



DEVELOPMENT OF KNOWLEDGE ECONOMY IN THE MODERN WORLD

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Abstract:

The economic status of a country's knowledge economy, and especially his human capital, are the key factors for economic and employment renewal in each country. On the one hand, there are developing and advanced countries, and on the other, there are countries, both in Europe and in Africa, that are facing the collapse of all its economic systems. What is Knowledge Economy? What is so important about this term? This article will try to give a new picture to globalization which happening everywhere on Earth.

JEL: F01, F40, F60, N10

Keywords: knowledge economy, globalization, human capital

1. Introduction

Knowledge Economic and globalization, two terms which motivating the economic language in the last 35 years. The emergence of a global knowledge economy, in the end of 80th, means that globalization now extends beyond markets for goods and finance into markets for technology, knowledge workers, and innovation finance.

Jorgenson & Stiroh [14] describe today's that the global economy as one in transition to a "*knowledge economic*", or an '*information society*'. But the rules and practices that determined success in the industrial economy of the 20th century need rewriting in an interconnected world where resources such as know-how are more critical than other economic resources. According to Adler [2], an increasing division of labor force in innovation has accelerated the creation of markets for disembodied intellectual assets and for the skills and money needed to produce and use these assets effectively.

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2. Materials

Globalization is one of the most universal term which used for describe the growing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information. As the reality of the economic years, a lot of countries have built an economic partnership to facilitate these movements over many centuries. But the term gained popularity after the Cold War in the early 1990s, as these cooperative arrangements shaped modern everyday life [5]. This guide uses the term more narrowly to refer to international trade and some of the investment flows among advanced economies, mostly focusing on the United States. The wide-ranging effects of globalization are complex and politically charged. As with major technological advances, globalization benefits society as a whole, while harming certain groups. Understanding the relative costs and benefits can pave the way for alleviating problems while sustaining the wider payoffs. The Globalization encourages each country to specialize in what it produces best using the least amount of resources, known as comparative advantage. This concept makes production more efficient, promotes economic growth, and lowers prices of goods and services, making them more affordable especially for lower-income households [12].

Globalization has brought benefits in developed countries as well as negative effects. The positive effects include a number of factors which are education, trade, technology, competition, investments and capital flows, employment, culture and organization structure [1]. It would be rather difficult to discuss the extent of the positives that globalization has had on the world at large. But still, here are some of the positive effects of globalization and the positive impacts they have had on so many demographic segments of the international society.

2.1 The Global market

According to Lambricht [17], most successful emerging markets in developed countries are a result of privatization of state-owned industries. In order for these industries to increase consumer demand many of them are attempting to expand and extend their value chain to an international level. The impact of globalization on business management is seen by the sudden increase of number of transactions across the borders. In protecting yields and maintaining competitiveness, businesses are continuing to develop a wide range of their footprint as it lowers cost and enjoys economies of scale. Cole [8] claims that multinational corporations are a result of globalization. They occupy a central role within the process of globalization as evidenced through global foreign direct investment inflows. Their concentrations within Europe in western economies has led to size constraints, therefore there is a need for new geographical areas to operate whereby they will face a lot of competition in the market. Through this they will enlarge their market and enjoy economies of scale as globalization facilitates time space compression, economies compete at all levels including that of attracting investors [10].

2.2 Cross-cultural management

Another positive effect of the globalization is the option of cross-cultural career of labor force. Globalization tends to be the realm of elite because in many parts of the world, they are the only people who are affluent enough to buy many of the products available in the global marketplace. Highly educated and wealthy people from different backgrounds interact within a westernized milieu [7]. Western styles, since are symbols of affluence and power, the elite often embraces western styles of products and pattern of behavior in order to impress others. Today Western culture and patterns of behavior and language are staples of international business. Cole [8] argues that United states seem to have powerful impact upon many other countries and societies. The world today has a popular cultural force. The popular consumer culture of the economically dominant West is relentlessly and inevitably transforming other regions, cultures, nations and societies. In addition, such perspective implies that technological change, mass media, and consumer-oriented marketing campaigns work in tandem to remake whatever they touch in their own image. Even attitudes and ideas about society, religion and technology are transformed by cultural diffusion brought by globalization [10].

2.3 Foreign trade between countries

Globalization has created and expanded foreign trade in the world. Things that were only found in developed countries can now be found in other countries across the world. People can now get whatever they want and from any country. Through these developed countries can export their goods to other countries [9]. Countries do business through international trade, whereby they import and export goods across the global. These countries which export goods get comparative advantages. Organizations have been established with a view to control and regulate the trade activities of the countries in the world so to have fair trade [2]. World trade organizations emerged as a powerful international organization capable effectively influencing individual governments to follow international trade rules, copyrights, policies on subsidies, taxes and tariffs. Nations cannot break rules without facing economic consequences.

