

United Nations Conference on Trade and Development

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Enablers of economic diversification

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

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Why diversify?

Diversification is not an end in itself. Rather, it is a means to

- Lower vulnerability to external shocks (resilience)
- Achieve structural transformation (productivity gains)
- Drive economic growth and development (higher real incomes)
- Generate more and better jobs (employment)

Learning from past success

- There is no blueprint
- However, countries that have successfully diversified have relied on a combination of
 - » horizontal enablers
 - » targeted measures

Enablers of diversification



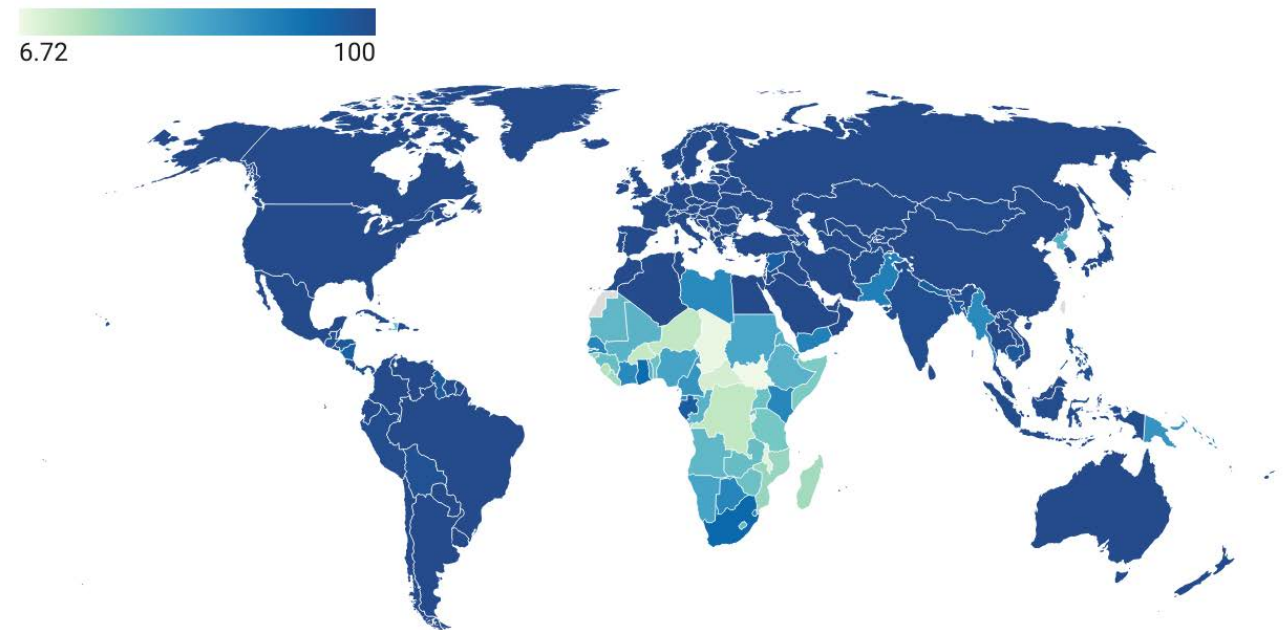
Transparent and predictable business and investment climate

- Clear rules and regulations, simple procedures, no red tape
- Political and social stability
- Rule of law
- Low level of corruption
 - » ensure low cost of doing business

Infrastructure

- Transportation and logistics
- Information and communications technology
- Access to energy
 - » investments in infrastructure
 - » regional cooperation to improve connectivity (e.g. ACFTA)

