THE ROLE OF THE ARMENIAN DIASPORA IN HOMELAND ECONOMIC DEVELOPMENT: CHALLENGES AND OPPORTUNITIES

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Submitted to
Central European University
Department of International Relations and European Studies

In partial fulfillment of the requirements for the degree of Master of Arts

Supervisor: Béla Greskovits

Word count: 17,236

Budapest, Hungary
2007

Abstract

The present thesis investigates the Armenia-Diaspora relations since Armenia regained its independence in 1991 with the aim of understanding and explaining the different patterns and intensity of Diaspora's engagement in Armenia in terms of attracting foreign direct investments to the homeland. Primary and secondary sources have been used to analyze Economic, cultural and political realities as factors influencing Diaspora's investment performance. It is argued that major cultural and identity gaps within the Diaspora and in relations to Armenia proper shaped, predominantly by their experience of migration, as well as affected by host country characteristics have defined their perception towards the homeland and to a large degree determined the extent of their inclination towards homeland investment. In examining Armenian government-Diaspora relations important peculiarities of Armenia's transition economy and government policies as well as nuances of Armenian identity have been fundamental in determining the degree and type of Diaspora involvement in the homeland. Furthermore, current trends of increased contact and socialization through different economic and cultural events, as well as tourism and ease of communication through modern technologies are acknowledged to contribute to the closing of identity gap that in turn positively affects the investment behavior of the Diaspora.

Acknowledgment

I would like to express my deep gratitude to professor Bela Greskovits for his inspiring and challenging guidance, as well as understanding and patience. His faith in my competence was fundamental in keeping my self-confidence when I was in dismay. The present thesis would also have not been possible without the love and support of my family and friends. I would like to extend special thanks to my good friend Aghasi Harutyunyan for his valuable advice and assistance.

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List of Abbreviations

AAF- All Armenia Fund
AGBU-Armenian General Benevolent Union
ARF-Armenian Revolutionary Movement
ASALA-Armenian Secret Army For Liberation of Armenia
ARA-Armenian Revolutionary Army
CIS Commonwealth Independent States
DCIR - Diaspora-Connected Investor
FSU-Former Sovet Union
GDP-Gross Domestic Product
EBRD- European Bank of Reconstruction and Development
FDI –Foreign Direct Investment
IMF – International Monetary Fund
IT- Information Technology
SME- Small and Medium-sized Enterprise
WB – World Bank

Introduction

After regaining its independence, Armenia found itself in a very complicated geopolitical and economic situation. The consequences of 1988 earthquake and the loss of traditional markets after USSR's demise followed by the war in Nagorno-Karabakh and the economic blockade by Azerbaijan and Turkey have had a significant impact on the transition period that resulted in political and socio-economic crisis. However, even in this complicated situation, many saw a potential in Armenia to become a "transition success story."[1] This optimism was due to the existence of a large and successful Armenian Diaspora spread all over the world that was regarded a comparative advantage as compared to other CIS countries that many hoped could support to fight the socioeconomic and political challenges it faced, easing the transition process and greatly contributing to the long-term economic development of Armenia.[2] It was also viewed as the major 'push factor' in terms of economic reforms and democratic change.[3] As Freinkman notes, "efficient utilization of the Diaspora's potential is rather relevant for economies in transition(…)economically influential Diaspora may have strong comparative advantages."[4] In particular, the Diaspora was considered one of the most important sources to attract FDIs.[5]

From the economic theory point of view the Diaspora has the potential to be regarded as a 'first mover' to a new emerging market where it can become the leader of the sector. Although the smallness of the Armenian market as well as the country's landlocked geographical position

[1] Lev. Freinkman ,"Role of the Diaspora in Transition Economies: Lessons From Armenia," Paper presented at the 11th Annual meeting of the Association for the study of the Cuban Economy (2001): 335 http://lanic.utexas.edu/project/asce/pdfs/volume11/freinkman.pdf (last accessed 05/04/2007)
[2] The population in Armenia is around 3 million while the Diaspora amounts to more than 6 million (See Table 1)
[3] Aleksandr V. Gevorkyan and David Grigorian, "Armenia and Its Diaspor: Is There a Scope for a Stronger Economic Link?", Working Paper No. 03/10, *Armenian International Policy Research Group* (2004): 2 http://www.aiprg.org/UserFiles/File/wp/jan2003/10.pdf (last accessed 04/05/2007)
[4] Freinkman , 334
[5] Heghine Manasyan and Tigran Jrbashyan, "Explaining Growth in Armenia: Pivotal Role of Human Capital", (2002): 2 http://www.gdnet.org/pdf/draft_country_studies/Armenia_final.pdf (last accessed 27/11/2007)

can be considered a disadvantage for the 'first mover,' in case of resource-based industries that produce easy exportable goods that have 'high value-to weight ratio,' the cheap labor and resources typical for emerging economy can earn the 'first mover' an advantage in the regional or global market. Furthermore, while the 'first mover' strategy is characterized by its high risks of uncertainty in the new market, the Diasporan Armenians as compared to truly foreign investors are believed to have a comparative advantage in having official and unofficial linkages, as well as cultural affiliations that arguably provide an added degree of certainty. Under conditions of poor state capacity, typical for transitioning state like Armenia, "linkages" with Diaspora could be seen as important and decisive factors that can help the fast development and growth of Armenian economy. Here I refer to "linkages" precisely as Barbara Stallings has defined it, "networks of interests that bind some social groups to others(…)interest-based and cultural ties link the Third World to their counterparts in industrial countries. Externally-oriented business is bound by Soft interest and cultural ties"[6]. Although Stallings introduces the concept of "linkage" in the framework of dependency theory, in this case these informal, "cultural ties" between the "new" and "old" Diaspora and the compatriots living in Armenia can be perceived as "interest based" that could bring mutual profit. Moreover, the "first mover" strategy, if successful, could be followed by the "follow-the-leader" pattern of investment typical for competitive, product-pioneering, manufacturing oligopolies[7].

However, despite providing large humanitarian assistance, so evident during first period of Diaspora involvement in the homeland from 1998-2000, the Diaspora fell short of providing

[6] Barbara Stallings, "International Influence on Economic Policy: Debt, Stabilization and Structural Reform." In *The Politics of Economic Adjustmen: International Constraints, Sitributive Conflicts, and the State*. Eds. Stephan Haggard and Robert K. Kaufman. Princeton NJ: Princeton University Press (1992):52

[7] Naeyong Lee and Jefreey Cason, "Automobile Commodity Chains in the NICs: A Comparison of South Korea, Mexico, and Brazil." In *Manufacturing Miracle.* Eds. Gary Gereffi and Donald L. Wyman. Princeton NJ.: Princeton University Press (1990): 220

major inflows of investments that could contribute to the medium-term and long-term development of the country. In total, during 1995-2000, Armenia received on average less than 30 USD of foreign direct investments per capita. This amount is very little, as compared, for instance, to Slovenia and Lithuania that attracted more than 100 USD per capita. It is especially disproportionate if compared to the volume of annual private remittances of expatriates to their families and relatives in Armenia that amounts to about 300 million USD.[8] In other words, "the amount of the Diasporan investment weren't of the desired scale, given the size of the Diaspora and the amount of money in their possession, and especially, given the amounts of humanitarian aid it had provided."[9] Nevertheless, during the second period, namely since 2000 there has been a noticeable increase in the Diasporan business interests towards the homeland and decrease in humanitarian assistance. The latter has had a positive effect on the country's economic development and its integration into the global economy. Therefore, the main research questions to be addressed in this study are: (1) If the Diaspora has had the resources to invest, what have been the factors that impeded its investment in the homeland during the first decade of independence? (2) What have been the reasons of changing patterns of Diaspora-Armenia relations and increase in the amounts of Diasporan investments since 2000?

The present thesis attempts to answer these research questions through a thorough analysis of the Armenia-Diaspora relations since independence identifying and measuring the extent of Diaspora's involvement in the homeland development. The study concentrates on the Diasporan FDIs as crucial factor contributing to the competitive and productive economic development of the homeland. It will be argued that *distinctive national economic, cultural and*

[8] Tatoul Manasaryan "Diaspora The Comparative Advantage For Armenia", Working paper No. 04/14, *Armenian International Policy Research Group*, (2004): 7 http://www.aiprg.org/UserFiles/File/wp/jan2004/14.pdf (last accessed 06/06/07)
[9] Joseph R. Masih and Robert Krikorian, *Armenia at The Crossroads*, (Harwood Academic Publishers, 1999), 83

political features and factors (my independent variables) as well as 70 years of Soviet legacy have been determinant in the shaping the Diaspora's perception towards the homeland, as well as the transition path of Armenia. In relation to the Diaspora it will be shown that important peculiarities of national identity and mutual perceptions of each other has played an important role in shaping the *Diaspora's perception and the subsequent involvement in the homeland development* (my dependent variable) both politically and economically. The main hypothesis suggested in this study is the following:

The extent and the mode (Assistance/FDI) of the Armenian Diaspora's involvement in the economic development of the homeland has been correlated to the strength and the type (family/Ethnic Identity) of the linkages between the Diaspora and the Armenia proper that in turn have determined their perception towards homeland (economic/political). Meanwhile the character and the type of the homeland-Diaspora linkages have been conditioned by the Diaspora's historical experience of migration over time and across space, as well as influenced by host country characteristics.

As the Diaspora-Armenia relations have been multifaceted the research methodology used in the present study rests upon a comprehensive and interdisciplinary approach that combines analysis of social, political, cultural and economic factors. While a detailed investigation of the relatively short history of Armenia-Diaspora relations is aimed at revealing the major obstacles hindering a more proactive Diasporan involvement attributable to all the above mentioned dimensions of Diaspora-Armenia discourse the study cases of IT and Diamond/Jewelry sectors serve to demonstrate the actual results of the Diaspora's business involvement pointing to the benefits obtained as well opportunities to be taken advantage of and challenges remaining to be overcome. The sources of research include the utilization of both

international literature on Global Diasporas as well as those specifically targeting Armenian Diaspora linked to the economic development of the homeland. While the international literature has helped to understand the main trends and developments connected to Homeland-Diaspora discourse in the modern globalized world, contending that transnational social networks play an increasingly significant role in the development of host and home countries, the literature on the Armenian Diaspora has helped to put these developments into Armenian context. Furthermore, several political economic theoretical concepts have been used to shed light on the empirical evidence, gathered both from primary (personally conducted interviews) and secondary sources. Appropriate theoretical frameworks have been designed to address each component of the research and measure the significance of the suggested independent variables. The primary shortcoming of the original research carried out through personally conducted interviews with companies operating in IT/Diamond/Jewelry sectors in Armenia is the inability to cover all business agents operating in the sectors. However, these interviews have been a key element in receiving first-hand information on perceived business impediments and opportunities faced by companies both with Diasporan and indigenous origin. In particular interviews with government officials in two key ministries- Ministry of Trade and Economic Development and Ministry of Foreign Affairs of Armenia have had a significant value in determining the role of the government in facilitation of Diasporan FDIs as well as in understanding government-Diaspora perceptions in general. The present thesis is constructed as follows: the first chapter will review the existing literature on Armenian Diaspora's involvement in the Homeland concentrating on its economic role. It will also define both the niche of interest and the contribution that this thesis is attempting to make. The second Chapter presents the political factors behind the low amounts of Diaspora investments in the 1990-2000 period. It is argued that Armenia had worst initial

economic terms as compared to other CIS countries, which was exacerbated by the 'partial' economic reform carried out by the government significantly worsened the investment climate and country's attractiveness for investments. Nevertheless, it is also argued that major reasons of low Diasporan investment have been rooted in Cultural and Political factors that are addressed in the Third Chapter. Here it is argued that the 'old' Diaspora having a 'victim' identity has been greatly political and so its involvement in the homeland has been rather political through its political parties and lobbying organizations, while its assistance has been humanitarian in nature. Moreover, because of its political nature, as opposed to the 'new' Diaspora, the 'old' Diasporan investors have been highly susceptible to the political changes in Armenia proper that have been positively correlated with the condition of investment climate. The Fourth chapter provides a brief overview of Armenia's economic performance since 2000. It is argued that political considerations to gain public and political support in Armenia and the Diaspora as well as the new elite's motivation to gain economic power have provided strong incentives for the new government to deviate from the partial reform politics and continue with free market-oriented reforms, as well as adopt a political agenda greatly convergent with the Diaspora's that resulted in increased Diasporan investments. Furthermore, the 5th and 6th Chapters present two separate study cases on Armenia's IT and Diamond/Jewelry that have attracted much Diasporan investments. The study cases investigate the dynamics of the sectors comparing the Armenia IT sector to the Irish experience and the Diamond/Jewelry with the Third Italy model, revealing the commonalities and divergencies. It also shows the positive trends resultant from the Diaspora-Armenia cooperation as well as point to the limits of Diasporan involvement and its underutilized potential. Lastly, the main arguments and findings as well as final remarks will be summarized in the conclusion

Chapter 1. Literature Review

With current trends of increasing globalization and integration where the economic and business activities are increasingly transnational in nature the transnational social networks and established Diasporas formed by immigrant populations around the world have gained significant value in linking the developed and developing countries, their host states and homelands and have had a positive contribution to the economic development of both home and host countries.[10] This reality has attracted much scholarly interest to investigate the different roles, and mechanisms by which they foster economic development. [11] The identified mechanisms of Diaspora contribution in the literature include remittances, [12] skills and technology transfers, facilitation of bilateral and international trade,[13] marketing intermediary activities and FDIs. All of the researches in the field have expressed a predominantly positive assessment of Diaspora's and emigrants' role in contributing to the Homeland development.

[10] See Warren Cohen review of "Tribes: how Race, Religion and Identity Determine Success in the New Global Economy," by Joel Kotkin,, *The Fletcher Forum of World Affairs, (*Winter/Spring 1994) http://info.worldbank.org/etools/docs/library/152385/richarddavone.pdf

[11] On different Diaspora mechanisms and institutions through which they contribute to the homeland development see Brett Johnson and Santiago Sedaca, "Diasporas, Emigres and Development: Economic Linkages and Programmatic Responses", Special Study of the USAID, Trade Enhancement for the Service Sector (TESS) Project., *CARANA Corporation*, March 2004 http://www.tessproject.com/products/special_studies/diasporas_emigres_&_development.pdf (last accessed 14/05/07), also see, Ronald Skeldon "More than Remittances: Other Aspects of the Relationship Between Migration and Development," University of Sussex, UK, chapter prepared for the Population Division of the United Nations, New York for the forthcoming report "Emerging Issues of International Migration" http://www.unitarny.org/mm/File/Skeldon_Migration%20and%20development.pdf (last accessed 14/05/07), and Kathleen Newland, and Erin Patrick, "Beyond Remittances: The Role of Diaspora in Poverty Reduction in their Countries of Origin." A Scoping Study by the Migration Policy Institute for the Department of International Development, (Washington DC July 2004) http://www.migrationpolicy.org/pubs/Beyond_Remittances_0704.pdf (last accessed 14/05/07)

[12] On the impact of remittances, see Manuel Orozco, "The Impact of Migration in the Caribbean and Central America Region," Policy paper Document, *FOCAL*, *Canadian Foundation for the Americas*. (2003) http://www.focal.ca/pdf/migration.pdf (last accessed 15/05/07)

[13] On Diaspora's role in trade facilitation see James E. Rauch and Vitor Trindade "Ethnic Chinese Networks in International Trade," *Review of Economics and Statistics*, 84 (1), (February 2002): 116-130 http://www.maxwell.syr.edu/econ/working_papers/2002/2002-007.pdf, (last accessed 18/10/07), see also James E. Rauch "Business and Social Networks in International Trade" *Journal of Economic Literature*, Vol. 39, No. 4. (Dec., 2001):1177-1203.

