

# ARMENIA'S ECONOMIC MISSTEPS IN POST-USSR COLLAPSE

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## Interview with **Dr. Tatevik Poghosyan** by **Arus Karapetyan**

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The overnight dissolution of the Soviet Union turned upside down the life of citizens of Armenia. Young **Tatevik Poghosyan** was no exception. Impelled by the collapse of her world, a studious nature, and wanderlust, Dr. Poghosyan ventured to new horizons. Following Master's studies in Yerevan, she traveled to Japan, Europe, and to Canada. She devoted herself to making sense of the events and economic developments that took place in Armenia in the '90s. She also conducted Armenia's first nation-wide innovation survey and analyzed the board member networks of private companies from 2000 to 2010.

Massive privatization, rapid reforms and social capital are at the root of Dr. Poghosyan's dissertation "How Board Networks Affect Firm Performance and Innovation Incentives in Transition Economies, the case of Armenia." It points out that Armenia, highly industrialized during the Soviet era, had the highest percentage of engineers and scientists in the Soviet Union. By the mid-'90s the country was guided to adapt "shock therapy" (neo-liberal approach) through rapid mass privatization. Failures of such speedy reforms followed the radical changes while institutions were not ready to support the new market economy.

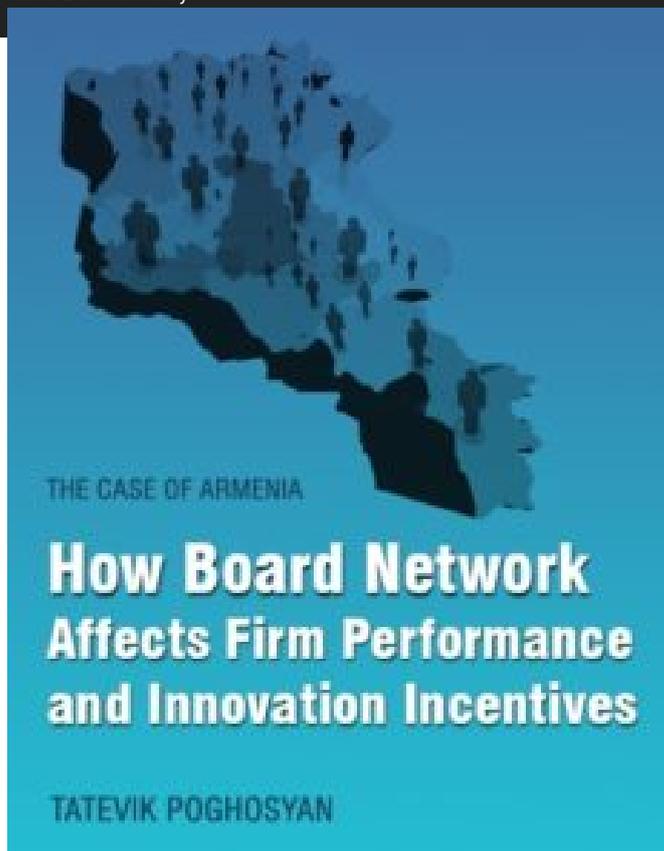
Dr. Poghosyan lives in Ottawa and is policy advisor and economist at [Innovation, Science and Economic Development Canada](#) (formerly Industry Canada).

**KEGHART: Tell us about yourself and your journey to your doctorate.**

**POGHOSYAN:** I was born and raised in Armenia. I completed two MA degrees. After working for a few years in Armenia, I felt that I needed to continue my studies and pursue a PhD degree. Although I had received superior education in Armenia, I needed to pursue my education abroad. I applied for PhD programs in Japan and received a scholarship from the Japanese government. After I finished my coursework at Tsukuba University and wrote my thesis, I decided to continue my PhD in Europe. One of the main reasons was because the European academic and research community offered more in the field I had chosen. I had already defined the topic of my dissertation and had decided to use the social network analysis approach. I applied for the United Nations University's program in Economics of Innovation and Technical Change program in Maastricht.

