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Observer

No. 238 – July 2003

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China's real economy

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Road to Cancún

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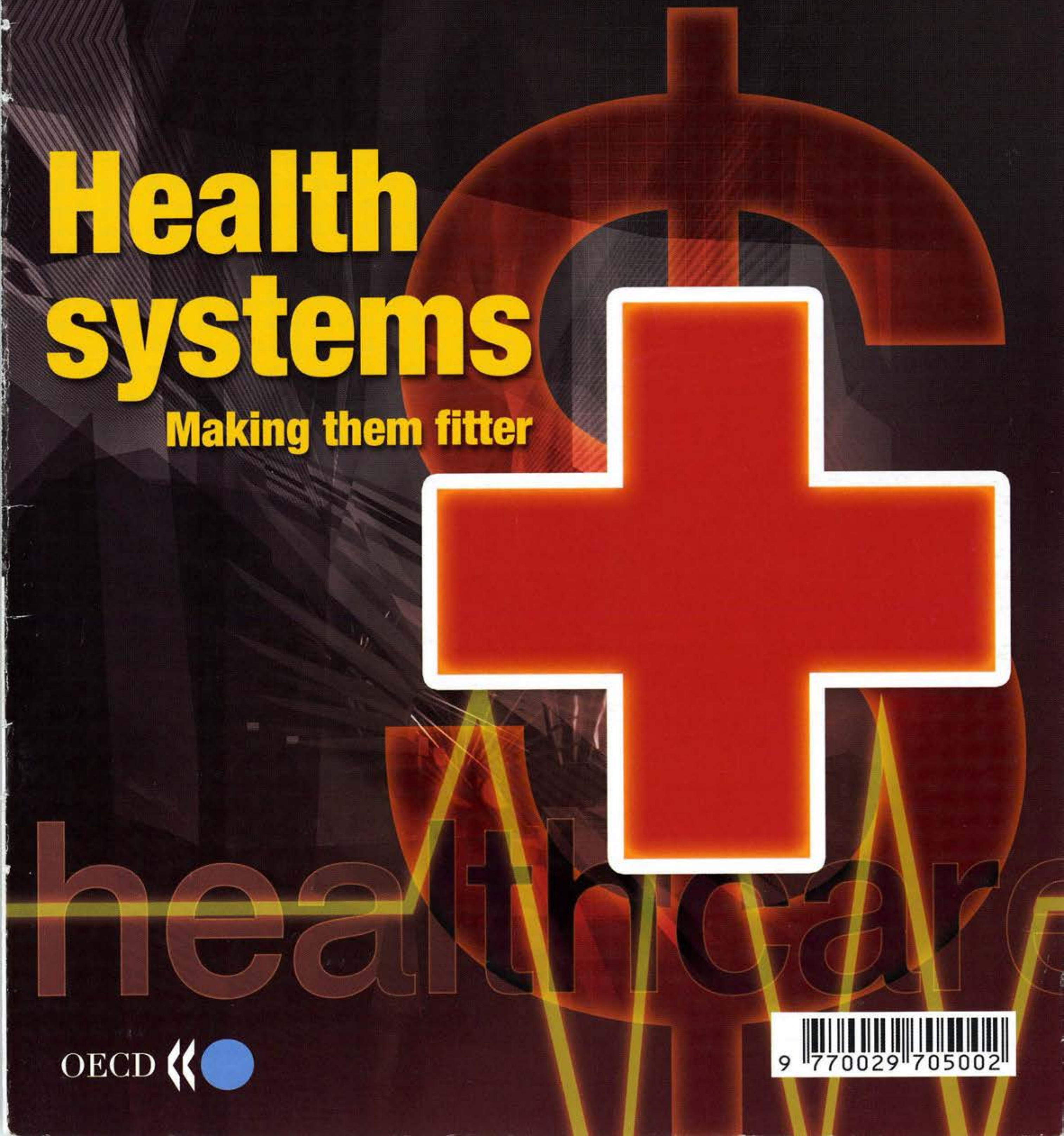
Making them fitter



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ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

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DIRECTION DES RELATIONS EXTÉRIEURES ET DE LA COMMUNICATION
PUBLIC AFFAIRS AND COMMUNICATIONS DIRECTORATE

Editor in Chief
OECD Observer

20 August 2003

Corrigendum

Re: *OECD Observer* No. 238, July 2003, Databank, p. 48, graph title: Development aid, Net ODA flows from DAC member countries

Dear *OECD Observer* subscriber

The graph on development aid (entitled "Net ODA flows from DAC member countries") in the *OECD Observer* No. 238, July 2003, Databank section, page 48 (last page) is incorrect.

We enclose a new page with a corrected graph (now called "Development aid") and would be grateful if you could insert this page into the magazine for reference. Also, the correct version can be requested at observer@oecd.org and can be found at www.oecdobserver.org/aid72003

We apologise for any inconvenience this error may have caused.

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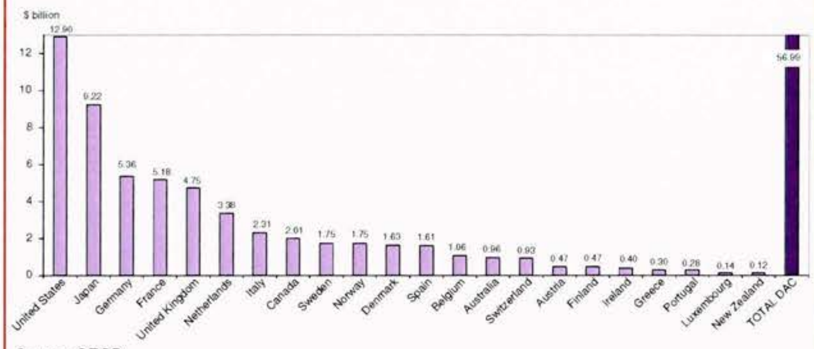
Aid on the rise

Development aid

Net ODA from DAC countries, $ billion, 2002



Source: OECD

Donor countries in the OECD Development Assistance Committee (DAC) increased their official development assistance (ODA) by almost 5% in real terms in 2002 to US$57 billion, raising ODA to 0.23% of gross national income (GNI). This marked the beginning of a recovery from the all-time low of 0.22% of GNI seen in each of the past three years.

The rise included a 12% increase in US aid to US$12.9 billion (0.12% of its GNI), reflecting additional and emergency funds in response to the 11 September 2001 terrorist attacks and new initiatives in health and humanitarian aid.

Aid from European Union countries rose 3% in real terms to US$29.1 billion, representing 0.34% of their combined GNI and including significant increases of 34% in Greece and 32% in Italy. On the other hand, there were falls in Austria and Spain, both down 16%, largely due to the fact that their 2001 figures had been boosted by exceptional debt relief operations.

Canada, meanwhile, increased its aid by 32%, including substantial debt forgiveness. Five countries – Denmark, Luxembourg, Netherlands, Norway and Sweden – met the UN target for ODA of 0.7% of GNI. Three other countries have also announced their intention to meet the 0.7% target: Ireland by 2007, Belgium by 2010 and France by 2012.

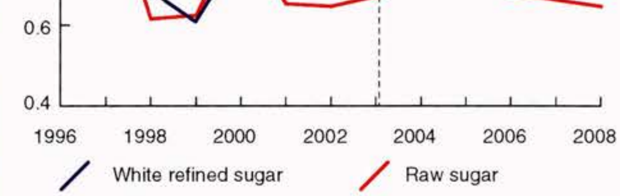
The broader outlook for aid is positive. Following commitments from most donors at the International Conference on Financing for Development at Monterrey, Mexico, in 2002, aid volume is expected to increase by about 30% in real terms by 2006. A meeting in late April of high-level officials from the OECD DAC countries, who, between them, account for about 95% of total ODA, welcomed this trend and stressed the need to continue to improve aid effectiveness, so as to speed progress towards the Millennium Development Goals. ■

- For more on the work of the DAC, visit: www.oecd.org/dac and www.oecd.org/development

Sugar lows

World sugar prices

Outlook for world prices to 2008



Source: OECD Agricultural Outlook

World sugar prices are likely to remain low over the next few years due to increased exports from low-cost producers and continuing high support and protection in many OECD countries, the latest issue of the *OECD Agricultural Outlook* found. Brazil, the leading low-cost producer, has a competitive sugar industry that matches the total tonnage currently traded on world markets. Developing countries hold the key to consumption growth, and the potential in the longer term to eat into the large stocks of sugar on the world market and improve the balance between supply and demand. The *Agricultural Outlook* cites China as a country with apparent scope to boost consumption and imports as incomes rise, but notes that other factors, such as official import policies and the availability of artificial sweeteners, must also be taken into account.

The latest *Agricultural Outlook* sees raw sugar prices improving slightly to US$191.8 per tonne in 2004/2005, up from US$172.0 in 2003/2004, but then falling in subsequent years to reach US$165.3 per tonne in 2008/2009. World stocks will see little change, at 68.3 million tonnes in raw sugar equivalent in 2008/2009 compared with 67.5 million in 2003/2004.

World production of agricultural products in general is forecast to grow over the period to 2008, boosted by a revival of the world economy from 2004 onwards, with an increase in consumption of coarse grains and oilseeds and a shift away from wheat- and rice-based staple foods towards more processed food and higher protein products such as meats. ■

- *OECD Agricultural Outlook 2003-2008* is available at www.oecd.org/bookshop

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Multilater-ills

I read with interest secretary-general Donald Johnston's recent leader ("Multilateralism: Is there a choice?", *OECD Observer* No. 237, May 2003, also online). His optimism is inspiring, but I wonder if it is not a bit excessive. Meeting Chinese economists who speak English and French and know the geography of Canada well is heartening, and yes, in the past, political squabbles were often more for show, but is this conclusive evidence that multilateralism is not now in trouble?

Multilateralism is not a modern phenomenon. It was arguably greater during Roman times. More recently, at the turn of the 20th century, trade and political co-operation was strong between many parts of the globe, with British banks busy lending – and occasionally going bust in the process – in South America.

It does not take much for such links to be severed. I met an American couple in France recently who felt they had endured the scorn of their compatriots by coming to Europe this year. "You will have rotten tomatoes thrown at you," they were warned. Instead, they were welcomed with pastis and taught French boules. Still, many Americans argue that they don't need Europe and its old ideas, and ignore the viewpoints of other parts of the world.

Multilateralism can be compared to marriage. For it to work, people need to have a vested interest in its success. America's overwhelming military and economic power means it can get its way on almost any issue, regardless of what anyone else thinks. And this includes the multilateral agencies it helped to build. In addition, a lack of knowledge on all sides is bound to lead to uncertainty. The consequences could be a Cold War-type global politics based on fear and scepticism. It is paramount that organisations such as the OECD and the UN continue to press the case for multilateralism. Now is not the time for complacency.

Rupert Wright
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German business angst

Your article on the German economy ("Germany: The case for reform", *OECD Observer* No. 237, May 2003, also online) depicts only a small part of Germany's problem. Foreign investment in Germany dropped in 2002 to only one-eighth of what it had been in 2001. Germany should implement reforms in bureaucracy and in the social state that could decrease costs for employers. The strict labour laws mandate high severance packages and a strict social benefits plan for the discharge of employees that do not take business requirements into consideration. Small businesses have no flexibility in difficult times.

Foreign investors are deterred by this and by the high labour costs. Cost per employee is one of the highest in Europe. The Basel II financial regulations to be implemented in January 2007, combined with tighter bank credit checks, have hit business hard. Insolvency hit an all-time peak in 2002 which is expected to be exceeded in 2003, and 600,000 jobs are expected to be lost this year.

My company, Trust in Business (www.trustib.com), founded four years ago, boomed until foreign investment dropped. Simultaneously, many middle-sized corporations liquidated and small businesses struggled to pay, as their own customers could not pay due to a lack of short-term bank credits. The result: personal and company insolvency despite much hard work.

More than any other country, Germany's economic success is dependent on small and middle-sized enterprises. Government support programmes are too slow and only address part of the problem. Banking restrictions are taking their toll on business. Foreign investment needs to be boosted instead of having government offices abroad close down just when they are most needed. Besides, Germany is the natural centre for euro-based business. Insolvent companies have learnt by their mistakes and could get things moving again.

German culture sees failure as something to be ashamed of. I have written about this in German (www.changex.de, search Koark) to try to encourage entrepreneurs to get up and fight back. Germany still has a lot to offer foreign investors, and with the right reforms and good publicity, plus increased support for small businesses, Germany will bounce back. I, for one, intend to get into business again with a project to help insolvent entrepreneurs find their way back into business too.

Anne Koark
anne@trustib.com, Germany

On the cover

Making health systems fitter

OECD countries have reined in their health care costs in the past couple of decades, but budget pressures continue strong, reflecting technology and ageing. Keeping health spending under control will remain a challenge for years to come.

Making health systems fitter

The following is a government health warning: just when you thought your health spending was under control, the cost pressures are likely to start rising again.

A bleak message, but like most health warnings, it should be taken seriously. Health expenditure came to some 8.4% of GDP in the OECD area in 2001, up more than a percentage point from a decade ago. US spending led the field, with nearly 14% of GDP, with Switzerland and Germany not far behind, at nearly 11% each. Yet, it is not a given that these countries deliver better health services than their neighbours. France devotes less of its GDP to health than the biggest spenders, yet enjoys a health status that is at least as good, or better. But French health budgets are also being stretched and reforms are in the pipeline. In fact, policymakers across the OECD, however well their health systems perform, are constantly being forced to look for ways to improve efficiency and value for money in their health systems.

Not that OECD achievements in cost control have been modest, on the contrary. Since the 1970s when spending spiralled upwards, governments have halved the rate of growth in health expenditure. So why should this trend change? Two reasons stand out: technology and age.

Technology has become a pillar of our health services. Whether imaging systems, cardiovascular equipment or dialysis machines, all affect the quality of care. Now, telemedicine is emerging, with reports of doctors using 3G mobile phones to transmit X-ray images for specialists to verify. New medicines and devices can certainly improve care and resulting outcomes. The trouble is, such advances, along with developments in pharmacology and biotechnology, are expensive, increasing the pressure to spend more on health.

Ageing presents several challenges. Health care costs leap from the age of 45, though they trail off again for the very old. Assuming today's cost patterns continue, our experts project that population ageing will cause total health care spending to increase by an average of nearly 2% of GDP by 2050.

Merely finding savings is not the solution. If it were, then the case would be closed. In fact, cost-cutting can go too far, undermining efficiency and hurting the capacity to deliver even essential services, with extra funding, not less, then needed to improve effectiveness. Reforms, however necessary, can generate costs too, in management for instance, and running expenses can rise in the drive to treat more patients.

The public sector accounts for the greatest part of health spending in all but a few OECD countries, though even in these, the public purse takes much of the strain. Government spending action has tried a mix of capping, regulation and, increasingly for pharmaceutical spending, cost-sharing, with individuals taking more responsibility for their spending choices. But management solutions can only achieve so much and preventive action at the root of some illnesses is required.

Take obesity. Some call it the Western disease, conditioned largely by a lifestyle of fast food and sedentary habits at work and play. And it is getting worse. Barely a day goes by without a newspaper story highlighting the problems. Some cases are hard to prevent or treat, but much obesity is avoidable. How ironic that the developed world should conquer so many illnesses, and let this one in the back door.

No one chooses to be ill. Yet, we could do more to minimise risk. Education is vital, via both schools and the media. Such campaigns can work, as the sharp decline in smoking in many countries has shown. But are they enough? After all, many people still smoke, despite knowing the risks. And it is easier to attack smoking, which invades other people's personal space. It gets trickier with other personal habits, even if sooner or later, the public purse may have to pay for the consequences.

Businesses are already sitting up. Some manufacturers are improving the content in food, and corporate leaders are encouraging healthier lifestyles among staff in a bid to save on their health bills. Legal cases are being fought, as are campaigns to have health warnings printed on fast food wrappers. Governments could ask questions too. They may encourage healthy diets, but do they do enough to encourage physical activity, such as by planning sports grounds and cycle tracks in cities?

The OECD's health project is responding to such challenges facing developed countries. It was set up in 2001 with an ambitious three-year mandate to analyse health care systems so as to help improve their performances. Together with our unique health database, for which there is always strong demand, the project helps governments and other players understand the issues and map their way towards improved performance.

We know that disease prevention measures can be acted upon, whether dealing with weight, fitness or, indeed, tackling infectious diseases, as the SARS outbreak showed. But while they may help relieve some pressures on health care systems, controlling health expenditure growth in light of advances in medical technologies and ageing brings several challenges to the table: getting more value for money, while ensuring timely and equitable access to essential health care services; ensuring any reforms do not leave people behind; and tackling shortages of doctors and nurses – to name but a few. Also, new provision issues are emerging, like cross-border co-operation and mobility in patient care, trends that respond to the adage that if the market cannot move to the people, then people (along with the money) will move to the market.

