

ARMENIA'S SOCIOECONOMIC POTENTIAL IN THE CONTEXT OF POST-CRISIS DEVELOPMENT

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Introduction

The world financial crisis has brought the contradictions in Armenia's socioeconomic development into the limelight. The events of the post-crisis period have led to the emergence of many risks associated with the new approaches to economic management and with the global changes that have occurred in the world.

The anticrisis measures adopted have brought about certain positive changes, but this is not enough to ensure stable economic growth and a rise in the standard of living. A shift to a qualitatively new level of economic growth is needed, which requires pursuing an active policy *based on the application of new criteria*. Defining a new starting point for economic development, as well as identifying the possible (or optimal) alternative solutions and correctly setting the priorities are key elements in resolving this problem

The tasks facing the republic can best be solved by revealing the real opportunities for raising national potential, which requires re-examin-

ing the existing value system and reassessing the available resources.

Unfortunately, there is a wide gap in Armenia between ideas and their realization, which is complicating self-organization of the nation; the historical past must be perceived in a new way. The people need a philosophy supported not only by a material foundation, but also by cultural and, primarily, moral and psychological values.

This is the viewpoint most conducive to defining the priority vectors for developing national potential, keeping in mind the nation's capabilities and opportunities for self-organization, and to designating ways to most efficiently introduce a new socioeconomic policy.

Comprehensive Approaches to Economic Development in Post-Crisis Conditions

Judging from the level and rates of economic development, it can be ascertained that Armenia has withdrawn from the crisis, although many unresolved tasks still remain. But the crisis not only creates problems, it also provides new opportunities for successful and dynamic development of the economy.

The current period in Armenia's economic development requires essentially new interrelated approaches that anticipate the following:

ensuring maximum understanding of forthcoming actions and opportunities → determining the priorities of economic development → drawing up efficient ways to implement them → choosing optimal ways of development → ensuring their consistent implementation.

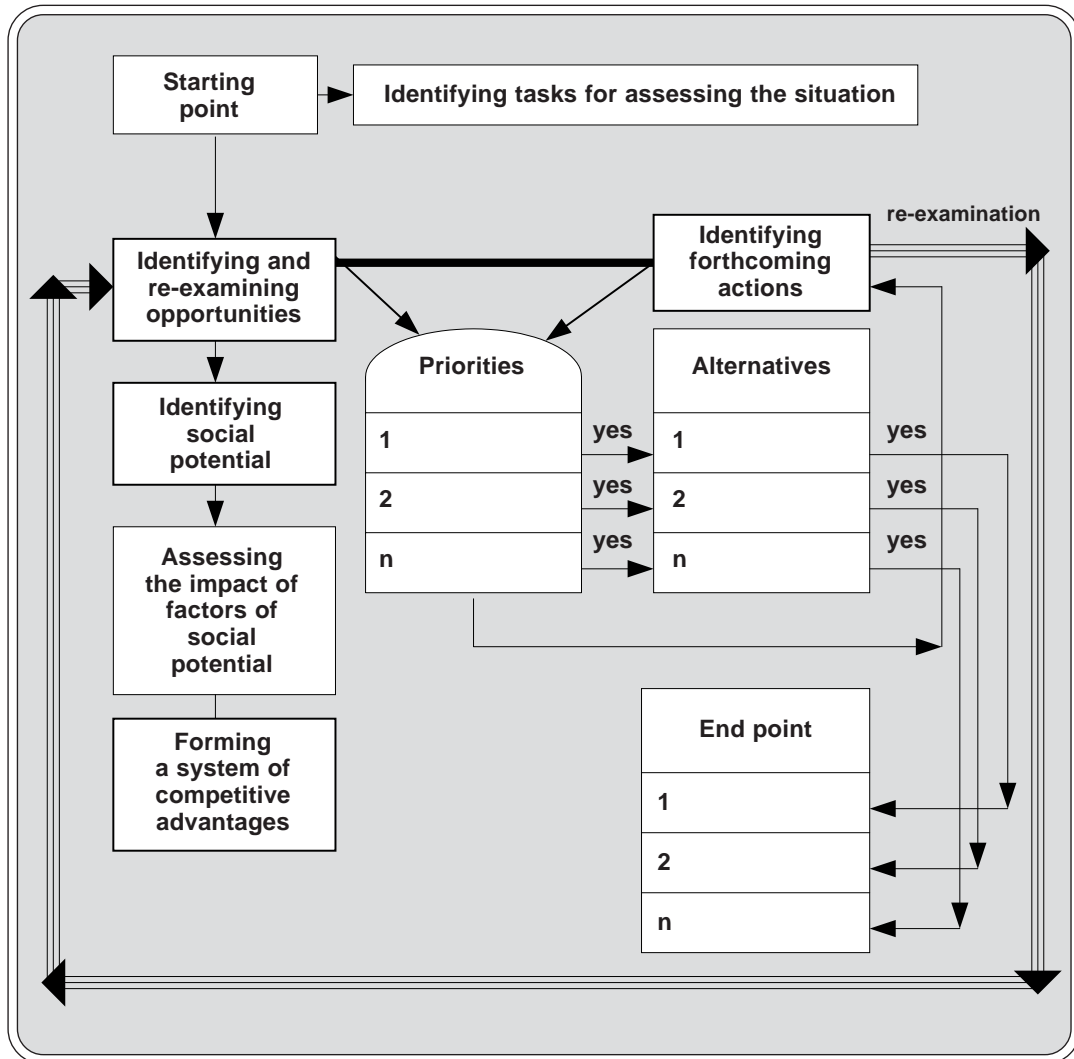
These measures must also be implemented in an integrated way (see flow chart in Fig. 1).

