Identifying promising target groups and key arguments for investment attraction measures of the Republic of Armenia

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Executive summary

A targeted approach helps increase the effectiveness and efficiency of investment attraction efforts. Against this background, the study at hand identifies promising target groups and key arguments for future investment attraction efforts

➢ In line with international good-practice, the target group analysis has taken into account the three dimensions (1) investment potential, (2) competitive position and (3) development impact

➢ The assessment and prioritisation of target groups which is summarised on the next page has been carried out based on interviews with investors, industry and investment promotion specialists as well as complementary research (e.g. review of industry and investment trend studies) and own experience

➢ According to the results of the assessment, the initial focus of investment attraction efforts should be on the target groups IT, food, tourism and BPO industry

➢ Defining target groups is a dynamic process. The selection should be regularly reviewed taking into account results achieved, changes in the investment environment and an upgrading of the target group mix and focus

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Executive summary

The table below summarises the findings from the target group analysis

Target groups	Investment potential	Competitive position	Development impact	Recommendations
IT	++	++	++	Priority 1 – Systematic pro-active investment attraction measures recommended. IT should not be considered an isolated, but closely interconnected target group. The interfaces to other industries (e.g. hardware engineering and healthcare) should be integrated
Food	++	+	++	Priority 1 – Systematic pro-active investment attraction measures recommended. In order to fully unlock the investment potential, relevant value chains should be upgraded
Textile	++	0	+	Priority 2 – Main focus should be on export promotion and innovation support. Synergies between export and investment promotion should be utilised (e.g. participation in relevant trade fairs)
Tourism	+	+	++	Priority 1 – Systematic pro-active investment attraction measures recommended. Promotional efforts should be complemented by development of regional touristic and transport infrastructure
BPO	++	+	+	Priority 1 – Systematic pro-active investment attraction measures recommended. Target group definition should be regularly updated and upgraded towards more sophisticated BPO areas
Pharma	++	0	+	Priority 2 – In the short-term, the segment „Medical IT" offers the most promising potential. This segment should be integrated into the target group „IT"
Jewelry	0	+	+	Priority 2: The focus should be on the promotion of the Meridian FEZ through international networks and intermediaries aiming in particular at the potential of the diaspora

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Executive summary

The table below shows the proposed segmentation and geographic focus for the recommended priority 1 target groups

Target groups	Target segments	Target countries / regions
Food	• High value fruit and vegetable cultivation (including organic and / or greenhouse cultivation), e.g. apricots, nuts and berries • Production of wine and beverages • Processing of meat, fruits and vegetables (e.g. preserves and juices)	• EU countries with a strong presence of the food industry (e.g. France, Germany) • Iran
IT	• Smart data / Artificial Intelligence solutions (e.g. smart mobility, smart industry, smart health, smart energy) • Embedded software development • Customised software solutions • Information systems • Semiconductor design • Hardware engineering	• US, Russia, EU countries
Tourism	• 3 and 4 star hotels (in particular for projects outside Yerevan) • Wine and agro tourism projects • Adventure tourism projects • Nature and eco-tourism projects • Medical and health tourism projects • Cultural and religious projects	• Countries with a strong presence of the diaspora (e.g. France, US and Russia)
BPO	• Telemarketing and sales, customer care and technical support services • Finance and accounting, payroll services • KPO (knowledge process outsourcing), e.g. market and investment research and analysis, human resources services	• US, Canada, UK • Russia • Germany

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Executive summary

Across the defined industries and segments, particular emphasis should be placed on companies, that have already established operations abroad and can build upon investment experience in transition economies

➢ Furthermore, considering the profile of Armenia, promotion efforts should not focus exclusively on large companies, but equally target medium-sized enterprises

➢ In addition to the previously identified target groups that focus on attracting new investors to Armenia, it is recommended that existing investors form a (cross-industrial) target group to unlock the reinvestment potential

➢ A number of IPAs at the international level have recently introduced systematic after-care programmes as experience has shown, that…

– For locations with a well-established base of investors, up to 70% of inward investment can come from, or be connected to, existing investors

– In a competitive environment, it is much easier to secure / fast-track reinvestments than to attract first-time investors that have no experience in a country

➢ The interviews carried out have also indicated a promising potential in Armenia that could be tapped with a systematic after-care programme

Executive summary

Considering differing needs of investors, cross-cutting and target-group specific arguments should be combined when designing marketing materials and activities. The table below summarises the proposed argumentation drawing on the findings from the interviews and complementary desk research carried out

Target groups	Target-group specific arguments	Cross-cutting arguments
IT	• Highly qualified workforce (68% with Master's degree) still at lower cost than in other IT locations • Strong science / engineering traditions, physics and math education • Advanced eco-system including 800 companies and a vibrant start-up scene, specialised universities, IT Technoparks, incubators / accelerators and innovation centres offers wide spectrum of cooperation opportunities • Engineering City as flagship project • Strong links with the diaspora and leading eco-systems abroad • Flexibility and innovation potential (e.g. success stories in the Artificial Intelligence area)	• Liberal investment regime – facilitating investment as a strategic priority of the new Armenian Government • Range of FTAs and EAEU membership offering preferential access to large consumer markets – including markets that are currently closed for many partners due to sanctions • Number of infrastructure projects enabling investors to utilise the potential of preferential access to strategic markets
Food	• Cost-competitive access to growing local and large international markets – in particular Russia and Iran – that are difficult to serve from other locations • Favorable soil and climatic conditions • Longstanding tradition, expertise and reputation for high-quality and high-value food and beverages production (e.g. No. 6 global exporter of brandy)	• Attractive innovation and recruitment potential drawing on an advanced educational and research landscape • Competitive operational costs and attractive incentives • Free economic zones offering a distinctive combination of strategic benefits

