



Strategies for Economic Diversification in the Resource-Rich Countries?

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AIM :

Providing a framework on how to think about diversification



Diversification of what?

- Export diversification
 - difficult
 - very useful if it can be achieved, but risks from a concentrated export structure can also be mitigated through macro-economic policies
 - not necessarily priority
- Diversification of (non-export) economy
 - Easier, better chances of success
 - maybe more important

Export Diversification I

- Resource-rich countries typically have relatively high wages
 - possibility to compete in labour intensive sectors which are unconnected to natural resources are very limited
- Export of knowledge-based products fairly difficult to achieve
 - easiest probably via export oriented FDI
 - “cherry on the cake”; useful to be complemented by more basic approaches aiming for the low hanging fruit
 - innovation (chapter in latest OECD Russia survey)
 - session yesterday afternoon, following session



Export Diversification II

- Resource-rich countries most often have a multitude of different resources.
 - diversifying production and exports of natural resources is a useful type of diversification
- Stay close to comparative advantage
 - increasing the depth of processing of exports (e.g. move to higher quality steel, furniture, etc)
 - developing services in natural resource related areas (e.g. oil production consultancy services, etc.)
- Watch your neighbours
 - E.g. one needs only one banking hub per region / time zone

Diversification of “domestic economy” I

- Service sector development
 - if country gets richer (e.g. developing resource sector), service sector should develop in line
 - large part of developed economy, significant provider of employment
 - need for good framework policies that allow development of service sector (e.g. friendly business environment for small enterprises)
 - potential for tourism industry
 - good framework policies for innovation
 - good institutions, macro policies

Diversification of “domestic economy” II

- Import substitution

- favourable framework conditions for FDI producing for domestic market
- easier to achieve for larger economies
- one should be careful in the use of protectionist instruments
 - negative experiences from Latin America
 - political economy considerations
 - need to keep competitive environment
 - international treaties
- good institutions, macro-policies, tax system
- good framework policies for innovation



“Natural” diversification

- the diversification of the (domestically oriented) economy will take place to a significant degree automatically with economic growth as the service sector gains in importance
- “pro-growth” policies are indirectly diversification policies

Conclusion

- don't forget about low hanging fruit
- don't neglect developing your resource sector – wealth kept in the country will increase diversification
- in general, good economic policy will lead to more developed and more diversified economy
 - business climate, property rights
 - innovation, education policies