



DIASPORA THE COMPARATIVE ADVANTAGE FOR ARMENIA

Tatoul Manaseryan
Member of the Parliament
tatoulm@parliament.am

January 2004

Abstract

The main question posed in the paper is: What should be done to encourage Diaspora investments in Armenia? The paper makes the following recommendations to achieve this objective:

- utilize Diaspora's professional recourses;
- create networking in all professions;
- utilize Diaspora investment and professional capacities for Armenia's gradual integration into the world economy;
- promote regional economic cooperation;
- promote the self-organization of the Diaspora via the policy pursued by Armenian authorities;
- conduct market research on Armenia's export capacity abroad;
- establish the supremacy of law in all the spheres of business for the confidence-building of Diaspora investors towards Armenia and for the abolishment of "privileged" conditions;
- implement joint studies with the Diaspora for the choice of strategic partners and comprehensive analyses of the investment climate;
- establish regular business forums that represent Armenia's economic potential abroad by best utilizing the Diaspora's professional potential;

The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the Armenian International Policy Research Group. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

Keywords: Armenian Diaspora, development strategy

The Diaspora as Armenia's Comparative Advantage

For the efficient utilization of the Diaspora's potential, encouraging an inflow of its investments and enhancing its role in Armenia, it is necessary to analyze what has been done so far, pragmatically assess the reality, reveal the obstacles and develop a comprehensive plan of activities to overcome them.

The efficient utilization of the Diaspora's investment potential cannot be isolated from global trends and regional development shifts. Nowadays, new developments are observed in the world that touch upon the vital interests of both Armenia and the Diaspora, and Armenia cannot disregard these challenges.

It is necessary to work out and implement a current and prospective far-reaching plan of economic integration with the Diaspora. There has been no thorough conception of its professional and business potential so far.

For effective cooperation, it is necessary to promote the Diaspora's consolidation, utilize its investment and professional potential in Armenia's gradual integration into the world economy, and work out joint programs for regional economic integration.

What Has Been Done

An enforced barrier arose between Armenia and the Diaspora in the years that followed the 1915 Armenian Genocide, which brought about the formation of the Diaspora. In the recent several years, Diasporan Armenians have definitely united around the Armenian Republic to support the Karabagh movement, establish democracy, offer material contribution to the Armenian population, and develop the country's economy.

If before 1998, a tendency to undermine the Diaspora's political structures and to indirectly impede active business in the homeland was observed, after 1998 numerous attempts were made to use the business potential of Armenia and the Diaspora, and to accomplish their political unification. Two wide-ranging Armenia-Diaspora conferences were been organized with participation of representatives from almost all the communities of the Diaspora. In any event, no long-lasting cooperation strategy, plan, or relevant mechanisms have been worked out yet.

Despite the fact that approximately 2000-3000 Armenian citizens, not counting Diasporan Armenians, work in Diaspora structures supplying assistance, the decline of charitable activity can be observed in almost all the communities of the Diaspora today. Charity by organizations gave way to individual donations (approximately 7,000 people giving, on average, 100 USD each).

Fourteen large organizations of the Diaspora have provided assistance of about 900 million USD to Armenia. As for the support by foreign governments and non-Armenian

organizations, the USA undoubtedly plays a leading role. The total amount of material assistance provided to Armenia since independence has reached 1,493,760,000 USD.

The Results of Lobbying by Diaspora Organizations

The Armenian Assembly of America, Hay Dat (The Armenian Cause) Offices, and other Diasporan organizations lobby to increase delivery of humanitarian assistance to Armenia.

Table 1. Distribution of Armenian Diaspora by country¹

N	Country	Population	N	Country	Population
1	Russia	2,250,000	42	Cyprus	2,740
2	U.S.	1,400,000	43	Venezuela	2,500
3	France	450,000	44	Lithuania	2,500
4	Lebanon	234,000	45	Latvia	2,500
5	Ukraine	150,000	46	Italy	2,500
6	Syria	150,000	47	Estonia	2,000
7	Argentina	130,000	48	Thailand	1,000
8	Poland	92,000	49	Sudan	1,000
9	Turkey	80,000	50	Spain	1,000
10	Iran	80,000	51	Norway	1,000
11	Canada	80,000	52	Finland	1,000
12	Uzbekistan	70,000	53	Chile	1,000
13	Australia	59,400	54	Honduras	900
14	Germany	42,000	55	New Zealand	600
15	Brazil	40,000	56	India	560
16	Turkmenistan	32,000	57	Mexico	500
17	Bulgaria	30,000	58	Ethiopia	400
18	Kazakhstan	25,000	59	Colombia	250
19	Belarus	25,000	60	South Africa	200
20	Greece	20,000	61	Monaco	200
21	Uruguay	19,000	62	Quatar	150
22	UK	18,000	63	Cuba	100
23	Hungary	15,000	64	Dominican Rep.	75
24	Yugoslavia	10,000	65	Ireland	50
25	Romania	10,000	66	Singapore	35
26	Czech Republic	10,000	67	Zimbabwe	28
27	Moldova	7,000	68	Cote D'Ivoire	20
28	Egypt	6,500	69	Costa Rica	20
29	Tajikistan	6,000	70	Hong Kong	16
30	Jordan	5,500	71	China	16
31	Switzerland	5,000	72	Senegal	15

¹ ARMENIA 2020, Diaspora-Homeland Issue Paper, draft by Arak-29 Foundation, 2003

32	Sweden	5,000	73	Ghana	15
33	Kuwait	5,000	74	South Korea	12
34	Belgium	5,000	75	Zambia	10
35	Kyrgyzstan	3,285	76	Luxembourg	10
36	UAE	3,000	77	Japan	10
37	Netherlands	3,000	78	Indonesia	10
38	Israel	3,000	79	Vietnam	8
39	Iraq	3,000	80	Swaziland	8
40	Denmark	3,000	81	Philippines	8
41	Austria	3,000			

