ECONOMIC INSTITUTIONS AND COMPETITIVENESS OF ECONOMY WITH EMPHASIS ON MONTENEGRO

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Abstract
The competitiveness of economy has become a key term in economic trends. It is related to all strategic issues of sustainable economic development. A sure way for its preserving in unstable conditions would include increasing competition, and modernization of the economy which would lead to knowledge economy, innovations and institutional development. Knowledge and innovations also depend on development of institutions and support. This is the reason why the starting point is the hypothesis that the competitiveness of economy dominantly depends on the degree of development and the efficiency of economic institutes.
This paper considers the importance of economic institutionalization, and some elementary causes and conditions that prevented a pluralistic and even monistic performance of individual economic institutes (such as competition, market regulation, etc.) in most transition countries, and led to their objective substitution by the quasi-Institutes of sociopathological and anti-institutional nature. The primary importance pluralistic synergy of economic institutions is stressed for the development of competition. The analysis of the competitiveness in Montenegro points to urgent strengthening of institutional development factors and appropriate ambient.
Key Words*: economic institutions, institutional pluralism, competitiveness, anti-institutional behavior, Montenegro.*

1. Introduction

In the last four decades, the competitiveness has been one of the most analyzed economic categories. The majority of authors look upon the competitiveness from the level of national economies, mentioning the improved well-being, structural changes in economy and its increasingly efficient adjusting to the international market (Bienkowski, 2006.). However, some economists (Krugman 1994, 1996) advocate an extreme attitude that the notion of competitiveness is not applicable at the level of economies, only at the level of companies. According to our opinion, it is logical that the competitiveness of economy represents summed up competitiveness of the companies in a particular country.

The theory of economics recognizes different definition of competitiveness and its importance. Some of them are:

- *Internantional competitiveness as a condition in which the countries in terms of free and fair market have to produce goods and services which meet the requirements of the world market*, keeping and increasing the real income of its citizens a the same time. (OECD),

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- *macro-competitiveness*, as a state of competitiveness of a concrete national economy, which relates to the ability of earning higher factor incomes in terms of direct exposure to the influences of international competitiveness and
- *micro-competitiveness,* which is relative efficiency of concrete companies to sell their products and services on a market on which both local and international competitors are present. It is based on relative prices and product quality related to the offers of other companies. *The main competitiveness factors (micro-comparative advantages) there are low business costs (especially low labour cost) or a higher rate of factor productivity.*

Irrespective of the given classification, all known authors agree that a period of global economic competiton has come. That dominant trend is characterized by the application of the most up-to-date knowledge, innovations and appropriate information, communication, transport and other technology, a very high mobility of production factors, real and virtual flexibility of organizational forms of associations, maximally possible openness of economy and stimulating of human capital. It includes the synergy of many microeconomic and macroeconomic factors, including: high quality management, flexible organization, maximal cost control, higher stimulation of employees for creation and innovations, advanced business strategy, pluralistically developed institutional ambient, engaged instruments of economic policy.

In early 21 century the ability of an economy to be internationally competitive is characterized by the following elements (OECD 1999): a) a higher level of innovations, a widespread usage of new, generic technologies, like information and communication technology, biotechnologies and technologies of new materials, b) a shorter product lifetime and a faster reaction to the consumers' needs, c) a higher level of flexible automatization, through the usage of computer supported production systems, d) a higher managers' role and highly qualified and competent workers, e) changes in the usage of new resources and materials and f) changes in the organization of industrial production like, „timely ", LEAN production, total quality control etc.

The analysis of global trade exchange trends makes possible the noticing of some general trends which contribute to the competitiveness:

- state who have the highest export rate have the highest growth rate,
- the growth of global resource mobility repesents potential increase of similarity of production capacities worldwide,
- technology becomes a key development factor and
- knowledge and skills (human capital) become key elements of competitiveness.

The methodology of measuring of international competitiveness of a country has to, above all, take into consideration four groups of factors which influence a country's economic efficiency and the efficiency of its companies:

- attractiveness of the local market of a given country compard to the percentage of the penetration of its companies on foreign markets,
- the importance of the local market compared to globalization,
- wealth in the sense of real assets compared to processes, and
- individual risk taking compared to the degree of social cohesion.

