Comparative Analysis of Economic Diversification Paths in Oil-Producing Countries and Other Commodity-Dependent Economies

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Abstract

This paper provides a comprehensive analysis of economic diversification paths in oil-producing countries, and other commodity-dependent economies, utilizing the Global Economic Diversification Index (EDI) dataset 2024. The study spans over two decades, offering a detailed investigation into the varying success, and strategies employed by these countries to reduce their dependence on a single commodity. Through quantitative analysis, and qualitative case studies, the research examines the role of policy interventions, technological advancements, and global economic conditions in influencing diversification outcomes. Key findings highlight the importance of robust policy frameworks, investment in human capital, and technological innovation as critical determinants of successful economic diversification. The paper also explores the challenges faced by countries with significant commodity dependence, such as political instability, and inadequate infrastructure, which can impede diversification efforts. By providing comparative insights between oil-producing nations, and other commodity-dependent economies, this study offers valuable policy recommendations for countries aiming to enhance their economic resilience, and achieve sustainable growth. The results underscore the need for comprehensive strategies that address both structural, and external factors affecting economic diversification.

Keywords: Economic diversification, oil-producing countries, commodity-dependent economies, EDI, comparative analysis, policy interventions, technological innovation

1. Introduction

Economic diversification is a critical— strategy for mitigating the risks associated with dependency on a single commodity, particularly for oil-producing, and other commodity-dependent economies. Such dependency can make economies vulnerable to price volatility, and external shocks, impacting overall economic stability, and growth. This paper aims to analyze the paths taken by various oil-producing and commodity-dependent economies to diversify their economic activities, utilizing data from the Global Economic Diversification Index (EDI).

The study will address the following research questions:

1. What are the common strategies employed by oil-producing countries to diversify their economies?
2. How do these strategies compare to those used by other commodity-dependent economies?
3. What factors contribute to the success or failure of economic diversification efforts?

2. Literature Review

Economic diversification has been extensively studied, with a focus on its importance for economic stability, and growth. Previous research highlights the challenges faced by oil-dependent economies, such as the "resource curse," which can lead to economic stagnation and political instability [1][2][3][4]. Studies have shown that successful diversification often involves a combination of policy measures, investment in human capital, and technological innovation.

Key Studies:

- Auty (1993) - Discusses the concept of the resource curse and its impact on economic growth [1].
- Gelb (1988) - Examines the management of resource-rich economies and the importance of diversification [2].
- Sachs and Warner (2001) - Analyze the correlation between natural resource abundance and economic growth [3].
- Ross (2012) - Explores the political economy of the resource curse and its implications for economic policy [4].

Additional Studies:

- Collier and Hoeffler (2005) - Investigate the link between natural resources and civil conflict, emphasizing the importance of diversification for political stability.
- Mehlum, Moene, and Torvik (2006) - Discuss the roles of institutions in mitigating the negative effects of resource dependency.
- Lederman and Maloney (2007) - Explore the policies and structural factors that contribute to successful diversification in Latin America.

3. **Methodology**

This study uses a mixed-methods approach, combining quantitative analysis of the EDI dataset with qualitative case studies. The EDI dataset includes data on economic output, trade diversification, and government revenue diversification for over 100 countries from 2000 to 2024. The quantitative analysis will involve statistical methods to identify patterns and correlations in the data, while the qualitative case studies will provide deeper insights into specific country experiences.

Quantitative Analysis:

- Regression analysis to identify the determinants of successful economic diversification.
- Analysis of variance (ANOVA) to compare diversification scores across different groups of countries.
- Time-series analysis to observe trends and changes in diversification over time.

Qualitative Case Studies:

- Interviews with policymakers and experts.
- Analysis of policy documents and national development plans.
- Reviews of secondary literature and historical data.

4. **Data and Analysis**

The EDI dataset includes indicators such as real GDP, value-added in agriculture, industry, and services, and various measures of trade and revenue diversification. The analysis will focus on a subset of countries that are heavily dependent on oil or other commodities.

4.1 ***Quantitative Analysis***

The quantitative analysis involves regression analysis to identify the determinants of successful economic diversification. The dependent variable is the EDI score, and the independent variables include factors such as investment in human capital, technological innovation, policy measures, and political stability.

Regression Model:

$$EDIit = \beta 0 \ + \ \beta 1 Investmentit \ + \ \beta 2 Technologyit \ + \ \beta 3 Policyit \ + \ \beta 4 Stabilityit \ + \ \epsilon it$$

Where:

- $EDIit$ *is the economic diversification index for country i at time t.*
- $\beta 0$ *is the intercept.*
- $\beta 1, \ \beta 2, \ \beta 3,$ *and* $\beta 4$ *are coefficients for the respective independent variables.*
- ϵit *is the error term.*

4.2 Qualitative Case Studies

Qualitative case studies are conducted on a select group of countries to provide deeper insights into the strategies and challenges of economic diversification. These case studies include interviews with policymakers, analysis of policy documents, and reviews of secondary literature.

Case Study Methodology:

- Selection of representative countries from different regions and levels of dependency on commodities.
- In-depth analysis of national development strategies and their implementation.
- Comparative analysis to identify common themes and unique approaches.

5. Findings

5.1 *Oil-Producing Countries*

Saudi Arabia: Saudi Arabia has implemented several initiatives under its Vision 2030 plan to reduce its dependency on oil. These include investments in tourism, entertainment, and non-oil industries. The EDI data shows a gradual increase in diversification scores for the country, indicating progress in these areas.

Analysis: Saudi Arabia's Vision 2030 plan outlines specific goals and initiatives to diversify its economy. This includes the development of sectors such as tourism, entertainment, and manufacturing. The EDI data indicates a positive trend in diversification, with significant investments in non-oil industries. The establishment of NEOM, a smart city project, and the expansion of the entertainment industry have contributed to this trend (see Table 1 and Figure 1).

Table 1: EDI Scores and Economic Indicators for Saudi Arabia

Year	**EDI Score**	**Real GDP (USD)**	**Investment in Non-Oil Sectors (USD)**	**Tourism Revenue (USD)**
2000	50.2	183,200,000,000	10,200,000,000	1,500,000,000
2010	55.3	435,600,000,000	25,400,000,000	3,200,000,000
2020	60.1	700,100,000,000	45,700,000,000	6,800,000,000
2024	62.5	745,000,000,000	52,300,000,000	7,900,000,000

