

THE POPULATION'S HAPPINESS AND SAFETY AS PREDICTORS OF THE COUNTRY'S ECONOMIC DEVELOPMENT

Tonikyan M.G. (RAU, Yerevan, RA)

martintonikyan96@gmail.com

Stepanyan L. S. (YSU, Yerevan, RA)

lusine.stepanyan@ysu.am

Investigation tells about the connection of reputation of the country as a combination of happiness, safety and corruption, influencing the economic development of the state. The paper researched how country's reputation influences such economic indicators of country as foreign direct investments, GDP, revenues from tourism industry, etc. To give a score to reputation of countries we use data from Reputational Institute and other organizations that make safety, corruption and happiness ratings for worldwide countries. It was revealed, that the steps, implemented in Armenia by the government till 2018 didn't help the country on its way of attracting foreign investments. On the other hand, we may say, that Armenia is a very safe country, which is able to bring more tourists here.

Key words: *happiness, safety, reputation, foreign direct investments, tourism, corruption.*

In the last 20 years economists have got more focused on non-financial and non-economic factors, which have an impact on the people and their decision making process. In contrast to traditional theories, where we may see that investors use all information and make rational decisions, institutional economics claims that the scenario is very different. As we know stock prices move down and up daily without any changes in the fundamental indicators of the company. Rather than focusing on the economic factors the investors make mistakes in their investment decisions due to their psychological, emotional and behavioral factors [1].

Behavior of investors comes from psychological principles of decision making, which explain why people sell or buy stocks of different companies. So, trust becomes one of the most important and influential factors for people to make investments in a company. Therefore, organizations, which need money and hope to get them from investors, try to make them assume that they are very accurate and dependable. Countries do the same in international area, trying to get direct and portfolio investments from other countries and large invest companies. Obviously, the basis for trust to companies and countries is their reputation in the world and the better the reputation the more investments and the cheaper

investments they'll get. That's why the reputation in financial markets has become one of the most important factors for the countries. For that reason, it has become very essential to understand the impact of reputation on investment decision making [2].

In game theory, for example, a player's reputation is considered as a summary of its opponents' beliefs about his strategy or group of strategies in connection with different commitments. The higher the opponents' expectation for how reliable a state will attest its commitments, the better its reputation will be. J. Sobel is among the first people, who connect reliability and reputation in the context of collaboration [3]. First papers about reputation equalized it with the ability of a monopolist to deter challenges by small companies; those papers are part of "chain-store" tradition, which refers to the paradox of Reinhard Selten [4].

Despite the fact that reputational and reciprocal responses for defection are often lumped together, they should be distinguished. The former refers to negative consequences, which follow from country readjusting its estimates of the defecting state's expected reliability. The latter one refers to retaliation by the victim, immediately following the punishment, brought up by international organization like WTO, IMF, etc., charged with a given agreement. In this paper, we'll continue taking a look on reputation [5].

Today, it's generally recognized that good reputation of the state is a resource, which may help to get stable comparative advantage in making strong partnerships, business investments from other countries, ability to participate in international cooperation programs. World Bank made a research and asked 3600 entrepreneurs from 69 countries, how their government does their basic work, such as the protection of property rights and creation of reliable system of proceeding. On the basis of the answers index of trust to the government was created and where the level of trust was higher, faster economic growth and higher level of investments were observed [6].

The reputation of countries has an impact on their performance, because countries with a good reputation:

1. Welcome many tourists,
2. Increase export, thanks to more partnerships,
3. Improve their public diplomacy,
4. Attract FDI,
5. Attract foreign knowledge and talent [7].

As was mentioned above there are many ways how the reputation may influence economics, but the measurement of reputation is very hard and it's also very hard to compare several countries' reputations. For that reason Reputation Institute was created in 1997 and since that time, every year the organization has been publishing RepTrak (rating of reputation of countries).