As can be seen from the flow chart, when a transfer is made to each subsequent stage, the forthcoming actions and starting points for solving the subsequent tasks must constantly be corrected and new priorities and development goals, strategic approaches, and precedence of the necessary measures determined.

The flow chart presented makes it possible to determine the achievements at each new stage of economic development, decide what direction to take, choose the optimal starting conditions and possible ways of implementing the tasks, decide how to resolve particular problems, determine the country's potential, select the preferable alternatives, and so on.

One of the most important tasks is *defining the starting conditions required for transferring to each subsequent stage and determining the new direction of development*: incorrect choice of starting point could lead to negative results.

Figure 1

Integral System of
Socioeconomic Development

It should also be kept in mind that each country defines its own future development goals: some want to retain the achieved level, others need to go on to the next stage, while still others think it important not to wander from the chosen path and/or lag behind, and so on.

Taking proper account of *the correlation between goals and resources and their interdependence* plays a fundamental role in successfully solving the strategic economic tasks.

It is also very important to properly assess the classical “goal-controllable variables-resources” correlation. It is obvious that the choice of goal influences the choice of means to be used (resources); however, the reverse dependence is less obvious: the influence of the available resources on the setting of goals. Incidentally, the well-known principle “live within your means” is extremely apt here.

On the other hand, such a “strict” approach might curb socioeconomic progress: it requires setting ambitious goals and not sparing resources to achieve them, while a conscious effort to remain within the bounds of limited resources will require setting more modest goals.

Correctly identifying the priorities of economic development and precisely defining their precedence is an important prerequisite of effective development. Priorities must be defined based on the specific situation; moreover, there could be several of them.

The situation might require re-examining the defined priorities or rejecting them altogether, or their realization might be postponed or, on the contrary, accelerated.

The diversity of priorities and their precedence might be determined by the country’s resource supplies and the way they are used; resources frequently have to be used sparingly in order to ensure successful economic development. The choice of priorities might be based on ideas of what is actually needed for modernizing the economy, or on culture, which is an important source of national resources; education, human capital, etc. also play an extremely important role in the country’s development.

There can be no doubt that economic priorities should reflect general features and global processes, on the one hand, and the state and processes inherent in the national economy, on the other.

Tasks that meet national interests are of prime importance. For example, the correct choice of optimal alternative of economic development will make it possible for Armenia to become fully integrated into the world economy.

Corresponding mechanisms are needed in order to bring the chosen goals and priorities to fruition; in particular, *a mobilized economy* could play an important role in achieving these goals.

A mobilized economy is a system of socioeconomic relations based on a mechanism that primarily ensures:

- maximum identification and targeted distribution of material and non-material resources;
- maximum use of these resources;
- clear definition of development goals and priorities and constant control over implementation of the set tasks;
- modernization of the economy and progress (as a result of the points listed above).

A mobilized economy presumes the use of new, non-traditional approaches; it requires pursuing a policy aimed at full identification, incorporation, and targeted use of all the national resources (historical-cultural, intellectual, psychological, financial, and natural) with the direct participation of the state.

Synergetics is also a rather efficient management method which could offer new ways of resource use. Synergy is the mutually advantageous conjunction of distinct elements, producing a result that might prove much higher than the one obtained from simple composition of the potential of all the components of this system.

Moreover, synergetics is capable of identifying universal management mechanisms and ensuring more efficient self-organization; it could create much broader alternatives by combining specific components of national potential in different ways.

The most important prerequisite for producing a synergetic effect is optimal determination of the working group, distribution of the roles within it, and so on. Analyzing the conditions for achieving synergy, fully identifying resources, ensuring their integrated use, and assessing their availability are also extremely important.