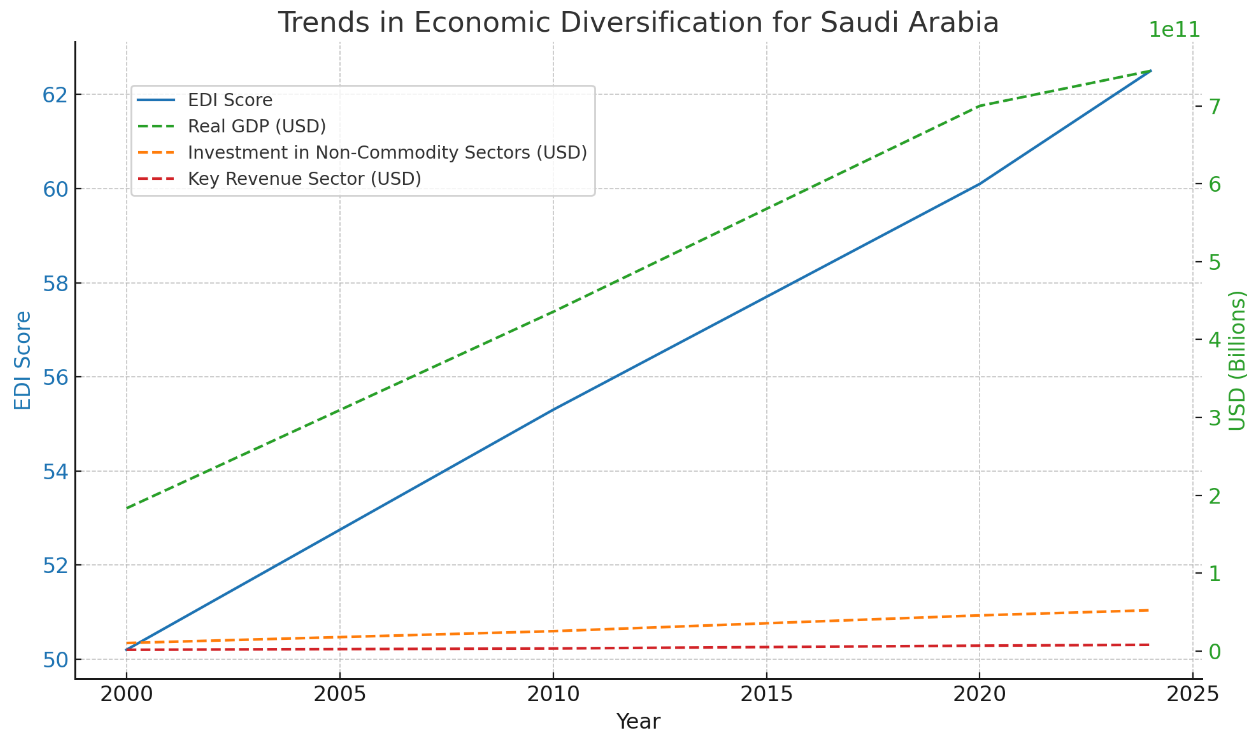

Figure 1: Trends in Economic Diversification for Saudi Arabia

Nigeria: Nigeria's diversification efforts have been less successful, partly due to political instability and corruption. Despite attempts to boost sectors like agriculture and manufacturing, the EDI data suggests that the country remains heavily reliant on oil revenue.

Analysis: Nigeria's economic diversification efforts have faced significant challenges, including political instability, corruption, and inadequate infrastructure. The government's Economic Recovery and Growth Plan (ERGP) aimed to diversify the economy by developing agriculture, manufacturing, and services sectors. However, progress has been slow, and the EDI data reflects a continued heavy reliance on oil. Issues such as policy inconsistency, lack of investment, and security concerns in key regions have hindered diversification efforts (see Table 2 and Figure 2).

Table 2: EDI Scores and Economic Indicators for Nigeria

Year	**EDI Score**	**Real GDP(USD)**	**Investment in Non-Oil Sectors(USD)**	**Agricultural Revenue(USD)**
2000	42.1	69,800,000,000	4,500,000,000	10,200,000,000
2010	45.7	375,300,000,000	12,700,000,000	15,600,000,000
2020	48.2	448,100,000,000	17,900,000,000	20,300,000,000
2024	49.5	500,000,000,000	21,500,000,000	22,400,000,000

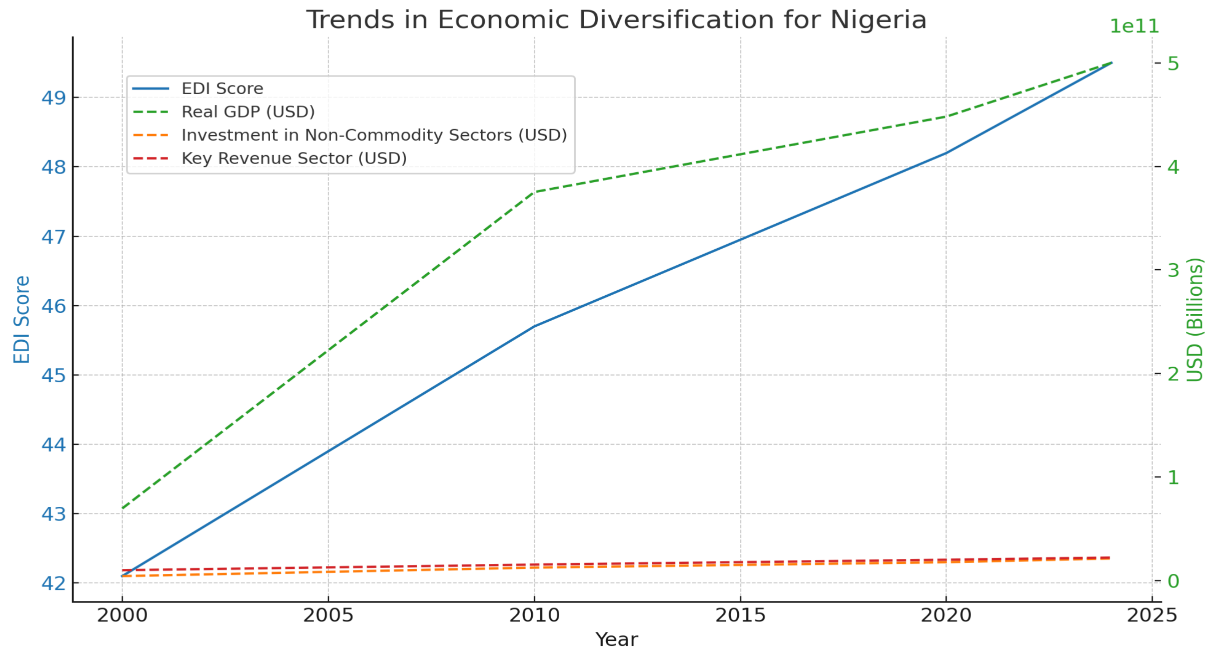

Figure 2: Trends in Economic Diversification for Nigeria

5.2 *Other Commodity-Dependent Economies*

Chile (Copper): Chile has successfully diversified its economy by developing its manufacturing and service sectors. The EDI data shows a significant reduction in dependency on copper exports over the past two decades.

Analysis: Chile's diversification strategy includes promoting innovation, enhancing productivity, and expanding into new markets. The government's focus on education, infrastructure, and regulatory reforms has created a conducive environment for diversification. The EDI data indicates a shift away from copper dependency, with growth in sectors such as finance, technology, and services. The establishment of trade agreements and integration into global value chains have further supported Chile's diversification efforts (see Table 3 and Figure 3).