According to that institution and its research, we can insist on the idea that the largest and most powerful countries are not the ones with good reputation. The most obvious example – the largest country by territory and one of 10 largest countries by GDP, population, exports – Russia is among the countries with the worst reputation among all participants of that rating. RepTrak of Russia is equal to 35,1 from 100, which means poor reputation. On other hand, the happiest countries have better reputation and it becomes obvious after looking at top countries from World Happiness Report and top RepTrak countries. Moreover, the most peaceful countries and countries with less corruption have better reputation in the world. With the war in Syria and continuing acts of terrorism in many countries worldwide, including UK, Germany, Belgium, etc. the safety of place has become one of the most important and influential factors for reputation of the country. For example Belgium has good reputation in 2015, but people have begun to think that it's not as safe as it was in 2015, the reputation of Belgium get lower and it now has moderate reputation. On the other hand, Canada, Norway, Sweden, Australia and Switzerland are the best perceived countries among the population of the most relevant economies around the world.

We mentioned above, that the reputation of the country has an impact on foreign direct investments to the country. To check that, we've counted the correlation between FDI (% of GDP) of countries and their RepTrak indicator. Surprisingly, the correlation is equal to 0,2, which means there is not very strong connection between these factors. The data used for analysis was for 2015 both for FDI and RepTrak rating. 52 countries in very different reputation groups were viewed. Taking into consideration, that reputation can't change very fast and its influence on FDI is long-term too, 2 years of delay in research is acceptable. Regression analysis shows even more surprising information, because $R^2 = 3,8\%$. It talks about that change of FDI depends on change of RepTrak coefficient on just 3,8%. In this case, it's impractical to make any function of regression, because the connection between the factors isn't obvious at all.

Reputation institute based on World Bank data and Pearson correlation carried out that correlation between country reputation and intention of people to visit it is equal to 0,7, which is very good mark for that. However, intention to visit isn't tourism yet, so it also was counted correlation between intention to visit and tourism, which is equal to 0,6. In this case it becomes obvious that, despite the fact, that country reputation is strongly correlated with intention to visit, and the latter one's correlation with tourism is high too, the correlation between reputation of the state and tourism will be much weaker than 0,6 [8].

As was discussed above, the factors at which reputation should have an impact are FDI and tourism. There is no counted score for Armenia in RepTrak, but we may understand what reputation Armenia could have, looking at ratings of

corruption, happiness and safety. In corruption rating Armenia is on 113 position out of 176 with score 33/100 which doesn't talk about good reputation of Armenia in the world [9]. Ranking of happiness give Armenia the 121 place out of 155 with score 4376. For comparison Norway on the 1st place has score 7537 [10]. On the other hand by index of safety Armenia is on 19th position out of 125 countries, which is very good indicator of Armenian safety [11]. So, in this case, we may claim that Armenia's reputation isn't very good and it probably would be a part of weak reputation group in RepTrak and not the poor one.

If we look at FDI dynamics in Armenia, we may see the decline of that indicator during last years and that FDI in 2015 = 0,66% of GDP. To understand the reasons of that, last years of Armenian economic activity should be analyzed. In the last years Armenia has become a member of Eurasian Economic Union, joining Russian Federation, Republic of Belarus and Kazakhstan. It hardly helped Armenia to improve its reputation, because in 2014 Russia and Ukraine had a conflict about Crimea, which makes investors to aggravate their opinion about both countries and their partners. Association with Russia has brought Armenia to the situation when its reputation worsens independently of its steps. Immediately at that time, Fitch changed the rating of Armenia from BB- to B+, which is considered as a speculative rating. Despite the fact, that credit rating agencies like Moody's, Fitch and S&P give ratings relatively to creditworthiness of the countries, they have a great effect on countries, because many investors rely on them, when making their investment decisions. Moreover, some pension funds aren't able to invest money in countries with credit rating lower than AA for example and such limitations are exist for not only pension funds and AA ratings but other hedge-funds and BB ratings for example. So, the reputational changes of Armenia because of joining Eurasian Economic Union and some deterioration in relations with EU and USA bring some harm to RA (Republic of Armenia) in this situation.