The OECD can provide the intelligence, advice and frameworks, but only governments and citizens can act. No one can say they were not warned. ■

• News brief •

New OECD framework for managing conflict of interest

OECD governments have agreed on the first international reference framework for understanding conflict of interest questions. The OECD's new Guidelines for Managing Conflict of Interest in the Public Service define just what is meant by a "conflict of interest" for a public official, and offer standards for resolving cases and preventing such conflicts from occurring. The OECD's aim is to help governments ensure that, say, health officials do not favour a particular supplier in the hope of obtaining a new job, or, in an era of new forms of public-private partnership, that officials of regulatory agencies have not become too close to the business entities they are supposed to supervise.

Recent scandals involving conflict of interests in government, the public sector and the business world have focused fresh interest on a problem which is as complex and as universal as it is old. Conflict of interest in its many forms now seems to feature, on an almost daily basis, in the news worldwide. It was a major feature in the recent auditing problems involving Enron, Arthur Andersen and WorldCom, as well as corrupted public procurement processes in Europe. The OECD initiative is part of a drive to prevent the problem from growing.

The new guidelines urge governments to develop and implement comprehensive strategies for promoting integrity, identifying actual cases and areas of risk, and dealing effectively with conflicts of interest as they arise. Active monitoring is required to ensure effectiveness, and appropriate sanctions, including dismissal, must be available. The guidelines stress the need for officials to take personal responsibility for complying with the letter and the spirit of their organisation's conflict of interest standards.

Will the guidelines work? They are not legally binding, and so may not add much in countries which already have legislation in this area. But as an international standard, they provide a valuable reference point when setting up or reviewing national conflict of interest policies, reviewing existing management systems, assessing risk, or providing training. In fact, several countries are already using the guidelines in this way.

The OECD is also working on a "toolkit" of practical measures to help governments and institutions with implementation. It expects to report on the implementation of the guidelines in 2006. ■

- For the full text of the new guidelines: www.oecd.org/gov

FATF steps up money laundering battle

Admits Russia and South Africa

Jochen Sanio

The Financial Action Task Force on money laundering and combating terrorist financing (FATF) issued a revised version of its Forty Recommendations to combat money laundering at the end of a plenary meeting in Berlin on 20 June 2003, the last of Germany's presidency of the FATF. The release is intended to tighten international standards in the fight against money laundering and to create a substantially stronger framework for combating terrorist financing.

"In updating its Forty Recommendations against money laundering, the FATF has accomplished one of the most important tasks it has undertaken since its inception in 1989," outgoing FATF president Jochen Sanio said.

Major changes to the recommendations include extending many anti-money laundering requirements to cover terrorist financing. The mandate of the FATF, which is an independent 31-member international body whose secretariat is housed at the OECD, was widened to include combating terrorist financing in the wake of the 11 September 2001 terrorist attacks in the US. The updated recommendations also extend anti-money laundering measures to non-financial businesses and professions such as casinos, real estate agents, dealers in precious metals and stones, accountants, lawyers, and trust and company service providers.

The Russian Federation and South Africa were also admitted as full members of the FATF after a positive assessment of their systems for combating money laundering and terrorist financing.

Meanwhile, the FATF removed St Vincent and the Grenadines from its list of Non-Cooperative Countries and Territories (NCCTs) and welcomed further progress by some jurisdictions still on the list.

The current list of NCCTs is: Cook Islands, Egypt, Guatemala, Indonesia, Myanmar, Nauru, Nigeria, Philippines and Ukraine. ■

- Visit www.fatf-gafi.org

Are governments recognizing and reacting to the new 'empowered citizen'?

By Joop de Vries

A member of the European Advisory Board of the Global Future Forum, Dr. Joop de Vries is Executive Director of Futures for Sociovision.

The relationship between people, their leaders and institutions is undergoing a quiet revolution.

In democratic countries, "the people" are now, more than ever before, society's driving force. Based on their interpretation of what they see and hear, people make their views known on an ongoing basis, often joining forces across borders. They do so not just in elections but also through opinion polls and focus groups, in media and marketing, via email and the Internet. In politics, they let their leaders know where they are prepared to follow. In business, they expect companies to be productive and competitive, but also to pursue good governance and ethical behaviour. People collectively sense that the world is changing and they are using their new individual and combined power to drive those changes. But are governments recognizing and reacting to this quiet revolution?

What matters most nowadays to individual people cannot be captured effectively in quantitative models. People see the world around them increasingly in their own terms, not in terms of macro-statistics. Even when the facts seem to speak for themselves, people sense it is not that simple. For example, German unemployment in excess of 4 million is far too high, but a black economy equivalent to 7 million full-time jobs is part of reality, too. Demographic change in Europe's ageing societies requires massive immigration, but people know that, in real life, this is not how problems are going to be resolved. Society behaves increasingly as a living organism, rather than a mechanical device. Solutions will come from resilience, rather than blueprints. These subtle changes are a matter of perspective. Taken together, they amount to a major paradigm shift.

> "People see the world around them increasingly in their own terms..."

In organisations, the determining factor will be how effectively individual motivation can be mobilised. The business and management systems that generated the economic successes of the 1990s are having difficulties dealing with personal aspirations and principles. Organisations are faced with growing dilemmas and inherent contradictions. Sharply focused incentive systems make people work harder but also promote the "games people play". In the public as well as the private sector, the same applies to performance ranking systems based on a few simple yardsticks. Business systems can closely align employees with shareholder value, but at the expense of trust and social responsibility. A sales force cannot maximise the bottom line and, at the same time, 'leave money on the table' for ethical reasons or to please customers. Systems do not speak the same language as policy statements, and, intuitively, people know it.

The above developments are accelerated by globalisation and democratisation – pervasive forces that cross demarcation lines and weaken hierarchies. Globalisation and the inherent availability of information encourage people to see different perspectives and to look for the right questions before arriving at answers. Democratisation encourages them – as citizens, consumers and employees – to impose their own criteria. It is essential to include these dimensions in the major decision-making processes and systems for both government and business. Dialogue requires a combination of "hard facts" and "soft facts". As governments strive to employ new systems and processes to educate, empower and communicate with their citizens, they will need to strike a new balance between facts and feelings, between numbers and opinions, between expertise and empathy, otherwise they will not gain the trust and confidence of the new empowered citizen.

To read more about these trends and their implications for the public sector visit www.thegff.com/oecd1

• News brief •

Vanuatu removed from tax haven list

Vanuatu is the first country to have been taken off the OECD's list of uncooperative tax havens, after pledging to make its tax and regulatory system more transparent. Vanuatu also said it would set up an effective exchange of information on tax matters with OECD countries by the end of 2005.

A total of 32 countries outside the OECD have now committed to the principles of transparency and exchange of information for tax purposes. The OECD has said it hopes the six jurisdictions remaining on the list of uncooperative tax havens published in April 2002 (Andorra, Liechtenstein, Liberia, Monaco, the Marshall Islands and Nauru) will make similar commitments.

Vanuatu will be invited to join OECD members and other countries in meetings of the OECD's Global Forum on Taxation to discuss designing standards related to its commitment.

In a letter to the OECD's secretary-general, Donald Johnston, Vanuatu's finance minister, Sela Molisa, said his government hoped that OECD countries and other international organisations would take into account the adverse effect on revenue of the small island economy of meeting these commitments when deciding development assistance levels.

He also looked forward to receiving technical assistance in meeting Vanuatu's tax transparency commitments. ■

- For the full text see: www.oecd.org/pdf/M00041000/M00041258.pdf
- For more on harmful tax competition, visit www.oecd.org/taxation

Vanuatu prime minister, Edward Natapei

Jobless rate higher

Unemployment in the OECD area rose to 7.2% in May from a revised 7.1% in April, and up from 6.9% a year earlier. The standardised unemployment rate for the United States rose to 6.1%, up from 6.0% in April and 5.8% a year earlier.

Euro area unemployment was unchanged from the April level at 8.8%, but up from 8.3% a year earlier. The Japanese jobless rate held steady at 5.4%, the same as in April and unchanged from May a year ago. The German jobless rate rose almost a full percentage point from a year earlier, at 9.4% in May, up from 8.5% in May 2002, while the rate for the Group of Seven leading industrial nations was up to 6.8% in May from 6.7% the previous month and 6.5% a year earlier.

The only OECD countries to see their jobless rates fall in May from the previous month were Australia, down from 6.1% to 6.0%, Poland, down from 20.2% to 20.1%, the Slovak Republic, down from 16.8% to 16.6%, and Spain, down from 11.4% to 11.3%.

Investors get cold feet

Foreign direct investment (FDI) in OECD countries fell 20% in 2002, following steep declines the previous year and the signs are for a further drop in 2003. That is the message from a new OECD report, "Trends and Recent Developments in Foreign Direct Investment".

The continued weakness of the global economy, relatively flat stock markets, uncertainties over international security and heavy debt loads in sectors like telecommunications all contributed to the decline, which saw fixed investments into OECD countries fall to US$490 billion in 2002, down from US$615 billion in 2001. This was about a third of the level in 2000, the report says.

The drop was concentrated mainly in the United States, where FDI plunged to US$30 billion in 2002 from US$131 billion in 2001, and the United Kingdom where it fell to US$25 billion from US$62 billion. FDI flows into other OECD countries as a whole actually rose slightly in 2002, up 3% or US$14 billion from the 2001 level.

If the downward trend of mergers and acquisitions in the first five months of the year continues, OECD countries could be heading for a further fall of 25% to 30% in FDI in 2003, the report says.

In contrast, investment flowing out of the 30 OECD member countries showed a more modest decline. Outward FDI hit US$609 billion in 2002, down from US$690 billion the previous year. Developing countries were major beneficiaries of net outflows from OECD countries, and for the first time China became the world's largest recipient of FDI in 2002 with total inflows of US$53 billion, though in per head terms, this remains relatively small (see article by Ken Davies).

The report will be included as a chapter in the forthcoming annual publication, *OECD International Investment Perspectives*, expected in September. ■

• News brief •

Brazil, Chile, Peru students struggle, says OECD/UNESCO report

Several Latin American countries lag seriously behind in reading, maths and science, regardless of income levels, whereas Finland's 15-year-olds are among the world's best in terms of reading literacy, and students in Japan, Hong Kong-China and Korea lead in mathematics and science. These are some of the key lessons from a new survey of 15-year-olds in 43 countries, *Literacy Skills for the World of Tomorrow*, published jointly by the OECD and UNESCO. The report is based on data gathered in the much-publicised OECD Programme for International Student Assessment (PISA).

PISA measures how well 15-year-olds are prepared to meet the challenges of today's knowledge societies, by administering tests and background questionnaires to between 4,500 and 10,000 students in each participating country. The latest report compares and analyses data collected in 2002 from 15 mainly middle-income countries and economies – Albania, Argentina, Brazil, Bulgaria, Chile, Hong Kong-China, Indonesia, Israel, Latvia, Liechtenstein, FYR Macedonia, Peru, Romania, the Russian Federation and Thailand – with data collected in 2000 from 28 of the 30 member countries of the OECD. Among the non-OECD economies, students in Hong Kong-China emerge as star performers, but students in Latin America are well behind. Some 80% of Peru's 15-year-olds were at Level 1 and below in reading literacy, indicating that they have serious difficulties in using reading as a tool to advance and extend their knowledge and skills in other areas. Brazil and Chile also recorded disappointing performances.

The study found that while higher average spending per student tends to bring higher average performance in reading, mathematic and scientific literacy, it does not guarantee it. And differences in performance related to social status also varied widely between countries. The countries with the highest gap in reading skills between students from rich and poor families included two OECD countries – the United States and Mexico. The report links these trends to the quality of national education systems. ■

- For a free electronic download of the full report or the executive summary, and for more information on PISA, visit: www.pisa.oecd.org

Positive indications...

Things may be looking up for the OECD area as a whole, particularly in the US and the euro area, but downward pressure is the message for the Japanese economy, according to the latest OECD composite leading indicator (CLI). The CLI for the OECD area, which can provide advance signals of likely turning points in the economy, showed a 1.0 point rise in May from the April level, while the six-month rate of change rose for the first time since May 2002.

The May figures suggest slow to moderate growth ahead in the OECD area, the United States and the euro area, with a 1.6 point rise in May in the US from the April level and a rise in the six-month rate of change after three months of downward or unchanged showings. For the euro area, the six-month rate of change headed upward for the first time in a year. But Japan's CLI was still heading downward, continuing a trend on the six-month rate of change that goes back to December 2002. The UK continued an upward trend in the six-month rate of change which began in April after showing a strong downward trend since June 2002.

The OECD CLIs are designed to provide early signals of turning points (peaks and troughs) in economic activity. They are calculated by combining series that cover a wide range of key short-term economic indicators such as opinions about economic activity, housing permits granted, financial and monetary data, labour market statistics, information on production, stocks and orders, foreign trade, etc. More information on OECD composite leading indicators can be found at www.oecd.org/statistics

...as real GDP firms up

Growth firmed up in several OECD countries in the first quarter, including in the US (0.4%), Canada (0.6%) and France (0.3%). Britain and Japan both grew by 0.1%. Australia's economy grew by a seasonally adjusted 0.7% compared with the preceding three month period, a percentage point faster than New Zealand and the Czech Republic, while Spain's economy expanded by 0.5%. Korea's economy contracted, by 0.4%, after growing by 2% in the fourth quarter of 2002. The sharpest quarterly decline was recorded for Finland (-1.3%), with lesser falls recorded for Germany, Italy, the Netherlands and Switzerland. ■

GDP growth

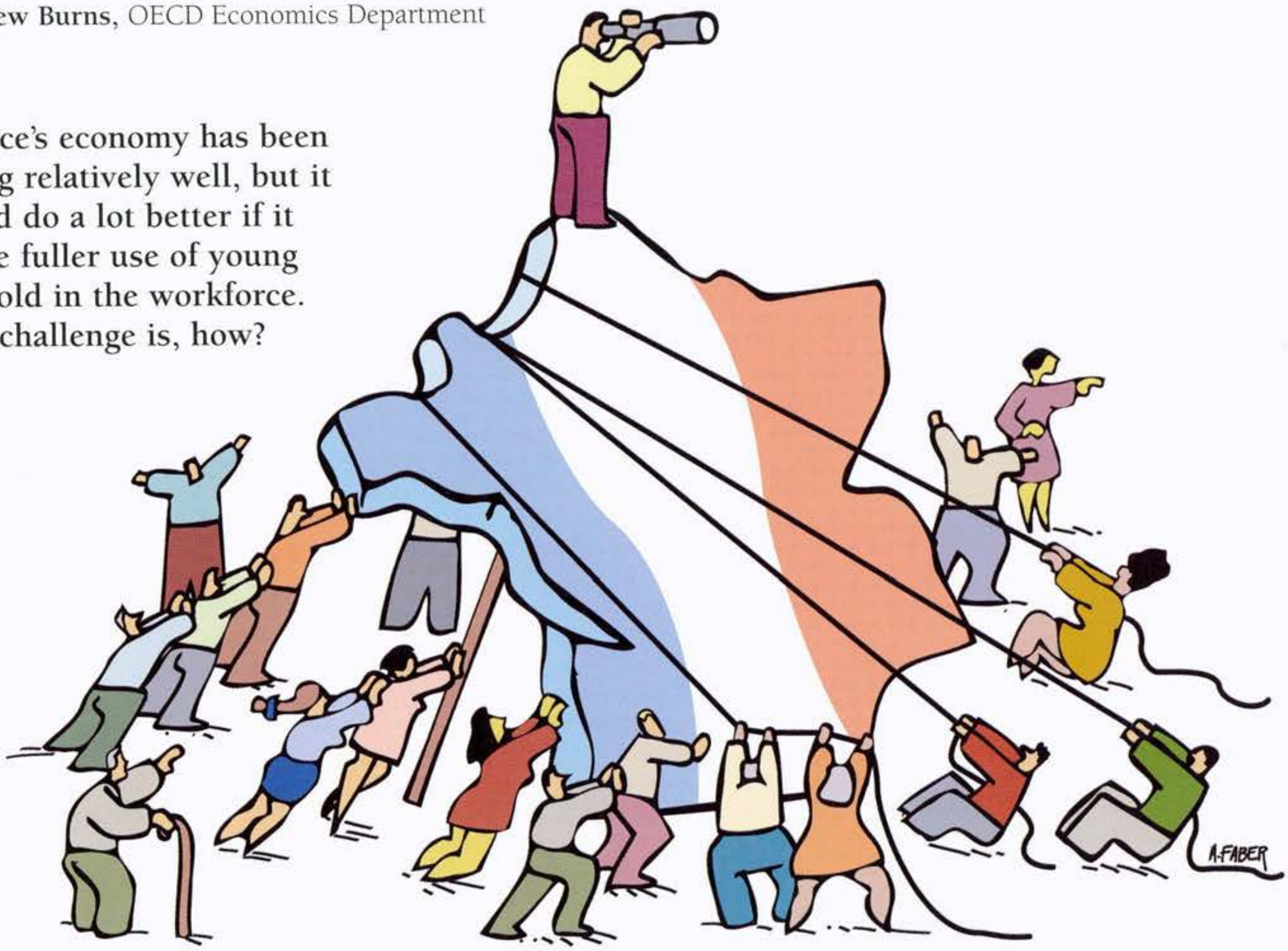
Quarter on quarter, seasonally adjusted

	2002 Q4	2003 Q1
Australia	0.3	0.7
Austria	0.0	0.1
Belgium	0.3	0.2
Canada	0.4	0.6
Czech Republic	0.5	0.6
Denmark	0.1	0.4
Finland	0.5	-1.3
France	-0.1	0.3
Germany	0.0	-0.2
Italy	0.4	-0.1
Japan	0.4	0.1
Korea	2.0	-0.4
Mexico	0.0	-0.5
Netherlands	-0.1	-0.1
New Zealand	0.8	0.6
Norway	-0.2	0.3
Portugal	-0.3	0.1
Spain	0.3	0.5
Sweden	0.4	0.6
Switzerland	-0.2	-0.3
United Kingdom	0.5	0.1
United States	0.3	0.4

Based on 7 July updates. For more, visit www.oecd.org/statistics

France's employment challenge
Mobilising young and old

Andrew Burns, OECD Economics Department



France's economy has been doing relatively well, but it could do a lot better if it made fuller use of young and old in the workforce. The challenge is, how?

