

DRIVING ARMENIA'S ECONOMIC TRANSFORMATION: HARNESSING INNOVATION FOR ENTREPRENEURSHIP AND MANAGEMENT DEVELOPMENT

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Received 01.08.2025.

Revised 11.09.2025.

Accepted 14.10.2025.

Keywords:

*Economic Transformation, Innovation,
Entrepreneurship, Management
Development, Sustainable Growth.*

Original research

ABSTRACT

In recent decades, Armenia's economy has faced significant challenges, including its overreliance on traditional sectors such as agriculture, mining, and manufacturing. These industries, while historically important to Armenia's development, have encountered difficulties in adapting to the rapidly evolving global economy. Despite their foundational role, these sectors have struggled to maintain competitiveness in a world that is increasingly driven by knowledge, technology, and services. As a result, Armenia's economic growth has slowed, and its industries have found it difficult to compete on an international scale.

Innovation also holds the potential to create a more resilient and competitive economy. As global markets continue to evolve, countries that fail to innovate will find it increasingly difficult to stay relevant. Armenia, with its rich cultural heritage and highly educated population, has the potential to become a regional leader in innovation, especially in sectors such as information technology, renewable energy, and biotechnology. By building a knowledge-based economy, Armenia can reduce its vulnerability to external shocks and create new sources of wealth and employment for its citizens.

In addition to economic benefits, fostering innovation can help Armenia address some of its long-term social challenges. The rise of entrepreneurship and innovation can lead to the creation of new job opportunities, particularly for the youth who might otherwise be tempted to emigrate. Moreover, it can provide the framework for solving pressing social issues such as inequality, regional development, and environmental sustainability. Through a combination of innovation-driven industries and inclusive growth policies, Armenia can strengthen its social fabric and promote greater social mobility for its citizens.

This article explores the crucial role of innovation in driving the development of entrepreneurship and management in Armenia. The development of new business models, management strategies, and technological advancements can create a foundation for long-term economic prosperity. The article further examines the challenges Armenia faces in fostering innovation, including institutional barriers, lack of funding for research and development, and the need for policy reforms.



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Moreover, the article discusses the various opportunities for innovation in the Armenian context, such as the potential for growing tech hubs in cities like Yerevan, where a vibrant startup scene has already begun to take root. By examining global best practices and assessing Armenia's unique strengths and weaknesses, this article proposes strategic pathways for fostering an innovation-driven future.

In conclusion, Armenia's future economic success hinges on its ability to embrace innovation and transform its traditional industries into globally competitive sectors. By focusing on technological integration, entrepreneurship, and a supportive policy environment, Armenia can pave the way for sustainable economic growth and a more diversified economy. Innovation will not only serve as a tool for economic recovery but also as the foundation for building a prosperous, resilient, and globally competitive nation.

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1. INTRODUCTION

To ensure sustainable economic growth, Armenia must focus on developing new management strategies that embrace technological advances and support entrepreneurship (Beglaryan et al., 2025). The state should create an enabling environment for startups, small and medium-sized enterprises (SMEs), and high-tech industries. This can be achieved by streamlining regulatory processes, improving access to financing, and promoting collaboration between universities, research institutions, and the private sector. A culture of entrepreneurship must be cultivated, with support from both public and private sectors to encourage risk-taking and foster business innovation (Lee & Peterson, (2000). Technological integration must also be prioritized across various industries. Sectors such as agriculture, mining, and manufacturing could greatly benefit from the application of advanced technologies like artificial intelligence, blockchain, and automation. For example, smart farming technologies could increase agricultural productivity while reducing environmental impacts. In the mining sector, automation and digital technologies could enhance efficiency and safety, while allowing the industry to pivot toward higher value-added products. By encouraging these kinds of technological upgrades, Armenia can diversify its economy, reduce its dependency on traditional industries, and attract investment in the future of high-tech industries (Grigoryan et al., 2012).

