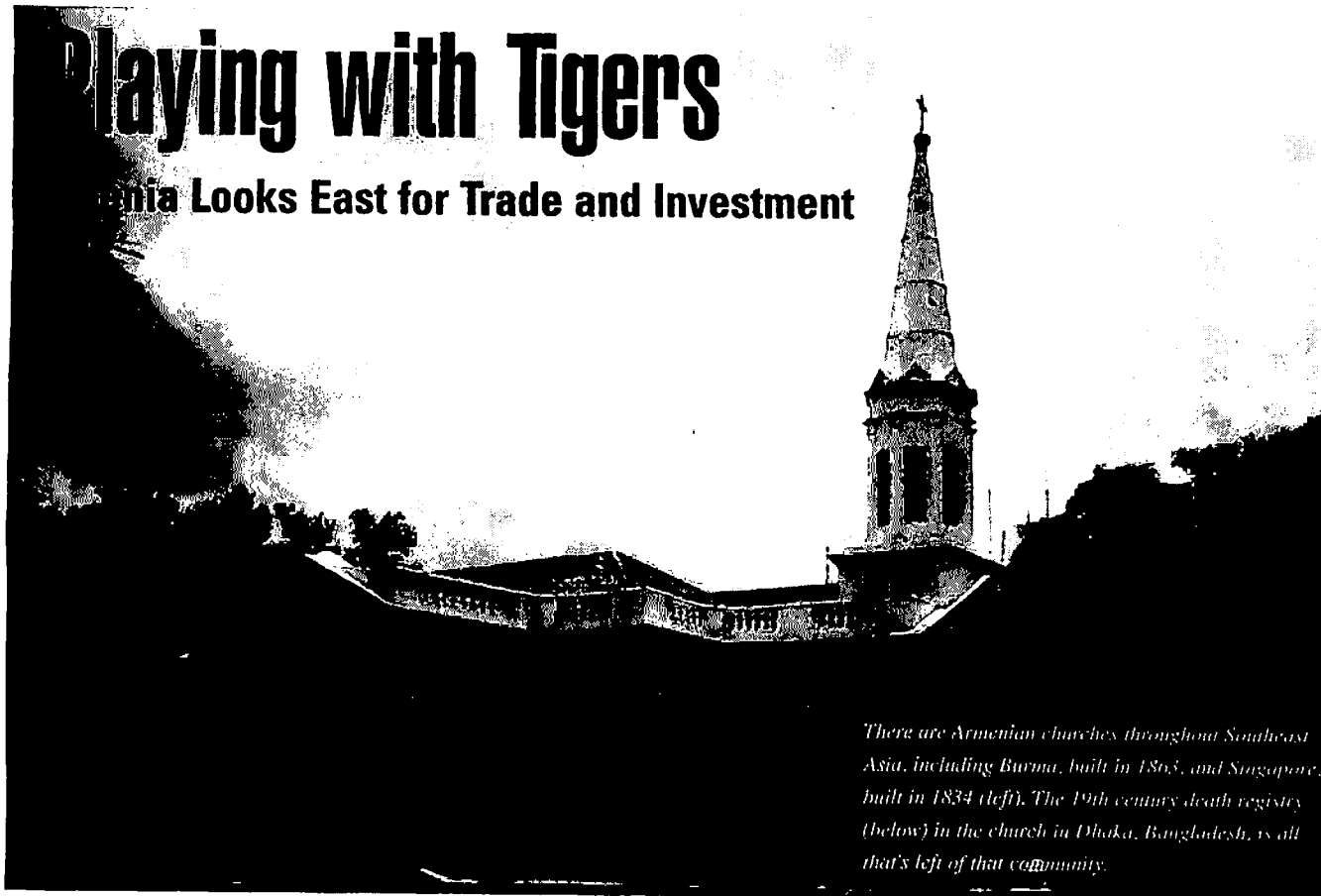


Playing with Tigers

Armenia Looks East for Trade and Investment



There are Armenian churches throughout Southeast Asia, including Burma, built in 1863, and Singapore, built in 1834 (left). The 19th century death registry (below) in the church in Dhaka, Bangladesh, is all that's left of that community.

Here, in Asia, we are spoiled. We have not seen any political difficulties for a long time. The Far Easterners in general are not really interested in politics. Their main aim is business and how to increase productivity. This is why this region has been growing at a very fast pace. Everybody is interested in making money. Economics comes before politics," observes Vartan Keshishian, President of Hong Kong-based Checkmate Industries.

There is no doubt that Southeast Asia is one of the fastest growing markets in the world where several economic growth areas have been created complementing regional political-economic clubs, such as the Association of South-East Asian Nations—ASEAN (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam). While the West is discussing the "new European security architecture," Asian countries are forging ahead with their economies and information technology infrastructures.

The boom in Asia is attributed to the region's strong economic agenda, which comes before and above any political agenda. There is increasing

economic cross-fertilization between Asia, Europe, North and South America. Eastern Europe and the former Soviet Union are seen as the new economic space where Asian companies can capture a share of the market.

The few Armenian businessmen spread throughout Asia see a realistic potential for Asian-Armenian economic development as well. Aware of the political instability of the region and the implied economic risks, this group is nevertheless exploring the possibilities of investment in Armenia. Daniel Manoukian, Managing Director of Armen Thai Trading Co., Bangkok, is very optimistic. "If they can create a big market in Singapore, where there is no direct access to free waters, why not in Armenia?"

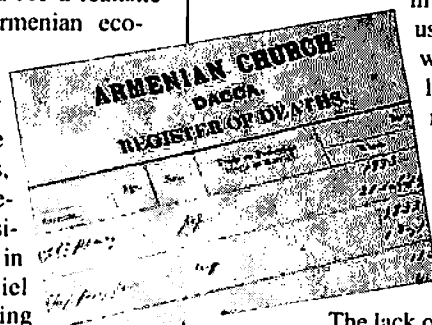
One of the key problems for investors interested in Armenia is the lack of adequate information on the inner workings of Armenia's economy. Zareh Misserlian, Executive Vice

President of KorAm Bank, Seoul, Korea, expresses a view shared by many. "Those of us living outside Armenia do not know what is going on in Armenia, really."

Keshishian concurs, "We do not know the mechanics of doing business in Armenia. We are used to the Far East which is a very labor-intensive market, very productive, with advantageous prices, but we do not know much about Armenia."

The lack of a long-term economic plan and priority for private investment is another problem.

Misserlian explains, "A pro-active process is needed on the part of the government of Armenia, or the ministry of investment or trade. Armenia has to prioritize its economic needs, develop a plan and then, based on this plan, tell investors these are the things we are looking for. You cannot just say, 'Hey



you guys come on in. Armenia is free, why don't you come and invest here.' The government must present its plans and say, 'If you can help us and make money doing it, be our guest; we will give you all the incentives.'"

Misserlian points to the economic experiments of Asian countries. "There is no need to reinvent the wheel. Armenia can learn from Korea, Singapore, Taiwan, Indonesia, Thailand, the Philippines and Hong Kong".

What does Armenia offer?

Most of Armenia's current export earnings are from sectors such as textiles, leatherware, chemicals and petrochemicals, machine tools, synthetic rubbers, agricultural and food products including wines, brandies and bottled mineral water. There is also a small car manufacturing facility, Yeraz.

However, these sectors are highly dependent on imports of raw materials, intermediates and energy. Therefore, the blockade of Armenia has particularly affected their development. In the area of natural resources, Armenia has copper, semi-precious and precious metals, natural stone resources and gold. In fact, in Soviet times, Armenia produced about two tons of gold per year.

The technology sector includes radio electronics, satellite antennae and management devices, telephone batteries and electronic thermometers, lasers, solar baths and collector engines.

Banking and financial services is another potential sector. The establishment of Midland-Armenia Bank, in late 1995, encourages other financial institutions to pay serious attention to Armenia as a financial service hub for the entire region. "We are seeing Westerners coming to Armenia with confidence. This means that there are possibilities. As Armenians, we would also like to be there in order to either create new markets or contribute to existing projects," Keshishian said.