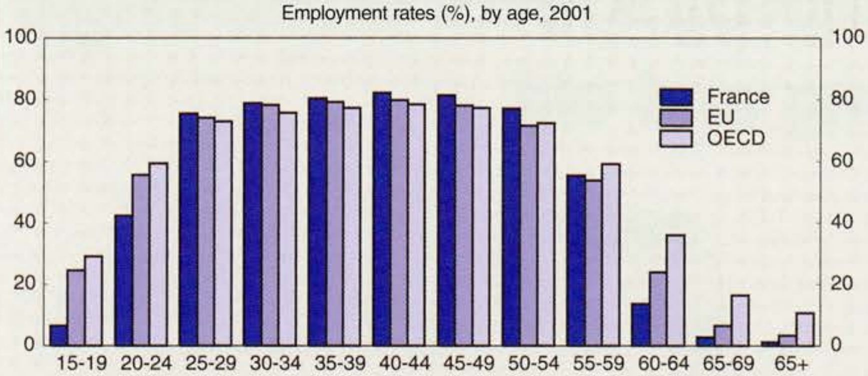
After several years of strong growth during which it outperformed much of Europe, the French economy has slowed. It is still expected to perform somewhat better than the European average this year and next, but now faces the prospect of an ageing population that is already starting to place the budget under increasing pressure. To avoid buckling under a pension and health care "time-bomb", policymakers will have to act quickly, both to control spending in these areas and to increase France's potential output. One key step would be to raise the employment rate of youth and older workers which, despite good progress over the past decade, remains low by OECD standards.

The French economy performed well in the late 1990s. Reforms, strong domestic demand, tax cuts, the stock market bubble and more relaxed fiscal and monetary conditions all played a role. Moreover, for a country used to relatively high unemployment, growth was much more job-rich than in the past, as reforms reduced labour costs and the 35-hour workweek legislation helped accelerate the re-absorption of cyclical unemployment generated by the previous downturn. But by 2001, corporate indebtedness, the stock market decline, and the global downturn slowed investment, pushing France into a period of slower growth.

Since then, economic activity has been slack, with (moderate) consumption buoying the little growth there is. Continued weakness in world trade has not helped. On

Room for manoeuvre

Employment rates (%), by age, 2001



French employment rates are slightly above average for prime age workers from 25 to 54 years, but well below average for young and old workers
Source: OECD

the bright side, employment has resisted the downturn, limiting the rise in joblessness, which was nevertheless too high, at over 9% in May 2003.

Inflation, meanwhile, remains moderate. Despite a pick-up in early 2002 and public complaints that the introduction of the euro lifted prices, competitive pressures and increasing slack saw inflationary pressures subside towards the end of 2002, allowing headline inflation to ease to 1.8% (year on year) by May 2003.

Fiscal policy relaxed massively in 2003, with the general government budget deficit reaching 3.1% of GDP – more than twice the 1.4% originally called for in budget documents. Moreover, the 2003 budget introduced little in the way of measures to reverse these overruns. As a result, the deficit is now expected to reach about 3.5% of GDP in 2003, which in contrast to 2002 is not expected to provide a fiscal stimulus to growth. This, plus a tightening in 2004, will cause consumption demand to expand less quickly in the months to come. However, firms may begin investing again in a less uncertain global environment, and this should help economic activity pick up in the second half of 2003 and into 2004. Real GDP is expected to rise by less than 1% in 2003 before accelerating in 2004 to a rhythm of around 2%.

Social challenge

The relaxation of fiscal policy comes at an unfortunate juncture, with France already facing a looming fiscal challenge from rising pension and health care costs. An ageing population means this challenge cannot be shirked, since in the absence of reform, these costs would increase by as much as 8-10% of GDP between now and 2050. Worse, if measures are not taken to restrain deficits their accumulation over time could double public debt by 2030, threatening the economy's fiscal sustainability. This underlines the need for early action.

Fortunately, France's policymakers are not sitting back. Reforms are under preparation or in place, that seek to increase the level and the rate of growth of potential output by increasing labour supply, upping the rate of investment and raising the rate of growth of productivity. The pension system is being overhauled. Further reforms, aimed at slowing the pace of rising healthcare costs, are in the pipeline, as are decentralisation projects, a move towards output-oriented budgeting and various regulatory reforms. A busy agenda indeed.

One area where change would help and where France stands out among OECD countries is its low labour utilisation rate, or proportion of working age people in the workforce. Yet raising employment would speed up productivity growth and raise living standards, and underpin the long-term viability of France's social welfare system. Moreover, increased employment would simultaneously raise taxable income and reduce government expenditures. Such developments should open the way both to stabilising public finances and to creating the kind of fiscal room that would allow for a reduction in tax rates, perhaps spurring further growth.

The question is, how to get there? France's low rates of labour utilisation reflect three phenomena: low rates of youth employment; low rates of employment among older workers; and low average hours worked. So, although employment rates of prime age workers (between 25 and 54) are equal to or above the OECD average, less than a quarter of French youth work and only slightly more than a third of 55-64 year-olds have jobs. As for hours worked, the average French employee worked only 1,532 hours in 2001, 14% less than the OECD average.

Misspent youth

France's youth employment was not always so low. It stood at 50% in 1970, declined gradually until the early 1990s, before picking up somewhat. Currently, it stands at less than 25%, nearly half the OECD average of 45%. Although the decline coincided with a 67% rise in educational enrolment rates among 15-24 year-olds, the causality is not clear. Enrolment also rose in most other OECD countries without anything like the associated decline in youth employment seen in France. Economic factors seem to be responsible.

Until recently, the policy response to low youth participation rates *per se* has been relatively muted. Policymakers concentrated on dealing with high youth *un*employment (24% of the youth labour force in 2001) that afflicts the third of this age-group not in school but in the labour force, with a particular focus on the 7.5% of youth who leave school with no or low educational qualifications. A wide range of programmes has been put in place.

On-the-job training programmes, like apprenticeships, qualification contracts and orientation and adaptation contracts, are common. And there are programmes in partnership with both the business and public sectors aimed at assisting youth to enter the labour market, with employment subsidies or provision of personalised job-search and training. Altogether, some 40% of all working youth are involved in one or another of these programmes. Overall, the authorities spend about 2% of GDP on

French pension pickle

Resistance to pension reform marked the French political scene in May and June of this year, as public sector unions demonstrated against proposed legislation. We asked Martine Durand **from the OECD Employment, Labour and Social Affairs Directorate to explain the basic reasons for the reforms and the protests.**

***OECD Observer*: There seems to be agreement in France, even among the unions, that pension reform is needed. Why is reform necessary and where do the key differences lie?**

Martine Durand: Like most other OECD countries, France is facing rapid population ageing because of low fertility and longer life expectancy. This means the dependency ratio of older people – those aged 65 and over as a proportion of those aged 20-64 – will rise from 25% at present to 50% by 2050. In other words, there will be more older people, but fewer people of working age to support them.

These demographic trends are putting tremendous pressure on the French pension system, which is based on what we call a Pay-As-You-Go (PAYG) distributive principle; people who are currently working pay the pensions of those in retirement. Everybody agrees that reform is necessary; if nothing is done soon, public deficits could rise by some 5% of GDP over the next 30 years. And public debt could more than double. So, without reform now, our children and grandchildren will pay the price.

There are two ways to put the PAYG system on a sounder financial footing. The first is to increase total contributions; the second is to reduce pensions. Virtually no one in France favours cuts, so we are left with raising contributions. This in turn can be achieved in two ways: by increasing the number of people at work or by raising the rate of contributions currently levied on labour, and perhaps taxes on capital too. The disagreement in France has mainly been on which path to take: the government's reform plan puts the emphasis on extending working lives (which is one way of raising employment), while some unions have argued in favour of paying higher contributions.

What is your view on this debate?
France already has a high tax burden by international standards. Raising taxes or social contributions further would have a negative effect on job creation and growth, which in the end would be unhelpful to solving the pension problem. An overall strategy is needed to get more people into work. France is rather unique in the OECD as it combines both very low youth and older worker employment rates, with above average rates for prime age workers. Raising youth employment rates would help relieve the pensions burden. But a longer working life must be part of the solution. This means introducing both later retirement and reducing early retirement.

Fortunately, there is room to manoeuvre on both fronts. The current official retirement age is 60, which is one of the OECD's lowest, yet, France also has one of the OECD's highest life expectancies. And at 36%, France's employment rate for 55 to 64 year olds is also one of the lowest in the OECD, whose average is 48%. Abolishing financial disincentives towards retirement beyond the legal age, while aligning the mandatory contribution periods of public servants to (the longer) private sector period, seems to me a sensible way of raising the employment rate of older workers.

The most urgent step is progressively to eliminate provisions that subsidise early withdrawal from active life – first and foremost, early retirement schemes. Too often in the past, these schemes have been used to make people redundant, while at the same time helping to reduce unemployment figures. A number of OECD countries have already taken this step, but experience shows that it is not enough. In many cases, the actual retirement age still remains two or three years below the official retirement age, because there are other provisions, such as disability benefits, that also encourage people to stop working early.

What else is needed to make the reforms work?
Older workers cannot be expected to hang on in the labour market if they can't find work. Moreover, those jobs would have to be of high enough quality to encourage them to stay on. This requires a real change in attitudes all round: governments must adapt their employment policies; public employment services must meet the specific needs of older workers; measures that reduce benefit dependency and facilitate the integration of older workers in the labour market should be taken. Employers, both private and public, must learn to view older workers as a genuine asset. They will need to eliminate discrimination against them, invest in their training, and adapt working hours and conditions to fit their needs. But workers must also understand that early retirement is not a right, and that, unless they can afford otherwise, they must get used to working a longer career.

But can people be realistically expected to change their attitudes in this way?
Yes, there are some interesting recent experiences out there. Finland's National Programme for Ageing Workers is one attempt to improve the status of older workers, with encouraging early results. More time will be needed to assess it properly, though. In the meantime, businesses are taking initiatives of their own, with companies in Belgium, the Netherlands, Sweden and the UK starting to recruit and train older workers. Even in France, a number of large firms have introduced major changes in their production processes to adapt working conditions to the particular needs of older people, making production lines more ergonomic and so on. As it turns out, these workplace improvements have also made these jobs more attractive to young people too. ■

- For more on pensions and ageing, visit: www.oecd.org/employment and www.oecd.org/ageing various training and subsidised employment programmes and a further 1% of GDP in the form of tax expenditures associated with the reduction of social charges.

In general, the various apprenticeship and qualification programmes have been most successful in helping less skilled youth find a long-term unaided job. The efficiency of other measures is less clear. The Youth Employment programme (*emplois jeunes*), which itself employed 213,000 youth (over a tenth of all jobs held by 15-24 year-olds) in public-sector and non-profit sector jobs such as schools, hospitals, and local governments failed to serve as an effective bridge towards long-term employment.

Other programmes have suffered similar difficulties. The French National Auditor (Cour des Comptes) was especially critical of so-called consolidated employment contracts (*Contrats d'emploi consolidé, CEC*), whose beneficiaries were found to receive neither the training nor individualised assistance provided for in the legislation. Moreover, only 6.6% of participants found work with a permanent contract. In response, the authorities have indicated their intention to consolidate a number of aided employment programmes to improve performance.

To improve prospects in the private sector, and reduce dependency on state-financed jobs, the authorities decided to cease issuing new *emplois jeunes* and push instead for more assistance to private-sector firms hiring (particularly lowly qualified) unemployed young people. These new Youth Contracts (*contrats jeunes*) provide private-sector employers a complete exoneration from social charges during two years and a 50% exemption in the third year for each qualifying youth they employ in a full-time contract. The authorities signed some 44,000 such contracts in 2002 and in 2003 and they hope to sign a further 120,000.

Fundamentally, however, no programme can diminish the imperative of reducing rigidities in the French labour market, generally. In this regard, efforts over the last 10 years to reduce impediments to temporary work and fixed-term contracts have been useful, by allowing young workers to gain experience in various jobs, while providing firms with the opportunity of testing prospective employees. Indeed, 75% of those with a fixed term contract are employed a year later, in contrast to the two-thirds of unemployed who remain jobless.

Making older work pay

Unlike youth employment, the cause of the decline in the employment rate of older workers is known, and reflects the introduction of a number of reforms that sought, among other things, to lower unemployment. Most visible of these reforms was the 1982 decision to lower the official retirement age from 65 to 60. This, and associated reforms to the pension system, had the effect of simultaneously reducing the number of years of service necessary to collect a full pension and eliminating the possibility of increasing one's pension rights by continuing to work later on. Meanwhile, special unemployment benefits and early retirement schemes were extended to older age groups in an effort to promote withdrawals from the labour force.

As a direct result, employment rates of 60-64 year-olds dropped from 35% in 1980 to about 13% in 2001. For men, the decline was particularly fast, with 19% of all employed 55-59 year-olds leaving work between 1980 and 1985 due to early-retirement incentives (including extended unemployment benefits).

Not only did these labour force withdrawal strategies fail to reduce unemployment, they have served to remove a large swathe of French society from productive life. The authorities are responding by putting in place reforms that restore incentives enabling those older workers that wish to continue working to do so. As a first step they have decided to rein in state-financed early retirement programmes, by refusing new applicants to various programmes. As a consequence of such measures, the share of the 55-60 year-olds enrolled in the various state-financed early retirement schemes has fallen from 16% to 10% between 1996 and 2002.

However, overall progress has been less good because a large share of older workers effectively on early retirement are not in a state-financed programme, but are enrolled in one of the many programmes operated by the social partners which offer extended unemployment insurance benefits with no job-search requirements. As of 2002, some 520,000 older workers benefited from some sort of pre-retirement scheme, fully one third of all 55-60 year-olds. A first step towards reversing this trend was taken in December 2002, when the social partners tightened both eligibility conditions and the duration of its unemployment insurance schemes for older workers.

Nevertheless, the consequences of an individual losing his job and moving into early retirement remain limited. Thus, a 56-year-old redundant worker can receive unemployment insurance benefits up to 75% of their salary for as many as three and a half years, without any job-search requirement. Moreover, this period can be counted in calculating his or her pension. With these conditions, it is hardly surprising to see workers and firms apparently colluding to lay off older workers when it comes to saving money or making redundancies.

Steps to reduce early retirement need to be greatly reinforced, so that state-subsidised early retirement becomes an exception rather than the rule. Indeed, as the population ages the issue will increasingly be not how to remove incentives to retire prematurely but how to revise the tax and benefit system so that those individuals who wish to continue working can afford to do so.

One way is to adopt a more actuarially neutral determination of pension benefits that reflects the period in which a person has actually contributed. Under such a system, individuals who, for instance, find their work difficult could choose to retire early, but with a reduced pension. Surveys suggest that workers would embrace such reforms and the recent government initiatives moves in this direction.

Finally, policy has to do a better job of helping older workers who lose their jobs. Improved training and requalification programmes would help. Perhaps policymakers might also consider subsidising their employment, as they do for younger workers. ■

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After the telecoms bubble

Patrick Lenain, OECD Economics Department and
Sam Paltridge, OECD Directorate for Science, Technology and Industry

Telecoms services companies have had a rough ride of late. Can they bounce back to the heady days of the late 1990s? Unlikely, but with restructuring under way and innovations still to come, the outlook is not dim, as long as governments continue their drive to keep markets open.

"The road signs all indicate that, basically, the sky is the limit for communication companies". This was the prediction made in 1997 by William Moroney, president of a US-based group, the MultiMedia Telecommunications Association. It was a promise of a new era where telecommunications traffic would expand at double-digit rates every year, thanks to the Internet revolution, flourishing e-commerce and new wireless communications technology. Such a prospect fuelled expectations of rapid growth in revenues and earnings, causing stock values to spiral upwards in a euphoric global telecommunications bubble.


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Back to basics

But, as we now know, this bubble burst and ended in tears for many shareholders and investors. Many telecommunications operators, including France Telecom, MCI, Deutsche Telekom, KPN and BT are now striving to rebuild shareholder value, consolidate their balance sheets and win back the confidence of financial markets. Others, such as PSINet and Ebone, have disappeared altogether.