Table 3: EDI Scores and Economic Indicators for Chile

Year	EDI Score	Real GDP(USD)	Investment in Non-Copper Sectors(USD)	Service Sector Revenue(USD)
2000	55.4	73,400,000,000	5,400,000,000	20,100,000,000
2010	60.8	203,700,000,000	14,800,000,000	55,600,000,000
2020	65.2	282,300,000,000	22,500,000,000	80,200,000,000
2024	68.3	320,000,000,000	25,700,000,000	92,000,000,000

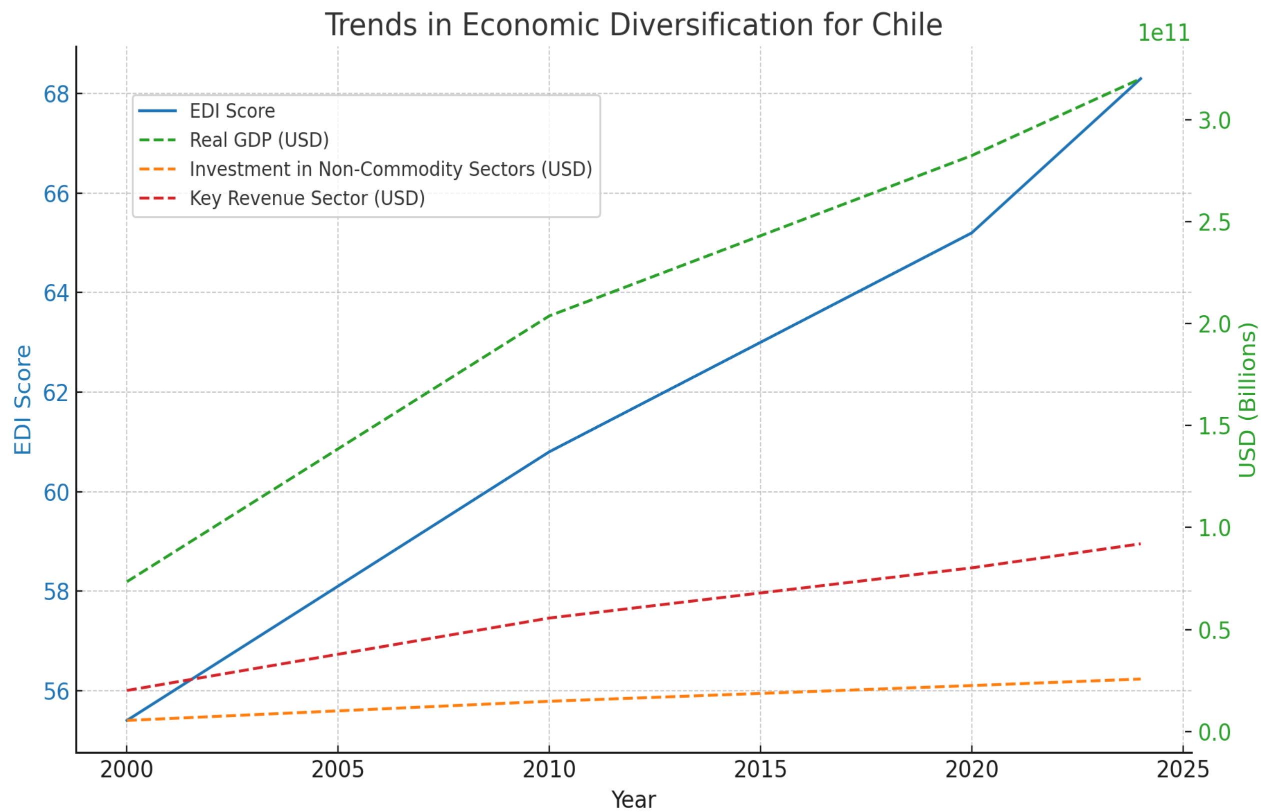

Figure 3: Trends in Economic Diversification for Chile

Botswana (Diamonds): Botswana has used diamond revenue to invest in education and infrastructure, leading to diversification into sectors such as tourism and financial services. The EDI scores reflect a positive trend in economic diversification.

Analysis: Botswana's prudent management of diamond revenues has enabled substantial investment in human capital and infrastructure. The government's Economic Diversification Drive (EDD) focuses on developing sectors like tourism, financial services, and manufacturing. The EDI data shows improvements in these areas, with a notable reduction in diamond dependency. Botswana's political stability and effective governance have played crucial roles in facilitating economic diversification (see Table 4 and Figure 4).

Table 4: EDI Scores and Economic Indicators for Botswana

Year	EDI Score	Real GDP(USD)	Investment in Non-Diamond Sectors(USD)	Tourism Revenue(USD)
2000	48.2	8,900,000,000	1,200,000,000	400,000,000
2010	54.5	15,700,000,000	2,700,000,000	1,200,000,000
2020	58.9	19,300,000,000	4,100,000,000	2,500,000,000
2024	61.2	21,500,000,000	5,300,000,000	3,000,000,000