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Executive summary

The table below summarises the proposed argumentation drawing on the findings from the interviews and complementary desk research carried out (cont.)

| Target groups	Target-group specific arguments	Cross-cutting arguments
Tourism	• Rich cultural heritage (3 UNESCO World Heritage Sites) and nature • Growing number of tourists – number of foreign visitors expected to more than double by 2020 • Visa-free regime with more than 60 countries • Ranking as one of the world's safest tourism destinations • Competitive operational costs (in particular labour) • Major infrastructural improvements (e.g. Zvartnots Airport)	• Liberal investment regime – facilitating investment as a strategic priority of the new Armenian Government • Range of FTAs and EAEU membership offering preferential access to large consumer markets – including markets that are currently closed for many partners due to sanctions • Number of infrastructure projects enabling investors to utilise the potential of preferential access to strategic markets • Attractive innovation and recruitment potential drawing on an advanced educational and research landscape • Competitive operational costs and attractive incentives • Free Economic Zones offering a distinctive combination of strategic benefits
BPO	• Conducive BPO eco-system (e.g. with respect to universities providing a talent pool, the availability of needs-oriented sites and premises, a well-developed ICT infrastructure) • Foreign language skills (e.g. English, Russian) • Low labour costs in relation to high level of qualification • Competitive administrative, rent and utility costs	

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Structure

1. Introduction

2. Target group analysis

3. Target group selection

4. Argumentation

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1. Introduction

The Republic of Armenia is planning to intensify its investment attraction efforts to stimulate FDI and maximise its development impact

➢ FDI inflows into Armenia displayed a declining trend in the recent past

➢ As confirmed by the interviews, only part of the investment potential could be unlocked – mainly due to constraints in the investment environment

➢ Following the peaceful revolution, awareness of Armenia as an investment location has increased

➢ By intensifying investment attraction efforts, the Government aims at translating the increased awareness into corresponding FDI inflows

FDI Inflows into Armenia

USD m

Year	Value
2012	497
2013	346
2014	404
2015	178
2016	338
2017	246
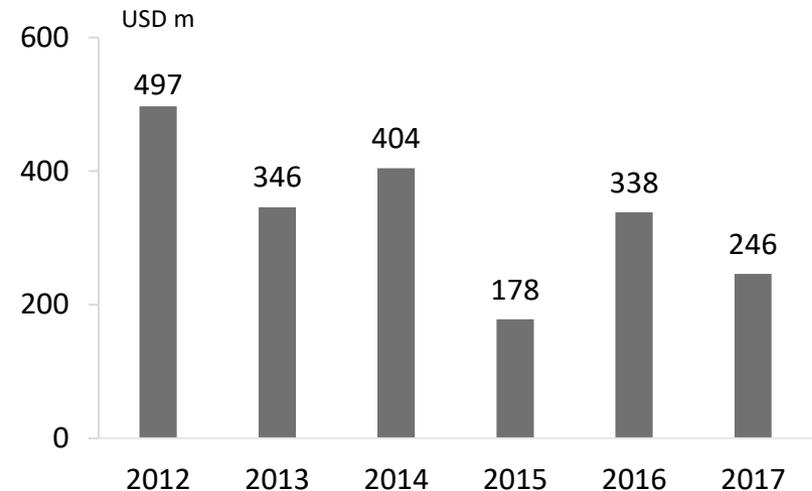
Source: UNCTAD World Investment Report 2018

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1. Introduction

In light of high expectations, it is important to note that investment attraction takes time and relies upon trust and customer relationships which require continuity and a systematic approach

➢ On average, it takes three years between the first contact to an interested investor and the actual investment decision

➢ Investors expect a customer-oriented and systematic support throughout all stages of an investment project – including the post-establishment phase