The prospect of ever-expanding telecommunications revenue was not entirely unfounded, though. Two decades of increasingly dramatic changes radically transformed the industry. The most significant stemmed from a fundamental shift in regulatory policy, as governments opened telecommunications services markets to competition, so compelling incumbent monopolies to make room for new entrants. New telecoms service providers appeared, such as MCI (formerly Worldcom), Level3, SFR, Vodaphone, Japan Telecom and Hanaro, and familiar names in one country emerged as new entrants in other countries. Suddenly, consumers in most OECD countries had a choice, particularly for long-distance phone calls and mobile phone services and, increasingly, for local calls. In addition, state-owned carriers were privatised and a number of other steps were taken to infuse competition into the sector.

But although vital, liberalisation is only part of the story. In order to expand, markets need other pre-conditions, too: products, producers and consumers are just for starters, and technologically-driven markets need innovation, as well as investors willing to take the risk of financing sometimes large investments. Telecommunications had these conditions in abundance.

There was no shortage of technological innovation ready to reach the market. For instance, fibre optic cables and new transmission software made it possible to increase the carrying capacity of telephone networks. Cellular phones became more affordable and reliable. The Internet emerged from a network used by academics into a global infrastructure, all the while becoming faster and cheaper, and seamlessly linking all kinds of information resources. There were also hoards of investors ready to bet on the sector's future. And mobile telephony and the Internet, in particular, struck a chord with consumers and their desire to stay in touch and become more mobile.

Yet, after a few years of euphoria, the industry landed back to earth with a thud. What went wrong? Despite expectations, telecoms traffic did not continue to increase at double-digit rates. Telecom operators that had banked their investments on a surge in traffic demand, found that their transmission capacity was terribly underutilised. And during 1996-2001, while telecommunications revenue in the OECD area grew by an average 7.2% annually, it slowed to 1.6% in 2001 under the pressure of the economic downturn. Preliminary indications for the United States and France suggest revenues may have been roughly flat in 2002.

But one of the pins that pricked the bubble was, arguably, the speed of innovation itself, as new, cheaper ways of improving communication emerged, like the extensive coverage of second-generation wireless networks, putting pressure on costly, long-term investments, like global mobile satellite systems. Other innovations like digital subscriber lines (DSL) failed to come quickly enough to the market at the local level to soak up the increase in capacity wrought by fibre optics at the backbone level.

The wider economic impacts of the burst of the bubble were limited, mainly because telecommunications services were not an enormous industry, valued at some 3.3% of all OECD GDP. Still, when a sector with annual revenues of nearly US$900 billion runs into difficulties, the consequences can be serious. In particular, there was a wave of default on debt payments among telecom carriers. Worldwide defaults on corporate bonds came to US$163 billion in 2002, of which 56.4% were in telecommunications – the worst wave of bond defaults since the 1930s. According to Bankruptcy.com, among the 15 largest public companies in the United States that went bankrupt in 2002, no fewer than eight were communications operators. In addition, there were economic effects elsewhere, as slower growth hurt equipment suppliers and technology firms upstream, while cuts in R&D spending could slow innovation.

In short, the reasons why the bubble inflated and then burst were more to do with unduly optimistic expectations, stock market exuberance, over-investment in certain technologies, non-core investment by some companies and poor management.

So, what might the future be for the telecommunications sector: prolonged decline or renewed growth? All indications point to the latter, though at a far calmer pace than before. It is too early to conclude that the telecom sector is about to become a "normal" industry that matures gradually, like electricity or railways have done. There are markets within markets, and, in truth, telecommunications themselves have never really stopped expanding, despite the bursting of the bubble. Consumer spending on communications has been rising faster than other types of spending, such as on recreation, education or even health (see Databank). Telecommunications will continue growing, since the climate of innovation and change, as well as demand for certain services, remain strong. While this growth is unlikely to repeat the upsurge in telecoms activity of the late 1990s, the outlook is not dim.

For now, telecoms firms will continue to operate by upgrading their networks for higher speed Internet and seeking new customers, conscious that these will always want to communicate more cheaply if new technologies allow. For instance, wireless access to fixed telecoms systems is emerging, with innovations like WiFi (Wireless Fidelity), whose impact on accessing fast Internet services via local area networks could bring benefits to both residential and (particularly small) business users, as well as those on the move. WiFi technology is having some teething problems, which need to be resolved if it is to be used for e-commerce, for instance. Nevertheless, it is in these twin areas of cellular mobile communications and Internet that new potential appears to exist, though it is also where the difficult challenges for the telecoms industry come into view.

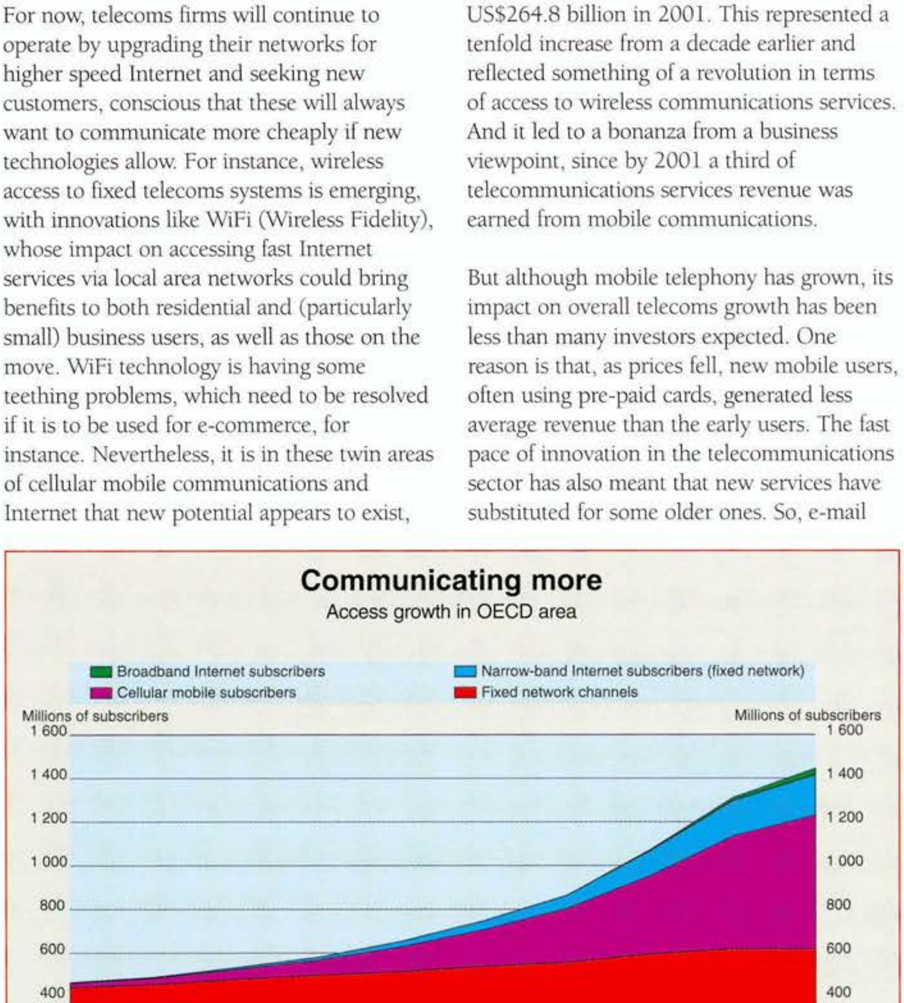
Wired for wireless

Cell phones are almost everywhere in OECD countries these days, so much so that their presence makes it easy to forget just how recent a phenomenon they actually are. Indeed, some 60% of users in 2001 had only been connected since 1999. By 2001, there were 612 million subscribers in the OECD area, which is half the population and equivalent to 65% of all mobile phone users worldwide.

Revenues for cellular mobile services reached US$264.8 billion in 2001. This represented a tenfold increase from a decade earlier and reflected something of a revolution in terms of access to wireless communications services. And it led to a bonanza from a business viewpoint, since by 2001 a third of telecommunications services revenue was earned from mobile communications.

But although mobile telephony has grown, its impact on overall telecoms growth has been less than many investors expected. One reason is that, as prices fell, new mobile users, often using pre-paid cards, generated less average revenue than the early users. The fast pace of innovation in the telecommunications sector has also meant that new services have substituted for some older ones. So, e-mail

Communicating more
Access growth in OECD area



Source: OECD

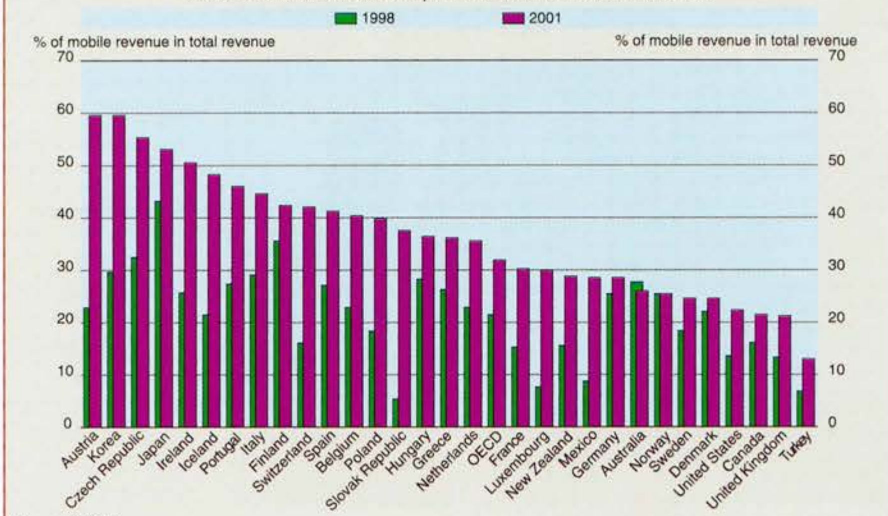
frequently replaced fax, and some mobile calls substituted calls that would otherwise have been made from the fixed network. Moreover, the dizzy speed of innovation and fast growth of some stocks led financial investors to overestimate the take-up and use of some technologies, like fibre optics. They also underestimated some basic market fundamentals, such as the time it would take new service providers to establish a competitive presence in local markets. After all, it is one thing to lay cables, another to win customers. On the other hand, some operators underestimated the ease with which new entrants could enter backbone markets with their own infrastructure and drive up competition, while eroding the previous high levels of monopoly pricing.

Few episodes illustrate the predicaments facing the industry better than the auction of UMTS (Universal Mobile Telephone Service) Spectrum. These so-called third generation (3G) mobile licenses were promised as a giant step forward in the quest to unlock the full potential of wireless communications. The UMTS auction in the United Kingdom raised US$33 billion. This was followed by an auction for UMTS licences in Germany, which raised nearly US$47 billion. But market sentiment changed and prices started to ease. In Italy, UMTS licenses raised US$11 billion in 2000 and US$2.5 billion in the Netherlands. The European Union had required in late 1998 that member states allocate 3G licenses before end-2001. But as attitudes towards the prospects of this technology cooled over the auction period, financial stringencies also affected the bidding power of telecoms after the bubble had burst. 3G probably has a future in broadband and, indeed, is being used in telemedicine. But recouping the race for licensed radio spectrum has left many firms overstretched and facing a hard period of adjustment, not to mention competition, as less expensive access technologies come on stream.

Regulatory measures have been suggested to facilitate the financial viability of 3G and accelerate the launching of services. A first proposal is to allow the sharing of infrastructure, specifically antenna sites rather than switching or transmission facilities. Another initiative under consideration would allow operators to resell their licenses through secondary market trading.

Going mobile

Share of mobile revenue in public telecommunication revenue



Source: OECD

Beyond 3G, the cellular mobile market continues to grow and new innovations could yet surprise the industry in the way short messaging services (SMS) have done. Part of the problem is that no-one knows what innovation will come next, and investors are understandably cautious, with many focusing instead on expanding current markets, like winning new mobile phone subscribers and so on. But even this is a challenge.

Internet world

Mobile Internet access is one area for promising potential, with the next several years likely to bring better, cheaper delivery of services. Until recently, cellular mobile Internet services lagged the speeds available over standard fixed lines, and this is reflected in the relatively small number of subscribers in the OECD overall. There are exceptions, like Japan which had some 40 million mobile Internet subscriptions by 2001, but to understand Internet trends to date, the clearest information concerns fixed networks.

By 2002, the number of Internet subscribers with access over a variety of platforms was more than 250 million and there were probably over half a billion users of these subscriptions. Moreover, the number of subscribers to these services grew by 22% in 2001 alone. The emergence of "free" Internet accounts, paid through telephone charges, helped spur this increase, though this model is now in decline as users demand faster, better (and more secure) services that are costly to provide.

The main source of development in the years ahead for the Internet is likely to be its access via broadband (high-speed) technology. For users accessing Internet by phone, with all its attendant frustrations of slow downloads, interruptions and above all, metered charges, broadband is already winning favour. In most countries, broadband is more expensive than dial-up, but it offers faster, always-on capabilities and enables transmission of larger volumes of data, including video services.

Broadband's main quality is that it could finally enable all those transformations to take place that were previously promised but impossible to deliver with older technologies. Some doctors in Australia are already using it for telemedicine, including the transmission of X-rays. Meanwhile, fixed broadband networks and wireless extensions offer real hope for education and research, as well as electronic commerce and workplace organisation, including telework. Small enterprises should draw particular benefit from having affordable, always-on, connections to the Internet.

The development of broadband access networks is now moving ahead rapidly in many OECD countries. So rapidly, in fact, that more than 20 million broadband

Innovative models

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subscribers were added in OECD countries during 2002, taking the total to 55 million by the end of 2002.

In 2002 alone, the number of subscribers using DSL connections, that offer both speed and high-volume transmission over existing copper local loops, nearly doubled from 16 million to 30 million. The number of subscribers using DSL surpassed the number of subscribers using cable modems in late 2001. By the end of 2002, there were 23 million cable modem subscribers, up from 15 million a year earlier.

Compare these trends to other broadband access technologies, like two-way direct satellite, fibre-to-the-home, Ethernet local area networks (LANs), and fixed wireless networks. Some of these platforms offer the fastest broadband connections available, with some being more expensive and others less expensive than the leading platforms. In Japan, for example, commercial fibre-to-thehome connections offer speeds up to 100 megabits per second, which is many times faster than a typical DSL or cable connection in other OECD countries today. But at end-2002, there were just 3 million subscribers using these other platforms in the OECD area. These technologies will continue to attract special uses, and some will appeal to businesses and residential users in remoter areas and outside the reach of terrestrial broadband networks. On the other hand, less expensive platforms such as WiFi mean that DSL and cable modem may not continue to be the main drivers of broadband growth.

Government role

Clearly, broadband, which is already one of the fastest growing communication services of all time, is still at a very early stage of its development, and opportunities for growth exist. But will it help the telecoms sector recover?

This depends on whether new innovations and expansion simply deflect demand away from other markets. But it could spur a steady recovery for those operators that clear their debt and restructure their firms, in particular to become flexible towards new innovations. Meanwhile, not all markets have been fully tapped. And this is where government policy comes in.

Sure enough, governments achieved a lot in the 1990s, as independent regulatory agencies were established with a mandate to open markets to competition, prevent incumbents from abusing their dominant positions and avoid collusion between operators. In the context of market liberalisation, 1998 was the turning point when, for the first time, countries with open entry into fixed markets and three or more mobile operators represented the majority of OECD countries. Since that time more than half a billion fixed and mobile connections have been added to networks. Competition has increased too, even if privatisation has been slower than expected. And a majority of OECD countries have no foreign ownership restrictions. However, progress in introducing local competition in some market segments has been sluggish. Even in the United States, one of the most advanced markets, the dominance of local incumbents has persevered for some services. In that country, and others, although there is agreement that there should be increased access to local markets by competitors, there is some disagreement on whether this should take the form of sharing existing connections or new infrastructure investment by operators entering the market with alternative platforms.

Japan provides one example of rapid progress. There, regulators, who required local loop unbundling in March 2000, have resisted pressure from incumbent operators like Nippon Telegraph and Telephone Corporation to keep prices high and competition access down. New entrants were providing over 60% of the broadband lines in Japan by end-2002 and new services such as Internet telephony were being rapidly adopted.

In the short term, restructuring in the telecoms business will be tough. And as in other sectors where entrants fail, the telecommunications sector will consolidate as firms go out of business or are acquired by others. This may reduce the number of competitors and push up prices for a while.

Although the necessary restructuring now underway in the industry is painful, governments and regulators should resist the temptation to provide relief to companies by easing competition requirements or providing financial help.