**KEGHART: In the introduction of your book you present the transitional background of Armenia post-Soviet dissolution. Please tell us more about consequences of the reforms.**

**POGHOSYAN:** Experiencing the collapse of the USSR in Armenia, I was interested in what happened and why. I remember massive unemployment, the crash of the markets, and the confusion of my parents and their friends who did not know how to navigate in the chaos. My parents, who were engineers, became unemployed in an instant, like almost everyone in their social circle. Although I was a child, I remember the shock that generation experienced.



Transition from planned to market-oriented economy in Central, Eastern European and in the former USSR represents a rare opportunity to study systematic transformation in a large number of countries simultaneously. With the collapse of the Soviet Union, firms faced a near-collapse of their guaranteed markets and unemployment surged. All transition countries experienced radical drop of GDP. Russia recovered in 2006 while others, including Armenia, not until 2013.

It was a natural experiment to test many economic and sociological theories with the evidence that those countries provide. The transition from one system to another was so radical that economic agents--people, firms, organizations, and states--were replaced without prior knowledge and functioning market-supporting institutions. My main research interests were whether there were ways to apply different policies that would smooth the impact of the transition on economic agents.

**KEGHART: What could have been done differently? What are some of the insights you provided in the "Shock therapy" vs. Gradualism option?**

**POGHOSYAN:** Starting in 2000, the economic literature started to be critical of the policies implemented during the collapse, such as "shock therapy" reforms. Alternative approaches would have provided more gradual reforms and avoided the terrible consequences that economic agents experienced.

One of the tools of the "shock therapy" was massive privatization. In my dissertation, I discussed how it was implemented in Armenia. The gradual approach would, perhaps, have provided better economic benefits and would have been less traumatic for the society and economy. The way privatization was implemented--with the corruption mechanisms in place—a small elite was able to own the majority of national property. Unlike other Eastern European countries, where better

conditions were created for experienced businesses and investors to participate in the economic reforms, Armenia followed the Russian model and blocked the inclusion of foreign knowledgeable and experienced business people with their investments to participate. Instead, national property, including big factories, was privatized by a group with no experience or financial resources. This had a strong and long-lasting impact.

**KEGHART: What are board member networks and their impact on financial performance and innovation?**

**POGHOSYAN:** Board members of companies have an important role in strategic decision-making and can leverage valuable information. They possess strategic information on a firm's condition and resources, industry trends and macro-level changes, such as new regulatory frameworks, the economic situation in the country, etc. The flow of this information through network ties may explain a firm's opportunities and competitive advantage. Evidence shows that education, gender and experience of board members are valuable characteristics and can provide additional benefits for the firms. For example, firms that included members from financial sectors in their boards have better access to financial resources and loans and have lower debt ratios.

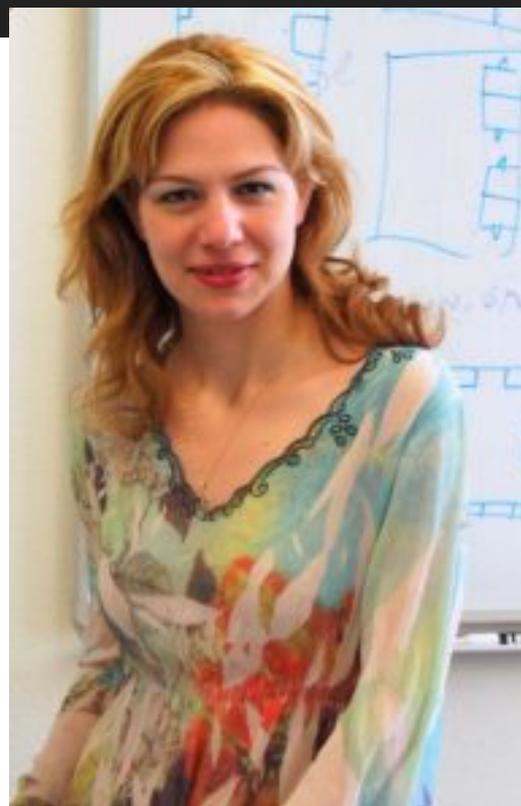
In my study, I used a Social Network Analysis to construct the board network, which represented Armenia's corporate network. Board networks serve as an important channel for inter-organization linkages as they can facilitate knowledge and information transfer, and access to useful resources. The board network plays an important role in stabilizing uncertain environments. The lack of formal institutional mechanisms such as a developed banking sector, a secondary stock market and proper regulations to support market exchange make the role of informal relations even more important, leading many firms to pursue network strategies.

