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Challenges for inclusive diversification of CDDCs

By

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Panel on Inclusive Diversification

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Overview

- Context which allowed diversification of emerging and middle-income economies has changed, e.g. low carbon future.
- Not all developing countries have pursued diversification and few have been successful in overcoming commodity dependence or the shackles of geography.
- Challenge of footloose FDI in manufacturing.
- In many developing countries, the extractive industries sector is both shaped by and influences political dynamics. Policymakers focus on short-term rents from resources and their allocation to ensure political survival has distracted from policies and investments necessary for diversification.
- About 35 countries are dependent on hydrocarbons. New producers like Ghana, Guyana, Mozambique and Uganda are ramping up.

Challenges for inclusive diversification of CDDCs

- Options for diversification are limited partly due to structure of economies e.g. high degree of informality, poor infrastructure, limited human capital, geography etc
- Thanks to trade liberalization, manufacturing competition from cheaper imports from Asia and other countries (regional hegemons).
- Many CDDCs economies, notably those in Africa, have been going through a process of 'premature deindustrialization and shift to low value services.
- “The only countries that seem to have escaped premature de-industrialisation are a relatively small group of Asian countries and manufactures exporters. The advanced countries themselves have experienced significant employment de-industrialization”

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Challenges for inclusive diversification of CDDCs

- Structure of global value chains coupled with tariff escalation and NTBs, and regulations on services restricts options for vertical and horizontal diversification e.g. food exports, growth of offshore financial services in the Caribbean

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Challenges for inclusive diversification of CDDCs

- Successful diversification requires a strong base of human capital.
- Human capital and skills for diversification are limited in many CDDCs.
- Affects ability to diversify into sectors like high value services.
- Even with relatively educated workforce and good infrastructure success is not guaranteed e.g. Arab Spring, South Africa etc
- Some CDDCs are also fragile states / countries in transition, stability and enabling business environment is lacking

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Could the African Continental Free Trade Area (AfCFTA) be a driver for inclusive diversification?

- Intra Africa trade is just 15% of total African exports. UNCTAD forecasts AfCFTA could boost intra Africa trade by about 33% and cut the continent's trade deficit by 51%.

- Intra-African trade comprises 61% processed and semi-processed goods, potential benefits from greater regional trade for transformative and inclusive growth

- REC share of intra-Africa trade (2021) is as follows:

  - Arab Maghreb Union (AMU) – 5.44%
  - Common Market for Eastern and Southern Africa (COMESA) – 20.32%
  - Community of Sahel–Saharan States (CEN–SAD) – 16.59%
  - East African Community (EAC) – 4.76%
  - Economic Community of Central African States (ECCAS) – 5.9%
  - Economic Community of West African States (ECOWAS) – 10.18%
  - Intergovernmental Authority on Development (IGAD) – 4.7%
  - Southern African Development Community (SADC) – 32.12%