Identification and Targeted Use of Socioeconomic Potential as the Main Prerequisite of Progress

In present-day conditions, actions aimed at the integrated and comprehensive use of national potential can significantly help to identify further opportunities for the country's economic development and progress.¹

This, in turn, implies the use of a program-integrated approach when carrying out policy aimed at "...uninterrupted activity of the economic system and strict provision with resources and communications, ensuring balance in management, clarifying the role and significance of the state..."²

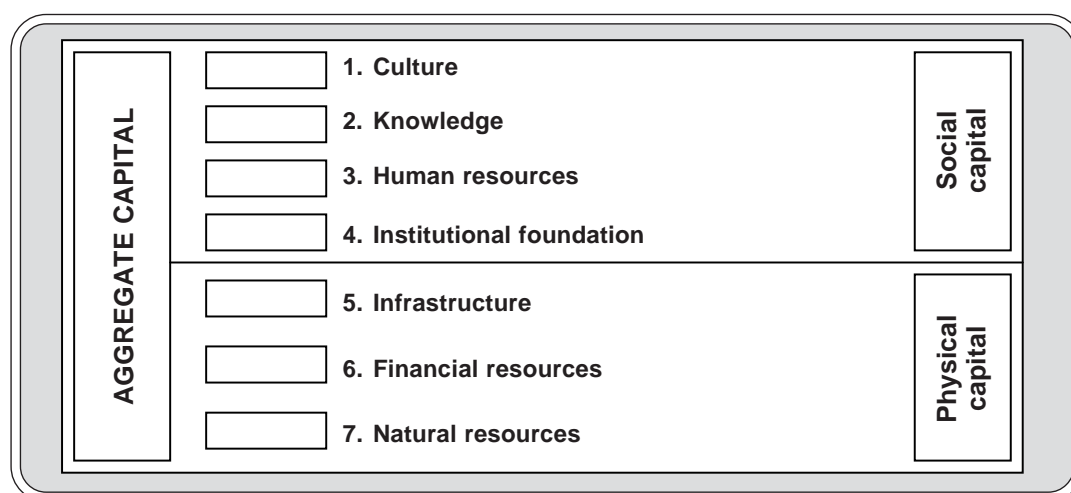
The approach being examined requires full identification of socioeconomic potential and its integrated use.

Socioeconomic Potential and Its Components

The possibility of pursuing an integrated and resource-guaranteed investment policy depends primarily on full identification and rational use of the country's socioeconomic potential. Socioeconomic potential is a composite of non-material and material resources, which include the nation's spiritual and cultural level, its economic and ideological basis, society's ability to self-organize, and the country's educational, financial, and national capabilities (see Fig. 2).

Figure 2

Components of Socioeconomic Potential



¹ See: Upravlenie izmeneniiami (The Harvard Business Review Classics Series), Alpina Business Books, Moscow, 2007, pp. 20, 52; H. Haken, *Informatsiia i samoorganizatsiia*, Mir, Moscow, 1991, p. 27 (H. Haken, *Information and Self-Organization: A Macroscopic Approach to Complex Systems*, Third Edition, Springer Verlag, Berlin, 2006); C. Hidalgo, B. Klinger, A.-L. Barabasi, R. Hausmann, "The Product Space and Its Consequences for Economic Growth," *Science Magazine*, 2007, p. 193.

² A. Markosian, *Osnovnye problemy ekonomicheskoi bezopasnosti*, Noravank, Erevan, 2005, p. 47.

Table 1

Contents of Integrated Potential

Social capital	Culture	Art	Music, painting, architecture
		Norms	Acceptable behavior, traditions, and so on
		National psychology	Language, creative attitude, trust
	Human resources	Health and demography	Physical and intellectual health, population structure in terms of gender and age
		Education and advanced training	Primary, secondary; secondary, higher, etc.
		Attitude and motivation	Personal responsibility, orientation
	Knowledge	Qualitative and quantitative data	Statistics, opinions
		Conceptions, programs	Theories, processes
		Educational institutions	Universities, higher learning institutions, etc.
	Institutional foundation	Health, transparent management system	Non-shadow, open management
		Justice system	Predictability of regulatory norms, protection of property rights, and so on
		Contiguous structures	Chambers of Commerce and Industry, public organizations, unions
Physical capital	Financial potential	Financial system	Markets, institutions, infrastructure
		Private structures	Companies: close joint-stock companies, open joint-stock companies, limited companies, corporations, etc.
		Public organizations	Unions, clubs, self-regulating organizations, etc.
	Infrastructure	Transportation and supply lines	
		Energy	
		Water channels	
	Natural resources	Mining and raw material base	
		Environment	
		Location, weather, etc.	

