral Committee...2007] in defining the categories of geopolitical tension. There is one more important detail relating to the referendum on Lithuania's entry to the EU: during the campaigning for the referendum, a view was formed that people voting against entry to the EU tend to see Lithuania being geopolitically friendly to Russia.

In relation to the territorial differences in residents' disapproval of Lithuania's independence in 1991 (Fig. 1) and citizens' disapproval of membership in the EU in 2003 (Fig. 2), almost the whole of Lithuania's northern and eastern frontier zone expressed considerable dissatisfaction with the state's chosen geopolitical direction. In total 7.5% of the residents in south-eastern and north-eastern Lithuania voted against Lithuania's independence in 1991. This most anti-Western (pro-Soviet) region of Lithuania consists of the two core areas with the highest values against Lithuania's independence. The first core area is a belt of Švenčionys, Vilnius district and Šalčininkai municipalities. Big political tension (more than 20% of voters were against independence) in the Slavic area of south-eastern Lithuania is understandable because of the local population's ethnic structure. The Polish minority in this belt was not been deeply integrated into a pro-Lithuanian cultural and political orientation during the Soviet period. However, the other north-eastern part of Lithuania clearly shows the frontier citizens' disbelief in their socioeconomic and political abilities. The second core area of the pro-Soviet region is in Pakruojis municipality. These two core areas have quite a large influence on the bordering municipalities and create a homogenous pro-Soviet region of south-eastern and north-eastern Lithuania.

The similarly large gap between south-eastern and north-eastern Lithuania and the rest of Lithuania has remained up to the present. Lithuania's membership of the EU was most disapproved of by residents of ethnically mixed south-eastern Lithuania in the referendum of 2003. This area was notable for political tension, as more than 15% of citizens disapproved of membership in the EU. The tension slowly increased in north-eastern Lithuania from 1991 to 2003. The municipalities of the north-eastern frontier zone stand out as having no less political tension than in 1991. The territorial structure of the results of both referendums shows a big anti-Western (Lithuanian) and pro-Soviet (Russian) stability in south-eastern and north-eastern Lithuania. The stable standing of the region is confirmed by the unchanged core-periphery structure: both core areas with the highest anti-traditional geopolitical orientation were the same in 1991 and in 2003.

The second geopolitical region of the state is western and south-western Lithuania. This region is mostly pro-Western (Lithuanian) and anti-Soviet (Russian). The geopolitical tension in this region was not confirmed in the referendum on Lithuania's independence from the

Soviet Union in 1991. Less than 5% of the voters in the whole region voted against Lithuania's independence. There are two core areas in the region with the highest anti-Soviet values, where less than 2.5% of residents voted against Lithuania's independence. The first core area is coastal Lithuania, while the second core area is a belt between Kaunas and Marijampolė cities. The deepest periphery area of the region covers a belt in Šakiai and Vilkaviškis municipalities. The same but less homogeneous regional cleavage was seen in the referendum on Lithuania's entry to the EU in 2003. The continuity of the most pro-Western region in Lithuania is confirmed by the stable core areas in the region. Coastal Lithuania and Kaunas-Marijampolė belt are the Lithuanian areas most supporting the question in the referendum, just as they were in 1991. The deepest periphery area of the region was almost the same in 2003 and in 1991. The most likely reason for the existence of such highly pro-Western and anti-Soviet region could be historical background. The historic regions of Klaipėda district and Suvalkija with their traditional German influence cover a bigger part of the defined geopolitical region. A buffer zone of these two historic regions covers the rest of the territory of western and south-western Lithuania.

The two general geopolitical regions of Lithuania show the geopolitical cleavage very clearly. Western and south-western Lithuania is the most pro-Western and anti-Soviet (Russian) region in Lithuania. South-eastern and north-eastern Lithuania is the most anti-Western region in the state. The rest of the territory of Lithuania goes into medium pro-Western valuable orientation. This region is generally called Central Lithuania. The stable standing of the region is confirmed by the unchanged core-periphery structure of geopolitical orientation in 1991 and in 2003. In 1991 only the industrial Utena municipality and the city of Panevėžys differed in this region with the lowest pro-Soviet orientation. In 2003 the core (with the highest pro-Western orientation) of this region was not very clear but Panevėžys city and Utena-Anykščiai belt stood out as different. The third distinguished region of geopolitical attitudes finally accomplishes the territorial interpretation of the geopolitical cleavage in Lithuania.

Geopolitical Regions in the Lithuanian Presidential Elections

The second round of direct presidential elections (voting for one of two candidates) shows a general territorial cleavage or cleavages based on the crucial political values in Lithuania. Respectively, the basic political-territorial cleavages are revealed in parliamentary elections in Western European countries. This is probably due to the stability of dual or triple party system. In Lithuania, parliamentary elections influenced by low stability of the party system do not reveal the main cleavages of voter behavior as clearly. Only the second round of the presidential elections gives an opportunity to identify a dual political-territorial cleavage in Lithuania. People vote due to their attitude toward the essential cleavage(s) existing in the system of political values in these elections. The formulated hypothesis of a dominant geopolitical cleavage in the political field of Lithuania is confirmed only in the identical regional and qualitative structure of both selected electoral features: presidential preferences and geopolitical orientation.

Two candidates were supported by the political establishment in all the presidential elections from 1993 to 2004. Ruling authorities, ideological leaders of the selected way of

Lithuania's development supported one candidate very strongly in each of the elections [Kavaliauskas, Valiūnaitė 2003]. The candidates supported by the political establishment were American Lithuanians: S. Lozoraitis in 1993 and V. Adamkus in 1997, 2002 and 2004. The alternative candidates without the support of political establishment were: A. Brazauskas in 1993, A. Paulauskas in 1997, R. Paksas in 2002 and K. Prunskienė in 2004. The political establishment and most of the mass media blamed the alternative candidates for having too positive attitudes towards Russia or the Soviet past in all four elections. But this does not mean that voters voted due to pressure from the political and media establishment every time. The changeable impact of geopolitical orientation on the general political system is seen in different presidential elections [Central Electoral Committee... 2007].

Most Lithuanians voted for A. Brazauskas in 1993. The leader of the former Lithuanian Communist Party at the end of Soviet period was accused of having an excessively positive attitude toward the Soviet past. The beginning of forming a regional structure of Presidential preferences was quite close to the geopolitical regional structure. Only Kaunas region was more favourable to S. Lozoraitis than A. Brazauskas. S. Lozoraitis had wider support in western Lithuania and the area of Panevėžys city than in the rest of Lithuania. American Lithuanian Lozoraitis gained from 40%-50% of votes in these areas. The former communist leader Brazauskas was especially highly supported (by more than 75% of voters) in south-eastern Lithuania. The results of the first presidential elections showed a geopolitically-based regional structure. Lozoraitis was mostly supported in western and partly in south-western Lithuania. This area is the most pro-Western region in Lithuania. The geopolitically most pro-Soviet (Russian) region of south-eastern Lithuania, and partly north-eastern Lithuania, was the core area supporting Brazauskas.

A more stable regional structure of presidential preferences formed only in 1997 (Fig. 3). The whole regional system of presidential preferences was identical to the regional system of geopolitical orientation in 1991 (compare Fig. 1 and Fig. 3). The region of western and south-western Lithuania supported another American Lithuanian V. Adamkus over A. Paulauskas. The latter was an alternative candidate without the support of the political establishment. The core areas for Adamkus with more than 55% of votes in western and south-western Lithuania were coastal Lithuania and Kaunas city. The same core-periphery structure is seen in the map of geopolitical orientation. The most pro-Western region of Lithuania mostly supported Adamkus throughout Lithuania in 1997. Voting according to the geopolitical cleavage is also confirmed by the core-periphery differences of Adamkus' support. The influence of geopolitical cleavage on the presidential voting is seen in the other two regions of Lithuania. The most pro-Soviet (Russian) region of south-eastern and north-eastern Lithuania was the most positive region for Paulauskas. Support for Paulauskas exceeded 50% in the whole anti-Western area. Core areas with the highest support for Paulauskas were two anti-Western areas: 1) the belt of Švenčionys, Vilnius district and Šalčininkai municipalities and 2) Pakruojis Municipality in northern Lithuania. It is necessary to mention that these pro-Paulauskas core areas are the same core areas with the most anti-Western geopolitical orientation. The third region of central Lithuania with its core-periphery structure confirms the dominating role of geopolitical cleavage in the political system of Lithuania in 1997.

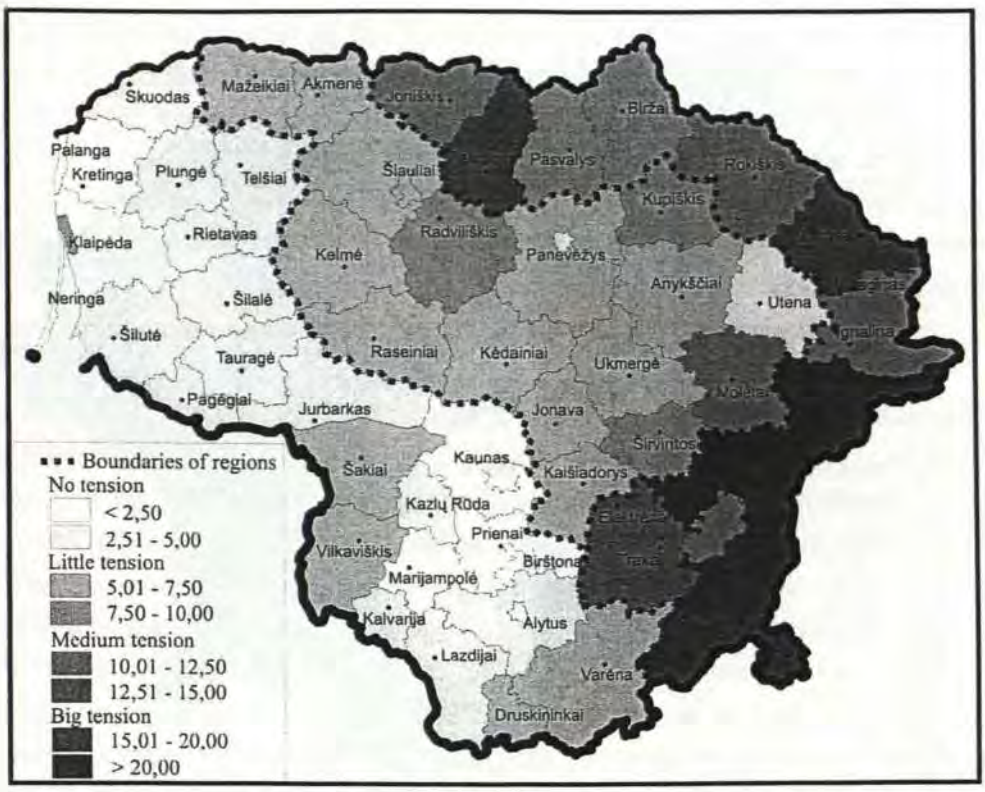

Figure 1. Disapproval of Lithuania's independence in the referendum in 1991 (%)

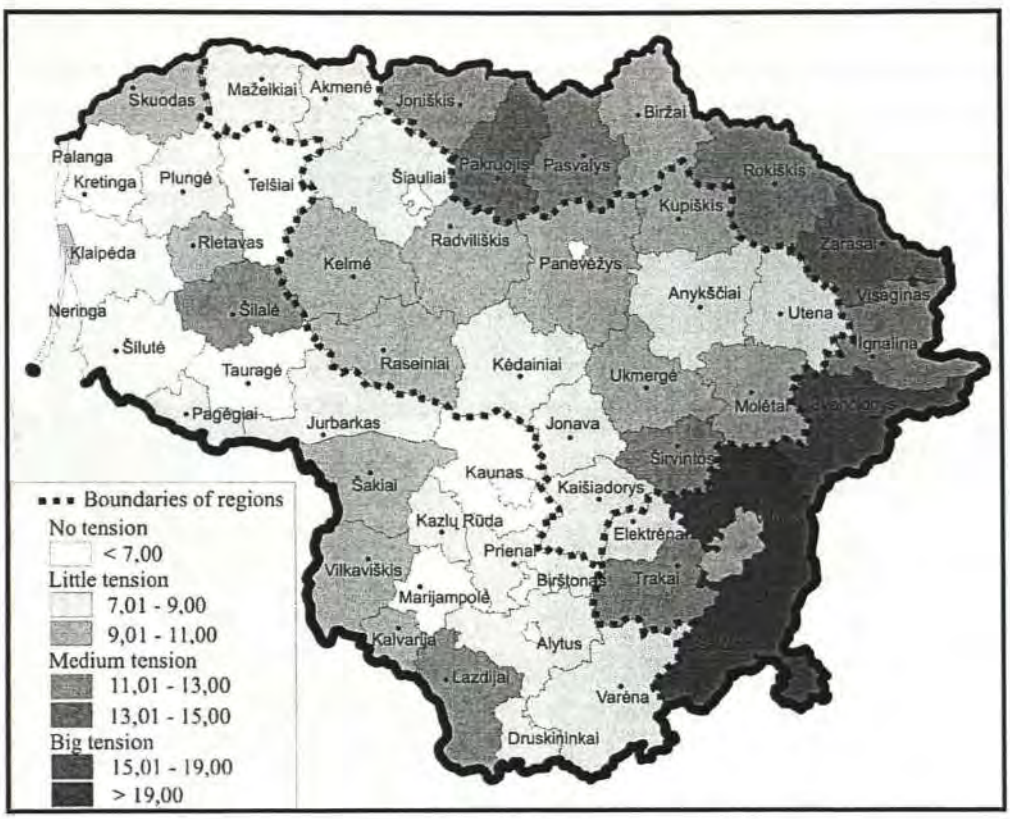

Figure 2. Disapproval for Lithuania's membership of the EU in the referendum in 2003 (%)

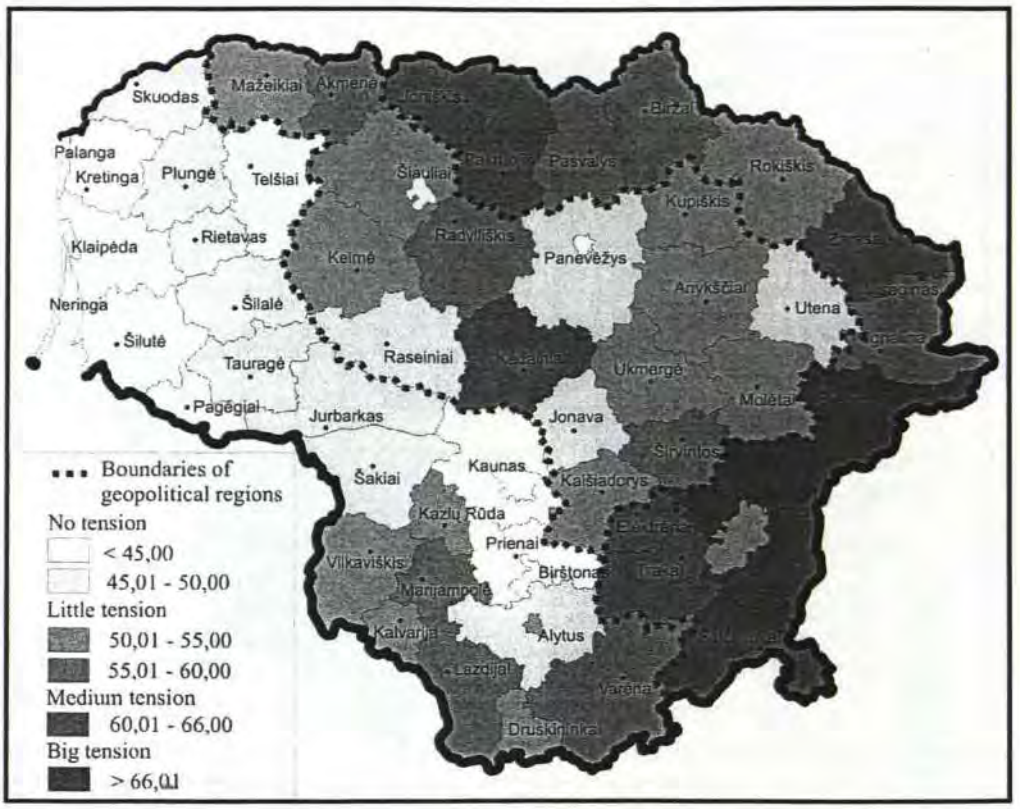

Figure 3. Support for A. Paulauskas in the Lithuanian presidential elections in 1997 (%)

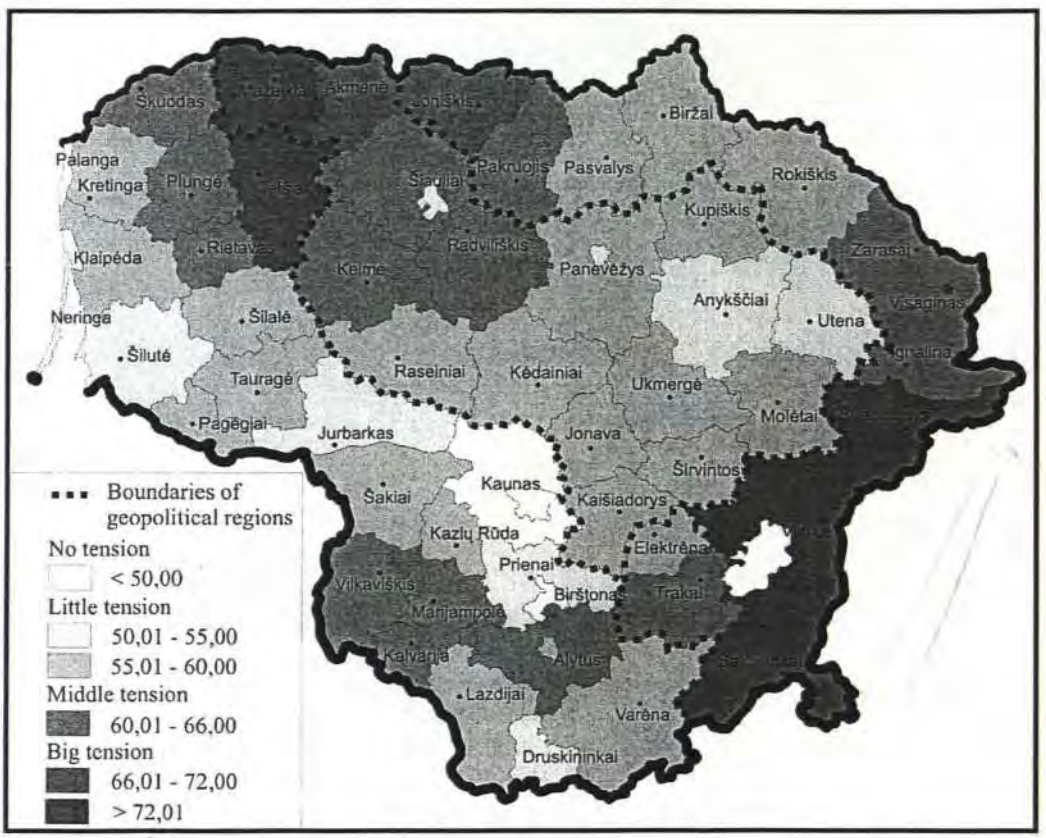

Figure 4. Support for R. Paksas in the Lithuanian presidential elections in 2002 (%)

Central Lithuania supported the candidacy of Adamkus more than south-eastern and north-eastern Lithuania but less than western and south-western Lithuania. This middle level of support for Adamkus in the region is similar to the mid-level of pro-Western geopolitical orientation in Central Lithuania. The core areas of the highest support for Adamkus covering the municipalities of Panevėžys and Utena are the same as the most pro-Western areas in the region. All three regions of geopolitical orientation with its core-periphery relations were copied in the territorial structure of presidential preferences in 1997. The territorial interpretation of the elections clearly confirms the thesis that geopolitical cleavage was an essential cleavage in the system of citizens' political values before 2000.

The importance of geopolitical cleavage to the country's political partition is doubtful in regard to the third presidential elections in 2002. The regional structure of V. Adamkus' electoral support had changed since 1997 despite the support of this candidate by the political establishment. A newly formed core area favourable to the alternative candidate R. Paksas arose on the boundary of the most pro-Western region in Lithuania (Fig. 4). The area of Telšiai and Mažeikiai municipalities has become a core of very high support for Paksas, with more than 70% of votes for him. The area influenced by the new formed core has become a separate electoral region in Lithuania. Correspondingly, part of western Lithuania transformed into a favourable area for the alternative candidate. The collapse of geopolitical impact on the presidential preferences in western Lithuania could be explained by the fact that Paksas originates from Telšiai. But the second newly formed core with relatively high support for Paksas (more than 60% of votes) in south-western Lithuania calls for a more careful look at the hypothesis. South-western Lithuania, consisting of Vilkaviškis, Marijampolė and Kalvarija municipalities together with a part of western Lithuania, has become the core area for alternative candidates. This transformation in western and south-western Lithuania means the loss of geopolitical orientation as the main cleavage in the presidential preferences or the political system at whole. The most pro-Western geopolitical region is no longer the highest supporter of "traditional" candidates. Only one former core area favourable to Adamkus has remained in Kaunas city showing a total collapse of the united region of western and south-western Lithuania.

Another two geopolitical regions of Lithuania could be discerned on the electoral map of presidential preferences in 2002. South-eastern Lithuania has continued to support an alternative candidate in very high values. Paksas gained more than 70% of votes in the belt of Švenčionys, Vilnius district and Šalčininkai municipalities. It seems that south-eastern Lithuania still votes geopolitically against American Lithuanian candidates. This thesis was confirmed by the results of a survey in 2005 [Tik trečdalis....2006], which revealed that 87% of Lithuanian Poles (voting for the regional Polish party) favour the Soviet system more than the contemporary Lithuanian socio-political and economic system. Lithuanian Poles form the majority of residents in Šalčininkai, Vilnius district and Švenčionys municipalities, making a unique region of south-eastern Lithuania. A sub-region of north-eastern Lithuania was not clearly revealed and was divided between separate electoral regions in the presidential elections in 2002. However, south-eastern Lithuania and the bordering corner of the former sub-region of north-eastern Lithuania remained as a region voting under the impact of geopolitical cleavage. The existence of a leading geopolitical cleavage in the system of

political values is also approved in central Lithuania. The whole region, excluding its north-western corner under the influence of the Telšiai-Mažeikiai core, is more positive to Adamkus than the bordering region of south-eastern Lithuania. Relatively higher support for Adamkus in central Lithuania is confirmed by the geopolitical core-periphery structure. The core areas most favourable to Adamkus in Panevėžys city and in Utena-Anykščiai area have the highest pro-Western values in the region of central Lithuania.

K. Prunskienė was an alternative candidate against Adamkus in the Presidential elections in 2004. She was the first prime minister of independent Lithuania in 1990-1991 but political opponents accused her of having a positive attitude towards Russia and the Soviet past. In fact Prunskienė was less supported by voters in the presidential elections than her predecessor Paksas. Former President Paksas supported the candidacy of Prunskienė in the extraordinary presidential elections. Perhaps for this reason or the inert voting behaviour the regional structure of presidential preferences has not change since 2002. All the areas favourable to Paksas supported Prunskienė relatively more than the rest of Lithuania. All of the regional structure with the highest Adamkus support with its core-periphery distribution has continued to exist in 2004.

The differences in voter turnout did not form a stable and clear territorial structure during the presidential elections and geopolitical referendums. Only the voter turnout in the region of south-eastern Lithuania was significantly lower than in the rest of Lithuania. Respectively, the change of the dominating political-territorial cleavage in 2000 is not influenced by the regional differences or their dynamics of voter turnout.

