**Convergence of Western Balkan Countries**

The region of Western Balkans (WB) consists of countries-successors of the former Yugoslavia (minus Slovenia plus Albania). With the exception of Croatia, these countries are currently not members of the EU but have embarked on the EU ascension process. This is natural since the region of around 20 million people is completely surrounded by the EU member states and has strong European cultural identity. Presently, the region is fully integrated with Europe financially and, increasingly, economically (see the EEAG 2016 report for an overview). Despite some undeniable progress in the past 15 years, it is still relatively underdeveloped and politically and economically fragile. On the other hand, its stability and its close ties with the EU are of strategic importance for Europe as well, not just for the countries of the region. This was made plain, e.g., as a result of the recent immigration crisis. It was only through strong cooperation between EU countries and their WB neighbors (and Turkey) that influx of refugees into developed European countries via the so-called Balkan route could be controlled.

In this part of the project we plan to better understand to what extent countries of the region have been catching up with each other and with the rest of Europe. There is dearth of academic literature on convergence of Western Balkans (see, e.g., Botrić (2013), Meksi and Xhaja (2017)) and their focus had been primarily on one aspect of convergence, namely income convergence. While EEAG (2016) report on WB covers broader ground, that is a policy paper. Our primary contribution shall be to, after more general overview of convergence of WB countries, focus on those aspects convergence that have received little attention in previous academic research on WB.

First, underdeveloped and inefficient institutions are widely seen as one of the key obstacles to economic growth. Thus, we plan to analyze convergence of quality of institutions in WB towards European standards. This includes progress in transition towards the market economy, the rule of law, reduction in perceived corruption, etc. Glaeser et al (2004) point out that development of quality institutions usually lags behind and is caused by human capital development, especially improvements in the quality of education. Positive impact of quality of education on economic growth has been well documented (see Hanushek and Woessmann (2015)). Coupled with depopulation and aging of the WB region, this implies that sustainable growth needed to catch up with richer European countries can likely be achieved only through strong improvement in human capital and an increased focus on innovative, high value added business activities. Recent growth in IT industry in Serbia and some other countries of the region and creation of increasingly vibrant high-tech clusters is a hopeful sign that this is indeed a feasible outcome. Thus, we focus considerable attention on the convergence of WB countries in quality of education and innovation activities and discuss ways in which improvements in these areas can be facilitated and mutually reinforced. These aspects of convergence received little or no attention in previous academic literature on WB convergence.

Quality data is not easy to come by when it comes to WB. Towards that end, we plan to combine data available from various international institutions (the WIIW, World Bank, IMF, Eurostat, Transparency International, EBRD transition reports, PISA educational achievement test scores, etc) with the data that we would collect ourselves, primarily on educational and innovation activities, through leveraging our contacts in Serbia and the region.