

Framing of the Issue of Economic Diversification

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Definition of Economic Diversification (ED)

Economic diversification can be defined as when a country has incomes from many different sources that are not directly related to each other (diversified income sources or export markets)

Examples

- A good example of a poorly diversified economies are those of developing countries dependent on export income from few commodities which makes them vulnerable to international market swings.
- Industrialized countries normally have better diversified economy as their income is derived from many different types of economic activity including manufacturing, agriculture, and financial services. However, over reliance on financial services has proved to be dangerous...

Economic diversification = Development?

- Chicken or egg problem
- Growth leads to development or development leads to growth?
- Not really of great interest to us now since the issue is survival and quality of life...

Economic Diversification within the UNFCCC

- *Decisions by various COPs of UNFCCC have committed the Annex I countries to assist those non-Annex I countries, whose economies are “highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products’, to diversify their economies” (Le-Yin Zhang)*
- Motivated from an equity perspective

ED and Response Measures in LDCs and OECs

Further consideration of the relative extent of the potential impact of the response measures suggests that the economic diversification issue affects most significantly the least developed countries (LDCs) and oil-exporting countries (OECs), as there is a severe lack of economic diversification in these economies (Zhang).

Economic Diversification and Sustainable Development (SD)

- *This lack of ED increases these economies' vulnerability to fluctuation in primary commodities (oil or else) markets, and **reduces their adaptive capacity to climate change (CC).***
- ***adaptive capacity and long-term prospects can be effectively addressed by economic diversification alone?***
- Zhang (2003) argues that it is not enough and that it is necessary to broaden the discussion by bringing in the sustainable development perspective.

ED and Sustainable Development (SD)

- Only the elements that strive to build sustainable development confer the capacity of commodity dependent economies to improve their **adaptive capacity** and safeguard these economies' long-term prospects in the face of depleting natural resources and under the weight of the response measures (Zhang).

SD's key requirements

- According to the Bruntland report, key requirements for achieving sustainable development are:
 1. *Meeting the poor's basic needs (i.e. poverty eradication)*
 2. *Ensuring environmental sustainability (know-how)*
 3. *Expanding the 'environment's ability to meet people's needs by improving technology and social organisation*
 4. *Equity both within and between generations*

Challenges

- But none of this is very easy... especially since there are a number of challenging tasks to be met simultaneously along uncharted paths...

Economic growth, educate your population, technological innovation/development, be inclusive, be equitable, be environmentally sustainable and.... not least...

...make sure you survive the effects of climate change....

Actions

- Tech transfer/development, capacity building/education are all important contributions toward sustainable development

Thank you