Our SMS message for governments is that demand for communications is set to grow further, albeit at a calmer rate than that experienced during the latter half of the 1990s. Even during the worst of the financial downturn in the industry, the size of the sector continued to grow and new opportunities abound in the area of fixed and wireless broadband access. The main challenge for governments is to keep markets open for infrastructure and service providers, while reducing the risk of corporate malpractice. The telecoms sector will take care of the rest. ■

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Health care
A quest for better value*

Elizabeth Docteur, OECD Directorate for Employment, Labour and Social Affairs and
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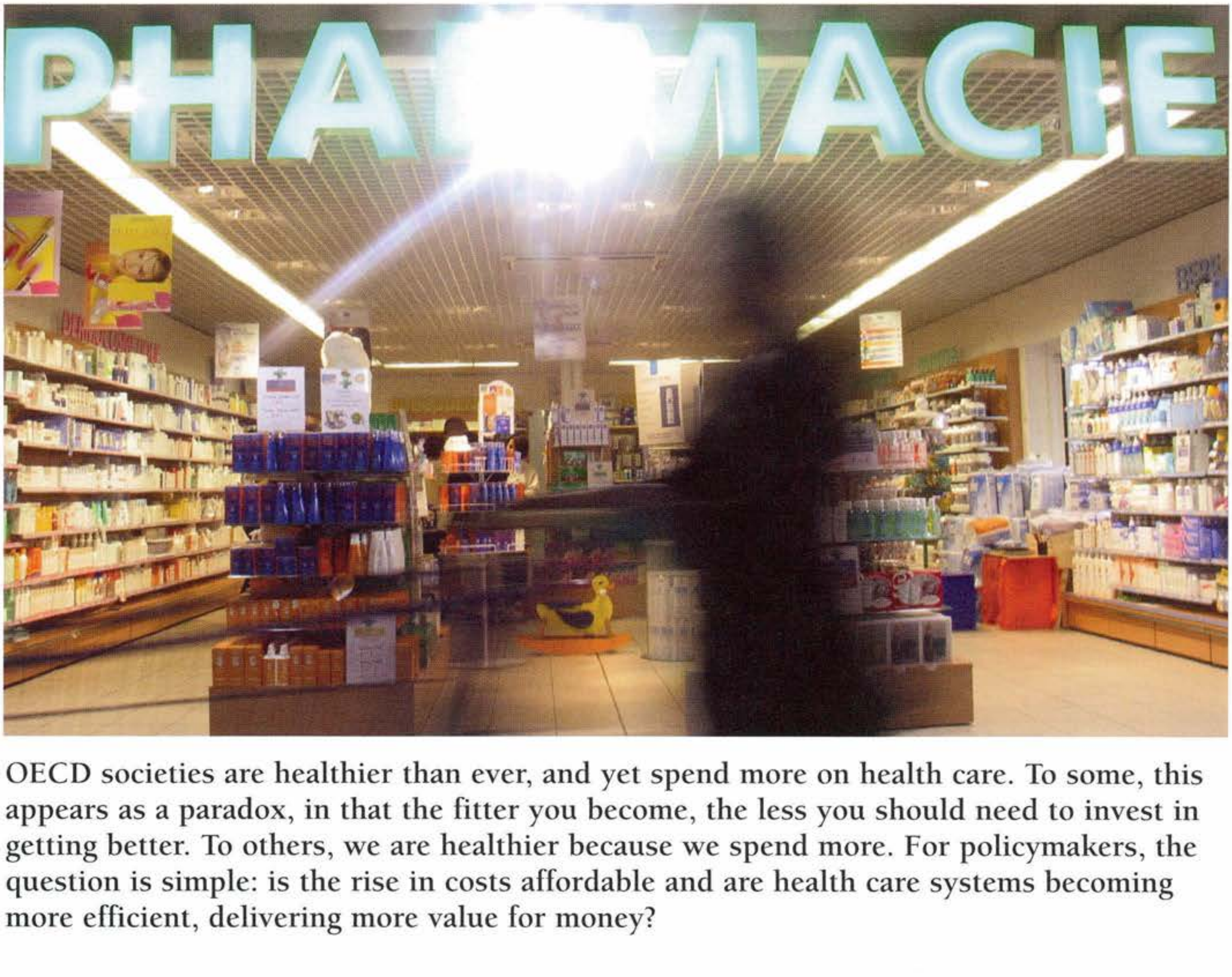

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OECD societies are healthier than ever, and yet spend more on health care. To some, this appears as a paradox, in that the fitter you become, the less you should need to invest in getting better. To others, we are healthier because we spend more. For policymakers, the question is simple: is the rise in costs affordable and are health care systems becoming more efficient, delivering more value for money?

In 2001, health expenditure represented an average of 8.4% of GDP in the OECD area, up more than a full percentage point since 1990. The United States, spending 13.9% of GDP on health in 2001, devotes a greater share of resources to health than any other OECD country. The next highest-spending nations, Switzerland and Germany, came in at 10.9% and 10.7% respectively. Yet, these countries do not necessarily deliver better health services than other countries. France is just one example of a country that devotes less of its GDP to health than the biggest spenders, yet achieves at least as good, if not better, results than most other health systems.

Health care is costly for several basic reasons. It deploys expensive technology; indeed, the more advanced a system is in terms of early adoption and quick diffusion of new innovations, the higher the costs tend to be. And with ongoing developments in areas like imaging, pharmacology and biotechnology, pressures to spend more are likely to continue.

Health care is also labour intensive, meaning large costs for highly-trained doctors, nurses, support staff and, increasingly, management and administration. These labour costs tend to rise with GDP.

Although its role has been fairly modest until now, population ageing is set to play an important role in driving future health spending growth. Health care costs tend to increase sharply from age 45, falling off again for the oldest of the old. Assuming that today's age-related cost patterns and influences hold over time, the OECD projects that population ageing will cause total health care spending to increase by an average of nearly 2% of GDP by 2050.

In general, OECD countries with higher per capita GDP tend to spend more per capita on health, though there is significant variation across countries. These may partly reflect policy decisions to control health spending, as well as preferences for health care relative to other goods and services. With some exceptions, countries that finance and deliver health services through the public sector tend to have had an easier time controlling the rate of growth in costs. In insurance-based systems, countries where governments are the only source of basic coverage tend to spend less than those with multiple insurers.

Public problem

Governments worry about health spending increases because of the pressure such growth places on their budgets. The public sector accounts for the greatest part of health spending in all but three OECD countries, given the prevalence of publicly funded health insurance and direct public financing of health care. Even in the United States, where public spending represents just under half of total health expenditure, spending growth is an issue, as only a few other countries (Iceland, Luxembourg, and Norway) have higher per capita public spending on health care.

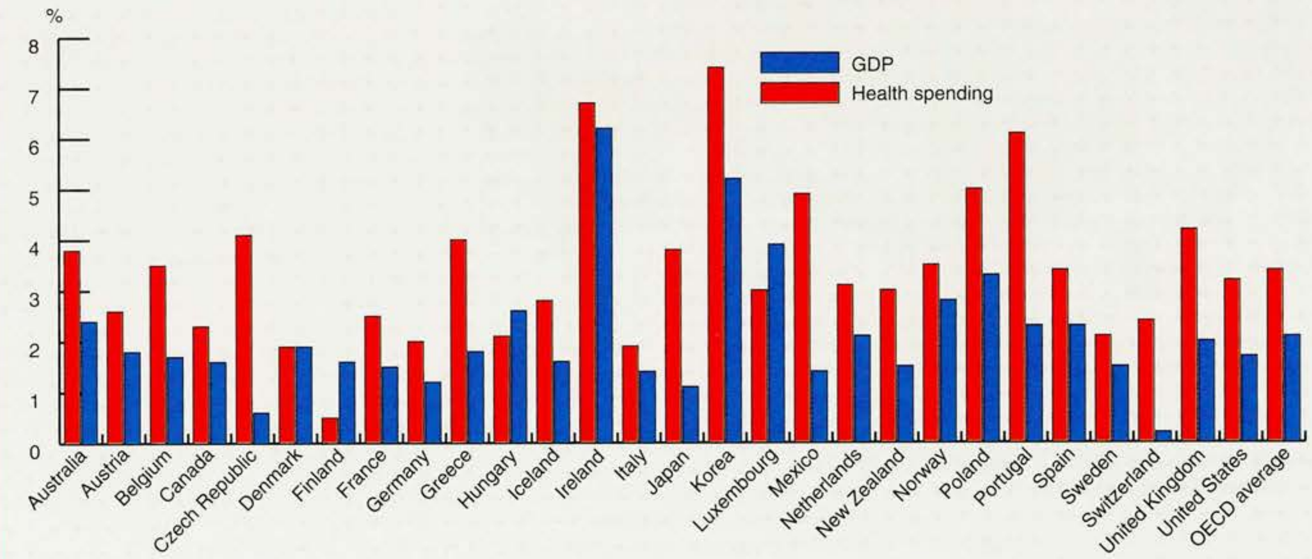
For several years governments have been stepping up their efforts to limit health spending, and with some effect. In fact, the rate of growth in health expenditures has halved across OECD countries over the past three decades, from an average annual rate of 6.2% in the 1970s, to 3.1% in the 1980s and 3.3% in the 1990s. Cost-containment efforts have coincided with this slower rate of spending growth.

Three types of policies have helped: first, controls on prices, wages, and inputs to health care services, such as numbers of hospital beds and the size of the health care workforce; second, caps on health spending, across the board and by service sector; and third, shifting costs to the private sector, particularly to the patients who use health care services through cost-sharing arrangements.

Most countries regulate **health-sector prices and service volumes** in one way or another. Government regulators may impose wage controls, as is common in systems where most of the health care workers are public-sector employees, like the Nordic countries, Greece, Italy, and Portugal. In other systems, prices for medical services, supplies and institutional care are usually set administratively, or with

Healthy growth

Real annual per capita % growth rates, 1990-2001



Source: OECD Health Data 2003

government oversight, when prices are agreed between health care purchasers and providers. Most countries take measures to influence the system's capacity to furnish services by controlling medical school admissions and the provision of equipment for high-tech care, and so on.

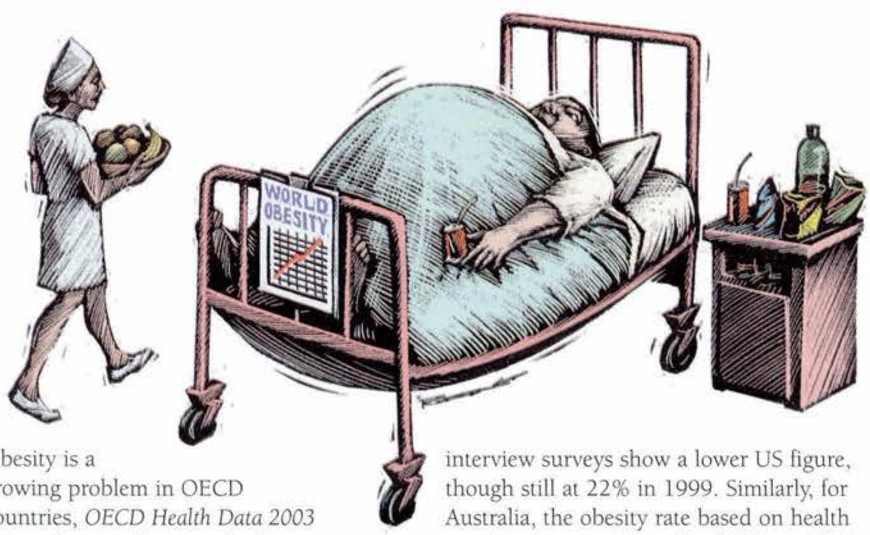
While such controls can curb spending growth, the responses of health care providers can confound some initiatives. Practitioners may try to compensate for price limitations by increasing the volume of services they provide, say, by taking on more patients or providing more services to existing patients, or by changing the mix of services to include more consultations paid at a higher rate. Some services may even be shifted into sectors or systems where there are no price controls, something that has occurred in some countries where public and private programmes operate side-by-side, as in Ireland. And patients may be up-coded to higher level payment classifications, where such differentiation is built into payment systems, such as for increased severity of illness or length of visit. In other words, the effectiveness of price controls as a cost-containment tool depends on the extent to which loopholes can be found and payment systems manipulated. Administrative costs associated with this approach can be high too.

Budgetary caps and controls have become a widely used instrument for containing overall public expenditure on health. Initially, spending caps were directed at the hospital sector, which is the most costly pillar of the health system. They were subsequently extended to other providers and suppliers, so that now spending controls often include global budgets spanning all components of public spending on health and supplementary spending caps on ambulatory care and pharmaceuticals.

Capping budgets appears to have been most successful in countries where health care delivery is mainly a public-sector responsibility, as in Denmark, Ireland and New Zealand, and in single-payer countries, like Canada. However, capping may fail to provide health care providers with the incentives they need to improve efficiency and productivity. Rather, providers tend to

Weighty problem

Gaetan Lafortune, OECD Health Policy Unit



Obesity is a growing problem in OECD countries, *OECD Health Data 2003* shows. Its prevalence varies from country to country, from a low of 3% of the population in Korea and Japan in 2001, to a high of 31% in the United States in 1999.

The US estimate is based on actual health examinations, while data from most other countries are from self-reporting health surveys. Comparable data from health interview surveys show a lower US figure, though still at 22% in 1999. Similarly, for Australia, the obesity rate based on health examinations conducted in 1999 was 21%, but 18% based on self-reported survey data in 2001.

Still, the outcomes point to a pressing problem. In Australia, obesity has more than doubled and in the United Kingdom the rate has tripled over the last 20 years, based consistently on health examination measures in the two countries. More than 20% of the adult population in Australia and the United Kingdom are now defined as obese, the same rate as in the United States ten years ago. By contrast, the obesity rates in Denmark, Sweden and Norway, as well as France, Italy, the Netherlands and Switzerland remain in the 10% area, according to self-reported data, though obesity rates in these countries have begun to rise.

Obesity is a known risk factor for several disorders, such as diabetes, hypertension, cardiovascular diseases, respiratory problems (asthma) and musculoskeletal diseases (arthritis). It has several causes, too, including excessive calorie consumption, lack of physical activity, genetic predisposition and disorders of the endocrine system of glands that produces the hormones necessary for normal bodily functions, like metabolism and growth.

Culture and environment also influence obesity, like dietary customs or the working environment. A recent study by Lawrence Frank, associate professor of urban planning at the University of British Columbia, even suggests urban sprawl as being a possible factor, as in the suburbs, people tend to drive more and walk less.

The economic and non-economic consequences of obesity are vast. In the spend up to their given ceiling. And setting budgets based on historical costs may favour inefficient providers and penalise efficient ones. Downsides like these have prompted OECD countries to combine budget caps with measures that take account of output performance and relative efficiency across hospitals.

Shifting costs to patients – sometimes referred to as **cost-sharing** – has increased to varying degrees in OECD countries since the 1980s. Cost-sharing is most commonly used in the case of pharmaceuticals, where prices influence patient choices, rather than for hospital care, for instance, which is much more driven by doctors' decisions. Some drugs are no longer reimbursed – mainly "comfort" drugs or medicines without proven therapeutic value. The degree of cost-sharing or partial reimbursement has been stepped up for many others. In a number of cases, flat-rate payments per prescription are now the norm. So-called reference price systems have also been introduced in a number of countries, whereby patients are less generously covered for using pricier drug brands and are encouraged to use less costly generic drugs.

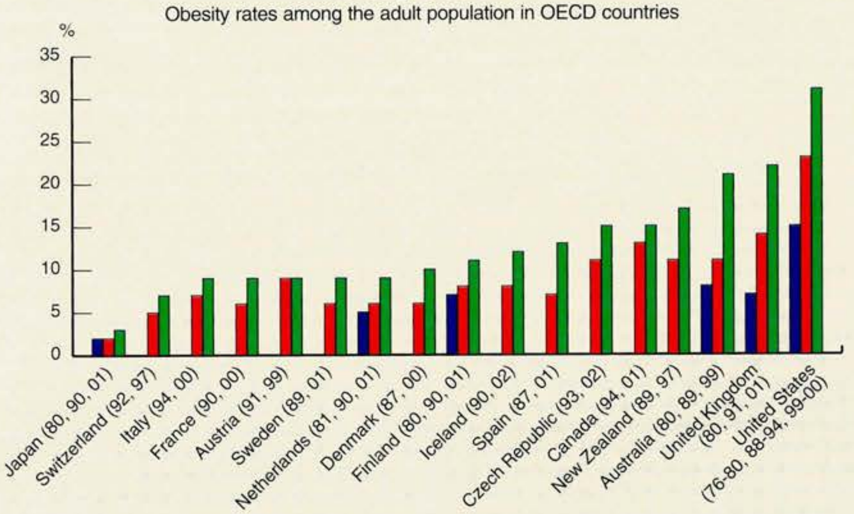
Although their impact is limited by protection for the poor and high users of health services, cost-sharing measures appear to have had a modest impact on the share of public spending in total spending. In fact, the increase in the public share of total health spending slowed markedly in the 1980s, and between 1990 and 2000, the average share of total health spending represented by the public sector actually declined, from 74% to 72%. This may be a small decline, though it halted the large increases relating to the expansion of public health insurance programmes that marked the 1970s.