The competitive ability of economy is the result of the existence of a range of its competive advantages. The can stem from various factors, starting from socio-economic system (systm measures and mechanisms), stimulation instruments of macroeconomic policy, institutional environment, normative and legal acts and general conditions for business and entrepreneurship, through the levels of organization, management and commercial abilities ending with geographic, demographic, resource, infrastructure, innovative and microeconomic capacities

2. Theoretical approach

The problem of competitiveness has a universal, global character. Kitson et al. (2004, p. 991) think that it has become "*the natural law of modern economy.*"

The concept of competitiveness of economy has undergone important changes it its history. A. Smith and D. Ricardo were linking its definition with the availability of national resources. M. Weber explained the diffrences in economic results of particular countries with particular socio-economi factors like value systems, religions etc which make up the socio-cultural capital. J. Schumpeter stressed the importance of entrepreneurship, innovations and technology. P. Drucker has developed a concept of management as the basic competitiveness factor. R. Solow stressed the idea of education (knowledge) and technological innovations in the economic growth. M. Porter generated all the mentioned ideas into the model known as "Porterov competitive diamond." He is a true guru of discussions on competitiveness. In his many papers (1998, 2001, 2003) he stressed the importance of export oriented clusters which represent the basis for the reaching of economic and regional competitiveness.

H. Trabold (1995) went further in theoretical considerations through the analysis of the following possibilities as competitiveness aspects: a) export, b) attraction of investments, c) adjustment of economy and d) creation and increase of available income (measured by GDP growth). He thinks that the given aspects make up a certain hierarchy in the sense of mutual interdepending. Porter (1990, 2003) and Krugman (1994) marked productivity as the best measure of competitiveness. It can be regarded as a comparative relationship between advantages and disadvantages of particular countries measured according to some indicators and factors. By itself it has no ideal goal and it is a condition of competitive relation among states, the ability to achieve high comparative qualities of some foundations and indicators. For more than two and a half decades, thanks to Nobel Prize Winner, D. Nort (1990, p. 107) the opinion prevails that institutional factors and the competitiveness of the economy are of the biggest importance for the growth of economy.

Global business conditions impose constant challenges for the improvement of competitiveness. Swiss institutes *World Economic Forum* and *International Institute for Management Development* define competitiveness as a functional set (system) made up from institutions, transparent public policies and factors which determine the productivity level of a country. Productivity is important in the context of competitiveness because a) it shows the state of prosperity which is achieved with a high level of standard of living and b) profitability degree of the capital invested in economy, which influences a long term growth of economy and sustainable development. In that context competitiveness presents a challenge in a constant race for reaching productivity, economic prosperity and improvement of life quality.

The mentioned Swiss institutes regularly publish annual reports on world competitiveness, which show the rating of particular countries. The rating is set according to the two types of indicators: *Growth Competitiveness Index*, GCI and *Business Competitiveness Index*, BCI. The reflect macro and micro economic position of a particular country representing useful data sources about main comparative advantages and disadvantages of particular countries, according to the criteria of factor measurement which influence competitiveness and productivity of the economy.

GCI is aimed at the identifying of factors which stimulate or prevent entrepreneurship, economic growth and the development of a country's economy. In the so-called Green Book titled „Entrepreneurship in Europe", European Commission stressed the following dimensions of the social importance of entrepreneurship:

- it helps open new jobs and economic growth,
- it has decisive importance for competitiveness,
- it develops personal potentials, and
- it develops general social interests .

The notion of competitiveness includes both static and dynamic components. Some data can, however, be only considered reservedly since the sources are limited. This is why the mentioned reports can serve as a general framework for the conclusions about key reform challenges, in order to improve the competitiveness of the economy. Of course, quantitatively competitiveness of a particular country can be defined also with its participation in the world market and through the world export figures. Some experts observe competitiveness through devaluation of a national currency, the existence of certain resources and similar things. Many authors (Florida, 2002; Malecki, 2002 and others) stress the growing importance of some determinants in the analysis of competitiveness, like knowledge, learning or creativity which are the basic elements of innovations.