The large Armenia Diaspora with a homeland in transition economy is a 'classical' case to be considered. Indeed some foreign and Armenian scholars have investigated the particular case of the Armenian Diaspora's involvement in the homeland development. While the present study also examines the case of Armenian Diaspora its point of interest is the Diaspora's role in regards to generating foreign direct investments as the latter is generally accepted to be the primary source of productive economic development. In contrast with some Diasporas that have been able to turn remittances to foster more productive forms of development, namely small and medium businesses, there is no systematic evidence as argued by Roberts[14] that the remittances and private external transfers to Armenia have promoted business development in Armenia, especially in reference to creation SMEs.

In examining the determinants of interest in homeland investment of four different Diaspora groups in the United States Gillespie et al.[15] that altruism and ethnic advantage as well as homeland orientation positively affect Diaspora's interest in homeland investment. In regards to the Armenian Diaspora, the survey revealed that they have the least interest in the homeland investment. However, I argue the latter finding of this study is not generalizable for the Armenian Diaspora at large, because their sample of respondents only includes the Armenian Diaspora in the United States that largely represent what is called the "old" Diaspora, for whom Armenia proper is not a homeland in its original sense, while the economic involvement of the 'new' Diaspora, cannot be underestimated. Furthermore, as the study was carried out in 1999 it is not able to show the current dynamics even within the 'old' Diaspora after a decade of increased

[14]Bryan W. Roberts, "Remittances in Armenia: Size, impacts, and Measures to enhance their contribution to Development" submitted to USAID Armenia (2004) http://kosovo.info.usaid.gov/locations/europe_eurasia/countries/am/docs/fsdp/annex_3.pdf (last accessed 07/06/2007)
[15] Kate Gillespie et al. "Diaspora interest in Homeland investment," *Journal of International Business Studies*, Vol. 30, No. 3, 3rd Qtr., (1999)

contact and socialization. To close this gap in time, Hergnyan and Makaryan[16] carried out a more recent study on the motivational factors of Diaspora investors following the concepts and variable suggested by Gillespie et al. However it should be pointed out that while Gillespie et all measured the interest towards homeland investors the survey carried out by Hergnyan and Makaryan was among Diaspora investors who already had invested in Armenia. Nevertheless, they confirmed that altruism and homeland orientation and ethnic identity discount positively effected their investment decision. Hergnyan and Makaryan also studied the impact of the Armenian Diaspora on the process of generating FDI to Armenia showing that some sectors of economy have been Diaspora-led (e.g. IT, Diamond/Jewelry). Due to the lack of data and the difficulties in tracking and calculating investments with Diasporan origins the carried out quantitative research on the amounts of Diaspora-connected investments and investors has been an invaluable source for my thesis.

Frienkman,[17] discussing the Diaspora potential for Armenia's economic development critically assesses the Armenian Diaspora's homeland involvement arguing that Diaspora's role in mobilizing and generating humanitarian assistance and foreign development aid although has been significant has had perverse effects on the country's democratic development and economic reforms. Therefore, he renders the Diasporan assistance efforts inefficient to homelands development agenda, instead praising the importance of FDIs, business partnerships consultation services and participation in the local debate on improving the investment climate. Arguing along the same lines Minoian and Frienkman[18] point out that humanitarian assistance and

[16] Manuk Hergnyan and Anna Makaryan " The Role of the Diaspora in Generating Foreign Direct Investment in Armenia," *Economy and Values Research Center and Caucasus Research Resource Center*- Armenia, (2006) http://ev.am/EVRC-RoleofDiasporainFDIinArmenia-FINAL-12-04-06.pdf. (last accessed 06/05/07)
[17] Freinkman
[18] Victoria Minoian and Lev Freinkman "Diaspora's Contribution to Armenia's Economic Development: What drives the First Movers and how their efforts could be scaled up?" *Background papers,* World Bank (2004) http://info.worldbank.org/etools/docs/library/152388/victoriaminoian.pdf (last accessed 06/05/07)

unconditional political support provided by the Diaspora to the Armenian government became one of the factors responsible for a delay of critical domestic reforms, especially in the business environment. They further surveyed the Diasporan first-movers, who contrary to the common trend have been rather active and relatively successful with their investments in Armenia aimed at defining the common factors attributable to their success. They found that the Diasporan Armenian who have had relatively successful business experience have tried to do business in Armenia in the same way as they do it in the rest of the world, but in consistence with the Gillespie's notion of altruism, and in contrast with the conventional wisdom on favorable investment climate, it required much more patience and lowered expectations in the short and medium term. Tatul Manasaryan[19] also critically assessing the Armeina-Diaspora economic cooperation argues that the lack of strategic approach to the development agenda has been the major impediment that has not been properly addressed from either side. He also points out to major policy failures towards both political and economic unification. In addressing the specific mechanisms of Diaspora involvement Gevorkian and Grigorian[20] speak in favor of new institutional options including the much discussed 'Pan-Armenian Development bank' and sovereign 'Diaspora bonds' to facilitate Diaspora-Armenia cooperation and point out to the economic benefits and shortcomings associated with each proposed option.

Samuelian et al.[21] analyze the identity of the modern Armenian Diaspora identifying differences across time and place. The geographical locations of major Armenian communities and periods of migration as well as historical experience of the émigré are viewed as determinants in shaping the main characteristics and the sense of Armenian identity. They discuss the divided Armenian

[19] Manasaryan
[20] Gevorkyan and Grigorian
[21] Thomas J. Samuelian et al. "Research 4. Diaspora-Homeland Issue Paper," *Armenia 2020 project*, (2003) http://www.armenia2020.org/download.php?file_id=25&rand_int=484212 (last accessed 17/05/07)

identity and the major historical processes affecting it. In regards to Diaspora's economic involvement in the homeland they argue that the Diasporans prefer means other than direct investment because of unfamiliarity and information constraints of most Diasporans about the investment climate in Armenia. Nevertheless, they are optimistic about the new generations of Diaspora that develops new patterns of relations transcending the old divides and bringing them closer to Armenia proper. Both the literature on global diasporas and the one specifically targeting Armenian Diaspora offer significant insight on the types of relations, modes of Diasporan involvement in the homeland, and major mechanisms used or potentially available for the utilization of the Diasporan resources. However, the major obstacles facing the Diasporan investors have earned less attention and yielded unsystematic research. Furthermore, it was not possible to identify any study measuring the limits of the acknowledged concepts of altruism, homeland orientation and identity discount that positively effect Diaspora's homeland investment. Therefore, by providing an in depth study of the Armenian Diaspora's involvement in the independent Armenia the current study will contribute to the literature in identifying the major obstacles both economic, cultural and political that hindered the Diaspora's proactive economic involvement in the homeland. Moreover, it will also have a value added in defining how the divergent identities shaped by different experience of migration, namely forced migration resulting from political consideration and voluntary migration based on economic consideration shape different type of Diaspora identities that increasingly determine their perception towards the homeland and the nature of the subsequent involvement. Two sectors of Armenian economy, namely the IT and Diamond/Jewelry with large Diasporan investments will serve as study cases and help to understand the extent of Diasporan altruism and ethnic identity discount measured by their risk calculations when investing in Armenia.

Chapter 2. Economic Factors Explaining the extent of Diaspora's investment interest in the Homeland in 1990-2000

The present chapter attempts to find answers to economic determinants of Diaspora's low intensity of economic involvement in the homeland. Putting into appropriate theoretical framework the initial economic terms revealed by the study on the Soviet legacy, as well as the aftermath of the earthquake and the Nagorno-Karabakh war, have been unfavorable for Armenia, suggesting a lower starting point as compared to other CIS countries. Moreover the partial reform strategy carried out by the first government resulted in a poor investment climate that has yielded low amounts of investments. Nevertheless, it is argued that these factors have not been the only reasons to blame the lower than anticipated amounts of Diasporan investments during the 1990s.

2.1. Theoretical Framework

It is important to shortly outline the situation in which Armenia founds itself after the collapse of the Soviet Union. This economic reality had been greatly conditioned by the Soviet legacy and the type of economic development used under the central command system. Many authors have theorized the importance of initial economic terms on the future economic development of states. Evans notes that "the institutional underpinnings of the earlier agenda of local industrial transformation may not be irrelevant to the successful execution of an agenda of adjustment."[22] Bohle and Greskovits in explaining the variety of market societies that evolved after the collapse of the Soviet Union in Central and Eastern Europe conclude that the "result is a variety of transnational capitalism shaped by interaction on inherited industrial and institutional

[22] Peter,Evans, "The State as a Problem and Solution: Predation, Embedded Autonomy, and Structural Change," In *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State.* Eds. Stephan Haggard and Robert R. Kaufman .(Princeton: Princeton University Press, 1992), 152

profiles, domestic political choices and the influence of transnational corporations and the European Union"[23] Furthermore, in attempting to explain the Growth of Armenia Manasyan and Jrbashyan along with discussing the initial conditions also include macroeconomic stabilization and structural reform as factors influencing and explaining the growth path variances across countries and transition economies. They also note that while the "initial terms acquired higher importance in taking into account their direct and indirect impact on macroeconomic and structural reforms, (…) the impact of initial terms on growth performance is diminishing over time, while effect of reforms is growing."[24] Similarly Gomulka argues that "economic institutional and political reforms during transition have a feedback effect on the inherited constraints."[25] Summing up the arguments it can be concluded that there is a correlation between the initial economic and institutional terms and the chosen reform path and the overall direction of present and future development. Similarly I argue that while the initial terms determined the path to reforms in Armenia in the short term the type of reforms, more specifically as it will be argued 'the partial reform' has determined the path of economic development in the long-term.

2.2. Initial Economic Terms

Regarding the initial economic terms, scholars have shown that during its last 30 years as part of the Soviet Union Armenia was showing very high growth rates, conditioned by the USSR's growth model and characterized by extraordinary industrialization with high energy consumption, mutual integration of soviet republics' economies, territorial division of labor, as well as intensified specialization in material production that disregarded country-specific

[23] Dorothee Bohle and Bela Greskovits, "Neolibearlism, Embedded Neoliberalism, and Neocorporatism: Paths Towards Transitional Capitalism in Central-Eastern Europe" *West European Politics (*2007):1
[24] Manasyan and Jrbashyan , 13
[25] Stanislaw Gomulka "Economic and Political Constraints during Transition" *Europe-Asia Studies,* Vol. 46, No. 1, (1994): 89

aspects.[26] Armenia's economy was particularly greatly centralized[27] and heavily dependent on intra-republic trade, with both its exports and imports amounting to 50% of GDP in the 1980s.[28] It is also noteworthy that the period between early 70s and late 80s could be considered as the 'golden era' of the country's technological progress. Meantime, intensive technological development was confined to military industry supplying high technology lasers and electronics which, however, introduced noticeable distortions to the economy as Armenia's share of the Soviet military industry was disproportionate to its size.[29] Subsequently, the initial economic terms of Armenia's transition economy had to be rooted in the aforementioned factors of the Soviet legacy. Therefore, the collapse of the Soviet Union's centralized command system, affected the most centralized countries to the worst extent resulting in sharper drop in GDP and larger decrease in export volumes as compared to other Post-Soviet Republics. The latter was resultant of low competitiveness of products, and lack of knowledge and skills of global marketing. Thus, at least in the first period of transition, the "place of FSU countries in the global economy was predefined by availability of mining and raw natural resources, which for small country like Armenia without sound domestic market and lacking natural resources meant worse starting point as a transition economy."[30]

Unfortunately, besides these logical economic shocks attributable to the dissolution of the Soviet Union, Armenia also experienced unexpected tribulations that added a significant degree of complexity in overcoming transition challenges. Among these factors the 1988 earthquake in the Soviet Armenia "substantially crippled the economy so the economic chaos started in the

[26] Manasyan and Jrbashyan, 12
[27] The share of centrally subordinated industrial production in total industrial output of Armenia in 1989 was 50.8% (that absorbed 54.9% of total employment) while in Georgia and Azerbaijan it was 31.4% (41.9% of total employment) and 46.7% (50.6% of total employment) respectively. See Ibid. 16
[28] Masih and Krikorian, 66
[29] Masih and Krikorian, 66, see also Manasyan and Jrbashyan, 9
[30] Manasyan and Jrbashyan , 16

country far earlier than in other CIS countries" and "in spite of substantial external aid the program on disaster zone restoration projected for 1989-1990 failed, so that starting from 1991 the whole burden of restoration fell on the Armenian economy."[31] This situation was further exacerbated by the conflict with Azerbaijan over Nagorno-Karabakh which not only required extraordinary mobilization of resources in scarce economic conditions but resulted in isolation of the country as Azerbaijan and later Turkey put transportation and economic blockades.[32] Moreover, 300000 Armenian refuges from Azerbaijan caused by the conflict, added to about 300000 homeless people left after the 1988 earthquake make it clear that the newly independent State was facing serious human crisis it had no resources to deal with. Moreover, the conflict had disastrous impact on the economy as it blocked Armenia's main transport highways including gas pipelines from Russia passing Azerbaijan which provided more than 80% of imported gas. Meanwhile, the Abkhaz and Ossetian conflicts that burst simultaneously in Georgia blocked the main roads connecting Armenia with Russia from the North. So during the first years of independence Armenian-Iranian border with poorly developed infrastructure served as the only reliable outlet to the outer world.[33]

2.3. Implemented Economic Reforms- The Partial Reform Strategy

The early 1990s were the most difficult transition period for Armenia. Drastic electricity shortages, financial crisis resulting in hyperinflation, miserable wages and the shutting down of factories all contributed to the sharpest decline in GDP among the former Soviet republics (GDP

[31] The earthquake affected about 40% of the country's surface area. Approximately 1 million people suffered. 40% of Armenian industrial potential was put out of action. Total economic damage amounted to 13 billion rubles (1989 pricing) See Ibid. 17

