

EU Perspectives on Economic Diversification for Sustainable Development

Presentation by
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Pre-sessional experts meeting
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Overview

- Economic diversification
- Outcomes of the Tehran workshop 2003
- Key Issues and promoting Economic Diversification for Sustainable Development
- Next steps and concluding remarks

Aim of the economic diversification experts meeting:

explore how economic diversification might be integrated into, and support sustainable development strategies and to discuss what technical assistance may be needed to develop structural and institutional capacity for facilitating efforts to achieve economic diversification, as well as how foreign and domestic private sector investments in those areas may be encouraged.

What is Economic Diversification?

- Generally the process in which a growing range of economic outputs is produced
- Can refer to diversification of markets for exports
- Also refers to diversification of income sources away from domestic economic activities
- Can be measured in various ways
 - percentage of manufactured goods as proportion GDP or exports
 - UNCTAD has developed measures including Economic Concentration Index and Economic Vulnerability Index

Policies for Economic Diversification

- No single policy solution
 - Long-term process requiring long-term goal
- General agreement on need for improving the investment climate through:
 - Sound fiscal management of the economy
 - Strengthening the banking sector
 - Improving access to credit, particularly SMEs
 - Removing barriers to foreign ownership in key sectors
 - investment in manufacturing/labour-intensive industries

Foreign Direct Investment for Economic Diversification

- If the right conditions are available FDI can help initiate new industries
- Foreign investors from export-orientated economies tend to be particularly helpful for initiation of new exporting industries
- Quality rather than quantity of FDI is important, in particular relating to:
 - export orientation
 - sectoral distribution
 - level of technology and marketing knowledge

Outcomes of Tehran Workshop on Economic Diversification 2003

- Economic diversification important regardless of climate change
- Pursuing sustainable development is the best way of achieving economic diversification
- Sustainable development can deal with adverse effects of climate change and impact of the implementation of response measures
- Also important to consider actions to mitigate climate change within sustainable development approach
- Mainstreaming within national development plans is key

Outcomes of Tehran Workshop on Economic Diversification 2003

Governments can best support economic diversification by:

- Putting in place measures to attract foreign direct investment
- Sustained investment in both human and physical capitals (including infrastructure)
- Export orientation policies
- Developing a stable and open economic environment which stimulates private sector investment
- Promoting realistic price and foreign exchange regimes

Outcomes of Tehran Workshop on Economic Diversification 2003

In the context of climate change 4 main groups identified as important:

- SIDS due to sea-level rise and extreme weather events
- LDCs due to general lack of adaptive capacity
- Oil exporters from implementation of impact of response measures
- Coal users due to the need for fuel-switching

SIDS and LDCs

Lack of economic diversification makes entire economy vulnerable to climate change

- SIDS specific economic activities vulnerable to adverse effects of climate change: agriculture, tourism, infrastructure
- Low level of development makes LDCs vulnerable to threats such as climate change, due in particular
 - Very low levels socio-economic infrastructure
 - High degree of vulnerability to external shocks
 - High rates environmental depletion
 - High rates of human capital resource depletion arising from prevalence of diseases

Economic Diversification of SIDS and LDCs

- Strengthening of adaptive capacity to reduce vulnerability
- Climate change must be integrated within development plans
- Long-term goals and plans need to balance current and future needs
- Key to address lack of development and basic infrastructure and education
- Donor assistance necessary to kick-start development process
- NAPAs important means for prioritising needs for assistance and urgent actions

Countries Highly Dependant on Fossil Fuel Exports and Consumption

- Models show unlikely oil exports will be affected during first KP commitment period 2008-2012
- Implications of measures for stabilisation unknown
- Lack of economic diversification increases vulnerability to changes in demand and price fossils
- Can draw links between low level of economic diversification and vulnerability based on 3 factors:
 1. World price fluctuations (instability in terms of trade)
 2. Exposure to shocks relating to ratio of exports to GDP
 3. Capacity of the country to efficiently manage shocks
- The first two can be reduced through economic diversification, the third is a factor of development

Economic Diversification of Countries Highly Dependant on Fossil Fuel Production and Consumption

Economic diversification best approach for ensuring against potential long-term revenue loss

- Some progress in expanding non-oil sectors particularly capital and energy intensive industries
- Need integrate a focus on diversification in sustainable development strategies
- Further develop the financial sector and investment climate

Economic Diversification of Countries Highly Dependant on Fossil Fuel Production and Consumption

- Increase energy efficiency
- Diversification of energy sources
 - Renewable energy and natural gas
- Promote economic activities that are non energy intensive
- Mainstream energy for sustainable development in PRSPs and national plans
- Develop carbon capture and storage technology, non-traditional use of fossil fuels

EU Activities

- ODA to promote sustainable development, including basic infrastructure and education
- Contributing to adaptation and technology transfer elements of SCCF
- Support LDC Fund for implementation of NAPAs
- CDM to promote energy for sustainable development
- Technology cooperation to promote diversified energy particularly renewable energy
- Capacity-building and technology cooperation to promote energy efficiency
- Developing carbon, capture & storage technology
- Partnerships such as CSLF and EITI, IEA IA's

EU cooperation and dialogue with producers

- Ministerial energy dialogue – since 2005
- Round tables (oil markets, energy policies, ...)
- Technology Centre to develop advanced fossil fuel technology
- EU-GCC cooperation
- International Energy Forum

Next Steps

- Agree guidance for SCCF to provide technical assistance for economic diversification
- Ensure NAPAs include a focus on economic diversification
- Link to economic diversification discussions outside of the Convention, including:
 - Commission on Sustainable Development 14/15
 - SIDS Mauritius Strategy for Implementation
 - UNCTAD and Bretton Woods Institutes
 - EU-OPEC engagement on climate change, energy and sustainable development
 - Mainstream climate change within energy producer and consumer dialogues

Concluding Remarks

- Economic diversification is a product of economic development
- Wider issue than climate change
- Should consider within the context of mainstreaming sustainable development
- Responsibility of national governments
- Promoting national investment framework to attract foreign and private investment is key
- Need to focus on human and institutional capacity-building and technical assistance
- Forums outside of the UNFCCC key to promoting economic diversification