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Interregional debate

“Economic diversification and industrialization In countries rich in natural resources”



Countries with a comparative advantage in natural resources face distinct challenges compared to countries with a balanced endowment of resources: natural, human and man-made. They tend to be mainly oriented towards low value-added agriculture and extractive industries, such as oil, gas and metals, and are vulnerable to global price shocks, variable demand, and threats, such as the ‘Dutch Disease’, that have historically plagued resource-rich countries. It is difficult to maintain high growth rates based on unemployed reserves of capital and labour if these are not accompanied by investments in innovation and technological development. An additional issue is the so-called ‘middle income trap’ whereby middle income resource rich countries risk becoming locked into a slow growth mode, unable to compete with low cost, low income countries in low-tech goods or with advanced countries in high-tech goods. Further, in the post-2015 sustainable development agenda, these countries must focus on reducing energy intensity and shifting to low carbon and resource efficient consumption and production patterns.

At the same time, natural resources offer vast opportunities for economic development; they account for a major share of export and government revenue, and if properly managed can speed up diversification, create new jobs and lift countries out of poverty. New industrial powers such as Brazil, China, India, Malaysia and the Republic of Korea were previously primary-based economies but are now in a continual process of diversification. These examples, and others such as Norway, Canada and Australia, have shown that it is possible to move from natural resource- to knowledge-based and diversified economies, although this is often a long term process that is dependent on a number of factors, including local skills and the quality of institutions. Knowledge-driven growth requires different levers, such as innovation, R&D, and a highly skilled workforce. The overall challenge for natural resource-rich countries is to develop strategies, policies and new innovative business models that address their need for structural transformation from these different perspectives. It is crucial therefore to understand which industries, technologies and policy initiatives can help drive the transition to a sustainable, diversified and new industrial model in resource-rich countries.

Participants at the debate will focus on the following questions:

- Why should countries diversify their industrial base from sectors that provide strong comparative advantage in the first place?
 - How can countries manage the transition to sustainable, low carbon growth and which countries have implemented and sustained good policies?
 - Which governance and policy frameworks are required to promote investments in new innovative industries and technologies and which institutions are necessary for pursuing diversification?
 - What are the innovative policy initiatives to promote smart specialization and diversification and what examples can resource-rich countries look to?
 - What are the most important factors that shape diversification priorities and policies (i.e. population, labour force and skills, location, income level)?
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Panelists: **Vusal Gasimli**, Chief, Department of Economic Analysis and Global Affairs, Center for Strategic Studies, Azerbaijan; **Thorvaldur Gylfason**, Professor of Economics, University of Iceland; **Arne Wiig**, Senior Researcher, Chr. Michelsen Institute, Norway; **Gladys Triveño**, Minister of Production, Peru; **Barry Ridgway**, Sales, Marketing and Services Vice President, Microsoft Latin America

Moderator: **Fadzilah Ahmad Din**, Consultant, SMEs, business development and entrepreneurship, Malaysia