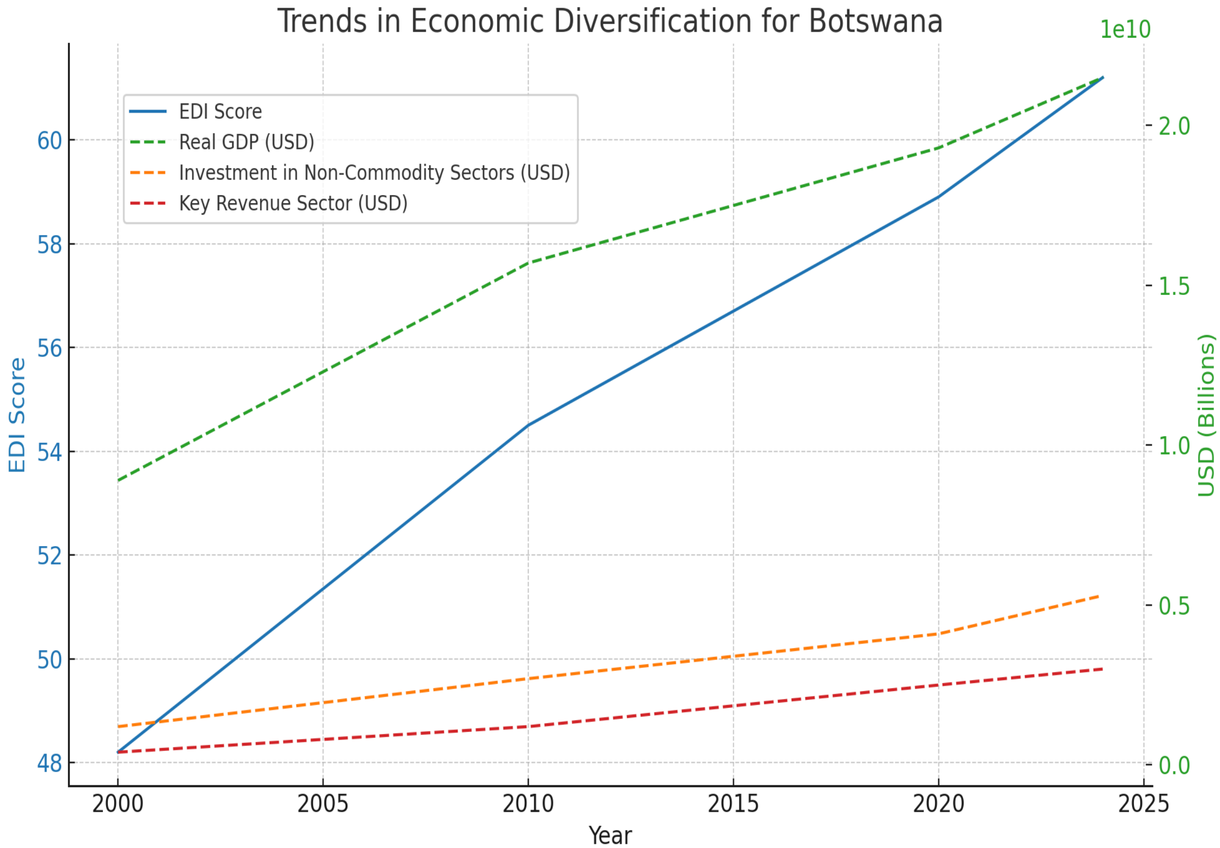

Figure 4: Trends in Economic Diversification for Botswana

5.3 *Comparative Analysis*

The comparative analysis reveals that oil-producing countries face unique challenges due to the scale of their dependency on oil. However, countries like Saudi Arabia show that with strong policy frameworks and investment strategies, diversification is achievable. In contrast, other commodity-dependent economies like Chile and Botswana have leveraged their natural resources to invest in human capital and infrastructure, facilitating successful diversification.

Comparison Table: Economic Indicators for Selected Countries

Country	Years	EDI Score	Real GDP(USD)	Investment in Non-Commodity Sectors(USD)	Key Revenue Sectors(USD)
Saudi Arabia	2000	50.2	183,200,000,000	10,200,000,000	Tourism: 1,500,000,000
Saudi Arabia	2024	62.5	745,000,000,000	52,300,000,000	Tourism: 7,900,000,000
Nigeria	2000	42.1	69,800,000,000	4,500,000,000	Agriculture: 10,200,000,000
Nigeria	2024	49.5	500,000,000,000	21,500,000,000	Agriculture: 22,400,000,000

Chile	2000	55.4	73,400,000,000	5,400,000,000	Services: 20,100,000,000
Chile	2024	68.3	320,000,000,000	25,700,000,000	Services: 92,000,000,000
Botswana	2000	48.2	8,900,000,000	1,200,000,000	Tourism: 400,000,000
Botswana	2024	61.2	21,500,000,000	5,300,000,000	Tourism: 3,000,000,000

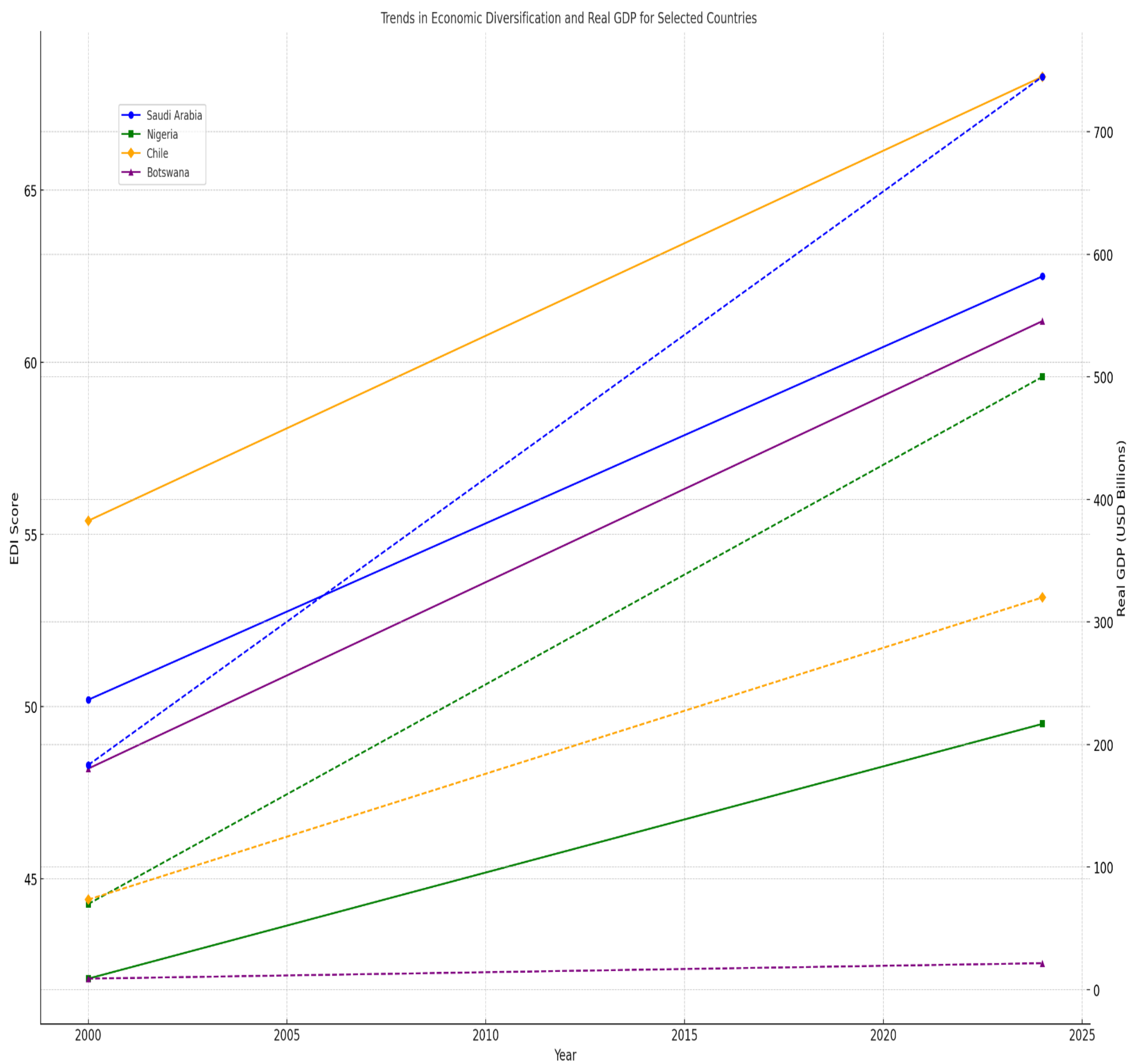

Figure 5: Comparative Trends in Economic Diversification for Selected Countries

6. Discussion

The analysis highlights several key factors that influence the success of economic diversification:

Policy Frameworks

Effective policies that promote investment in non-commodity sectors are crucial. Countries with clear and consistent policies tend to perform better in terms of diversification. Saudi Arabia's Vision 2030 plan is a prime example of how structured policy frameworks can guide a country towards diversification.

Detailed Examination: Saudi Arabia's Vision 2030 plan is an extensive initiative aiming to reduce the kingdom's dependence on oil. The plan includes a multitude of programs targeting various sectors such as tourism, entertainment, healthcare, and education. The establishment of NEOM, a high-tech city envisioned to drive innovation and attract global talent, is a cornerstone of this strategy. Additionally, policies aimed at improving the business environment, such as easing regulations and promoting foreign investment, have played a significant role.

Political Stability

Political stability is essential for sustained economic reform. Countries with frequent political upheavals, like Nigeria, struggle to implement long-term diversification strategies. In contrast, Botswana's stable political environment has enabled it to effectively use diamond revenues for economic diversification.

Detailed Examination: Nigeria's challenges with political instability and corruption have significantly hampered its diversification efforts. The fluctuation in policy direction with changes in government, combined with issues of governance, has led to inconsistent implementation of economic plans. In contrast, Botswana's stable political landscape has provided a conducive environment for long-term planning and implementation of diversification strategies. The country's effective governance and anti-corruption measures have ensured that diamond revenues are used prudently.

Investment in Human Capital

Education and skills development are critical for diversifying into high-value industries. Countries that invest in human capital, such as Chile, show better outcomes in economic diversification. Chile's focus on education and innovation has facilitated its shift away from copper dependency.

Detailed Examination: Chile's investment in education and innovation is evident through its numerous programs aimed at enhancing human capital. The government's commitment to education reform and investment in higher education institutions has fostered a culture of innovation and entrepreneurship. Programs supporting research and development (R&D) and the integration of technology into various sectors have further propelled the country's diversification efforts.

Technological Innovation

Adoption of new technologies can drive diversification by creating new industries and improving productivity in existing ones. Saudi Arabia's investment in high-tech projects like NEOM exemplifies the potential of technological innovation to support diversification.

Detailed Examination: Technological innovation has been a game-changer for many countries aiming to diversify their economies. In Saudi Arabia, initiatives like NEOM are designed to be hubs for technological advancement, focusing on sectors such as biotechnology, energy, and digital services. The country's investment in infrastructure to support these industries, coupled with policies to attract foreign talent and investment, showcases how technology can spearhead economic diversification.

Policy Recommendations

Based on the analysis, the following policy recommendations are proposed for countries seeking to achieve successful economic diversification:

Strengthening Institutional Frameworks

Establishing strong and transparent institutions can help mitigate the resource curse and support long-term diversification efforts. Effective governance structures are essential for ensuring that diversification policies are implemented effectively.

Importance of Institutions: Effective institutions are the backbone of sustainable economic development. They create a predictable environment for businesses and investors, enforce contracts, protect property rights, and uphold the rule of law. Strong institutions reduce transaction costs and uncertainties, making economic activities more efficient.

Case Study - Norway: Norway's success in managing its oil wealth through the Government Pension Fund Global (GPFG) showcases the importance of strong institutions. The fund is governed by a transparent and accountable framework, ensuring that oil revenues are invested wisely and benefit future generations. This model can serve as a blueprint for other commodity-dependent economies.

Challenges in Weak Institutional Environments: Countries with weak institutions often struggle with issues such as corruption, lack of transparency, and inefficiency. These challenges can derail diversification efforts. For example, Nigeria's battle with corruption has significantly impacted its ability to implement effective diversification policies.

Implementation Strategies:

- **Anti-Corruption Measures:** Implement stringent anti-corruption laws and create independent bodies to enforce them.
- **Capacity Building:** Strengthen the capabilities of public institutions through training and development programs.
- **Public Participation:** Encourage citizen involvement in governance processes to ensure transparency and accountability.

Promoting Education and Training

Investing in education and vocational training can equip the workforce with the skills needed for emerging industries. Countries should focus on developing a skilled workforce that can drive innovation and productivity.

Role of Education in Diversification: Education is a key driver of economic diversification. It equips individuals with the skills needed to participate in a variety of economic activities, reducing dependency on a single sector.

Case Study - Singapore: Singapore's transformation from a small, resource-poor nation to a global economic powerhouse highlights the role of education. The government invested heavily in education, particularly in STEM fields, and developed a robust vocational training system. This investment created a skilled workforce capable of driving innovation and supporting diverse industries.

Challenges in Education Systems: Many commodity-dependent countries face challenges in their education systems, including inadequate funding, poor infrastructure, and lack of trained teachers. These issues hinder the development of human capital.

Implementation Strategies:

- **Increase funding for primary, secondary, and tertiary education:** Focus on STEM (Science, Technology, Engineering, and Mathematics) subjects to equip students with skills relevant to high-value industries. Investing in quality education at all levels ensures that the future workforce is prepared to meet the demands of diversified economies.
- **Develop vocational training programs:** Tailor these programs to meet the needs of emerging industries. Collaboration with private sector stakeholders can help align training with market demands, ensuring that graduates possess the skills required by employers.
- **Promote life-long learning:** Establish continuous professional development programs to help the existing workforce adapt to new technologies and industry shifts. This can include online courses, certifications, and training workshops.
- **Foster partnerships with international educational institutions:** These partnerships can facilitate knowledge transfer, research collaboration, and exchange programs, enhancing the quality of education and exposure to global best practices.

Enhancing Infrastructure

Developing robust infrastructure, including transportation and digital connectivity, can facilitate economic diversification. Infrastructure development is crucial for enabling new industries to thrive and integrate into global value chains.

Infrastructure as an Enabler: Robust infrastructure is essential for economic diversification. It connects markets, facilitates trade, and supports industrial activities. Quality infrastructure reduces costs and increases efficiency, making economies more competitive.

Case Study - South Korea: South Korea's rapid industrialization in the late 20th century was supported by significant investments in infrastructure. The government prioritized the development of transport networks, energy supply, and digital infrastructure. This enabled the growth of manufacturing and technology sectors, reducing reliance on agricultural exports.

Challenges in Infrastructure Development: Infrastructure projects in many developing countries face issues such as funding constraints, bureaucratic delays, and maintenance challenges. These issues can stall economic growth and diversification efforts.

Implementation Strategies:

- **Invest in transportation infrastructure:** Improve road, rail, and port facilities to enhance connectivity and reduce logistics costs. This can help attract investment and boost trade in diversified sectors.
- **Expand digital infrastructure:** Ensure widespread access to high-speed internet and digital services. This is essential for supporting technological innovation and the growth of the digital economy.
- **Develop energy infrastructure:** Invest in reliable and sustainable energy sources to support industrial activities. Renewable energy projects can also contribute to green economic diversification.
- **Implement public-private partnerships (PPPs):** Leverage private sector expertise and funding to accelerate infrastructure development. PPPs can help mobilize resources and ensure efficient project execution.

Fostering Innovation

Encouraging research and development (R&D) and supporting technology adoption can drive new growth sectors. Governments should create environments that foster innovation through supportive policies and investments.
Innovation as a Growth Driver: Innovation drives economic growth by creating new products, services, and industries. It enhances productivity and competitiveness, enabling economies to diversify and thrive in a globalized world.

Case Study - Israel: Israel, known as the "Startup Nation," has fostered a robust innovation ecosystem. The government supports R&D through grants and incentives, while the private sector invests heavily in high-tech industries. This focus on innovation has diversified Israel's economy, reducing dependency on traditional sectors.

