

Doing Business in Armenia – Local CEOs Are Optimistic

By Patricia Huddleston and Susan J. Linz

Executive Briefing: Several months after the new government administration took office in spring 2008, local business leaders in Yerevan were optimistic about an improved economic and business environment in Armenia, citing simplified tax codes and reduced tax rates as key features underlying their optimism. Visually, their optimism is underscored by the numerous construction projects actively underway throughout the capital city. Strategically, many are positioning their companies to take advantage of the government's decision to develop Armenia's regions by designating up to five cities as 'centers' of culture, finance, and so forth, with the requisite investment that entails.



Armenia's strongest business sectors, according to a representative from the Chamber of Commerce, include tourism – up from 60,000 in 2001 to 500,000 in 2007; business services; and brandy production – Armenia supplies nearly one-third of the Russian brandy and wine market. Much of Armenia's success to date, not only in replacing the socialist centrally planned economy with a market-oriented economy, but also in developing a stable business environment, stems from aid provided by its diaspora.

Impact of Diaspora

Armenia, like Ireland in years past, has a relatively small population in comparison to its diaspora: approximately 3 million, and 6 million, respectively. Armenia's diaspora began at the end of WWI in response to the well-documented massacre of 1.5 million Armenians ordered by the Ottoman government, reducing an estimated population of over 2 million in 1913 to fewer than 100,000 in 1920.

Another exodus occurred in the 1990s at the end of the Soviet regime. Yet, since that

time, Armenia has experienced a resurgence of diasporans returning 'home' as either tourists or permanent residents. According to a representative from Armenia's Tourism Development Agency, the diaspora accounted for over 90% of the tourists in 2001 and more than three-quarters of the tourists in 2007. Armenia is the only country in the world to have a Ministry of the Diaspora, established in June 2008.

Interviews conducted by the authors in June 2008 with CEOs in a variety of companies, as well as top-level managers of local agencies established to support business development, emphasized the

importance of the Armenia's diaspora in providing financial, human and physical capital during the transition to a market-oriented economy.

In terms of financial capital, personal

remittances, donations and investments from the Armenian diaspora are estimated to comprise about one-third of Armenia's GDP. For example, James Tufenkian, an Armenian American, has invested substantial sums to reinvigorate the Armenian carpet industry, as well as the local economy by building numerous hotels. Civic involvement of Armenian diasporans resulted in the founding and support of the American University of Armenia, a U.S. accredited graduate institution affiliated with the University of California.

Like most former socialist economies which gave short shrift to the service sector, generally, and banking and financial services, more particularly, Armenia lacks workers with the requisite skills in sales and marketing, as well as professionals in banking and finance. The diaspora provides one source of needed labor skills – individuals return, full or part-time, to run businesses (as described below), and in the process, bring expertise to train others. A second source of training involves international travel – students and managers participate in established programs offered by international companies (especially true in IT sector), and at MBA programs located in Europe, U.S. and Middle East, because according to those interviewed, the only reputable MBA program in Armenia is offered in Yerevan at the American University of Armenia.

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Three Examples

Square One, an American-style diner with three outlets in Yerevan, is the brainchild of Sam Samuelian

and Stepan Panosian. Both Sam and Stepan moved back to Armenia from Lebanon and Cyprus to “help build Armenia to become a quality living, travel, dining, and pleasure destination,” using a niche strategy for their business. Square One is a moderately priced restaurant catering to students and young professionals, relying on word of mouth advertising rather than investing in traditional marketing tactics. To appeal to their target market, Square One offers special events (palm reading, sketch artists), wi-fi, and alcohol. By their report, originally, over 70% of their customers were diaspora, but locals now dominate their clientele. In addition to operating a thriving business – the main site located on Northern Avenue, the newly-reconstructed thoroughfare connecting the main square with the historic Opera House – the owners of Square One recruited four other restaurants to join in the founding of the Armenian Restaurant Association to “improve the quality of products and services to the Armenian restaurant industry by providing on-going training and support to its members.”

Made in Armenia Direct was founded in 2000 after a trip by Gail Talanian O’Reilly, permanently residing in the U.S., to her homeland following the 1991 earthquake. The goal of MIAD is to help Armenian craftspeople create “distinctive art forms (and) become self-sustaining.” To this end, MIAD works with 40-60 independent artists and craftspeople to supply a diverse product assortment, which includes, for example, children’s clothing, home decor, home textiles, jewelry, ceramics, paper and stationery. Nearly all (90%) of their customers are tourists. While MIAD has a retail outlet in the upscale Marriott Hotel in Yerevan, and supplies gift shops in various museums, the bulk of MIAD’s retail distribution is overseas. MIAD products are sold in over 30 high-end gift shops, predominately in the U.S., but also in Japan and Bermuda. To sustain employment in rural Armenian villages, Talanian-O’Reilly established an Artisan’s Fund to make interest-free micro-loans to local artists and craftspeople. The Fund’s revenues come from a fixed percentage of U.S. MIAD product sales.

Treasures of Armenia owner Nina Hovanian commutes from New York City to Yerevan 6-7 times per year to run her shop and oversee the operations of Armenia’s Tourism Development Agency. The Agency was established in 2001 to target tourists not connected to the diaspora and beyond the former Soviet Union. Not surprisingly, Treasures of Armenia is intended to “showcase the best arts and crafts in Armenia,” with about 80% of the customer base being tourists. Since the tourist season runs roughly from April to October, efforts to survive during the down times have resulted in several creative initiatives. Hovanian is launching a Princess School to teach children (in groups by ages 3-6, and 7-8) about etiquette, which, in addition to things related to manners, includes ballroom dancing, social development, and proper dress. Hovanian also is trying to develop a winter tourist season with the theme “Come Home for the Holidays,” but weather-related issues have limited its success to date.

Conclusions

These brief examples highlight the breadth and depth of resources that Armenia can count on from its diasporan citizens. Government and business leaders have good reason to be optimistic about Armenia’s future.

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