Discussion and Conclusions

The comparison of the regional structure of geopolitical orientation and presidential preferences permits us to evaluate the role of the importance of geopolitical cleavage in the Lithuanian political system. Geopolitical cleavage as a leading factor of the main socio-political values played the main role in the whole of Lithuania in presidential elections up to 2000. All three geopolitical regions of Lithuania were clearly seen in the presidential elections of 1993 and especially 1997. The most pro-Western region of western and south-western Lithuania was the most favourable to American Lithuanian candidates. Alternative politicians without the support of the political establishment were most preferred in the in pro-Soviet (Russian) geopolitical region of south-eastern and north-eastern Lithuania. Central Lithuania with medium pro-Western attitudes supported alternative candidates more than western and south-western Lithuania but less than south-eastern and north-eastern Lithuania. The interregional core-periphery structure of presidential preferences was also identical to the partition of geopolitical orientation in each region.

The ecological approach applied in this research does not allow for covering all the people who voted geopolitically in the 1990s. But the same regional structure in geopolitical and presidential maps confirms that a majority of citizens throughout Lithuania were influenced by the dominant geopolitical cleavage. A more detailed understanding of the role of geopolitical orientation on the political system began emerging after the first decade of independence for Lithuania.

The critical breakdown of Lithuania's socio-political development occurred in about 2000. The regional electoral structure of presidential elections no longer mirrors the geopolitical regions. During the presidential elections in 2002 and 2004 a slight appearance of geopolitical attitudes of Western and south-western Lithuania was revealed. The north-western corner of central Lithuania does not generally vote geopolitically either. But most of Central Lithuania as a whole and south-eastern (and partly north-eastern) Lithuania still votes geopolitically in presidential elections. Western and south-western Lithuania is the first region where people vote more socio-economically than geopolitically. Central Lithuania could also decrease the impact of geopolitical attitudes in elections in the near future. South-eastern Lithuania would be the last region without geopolitical dominance in the elections. This thesis has a background of weak trust of the Polish minority for the selected way of Lithuanian political and socio-economical development.

The idea that geopolitical cleavage was the main electoral-territorial cleavage in Lithuania's society till 2000 is a hypothetical statement. Despite the focused relations between the differences of geopolitical attitude and electoral preferences in the last elections in 2004 [Jurkynas 2005], the understanding of geopolitical orientation is still not very clear and homogenous. The geopolitical cleavage (subject – dominating culture) in classic studies [Rokkan 1970, 1980] is grounded in citizens' belonging to an ethnic minority or majority of the state. Such a cleavage, which is characteristic of Western Europe, is also applicable for the explanation of the singularity of the south-eastern Lithuania region [Vinogradnaitė 2001]. However, the similar regional voting of ethnic Lithuanians against the traditional geopolitical trend and the candidature of American Lithuanians in the Presidential elections up to 2000 may have wider ideological implications. It is possible that geopolitical cleavage is related or divided into the factors identified by S. Whitefield [2002]: not only the degree of ethnic "liberalism", but, also, a degree of economic, social and political "liberalism". There is no clear answer to the question of when the social-economic cleavage starts to prevail over the geopolitical cleavage and what socioeconomic criteria have a close relationship with geopolitical orientation. Finally, it is obvious that geopolitical voting and geopolitical orientation are complicated phenomena demanding a more specific and clearer understanding.

The presented interpretation of the state's political-territorial cleavages gives three important points for further research in electoral geography. Firstly, the identification of regional differences of geopolitical orientation shows its necessity for a starting position in the research. After defining the geopolitical regions, the impact of geopolitical cleavage on the system of political values could be tested. This allows the formation of basic knowledge about essential processes in many post-communist countries in Central and Eastern Europe. A clear understanding of regional geopolitical and other electoral differences in Latvia and Estonia similar to the presented paper could help form a general picture of the key political-territorial cleavages in the post-Soviet Baltic space. Secondly, the Lithuanian example confirmed the rising role of not yet clearly identified socio-economic factors in the political polarization of society. Related research in cultural, economic, social, urban and rural geography could qualitatively enrich electoral (and generally political) geography. This enrichment could help geographers to present theories and facts important for the development of many branches of the social sciences. Thirdly, the presented analysis proved

the well-known theory of "spatial (territorial) context" formulated by J. Agnew over ten years ago [Agnew 1996]. The main idea of the theory is that voting patterns differ in separate regions of the country according to unique regional economic, social, cultural, historical and other factors. The example of western and south-western Lithuania no longer voting geopolitically since 2000 while south-eastern Lithuania still votes geopolitically in presidential elections confirms the different spatial context in these regions.

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LONG TERM SPATIAL DEVELOPMENT PERSPECTIVE IN THE BALTIC SEA AREA OF RUSSIA

Nina ODING

Abstract

Economic growth in Russia does not answer the question whether economic growth can itself solve the problems of overcoming regional inequality and social development. The paper considers recent changes concerning the challenges for regional development and regional policy. This is quite important for the northwest region of Russia and also has implications for mutual interaction for true spatial integration of the Baltic Sea Region.

The author considers the positive aspects of economic growth such as poverty reduction as well as social differentiation in the regions. The paper shows the evolution of budgetary instruments for improving regional inequality. Budget policy has the capacity to solve the task of equating fiscal capacity but cannot stimulate regional self-development. In addition, territorial and strategic planning has an important place in the system of measures for regional development, which could provide the long-term vision of development and attract investors.

The aim of the paper is to provide a review of the current stage of institutional development determining regional policy and identify potential paths for long-term development perspectives in Russia. Based on analysis of strategic and planning documents, the paper highlights the main aspects of regional development perspectives. The paper also outlines the complexity in combining both regional strategic planning and new requirements of federal authorities. To build an adequate picture of regional development planning process, one has to consider the legal framework as well as institutional factors that influence regional strategies as well as the tools the authorities use to plan regional development.

Keywords: regional development, spatial planning, Baltic Sea Region

At the end of the 1990s and the start of the 2000s, state regional development policy based on the goals and principals of the previous stage of Russian development was depleted, and the regional organizations inherited by Russia from the Soviet Union entered a new period of large-scale restructuring.

The vast territory of Russia is a potential resource for development. On the other hand, regional disparities determine the need for a special approach towards general regional policy and spatial development. There is a great economic difference between the different regions in Russia. Just ten of these produce over half of GDP. They are situated in Siberia and the European part of the country. Between ten and 14 regions (varying from year to year) are donors to the federal budget without any support from the special fund. Three of the Russian Federation (RF) regions are adjacent to the Baltic coast - St. Petersburg City, Leningrad Region and Kaliningrad Region. While economic growth in Russia has contributed to poverty reduction, it has also sharpened the issue of inequality. Every state has to meet the problem of the unbalanced or unequal economic development of different regions, but for a country with such regional variations this problem is of special importance.

Under the centralized economy, the problem was being solved through the distribution of budget financing in terms of capital investments and establishing a unified principle for labour compensation and social transport provision.

The Russian Federation had to start creating a system of intergovernmental fiscal relations which would meet the principles of budget federalism in order to achieve an optimal correlation between federal interests and those of various territories, from virtually zero. At the same time, public finances should play a role as the main instrument in implementing a regional development strategy.

It is important to note here, that among the issues currently pushed to the forefront of Russia's economic growth challenges are those related to the still debated problem of the state's role in the economy and the sustainability of the development

The aim of this paper is to provide a review of the main directions of regional policy in Russia, including inter-budgetary relations and regional strategic planning. The paper also describes recent changes concerning governmental regulation of regional development and regional policy in Russia, and identifies potential paths for long-term spatial development in the Baltic Sea area of Russia.

Economic Growth and Social Disparities

The economic situation in Russia at the moment is the best for the last 15 years. One of the particularities of the situation lies in the fact that the demand for primary goods from the material intensive economies of China and India is growing, and raw material prices remain high. The satisfactory functioning of the Russian economy is shown by over 7% growth. Debt repayment and reduction of the state budget's dependence on external factors through creating state financial reserves by accumulating additional income from oil sales due to the favourable pricing environment can be considered as achievements too.

Russia's rate of economic growth is now one of the highest in the world; however, the country faces serious problems concerning unequal distribution of the results of economic growth among the population. Its huge territory gives Russia not only advantages, but also produces marked regional differences in development and impedes the modernization of the community.

The practice of allocating direct foreign investments in Russia proves its localization in big cities. More than a half of foreign companies have sited their production capacities in the Central federal region and 25% of companies have chosen the North-West federal region [Petrovsky 2005, 30].

The traditional distinction between Moscow and the rest of Russia [Rossia regionov 2005] highlights the problem of inequality that is being reproduced in other regions with at least equal force.

The regional aspects of poverty were mentioned in the 2004 World Bank Report, specifying the importance of taking into account spatial factors when estimating poverty in the Russian Federation [World Bank 2005]. The report noted that the majority of the poor live in urban areas, and smaller urban settlements have the highest percentage of the poor.

A World Bank study [Locshin, Yemtson 2001] identified characteristics of place of residence along with employment status and age as the most important determinants of

poverty risks for transition economies. However, for Russia with its 73% urban population the spatial factor in welfare assumes special significance. A more detailed study [Alexandrova, Grishina 2004] confirms the necessity of taking into account regional specifics when profiling urban poverty.

Long-standing economic growth had a positive impact on all the regions in the period 1999-2002, but later the differences began growing. A report by experts from the UN Development Program titled "The Development of Human Potential in the Russian Federation 2006/2007 «Russian regions: objectives, challenges, achievements» [UNDP Report 2007] states that the differences in living standards are so high that while some regions are comparable to European countries, others are at the level of the poorest African ones. Living standards comparable to European countries are seen in Moscow, St.-Petersburg, Tyumenskaya oblast and Tatarstan. The richest (by GDP size) are the resource regions of Siberia, the Far East, European North and Samarskaya oblast.

Due to economic growth poverty in Russia has fallen by almost by half, and regional indicators have also improved: in 1999 only 4% of regions had poverty levels below 20%, while in 2005 the share of those regions had risen to 40%. The income deficit of the poor has decreased drastically: it comprises less than 5% of the population in the majority of the regions and amounts to 10% only in the five least developed regions.

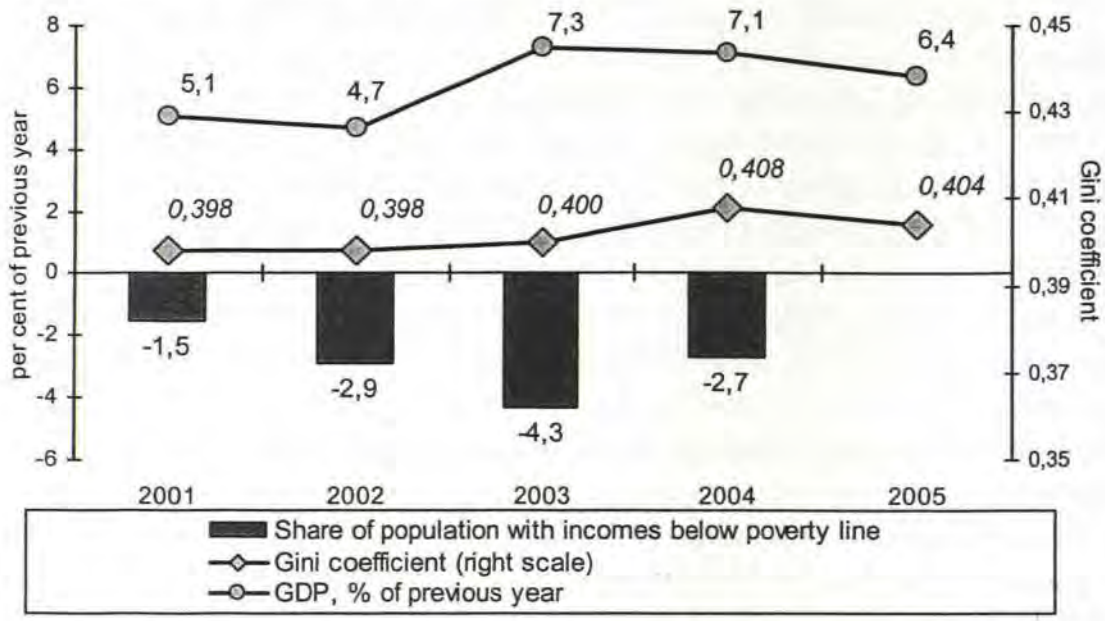

Figure 1. Economic Growth and Social Disparities in Russia
Source: Kononova, Shvareva 2007, Sotsial'noe polozhenie i uroven' zhizni naselenija Rossii 2006

However, inequality has increased as a subsequence of the low quality of economic growth and extreme misdistribution of benefits which complicates the path out of poverty, particularly extreme poverty. Yet only 6% of the population lives in the poorest regions. The report says that the most problematic regions are those on the average level, where two thirds of the population lives, and whose problems cannot be solved in a simple way. Theoretically accelerated economic growth should lead to poverty reduction and less inequality. There is a

positive dynamic regarding overcoming poverty (figure 1). Since 2005 the share of the population with income below the subsistence minimum has decreased by 3% annually, although according to various estimates between 15% and 30% of the population is still below the poverty line.

Meanwhile, stratification of the population by income is increasing: the Gini coefficient exceeds 0.4. These contradictory results of economic growth might lead to poverty conservation in the future. [Kraay 2004].

Studies on the challenges of economic development [Kononova, Shvareva 2007] show that economic growth in Russia is not the "pro-poor growth" type, because the growth incidence is extremely low. This is due to the quality of the growth itself and to the weakness of institutions of the Russian market economy. The existing system of social transfers and benefits does not contribute to supporting the poor, inflation has the most negative impact on low-income groups of population and the economy grows mostly due to raw material exports. The raw material sector's prevalence in budgetary revenues and exports can significantly deepen regional disproportions in fiscal capacity and generate the necessity for further centralization of assets, which will lead in the future to decreasing regional financial independence. At present, while the state does not finance production development, it only has social transfers from the fund for support to the regions and a differential approach to create conditions for economic development.

The lessons of regional development in Russia learnt during crisis and economic growth do not answer the question of whether economic growth can itself solve the problems of overcoming regional inequality and social development.

Budget Federalism Development

The medium-term forecast for Russia's social-economic development assumes that essential differences in the levels of regional economic growth, GDP dynamics, unemployment, natural increase and decline in population and income size will remain unchanged. To improve the situation, one should make use of budgetary and tax policy and also create incentives for regions to increase their income.

It is due to an understanding of the complexity of the problem and the necessity to apply various instruments that regional policy issues are of great concern in Russia. Russia's regional policy in general should work out the problem of correcting the negative consequences of national socio-economic policy for certain regions. This policy is being elaborated on at the federal level and sometimes does not take regional specificity into account or puts it into insignificance. The regional legislative process started in 1992 when the real federative organization of the country was fixed.

After the collapse of the USSR, Russia inherited a budgetary system which was formally federative but was in reality a unitary, highly centralized state where regional and local authorities did not have budget independence of any significance.

The process of transforming a formal federation into a real one has a deep economic content, in particular regional/local authorities' capability of pursuing independent tax-budgetary policy. The principle "plenitude of the power" logically presumes the principle

"plenitude of responsibility", and also their economic provision. Therefore long-term policy of state regulations in the budgetary sphere should be oriented to providing conditions for sequential development of the economic potential of the regions, including stimulation of investment and business activity there [Razvitie biudzhetnogo federalizma 2006].

Theoretical and applied research has consistently put forward the concept of "market-preserving federalism" for developing or transition economies that are in the process of forming market institutions and at the same time maintaining financial stability and economic growth. According to Barry Weingast [Weingast 1997] "market-preserving federalism" requires, amongst the necessary conditions, a hierarchic system of authorities with distinguished powers and strict budget limits for every level of power. The real balance of state and regional interests, which also means state integrity and stability of society, depend largely on how these mechanisms of budgetary federalism have been elaborated and properly built into the structure of national financial policy. It is important to note that equalising mechanisms should not lead to the complete levelling in the field of regional budgetary distinctions, nor to limiting the functions of regional and local authorities; the mechanisms should not interfere in reflecting local peculiarities in their budget policy. Regional social-economic development level differentiation increases the inevitably of a fiscal capacity gap. 60% of all the income in the consolidated budget of Russia comes from just nine or ten regions (subjects of the federation).

In the 1990s, budgetary legislation granted independence to federal, regional and local budgets, however de facto (and de jure in many relations) the budgetary system of Russia remained "undivided". Budgetary powers and responsibility interlaced badly, with a number of functions (e.g. tax collection) still centralized. The concept of "budgetary vertical", where regional and local budgets are still perceived as territorial units of a unified (national) budget, took root in the public mind. Many claims of failures of budgetary obligations (including payments to public sector employees) were sent to the federal government, which had to take measures to provide a minimum current equation of regional budgets within the framework of informal procedures. [Budzhetnaia sistema Rossijskoy Federatsii *2000*].

This caused a chronic crisis in intergovernmental fiscal relations and regional finances: the official (legal) system of intergovernmental fiscal relations remained unduly centralised even by the standards of unitary states, and the inbuilt infeasibility (irrationality) of its requirements allowed regional authorities to shift the political and financial responsibility on to the federal centre, while preserving practically unlimited "shadow" powers. [Lavrov 2005]

All of this lowered the quality of public financial management and impeded the overcoming of the crisis in regional and local budgets, which in turn has led to the need for full-scale reform of intergovernmental fiscal relations. The principle of inter-correlating by scale and rate centralisation of budget resources and simultaneous decentralisation of "official" budget powers was taken as the basis for the strategy for reforming intergovernmental fiscal relations. After reforming, the lesser part of national budget assets was under the responsibility of regional and local authorities, but they gained significantly greater real tax-budget autonomy and the responsibility to use it.

It should be noted that regional budget income depends directly on federal legislation,

whose regulations stipulate that the main factor of regional budget incomes is a high share of regulated taxes and non-reciprocal transfers from the federal budget.

As a result, regional authorities enjoy very limited capacities both to balance income and expense and to expand profitable base of regional budgets.

Substantial subsidies from the co-financing fund are earmarked to support road maintenance, agriculture, to subsidize payments for housing and communal services, social support of labour veterans and remote area workers, and other purposes. This leads first and foremost to equating fiscal capacity, despite the increasing gap between regions in tax potential from 11-fold in 2007 to 13.8-fold in 2008.

The first results of the policy for equating socio-economic development in the regions have shown the improvement of the situation of financial aid distribution to regions [Problema mjagkikh biudzhetnukh ogranicheniy rossijskikh regional'nykh vlastey 2006]. Studies have shown that along with the most formalised part of financial aid-subsidies from the federal fund for supporting regions, which amount on average to 36.8% in the period 2005-2007, there are other informal channels of financial resources distribution. It should be noted that the annual increase (p.152) in financial aid compared to what was initially planned and the lack of formal rules of additional assets distribution lead to softening budget limitations for regional authorities, to disincentive effects in tax potential development and to increasing efficiency of budget expenditures. Altogether, this policy is capable of solving the task of equating fiscal capacity, but can't stimulate regional self-development.

Territorial Planning

An important place in the system of measures to develop regional economic potential should be occupied by strategic planning, involving economic potential of the regions, qualitative forecasting of future tendencies, and development of new forms and methods of management.

During the Soviet period territorial development activity was regulated not by the legal framework, but by administrative acts and administrative power. In that period, both theoretical and applied urban studies flourished in the Soviet Union. *Gosstroy* research institutes were busy developing standards, admissible levels, general plans and blueprints. However abrogation of land ownership and centralization of all important decisions resulted in distraction of land use as well as settlement patterns. As a result there is a certain type of environment featuring exaggerated block sizes in the cities which are in bad repair and are not attractive for investment.

For last decade, federal regional policy was based on the alignment platform of regional social and economic development.

In many aspects Russian regional organization was developed during the planned industrialization period. Therefore, Russian regional development was implemented on the principle of resources allocation.

First of all, the population was allocated throughout the territory, investment priorities were established and the terms of project development of separate territories as well as determination of legal status for the rest of the territories were identified.[1]

[1] At the moment of the creation of RSFSR (Russian Soviet Federative Socialist Republic) Russia had 56 provinces in 1917 and 72 provinces in 1922. In 1930 the number of territories and oblasts was reduced to 13, but by 1991 89 regions were established in the Russian Federation.

The main processes transforming the economic and spatial systems of RF regions during last 15 years have been:

- Development of a new geopolitical and economic space after the collapse of the Soviet Union;
- Removal of the administrative planed economy and turning to a new type of economy;
- Opening of the national economy for export markets;
- Changing of the state structure including administrative and budgetary relations between the centre and regions;
- New regionalization of Russia with development of new regions as cultural and social and economic formations on the base of common social policy and economy above old administrative regions;
- Next urbanization period ("new urbanism"): city life, infrastructure development and urban spatial organization are determined not only by industrial and technological requirements but also by a modern and friendly living atmosphere.

These processes caused new economic, social, political and legal problems affecting the sustainable social and economic situation in separate Russian territories and overall to Russian regional organization.

Baltic Sea Region and the North-West of Russia

The special acuteness of the issue of development of the Baltic Sea area of Russia arises from the fact of proximity to the EU with long-standing traditions of mutual co-operation. The span of GDP per capita between the eastern and western parts of the Baltic Sea Region (BSR) is substantial. On average, the standard of living in the traditional economies in the western part is five to ten times higher than in the BSR, depending on whether GDP per capita at purchasing power parties or at exchange rates are used. The greatest gap is between Russia and Denmark; this ratio is 1 to 27 at GDP per capita at exchange rates and 1 to 8 at purchasing power parties [Facts and Figures 2000].

The Baltic Sea region seems like a highly heterogeneous area and not one entity. There must be more cooperation between the countries for potential future benefits. As revealed by the USUN study, this is not unlikely to take place. Thus, although BSR integration in economic terms is low, it has been shown [Groth 2001] that indicators of economic integration (i.e. the Grubel-Lloyd index) reveal trends of slow but continuously increasing economic integration

The main objective of cooperation between the EU and Russia is to develop a strategic partnership between them in order to solve European problems and further the modernization of Russian society.

The transition form a command to a market economy has, although inevitable, put a great deal of strain on people in the market economies in the eastern part of the Baltic Sea Region. All of a sudden, people were exposed to international competition and old production structures fell apart. This transformation caused a downfall in the standard of living in the beginning, but the regions are now gradually improving their economic conditions. However, the countries in the Baltic Sea Region are still plagued by setbacks now and then in their

economic development and by a very uneven distribution of prosperity both between people and between rural and urban areas. Improving the social and economic condition in the BSR will be the only way to get an acceptance of a continuation of the necessary transformation of the countries in the Baltic Sea Region.

During the years of economic reform Russia has been an active participant in the globalisation process. This especially concerns the Northwest Region, the most important Russian transit and cultural centre.

The Northwest Region of Russia includes the Republics of Karelia and Komi, Nenets Autonomous Area, Arkhangelsk, Vologda, Kaliningrad, Leningrad, Murmansk, Novgorod and Pskov Regions and St. Petersburg. All of these areas have historical ties between them. Being part of the integral Russian state, the territories in question share a number of natural, geographical, climatic, historical and cultural particularities underlying the socio-economical development and life conditions of their populations.

The region lies in the northwest of Russia; in the north it is bordered by the Baltic Sea. It has borders with Norway, Finland, the Baltic countries and Poland. In 2005, the population of the Russian Northwest was about 14.3 million (10% of the population of Russia) i.e. more than three times higher than the population of neighbouring Finland. About 80% live in cities and towns. The total area of the region is 1.7 million sq. km or 9.9% of the territory of Russia (the five Scandinavian countries, Sweden, Finland, Norway, Iceland and Denmark cover together 1.6 million sq. km). 30% of the population of the north-western areas of Russia lives in St. Petersburg.

