

STATE REGULATION AS INSTITUTIONAL PRESUMPTION OF MARITIME DEVELOPMENT IN THE WORLD

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Abstract

The maritime industry is a key sector in Europe in terms of employment, creating value added, innovation and infrastructural development and long term development strategy. Maritime traffic, transport and transshipment of goods, associated logistical services and the use of maritime resources are vital for the survival of European industry. Such position is based on: a) the need to set up an integrated European transport system, b) the maritime industry's contribution to ecological renovation of economic system, c) the future importance of maritime sector in an industrial policy context and d) the fact that the importance of employment policy extends far beyond Europe's coastal regions.

Development of maritime in the European Union, especially development of the port sector, is still institutionally dependent on state intervention. Particularly important (or: significant) practical example is the Chinese challenge. In the future years it may be a decisive factor in determining the competitive situation, given the immense efforts of Chinese government to develop shipbuilding and maritime in general.

Aim of this study is to analyze the trends of state regulation of the maritime industry in Europe and worldwide. Its hypothesis is that the Chinese and European experience in state regulation of maritime industry may be useful exemplary models for strengthening the institutional development of Montenegrin maritime assumptions and its adjustment to the modern world and European trends.

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Review

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1. Introduction

The pluralism of opinions in the various economic theories (schools) in terms of economic growth, economic development, cyclical fluctuations, economic balance, inflation, unemployment, regional disparities of development, income distribution etc, derives (among the other) from their different views of: a) a capacity function of the market and state regulated economy, and their interaction (macroeconomics and microeconomics), b) an aspiration to, with its originality, explain the objective conditions, interests and needs of economic practice, and thus influence the official economic policy, and c) an ideological orientation, according to V. Draskovic (2006, p. 19). He (Ibid.) points out that "Thesis of principle (and myths) eternity and universality of the market assortment and self-regulation' and 'state-planning dictate' (or 'spontaneous evolution and cognitive control,' according to F. Hayek) economic practice has relativized and verified enough of its need for convergence and combinations. Microeconomics and macroeconomics, economic competition (such as *horizontal dimension*) and economic compulsion (such as *vertical dimension*) bind many common bonds, elements and relations, but there are different theoretical approaches to an economic reality, fundamental disagreements and often directly opposing views."

However, the same author (Ibid., p. 20) states this: "Affirmation (institutional – remark if D. R.) of *mixed economy* (in practice of Western countries) and the beginning of *transition* (in the post-socialist countries and socialist China) is civilized step forward compared to the earlier

exclusive dichotomy of planning and marketing. Development of dialectic has verified the need for their resource-allocation, organizational, motivational and informational combination and dependencies (also institutional, in this context - remarked D. R.), and a need to establish a new system of coordinating the economic and institutional functions between *macroeconomics* - *microeconomics*.

Transition in the post-socialist countries must be seen as a civilizational prosperity, because it leads to creating the modern forms and combinations of public and private property (which should be the essence of economic and political freedom), as well as the effective institutions of state and market regulations (as a guarantee of freedom, social security and property rights, but also as a source of significant social and economic goods and services). Mixed society and corresponding institutionally mixed economy must take into consideration the purpose of tendencies toward civilizational "to transform unilateral features (*unification*) into their real cohesion (unity)," recently observed by A. Toynbee (1934, p. 150), as modern reality (V. Draskovic, 2006, p. 37).

The new civilization concept of socio-economic progress must insist on overcoming outdated absolutizations and the ideas of: a) institutionally linear, no-alternative and strictly determined development, b) disputes about advantages and disadvantages of certain economic institutions, c) outdated interpretation of socio-economic functions of state regulation, and d) one-sided 'messian' monist theory of development (liberalism, neoliberalism, state interventionism) - M. Draskovic (2008, p. 112).

That is a precondition for accepting the imperative of time, which refers to the pluralism of all economic and social institutions, especially the state and market regulation. An affirmation of institutionally pluralistic economy should enable the transition to a new, high-quality development and acceptance of sustainable socially developed model in terms of technological, structural, institutional, socio-economic and political transformation. This may lead to Naisbit's (1982) "transition from a society with *exclusive* choice to a society with a wide range of choices."

This study tends to verify the starting hypothesis, using the theoretical approach of importance of economic institutions in a state regulation and analysis of the current trends in a government regulation of the maritime industry in Europe and worldwide.

