

The Role of Institutional Development in Creating Knowledge Based Economies: The Example from the Balkan Countries

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Abstract

The aim of this paper is to present the role of institutional development in creating knowledge based economies which will further foster higher prospects for economic growth. A knowledge based economy is one that exploits knowledge to develop and maintain long-term economic growth. One of the postulates of the Knowledge Based Economy Framework is the economic and institutional regime that is beneficial to creation, transmission and utilization of knowledge. This regime provides incentives that promote the use and distribution of existing and new knowledge capably will help to foster policy change. Further on, the economic environment must have good policies and be encouraging to market transactions, likewise being open to free trade and FDIs. More importantly, the government should protect property rights to persuade entrepreneurship and knowledge investment. In order to depict the importance of institutional development in creation of knowledge based economies example is used by comparing the Knowledge Economy Index (KEI) for the Balkan Countries. The results indicate that countries that are EU members like Bulgaria, Croatia and Slovenia have higher KEI compared to Albania, Bosnia, Macedonia and Serbia. The main conclusion to be drawn is that countries with higher institutional development have higher KEI.

Keywords: institutional development, knowledge economy, education, innovation

JEL classification: I23, I25, I28, O43

Introduction

A knowledge based economy is one that exploits knowledge to develop and maintain long-term economic growth. One of the postulates of the Knowledge Based Economy Framework is the economic and institutional regime that is beneficial to creation, transmission and utilization of knowledge. This regime provides incentives that promote the use and distribution of existing and new knowledge capably will help to foster policy change. Further on, the economic environment must have good policies and be encouraging to market transactions, likewise being open to free trade and FDIs. More importantly, the government should protect property rights to persuade entrepreneurship and knowledge investment. Having in mind that one of the factors causing economic growth is the accumulation of human capital and institutions on the other side, the main idea is to relate those two and present how the level of institutional development impacts the process of creating knowledge based economies. Considering the Schumpeterian economy in which the technological progress is the driver of economic growth, in here the importance of institutions as an economic growth driving factor is taken into

consideration. Thus, it could be stated that the goal of this paper is to present the importance of the institutions in the process of creating knowledge based economies by comparing the knowledge economy index for seven Balkan countries.

However, it of an utmost importance to state that the term 'institutions' in this paper is used by the definition of the Nobel Prize Laureate Douglas C. North (1991) who defines institutions as humanly invented constraints that structure political, economic and social interaction or simply as "rules of a game". Further on, the institutional framework is consisted of formal (policies, reforms, property rights etc) and informal rules (norms of behavior, self-imposed code of conduct or in one term – social culture) and enforcement mechanisms.

Furthermore, one might claim that in the majority of the countries, governments through creating of policies play a fundamental role in education, health, infrastructure and technology. Besides, government plays a key role in the balance of spending among these areas, and in that way creates the economy. Briefly speaking, all governments really do have an industrial policy. Most transition countries have put an attempt in terms of resource constraints and knowledge deficiencies. Their development depends significantly on numerous factors, including the quality of the institutional and regulatory framework and its implementation, the physical infrastructure, the sophistication and depth of financial markets, the quality of educational institutions and labor skills, and the protection of intellectual capital (Shukarov and Maric, 2015). One of the pillars of creating knowledge based economies is the investment in R&D and innovation. As a supporting argument, Greenwald and Stiglitz (2012) also state that learning requires resources, including access to capital, which in downturns of the economy is rationed thus investments in R&D are often surrendered. This has a supreme repercussion for policy: policies which expose countries to a high level of instability, or which increase the economy's instability have an unfavorable effect on knowledge (Shukarov and Maric, 2015). Examples include financial and capital market liberalization and deregulation (Rashid 2012; Stiglitz *et al* 2006; Stiglitz 2008), and tariffication (Dasgupta and Stiglitz 1977).

Research shows that societies that have advanced educational systems, in this context it implies institutionalized societies do the best at developing and integrating new technologies into their economies partly since educated workers are more able to think for themselves and solve problems creatively. Government can also play a crucial role in the process of development of technology by providing research and development funds to universities and researchers (Shukarov and Maric, 2015).

After the introductory part which contains the literature background, the paper further proceeds with presenting the basic methodology, thus further proceeds with the presentation of the results followed by brief discussion and finally it finishes with the concluding remarks.