Socioeconomic potential can be divided into seven main groups; four of them can provisionally be applied to social capital (culture, knowledge, human resources, and institutional foundation), and the rest to physical capital. Socioeconomic potential is also formed on the basis of the derivatives of the above-listed components (see Table 1).

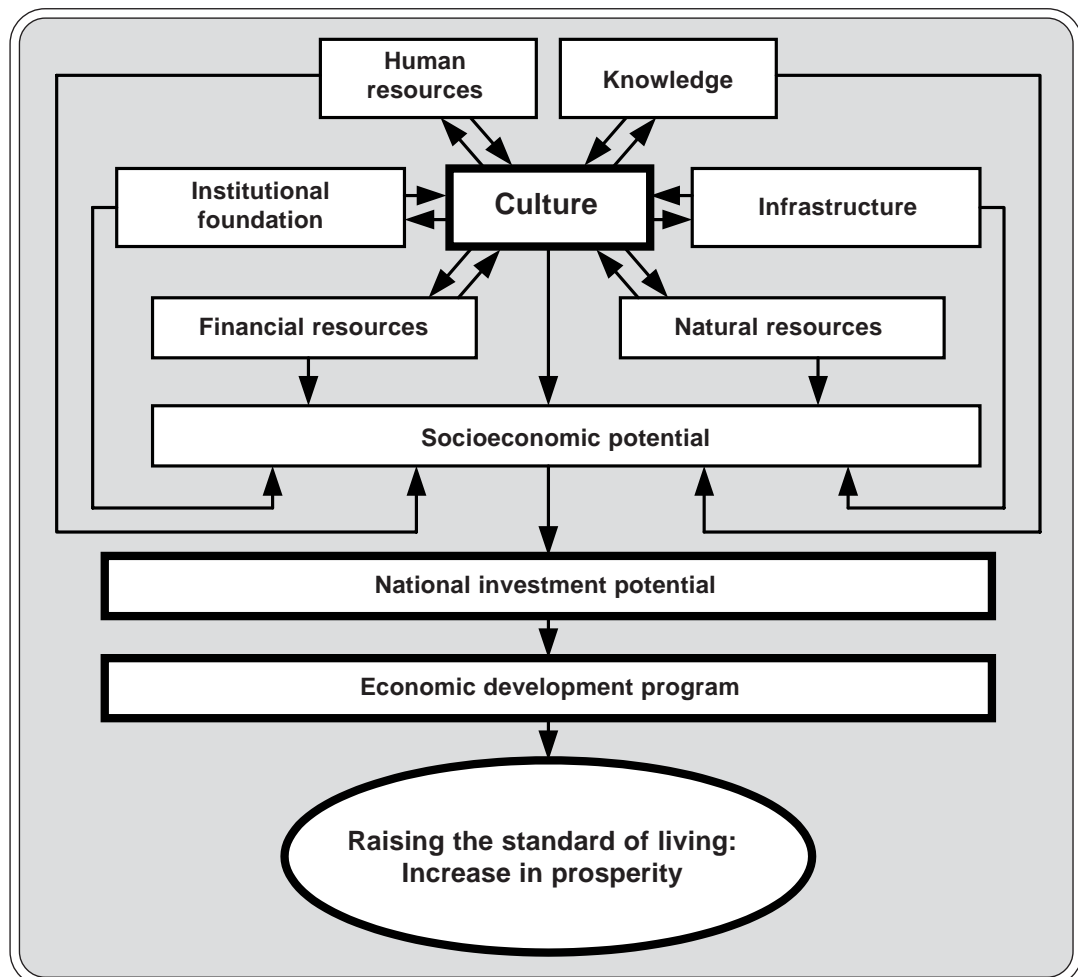
Logic for Realizing Integrated National Potential

A key factor of economic progress is streamlined and consistent actions aimed at realizing the country's potential keeping in mind the globalization of economic life and resource support.

From this perspective, forming integrated national potential is a rather complicated task: this process includes seven variables, and the country's *economic development and prosperity*, as well as *the formation of its national investment potential* depend on how optimally these variables are combined (see Fig. 3).

When forming integrated national potential, it is very important to keep in mind the close interconnection and interdependence of all its components. This complicates their targeted and har-

Figure 3



monious use, on the one hand, and promotes maximally integrated formation of national investment potential, efficient definition of economic priorities, and successful reaching of goals, on the other.

It is important to correctly choose the general features that correspond to international criteria (structural, substantial, features of socioeconomic potential and integrated national potential of economic progress), which will later ensure smooth functioning of the country's economic system.

From this viewpoint, the substantial features of Armenia's socioeconomic potential are rather interesting.

Armenia's Socioeconomic Potential and Primary National Tasks

Identifying socioeconomic potential is a rather difficult process: all seven of its components are constantly changing, both qualitatively and quantitatively, under the influence of different factors.³ Moreover, depending on the specific goals and priorities, as well as on the time limits for reaching the set goals (within the framework of short-term, medium-term, or long-term programs), the relative importance of each of the seven types of capital⁴ and precedence of measures for their use could change.

In this respect, it is necessary to correctly assess the value system basis of each period and determine the formula of national self-organization, otherwise the consequences may be irreversible (the nation might simply disappear).

Throughout the entire existence of the Armenian nation, the family has been the primary priority of national self-organization. But is it not time to move on to other forms of self-organization, such as a strong state and national health?

A good case in point is the Jews, who, after losing their statehood, retained their national self-organization and, thanks to that, have always occupied a special place among other nations, thus proving their viability.

On the other hand, in the U.S., the role of the family and the nation as elements of self-organization is very insignificant, while the state is strong.

An edifying example is the lifestyle of the Japanese, which fully corresponds to their national value system; this system has been incorporated into family, social, and, what is most interesting, economic relations. Japanese business is entirely built on the basis of religious ideology, while corporate management is based on national traditions, mutual trust, and common interests; the rules of the game are the same for everyone.

Perhaps Armenia too should transfer to the formula of "strong family-strong state-strong nation"?

National Priorities of Socioeconomic Potential

Globalization and socioeconomic development in different countries often take different forms since they are based on different ideological foundations and formulas of self-organization. Moreover, depending

³ For example, as the result of several global trends (in particular, longer life expectancy), education opportunities have increased, which in turn has had a significant effect on the development of technology, productivity of labor, and creation of material benefits. As a result of certain changes in economic philosophy, the command-administrative system has given way to the market economy and this, in turn, has led to an acceleration in world trade turnover, an expansion of new markets, and a spread in global processes. The financial system began developing at a rapid rate, which led to a breakdown in the balance between the real and financial sectors, thus provoking the crisis, and so on. There are many such interrelated and interdependent cause-and-effect sequences, but a more detailed examination of these issues is beyond the scope of this article.

⁴ Capital is the used resource that has become the main component of national investment capital.

on the specific period and situation, development might progress differently in one and the same country. This is caused primarily by the special features of socioeconomic potential and by the quantitative and qualitative features of the individual components of national investment potential.

In the context of post-crisis development, the state's ability to make productive and effective use of socioeconomic potential could ensure the country's further progress.

Results of a Survey on the National Priorities of Armenia's Socioeconomic Potential

For almost ten years, we polled first-year students studying for Master's degrees at the Department of Economics of Erevan State University on the subject "Social Management." The survey was designed to assess the national priorities of Armenia's socioeconomic potential and the impact of each of them on the country's development. The choice of respondents was based on two factors:

- First, the respondents were people who in the near future would have to make decisions themselves about different components of socioeconomic potential;
- Second, conducting an annual poll of first-year students at the same learning institution and in the same field of specialization made it possible to trace the changes over time.

As Table 2 shows, the poll yielded extremely interesting results.

Table 2

Assessments of Socioeconomic Potential (2001-2010)
Target group of respondents—economists studying for a Master's degree
("0"—lowest, "1"—highest assessment)