Towards cost-efficiency

Despite these curbs and controls, health spending growth, while slower than before, still outstrips overall economic growth in many OECD countries. This is not necessarily problematic from a policy perspective. After all, people's welfare may well be improved by increased government spending on health, particularly if the cost of technology and other inputs is

Rising obesity

Obesity rates among the adult population in OECD countries



Note : For Australia, UK and US figures are based on health examination surveys, rather than health interview surveys.
Source: OECD Health Data 2003

United States, a recent study by Roland Sturm looked at the consequences of obesity on medical problems such as diabetes and asthma and related costs, and compared them with other risk factors, like smoking and alcohol consumption (see references). The study found that obesity has the same association with chronic health conditions as does 20 years of ageing, greatly exceeding the association of smoking or excessive drinking for those conditions studied. It was estimated that obesity is associated with an even higher average health cost increase per year than costs related to smoking. So much so, in fact, that in the US a group of large employers, headed by Ford Motor, Honeywell, General Mills and PepsiCo, announced a campaign this June to encourage overweight workers to slim down as a way to improve both their personal health and the corporate bottom line. Dr Vince Kerr, director of health care management at Ford, says weight-related costs are adding US$12 billion per year to costs of employers across the United States.

One worrying feature for places like Australia and the UK, where obesity has risen since 1980, is that there is a time lag between the onset of obesity and related disorders, suggesting that health problems (and costs) are being stored for the future.

Diet changes and physical exercise can help tackle obesity, although this is easier said than done, particularly as behavioural and environmental barriers are at play. Apart from promoting a healthy lifestyle, preventing obesity in childhood is perhaps a more effective approach in the long term. Effective family-based and school-based programmes can help. So might the law, with several legal battles now being waged against manufacturers and distributors of foods that are accused of contributing to obesity. Other food companies are taking initiatives themselves, with food giant Kraft announcing at the start of July its plan to cut fat and sugar content in its foods. ■

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outweighed by improvements in the quality of care and resulting outcomes. However, budget realities have forced governments to assess whether equivalent, if not better, health outcomes can be attained at lower cost. A few, following a period of successful cost control, now ask whether increased spending in the health sector is necessary to boost results.

Although the efficiency of health care systems is very hard to measure with today's data and indicators, there appear to be large differences across the OECD area in what is produced, the way it is produced, and the resulting impacts on health outcomes. The level of capital and human resources employed in the health sector varies widely, for a start. In addition, there are as many different combinations of spending on ambulatory and inpatient care as there are countries, and there are also very different levels of specialist care and use of pharmaceuticals. For any given health condition, important differences also exist in the treatment and in the intensity of care, with practice patterns varying both within and between countries.

So governments strive to ensure their system achieves the best possible results for the amount spent. Perhaps the most clearly successful reforms to date have focused on modifying hospital payment arrangements so as to reflect activity and volume of services. Instead of these payments being set solely according to incurred costs, under this new approach, hospitals are paid fixed amounts per admission, which are adjusted to take account of the type of diagnosis, treatment and so on. Such systems reward efficiency and have contributed greatly to the reduction in the average length of hospital stays throughout the OECD. It is a system that has to be monitored and audited, however, which can lead to management and administration costs. Also, rewarding productivity in the various activities a hospital is engaged in can put upward pressure on costs, as hospitals seek more admissions, more volume and so, higher costs.

There have also been increased efforts to introduce more of the characteristics of normal markets, such as competition among health care providers and greater use of price signals. In many countries characterised by public financing and delivery of health care, for example, there is now often a greater separation of hospital functions so as to infuse a more business-like approach in management, with greater use of internal markets and accounting between units for instance.

Health spending growth, while slower than before, still outstrips economic growth in many OECD countries. This is not necessarily problematic from a policy perspective.

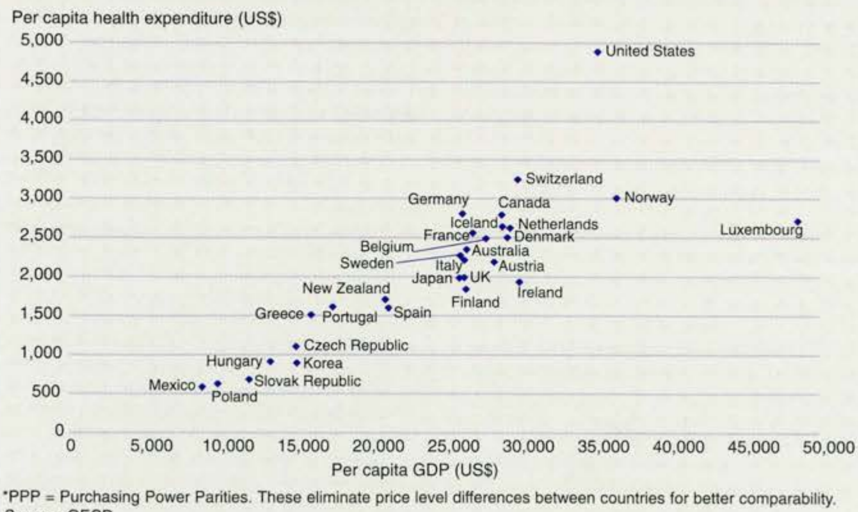
Experience with efforts to increase competition among insurers, the most salient feature of reforms in multiple-payer systems, has been mixed. In the few countries where such reforms have been introduced – Belgium, the Czech Republic, the Netherlands, and Germany – there is some evidence that increased insurance market competition may have narrowed the premia across insurers, encouraging better service and instituting incentives for cost cutting in administration. However, as the experience of the United States shows, market segmentation by risk can be a problem, especially where insurers can benefit financially from enrolling healthier people because of payment methods that fail to adjust adequately for differences in underlying health risks.

On the other hand, experience in the United States also suggests that managed-care arrangements, under which patients accept some limitations on choice of providers and services, may help to raise efficiency by constraining costs without harming health outcomes. However, such approaches have not been adopted by private insurers in other countries, where governments often greatly limit their scope to contract selectively and influence health care delivery. And following a backlash in the late 1990s, insurers in the United States have begun to increase, rather than decrease, patient choice of provider and treatment.

When it comes to controlling health care costs and pursuing better value for money, there is no one-size-fits-all

Wealth and health

Health expenditure and GDP per capita, PPP*, 2001



*PPP = Purchasing Power Parities. These eliminate price level differences between countries for better comparability.
Source: OECD

solution. There are trade-offs at several levels, as priorities such as improving health system responsiveness, promoting adequate and equitable access, and ensuring safe and effective care, also come into play.

Improving the value of health spending may also require additional investments, at least in the short term. The United Kingdom, which has long been successful at cost control, has found that a renewed increase in funding will be necessary to improve the health system's effectiveness and productivity. Across the OECD, a big part of the way forward is to build better health information systems and develop improved measures of health system performance so that we know when we are on the right track.

No single health system has fully met its performance goals and all face challenges, whether in cost overruns, access, or deepening deficits. But one objective remains the same for all: how to deliver the health services that the public needs and wants, efficiently and in economically affordable ways. It is a challenge that is likely to grow, rather than subside, in the years ahead. ■

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- Visit www.oecd.org/health for additional information.

*This article is based on "Health Care Systems: Lessons from the Reform Experience", a forthcoming OECD Economics Department Working Paper by Elizabeth Docteur and Howard Oxley. It is an adapted extract from the written testimony of John Martin, OECD Director for Employment, Labour and Social Affairs to the Joint Economic Committee of the US Congress at a hearing held on April 10, 2003.

Get on your bike


(c)Eric Gaillard/Reuters

Bon anniversaire!

As the Tour de France celebrates its 100th anniversary, it seems an opportune time to praise the healthy virtues of cycling. In many countries, cycling is firmly established as a standard way of getting around. In Nordic countries, as well as in some British and German towns, cycle lanes are increasingly commonplace, sometimes as part of an integrated park-and-ride scheme with rail or bus. And, of course, bicycles have long been supreme in the Netherlands.

But in general, promoting cycling as a practical form of physical activity has been largely ignored, even in these countries. A 2002 World Health Organization (WHO) report points out there is good evidence that regular physical activity has a protective effect against several chronic conditions, including coronary heart disease, hypertension, obesity, diabetes, osteoporosis, colon cancer, depression and anxiety, and it highlights cycling as one form of physical activity that meets the metabolic criteria for achieving health benefits. And reports on China have noticed a relationship, but in the opposite direction: that obesity and related disorders have risen as urban populations abandoned cycling (and walking) in favour of motorised transport.

As work being carried out by experts at the European Conference of Ministers of Transport (ECMT) points out, while as many as half of all trips in some cities are made by bicycle, such mobility is almost non-existent in others. Yet, in EU countries, 30% of motorised trips are shorter than 2 km and 50% are shorter than 5 km. Cycling even these distances can be beneficial: according to the WHO, two normal 15-minute cycling trips a day (say, to and from work) would be enough to provide marked health benefits.

Apart from these health advantages, there are others, including cleanliness and cost-effectiveness. Moreover, bike-friendly policies are not that hard to introduce, once the political willpower is there. Most pro-cycling initiatives have tended to be driven by planning objectives, like improving safety, traffic control and landscaping, but health issues are quickly rising up the policy agenda. Now, new (and, some say, controversial) cycle lanes are being laid in the heart of major cities like London and Paris.

There are policy challenges. Cycle lanes are not cost-free and require detailed traffic planning. Also, the more people cycle, the more cyclists get hurt. In fact, in the Netherlands about a fifth of all road deaths are cyclists, though overall, Dutch road fatalities are relatively low. Safer facilities could reduce road fatalities for all road users, including for cyclists, with some governments promoting the wearing of helmets, for instance. Indeed, helmets are now mandatory for the first time in the Tour de France.

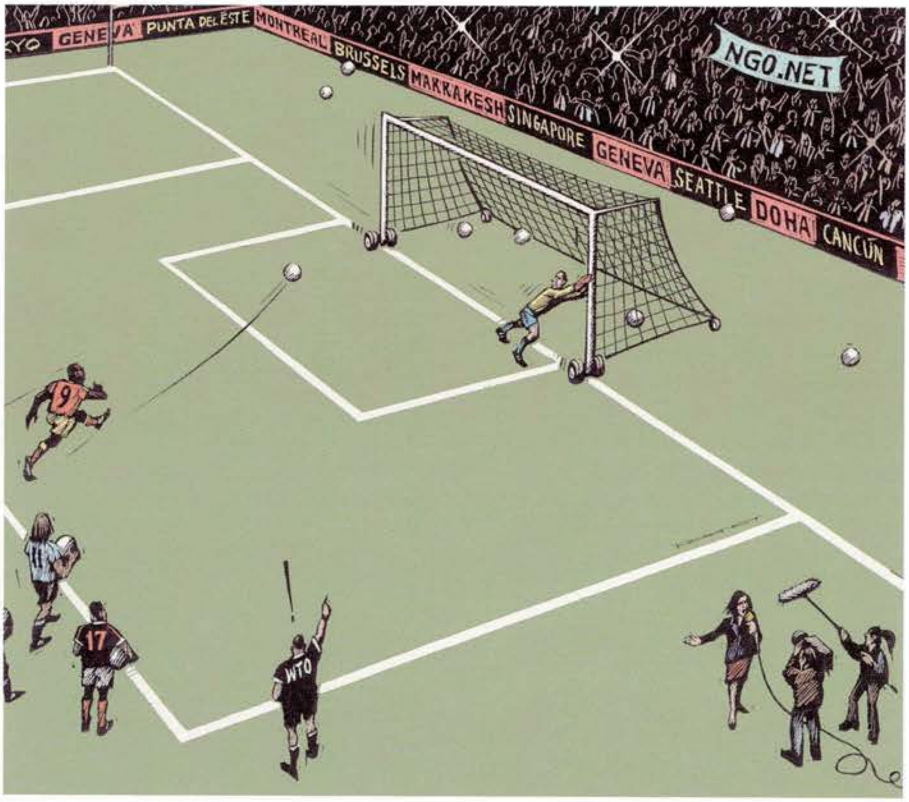
Unfortunately, the credibility of the world's greatest cycle race as an ambassador of good health has been dented in recent years by drug scandals; on the other hand, the exploits of defending champion Lance Armstrong and his triumphant battle against cancer seem to send a simple, more positive, message: get on your bike. RJC

- For information on ECMT's work on cycling, ecmt.contact@oecd.org
- Visit www.who.org

A rough guide to great trade negotiating venues of the world

Julia Nielson and **Daria Taglioni**, OECD Trade Directorate

Remember Seattle? Or was it Geneva? WTO ministerial meetings are now a regular feature of the global political calendar – they are in some ways the policy equivalent of the soccer World Cup in terms of intensity, media attention, sometimes disappointing finals, even crowd trouble. The next stop is the WTO Ministerial Conference in Cancún, Mexico, in September, again with a heavy agenda amid great expectations. In the run-up to these talks we thought it might be worth retracing the road to Cancún.



From the GATT...

In 1947, the rules-based multilateral trading system was officially born with the signing of the General Agreement on Tariffs and Trade (GATT). The GATT laid down non-discrimination as a governing principle of world trade in goods and, through successive rounds of negotiations into the 1970s, cut the high tariff walls which had plagued world trade since the 1930s. We pick up the story several years later, in Japan and the build-up to the Uruguay Round.

Tokyo – April 1979 and the trading system deals, for the first time comprehensively, with non-tariff issues affecting trade in goods, like standards and technical specifications. It is "GATT à la carte" with the proliferation of plurilateral agreements in areas like subsidies, customs valuation and import licensing that apply only to those (chiefly OECD countries) who sign up to them. Developing countries negotiate for – and get – a legal basis for receiving preferential treatment.

Geneva – November 1982 and the basic principles of the Uruguay Round are laid down. Two issues block consensus: trade in agriculture and whether to include services in multilateral trade rules. Despite this, ministers adopt a work programme, including agriculture and services, as a starting point for negotiations.

Punta del Este – September 1986 and trade ministers formally launch the Uruguay Round of multilateral trade negotiations. It is the biggest negotiating mandate on trade ever agreed and, in addition to "traditional" market access (tariffs on goods), will cover: strengthening the rules of the trading system, including improving ways to address non-tariff measures; fully bringing agricultural products, textiles and clothing under the multilateral trade rules for the first time; and addressing new issues like trade in services and protection of intellectual property rights. Though originally foreseen to be completed in four years, the Uruguay Round is destined to become the longest negotiating round to date.

Montreal – December 1988 and the next stage of the Uruguay Round begins after a so-called mid-term review. Frameworks for completing the negotiations are agreed in 11 out of the 15 negotiating areas – but not those for some of the really hard issues: agriculture, intellectual property rights, textiles and safeguards against imports causing unforeseen injury to the domestic industry. Some "early harvests" are agreed, though, including some market access for tropical products; a new, streamlined dispute settlement system; and the Trade Policy Review Mechanism.

Brussels – December 1990 and the Uruguay Round should be coming to a close, but disagreements over agriculture and the embryonic stage of discussions on services and textiles bring the meeting to a halt. Negotiations are extended, but it will be almost another four years before the Round is concluded.

...to the WTO

Marrakesh – April 1994 and ministers sign the results of the seven and a half years of trade negotiations – about 60 agreements and decisions totalling around 550 pages – as the Uruguay Round is formally concluded.

GATT chief Peter Sutherland has been pushing for a new institution to replace the GATT, and the World Trade Organization (WTO) is created, with headquarters in Geneva. The new WTO will oversee new agreements on agriculture, services, trade-related intellectual property rights, technical barriers to trade, sanitary and phytosanitary measures and the phasing out of quotas for textiles and clothing.

With the WTO, all agreements are brought under one umbrella (the "single undertaking" to which all members adhere) and are subject to a new dispute settlement system with real teeth. The agreements enter into force on 1 January 1995, the official date of the WTO's founding, with Mr Sutherland seeing in the institution as its first director-general, before handing over to Renato Ruggiero in May 1995. In the first of the "trade and..." issues, a committee on trade and environment is established.

Singapore – December 1996 and the first WTO ministerial conference sees the ranks of WTO membership swelling to over 120, with others in line to join. Taking their cue from the Uruguay Round's "built-in-agenda" – a requirement that negotiations on agriculture and services resume within five years – some WTO members start talking about planning for a "millennium round". With some controversy, and without prejudice to the question of negotiations, working groups are established on what are to become known as the "Singapore issues": trade and investment; trade and competition policy; trade facilitation; and transparency in government procurement.

Geneva – May 1998 and the ministerial celebrates 50 years of the multilateral trading system in the presence of, among others, Nelson Mandela, Fidel Castro and Bill Clinton. The meeting reviews the operation of the Uruguay Round Agreements, but a number of members are looking increasingly towards a possible millennium round. Major outcomes are the extension of the mandates of the working groups on the Singapore issues and the adoption of a decision on keeping electronic commerce duty free (at least until the next WTO ministerial).

Seattle – December 1999 and the streets overflow with angry anti-globalisation protestors in what became known as the Battle of Seattle. It is a tough test for new director-general Mike Moore, who finds that things are little better inside the negotiating rooms, with major differences dividing WTO members over the shape and size of a new millennium round: should it focus on market access in agriculture, services and industrials (with a few extras) or should it be a comprehensive round, addressing new rules, including the Singapore issues? The meeting ends in failure. Talks are suspended with no clear map of where to go next. Nevertheless, talks on agriculture and services begin on 1 January 2000 under the built-in agenda, but progress is slow.

