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WORKSHOP ON ECONOMIC DIVERSIFICATION
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ECONOMIC DIVERSIFICATION AS AN OPTION TO MINIMIZE THE ADVERSE IMPACTS OF CLIMATE CHANGE AND RESPONSE MEASURES

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Impact climate change

- Measures taken by Annex I countries would have a disproportionate economic impact on oil exporting developing countries due to:
 - Reduction of: oil demand, volume of exports from oil producers and oil price
 - Spillover effects.
- Model Results, despite limitations and differences, all indicate that climate change response measures will adversely affect developing countries, particularly oil-exporting countries.

The case Venezuela

- The Venezuelan economy depends heavily on oil exports.
- During the past five years the participation of oil in national incomes : 50% of the total.
- Oil and oil products accounted for 80% of the total exports and
- 25% of the GDP.
- A drop in oil earnings will have important effects in the public expenditures and in the financing of imports with remarkable impacts on Venezuela's welfare.

Venezuela's vulnerability to the adverse effects of climate change

- Venezuela, due to its geographical situation is likely to suffer negative impacts from climate change as it has a wide variety of highly vulnerable ecosystems.
- The eventual shortage of oil revenues will adversely impact its capacity for adaptation

Economic diversification

- Economic diversification is crucial for developing countries which are specially vulnerable to both effects.
- But unfortunately, many obstacles have been found in the path to economic diversification both nationally and internationally.

Past Experiences on Economic Diversification

- During the seventies:
 - Increase of oil revenues
 - Lack of a productive apparatus that could absorb this amount of resources and translate it into development.
 - Recycling of so called "petrodollars" to industrialized economies
- "Growth without Development", which led to:
 - New distortions of the Venezuelan economy: Boom of imports, "agriculture of ports", deterioration of the national industry (small and medium size), some development of heavy industry, expansion of the construction sector and capital migration. Paradoxically, increase of external debt, encouraged by creditors.

Lessons Learned

- Economic Diversification was a very complex issue.
- At the national level: failure in creating domestic productive capabilities (education, technological capacity, managerial skills, enabling regulation framework, etc)

At the International level: development, economic and trade asymmetries, limited markets accession, price instabilities, lack of capital flows, among others constrains.

Potential for Economic Diversification

- Energy sector: the highest gas reserves in Latin America (among the first in the world).
- High hydroelectric potential (currently 70% of electricity needs)
- Potential for development and use of other renewable energy resources.

Potential for Economic Diversification

- In non energy sector:

Agriculture, manufacturing industries, tourism, petrochemicals, biotechnology and pharmaceutical industry based on the country extreme rich biodiversity, mining based in the variety of resources of metallic and non metallic minerals, among others.

Diversification in a climate driven scenario

A new attempt to diversify our economy in a climate driven scenario requires not only a propitious internal and external economic and investment climate, but also international assistance and cooperation.

Creating Favorable Conditions

- At the national level:
- New Constitution(1999):
Equal treatment to national and foreign investment.
- Economic guarantees restored
- Encouraging national private and foreign investment:
New laws for Investment Promotion and Protection, Gas, Electricity and Contracts Protection.

FAVORABLE EXTERNAL CONDITIONS?

- Regarding the external conditions needed to foster economic diversification we are not very optimistic.
- UNCTAD "Trade and Development Report, 2002" shows that the international trade system in support of development still remains a central issue in the international trade system.
- Still in the agenda: essential external conditions for accelerating the rate of growth, price stabilization, improved market access, policy space to develop local industries and reduce barriers, more accession to the multilateral system and reduce the burden of the external debt servicing.

Economic Diversification in a Climate Driven Scenario

- The Kyoto Protocol has not yet entered into force. The pace of process toward the implementation of a global effective policy to combat climate change is hard to predict.
- Matters involved are extremely complex.
- It implies the change of the very essence of the industrial civilization.
- the solution deserves new and creative sets of solutions and effective compromise from the international community, specially from developed countries.

Suggested Next Steps

- Creation of an Expert Group on Economic Diversification.
- Establishment of Economic Diversification National Programmes