



Weekly Briefing

Montenegro Economy briefing:
Tourism and its implications on the economy of Montenegro
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Introduction

With a population of just over 600,000, Montenegro is the smallest nation among middle-sized countries in Europe. It has a good reputation as a safe destination, within a 2-hour flight to most European cities. The main tourist areas, made up of coastal South, urbanized Central region and mountainous North cover an area of around 14000 km² and are located an hour of drive from Croatia and Albania and 150 km across the Adriatic Sea from Italy. Tourism contributes some 11% of GNP (direct contribution) in 2017 and is forecast to rise by around 6% to reach 15% of GDP by 2027. In terms of total contribution to GDP, in 2016 tourism and tourist related activities generated 22% of GDP, with expected increase of 6% and exceeding 30% by 2027. Tourist sector directly supports around 12000 people or 6% of total employment (while total contribution is around 40 000 people or 20% of total employment). Tourism is the country's 3rd largest industry and consumes 34% of total investment in 2017. Tourism arrivals in Montenegro increased steadily since the mass tourism boom of after the independence (2006-09), reaching 2 million tourists in 2017. Montenegro still depends substantially on the Serbian and regional market for tourist arrivals, but the EU market share has been increasing and despite ongoing political rift, the Russian market share haven't drop significantly. Over half the visitors to Montenegro are repeat visitors and 70% of arrivals come between April to October, making Montenegro in terms of DMO (destination management organization) a so called "sun, sea and sand" (3S) destination.

Due to stable political situation, strong investment concentration in the tourist sector and spillover effects from the neighboring tourist destinations (Croatia), Montenegro has enjoyed the relatively strong growth in terms of tourist arrivals and overall revenue from tourist related sector. In spite of the recession that have decimated inward investment in previous years, the tourist growth in the last year seemed to assume the figures from pre-recession period and is unmistakably a leading generator of the overall economic growth.

Therefore, this report will outline Montenegro's strategy to maintain tourist growth and try to evaluate the dilemma that with overall tourist growth has been reemerging in the public: should Montenegro have tourism-generated economic growth or just sustainable tourist growth.

“Two-tracked” development of tourism

Given the share of tourism and tourism-related activities to overall GDP, employment and inward FDI, Montenegro seems itself at the crossroad. According to a broadly accepted classification, Montenegro is just above threshold (10% of GDP share) to be considered tourism-dependent economy (TDE) and, looking at the growth projections, in 10 years is expected to become typical TDE economy similar to tropical island states. This economic condition coupled with sluggish growth in other sectors predetermined the current government to re-emphasize action plans for tourist growth and to give due attention to strategic development of tourist infrastructure. However, the speed of tourist growth (in 2017 exceeded estimates of 6% per year and is on good way to exceed in 2018) found the government unprepared and unaware of some contradicting models on which the current tourist growth has been based.

As mentioned in one of the previous reports, Montenegro's government has lavished very ambitious plan to transform the country as an elitist destination pertaining all the perks of Monaco: a tax heaven, attractive real-estates, urbanized jet-set resort, which will additionally boost “all-seasons tourism”: 3S tourism, winter (ski resorts) and “off-season” tourism (national parks, historical sites, etc.), in a word, to implement so called “Monegasque agenda” embellished with highly diversified natural capacities to sustain the inflow of tourists throughout the year. In economic terms, this agenda has been regarded as a backbone of a tourism-generated MOD and the first investment projects were similarly designed to cater the high-end tourists, inward FDI pattern showed significant concentration on attractive real estate and property (sea-side locations, luxurious villas and resorts) and the government put high priority to

build up communal infrastructure network and services that could support the investments. Of course, this model showed very segmented and exclusive approach in building the tourist infrastructure. Sewage systems, electricity and water supply were distributed very unevenly giving the Montenegro's first years of tourist boom a very tier-mondish outlook.

Although the agenda itself was designed in with a very long-term implementation prospects, as an "strategic vision" it has been recalled by government's mouthpieces and during the longest tourist growth streak in the post-recession period resurfaced again as a feasible plan for the years to come. In terms of investment policy, the government continued to attract strategic investments for elite tourism without due consideration for the impact it has on the local communities and their share in tourist growth, uneven distribution of communal services and disbalances in local MODs. As it became clear from the business meetings the government had with high-end investors in the recent months, resort developing and building the facilities for a high-end clientele has been regarded as mere budget cash injections while all local and communal concerns were adjourned to be dealt along the way. In November 2017, the government negotiated building the Kumbor resort which will expand on 3% of whole Boka region. There are ongoing negotiations with potential investors from UAE to engage in brown-investment projects along the coastal destinations of Kotor, Budva and Tivat for which the government made commitments to assure its exclusive status.