Agriculture, which has long been a cornerstone of Armenia's economy, remains heavily reliant on outdated practices and limited by climate risks. Meanwhile, mining, a major contributor to export revenue, is vulnerable to fluctuations in global commodity prices and lacks sufficient value-added production. Similarly, the manufacturing sector faces challenges with outdated infrastructure and insufficient innovation, which impedes its ability to diversify and modernize (Tassey et al., 2010).

Another critical factor impacting Armenia's economic prospects is the ongoing trend of youth emigration. Many young, highly educated, and skilled individuals are

leaving Armenia in search of better economic opportunities abroad. This "brain drain" continues to undermine the country's development by depriving it of its most promising human capital. The loss of these individuals, particularly in fields such as information technology, engineering, and entrepreneurship, weakens Armenia's ability to create an innovative ecosystem and maintain a competitive edge in the global market (Pant, 2005).

This demographic trend presents a paradox: while Armenia has an educated workforce, its lack of sustainable economic opportunities at home leads to the outflow of talent. This phenomenon exacerbates the nation's challenges in addressing its economic and social development goals. As young people seek employment abroad, Armenia faces a critical shortage of human capital that is necessary to drive innovation, diversify the economy, and attract foreign investment (Honorati et al., 2019).

In response to these rapid changes in the global economy, Armenia must place innovation at the heart of its economic policy. The country's survival in an increasingly competitive world hinges on its ability to foster a culture of creativity, entrepreneurship, and technological development. Embracing innovation is no longer a luxury; it is a necessity for economic survival. By prioritizing innovation, Armenia can shift away from its dependence on traditional sectors and move toward knowledge-based industries that are more resilient to global fluctuations.

Amidst these difficulties, innovation has emerged as a critical tool that can play a transformative role in shaping Armenia's economic future. As a driver of growth and competitiveness, innovation can help Armenia shift from an economy reliant on outdated industries to one that embraces high-tech, digital, and knowledge-based sectors. Moreover, innovation is not only about technological advancements; it also includes the adoption of new business models, management practices, and entrepreneurial mindsets that align with global trends and demands.

The Interconnection between Innovation and Entrepreneurship. Innovation and entrepreneurship are

closely connected, as entrepreneurship is the process of economically transforming innovative ideas. Entrepreneurs who invest in innovation can alter their organizations' structures, functions, and services, ensuring competitiveness (Schumpeter, 1934). This implies that every innovation, whether technological, cultural, or organizational, requires innovative thinking and entrepreneurial insights.

Nature of Innovation: According to Schumpeter's theory, innovation is expressed through the production or importation of new goods or services, enabling the creation of new markets (Schumpeter, 1934). In the context of the Armenian economy, this approach emphasizes not only technological development but also entrepreneurship education and the growth of social entrepreneurship.

2. LITERATURE REVIEW

The Role of Innovation in Armenia's Economic Development: Challenges and Opportunities.

In recent decades, Armenia's economy has faced significant challenges, including its overreliance on traditional sectors such as agriculture, mining, and manufacturing. While historically important, these industries have struggled to keep pace with rapid global economic changes, resulting in a decline in competitiveness (Poghosyan, 2017). Armenia's industrial sectors have failed to modernize and adapt to technological advancements, which has hindered growth and diversification. As a result, the country's economy remains vulnerable to external market fluctuations and dependent on a few core industries.

Agriculture, which has long been a cornerstone of Armenia's economy, continues to suffer from outdated farming techniques and is highly susceptible to environmental risks. The mining industry, which generates substantial export revenues, is also vulnerable to price volatility in global commodity markets (Melkonyan, 2014). Similarly, Armenia's manufacturing sector is hindered by aging infrastructure and insufficient investment in research and development (R&D), making it difficult for the country to remain competitive in a globalized economy.

Moreover, Armenia continues to grapple with a significant issue of youth emigration. The country has seen a continuous outflow of educated and skilled professionals seeking better economic opportunities abroad, exacerbating the "brain drain" phenomenon. This ongoing migration limits Armenia's ability to innovate, diversify its economy, and maintain a competitive workforce (Atoyan et al., 2023). The departure of talented youth further weakens the country's capacity to foster entrepreneurship and address its socio-economic challenges.