Typical time frame and interactions in the course of site selection processes
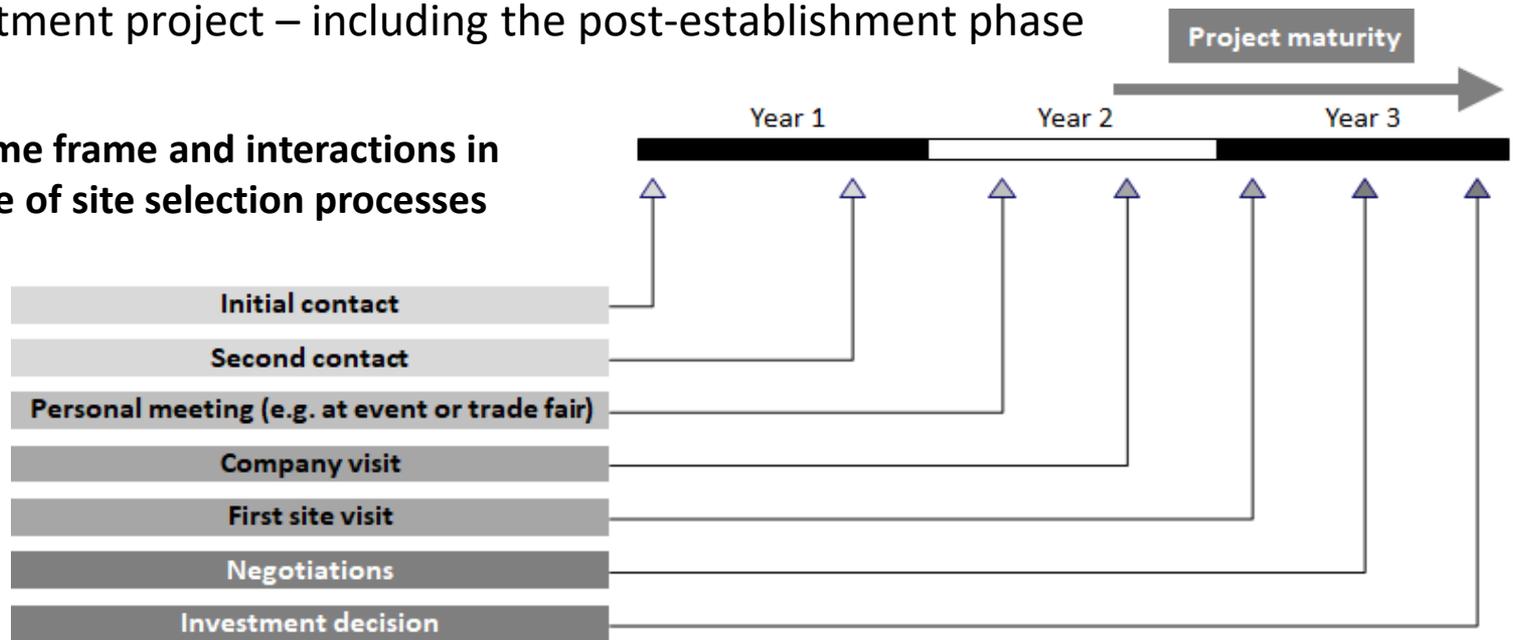
1. Introduction

A targeted approach helps increase the effectiveness and efficiency of investment attraction efforts. The targeted approach should be applied throughout all stages of the investment attraction cycle

➤ Empirical research and international practical experience confirm that a focus on defined target groups increases the impact of investment attraction efforts

➤ Against this background, Berlin Economics has been asked by the Government of the Republic of Armenia to identify promising target groups and key arguments for future investment attraction efforts
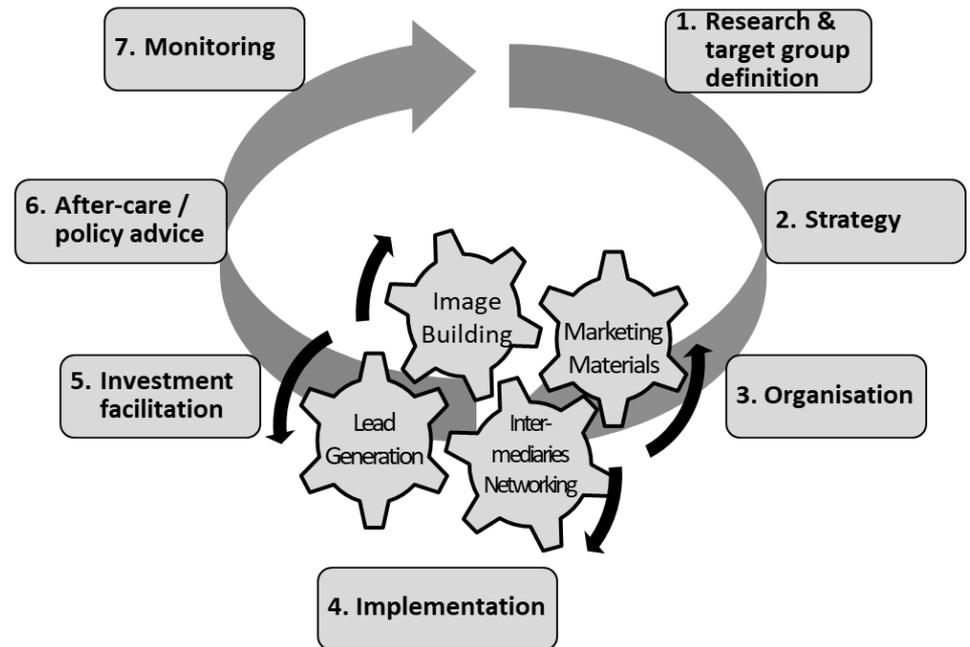
2. Target group analysis

In line with international good-practice, the target group analysis has taken into account the three dimensions (1) investment potential, (2) competitive position and (3) development impact

➤ As a starting point, drawing on existing studies and concepts, a long-list of potential target groups has been derived – comprising:

– IT	– BPO (business process outsourcing)
– Food industry	– Pharmaceutical industry
– Textile industry	– Jewelry
– Tourism	

➤ The assessment and prioritisation of target groups which is summarised on the subsequent pages has been carried out based on interviews with investors, industry and investment promotion specialists as well as complementary research (e.g. review of industry and investment trend studies) and own experience

➤ The initial focus of investment attraction efforts should be on target groups classified as priority 1. Those will be described in further detail in the subsequent chapter („target group selection")

2. Target group analysis – IT

Investment potential	• According to the 2018 fDi report, software / IT services maintained its place as the top FDI industry for project numbers, up 5% from the previous year • Recent investments from multinational companies – such as Synopsis, Mentor Graphics / Siemens, Oracle, Cisco and Microsoft – indicate a promising international investment potential