An interesting approach in the form of "Competitiveness tree" was created by D. Constantin and G. Banica (2007). According to their interpretation, the roots of the competitiveness consist of human resources, innovations, connections and industrial structure. The trunk is made of productivity, the branches are made of income, employment, profit and taxes and the fruits are: well-beign, sustainable development and social involvement.

3. Economic institutions and competitiveness of economy

The economy can become more competitive by improving its achievements in the wide range of factors which influence productivity growth. It includes innovations, creating of more convenient institutional and system ambient, transferring or adopting new technologies, the development of the sector of services, knowledge, science and education, entrepreneurship, new companies and so on. Actually, all the mentioned factors depend on the development of economic institutions. The Strategy (2011, p. 7) clearly points out that „*it is necessary to thoroughly change institutional infrastructural basis of the development of competitiveness, because the earlier ones were unsuccessful.*"

Big companies in Montenegro are practically dead. Stimulation and strengthening of competitiveness of small and medium sized companies is imposed as a priority of the development strategy and economic policy. Moreover, the development of institutional ambient must be prioritized. Why? Because the development of small and medium sized companies represents the basic factor of all modern economies. Montenegro failed to develop a private sector becaue it has been developing it unsuccessfully for more than two decades (unsuccessful privatizations in the part of institution of property, unsuccessful neo-liberal economic policy in the part of institution of state regulation and monopolizing of economy and stimulation of quasi-markets in the part of institution of market regulating).

The international methodology of calculation includes 12 key competitiveness pillars, among which the first one is especially important which relates to institutions and institutional environment of economy. It is defined through legal and administrative systems within which economic subjects (individuals, companies, organizations and legal authorities) interact mutually in order to create income or profit and improve economic wellbeing. It is interesting that in the majority of strategic national documents of transition countries the development of economic institutions is not discussed (or it is done only in general and superficially) (for example look at the Strategija ..., 2011). They are on the other hand the main breaking mechanism of competitiveness at all the levels (economy, region and companies).

V. Draskovic and M. Draskovic (2012, p. 211) point out: „*Regardless of the variety of modern theoretical approaches and frequent academic considerations related to institutional causes of economic growth and development, the issues of concrete contents, dynamics and improvement of economic institutions, especially their functional implementation in transition economies, so far have not got any deep complex and consistent foundation or satisfactory analytic and practical answer.*" It has been proven (North, 1981; North, 1987; Rodrik et al., 2004) that the institutions in general, especially economic institutions stimulate creativeness, motivation, initiative, entrepreneurship, interest, efficient corporate management and healthy competition. On the other hand, they disable the institutionalizing of privileges and processual forms of dominations and totalitarianism, because they represent direct opposition to unlimited political power (V. Draskovic, 2003, p. 30). They also disable braking actions of socio-pathological mechanisms which have dominantly anti-institutional character.

The quality of social and economic institutions within them significantly and probably dominantly influences the competitive ability of economies, economic growth and a sustainable economic development. It exerts its influence through the decisions on investments, organization of production of goods and services, distribution, relationship between freedom and market regulation, system of motivation the level of investing into science and education (knowledge) etc. Besides, the institutional building has a decisive influence on the efficiency of management of intellectual property and intellectual capital, which directly influences the level of national innovation capacity and competitiveness of economy.

In modern economy of knowledge and global market, non-material assets of companies (and economy), ie. Intellectual property (as a segment of intellectual capital) is the factor which makes it successful, efficient and competitive. The significance of the discussed category is reflected by the estimation that by 2015 in 100 leading world economies the overall value of intellectual property will amount to over 90% of the overall value of their assets.

4. Competitiveness of Montenegrin economy and EU accession

The reaching of a certain level of national competitiveness in economy is one of the condtions for the EU accessing. Exporting is a priority because without it one cannot have import covered with export and a balanced payment balance. For exporting a country has to have, among other things, competitiveness of quality and prices of products and services. All the proclaimed visions and missions from various development documents and programs are general. They cannot be useful without well thought, adjusted, designed and consistent measures of macroeconomic policy (the institution of state regulation) and their microeconomic application (at the level of institutions of state regulation and protection and exchange of property rights).