The basic natural riches are large deposits of coal, copper and nickel ores, bauxite, nephelines, manganese, oil, gas, oil shale and peat. The region contains 60% of the wood harvested in the European portion of the country.

The economy of the Northwest Region of Russia specialises in high-quality, complex and precise machine- and instrument-making, metal working, ship-building, non-ferrous and ferrous metallurgy, pulp and paper production and wood processing, chemical, oil, fuel and power production. In recent years spatial development of the Northwest Region has been greatly influenced by two factors – the availability of labour and infrastructure opportunities. The dynamics of these factors to a large degree determined changes in the industrial sectors of the Northwest's economy. The consumer goods and electronic industries are also fairly well developed. The North-West has a high scientific potential; in the region there are a lot of institutions of secondary and higher learning and in-service training centres. The future of this region is determined by EU strategy as well as Russian regional and spatial policy [Gref 2007, 10].

In the last decade of economic upturn the northwest became a key transport and logistics hub. In 2006 it accounted for 21% of all export and import cargo transportations in Russia, and this share could be larger still if development of logistics infrastructure (in particular ports) had kept pace with the growth in demand for services. The demand is chiefly formed by rapidly developing regions in Russia's east which ship their export cargoes to the West by the Trans-Siberian Railway, the Volgo-Balt waterway and federal highways, as well as by importers in the European part of Russia increasing their activities.

In many cases, spatial planning has a crucial role to play in acting as a moderator for mutual interaction and increasing the possibilities for true spatial integration of the Baltic Sea

Region. Sustainable global development is hardly possible without Russia's participation. This is why the European Union continues a policy of strengthening dialogue between Europe and Russia on active co-operation in various fields e.g. the construction of new gas pipe-lines and highways, the development of a joint nuclear-waste safety concept etc. In this situation, the Northwest Region of Russia, and especially St. Petersburg, will play a central role in building mutual trust and developing stronger partnership ties with European countries.

St. Petersburg: Achievements and Challenges

In terms of spatial approach, St. Petersburg also holds a unique position in the northwest .A major factor stipulating St. Petersburg's development boom is competition between different territories for managerial functions – many companies believe it is more advantageous to transfer their offices from Moscow to Russia's northern capital rather than to Moscow region or even Moscow's outskirts. Also the geographical meaning of "Petersburg" is interpreted differently by business and by the government. In other words, the economic and administrative boundaries of St. Petersburg do not coincide – the former are much broader at the expense of city suburbs, in particular the areas around the Automobile Ring Road, the major part of which formally goes through the Leningrad Oblast. This "greater Petersburg" attracts as much investment as all other areas of the northwest combined [Gryaznevich 2007].

The St. Petersburg Master Plan and the Social and Economic Development Program for 2005-2008, approved by relevant city laws, aim at a sustainable improvement of living standards in the city up to the existing European levels. The existing system of public planning in St. Petersburg includes a set of socio-economic development benchmarks which determine the ways and means to achieve these goals. The benchmarks reflect medium-term development goals for the city. Though not a part of an official plan, the benchmarks serve as guide-posts for operational/strategic planning of the city's socio-economic development.

The improvement results will be measured by the benchmarks' gradual closing in on the values achieved by large cities in leading EU countries.

The main resource to support the achievement of these goals is the city budget, the revenues of which almost tripled between 2003 and early 2007. In 2006 city budget revenues amounted to R215 219.9 million, which was R74 942.4 million (40%) over 2005; this increment alone was comparable to the entire 2003 budget revenue of R75 580.6 million.

These revenues received in excess of the plan came about not only due to the improved financial and economic activities of enterprises and higher population incomes, but also because some Russian flagship companies operating in other regions have chosen to register as taxpayers in St. Petersburg.

Apart from the corporate and individual income tax proceeds, an important share of the city budget revenues is now accounted for by the income from city-owned property management. In 2006, the proceeds from the sale of city properties such as real estate objects, apartments, shares, or land plots amounted to R6 832.6 million or almost three times more than the relevant figure for the entire decade of 1993-2003. The ratio between the public debt of St. Petersburg and its budget revenues went down to 3.2% compared to 6.3% in late 2005.

A driving force behind the city's modernization plans is mobilization of all budget revenue sources, including the registration of new corporate taxpayers, federal budget transfers, and tax administration improvement. At the same time, revenue growth should not become an end in itself. The huge budget revenue size and growth rates seem to make the City Administration forget its ultimate goal i.e. public goods production. The Governor's address to the City Assembly of May 23, 2007, announced a goal to enhance the city's competitive power by updating all its key economic, infrastructure, municipal service, and social service sectors through mobilizing all budget revenue sources, creating conditions to attract investments, developing innovation activities, and utilizing the city's competitive advantages.

So far, neither innovation activities nor the use of the city's competitive advantages have produced any palpable results in the tourism, transit cargo shipment, or science-intensive industry sectors. In fact, the city's transport industry development is impossible without new logistical solutions that would make it possible to generate substantial added value, including development of new port areas, port access routes, as well as warehousing and terminal/logistics zones.

The City's efforts to provide for a transition to an innovation economy include the creation of IT-parks and a special engineering-implementation zone, the establishment of a venture foundation (R400 million) and a business incubator for small programming, instrument-making, and bio-technology businesses. However, one cannot expect immediate results from these efforts, especially when the issue of providing incentives for new technology development remains unresolved. Meanwhile, the competitive power of St. Petersburg enterprises mostly relies on their comparatively low resource costs.

The move towards integration in Europe has strengthened the position of Russia's Northwest Region as a transport bridge between Russia and the West and as an important contact centre for Russia. On the other hand the prospects for the development of Russia depend on possibilities to attract domestic as well as foreign investments. This is to considerable extent determined by external and internal conditions, including the state of the world economy, the economic climate and the regulatory framework within Russia.

Development of Territorial and Strategic Planning in Russia

The Russian Constitution provides for a wide range of joint powers of authority shared by the Russian Federation and its administrative regions. These powers include:

- The ownership, use and disposal of land, minerals, water and other natural resources
- The establishment of common principles for organising the system of public authorities and local government, and
- Co-ordination of the international and foreign trade links between the regions and the Russian Federation.

During the 1990s, the Russian federal authorities failed to create an adequate legal framework capable of ensuring stability in the markets. The latter objectively stemmed from the differentiation in the development level of various regions and the growing decentralization of the country's political and economic life. At the same time the government pushed on with tax and land reforms, with reforms in the social and housing-and-utility

sectors, and municipal and budgetary reforms to improve public sector development and foster business development. At the same time the characteristics of such reforms are:

- Simultaneous organization of reforms in several spheres (administrative and territorial division, public administration, public finance, tax policy etc);
- High level of regional differentiation in initial conditions of reform implementation, which is caused as much by natural and climatic as social and economic reasons;
- The necessity of taking measures by authorities of RF regions and municipalities in the framework of reform implementation.

The priorities of the RF Government activities were determined in the "Medium-Term Program for Russian Federation Social and Economic Development for 2006-2008" approved by the RF Government and in the "Main Directions of RF Government Activities up to 2008". In the section devoted to the main goals of regional development it was confirmed that for achieving nation-wide goals at regional and local levels it is required to focus on solving the following problems:

a) Ensuring fair competition between regions and municipalities for attracting of capital, labour forces, goods and services, opening of regional markets, removing of barriers to implement investment projects, SME development at regional and local levels;

b) Stimulation for implementing of strategic planning tools, program-targeted and result-oriented budgeting, new mechanisms of administrative control and management, cooperation with local self-government authority bodies, development of instruments of public-private partnerships at regional and local levels including at the stage of creation and development of special economic areas and technical innovation parks;

c) Elaboration of mechanisms stimulating the inflow of external and internal immigrants to labour insufficient regions;

d) Determination of clusters, support in cooperation between organizations – suppliers of equipment, component parts, specialized production and utility services, research and educational organizations.

In addition, some ministries of the Russian government elaborate the strategic documents and development programs taking into account regional dimensions [Seliverstov 2006, 17]. However the state regional policy itself consists of regulating the financial flows between the centre and regions. The key issue of regional policy is equalization of socio-economic development through selective support (grants, subsidies, targeting programs).

The legal basis of territorial development is the Urban Code adopted at the end of 2004. The Code is a framework for urban development which states the goals of urban development, basic public rights, defines essential actors, their rights and obligations, lists essential planning and development documents, their content and acceptance procedure. The system of regional strategic planning (figure 2) should include planning documents on the different levels of administrative structure of the country [Stupin 2007, 27].

Regions have authorities of urban development and architecture of their own competent to perform (within the framework established by the federal legislation) in their respective areas the same duties as corresponding federal bodies. The division of competencies in regional development activity between the Federal Government and the regions is stipulated

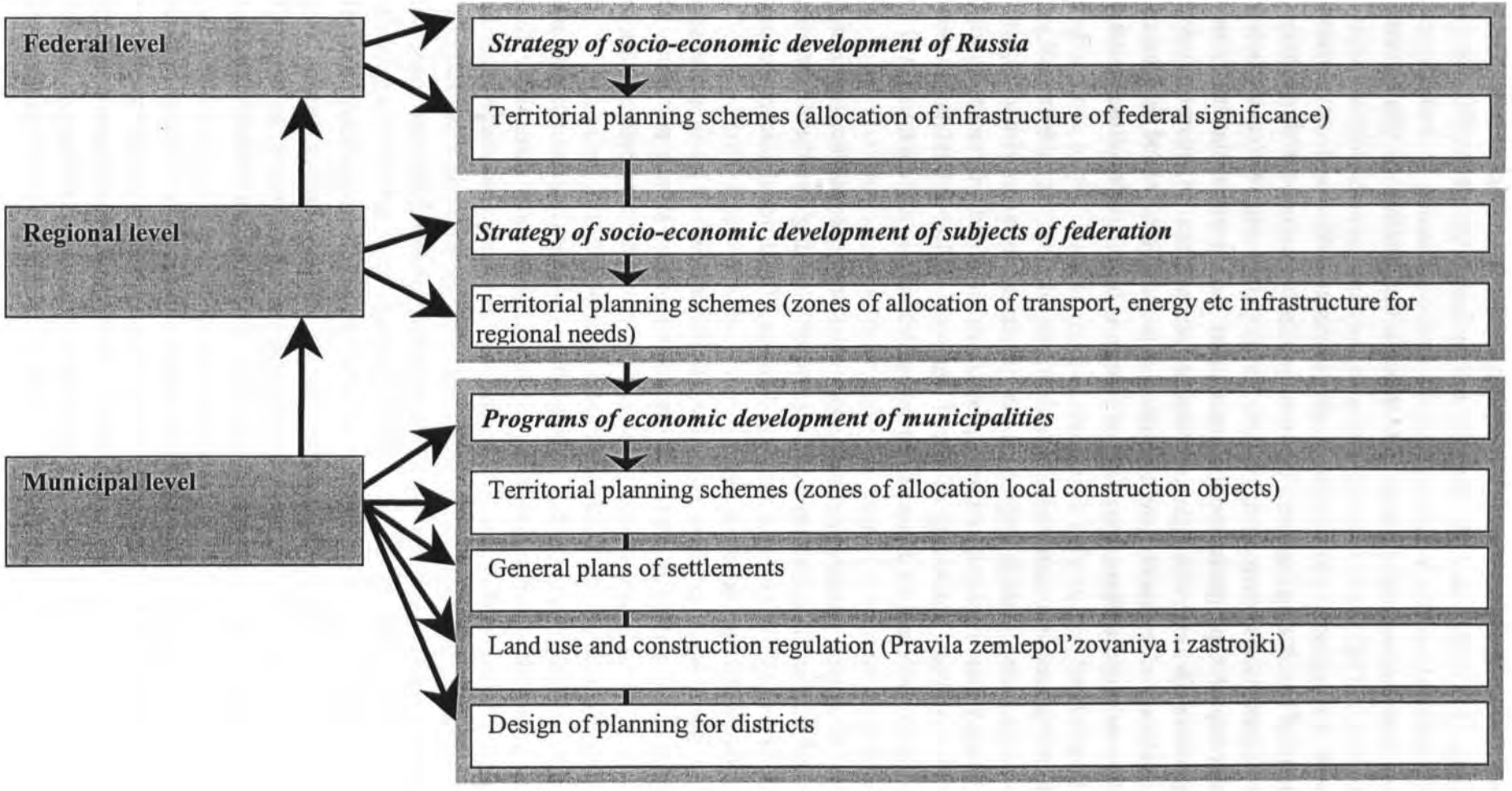

Figure 2. System of regional strategic planning

by the Urban Code. The Code states that any planning and development document shall observe the provisions of valid plans and nothing in the law prevents modification of documents previously adopted.

Support for territorial economic development requires the creation of eligible institutions, including:

- Development of agencies (institutions) for regional and local development functioning in the field of monitoring implementation and analysis of economic development, organization of investigations and forecasting studies, development and implementation of regional strategic development programs, consulting support during establishment of new organizations, cooperation in restructuring of bankrupted enterprises or enterprises with financial problems, support to innovations and technologies transfer, analysis of existing and future needs in educational organizations, attracting of foreign investors, international product launching, tourism promotion;
- Using of public-private partnership mechanisms during implementation of infrastructure projects including leasing and concession mechanisms at local and regional levels, practice of shared funding of investment projects in the field of transport infrastructure, housing and utilities, rendering of social services. Collaboration with entrepreneurial associations on problems of directions of regional and local development will be very important;
- Elaboration of special economic areas (industrial and production, industrial, innovations, tourist and recreation), which promote investment attracting into the RF regions, increasing of growth rate of Gross Regional Product, creation of additional workplaces and increasing of funds incoming to the budget system.

An important problem is the political weakness of the majority of municipalities in Russia at large, partly due to the tradition of the administrative prevalence, and partly to current legislation which does not grant enough power over urban development activity to local governments. This is a problem that has no quick and easy solution.

There is no doubt that the set of essential regional and local plans will be adopted in a few years. Regarding the existing experience, one may anticipate in most cases difficulties with execution of the new documentation for Russian professionals and public authorities like detailed land-use plans, matching interests of all parties and inspiring future development

The new Ministry for Regional Development was established as a principal agency of the federal government responsible for regional development policy. With the purpose of elaborating state policy for regional development, the Ministry for Regional Development prepared the Concept of RF Regions Social and Economic Development, which was discussed during a meeting of the Government in the middle of 2005 as well as the draft Federal Law "On Basis of State Regional Policy and Order of its Elaboration and Implementation".

In the Strategy Concept it was indicated that "regions created and developed in non-market logics are not corresponded with the scope of social and economic processes of open market after putting them into the market environment". First of all the settlements which historically appeared due to solving of old geopolitical tasks (centres of military industrial establishments, military communities, closed administrative and territorial formations, mono-

profile settlements) fully depend on one enterprise and haven't found their place in the new economic system. In addition, the existing Russian settlement system doesn't provide reproduction of human resources in the majority of regions due to initial industrialization. Firstly, the overwhelming majority of large agglomerations are subject to long-term stagnation from demographic and migration point of view. Out of 13 "millionaire cities", only Moscow, Rostov-on-Don and Volgograd demonstrate such growth. Perm left the "club of millionaires" by decreasing its population. Secondly, in 1991-2001 Russia's total population decreased by 4.3 million people or 3.9%. Thirdly, prevalent industrial urbanization caused the so-called "modern type of population reproduction" or "demographic transition". The correlation of birth and death rates had changed due to population decline in most regions of Russia. In 1990 this applied only to the most aged regions in the Centre and Northwest of Russia, but by 2003 it had expanded to the overwhelming majority of the country - 74 RF regions out of 89. Natural increase remained only in the North Caucasus and in several regions of Siberia. The low population mobility inside the country has gradually become an extremely important problem for Russian regional development. New trends of Russian urbanization are considered in terms of the differential urbanization theory [Nefedova, Treivish 2002, 72].

Spatial mobility is constrained by the following factors:

1. The institution of registration and lack of a housing market, which is not able to house a significant amount of the population during its displacement around the country. As a result, people can't live where there is work but are forced to live where they have accommodation;
2. Partial reservation of benefits system, enlargement of budgetary section in several regions as a way to retain population;
3. Large transportation costs on displacement (for push-pull migration and for long-term migration).

According to the Concept the priorities of the Russian Federation's regional development are set from regions designated as "engines of growth".

This complex of regions – the "engines of growth" - needs to develop a new structure of Russian spatial organization. This structure could be developed not only by RF regions but also by cities and urban agglomerations united by common economic and social life and having a common system of transport communications. "Core regions" should be provided by the General Scheme of RF spatial development with identification of their functions as well as national development tasks.

Core regions (engines and centres of growing) could be supported by:

- Development of infrastructure centres (first of all transport hubs), giving federal status to several transport hubs and corridors, joining of internal transport communications with international transport corridors, building up of the communication system to increase population mobility (railways, highways, creation of air-transport hubs);
- Placing of federal territorial authority bodies in the core regions; giving these regions a special economic status in the Russian Federation: development of special economic and environmental areas, giving a special legal status to territories (within the framework of the existing Constitution);

- Support for pilot economic projects and cultural initiatives in regions of federal importance; allocation of social and cultural establishments of federal importance in the core regions (national universities as centres of university districts, large cultural complexes, infrastructure development of innovative economy etc.); building up of the system for professional education taking into consideration interests of regional groups; creation of the institutions for registration and adaptation of migration flows.

The new structure of spatial organization must:

- Provide the most effective integration into the global market (from the capitalization point of view), providing concentrations of managing centres of goods, finance, information and human flows as well as centres of innovations development and circulation;
- Promote rapid social and economic development of the RF by creation of several territorial fixed "engines of growth" coming into the innovation resource to rest of regions, arranging there of orders for own enterprises, delegating of separate productive functions on outsourcing;
- Provide infrastructure, production and technological, social and cultural coherence of the country, opening access of territories and its population to resources of social and economic growth;
- Implement pilot projects for social and economic development in the country.

The development of the General Scheme for RF Spatial Development must have a deep correlation with preparation of documents on spatial planning at all levels set in the Urban Planning Code of Russian Federation, including schemes of spatial development of Russian Federation, RF regions, municipal regions, regional plans of settlements and urban districts.

Preparation of the General Scheme for Spatial Development has to be accomplished in three years, starting from 2006:

Stage I «Design» (2005-2006):

1.1. Building of organizational preconditions (establishment of the Federal Agency for Regional Development and Territorial Planning) for realization of Strategy of social-economic development of RF regions.
1.2. Study of infrastructure limitations on social-economic development of RF regions, coordination of priorities and forming of packages of infrastructure projects.
1.3. Definition of growing points and system of core regions, their development strategy elaboration.
1.4. Elaboration of the general scheme of RF spatial development.
1.5. Development of regulatory base concept of planned reforms, etc.

In the second stage "Pilot Projects and Programs" (2007-2010) it is planned to implement some measures in the pilot regions aimed at realization of the strategy, in the framework of federal and departmental target programs of regional development and the General Scheme of RF spatial development, with following action results analysis. A system of measures of state regulation, including regulatory legal acts, aimed to provide realization of the General scheme of RF spatial development, are to be results of the second stage of the Strategy implementation. (Federal targeting program "Spatial Development of RF").

The third stage of the strategy implementation - "the Stage of System Transformation" (2011-2020) – includes realization of accepted federal and departmental target programs of

spatial development and the General Scheme of RF spatial development. The monitoring and operative correction of these programs' implementation has to be undertaken. The result of this stage will be forming of several macro regions on the territory of Russia comparable to global ones by the GRP per capita, but above all, being considerable innovative development centres for the country, multiplicatively influencing in a maximum possible way on other regions.

According to a report of the RF Ministry for Regional Development, at present the main directions of revision of the Strategy of regional development are as follows:

- Lawmaking activities: actualization of the Federal Law «On bases of state regulation of spatial development of the Russian Federation»
- Research of the conditions of strategic planning in RF subjects – weekly reports of the subjects (25 RF subjects)
- Elaboration of mechanism of cooperation of the federal and regional bodies of executive power on the complex programs of social-economic development of RF subjects. (RF President mandate № ПР-1175 on July 22, 2005).
- Conditions of strategic planning in RF subjects:
- RF subjects develop Schemes of complex spatial planning, which are, basically the territorial projections of the development strategies: 11 RF subjects have finished working out and actualization of their Schemes (Moscow, St. Petersburg, Tula, Vladimir, Nizhny Novgorod, Rostov, Orenburg, Magadan oblast, and the republics of Bashkortostan and Chuvashia), while in 51 RF regions these schemes are at different development stages.

Regions develop programs for social and economic development, which are medium-term planning documents – by now 40 programs are reiterated in the record of the Economic Development Ministry.

- RF Ministry for Regional Development proposed the enhanced mechanism – complex program RF regions social and economic development. The Program complexity was achieved by 'up building' of strategic component under existing programs for social and economic development. So the system mechanism of strategic planning coordinating tasks and activities is determined.

Conclusion

The vast and unequally developed territories of Russia call attention to the problem of preserving state integrity and sustaining economic development. The main factor for overcoming poverty is economic growth. Economic growth in Russia has contributed to poverty reduction, but at the same time it has increased social differentiation. For the time being the state policy of providing social transfers and benefits does not contribute to overcoming poverty in the regions. On the other hand, while there is no detraction from the merits of the role of state financing in forming regional development strategies, it is important to note that in the market economy only the private sector through creating innovative goods, services and management methods, is capable of genuinely contributing to regional economic development, The public authority bodies in the regions can only govern within the investment climate and provide necessary assumptions for economic growth.

As a way of conclusion, one should note that in the eastern part of Baltic Sea Region the problems of territorial development seem to be reinforced by the recent political transition in Russia and the fact of significant differentiation in terms of socio-economic development.

The need for drastic steps toward regional development in Russia is caused by the necessity to respond to the most urgent challenges at the regional level. Therefore the basic strategic documents were elaborated. A new stage of the regional development planning process is connected with institutional building and a framework for long term spatial development. But elaborating concepts and designing good institution are not enough .Their implementation has proved to be quite a challenge. The regional territorial development and spatial planning quality could be a part of regional government effectiveness and investment attractiveness for the Baltic Sea area of Russia.

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RURAL TRANSITION AND DIVERSIFICATION– OPPORTUNITIES AND CHALLENGES IN ESTONIA AND LATVIA

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Abstract

This article investigates conditions of and drivers for rural diversification in Latvia and Estonia and is empirically based on two case studies. It discusses what new processes of diversification can be observed and whether rural areas have found new roles to replace collective farming. The development of a service society offers new opportunities for a more diversified economy. However, locally the diversification processes are weak. The population, activities, and incomes are more diverse than before the transition, but rural areas suffer from low incomes and a strong dependency on pensions. Contacts with capital areas and Western markets are increasingly vital, but since many people only have skills in agriculture and few contacts outside of the area, starting a business or finding employment are difficult. The challenge for rural development policy is to complement traditional financial support with education and community building in order to increase the absorption capacity of rural areas and increase the possibilities for rural inhabitants to exploit new opportunities.