[32] Estimations show that if trade blockades were lifted, Armenia could more than double its exports, that would lead to 30% GDP increase, saving over 50 million USD a year from straightening transport routes. See, Evgeny Polyakov, "Changing Trade Patterns After Conflict Resolution in South Caucasus," Poverty Reduction and Economic Management, Sector Unit, Europe and Central Asia, The World Bank (Washington DC, 2000), http://lnweb18.worldbank.org/eca/eca.nsf/0/23ac8865ee0dc520852568fc005ba956/$FILE/ATT00ZE9/Trade+flows3.pdf (last accessed: 04/11/07)

[33] Manasyan and Jrbashyan, 17-18

in 1993 was 47% of 1990 level).[34] Taking into consideration all of the above mentioned factors it is evident that Armenia had a difficult transition path in turn delayed structural and institutional reforms as the International Monetary Fund (IMF), the World Bank were offering their help only in case of cessation of hostilities. Nevertheless, the Russian brokered cease-fire signed in 1994 between Armenia and Azerbaijan was a positive turning point that allowed the government to concentrate on the structural reform program that was adopted with the help of IMF, and the World Bank. From this point onwards, and in spite of difficult political situation Armenia has maintained a commitment to macroeconomic stability, market-oriented reforms, closely adhering to orthodox adjustment strategy recommended by international financial institutions, which was justified by the necessity to attract foreign investments and catalyze economic growth[35] This comprehensive stabilization and structural reform program adopted by the government resulted in an overall improved macroeconomic situation.[36] However, as it is has been acknowledged "sound fiscal and monetary policies are essential for macroeconomic stability, a necessary (but not sufficient) condition for sustained economic growth."[37] And the positive assessment of many macroeconomic indicators is tempered by poor performance on the microeconomic level. This can be evidenced by the fact that even though Armenia had one of the most liberalized trade regimes in the CIS, and by 2000 had become the leading reformer, its merchandise exports in

[34] Hergnyan and Makaryan, 2
[35] Enreique Gelbard, "Armenia After a Decade of Reform," *Armenian Journal of Public Policy, Vol. 2, No. 1* (2004):.2 http://www.armpolicyresearch.org/Publications/Journal/Vol02/pdf/AJPP_3_1.pdf, (last accessed 23/07/07), See also Manasyan and Jrbashyan, 23
[36] Kubat Umurzakov, "Investment Climate in Armenia," United National Economic and Social Commission for Asia and the Pacific, Country report, Regional round table on Foreign Direct Investment in for Central Asia. Dushanbe, Tajikistan (2003):5 http://www.unescap.org/tid/mtg/rrtpaper_armenia.pdf (last accessed 01/03/2007)
[37] Richard Kohl, et al. "Economic Performance Assessment: Armenia,"submited to USAID Armenia, by Nathan Association Inc (April, 2005):11 http://www.usaid.gov/locations/europe_eurasia/countries/am/docs/economic_performance_assessment.pdf (last accessed 13/09/07)

2000 amounted only to 16% of GDP, which is among the lowest in FSU.[38] This is to suggest that although the Armenian government managed to establish a nice 'liberal façade,' halting the inflation and implementing various market-oriented reforms and introduction of market-friendly legislation, it had failed to make real reforms on the microeconomic level.[39] This feature has been common for post-Soviet republics where "powerful business interests have emerged in the transition to a market economy that exert increasing influence in public decision making, leading to legally sanctioned tax privileges, nontransparent privatization, and tax evasion"[40] As Freinkman points out "Traditional centralized socialist regulations were largely replaced by various decentralized regulations and controls, imposed by sectoral groups that did not want competition. The state has no capability (and little incentive) to enforce the favorable microeconomic and legal framework of decent business environment."[41]

The policies of the Armenian government can be explained through Hellman's concept of 'partial reform.' He argues that while the conventional approach to political reform is based on the assumption that it creates winners who gain stakes in defending and extending those reforms, the paradox of postcommunist countries in political reform is not how to sustain reform in the face of opposition from the net losers in the short term, but how to advance reform in the face of efforts by the net winners to preserve the market distortions that produced their gains in the short term.[42] The State managers who were turned into private owners were the big winners from privatization that have prevented the creation of corporate governance structures and thus delayed much needed enterprise restructuring. He notes that the rising financial conglomerates,

[38] Freinkman, 336
[39] Ibid p. 337
[40] Gelbard, 2
[41] Freinkman, 337
[42] Joel S. Hellman, "Winners Take All: The Politics in Poscommunist Transitions," *World Politics* 50.2, (1998): 218, 223

(in this case the newly formed oligarchs,[43]) have used their power to block new market entry: "The winners from the earlier stage of reform have incentives to block further advances in reform that would correct the very distortions on which their initial gains were based. In effect, they seek to prolong the period of partial reforms to preserve their initial flow of rents, though at a considerable social cost."[44] This has been ironically complimented by the unconditional humanitarian assistance, thanks to which the Armenian ruling elite received additional resources for survival in the 90s, providing it with a "breathing space" for delaying the much necessary reforms despite extreme poverty and emigration of the skilled population."[45] Therefore, the politics of partial reform hindered the much needed domestic pressure for reforms and almost excluded the perspective of Diasporan investments. Moreover, the ruling elite had incentives to preserve the situation in need of humanitarian assistance, not only to calm the domestic pressures, but also due to large corruptions it has directly benefited from the aid flows. Thus, this argument if taken to the extreme can even go along the lines of theories of rentier states which contend that "when governments gain most of their revenues from external sources, such as resource rents or foreign assistance, they are faced from the need to levy domestic taxes and become less accountable to the societies they govern."[46] As Manasaryan notes, "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."[47] This development path of the State has greatly impeded the

[43] Oligarchy is defined as a form of government where most political power effectively rests with a small segments of society (typically the most powerful, whether by wealth, military strength, ruthlessness, or political influence). See Nathan Association Inc.,and J.E. Austin Association Inc. "Armenia Competitiveness Assessment" submitted to USAID/Yerevan, June (2004): 49 http://armenia.usaid.gov/upload/File/armenia_competitiveness_assessment.pdf (last accessed 28/10/07)
[44] Hellman, 232
[45] Minoian and Freinkman, 1
[46] Michael J. Ross, "The Political Economy of the Resource Curse", *World Politics* 51, January (1999): 312
[47] Manasaryan , 7

growth of the state capacity especially in regards to creating institutions. As Shafer and Karl argue, "resource abundance tends to weaken state institutions.[48] The gains of the first-generation reforms that have concentrated on policy and structural reforms are in danger of degeneration if "second-generation" reforms that focus on institutional development are not carried out. Otherwise, the "distortionary micro regulations and administrative practices that do not allow utilizing potential gains associated with strong macroeconomic performance" will continue to exist.[49] The lack of institutions has been of major concern hindering the development of all sectors of the Armenian economy, as it will be revealed on the examples of Diamond/jewelry and IT sectors in the study cases.

Nevertheless, if we agree with the earlier noted theories of Diaspora's preparedness to invest under unfavorable or less favorable conditions accepting lower returns this conventional wisdom on determination of favorable investment climate can not offer a full explanation of lower then expected Diasporan FDI inflows. As Gillespie et al. have suggested the "estimation of business impediments will not affect interest in homeland investment."[50] Therefore, if we deal with the Diaspora as an arguable economic phenomenon we have to search for other explanatory factors and determinant variables. Not undermining the importance of initial economic terms and the subsequent reforms in shaping the perception of favorable investment climate and FDI attractiveness, I argue that in case of the Armenian Diasporan involvement in the Armenian economy, there have also been crucial cultural and political factors that have effected the Diaspora's perception of homeland and their mode of involvement in the Armenia proper.

[48] Ross, 313
[49] Manasyan and Jrbashyan, 49
[50] Gillespie et al., 626

Chapter 3. Cultural and Political Factors affecting Diaspora's Economic Involvement in the Homeland in 1990-2000

The present chapter investigates the cultural and political reasons behind the Diasporas extent of involvement in the economic development of the Homeland. Through the designed theoretical framework the chapter reveals major variations in cultural and ethnic identity of the Armenian Diaspora explained by the type and time of migration experience, as well as affected by the host country characteristics. It is argued that these identity variations greatly reflected in their perception of Armenia as a homeland and the nature of their subsequent involvement. In particular it is argued that the 'old' Diaspora has had developed a political identity in contrast to the 'new' Diaspora, and its favorable perception of the homeland including the country's investment climate has been susceptible to political changes and turmoil in the country.(See Table 5)

3.1. Theoretical Framework

In reference to cultural and ethnic identity Gillespie et. al have found that "some decision makers associate culturally similar markets with lower business uncertainty" and that this perceived ethnic advantage in case of Diaspora can transcend the local market and include the market of the homeland. Therefore they conclude that "Ethnic advantage positively affects interest in homeland investment."[51] From this hypothesis it can also be inferred that the stronger is the cultural similarity the more the ethnic advantage would be a decisive factor in assessing the interest in the homeland investment. At the same time they have also found that the Homeland orientation described to refer to those who use homeland language, frequently visit the homeland

[51] Ibid., 625

and/or keep in contact with relatives in the homeland might exhibit a greater tendency to invest in the homeland, than those who do don't.[52] Similarly Johnson and Sedaca speaking in favor of Diaspora's homeland investment, point out that "due to their connection and affinities to their homeland, members of a Diaspora may accept a lower rate of return and assume greater levels of risk in exchange for 'personal rate of return'-resulting in lower cost financing."[53] Thus it can also be inferred that the stronger the connections and affinities to their homeland the higher would be the propensity to invest. Therefore, in order to understand the patterns of Diaspora investments it is crucial to identify the extent of cultural similarities and the strength of the connections and affinities to the homeland throughout different Armenian Diasporan communities.

3.2. The Divided Armenian Identity: 'Old' vs. 'New' Diaspora

The identity of the Armenia Diaspora and the type of the linkages with the homeland has been conditioned by the Diaspora's historical experience of migration over time and across space. Although the origins of the Armenian Diaspora were in commerce and trade[54] there can be identified two relatively recent migration waves that have arguably created "old" and 'new' Diasporas with different identities, and divergent perceptions towards the homeland. The 'old Diaspora' had originated as a result of Genocide and ethnic cleansing carried out by the Ottoman empire in 1915 in the eastern regions of the current Turkey or the western regions of historical Armenia. Therefore, for this Diaspora the "state of Armenia, under Soviet rule until 1991, was

[52] Ibid., 626
[53] Johnson and Sedaca, vi
[54] Robin Cohen, "Diasporas and the Nation-State: From Victims to Challengers," *International Affairs,* Vol. 72, No 3, Ethnicity and International relations (Jul, 1996): 512

not acknowledged as "the" or even "a" homeland."[55] Moreover, even the Post-Soviet Armenia is not viewed by many 'old' Diasporans as their genuine homeland but only as part of the greater Armenia. As Samuelian points out "many Diasporans' ties to a homeland lie in the historic Armenian Highlands west of Ararat and Lake Van, in Cilicia or the Black Sea cost"[56] Therefore, for the 'old' Diaspora "Armenia is more of an idea than a country that may be considered as a place of potential residency and business activity.[57]"

Several arguments can be made in attempting to explain existing identity gap between the 'old' Diaspora and Armenians living in Armenia. First of all, although Armenians have common myth of origin,[58] common language, religion, common history and have developed much of the common culture, they have also developed some cultural peculiarities over time because Armenia had been divided to Western and Eastern parts and under control of different empires, (Ottoman, Persian or Russian) for centuries. Therefore, the "old" Diaspora having migrated from the Western Armenia, already had some cultural differences as compared to Eastern Armenians. Secondly, 70 years of socialism that Armenia had undergone, contributed to the widening of the gap as the Diaspora had almost no or little involvement in the economic, social or cultural life of the Soviet Armenia.

> For the 'old' Diaspora "Soviet Armenia was a homeland that endured (and was strongly shaped by) sovietization, often to the detriment of nation, religious or political institutions and traditional heritage. Cold War attitudes and political machinations to undermine Armenian unity in certain Western communities compounded to the alienation between Diasporans and the Armenian state. These attitudes toward Soviet Armenia carried over to some extent to the post-Soviet independent Republic of Armenia." "…Culturally Russian and US Diasopras have

[55] Susan Pattie, "New Homeland for an Old Diaspora" in *Homelands and Diaporas: Holy Lands and Other Places*. Eds.: Andre Levy, Alex Weingrod, (Standford University Press, 2005), 51
[56] Samuelian et al., 11
[57] Freinkman, 338
[58] The Armenians share a common myth of origin, centered around the figure of Haik-the derivative word "hay" that Armenians apply to themselves. See Robin Cohen, *Global Diasporas: An Introduction* (Seattle University of Washington Press, 2003), 43

very different characters, in particular with regard to democratic experience and Christian values and practices. [59]

At the same time the identity gap was further wrought apart by the impact of host country characteristics on the Diaspora's identity. As Samuelian points out "Armenia's cuisine seems quite Soviet and Russian to Western Armenians, just as Lebanese-Armenian cuisine seems quite Arabic to RA Armenians. The same can be said of music, modes of interaction, manners and politeness, etc."[60]

Although some scholars refer to the 'new' Diaspora as those who have migrated from Armenia proper during the late 1980s, especially after the earthquake and throughout the first decade of independence, I argue that when discussing the characteristics and identity of the migrants the so-called 'internal' Diaspora within the Soviet Union [61] along with the ones who have migrated since the independence should also be regarded as the "new" Diaspora. The main factor that gives them similar identity and perception towards Armenia, is the fact that their homeland is the Armenia proper. Another obvious, nevertheless crucial observation is that while for the 'old' Diaspora current Armenia has a symbolic value, and so it is linked to Armenia in its nationalistic considerations through its constructed or perceived national identity, for the 'new' Diaspora, Armenia is a genuine homeland where they have left considerable part of their relatives and friends, as well as share a common historical experience and memories. The latter represents arguably much stronger linkages to the homeland. Therefore, as opposed to the 'old' Diaspora the 'new' Diaspora not only is familiar with the business 'ethics' and 'culture' of the

[59] Samuelian et al, 7, 11-12, In reference to religious practices he emphasizes that for the "old" Diapsorans the Church preserved its role of surrogate state and shaped much of their ethnic identity in the Middle East, where the Muslim/non-Muslim religious distinctions have political significance and in the West, where the general culture has absorbed the Christianity, while the identity of the Soviet Armenians have been greatly secularized and often antipathetic to Christianity.
[60] Ibid., 19
[61] The total number of the 'internal' Diapsora living within the Soivet Union in 1979 was 1.4 million and by 1996 reached about 1.5 million to 2 million. *See* Panossian, 85

transition economies (as most of them have business experience in CIS area) but also has very strong personal linkages with the homeland that both gives incentives to invest in its own country and provides with privileged position as compared to the 'old' Diasporan or truly foreign investments. For the 'old' Diaspora common identity grounds and personal links had to be established over time. Recently carried out survey that has attempted to asses the importance of the ethnic identity between the Diaspora-born and Armenia-born Diasporans reveals the fact that Diaspora-born investors who are mainly representatives of the 'old' Diaspora are mainly motivated by their ethnic identity discount while Armenia-born investors are guided by their personal contacts and are more business oriented when investing in Armenia.[62] Bearing in mind that the investments coming from the 'new' Diaspora are double the size of the 'old' Diasporan investments once again confirms the hypothesis that the personal contacts offer much stronger business linkages as compared to the perceived ethic identity discount and altruism, that positively effect the investment decision while putting the 'new' Diaspora in a more advantaged situation. It is also noteworthy that Armenians do not regard the contiguous kin communities in Nagorno-Karabakh (Azerbaijan) and in the Javakheti area of Georgia as diasporic. It is believed that they live on their ancestral lands which happened to appear in a neighboring republic.[63] Indeed in its definition of Diaspora Esman argues that term "Diaspora" should be reserved for ethnic groups whose minority status results from migration, not from arbitrary changes in state boundaries.[64]

[62] Data source: Hergnyan and Makaryan
[63] Razmik Panossian, "The Armenians: Conflicting Identities and the Politics of Division" in: *Nations Abroad: Diaspora Politics and Inernational Relations in the Former Soviet Union*, eds. Charles King and Neil J. Melving, (United States, Westview Press, 1999), 84
[64] Milton J. Esman cited in Charles King, "Nationalism, Transnationalism, and Postocommunism," In in: *Nations Abroad: Diaspora Politics and Inernational Relations in the Former Soviet Union*, eds. Charles King and Neil J. Melving, (United States, Westview Press 1999), 6

Notwithstanding all of these cultural differences rooted in historical division of Armenia and the host country characteristics, I argue that one of the most important factors that has greatly effected the Armenian Diasporan identity and has contributed to the widening of the gap between the 'old' Diaspora and the 'new' Diaspora/ Armenian citizens has been the historical experience of migration. The 'old' Diaspora is characterized as a victim Diaspora due to the genocide and ethnic cleansing.[65] The new Diaspora has mainly been composed of labor migrants that have fled voluntarily from economic considerations. In the psychology of the 'old' Diaspora, was the certainty that "Armenians only "abandoned" historically Armenian lands if forced by a foreign power."[66] Hence, "Diaspora signified a collective trauma, a banishment, where one dreamed of home but lived in exile"[67] This is indicative of the fact that while the 'new' Diaspora falls into more broad definitions of the term Diaspora[68] the 'old' Diaspora is defined as an 'archetypical' or 'classical' Diaspora[69] closer to the Jewish model.

3.3 The Political Nature of the 'Old' Diaspora

For a Nation whose political identity and nationalism have historically had their roots in the Diaspora[70] this meant a highly politicized identity for the 'old' Diaspora. Yossi Shain defines political Diaspora as people who:

[65] Cohen, Diasporas, 512
[66] Samuelian et al., 13
[67] Cohen, *Global Diasporas*, ix
[68] "Any ethnic collectivity which lacks a territorial base within a given polity" John Armstrong quoted in Charles King, 6
[69] Four traits of archetypical Diasporas: 1) the impact of experience of dispersal on a group consciousness and cohesion; 2) High level of ethno-communal organization, resistance to assimilation. 3) are able to influence policies of their host states. 4) Commitment to the homeland's protection, prosperity or liberation is central feature of diaspora communities' sense of collective identity. See Charles king , 7 also see Alex Weingrod and Andre Levy "On Homelands and Diapsoras: An Introduction" in *Homelands and Diapsoras: Holy Lands and other places* eds.: Andre Levy and Alex Weingrod , (Standford University Press, 2005), 4
[70] The Hnchakyan Revolutionary Party formed in Geneva in 1887, initially argued for independence of Armenia from Ottoman rule, The *Dashnaksutiun*, or Armenian Revolutionary Federation (ARF), founded in Tbilisi 1980 initially called for reforms within the Ottoman system, not full independence, the Armenian Democratic Liberal Party, which was formed in Egypt in 1921. See Heather S. Gregg, "Divided They Conquer: The Success of

> "…regard themselves or are regarded by others as members or potential members of their country of origin (claimed or already existing)…. Members of a political Diaspora are called upon periodically by ethnonational elements inside or outside the home-country's territory to subscribe to a particular cause or group as an expression of their ethnonational loyalty."[71]

In contrast to the CIS Diaspora that, as it has been mentioned is predominantly a labor Diaspora and is not politically organized[72] this definition is very relevant to the 'old' victimized Diaspora that has been able to mobilize and organize itself not only through religious and cultural practices but also around the ideas of Anti-Turkishness, fight for the recognition of the Genocide, and the wider "Armenian cause" that includes the acquisitions of a "Greater Armenia."[73] This combination has arguably defined their 'Armenianness' and has been reinforced particularly by the ARF Party that was in power for the short period of time of the first Armenian Republic from 1918 and 1920 which, however, was forced to leave the country as result of Armenia's sovietization. The ARF along with other Armenia political parties have formed their organizations, social clubs and lobby groups that have had strong influence particularly in the Middle East, France, and the United States.

It is noteworthy that there has been rise and fall of the degree of nationalism in the Diaspora that culminated to terrorist activities during the 1970s and early 80s.[74]

In, sum the common traumatic experience of the forced migration has resulted in the formation of a victim identity of the 'old' Diaspora that has served as a fertile soil for the already existing political organizations and parties to insure the strong organization of the Armenian

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Armenian Ethnic Lobbies in the United States" *Working paper #13*, (August, 2002): 5 http://web.mit.edu/cis/www/migration/pubs/rrwp/13_divided.pdf (last accessed 25/04/07) also see Panossian, 80

[71] Yossi Shain, "Ethnic Diasporas and U.S. Foreign Policy," *Political Science Quarterly*, Vol. 109, No. 5. Winter (1994-1995): 814

[72] Panossian, 95

[73] Ibid., 82, 96

[74] The Armenian terrorist activities were aimed at Turkish and international recognition of the Armenian Genocide. 2 ARF-associated groups: the Armenian Secret Army for the Liberation of Armenia (ASALA), The Armenian Revolutionary Army (ARA), assassinated Turkish officials in revenge of Genocide. See Gregg, 9

community and its mobilization for the 'common Armenian cause.' Evidence of the political nature of the 'old' Diaspora abound. Active lobbying activities for the recognition of the Genocide, sending foreign state aid to Armenia, as well as for the recognition of the independence of the Nagorno-Karabakh. These lobbying activities have been successful enough to receive the attention of many scholars and earn Armenia the name -"Israel of the Caucasus."[75] Another major evidence is the fact that even the Armenian Apostolic Church is divided along political lines. The initiator has been the ARF that in 1950s accusing the Head Church-Ejmiatzin's Catholicos of being the 'Soviet puppet' founded another Head Church based in Lebanon in the title of Catholicos which has been under the ARF hegemony. The split was purely political in nature (Dashnaks vs. Soviet Armenia) and not at all theological.[76] An additional evidence of the political nature of the Diaspora has been their continuous support of the ARF to capture the state power in the newly independent Armenian State. This notion is confirmed by the fact that the ARF has been able to effectively leverage the Assistance coming from the Diaspora through its networks to gain power and influence in Armenia proper. The major organization through which the ARF was fundraising for Diaspora Assistance has been the Armenian General benevolent Union (AGBU) that, "although intended to be non-partisan (…) has remained largely partisan."[77] The first president Ter-Petrossian administration tried to eliminate this ARF's source of influence through the establishment of the "All Armenia Fund" in May 1992, to become the main fundraising organization to represent all Armenian organizations that would coordinate and centralize the efforts of the Diaspora through government agencies. Although the Armenian Fund has been designed to be strictly non-partisan fundraising body it

[75] Ibid.
[76] Panossian, 83
[77] Gregg, 15

has also been susceptible to homeland-Diaspora tensions.[78] Precisely because the ARF has been largely speaking on behalf of the 'old' Diaspora "the line between the ARF and the Diaspora was blurred in the minds of many Armenians."[79] Therefore, when Armenia regained its independence in 1991 the "old" Diaspora's perception towards the homeland and the subsequent involvement in it has been overwhelmingly political rather than economic, as opposed to the 'new' Diaspora. As the head of the Head of the Diaspora Agency put it "the 'old' Diasporans have a "political perception" towards Armenia, while the 'new' Diasporans have an "economic" one.[80]

Therefore the major goals of the 'old' Diaspora in the independent Armenia became political rather than economic while its involvement humanitarian in its nature. After considering all these factors, it comes as no surprise that the bulk of the investments have come from Russia namely the 'new' Diaspora and not from the United States where the 'old' and rich Diaspora is mainly concentrated.(See Graph 3.).

3.4. Armenia -- 'old' Diaspora Political Antagonism and its Economic Implications

The independence of Armenia in 1991 "has created a new focus for Diaspora Armenians' imaginations, dreams, and hopes" [81] and "brought unprecedented contact and opportunities for cooperation between the Diaspora and the kin state."[82] However major political differences arose when the Dashnaks came to oppose the first Armenian government on several fundamental issues that contributed to the widening of the gap. The most salient lines of antagonism on the

[78] For example, in 1995 the ARF withdrew its support because of the party's opposition to Ter-Petrossian. See Panossian, 92
[79] Ibid. p. 87
[80] J., Movsisian, Head of Diaspora Agency, Ministry of Foreign Affairs of Armenia, Interview by author, Yerevan, April 16, 2007
[81] Pattie, 60
[82] Panossian, 86

foreign policy side have been the policies concerning the Nagorno-Karabakh and Turkey. On the Nagorno-Karabakh issue Dashnaks opposed any resolution to the conflict that would fall short of complete independence, "ruling out any settlement that would restore Azerbaijani sovereignty over the enclave.[83] In contrast, Ter-Petrossian administration developed a more moderate and compromising strand on the conflict resolution. The main opposition parties joined the Dashnak position when the president agreed to the so called 'phased' or 'step-by-step' strategy in the conflict resolution.[84] The second issue has been the clash of policies concerning Armenia's foreign policy towards Turkey, that to a certain extent persist to this day, is the reality that while the Armenian government wants to reopen the border and normalize its relations with Turkey without any precondition as an imperative for socio-economic development, the Dashnaks have continued with their hard strand of Genocide Recognition with all subsequent legal repercussions as a precondition to establishing a good neighborly relations with Turkey.

On the domestic politics dimension the "opposed the mass privatization program, arguing that the large enterprises and the infrastructure should remain under the government control.[85] They also harshly opposed to prohibition of the Dual Citizenship rights for the Diasporans set forth under Article 14 of the constitution adopted in July 1995. The supporters of the dual citizenship idea argued that its introduction would raise the efficiency of the Diasporan assistance as well as increase foreign investments and bring Diasporans closer to their

[83] Emil Danielyan "The Re-legalization of Armenia's Dashnak Party on the Cards" *Prism* Vol. 3, Issue 20, December (1997)http://www.jamestown.org/publications_details.php?volume_id=4&issue_id=235&article_id=2672 (last accessed 10/11/07)

[84] The opposition opposed the 'phased' strategy as it provided for the determination of the Status of Nagorno-Karabakh after the withdrawal of the Armenian forces from the region and the occupied territories, instead they favored the "package" solution that would resolve all the issues in one document.

[85] Panossian, 90

homeland.[86] Opponents of such legislation that mainly composed the ruling elite argued that granting of dual citizenship rights "would give members of the Diaspora too much political clout within the republic while their long-term commitment and responsibility to it could not be guaranteed"[87] as well as would "lead to loss in the country's sovereignty."[88]

These conflicts resulted in the banning of the activities of the oldest and strongest political party in the Diaspora-the ARf. In January 1995, the Armenian Supreme Court formally suspended the party's activities banned the party on the grounds of violating the law that prohibits foreign nationals to belong to Armenian political parties. Ter-Petrosian's ban on ARF was seen as "landmark in Armenia's retreat from democracy… a political expedience rather than observance of the rule of law."[89] It was believed that the real motivation behind the ban was the government's desire to "curb the growing authority of the opposition."[90] Most importantly Ter-Petrossyan's activity greatly effected the political Diapsora's perception of the homeland investment climate resulting in lower amount of DCIR after 1995 coming from the United States and Iran. Political changes in the government in the later stages of independence also effected the Diasporan investments. Particularly the elimination of the ban on the Dashnak party by the second President Robert Kocharian in 1998 positively effected the Diaspora perception towards homeland increasing investments in subsequent years.(See Table 5) The slight decrease in US and Iranian DCIR in 1999 is probably attributable to the political turbulence resulted by the

[86] Tigran Avetisyan "Armenia: Dual Citizenship Debate: Is a proposed relaxation of citizenship laws a benefit or a danger for Armenia?" *Institute for War and Peace Reporting* Oct. (2004) http://iwpr.net/?p=crs&s=f&o=159297&apc_state=henicrs2004 (last accessed 20/10/07)
[87] Panossian, 90
[88] *The Armenian Economist* "On Dual Citizenship" March 2007, http://armenianeconomist.blogspot.com/2007/03/on-dual-citizenship.html (last up accessed 19/10/07)
[89] Danielyan
[90] SBS World Guide

assassinations in the National Assembly.[91] In contrast, Diaspora-connected investors from Russia and other countries of 'new' Diaspora communities have not been affected by these political changes to the same extent. The 1998 decline in the amount of the Russian DCIR is rather connected to the Russian economic crisis. In general investment dynamics, as Hergnyan and Makaryan notice, the reactions of the Diaspora investors are with a lag: reacting faster in case of negatively perceived events and slower reaction is demonstrated in case of positive changes. This is natural for the investors await the results of the changes and the sustainability of the more favorable investment climate.

In sum, it can be concluded that because the 'old' Diaspora had a very strong political identity its involvement in the homeland has been political, and thus the perception of Armenia's investment climate has been greatly dependent upon the political realities. This attitude and perceptions of the 'old' Diaspora have stood in sharp contrast to the 'new' Diaspora which, has not been political, owing to a large extent to a different historical experience of migration.

[91] On October 27 1999 a group of gunmen entered the National Assembly and opened fire, killing the Prime Minister and several influential MPs from the opposition.

Chapter 4. Shifting Economic Trends and Diaspora-Armenia Perceptions

In the last 15 years, Armenia has emerged from Soviet rule and a severe economic crisis to become a "Caucasian tiger." Despite limited extractive resources, it has achieved an average annual GDP growth rate of around 10 percent over the past 10 years, rising to 13-14 percent in 2005 and 2006. Armenia's poverty rate has dropped from over 55 percent at the start of the transition to around 30 percent today.[92]

This Chapter briefly overviews Armenia's economic performance since 2000 that includes a better investment climate and increased amounts of Diasporan investments. In explaining the rationale behind the government's deviation from the partial reform, it is argued that both the ruling elite's incentives to gain economic power as well as the imperative to gain public and political support including the Diasporan, to assure their legitimacy have been decisive factors. It is also claimed that Armenia-Diaspora political rapprochement has insured a more favorable perception towards the homeland that has been positively correlated to their perception of the favorable investment climate, increasing Diaspora investments in the homeland. It is also argued that these political and economic changes favorably perceived by the 'old' Diaspora, as well increased socialization has resulted in the Diaspora's de-politicization that in turn has positively affected their preparedness to invest in Armenia and not send assistance. It is generally argued that globalization and increased contact opportunities with the homeland reshape the Diaspora's perceptions closing the identity gap and turning Armenia from a mere symbol to a 'real' country.

[92] "Armenia: Reaping The Benefits of Steady Reforms" *IDA at work* (International Development Agency) February (2007): 1 http://siteresources.worldbank.org/IDA/Resources/IDA-Armenia.pdf (last accessed 01/11/07)

4.1. Armenia's economic performance since 2000

The demonstrated high growth performance of Armenia especially since 1999-2000 has earned the positive assessment of international development organizations. As the World Bank experts conclude "over the past half-decade the Armenian economy has grown by double-digit rates annually on average – reminiscent of the East Asian tiger economies…This impressively consistent performance can be attributed to the steadfast pursuit of market-oriented reforms, assisted by large external inflows on grant or soft terms."[93] Moreover, this economic development has been export-led. Exports as a percent of GDP doubled between 1999 and 2004 from 20 percent to 40 percent (see Graph 1) while total investments averaged 19 percent of GDP during 1996-2000, increasing to 23 percent of GDP in 2001-05. As compared to other CIS economies, none of them recorded such a strong growth in the period of 1999-2004.[94] Armenia has been recognized as one of the fastest growing economies in the world. [95] It has one of the most liberalized trade regimes among the CIS. [96] The country's successful accession to the WTO in December 2002 is a benchmark in assessing its progress in liberalizing its trade regime. By mid-2004, according to the EBRD report on transition indicators Armenia was positioned ahead of other CIS countries on all dimensions of structural reforms (see Graph 2).[97] Armenia continued to lead the way in terms of reforms in 2005 as contended by EBRD report on Western CIS and the Caucasus.[98] Diasporan investments also increased substantially during this period as evidenced by the statistics on DCIR. (See Graph 3) This is not to offer, however that there are no

[93] Saumya Mitra et al., ""Armenia The Caucasian Tiger" Volume 1: Policies to Sustain Growth," The World Bank Poverty Reduction and Economic Management Unit Europe and Central Asia Region, Washington DC June 23, (2006): xiii http://siteresources.worldbank.org/INTARMENIA/Resources/ArmeniaCEM_Volume1.pdf (last accessed 09/11/07)
[94] Saumya Mitra et al., 6-7
[95] Manasyan and Jrbashyan , 5
[96] Umurzakov, 19
[97] Gelbard, 4
[98] EBRD annual report 2005, http://www.ebrd.com/pubs/general/ar05f.pdf

crucial challenges and obstacles that still need to be overcome to assure the sustainability of the high growth rates. Scholars and researchers examining the Armenian investment climate, measuring its competitiveness, point out to major issues connected with corruption, imperfections in legal system, unequal competition, oligarchy etc as serious challenges that threaten the sustainability of the impressive economic growth. Nevertheless the positive trend of reforms and progressive economic development is undeniable. Meantime, it has also been emphasized that "A key element in the reform process has been a shift in the role of the state." At the same time the major shift towards growth has been recorded since the second president Robert Kocharian came to power as IDA notes "when a new government was appointed in 2000, stability and reform momentum were renewed."[99]

Therefore, the major question to be explored further is what reasons have been behind the new government's deviation from the partial reform strategy.

4.2. Rationale Behind the Deviation from the Partial Reform Strategy

I argue that the shift in the government policy has been rooted in political considerations as well as ruling elite's ambitions to obtain economic power. First of all since Ter-Petrossian's legitimacy crisis have been centered around the resolution of the Nagorno-Karabakh and increasing confrontation with the ARF, the new leader had to offer an option that would earn him the crucial public support including Diasporan. He also had the task of winning the favor of the political opposition that predominantly sided with the Dashnaks especially on the Nagorno-Karabakh issue. Not surprisingly the new president Robert Kocharian's political agenda has been greatly aligned with the ARF's, while one of the first steps of the president was the reinstatement

[99] "Armenia: Reaping The Benefits of Steady Reforms," 2

of ARF as a political party in Armenia[100] and entertaining of considerations of amending the constitution to allow the right of Dual citizenship. As an Armenian journalist has noted "the administration of Robert Kocharian is much warmer towards the concept."[101] In fact, with the successful passing of constitutional amendments in November 2005 the constitutional ban on dual citizenship was lifted from the Armenian Law.[102] However, there has been an extensive debate on the practical significance of its provisions, particularly in reference to land ownership and voting rights. The issue is precisely the fact that the right of land ownership by foreigners that have Armenian descent had also been provided by earlier laws, under the first constitution while in accordance with the new one the Diasporan Armenians will be able to exercise their voting rights only when in Armenia, as the voting procedures in the Embassies of Armenia abroad have been canceled. Moreover, only those Diasporans will be able to maintain a dual citizenship whose host states will sign a corresponding bilateral agreement with Armenia. Especially taking into account the fact that the countries with major accumulation of Armenian communities do not provide for Dual citizenship (e.g. Russia, United States) one can be highly suspicious of the effectiveness of such legislation.

Nevertheless, it has been argued that the provision on the dual citizenship has had a psychological significance for the Diaspora; it hold an important message that Armenia is now open for the Diaspora's proactive involvement.[103] In other words Kocharian adopted agenda of political economic and cultural rapprochement with the Diaspora. As Manasaryan points out "If before 1998, a tendency to undermine the Diaspora's political structures and to indirectly impede

[100] Robert Kocharyan issued a decree on 6 May lifting the ban on the activities of the Dashnak Party. "Armenian President Reinstates Dashank Party" Radio Free Europe/Radio Liberty, Vol. 2, No. 87, (7 May 1998) http://www.hri.org/news/balkans/rferl/1998/98-05-07.rferl.html#02 (last accessed 23/09/07)
[101] Tigran Avetisyan
[102] Richard Antaramian, "Is there a dual citizenship model for Armenia? Some reflections on the usage of the terms "Armenia," "Homeland" and "Diaspora" *Armenian Journal of Public Policy (*2006): 69 http://www.aiprg.net/UserFiles/File/journal/special_issue_2006/ra-6.pdf (last accessed 20/11/07)
[103]Movsisian, interview

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."[104] Another foreign policy objective sensitive to the 'old' Diaspora has also been aligned with the position of the ARF, namely issue and the Genocide recognition. Although the Genocide recognition still remains not a pre-condition for the normalization of Armenia's relation with Turkey, it has been declared a fundamental foreign policy objective. A major evidence of convergence of Kocharian's most policies with the ARFs' is also the fact that ARF ceased to be an opposition party comprising the ruling coalition.[105] Meanwhile, positive political perception towards the homeland have positively effected the Diaspora perception of a more favorable investment climate in Armenia, as evidenced by the increase in the Diasporan investments since 1998. (See Graph 3) While the Diapsoran investments further attracted more purely foreign investments, these investors have been interested in pushing the government for the further reforms to insure the crucial institutional underpinnings to sustain their investments. In sum, the favorably perceived investment climate spurred Diasporan investments that in turn attracted foreign investment, while both of them advocated and pushed for further reform.

Notwithstanding these essential external push factors for reforms generated by the Diasporan and foreign investors I claim that the rationale behind the government's deviation from the partial reform has also been the new ruling elite's aspirations to gain their share of economic power. The new political elite had serious incentives, to deviate from the partial reforms politics and carry out further reforms on market liberalization essential to allowing new entries into the market-theirs'. These initiated reforms have been first of all appreciated by the Diasporan investors that have been further encouraged to invest. Hence, the shift in the

[104] Manasaryan, 2
[105] Nona Muradyan journalist within the National Assembly, interview by author October 20, 2007

government policies towards the reforms has been conditioned by both the external and internal 'push' factors, while the increased Diasporan interest to invest has coincided with the strong government incentives to reform.

4.3. Closing the Identity Gap

Generally there has been emphasized Diaspora rhetoric used by the government targeted at bringing the Diaspora closer to the homeland, which aside from attracting further FDIs has also been motivated by the aim to renew the Diasporan assistance efforts that had been decreasing with the degradating image of the first government.[106] In order to reach out to the Diaspora the government facilitated wide-range of Pan-Armenian social and cultural events. The first Diaspora/Armenia conference held in Yerevan in 1999 was the first major event that had important ramifications As Pattie notes "the symbol of one concrete homeland, Armenia, was further solidified, and the Diaspora was drawn, at least partially, into the realities of nation-state politics." [107] This was followed by the celebration of 1700 anniversary of Christianity in 2001, several pan Armenian Games, the 90th Anniversary of the Genocide and two more Diaspora-Armenia conferences organized in 2004 and 2006 that have targeted different current issues connected with all aspects of Armenian life. Investment Conference in NY, and Diaspora-Armenia Economic Conference should be pointed out that fueled the process of Diaspora-Armenia investment relations, that have had tangible results increasing the share of DCIR in the total number of foreign investors, reaching 84% in 2005.[108]

I claim that the convergence of the political agendas combined with the government fostered Diaspora-Armenia socialization resulted in de-politicization of the Diaspora. The new

[106] The Diaspora Armenian willingness to provide assistance on the governmental level started to fade as they become aware of its appropriation by state officials. Decline in Charitable activity can be observed in almost all communities of the Diaspora, while charity by organization gave way to individual donations. See Manasaryan, 8
[107] Pattie, 51
[108] Hergnyan and Makaryan 9

generation of the 'old' Diaspora started to visit their 'symbolic homeland'. Getting to know the country and the people better they have started to a certain degree identify with it contributing to closing of the identity gap. Similarly Samuelian points out that "this new generation is beginning to forge ties between traditionally separate camps, while old rivalries have lost their emotional draw, and more realistic attitudes and a sense of urgency about Armenia are helping to overcome the resistance to openness and collaboration."[109] Moreover, through increased tourism and especially government facilitated events they establish personal and business contacts, which arguably will, over time, supersede any political consideration, when making decisions to invest in Armenia. This socialization has created direct linkages between the 'old' Diaspora and Armenia proper that have come to replace their involvement merely through structures of political or politicized organizations.[110] In discussing the current trends in the "old" Diaspora Samuelian also notes "Diasporans prefer private to public institutions to maintain ties with Armenia…while contact is gradually creating multi-cultural Armenians who are overcoming the initial impulse of rejection and becoming conversant and comfortable with range of Armenian subcultures."[111] It can further be argued that if these trends continue the 'old' Diaspora perceptions towards homeland would increasingly match the 'new' Diasporan perceptions, namely a more realistic perception of the homeland and a more pragmatic economic involvement in it.

All of the above mentioned factors indicate that one cannot evaluate the trends or opportunities of economic development of Armenia not taking into account or underestimating the influence and the practical significance of the Armenian Diaspora phenomenon. However,

[109] Samuelian et al., 14
[110] According to the recent survey results, Diasporans maintain ties to Armenia through: friends and family (86.4%). through internet (77.7%), social and cultural organizations (63%), newspapers (54%) and church (48%) institutional ties. See Ibid., 15
[111] Ibid, 15

The efficient utilization of the Diasporan resources in terms of investments, marketing networks and promotion of Armenian goods can be a major comparative advantage that Armenia yet has to obtain.

Chapter 5. The IT Sector in Armenia

The aim of the present study case is to understand Armenian IT sector's determinants of successful development. While emphasizing the role of the Diaspora in this development process the present chapter argues that much more needs to be done in regards to efficient utilization of the Diasporan resources. It also points out the fact that the IT sector has succeeded partially because of the absence of domestic elite's interests in this sector at the given time. A comparison with Ireland's IT sector will be made with the aim of determining if the Irish model can be applicable to the Armenian case. The revealed divergencies of the development paths can offer important considerations on the future policy making for the further development of the sector.

5.1. Overview of the sector

Armenia's IT/Software sector is one of the most successful and fastest growing industries in Armenia that has demonstrated promising dynamics in the last decade. The number of IT companies in 2006 is around 150 which represent 20% growth in 1998-2006. The sector is comprised of both indigenous and foreign companies. In 2006 Armenia's IT sector has generated around $84 million as compared to $38 million in 2003 and constitutes around 1.7% of GDP. The share of foreign and local company revenues is approximately the same as in 2003 58% ($49 million) and 43% ($35 million) respectively. The domestic market is dominated by the service sector, which constitutes about 84% (as compared to 82% in 2003) and is dominated by the indigenous firms (88% in 2006), which results in their low productivity because of small domestic market. While foreign companies account for nearly 80% of all exports, only 22% of

the domestic market is captured by them. The total workforce employed by the IT sector in 2006 has been around 4200 professionals as compared to 3000 in 2003[112].

The progressive development of the Armenian IT sector is mainly explained by the highly qualified workforce at very competitive wage rates (see Graph 4). The existence of the qualified human capital in its turn is explained by the Soviet legacy, and the 50 years old tradition of multigenerational IT skills. Armenia was considered the leading center of computing technologies and was regarded as the Silicon Valley of the Former Soviet Union. It had about 40 research and development institutes the biggest of which was Yerevan R&D Institute of Mathematical Machines, which had about 10000 employees and was producing both hardware and the corresponding software mostly for Soviet military and space industry needs[113]. At the end of 1980s Armenia was supplying almost 30% of these industries[114].

However, I claim that the rapid growth of the Armenian IT sector and successful attraction of FDIs can not be explained only in terms of cheap and qualified labor and the legacy of scientific institutions for number reasons. First of all, the previously mentioned scientific institutions after the collapse of the Soviet Union were in stagnation for several years, while the early 1990s were the most revolutionary years for the high technologies and computer development. Therefore, the laboratories and equipment in these scientific research institutions became obsolete. The second factor is the largest brain drain in the history of the country during the same period of time. The best Armenian scientists have migrated to developed countries in search for better jobs and better living conditions. Nevertheless, the IT sector has been able to

[112] "Armenian Information Technology Sector, Software and Services" Enterprise Incubator Foundation (EIF) Report on the State of Industry, Yerevan (2006) http://www.ada.am/IT_Sector_in_Armenia.pdf (last accessed 07/01/07)
[113] Umurzakov, 8
[114] "IT/Software Sector in Armenia," Armenian Development Agency ,Yerevan, (2004) http://www.ada.am/html/our_publications.html (last accessed 07/01/07)

overcome this hurdles and pave its way to progress. What was the impulse that drove this progress? If compared to Ireland, which is considered one of the leading countries of IT/Software development in the world, several striking similarities and key differences can be revealed that can offer an understanding of Armenia's development path.

5.2. Comparing Armenia with Ireland: Can Armenia repeat Ireland's success?

Both of these countries experienced economic crisis in l980s and the early 1990s followed by mass unemployment and major brain drain. However, both countries were able to record growth since the mid-1990s. Ireland was obviously more successful in attracting foreign investments for a number of economic and geopolitical reasons. But "the growth in Ireland was driven not just by foreign investments but by two relatively distinct modes of integration into the global economy-the partial local embedding of global corporate networks and the increasingly successful integration of local networks of indigenous firms into global business and technology networks"[115]. Although, at present the IT sectors in both countries consist of foreign and indigenous firms, the specificity of Irish indigenous companies was in their ability to integrate to the global IT networks and successfully export as opposed to the Armenian local firms that have few exports and are domestic market oriented. O'Riain points out that Irish State was able to "nurture post-Fordist networks of production and innovation, to attract international investment and to link these local and global technology and business networks together in a way that promote development," which could not be achieved in isolation but depended on its relation to the society to succeed.[116] Referring to what Evans called "embedded autonomy" characterizing the developmental states of South East Asia, O'Riain labels the Irish State as Flexible

[115] Sean O Riain, "The Flexible Developmental State: Globalization, Information Technology and the "Celtic Tiger," *Politics and Society.* Vol. 28, No. 2 June, (2000): 156
[116] *Ibid p. 165*

Developmental State (FDS). As compared to Evans's developmental state Irish case is characterized by "multiple embeddedness" of State in professional-led networks of innovation and in international capital and by state's flexible organizational structure that enables the effective management of this multiplicity"[117]. Therefore Irish state, having sufficient state capacity was able to play a central role in the development of the IT sector both in attracting the multinational corporations, and most importantly in helping to create networks of indigenous firms and supporting them to internationalize. It follows that the fragmentation of the Armenian local companies and their low capacity of export is the result of the weak state capacity with poor "embedded autonomy," not being able to fit neither under BDS nor FDS models. Nevertheless, the Armenian IT sector is undeniably growing, with foreign companies investing in large R&Ds and promoting IT related education, seeing potential to expand. There has been a major reorientation in the higher education towards the IT which hasn't been a state project (as was the case in Ireland) but rather has been market driven.[118] Than what is the key to understanding Armenia's success in this sector?

I claim that one of the most important and decisive factors that helped the fast development and growth of the Armenian IT sector under conditions of poor or no state capacity, are "linkages" between Armenia and the Diaspora. Than one could wonder why IT sector and not other sectors of the industry with similar long standing traditions, cheap labor and potential has been targeted? Writing about linkages Stallings also points out that the "effectiveness of linkage networks vary depending on economies' structure-openness and the state of international

[117] *Ibid p.164*

[118] Several international firms: LEDA Systems and Lycos and Synopsis have initiated the establishment of IT centers within State universities. By their mediation in the curriculum development and innovations they hope to increase the amount of skilled labor essential for companies' expansion that have been cited as the most important issue in Armenia. A representative of 'Synopsys Armenia CJSC' and L. Avetisyan, representative of 'Lycos' computer software manufacturing company, interview by author Yerevan, April 17, 2007

market."[119] I argue that at the dawn of the IT sector in Armenia during the mid-1990s it was largely neglected by the local elite and regarded as burdensome rather than profitable sector to invest in. As a result of partial reform the local elite, having privatized and monopolized all other comparatively "profitable" businesses, showed reluctance towards the IT sector that has assured its "openness" and has allowed the easier penetration of other interested parties into the market as compared to the sectors under elite monopoly, which were hostile to the new market entries. The Armenian Diaspora's impact on the development of the IT sector is evident in the statistics of the origins of the foreign companies. 70% of the foreign companies come from US and Russia, which are the two major countries of concentration of Armenian Diaspora[120] (See Graph 5). Diasporan investors acting as 'first-movers' have played a key role in catalyzing the IT development in Armenia.[121] It is argued that "these companies entered the Armenian market as a result of trial outsourced contracts successfully completed by a new generation of Armenian programmers that were trying to earn their living in difficult years (1993 and 1994) by learning new programming languages and by contracting Diasporans for possible outsourced contract opportunities."[122] This notion is consistent with Kapur and McHale argument that Diaspora can have an indirect impact by acting as link between the host and the home countries. Particularly, by being a representative of a larger population on their homelands they can attract foreign business interest by signaling to rich human capital of their home country.[123]

[119] *Ibid. p. 54*
[120] *"Armenian Information Technology Sector, Software and Services"* Report on the State of Industry, Yerevan 2006, p. 8, http://www.ada.am/IT_Sector_in_Armenia.pdf
[121] The first movers in ICT sector in the early 90s, were Synergy International Systems, ViaSphere International, Hylink Cooperation, HPL Internationa, and Khartia New companies were further attracted in 1997-1999, with investments from other Diaspora-owned and foreign companies (Boomerang Software, Credence Systems, Virage Logic, E-Logic, Shant Laboratories, etc.) See Hergnyan and Makaryan, 11
[122] Hergnyan and Makaryan, 11
[123] Cited in Lindsey Lowel and Stefka Gerova, "Diasporas and Economic Develoment: State of Knowledge" **Error! Main Document Only.**Institute for the Study of International Migration (Georgetown University, 2004): 3

The government also reoriented itself towards the promotion of the IT sector development. On December 28, 2000 the IT sector has been recognized by the government as a priority sector of economy. In 2001 the government in collaboration with the World Bank and USAID, developed the ICT Master Strategy and the ICT development and implementation plan aimed at establishing Armenia as a regional ICT hub.[124] In addition, different international forums have been organized for the promotion of IT sector in Armenia, in cooperation with Diasporan organizations. The most recent one has been in March 29th 2007 in France.[125] The IT Department of the Ministry of Trade and Economic development of RA has been playing as an intermediary between the local IT companies and major international forums and opportunities to keep them both updated of the latest developments and help them to be represented on the international level. It has been cooperating with major Armenian Diasporan and international organizations to help create business and marketing networks and attract support towards the Armenian IT sector.[126]

Since 2000 major purely foreign companies have entered Armenian IT sector such are the Synopsis, Lycos, and Cad International etc. Most of them were motivated by the favorable combination of highly skilled and low-cost labor.[127] At the same time, however, as Kinoshita and Mody found new investments are positively correlated to its own previous investment and/or the current/planned investment by competitors, implying the possibility that the private information held by others signals investment potential.[128] In case of Armenia's IT sector the first Diapsoran investments attracted non-Diasporan competitor companies. Therefore, "strongly

[124] Nathan Association Inc. and J.E. Austin Association Inc., 68
[125] Azizyan, J. Head of Division of informational technology development, Ministry of Trade and Economic Develoment of Armenia, interview conducted by author, Yerevan, April 18, 2007
[126] Ibid.
[127] Lycos, Synopsys and Synergy International, Interview by author, April 17, 2007
[128] Yuko Kinoshita, and Ashoka Mody, "Private Information for Foreign Investment in Emerging Economies," *Canadian Journal of Economics,* Vol. 34, No.2, Canada, (May, 2000)*:* 448-468

Diaspora-influenced start helped position Armenia as an IT country and attract international brands into Armenia."[129] These linkages will not only help to attract further foreign investments but if appropriate marketing networks will be developed between Armenia and the Diaspora it will also help the local Armenian firms to find their niche of specialization in the global market alike the Irish indigenous firms. Therefore, more efficient utilization of Diasporan linkages coupled with the government support mainly financed by international donor organizations like EU, UNDP, World Bank, USAID, as well as complimented by major MNC investments can assure a promising future for the development of the IT sector in Armenia.

[129] Hergnyan and Makaryan, 11

Chapter 6. The Diamond/Jewelry Sector in Armenia

The aim of the present study case is to investigate the development of the Diamond/jewelry sector of Armenia, showing the origins of the achieved success and the limits of the government policies. Through a comparison with the "Third Italy" I try to show the similar potential existing in Armenia, while indicating the important role that both state agencies and the Diaspora can play in the creation of local inter-firm networks, and their integration into the world markets through Diasporan channels.

6.1. Overview of the Industry

Jewelry and gemstone industry has been one of the fastest growing sectors of Armenian economy. During the period from 1997-2004 the revenues of the industry grew from $23.8 million to $224 million. The number of the enterprises operating in the sector grew from 5-50 increasing the workplaces from 1300-5000[130]. The sector is dominated by a handful of major foreign investments that have been attracted by skillful diamond cutters with competitive low wage rates, modern equipment and tax privileges (no taxes on the import of raw materials and on the export of the finished products) in Armenia.[131] Currently Armenia is among the first 10 diamond processing countries in the world. The share of the gem diamonds in 2004 was 39% of the total export.[132] The National Labor Productivity is second only to the IT sector, indicating the potential of the Diamond/Jewelry sector of being the economy's highest productivity sectors.[133] However, the sector almost completely depends on the import of the raw materials, as Armenia possesses very little natural endowment of gold and none of rough diamonds. As

[130] Ministry of Trade and Economic Development of Armenia, http://www.minted.am/en/105/295.html
[131] Armenian Development Agency www.ada.am
[132] Business and Economics, http://www.eurasianet.org/
[133] Nathan Association Inc., J.E. Austin Association Inc, 72

Dicken notes "a weak natural resource endowment will necessitate the import of essential materials that in turn must be paid for by exports of other, usually manufactured products."[134]

The success in this industry is largely explained by the fact that in jewelry handicrafts Armenia has its own rich cultural tradition that has been developing since ancient times. The developed traditions, jeweler secrets and skills have been passed from generation to generation insuring cultural distinctiveness and development of this industry which further evolved during the times when Armenia was a part of the Former Soviet Union (FSU). Several major factories were established during this time period, which upgraded the technologies and widened the scope of the production. In 1951 Yerevan Jewelry Factory was established, which was employing 1300 workers and was annually delivering 6000 kg. of jewelry production to the FSU. This was followed by the establishment of the diamond processing company in the town Nor-Hajn, which became one of the seven largest plants for diamond processing in the territory of FSU, the annual production rate of which made 50 million rubles in 1986[135]. After the collapse of the Soviet Union followed by the disintegration of the supply structures and the transition to free market economy, the state has lost its monopoly over the industry. The short period of fragmentation of the diamond/jewelry producing companies was followed by major foreign investments from Belgium, Israel, UK and India. Strong government support and foreign-investment oriented policies (i.e. tax exemption incentives) as well as restoration of the former ties with biggest Russian companies contributed to the growth.[136]

[134] Peter Dicken, *"Global Shift. Reshaping the Global Economic Map in the 21st Century" Sage Publications*, Fourth edition *(*London, Thousand Oaks and New Delhi. 2003),130

[135] Ministry of Trade and Economic Development of Armenia, http://www.minted.am/en/105/295.html (last accessed 05/11/06)

[136]Intergovernmental agreement provided that Russia allocates export quotas of rough diamonds to Armenia. The agreement expired in 2007. Mkrtchyan, G. Division of jewellery and gemstone industry Ministry of Trade and Economic development, interview by author, Yerevan, April 18, 2007

Armenian Diaspora's involvement in the sector has had a crucial importance especially in early 1990s. From 1994-1996, the first movers in the Diamond/Jewelry sector were the Arslanian Family from Belgium and several investors from the US, Russia, and Syria. In 1996, Lily Jewelry, Canada-based-economy, entered Armenia. The Moscow Diaspora facilitated deal in 1998 with Furfan Ltd. that acquired the Diamond Company of Armenia is an evidence of the significance of Diasporan networks utilization. Moreover the processed diamonds were also distributed mainly through Diaspora channels.[137] Acting as role models these companies by their successful operation have attracted purely foreign investors by changing their perceptions of the investment climate. One noteworthy example among big foreign investors is the famous owner of the LLD Diamonds, Lev Levaev that acquired the Armenian Shoghakn Company. [138]

While the development of large diamond processing companies has created many workplaces it does not greatly contribute to Armenia's state budget given the fact that they are exempted from the excise and value-added tax. Moreover, the figures of the sector's growth do not include individual jewels, most of whom are not registered and are working in the so called "shadow economy."[139] While the Armenian government has from the very beginning greatly supported the foreign investments it has paid much less attention to the development of assistance programs to indigenous small and medium-sized enterprises operating in this sector. The government's failure in this respect is mainly conditioned by the low state capacity and poor infrastructure of local governmental agencies, and institutions which had to be developed from scratch. At the same time, foreign investments captured existing large companies in Yerevan and its adjacent areas, leaving the existing potential in the regions underutilized and widening the gap

[137] Hergnyan and Makaryan, 12
[138] In 2003 and 2004, Diasporans from the United States, Russia, Jordan, and France invested in nine more companies. Ibid. p. 12
[139] Anonymous Individual Jeweler, interview by author, Yerevan, April 11, 2007

of inequality between Yerevan and the Armenian regions. As a result, the individual jewelers and local SMEs both in Yerevan and in the regions have been marginalized, deprived from accessing the foreign markets and have to work within a very small domestic market. These low-end producers of jewelry receive low returns also due to their inability to make guarantees of product authenticity or quality as there is no certification program or agency that certifies either diamond cutters or jewelers, or their products.[140]

The poor government support and weak local authorities have not promoted the development of the inter-firm networks and business associations among the existing small firms that were evident in case of the Third Italy.

