

Diaspora as a factor of Country Competitiveness

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Quite simply, for Armenia to prosper it must be at least as attractive to build and operate a business in Armenia as in other countries in the world.

Globally competitive, exported oriented businesses are the only way to generate wealth and increase prosperity. In the short run, those should be globally competitive, export oriented, high labor-intensive businesses, to solve the immediate unemployment problem.

Country competitiveness is the measure of how attractive a country is as a place to do business. It must have a good environment and must have reputation for having a good environment. When it does, business will flock to it, because it is the best place to do business of that kind. This is branding, i.e., having a reputation for predictably good quality and value. Viewed in this way, the state is a service provider that creates an environment. The services it provides are good polices, laws, services and infrastructure. Like any service provider, it must compete for customers. In this case, the customers are businesses and workers. How do we know if Armenia is globally competitive? If business and workers are coming to Armenia to live, work and create.

The private sector creates wealth by producing globally competitive goods and services. The public sector fosters a globally competitive private sector by creating the globally competitive environment so that the private sector can compete. Each must do what it does well. Each must perform its functions in a manner that is globally competitive. If a company is not competitive, it loses market share and money and eventually goes bankrupt. If a country is not competitive, it loses businesses and workers and becomes poor.

Imagine that a private sector business is a runner in a race. There are two runners, one running on a smooth road where people are cheering him on and encouraging him to win and another running on a road where there are bumps and potholes and people are putting heavy burdens on his back to carry. Which will win the race?

Those two roads are like countries and the two runners are like private sector businesses. Until Armenia is like the smooth road where people are cheering the private sector on and encourage the private sector to win, it will not be globally competitive, because there are other countries

where they do a better job of cheering on the private sector and encouraging it to win and bring their people prosperity.

There are plenty of things we cannot change: Armenia is land-locked country, and a somewhat unfriendly neighborhood, etc., but fortunately there are many we can, and most fortunately, most of the components of a globally competitive environment are in our hands.

A globally competitive environment is mostly about policy and law – both of which are nearly completely in our control. Good laws and policies take good brains and good will. Good laws properly administered are the pre-requisite to creating a globally competitive environment. Good laws and policy are those that the state can administer well.

Government should only do what it can do well with the resources it has. In other words, if we assume that Armenia's GNP is \$3 billion and that it is reasonable to collect 30% in taxes, then at a maximum Armenia has \$1 billion budget for public services and administration. It should set priorities and do only what it can do well and what is absolutely essential within that budget of \$1 billion. Otherwise there will be corruption and inefficiency and the environment will be less attractive than in other countries. Good laws, policy, priority setting and administration are in a country's control.

This is good news for Armenia and for Armenian businesses. The solution is in our own hands, it is not an insurmountable barrier or external constraint.

If we are going to compete, and we have no choice about this, we need to be competitive.

How do we know if we are competitive – that's quite simple as well, when we start winning. When there are so many globally competitive, export-oriented companies in Armenia that we have to import workers.

When will that happen? When there is so much demand for Armenian products and services that we can't meet the demand.

We can either take the goods and services to market, export them to consumers, or we can import consumers to Armenia and have them consume the goods and services here.

Today's conference is about both of these ideas.

Why focus on the diaspora? Because the first rule of marketing is that the best customer is the customer you know and the customer than knows you. More sales are made by word of mouth than any other way in the world.

Why these specific areas? Retirement to Armenia or repatriation brings exogenous demand to Armenia in an organized and concentrated way, creating demand for a wide range of services for skilled and unskilled workers. In short, it will create jobs.

Similarly, medical tourism or higher education in Armenia can create high paying jobs in Armenia by bringing patients and students to Armenia who are willing and able to pay for world-class services.

Of the five primary diasporan cash flows to Armenia –direct investment, indirect investment, remittances-charity, and directing third-party contracts to Armenia, the one that has the most risk and takes the most time is direct investment. The one that has the least risk is consumption, you see the product or service, you like it, you buy it and you are satisfied. Given that most diasporans have almost no experience as direct foreign investors and but like all people have a lot of experience as consumers. Consumption deserves a closer look.

Today's conference is, of course, just an introduction to these concepts. They are meant to make people think about the diaspora as a consumers as well as investors. Like our other AmCham conferences they are intended to be a catalyst for change in thinking and policy. And they have succeeded in that intention. Today, with much greater frequency, we hear country competitiveness as a national goal in government and education, we see many more laws, judicial opinions, even draft laws on the internet (although we have a way to go). We like to believe that AmCham together with all of you who have taken part in these conferences are contributing to the effort to make Armenia a better place to live, work and create.