

Identify country-driven strategies and best practices on just transition of the workforce and creation of decent work and quality jobs and on economic diversification and transformation focusing on challenges and opportunities from the implementation of low greenhouse gas emission policies and strategies towards the achievement of sustainable development (activity 2)

Draft paper on economic diversification

Agenda item 4a

8th Meeting of KCI
1-2 June 2023



Draft Paper Outline

1. Introduction

- ❑ Reasons for undertaking economic diversification
 - Strategy for economic growth and development;
 - ED reduces transition risks and vulnerabilities

- ❑ Consideration for undertaking ED
 - Country's circumstances (e.g. possession of secondary comparative advantage)
 - Diversifying within the same sector (e.g. from coal to RE) vs. moving downstream

- ❑ Methodological approach for ED:
 - Domestic production diversification; Export diversification

- ❑ Mandate and objective for preparing the paper
 - To provide examples to explore country-driven strategies, best practices, and challenges in implementing economic diversification strategies



Draft Paper Outline

2. ED situation and approaches (concrete country examples)

- Oil and gas-based economy
- Agriculture-based economy
- Mineral extraction-based economy



Draft Paper Outline

2. ED situation and approaches (concrete country examples) –

Oil and gas-based economy

United Arab Emirates

- Several initiatives and vision related to economic diversification at country- and Emirati-level.
- Vision 2021 defining national priorities, including in economy.
- Strategies aiming at increasing industry contribution to GDP, empowering private sectors

Saudi Arabia

- Strategy anchored in ‘Vision 2030 plan’, founded on several pillars, including investment in human capital and education and investment in non-oil sectors such as tourism transportation, entertainment and others.
- Measures/initiatives to modernize education system, ease establish business, ensure equality of employment.



Draft Paper Outline

2. ED situation and approaches (concrete country examples) –

Oil and gas-based economy

Oman

- Economic diversification has been a priority.
- Vision 2020 and Vision 2040, to bring the country towards a sustainable and diversified economy.
- Five-year plans linked with the vision, laying out programs to achieve the vision.

Indonesia

- From net oil exporter to net oil importer.
- Vertical economic diversification, transforming natural resources into more valuable products through industrialization.
- Started with import substitution strategy (e.g. reducing import duties, tax incentives at special economic zone).



Draft Paper Outline

2. ED situation and approaches (concrete country examples) –

Agriculture-based economy

Mauritius

- Seen as successful example reducing reliance on main export commodity (sugar).
- Implementing macroeconomic policies and specific diversification strategies.
- Establishment of special export zone (new export commodity), promoting services sector (tourism, financial, ICT).

Costa Rica

- Increasing foreign direct investment for sector other than agriculture (manufacturing of medical devices; tourism)
- Industrial policy, investment promotion and trade policy.
- Lowering share of main export goods (banana and coffee).



Draft Paper Outline

2. ED situation and approaches (concrete country examples) –

Agriculture-based economy

Uganda

- Aiming to encourage FDI (inviting investment code, easier export formalities)
- Diversification supported by macroeconomic stability, R&D, marketing infrastructure
- Expanding from coffee as main export to manufacturing of food and beverages, tobacco products, building materials (steel, cement); and shift of export destinations
- Several policies and Vision in place, with national development plan to achieve the vision



Draft Paper Outline

2. ED situation and approaches (concrete country examples) –

Mineral extraction-based economy

Chile

- Using revenue from copper-related export to diversify to non-copper exports (salmon, fresh fruit, forestry products, and wine).
- Various programmes and interventions pertaining to human capital development.
- Increasing FDI.

Indonesia

- From exporting nickel to producing domestic EV battery.
- Regulation in place to accelerate of domestic industry for EV battery and a joint venture to facilitate the development of EV market.
- Grand Strategy for extractives in place.



3. Policy approaches and challenges

❑ Policy approaches to enable ED

Common themes are evident in diversification successes, for example:

- Building human capital
- Accumulating skills and productive knowledge
- Investing in R&D for export sophistication
- Developing new products and new markets
- Vertical policy and effective public spending



3. Policy approaches and challenges

- ❑ Challenges for economic diversification, for example:
 - Availability natural resources.
 - Macroeconomic instability.
 - Shift from public to private sector employment.
 - Consideration of diversification in tourism (e.g. high-end vs high-volume; cultural values; competition).
 - Providing decent work and quality jobs.
 - Primary commodity or processed goods?



4. Conclusion and possible actions

- ❑ Potential actions for policy makers and stakeholders, for example:
 - Focus on fundamentals
 - Develop cooperation
 - Adopt economy wide policies
 - Incorporate just transition
 - Engage private sector
 - Invest in R&D and developing human capital

- ❑ Potential future work, to improve understanding in topics such as:

Methods for assessing and planning climate resilient economic development; Effective strategies to build institutional capacity for economic diversification and climate policy implementation

End of presentation