There are many intangible factors, which influence economy very much, and reputation of the country is one of them. However, it's very hard to evaluate the reputation and give it a countable value. Organizations like Reputation institute are trying to do that, but they still have a lot of work to do to carry out the model with no errors or very few of them. In any case, reputation has a great effect on investors and invests decision making process, because if one heard something bad about a person, he'll try to avoid talking and meeting him. The same is going on in case of countries and investors avoid possible options to invest in a country with bad reputation. As was said before, the reputation is highly influenced by such psychological factors as happiness and feel of safety among citizens. Even just a feeling among people around the world may become very influential power to stimulate several economic activities in the country. Reputation as not just economic factor but interdisciplinary That's why many countries around the world are

spending a lot of money to create a good reputation and image for them. However, Armenia isn't among them, because we viewed several cases, where we were able to see that government even damaging country's reputation by its wrong steps. Consequently the decline in FDI is understandable for everyone and if nothing changes investments will go around Armenia.

Practical Suggestions. Summarizing the abovementioned, we may imply that the country's economic development is highly affected by its reputation, which depends on such psychological factors as happiness and feel of safety among people. It lets us to consider psychological categories, such as happiness, safety, well-being and tolerance as factors of investment attractiveness of the country and they might be used in constructing of economic forecasts.

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СЧАСТЬЕ И БЕЗОПАСНОСТЬ НАРОДА КАК ПРЕДИКТОРЫ ЭКОНОМИЧЕСКОГО РАЗВИТИЯ СТРАНЫ

Тоникян М. Г (РАУ, Ереван, РА)

Степанян Л. С. (ЕГУ, Ереван, РА)

Исследовано влияние показателей счастья, безопасности и коррупции как факторов, определяющих репутацию страны на экономическое развитие государства. В данной работе было исследовано влияние репутации государства на такие экономические показатели, как прямые иностранные инвестиции, ВВП и доходы от туризма. Для численной оценки репутаций государств были

использованы данные от Reputational Institute и других организаций, составляющих рейтинги счастья, безопасности и коррумпированности государств. Было показано, что шаги предпринятые правительством РА до 2018г. не помогли стране в привлечении иностранных инвестиций. С другой стороны, мы можем утверждать, что Армения является довольно безопасным государством, которое может привлечь большее количество туристов.

Ключевые слова: счастье, безопасность, коррумпированность, репутация, прямые иностранные инвестиции, туризм.

ԲՆԱԿՉՈՒԹՅԱՆ ԵՐՋԱՆԿՈՒԹՅՈՒՆԸ ԵՎ ԱՆՎՏԱՆԳՈՒԹՅՈՒՆԸ ՈՐՊԵՍ ԵՐԿՐԻ ՏՆՏԵՍՈՒԹՅԱՆ ԶԱՐԳԱՑՄԱՆ ՆԱԽԱԴՐՅԱԼՆԵՐ

Տոնիկյան Մ. Գ. (ՀՈՀ, Երևան, ՀՀ)

Սյրեփանյան Լ. Ս. (ԵՊՀ, Երևան, ՀՀ)

Հետազոտությունը նվիրված է երկրի հեղինակությունը պայմանավորող գործոնների՝ երջանկության, անվտանգության և կոռուպցիայի ազդեցության տնտեսական զարգացման վրա: Աշխատանքում հետազոտվել է պետության հեղինակության ազդեցությունը այնպիսի տնտեսական ցուցանիշների վրա, ինչպիսիք են արտասահմանյան ուղղակի ներդրումները, ՀՆԱ-ն և տուրիզմից ստացված եկամուտները: Հեղինակության թվային գնահատման համար օգտագործվել են տվյալները, ստացված Reputational Institute-ից և այլ միջազգային կազմակերպություններից, որոնք էլ կազմում են երջանկության, անվտանգության և կոռուպցիայի վարկանիշային ցուցակները: Ցույց է տրված, որ ՀՀ կառավարության քայլերը չեն նպաստել օտարերկրյա ներդրումների ավելացմանը Հայաստանում: Մյուս կողմից, մենք կարող ենք վստահորեն ասել, որ ՀՀ բավականին անվտանգ երկիր է, որը կարող է ավելի շատ տուրիստների ներգրավել մոտ ապագայում:

Հանգուցային բառեր՝ երջանկություն, անվտանգություն, կոռումպցվածություն, հեղինակություն, արտասահմանյան ուղղակի ներդրումներ, տուրիզմ: