



Implementing Country Competitiveness as a Standard for Law and Policy Making

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Abstract

The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the Armenian International Policy Research Group. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

This paper analyzes country competitiveness as a major tool in creating a framework for participatory, principled policy-making for Armenia's business environment and proposes concrete steps to create such an environment. Specifically, for Armenia to prosper it must provide at least as attractive an environment to build and operate a business as any other country in the world. Globally competitive, export-oriented businesses are the only way to generate wealth and increase prosperity. In the short run, it would be desirable for such businesses to be labor intensive in order to address the immediate unemployment problem. The concept of country competitiveness is a useful standard of analysis because it is performance-based, comprehensive, easy to understand, and readily observable. Armenia will know that it has achieved a competitive environment when it needs to import workers to fill the demand created by globally competitive companies operating from Armenia.

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Country competitiveness is the measure of how attractive a country is as a place to do business. To be competitive a country must have earned the reputation of fostering a good business environment. When it does, companies will flock there, because it is the best place to conduct a particular kind of business. This is branding. It entails having a reputation for predictably good quality. 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. Here the customers are businesses and workers. How do we know if Armenia is becoming globally competitive? When companies and workers come to Armenia to live, work and create.

The private sector creates wealth by producing globally competitive goods and services. The public sector can foster a globally competitive private sector by creating an environment in which 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 assets, eventually leading to bankruptcy. If a country is not competitive, it loses businesses, its workers migrate and it becomes poor.

Imagine that a private sector business is a runner in a race. Imagine two runners, one running on a smooth road where people are cheering him on and encouraging him to win, while the other runs on a bumpy, pot-holed road as people add heavy burdens to his. Which will win the race?

The two roads are like countries and the two runners are like private sector businesses. Until Armenia offers a smooth road that cheers the private sector on and encourages the private sector to win, it will not be globally competitive; other countries that do a better job of cheering and encouraging will bring prosperity to their people at Armenia's expense. The energy companies expend fighting the environment is energy diverted from competing with the real competition – other companies in the global market place.

There are plenty of things we cannot change about Armenia in the short run – it is currently a land-locked country in a somewhat unfriendly and relatively poor neighborhood. It is hard to get rich in a poor neighborhood. But fortunately there are many things we can change, and most fortunately, most of the components of a globally competitive environment are in our hands since that is mostly about policy and law – both of which are factors nearly completely in our control. Good laws and policies take good brains and good will. First and foremost, good laws properly administered are a prerequisite to creating a globally competitive environment. The real constraints of the current economy and society must be considered in any policy, administrative, or legal reform. Laws and regulations should be no more complex than

- necessary to achieve a legitimate state end
- the ability of the people and the system to understand and apply them
- the ability and willingness of the people and system to pay for them.

Good laws and policy are those that the state can administer well and people can comply with easily. 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 no more than a \$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 within any country's control. These are the ingredients of the rule of law, one of the most consistent determinants of economic growth. At the core of the rule of law is due process:

- notice,
- an opportunity to be heard,
- reasoned decision-making, and
- a meaningful right to appeal.

Amcham and others have advocated an e-governance solution whereby all draft laws and regulations are posted on a web-site with a reasonable comment period. This would give those whose rights are directly affected a meaningful opportunity to shape the environment in which they must live, work and invest. After adoption, all laws should be publicly available on the internet in Armenian with a reliable English translation. It is unreasonable to expect investment in a country whose laws are difficult to find or not available in at least one language of international commerce, in the first place, English. Moreover, for purpose of conforming them to global competitive standards, they need to be accessible to a larger group of stakeholders, potential investors, legal and policy practitioners and experts than simply Armenian readers.

Good laws require stakeholder input, regular review and improvement. This is not just a matter of democracy and democratic values but also a matter of creating high-quality, globally competitive laws and policies, which cannot be formulated without taking stakeholders' interest and perspectives into account. Moreover, an inclusive process fosters voluntary compliance and a broader understanding and consensus about the law and the policy choices that are being made. In short, participation is necessary for a sense of ownership and a stake in the success of reform policies and anti-corruption efforts. Participatory, principled policy making on the public record is part of the education and formation of a rule-of-law state. Without such a process, even a circle of philosopher-kings cannot hope to formulate, sell and implement the wisest policies.

Two legislative enactments would take Armenia a long way toward creating this participatory, principled policy and law-making process. First, a Sunlight Law, that requiring all laws and regulations to be adopted only after a reasonable notice and comment period, including open public deliberation on the public record, and a right of

review or reconsideration, to correct problems thereafter. Second, a Sunset Law that would require all laws to be reviewed, revised, and reenacted, or repealed, no later than five years after their adoption, providing a non-political mechanism for putting issues on the agenda for correction and adaptation to the new circumstances of Armenia's evolving transitional economy and polity.

All of the ingredients for a participatory, principled policy and law making and creation of an exemplary legal system and institutions are at hand. This is good news for Armenia and for Armenian businesses. The solution is within grasp; 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 cannot meet the demand. We can either take the goods and services to market by exporting them to consumers, or we can bring the market to Armenia by importing consumers to Armenia to consume the goods and services right there.