70-90 percent of the humanitarian assistance delivered through Armenian organizations is of non-Armenian origin. Though the lobbying by Diasporan Armenian structures is a matter of separate study, the following results are worth mentioning. In 1991, with the joint efforts of the Armenian Assembly of America and a number of other national structures, it was possible to adopt a bill to provide US assistance only to the former republics of the Soviet Union with democratic leadership. In 1992, the US Congress passed the Freedom for Russia and Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act which provides that United States assistance under that or any other act may not be provided to the government of Azerbaijan until the President determines, and so reports to Congress, that the government of Azerbaijan is taking demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno Karabagh. (Section 907 of the FREEDOM Support Act). Thus the US State Department allocated 505.8 million USD to assist the democratization process in former Soviet republics and an additional 12.3 billion USD to the IMF for granting various loans to the republics. Owing to the Armenian lobby in the Diaspora, US assistance to Armenia in 1993 was 146 million USD and in 1992-1994 200 million USD. In July 1994, the US Senate approved the draft decision to allocate 75 million USD within the framework of 1994 foreign assistance to Armenia, 5 million of which was allocated to the Transcaucasus Enterprise Fund to make investments in the Transcaucasus. In 1992-1995 the Armenian Diaspora lobby succeeded in extracting from the US 445 million USD. For fiscal year 1995-1996, 150 million USD was allocated to the Ukraine, 80 million USD to Jews from the former USSR and Eastern Europe to settle in Israel, 15 million USD to newly married couples from Russia, and 75 million USD to Armenia, out of 839 million USD allocations approved by the US Senate Commission in 1995. In 1998 efforts were made to ban Section 907. Despite the efforts made by Azerbaijani lobbyists, Armenia was granted 85 million USD, Nagorno Karabagh 20 million USD and Georgia 90 million USD. Following the September 11 terrorist attacks on the United States, Congress heeded the administration's request and granted the President authority to waive Section 907. In September 2002, the US Congress asserted the formula to grant approximately 87 million USD assistance to Armenia. In general, in 2003 the amount of assistance was more than requested. Finally, it has been decided to move from charity into effective cooperation.

Some Results of the Experience of Utilizing the Diaspora's Potential in Other Countries

At a certain stage of its history, any nation, as an ethnic entity, establishes a state as the highest formation of its national self-determination. When established, the state forms civil society. When strengthened, civil society protects the state. While Armenia is striving to utilize the Diaspora's potential effectively, other countries and people have already achieved significant results in putting to their own country's advantage the business and professional potential of their compatriots who live in various parts of the world but have the same national roots. Especially edifying are the cases of Indian, Chinese, Israeli, Italian, Irish, and Mexican economic reforms and rapid development in terms of the formation of the national economy, and the realization of its competitive advantages.

In these countries, the Diaspora actively participates in the economic development process, thus fostering the realization of goods and services—local entrepreneurship—in foreign markets, as well as creating joint productions, and investing in various spheres of the economy. The development of information technologies in the Indian economy, for instance, is mostly preconditioned by investments by ethnic Indians, which amount to 25 billion USD. Owing to this fact, today more than 200,000 specialists in the field are working in India on long-term contracts. Due to the Indian Diaspora's coordinated activities, 30% of the employees of *Microsoft* are ethnic Indians.

Those examples certify that owing to traditional ethnic and cultural contacts, the effective use of the Diasporan potential and the conveyance of management and professional skills can foster gradual integration of national economy into the world financial system, which is an imperative for countries with transitional economies.

Analysts sometimes compare the situation in Armenia in the first years of independence with the situation in Israel in the mid-1950s. In the years of the Karabagh conflict, Armenians—in the homeland and afar—unified to some extent, to face the national challenges. The existing prerequisites indicated that, if following Israel's example, the transition to the market economy would be successful in Armenia. Armenia led other USSR countries in terms of high-level education and industrial production. Owing to its unique role in the sphere of high technology, it was considered to be the Silicon Valley of the USSR. Taking into consideration the scientific industrial potential Armenia had in that period, there were all the necessary grounds to suppose that Armenia would succeed in surmounting the difficulties of transition into democracy.

In 1990, Armenia, with a population of 3.5 million, looked forward to the Diasporan contribution. For a small country like Armenia, the Diaspora was a wonderful source of development resources: more than one million people live in the USA, another million live in Europe, the Middle East, and Latin America. Armenians abroad are quite successful economically and professionally, and constitute socially and politically well-organized national communities. In addition, Armenians today, like previously, rely on the goodwill of Russia—their traditional, presently also strategic partner—where more than 1.5 million Armenians live. Many Russian Armenians have been quite influential in the Kremlin.

In a transitional period, serious economic breakdowns are not rare. Both objective and subjective factors play a role in this, such as the landlocked territory, the consequences of the 1988 earthquake, and the loss of traditional markets after the USSR's demise. In conclusion, the country seemed to have great potential and wide opportunities to succeed. In any event, it should be noted that with all the commonalities between Armenia at the current stage and Israel in the post-independence period, there are also numerous differences which are accounted for the degree of each nation's effective /non-effective unification.

First, the majority of the Diasporan Armenians don't have any historical connection with present-day Armenia. They are western Armenians from the region that constitutes part of Turkey, and for most of them Armenia is more an idea than a country that can become a possible place of residence. Noteworthy is the fact that more eastern than western Armenians, especially from Iran, have found dwelling in Armenia. Some people explain this by the similarity of lifestyle and culture, and other commonalities.

Second, 70 years of socialism in Armenia created a cultural divide with its non-former Soviet Union Diaspora that has no parallel for Israel. This divide is largely responsible for the fact that the Diaspora has little cultural affinity with Armenia.

The third and most obvious difference is that in contrast to Israel, the Armenian Diaspora does not have an ideological foundation for supporting Armenia, as there is with Zionism. This explains why the Diaspora's support for Armenia is less institutionalized and strategic and more individualistic and project-specific.

The creation of an independent Armenian state was never a part of the traditional agenda of the mainstream Diaspora in Soviet times. The opposite view was the most popular -- that Armenia could not become an independent state in face of the dangers of pan-Turkism. As a result, the Armenian Diaspora was ideologically quite unprepared to deal with an independent Armenia. After ten years of independence, it failed to switch from its traditional cultural and nationalistic agenda to a new agenda of supporting the formation of a new independent national state.

While all the issues related to the Genocide and restitution are of major historical and humanitarian significance, it is still an agenda of the past, while the nation engaged in building its statehood is in dire need of a positive agenda related to its current and future strategy. For instance, the Diaspora in the US has never tried to use its political leverage to push Turkey toward opening its border with Armenia; while this is a major development issue for the Armenian state, it has never been high on the Diaspora's list. Moreover, the very tough position of the Diaspora on the Genocide made inter-governmental relations between Armenia and Turkey even more difficult and dramatically reduced chances for opening the Turkish border for Armenian goods and services.

In addition, internal political divisions in the Armenian Diaspora seem to be a surprisingly important constraint for developing a consolidated Diaspora strategy for supporting a new Armenian development agenda. These political divisions are to a major extent based on

tradition and much less on real differences in current politics. The dividing line for most Diaspora Armenians is still a policy towards Turkey.

Assessment

It is estimated that the GDP in Armenia amounts to just two-thirds of its 1990 level, 60% of the population lives in poverty, about 40 percent of the labor force is unemployed, de facto there is no middle class, and export capacity is weak. These all witness the inefficient utilization of Diaspora participation and its professional and economic potential.

The inflow of Diasporan investments has also been much below expectations. In total during 1995-2000, Armenia received on average less than 30 USD of foreign direct investments per capita, while Slovenia and Lithuania attracted more than 100 USD per capita, and Estonia, Hungary and the Czech Republic more than 200 USD. It is notable that a surprisingly large part of Diasporan assistance has come from Russia and the near abroad and not from the West. As estimated, the volume of annual private remittances of expatriates to their families and relatives in Armenia amounts to about 300 million USD. Annual official transfers and contributions allocated for loan projects constitute approximately 240 million USD, which is about 11% of the GDP and amounts to the Armenian dram equivalent of 75 USD per capita.