There are high hopes for Armenia's computer technology sector (semi-conductors, micro-processors) since it relies less on raw material and

more on skill and manpower. Given Asia's interest and heavy investment in information technology, Armenia could benefit in this fast-developing market.

Highly skilled labor and expertise in science and technology make Armenia an attractive place to look for help. In fact, "human resources is the biggest job in Asia" says Majdi Abulaban, managing director of car-parts maker Delphi Packard Electric Shanghai. "It's probably the most critical factor to the ultimate success of a venture."

Armenia could provide much needed scientific expertise to Asia. Benjamin Kharlakian, Project Manager at ALCATEL, a French telecommunications giant in Dhaka, Bangladesh, explains, "Manpower is becoming very expensive in Asia." In addition to



Southeast Asian businessmen (left to right) Benjamin Kharlakian of Bangladesh, Vartan Keshishian and Jack Maxian of Hong Kong, with Catholicos Karekin I, during the patriarch's February visit to Bangkok, Thailand.

expertise, "Armenia could also provide semi-finished products which might cut the cost of producing an entire product in Asia."

Cybereconomics

These days the hot topic in Asia—and the rest of the world—is information technology (IT).

Singapore announced a master plan aimed at turning Singapore into one of the first countries in the world with an advanced information infrastructure by the year 2000. It will develop a national super-network to provide a facility to every citizen under the Singapore One project—a high-capacity network platform which will deliver applications to government departments, homes, educational institutions and businesses. So far the government of the small island has invested \$58.8

million in the project.

Singapore has signed pacts with many nations to achieve its goals. In February of this year, it announced a five-year agreement with South Korea to cooperate in science and technology. Singapore has similar agreements with India, Germany and China. Taiwan also has its own "Silicon Plateau" (the Hsinchu Science Park).

Another major IT project in the region is Malaysia's Multimedia Super Corridor (MSC) as the country's technology center. Prime Minister Mahathir Mohammad has traveled to many countries to persuade foreigners to invest in the MSC project.

To support the project, the Malaysian government is offering potential investors corporate-tax exemption for up to 10 years and the

opportunity to tender for infrastructure contracts, which will be awarded on a preferential basis. These commitments will be detailed in a Multimedia Bill of Guarantees, which is expected to be ready by the end of the year.

The Philippines, even with many internal political problems, is paying serious attention to IT development. Recently, the Science and Technology Agenda for National

Development (STAND) or STAND Philippines 2000 was announced, to emphasize the development and utilization of superior technologies in order to gain a competitive advantage in the world market.

In Thailand, the national IT2000 projects include SchoolNet, a project to link all state high schools nationwide through the Internet; Government Information Network, connecting government organizations; the Information Superhighway testbed, a pilot project using a high-speed ATM-based technology network; and a Software Park.

Give and Get

These major computer and technological developments in Asia provide Armenia with vast opportunities, especially given Armenia's large potential of "human power". There is much to

give to Asia and much to receive. Generally, when speaking about the economic potential of Armenia, the focal commodities are technology, science and services. However, the focus of economic development has been a one-way street: investment in Armenia's domestic market.

"Commercial projects must be mutually beneficial," says Azat Martirosian, Armenia's Charge d'Affairs in Beijing. "Armenia could have a complementary economic relationship with Southeast Asia. We could receive raw material from the region, and the region could benefit from our scientific and technological advances".

Looking for a Plan

Many observers point to the lack of a planned and "pro-active" economic approach on the part of the Armenian government. Misserlian explains, "You cannot say, 'We need new houses, let's build a break factor; or, we need shoes, let's build a shoe factory.' A lot of these projects are disjointed. What we need is a plan of operation. Does Armenia have a five-year economic plan? When you make a long-term plan, then you look at it strategically and you coordinate the work of various ministries who are involved in the plan."

Indeed, as in China and other CIS countries, Armenia has many organizations, but no institutions. Cooperation among organizations, and often within them, is quite rare.