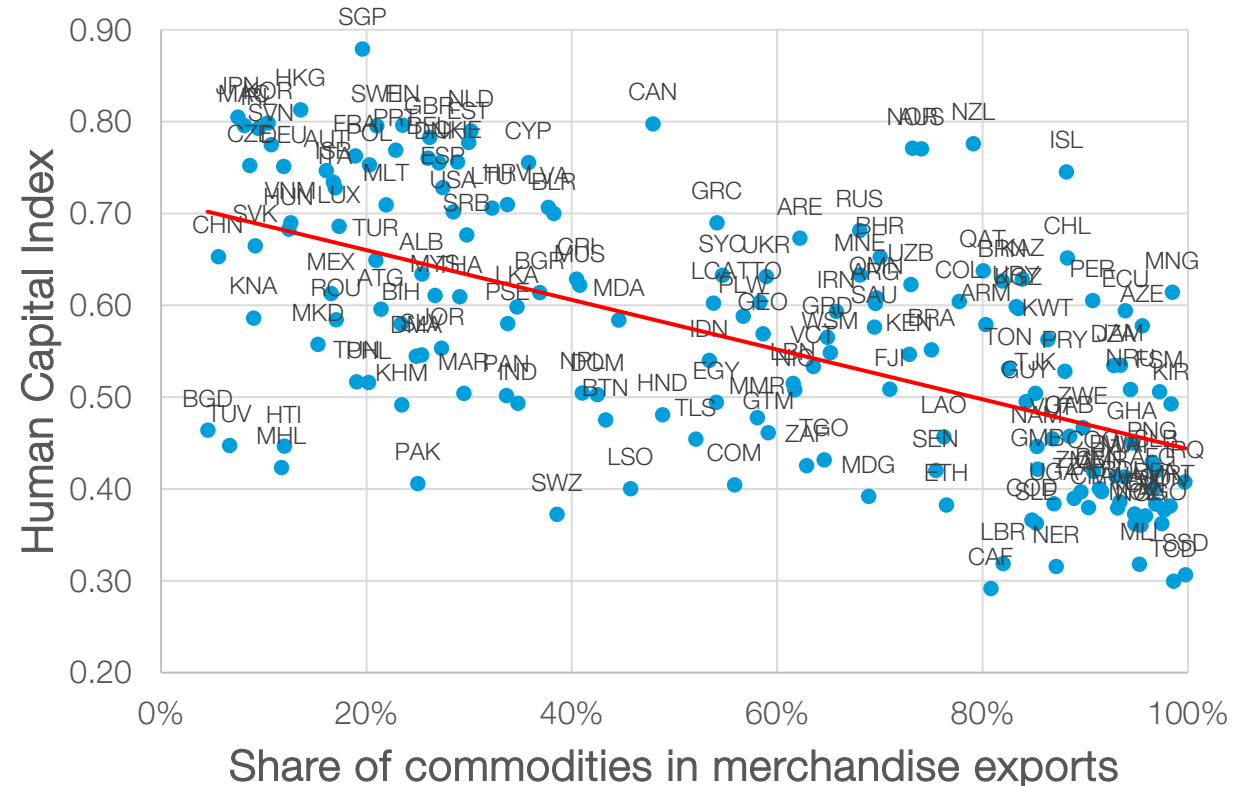
Access to electricity (% of population), 2019



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Human capital

- Human capital enables upgrading into more skill-intensive activities
- Education and skills ensure access to new employment opportunities
 - » investments in education
 - » ensure skills match labour market needs



Market access

- **Market access conditions are a key factor in successful diversification**
- **Tariff escalation and tariff peaks are challenges for commodity-dependent developing countries**
- **Non-tariff measures (NTMs) are widespread e.g. in agri-food sector**
 - » **include market access analysis in diversification strategies**
 - » **address tariff escalation and tariff peaks in WTO**
 - » **strengthen domestic quality infrastructure**
 - » **build capacity to reduce trade costs**

Competitive input markets

- Higher value-added goods require inputs of intermediary goods and services
- Lack of competition on input markets can compromise competitiveness of exporters
 - » strengthen competition policy
 - » facilitate access to inputs through trade policy