A number of Diaspora businessmen have their share in Armenian banking capital. However, this tendency is not very developed and widespread. Not only investments in banking capital but also deposits are profitable for Diaspora Armenians. On the one hand it is profitable for Diaspora investors since they receive a higher interest rate for deposits in Armenia than in developed countries; on the other hand, deposit turnover as loans for local entrepreneurs are utilized for the sake of the establishment and development of an effective structure for the Armenian economy.

Box 1. Age and Generation in the Diaspora

Older Diasporans

- Are more likely to trust the government and agree it should take the lead (double)
- Are more trusting in general

Middle-aged Diasporans

- Most concerned with having more of the Diaspora buying Armenian products
- Armenia developing world-class companies
- Value charity less than either the young or the old

Third generation wants to provide information, networks and expertise as opposed to charity

Nevertheless, the humanitarian aid received from the Diaspora has not as much contributed to meeting social requirements as to establishing clans and promoting the centralization of economic potential, the development of monopolies and the polarization of the society. Diaspora Armenians' willingness to provide assistance to the governmental level in the end

fades as they become aware of its appropriation by state officials. With the exception of single cases, it has not contributed to the development of private entrepreneurship.

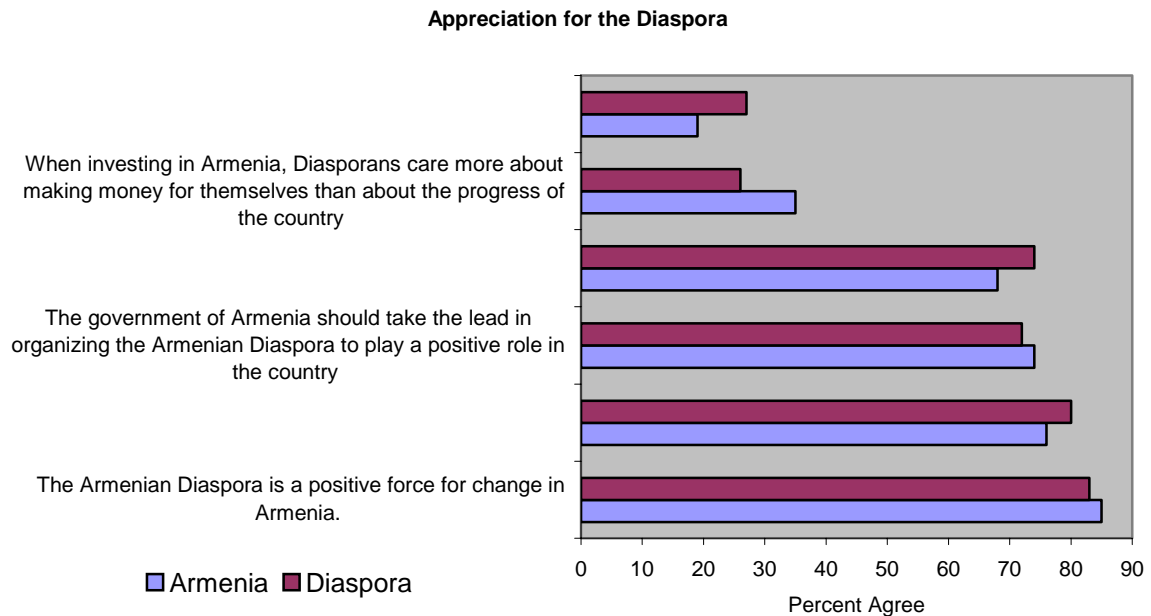
The efforts that various Diasporan structures made to provide extensive material assistance to the Republic of Armenia are not in harmony with the steps to utilize the assistance for project-specific goals. Nearly no systemized project was implemented to train the Armenian businessmen to change their mentality to meet the current trends and challenges of global economy. The principles of sound competition and entrepreneurship typical of a liberalized economy that could have been exported from the Diaspora have not taken root in the Armenian reality.

The lack of unity in economic and professional potential and its further effective application have resulted in a “brain drain,” – a waste of business potential and mass exodus from Armenia.

All the preceding facts have their explanations and reasons. The strategy to promote Diasporan investments in Armenia should be based not only on the commonalities and enhancing factors but also on understanding key issues and obstacles, and overcoming them.

One may single out culture, customs, traditions, the system of moral values, religion, church, homeland, and the maintenance and reproduction of national identity as **commonalities**. The Armenians have a common history and historical experience, common values and ideas, concerns and aspirations, a common spirit of solidarity; they speak a common language of the same origin. The most characteristic commonality is the common interest of worldwide Armenians—to rebuild the homeland of all Armenians, promote the strength of its national economy and provide dignified living standards.

Figure 1



There is overwhelming support for the role that the Diaspora has played and should play in the future of Armenia, although most respondents in both Armenia and the Diaspora endorse more organization of the Diaspora, either through the Diaspora itself, the government or some combination.

Source: Aslan Global Survey of Armenians in Armenia and the Diaspora, February-April 2003

One may single out the following among the **obstacles**:

- the dispersion of the societies constituting the Diaspora who speak with different voices, have different mentalities and approaches, and different expectations from Armenia and the Diaspora, so that no organization, individual or collectively can speak on behalf of the Diaspora;
- the non-homogeneity of Diaspora Armenians, not only in geographical sense -- that is, with different imprints of the given local countries, as well as "old and new Diasporan Armenian" cultures (deported from Baku and Sumgait, emigrants to the USA and Europe from Armenia and other CIS countries), but also with different world outlooks and different approaches to cultural interrelations, which do not allow them to organize themselves as a pan-Armenian structure;
- the non-systemic and -coordinated character of the financial aid provided for Armenia, and the absence of coordination of business and cultural programs, which reduces the effectiveness of Diaspora participation in any program;
- the nearly full blockade of land communications with Armenia, which makes economic business cooperation with the Diaspora costly, increases the cost price and the price of commodities of Diasporan investors for consumption abroad;

- the low level of awareness between Armenia and the Diaspora, patronizing and pretentious postures, prejudices, and misunderstandings of different aspects have developed an atmosphere of disregard and mistrust towards each other;
- the politicization and partisanship of some segments of the Diaspora, which prohibits the coming together of communities even in the most compact regions and effectively utilizing their force for investments in Armenia;
- the lack of the country's priorities and overall, statewide programs, which does not allow the Diaspora to have a clear idea of the role they assume and the possibilities to utilize their professional potential;
- the postponement of the discussion of dual citizenship, which prevents a number of Diasporan Armenians from obtaining the real estate that would help to multiply their investments in their homeland;
- the absence of the rule of law, which results in mistrust, and consequently, a reduction in investments;
- the unequal status of the Diaspora and Armenia as partners; Armenia is a country with a homogeneous population in a geographical-political special environment where there are joint approaches on both internal and external factors, whereas every community of the Diaspora has its own approaches and perceptions;
- the isolation of a large number of Diasporan Armenians from the economic, cultural, and political life of their given country, which does not allow them to integrate into the economy and to have relations with foreign businessmen, and business and professional structures, thus limiting the expected material and professional investments;
- the appropriation of a number of Diaspora investments by clans established in Armenia, the revelation of which make them cease investment programs;
- the lack of preconditions for economic security and its separate constituents, which causes an unstable investment climate and prevents long-term investments;
- Diaspora Armenians' contributions to Armenians immigrated from Armenia who live in different countries. A considerable part of Armenians believes his/her mission towards Armenians is thus fulfilled. It is tangible and visible while the assistance donated to the people of Armenia via authorities is more often out of control.