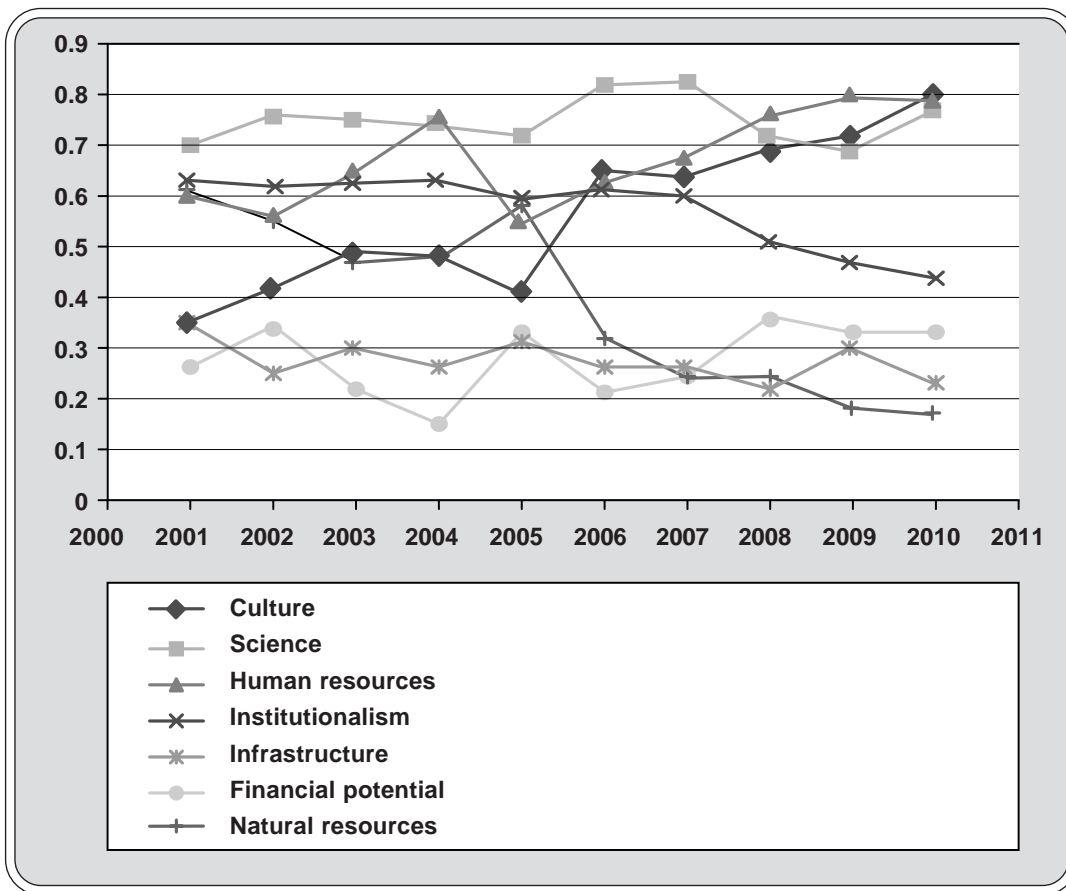
	Culture	Science	Human Resources	Institutionalism	Infrastructure	Financial Potential	National Resources
2001	0.35	0.70	0.60	0.63	0.35	0.26	0.61
2002	0.42	0.76	0.56	0.62	0.25	0.34	0.55
2003	0.49	0.75	0.65	0.63	0.30	0.22	0.47
2004	0.48	0.74	0.76	0.63	0.26	0.15	0.48
2005	0.41	0.72	0.55	0.60	0.31	0.33	0.58
2006	0.65	0.82	0.63	0.61	0.26	0.21	0.32
2007	0.64	0.83	0.68	0.60	0.26	0.24	0.24
2008	0.69	0.72	0.76	0.51	0.22	0.36	0.24
2009	0.72	0.69	0.80	0.47	0.30	0.33	0.18
2010	0.80	0.77	0.79	0.44	0.23	0.33	0.17

So scientific-educational potential and human capital received the highest assessments. These assessments remained rather stable throughout the reporting period (within the range of 0.7-0.8 and 0.6-0.8, respectively); the respondents considered the role of physical capital to be less important. Moreover, the assessments did not principally change throughout the entire survey (apart from the assessment of natural resources); in particular, financial resources were given an assessment of 0.2-0.3, and infrastructure of 0.20-0.35.

The dynamics of the respondents' assessment of some of the factors influencing the formation of national potential is extremely interesting (see Fig. 4).

Figure 4

**Dynamics of the Assessment of
the Different Components of Socioeconomic Potential (2001-2010)**
(“0”—lowest, “1”—highest assessment)



For example, in 2010, the assessment of the role of natural resources dropped compared to 2001 from 0.61 to 0.17, while that of culture, on the contrary, rose from 0.35 to 0.80. The factorial change in the assessment of institutional capital was an unpleasant surprise (the assessment of its role dropped from 0.63 to 0.44); it is very possible that this change is related to the realities of social life.

It is likely that institutionalism is regarded as a derivative of historical-cultural capital and national psychology, which is considered the most important factor influencing the others.

The Master's degree students polled preferred culture and national psychology, regarding historical-cultural and moral-psychological values as the foundations of the country's development potential: "If we cannot make a breakthrough in the moral-psychological sphere today, it will be difficult to make progress in the other spheres."

So, as of today, the most important element is *social potential*, as well as its ability for self-organization. It is also necessary to keep in mind the important role of historically developed national psychology as an important factor of economic development and national prosperity.

In 2010, a new public opinion poll was conducted in Armenia,⁵ since the previous (ten-year) poll was unable to provide answers to many of the existing questions. As a result, some assessments and conclusions of the previous polls were confirmed and some clarity was shed on the problem of developing socioeconomic potential.

The comparative assessments obtained as a result of the poll of two target populations, Master degree students and the population as a whole, showed both similarities and certain contradictions (see Table 3).