2. Economic role of state regulation

A state regulation is economic institutions and subsystem of economic system. It exists alongside market regulation and competes in a way with it as a part of regulation, guidance and coordination of economic flows. In some cases, the state has exclusive right of economic compulsion (but not administrative) to restrict freedom of choice, to guarantee contract enforcement and legal system, to protect private and public property, to provide minimum social security and protection of interests of the majority, to prevent socio-pathological phenomena in economic activity and so on. Nowadays, it is impossible to imagine old economic liberalism such as *laissez faire* - *laissez passer*. Self-regulation of the economic system is not possible due to many influences of external unpredictable factors, natural and social cataclysms, monopolization, etc... Therefore, the disputes in economic literature are fewer in terms of the necessity of state regulation (interference, interventions), and more on its optimal boundaries, shapes, intensity, fields and methods of activity, social engagement and orientation, etc..

A mechanism of state regulation represents a system of legislative, executive and control measures, implemented by the state authorities (government) in order to stabilize existing socio-economic system and its adaptation to variable conditions of the system and its environment. In current conditions, it is contemporary part of the reproduction process, which usually solves various economic tasks: stimulating economic growth, regulating employment, branch and regional economic structure, foreign trade, financial system, connecting private and social interests, and so on. Modern state regulation is characterized by complexity of state economic functions and diversification of economic policy (V. Draskovic 2003, pp. 111-112).

The state achieves its economic activity on two grounds: as the owner of production funds and infrastructure facilities of social importance, and as a subject that takes part in national

income of state budget to create the material basis for economy regulation. The need for state regulation is explained by fiasco (inadequacy) of the market in certain segments of economy. There are various levels of state regulation of economic systems: national, federal, regional and municipal (communal and local administrative bodies). It is believed that the multi-sectional representation, variety, dynamism in time and space, flexibility and adaptability of modern state regulation contributes to the stability of economic system, amortizing effects of the crisis and mitigating social conflicts.

It is believed that the state economic functions in a market economy, as a rule, should not interfere with organization and management of economic activities, but should be reduced to design an institutional framework for market functions and economic system in general, providing legal guarantees, support and protection of the market economy system, the equalization of economic conditions, establishment of technical and other standards and conditions for establishing and operating of the economy subjects, the intervention in all cases when and where the market is not effective or causes adverse effects, the design of macroeconomic and development policies and appropriate economic-system solutions and investing in infrastructure (public goods, environmental protection, defense) and human resources (Ibid.).

In a narrow sense, the economic role of state regulation can be reduced to its regulating (intervention), distributive and stabilization functions, directed to eliminate market inefficiencies (monopoly, external effects, public goods, etc.), social inequality and instability (inflation, unemployment, recession, foreign trade and budget deficits) - see more in Ibid. p. 113. Basic structures (areas) of the state regulation are: economic cycles and economic boom (stimulation of demand, production, investment and employment) in the crisis financial incentives, government expenditures and likewise, in sectoral, branch and regional economic structures (facilities and the privileged conditions of development, employment, money circulation (fight against inflation), prices of some important goods, scientific and technical progress, the conditions of competition and antimonopoly politics, foreign trade regime and balance of payments, protection of natural environment, part of education system, science, culture, information, health, social relationships and communal sphere, space exploration, military industry, energy, biological engineering, advanced technology and so on.

Instruments of the state regulation are divided into administrative, legal and economic (see more in Ibid, p. 114). They accomplish fundamental goals of state regulation (economic and social stability, and many specific economic goals: economic growth, price stability, high employment rate, foreign trade balance, economic freedom and competition, protection of natural environment, fair taxation, social security, etc.).

All modern economies are mixed type, because they represent institutional combination of the market and state regulation, as well as corresponding types of property rights and interests. Developed economic systems are characterized by harmonious, dynamic and non-conflict relationship between these institutions. Their interaction in developed countries is not controversial, but in theory always raises the question of the borders of their actions, which must be viewed through the prism of paradox relations, stated by V. Draskovic (Ibid., pp. 115-116): cognitive control and spontaneous evolution of business processes and activities, subjective aspirations and objective conditions, control organization of self-organization, orchestrated and voluntary action, coercion and free initiative (freedom of choice), collective and individual interests, normative and positive economics, macroeconomics and microeconomics, predetermined and entrepreneurial behavior.