Special Economic Zones

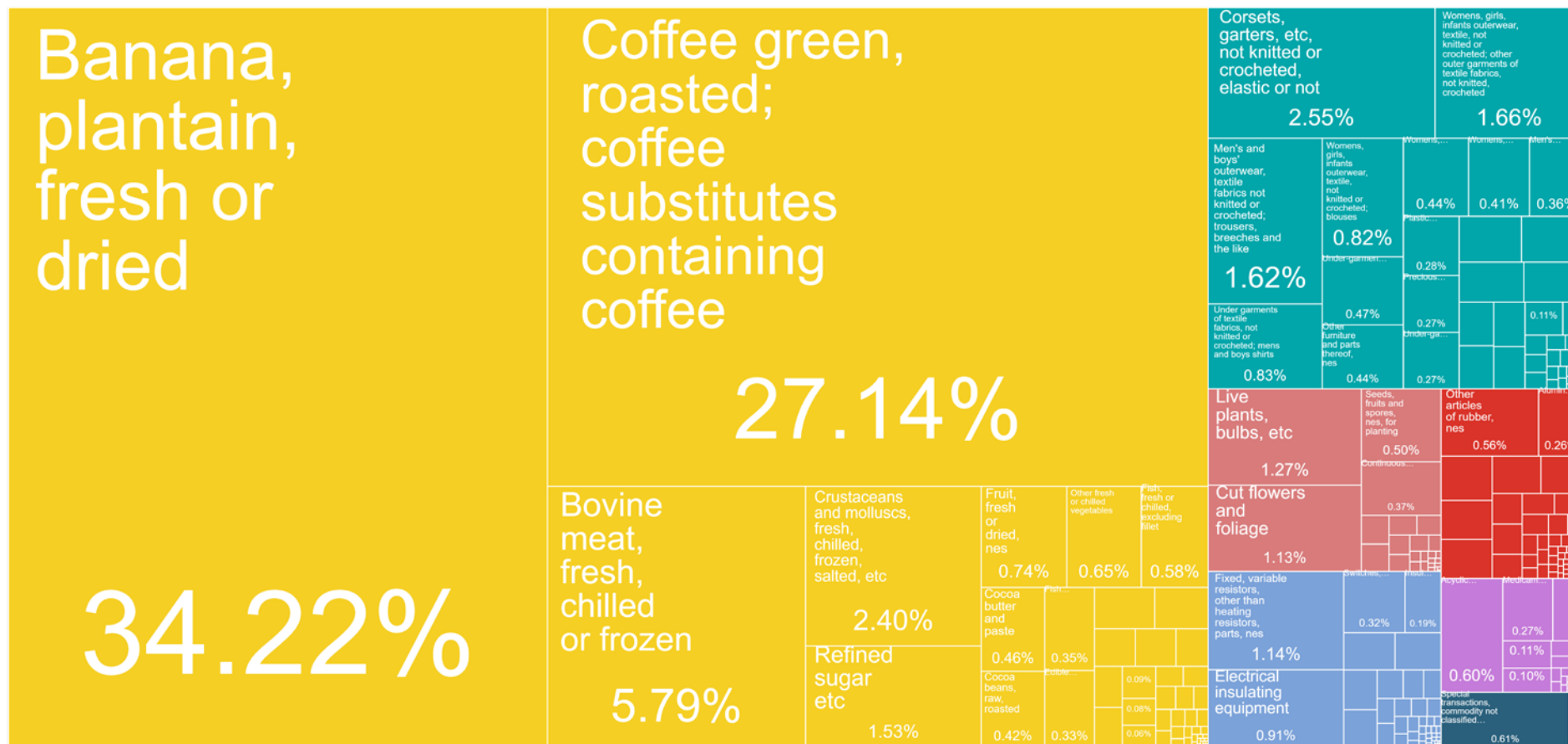
- Promote investment, exports, growth, industrialization, innovation
- Build productive capacity, generate employment
- Integrate in GVCs
- Support SMEs
- Some have underperformed in sustainable development
 - » Strengthen linkages and spillovers