Montenegro is getting close to EU, which is a market of around 500 million people. Reaching of a certain level of competitiveness of economy is one of the conditions for EU accession. All the proclaimed visions and missions from various development documents and programs are general. They cannot be useful without well thought, adjusted, designed and consistent measures of macroeconomic policy (the institution of state regulation) and their microeconomic application. Without real sources of financing it is not possible to reach the planned goals.

The development of competitiveness can only be secured by activating entrepreneurship and large scale private ownership, as it was proclaimed during the privatization. It will probably not be supported by the present monopolized private business which through real estates and liquidated companies placed a huge amount of capital out of function. This is why the instruments of economic policy have to be engaged. Foreign investments have to act maximally in favour of competitiveness and that means productive engagement of local labour in foreign capacities and modern forms of organization. It is difficult to believe in the proclaimed *„stimulating of innovative activities in small and medium sized companies“* in terms of long term reproducing of the deficit of financial assets. The investors have to be attracted which will properly valorize the local resource potentials, contribute to their sustainable engagement and at the same time improve education and strengthen the competence of the local labour, logistic abilities and organization forms like outsourcing and product standardization system. One of the ideas can be the flourishing of boating and maritime industry, which was always a development priority. However, for this to happen strategically well thought arrangemens are needed, for example the hiring of world famous logistic providers (for example Chinese or Korean), which proved their best practice on the world market and which are interested in making highly competitive port, logistic and distribution capacities in Montenegro for providing services on EU market.

With the changes in behaviour of all economic subjects (the state, companies and employees) and securing of real sources of financing (which are lacking in the majority of transition countries) it is not possible to achieve the planned goals. One has to overcome the practice of anti-investment, developmental anti-productive direction of direct foreign investments. They have to act maximally in favour of competitiveness and that means productive engagement of local labour in foreign capacities and modern forms of organization and forms of management.

Some of the advantages of Montenegro, like acceptable legal and economic ambient for FDI, rather liberal economic and other conditions for entrepreneurship, stimulating tax system, Euro being a solid currency and other are not enough to compensate for the majority of competitive weaknesses. Recognizably good microeconomic conditions for providing tourst and transport services, production of ecological food, drink and agricultural products have not been effectuated. Due to the lack of local investment sources, anti-investment character and a subsequent lowering of FDI, there were no exporting of advanced technologies and various types of knowledge. The business ambient has been burdened with many problems, some of them stemming from quasi neo-liberal economic policy which suffered grave defeat in global terms but it is still practiced in some so called "hoarding states".

However, quasi neo-liberals do not distinguish between Norths (1981, p. 22) "*exploiting approach to the state with uneven distribution of the potential of force exerting, by which the income owned by a group of people is maximized, irrespective of the fact how it influences the society as a whole*", from "*the contractual institutional approach with the agreed even distribution of the state's force exerting.*" Until the second approach is dominant in economy its competitiveness at any level is not possible – microeconomic level (products and services, companies) or macroeconomic (branches of economy and economy as a whole), which at the same time means it will not be competitive on a regional or global level.

When a country has an exploiting approach it is not a recommendation for EU accessing. The same goes for the evasion of taxes, which directly opposes competitiveness. The researches we have conducted showed that in some segments private and state owned sectors with its incorrect functioning and deficit of regulatory mechanisms slow down competitiveness. Observing tax payment for coffee shops in two transition countries "A" and "B", through the sample of 200 catering businesses (150 cafeterias and 50 restaurants), we came to the following worrying results: in the state "A" 81% of coffee shops and 65% of restaurants do not pay taxes (using double cash registers and other methods). In the state "B" around 63% cafeterias and 47% restaurant avoid taxpaying (through the return of tax receipts). In the state "A" there is a paradox that on bills, bogus and double receipts huge prices (almost like those in EU) are put with of course calculated taxes which do not go to the state budget. That means that the guest are charged with taxes but it goes to the owners of restaurants and coffee shops which do not forward it to the state budget which means they earn easily a lot of money. In the state „B" the situation is similar only the technique is slightly different.