Keywords: rural diversification, rural business, commuting, labour market, rural development

Introduction

Decreasing employment from agriculture is an all-European problem. The proportion of the rural population engaged in agriculture fell steadily in rural areas of Western Europe during most of the 20th century. In Eastern Europe this fall has been more dramatic. Before the transition, rural life was organised in large state and collective farms that provided employment, housing and social services for the rural population. Then, in the early 1990s, most of these large farms were privatised and split up into smaller land holdings. Agricultural production declined rapidly [Turnock 1996; Bright et al. 2000]. In Latvia and Estonia many rural inhabitants have lost their jobs and rural areas suffer from persistent unemployment and poverty [Alanen 2004; Tisenkopfs 1999; Yao 2005]. Rural diversification seems essential to avoid massive depopulation and increasing poverty and will be high on the agenda for rural development in the years to come [Rural Development Plans for respectively Latvia and Estonia 2004]. The EU Common Agricultural Policy 2007-2013 focuses on three thematic axes laid down in the new rural development regulation, of which "diversification of the rural economy" is one [European Commission 2006].

In Western Europe, the countryside has changed from being only a place of agricultural production to increasingly being appreciated as a place to live in and for leisure. The countryside is shifting from a "place of production to one of consumption" [Marsden et al. 1993]. Opportunities for diversification are strongly connected to this changing function and role of the countryside. In contrast, the socialist countryside was described as a place of

agricultural production above all. Tourism and recreational activities were insignificant. Therefore, today services are posed as the main opportunity for rural diversification in the post-socialist countryside [Swain 2000; Turnock 1998].

The paper presents results from a finished PhD project on rural change in the Baltic States and is based on empirical data collected in 2001 and 2002. The aim of this article is to contribute knowledge on rural change in Latvia and Estonia in relation to the role and function of rural areas and to discuss the opportunities and constraints for rural diversification and implications for rural policy.

Approaching Diversification

There is no single definition of "rural diversification". In areas characterised by "rural diversification", the share of incomes from secondary and tertiary activities, often referred to as the "non-farm economy", is increasing [Terluin & Post 1999]. The concept is perhaps most often used as a vision for rural development in programmes and policy texts.

Farming and Diversification

In rural research "diversification" is mainly used to describe the diversification of incomes and activities connected to farming, and diversification is a process of decreasing dependence on traditional agriculture for the farm population. The centre of attention is dominantly the farm household and its ability to find new activities and employment. There are two types of activities: on-farm and off-farm. On-farm activities include the farm household investing in new business activities e.g. tourism activities or alternative farm production at the farm. This is also called "farm diversification" [Bryden et al. 1992]. Off-farm activities are members of the farm household taking on employment away from the farm and are referred to as "employment diversification" [Chaplin et al. 2004].

Over the years, the funding for "diversification" in the EU and also at the national levels has predominantly focused on farm diversification such as stimulating tourism activities, alternative farm products and nature management at individual farms [Council Regulation 1999; Rizov 2006].

The socialist agricultural system consisted of large-scale "industrialised" agricultural enterprises and small household plots cultivated by farm workers [Swain 2000]. But rural areas also had industrial production units like processing plants, distilleries and bakeries either connected to the large farms or as separate state enterprises [Andor 1997; Nikula 2001; Herslund & Sørensen 2004].

During transition, new individual farms were created through the disintegration of the large farm enterprises. Land has been restituted to former owners and household plots have been privatised [Estonian Ministry of Agriculture 2000; Latvian Ministry of Agriculture 2001]. The aim of the restitution of land in the Baltic countries was based on the idea of creating individual farming i.e. family farms similar to the traditional Western European model [Alanen 2004; Tisenkopfs 1999]. However, the "family farms" are uncommon today. A dual structure of farms has re-emerged: a few large-scale privatised ones, often corresponding to the former socialist farms, but mostly small household farms dominatingly

oriented towards self-subsistence with limited specialisation [Tisenkopfs 1999; Chaplin et al. 2004]. According to Tisenkopfs (1999) most farmers are just people that have access to land but not farmers that actually farm for profit. Swain (1999) also describes the many small farms as a situation of "peasantification of the unemployed", where people farm because they have no other options. The non-farm units like distilleries or dairies have been called the "resilient units" [Andor 1997] or "adapted old businesses" [Herslund & Sørensen 2007], because while the large farms closed during privatisation, at least during the first years after independence they continued their operations, if at a much lower level of activity than before.

The Urban-Rural Shift and Diversification

Some rural areas in Western Europe have experienced an increase in population and service activities not related to the farm sector. This observed trend has been described as the "urban-rural shift" or the "rural turn around" [e.g. Murdoch et al. 2003]. The migration pattern between rural and urban areas has changed from people leaving rural areas to the counter-urbanisation of urban people [Champion 1998]. Rural areas are now not only places of agricultural production but also places to live in and to visit for tourists and day trippers. The "urban-rural shift" has mainly been connected to population movement but can also be connected with business activities. Since the 1970s industries have settled in some rural areas because of lower costs i.e. "rural industrialisation" [Fothergill et al. 1985]. However, today there is more of a focus on the qualitative aspects of business location [North 1998]. An interrelationship between the in-migration of people to rural areas due to quality of life considerations and economic entrepreneurial activity is stressed. It is a "counter-urbanisation-led" diversification [Murdoch et al. 2003] connected to a "middle-class" group of out-movers seeking nature, a bigger house and a less stressful daily life and starting up new businesses.

A characteristic of the post-socialist countries is that a larger share of the population lives in rural areas than in Western Europe. "Under-urbanisation" is often emphasised as a central feature of socialist rural-urban relations. This means that housing construction in urban areas did not keep pace with industrial development and therefore many workers continued to live in villages, where they could benefit from plot farming while commuting to work [Andor 1997; Szelenyi 1996]. Therefore Swain (1999) describes the rural population in post-socialist countries as well prepared for the "late-modern" era, as the education level is generally higher than in Western Europe.

Today both Latvia and Estonia are experiencing a negative natural increase of population. However, in both countries many rural areas experienced a growing population especially in the years after independence due to an in-migration of people from urban areas. However, this trend is not clear anymore and people are now also moving from the rural areas to the major cities [Krisjane & Bauls 2002; Sjöberg & Tammaru 1999]. However, Tammaru (2001) questions whether "counter-urbanisation" is the right term to describe the rural population increase, as it was caused by poverty and social problems in contrast to the lifestyle choices in the Western European context.

In the socialist times village infrastructure was neglected and there was a poor provision of basic services. Together with the dissolution of the collective farm and its connected services, researchers talk about a "service-gap" left in the post-socialist countryside [Swain,

2000; Turnock 1998]. One of the major expectations for rural development is the filling of this "service gap". Korcelli & Nowosielska (2000) propose "insitu-urbanisation" as a major feature of the development in the years to come at least in the Polish countryside. "Insitu-urbanisation" means the opposite development to the large-scale depopulation experienced in Western Europe starting after the Second World War. They believe that many people will stay in rural areas and commute to urban areas or start a business.

This project is stimulated by general questions about the role and function of rural areas in Latvia and Estonia, and whether processes such as "filling the service gap" or "insitu-urbanisation" can be used to describe the transition and change. Given the pattern of agrarian structures in Latvia and Estonia consisting of many small farmers, this study of diversification will not analyse the issue solely in terms of a "family farm model" as has been done in many Western European studies. This study looks into possibilities for "employment diversification" of former farm and industry workers and "farm diversification", as well as wider "business diversification" not necessarily related to agriculture, such as service activities, transformation of former non-farm units, rural industrialisation and counter-urbanisation-led business development.

Methods

To develop an understanding of rural change and diversification, the focus is put on local areas and their populations with the assistance of case studies exploring the situation of rural inhabitants and local business activities in two specific areas. In the transition context, a bottom-up approach seems increasingly important. This is because the local transition is not a straightforward expression of new frame conditions and macro-structures; rather, the collapse of the administered system has made change even more dependent on the specific area and on individual capacities.

The units of analysis are not only farm households, but also a wider representation of rural households and businesses. These households and businesses are made up of individuals with certain capacities, and they are situated in specific regional contexts. In Estonia, Viljandi County was selected as an agricultural region. This county was an important agricultural production area before Estonia's independence. Agricultural employment is still more important there than the national average but production has decreased dramatically. In Latvia, Rezekne County was selected as an industrial region. Traditionally, this was a strongly industrialised area with mainly traditional industries in the areas of food processing, construction and heavy industries. However, many of its large factories closed during the 1990s. The regional centre, Rezekne City, has 43.000 inhabitants and is Latvia's seventh largest city.

The data collection is based on a household study and a business study. The household study was conducted in one particular rural municipality in each county. The business study covers businesses in the same municipality, but also includes more rural municipalities in the respective counties to get a wider representation of businesses.

The household study is made up of a questionnaire survey with 95 household in each municipality, which is around 1/5 of all households in each municipality. Households were selected randomly by knocking on the doors of every fifth house or apartment block. 20-25 of

these households were then interviewed. The questionnaire survey was done to provide an idea of the distribution and kinds of non-farm activities and the use of support and institutions. The interviews then go deeper into the capacities and problems of rural inhabitants in making a living. The business study is based on interviews with business managers about their business activities, the history of the business and their networks and relations. In some cases, employees were also interviewed.

Results

In both study areas all land and property was nationalised during the Soviet period and one large collective farm covered what is today approximately the size of the rural municipality territories.

Households receive their incomes from multiple sources. In figure 1 and 2 the main and second income sources of the households are presented for the two study areas respectively. In the Latvian area, pensions serve as the main income source in more than half of the households. However, most households surviving mainly from pensions are made up not only of two pensioners but also people of working age, which indicates a large share of underemployed people. In many cases, unemployed or casually employed people from the industrial city have moved to live with their retired parents in the countryside. In both areas most people have at least a special secondary or technical education in agriculture or mechanical works. Around a tenth of people have a university degree in agricultural engineering or administration. In the Estonian area, before independence 3/4 of the inhabitants were employed on the collective farm and some people in state forestry. In the Latvian area, 2/3 of the people worked in agriculture and the rest commuted to work in industry in the county capital.

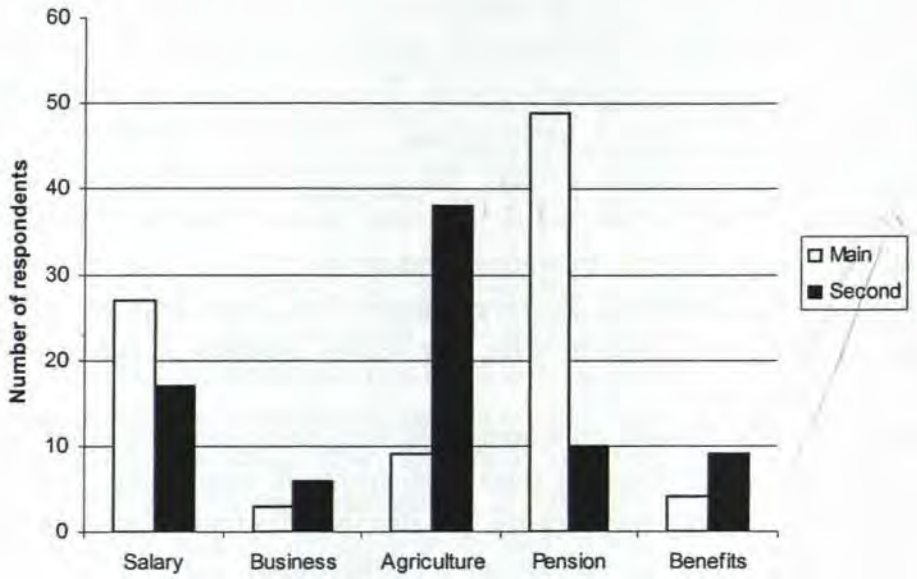

Figure 1. Main and second income sources for households in Latvian area (n=92).
Source: Survey data

In the Estonian area, wages provide the main income in about half of the households. Pensions are not as important here as in the Latvian case. Income mainly derived from pensions is mainly in households of a retired single person or couple. Pensions are the main income source in only a few households with several generations.

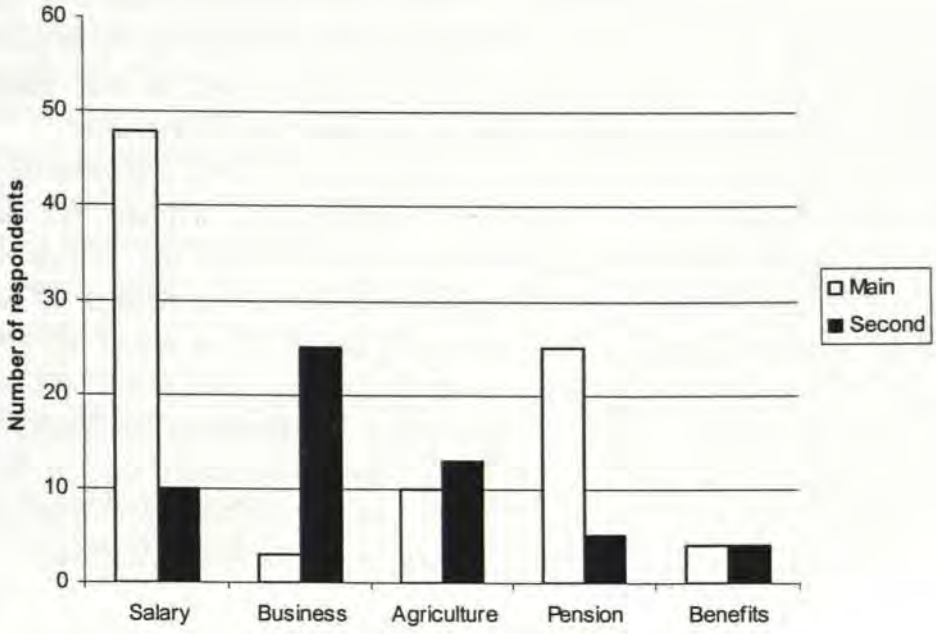

Figure 2. Main and second income sources for households in Estonian area (n=90).
Source: Survey data

Most households are involved in some agricultural activities. However, farming is not the main income source for most households but serves as a second income or for exchange. The households typically have one or two cows, cultivate potatoes and a few grow some grain.

Farm Diversification – From Large-Scale to Very Small-Scale

In both areas, prior to transition large-scale agriculture was the backbone of the rural economy. Most of the non-farming activities were enterprises servicing the local farm sector or processing farm products. In comparison to this diversified large-scale agricultural production, today farm-related activities mainly take place on-farm at small farms. However, this on-farm diversification is mainly small scale home-brewing, agro-services or sausage making for exchange and own subsistence. The small farms do not generate much investment for larger farm diversification activities.

Larger, new "on-farm" activities in rural tourism have not been started with investments from farming but by sawmill owners and people who own forests. Instead of farm diversification, this should perhaps be called "sawmill or forestry diversification". Some privatised non-farm activities and state enterprises are still in operation, however a common

development is that these privatised businesses have changed products or services and are not related to the local farming sector anymore. Thus, the emerging non-farm economy is not connected to the traditional farm sector or investments from farming.

Business Diversification – From Production to Filling the Service Gap

Rural business is mainly involved in services and industrial production. Services are a main activity but the market for services is still small and made up of locals. Only a few tourists visit the areas. Counter-urbanisation and tourism still do not present a major opportunity for more diverse public and local service activities in these areas.

The main opportunity for business development is to find a service or product that attracts a larger market than the local one. However, it is evident that such business developments demand great investment and information from the outside. A few new businesses and former non-farm units have developed services or products for larger markets in sawmilling, processing industry and services, IT and electrical works. However, it is the few outsiders or people that have relations or skills from outside the local area that are involved in such activities. "Rural industrialisation" by incoming businesses can only be found in the Estonian area, as it is closer to the capital. In contrast, the Latvian area is not attractive to incoming production industries as the area is peripheral from Riga, infrastructure is bad and better production facilities and raw materials can be found elsewhere.

Employment Diversification – Integrating into New Labour Markets

The local labour market connected to large-scale farming has decreased dramatically. Most people have lost their stable paid employment in the collective. There are still some "old" unqualified jobs left in privatised companies. These jobs are, however, often temporary and unstable. Until now, new business developments have created some new employment possibilities, but these can be difficult to achieve for many local people because they lack the required skills in management or book keeping. Therefore, "employment diversification" depends not only on whether local people can integrate into the new local labour market, but even more on the possibilities for commuting to employment in urban areas. Urban employment is essential for rural incomes.

In the Latvian region, people have few possibilities of finding urban employment, as the district capital has seen a radical decrease in industrial production and the area is far from the capital of Riga, to which most people cannot afford to move as rents are too high. In the Estonian area, many people commute both to the district capital and Tallinn, often for a week at a time. Many young people move there altogether.

Social Diversification – New Skills and Networks

After previously stable employment in collective and state enterprises, people now rely on multiple income sources. For some people the income of the collective farm has been substituted by private business activities or a steady wage job. However, most people rely on unstable employment or self-employment. Certain individual skills and assets have been necessary in order to find employment and start a business. Assets obtained through

privatisation such as a tractor, van or production facilities have enabled some people to start a business or trade it for money to invest in other activities. Skills in forestry, services and management have also been essential for non-farm businesses or finding employment, in contrast to the outdated skills in agriculture and industry that most people have. Contacts to influential local people have enabled people to inexpensively acquire buildings or machinery to start up activities like grocery stores, sawmills or production. For many people, after the organised activities in the collective farms disappeared, neighbours and family members were the only people left to rely on. These networks are important for survival but they cannot provide investments or much information on new markets. Many rural inhabitants and businesses work in isolation from official institutions, and only a few attend local meetings. As the total number of organisations and institutions and their types is limited, the possibilities for obtaining information and learning new opportunities are limited.

Some people might have benefited from gaining specific assets through privatisation and connections to local leaders. Today, however, without large investments and new information and contacts to markets abroad or in the capital city, extending activities or finding employment are difficult. Today there is social diversification between those people with contacts outside the local area and those who can only rely on neighbours and family members. Integration into a new labour market or business environment in the capital areas is a necessity for most rural inhabitants.

Discussion – Rural Policy

On-farm diversification has been assumed by policymakers to be capable of making a significant contribution to rural development and to alleviate poverty. But as this study shows, farm diversification does not generate much employment or income in these areas. Focusing only on farm diversification leaves one with little understanding of the present rural economy, and for rural policy this is a much too narrow approach in order to create wider rural development.

Support for rural development needs to be many-sided. It is positive that EU support for rural areas now includes a stronger focus on rural development that is not only centred around modernising agriculture and investing in on-farm ventures. The SAPARD programme and the CAP include "diversification" and rural infrastructure, and hopefully a LEADER programme can become a reality in the new member states in a few years time. But even with more possibilities for support, it is important to keep in mind that the local absorption capacity is weak. Rural areas and their inhabitants need to find new roles in a more open system where rural diversification is about learning new skills and integrating into the broader society and urban development.

Although many people are educated, their skills are outdated and do not fit the present situation. Most people need new skills and networks outside the local area.

While there are few institutions and networks for change, the possibilities for rural inhabitants to take an active part in rural development are negligible. Therefore, any rural initiative must also include training, community development and mobilisation of the rural population so the local capacity for organising, developing and implementing new activities is strengthened.

Conclusion

The drivers and conditions for the rural economy changed with independence and are still changing. Agricultural markets have diminished. The development of a service society and new export and labour markets offer new possibilities for a more diversified economy. Rural areas are loosing their role as places of production as the more traditional rural business in farming and farm related activities are closing. However, rural areas as places of consumption are only emerging slowly.

New services have emerged to fill the "service gap". However, the "service gap" is not yet a profitable business opportunity, as rural tourism and counter-urbanisation other than for social purposes is limited. For many people the situation is a forced "in-situ urbanisation", as they have few resources to improve their situation by moving out of the areas, finding new employment or starting a business. The drivers for the present non-farm economy are very much exogenous to the areas. The scope for rural diversification seems to be about integrating into the new economy. However, it is clear that diversification in areas like this is not something that just develops, but is a process that needs an active effort and specific local capacities. But while endogenous capacities are important, endogenous potential such as skills and people's social capital appear to be weak. A crucial point is that many rural inhabitants have difficulties in exploiting the few new opportunities for non-farm activities. As many people have skills mainly in agriculture, few means and assets, and no contacts in markets and labour markets outside the area, they cannot find employment or start business activities. Support for rural diversification and development must therefore work to extend the possibilities for local inhabitants to exploit new opportunities, and must be complemented by education and community development.

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SMALL TOWNS AS EMPLOYMENT AND SERVICE CENTRES IN LATVIA

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Abstract

The focus of this study is the situation in Latvian small towns and their surrounding rural areas after accession to the European Union (EU). The project "Influence of Objective and Subjective Factors on Attachment of Populations to Small Towns in Rural Areas of Latvia" was carried out by a group of researchers in 2006. This project included the study of changes in small towns and surrounding territories. The aim of the study was to discover employment strategies used in small towns. The article analysed current employment problems in small towns: provision of workplaces, salary levels, work and social security, the influence of migration on employment, as well as formal and informal influences of social networks. Special attention is paid to the eligibility of small towns to become Employment and Service Centres (ESC).

Keywords: social networks, employment strategies, small town.

Introduction

Latvia has been a member state of the European Union (EU) for three years. What have been the employment problems in the towns of Latvia during this period? To evaluate this, we have to take into consideration that Latvia has developed its employment sphere over the last 15 years since the renewal of its independence.

The research project was carried out as a case study. The methods used were document analysis and experts interviews. The *small towns* are observed as a special social environment with different social interaction characterized through distinctive social networks.

The places of the study were chosen according to four criteria: the distance from the capital (more than 100 km), the distance from important employment centres (more than 20 km), the status of specially supported territories and proximity to the border of Latvia (land and sea). The field work was curried out in six small towns: Piltene, Pāvilosta, Ape, Dagda, Aknīste and Viesīte. These could possibly become the centres of new districts in line with the Administrative Territorial Reform (ATR). The field work included interviews with representatives of municipalities (leaders and specialists), local employers (entrepreneurs, managers of state institutions) and employees.

The aim of the research is to find out employment strategies used in small towns, taking a qualitative approach.

Social Networks in Small Towns

Cities, towns and rural territories of Latvia differ not only by the number of inhabitants and geographical locations but also by concrete socioeconomic specifics.

A town is a setting with its history, traditions and specific features. According to theories of urbanism, small towns differ from cities with less expressed dynamics and

alienation. There are different criteria for determining the status of small towns. A small town can be considered as a transition from urban to rural.

There is not one generally accepted approach to classifying small towns according to statistics. One approach is having between 2 000-2 500 and 20 000 citizens [Preservation Struggle 2004]. There are 77 cities and towns in Latvia. Seven of these are so called republic cities, 20 towns are regional centres, while the others can be considered as small towns [Dažādā Latvija... 2005, 157]. The difference between a town and rural area is not strict.

Social networks are explained as relationships and interaction of individuals within local society. They are contacts and relationships based on trust and solidarity and giving social capital [Kenneth 2006, 108]. Employment problems exist within social networks. Their meaning is also connected with the availability and activity of the social networks.
Social networks are formed through the relationships of individuals, groups or organizations forming for base cooperation and collaboration to achieve common aims. They can exist for a short or long time.

The network approach is understood as a set of logical principles on the basis of which research problem was worked out. The fact that individuals belong to a given occupational stratum enables them to activate a series of contacts with people and institutions making it possible for them to accumulate the necessary resources in order to be able to stay there. [Memoli 2004, 482] Living place is one of the factors influencing an individual's involvement in the social network.

The network can be divided into the prime or natural network (informal) and institutional or secondary network (the formal). Informal networks are connected with relationship in the family, taking into consideration its history and internal environment. Friends, acquaintances and different contacts at work can also be included in this group. The formal network is connected with state institutions and organizations [Matos, Sousa 2004, 68]. The less urbanized the environment, the greater the importance of the social network in forming stronger links i.e. people exchange information and support each other.