3. Theoretical approach to institutional pluralism and to the importance of the state regulation

The importance of institutions and institutional competition has been emphasized by many authors. Institutional development is one of the fundamental and universal criterion of civilization progress. It includes advanced institutional environment (set of basic political, legal, social and other rules that governing economic activity) and the existence of institutional arrange-

ments, regulating the ways of cooperation and/or competition between economic agents. Long time ago, D. North and R. Thomas (1973, p.2) pointed out the priority importance of the institutional development and various structures of economy and social development of countries. They explained the absence of economic growth and economic development by inefficiency (or absence) of most elements of the institutional structure (that is, institutional pluralism - remark by D. R.), primarily the structure of property rights.

The performance of economic activity is more organized and more efficient if the conditions that determine them are more precisely defined. Many economists, such as Milton and Rose Friedman (1996, p.p. 19-25) preferred the compromise of individual and collective interests, and even insist on it. For more than a decade, global interest is growing in multidisciplinary approaches and comparative analysis of possibilities of combining consistent pluralist model of institutional development (Hall and Soskic, 2001). It is believed that institutional competition is a key promoter of economic development. Successful and developed economic institutions are complementary. Their isolated development, at the expense of the others, leads to negative economic results. D. North (1994, p 79.) insists on the time alignment of institutional changes, because their propulsive power has been increased that way.

D. North (1987, pp. 418-22) claims that economic activities must be performed in a precisely defined and developed a pluralistic (underlined by D.R.) institutional conditions that determine and define them. The main goal of the capitalist state, says Nobel laureate D. North (1981, p. 32) is building such institutional structures, especially the structure of property rights, which helps maximization of income (*social welfare*) and high level of freedom (through the minimization of costs for specifications and protection of property rights). He (1984, p. 8) states that the institutions consist of a set of constraints in the form of rules and regulations, a set of procedures for identifying any deviations from the rules and regulations and a set of *moral norms of behavior*, which determine mechanisms of formation rules and regulations, as well as mechanisms for the coercion practicing.

D. North (1993, p. 73) believes that institutions in general are the foundation on which the organizational functions has been built. Economic institutions (state regulation, market regulation and property) are *regulators and coordinators* of economic behavior, containing rules and mechanisms through which successful implementation of economic activities is ensured. They are completed with positive normative acts, which regulate rights, obligations and permitted forms of economic behavior, as well as the sanctions for its violation. The basic functions of economic institutes are:

- a) restrict the behavior of economic agents,
- b) economize their time and efforts in decision making,
- c) reduce transaction costs,
- d) help adapting to changes,
- e) minimize the risk, uncertainty and entropy,
- f) enable the realization networking and coordination of economic relations, resources, subjects and activities,
- g) facilitate the economic and interpersonal communication, and
- h) provide reliable protection against opportunistic behavior (according to Draskovic, 2008, p 85).

Economic institutions include rules that are all the same, but within this balance, we should not recognize collectivist syndromes, but promoters of individualism, according to V. Draskovic (2007, p. 59). The existence of the rule of law, macroeconomic functions of government and other economic institutions as individual limit, is a proven need for the protection of the legal system, contracts and property rights. It does not eliminate nor reduce expressive manifestations of economic individualism, but rather expands the horizons of its manifestations. The existence of pluralism of modern, advanced, flexible and efficient economic institutions can not be an indica-

tor of economic non-freedom, chaos and destruction, but an essential condition for development of economic freedom, democracy, economic activity and stable economic relations (V. Draskovic, 2007a, p. 53). North's "contractual" *institutional approach* with agreed equal distribution of state coercion (in developed countries) is fundamentally different from the "exploitative approach" to state regulation, so-called "unequal distribution of potential coercion), which *maximizes the income owned by a group of people, regardless of how it affects the welfare of society as a whole*", also mentioned by D. North (1981, p. 22), and which characterized most of the post-socialist transitional countries.