6.2. Is the model of Third Italy applicable to the regions of Armenia?

As Best points out "It is common in Italy, unlike in America or Great Britain for a worker to develop craft skills with the aspiration of establishing his/her own business in which he/she will continue to practice those skills."[141] This has traditionally been the case of Armenia as well, especially before becoming a part of the Soviet Union, Armenians have had long tradition in different crafts (carpet manufacturing, metal products, shoemaking woodworks, jewelry, etc.). There were well-known families of artisans that passed the traditions of arts and crafts for several generations. Therefore, Armenia had the potential to have a similar development as the Third Italy. Taking this similarity into account we should define the factors that determined the government's choice of development path in favor of big rather than not small firms. First of all it is the legacy inherited from the former Soviet Union. Under the communist rule, unlike the policies carried out in the Third Italy where "the communist local governments invoked

[140] Nathan Association Inc., J.E. Austin Association Inc. p. 73
[141] Michael Best, "*The Third Italy: Regional Cooperation and International Competition*" . In: The New Competition, Institutions of Industrial Restructuring, Cambridge. MA: Harvard University Press, 1990, p. 210

democratic processes…and an alliance with small businesses"[142] there was no room for private ownership in Armenia. The workforce was engaged in mass production of design-dependent products in big factories that were aimed at satisfying the demand in the former USSR. Nevertheless, one could hope that after the collapse of the USSR, this rich tradition could have been revived. However, having inherited the Soviet legacy of institutional and social construction, inconsistent with the new conditions of liberal market, Armenia didn't have the state support mechanisms and infrastructure that were evident in the Third Italy. Armenia was one of the highly industrialized republics of the Former Soviet Union with big state-owned factories employing hundreds and thousands of people. Therefore the logical response of the state was to fight the mass unemployment resulting from the economic crisis by supporting the recovery of the big factories, which used to have organized labor unions, instead of adopting policies that would support the formation and development of the SMEs. This was a hard task for many industries that required technological upgrading, but it was comparatively an easier task in case of diamond and jewelry industry where the existing skilled labor was playing a central role, while technology used was not yet obsolete. I claim that at least at beginning stage this government policy was socially embedded as the workers who had lost their jobs at the factories, had no entrepreneurial skills as a result of over 70 years of "collectivization." Yet, this does not mean that the people had lost their traditions and skills in different crafts, but their failure to establish private enterprises can be explained mainly by the lack of entrepreneurial knowledge and skills, lack of capital and appropriate institutions, as well as the poor demand for expansive jewelry in the domestic market. While most of the artisans in Yerevan have been captured by the bigger companies with foreign investments, or have preferred to remain as design-independent

[142] *Ibid.* p. 208

individual jewels, working mainly for the market in Yerevan, potential artisans in the regions turned to low productivity agricultural activities, as there was almost no demand in the regions.

While the gap of inequality between Yerevan and the regions has been growing, there is no evidence of internal networks of cooperation between the existing small diamond/jewelry producing companies. Nevertheless, several steps have recently been undertaken by the Armenian government to support the regional development through establishment and improvement of regional infrastructures and support agencies that to some extent resemble the services provided by the National Confederation of Artisans in the Third Italy. Among such agencies are the Chambers of Commerce and Industry established in each region of Armenia, aimed at providing different business support services, and promoting the establishment of international partnerships.[143] The Fund "Small and Medium Entrepreneurship Development National Center of Armenia", which has branch offices in all regions as well, aims at providing assistance to access quality business services including information, consulting, training, as well as provides loan guarantees.[144] Three Jewelers' associations have been formed that represent the sector namely Association of Jewelers and Diamond Manufactures of Armenia (AJDMA) and the Armenia Jewelers' Association (AJA) domestically, and the Armenian International Jewelers' Association (AIJA) based in Antwerp, which has branches on the west and east coasts of the USA in Europe, the Middle East and Armenia.[145] However, it must also be noted that these official organizations and networks have not yet yielded solid marketing opportunities for the local companies, which has been the most crucial issue for them.[146] Because there is not much

[143] Chamber of Commerce and Industry of the Republic of Armenia www.armcci.am
[144] "Small and Medium Entrepreneurship Development National Center of Armenia" www.smednc.am
[145] Nathan Association Inc., J.E. Austin Association Inc., 72
[146] Companies interviewed by author have been quite skeptical about the tangible results yielded by these networks. Poghosyan, S. Director of 'Arkaland' Ltd., Diamond processing company, and Representative of "Yerevan Jewelry Plant," Yerevan April 19, 2007

room for specialization in the diamond processing and jewelry manufacturing industries, there is little spin-off effect from the big companies. Nonetheless, if well supported by the State, the creation of inter-firm networks among jewelers can offer an opportunity for marketing the production abroad while utilizing the valuable networks of the Diaspora. Finally, notwithstanding all the factors mentioned above, I argue that presented study cases have been successful in attracting FDI largely thanks to the fact that these industries are typically low capital-intensive, and high labor-intensive, which has been important factor in the risk calculations of the investors. While labor-intensiveness has been an advantage for Armenia as it possesses large human capital, export mobility is crucial for such a landlocked country, isolated from the world markets due to the dual blockade of its neighboring countries. Taking into account this geopolitical complexity of Armenia these easy exportable industries can be considered of high strategic importance for the economic development of the country, for further specialization and integration into the global economy.

Conclusions

The present thesis examined the role of the Armenian Diaspora in the economic development of the homeland, revealing economic, cultural and political obstacles hindering its involvement, and the corresponding implications of its actual contribution. It posed two major research questions namely, what has conditioned a rich Armenian Diaspora's less than anticipated amounts of investments in the homeland, especially during the first decade after the independence. And what has been the rationale of changing patterns of Diaspora-Armenia relation and increase in the amounts of investments since 2000.

It has been argued that, notwithstanding Armenia's unfavorable initial economic terms and poor investment climate during 1990-2000, the reasons behind the 'old' Diaspora's low investment intensity are rooted in cultural differences and the existing 'identity gap' between the Western Armenians (that form the 'old') Diaspora and Eastern Armenian (Armenian citizens and the 'new Diaspora'). This identity gap, although had its origin in cultural peculiarities of different ruling empires (Ottoman, Persona and Russian empires), has been mainly conditioned by divergent historical experience of migration, that in turn, determined the type and the strength of linkages connecting them to the present day-Armenia. The study revealed that the 'old' Diaspora had a very strong political identity shaped by the 'victim' identity that in turn was formed by the forced emigration experience. Hence, its involvement in the homeland has been political, and the perception of Armenia's investment climate has been greatly dependent upon the political realities. This stood in sharp contrast to the 'new' Diaspora which, as it has been argued, was not politicized, owing to a large extent to a different experience of migration that has been voluntary and conditioned by economic considerations. Having considered these factors it is concluded that the 'new' Diasporans have been more inclined towards the homeland

investment than the 'old' ones. It is crucial to note that generally, it is belived that Armenia's Diaspora-connected FDI composition in 1994-2004 reflects the distribution of Armenian population in various tradition Diaspora settlements.[147] However, I argue that it should be put into context to reveal the actual influence of the population variable. It is evident that counties who have higher 'Diaspora population-to-Investor' ratio (See table 4) are predominantly not 'old' Diaspora communities and as compared to the 'old' ones (i.e. United States, France, Syria, Lebanon, Turkey) are much less in number. Precisely because they have been smaller Diaspora communities, even if they had an 'old' Diaspora roots, they mainly have not been targeted by Diaspora political organizations and so their 'victim' identity has not been reinforced to the same degree (i.e. UK, Canada, Germany). This reality found its reflections in their less political perception towards the homeland, and subsequently less degree of susceptibility to political turmoil in Armenia. It is also very important to point out that these higher 'productivity' countries in terms of DCIR are developed ones or have had comparatively successful economic transition experience (i.e. Latvia, Czech Republic, Bulgaria). In addition precisely because it is more logical for the Diasporans in developed countries to be more inclined towards investing in the homeland the seemingly equal percentage of 'productivity' of US and Russian Diasporas is in reality highly disproportionate as compared to the level of these two countries' economic development, giving more credit to the Russian DCIR. This evidence once again confirms the hypothesis put forward in present thesis that the experience of migration determines the identity of the Diaspora, (i.e. 'victim'-political, economic migrant-apolitical), while those who have stronger linkages with the homeland and an 'identity' that is closer to their co-ethnics in the kin are more inclined towards the homeland investment.

[147] Hergnyan and Makaryan, 7

The changing Armenia Diaspora perceptions and increase in investments since 2000 is explained by the interplay of different factors that include government's deviation from partial reform as well as adoption of Diaspora-Armenia rapprochement agenda. In addition, globalization and increased contact opportunities with the homeland have reshaped the Diaspora's identity, depoliticizing it, eliminating misperceptions, and bringing it closer to the Homeland.

The investigated IT and Diamond/Jewelry sectors reveal the limits of the Diaspora investments in showing the low capital intensiveness and high labor productivity in these sectors, that indicates the low-risk of the investments which in turn speaks about the extent of Diaspora tolerance towards the less favorable investment climate. However, the crucial role played by the Diaspora investors in these sectors, as well as its underutilized potential is also emphasized.

One broader implication of the present study is the probability of generalizing the Armenian Diaspora's experience to show that a Diaspora originated by forced migration as a result of genocide or ethnic cleansing (i.e. archetypical Diaspora) will have strong political identity and will be inclined to influence state policy in political rather than economic dimension. Whereas, the economic migrants' voluntary experience of migration creates apolitical diasporas that have a large value added in terms of business and economic activity. Further research in this field targeted at exploring the validity of these arguments through carrying out a cross country comparative study, (taking, for instance, Israeli Diaspora, that has had generally analogues features to the Armenian one) would be an important contribution to the literature. In addition comparative evaluation of the impact of modern trends of globalization, on the younger generation with fading 'victim' identity, and higher degree of assimilation, would be essential to evaluate the current and possible future developments.

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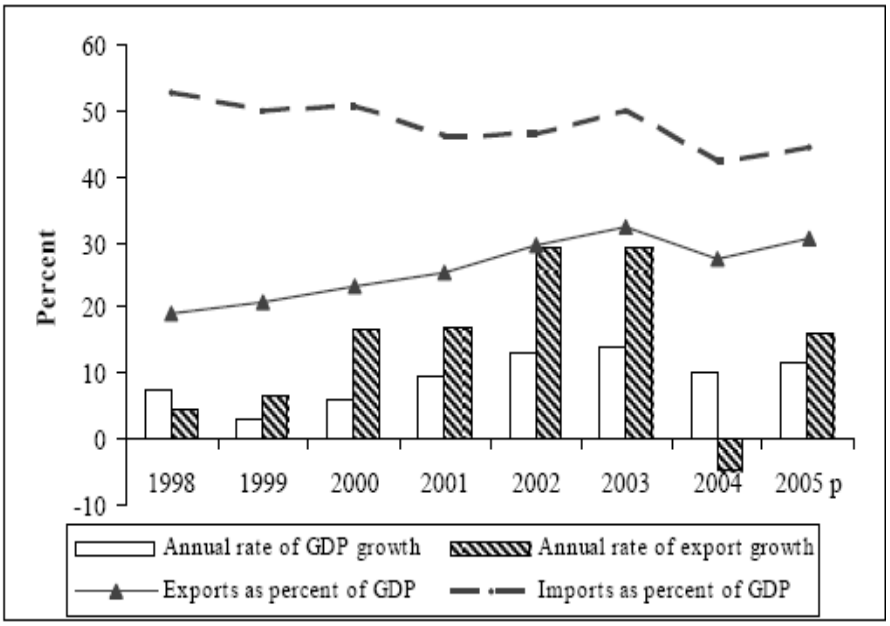
A representative of 'Synopsys Armenia CJSC' interview, by author, Yerevan, April 17, 2007

Anonymous Individual Jeweler, interview by author, Yerevan, April 11, 2007

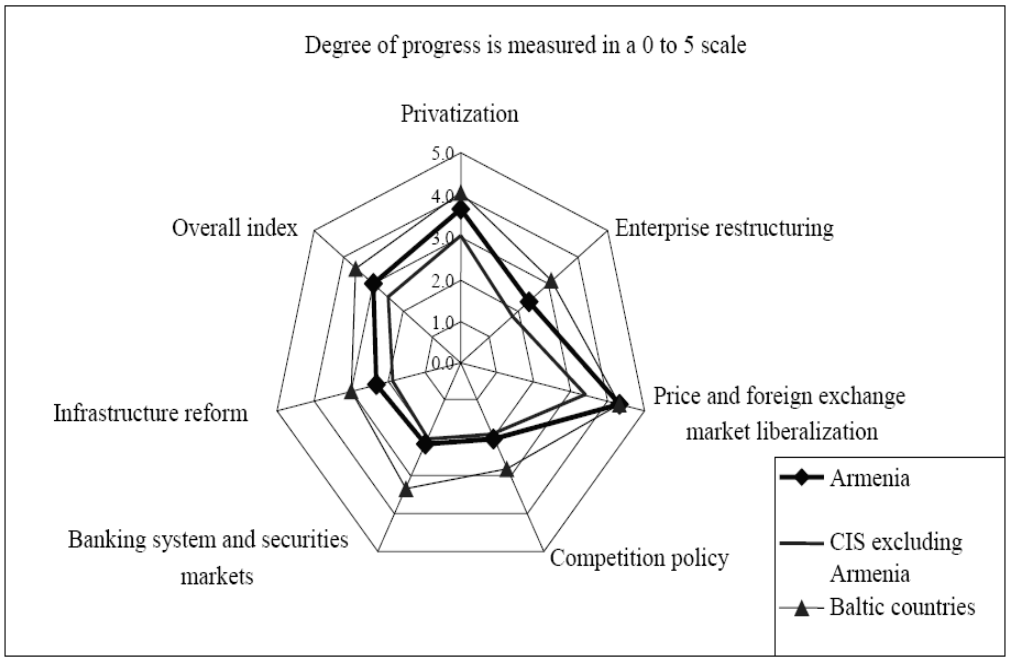
Appendices

Graph 1. **Key Economic Indicators of External Performance, 1998-2005**



Source: Saumya Mitra et al. "Armenia The Caucasian Tiger" Volume 1: Policies to Sustain Growth, The World Bank Poverty Reduction and Economic Management Unit Europe and Central Asia Region Washington DC June 23, 2006 http://siteresources.worldbank.org/INTARMENIA/Resources/ArmeniaCEM_Volume1.pdf

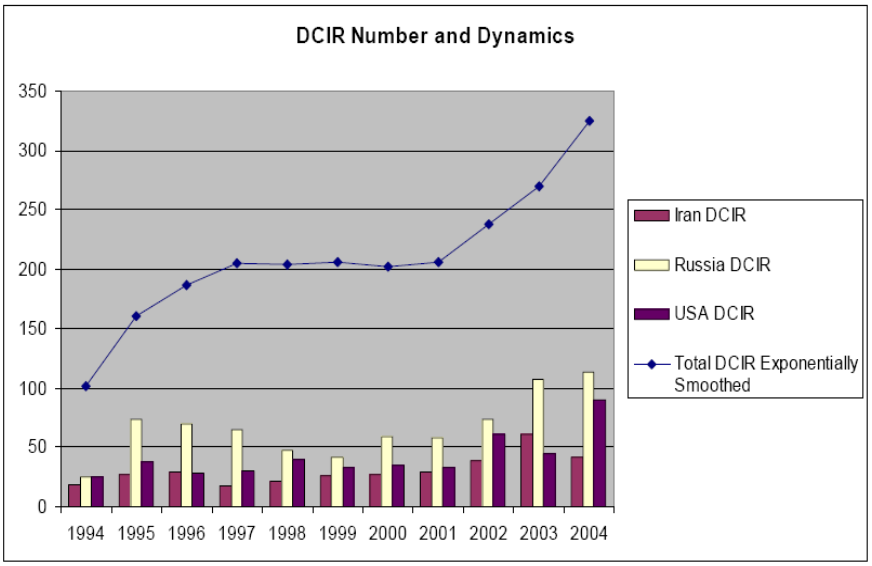
Graph 2. EBRD Transition Indicators, 2004



Source: Gelbard Enreique, "Armenia After a Decade of Reform," Armenian Journal of Public Policy, Vol. 2, No. 1, http://www.armpolicyresearch.org/Publications/Journal/Vol02/pdf/AJPP_3_1.pdf

Graph 3.