Competitive position	• Armenia has a strong competitive position as confirmed by its investment attraction track record:
	  – Availability of a highly qualified and creative workforce at lower cost than in other IT locations
	  – Attractive incentives (no profit and reduced income tax for first three years)
	  – Well-developed eco-system including specialised universities, IT Technoparks, incubators / accelerators, innovation centres and the Engineering City as a flagship project
	  – Wide spectrum of cooperation opportunities within the business and R&D landscape
	  – Vibrant start-up scene offering promising investment opportunities
	  – Strong links with the diaspora and advanced eco-systems at the international level
	  – Flexibility to adapt to technological changes, e.g. success stories in the Artificial Intelligence area
	• Strengths clearly outweigh weaknesses (e.g. education lagging behind industry requirements)

Development impact	• The recent performance confirms the contribution that investment projects of this target group can make towards an export-led growth, employment creation and an upgrading process • The IT industry comprises 800 companies (incl. 150 start-ups) with more than 15,000 employees and a turnover of USD 800 m (average annual growth rate of 26.3 %) • Exports increased by more than 120% between 2014 and 2017 • Transition from an outsourcing to an R&D-oriented location already well-advanced • Substantial spill-over and image effects
Priority	Priority 1 – Systematic pro-active investment attraction measures recommended. IT should not be considered an isolated, but closely interconnected target group. The interfaces to other industries (e.g. hardware engineering, health, agriculture and food, tourism) should be integrated

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2. Target group analysis – Food

Investment potential	• Strong investment dynamics – among top ten industries by number of projects at global level • Armenia's track record confirms promising international investment potential – e.g. Armenia Wine, Golden Grape Armas (wine & brandy), Green Food and Rock Berry (greenhouse berry cultivation) • Increasing interest from Iranian investors • In addition, various domestic projects – e.g. Spayka, Euroterm CJSC (fruit and vegetable cultivation)

Competitive position	• Very intense competition as many locations around the globe target the food industry
	• Recent investments and enquiries indicate competitiveness of Armenia as investment location
	• Armenia's competitive advantages comprise:
	  – Favorable natural conditions (climate, soil and water resources)
	  – Range of FTAs and EAEU membership offering access to large consumer markets – including markets (Russia and Iran) that are currently closed for many partners due to sanctions
	  – Longstanding tradition and good reputation (e.g. production of alcoholic beverages)
	  – Number of specialised training and educational institutions (e.g. wine academy)
	  – Low labour and electricity costs
	• However, there are few limiting factors in particular regarding the size / type of projects – such as:
	  – High transport costs, distance to main markets, deficits of the transport network
	  – Need to develop the relevant value chains – including quality control systems and educational programmes – to ensure a sufficient quantity and quality of supply for investors

Development impact	• Strategic importance of food industry due to its substantial socio-economic footprint • Contribution towards developing value chains and diversifying exports • Potential for generating lower-skilled employment opportunities in rural areas • Synergies with further target groups, e.g. tourism (agro / wine tourism) and IT (e.g. smart farming)
Priority	Priority 1 – Systematic pro-active investment attraction measures recommended. In order to fully unlock the investment potential, relevant value chains should be upgraded

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2. Target group analysis – Textile

Investment potential	• Textile, clothing and leather belong to the top 10 industries with respect to the number of announced FDI greenfield projects during the last years • However, there has been recently a decline in number of FDI projects • According to interviews, the focus of interest by foreign companies is currently on subcontracting

Competitive position	• Armenia can offer a range of benefits to investors, including amongst others:
	  – Long tradition in the manufacturing of textile, apparel and leather products and experience in manufacturing premium quality products for brands – such as La Perla, Montclair, and Armani
	  – Attractive relation between skills and operational costs (labour and electricity)
	  – Preferential access to main markets, duty free import of raw materials from EAEU suppliers
	• However, the benefits offered do not allow a clear differentiation from competitors (e.g. Moldova, Belarus or Ukraine) and, in addition, there are a number of weaknesses – such as:
	  – Small size of industry and company base (gross valued added of USD 23 m in 2017 – 0.2% of GDP, approximately 4,000 employees – 0.4% of workforce, 10 larger companies)
	  – Comparatively high transport costs which are of greater relevance in the textile industry
	  – Low level of business sophistication and investment in technology and skills development

Development impact	• With its labour-intensive operations, the industry can generate employment effects in the regions • In addition, opportunities for extending and upgrading value chains • However, considering the profile and competitive position, the impact of investment attraction efforts is expected to be smaller in comparison to other target groups under consideration
Priority	Priority 2 – Main focus should be on export promotion and innovation support. Synergies between export and investment promotion could be utilised (e.g. participation in relevant trade fairs and events). In addition, start-up / investment potential at the interface to the IT industry could be integrated as part of the target group „IT" (e.g. smart wallets)

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2. Target group analysis – Tourism

Investment potential	• Considerable potential taking into account the size of the industry at the global level • Range of investment projects in the recent past, e.g. increasing presence of international brand hotels in Armenia (Marriot, Hyatt, Best Western etc.) or the modernisation of the ski resort in Tsakhkadzor, indicate relevant investment activities