Doha – November 2001 and the fourth WTO ministerial conference manages to launch a new round of negotiations under the Doha Development Agenda (DDA). Joining agriculture and services on the agenda are a large number of other issues, like industrial tariffs, rules on subsidies and anti-dumping, and environmental questions.

Particular attention is on key development concerns such as how to implement Uruguay Round agreements and special and differential treatment, as well as on possible modifications to the dispute settlement system, protection of geographical indications and – subject to modalities to be agreed at the next ministerial conference – the Singapore issues of investment, competition policy, trade facilitation and transparency in government procurement. China and Chinese Taipei join the WTO as its 143rd and 144th members. Agreement is also reached on a Declaration on TRIPs (Trade-Related Aspects of Intellectual Property Rights) and Public Health to address poor countries' access to medicines under patent protection.

What next?

Cancún – September 2003 and the fifth WTO ministerial conference will be held in Cancún, Mexico from 10-14 September, under its fourth director-general, Supachai Panitchpakdi. The conference is expected to review progress to date on the Doha Development Agenda, and will be looking to make headway on agriculture and industrial goods; the launch of negotiations on the Singapore issues; and resolution of the issue of how to make operational the agreement on TRIPs and access to medicines, as well as agreement on the disciplines of special and differential treatment due to developing countries. It's another big agenda and avoiding extra time will be a challenge. ■

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- Visit www.oecd.org/trade

China's economy
Still some way to go

Ken Davies, OECD Directorate for Financial, Fiscal and Enterprise Affairs

The Chinese economy has come a long way in the past 25 years. Yet more needs to be done to ensure the continuation of rapid growth, including further measures to provide a suitable climate for foreign investment.

China is widely – and correctly – regarded as one of the great economic success stories of the past two decades. The country has moved from an economic system characterised by autarchy and central planning to an increasingly market economy open to international trade and investment, all this while retaining one-party rule. Economic growth has accelerated, and China has become both an important global trading force, ranking sixth worldwide in total trade (exports and imports combined) and one of the world's largest recipients of foreign direct investment (FDI). Living standards have improved to the extent that consumer goods familiar in OECD countries are now also common in China's towns and cities.

So impressive has the country's performance been in a range of areas – absolute size of GDP, real GDP growth rate, export performance, accumulation of foreign-exchange reserves, poverty reduction – that several economists have gone so far as to forecast that China may soon become the world's largest economy. But the real achievement is the economic transformation of a country that only a generation ago was among the world's poorest, as well as the most isolated.

There can be little doubt that FDI has played an important role in this transformation. Before 1978, foreign investment had been unwelcome, albeit with a few exceptions, such as those accompanying Soviet assistance in the 1950s. Foreign investors were officially regarded with suspicion and hostility. Multinationals tended to shun China for this reason, but also because of the lack of a sound legal basis to support foreign investment, not to mention the underdeveloped state of the domestic market. Then, incomes were low and 80% of the population lived in rural communes, where income was received largely in kind.

But under the "open door" policy introduced in 1978, China has welcomed foreign investors in ever increasing numbers, attracting them by providing physical and institutional infrastructure, as well as fiscal incentives. And of course there is the lure of a potentially huge emerging market.

Foreign investment policy and legislation are gradually being liberalised. The most recent batch of liberalisation measures resulted from China's accession to the World Trade Organization (WTO) at the end of 2001, which, among other things, are scheduled to result in the opening up of major services sectors to foreign investment.

FDI inflows rose from US$916 million per year in terms of actually realised investment in 1983 to $3,487 million in 1990. They then accelerated rapidly in the mid-1990s before stabilising by 2000. In fact, China became the world's largest recipient of FDI in 2002, receiving nearly US$53 billion (see News briefs and *OECD Observer* No. 237, May 2003).

These achievements are laudable, especially when contrasted with China's previous economic history or the record of other developing countries of comparable size and stage of development. However, the euphoric claims in recent years that China is becoming an "economic superpower" are premature.

For a start, the pace of China's economic growth in recent years, while undoubtedly fast, may well have been exaggerated by the official figures. Eagle-eyed economists have, for instance, noted continued discrepancies between the growth rate of industrial output and the much lower growth rates of energy consumption and freight tonnage. On the other hand, growth rates of some items, particularly in the informal economy, may be understated because they are not fully countable.

China's National Bureau of Statistics (NBS) has adjusted the real national GDP growth rate downwards because it is aware that provincial governments have too frequently exaggerated regional performances. Indeed, in some years the resulting national rate failed to reflect economic reality – notably in 1998, when the NBS reported the economy to be growing at nearly 8% even though anecdotal evidence suggests that it was slowing markedly.

With the help of the OECD, the NBS is now working to improve its methodology, for example, by gradually supplementing or replacing its laborious and error-prone practice of total counting with more efficient sample surveys like those used in OECD countries, which provide a more accurate picture of what is going on in the whole economy.

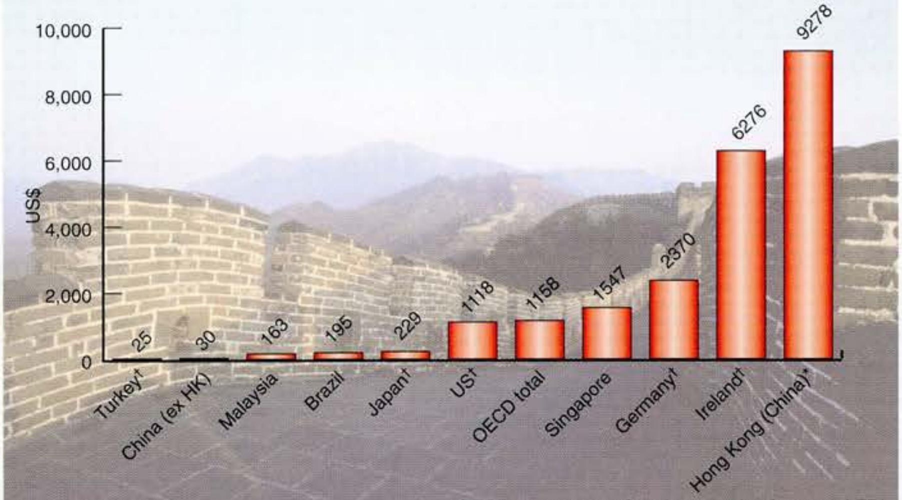
Needless to say, working methods adopted during decades of central planning will take time to disappear. Already, efforts to translate existing GDP statistics into reasonably accurate estimates of per capita income that can be compared with other countries have floundered on the lack of sufficient information, particularly about price levels, needed to construct a reliable exchange rate on a purchasing power parity (PPP) basis – in other words, comparing like with like by using a currency rate that eliminates the differences in price levels between countries. Also, World Bank estimates of China's gross national income (GNI) per capita have fluctuated sharply and some experts consider them to be overestimates. Even so, current World Bank figures show China as ranking only 127th out of 208 economies worldwide in terms of per capita GNI in PPP terms.

Similarly, forecasts that the Chinese economy will be the world's largest have generally been based on unreliable PPP exchange rate estimates. A more realistic assessment is provided by the country's sixth place ranking in terms of export-import trade, as this is measured in current US dollars, so eliminating exchange rate problems.

China's official FDI statistics are generally taken at face value by the rest of the world, but here, too, there are grounds for re-examination. As pointed out in a new OECD investment report, *Investment Policy Review of China: Progress and Reform Challenges*, these statistics are not yet calculated and reported according to the standard procedures recommended by the OECD and the IMF. One indication that the official statistics may overstate China's FDI absorption is the large gap between FDI flows from OECD member countries into China as reported by China (US$77 billion) and by the OECD countries themselves (US$39.3 billion).

China's FDI

Inflows of FDI per capita, China, selected countries and OECD, 2000



Source: OECD, IMF

† OECD countries * Consists mostly of rerouted FDI

The euphoric claims in recent years that China is becoming an "economic superpower" are premature. The pace of China's economic growth in recent years, while undoubtedly fast, may well have been exaggerated by the official figures.

An unknown, but undoubtedly significant, proportion of FDI inflows emanates from China itself in the form of what is known as "round tripping" investment that is routed via Hong Kong, China or other putative sources, like offshore tax havens, to take advantage of incentive measures such as tax holidays. Flows from Hong Kong, China still count as an investment inflow, but in practice, such investment is effectively domestically generated and should be deducted from the FDI total.

Moreover, China's FDI-attraction record is also much less impressive if population size is taken into account. Inflows of FDI per capita are far lower in China than in almost all OECD countries, much smaller than in the larger Latin American economies, and even below some of the developing countries in south-east Asia, like Malaysia and Thailand, although these are currently complaining of a diversion of FDI to China. China now wants to attract more FDI, especially in the kind of services and high-technology manufacturing sectors in which multinationals in OECD countries are internationally dominant, rather than in the relatively labour-intensive, short-term projects that have flourished in the past.

To help them achieve this, *China: Progress and Reform Challenges* presents a number of policy options that China's policymakers may wish to consider. These include items like eliminating remaining elements of local protectionism; streamlining the still cumbersome foreign investment project approval process; and reconsidering remaining foreign ownership restrictions that complicate foreign business activity in sectors as wide-ranging as mining, chemicals and food production. Also, authorities should open China's capital markets more fully to foreign investors, for example, by allowing more foreign-invested enterprises to list on Chinese stock exchanges and allowing such enterprises to issue corporate bonds, while rendering taxation legislation and regulations more transparent. Competition policy would have to be enhanced, in particular by ensuring level playing fields for businesses.

Another key area for improvement is the legal system. Current efforts to improve its functioning and independence have to be intensified. In particular, the Chinese government is to be encouraged in its efforts to improve the effectiveness and independence of China's law courts. And property rights, including for intellectual property, would have to be strengthened.

Co-operation with China in the investment and other fields is designed to assist the country in remedying these problems and consolidating progress towards an open, equitable and sustainable economy.

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- For more articles on China, go to www.oecdobserver.org/china and to www.oecd.org/ccnm

Business lessons in development
Sustainability and profit

Noah Beckwith, Economics and Development Affairs, Aureos Advisers, UK*

Socially responsible development is becoming a buzzword among private equity funds. But can this business community reconcile commercial and developmental objectives in investment? Yes, though there are certain conditions.

Private equity funds for investment in small and medium-sized enterprises in developing countries are starting to flourish. In fact, according to the Social Investment Forum of the US, socially responsible mutual funds saw net inflows of over US$185 million in the first quarter of 2003. But in this era of sustainable development and corporate responsibility, their proliferation poses questions which have long troubled what might be referred to collectively as the socially responsible investment community: does the pursuit of development objectives – also known as "non-financials" or "intangibles" – compromise the commercial viability of an investment by clouding the risk-reward nexus, or does it in fact improve the prospects for good returns?

The growing interest in the social, environmental and economic dimensions of investment in developed markets has not been accompanied by a clear articulation of the trade-off deemed acceptable (if any) between commercial and other non-financial objectives. In the developing world, the term "sustainability" – a sometimes nebulous idea which seemingly uses high socio-economic benefits as an apology to explain disappointing returns – has added an extra dimension to the discussion. In neither context, however, is the investment community entirely comfortable with the relationship between the financial and the intangible.

The problem partly lies in the current parameters of the debate. At best, developmental objectives are presented as extraneous and secondary to commercial ones, but increasingly deserving of attention; at worst, the commercial and development goals are seen as dichotomous, with the latter forced onto the agenda for political reasons and detracting from the profit-making motive. But there is an alternative perspective – that until development objectives are treated as *means* to enhancing commercial outcomes rather than *ends* in themselves, development and commercial goals will remain uncomfortable bedfellows.

The case for socially responsible investment, or SRI for short, is compelling and the benefits espoused by its practitioners are considerable: consumer loyalty, enhanced brand and reputation, improved access to capital, product and service innovation, increased ability to attract and retain staff, and so on. Business enlightenment is the *leitmotiv* – the company becomes aware that achieving satisfactory returns for shareholders in the long term depends on the sanctioning of the company and its products by a range of stakeholders: employees, consumers, suppliers, competitors, communities, local authorities, governments, and others. The idea is that there is a homologous relationship between producer/stakeholder and consumer/stakeholder, and incorporating this interface into the business strategy will help the company to harmonise its commercial objectives with socio-economic and environmental considerations.

But does this approach show up in generating returns? The SRI community concedes that it is too early to draw firm conclusions. There is, however, compelling evidence that some SRI funds and projects in the developed world have weathered recent market turbulence better than ordinary ones. In fact, companies on the new FTSE4Good Index and the Dow Jones Sustainability Index consistently performed above average in recent financial market downturns.

Nonetheless, the case against SRI is also persuasive, though just as hypothetical, for instance, in the key contention that once the risk-return imperative is combined with non-financial considerations, it distorts resource allocation and becomes a cost to the investor.

Critics of SRI also argue that company structures inherently make intangibles difficult to achieve. After all, shareholders retain the services of management to maximise profits, and incentive arrangements usually reflect this priority. Consequently, allocating resources to perceived "non-core" areas in SRI fashion can have personal and commercial consequences for management.

Company value is a multi-faceted concept which embodies far more than the strictly financial dimensions of business. Profit, in turn, is a function of company value, which goes beyond the balance sheet.

Of course, there is the cynical view that SRI is little more than a public relations exercise that lacks a coherent set of values and is often reactive and ill-conceived. Experiences like those of Union Carbide in Bhopal, India, and Shell in Ogoni, Nigeria, in the 1980s simply spawned lip service to issues like environmental degradation, human rights, poverty alleviation and so on, in part to pre-empt litigation, but also because of the growing prominence of non-core issues on the global agenda and in the media.

Like other private equity investors in developing countries, our firm, Aureos Capital – which is a joint venture between the Norwegian Fund for Developing Countries (Norfund) and CDC Capital Partners (formerly the Commonwealth Development Corporation) – must strike a delicate balance between commercial and development objectives. Although 97% of investors in Aureos funds are so-called "soft" institutions – development finance institutions, multilateral development banks, regional development organisations, local financial institutions and the like – this does not diminish the commercial imperative of its activities. On the contrary, such institutions feel keenly that the viability of private equity funds in the developing world, the participation of the private sector in such funds, and the augmentation of investment flows of this type to developing markets, particularly to Sub-Saharan Africa, is predicated on the achievement of commercial returns.

At the same time, given the nature of these investors, commercial objectives cannot be pursued to the exclusion of development considerations. Indeed, the mandate is simultaneously to maximise commercial and developmental benefits. Is this feasible?

The answer is "yes" and the solution lies in a broadened definition of sustainability, which encompasses both commercial viability and development durability, and illuminates points where these converge. Sustainable development is frequently defined as a development path that meets the needs of the present without endangering subsequent needs and aspirations of future generations, allowing for the conservation of nature to be part of this path. Although a useful starting point, this definition is cast in terms of minimising negative outcomes, such as environmental degradation and threats to future livelihoods. It seems there is much to be gained from building into sustainability the concept of means and ends. This wider notion of sustainability sees developmental objectives or intangibles – improved management capacity and sound corporate governance, training and staff development, environmental best practice, and so on – as integral components of business strategy (means) aimed at maximising value, as opposed to incidentals (ends) to be pursued often half-heartedly alongside returns. This way, sustainability not only diminishes the gap between commercial and development objectives, but also presents them as mutually reinforcing dynamics, not mutually exclusive ones.

In other words, commercial objectives are best conceived as one of several building blocks on the trajectory of sustainability. And

Smart, as well as beautiful

The Bologna Process

Promoting entrepreneurship and innovative SMEs in a global economy

Small may well be beautiful in the business world, but being small can also be tough going, in good as well as turbulent times. Red tape, taxes and other charges, capital costs, employment regulations, legal costs: issues such as these absorb a lot of small-company time and money, and can, in the end, become a barrier to either going into business, or surviving in it. Still, small and medium-sized enterprises (SMEs) account for over 95% of all firms and for 60%-70% of employment in the OECD area. They are key drivers of the economy, combining capital, innovation and skills, while serving consumers and channelling their capital and expertise into larger enterprises, in many cases internationally. So, if only policymakers could do a little more to help them out.

Such was the objective in Bologna, Italy, in June 2000 when the OECD organised the first-ever major international ministerial conference on SMEs. Under the theme "Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies", it was a rare opportunity to identify public and private sector action that might help SMEs develop their local strengths, while capturing the benefits of globalisation.

A key outcome of the conference was the adoption of the Bologna Charter on SME Policies by the governments of almost 50 countries, including all the OECD countries, plus several large developing countries like Brazil, China and South Africa, as well as smaller ones like Costa Rica and Uzbekistan. The Bologna Charter provides a frame of reference for countries concerned with improving the efficiency of policies directed at fostering entrepreneurship and assisting the development and competitiveness of smaller firms at the local, national and international levels. It calls for policy dialogue and co-operation between international organisations and institutions, and recommends such concrete initiatives as helping SMEs gain access to national and global innovation networks and to public R&D programmes and procurement contracts, for instance.