It is clear that we are talking here about the deficit of institutions which destroys competition which is constantly being mentioned by utopian "reformists" and quasi neo-liberals. It is also interesting how the state sector functions. At one national advertisement for scientific projects in the transition state "A" the terms read on the official government's site that new candidates have advantage over the applicants which earlier got funded for their projects. Nevertheless, the old lobbyists and "designers" got the money again, much higher amounts from these asked by the rejected applicants. Some of them even received the money for two projects! These results were posted on the site, they are available and they can be easily checked. It cannot be proved whether there were or there will be. There were other dubious projects which were accepted. On the other hand the projects of renowned specialists and famous scientists which estimate the quality of all big investment projects for the government were not accepted. Some of them previously got excellent reviews from the authorities from environment countries related to the quality of their projects! There are many questions one can make: Who took part in the final evaluation of projects? How is it possible that the official positive reviews of experts are eliminated? Why did the project evaluators remain anonymous?! The most interesting question is surely how it happened that quasi neo-liberals got the highest amount of money and projects from the state in a non-market manner?!

In this case also we are talking about the classic anti-institutional acting which directly contradicts the establishing of competition and all other categories of market and also the establishing of affirmative regulation by the state. Until firm political attitude is made aimed at respecting and implementing of formal institutions, socio-pathological deviation will not be overcome and the conditions will not be created for the overcoming of long term crisis.

The mentioned behaviours directly contribute to the non-market (rent-oriented) and privileged distribution of property as economic institution. They cause the erosion of the state revenues which become the ownership of rare individuals through the methods of acquiring illegitimate benefits. When institutional solutions fail, according to Draskovic (2010, p. 6), the creators of government policy (economic and other) should always take the responsibility. A Nobel Prize winner O. Williamson (2000, p. 605) thinks that *„political and economic ruling structures are the most responsible for the development of economic institutionalization*".

Economic behaviour is in practice far from regular norms and rules whenever it is controlled by subjective regulators (Draskovic, Ibid., p. 8). In the stated conditions efficient market oriented business can be created or realized, the basis of which is healthy competition. The sustainable development is being postponed as well as creating of competitive abilities, advantages, competence etc. The proclaimed competition is replaced with various types of monopoly. It is often reduced to monopolies and/or primitive market structures.

5. The position of Montenegrin competitiveness

The position of Montenegrin competitiveness in the review for the period between 2007-2012 was constantly improving, both from the aspect of GSI (from 82nd to ... position), and in the part of general institutional building (from 78th to ... position. Of course, there are no indicators which evaluate the quality and acting of economic institutions which will be mentioned. One can notice a direct mutual dependence between the improvement of institution parameters and competitiveness parameters.

Table 1: Indicators of Montenegrin competitiveness in the period 2007-2012. (position / index)

Years Indicators	2007	2008	2009	2010	2011
Growth Competitiveness Index	82 / 3.91	↗ 65 / 4.1	↗ 62 / 4.2	↗ 49 / 4.36	↘ 60 / 4,27
1.pillar: Institutions	78 / 3.69	↗ 59 / 4.1	↗ 52 / 4.3	↗ 45 / 4.5	↘ 57 / 4,69

Source: World Economic Forum - The Global Competitiveness Report- 2007-2012.

Nevertheless, the development of institutions in Montenegro is not satisfactory. That means that it is necessary to conduct an urgent implementation of a series of structural and institutional reforms in order to improve the factors which influence the increase of competitiveness and productivity of economy. Some general mechanisms for efficient functioning of institutions have to be established, from the rule of law which would suppress corruption and strengthen the independence of judicial bodies, to economic institutions which will secure efficient market functioning with healthy and loyal competition, define and protect property rights and secure pluralistic institutional convergence, with the role of state regulation which belongs to it in all developed countries. Only flexible state regulation can remove bureaucratic and other obstacles for business and investments, carry out a comprehensive reform of the public management and labour legislation, remove tax burden from economy, lower public expenditure and all other forms of indebtedness, neutralize crisis waves and so on.

The institutional environment of ecomony is determined by management and legal frameworks. The quality in the legal functioning of institutions is of key importance for the competitiveness and the growth of economy. Since the growth depends on, first of all, investments, foreign investors are interested in safe and fair environment (legal, ownership, and business, political). In which the law is obeyed, and order and rules of game are known and the property is adequately specified and protected. Besides, the investors want to know that there exists responsible public management and transparent public policies with simple and fast procedures and management actions as well business environment with fair ethic standards.

The table 2 represents the position of potential candidate countries for EU accession and chosen Eastern European countries in the period for 2008 and 2010. The progress of the potential candidates for EU membership is evident which reflects the quality and the size of positive changes in economies which want to be a part of EU. Out of 11 Eastern European countries which are not EU members, Montenegro, with its grade of 4, 19 is closest to reaching goals of the Lisbon strategy of economic and structural reforms.

Table 2: The assessment of the progress made by potential candidates for EU membership (Chosen Eastern European candidates in 2008 and 2010)

	2008			*2010*	
	Position	*Index*		*Position*	*Index*
Croatia	1	4.10	Montenegro	1	4.19
Montenegro	2	3.96	Croatia	2	4.18
Azerbaijan	3	3.88	Azerbaijan	3	4.02
Turkey	4	3.82	Turkey	4	3.85
Russia	5	3.82	Macedonia	5	3.79
Kazakhstan	6	3.70	Georgia	6	3.78
Ukraine	7	3.69	Russia	7	3.75
Georgia	8	3.66	Kazakhstan	8	3.67
Macedonia	9	3.53	Ukraine	9	3.62
Moldavia	10	3.50	Serbia	10	3.51
Serbia	11	3.44	Armenia	11	3.50
Tajikistan	12	3.35	Albania	12	3.47
Kirgizstan	14	3.23	Tajikistan	13	3.38
Albania	15	3.12	Kirgizstan	14	3.20
Bosnia and Herzegovina	16	3.12	BiH Bosnia and Herzegovina	15	3.07
EU 27		*4.73*	*EU 27*		*4.81*

Source: World Economic Forum - The Lisbon Review 2010.

Montenegro surpassed the five lowest ranked EU members – Greece, Poland, Italy, Romania and Bulgaria. Croatia was the second in 2010 with the grade 4, 18 and its rank was similar to the one of Montenegro and it similar to Greece and ahead of the four mentioned EU countries. Montenegro is the best in the areas of financial services and social involvement where its grades are above Crna Gora je najbolja u oblastima finansijskih usluga i socijalne uključenosti, gdje ima ocjene the average of the 12 new EU countries. For these areas Montenegro got the grades 4, 74 and 4, 28. Montenegro also got good grades for the sustainable development (3, 9), holding the second place, following Croatia and also for the network infrastructure (4, 6). According to the liberalization criterion Montenegro is second ranked with the grade 4, 34, and in the area of business environment it is sixth with the grade 4, 32.

The following researches related to the competitiveness of Montenegrin economy have been conducted: a) The Agenda of Economic Reforms of Montenegro 2002-2007, b) The Agenda of Economic Reforms and development of Montenegro 2007-2011, c) Montenegro in 21 century – in the competitiveness era, d) Economic and fiscal programs of Montenegro. Besides, as comparative reviews the following documents are used a) the global competitiveness report published by WEF), b) IMF's national reports, c) World Bank documents d) EU documents.

Recently, Montenegro has been taking certain actions in order to improve its competitive position. Numerous analyses have been completed; projects have been implemented in the areas of education, small and medium sized companies, standards etc. However it has not been enough. This is why we think that it is necessary to define concrete measures, directions and activities in a systematic manner and at the level of the government of Montenegro, in order to start solving this problem in a comprehensive and consistent manner.