Diaspora-Diaspora Relations and the Self-Organization of the Diaspora as a Systemized Departure Point

The Change of the Role of the Diaspora and its Expected Mission During Independence

Parallel to discussing the non-homogeneity of the Diaspora, this paper aims to analyze the causes of its establishment, and its geopolitical and political economic preconditions, in the interests of the maximum utilization of the capacities of the Diaspora. This approach will contribute to raising awareness of the Diaspora, and creating real expectations for utilizing its potential.

From the vantage point of the formation of the Diaspora, it can historically be divided into old, new and newest periods. The development of old Diaspora in its turn dates back to mainly the half of 19th century, while more massively it was formed with the establishment

of colonies in the first quarter of the 20th century. Currently considerable part of Armenians living in CIS countries settled after 50s of the 20th century when peasants were granted passports in the USSR. Their majority has migrated from the Armenian settlements from Azerbaijan and Georgia. They mostly settled down mainly in the southern parts of Russia, and in the republics of Central Asia. The considerably new Diaspora was formed with the wave of late 1970s and 1980s emigrants' exodus from Armenia as a result of former Diasporan Armenian immigrants' dissatisfaction after WWII their return to homeland and in their opinion, manifestation of discrimination between themselves and the indigenous people, as well as for improvement of socio-economic conditions. The development of the old Diaspora in its turn dates back to mainly the mid-19th century, while it was formed in greater mass with the establishment of colonies in the first quarter of the 20th century. The formation of the newest Diaspora began with mass emigration as a result of economic and social crises after the collapse of the Soviet Union. The emigration from Armenia resulted not as much from political shifts as from the search for more favorable conditions for survival. That is why the emigration is oriented not only to the countries of opposite political poles, but also to the near abroad, where there are considerably more favorable conditions for the development of minimal standards of living.

It should be mentioned that at the threshold of independence, Armenia faced serious immigration problems in the form of refugees and Armenians deported from Azerbaijan. Their number increased at the expense of the Armenians returning from Georgia, Abkhazia, Tajikistan, and Turkmenistan. This trend has not only deteriorated the socioeconomic situation in Armenia, but also caused the replacement of Armenians in the Diaspora itself.

Second, the Diaspora can be conventionally divided into the far Diaspora, and the near Diaspora. The far Diaspora, as a rule, is represented by already formed old and new Diaspora communities, added to as a result of new trends of emigration. As for the near Diaspora, even if it existed previously, it was not organized, and the Armenians living in those countries were dissolved among the locals and were well-integrated into the socio-economic and political life. Since independence, Armenian communities have begun to form in Russia, Ukraine, Belarus and elsewhere. No less important is the fact that though it was the acute problems during newly independent statehood that caused the exodus, the existence of diplomatic missions—the Armenian embassies and head consulates in near Diaspora countries, at least morally, promoted the organization and formation of Diaspora communities.

The possibility of involving the newest Diaspora in the economic reforms of Armenia is more feasible than the participation of the old and new Diasporas. This is explained by the fact that the representatives of the old Diaspora especially are less related to Armenia and have no idea on the real state of affairs in the homeland. Their perceptions are mainly restricted to information from the mass media. Among other things, a considerably large number of the representatives of the old Diaspora have already evolved into the life of the host country, and do not participate in the activities of the given country's Armenian community and the humanitarian aid provided to the home country from abroad. Moreover, the majority of them do not communicate with their compatriots in the mother tongue that

constitutes the culture. Most of the old Diaspora's current generation prefer mixed marriages today; some do not even appreciate their Armenian heritage, and maintain only rare kinship relations with Armenians living in Armenia or in other communities. However, for the mainstream of the representatives of the new and especially the newest Diaspora, Armenia is a subject of everyday concern. Most of them clearly understand not only the republic's past and today's hardships, but also realistically comprehend what should be done to overcome the crises. As for the newest Diaspora, it is owing to its representatives' remittances that their relatives and friends survive. Others feel obliged to donate the profits from their activity to Armenia. Meanwhile, the newest Diaspora is ready not only for investments but also for risky investments that are otherwise difficult to attract, for instance, the banking system, insurance companies, customer service and so on.

The Armenian artists and intellectuals who have emigrated from Armenia recently play a very influential role in the cultural life of both the near and far Diaspora. The educational and cultural life in a number of US, European and Middle East countries has undergone special changes. The establishment of schools of preliminary education, secondary schools in Eastern Armenian, and the organization of concerts, theatrical performances, and literary events place the imprint of an Armenian environment in the Armenian communities, by strongly promoting the preservation of the Armenian identity.

The utilization of Diaspora-Diaspora relations greatly promotes the organization of Diasporan business and the professional potential among Diasporan Armenians, first of all with one another, then in favor of Armenian businesses. In this respect the most organized communities are those of Lebanon, Syria, with traditionally developed relations, a number of European countries, Canada in the last 15-20 years, as well as Russian communities. Manifestations of the utilization of one's own potentials and skills for Armenia's benefit are the examples of the Canadian Armenian Business Council and the Union of Russian Armenians.

