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## TOURISM POLICY AND INSTITUTIONAL ECONOMY IN THE FUNCTION OF GROWTH AND DEVELOPMENT OF THE DESTINATION PRODUCT OF MONTENEGRO

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### **Abstract**

*Institutions, which directly or indirectly determine the "rules of behavior" in the tourism sector, represent the Institutional bases for tourism development in Montenegro. They are tourism policy-makers including other institutions which stimulate or dissimulate development of the destination product. In that sense, institutions in Montenegro cannot still be presided for optimization of intuitional norms in the domain of macro decisions important for functioning of the tourism sector. Reasons for that are numerous institutional rules, appearing as limitation thresholds for a more effective and efficient development of the tourism sector. The transitional problems are concerned to which Montenegro is not immune, as the youngest modern European state. In order to ensure the future healthy growth and development of the destination product of Montenegro, it is necessary to act promptly in setting up a stimulating institutional structure, so that future institutional norms would generate future tourism sector development in Montenegro. Otherwise, the current institutional framework could become the main obstacle to destination product development and losing the competitive advantages of the destination in the global tourism market.*

**Keywords:** *institutional economy, tourism policy, destination product, growth and development, Montenegro.*

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**Review**

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### **1. Introduction**

Economic activities include a large number of participants who achieve various economic goals in the economic processes. They can be grouped into natural entities and legal entities. The institutional units are concerned, which can be divided into the following institutional sectors: non-financial sector, financial sector, public sector, non-profit institutionalized unit sector and household sector (Veselinović, 2010). The public institutional units are in the focus of our interest, having judicial, legislative and executive power over other institutional units. They generate revenues from taxes, fees and other charges paid by other institutional units, for the purpose of satisfying general needs of the society. In order to provide for efficient functioning of the institutional units and the entire economic system related, it is necessary that there is a flexible institutional transition infrastructure. The transition process is often contradictory and unpredictable, so it is very difficult to create the conditions stimulating sound growth and development of all the sectors, including tourism, in such conditions. That is why it is necessary to establish an institutional structure which will minimize the conflict situations and transition costs, i.e. enable a long-term stable growth and development of the tourism sector. In that sense it is necessary that there are well-organized market institutions such as the capital market and labour market, as well as the market infrastructure entailing an incentive legal and financial system of the state. It is necessary that there is a transparent and stable economic policy, and tourism policy within it, which is the basis for development of Montenegrin tourism product competitiveness, so that the mentioned market institutions would develop.

If we take into the account the narrower definition of the economic system and apply it to the tourism sector, in that case we can observe the tourism sector as its organizational structure,

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tourism policy and overall economic environment in which the tourism enterprises operate. Taking into account the organizational structure of the tourism sector, it comprises tourism resources, visitors as consumers and the institutions creating the general economic and legal framework for development of the tourism sector. Tourism policy is a set of various measures and activities which stimulate or destimulate development of the tourism sector, while the overall economic environment is defined by organization of the tourism sector, tourism policy as well as other factors such as motivation of workforce and visitors in tourism.

For the purpose of stimulating the tourism sector, it is necessary that the institutional units dispose of a privatization agency, share funds, privatization registers, central register of the depot and securities clearing. All of this is regulated by the Law on Business Organizations, Law on Privatization and Law on Securities (Unković, 2010). Tourism policy is the conscious action of the society in the tourism sector, through use of various measures, instruments and activities at the micro, macro and mezzo levels. In this article, the macroeconomic policy and micro tourism policy derived from it are concerned, aimed at stimulating growth and development of the tourism product of Montenegro.

Institutional economy studies the complex interactions between different institutions, such as individuals, enterprises and states. Speaking of the tourism sector, which would be the relation between the workforce and visitors in tourism, tourism enterprises and state companies. In that case, the focus of institutional economy would be on understanding the process of tourism sector evolution and the role of state institutions in shaping the economic policy and influence on the growth and development of the tourism product of Montenegro. Institutional economy in Montenegro should stimulate the economic activities in the tourism sector, through social and legal norms, whereby the growth and development of the destination product would be stimulated.

The article attempts to unveil the nature of relations between the economic institutions in the tourism sector, including workforce, visitors, state institutions, tourism enterprises and other vital institutions and organizations in the tourism sector. State institutions are imposed the formal limitations for economic interactions in the tourism sector, through primary and secondary legislation acts (strategies, decrees and rulebooks), as the formal legal limitations, while there are also the non-formal limitations such as the norms of conduct, conventions and ethical codes in the tourism sector. The essence is in evaluation of the level of stimulating or destimulating impact of certain formal limitations regarding growth and development of the tourism product of Montenegro.