This demographic trend is paradoxical: despite having a highly educated workforce, Armenia's economic system fails to offer adequate opportunities for young people. This leads to the outflow of talent, further impeding the

country's potential for growth and innovation. As Armenia struggles to retain its human capital, its economic development continues to stagnate, and its reliance on outdated industries deepens.

The Need for Innovation-Driven Economic Policy.

In response to these challenges, Armenia must prioritize innovation at the heart of its economic policy. To ensure sustainable growth, the country must embrace an innovation-driven model that promotes entrepreneurship, technological advancement, and creative industries (Poghosyan, 2017). In today's rapidly changing world, relying solely on traditional sectors is no longer viable. Innovation is the key to building a resilient economy capable of thriving in the global marketplace.

To facilitate economic growth, Armenia must focus on developing new management strategies and integrating cutting-edge technologies across various industries. A shift from traditional industries to knowledge-based sectors will create more high-value-added products and services, diversify the economy, and reduce reliance on agriculture and mining. The government must establish a supportive regulatory framework for innovation, provide incentives for R&D, and invest in infrastructure that enables the development of high-tech industries (Melkonyan, 2014).

For instance, sectors such as agriculture, mining, and manufacturing could benefit immensely from technological integration. Smart farming techniques, the use of artificial intelligence (AI) in production, and automation in manufacturing processes could enhance productivity and reduce environmental impact. By implementing these innovations, Armenia can create more sustainable and competitive industries that are less susceptible to external shocks.

The Role of Entrepreneurship in Driving Innovation. Entrepreneurship is a crucial element in fostering innovation in Armenia. The government and private sector must collaborate to create an environment conducive to the growth of startups and small businesses. Armenia already has a budding entrepreneurial ecosystem, particularly in cities like Yerevan, where tech hubs and startup accelerators are gaining momentum (Novak & Adamskaya, 2017). Encouraging entrepreneurship through education, mentorship programs, and access to financing will allow Armenia to capitalize on its educated workforce and create new economic opportunities.

Entrepreneurship not only generates economic growth but also has the potential to address some of Armenia's most pressing social issues. The rise of new business ventures can lead to the creation of jobs, especially for the youth, who might otherwise seek opportunities abroad. Moreover, innovation-driven entrepreneurship can help tackle challenges such as poverty, inequality, and regional development (Fu, 2024).

Technological Integration Across Sectors. Technological advancements play a vital role in building a competitive economy. Armenia must prioritize integrating technologies such as AI, blockchain, and the Internet of Things (IoT) into various sectors, particularly

agriculture, mining, and manufacturing. For example, AI-powered solutions could help improve the efficiency of agricultural production, while blockchain could ensure transparency and security in supply chains within the mining sector. Furthermore, automation and digital technologies could help modernize the manufacturing sector, reducing costs and increasing output (Hakhverdyan et al., 2025).

By embracing these technological innovations, Armenia can diversify its economy and attract foreign investment in emerging sectors like biotechnology, renewable energy, and information technology. Such investments will not only boost Armenia's economic resilience but also make the country more competitive on a global scale.

Social Benefits of Innovation. Innovation is not only an economic driver but also a key factor in addressing social challenges. The rise of high-tech industries and startups can lead to the creation of better employment opportunities, which may reduce the country's reliance on emigration. Additionally, innovation can help solve societal issues such as regional inequalities, environmental sustainability, and access to quality healthcare and education (Poghosyan, 2017). For instance, renewable energy solutions and green technologies can reduce Armenia's dependence on imported energy sources and improve environmental sustainability.

By leveraging innovation, Armenia can address many of its long-term social goals, including improving living standards, reducing unemployment, and ensuring more equitable development. Innovation-driven growth provides a sustainable path forward, ensuring that economic success also benefits society at large.

Strategic Pathways for Fostering Innovation. In order to realize its innovation-driven future, Armenia must address several critical factors. First, it must invest heavily in education and R&D, creating a strong foundation for technological advancement and entrepreneurship. The government must also improve access to funding for startups and SMEs, making it easier for entrepreneurs to bring their ideas to life. Furthermore, Armenia should strengthen its ties with international institutions and businesses to foster collaboration and knowledge transfer (Melkonyan, 2014).