After 2008, the global economic crisis, the number of nations that are dependent on trade, foreign capital, and the world financial markets increased greatly. Countries engaged in foreign trade enjoy comparative advantage. The post Ricardian trade theories predicted that specialization in labor- and capital-intensive goods would bridge enormous wage gaps between the poor and the rich countries, that is the developing and developed countries, sparing the latter from massive labor immigration [11].

2.4 The Resource Imperatives

Developed countries need natural and human resources of the developing countries while developing countries need capital, technology and brainpower of the wealthier countries. Developed countries' economies are increasingly dependent on the natural and human resources of the developing nations. Growing interdependence of nations

and their activities on one another fostered by the depletion of natural resources; as well as overpopulation [3].

2.5 Foreign investment

One of the most visible positive effects of globalization in India is the flow of foreign capital. A lot of companies have directly invested in India, by starting production units in India, but what we also need to see is the amount of Foreign Investment Inflow that flows into the developing countries [6]. Indian companies which have been performing well, both in India and off the shores, will attract a lot of foreign investment, and thus pushes up the reserve of foreign exchange available in India. This is also one of the positive effects of globalization in US and other developed countries as developing countries give them a good investment proposition. Managers' objectives might not be the same with those of stockholders in some situations. The more complex the corporation the more difficult it is for shareholders to monitor management's actions whereby it provides the managers more freedom to act in their own self-interest at the expense of shareholders. Multinational firms are more complex than national firms. Managers might favor international diversification because it reduces firm specific risk or adds to their prestige. These goals might be of little interest to shareholders. This divergence of interests between shareholders and managers, might reduce the value of multinationals relative to domestic firms [2].

2.6 Market competition

One of the most visible positive effects of globalization is the improved quality of products due to globe competition. Customer service and the 'customer is the king' approaches to production have led to improved quality of products and services [9]. As the domestic companies have to fight out foreign competition, they are compelled to raise their standards and customer satisfaction levels in order to survive in the market. Besides, when a global brand enters a new country, it comes in riding on some goodwill, which it has to live up to. This creates competition in the market and a survival of the fittest situation.

2.7 The culture factors

The positive effects of globalization on culture are many! Not all good practices were born in one civilization. The world that we live in today is a result of several cultures coming together. People of one culture, if receptive, tend to see the flaws in their culture and pick up the culture which is more correct or in tune with the times. Societies have become larger as they have welcomed people of other civilizations and backgrounds and created a whole new culture of their own. Cooking styles, languages and customs have spread all due to globalization. The same can be said about movies, musical styles and other art forms. They too have moved from one country to another, leaving an impression on a culture which has adopted them.

2.8 The legal effects

Increased media coverage draws the attention of the world to human rights violations. This leads to improvement in human rights. Global economic growth does not necessarily make people happier, worldwide free trade, should also benefit humanity as well as protect nature, not just reward managers and stockholders. Those who would be authentic leaders need to address inequalities. Globalization should promote openness and information along with exchange with greater democracy and prosperity [12]. Gone are the days where the limited jurisdiction became a hindrance in the prosecution of criminals. These days due to international courts of justice, these criminals can no longer seek asylum in a foreign country, but will be brought forward and there will be justice. Due to globalization, there is also an understanding between the security agencies and the police of two or more different countries who will come together to curb global terrorism. Hence, it is now possible to catch the perpetrators of crime irrespective of which country they choose to hide in. This is undoubtedly one of the greatest positive effects of globalization on society.

Knowledge Economy was defined as "*knowledge of economy*" which explores the theory and empirical facts needed for rational decisions on knowledge investments, creative processes and management of knowledge-based industries and institutions. The accumulation of knowledge through higher education, scientific research and industrial R&D is a key factor in economic and social development [6]. The knowledge economy connecting to the application in production of goods and services is based primarily upon knowledge-intensive activities. In knowledge economy, a large portion of economic growth and employment is a result of knowledge-intensive activities. A knowledge-intensive activity involves the collection, analysis, and synthesis of information. The success in a knowledge economy requires a commitment of both workers and firms to continually learn and to increase their skills and expertise, which will foster innovation. Examples of knowledge-based organizations include education institutions; media; professional firms providing information-based services like medicine, accounting, finance, engineering, and law; and scientific and technological research companies. The increasing growth of the knowledge economy in developing countries is part of a larger shift away from production of tangible goods in developed countries towards intangible or informational goods [3].

3. Summary

For conclusion, we define the knowledge economy as production and services based on knowledge-intensive activities that contribute to an accelerated pace of technical and scientific advance, as well as rapid obsolescence. The key component of a knowledge economy is a greater reliance on intellectual capabilities than on physical inputs or natural resources. The modern economy provides evidence drawn from patent data to document an upsurge in knowledge production and show that this expansion is driven by the emergence of new industries. The knowledge revolution, which we all are experiencing in our own ways, demands a different approach to, attitude toward, and

implementation of our management systems-be they in industry, government, or academia.

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