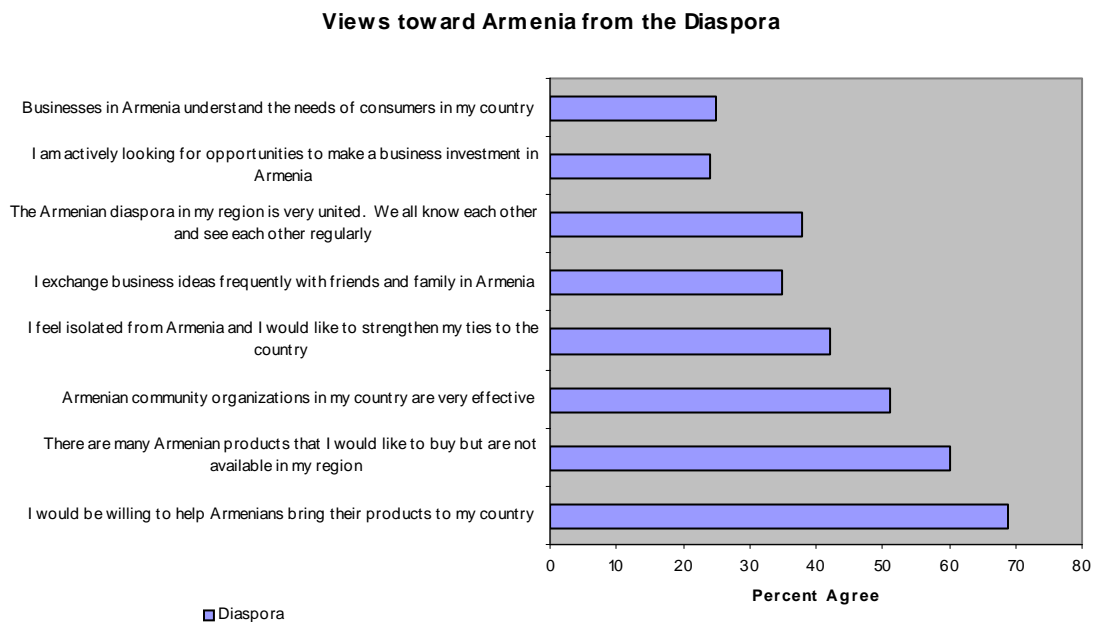
Is the Diasporan Armenia the Main Investor?

Are We Mutually Satisfied with the Role of the Diaspora in Economic Development?

Any competitive advantage undergoes the stages of formation, establishment, development and realization. Every stage, in its turn, requires the provision of certain conditions and prerequisites. In this sense, by viewing the Diaspora as a competitive advantage, one should take into account the most favorable conditions for its realization, which will provide maximal results. The Diasporan Armenians who live and work in different parts of the world, especially in developed countries, have the skills enough to contribute to the development of different branches of the Armenian economy. It takes some time to adapt to the Armenian environment. However, meeting their expectations to a certain degree is an important if not binding condition for the development and realization of potential investors. In contrast to the requirement for material compensation for their activities in developed countries, in the homeland, the need to satisfy emotional and spiritual values, as well as the correspondence between stereotypical perceptions and expectations towards Armenian residents and the Armenian environment are foremost. It is obvious that Armenia is a less attractive country as

a business environment nowadays. Armenia also lags behind in profitability and multiplication of profits, compared with not only developed industrial but also developing countries with transition economies where business risk is compensated by large profits from large markets. Consequently, prior to gaining a satisfactory level of development and the real encouragement of investments, the Armenian reality must be attractive either in terms of the development of monopolies or of privatization of various enterprises with very low prices -- below market value. If we take into consideration the fact that within course of time these factors will gradually diminish, in an environment of sound competition the patriotism of Diasporan Armenians, and sometimes, disinterested assistance, plays an important role in the development of businesses.

Figure 2



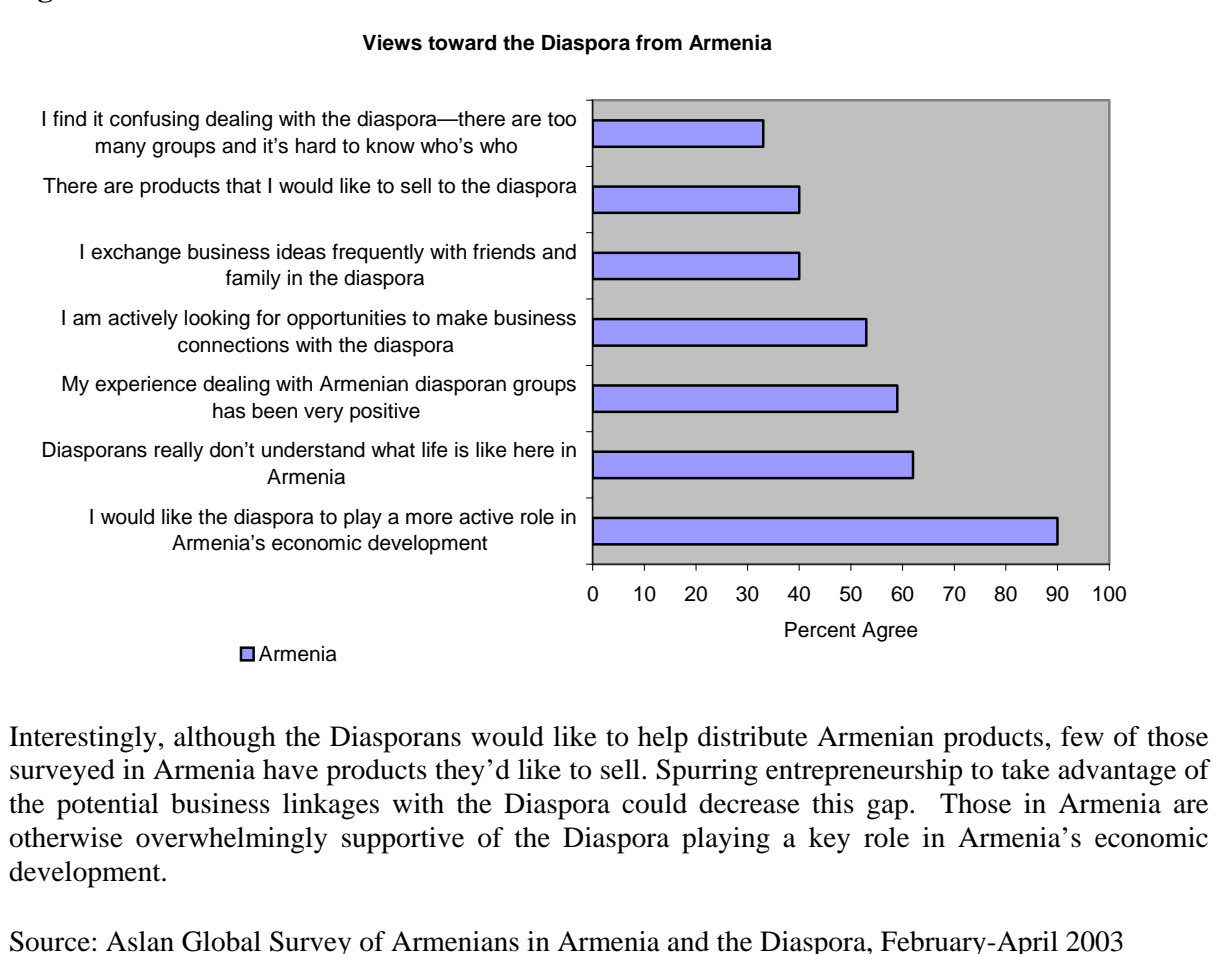
The Diaspora sees a clear role for itself in helping Armenians export their products, providing help with distribution, or simply as a purchaser. However, there is a strong view that Armenian businesses do not understand the needs of consumers in target export markets.