The development of a robust innovation ecosystem requires the establishment of institutions that support research, commercialization of technologies, and entrepreneurial growth. By focusing on these areas, Armenia can create a favorable environment for both local and foreign investors, positioning itself as a regional leader in innovation.

In conclusion, the future of Armenia's economy depends on its ability to embrace innovation and transition away from its reliance on traditional sectors. Through fostering entrepreneurship, integrating cutting-edge technologies, and supporting an innovation-driven policy framework, Armenia can create a more competitive and resilient economy. Innovation is the key to unlocking new growth opportunities, reducing economic vulnerabilities, and

addressing social challenges. With the right strategic initiatives, Armenia has the potential to transform its economy, diversify its industries, and secure a prosperous future for its citizens.

3. METHODOLOGY

To explore the role of innovation in driving Armenia's economic transformation, this study will utilize a mixed-methods approach that combines both qualitative and quantitative research techniques. The methodology will be designed to gather comprehensive insights into how innovation influences entrepreneurship, business development, and economic competitiveness in Armenia.

Literature Review. The first step in the research will involve a detailed literature review of existing academic articles, reports, and publications related to innovation, entrepreneurship, and economic development in Armenia and similar transitioning economies. This review will provide a theoretical foundation for the study and help identify key factors contributing to successful innovation-driven entrepreneurship.

Quantitative Analysis. A survey will be conducted among Armenian entrepreneurs, business owners, and key stakeholders in various sectors. The goal of the survey is to gather data on:

Perceptions of innovation: How entrepreneurs view the role of innovation in driving business growth and competitiveness.

Adoption of innovation: The extent to which businesses have adopted new technologies, business models, and management practices.

Barriers to innovation: Challenges entrepreneurs face in implementing innovative practices, such as limited access to capital, knowledge, or resources.

The survey will use a Likert scale to assess respondents' attitudes and perceptions, and the data will be analyzed using descriptive statistics to identify trends and patterns.

Qualitative Research. In-depth interviews will be conducted with selected entrepreneurs, managers, policymakers, and experts in innovation and entrepreneurship.

Case Studies. The study will also include a series of case studies of Armenian startups and small businesses that have successfully integrated innovation into their operations. These case studies will illustrate how innovation can create competitive advantages and enable businesses to transition to more advanced sectors of the economy.

Comparative Analysis. A comparative analysis will be conducted between Armenia and other countries that have undergone similar economic transformations through innovation, such as Estonia or Israel. This will provide a broader perspective on Armenia's progress and highlight best practices that can be adapted to the local context.

Policy Review. A policy review will be conducted to analyze existing government initiatives, programs, and regulations aimed at promoting innovation and

entrepreneurship in Armenia. This will include evaluating the effectiveness of programs such as innovation hubs, venture capital funding, and education reforms. Insights from this review will inform the recommendations section of the study.

4. DISCUSSION AND RESULT

Armenia's Economic Context and the Demand for Innovation. Armenia's economy, despite showing some growth in recent years, is still in its early stages of development, and a heavy dependence on traditional sectors has made it susceptible to global market fluctuations. These traditional industries—agriculture, mining, and manufacturing—while historically crucial, are losing their economic significance in a rapidly evolving global economy. Armenia's future competitiveness and economic stability depend on its ability to diversify away from these sectors and into knowledge-based, high-tech industries. The demand for innovation in the Armenian economy has never been greater. To meet this challenge, Armenia must invest in infrastructure reforms, foster innovation ecosystems, and implement government support programs designed to create the conditions necessary for the growth of the innovation sector (Melkonyan, 2014).

The country's path to prosperity requires not just adopting new technologies but embedding innovation into all facets of its economic framework. This process involves reshaping traditional industries by modernizing them with technological advancements and aligning the country's institutional capacity with international best practices. The growing global demand for digital solutions, high-tech services, and environmentally sustainable production offers Armenia a unique opportunity to transition into these emerging fields.

