
KEY FACTORS OF STRATEGY OF ECONOMIC DEVELOPMENT

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The issue of economic development was considered starting from B.C. by the greatest philosophers. Theoretically it was formed by mercantilists and then continued by A. Smith. In our days, it is discussed by P. Samuelsson, M. Porter and other modern economists. Despite the investigation of this issue through the economic history, still there is not a single model of economic development. At the same time, there are hundreds of examples of economic development in different countries, which show that the paths of economic development are different, but the target of economic development strategy is more or less the same: economic development based on increase of productivity of labour force. So, the key factor of the economic development is becoming qualified labour force.

For the last 30 years the nations that surprised with their economic developments had been Ireland and several Asian countries (South Korea, Japan, China, Singapore, etc.). Although they had different approaches to the strategy of economic development depending on their economic conditions, resource abilities, culture and traditions, the stress in both cases was on private sector and upgrading of qualification, skills and knowledge of labour force. Moreover, different international statistic sources show that today, the countries with domination of private sector have faster economic development rate rather than countries with dominant public sector. It does not mean that the role of public sector has to be nullified as the latter is called to create and protect equal free market conditions for anyone¹.

At the same time, strong pool of economists is standing for positive effects of protection policy on the economic development as well. They are sure that if the strategy of economic development involves protection policy called to strengthen the free market principles, then it is better that the government has this kind of policy. In other cases, the protection policy could have negative effects on the economic development of the country in the long run. So, if the protection policy is called to create equal start conditions of free market, then it is required to be implemented. At the same time, creation of good educational system for excellency is the obligation of the government.

The excellent examples of this strategy (nation's competitive strategy) could be development model of Ireland and South Korea. In the first case, the government stood for foreign direct investments promotion as well as creation of strong bases for infrastructure such as telecommunication, transportation and education promoting exports of the country. For the Korean case, the

¹ **Bhagwati J.** *Protectionism*. Cambridge, Mass.: MIT Press, 1988.

government promoted operation of SMEs and again, creation of infrastructure such as telecommunication, transportation and education to promote the exports of the country. In both countries stress on educational system was made in natural scientific fields, especially in those, which are boosting high tech sector developments².

These two development models were based on government protection policy, which was targeted on the promotion of domestic production and exports. But the protection policy of these countries was indirect one, which created bases for effective domestic production rather than directly promoting it. In other cases, assisting domestic companies to export or to increase their production leads to decrease the quality of products as well as “energy” of perfecting tools and principles of competing with other companies. So, it could be stated that the Governments of Ireland and Korea created such legal and institutional adjustments that promoted innovation and investments so as to develop an efficient production and distribution system for goods and services. Latin American countries are another example with indirect state protection policy, but the results are not impressive, maybe, because of the non-correct combination of free trade and protection policy.

It is important to mention that despite the differences of economic development models, the factors of it are three: (i) human resources, (ii) capital resources and (iii) natural resources, where human resources factor is correlated with labor supply function, capital resources to the saving function; and natural resources to the production functions³.

Most economists are sure that human resources are the major engine of economic development as the level of today’s technology allows to import/export all other resources. It is becoming even more powerful factor of economic development, when it is characterized as skillful and knowledgeable. In this case, the country could export scientific-intensive products, which require very little of other resources as well as transportation. This approach is becoming even more realistic, when taking into consideration that the new technology and foreign trade are becoming forth and fifth factors of economic development. Moreover, these two factors are turning to be the major engine of economic development of the country as they are not only factors, but also promoters for other three factors of economic development. This approach was considered by A. Smith in the 16th century as he was sure that the wealth of nation depends on the productivity of labor force.

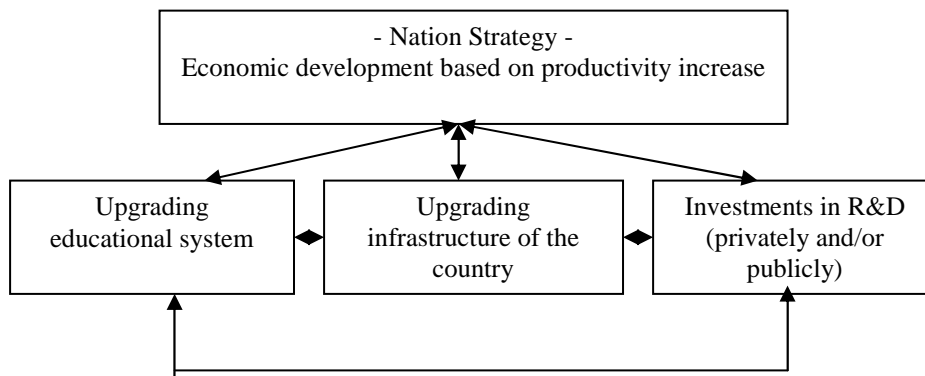
In conclusion, we would like to say that the target of strategy of any country’s economic development has to be nation prosperity based on productivity increase in the economy. For the productivity increase in the economy the country has to have skillful labor force. For continuous upgrading

² **Sakong I.** *Korea in the World Economy*. Institute for International Economics. Washington, D.C. 1993.

