

## **The Role of Institutions as a Part of the Knowledge Economy in the Western Balkan Countries**

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The knowledge economy is based on the generation and adoption of new knowledge created by scientific research and technological advances; investments in education and research; adoption of best practices; and openness to social, economic, and cultural innovations. Special attention is paid on the role that institutions have on the economic growth and the key institutions for that, at the same time giving answer to the one of the frequently asked question, and that is: *Why some countries are rich and others poor.*

The economic and institutional regime of an economy needs to be such that economic agents have incentives for the efficient use and creation of knowledge, and thus should have well-grounded and transparent macroeconomic, competition and regulatory policies. Features of a conducive institutional regime include an effective, accountable and corrupt-free government and a legal system that supports and enforces the basic rules of commerce and protects property rights. Intellectually property rights should be also protected and strongly enforced. The objective of the research is to analyze different variables and indicators that quantify the economic and institutional regime within the knowledge economy in the western Balkan countries.

Based on the positive impacts and implications that can be created with the presence of institutions that are functioning based on the good governance principles, the institutional quality of the Western Balkan countries is being assessed and comparison between these countries is being made. A benchmark of the economic and institutional regime variables within the World Bank's Knowledge Economy Index and other indicators are used to picture the institutional quality of the Western Balkan countries and how far they are on knowledge based economy path.

Typically, economists have looked at the level of economic development, as measured by per capita GDP, and have found that differences in per capita incomes are closely related to differences in the quality of institutions. The results have showed different experiences that these countries have had in their knowledge based economy path, where Croatia is the leading country in this group, followed by Bulgaria and Serbia, whereas Albania and Serbia are lagging behind. The paper gives closer picture of the institutional quality variables in the selected group of countries.

The general conclusion of the paper is the fact that the knowledge economy is essential for the economic growth and development of the countries and their global competitiveness, the government actions and the policy making processes should support the movement of the countries on the knowledge economy path, and fostering the quality of the institutions as a basis on which the knowledge economy construction relies on.

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