Former Polish Deputy Prime Minister and Minister of Finance (1994-1997) G. Kolodko (1998, p. 297) believes that "the government can succeed or fail, but it can not retire. What needs to retire is neoliberalism as an economic theory, especially as economic policy". He believes that "the market fails more than the state" and expects that neoliberalism, as an ideology and economic policy, soon will become irrelevant, especially "after damage that this economic thought and policy has caused in the last decade of the 20th century. "

Instead of theoretical rhetorics about the needs on effective state regulation of economic institute, we will present a table No.1, which contains the target and instrumental parameters of development (that is, goals and conditions for their realization). The table is taken from the World Economic Forum in 2008. It clearly shows needs for active state role in the periods of economic modernization, as in times of sunrise after decades of economic crisis.

Table No 1: Target and instrumental parameters of economies in transition

<i>Target parameters</i>	<i>Instrumental parameters: 12 pillars of economic competitiveness (The Global Competitiveness Index)</i>
<ul style="list-style-type: none"> - The strong and effective government that participates in the creation and support of the comfortable institutional environment - Development of a strong and diversified competitive economy - Institutional environment that contributes to the realization of entrepreneurial initiatives. - Socio-political system that respects the interests of citizens, eligibility, and the variability of the higher authorities, and the existence of active feedback relationship between citizens and government. - The existence of an informal institute, which reflects specifics of national culture and provides tolerance towards other cultures. - Reasonable openness of the economy and society. 	<p>BASIC REQUIREMENTS : Institutions Infrastructure Macroeconomic stability Health and primary education</p>
	<p>EFFICIENCY ENHANCERS Higher education and training Goods market efficiency Labour market efficiency Financial market sophistication Technological readiness Market size</p>
	<p>INNOVATION AND SOPHISTICATION FACTORS : Business sophistication Technological innovation</p>

Source: The Global Competitiveness Report 2008-2009, World Economic Forum, 2008, p. 3-7.

Comparative analysis of the target and instrumental parameters allows the essential conclusion of our topic: in part of target parameters it addresses several components of the institutional character, dominated by state regulation and pluralistic institutional environment (which is the foundation of entrepreneurship), and in part of instrumental parameters it stresses high quality institutional environment (which is an integral part of state regulation) and high macroeconomic stability, which implies an effective state regulation.

4. State regulation of developed economies

Despite all the talk about individualism and weakening of the state economic role, and recommendations to the others how to keep going, quite other processes are noticed in developed Western countries, according to V. Draskovic (2007, p). He points out the reduction of

some state functions, such as social protection of population, control of foreign trade and the impact on the national boom. But, the budget share of GDP remains the same or grows, significantly increasing the role of government in enhancing the competitive capacity of domestic entrepreneurs in foreign markets, development of infrastructure, science, communication, gathering information, modernizing and adapting the tax system, etc. On the other hand, there is a growing number of environmental, sanitary, and other technical norms and standards, introduced by the government as part of its structural policy, increasing immigration restrictions on labor, and so on. We could have talked about the reform of state regulation institute, rather than the deregulation, says the author. He argues that many large companies and trans-national corporations owe their existence to the great social subsidies and other measures of the government (see Davis, 1997, p. 12), and that the waves of protectionism are growing, that the state interference in the local market is more extreme, and that the socialization of losses in some companies is also the case. Therefore, P. Drucker (1998, p. 17) believes that the state regulation is under the high pressure to finance the arms race as an imperative, to solve environmental problems, to maintain international competitiveness and to reorganize organizational and managerial levers of the economy and initiate creativity.

Successful modernization in all developed economies implies institutional combining and complementarity (plurality) of a free market incentives and government intervention. Therefore, J. Eatwell and others (1995) note that there can be no conflict of goals and principles of economic efficiency and social equity in the long run, since lack of the later leads to loss of the first.

K. Polanyi in 1944 stated: *"The road to a free market is paved and maintained by enormous and open efforts of consistency, centralized and controlled interventionism."* In the same sense, he wrote: *"A free market in today's developed countries is not generally formed by itself (that is 'invisible hand' - prim. V.D.), but the state had a decisive impact on that, destroying corporative and many other feudal restrictions on market freedom"* (1990, p. 17). Numerous analyzes of privatization have shown that this is not a sufficient condition of efficiency (R. Millward & M. Parker), but its main promoters of the competition (Kay-Thompson), improvement of management (W. Baber) and/or more effective state regulation (C. Price) – according to Kovac (1991, p. 306). Many economists (see, for example, J. Eatwell, M. Ellman, M. Karlsson, M. Nuti and J. Shapiro, 1995) argue that successful modernization in all developed economies require a combination of free initiative and state intervention, because in the long run there can not be major conflicts of goals and the principles of economic efficiency and social equity, since lack of the later leads to loss of the first.