## **2. Influence of institutional economy on the destination product**

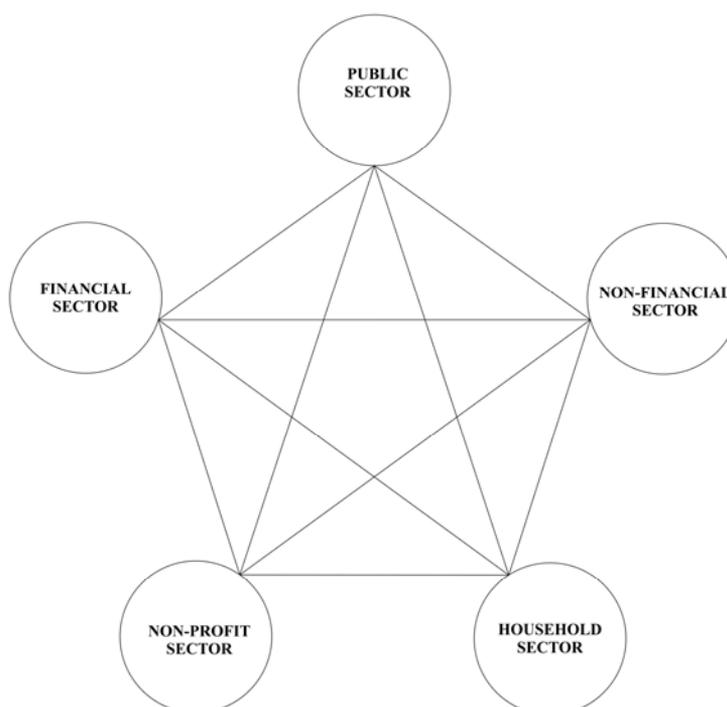
Nowadays, the term new institutional economy or abbreviated NIE is increasingly in use, entailing the inter-disciplinary combination of economics, law, organizational theory, political sciences and anthropology, aimed at understanding the social, political and commercial life of the institutions (Klein, 1999). The new institutional economy fields are: new economic history, public choice & political economy, new social economics, transaction costs economics, theory of collective action, law and economics, social capital, property rights and economics of information (Kherallah and Kirsten, 2001).

Institutional environment is the starting point within the institutional economy, and it entails the organizational structure of the institutional units (by sectors) in the economy sector. This can be demonstrated graphically in the following manner:

Within it, the most important role belongs to the state institutions setting the general "rules of the game", namely the "rules of conduct", limiting the choices of other non-state institutional units, including the institutional units in the tourism sector. There are 16 line ministries in the Government of Montenegro, within which the Ministry of Sustainable Development and Tourism should be singled out for its significance, and a series of other state institutions such as the Parliament of Montenegro, Central Bank of Montenegro and the Commercial Court of Montenegro.

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Figure 1: Institutional economy structure



Source: Author

Legal environment and proprietary rights ((the right to use, the right to change, the right to make profit or losses and the right to transfer (Geraldi, 2007)) are an important feature of the institutional economy. Legal environment entails a set of primary and secondary legislation acts regulating the economic activities, and thereby also the economic activities and processes in the tourism sector. In that sense, there are several laws adopted by the state institutions, binding all the institutional units in the tourism sector. IN that respect, there are several primary and secondary legislation acts in Montenegro regulating the legal environment in the tourism sector, as follows: Law on Proprietary Relations, Law on Tourism, Law on Nature Protection, Law on Waste Management, Law on National Parks, Law on Waters, Law on Communal Activities, Law on Spatial Planning etc; as well as a series of secondary legislation acts such as: Tourism Strategy Development in Montenegro by 2020, Decree on Protection from Noise, Rulebook on the requirements that the organized and developed bathing areas must meet, Rulebook on categorization of the tourism places, Rulebook on form and contents of the license, Rulebook on the form, contents and method of keeping the complaints book, etc. (VCG, 2012).

Norms and social conventions which particularly determine the relations in the tourism sector are the Law on Tourism, Law on Consumer Protection and Ethical Codes, adopted for certain forms of tourism enterprises, for instance, a group of hotel organizations, within the hotels activities in Montenegro.