Table 3

**Comparative Assessments of
Socioeconomic Potential for Separate Groups of
Respondents (2010)**
(*"0"*—lowest, *"1"*—highest assessment)

Potential Group	Culture	Science	Human Resources	Institutional Foundation	Infrastructure	Finances	Natural Resources
Master's degree students	0.80	0.77	0.79	0.44	0.23	0.33	0.17
Population as a whole	0.40	0.74	0.69	0.56	0.24	0.62	0.24

Both the population as a whole and the Master's degree students gave the highest assessments to scientific-educational and human capital.

All the respondents, regardless of age, income, education level, and place of residence, considered scientific-educational capital important; the assessments fluctuate within the range of 0.73-0.78.

The same is also seen with respect to human capital.

The way both groups assessed culture and natural resources is especially interesting. The population as a whole assessed culture at only 0.40, while the Master's degree students assessed it at 0.80.

Whereas in the case of the Master's degree students, the main factorial shift over ten years occurred between culture and natural resources with a rise in the assessment of culture, the population as a whole, while rating culture fairly low, highly assessed the role of the financial factor (0.62).

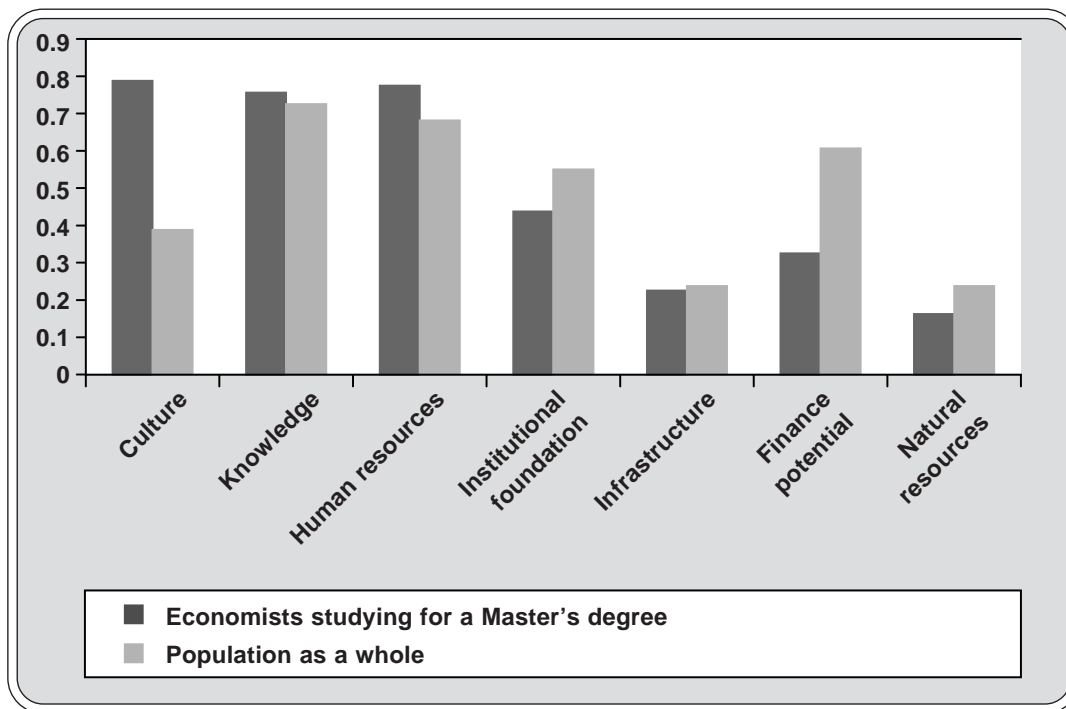
⁵ The target population of this poll consisted of all the households in the republic (800,000), while those over 18 years of age in the family at the time the poll was conducted represented the unit of the target population. The household sample included all the administrative districts of Erevan and the cities of all the regions of the republic, as well as rural areas chosen by special means in order to achieve maximum representation.

Households were selected using stratified random sampling: in cities using one-phase, and in rural areas using two-phase selection.

Today, the shortage of financial capital is the reason for many problems in the life of the country's population and this most likely influences the population's perception. The Master's degree students, on the other hand, believe that "with a sufficient level of education and awareness, it is always possible to find free financial resources and the necessary mechanisms and ways to engage them."

Figure 5

**Comparison of the Poll Results
in the Two Target Populations
("0"—lowest, "1"—highest assessment)**



Attention should be paid to both groups' low assessment of natural resources (0.24 and 0.17, respectively). The popular view that "natural resources are a given, a fixed value, and since they are unlikely to increase we would do better to think about how to use them more efficiently; and this is where culture, national psychology, and scientific-education capital become important" probably played a role here.

Neither poll made it possible to answer all the questions. What is more, many additional problems were identified, the solution to which may reveal hidden opportunities and lead to new approaches in the future.