Table 3: SWOT analysis of Montenegrin economy according to the available international groups of a country's competitiveness indicators

Strength	***Weakness***
Basic requrements	Basic requrements
1. Macroeconomic stability (WEF GCI)	1. Infrastructure
2. Education	Infrastructure (WEF GCI)
Health and elementary education (WEF GCI)	Network industries (WEF Lisabon)
3. Infrastructure	2. Economic system
General infrastructural reform (EBRD)	Institutions (WEF GCI)
4. Economic system	Rule of law (WBWGI)
Liberalization (WEF Lisabon)	Quality of regulations (WBWGI)
5. Business environment	Government's efficiency (WBWGI)
Investors' protection (WBDB)	Control of corruption (WBWGI)
Liquidation of companies (WBDB)	3. Business environment
	Implementation of contracts (WBDB)
	Registration of property (WBDB)
	Issuing of construction licenses (WBDB)
	Tax payment (WBDB)
	Foundation of companies (WBDB)
	Receiving loans (WBDB)
Elements which increase efficiency	*Elements which increase efficiency*
1. Market of goods	1. High education
Efficiency of Market of goods (WEF GCI)	High education and training (WEF GCI)
Foreign trade (WBDB)	2. Transition process
2. Labour market	Restructuring of companies (EBRD)
Efficiency of Labour market (WEF GCI)	Competition policy (EBRD)
Employment of workers (WBDB)	3. Financial market
3. Financial market	Market of securities and non-banking financial instituti-ons (EBRD)
Sophistication of financial market (WEF GCI)	4. Technological readiness (WEF GCI)
Financial services (WEF Lisabon)	5. Size of the market (WEF GCI)
Reform of banking sector and stabilization of interest rates (EBRD)	6. Information society
4. Transition process	Information society (WEF Lisabon)
Privatization of big systems (EBRD)	
5. Business environment	
Environment in which companies operate (WEF Lisabon)	
Factors which influence innovations and sophistication	Factors which influence innovations and sophistication
	1. Innovations and research and development (WEF GCI, WEF Lisbon)
	2. Sophistication of business operation (WEF GCI)
Other	Other
1. Social inclusion (WEF Lisabon)	1. Sustainable development (WEF Lisbon)
2. Political stability (WBWGI)	
3. Responsibility and recognizability (WBWGI)	
Opportunities	**Threats**
Production factors	Production factors
Ending of privatization of big systems	Delay in companies' restructuring
Speeding up of companies' restructuring	Underdeveloped infrastructure / network industries
Development of infrastructure / network industries	Delay in development of information society
Progress in the development of high education and trai-ning	Low level of research and development of innovations
Developmetn of information society	Low level of business sophistication
Higher access to loans	Insufficent affirmation of concept of sustainable deve-lopment in practice
Promotion of research, development and innovations	
Economic system	Economic system
Development of efficient institutions	Inefficient institutions
Progress in the affirmation of rule of law	Insufficient progress of the rule of law
Progress in form of regulation quality	Insufficient quality of regulations

Progress in the efficiency of government work	Insufficient efficiency of government work
Business environment	Business environment
Improvements of competitiveness policy	Inefficient competitiveness policy
Improvements in contract application	Inefficiency in contract application
Improvements in property registration	Inefficiency in property registration
Improvements in construction license issuing	Problems in construction license issuing
Improvements in tax paying	Inefficiency in tax collecting

Source : *Competitivenss of Montenegrin economy*, 2010, pp. 31-32

Some of the conducted analyses of the competitiveness of Montenegrin economy have shown that it is still based on the competitiveness based on prices, not on the opposite one. World trends point to the growing significance of non-price competitiveness elements. When the products are innovative and specific for a target group of consumers, when both the producer and the state have a good image, when there is quality of products and business, then even the expensive products can be realized successfully. There is problem which is being neglected related to the aforementioned. It is relatively poor image of transition countries and their products on international market. Many western countries treat them even after 20 years of transition process as cheap sources of raw materials and labour, not as equal partners. Even the transiton countries show a much higher level of preference for western products compared to those from transition countries. It is a big barrier for the increase of their international competitiveness.

6. Recommendations and proposals

The critical developmental issue in Montenegro is: how to build efficient institutional environment which would stimulate investments, entrepreneurship, employment, growth of economy and competitiveness, and hence the necessary export increase?