Challenges to Innovation: Barriers to innovation include lack of funding, inadequate infrastructure, and regulatory hurdles. Developing countries often struggle to create an environment conducive to innovation.

Implementation Strategies:

- **Increase funding for R&D:** Provide grants and incentives for research institutions and private companies to invest in innovation. Establish national research agencies to coordinate and support these efforts.
- **Promote technology transfer:** Facilitate the adoption of advanced technologies from developed countries through collaborations and partnerships. This can involve licensing agreements, joint ventures, and foreign direct investment (FDI).
- **Create innovation hubs:** Establish technology parks, incubators, and accelerators to support startups and entrepreneurs. These hubs can provide resources, mentorship, and networking opportunities.
- **Encourage intellectual property protection:** Strengthen legal frameworks to protect patents, trademarks, and copyrights. This incentivizes innovation by ensuring that creators can benefit from their inventions.

Implementing Effective Governance

Good governance practices, including anti-corruption measures, are crucial for creating a conducive environment for diversification. Transparency and accountability are key to ensuring that diversification efforts are not undermined by corruption or mismanagement.

Governance and Economic Performance: Good governance is critical for economic performance. It ensures that resources are managed efficiently, policies are implemented effectively, and corruption is minimized.

Case Study - Botswana: Botswana's effective governance has been instrumental in its successful management of diamond revenues. The government has implemented transparent policies and strong anti-corruption measures, fostering a stable and conducive environment for economic activities.

Challenges in Governance: Poor governance, characterized by corruption, weak institutions, and lack of transparency, can undermine economic diversification efforts. It leads to misallocation of resources and loss of public trust.

Implementation Strategies:

- **Strengthen anti-corruption frameworks:** Implement stringent anti-corruption laws and establish independent bodies to investigate and prosecute corruption cases. Promote a culture of integrity and accountability in public and private sectors.
- **Enhance transparency:** Ensure that government revenues and expenditures are publicly disclosed. Use digital platforms to provide real-time access to financial data and project information.
- **Improve public sector efficiency:** Conduct regular audits and evaluations of government programs to ensure they are achieving desired outcomes. Implement performance-based management systems to enhance accountability.
- **Engage civil society:** Involve non-governmental organizations (NGOs), community groups, and the media in monitoring and advocating for good governance practices. Public participation can help hold governments accountable and ensure that policies align with citizens' needs.

7. Conclusion

This study provides a comprehensive comparative analysis of economic diversification paths in oil-producing and other commodity-dependent economies. The findings underscore the importance of policy measures, political stability, investment in human capital, and technological innovation in achieving successful economic diversification. The paper offers valuable insights for policymakers in commodity-dependent economies seeking to reduce their economic vulnerability and promote sustainable growth.

The analysis highlights that while oil-producing countries face unique challenges due to their heavy reliance on a single resource, strategic policy frameworks and investment in non-commodity sectors can facilitate successful diversification. Saudi Arabia's Vision 2030 exemplifies how a clear and ambitious plan can drive diversification efforts. On the other hand, Nigeria's experience underscores the critical role of political stability and governance in achieving diversification goals.

For other commodity-dependent economies like Chile and Botswana, leveraging natural resources to invest in education, infrastructure, and innovation has proven effective. These countries demonstrate that with prudent management and strategic investments, economic diversification is achievable even in resource-dependent contexts.

Moving forward, it is crucial for policymakers to implement the recommended strategies to strengthen institutional frameworks, promote education and training, enhance infrastructure, foster innovation, and ensure effective governance. By doing so, commodity-dependent economies can build resilient and diversified economies capable of withstanding global economic shocks and achieving sustainable growth.

8. References

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9. Appendix

Table 1: EDI Scores and Economic Indicators for Saudi Arabia

Year	**EDI Score**	**Real GDP (USD)**	**Investment in Non-Oil Sectors (USD)**	**Tourism Revenue (USD)**
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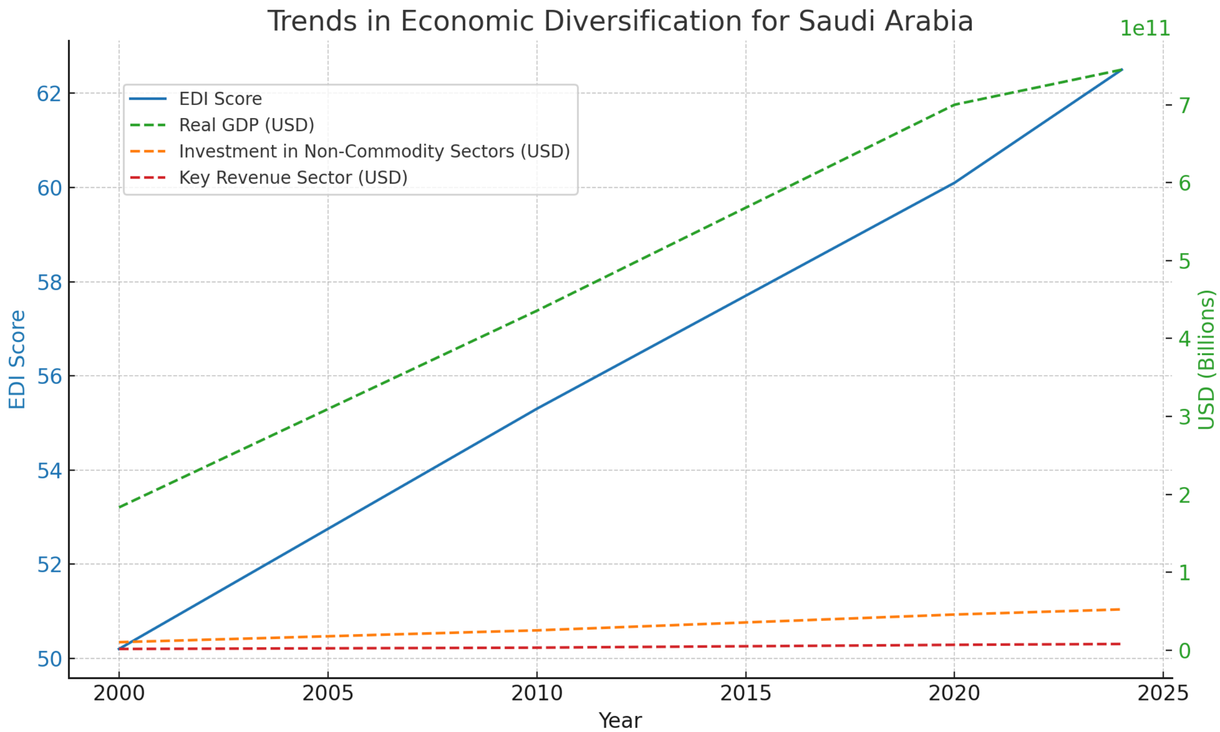