Methodology

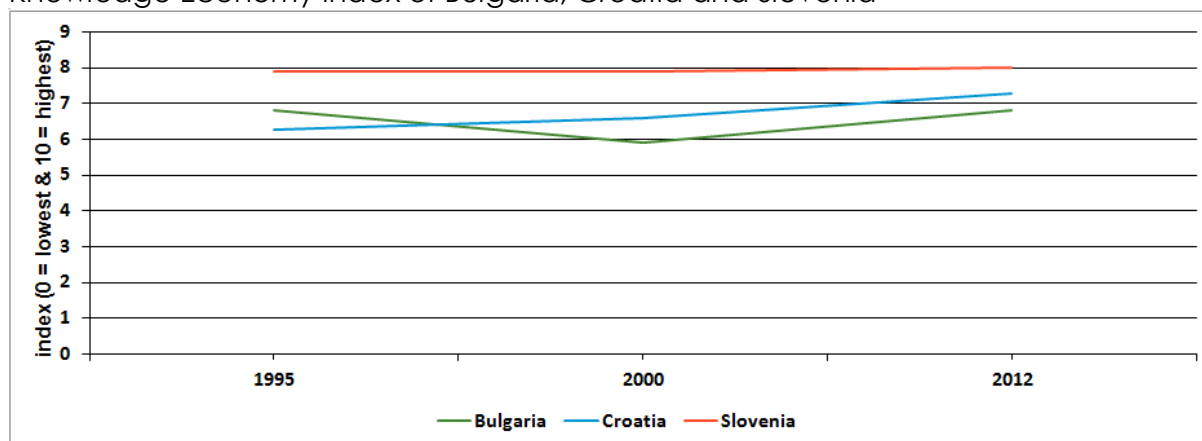
In order to depict the importance of institutional development in creation of knowledge based economies example is used by comparing the Knowledge Economy Index (KEI) for the Balkan Countries. Seven Balkan countries are of interest among which the EU Member countries Bulgaria, Croatia and Slovenia and non EU member countries such as Albania, Bosnia and Herzegovina, Macedonia and Serbia. The period is taken from year 1995 till 2012.

Results

The Balkan countries of interest in this paper are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia and Serbia. By comparing the Knowledge Economy Index in the above graphs, it is obvious that Bulgaria, Croatia and Slovenia have higher KEI compared to Albania, Bosnia and Herzegovina and Macedonia. The main reason is the level of institutional development, since the first group of countries belongs to the EU Member countries thus, following EU regulative and policies, which is not the case with the later group of countries.

Table 1

Knowledge Economy Index of Bulgaria, Croatia and Slovenia

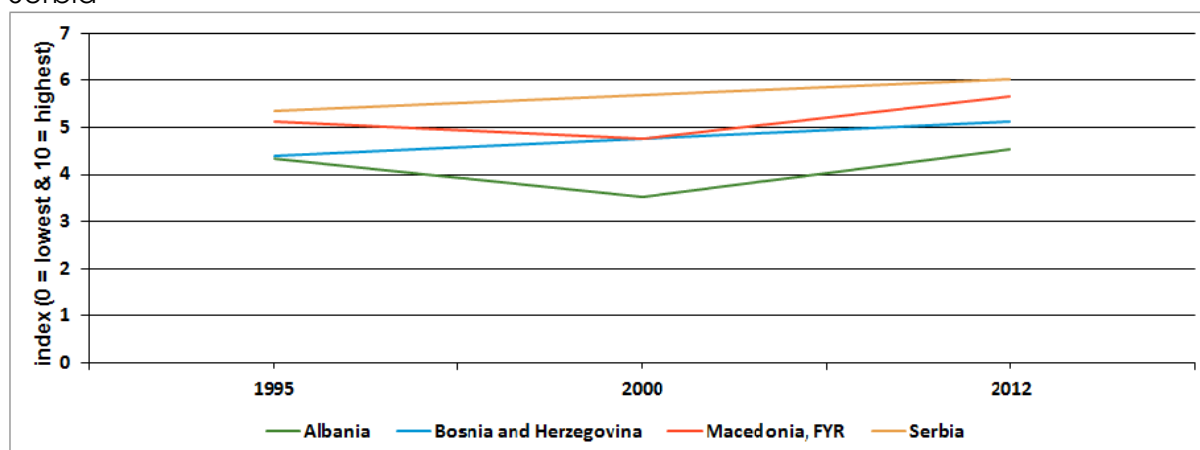


Source: World Banka database

The results in the above table 1 indicate to the fact that those countries are almost reaching the highest value of the index, where Bulgaria is in the value between points 6 and 7, Croatia from the period of 1995 with 6 points is reaching above 7 points in 2012, and Slovenia from the period 1995 till 2012 is held constant at 8 points. Compared to what can be observed in the below table 2 representing the non EU member countries, or in this case can be referred to as less institutionally developed countries, the scores are maximum at point 6. Albania has the lowest knowledge based index, from 4,5 points in year 1995 it dropped to 3,5 in year 2000 and went back to 4,5 points till the year 2012. The KEI also has a drop in the case of Macedonia in the year 2000. However, shortly after that it has a slightly upper trend till year 2012 when it reaches almost score of 6. The cases of Bosnia and Herzegovina and Serbia show an upward trend. However, Serbia is the one which has a highest KEI in the period of 1995 till 2012, and reaches 6 points.

Table 2

Knowledge Economy Index of Albania, Bosnia and Herzegovina, Macedonia and Serbia



Source: World Bank database

Discussion

From the results presented in the above a statement could be made that the higher the institutional development higher the prospects for economic growth. The countries that are EU members are more institutionalized, and have a higher knowledge Economy index. They seem to manage to follow their created policies, unlike the case of non EU countries, Albania, Bosnia and Herzegovina, Macedonia and Serbia. The study has several limitations.

Conclusion

The main limitation of the study is that it uses and compared only one index, the knowledge economy index. However, there are further prospects for research in the field such as for example; the results will be more thorough if a comparison of each component of the Knowledge Economy Index is compared along with comparison of the inflow of the FDIs, the GDP, R&D expenditure.

The general conclusion that could be drawn from the above is that the results indicate that countries that are EU members like Bulgaria, Croatia and Slovenia have higher KEI compared to Albania, Bosnia, Macedonia and Serbia. Thus, the countries with higher institutional development have higher KEI.

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