Example: Costa Rica



Diversification in Costa Rica 1/3

Merchandise exports in 1985

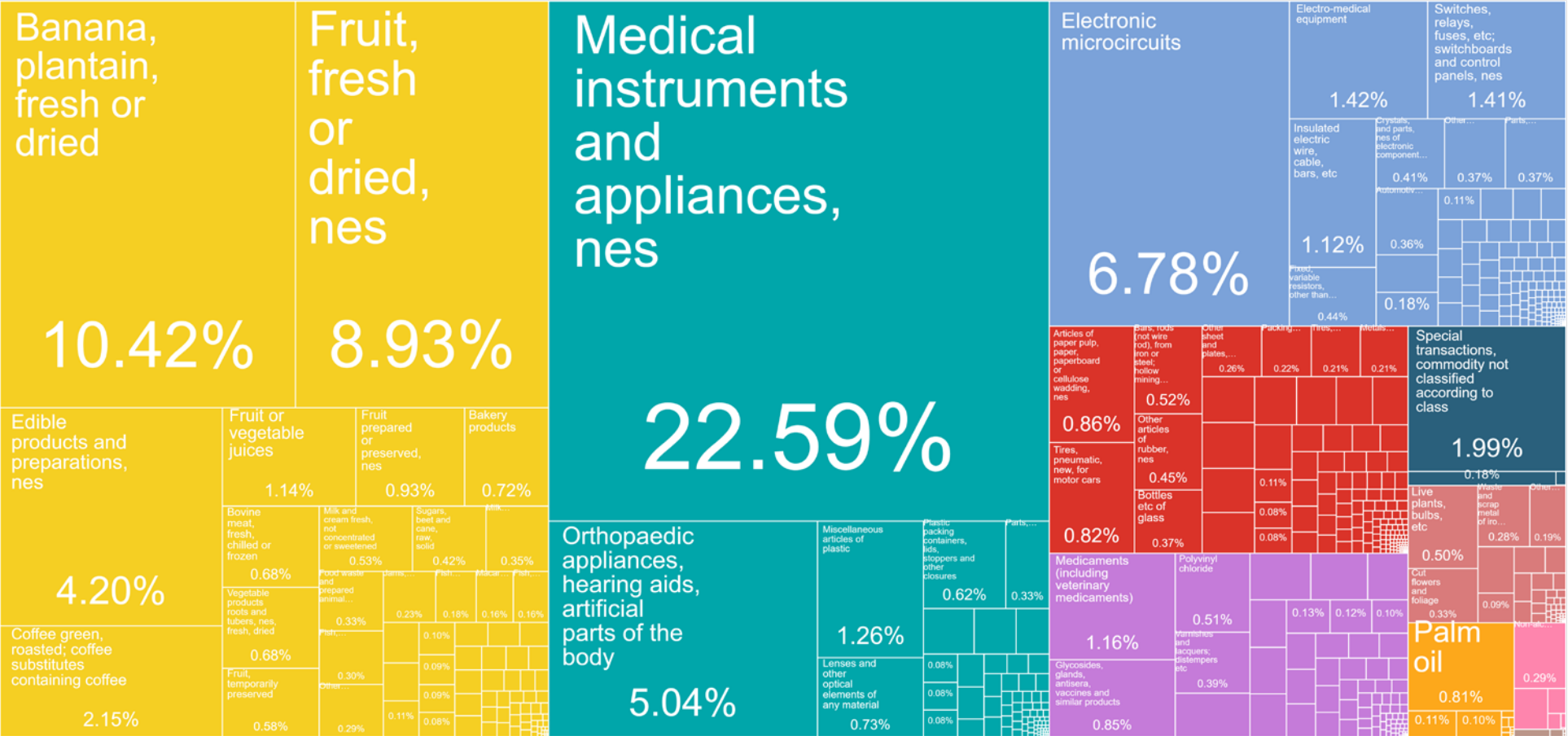


Diversification in Costa Rica 2/3

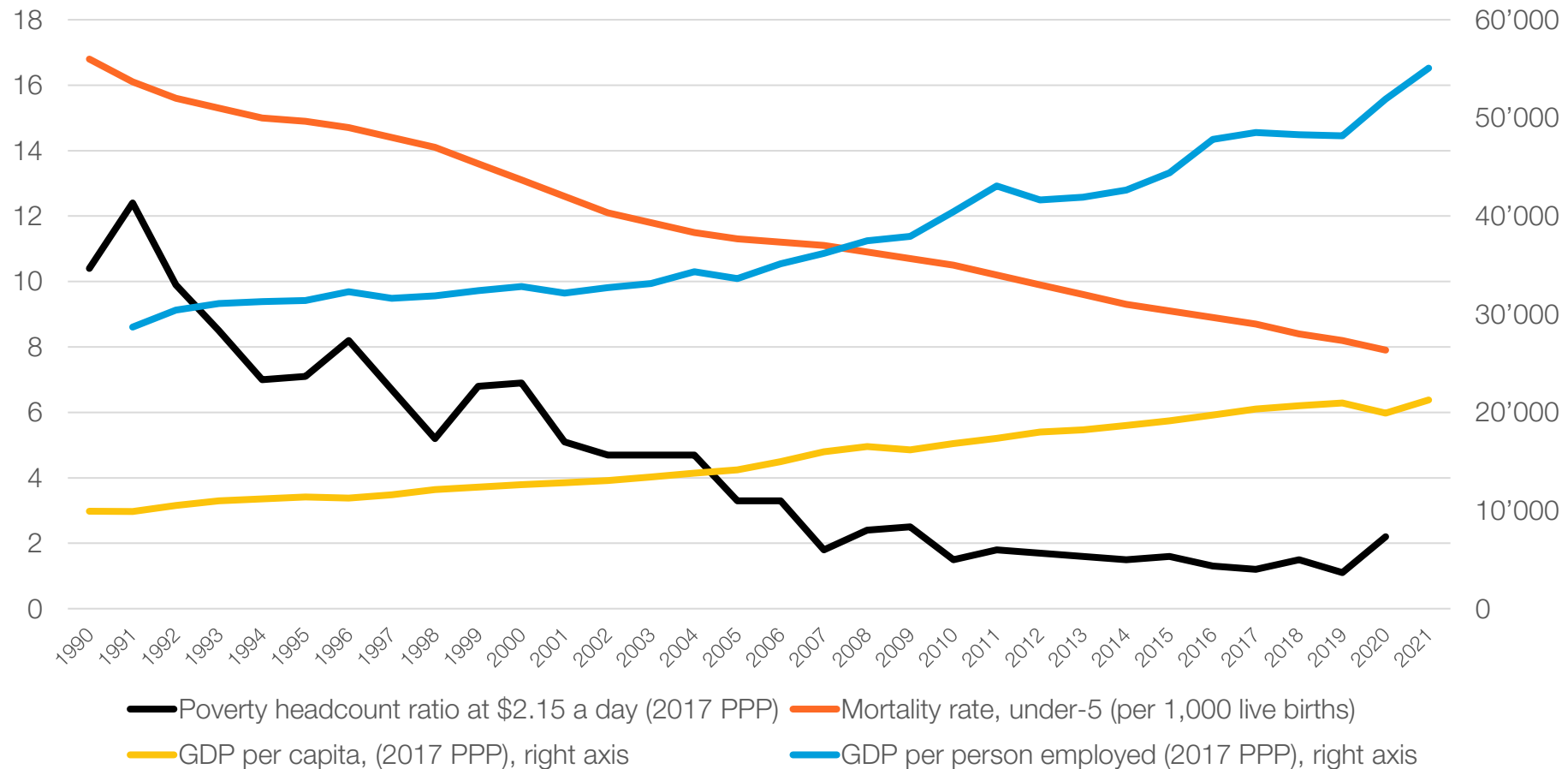
- Conducive business and investment climate
 - Political and social stability
 - Investment promotion (CINDE - Costa Rican Investment Promotion Agency)
 - Export promotion (PROCOMER - Export Promotion Agency of Costa Rica)
- Investments in human capital
 - Education
 - Technical skills development
- Market access
 - Free Trade Agreements with e.g. United States, Mexico, Canada and Chile
- Free Trade Zones to attract FDI and promote priority export sectors
- Promotion of non-traditional exports in agriculture and eco-tourism

Diversification in Costa Rica 3/3

Merchandise exports in 2020



Diversification went hand-in-hand with broad-based development progress



Conclusions



Conclusions

- Recent shocks to the global economy (Covid-19, war in Ukraine) have laid bare the fragility of commodity-dependent developing countries
- Volatility and high uncertainty on commodity markets are a reminder of the need to build resilient economies
- Diversification is the key to resilience for commodity dependent developing countries
- **Successful examples show that diversification is possible**

Thank you!