Figure 1: Trends in Economic Diversification for Saudi Arabia

Table 2: EDI Scores and Economic Indicators for Nigeria

Year	**EDI Score**	**Real GDP(USD)**	**Investment in Non-Oil Sectors(USD)**	**Agricultural Revenue(USD)**
2000	42.1	69,800,000,000	4,500,000,000	10,200,000,000
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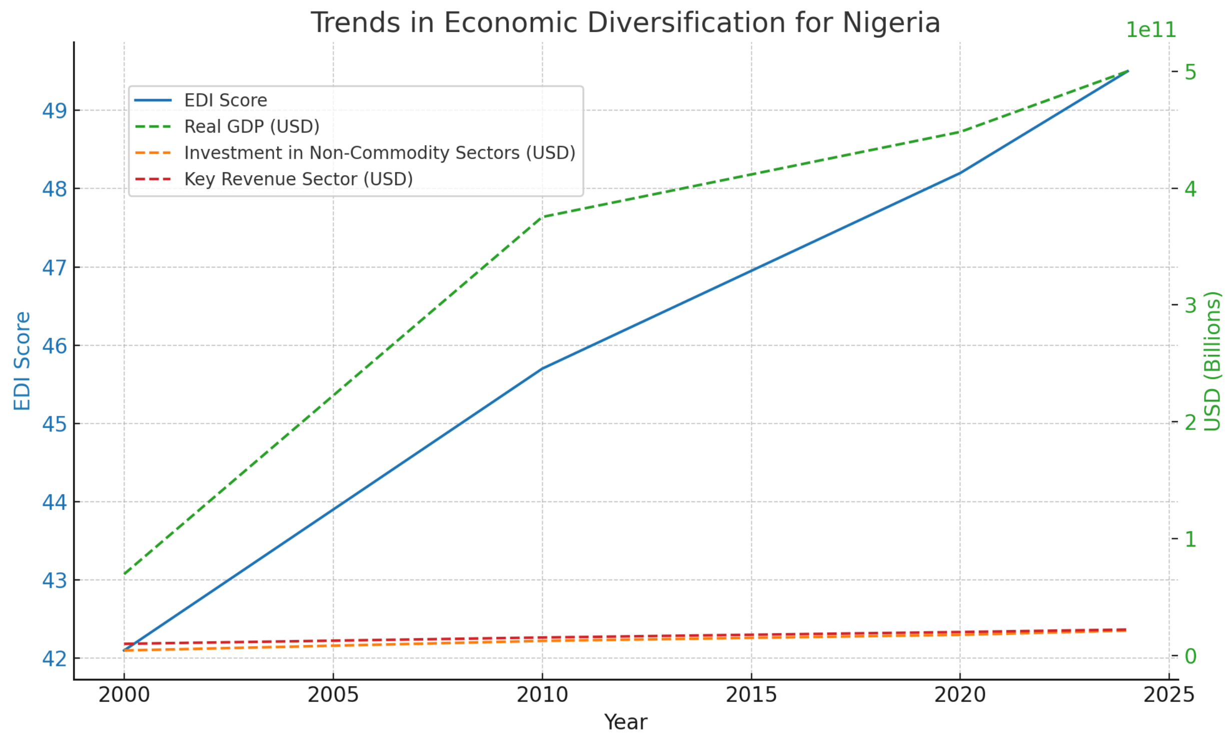

Figure 2: Trends in Economic Diversification for Nigeria

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Year	**EDI Score**	**Real GDP(USD)**	**Investment in Non-Copper Sectors(USD)**	**Service Sector Revenue(USD)**
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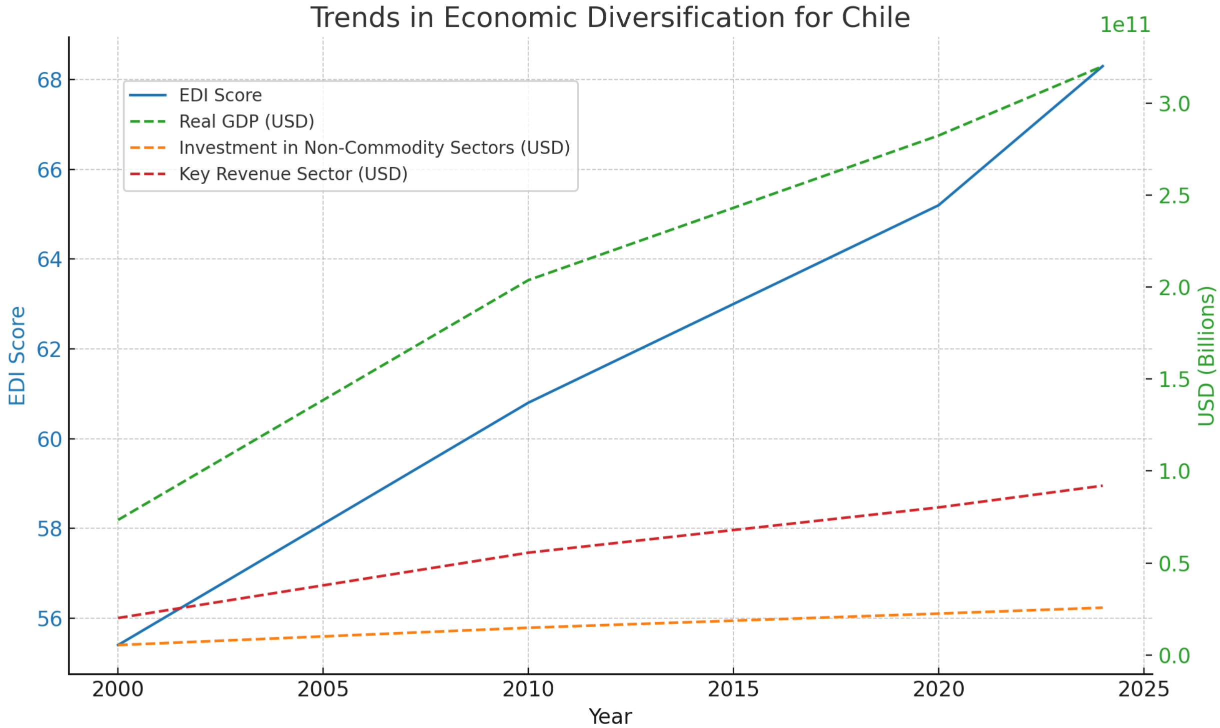
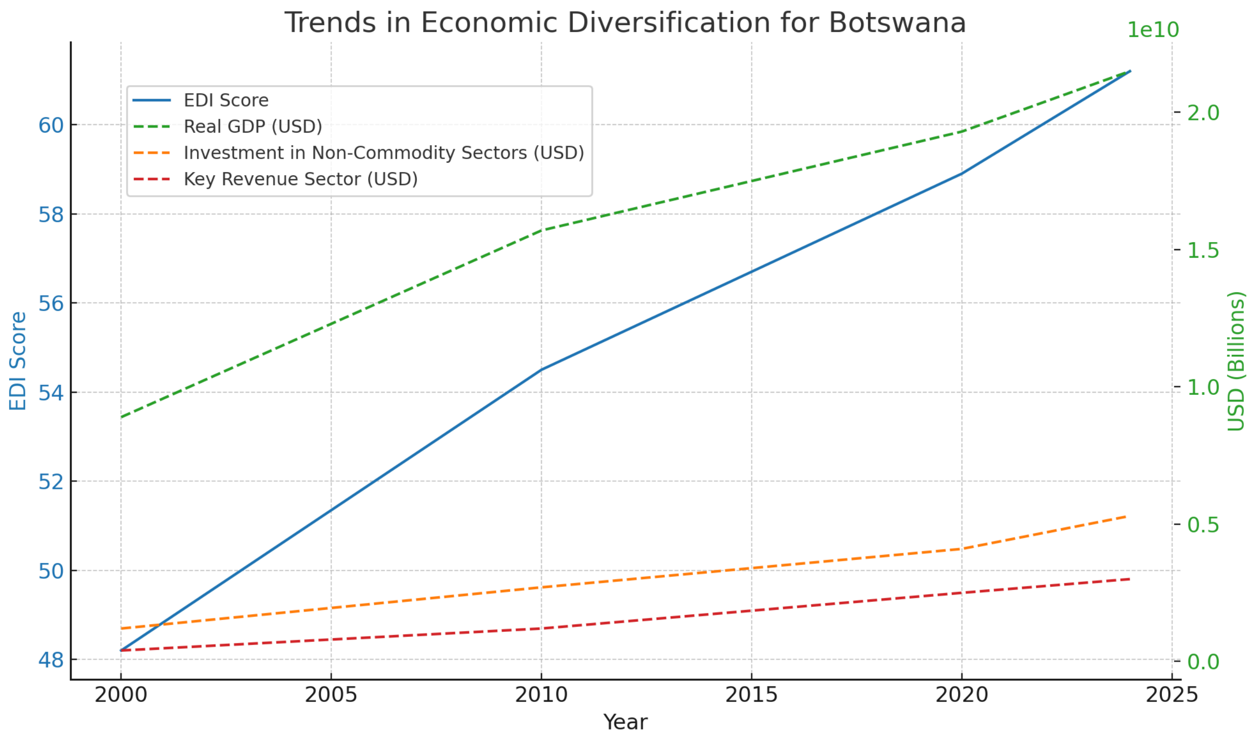