We often hear the useless stories how sovereignty, GDP, domestic market, taxes, customs and other government instruments have lost their economic meaning, how less government interference in the economy provides a better chance to overcome the crisis, and how economic growth rate is inversely proportional to the state economy activities. The experience of the recent years, especially the latest (crisis) does not speak in favor of these conclusions. Globalization in developed countries has not led to a reduction, but only to the change of state activity nature. The government should not subsidize the operations of commercial firms and the allocation of resources between them. However, control over the use of global biosphere, human, informational, financial, organizational and innovation resources can not and must not be left to the market, at least not without state control. Unfortunately, an inevitable fact is that instead of government and international organizations, in many areas speculative and terrorist groups have taken over, which can not be controlled by a market.

A need for reduction of administrative costs and subsidies is indisputed. But it is also necessary to increase state investment in science, education, health and infrastructure. At the beginning of this millennium, the largest share of public expenditure in GDP was in Sweden (60%), and then in France, Denmark and Finland. France ranks first, and Finland third place according to the share of social transfers in GDP (20-25%). France does not bother to be ahead of all EU countries in terms of growth in labor productivity and in 2001. Finland had the most competitive economy in the world, better than Sweden, Switzerland and the Netherlands.

5. State regulation of post-socialist economies

For a long time, economists have been trying to determine how the institutional mixed economic system, dominated by market economy, can provide a satisfactory cooperation and unity between an individual freedom of choice and a collective interest, that is, between market and state regulation. The practice of developed, post-socialist and other economies has shown that voluntary exchange is necessary but not sufficient condition for economic freedom. Their existence still requires the state of law, democracy, developed and pluralistic institutional environment.

In the initial stage of a market formation, in all post-communist transition countries, a large number of firms was state-owned, with a psychology of a) *paternalism* (various forms) reduced to the requirement that the state needs to provide all members of society, the resources necessary for life, and b) *egalitarianism* (understanding of social justice as an equal distribution among all members of society). It was uncritically considered that for the establishment of market economy was enough to bring down the control and management mechanisms of the socialist system, privatize state assets and implement standard measures of macroeconomic stabilization and liberalization. Practice has shown that it is not easy to create a critical mass of social and economic institutions, necessary for stability of the system on the micro and macro level. Strategic importance of the institutional aspects of transition and its priority role in relation to economic policy were inaccurately valorized. In a long run, institutional self-sufficiency of unfounded economic policy could not solve the problems of unemployment, decreasing production and all economic indicators, impoverishment, property stratification of the population, motivation and so on. Curiosity of the relationship between economic policies and institutions is that the first have tendencies for conjunctural fluctuations and pressures by various formal and informal interest groups.

Numerous socialist ballasts were inherited: a tendency toward soft budget policy, paternalism, minimum standards of security and state guarantees, state intervention and political authority in making economic decisions, etc.. They could not be easily and quickly overcome. Reform of the monetary, fiscal, foreign trade and anti-inflationary instruments in most transition countries has not been successfully implemented. Key segments of state regulation are not functionally adapted to the market principles and requirements (V. Draskovic 2000, p. 123). In addition, there is an enormous gap between the late adopted legislation and its weak implementation.

The basic institutional elements of socialism were hastily destroyed, especially the mechanisms of the state regulation. New mechanisms were not created nor developed, not even lived up to its basic functions. Fast and unscrupulous collapse of state property and its transfusion into private ownership has led, consequently, to the weakening of the state regulation. This has contributed to the reduction in management of the basic levers of economic system, increasing its non-systematism, criminalization of the economy and the simultaneous expansion of quasi-institutionalization.

According to its representatives, institutional theory of property rights is not complete without a theory of the state. State is the most important and most authoritative "agency" for the specification and protection of property rights. Relation between market institutions and private property, on one hand, and state regulation and state ownership, on the other hand, is a paradoxal: normal functioning of the institute and protection of private property and market requires a mechanism based on the principles of centralization and collective property. State, as a social and an economic institution, provides free circulation of goods (resources, goods, services, information) in the integral market, as well as production and sale of those goods and services that the market is unable to provide.