Social links can be strong or weak. The strong links are among family members and close friends, and long time neighbours are also important. There are weak links among acquaintances, relatives and persons with irregular and frequent relationships. Acquaintances and relatives can serve as the mediators of information flow [Granovetter 1973]. In the employment field, informal social network are very important because the empirical research data show that personal contacts (friends, acquaintances) are the most important in seeking jobs [Latvija. Pārskats par tautas... 2005, 82].

In the country, networks are usually a closed structure, while in cities they are open and very far reaching. In towns they are partly open. Therefore towns and small towns have features characteristic of both cities and the country.

A small town as a living and working place is characterised as a less urbanized environment with less opportunities than in cities and with a smaller number of citizens. As already mentioned, a small town can be considered as a transition from city to country. The employment in a town can be marked as local i.e. there are a great number of small enterprises oriented to the local market for goods and services. We can say that there exists a local network within the small town. There are for instance retail enterprises, hair- dressers, a library etc.

One of the most important territorial differences between small towns and the country is that the town is the nearest shopping place, cultural centre and working place for the most skilled local inhabitants with appropriate education who can out-compete the citizens of the town [Thomas 1999]. Therefore the small town is the nearest place for job seekers from the surrounding areas and regions. But the realization of this opportunity is limited by job offers and transport problems, both public and private. But the town is not only a work place. Citizens of the small towns and surrounding rural territories can get education, health care, shopping and free time services in the small towns. The access to service is an important aspect for inhabitants' attachment to a concrete small town and its surroundings. This is why migration processes are the indicators of small town as an employment and service centre. Employment opportunities attract inhabitants, and the lack of them promotes migration.

Migration is closely connected with social networks, social relationships among individuals and the closeness of links of this interaction. The change of places and status is one of the most common used links of interaction [Wasserman, Faist 1999]. In connection with employment, this interaction is the exchange of information between individuals (informal network) and between a job seeker and different employment institutions and organizations (employment departments). In the process of migration, first leavers act as security creators who, having had positive experiences, encourage others to come with them and offer ready work places. During the research project, attention was also paid to statistics to find out social and economic differences in different territories of Latvia and their expressions in small towns.

Analysis of Statistical Data

In Latvia, as in other new member states of EU, the socio economic development of the regions is uneven. This means that uneven development can be observed also within cities or between cities. For example, the level of employment in Riga District in 2004 was 67.3% (in 2003- 66.0%), in Kurzeme region 62%, and in Latgale region 53.6% (in 2003- 52.1%). In the aforementioned regions, the level of employment has increased but in Vidzeme and Zemgale regions it has decreased correspondingly by 0.4% and 2.6%, falling to 60.2% and 59.6% respectively. [Ziņojums par... 2005].

Uneven regional development can be explained by insufficiently developed infrastructure in the regions, which creates obstacles for the development of entrepreneurship and promotes the incompatibility of the skills and abilities of the work force with the demands of a market economy. The changing number of citizens in towns is closely connected with regional changes in the number of inhabitants. Only a few regions have seen an increase in population over last five years, for example Jelgava, Ventspils, Rēzekne and Riga districts. Ludza district has lost population most dramatically, by 13.8%. The decrease in the number of citizens in almost all the regions is connected with the overall decrease of inhabitants in the state [Dažādā Latvija 2005, 357]. The decrease of citizens is explained by the negative natural increase of inhabitants of the state, and attention also has to be paid to migration, which decreases the number of citizens in concrete regions, towns and rural territories. The migration of inhabitants is both a consequence and a cause of employment problems.

In Latvian statistics, there is little information about small towns; what does exist is mainly included in the common data about the country or economic characteristics of the administrative districts. This means that a small town as a statistical unit is complicatedly accessible.

Out of 50 small towns in Latvia, six have been included in the case study: Piltene, Ape, Aknīste and Viesīte are towns with rural territories, while Pāvilosta and Dagda do not have defined rural territories. (Pāvilosta is now the centre of Saka Parish.)

Table 1

The Population Decrease in Small Towns 2001 - 2006

Small Towns	2001	2006	Loss of Inhabitants, % 2001 - 2006
Piltene with rural area	1817	1736	-4.5
Pāvilosta	1184	1215	2.6
Ape with rural area	2058	1867	-9.3
Dagda	2813	2649	-5.8
Aknīste with rural area	2051	1891	-7.8
Viesīte with rural area	3084	2804	-9.1

Source: CSB

The number of inhabitants in the chosen towns ranged from 1 000 to 3 000 in 2006. Municipalities have the right to define their own status depending on political and historical priorities and experience. This status determines different functional conditions for the municipalities. For instance, the condition for opening or closing classes at school are different - 12 children have to be in a class in town but only eight in a rural area [MK noteikumi No 735, 2005].

Statistical data shows that during last six years the number of citizens has decreased in almost all towns. (See Table 1)

2005 was a special year regarding decrease of population. It was the first year after joining the EU and with broad opportunities to work legally in the member states of the EU. It is possible that these legal job opportunities have prompted the leaving of the small towns. In almost all the researched small towns, the number of inhabitants has decreased in the 21st century. One of the small towns with a positive increase of citizens from 2001 till 2006 is Pāvilosta. The decline of the inhabitants could be observed only in 2005 but in other years there is a constant growth. In the time period, the greatest decrease of inhabitants was in Ape and its rural territory - 9.3%. There was a positive increase in Pāvilosta, Dagda and Piltene in some years. The question of which age groups are forming this increase and if there are working age people among the newcomers needs to be studied. In the other small towns, both net migration has been negative since 2001(see Table 2).

As local experts point out, sometimes people do not register changes of their living place officially. This means that, in fact, the net migration is larger. The number of unemployed persons shows how complicated the situation of employment in rural areas is (including small towns). Statistics on the level of unemployment in regions, districts, towns and rural territories show important differences. In 2006, the level of unemployment considerably decreased but there are territorial differences [Dati par... 2007, CSB 2007]. The

statistics shows the correlation between the lowest employment level in Latgale region and the highest level of unemployment in the towns of this region.

Table 2

Net Migration Rate and Net Natural Increase in Small Towns

Towns	2001	2002	2003	2004	2005
Piltene with rural area	1817	1804	1778	1776	1738
natural growth	-6	-11	-15	+2	-10
migratory population growth	-7	-15	+13	-36	+8
Pāvilosta	1184	1236	1260	1271	1265
natural growth	-5	-9	-16	-24	-16
migratory population growth	+57	+93	+27	+18	-34
Ape with rural area	2058	2031	1972	1941	1897
natural growth	-19	-23	-23	-20	-14
migratory population growth	-8	-36	-8	-24	-16
Dagda	2813	2793	2783	2722	2711
natural growth	-41	-40	-41	-41	-51
migratory population growth	+21	+30	-20	+30	-11
Aknīste with rural area	2051	2017	1973	1951	1922
natural growth	-21	-29	-19	-27	-30
migratory population growth	-13	-15	-3	-2	-1
Viesīte with rural area	3084	3058	3007	2918	2854
natural growth	-28	-28	-16	-14	-22
migratory population growth	+2	-23	-73	-50	-28

Source: CSB

Dagda was chosen for a deeper study of employment problems because it is in a midway position in respect of changes in the number of inhabitants, and it is the only studied small town without a rural territory and it is not a district centre. It is therefore possible to analyse the indices of unemployment that characterize only small town citizens. Table 3 shows the proportions of different risk groups of the unemployed and changes between 2004 and 2006.

Table 3

Unemployed Risk Groups in Dagda 2004 - 2006 (at the beginning of year)

Risk Groups	2004	%	2005	%	2006	%
Long-term unemployed	532	63.2	614	66.8	610	64.6
Young people under 25	111	13.2	81	8.8	95	10.1
The disabled	17	2.0	31	3.4	37	3.9
Released from prison	12	1.4	11	1.2	6	0.6
On maternity leave	67	8.0	91	9.9	86	9.1
Pre-retirement age unemployed	103	12.2	91	9.9	111	11.7
Total unemployed	**842**	**100.0**	**919**	**100.0**	**945**	**100.0**

Source: State Employment Agency (SEA) in Dagda

By analysing of the structure of unemployment, we can conclude that in Dagda, the highest percentage is formed by the long term unemployed at 64.6%. The total number of registered unemployed at the beginning of 2006 exceeds the average indices in the state and in Latgale [www.csb.lv 2007]. A notable percentage of the unemployed comprises unemployed persons in the pre-pension age (5 years before retirement). This group comprises between 9.9% and 12.2%.

Young people under 25 years are also an unemployment risk group, comprising approximately 10.7% between 2004 and 2006. There is a vocational school in Dagda. It provides professional training but does not guarantee employment.

Citizen's decrease in small towns is determined by a negative natural and mechanic increase. The movement trends of citizens of small towns are similar to those common throughout the country, but in some cases they have a local explanation. The existing system of inhabitant's registration does not supply credible information. Unemployment characterises employment problems at small towns. Employment problems are connected with job provision, migration and other factors.

Employment Problems Stressed by the Respondents

Speaking about the mapping inhabitants in a given territory, the respondents pointed to employment problems. In the study, different groups of people in the targeted small towns and their surrounding territories were interviewed. By summarizing the results of the interviews, we can find out two groups of problem according employment (See Figure 1):

- Problems connected with employment: provision of work places, wages, work and social security;
- Problems affecting employment: migration, influence of formal and informal social networks.

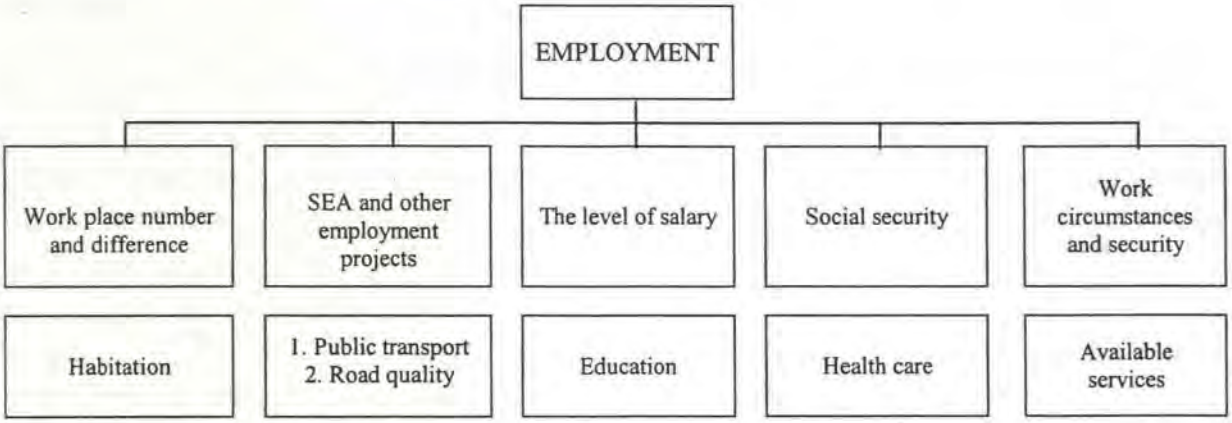

Figure 1. Factors Affecting Employment in Small Towns

Keeping people in a certain territory is connected with employment opportunities. Important features of employment are the number and variety of work places, employment projects, and the level of wages, social security and job security. Factors affecting employment in small towns are work place number and difference, State Employment

Agency (SEA) and other employment projects, the level of salary, social security, work circumstances and security, habitation, public transport, road quality, education, health care, available services (Figure 1).

Employment is influenced by factors like housing, public transport and quality of roads, education and accessibility of services. Young people and specialists do not come to live to towns where they cannot obtain houses for a normal price, where these are no schools or pre-schools etc.

Number of Work Places

There is a link between the geographic mobility and the deficiency of work places. Unemployment can be influenced by all the mentioned factors: age, gender, poor qualifications and experience, inability to work for long hours, as well as health problems, lack of interesting jobs, employer's dissatisfaction with subordinates, passivity, lack of self-confidence, unwillingness to work, personal degradation (the most common form is alcoholism), and bad luck in job seeking. These are typical factors for places with an insufficient number of jobs.

"We have few workplaces... a wood processing enterprise producing only export production... There are just a few dairy farms. We also have some sheep herds. There are, of course, state establishments employing a lot of people. We have few educational establishments- a secondary school, music school, art school. There is primary school and a kindergarten. But it is all." [Gaujiena, local employer].

Everyday work trips are routine for many inhabitants of small towns. The number of job places is limited and new jobs are not being created at all the small towns. In almost all the interviews, the respondents state that there are insufficient work opportunities.

Salary Levels

The delays in wages payments may cause difficulties for the workers. It is difficult for small and medium private entrepreneurs in the country and small towns to compete with larger enterprises in cities due to transport and communication costs. Salary levels are low and employees often agree to work more hours. According to CSB data, in 2005 55.1% of surveyed citizens of Latvia worked 40 hours a week as prescribed by the law, 15.1% worked less than 40 hours a week (mainly women) and a little bit over one quarter 26.7% worked more than the official working time (the majority of this group were men) [www.csb.lv... 2007]. The data show that many of these people are trying to earn supplementary income working overtime at their work.

"We don't have wages like in Riga...Ls 100 maybe 150, minimal wages mostly. Pensioners have privileged status. "[Aknīste, employee].

An important condition that characterises job security is that workers are employed illegally without contracts in many enterprises in Latvia. This means that the employers escape payments of taxes and official obligations for their employees. Illegal employment is a way in which the entrepreneurs are trying to respond flexibly to the changes in the labour market. An individual employee loses in this situation especially if he/ she is not able to improve his/her qualifications and level of knowledge in line with the demands of the labour market.

"It is impossible to cope, we are short in time and money, and payments are high but the wages are as they are. "[Viesīte, representative of the municipality].

There is a relatively high level of non-registered employment in sectors such as building, processing, agriculture and transport. Especially negatively are influenced those having low wages.

Working Conditions, Social and Work Security

Work security in Latvia includes factors like labour protection (conditions in the work place), job security and wages [Lune 2002].

"People in this country do not feel safe for themselves, their families. Will I hang on or go down with my family? Expectations increase over time. Everything changes so fast that it is impossible to follow. Yes, there are things the state could support: education, raising qualifications. "[Viesīte, employee].

Many respondents from Vidzeme region stressed that social security and work protection is better in Estonia than in Latvia. They stress the role of obligatory health insurance, that it is included in state social security system. Respondents of all small towns expressed dissatisfaction about provision of social security of all employees.

"Many people leave for Estonia to work because enterprises are closed here- high costs. There is a higher minimum wages and attitudes to people are different as well... There is obligatory health insurance. People feel more secure [Ape, local employer].

It is easier for job seekers to go to work abroad than solve employment problems in small towns.

Often a combination of factors contributes to the decision to work abroad. The typical reasons are low income, difficulties in personal and professional life, poor working conditions, lack of opportunities, and weak support from the state, municipalities and family and friends.

Migration and Employment

Migration is an important factor in solving employment problems. There are different forms of migration: commuting, internal and international migration. Statistically, migratory growth was positive in Dagda, Pāvilosta and Piltene. The people interviewed mentioned that pension age people move into small towns more often than people of working age.

"Working age people do not move. Only sometimes they go to work to neighbouring areas. If they go, they go far...The young people go away... Who is able to work" [Dagda, employee].

The migration of working age people resulted in the decrease of the unemployment level because they are leaving together with their families.

"Unemployment diminishes. Until now (2006) 18 people have gone but only 8 have been born. Young families with children are leaving. In total about 200 have left, even with their families." [Ape, representative of the municipality].

International migration of the work force can be promoted by inability to find a suitable work in small towns and poor conditions at the present job.

"More and more people leave. Two years ago we could know about all of them. Now the process is out of control. We don't even know where the people are- if they stay in Riga or in some other city or if they have left the state." [Aknīste, representative of the municipality]

International migration is one of the solutions for job seekers in small towns. Their mobility is connected with circumstances caused by economical, political and social factors.

Social Networks

Social networks affect solving of employment problems in small towns. They are information sources for finding work and migration goals where could be find good job as well as acceptable social security circumstances. It is the most widespread way how people find job or migrate from small towns.

Formal networks are connected with the activities of ESA, municipalities, social services and non- governmental organizations. The people involved in the formal network usually know each other in small towns. Use of formal networks often provides realization of employment opportunities. Respondents from Aknīste and Ape mentioned this.

"Generally, there is a job if only person wants to. They all (unemployed) are recognized by the municipality and we are even looking for people who could formally be the unemployed and work for the paid jobs and projects." [Aknīste, representative of municipality].

They also have informal links between them. This means that it is impossible strictly divide the influence of formal and informal network in the social environment of small towns. Family and relations mean not only the nuclear family but also broader family relationships.

Therefore the amount and intensity of social contacts influences employment opportunities. Quantitative research in USA and Finland show correlation between the level of unemployment and out-migration. [Boyd 2002, 556] There are stronger networks of out-migration in territories with a higher level of unemployment. People in places without work possibilities often remain unemployed for a long time. The long- term unemployed are included in the strata of the poor. Their income is not enough to meet even minimal material needs. In spite of widespread problem, there is no common opinion about solving possibilities.

"Training of the long term unemployed- it's a waste of time. Nobody needs it... Long term unemployed are not good characters. You can't arrange anything with them. They often drown their sorrows... nobody wants such an employee." [Dagda, representative of municipality].

Social networks promote "good" or "bad" reputations of people. The identity of an individual in small town can be closely connected with their family.

"X is a famous surname everybody knows us. My mother is a teacher ... all brothers and sisters live here, all have good job and families." [Ape, local employer].

The strength of family links is equally important both for internal and international migration. The difference is that it is much easier to move within the state as frequent family contacts are possible (for instance, once every two days or every weekend). Problems in family arouses in case of out-migration.

"Problems in family. Neighbour is in Ireland already for 8 years. Now he is thinking if taking his wife there or to look for job here." [Dagda, representative of municipality].

Employment problems in the labour market encourage employees to take action, to change their situation; people migrate and are separated from their families for a long time. This results in new problems. In the last decade, the migration of citizens as one of the solutions to employment problems has touched the labour market of Latvia particularly strongly. Not only international but also internal migration is of great importance in the solution of employment-related problems. Commuting has become routine for a part of the population, and for some it is a good alternative to leaving for abroad.

It especially touches rural areas and small towns from which inhabitants leave looking for a better job. Social networks are of great importance in such cases. They serve not only for information exchange but also as a guarantee of security and stability.

Informal networks in small towns are so important they interwoven also formal organizational structures (municipality, ESA).

The analyses of interviews show the importance of formal and informal networks and the interaction between them. Social networks operate through immediate family, relatives, neighbourhood and acquaintanceship relations and also between organizations and informal groups. Small towns are social environments where the role of social networks is more significant than in more urbanized areas.

Discussion, Conclusions and Suggestions

The results of the research confirm the assumption about employment as the central problem for the promotion of attachment of citizens to small towns and rural territories. Frequently mentioned factors affecting employment were habitation (availability of housing), public transport, road quality, education, health care, available services. The importance of these factors stressed in interviews was partly unexpected and is worthy of further study.

The theory of social networks offers the opportunity to analyze solutions of employment problems and strategies in small towns. In small towns, the informal network (acquaintances, relatives) is often linked with the formal network (ESA, the municipality). The result of interaction of formal and informal network in successful cases can promote employment providing people with job opportunities.

In some cases, the views of an unemployed person and potential employers can be strengthened by information circulating in the informal network. For the citizens of the small towns, social networks stabilise their status and do not encourage its change (view on employment possibilities of long-term unemployed).

The results of the research confirm the idea about the necessity of forming small towns as Centres of Employment and Service (ESC). But the research on small towns in the process of social changes has just started and must be continued.

Conclusions and suggestions are elaborated in the research:

1. Social processes in small towns differ from those in more urbanized areas. The influence of social networks is expressed in the using and offering of employment opportunities.

2. Provision of work places and factors affecting employment are the most important for attachment of citizens.

3. It is impossible to solve unemployment problems in small towns in the same way as in cities.

4. Different strategies have to be researched and formed for solving employment problems in small towns: strategies using formal social networks for small towns to become ESC and individual solutions mostly connected with informal social networks and migration.

5. It was not stated during the research that small towns are working as Centres of Employment and Service (ESC) for inhabitants of small towns and surrounding rural area.

6. To form small towns as ESC, additional research has to be done involving specialists in economics, geography and sociology.

7. Meaningful economic state support and changes in regional and rural policy is necessary for small towns to become ESC.

8. The dominant strategy for solving employment problems in small towns is the use of both formal and informal social networks.

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THE DEVELOPMENT OF OFFICE SPACE IN THE CENTRE OF VILNIUS

Marcus STADLER

Abstract

The growth of the knowledge-based service sector in Vilnius has increased demand for modern office space in a central location.

Above all, requirements of monument protection and the density of existing buildings have slowed down the development of suitable premises in the historic centre. Furthermore, traffic and parking problems diminish the business conditions.

Modern business centres at the edge of the expanding centre constitute an alternative.

The mitigation of parking problems, modern premises and the business atmosphere attract enterprises formerly resident in the historic centre or elsewhere and also start-ups. These businesses are to a higher degree focussed on international and professional clientele. Paying the highest rents for these offices, the users show the highest level of contentment with the location.

The main motivation for using offices in the historical centre is the centrality and representative nature of the location attracting mostly local and individual clientele.

Keywords: service sector, city center, office space

General Processes concerning the Office Market in the Centres of Post-socialist Capitals in Eastern Europe

The Socialist City in the Transition to a Capitalist City

The term *socialist city* can be misleading. Only a few of the specific elements of the socialist city in Eastern Europe are the result of a typical socialist – and ideologically based - type of urban planning. Focussing on the development of office space, the most significant forces creating the typical initial conditions of these cities at the beginning of the 1990s are the prolonged absence of free market principles and the inability to conserve the pre-socialist physical structure under the given economic conditions. Urban land existed without economic value, thereby blocking the dynamics creating a centrifugal hierarchy of urban use. Since the service sector was of low relevance in socialist economies, service functions occupied a relatively small area of the inner city. On the other hand, industrial areas occupied vast areas of urban land even in central locations. Under the given economical conditions, the reconstruction of existing buildings was less attractive than the construction of new ones. Therefore pre-socialist neighbourhoods in or close to city centres often were in a state of serious decay at the beginning of the 1990s [Sailer-Fliege 1999, 8; Standl & Krupickaitė 2004, 43].

Take-off of Service Sector and growing CBDs

Structural changes including industrial blight and the growth of the non-productive sector could be observed in all post-socialist economies. A growing demand for office space especially in central locations coincided with a lack of adequate premises. The pressure on office markets and the revaluation of urban space required the preparation of new premises. The result was the expansion CBDs and their increased density. This included the reconstruction and commercialisation of neglected inner city areas as well as conversion of centrally located areas with inappropriate (under a market economy) forms of use [Sailer-Fliege1999, 12].

Local Variations of this Scheme

The intensity of growth of the service sector as well as the amount and structure of foreign direct investments are the main factors influencing the dimension of CBD expansions. In contrast, variations in intra-urban patterns of office use are the result of local peculiarities. These include the topographical situation, traffic, privatisation and requirements of monument protection.

Of special interest in this connection is the proportion between modern office space in reconstructed buildings and newly developed business centres i.e. the level of integration of the latter into the urban context. In Prague for example a neo-liberal approach in privatisation of real estates contributed to a high level of commercialisation of the historic core and made the development of business centres possible [Sýkora 1999, 83]. In Vilnius, however, mass privatisation and fragmentation of real estate ownership rather hindered the commercial use of the Old Town and the development of modern office space in the historic centre [Stadler 2006, 31].