Competitive position	• Armenia is in a good position to attract further investment projects, considering the …
	  – Wide spectrum of tourism attractions, e.g. rich historical and cultural heritage with 3 UNESCO World Heritage Sites, stunning diversity of landscape, flora and fauna
	  – Increasing number of tourists creating favourable conditions for investments
	  – Position under the top 40 countries in safety and security for tourism
	  – Competitive labour costs
	• However, there are also a few limiting factors and weaknesses in comparison with competitors:
	  – Despite major improvements (e.g. modernisation of Zvartnots International Airport), still deficits in the touristic and transport infrastructure (e.g. inconvenient flight times, higher airfare prices)
	  – Skills deficits, limited availability of well-trained employees
	  – Strategic and integrated approach towards tourism development still at an early stage

Development impact	• Important contribution towards employment and GDP • Due to significant spill-over and linkage effects, further industries are likely to benefit from investment projects (e.g. construction, food and wine, retail and trade, health industry) • Besides Yerevan, a number of locations offer a promising potential, e.g. Tsakhkadzor and Jermuk (ski, medical / wellness tourism), Dilijan (nature / wellness tourism), Vayots Dzor and Aragatsotn Regions (wine and agro tourism), Tatev (historical, adventure and nature tourism)
Priority	Priority 1 – Systematic pro-active investment attraction measures recommended. Promotional efforts should be complemented by development of regional touristic and transport infrastructure. Effective cross-organisational coordination represents a key success factor as tourism projects tend to be complex with respect to the administrative processes and the spectrum of stakeholders involved

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2. Target group analysis – BPO (business process outsourcing)

Investment potential	• Strong investment dynamics • Proven investment track record in transition economies • Companies constantly screen alternative locations to optimise their processes and cost-structures • Recent investment decisions – e.g. by CMX solutions – as well as current enquiries indicate a promising international investment potential

Competitive position	• Armenia offers favourable conditions for BPO projects, e.g.:
	  – Low labour costs in relation to high level of qualification (labour costs play a strong role in investment decisions for BPO projects)
	  – Foreign language skills (e.g. English, Russian)
	  – Competitive administrative, rent and utility costs
	  – Conducive BPO eco-system (e.g. with respect to universities providing a talent pool, the availability of needs-oriented sites and premises, a well-developed ICT infrastructure)
	• However, international competition is very intense as many locations around the globe target the BPO industry
	• The BPO industry in Armenia is still at an early stage of development and investment attraction efforts can not yet build upon a differentiating profile

Development impact	• Promising opportunity to create a substantial number of jobs within a short period of time and initiate a development and upgrading process • Typically, BPO projects are implemented more rapidly compared to other industries (e.g. manufacturing) • However, BPO constitutes a rather footloose industry and positive effects on rural areas are rather limited
Priority	Priority 1 – Systematic pro-active investment attraction measures recommended. Target group definition should be regularly updated and upgraded towards more sophisticated BPO areas.

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2. Target group analysis – Pharma

Investment potential	• Pharmaceutical industry displays strong investment dynamics at international level • According to latest UNCTAD investment report, 33% of IPAs in developed countries and 23% of IPAs in developing countries see the pharmaceutical industry among the most promising target groups

Competitive position	• Competition between locations is intensifying at the international level
	• For instance, Uzbekistan – the third-largest export market for Armenia's pharmaceutical industry – has recently established a range of specialised free economic zones to stimulate investment
	• Armenia has not yet developed distinct competitive advantages as a location for pharmaceutical production:
	  – The industry is comparatively small with about 20 pharmaceutical companies and an export volume of USD 22.8 m in 2017 – about 50% of production
	  – Most raw materials are imported from EU and US markets
	  – Armenia has a number of higher education and R&D institutions with a focus on pharmaceutical science, biochemistry, molecular genetics and microbiology – however, with a low level of cooperation between businesses and academia
	  – Low labour costs are of less importance due to the capital-intensive profile of the industry
	• The interface between the IT and life sciences industry offers a more promising potential to develop a differentiating profile

Development impact	• Considering the competitive position and small size of Armenia's pharmaceutical industry, a rather limited development impact is expected • Promising synergy potential at the interface between IT and the life sciences industry
Priority	Priority 2 – In the short-term, the segment „Medical IT" offers the most promising potential as indicated, amongst others, by the FMD K&L investment project . This segment should be integrated into the target group „IT". As a prerequisite for broader investment attraction efforts targeting the pharmaceutical industry, the relevant innovation system should be strengthened.

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2. Target group analysis – Jewelry

Investment potential	• Limited investment potential at international level, even if synergetic segments – such as watchmaking or tools and machines for the jewelry industry – are included • Larger-scale investment projects are rather unlikely considering the track record and resonance at international trade fairs

Competitive position	• Armenia can offer a range of benefits from the perspective of investors – including:
	  – Industrial traditions and specific craft skills
	  – Favourable relation between skills and labour costs
	  – Strategic geographic location between Middle East, Europe and Eurasian Economic Union
	  – Beneficial export conditions and preferential access to strategic markets avoiding high tariffs for jewelry
	  – A specialised free economic zone as a concrete product with facilities and services aligned to the specific needs of the target group
	• However, Armenia is facing intense competition at the international level – in particular from low-cost locations (e.g. India)

Development impact	• Rather limited impact regarding growth, employment and exports considering the small-scale structure of the industry and investment projects • Positive impact on image of Armenia and spill-over effects, e.g. regarding precision engineering and tourism
Priority	Priority 2: In comparison, other target groups offer a more promising potential for extensive investment attraction measures. The focus should be on the promotion of the Meridian FEZ through international networks and intermediaries aiming in particular at the potential of the diaspora. Jewelry-related expertise and traditions can be utilised as a cross-cutting image factor for the promotion of Armenia as an investment location.