The development of competitiveness can be carried out only by activating healthy (not the privileged) large scale entrepreneurship and private ownership as it was proclaimed prior to the beginning of privatization. Of course it will not be supported by the present monopolized private business which hoarded huge capital through real estates and liquidate companies placing it out of its function.

Instead of neo-liberal, passive and dysfunctional (or purely interest oriented) macroeconomic policy, its urgent switch to institutionally active, engaged, propulsive and efficient economic policy with civilization and developmental characters is necessary. Contradictions between the advocating of neo-liberal economic policy (market or institutional monism) and the statements of their supporters about the necessity to "support" government's documents which are intended to economic issues (classical institutional state regulation). That is a nonsense which misleads and whci does not solve problems, transferring them to future time and generations. Besides, expert have to involved to prevent catastrophically wrong formulations of neo-liberal „creators", which in their strategic documents claim that *„exporting is a global trend which contributes to competitiveness* " (Strategy, 2011, p. 7). It should be obvious that is the other way round, competitiveness contributes to export.

The thorough change of institutional infrastructural basis for the development of competitiveness is necessary because the one so far has been a failure. The story about the increase of institutionalization, innovativeness and competitiveness cannot be realized in terms of formality, declarativeness and substitution of institutional changes with various palliative measures, the idea of which is to keep the authorities, rent orientation and protection of interest driven behaviour of privileged groups. It is not a secret how intuitional changes, innovativeness, quality and competitiveness are created and implemented, without which economic development, is not possible as a qualitative component of economic progress. World role models have to be used and selectively implemented, in the way allowed by the specific micro-economic and macroeconomic environment.

According to the ideas of and thoughts of Nobel Prize winner, D. North (1987, pp. 418-22), "*conducting of economic activities precisely defined and developed institutional terms which determine them*" should not be a problem. The same author (1981, p. 32) proposes "*building of an institutional structure, primarily the structure of property rights, which would reach the maximizing of incomes (social wellbeing) and a high level of freedoms (through the minimization of costs for the specification and protection of property rights.*" These are primary conditions for the securing some fundamental things which are the basis of healthy entrepreneurship, market and corporative management, which make possible competitiveness of economy, economic growth and sustainable economic development.

As the last recommendation we will quote V. Draskovic (2010, p. 7): "*No matter how much people deceive themselves talking about stories about market, property, competition and entrepreneurship each well intentioned person knows that everything begins and ends within the boundaries of institution of state regulation. Its flexibility, rationality and regulation will affect the mentioned categories, other economic institutions and the crossing the institutional vacuum which generates anti-competitive situations... The change in the way of thinking and behaving is an imperative. We think about civilization, institutional and innovative norms, about the reducing of economic behaviour to real, moral, civilization, human and institutional frameworks, creating a competent economic theory and appropriate economic policy which will sincerely (not only through rhetoric) stimulate healthy market competitiveness, respect objective frameworks and numerous market limitations. Everything should be done without mythology, ideology, dogma, and interest driven misuse.*"

7. Conclusion

The decrease of competitiveness of any economy is conditioned with the combination of institutional underdevelopment (inappropriate institutional changes), a high level of real incomes, low level of business ambient quality and socio-pathological (anti-institutional) behaviour.

The solution of competitiveness problem and all other transiton problems has to be looked for in the making of a pluralistic institutional ambient and consistent implementation of institutional behaviour, which has to be compatible with international environment and civilization role models.

The challenges imposed by crisis, can, in general, have only one efficient answer, which is the same at the global, regional or local levels. That answer includes the focusing and coordination of the development of five „i" factors: institutions, infrastructure, innovations, investments and information (knowledge) - Draskovic, 2010, p. 20. It is not a coincidence that institutions are mentioned first.

The basic competitive advantage of a modern company is the fact that it is able to be innovative. This causes the growth of profit, which is the main goal of each company. The improvement of the overall social innovative capacities and the development of entrepreneurship is one of the key factors of competitiveness of economy and sustainable social and economic development.

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