The aim of this paper is to point out the particular dynamics in Vilnius, to describe spatial patterns of office use in Vilnius, and finally to compare the use of offices in the historical centre and in modern business centres.

Vilnius' Challenge to Create Modern Office Space

Economic Growth and Structural Change in Lithuania and Vilnius

After coping with a transitional recession after the break-up of the Soviet Union, Lithuania experienced rapid economic growth. At the peak in year 2003 GDP growth reached 11.0 %, while in 2006 the economy still grew by 7.4% [Lietuvos Statistika 2006].

The capital is considered to be the engine of this development. Every year at least two thirds of FDI in Lithuania is concentrated in Vilnius [Stadler 2006, 24].

The main reason for the economic development is the enormous growth of the tertiary sector, especially knowledge-based services. Industrial production has gradually lost significance, at least in the economy of the capital [Stanaitis & Česnavičius 2006, 15].

Growing Demand for Office Space

The growth of the non-manufacturing sector indicates growing demand for modern office space, especially in the centre. Until the late 1990s Vilnius' real estate market was

unable to provide this. The area which was considered as "the centre" at that time was formed by the Old Town and its historic extension. Together, these two parts can be called the "historic centre" of Vilnius. After decades of neglect, a large part of buildings in the historic centre were in a rundown state [Kulikausas 2006, 2]. As a result of mass privatisation the ownership of real estate was fragmented, which turned out to be an obstacle to the essential reconstruction of the Old Town [Standl & Krupickaitė 2004, 44].

Due to this situation office users did not have any alternative to using partly unsuitable premises located in the historic centre. Beyond this area office space practically did not exist [Stadler 2006, 31].

Although the reconstruction of the Old Town advanced in the late 1990s and successfully improved the condition of buildings [Vilnius Municipality 2003, 9], several difficulties for the supply of modern office space remained.

Premises in the historic centre are often too small especially for growing enterprises and there are limits on their expansion. The Old Town is listed as a UNESCO World Heritage Site. This status brings with it requirements for monument protection in this area and in the bordering areas [Vilnius Municipality 1999, 20]. Hence the potential for modification of existing or construction of new office buildings is limited.

Post-socialist Expansion of the City Centre

The described situation and other functional problems in the historic centre caused the enlargement of the city centre starting from the end of the 1990s. This was possible because of urban planning under socialist conditions. For decades, there had been no dynamics creating a centrifugal hierarchy of urban use.

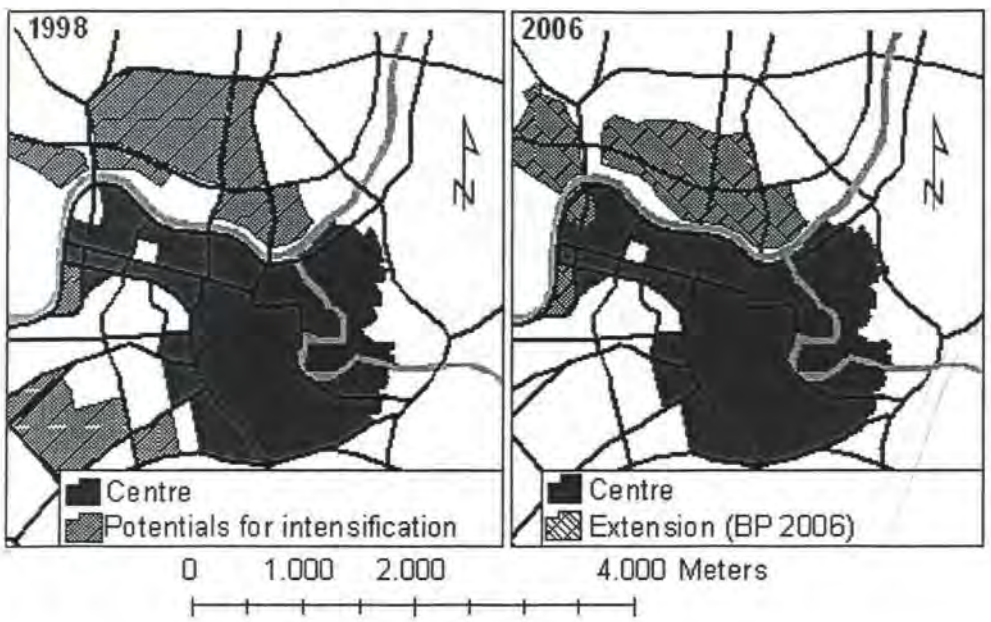

Figure 1. The centre of Vilnius 1998 and 2006

Data: Vilnius Municipality 1999, 2006; Layout: Stadler 2007.

Areas close to the centre remained in industrial use, as low class residential areas or even wasteland. Under the terms of the market economy, these kinds of utilisation in the areas located west and north of the historical centre were outdated (Figure 1).

With the aim of attracting investment, especially of knowledge-based services, the municipality created the legal conditions for intensifying the utilisation of areas close to the centre (Figure 1). The extension of the area called the "centre" became a goal of urban planning in Vilnius [Vilnius Municipality 2000, 24].

Modern Business Centres at the Edge of the Historic Centre

For real estate developers, this meant the ability to put up modern office space for a growing market at the edge of the centre but without the centres' specific problems like height restrictions or style of the buildings. The fact that most of these land plots had remained state owned simplified purchase compared to the fragmented real estate market in the historic part. After 1998, Vilnius experienced a boom in construction of modern office space, mainly in modern business centres (Tab. 1).

Table 1

Growth of office space in business centres in Vilnius, 1999-2005

Year	1999	2002	2005
Office space [m²]	6,400	39,400	130,300

Data: InReal 2006

Analysis of the Structure of Office use in the Centre of Vilnius

The described boom of business centres in combination with the situation in and around the Old Town gives rise to the question of the historic centre's future as a location for offices.

Methodology

The study area (Figure 2) includes two types of areas. The first is formed by the parts of the historic centre that were of significant importance for office use according to a survey by the Universities of Vilnius and Bamberg/Germany in 1995 and 1996. The second type is composed of formerly less intensively used areas flanking the historic centre.

All office spaces in both areas were mapped for the current analysis. The following criteria were registered: the general use and state of the building, the space used by offices, and the sector of these private enterprises.

Based on the mapping results, the area under investigation could be split into sub-areas. The subsequent aim was to detect advantages, disadvantages and potential for business activity in the sub-areas, focused on the comparison between being located in the historic centre versus the new business centres around it. To this end a questionnaire was developed. Besides basic data on the companies using the offices, it included questions about individual requirements for office locations, the motivation for site selection, previous sites, the level of contentment at the current location and possible moving plans. In total, 241 of 1 369 enterprises resident in the investigation area were interviewed.

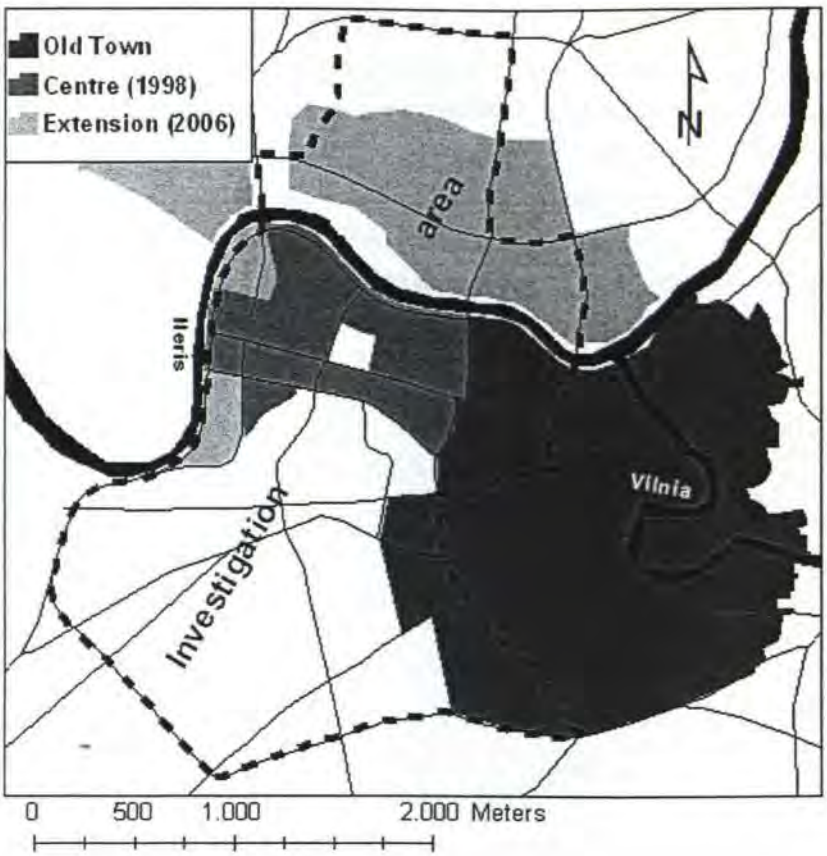

Figure 2. The investigation area

Data: Vilnius Municipality 1999, 2006; Stadler; Layout: Stadler 2007.

Results

At present, there is still a high density of offices detectable in the historic centre, especially in the zone that is most attractive for retailers. From the crossroads of Gedimino Avenue and Vilniaus Street, which define the most attractive spot for any kind of commercial use, a centrifugal decline of office space can be detected (Figure 3).

The exceptions to this scheme are modern business centres. These form a belt of hot spots with a high density of offices west and north of the historic centre (Figure 3). In the last few years these business complexes have proved to be an attractive alternative to offices in the historic centre. Compared to the historic centre, these locations have fewer traffic problems as car parks partially solve the parking problem. Being explicitly designed for commercial purposes, these premises fulfil the requirements of business activities better than premises in the Old Town.

During the last seven years a movement of office enterprises from the historic centre to the newly-built business centres was noticeable. The major push factors of the historic centre were parking problems, lack of space and the state of the buildings and/or premises. [Stadler 2006, 117-122]

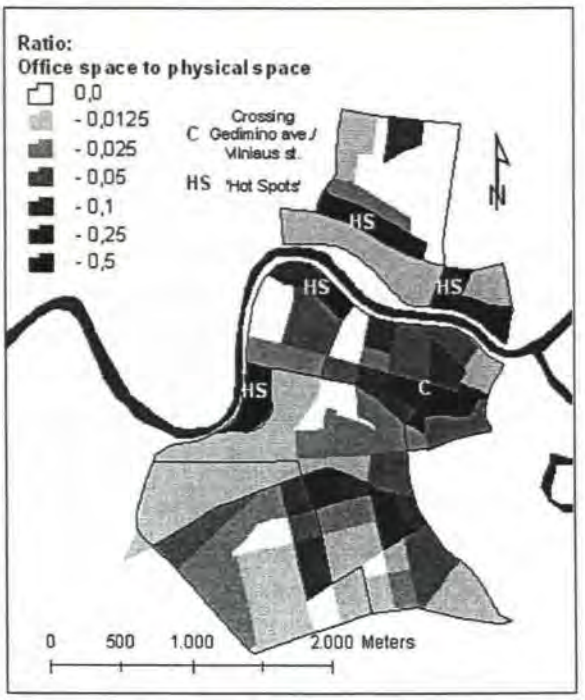

Figure 3. Density of offices in the investigation area

Data: Stadler 2006, Layout: Stadler 2007.

Case Study

Comparison between Eastern Gedimino area and Konstitucijos Avenue

Like two sides of a coin, these two parts together form the functional centre of Vilnius, with the historic and cultural centre on the left and the modern business centre on the right bank of the River Neris (Figure 4).

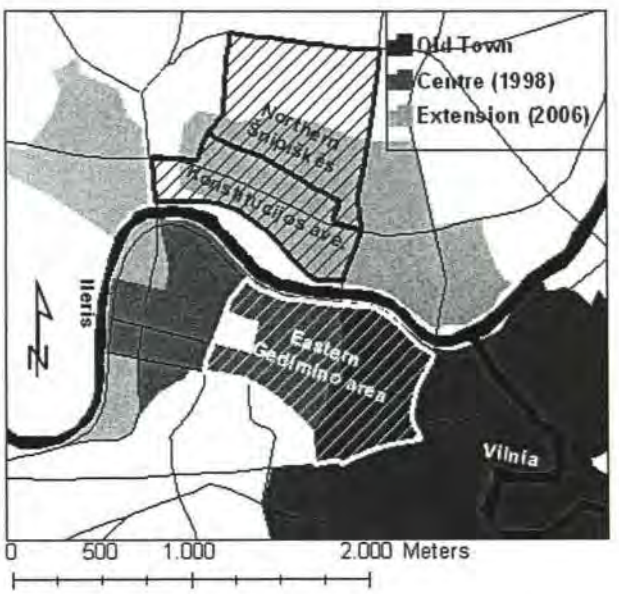

Figure 4. Location of the sub-areas

Data: Vilnius Municipality 1999, 2006; Stadler; Layout: Stadler 2007.

Konstitucijos Avenue

Konstitucijos Avenue defines the southern end of a transforming area in the Šnipiškės district. In the described context of the expansion of the centre, the most spectacular development can be found here. Located on the right bank of the River Neris, Šnipiškės was for a long time isolated from the city centre. Plans for integrating the district into a river crossing city centre existed in Tsarist and Soviet times but were never implemented [Miškinis 1991, 62]. In the 1980s, parts of the area south of Konstitucijos Avenue were transformed into a socialist style pedestrian zone with two large shopping- and service-centres and a skyscraper hotel (Image 1, 1&2). [Papšys 1981, 111]. The rest of the area remained in its historic utilisation: traditional wooden houses occupied by lower class citizens.

Since the area defines the geographical centre of Vilnius, the municipality and private investors considered the present utilisation of the area as absolutely inadequate to its potential. A special plan concerning the whole area arose from this attitude. The municipality not only planned to intensify commercial use of the area, Konstitucijos Avenue was designated to be the main street of a new modern city centre. The plans include skyscrapers of up to 150 metres for high class offices, apartments and administrative functions at Konstitucijos Avenue and Lvovo Street to the north. The rest of the area is supposed to be covered with lower buildings. The administrative importance of the area is strengthened by setting the municipalities' main building at Konstitucijos Avenue [Vilniaus Planas 2005].

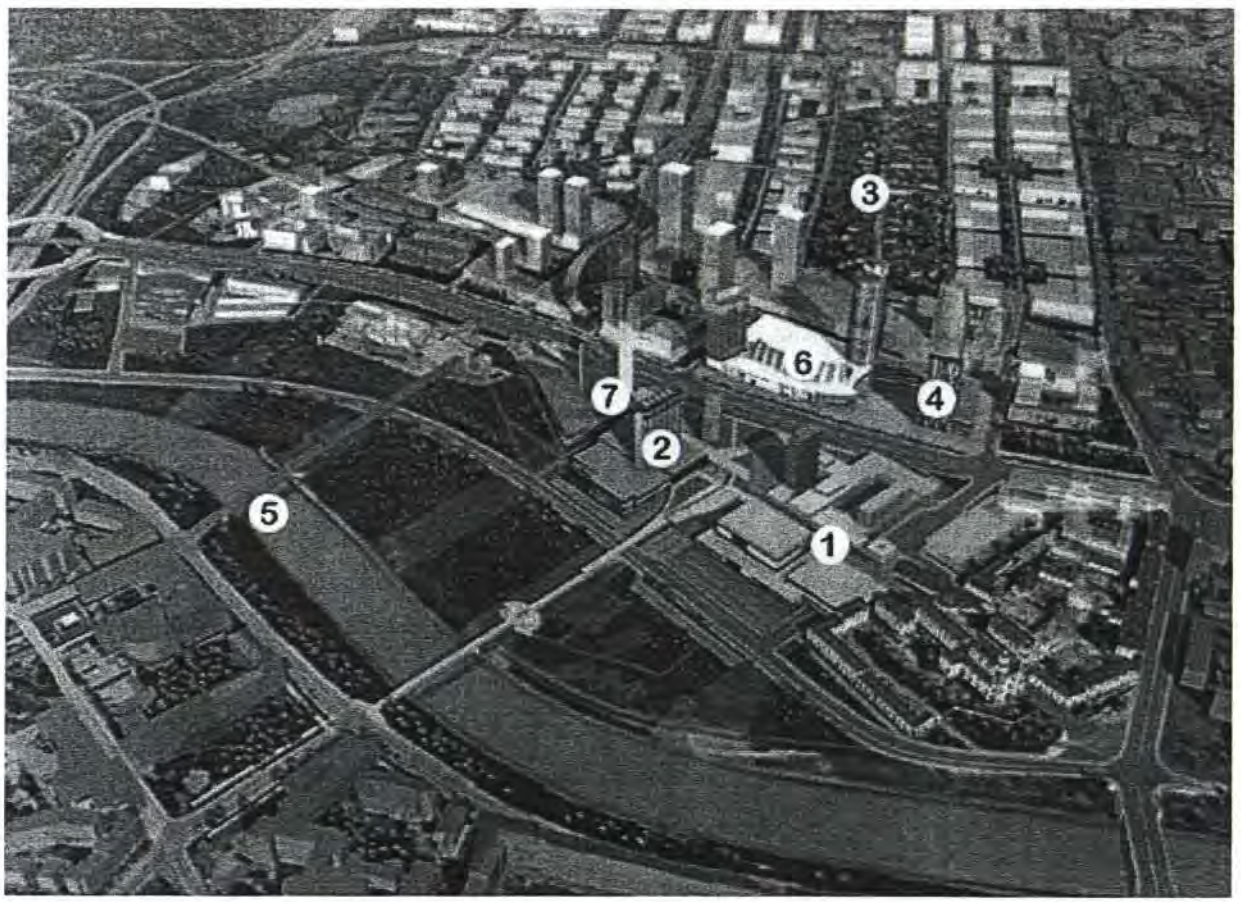

Image 1. Simulation, Konstitucijos Avenue and Šnipiškės in 2011
Image: www.development.lt 2006 Layout: Slawik 2007

Some of the traditional wooden houses are listed. This status will be respected by stringing the concerned buildings along one road (Image 1, 3). The rest will have to be removed.

The municipality used all available instruments not only for the implementation of the plans concerning the area itself, but also for its integration into the urban context. This is especially true for traffic projects. Vilnius' most important interregional traffic axis already passes to the west of this area. Two planned high-speed tram lines are intended to connect the block building areas in the north and the west of the city with the centre [Viniaus Planas 2006]. Given the physical separation caused by the river, bridges are of the highest importance. They connect the "new city centre" on the northern bank with the historic centre on the southern bank. In 2003 Mindaugo Bridge was finished, and another bridge further west will follow (Image 1, 5). In this way the functional separation of the areas on different sides of the River Neris is gradually being eliminated.

Image 2. Wooden house in Šnipiškės.

Image: Goetz 2006

Only parts of the plans have been implemented thus far. A complex composed of modern high rise apartment buildings, a shopping mall and above all the EUROPE-Tower, at 150 meters the tallest office building in the Baltic States, was finished in 2004 (Image 1, 6). Together with the municipality skyscraper (Image 1, 4), it constitutes a growth pole for the upgrading of its' surroundings. Although the density of commercial use in this area is still too low to call it a CBD, \ it is growing constantly. The new Lithuanian headquarters of Hansa Bankas (Image 1, 7) and Teo, Lithuania's leading provider of telecommunication services are in the pipeline, as well as buildings of several state departments.

Meanwhile, the rest of the area remains in its traditional state, forming a zone in transition in contrast to the high rise development in the neighbourhood (Image 2).

Eastern Gedimino Area

The eastern Gedimino area comprises the eastern part of Gedimino Avenue and its byroads. Gedimino Avenue is the representative boulevard of Vilnius, running straight in a western direction from the Cathedral in the Old Town for 1.77 km. It marks the main axis of the city's expansion in the second half of the 19th century, planned and implemented by the tsarist Russian occupiers in 1871 [Miškinis 1991, 62].

Like all parts of the historic centre, this area was affected by physical and functional degradation during the Soviet era. Until 1996, a large part of the historic building fabric was in a serious state of disrepair.

However, as a result of the Old Town Revitalisation Program, which managed public as well as private interests and investment in reconstruction, since 1998 at least the buildings at Gedimino Avenue and the street itself can be considered as completely renovated [Vilnius Municipality 2003, 9]. However, gaps in reconstruction can still be found in the byroads.

In this way, the area regained its status as the representative part of the city centre. Political and cultural importance is given by the presence of various high-ranking national and international institutions, museums and theatres. Gedimino Avenue, especially its eastern part, is the most attractive high street for retailers in Lithuania [Koba 2005, 28].

The crossings of Gedimino Avenue and Vilniaus and Jogailos Streets define the hot spots for retail, hotel business and gastronomy as well as for knowledge-based services. Various banks and providers of financial and legal services have their headquarters here.

However, the potential for business development is limited. Nearly half of the eastern Gedimino area is in the administrative unit Senamiestis (Old Town), which defines the UNESCO World Heritage zone. The rest is protected by the status "cultural-historical protection zone". In addition, site density was already quite high at the beginning of the office boom and left little space for new buildings [Pakalnis 2000, 152].

The municipality considers the area merely as part of the representative cultural centre of Vilnius. The possibilities of developing office space are not only confined by the requirements of monument protection, but also by the intention to conserve the multifunctional character of the area. More precisely, this means for example that at least 40 % of the area is reserved for residential use [Vilnius Municipality 2000, 19].

Like the whole historical centre, the area has severe traffic and parking problems, which negatively influences the business climate. A solution for car traffic is not expected in the near future. Extending public transport services seems to be the only option [Vilnius Municipality 2000, 27].

User Profiles

Unlike the situation in the neighbouring areas, office space in both these areas is dominated by services. Nowhere else in Vilnius is there a higher share of services in comparison to administrative offices of enterprises. The proportion of 95.8% gradually decreases in a centrifugal direction. Although the percentage (81.1%) is lower than in eastern Gedimino area, the significance of services at Konstitucijos Avenue is significantly higher than in other parts of the business centre belt around the historic centre.

Profiles of business activity, motivations for site selection and the level of satisfaction with the current location among the office users show significant differences between both areas.

The share of individual consumers of services at Konstitucijos Avenue is very low, with other enterprises making up 91.3% of the clientele. In eastern Gedimino, individual customers make up 36.9% of annual turnover.

Businesses at Konstitucijos Avenue share the highest operating range of all areas examined in this survey. One third (33.7%) of the annual turnover is based on transactions with customers from abroad. The most important group (35.4%) is formed by customers from Lithuania outside Vilnius. The share of local clientele is rather small (30.9%).

In contrast, in the eastern Gedimino area businesses target a local clientele. The majority (51.9%) of customers are directly from Vilnius or from the rest of Lithuania (31.3%). The share of foreign customers (16.8%) is among the lowest in the whole of Vilnius.

The conditions of the premises, as well as centrality of location and accessibility, are basic criteria for site selection in both areas. Otherwise the profiles of the main pull factors in both areas show several differences.

Office users in eastern Gedimino area express a higher appreciation for criteria like proximity to customers, high pedestrian traffic and attractiveness of surroundings.

When linked with the data concerning operating ranges and target groups, the explanation is obvious: the clientele, dominated by local and individual consumers requires criteria that are similar to those for retailers.

On the other hand, these criteria are irrelevant for users at Konstitucijos Avenue, who require a "business atmosphere". This includes criteria like proximity to competitors or other enterprises.

Rents as well as quality of office space show a wide range of variation in the eastern Gedimino area. The comparatively low costs are a frequently mentioned argument, especially for enterprises using B-Class premises. Offices at Konstitucijos Avenue are among the most expensive in Vilnius. Therefore financial considerations do not matter for site selection here.