This is where the diaspora has played and can play a pivotal role. Why focus on the diaspora? Because the first rule of marketing is that the best customer is the customer you know and the customer who knows you. Before turning to consumption, let's pause to review investment, since this has been the primary emphasis for diasporan involvement in economic development over the past decade.

Diasporans, like any investors, look carefully at the kinds of investments they are suited to make. For some, foreign direct investment may be appropriate. For many, foreign direct investment in an emerging economy is *terra incognita*. Investing in Armenia is perhaps more difficult for diasporans because it seems more familiar than it really is, and a lot of what makes for a happy investment is the matching of expectations with reality. Indirect, passive investment through some kind of managed fund may be better suited to the risk-profile and time and information constraints of most diasporans. The time for creating one or more investment funds is long overdue. Diasporans may want to consider being financial investors in longer-term, lower-risk investments in infrastructure that are of strategic importance to Armenia's development: for example, telecom, electricity and other utilities, and transportation. Diasporans may want to also seriously consider getting more involved in long-term financing of schools, hospitals, public works and conservation projects, and cultural institutions. Diasporans should also consider that funding other diasporans to live and work in Armenia, whether as volunteers, students, tourists, repatriates or retirees, is a high impact way of bringing skills and has a built in multiplier effect on the economy, implicitly transferring not only wealth, but also technical skills and globally competitive attitudes to Armenia. Finally, it is time to stop

the erosion of Armenia's most important asset – its people. If the diaspora does not address this, who can or will?

Of the five primary diasporan cash flows to Armenia –

- direct investment,
- indirect investment,
- directing third-party contracts to Armenia,
- remittances-charity,
- consumption,

the one that has the most risk and takes the most time is direct investment. Yet this is the cash flow that has been the focus of most economic development discourse. Perhaps for the reasons set forth above, this may not be the best entry point to the Armenian or diasporan market.

As any businessman will tell you, it's nice to have investors, but it's better to have a solid and growing market of reliable customers. Moreover, consumption is the cash flow that entails the least risk: you see the product or service, you like it, you buy it and you are satisfied or you return it. Given that most diasporans have little experience as direct foreign investors but like all people have a lot of experience as consumers, consumption deserves a closer look. In addition, consumption has a much quicker impact on an economy than investment.

How can we boost diasporan consumption? Areas that seem promising are tourism, retirement to Armenia or repatriation, education and culture, medical services, Armenia-specific goods, food products, crafts, and transplanting businesses to Armenia.

Why these specific areas? Retirement to Armenia or repatriation brings exogenous demand and cash streams to Armenia in an organized and concentrated way, creating demand for a wide range of services for skilled and unskilled workers. In sum, it will create jobs, a large spill over in construction, medical and leisure services that will benefit the entire economy and create capacity for a broader tourism base.

Similarly, specialized medical tourism or higher education in Armenia can create high paying jobs by bringing patients and students to Armenia who are willing and able to pay for world-class services. These can also have positive ramifications in boosting the quality and accessibility of services for the general population.

Armenia-specific goods, food products and crafts are also a way of bolstering Armenia's skilled work force, its food supply, keeping farms and artisans working and producing not only for the export, but also for the domestic market.

Armenian cultural heritage and its skilled cultural workforce of artists, artisans, performers, musicians, film-makers, dance groups, writers, and actors, can play an important role in shaping Armenia's image internationally and making Armenia an

attractive tourist destination. The cultural legacy of Armenia, especially its architectural and archeological heritage, is very rich and a challenge to maintain, preserve and present in a way that makes it not simply self-sustaining, but also revenue-generating. Once again, the diaspora may be the lead market for this cultural heritage, but there are significant other niches, including Christian pilgrimages to the Land of Noah, St. Gregory, the Apostles Thaddeus and Batholomew, and Etchmiadzin, that are very promising. In this millenium of St. Gregory of Narek, we should not overlook this guide for the soul-searching world.

Transplanting businesses to Armenia is one of the most successful and promising growth sectors of the economy. In a globally mobile world, a portable business, whether services or goods, can find a home in Armenia, if Armenia is at least as attractive as other environments. Who will choose to transplant his or her business to Armenia? In the first instance people who want to live in Armenia, namely, diasporans. It is easier to transplant a portable business to Armenia than to grow one from scratch. This is a special kind of foreign direct investment that takes into account the difficulties of growing a business, without an incubator and all of the infrastructure that is usually needed during the early stages to do world-class R&D, management, marketing, communication, and transportation. A going business that has proven itself and can withstand the transition may prosper in a new location.

The private sector must flourish for Armenia to become prosperous. For the private sector to flourish, the public sector must provide an environment that is at least as attractive as that of other countries against which Armenia competes for globally competitive business and workers. Put simply, our goal should be a public-private partnership to make Armenia the best place for Armenians to live, work and create in the shortest and most efficient way possible.