Economic history and economic growth are also the very important features of the new institutional economy. Observing the development of economic processes in the tourism sector in Montenegro, we can conclude that the tourism sector officially started to develop with establishment of the Lokanda hotel in 1864 in Cetinje. Although it enjoyed the support of the official state institutions back then, we can state that 1965 is the year of organized support by all the units of institutional economy, and 1992 is the year of application of the sustainable development concept in the tourism sector, when the line Ministry of Trade and Tourism was established for the first time in the Government of Montenegro.

It is important to state that the influence of institutional economy on development of economic processes, including the tourism sector is very stimulating in Montenegro. This is proven by the low transaction costs of transition, which are often so low that justifiability and sustainability of certain transition processes in the society, especially in the tourism sector are questioned. Thus, it is about privatization processes and primary and secondary legislation referring to them. On the other hand, there is a great example of low costs of company foundation, where it is possible to found an enterprise in the tourism sector in Montenegro at the cost of only 1 €.

What is particularly beneficial for the stimulating development of institutional economy is the process of accession of Montenegro to the European Union, contributing to harmonization of numerous features of institutional economy among the most important countries of the European Union and Montenegro. These processes include harmonization of instruments for the tourism sector development, so we can conclude that the new institutional economy is the factor of growth and development of the tourism product of Montenegro. That is manifested also through the positive influence of the institutional economy on the tourism policy in Montenegro.

### **3. Influence of tourism policy on the destination product**

*“Tourism policy represents a means by which local, regional, national and supranational institutions and organizations accomplish the adopted goals of tourism development”.* There are two types of tourism policy: fundamental and supplementary tourism policy. Tourism policy can be at macro-, micro-, and mezzo-levels (Vučetić, 2008). Tourism policy is complex, rapidly changeable and of great influence on the environment. It can be said to be turbulent, competitive and dynamic (Stevenson et al., 2008).

Bearing in mind that the tourism policy represents a set of measures and activities referring to the primary and secondary legislation, regulations, rules, guidelines and directives, it represents a combination of a series of national, regional and local economic policies directed towards tourism development. In that sense, its foundations are in the new institutional economy, creating the general economic policy in a destination. It defines the “rules of the game” and thereby the “rules of conduct” in the tourism sector. It defines the entire socio-economic development in the destination, types and levels of tourism charges, business operation of an enterprise in the tourism sector, labour legislation, travel rules, environmental protection, visitor protection, and much more. Hence, it directly influences the competitiveness of the tourism destination.

Tourism policy is an unavoidable factor of sound growth and development of the tourism sector in the world. Tourism policy makers differ. In the USA, that is the Tourism Policy Council (TPC), representing the interagency committee formed under the law for the purpose of achieving the national interests in tourism by the federal decision makers. It coordinates the national programs referring to travel and tourism, recreation and national cultural heritage. It was primarily founded in 1981, and reauthorized in 1996 by the U.S. National Tourism Organization. This institution is included in many activities of the U.S. federal Government, as well as many bodies such as the Asia Pacific Economic Cooperation – Tourism Working Group, Organization for Economic Cooperation and Development – Tourism Committee, and in the United Nations World Tourism Organization (Goeldner and Ritchie, 2012).

In Italy, the Presidency of the Council of Ministers, created the Department for the Development and Competitiveness of Tourism in 2006. This Council develops and implements the central governmental tourism policy and promotional activities. Later on, it developed into the National Tourism Administration of Italy, supported by the Council of Ministers which establishes the Ministry of Tourism without portfolio, as a support to development and implementation of the tourism policy in Italy. This body was assessed as a very efficient and non-bureaucratized body coordinating tourism development at the level of the Government of Italy (OECD, 2011).

In Montenegro, the Ministry of Tourism was established for the first time as the line Ministry in the national Government in 1992. The significance of the Ministry in development of

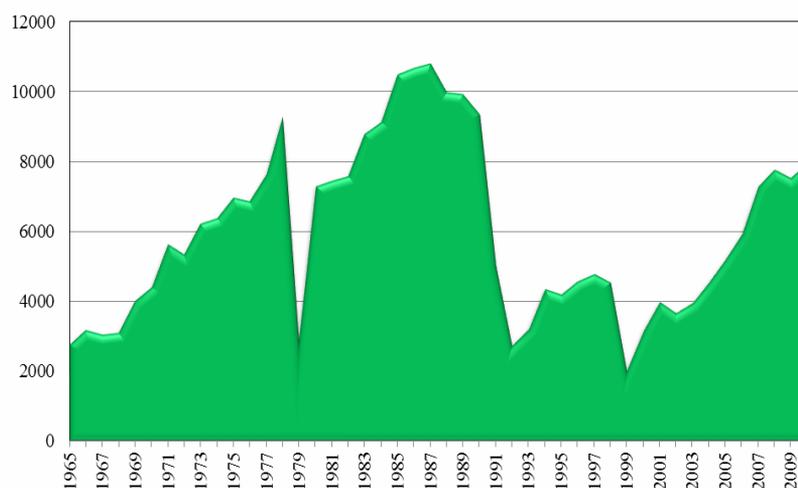
the tourism sector has been invaluable. Along with founding of the mentioned Ministry, the tourism sector grew and developed rapidly in the past. The Ministry mentioned, in cooperation with all the offer makers and stakeholders, proposed to the Government of Montenegro a various set of measures and activities for adoption, which stimulated the tourism sector development. Incentive measures which take particular place are the monetary-crediting, fiscal, foreign policy and foreign exchange policies.