Figure 1. The Number of Diaspora-connected investors in Armenia and Its Dynamics

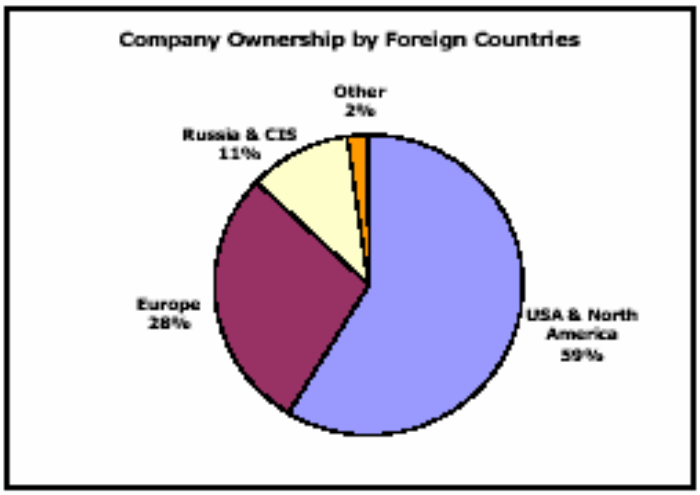


Source: Manuk Hergnyan and Anna Makaryan "The Role of the Diaspora in Generating Foreign Direct Investments in Armenia"*Economy and Values Research Center* http://ev.am/EVRC-RoleofDiasporainFDIinArmenia-FINAL-12-04-06.pdf

Graph 4. Specialist Salary Comparison USD/year/employee

Source: Armenian Development Agency ,*"IT/Software Sector in Armenia"*, Yerevan, 2004

http://www.ada.am/IT_Sector_in_Armenia.pdf



Graph 5. Company Ownership by Foreign Countries

Source: Enterprise Incubator Foundation *"Armenian Information Technology Sector, Software and Services"* Report on the State of Industry, Yerevan 2006. http://www.eif.it.com/edit/news_admin/news_images/1_69_big.pdf

Table 1. Distribution of the Armenian Diaspora by country

Country	*Population*	*Country*	*Population*
Albania	500	Kyrgyzstan	3,285
Argentina	130,000	Latvia	5,000
Austria	3,000	Lithuania	2,500
Australia	35,000	Luxembourg	10
Belarus	25,000	Lebanon	234,000
Belgium	10,000	Mexico	500
Brazil	40,000	Moldova	7,000
Bulgaria	30,000	Monaco	200
Canada	40,615	Netherlands	3,000
Chile	1,000	New Zealand	600
China	16	Norway	1,000
Columbia	250	Philippines	8
Costa Rica	20	Poland	92,000
Cuba	100	Qatar	150
Cyprus	2,740	Romania	3,000
Czech Republic	10,000	Russia	2,250,000
Denmark	3,000	Senegal	15
Dominican Republic	75	Singapore	35
Egypt	6,500	South Africa	200
Estonia	2,000	South Korea	12
Ethiopia	400	Spain	1,000
Finland	1,000	Sudan	1,000
France	450,000	Swaziland	8
Georgia	460,000	Sweden	5,000
Germany	42,000	Switzerland	5,000
Ghana	15	Syria	150,000
Greece	20,000	Tajikistan	6,000
Hungary	15,000	Thailand	1,000
Honduras	900	Turkey	80,000
Hong Kong	16	Turkmenistan	32,000
India	560	UAE	3,000
Indonesia	10	Ukraine	150,000
Iran	100,000	United Kingdom	18,000
Iraq	20,000	United States	1,400,000
Ireland	50	Uruguay	19,000
Israel	3,000	Uzbekistan	70,000
Italy	2,500	Venezuela	2,500
Ivory Coat	20	Vietnam	8
Japan	10	Yugoslavia	10,000
Jordan	51,533	Zambia	8
Kazakhstan	25,000	Zimbabwe	28
Kuwait	5,000	**Total**	**6,092,897**

Table. 2. Distribution of Diaspora-Connected (DCIR) and Foreign Investors by countries 1994-2004

No	Country	DCI	Total Number Foreign Investors	% of Total
1.	Afhasnistan	0	2	0%
2.	Argentina	3	3	100%
3.	Australia	16	16	100%
4.	Austria	6	9	100%
5.	Bahamas	2	6	33%
6.	Belarus	13	16	81%
7.	Belgium	21	24	88%
8.	Belize	1	2	50%
9.	Brazil	8	8	100%
10.	Bulgaria	30	34	88%
11.	Canada	50	58	86%
12.	China	0	60	0%
13.	Cuba	3	3	100%
14.	Cyprus	15	21	71%
15.	Czech Republic	15	21	71%
16.	Denmark	0	1	0%
17.	Egypt	5	9	56%
18.	Estonia	4	4	100%
19.	Ethiopia	1	1	100%
20.	France	119	133	89%
21.	Great Britain	51	103	50%
22.	Georgia	86	110	78%
23.	Germany	48	70	69%
24.	Greece	24	29	83%
25.	Hungary	1	2	50%
26.	Iceland	0	2	0%
27.	India	5	48	10%
28.	Iran	336	846	40%
29.	Iraq	9	10	90%
30.	Ireland	1	7	14%
31.	Israel	17	19	89%
32.	Italy	13	45	29%
33.	Japan	0	2	0%
34.	Jordan	11	11	100%
35.	Kazakhstan	13	14	93%
36.	Korea Rep.	0	8	0%
37.	Kuwait	2	2	100%
38.	Kyrgyz Rep.	4	4	100%
39.	Latvia	15	15	100%
40.	Lebanon	91	111	82%
41.	Lichtenstein	4	5	80%
42.	Lithuania	3	6	50%

43.	Luxembourg	4	5	80%
44.	Malaysia	0	2	0%
45.	Moldova	1	2	50%
46.	Monaco	3	3	100%
47.	Morocco	0	1	0%
48.	Netherlands	24	37	65%
49.	Norway	0	1	0%
50.	Pakistan	0	9	0%
51.	Panama	1	3	33%
52.	Poland	9	16	56%
53.	Romania	3	3	100%
54.	Russia	732	818	89%
55.	Seychelles	0	1	0%
56.	Singapore	0	1	0%
57.	Slovakia	1	5	20%
58.	Spain	5	5	100%
59.	Sweden	8	9	89%
60.	Switzerland	31	42	74%
61.	Syria	96	119	81%
62.	Tajikistan	0	1	0%
63.	Tanzania	0	1	0%
64.	Thailand	2	2	100%
65.	Turkey	41	72	57%
66.	Turkmenistan	4	6	67%
67.	UAE	13	19	68%
68.	Ukraine	32	35	91%
69.	USA	457	517	88%
70.	Uzbekistan	9	10	90%
71.	Venezuela	1	1	100%
72.	Yugoslavia	2	3	67%
	Total	***2526***	***3684***	***69%***

Table 3. Number of Foreign Investors in Armenia

Year	Total	DCC	DCC Share in Total
1994	97	77	79%
1995	263	166	63%
1996	244	163	67%
1997	268	179	67%
1998	239	152	64%
1999	257	156	61%
2000	254	144	57%
2001	225	152	68%
2002	296	210	71%
2003	299	230	77%
2004	368	291	79%
Total	***2810***	***1920***	***68%***

Source for Tables1- 4: Manuk Hergnyan and Anna Makaryan " The Role of the Diaspora in Generating Foreign Direct Investment in Armenia," *Economy and Values Research Center and Caucasus Research Resource Center*- Armenia, 2006 http://ev.am/EVRC-RoleofDiasporainFDIinArmenia-FINAL-12-04-06.pdf

Table 4. Number of Diaspora-Connected Investors Across Time

	Country of Origin	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	*Total*
1	Argentina			1				1				1	*3*
2	Australia			2			1				3	10	*16*
3	Austria		2	1			1				1	1	*6*
4	Bahamas					1			1				*2*
5	Belarus	1	2			3		3	1	1		2	*13*
6	Belgium	1	1	1	5		2	4		4	1	2	*21*
7	Belize						1						*1*
8	Brazil		1	3	2		1	1		1			*9*
9	Bulgaria	2	2	5	6	4	1	1	3	2	1	3	*30*
10	Canada	3		5	5	3	4	6	5	8		11	*50*
11	Cuba				3								*3*
12	Cyprus		1			3	2	2	3	3	1	1	*16*
13	Czech Republic			4	3	1	1		1		3	2	*15*
14	Egypt	1	3	1									*5*
15	Estonia							2	2				*4*
16	Ethiopia					1							*1*
17	France	3	17	10	18	7	9	13	5	7	18	12	*119*
18	Great Britain	4	1	1	5	7	5	3	4	9	3	9	*51*
19	Georgia	3	6	7	12	12	8	6	10	8	8	6	*86*
20	Germany		6	7	3	2	6	4	5	8	4	3	*48*
21	Greece		1	3	1	4	2	5	3	2	3		*24*
22	Hungary				1								*1*
23	India		1			1		1			2		*5*
24	Iran	18	27	29	17	21	26	27	29	39	61	42	*336*
25	Iraq		5					3		1			*9*
26	Ireland											1	*1*
27	Israel		1		2	5	1		1	1	1	5	*17*
28	Italy			4	3	1			3		1	1	*13*
29	Jordan						3			2		6	*11*
30	Kazakhstan			2		2		1	2	2	2	2	*13*
31	Kuwait					2							*2*
32	Kyrgyz Republic										1	3	*4*
33	Latvia			1	1		2	1	4	1	4	1	*15*
34	Lebanon	3	7	6	9	7	17	3	10	9	11	9	*91*
35	Lichtenstein				1	1		1	1				*4*
36	Lithuania				1	1	1						*3*
37	Luxembourg		1					2		1			*4*
38	Moldova			1									*1*
39	Monaco					3							*3*
40	Netherlands	1		3	7	3		2	4		1	3	*24*
41	Panama								1				*1*
42	Poland	2		3			1	2				1	*9*
43	Romania			1		1			1				*3*
44	Russia	25	73	70	65	47	42	59	58	73	107	113	*732*
45	Slovakia						1						*1*
46	Spain				1	1	1				2		*5*
47	Sweden		2		1			1	1			3	*8*
48	Switzerland		4		3	2	6	1	2	5	1	7	*31*
49	Syria	6	12	10	3	9	13	4	8	5	15	10	*95*
50	Thailand					2							*2*
51	Turkey		1		11	2	6	1	3	6	1	10	*41*
52	Turkmenistan	1					1	1				1	*4*
53	UAE	1	1	1			1	1	2	5		1	*13*
54	Ukraine	2	2	2	3	3	8		3	3	3	3	*32*
55	USA	25	38	28	30	40	33	35	33	61	44	90	*457*
56	Uzbekistan		1		2			1	1	2		2	*9*
57	Venezuela											1	*1*
58	Yugoslavia					1						1	*2*
	Total	***102***	***219***	***212***	***224***	***203***	***207***	***198***	***210***	***269***	***303***	***379***	***2526***

Table 5. The Leading 21 DCIR Countries

N	Country	Diaspora Population	Number of DCIR	% of investors in the Total population
1.	Russia	2,250,000	732	0,03
2.	United States	1,400,000	457	0.03
3.	Iran	100,000	336	0.33
4.	France	450,000	119	0.02
5.	Syria	150,000	95	0.06
6.	Lebanon	234,000	91	0.03
7.	Georgia	460,000	86	0.01
8.	United Kingdom	18,000	51	0.28
9.	Canada	40,615	50	0.12
10.	Germany	42,000	48	0.11
11.	Turkey	80,000	41	0.05
12.	Ukraine	150,000	32	0.02
13.	Switzerland	5,000	31	0.62
14.	Bulgaria	30,000	30	0.10
15.	Greece	20,000	24	0.12
16.	Netherlands	3,000	24	0.80
17.	Belgium	10,000	21	0.21
18.	Australia	35,000	16	0.04
19.	Cyprus	2740	16	0.58
20	Latvia	5,000	15	0,30
21.	Czech Republic	10,000	15	0,15

Source: Designed on the bases of data provided in Table 1 and Table 3

Table 5. DCIR flow from 1994-2004 , *Source:* Designed using the data from Table 4

		Cease fire Agreement signed	Ban on ARF (Increase in DCIR is explained by the existence of planned investments that didn't have time to react	DCIR Reaction to ARF Ban & Feedback effect of failed or unsuccessful earlier investments	Ter-Petrossyan's resignation	Kocharian reinstates the ARF	REFORMS			WTO Accession		
N	Country	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1.	Russia	25	73	70	65	47	42	59	58	73	107	113
2.	USA	25	38	28	30	40	33	35	33	61	44	90
3.	Iran	18	27	29	17	21	26	27	29	39	61	42
4.	France	3	17	10	18	7	9	13	5	7	18	12
5.	Syria	6	12	10	3	9	13	4	8	5	15	10
6.	Lebanon	3	7	6	9	7	17	3	10	9	11	9
7.	Georgia	3	6	7	12	12	8	6	10	8	8	6
8.	UK	4	1	1	5	7	5	3	4	9	3	9
9.	Canada	3	0	5	5	3	4	6	5	8	0	11
10.	Germany	0	6	7	3	2	6	4	5	8	4	3
11.	Turkey	0	1	0	11	2	6	1	3	6	1	10
12.	Ukraine	2	2	2	3	3	8	0	3	3	3	3
13.	Switzerland	0	4	0	3	2	6	1	2	5	1	7
14.	Bulgaria	2	2	5	6	4	1	1	3	2	1	3
15.	Greece	0	1	3	1	4	2	5	3	2	3	0
16.	Netherlands	1	0	3	7	3	0	2	4	0	1	3
17.	Belgium	1	1	1	5	0	2	4	0	4	1	2
18.	Australia	0	0	2	0	0	1	0	0	0	3	10
19.	Cyprus	0	1	0	0	3	2	2	3	3	1	1
20.	Latvia	0	0	1	1	0	2	1	4	1	4	1
21.	Czech Rep.	0	0	4	3	1	1	0	1	0	3	2

Note that the (highlighted) countries with larger accumulation of 'old' Diaspora (i.e. USA, France, Lebanon, Syria, Turkey) have been quite susceptible to political changes reflected in a key years of 1996 (observed decrease) and 1997-1998 (observed increase). It is also evident that both 'old' and 'new' Diaspora investors have positively reacted to Armenia's accession to WTO as a benchmark of a favorable investment climate.