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3. Target group selection

Building upon the results of the analysis, the initial focus of investment attraction efforts should be on the IT, food, tourism and BPO industry

➢ The table on the right summarises the findings from the target group analysis.

➢ The initial focus of investment attraction efforts should be on the priority 1 target groups IT, food, tourism and BPO.

➢ Defining target groups is a dynamic process.

➢ The selection should be regularly reviewed taking into account results achieved, changes in the investment environment and an an upgrading of the target group mix and focus.

Results of the target group analysis:

Target groups	Investment potential	Competitive position	Development impact	Priority
IT	++	++	++	1
Food	++	+	++	1
Textile	++	0	+	2
Tourism	+	+	++	1
BPO	++	+	+	1
Pharma	++	0	+	2
Jewelry	0	+	+	2

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3. Target group selection

The table below shows the proposed segmentation and geographic focus for the selected target groups

➢ Across the defined industries and segments, particular emphasis should be placed on companies, that have already established operations abroad and can build upon investment experience in transition economies

➢ Furthermore, considering the profile of Armenia, promotion efforts should not focus exclusively on large companies, but equally target medium-sized enterprises

Target groups	Target segments	Target countries / regions
Food	• High value fruit and vegetable cultivation (including organic and / or greenhouse cultivation), e.g. apricots, nuts and berries • Production of wine and beverages • Processing of meat, fruits and vegetables (e.g. preserves and juices)	• EU countries with a strong presence of the food industry (e.g. France, Germany) • Iran
IT	• Smart data / Artificial Intelligence solutions (e.g. smart mobility, smart industry, smart health, smart energy) • Embedded software development • Customised software solutions • Information systems • Semiconductor design • Hardware engineering	• US, Russia, EU countries

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3. Target group selection

The table below shows the proposed segmentation and geographic focus for the selected target groups (cont.)

Target groups	Target segments	Target countries / regions
Tourism	• 3 and 4 star hotels (in particular for projects outside Yerevan) • Wine and agro tourism projects • Adventure tourism projects • Nature and eco-tourism projects • Medical and health tourism projects • Cultural and religious projects	• Countries with a strong presence of the diaspora (e.g. France, US and Russia)
BPO	• Telemarketing and sales, customer care and technical support services • Finance and accounting, payroll services • KPO (Knowledge Process Outsourcing), e.g. market and investment research and analysis, human resources services	• US, Canada, UK • Russia • Germany

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3. Target group selection

In addition to the previously identified target groups that focus on attracting new investors to Armenia, it is recommended that existing investors form a (cross-industrial) target group to unlock the reinvestment potential

➢ A number of IPAs at the international level have recently introduced systematic after-care programmes as experience has shown, that…

- For locations with a well-established base of investors, up to 70% of inward investment can come from, or be connected to, existing investors

- In a competitive environment, it is much easier to secure / fast-track reinvestments than to attract first-time investors that have no experience in a country

- After-care programmes can make an important contribution towards integrating investors into the local economy maximising the development impact

➢ The interviews carried out have indicated a promising potential that could be tapped with a systematic after-care programme

➢ For instance, the company Siemens has expressed interest in an involvement in investment projects in the area of electrical engineering (e.g. connectors, transformers) and the production of batteries

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4. Argumentation

A good understanding of location determinants and investors' needs provides a sound basis for the development of an effective argumentation

➢ The latest Global Investment Competitiveness Report confirms the importance of a business-friendly legal and regulatory environment from the perspective of investors

➢ Political stability is rated as the most important criterion, followed by the legal / regulatory environment and market size

➢ Macroeconomic stability, the availability of skilled labour and quality of the infrastructure are further critical factors

Importance of country characteristics

Characteristic	Critically important	Important	Somewhat important	Not at all important	Don't know
Political stability and security	50	37	9	2	
Legal and regulatory environment	40	46	12	2	
Large domestic market size	42	38	14	4	
Macroeconomic stability and favourable exchange rates	34	44	16	5	
Available talent and skill of labour	28	45	22	5	
Good physical infrastructure	25	46	24	5	
Low tax rates	19	39	31	9	
Low cost of labour and inputs	18	35	35	11	
Access to land or real estate	14	31	32	22	
Financing in the domestic market	16	28	31	24	

Share of respondents (percent)