Introduction of Euro as the national currency by the entities in charge of institutional economy (state institutions) stimulated the tourism sector development. Inflation rate decreased, and prices of goods and services in the tourism sector became more stable and lower. AT the same time, that caused reduction in interest rates and cheaper credits in comparison to the period when dinar was the national currency. Introduction of the value added tax instead of the sales tax, and determination of the zero rate on accommodation in hospitality and 17% on other services and goods in the tourism sector also resulted as a stimulus to the tourism sector. Reduction of customs rates also positively influenced importation of a more competitive technical equipment from abroad, primarily the one referring to the hotel companies. Introduction of market economy created the conditions for development of entrepreneurship in the tourism sector and increase in competitiveness of certain segments of the total tourism product.

Special tourism policy measures directed towards development of selective types, enhanced the eco-tourism, adventure, cultural, MICE and health tourism development, which also resulted in increase in competitiveness of the tourism product of Montenegro at the global tourism market (Vučetić, 2009).

Incentive tourism policy measures have been applied in Montenegro since 1965, although back then there were no governmental institutions intended for coordination in the tourism sector development. Stimulating institutional economic framework and economic policy measures at that time period favourable influenced the development of tourism turnover in Montenegro, which is visible form the following figure.

Figure 2: Tourism turnover in Montenegro (number of tourist overnights in 000)



Source: Author on the data obtained from MONSTAT

It is evident from the figure that the backdrops in tourism turnover are primarily the result of natural and social disasters, from which the 1979 earthquake, dissolution of Yugoslavia which started in 1991 and bombing of the Federal Republic of Yugoslavia in 1999 should be singled out. We could add several oil crises from the 70s of the last century onwards, as well as the terrorist attacks to the U.S. in 2001 and the global economic crisis which started in 2008. If we add the numerous global and national economic recessions to the abovementioned, we can conclude

that the national tourism policy and national institutional economy significantly contributed to achievement of favourable results of tourism turnover and relatively sustainable growth and development of the tourism product of Montenegro in the past.

#### 4. Conclusion

There is an increasing number of scientists and practitioners in Montenegro, dealing with the issues related to the institutional economy, which is evident from the published scientific papers in the journals and congress proceedings in the last two decades. However, there are a few scientific papers referring to the issues related to the influence of the new institutional economy on the tourism sector development, not only in Montenegro, but globally. Since the issues concerned determine the future development of the tourism sector in Montenegro, it is necessary to pay more attention in the future to studying the institutional economy in the tourism sector, both by the researchers and the practitioners.

We can say that the tourism policies and institutional economy in Montenegro are in a causal relation. That means that the tourism policy is created from the framework of institutional economy, but also that it can create in turn some segments of the institutional economic framework. As an example, we can mention the fact that the institutional economic framework influenced establishment of the Ministry of Tourism which formed the National Tourism Organization of Montenegro, with assistance of the institutional economy units.

Changes occurring in the transition processes in Montenegro directly reflect on the institutional economy and tourism policy. There are a lot of challenges ahead of us. We managed to overcome many of them, but we did not manage to overcome many as well, such as those related to bad privatization in the tourism sector. All of this creates a very turbulent framework, in which the stimulative and destimulative measures and activities in terms of tourism product development in Montenegro will be created.

It is necessary to apply an approach to these issues in the future, in the sense of hiring as many experts as possible in the field of tourism, primarily in the state institutional units, which are the general economic policy makers, and thereby the tourism policy makers. If the number of experts who will be working on proposing the introduction of incentive measures for development of the institutional economy and tourism sector is not increased soon, a set of new limitation thresholds in tourism product development in Montenegro could be generated, which would jeopardize its competitive position in the global tourism market in the long term.

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