³ **Nelson R. R.** *Technology, Institutions and Economic Growth*. Harvard University Press. USA. 2005.

of skills, knowledge, and qualification of labour force, the country needs to make investments in R&D as well. In other cases, the labour force would have theoretical qualification, which could not work effectively in practice. All other factors of economic development are derivatives of it in today's globalized world. This approach is involved in the strategy of economic development of Ireland and South Korea, the countries which enter the 21st century with well developed high tech sectors, while in the 1970s their economies were underdeveloped. It could be presented by #1 Diagram.

#1 Diagram: Strategy of Economic Development



According to the diagram, the strategy of the government has to put stress on the productivity growth in the economy. In its turn it has to be based on upgrading educational system, infrastructure of the economy as well as promoting investments (private (foreign and domestic), public and grants of international organizations) into research and development sphere of the economy.

Coming back to Armenia, it must be mentioned that Armenia has good potential for human resource development or labour productivity increase. Today, statistics have already shown that high growth has been registered in those sectors of Armenian economy, where qualified labour force is required (such as software development and diamond polishing). At the same time, Armenia has approximately 7 mln Diaspora, which is considered external human resources for the country by modern economists. Diaspora could be used as investor promoters, knowledge investor, business card for the home country as well as domestic products consumers and export promoters in foreign countries. The excellent examples of using the above mentioned channels of Diaspora for domestic economic development are China, India, Israel and Ireland. If in China the involvement of Diaspora into economic development of

the home country was spontaneous, then in India, Israel and Ireland, it was involved in the Government strategy of economic development⁴.

So, with well elaborated strategy of economic development stressing upgrading of human resource qualification and promotion of Diaspora to be engaged in home country development, Armenia, in not so far future, could be turned into well developed country in the world economy. Currently, Armenia considers Diaspora investors, while as it has been mentioned Diaspora could be as an intermediary for investments, exports, country image building as well as skills, knowledge and qualification importers to the home country.

Armenia is a country with small consumer market, which means that foreign trade is among the first factors of economic development. At the same time, small market means high cost of production because of scale of economy. So, it would be better if the Government of Armenia puts more stress to ease the export procedure of Armenia as well as to provide free information about import systems of other countries to domestic producers. It will indirectly promote exports of Armenia as in the most cases; domestic producers do not export because of lack of information.

So, the economic development strategy of the country has to be targeted on nation prosperity based on productivity growth in the economy, where the major stress had to be put on upgrading the skill of labor force through education system modernization based on world market changes. The second major stress has to be put on infrastructure development and modernization, which is the connection channel of the private sector with the world. The strategy implementing plan has to be harmonic combination of free trade and protection policies, where again one of the major stresses is on overall productivity growth in the economy.

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Ամփոփում

Այսօրվա գլոբալացված աշխարհում տնտեսական զարգացումը դադարի գործ չէ: Եթե երկիրը ընտրել է տնտեսական զարգացման ուղին, ապա պետք է մշակի տնտեսական զարգացման այնպիսի ռազմավարություն, որը հիմնված լինի աշխատուժի որակի բարձրացման վրա: Տնտեսության զարգացմանն ուղղված՝ Հայաստանի կառավարության ծրագրերը նաև պետք է շեշտադրեն աշխատուժի որակի բարձրացումը կրթական համակարգի և վերապատրաստման կենտրոնների արդիականացման միջոցով:

⁴ The Role of Diaspora in Poverty Reduction in their Countries of Origin. A Scoping Study by the Migration Policy Institute for the Department of International Development. July 2004. www.migrationpolicy.org.

КЛЮЧЕВЫЕ ФАКТОРЫ СТРАТЕГИИ ЭКОНОМИЧЕСКОГО РАЗВИТИЯ

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Резюме

Стратегия экономического развития должна быть основана на усовершенствовании качества рабочей силы. В рамках данной стратегии было бы желательно, чтобы в программах Правительства Армении по развитию экономики больше внимания уделялось улучшению качества рабочей силы через модернизацию систем образования и трейнинг центров.