Source: Aslan Global Survey of Armenians in Armenia and the Diaspora, February-April 2003

Often the Diasporan Armenians may be satisfied not as much from gaining profit but from bearing no losses. However, this all become possible if they are spiritually satisfied and if there is an atmosphere of trust and confidence. There is a need to found a museum of the Diaspora to raise the awareness level of the residents of Armenia and Diasporan Armenians living in different countries, and to have a comprehensive idea about the Diaspora. On the other hand, it is important for Diasporan Armenian not only to take part in the processes begun, but also to feel like active participants in the development of various programs, attendance of professional consultations and shaping expert assessments. It is important that

alongside the residents of Armenia, Diasporan Armenians also participate in the exploration of the needs for economic development and the search for the required elements of the priorities of the country's progress. In a number of cases, the attraction of the Diasporan Armenians, against this background, has provided tangible results. In particular, in the preliminary stage of restarting the operation of the Medzamor nuclear power plant (NPP), most of the Diasporan Armenian specialists applied their expert research to ease the load of material expenses which otherwise hindered the drafting stage. In this way, the accurate perception by the Armenian authorities of the utilization of Diasporan Armenian professional skills, and the authorities' official invitations for consultations, can become additional impetus for the development of the economy and entrepreneurship, at the same time saving considerable amounts of funding. In this respect, it is important that both the residents of Armenia and Diasporan Armenians assess the results expected from each other and recognize the peculiarities of the individuals who have ethnic commonalities but were brought up in different cultural and political environments. In this case, we can develop real expectations. If achieved, this goal may mutually satisfy the parties pursuing the same objectives and interests.

Figure 3



What Should Be Done and How to Encourage Diasporan Investments in Armenia

The following recommendations are proposed to achieve this goal:

- consider the Diaspora's professional recourses;
- create networking in all professions;
- mobilize the Diaspora's capacity via professional networking to establish business, academic, cultural and educational relations and thus to promote to the formation of Armenia's economy and development;
- utilize Diasporan investment and professional capacities for Armenia's gradual integration into the world economy;
- promote regional economic cooperation via participation in joint investment programs with the Diaspora in order to provide tangible guarantees for sustainable peace and prospective development. Cooperation within the framework of the CIS, BSEC, TRACECA, and INOGATE are of special importance; such cooperation will enable Armenia to become an economic mediator among Europe, Russia and the Near East;
- promote the self-organization of the Diaspora via the policy pursued by Armenian authorities;
- analyze and consider the comparative and absolute advantages of the Diaspora and Armenia -- for instance, chemical, light, electro-technical, instrument-making, machine-tool construction industries, software programming, jewellery, diamond-making; develop a program and conception for their utilization;
- conduct market research on Armenia's export capacity abroad;
- establish the supremacy of law in all the spheres of business for the confidence-building of Diasporan investors towards Armenia and for the abolishment of "privileged" conditions;
- combine joint efforts for working out legislative acts and promoting their adoption by the National Assembly of the Republic of Armenia;
- provide a conception and program for Diasporan businesspeople on Armenia's foreign trade and foreign economic relations;
- implement joint studies with the Diaspora for the choice of strategic partners and comprehensive analyses of the investment climate;
- found a governmental structure on Diasporan issues beyond the framework of the Ministry of Foreign Affairs, which will closely cooperate on investment issues with the governmental structure coordinating foreign economic relations.
- provide the Diaspora's presence not only in the implementation of business and cultural programs but also in its active participation in their development and discussion;
- establish regular business forums that represent Armenia's economic potential abroad by best utilizing the Diaspora's professional potential;
- found a representative network of the Union of Manufacturers and Businessmen of Armenia (UMBA) in the Diaspora for constant relations with local business and professional structures and use of the information and diplomatic potential of the Armenian embassies and consulates;

- provide information to Diasporan Armenian investors on the opportunities to participate in the privatization of the enterprises which are considered state property;
- attract foreign portfolio investments, in particular from developed and developing countries, thus promoting the enhancement of the stock market and growth of the economy;
- create a pan-Armenian information system and computer network;
- utilize the Diaspora's potential for providing computers and Internet connection in schools;
- set up scholarships for gifted students in Armenia and the Diaspora to study in the Republic of Armenia;
- provide goal-oriented long-term and short-term training of Armenian specialists in the Diaspora;
- increase the role of Diasporan Armenians in the development of new technologies, in acquiring and disseminating knowledge, attraction of new markets of goods and services and promotion of Armenian business;
- create an information bank of Diasporan specialists;
- jointly publish periodicals;
- create a pan-Armenian television station;
- found a pan-Armenian university;
- establish a regional medical and health center;
- develop and implement joint investment programs;
- create a pan-Armenian international bank.

These all will be possible to realize with the support and participation of separate structures of the Diaspora and international organizations, donor countries, public professional organizations and competent specialists.

The above-mentioned key issues cannot be effectively solved by the Government of the Republic of Armenia or any other governmental structure. Armenia should pursue a governmental policy to utilize the Diaspora and to increase its investments, but the programs to work out and implement this should be all-national, pan-Armenian. It is difficult to solve any of the mentioned issues with bureaucratic constraints. Instead, the division of duties and labor among professional and business structures, non-partisan and independent individuals seems expedient. This will, in the end, enable horizontal cooperation involving the most circles, efficiently utilize Diasporan professional experience and knowledge, and increase investments in individual and all-governmental programs.

Thus, the Diasporan potential can gradually turn into the key competitive advantage for Armenia, conditioned by a detailed study of its (first of all, professional) resources, a realistic assessment, and the creation of networking, as well as by an adjustment of its mission and expected functions in Armenia, and the provision of the Diaspora's potential participation in economic revival and goal-oriented utilization methods. The systematic implementation of these joint arrangements with the Diaspora may not only promote the strengthening of Armenia-Diaspora relations but also make it possible to efficiently utilize Armenia's

comparative and absolute advantages and integrate the national economy into the world market, taking into account the key trends and competitiveness requirements of the last.