The Government's Role in Fostering Innovation.

A key factor in ensuring that Armenia's economic future is driven by innovation lies in effective government intervention. In order to stimulate the growth of high-tech sectors, the Armenian government must implement tax incentives, facilitate access to venture capital, and create innovation hubs and centers. These efforts will encourage both local and international entrepreneurs to invest in innovative technologies and businesses within the country.

Government policies must not only prioritize large, established companies but also focus on the needs of small and medium-sized enterprises (SMEs), which are often the most dynamic drivers of innovation in any economy (Mazzucato, 2013). SMEs are typically more agile and capable of adopting new technologies faster than larger companies, but they require access to the right resources and support to thrive. Measures such as tax incentives, subsidies for R&D, and grants for tech startups could provide the necessary support to build a vibrant innovation ecosystem.

The Armenian government also needs to focus on fostering a culture of entrepreneurship and risk-taking.

Innovation ecosystems thrive when there is an entrepreneurial spirit, a willingness to experiment, and a safety net for failure. This can be achieved through policies that encourage venture capital, the development of business accelerators, and collaborations between the government, private sector, and academic institutions.

The Impact of Innovation on Management and Production Models. Innovation doesn't only influence technologies but also impacts management models and organizational structures. One of the primary ways in which innovation affects management is through the introduction of organizational models that encourage teamwork, operational flexibility, and the efficient use of resources. In innovative organizations, a horizontal structure tends to replace the traditional top-down hierarchy. This structure allows for greater collaboration and faster decision-making, fostering an environment conducive to creativity and the swift implementation of new ideas (Pisano, 2015).

Moreover, innovation can transform corporate culture by emphasizing agility and adaptability. Companies that embrace innovative management techniques tend to have a greater capacity to respond to changes in the market, adopt new technologies more quickly, and remain competitive in an increasingly globalized economy (Brynjolfsson & McAfee, 2014).

Production Innovation. In the production sector, technological innovations, such as automation, artificial intelligence (AI), and networked systems, are revolutionizing manufacturing processes. Automation streamlines repetitive tasks, reduces human error, and increases output, while AI helps optimize operations by predicting demand, improving inventory management, and enhancing quality control. Networked systems enable real-time monitoring of production processes, which leads to more efficient resource allocation and energy savings (Brynjolfsson & McAfee, 2014).

For Armenia, embracing production innovation can lead to significant improvements in efficiency, cost reduction, and product quality. For example, Armenia's manufacturing sector, which traditionally focuses on low-value-added products, could move toward higher-value-added goods by incorporating automation and digital technologies. This would not only make Armenian products more competitive in the global market but also provide opportunities to enter new markets, especially in high-tech sectors.

Global Trends and Armenia's Opportunities. Global Trends: Technological Innovation as the Driver of Economic Growth. Technological innovation has become a central driver of the global economy. Countries that invest in innovation and foster a conducive environment for technology startups and research are experiencing rapid economic growth and gaining competitive advantages. Examples such as Singapore, South Korea, and Israel demonstrate that countries with robust innovation policies and strong technological sectors have been able to diversify their economies, increase productivity, and integrate into global value chains (Porter, 1990).

Armenia can learn from these examples and create similar innovation hubs, aligning itself with global technological networks. These hubs can serve as focal points for high-tech industries such as software development, artificial intelligence, and biotechnology. Armenia's historical connections to regional markets and proximity to Europe, Russia, and the Middle East also provide unique opportunities for integration into global trade networks focused on technology.

Armenia's Opportunities: Developing Technological and Scientific Sectors. To create a competitive advantage, Armenia must develop its technological and scientific sectors. This can be achieved by fostering innovation in fields such as software engineering, renewable energy, and advanced manufacturing. The country can leverage its strong educational system in technical fields, its highly skilled IT workforce, and its emerging startup culture to position itself as a regional leader in technology and innovation.

Investing in high-tech industries and services will allow Armenia to diversify its economy and reduce its dependence on traditional sectors like agriculture and mining. For instance, by focusing on AI, machine learning, and data analytics, Armenia can create a new sector that is resilient to global price volatility. These industries offer the potential for sustainable growth by tapping into global markets where demand for digital solutions is surging.