Enterprises at Konstitucijos Avenue voice the highest level of satisfaction. The vast majority (83.0%) declares they are "completely satisfied" with the condition and location of their offices. 13.0% say they are 'rather satisfied'. Only 4.0% are "rather unsatisfied".

Although office users in the eastern Gedimino area are the most satisfied among those having their offices outside the new business centres, there are still remnants of discontent. Just one quarter (27.0%) classifies itself as "completely satisfied". The remainder indicate more or less serious states of discontent by describing themselves as "rather satisfied" (67.0%), "rather unsatisfied" (3.0%) or even "completely unsatisfied" (3.0%).

In the past, the eastern Gedimino area experienced the highest level of out migration of office using enterprises in Vilnius. Among the 201 interviewed enterprises in six areas outside the eastern Gedimino area, 30 answered that they have used an office there previously. The destinations in most of the cases (23) were the business centres, with Konstitucijos Avenue (9) in the leading position.

The main problems mentioned by those moving from eastern Gedimino are typical for the historical centre in general: traffic and parking problems, lack of space and the condition of buildings.

Although these problems still exist and are considered as the most serious nuisance for business conditions in this area, the situation seems to be stabilizing. About one fifth (19.8%) of office users in the eastern Gedimino area are planning to move. In comparison to the business centres, where the share never exceeds eight percent, this figure might seem relatively high, but in the rest of the historical centre and neighbouring parts values over 30 % were registered. [Stadler 2006, 122-163]

Conclusion

During the last seven years the eastern Gedimino area has experienced a withdrawal of office- using enterprises as a result of the typical disadvantages of the historic centre. Since these problems persist, the potential for migration still exists, but compared to the past and the situation in neighbouring areas, the situation is stabilising. The unsolved problems have filtered utilization in this area. Companies that are able to profit from the location in the representative centre of Vilnius (and Lithuania) tolerate the disadvantages. This applies to services that mainly target local and individual customers.

The profile of office users at Konstitucijos Avenue requires different qualities. Being focused on professional clientele, criteria like pedestrian traffic are less important than the fulfilment of international business standards. This includes the 'business atmosphere' ensured by the spatial closeness to other competing, as well as potentially cooperating businesses. Even more important are the combination of a prestigious, central location and the minimisation of centre specific problems like traffic and parking.

Users in this area are ready to pay the highest rents in Vilnius for the maximum fulfilment of these requirements.

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DEMOGRAPHIC CRISIS IN LITHUANIA: REGIONAL ASPECTS

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Abstract

Like most post-Soviet countries, Lithuania has been undergoing a second demographic transition over the last ten years. It is marked by negative birth and death rate and migration indices. The trends predetermining the reduction of the population are especially distinct in Lithuania: since 1989 the population of Lithuania has fallen by 300 000, which accounts for 10 percent of the total population. How are these processes territorially differentiated, and which demographic factors are most significant for the differentiation? The aim of the present report is to discuss the main demographic factors behind territorial differences of depopulation in Lithuania in the early 2000s. The investigation is based on the analysis of regional variations of the number of population and the influence of different demographic indices (birth rates, death rates, age structure and migration).

Keywords: the second demographic transition, demographic crisis, depopulation, regional aspects.

Introduction

The political transformation of the Soviet block in the 1990s strongly affected the demographic processes of most of its former member countries. Studies [Stankūnienė et al. 2005; Sobotka et al. 2003] show that the second demographic transition of the former member countries was marked by very low birth rates, inability to ensure the succession of generations, and a number of other features: reduction of marriage rates, increase of the female marriage age and consequently an increase in the age of women giving birth for the first time, and an increase in the number of unmarried couples. On the other hand, there were longer average lifetimes and life expectancies [Ganz, Schmitz-Veltin 2004, 84]. In economically advanced countries, this process started some time ago (from about 1965) under different conditions (high migration) and caused no particular problems. In contrast, the post-Soviet countries are marked by depopulation, deterioration of the age structure and, even worse, shortening of life expectancy.

In Lithuania, the tendencies that contribute to depopulation on a regional and global scale are quite distinct. In 1989–2006, the population of Lithuania fell from 3 674 800 to 3 403 300 (Figure 1[1]) and, according to preliminary calculations, is still falling (on 01.01. 2007 the population of Lithuania was 3 384 800 [www.stat.gov.lt]). The total population reduction in the aforementioned period (since the last population census in 2001), including those who have not declared their departure (69 800 in 2001–2005 [Demografijos metraštis 2006, 170]), amounts to more than 300 000 i.e. about 10% of the population.

[1] the data for 2002–2006 do not include emigrants who did not declare their departure.

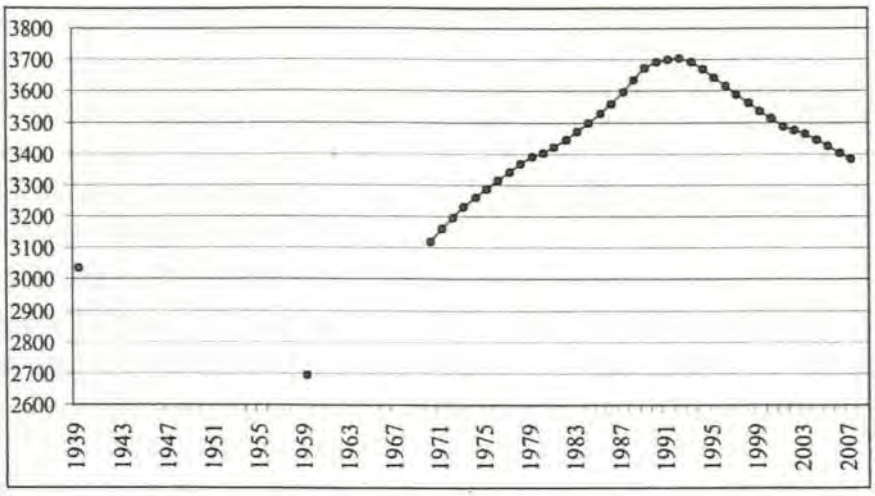

Figure 1. Change of population numbers in Lithuania
[data source: Demografijos metraštis 2006, 31]

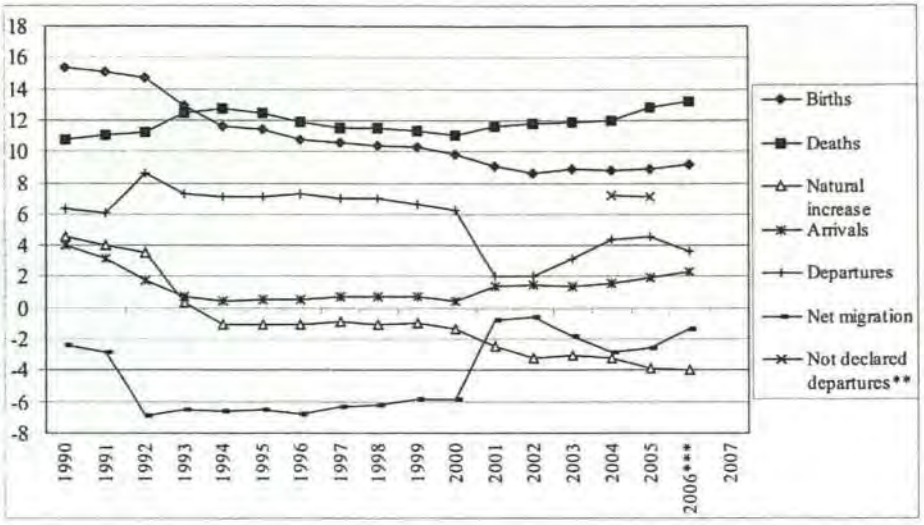

Figure 2. Natural increase and migration* in Lithuania, 1990-2006
[data source: Demografijos metraštis 2006, 42, 80, 100, 172]

* Based on Population and Housing Census 2001 data, net migration during 1990–2000 has been recalculated to cover assessment of non-official emigration. Since 2001, net migration figures have been based only on official emigration data [Demografijos metraštis 2006, 172].

** In Quarter I 2006, Statistics Lithuania carried out a survey estimating the number of residents of Lithuania who unofficially left the country in 2006-2005 [Demografijos metraštis 2006, 169].

*** preliminary data

The decreasing birth rate in Lithuania (Figure 2) since 1994 has led to negative values of natural increase. The total fertility rate (TFR) has become considerably lower than the values necessary for maintenance of the population at the level of 1987 (2.11) and today is among the lowest in the world: 1.24 in 2002[2] [Demografijos metraštis 2006, 81].

[2] the value of the index is now slowly growing and in 2006 was 1.27

Lithuania, as with many countries of the former Soviet block, is distinguished by high death rates, especially of the male population, unrelated to population ageing [Jasilionis 2004 56; Jasilionis et al. 2006, 9]. A similar change pattern is characteristic for the life expectancy at birth.

As a result of the aforementioned circumstances, there is rapid population ageing: in 2000, the number of children (0–14) and seniors (60 years and over) became equal i.e. the critical threshold of ageing was passed [Mikulionienė 2002, 17]), and in 2006 children accounted for 16.5% and aged people for 20.4% of the population. In 1995–2006, the index of ageing (the number of persons aged 60 and older per 100 children) changed from 72 to 124 [Demografijos metraštis 2006, 19].

The processes described above are made even more acute by intensive (in the last few years emigration has been slightly decreasing) emigration (Figure 2). The number of immigrants is increasing negligibly. More than half of these immigrants are repatriated Lithuanian citizens [Demografijos metraštis 2006, 171].

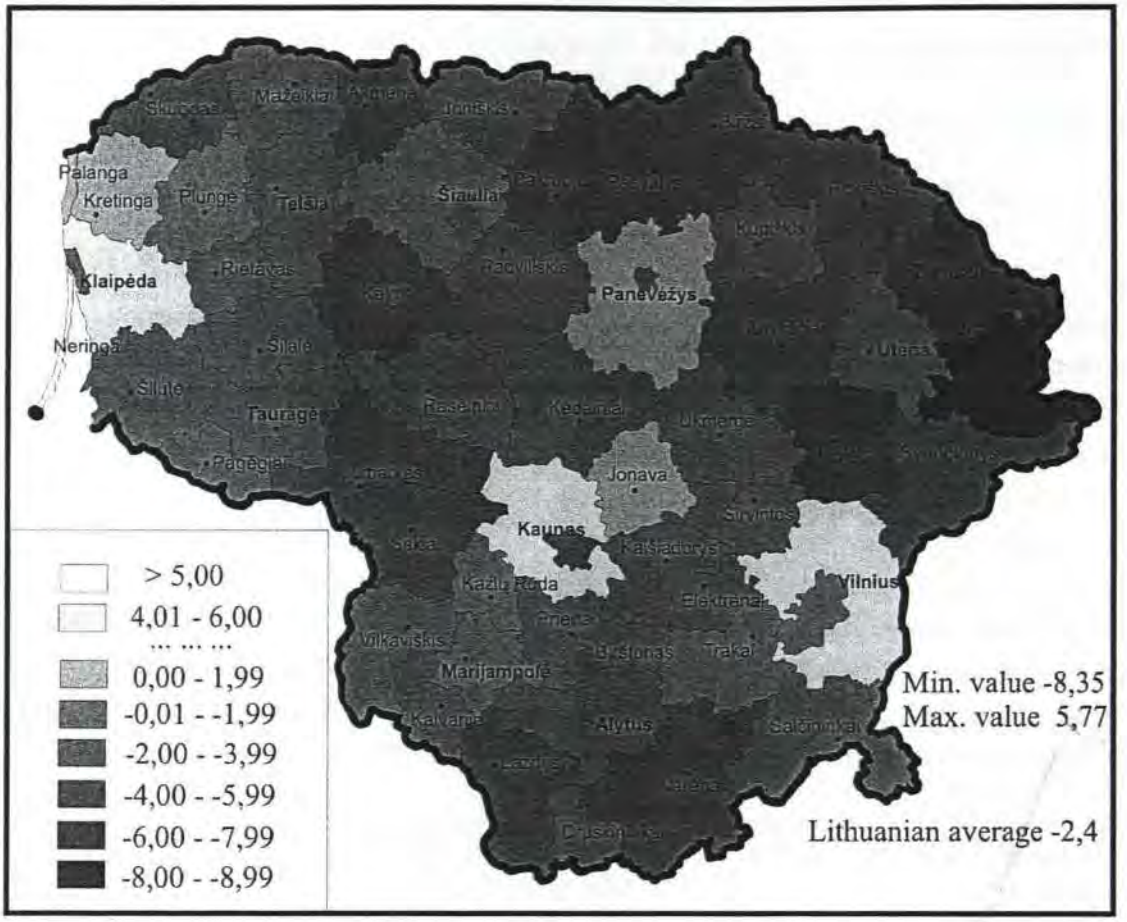

Figure 3. Change of number of population (01.01.2001–01 01 2006) in Lithuanian municipalities, as percentage [data source: db.stat.gov.lt]

The situation must be regarded as a serious demographic crisis which is a serious threat to the future of the state and is already manifesting itself as labour force shortages and rapid population ageing.

There are many discussions about the definition of the demographic crisis. Some authors [DaVanzo, Adamson 1997, 5] assume that this situation in post-Soviet countries is not a crisis but a natural continuation of long-term processes, but most authors [Philipov, Kohler 2001, 37; Becker, Bloom 1998; DaVanzo, Farnsworth 1996 and others] recognise that it has become a real crisis at the state level, creating various problems. Some other authors [Medkov 2005, 452] regard it as a catastrophe. Undoubtedly, the consequences of these kinds of processes will be complex, and will directly or indirectly affect (or are already affecting) practically all spheres of life: labour and property markets, social, educational and financial systems etc. [Hollbach-Grömig, Trapp 2006, 3].

Some authors [Morgan 2003] think these processes are not indicative of a crisis, but rather are positive at the global level as the world's population is still growing too fast. However, the decrease of population in an individual country could cause catastrophic consequences for that country. Most countries with decreasing populations are not economically strong and are not attractive for economic immigrants. A shortage of labour reduces not only the state economy and social system, but also causes a lack of stability and security. Immigration is not the best solution in the contemporary situation, especially for small countries like Lithuania without traditions and systems of integration of immigrants. Large-scale immigration could hasten cultural self-destruction and cultural crisis trends, which are present even in the biggest European countries. The imbalance of demographic processes and their obvious negative consequences is evaluated as critical.

These changes are territorially unevenly distributed and "are leading to a patchwork of shrinking and growing communities on both the local and regional levels" [Hollbach-Grömig, Trapp 2006 3]. Yet in most cases a threatening situation develops in peripheral rural areas. Lithuania is no exception. The aim of the present report is to discuss the main demographic factors of territorial differences of depopulation in Lithuania in the early 2000s. The investigation is based on analyses of regional variations of different demographic indices (population numbers, birth rates, death rates, age structure and migration).

Regional Peculiarities of the Demographic Processes

The regional distribution of Lithuania's population is fairly even. Yet certain trends can be observed: the eastern and south-eastern parts of Lithuania, distinguished by a hilly relief, low productivity soils and high levels of forestation, are relatively more sparsely populated, whereas the core regions (Vilnius and Kaunas) and the western part are relatively more densely populated.

The change of population numbers in different municipalities over the period 2001–2006 (2001 was chosen as the year of a universal population census; the previous data about municipalities were not checked or recalculated after 2001, and is not included) (Figure 3) allows us to identify the most depopulated regions. These are: the northern, north-eastern, south-eastern and some peripheral parts of central Lithuanian territories. It is obvious that these territories are the most sparsely populated and are situated far from the larger district centres. Depopulation is especially rapid in the sparsely populated eastern part of Lithuania: Ignalina, Zarasai and Molėtai Municipalities. The highest rates of depopulation have been

recorded in the Ignalina district Municipality, with 8.35% compared to the national average of 2.40%. It should be pointed out that this is a long-term process. Depopulation in this region began at the end of the 1960s i.e. earlier than anywhere else in Lithuania [Rupas, Vaitekūnas 1980, 90].

There is a radically different situation in suburban areas, where the population has been growing quite rapidly. For example, the population has increased by 5.77% in Vilnius District, 4.83% in Klaipėda and 4.58% in Kaunas. The population in other district municipalities related to large cities has been either growing or falling at relatively low rates. This indicates intensive suburbanisation (which did not have the conditions to develop in the Soviet years) and regional polarisation in Lithuania. In the 1990s, two regions of economic development can be distinguished: Vilnius and the coastal regions. Slightly slower economic development is also characteristic for Kaunas.

Discussion: The Main Demographic Factors of Territorial Differences of Population

By comparing the territorial differentiation of natural increase and net migration over the last few years (Figure 4), we can observe that different factors affect the growth or decrease of population. In the north-eastern part of the country, natural population decrease is the main factor of depopulation (except in Zarasai and Anykščiai districts where negative net migration is relatively significant). The maximum values are -10.48 in Zarasai and -12.68 in Ignalina districts. The net migration values are generally comparable with the country values and further increase the negative population increase.

In the other regions of depopulation (northern and peripheral parts of central Lithuania), depopulation is a result of negative natural increment and net migration values. Negative migration plays an even more important role. The role of the migration factor in the aforementioned regions shows that depopulation is, firstly, predetermined by social–economic processes. The population responds to these factors by changing migration mobility.

In the territories around the largest cities, the population is growing as a result of positive net migration and relatively low, though negative, values of natural increase. In these areas, net migration remains the main factor behind population changes.

A more detailed analysis of birth rates, death rates, population age structure and migration (Figure 5–7) shows that the influence of the aforementioned factors on population changes is quite variable.

The age structure of the population is the main factor behind natural population increase. It is natural that the territorial distribution of birth and death rates correlates with the distribution of population according to age indices (Figure 5–6). In the region of highest depopulation (the north-eastern and south-eastern parts of the country), the ratio of pension-age persons and children is the worst in the country, being lower than 1 (in other words, the number of children is considerably lower than the number of pensioners). The Ignalina District stands out concerning this index by recording 0.56 (i.e. the number of pensioners is almost twice as large as the number of children). According to data from the Statistical Department and Institute of Social Sciences [Stankūnienė 2006, 118, 152-153], although the birth and death rate coefficients in this region are very negative, the total fertility rate and life expectancy at birth do not actually differ from other peripheral regions of the country.

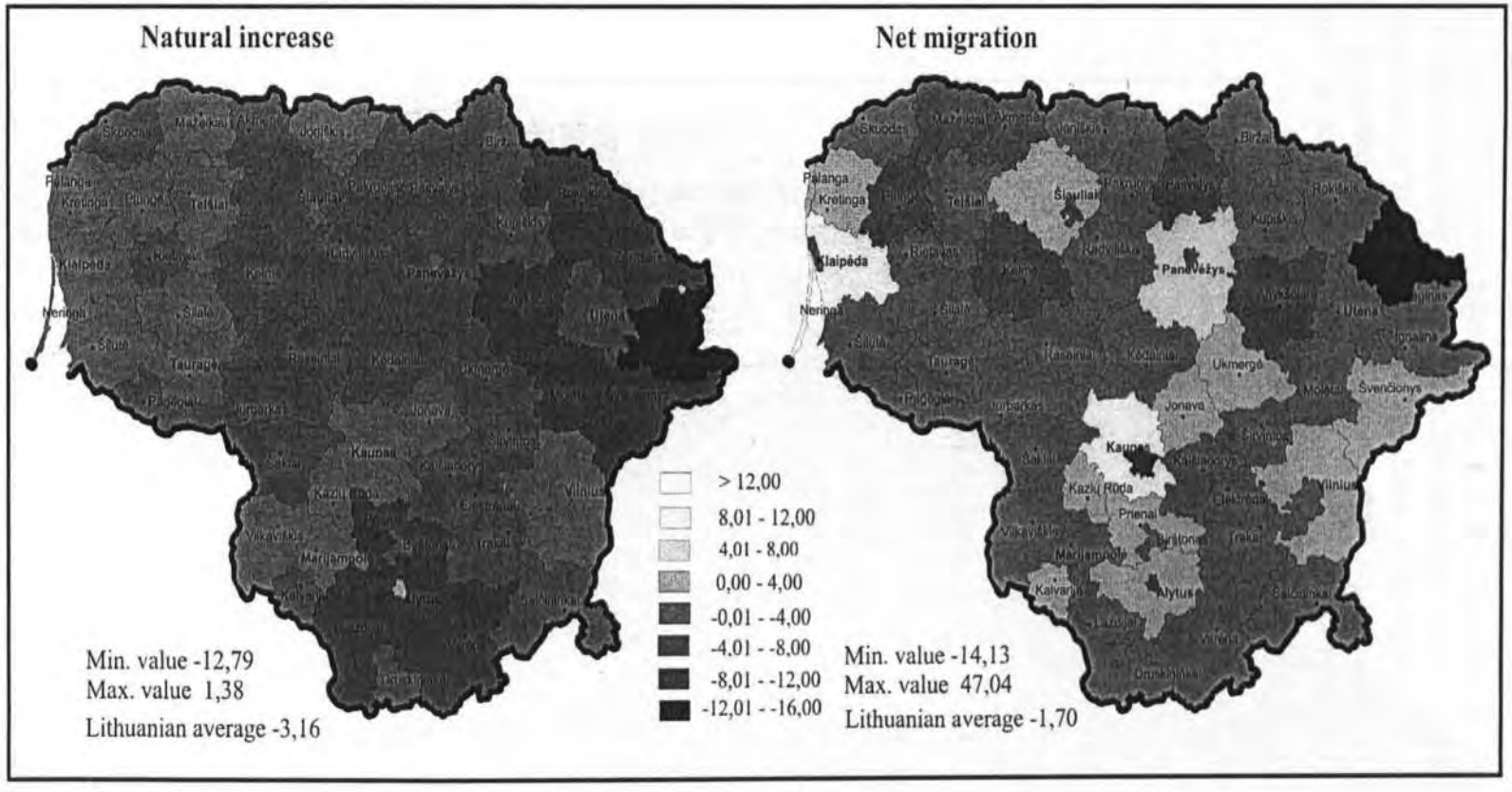

Figure 4. Average natural increase and net migration in Lithuanian municipalities 2001–2006, per 1 000 population [data source: db.stat.gov.lt]

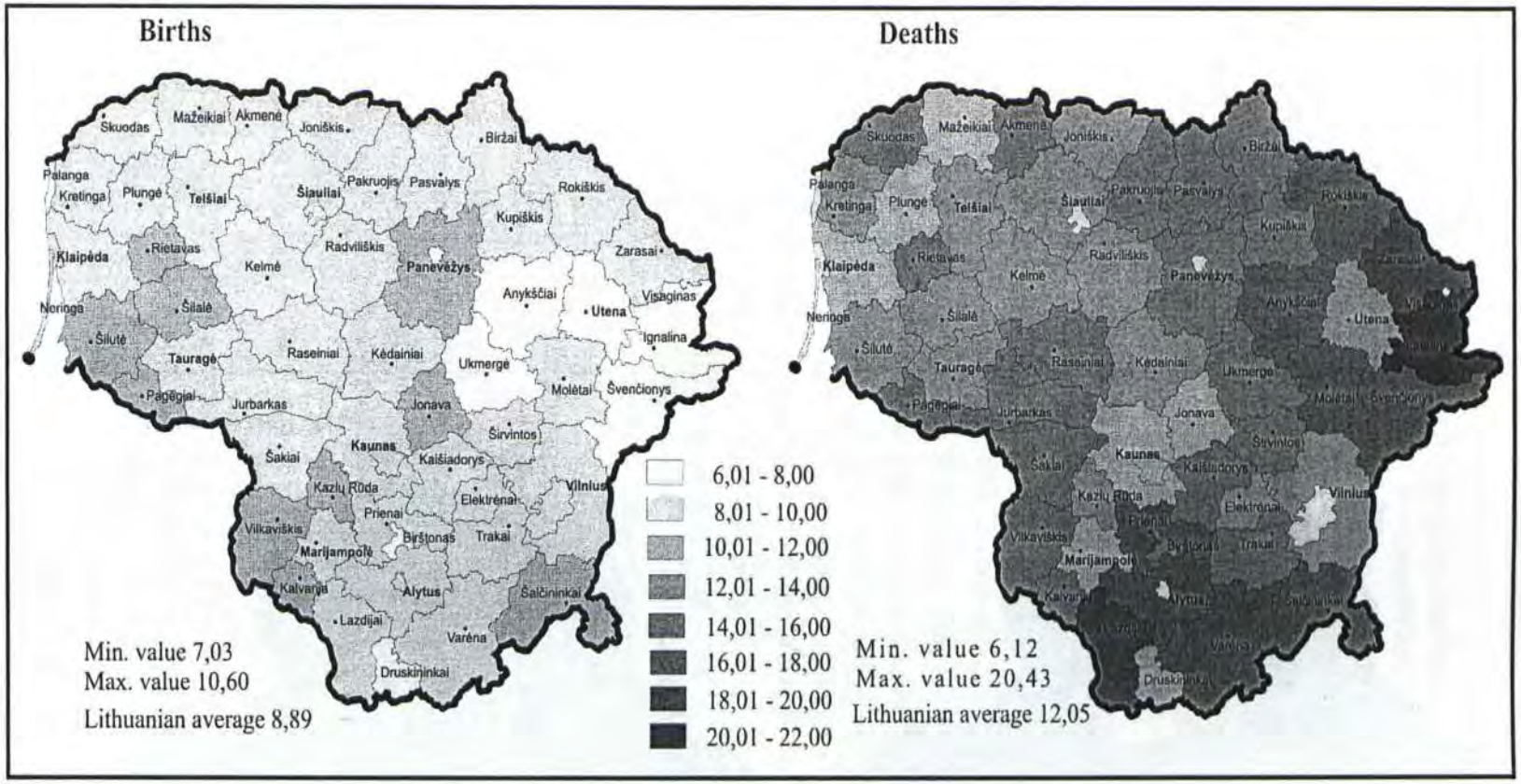

Figure 5. Average birth and death rates in Lithuanian municipalities (2001–2006), per 1 000 population [data source: db.stat.gov.lt]

With regard to the influence of birth and death rates on the territorial differentiation of natural increase, it can be seen that the territorial differences in birth rates are considerably lower than those of death rates. The critical values of the birth rate coefficient range from 10.60 (Šilalė District Municipality) to 7.03 (Druskininkai Municipality), whereas the values of the death rate coefficient differ by more than three times (from 6.12 in Visaginas Municipality to 20.43 in Ignalina District Municipality). The birth rate is a more stable phenomenon (less dependent on external factors such as quality of health care or lifestyles) than the death rate.