The reform of the state regulation has not been effectively implemented. Therefore, using its corrective action "from above", it has not succeeded to stimulate the development of the other economic institutions, especially monistic and freely developed, although they have a significant impact "from below" via motivation and entrepreneurial initiative. Practical *deviation of the state*

regulation reached large proportions. In terms of reduced effects of economic institutions, particularly in the area of state regulation, M.Prokopijević (2004, p. 95) cited a fact that "*public policy is not guided solely by economic textbooks, but also according to dominant interests*". Under the reform (essentially neo-liberal) slogan of "weak states", the weak effects of state regulation have been achieved.

6. Regulation of the maritime economy in the EU

Nearly half a century after entering into force of the Roman treaty, the policy of the European Union (EU) on maritime transport is a huge development and innovation field, which had a significant expansion in the last 25 years. This development is largely conditioned by the importance of sea transport for the EU, both from an economic standpoint, and because of the EU's efforts to promote a vital component of a multimodal transportation system. Because over 90% of its trade with the rest of the world, EU makes through its seaports. The same situation is for almost 50% of trade within the EU. Transshipment in sea ports is up to four billion tons of cargo annually. Almost 350,000 EU inhabitants work in more than 1,000 seaports or the industries directly related to them. All this creates added value of approximately € 20 billion.

Maritime companies based in the EU today, manage or own more than 40% of the world fleet, and more than 25% of them sail under the flag of the EU member states. Therefore, the EU has become a standard for creating national policy and regulating maritime economy of the legal authority, procedures and instruments for achieving these goals. By publishing the Green Book on seaports and maritime infrastructure in 1997, the European Commission (EC) has announced the adoption of a legal instrument which will liberalize port services market at the EU level, while meeting safety standards. The purpose of liberalization is the removal of national monopolies. That way they wanted to contribute to the creation and implementation of unique market rules on the EU basic freedoms (free movement of people, goods, services and capital).

The main components of the EU maritime policy can be divided into six main chapters:

- market access and conditions for the provision of maritime transport services, including rules on state aid rules and anti-competitive behavior,
- security,
- control of marine and environment pollution,
- infrastructure, development and integration of transport system, including seaports,
- seafarers' employment policies, training and working conditions, and
- external relations.

Since 2004, the EU has had a complete institutional framework for accessing all operators (service providers) of the Commonwealth. From the beginning of the liberalization process, state aid was the main point of controversy. On the one hand, the EC was concerned whether the states members would support the national operators, directly or indirectly, which were increasingly exposed to competition with operators from other state members, but also from third countries. The first attempt to solve the dual problem above was made by the EC in 1989, adopting the first set of guidelines on the provision of state aid to the EU shipping companies. These guidelines produced valuable experience, but were not sufficient to stop the continuing erosion of the competitiveness among EU operators and corresponding decline of employment in the maritime industry. In the Green Book, the EC drew attention to the trend of increasing participation of private entrepreneurs in port activities, primarily in cargo handling, and the trend of privatization, which was present in the port authorities. The goal of liberalization was to achieve several seemingly incompatible goals, namely: safety in the port, protecting environment and performing public services.

In the Green Book were already noted some problems that could arise in the process of realization of these goals. First of all different nature of port activities, which will require a different approach to the liberalization of certain types of port activities, i.e. different legal regime for

the various types of port activities. There are different port activities related to the ship (pilotage, towage, mooring and unmooring of ships), services related to cargo (cargo handling and storage) and ancillary services in the port (supplying ships with water, fuel, acceptance of waste from ships, fire protection services, etc.). Second problem of port services liberalization was differences among ports due to their size, ownership, financing, function and geographical features.

Therefore, lack of respect for diversity of port activities and EU marine ports in Directive proposals led to a series of vague and often illogical provisions, which allow different interpretations and influence the creation of legal uncertainty. It is indisputable that the development of maritime transport, and thus the maritime industry in the EU depends solely on the efficiency and the development of sea ports and their connections with the hinterland.