As for long-term benefits in the region, Misserlian notes, "You can send 10 or 12 professionals from Armenia to go and see what is going on in Asian countries and then come back and say these are the things we could benefit from." For instance, some 220 Chinese officials are currently in Singapore learning about public administration, to "adapt Singapore's experience and develop a first-class China." The development of economic bridges, on regional or international levels, takes serious planning, research, negotiation and long-term vision. It also takes funding. The Diaspora can help in all these areas.

Free Trade Environment

Manoukian, who has done business in Japan, Taiwan, Singapore, Malaysia, Indonesia and now Thailand, lists the key factors for foreign investment. "As businessmen, what we look for in a country, first, is political security; sec-

ond, a free trade environment and incentives; third, some commitment and guarantees by the government; and finally, a sense that at the end of the day, you are making some money."

At present, it is difficult to find all these conditions in Armenia. Armenia's tax law, a key incentive for investment, is arguably unappealing to investors. Currently, the corporate tax rate is 30 percent, value added tax stands at 20, excise tax at 0-75 percent, enterprise profit tax at 12-30, and personal income tax at 12-30 percent. A recent country profile prepared on behalf of the Armenian government for the 1996 EBRD Annual Meeting in Sofia, reports that value-added tax exemptions for a number of goods have been eliminated. Most exemptions from enterprise profits tax have been reduced and the tax rates on a number of goods have been increased. The report further states that "current government programs call for VAT tax exemptions to be reduced further, excise rates to be increased and collection efforts to be enhanced."

Besides taxes, commercial and labor laws have not been fully developed in Armenia and the nature of government guarantees, commitments and incentives are not clear.

Misserlian puts it simply. "In some countries, the law is written so loosely, that the bureaucrat can interpret the law anyway he wants, and for that, he would demand a price. This makes it difficult for investment."

Many complain about corruption in Armenia and all the countries of the former Soviet Union. Vartan Keshishian looks at it differently, "I do not see a problem with corruption. Corruption is one thing, red tape is something else. If there is red tape, business does not go forward. This would not make Armenia interesting for any investor. If there is corruption, but business is going forward, we have to close an eye to it. We are used to these things in Asia. In fact, in my business experience, at times, if I don't see a bit of corruption, I become very suspicious."

As for the problem of transportation and trade routes, landlocked and blockaded Armenia has very difficult obstacles to overcome. Experienced businessmen in Asia offer a creative solution. While acknowledging the difficulty of the task, it is possible to

overcome the problem with long-term planning. Keshishian explains, "If you are creating something, then you'll make every effort to find ways to bring your products to the markets that you have. If you are not producing or creating new products, you do not need those routes. If goods exist, then you think about the possibilities. History shows us that everything is feasible."

Patience, Patience

Would an Armenian businessman treat Armenia differently because of his national identity? Yes. "We would be more understanding and patient," Keshishian affirms. "It means thinking in long terms. Unlike Asia, you cannot go to Armenia for the short-term. Anyone who is looking to Armenia for short-term returns is not going to be successful. In fact, I would discourage anybody from doing that because it could lead to a loss and the word would spread that things don't work in Armenia."

The experience and professional expertise of Armenians working in Asia for decades are an invaluable resource for Armenia. This human and capital resource, if and when coupled with the willingness of the Armenian government to develop a free-trade environment, could create a dynamic economic bridge between Armenia and Asia.

What makes Asia particularly attractive to Armenia is the process by which the region transformed itself from economic stagnation to prosperity. "We have to bear in mind that, other than Japan, all of the countries in the region created their economic boom in the last 10 to 15 years. Their pre-boom condition was not much different than that of Armenia today. In fact, some countries were in a worse economic condition," points out Martirosian, Armenia's Charge d'Affairs in Beijing.

As Kenichi Ohmae, a Japanese business consultant puts it, "We are creating new types of value-added industry in Asia, not a Hollywood fantasy world."

Is Armenia ready to join the "Asian tiger"?

Are Armenians around the world ready to put aside fantasies and dreams and help create a real country with a viable economy?

BY HRATCH TCHILINGIRIAN