



Fostering Economic Diversification

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Presentation structure

- The scope for manoeuvre: theory and practice
- Principal areas for action
- Possible framework for action: IF considered
- Conclusion



Is it possible to foster economic diversity? - Theory

- The role of the state in fostering structural changes in the economy is heavily debated in the literature.
- However, there is a number of reasons why some optimism might be warranted:
 - Some successful examples in ED
 - Theory has established that the state can substantially influence trade pattern, if less so with domestic consumption and production patterns
 - Areas (e.g. education, technological development, social organisation) where actions are needed are subject to apparent market failures, which should therefore be amenable to government interventions



Is it possible to foster economic diversity? - Theory

- In particular, Hirshman's (1981) linkage approach, with special reference to staples, provide insights by highlighting three kinds of economic linkages between staples and other economic activities in the economy:
 - Consumption linkage: staple export earnings finance domestic consumption and stimulate economic activities in response to such demands; however, the consumption pattern may be skewed towards imports



Is it possible to foster economic diversity? - Theory

- Productive linkage:
 - the most reliable for the purpose of ED;
 - private agents are better able to decide the viable linkages;
 - 'alien' technology will discourage the involvement of the 'inside' agents (i.e. the most advanced is not always the best technology for this purpose)
- Fiscal linkage: the government will be able to raise revenue from the high-rent exports, but may not be a good investor with the proceeds.
- This highlights the importance of encouraging private initiatives in productive linkage and ensuring the efficiency of public investments.



Successful examples of ED as a result of economic development

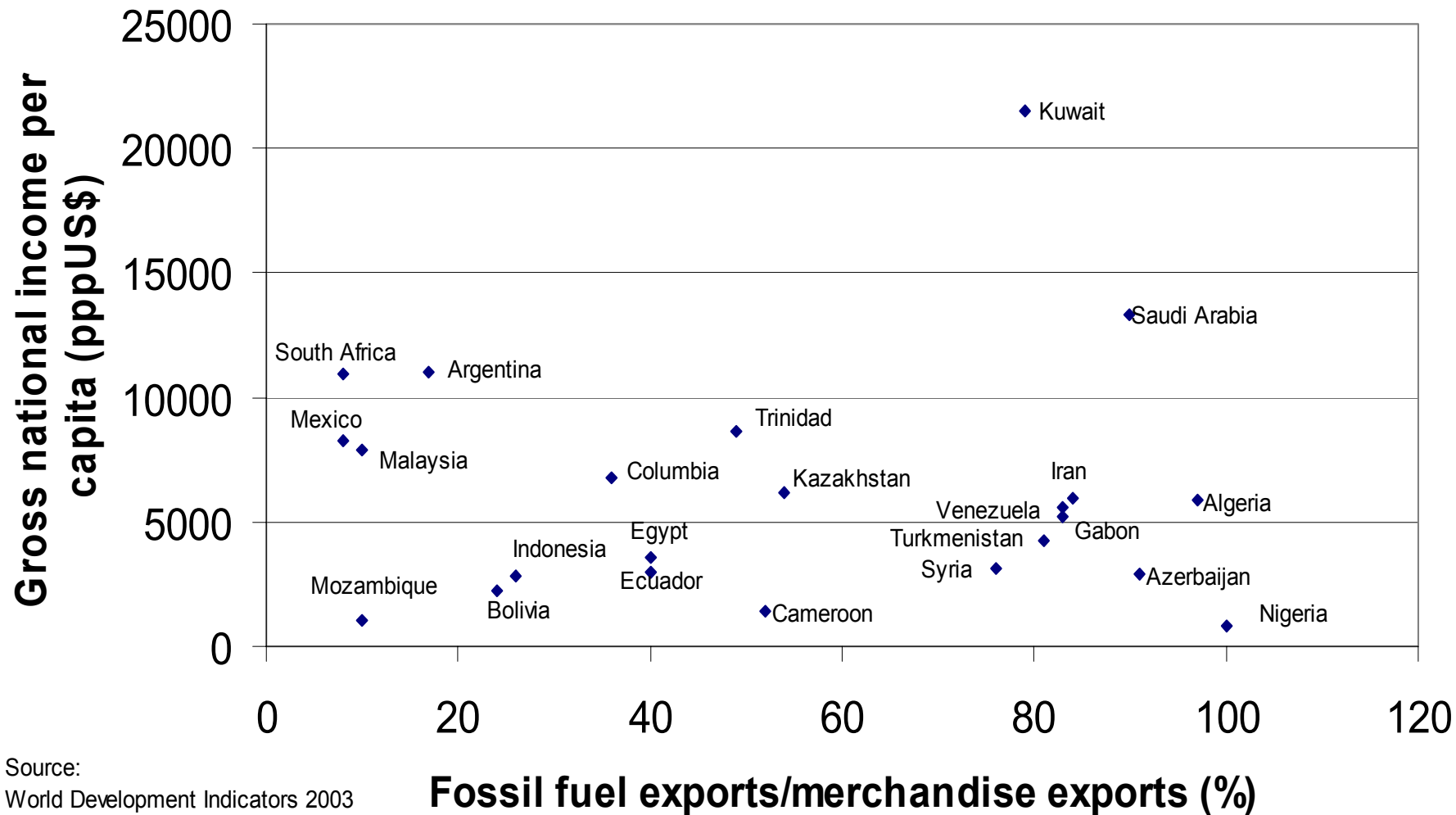
- By resource-scarce economies
 - Asia-Pacific Newly industrialised economies (e.g. South Korea, Taiwan, Singapore) (World Bank, 1993)
 - China and India
- by resource-based economies
 - Mauritius (cf. Zhang, 2003)
 - Indonesia (Gelb *et al*, 1988)
- There is therefore some basis for optimism about the cause of promoting ED. Past experience also show the importance of political will, long-term strategies and the catalysis of outside agents.

Proposed priority areas for support



- i. Formulation of National Adaptation Programme for Action with appropriate emphasis on strategies and action plans for ED;
- ii. Technical and financial support for the development of key infrastructure necessary for economic activities, as the countries concerned have varying level of development and ED, when a country's income falls below certain level (see next slide)
- iii. Technical support for the promotion of inward foreign direct investment, labour-intensive exports (manufacturing and services), trade liberalisation, competition, access to developed countries' markets and human resource development

Non-annex I countries as net energy exporters: Fossil fuel exports dependency and state of development (2001)



Source:
World Development Indicators 2003

Proposed priority areas for support



- iv. Technical support for price and ownership reforms in energy and associated industries;
- v. Studies and exchange of past experience of economic diversification and lessons learnt;
- vi. Activities and projects that promote the synergy between poverty reduction, adaptation and economic diversification;
- vii. Capacity Building to strengthen the structural and institutional capacity for ED.

Could IF be a useful framework to adapt?

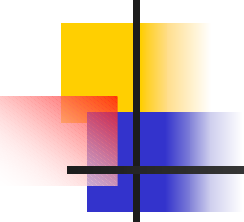




Salient features of IF

- A framework for providing technical assistance to LDCs regarding how to best integrate the LDCs into the international trading system
- It is supported by six major multilateral organisations (IMF, World Bank, UNCTAD, UNDP, WTO and ITC)
- It is a country-driven process, attempting to integrate trade policy into national development strategies.
- The core is a Diagnostic Trade Integration Study (DTIS)
- It consists of four stages: entry stage, pre-DTIS stage, DTIS stage, and implementation stage.
- Funds are given through two windows, respectively for the preparation of the DTIS (up to US\$300,000) and for implementation (up to US\$ 1m per country).

Main components of a DTIS

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- An analysis of the economic and export performance, assessment of macro-economic environment, investment climate and institutional issues;
 - An assessment of the international policy environment and specific constraints that exporters face;
 - Product standards, including SPS issues
 - Transport and trade facilitate
 - An assessment of a small number of key sectors believed to have significant potential for expansion in output and trade beneficial to the poor, including an assessment of national capacity (public and private) to formulate and implement trade policy;
 - A pro-poor trade integration strategy (IF Manuel)



IF as an action framework for economic diversification?

■ Pros

- Offers a ready framework to adapt
- Emphasizes the integration with SD and poverty reduction
- Promotes partnerships between donors, member countries and international development agencies
- Technical and financial inputs from the outside

■ Cons

- IF itself is new (experimenting since 1997, revised in 2005), with its efficacy hardly proven
- The issues concerning ED is wider and span longer-term than trade related issues do
- There is a lesser knowledge base to draw on, partly because the idea of promoting ED through policies runs against the grains of neoclassical economics. Ideological crashes are likely.



Conclusion

- Some basis for optimism, but likely to involve some pain!