Important Features of National Investment Potential and the Role of Culture

In the survey conducted, the questions relating to culture are particularly interesting (in the narrow sense they are viewed as national culture per se, while in the broad sense they can be seen as a way

of thinking, education, and organization); in the current conditions of globalization, traditional ideas about culture are changing.

The question of the role and place of culture in the life of society is becoming increasingly urgent, primarily from the viewpoint of providing the resources necessary for the country's socioeconomic development. The solution to this problem depends directly on the economy's compatibility, where the quality of the workforce plays a decisive role, that is, the level of knowledge of the people occupied in material production ("human capital").

The concept "human capital" comprises the ability of the individual, as well as of the company, enterprise, or country as a whole, to produce the goods, added value, and services needed for expanded reproduction.

As of today, culture is not only a systemic composite of material and spiritual values, but also the usual way of performing a particular activity; it is incorporated into any organizational structure, into macro and micro spheres, and, naturally, into any socioeconomic development project.

An increase in labor productivity greatly depends on the level of culture of economic activity; in our day and age, management of even the smallest organization depends not so much on material resources as on the ability to make the fullest use of the potential of the personnel.

The nation's intellectual potential, that is, *knowledge*, is the next important factor in the country's development and prosperity. It is no accident that in countries where the population is highly educated, there is a stable trend in sustainable economic development.

An economy based on knowledge has long become a strategic reserve and the main factor of production. Investments in human capital are the most justified today.

In the advanced countries of the world, 75%-85% of GDP is generated not by energy resources, but by an economy based on knowledge, that is, the development of society largely depends on the level of national culture; at the current stage, it is scientific-technological and intellectual potential that defines the country's status on the international arena, as well as the degree to which it is integrated into international structures.

Human potential and human capital should be given special emphasis among the country's development priorities; they are determined both by demographic features and the need to maintain the nation's physical and spiritual health.

The fourth component of national-investment potential is the *institutional foundation*. Whereas national psychology, educational potential, and human capital remain relatively constant in the short term (although they may eventually become transformed), institutional potential is more flexible and is quicker to change and improve. On the other hand, the institutional foundation is largely predetermined by the same culture, particularly national psychology.

Capital associated with the state of the *infrastructure* occupies first place among the *physical components* of socioeconomic potential.

It is followed by *financial resources*; they are no less important, but most countries of the world do not have enough of them. A place for and ways and means of engaging these resources can always be found if there is a favorable institutional foundation and healthy investment conditions, as well as if the population is sufficiently educated and informed.

The nation's potential is also designated by the territory in which it lives and its *natural resources*; the capital they form is initially a constant amount ("we have what we have"). For Armenia, making maximum use of the available resources is of prime importance, since the country has no oil or gas, and other natural resources are very scarce. Therefore the emphasis is placed on the role of infrastructure and production capacities that can help the nation fully tap its potential and make a breakthrough in economic development. And once again national psychology, education, human capital, and so on come to the forefront.

So it is not economic or financial resources that are the most important for the country's development and nation's prosperity, but correct self-organization, that is, maximum identification and mobilization of the existing potential (historical, value, intellectual, psychological, financial, and resource-related) and its balanced use.

It should be noted that the attitude of the individual and the population as a whole toward the state is formed on the basis of a multitude of factors: national and financial resources, national achievements in sports, art, and science, human skills and knowledge, personal achievements, job satisfaction, happiness in life, and so on.

In Lieu of a Conclusion

So an assessment of the current situation in the country, identification of the problems, and as precise a definition of possible of social potential and capabilities are all equally important for further raising the efficiency of economic development.

Each country must establish the ideological foundation of its own development and develop a formula of national self-organization. A correct assessment of Armenia's social potential and its intelligent targeted use will make it possible to modernize the economy and raise its competitiveness, as well as find the most acceptable development alternatives based on national specifics that also coincide with world trends.

There is no doubt that any change can be upsetting and requires revision and reassessment of some values, approaches, and standards.

This means that the country must learn how to quickly and flexibly adapt to the changes going on in the world economy. It requires possessing the knowledge, values, and capabilities necessary for the country's institutions to be able to draw up a new strategy in the changing situation.

The special role of culture created by generations of our ancestors cannot be underestimated; it always provides an inexhaustible source of efficient socioeconomic development.

In this context, educational capital also has special significance, since the ability to perceive, assimilate, and efficiently use new knowledge is increasingly predetermining the nation's entire economic potential.

So strengthening Armenia's socioeconomic potential requires the following:

- restoring, preserving, and developing cultural traditions, as well as reinforcing the entire national value system using innovative approaches;
- forming a systemic bond among culture, education, and science aimed at ensuring the harmonious development of each citizen;
- ensuring the formation of information flows as a guarantor of the preservation and development of the national identity, as well as the country's incorporation into the global cultural processes.