



ECONOMY AND VALUES RESEARCH CENTER

ARMENIA: DIASPORA- ASSISTED GROWTH

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The case presents the story of the revival of a small transition economy after the near collapse during its early years of transition, and the crucial role of the ethnic Diaspora and recent emigrants. For a landlocked country lacking substantial natural resources, the Diaspora became a key component of the national economic strategy.

The case provides background information on how the modern Armenian Republic and the Diaspora communities were established and the factors and events that made the Armenian economy one of the fastest growing economies in the world between CY2000 - 2004 (12.9% in 2002, third in the world). This occurred despite hard years of severe shortage of electricity in 1992-94, the devastating earthquake (1988), conflict with Azerbaijan over Nagorno Karabagh (NKR), and a transportation blockade by Turkey and Azerbaijan. The story of Armenia and the Diaspora is intermingled to provide holistic understanding of actual processes in Armenia.

In the early years of the transition to a market economy, the Diaspora's financial transfers, humanitarian aid, and political support prevented starvation of the population. The recovery of the economy in 1994-99 started with the stabilization program developed in close cooperation with the World Bank and IMF, backed by significant Diaspora assistance. Massive privatization of state-owned enterprises, liberalization of markets, and tight monetary and fiscal policies created the necessary enabling environment for businesses. These measures were reinforced by several major Diaspora-Armenia events that strengthened political and economic links (infrastructure rebuilding, cultural sites renovation, etc.).

The need for a distinct national economic strategy was felt after the macroeconomic stabilization. Microeconomic factors came into the scene when the first, mostly Diaspora-connected, foreign direct investments took place. Corruption, lack of rule of law, administrative barriers, and discriminative treatment of businesses (so called "roofs") were major impediments for the growth of the key export-oriented industries. The Diaspora's role was important in tackling other microeconomic factors such as lack of necessary skills, access to international markets, market infrastructure, etc.

The case also provides insight on how the involvement of the Diaspora in the business environment became the prime source of technology and knowledge transfer and outsourced contracts that generated FDI; and how several internationally competitive clusters emerged as a result.

The case will help students to understand the interplay of different macro and micro-level factors in developing countries, and how the Diaspora and ethnic migrants can influence and transform the elements of national diamond, increase the competitiveness of local businesses and impact the devise of national economic strategies.