A broad consensus is emerging that social capital is a valuable asset engendered through embeddedness in social networks, and that its value stems from access to resources available through social ties. One of the unique features that makes social capital different from other forms of capital such as physical capital or human capital is that it considers the complexity of social contexts in which firms are embedded, and argues that ignoring this context in analyzing a firm's behaviour and performance can lead to an incomplete picture. In my study, I showed how the board network, which is a type of a social capital, is tightly bound with the strategy of the firm, and firms have opportunity to utilize the potential of the social capital and gain competitive advantage.

**KEGHART: Tell us about your countrywide innovation survey in Armenia.**

**POGHOSYAN:** During my studies I came across Community Innovation Surveys, which collect similar

data on firm-level innovation in various countries and compare how innovative firms are. Armenia did not conduct any of these surveys. Hence, I initiated the countrywide innovation survey, which interviewed firms and collected the data on various innovation related variables. I met with CEOs and asked questions about their respective firms, whether they innovate, and if they do, what are their strategies as well as what kind of barriers firms face while trying to innovate.



The study explores the cooperative behaviour of innovative firms, in which "innovation cooperation" refers to the broader concept rather than R&D cooperation. Cooperation is an important component of the National Innovation System. The evidence from the survey sheds light on the similarities and differences in cooperative behavior of Armenian firms and other countries, such as some Latin American countries. Local actors play an important role in a firm's decision to innovate: local competitors, consultants, universities and research institutes contribute highly to innovative collaboration. Nevertheless, foreign suppliers and enterprise groups are important players for the innovation system. The survey found that only a small number of innovators are able to regularly produce new products and services, which are competitive at national and international markets. Yet, among regular innovators, there are still a significant number of firms that did not consistently invest in R&D, which would ensure that firms are developing strong innovative capabilities.

**KEGHART: Tell us the relevance of your findings in relation to the situation in Armenia.**

**DR. POGHOSYAN:** Armenia's scientific potential was not utilized properly, mostly because of the lack of innovation strategies and the vision of what should be Armenia's industrial/economic strengths. Only in the 2000s, the government attempted to develop the National Innovation Strategy. One of the weak points of that was the lack of coordination and communication among authorities responsible for the main components of National Innovation System (NIS) such as education, industry/innovation and science. It is essential to create policies which create strong linkages

among these components. Authorities for each of these components had their own vision and strategies, and without sharing common goals and strategy, this scenario failed to strengthen Armenia's NIS.

Armenia already lost valuable time in building its NIS with existing scientific and industrial potential including highly skilled labor and specialists. Now it is time to explore new opportunities in creating a strong innovation system. Yet, I do not see strong and crucial reforms in changing science and innovation landscape, developing and implementing policies that combine country's vision in its economic development, identifying the role of science and education in achieving those goals. One example is higher education. Most of us left the country and decided to pursue education abroad because local universities were unable to provide the knowledge that was needed.

I was expecting extensive and consistent reforms which would help create strong and competitive universities and academic institutions. Unfortunately, I don't see any well-thought strategic policies that will improve and strengthen Armenia's NIS.

**Dr. Poghosyan, thank you for the discussion, your insights, and valuable work.**

## Comments



**Houry Ellezian** – 2020-09-28 02:19:48

Thank you Dr. Tatevik Poghosyan for this valuable insight and survey in Armenia and thank you Arus Karapetyan for this interview. I always found the transition from communism to capitalism in such a rapid manner quite intriguing. As it was doomed to fail in my opinion, and it did, by spoiling a few and impoverishing the masses. Suddenly, we heard of beggars in the middle of Yerevan ... and corruption to the highest level, much like Lebanon. Can we disregard the role of political culture, education and instability, being always in a state of war and landlocked, to be important factors in this formula?