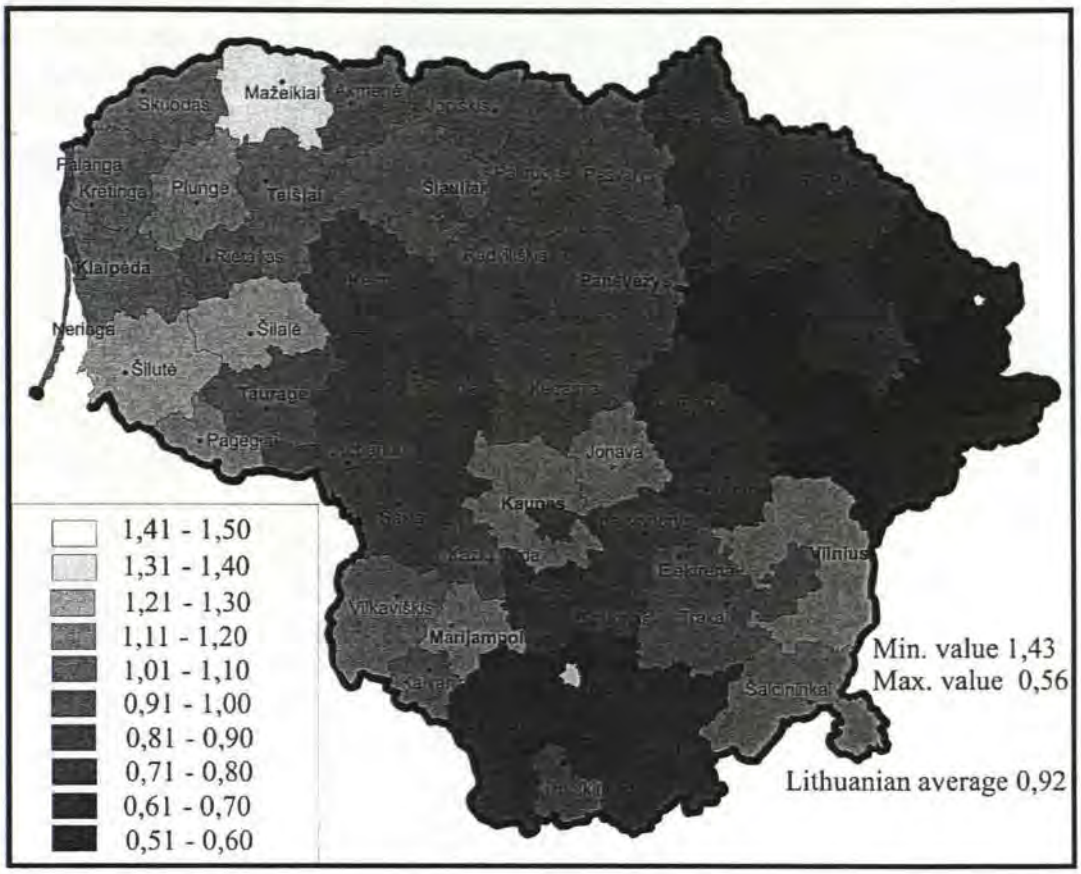

Figure 6. Ageing index in Lithuanian municipalities (01.01.2006)
[data source: db.stat.gov.lt]

The data about the distribution of the total fertility rate and life expectancy at birth presented previously allow making a conclusion that both birth and death rates are related with the urbanization rate. Both indices are falling in urban areas. Yet due to the relatively low regional differentiation of birth rate values, the death rate should be considered the main factor behind the relatively high values of natural increase in the regions of increasing population (Vilnius, Kaunas and the western region).

It is more difficult to distinguish the factors causing territorial differentiation of migration. Due to the mass character of emigration and the fact that it has been in existence

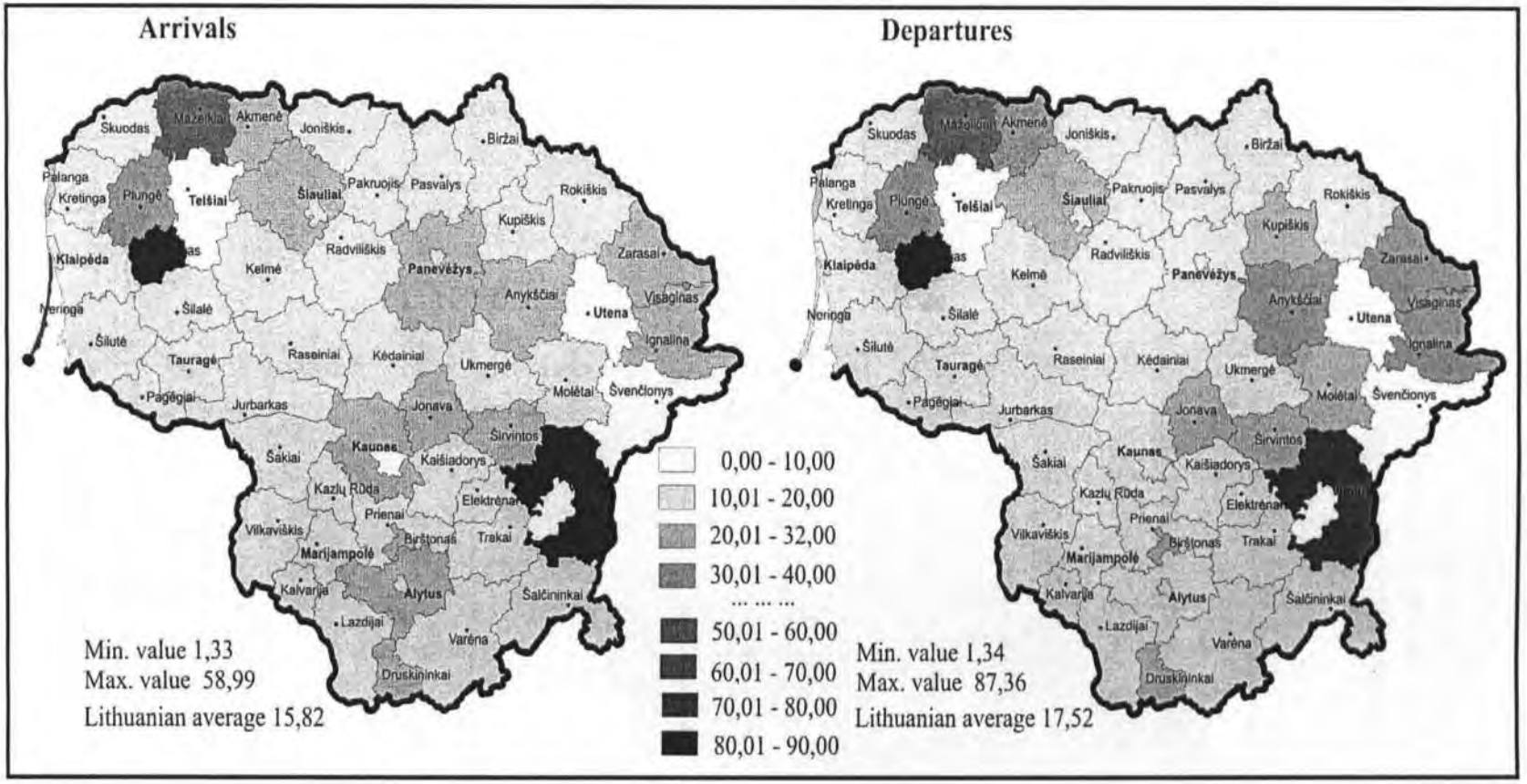

Figure 7. Average arrivals and departures in Lithuanian municipalities (2001–2006), per 1 000 population [data source: db.stat.gov.lt]

for a short time, it is difficult to estimate its scope [Demografijos metraštis 2006, 169; Lietuvos gyventojų 2006, 4] and to evaluate its influence on changes to population numbers and structure. On the other hand, the level of unofficial emigration not only forces us to be cautious in evaluating the actual demographic data but also to assume that the demographic situation is deteriorating in the country at higher rates than is believed to be the case.

Over the last years, two regions of migration activity (north-western and eastern) have developed (Figure 7).

They stand out for large flows of immigrants and emigrants yet have rather contrasting ultimate results (compare the municipalities of Vilnius and Mažeikiai Districts). We may assume that this is a result of actual social and economic changes, but it is necessary to conduct further research to prove this thesis. Moreover, though the difference between the critical values immigrants versus emigrants (contrary to birth rate versus death rate) is very high (as the population number in the country is falling primarily due to emigration), it is of a comparable order (the highest number of emigrants per 1 000 of population was found in Rietavas Municipality (87.36) and the lowest in Vilnius Municipality (1.34), while the number of immigrants was 85.99 in Rietavas municipality and 1.33 in Vilnius municipality). Thus, the influence of both these indices on territorial differentiation is equal.

Conclusions

1. Depopulation in Lithuania is clearly territorially differentiated into two types of regions: depopulation areas (northern, north-eastern, south-eastern and peripheral territories of central Lithuania) and population increase areas (Vilnius, Kaunas and the western region).

2. The natural increase predetermined by the population age structure is the main factor of depopulation in the region of most intensive depopulation (north-eastern and southern parts of Lithuania). The aforementioned region is the most problematic as its depopulation has been taking place over a long time span.

3. In other depopulation regions, the roles of natural increase and net migration are of equal importance for the change in population. The influence of migration is slightly greater. The regions in this category are relatively new i.e. they have developed under the influence of the country's actual social economic processes.

4. Population growth is seen only in regions with positive net migration. Positive net migration is the main demographic factor of population increase in these regions. The natural increase is to low to change population numbers. Furthermore, positive values of natural increase are not influencing growth of population.

5. The regional differences in population changes in Lithuania and the development of different depopulation regions point to a need for territorial differentiation of demographic/social policy based on the character of depopulation factors. The necessity of a territorially differentiated approach of demographic/social policy is clearly seen and must be included in the national strategy population policy strategy.

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REGIONAL DIFFERENCES OF DEPOPULATION IN LATVIA

Pārsla EGLĪTE

Introduction

Since the collapse of the centrally planned economy in the former USSR and its satellite states, all Eastern European countries have experienced drastic decreases in birth rates, resulting in partial depopulation. This post-Soviet demographic crisis is extremely intense in Latvia and may be caused by several reasons:

- the peculiar ethnic and age composition of the population at the moment of regaining independence in 1991 as a consequence of former massive immigration [Eglite 2003],
- current labour emigration of young people, especially from rural areas,
- a high concentration of residents in the capital city.

This situation is uncommon in Western European countries, which up to now have not experienced depopulation, especially in less developed rural areas, and are currently affected by immigration rather than emigration as is the case in Eastern European countries [International 2006]. For this reason there is little research researches on the scope of interconnected processes prevailing in Latvia: depopulation throughout the country and especially in some rural areas, the disproportionate share of the population residing in the capital, underdevelopment of other regions and emigration.

Comparison of the situation in the regions of the country may prove this hypothesis and offer some arguments to foresee further development.

There are four historical regions of Latvia (see in the added map). Each of these has spent a century or two under the rule of different conquerors. In Vidzeme the ruler was Sweden, Kurzeme and Zemgale had a period as a quite autonomous duchy, while Latgale spent longer than the others under Poland and was more affected by Russian domination and its associated rules for land use. These powers brought some peculiarities which influenced education, the prevalence of certain Christian confessions, the use of land and development of industries. All this had an impact on the population's preferences as regards education, fertility and mobility, not to mention the impact of the geographical situation of each region on the development of urban centres accumulating local migrants and colonists. Due to the latter factor, the capital city Riga and its surroundings including the seaside resort Jurmala is recognized today to be a separate region with a specific formation of population and its dynamics.

The aforementioned diversity in composition of the population, its dynamics and components of changes determine the degree of depopulation in the regions.

Recent statistical data are used for the analysis. Since the mid 1990s the official statistical data are collected and calculated in accordance with methodology accepted by Eurostat. A common problem for all the countries involved is registration of migration which does not include *temporary* labour migrants within the European Union. Up to now (2007)

there have been no common rules for registration of migrant workers, but émigrés who have not given notification of change of permanent residence are not registered in the country they left at all. Approximate numbers for these workers can only be found in special surveys [Geographical 2007].

The total number of Latvian labour migrants outside the country amounts to some 2-3% of population or up to 5% of active age residents. Out migration from rural regions is more active than from the capital, but calculation of regional differences in mobility from available sample surveys data would not be accurate enough. This is especially because some of the labour migrants leave their country of origin repeatedly, and most of them plan to return. Due to such uncertainty only statistical data about long-term migrants are used in this research.

Figure 1. Regions of Latvia

Characterization of the Situation in the Regions

During the transition period to a free market economy, including the few years since Latvia has joined the EU, the resident population in all the main regions of Latvia has permanently decreased (Table 1). Only in the sub-region around the capital city Riga has there been some increase due to a suburbanisation process. As a part of Riga's residents change their residence to the nearby surroundings, the decrease in the capital's population is the most pronounced apart from the most distant region Latgale. Nevertheless, the concentration of the state's population in the central area, including the capital city and its successful surroundings, continues while the share of Latgale decreases.

Regional differences in components of growth are even more expressive than those of total change (Table 2). Riga and its entire surrounding region currently has positive net migration, while all the others are losing population in the course of migration, and these losses are more towards the central part of the state than outside the country.

The results of natural reproduction in all the regions have led to losses in the number of population although the degree and dynamics of these losses differ as well. The Riga region or central region is the only one since the beginning of the 21st century to experience some improvement while in all the other – mainly rural – regions the situation has worsened, especially in Latgale.

Table 1

Resident Population in Regions

Statistical regions	Numbers, '000		Distribution, %		Change 2006/2000 %
	2000	2006	2000	2006	
Latvia, total	2381.7	2294.6	100.0	100.0	96.3
Riga	967.0	940.1	40.6	41.0	97.2
Riga	766.4	727.6	(32.2)	(31.8)	94.9
surroundings	200.6	212.5	(8.4)	(9.2)	105.9
Vidzeme	413.6	399.9	17.4	17.4	96.7
Kurzeme	322.2	308.4	13.5	13.4	95.7
Zemgale	293.3	286.4	12.3	12.5	97.6
Latgale	385.7	359.8	16.2	15.7	93.3

Source: Demography 2006, Central Statistical Bureau of Latvia, 2006, 35-36

Table 2

Components of Change

Statistical regions	Net migration 2005, ‰	Natural growth, ‰		Total fertility rate 2005	Share of children born to Latvians %, 2005	Share of titular nation, %
		2000	2005			
Latvia, total	-0.2	-5.1	-4.9	1.309	65.4	59.0
Riga	+2.9	-5.5	-3.4	1.300	56.0	51.9
Riga	-1.9	-6.1	-3.8	1.289	55.1	42.4
surroundings	+17.3	-1.9	-0.2	1.339	70.9	65.2
Vidzeme	-4.4	-3.9	-5.3	1.297	86.3	84.7
Kurzeme	-2.9	-3.5	-4.3	1.446	77.0	73.7
Zemgale	-1.4	-3.7	-4.7	1.331	71.3	67.8
Latgale	-2.8	-7.9	-9.8	1.114	45.1	43.9

Source: Demography 2006, Central Statistical Bureau of Latvia, 2006, 38, 41, 76-77

Comparatively positive changes in reproduction in Riga have happened in spite of the capital having one of the lowest fertility rates in the country, behind only Latgale. The similarity could be at least partly explained by the similarity of ethnic composition in these two otherwise very different regions. In the whole Latvia the share of children born to ethnic Latvian mothers exceeds that in proportion to the titular nation in all the population of the state. The same can be observed in all the regions regardless of the proportion of urban/rural dwellers. Such differences in fertility by ethnicity could be explained not by origin itself but by the history of settlement in the territory. Most non-Latvians settled in the country during the 45 years of Soviet occupation, and the value orientation of the migrant population use to differ from that of less mobile people. The latter are usually more oriented to family and cultural values while migrants place greater value on aspects such as material welfare. This could be one of the main reasons why during the 1990s the fertility of non-Latvians,

especially of Slavic origin decreased more than the average. Correspondingly, aging among these groups exceeds the degree for all the population, and in the near future the share of them could decrease faster than before. The latter may lessen to some degree the current depopulation of all the population in the country.

Nevertheless, the average age in the two regions with the lowest proportion of ethnic Latvians is larger than in others, and it will not help to improve the results of natural reproduction there (Table 3). In both the capital city and in Latgale the proportion of the elderly is higher than in other regions, but the share of children in all the population is less. The difference in both these regions as regards the active age population is that only in the capital and its surroundings does the proportion of them exceed the average for all the country. The mentioned differences in age composition by regions are caused mainly by migration towards the centre of the country. The latter might have both positive and negative consequences.

Positive changes can be expected in mortality. In Latgale, the total mortality rate and that from the most common causes is the highest among all other regions despite the fact that the proportion of the elderly, who have the greatest probability of death, is just the same as in the capital city (Table 4). It may be caused by a combination of several interacting factors: low employment, poverty and alcoholism, as well as poor availability of medical help due to the bad condition of local roads. If these conditions remain unchanged, migration of residents to more advanced regions might result in a lessening of mortality for the entire country.

Table 3

Age Composition in Regions (%)

Statistical regions	2006			Average age, 2005	Demographic burden, 2005	
	0-14	working	pension		total	old age
Latvia, total	14.3	64.4	21.3	40.2	553	331
Riga	13.4	65.2	21.4	39.1	542	328
Riga	12.4	65.4	22.2	41.5	529	339
surroundings	15.5	66.1	18.4	38.5	512	278
Vidzeme	15.6	62.8	21.6	39.5	593	344
Kurzeme	16.0	63.2	20.8	39.3	582	329
Zemgale	15.6	64.2	20.2	39.0	558	315
Latgale	13.8	64.0	22.2	40.8	561	347

Source: Demography 2006, Central Statistical Bureau of Latvia, 2006, 40

Among the negative consequences of centripetal migration could be a rise in mortality from neoplasms, nowadays a characteristic of the largest cities due to air pollution. No less important could be the eventual decrease of total fertility if the concentration of the population remains in cities with low fertility.

All of the described phenomena show that if the present situation continues in the regions and especially the capital and Latgale, there will be further depopulation for all the country, making it high time to start certain activities to prevent further worsening of the demographic situation.

Table 4

Death Rates by Cause in 2005

Statistical regions	Total, ‰	By main causes, per 100 000			Employed % of persons aged 15-74, 2005	Monthly income per household member, LVL, 2005
		circular	neoplasms	external		
Latvia, total	14.2	786	257	140	57.1	110.3
Riga	13.2	727	258	131	61.5	134.3
Riga	13.5	742	272	132	62.5	146.1
surroundings	11.6	604	230	139	59.4	108.9
Vidzeme	14.1	781	229	139	56.8	88.4
Kurzeme	14.3	805	269	109	55.5	92.6
Zemgale	14.2	740	241	147	54.7	100.1
Latgale	17.5	988	272	187	47.4	79.6

Source: Demography 2006, Central Statistical Bureau of Latvia, 2006, 98-99
Labour force survey: main indicators in 2005. Central Statistical Bureau of Latvia, 2006,16-17
Household budget 2005. Central Statistical Bureau of Latvia, 2006, 35

Conclusions

1. In spite of the rather small size of the territory of Latvia (64 000 km^2), there are significant regional differences in composition of population, changes in numbers and components of growth.

Deviations from the average are more pronounced in the two regions with the highest and the poorest economic development: the capital city and the most distant and mainly rural region, Latgale. One may conclude that these differences are brought about by a lack of real regional policy aimed at minimising variations in development; up to now there has been disproportionate distribution of new jobs and state financed infrastructure improvement, there still exist equal taxes for central and distant parts of the territory etc. The advantages of having the capital city in the very centre of the country have resulted in centripetal internal migration and the faster aging of population in more distant areas.

An additional reason for differences in fertility and aging is the ethnic composition of the population. The proportion of non-Latvians is above average in the capital city and the region close to the border with Russia and Belarus and has resulted in lower fertility and correspondingly deeper aging. This shows that in the long run immigration does not help to raise fertility and avoid aging in the host country.

2. Regional differences in depopulation and its determinants show that activities to reduce depopulation by eliminating its causes ought to be specific for central and remote areas.

In remote regions the emphasis should be on increasing employment by implementation of supportive regional policy, starting with improvements of infrastructure, advantages in taxation for the most remote areas, the spread of flexible and telework etc. These activities could help to minimize centripetal migration and emigration of young residents and simultaneously to raise the birth rate.

On the other hand, in the capital city and its surroundings one may expect a decrease in positive net migration, and there should be improved conditions for families with children according to the peculiarities of urban life style: both employed parents living in households of two generations. They need a full supply of places in child care centres from an early age (approximately 1 year), green zones for walks etc.

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