The foundation of the EU maritime policy is regulatory framework for market services in maritime transport. It is accompanied by the adoption of highly developed security regime, designed to ensure the safety of maritime operations and reduce the high risk of potential catastrophic environmental damage. In December 2008, the European Council and Parliament agreed on a global, legally obligating goal - to reduce levels of greenhouse gas emissions by 10%, which should be implemented by 2020. After dramatic events on September 11th, 2001 and following terrorist activities, security aspects of sea transport are inevitably more important, initiating a series of new initiatives. Effective implementation of the IMO-ISP Code, new legislation for ships, port facilities security, actions on advanced cargo declaration are just a few directions in order to improve safety in the maritime industry. Cooperation with institutions of third countries, particularly the U.S., is also a high priority in this area.

The dramatic development of piracy on the coasts of East Africa has stimulated EU military operation to help preventing the pirates in their intentions. This was the first naval operation stemmed from European security and defense policy, and does not refer to problems related to the internal market, protection of environment or external commercial relations. Infrastructure, development and system integration are another important domain in which the Union seeks to draw full benefit from the modern maritime industry, properly integrated into the multimodal transport system. It disposes with number of institutional instruments, apart from classic form of legislation, regulations and directives. Among these tools are research and development projects in the framework programs, including long-term technology development and integration of traffic monitoring and management systems. A key project in this context is the "Marine Highway Program", designed to concentrate flows of freight logistics routes and to improve existing maritime links or establish new sustainable links, which would reduce congestion on land routes. Four corridors have been designated: the Baltic Sea, Western Europe - along the Atlantic coast to the north and the Irish Sea, Southeast Europe, linking the Adriatic with the Ionian Sea and eastern Mediterranean and southwestern Europe, connecting Spain, France and Italy via Malta, joining with the south-east passage to the Black Sea.

EU maritime policy also addresses the human dimension of maritime transport. The liberalization process, which started in the 80's, tried to ensure implementation of certain standards in terms of living and working conditions of seafarers, as it does in other sectors, based in this case mainly on the current activities of the ILO and a new maritime conventions, agreed in Geneva 2006. Entry into force of the Convention was ratified by 30 countries, representing 35% of world tonnage. Similarly, the IMO standards for training and certification of seafarers have been included in EU law as an integral part of maritime security policy. Currently, the main focus is finding answers to long-standing problem of qualified sea farers deficit, especially officers. Measures are taken in EU institutions and state members to improve the attractiveness of maritime call. There is cooperation with associations of employers and seamen. General goal is to restore and then maintain a qualified workforce, which will provide knowledge of the maritime shipping industry to the EU. Key components include the development of attractive education programs and campaigns to raise awareness.

Much still remains to be done for coordination of EU maritime policy with policies of its members, the procedures in development of responsibility for maritime issues, especially security

issues. Development of mutual EU transport policy is an essential component of a truly unique market. Transportation is a very important service sector, since it represents between 7% and 10% of EU GDP, while at the same time plays a key role in the practical realization of free movement of goods and people in general.

The development of the Montenegrin ports will inevitably depend on alignment degree of national policies on shipping with the principles, objectives and measures for the development of EU maritime policy. Adjustment in this sector is necessary for the realization of door role for foreign and domestic trade in the EU.

7. Conclusion

After the failure of socialist project, post-socialist world was in the critical phase of economic and institutional experimentation. The fastest progress in transition has been achieved by post-communist countries with highest degree of institutional change, because economic institutions enabled effective implementation, networking and coordination of economic relations, resources, subjects and economic activity.

A complete disbelief in the state regulation is not logical, nor productive, nor appropriate to the growing IT, manufacturing, financial integration and civilization in the 21st century. Controlled and interactive functioning of all economic institutes is imperative of the moment with no alternative. The practice of developed economies shows that regulated market order can be created only on the basis of reliable and balanced state, which is actively present in various segments of economic relations. It is absurd that the state and the market are polarizing and totally opposed.

Modernization of state regulation is an institutional innovation. It has an absolute social and economic priority in the spectrum of anti-crisis measures of economic policy. Absolutization of the market regulation, private property and initiative, competition and entrepreneurship, with a corresponding underestimation of the role of the state regulation does not match its use in developed economies, in which everything begins and ends within elements of state regulation. These categories and other economic institutions depend on its flexibility, rationality and regulation, as well as overcoming the institutional vacuum and generating non-concurrent institutional environment.

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