Box2 A professional approach is most important

(Interview with Armand Pinarbasu, President of *Grant Thornton Amyot Ltd.*)

- *How do you evaluate investments made in Armenia by the Diaspora?*
- When Armenia became independent after the collapse of the Soviet Union, it found itself confronted with numerous needs. The Earthquake that had hit Armenia prior to that exacerbated the problems further. Naturally, large-scale humanitarian assistance by the Diaspora was a necessary and normal step. However, as time went by and heavy investments were made in the development of the country's infrastructures, new opportunities presented themselves to private investors from the Diaspora. At present we are not in the same situation as ten years ago. Now an entrepreneur from the Diaspora can come, do business and make profit, thus also promoting the country's development.
- *How would you describe the business environment in Armenia from the perspective of a Diaspora Armenian?*
- There is not a single country in the world where they would say, "Come to us and we will give you money." In other words, in any place an entrepreneur has to work to make profit. Of course, an entrepreneur needs to have other talents to be able to work in Armenia than those that are required, say, in France. But in either country he has to toil in the sweat of his brow. Business requires professionalism; it is not dependent on a country or religion or denomination; profit is all that matters. The institutional structure of today's Armenia is sufficient for normal work. The only obstacle, perhaps, is the habit of working without documents and formal legalization. That habit does more harm than good. Business cooperation between the Diaspora and Armenia will only benefit from relying on professionalism.
- *Aren't the emotional attitudes of the Diaspora entrepreneurs towards Armenia counterproductive in terms of business?*
- It is true that Diaspora Armenians have a special attitude towards Armenia. They are more considerate and more attentive to this country. However, I believe that such an attitude has so far impeded professional business. There have even been instances of misunderstanding, fraud and conducting business without proper documentation. When the laws, business conditions, and situation are changed, merely verbal agreements and mutual trust are frequently not enough to achieve the satisfaction of both parties.
- *What is your opinion about dual citizenship, and what will it bring about in terms of the development of business ties between the Diaspora and Armenia?*
- Armenian citizenship, first of all, fills a Diaspora Armenian with pride. I have a French passport. It says that I was born in Turkey. Unfortunately, in 1923 Turkey forced my family to change their last name. Thus, what binds me, as a Diaspora Armenian, with the Armenians here? I am currently in Armenia, I do speak Armenian, and my family is Armenian; nevertheless, I do not have an Armenian

passport. I would be happy to have an Armenian passport, too. But I also have interests, desires and concerns. I am not a superman to give up my French citizenship so as to get an Armenian passport. One may analyze and speculate a lot why it is so. However, the hard fact is that we retain our French passports; thus we cannot get Armenian ones, though we would very much like to have them as well. A Diaspora Armenian would like to obtain Armenian citizenship , and as regards the conditions and limitations, those could be subject to debate. Both the Diaspora and Armenia would benefit from dual citizenship.

Atom Margarian (*Center for Economic Law*)

What Role Should the Diaspora Play in Armenia’s Future?

The Discontinuity Between Political Ambitions and Development Potential

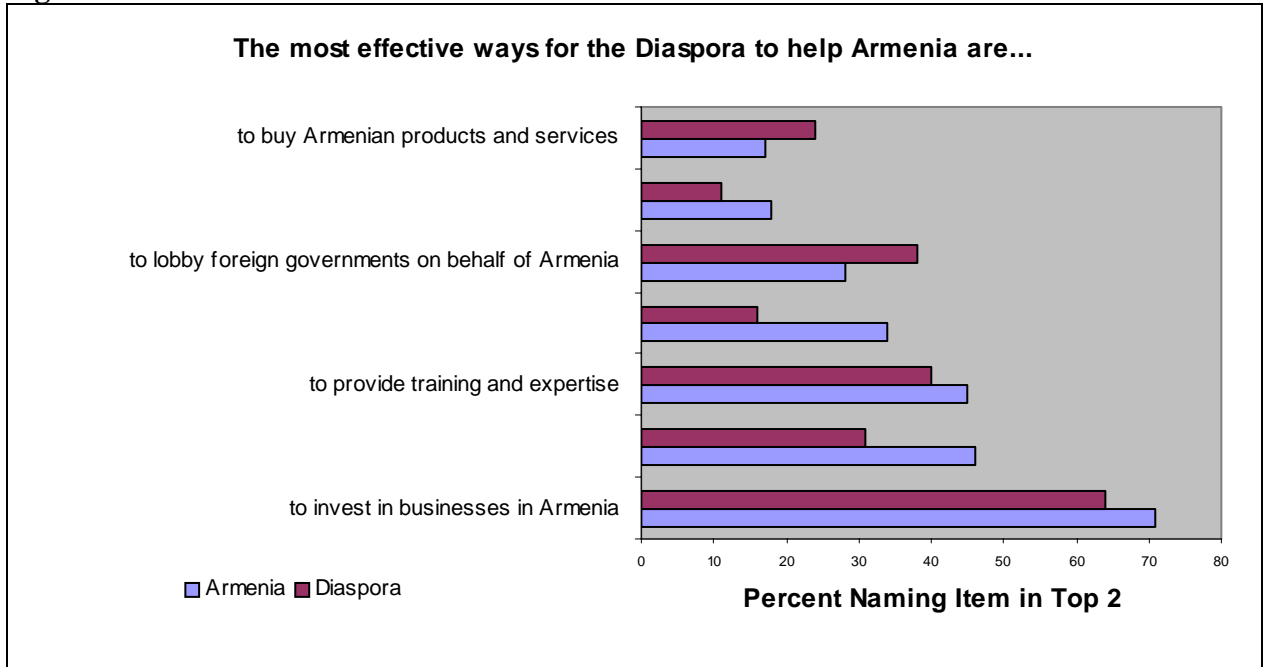
On the surface, the problem looks like a failure of communication: Armenia expects the Diaspora to bring economic prosperity to the homeland, and the Diaspora wants Armenia to resemble the homeland of its dreams. Neither has happened, thus far. Few Diaspora Armenians can call Armenia “home”, and Armenia is still in impoverished, post-Soviet chaos. Yet, the problem is not one of communication—it is political.. Each side has to better articulate what it expects from the other, and what it offers in return. The relationship between the two sides should be brought down from the current emotional level to a political one. The rich, diverse, and well-connected Armenian Diaspora could make a difference in the current economic, but more importantly, societal crisis in Armenia. And, in return, an Armenian Republic that satisfies its own population, and provides them with the conditions to exercise their social, political, and economic rights, will certainly please, and create conditions to further the interest and attract the engagement of, the Diaspora.

In order to achieve such collaboration, representatives of Armenia and the Armenian Diaspora should agree upon a reformist project for Armenia, and push for a new *social contract* between the Armenian authorities and the representatives of various sectors of the Armenian population living in Armenia or abroad. Without a reformed, that is, a politically stable, multicultural, democratic Armenia, it will be difficult to attract the interest and engagement of Armenians living under such diverse conditions as the realities of Argentina, California, Moscow, Beirut, etc. On the other hand, the engagement of the Diaspora is imperative to make the so-called “transition” conclude with success in a post-Soviet, land-locked, Armenia with hardly three million inhabitants.

Armenia's Expectation from the Diaspora: Cash or Know How?

Officials in Yerevan have, to different degrees, insisted on the importance of the Diaspora. In the first year of independence, the role of the Diaspora was seen as providing humanitarian assistance, while in the late 90's the discourse started to shift towards calls for investment.

Figure 4



Yet the current policy of Armenia towards the Diaspora has its limitations. What Yerevan is asking for is direct investments, without providing the necessary conditions for such investments in return. The Armenian economy does not permit large scale investment from abroad, although in order to solve its current socio-economic problems, such as massive unemployment, de-industrialization, a disbalance in foreign trade, mounting foreign debt, etc., it needs such massive foreign investment. Yet the lack of an independent legal system, red tape, and insecurity add to the risks of economic activity in Armenia, which include a small market, low purchasing power, and lack of means of transportation.

