

STATEMENT

by

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Session II: Migration and Economic Development: **ROLE OF DIASPORA IN ARMENIAN ECONOMOMIC DEVELOPMENT**

Dear Mr. Moderator,
Dear Colleagues,
Ladies and Gentlemen

In 2006, the High-level meeting at the UN General Assembly drew the world attention to the issue of migration and its management for assisting economic development in developing countries and addressing labor force needs in the developed ones. It marked a stark change in the world community approach that used to look at migration issue only from the perspective of combating illegal migration. However, the data on remittances constantly flowing back to the countries of origin and the actual cases of success such as Bangalore, forced all of us to look at the issue from a different perspective and attempt at channeling those vast resources through innovative policies towards the needs of economic development of the sending countries.

The analysis of the situation in Armenia and old and new Diaspora's role in rebuilding the country could serve as another interesting example to the point. Over the time the Diaspora contribution changed in nature and in scope parallel to both political and economic developments in Armenia.

Diaspora's involvement in Armenia started after the devastating earthquake in 1988. It was of humanitarian nature coming from both individuals and Diaspora organizations that stretched a helping hand to the nation in distress. Feelings towards the homeland was the driving force behind these selfless acts of humanity that continued throughout the early years of 1990s, coupled with the desire to help the struggling motherland that had gained long-awaited independence and found itself in dire economic situation because of continued blockade by 2 of its neighbors and virtually non-operational roads with the remaining two.

This is the time when the out-migration from Armenia started resulting in about 800 000 people leaving the country within the first 6-7 years of independence. In the early 90s Armenia, as a result of the blockade imposed on the country, experienced the sharpest decline in GDP among the former Soviet republics. GDP in 1993 was 47% of 1990 level. Shutting down of factories many of them in hi-tech and industrial sectors, miserable wages, drastic shortage of electricity and financial crises resulting in hyperinflation drew people out of the country.

The main vectors for migration were dictated by the existence of strong Diaspora communities in the USA, in France, Syria and Lebanon and Russia and family ties that were still alive. The new wave of Armenian migrants created new attracting force for others to join in search of jobs and

means for survival. They became the second channel for attracting investment and remittances to Armenia.

Brain drain was among the negative aspects of emigration that the republic experienced. According to the World Bank report, only in 2000 over 44 thousand people arrived in the USA from Armenia about 18 thousand of which had secondary education and over 22 thousand – higher education.

However, the economic stabilization programs undertaken by the government coupled with the support from international financial institutions, assistance from Diaspora organizations and individuals and private transfers from recent migrants all helped Armenia to alleviate the burden of transition. The vector of assistance started to change from humanitarian to technical and development assistance aimed at creating favorable conditions for country's recovery. Since 1999, Armenia has experienced one of the fastest growth rates in the world partly attributable to Diaspora infrastructure rebuilding grants, private transfers and the increasing Diaspora connected FDI inflows in some sectors of economy.

A study carried out in 2005 by the Economy and Values Research Center and Caucasus Research Resource Center on “The role of the Diaspora in Generating Foreign Direct Investments in Armenia” for the period of 1994-2004 in revealing the actual tendencies and change shifts in transfers coming from Diaspora. Their analysis revealed a significant difference across various sectors in terms of Diaspora involvement. The main areas were ITC, gems and jewelry, food processing, construction and selected sub-sectors in apparel. It is interesting to note that ITC, gems and jewelry were among the first to attract the old Diaspora investors that came with their well-established connections and built upon the prevalent skills and knowledge of the local work force. A contributive factor to the speedy development of those sectors was the absence of the need for ground transportation. There are two main features that characterize those sectors that actually became important drivers for economic growth in Armenia. First, they were mainly export-oriented with sales in countries with major Diaspora communities. Second, Armenians have traditionally been involved in these sectors for decades and sometimes centuries and have owned global recognition for high quality.

The second half of 1990s, especially after 1998, and the beginning of 2000 the country started to witness inflow of both traditional Diaspora and the new Diaspora investments in the tourism sector, the construction, the apparel and agriculture. The largest part of investments came from Russia /29% of all investors/ 76% of whom were invested in Yerevan. The United States was the second largest with 17%. The third was Iran with about 14%. The main area where they all invested was services and second came trade.

The study of the motivational forces proved the prevalent perception for the assistance coming from Diaspora. The old Diaspora acted mainly on the ethnic attachment and patriotic feelings and they were more inclined to take risks while making investment. Most of their investments were directed at economic recovery of the country.

For the new Diaspora, i.e. those that left the country in the 90s, the major triggering factor for decision making was family and friend ties, rather than business interest, and they were inclined at accepting risks. Most of the investment was directed at creating employment opportunities for their kith and kin.

To address the increasing disparity between the development perspectives of the capital Yerevan and the rest of the country, the Government passed an action plan on the development of rural and border areas. The first successful example in Karakert by the Diasporan Children of Armenia Fund /COAF/ that was endorsed by UNDP as a development model gave an impetus to the initiation of the Rural development project that adopted cluster-based approach and local ownership as underlying principles for the development projects of those areas. This became the theme for the third Armenia-Diaspora conference which aimed at attracting targeted investment by Diaspora individuals and organizations towards specific projects in those clusters. This was more attractive to the new Diaspora as it also built upon the feelings of assistance to their countrymen.

While we decide on possible direction to address effective management of migration and remittances coming from those sources, especially at a time of economic crisis that hit both countries of destination and origin, and introduces additional ambiguities to the whole picture, we should not underestimate the psychological impact of different situations and policies that definitely affect the decision-making on behalf of individual migrants. A case to the point is the situation that we faced after the 1998 crisis in Russia. As the data show, the Diaspora-connected investment declined in 1998 and 1999 and started to pick up only after 2000 with the relative stabilization achieved in the receiving countries. This is also the time when out-migration started to slow-down reaching 0 levels in 2004 and showing positive balance in 2005 and 2006.

The current financial crisis has already started to show its effects as well. The remittances that accounted for about 18% of national income have dropped by 30% in comparison to last year. However, this is a unique situation as it does not leave any side of the equation unaffected and the ongoing process is yet hard to assess. Last year we registered about 20 000 negative balance in migration flow which yet need to be properly analyzed for the reasons. The spring season which is the starting point for seasonal workers will show the actual change in the established movements.

These are issues that would negatively impact the flow of remittances into the country increasing the social tension for certain vulnerable groups. In order to redress the situation, certain economic policies could be considered based on ethnic affiliations:

- removal of obstacles that may prevent safe, unrestricted and expeditions transfer of remittances of migrants to their country of origin;
- creation of special funds with beneficial conditions to channel the remittances through;
- creation of projects that would be targeted to the economic development of the areas that the migrants came from and opening them up for financing with certain advantageous conditions from the former residents;
- creating preferential treatment for ethnic products, especially food in the countries of destination that would attract investment back at home in the development of those sectors;
- assistance in MSE development based on local ownership.

Thank you.