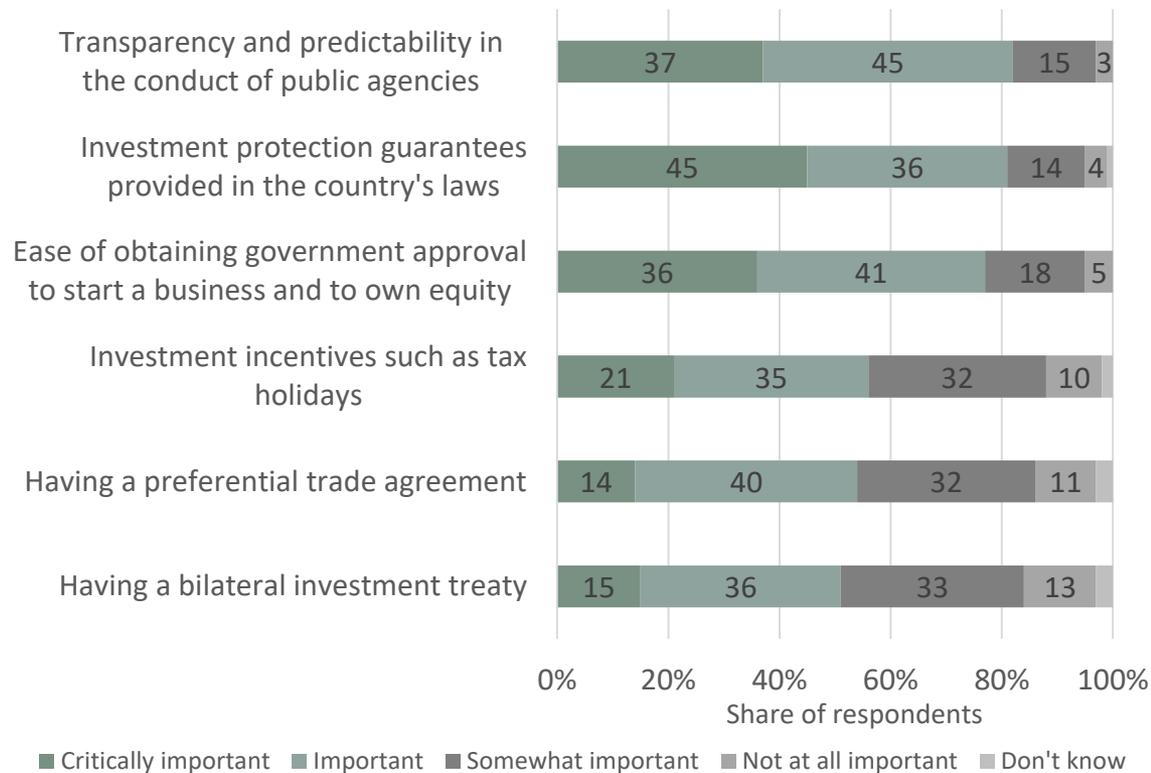■ Critically important ■ Important ■ Somewhat important ■ Not at all important ■ Don't know

Source: Global Investment Competitiveness Report 2017/2018

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4. Argumentation

With respect to investment climate factors, transparency and predictability as well as investment protection guarantees play a critical role

➢ Investors seek both strong legal protection and predictability and efficiency in implementing laws and regulations

➢ In comparison, incentives play a significantly less prominent role from the perspective of investors

➢ Those priorities of investors should be taken into account when designing marketing messages and measures

Importance of investment climate factors

	Critically important	Important	Somewhat important	Not at all important
Transparency and predictability in the conduct of public agencies	37	45	15	3
Investment protection guarantees provided in the country's laws	45	36	14	4
Ease of obtaining government approval to start a business and to own equity	36	41	18	5
Investment incentives such as tax holidays	21	35	32	10
Having a preferential trade agreement	14	40	32	11
Having a bilateral investment treaty	15	36	33	13

0% 20% 40% 60% 80% 100%
Share of respondents

■ Critically important ■ Important ■ Somewhat important ■ Not at all important ■ Don't know

Source: Global Investment Competitiveness Report 2017/2018

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4. Argumentation

However, it should be considered that the needs and priorities of investors often vary between target groups

➢ Site selection criteria differ depending upon the investment driver (market, efficiency, resource / asset seeking), the industry and activity (e.g. sales office, R&D unit, assembly)

➢ Furthermore, the geographic origin, size and ownership of a company influences its perception of investment locations and decision making processes

➢ For instance, …

– an IT company planning to set up an R&D unit will place emphasis on innovation-related criteria (e.g. availability of technology parks in proximity to universities, highly qualified specialists etc.)

– while an investor in the food industry looking for a location for a labour-intensive, export-oriented production site will focus more strongly on cost structures, agricultural supply as well as transport- und export-related factors

– medium-sized owner-managed companies tend to be less sensitive to (geo-)political risks compared to large publicly listed corporations

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4. Argumentation

Against this background, when designing marketing materials and activities (e.g. events), cross-cutting and target-group specific arguments should be combined

➢ The cross-cutting arguments address the general differentiating position issues

➢ The target-group specific messages relate to the location features which provide specific benefits to the target groups

   – They take into account, what is driving the investment plans of the target groups, so that the appropriate sales triggers can be used

   – They focus on aspects which stand out compared to competing locations

➢ Both types of marketing messages are derived considering that investors generally respond to specific (profitable) business opportunities

➢ On the subsequent slides, the key cross-cutting arguments will be outlined drawing on the findings from the interviews and complementary desk research carried out

➢ As a next step, the target group perspective will be integrated into the argumentation building upon the results from the target group analysis

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4. Argumentation

The following key cross-cutting arguments should be highlighted as part of marketing materials and activities:

➢ Facilitating investment as a strategic priority of the new Armenian Government:

- Liberal investment regime – almost no restrictions with respect to size and type of ownership, staffing, industry / activity

- No restrictions for capital and revenue transfer and repatriation

- Equal treatment for both foreign and domestic investors

- Alternative dispute resolution mechanisms for foreign investors (ICSID)

- Guarantees for legislative changes (five-year clause)

- Investment treaties with 39 countries

- Small size of the country as an advantage offering direct access to decision makers

- Number of reforms initiated by the new Government to improve the investment climate (e.g. reforms of the tax and judicial system, reduction of corruption)

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4. Argumentation

The following key cross-cutting arguments should be highlighted as part of marketing materials and activities (cont.):

➢ Range of FTAs and EAEU membership offering access to large consumer markets – including markets that are currently closed for many partners due to sanctions:

- – Free trade regime in force with CIS countries and Georgia

- – CEPA (Comprehensive and Enhanced Partnership Agreement) and GSP+ status with EU

- – Generalized System of Preferences (GSP) beneficiary status with Canada, Japan, Norway, Switzerland, and the United States

- – EAEU membership opening up a 180 m consumer market for producers in Armenia and offering the benefit of duty free imports of raw materials from EAEU countries

- – Number of infrastructure projects enabling investors to utilise the potential of preferential access to strategic markets (e.g. modernisation of the Zvartnots International Airport, construction of the North-South Road Corridor)

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4. Argumentation

The following key cross-cutting arguments should be highlighted as part of marketing materials and activities (cont.):

➢ Attractive innovation and recruitment potential drawing on an advanced educational and research landscape:

– Advanced eco-system including state-of-art educational and research facilities in cooperation with leading technology companies (e.g. Armenian National Engineering Laboratories, Microsoft Innovation Center, IBM Innovative Solutions and Technologies Center, Regional Mobile Application Laboratories ECA, Engineering City)

– National Academy of Sciences with a network of 34 research institutes – 5 scientific divisions including mathematical and technical sciences, physics and astrophysics, natural sciences and chemistry and earth sciences

– High rates of enrollment in education: About 81,700 students are enrolled in 63 state and private universities (tertiary education enrolment rate: 51.1%)

– Longstanding scientific and industrial traditions ("Silicon Valley of Soviet Union")

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4. Argumentation

The following key cross-cutting arguments should be highlighted as part of marketing materials and activities (cont.):

➢ Competitive operational costs and attractive incentives:

– Low labour costs in relation to the high skill level

– Further cost advantages (e.g. low utility costs)

– Free economic zones as product well-known and received by investors offering a distinctive combination of strategic benefits, such as tax and duty exemptions and modern facilities

– Range of additional incentives available for investors (e.g. no profit and reduced income tax for first three years, customs duty exemptions for capital goods imported)

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4. Argumentation

The table below summarises the key cross-cutting and target-group specific arguments, providing guidance for designing marketing materials and activities

Target groups	Target-group specific arguments	Cross-cutting arguments
IT	• Highly qualified workforce (68% with Master's degree) still at lower cost than in other IT locations • Strong science / engineering traditions, physics and math education • Advanced eco-system including 800 companies and a vibrant start-up scene, specialised universities, IT Technoparks, incubators / accelerators and innovation centres offers wide spectrum of cooperation opportunities • Engineering City as flagship project • Strong links with the diaspora and leading eco-systems abroad • Flexibility and innovation potential (success stories in the Artificial Intelligence area)	• Liberal investment regime – facilitating investment as a strategic priority of the new Armenian Government • Range of FTAs EAEU membership offering preferential access to large consumer markets – including markets that are currently closed for many partners due to sanctions • Number of infrastructure projects enabling investors to utilise the potential of preferential access to strategic markets • Attractive innovation and recruitment potential drawing on an advanced educational and research landscape • Competitive operational costs and attractive incentives • Free Economic Zones offering a distinctive combination of strategic benefits
Food	• Cost-competitive access to growing local and large international markets – in particular Russia and Iran – that are difficult to serve from other locations • Favorable soil and climatic conditions • Longstanding tradition, expertise and reputation for high-quality and high-value food and beverages production (e.g. No. 6 global exporter of brandy)	

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4. Argumentation

The table below summarises the key cross-cutting and target-group specific arguments, providing guidance for designing marketing materials and activities

Target groups	Target-group specific arguments	Cross-cutting arguments
Tourism	• Rich cultural heritage (3 UNESCO World Heritage Sites) and nature • Growing number of tourists – number of foreign visitors expected to more than double by 2020 • Visa-free regime with more than 60 countries • Ranking as one of the world's safest tourism destinations • Competitive operational costs (in particular labour) • Major infrastructural improvements (e.g. Zvartnots Airport)	• Liberal investment regime – facilitating investment as a strategic priority of the new Armenian Government • Range of FTAs and EAEU membership offering preferential access to large consumer markets – including markets that are currently closed for many partners due to sanctions • Number of infrastructure projects enabling investors to utilise the potential of preferential access to strategic markets • Attractive innovation and recruitment potential drawing on an advanced educational and research landscape • Competitive operational costs and attractive incentives • Free economic zones offering a distinctive combination of strategic benefits
BPO	• Conducive BPO eco-system (e.g. with respect to universities providing a talent pool, the availability of needs-oriented sites and premises, a well-developed ICT infrastructure) • Foreign language skills (e.g. English, Russian) • Low labour costs in relation to high level of qualification • Competitive administrative, rent and utility costs	

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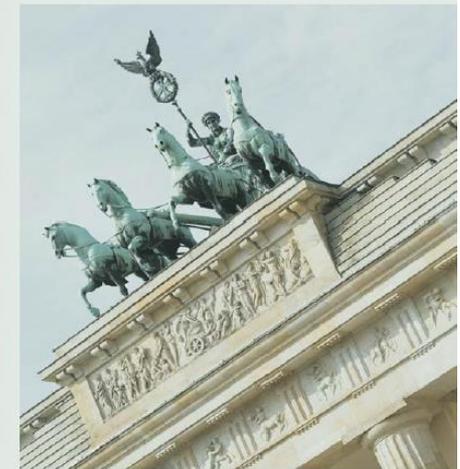vogler@berlin-economics.com

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