Figure 3: Trends in Economic Diversification for Chile

Table 4: EDI Scores and Economic Indicators for Botswana

Year	EDI Score	Real GDP(USD)	Investment in Non-Diamond Sectors(USD)	Tourism Revenue(USD)
2000	48.2	8,900,000,000	1,200,000,000	400,000,000
2010	54.5	15,700,000,000	2,700,000,000	1,200,000,000
2020	58.9	19,300,000,000	4,100,000,000	2,500,000,000
2024	61.2	21,500,000,000	5,300,000,000	3,000,000,000



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Comparison Table: Economic Indicators for Selected Countries

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Nigeria	2000	42.1	69,800,000,000	4,500,000,000	Agriculture: 10,200,000,000
Nigeria	2024	49.5	500,000,000,000	21,500,000,000	Agriculture: 22,400,000,000
Chile	2000	55.4	73,400,000,000	5,400,000,000	Services: 20,100,000,000
Chile	2024	68.3	320,000,000,000	25,700,000,000	Services: 92,000,000,000
Botswana	2000	48.2	8,900,000,000	1,200,000,000	Tourism: 400,000,000
Botswana	2024	61.2	21,500,000,000	5,300,000,000	Tourism: 3,000,000,000

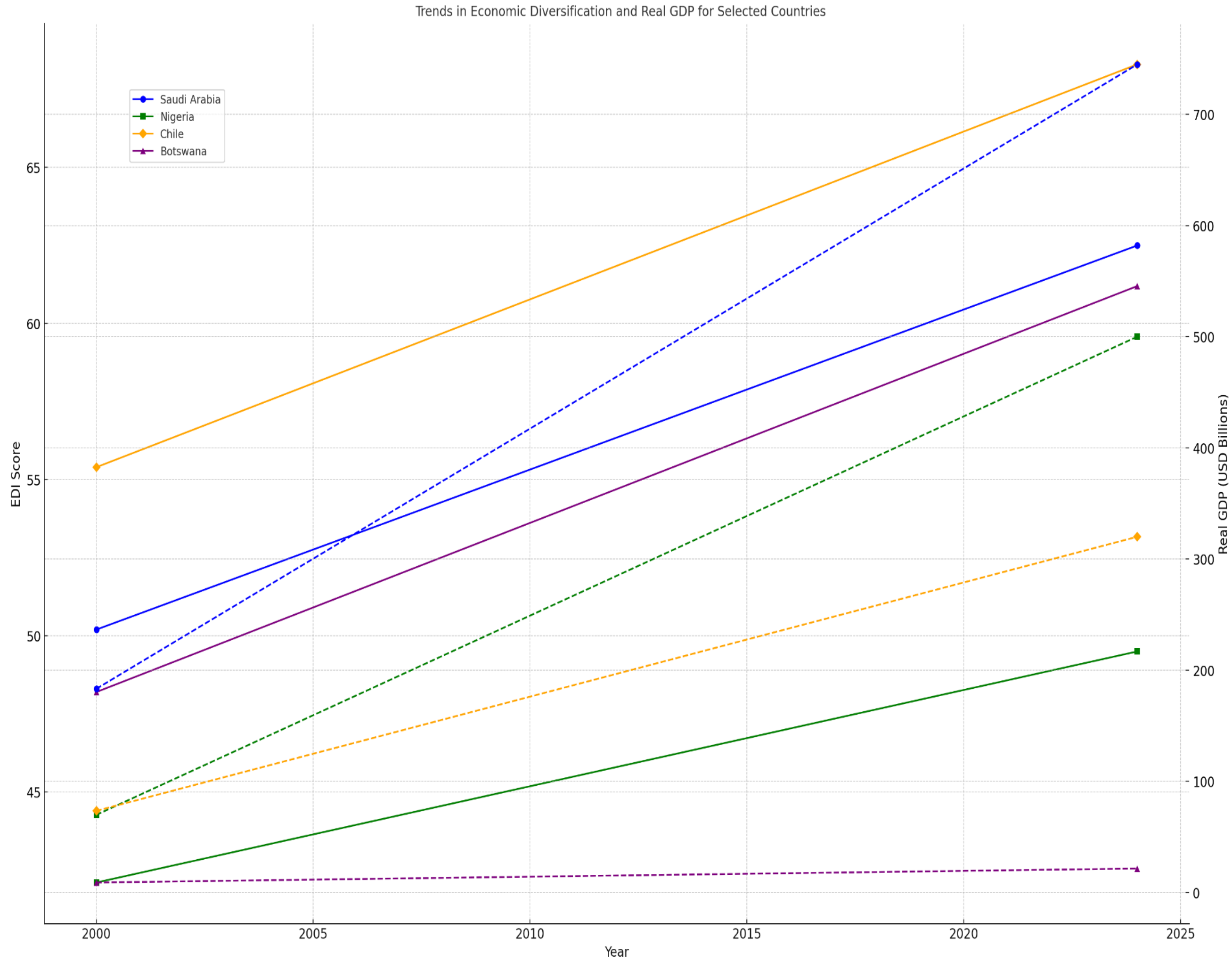

Figure 5: Comparative Trends in Economic Diversification for Selected Countries

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