Armenia's economic strategy should prioritize building these high-tech sectors while simultaneously providing support for innovative SMEs. A strategy of both innovation and integration into global supply chains will ensure Armenia is not left behind in the emerging global economy.

The Importance of the Scientific and Educational Sectors. The advancement of innovation is inextricably linked to the education system. Without adequately trained professionals, the country will struggle to implement innovative ideas and build a robust technological sector. Therefore, it is crucial that Armenia's educational system aligns with modern global requirements by offering specialized programs in science, technology, engineering, and mathematics (STEM).

Armenia must invest in improving its higher education institutions and research capacity. Universities and research centers should focus on fostering interdisciplinary collaboration and promoting the development of innovation-driven curricula. This will ensure that Armenia has the necessary human capital to carry out R&D, create innovative technologies, and meet the demands of a knowledge-based economy.

Additionally, strengthening ties between universities, the private sector, and government agencies can promote the commercialization of research and the establishment of tech startups. Armenia must ensure that its education system produces scientists, technologists, and engineers who are not just capable of implementing existing solutions but also driving new innovations that can elevate the country's technological capacity.

In conclusion, Armenia's economic development hinges on its ability to embrace innovation and transform its traditional sectors. By fostering government support programs, implementing tax incentives for R&D, and developing innovation hubs, Armenia can create a conducive environment for high-tech industries to thrive. Additionally, by investing in educational and scientific reforms, Armenia can ensure it has the skilled workforce needed to sustain innovation over the long term.

Embracing innovation in management models, production processes, and technological sectors will position Armenia as a competitive player in the global economy. With strategic investments and policies in place, Armenia can transition from a reliance on traditional industries to a diversified, innovation-driven economy capable of sustaining long-term growth.

5. CONCLUSION AND RECOMMENDATION

The analysis presented in this article clearly demonstrates that innovation is not just an option but a fundamental factor for the sustainable economic development of Armenia. As the global economic landscape continues to evolve, embracing innovation will allow Armenia to diversify its economy, enhance competitiveness, and improve the overall quality of life for its citizens. To realize this potential, Armenia must transition from a traditional, resource-based economy to one that is knowledge-driven, leveraging new technologies, business models, and entrepreneurial thinking.

However, this transformation will not occur in isolation. A comprehensive and well-coordinated approach is needed, which includes holistic solutions and systematic policy programs. These must focus not only on technological advancement but also on fostering an innovation-friendly environment across all sectors of society. Key to this transition is the development of a robust entrepreneurial ecosystem, one that encourages creativity, risk-taking, and long-term investment in emerging industries.

Moreover, innovation cannot be confined solely to the high-tech sector. It is equally important to promote social entrepreneurship, which aims to address societal challenges through innovative business solutions. By integrating innovation into social models, Armenia can address critical issues such as unemployment, poverty, and regional development disparities. Social entrepreneurship will play a vital role in creating inclusive growth that benefits all segments of the population.

In addition to fostering entrepreneurial and technological advancements, a strong focus on education and skills development is paramount. For Armenia to truly harness the power of innovation, it must ensure that its workforce is equipped with the necessary skills and knowledge. Educational reforms that prioritize STEM (science, technology, engineering, and mathematics) fields, as well as programs that cultivate critical thinking and problem-

solving abilities, will be essential in preparing the next generation of innovators, engineers, and entrepreneurs. Furthermore, the role of government policy cannot be overstated. Policymakers must create a supportive ecosystem by introducing regulations, incentives, and funding mechanisms that encourage innovation. This includes ensuring access to venture capital, providing tax benefits to start-ups, and fostering public-private partnerships that drive collaborative innovation.

Ultimately, innovation must be embedded as a core value in Armenia's economic strategy, making it an integral part of the daily business landscape. When policy, education, and entrepreneurship align with the goal of fostering innovation, Armenia will be well-positioned to unlock its full economic potential and ensure long-term prosperity for its citizens.

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