Welcome Remarks, by Min Zhu (Deputy Managing Director, IMF)

Ladies and gentlemen, it is with great pleasure that I welcome you to this conference on "Diversification and Structural Transformation for Growth and Stability in Low-Income," jointly organized by the International Monetary Fund and the UK Department for International Development.

There are huge differences across countries and regions in the pace of economic development. Focusing for instance on the period since 1995, frontier Asia has grown at an average annual rate of 7¾ percent. In sub-Saharan Africa, in contrast, non-resource-dependent low-income countries have grown more than 3 percentage points per annum slower; the corresponding figures for resource-dependent countries are even lower. What accounts for these disparities?

We have long been aware that sustainable development critically involves the transformation of a country's economic structure: diversifying into new sectors, upgrading the quality of existing products, reallocating resources towards more productive firms. Success along these dimensions implies faster aggregate growth, greater job creation, and lower volatility.

Nevertheless, much remains unclear about the process. Some critical questions, for instance, include:

> **Which countries and regions have witnessed faster, and more sustained, structural transformations?**
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> **What factors underlay their success?**
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> **What precisely are the barriers to transformation?** For instance, to what extent and through what mechanisms can weak institutions, labor and product market rigidities, and insufficient or low-quality public infrastructure retard the development of new sectors and impede diversification?
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> **Do low-income and middle-income countries face different challenges?** Are insufficient human capital and lack of financial development of particular concern to those middle-income countries that have already started diversifying and are now focusing on quality upgrading?
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> **What new opportunities and challenges does globalization present for developing countries that are trying to diversify and transform their economies?** Does competition from, say, China make it harder for sub-Saharan Africa to industrialize? Or, to take a different tack, can modern, tradable services (including business, financial, and IT services) prove a driver of sustained growth and job creation in developing countries?

The critical bottom line, of course, is:

> **What is the appropriate role for government policy in fostering diversification and structural transformation**? Linked to this, what kind of policies and institutions are

> needed for developing countries to take advantage of rising global integration? To put it differently, what are the empirically relevant market and government failures, and how can their effects be mitigated?

Two recent growth stories may help color these questions. Over the past four decades, **Malaysia** witnessed very rapid economic growth, accompanied by significant transformation of its economic and trade structures. Largely an agricultural economy until the 1980s, Malaysia successfully diversifies its output and exports, first within agriculture, and then towards manufacturing of increasingly sophisticated products. To what extent did this reflect sound macroeconomic management, microeconomic deregulation, and human resource development? How much did it owe to at first import-substituting industrialization, and then an export-oriented, labor-intensive industrial development strategy? What was the role of free trade zones and foreign investment?

Looking ahead, if Malaysia is to reach advanced-economy status, its manufacturing will need to diversify further, and the modern service sector will have to continue growing. Are strong state involvement and the promotion of specific industries, for instance the development of IT through the creation of the Multimedia Super Corridor, still suitable for such an economy?

Turning from Asia to Africa, **Tanzania** provides a prime example of a low-income country that has experienced a major economic transformation since the 1990s, successfully diversifying away from low value-added agriculture into higher value-added manufacturing, in tandem with a sharp acceleration in overall growth. This likely owes much to the waves of comprehensive policy and structural reforms that began in the mid–1980s, and accelerated starting in the mid-1990s. These reforms aimed at transforming a state-dominated welfare state into a market economy, and involved exchange rate, price and trade liberalization, tax and public finance reforms, financial liberalization, public-sector reforms, the privatization of state-owned enterprises, and the onset of regional integration.

Nevertheless, Tanzania still has relatively low income per capita. Continued development will involve further increases in manufacturing and external trade. To this end, what are the immediate priorities—significant investments in infrastructure and human capital? And, if the presence of commercial quantities of gas is confirmed, what sort of policy and institutional framework for managing natural resources will enable Tanzania to avoid a "resource curse" and sustain growth in manufacturing?

There are no easy answers here. But I trust that this conference will help increase our understanding of these issues, provide a forum for discussing the latest research on the structural transformation process in low-income countries, and facilitate the exchange of views among leading researchers and policymakers.

To help us frame the discussion, we now turn to Professor Ricardo Hausmann, who will provide some opening remarks. Professor Hausmann is Director of the Center for International Development, and Professor of the Practice of Economic Development, at Harvard University. He previously served as the first Chief Economist of the Inter-American Development Bank; as Minister of Planning of Venezuela; as a member of the Board of the Central Bank of Venezuela;

and as Chair of the IMF-World Bank Development Committee. He is a leading expert on growth, macroeconomic stability, international finance, and the social dimensions of development.