An additional difficulty is the monopolistic nature of certain sectors of Armenia's economy. Well-connected oligarchs already dominate the most lucrative sectors of the economy, and do not tolerate competition. These sectors include the import of consumer goods, energy, and light industry. Foreign investors, among which small and medium size Diaspora investors could also be included, have to go to high-risk and long-term investment sectors such as chemical industries, electronics and computing, the airport, etc. In spite of the official encouragement "to come and invest", stories of corruption and take-overs of shares continue

to create obstacles. If patriotism helps to buy a ticket to visit Armenia, it is not enough of an argument to part with one's life savings, without any guarantee of profit, and without any state protection.

The other problem of the currently applied policy is that it is static and not dynamic. What is asked from the Diaspora is to invest to improve the current economic conditions, but not to use their know-how, contacts and imagination to bring about radical change within Armenian society. What is asked is money, and what is needed, in fact, is investment of time.

The Contradiction between Diaspora Politics and Armenian Economics (or The Contradiction between Politics in the Diaspora and Economics in Armenia)

The Armenian authorities are not the only ones to blame for the situation. Armenia, in general, lacks the experience to communicate in a modern, multicultural language. In order to attract a diverse Diaspora living in the most pluralist cultural, linguistic, social and religious conditions, the political, but equally the cultural, economic and social key circles in the country should be up to the challenge. But after decades of being a closed border-post of the Soviet camp, the country is not equipped to play such a role. Therefore, the factor of the Diaspora is important to play the role of bridging this gap between local potential and global development.

Therefore, the future development of Armenia, and its relationship with its Diaspora, is locked in a dialectical logic: Only to the extent that Armenia becomes modernized will it attract the engagement of the Diaspora; but, in order to modernize, the engagement of the Diaspora is a necessary factor.

Then, the question is what forces are pushing Armenia toward modernization, toward reform, and what is the role of the Diaspora here? The organized element of the Diaspora, its political parties and leading institutions (Tashnaksoutyun, Ramgavar Azadagan, Hnchagyan parties), have evaded taking this challenge. The traditional Diaspora parties, after failing to understand the significance of the Karabakh movement and the depth of the Soviet decay in 1988, came to Armenia to establish their party branches and engage in official politics – which is all about taking power and applying one's political choices. After more than a decade of political activity in Armenia, it is time for the traditional parties to decide whether it was a correct strategy to return as functioning parties in Armenia, and what their presence in the country brought as added value? In any case, by coming to Armenia, the traditional Diaspora-based parties have failed to play the role of stimulus for any reformist or modernizing project, and as a result tacitly support the current *status quo*.

Next to the traditional parties, new Diaspora organizations have evolved since Armenia's independence. One such example is the Armenian Assembly of American, and the later version of it that appeared in Europe, the Forum of Armenian Associations of Europe. These two structures, which have succeeded in gaining a certain influence, limit their activity to lobbying for Armenia's interests in Washington and Brussels, getting additional foreign aid, getting support for the Armenian point-of-view in the Karabakh conflict, and fighting to

receive recognition for the Genocide. However, like the traditional parties, the Assembly and the Forum have been reluctant, or have failed, to develop their own vision of the changes necessary within Armenia.

In the same period, dozens of Armenians from the Diaspora came to the land of their ancestors and started various economic activities. Many among them had negative experiences, either because of the arbitrariness of the state bureaucracy, or because their business partners cheated them. Most of them do not have any organized structure to turn to. Even those parties or associations considered to represent the Diaspora have, thus far, failed to stand up for the economic rights and interests of the Diaspora in Armenia.

Inconsistencies in Organizational Culture: The Example of the Two Conferences

Eight years after Armenia achieved independence, the first Armenia-Diaspora conference was organized. In September 1999, hundreds of official delegates representing various Diaspora communities arrived to Yerevan to meet with Armenian officials. The authorities in Yerevan later claimed that it was the tragic killings in the parliament of October 27th that stopped the process started in the conference. It is true that the parliament killings paralysed all Armenian political institutions for long months, yet it is difficult to imagine how the work started in the conference could have had any practical continuation. The conference itself was highly ceremonial and symbolic, marking a shift in Yerevan's attitude toward the Diaspora (from soliciting humanitarian aid to inviting investments). Although important in itself, it neither mobilized any additional resources within the Diaspora nor proposed any new guidelines for collaboration.

A second conference was held in May 2002. This second attempt aimed to be a "more practical, goal-oriented" one. The Armenian ministry of foreign affairs assumed all organizational matters. In the preparation period, little new debate took place. If the delegates for the first conference were chosen based on their political representation and their influence within their respective communities, in the second conference, they were experts chosen by the foreign ministry. The debates were divided into sectors chosen to be of priority by the organizers. Yet, there was little preparation beforehand, and most presentations and debates within the workshops were disconnected monologues. The final conclusions of the conference witness that little valuable work was done toward a new understanding of the problems and opportunities facing the two sides. In its haste for concrete results, the second conference failed to produce an honest debate.

Outside the official conferences and their limitations, little effort has been made by non-governmental actors either in Armenia or the Diaspora to think about the nature of the current crisis between the two sides, and how to ameliorate the situation. Without such input, even criticism or alternative visions, the official management of the relationship between the two sides risks continuing in the same manner: too little debate to understand the current mistrust and disillusionment that exist on both sides, and too many demands for practical and material solutions.

Conditions for Future Collaboration

Both presidential administrations in post-Soviet Armenia have restricted their relationship with the Diaspora to a handful of organizations and personalities. This policy has left out the major part of the Diaspora, with its rich tissue of pluralism. What they see in the Diaspora has been and continues to be direct financial assistance, while often they have been reluctant to give Diaspora actors a voice in the matters of the Republic. The traditional and newly formed political institutions coming from the Diaspora have failed in their turn to develop a different voice and vision of the path for a modern Armenia. By engaging themselves in day-to-day politics in a field where they have little knowledge and even less control, and leaving other important fields open, such as lobbying in Armenia for the economic interests of the Diaspora, which, in its turn, could have helped transform Armenia into a place friendly to both foreign and local investment.

The last decade was a reminder of how much the Armenian Diaspora is emotionally attached to the newborn republic. But if Armenia wants to profit from this enormous potential, two things have to change: in the short term, it should create conditions to facilitate capital investments that could come from the Diaspora. This means fiscal reforms, making the bureaucracy transparent, and guaranteeing a fair judiciary. But in the long term, the question is more complex. In order to sustain and mobilize wider Diaspora interest in Armenia, the country should be politically and culturally attractive to a diverse group of people living in dispersed realities. And the main question is: where will the stimulus for such reform come from?