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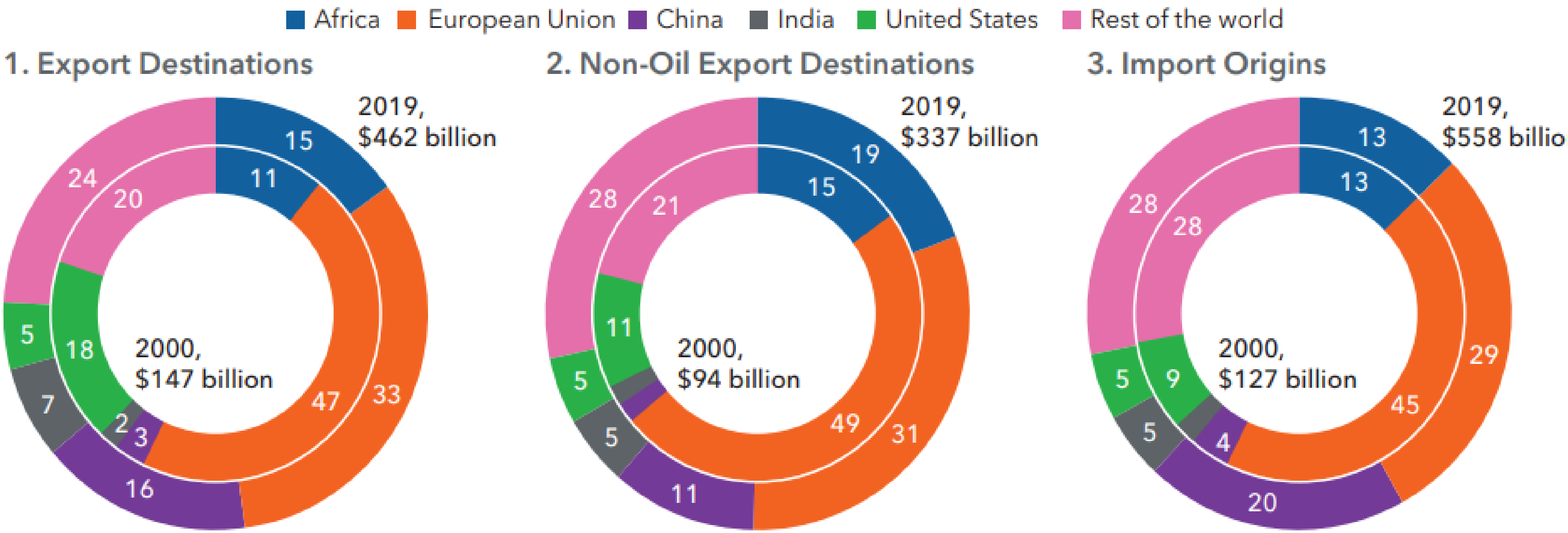
Figure 4. Africa: Major Trade Partners, 2000 and 2019
(Percent)



Sources: Harvard University, Atlas of Economic Complexity; and IMF staff calculations.

- Trade in Africa has grown only modestly in recent decades from 49% of GDP in 2000 to 53% by 2019
- There is a wide divergence of experiences in individual countries.
- About 60% of African countries experienced an increase in non-commodity merchandise and services trade openness and 36% enjoyed an increase of more than 10%.
- Share of manufactured goods trade remained stable at about 35% of GDP
- Change in merchandise exports in individual countries aligns with the share of commodities in their export structure.
- **Biggest increases in merchandise exports were dominated by commodities (fuel and other minerals) exports to Asia**
- Countries with small share of commodities in their exports saw a decline in exports.

Could the African Continental Free Trade Area (AfCFTA) be a driver for inclusive diversification?

- Need for broad based reforms in line with AfCFTA commitments once complete e.g. reduction of tariffs, trade facilitation and more efficient clearance of goods, enabling business environment, address NTBs, infrastructure investments, improved transport links, greater free movement of persons, increased financial integration and payment systems.
- Effectiveness of countries and RECs in driving diversification is uneven

Conclusion: Examples of diversification initiatives that have been inclusive

- Chile and Zambia both abundant in copper deposits and copper is main export
- Similar population size but differ significantly in their income levels. Fifty years ago, both countries produced similar amounts of copper.
- Chile pursued two-track diversification strategy: (i) diversification “within” industry (value added copper and logistics services); and (ii) diversification “across” industries (fisheries, high value-added agricultural such as horticulture, wine). Rents from mineral extraction invested and upskilling
- Zambia is landlocked country with high trade and transportation costs.
- 60% rural, limited skills base. Growth not inclusive and 61.2% of population living below the national poverty line. High national debts.
- Growth and political stability have produced only modest improvements in Zambian livelihoods. Growth driven by mining, construction, agriculture and financial services but limited job growth and expansion opportunities beyond small labour force

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Conclusion: Examples of diversification initiatives that have been inclusive

- Mauritius (UNCTAD 2022), Independence 1968, sugar was 30% of GDP and 90% value of exports. Sugarcane cultivated on 90% of arable land, 25 sugar factories
- Failed import substitution in 1960s, EPZs 1970s clothing, textiles, late 1980s tourism, off shore finance, diversified today
- Importance of Agriculture diversification: e.g. Vietnam, Costa Rica, Ethiopia improving rural livelihoods
- Potential diversification using blue economy e.g. Horn of Africa region, Djibouti, Somalia

Thank you

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