On the other end exists more unregulated yet more socially inclusive model of "laissez-faire" tourism that was side-tracked for a long time. Although Montenegro has marketed itself internationally as an elite destination, due to geographical proximity and certain spillover effects a model based on short-distance arrivals (usually neighboring countries), exploitation of 3S resources and neglect for environmental issues by inertia gained more economic significance. During the recession, it expanded due to the fact that it was a rare untapped source of an income for small entrepreneurs, but as an important part

of tourist growth it is still left largely unregulated and more perceived as an instrument in maintaining social peace than a source of national income. Nevertheless, the share of “laissez-faire” tourism in Montenegro’s economy was almost three fifths of the overall tourist growth in 2017. On top of that, “laissez-faire” tourism slightly evolved in terms of DMO and targets middle-class, independent travelers while continuing to generate the growth of a small and middle sized private companies providing accommodation and leisure services limited to local communities.

As an immediate social and environmental consequences of this “two-tracked” model of development, the ratio of visitors to locals has expanded very quickly and the strain on infrastructure from too many tourists is becoming more evident. Unequal distribution of elitist model in the short term is feared to trigger social mobilization in local communities against the (central) government, while “laissez-faire” tourism could bring forth uneven communal and inter-communal development and cause environmental concerns. In parallel, Montenegro also suffers from an absence of public deliberation between the political-economic elite and broader public, thereby further exacerbating the contradiction between the elite and “laissez-faire” tourism and diminishes the chances for a comprehensive development strategy.

Tourism-generated growth model

Simply put, the solution that will comprehensively tackle the both tourism MODs would ultimately give the answer to the dilemma. On the one hand, it should evaluate cost and benefits of maintaining a long-cycled growth model based on elite tourism, but at the expense of short-term revenues in “laissez-faire” tourism. Also, social sustainability of the former and environmental sustainability of the latter are the main problems that need to be urgently addressed in order to tell the chances for a tourism-generated growth model and its long-term implications for Montenegro’s economy. In the remaining text we

would point out some of the challenges re-emerging in the last years that foreshadow the present dilemma.

High opportunity and social cost of elite model. Montenegro shares many similarities with tropical island economies: limited size of the coast (not longer than 300km), high urban concentration in coastal area, insufficient infrastructural capacity, high dependence on the revenue from tourism, self-conscious local communities (especially towards central planning), etc. In these circumstances, implementation of the elite model runs very high social cost of negotiating and implementing a long-term plan that instead of increasing the aggregated services diminishes returns to the local communities in the short-run. This model became ubiquitous with resort “Porto of Montenegro” and Tivat community. In spite of certain tax revenues and employment opportunities, contained and exclusive model of its growth haven’t contributed much to an increase of aggregated services that could be provided by local community. Similar examples include Sv. Stefan, Boljarica, and, according to the plans, “resortization model” is planned in Kumbor and Listica which will have further impacts on already limited size and capacity of Montenegro’s coast.

Unsustainable laissez-faire tourism. Montenegro has “historically” focused on sun, sea and sand tourism for development purposes and local economies are dependent on this type of mass tourism for a large proportion of their income. Mass tourism, developed quickly and with little differentiation, has forced local communities to neglect historical, cultural and environmental impacts in extracting immediate windfalls. In addition, the economies based on this model are largely unprepared for the decline stage in destination lifecycle model. This stage is often referred to be impending the destinations with continuing higher ratio of visitors to locals, exacerbating infrastructure strains and bringing volatile turns in tourism numbers and in turn having rapid multiplier effects on the rest of the tourism-related sector (real-estate, construction). In 2017, Montenegro reached the number of 2 million visitors (almost 1:4 ratio) while high concentration of tourist in some coastal communities rendered the visitor-

local ratio going as high as 1:20. In these circumstances, a possible emergence of environmental and social concerns (a part of the triple bottom line, based on economic, social, environmental considerations) is the growing consumption of land and natural resources by building development. There are already serious objections in urban development of Budva and Kotor, country's flagship destinations. Also, given the high growth figures, mass-tourism is still in exploration stage, which due to unsustainable ratio of visitors might encounter a sudden and significant drop. This explains the need to comprehensively plan tourist offer and guide the demand from exploration to involvement and from quantitative exploitation to qualitative development. So far, government seems overwhelmed with booming mass-tourism and has not showed a lot of efforts to regulate and control possible impacts on growth model in the years to come.

Finally, one of the main impediment to tourism-generated growth model is top-down and relatively unequal distribution of the tourism growth. Elite tourism exactly develops top-down and segmented growth, within which dynamics of laissez-faire growth is mostly subsided. Clear physical and economic boundaries between the two models often suggest restrictions to the private entrepreneurship while, in turn, it is often a draw for governments to pursue more centralized growth models. Although the government began to focus on quality, standardization and overall regulation of laissez-faire growth these regulations would mostly result in the decrease of non-strategic concessions and leases, slowdown on issuing building permits, subsidies for hotel building, in a word, restriction of laissez-faire growth. Moreover, Montenegro also has relatively high proportion of tourism-dependent workforce contained by the unregulated but inclusive distribution of laissez-faire growth. This group has a number of social dimensions but is best conceived as a new working class that is increasingly obtaining a self-conscious political identity. Therefore, it is the resolution of this typical capital-labor conflict in peripheral post-industrial setting of Montenegro that would ultimately indicate the capacity to rely on tourism-generated economic growth.