The conference gave rise to the Bologna Process, by which the OECD brings together over 70 countries and more than 50 international organisations, institutions and NGOs. The objectives are threefold: to foster an entrepreneurial agenda and SME competitiveness at the global level; to provide guidance to governments that will help entrepreneurs and SMEs worldwide reap the benefits of globalisation; and to further deepen and improve the high-level dialogue on SME policies among policymakers, business, national and international organisations and other institutions.

A second major OECD ministerial conference on SMEs will be held in Turkey on 3-5 June 2004 on the theme of "Promoting Entrepreneurship and Innovative SMEs in a Global Economy". It will provide another much-needed opportunity for policymakers to take the kind of action that can help SMEs stay smart in today's world. After all, healthy, thriving SMEs are in everyone's best interest.

- OECD (2002), *OECD Small and Medium Enterprise Outlook*, Paris.
- Visit the OECD site on SMEs at: www.oecd.org/sti/smes
- For more on the Bologna conference and the charter: http://www.conferenzabologna.ipi.it
- The International Network for SMEs: www.insme.info

they should not be downplayed. On the contrary, for private equity investors like Aureos, investing without attaching serious commercial terms would be nonsense. Indeed, such investments would be little more than thinly veiled subsidies which, once withdrawn, would likely cause investee companies to collapse or stagnate. Moreover, financial viability is vital to an investee company's ability to withstand external shocks like price declines, as well as ad-hoc policy reversals that are commonplace in developing countries. Commercial pressures also help to professionalise investee companies and to ensure that appropriate financial architecture is put in place.

The critical point, however, is that intangibles must also be integrated into company strategy as basic building blocks of sustainability, so that the interplay between the financial and the non-financial is viewed as a complementary and fundamental process geared to generating company value.

This is where the SRI debate is particularly instructive and where an enhanced definition of sustainability sheds light on reconciling commercial and developmental objectives. It is clear even from a cursory glance at the SRI literature that both the "pro" and the "anti" camps focus on the relationship between SRI and profits and that sustainability is seldom mentioned. SRI is invoked almost as an ideology that has resource implications which either increase or jeopardise profits, depending on one's attitude to SRI. The focus implied by SRI is usually on the relationship between intangibles and profits, whereas it should be on intangibles and company value. As recent corporate collapses in OECD countries have shown, company value is a multi-faceted concept which embodies far more than the strictly financial dimensions of business. Profit, in turn, is a function of company value, which goes beyond the balance sheet to the socio-economic and environmental capital which underpins a given business. And good public relations are no substitute for proper management.

The challenge for private equity funds like Aureos in developing countries is to better understand and illuminate the synergies between the development and commercial dimensions of investment, and the way in which the former reinforce the latter. The broadest possible definition of sustainability is a crucial step on this path. By highlighting the primacy of value over profit, sustainability helps companies realise a range of beneficial outcomes, of which profit is but one. ■

*Aureos is an emerging markets private equity fund manager.

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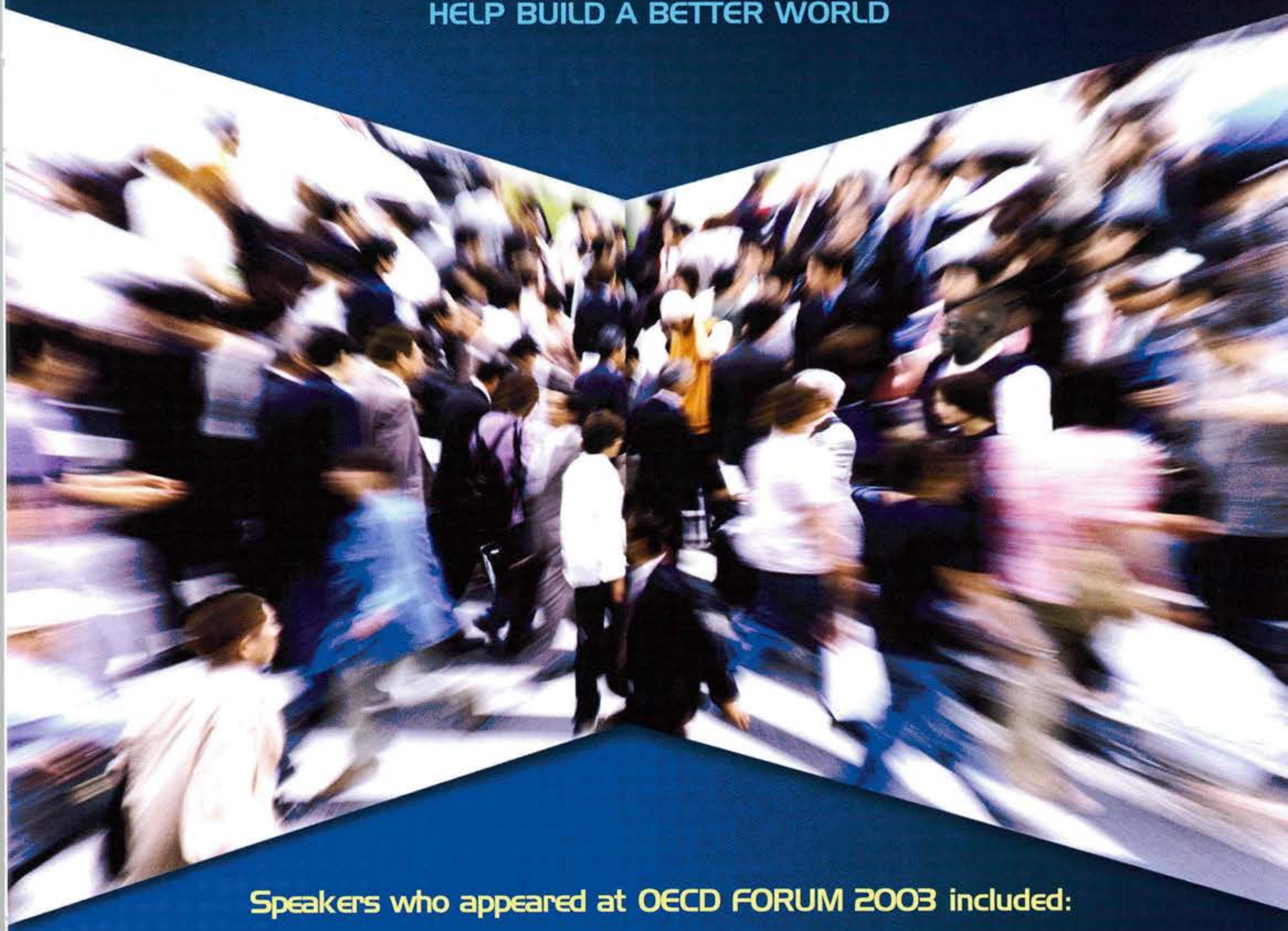
- Visit www.aureos.com



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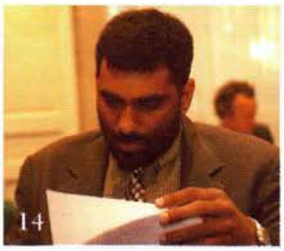

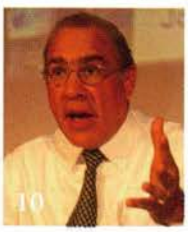

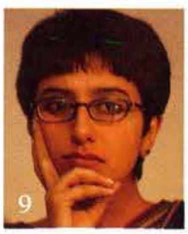

1. View from the floor
2. Opening panel: from back, Anatole Kaletsky, Gareth Evans, Motoshige Itoh, and OECD secretary-general Donald Johnston
3. WTO chief Supachai Panitchpakdi
4. Viewpoint from the floor
5. Vivian Lowery Derryck
6. PM Helen Clark on the move
7. Down time for the chairs
8. US trade representative Robert Zoellick at the ministerial press conference
9. Anju Sharma
10. José Ángel Gurría
11. Professor Jagdish Bhagwati
12. Jean-Philippe Courtois speaks, Jean-Marc Vittori listens
13. French finance minister Francis Mer (right)
14. Kumi Naidoo

- For more on these participants and events, visit www.oecd.org/forum2003 and www.oecd.org/subject/mcm/2003/

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Uncertain world...

OECD Forum 2003, Paris, 28-29 April

Is the world heading on a path of diverging economic destinies? Could these developments undermine global security and stability? How should we respond to such dangers? These were just some of the issues debated by the more than 1,000 people gathered at the fourth edition of the OECD Forum, on the theme "Grow, develop and prosper", and as ever held in conjunction with the OECD Ministerial Council.

One key concern throughout was whether the US economy can be relied on to power future growth for the rest of the world. The answer from **Clyde Prestowitz**, author and president of the US-based Economic Strategic Institute, was definitely not. The US is a "spend and borrow" economy whose expenditure has got out of hand, Mr Prestowitz said. With the current-account deficit at US$500 billion, the question is will the rest of the world be willing to lend to the US indefinitely, and continue to allow Americans to live beyond their means.

Francis Mer, French minister for the economy, finance and industry, emphasised the importance of education for economic growth. To encourage individuals and businesses to see education as a form of investment, we have to introduce incentives, such as tax schemes, he said. Even then, there are no guarantees they will work.

Restoring confidence in markets and governments in the wake of recent scandals was rarely far from the centre of debate. **Thierry Desmarest**, chairman and CEO of TotalFinaElf, argued that bribery is bad for business anywhere, while transparency and integrity enhance competition and help create a stable path to economic growth. **Christian Schricke**, secretary-general of the Société Générale Group, said corporate scandals had forced business to reappraise objectives in a bid to regain public confidence.

Mind the gaps

Basic challenges remained between rich and poor in many areas; the first is the digital divide, though for **Jean-Philippe Courtois**, CEO of Microsoft Europe, Middle East and Africa, the information technology economy is still growing, despite the collapse of the dot.com bubble, and the best is yet to come. But for **François Roussely**, Chairman and CEO of EDF, the main gap was the "electricity divide". And for **W. Brian Healy** of Merck, the "gap in health" would have to be closed.

Japan's minister of economic and fiscal policy, **Heizo Takenaka**, said that in the case of his country, there would be no growth without reform. But achieving more open and competitive markets may be more difficult in the context of ageing populations, argued **Anatole Kaletsky** from *The Times*. As the electorate ages, it is becoming more cautious about change, he said. And **Hamish McRae**, an economic commentator at another British newspaper, *The Independent*, pointed out that political divisions "may no longer be between left and right, but between young and old. The latter will want to protect their pensions, and the young might find that a burden, and leave."

In any case, governments should not be under the illusion that democracy should be equated with elections, said **Kumi Naidoo**, CEO of Civicus. Political parties are becoming closed to the average person and access to the political process is becoming increasingly dependent on wealth, he said.

Most participants, including NGOs, agreed that successful completion of the WTO negotiations is critical, and that failure could give rise to real dangers to the multilateral system.

WTO director-general **Supachai Panitchpakdi** argued that any multilateral process is "an unwieldy, messy and frustrating business". But missing a deadline "doesn't in fact mean failure. It means that we are still working on it and that we have to redouble our efforts."

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Making sense

New Zealand's prime minister, **Helen Clark**, said OECD countries have benefited greatly from international trade, and must open their markets to freer trade in agriculture to allow the developing world to enjoy these same benefits. For Chilean finance minister **Nicolás Eyzaguirre**, the issues were straightforward: "The world pays US$300 billion in agricultural subsidies, and this is five times the amount spent in development assistance. Any progress on multilateral trade and investment must involve immediate reforms in agriculture".

But reforms should not drive away farmers, "because then we would have to recruit officials to maintain the landscape," said **Hervé Gaymard**, France's minister of agriculture, food, fisheries and rural development.

Against this background, OECD secretary-general, **Donald Johnston**, reminded participants that trade and investment, together with good governance frameworks, have been the basis of prosperity and social progress in OECD countries.

Gareth Evans, president and CEO of the International Crisis Group, was worried about a growing disregard for multilateralism, particularly in the US, though he felt that multilateral co-operation had to be the way forward: "For all the frustrations of working together, it beats living in a world where there are no rules, and might is always right." ■

...and dealing with it

OECD Ministerial Council 2003, Paris, 29-30 April

"Agenda for growth and development" was the theme of this year's annual OECD Ministerial Council. The meeting was chaired by New Zealand's prime minister, Helen Clark. Here are some key points from the chair's summary, issued after the meeting.

Economic outlook: Expectations overall are of modest growth this year, picking up somewhat next year. While geopolitical uncertainty over recent years has not been helpful to recovery, pre-existing macroeconomic imbalances and deep-seated structural problems have played a large part in producing the current economic downturn. Short-term and long-term issues need to be addressed, but the best short-term policies are also good long-term policies.

Policies to maintain confidence and enhance growth: Under current policies, the divergence of growth rates in the OECD during the 1990s looks set to continue. At a minimum, this means lost opportunities, lower world growth and lower wellbeing than could otherwise be the case. It could also impact on the relationships between our economies.

Many ministers spoke of the need to reinforce multilateral co-operation on economic and trade issues, to bolster confidence and help support growth, and to help redress this divergence. The OECD can play a strong role.

There was a large measure of agreement on the nature of the challenges to maintaining and enhancing growth in the longer run, including the impact of demographic change, increasing productivity and achieving appropriate labour market flexibility.

Education and training, the removal of barriers to entry into the workforce, and measures to encourage older people to stay in work were identified as common policy prescriptions. In labour market reform, the right balance must be struck between removing rigidities, protecting vulnerable workers, making work financially worthwhile and providing an adequate level of social security.

New Zealand Prime Minister Helen Clark

Many ministers noted that demographic changes were bringing into question the sustainability of existing state pension regimes.

Ministers underscored the need for governments to translate the political will to tackle the issue of confidence and trust in institutions of governance and the marketplace into concrete action.

Ministers also received a report from the dialogue with BIAC (Business and Industry Advisory Committee to the OECD) and TUAC (Trade Union Advisory Committee to the OECD) which had stressed the importance of good corporate governance. The chair indicated that further consideration should be given to allowing BIAC and TUAC observer status at future ministerial meetings.

Promoting growth and investment in developing countries: Invited ministers from developing countries took part in these discussions. Ministers agreed there was scope to do more to help developing countries, particularly in Africa, to gain from globalisation. There was wide support for the OECD Council to look at a proposal from Japan for additional work on a strategy to promote investment in developing countries.

Ministers stressed that access to markets and technology is an essential ingredient for growth. OECD members' policies are important to this end, particularly in the way those policies impact on developing countries' export prospects.

Business must also be partners in the development process. The OECD Guidelines for Multinational Enterprises have encouraged businesses to take into account the development, social and environmental implications of their undertakings.

International trade: Ministers are committed to making the WTO (trade) negotiations successful. There was frank acknowledgment that important deadlines have been missed. And there remain real divergences of views. But there was a willingness to tackle them and to get the job done by January 2005, while achieving a balanced outcome for all, with development being central to the negotiations.

There is no great mystery about the sorts of decisions needed now – on access issues like agriculture, industrial products and services – so that substantive negotiations beyond Cancún can commence.

Ministers emphasised the analytical capacity of the OECD to support negotiations. Its intellectual and practical capacity is needed on such issues.

OECD reform: Ministers were pleased to note the secretary-general's report on progress in reforming the OECD, and the road map for further measures recently adopted by the Council. Ministers will look to making decisions on key reform issues at their 2004 meeting. ■

Roundtables on boardrooms

Full convergence with international accounting and audit standards, better protection of minority investors, stronger enforcement of existing laws and regulations, and improved bank governance: these are some of the key recommendations in the white paper on corporate governance in Asia, published by the OECD in Tokyo in June.

The recommendations come just a month after an OECD-led roundtable on corporate governance for Latin America finalised a similar white paper, identifying priorities for reform and putting forward a concrete action plan for improving corporate governance in the region.

Discussions covered areas including shareholder rights, boards of directors, and enforcing laws and regulations on corporate governance.

The Latin American and Asian white papers, as well as similar roundtables for Eurasia, Russia and south-eastern Europe, build on the OECD's own principles of corporate governance (which are themselves now under review) while taking into account each region's legal, cultural and economic diversity. They are the result of regional roundtables organised by the OECD and the World Bank, grouping policymakers, regulators, business leaders and experts, which have taken place since 1999. The aim is for white papers to kick-start a process that will allow each roundtable to focus on implementation and enforcement issues. ■

- For more on the corporate governance roundtables: www.oecd.org/corporate
- See also Spotlight on corporate governance (*OECD Observer* No. 234) and www.oecdobserver.org/ under "Governance".

New Swedish ambassador

Ambassador Gun-Britt Andersson became permanent representative of Sweden to the OECD on 11 June 2003. She succeeds Anders Ferm, who had been Sweden's ambassador to the OECD since December 1995.

Mrs Andersson has spent most of her career working in the area of development co-operation. She was head of the Swedish International Development Co-operation Agency's office in Tanzania, and later as director of the personnel division of the agency she was responsible for its reorganisation. Mrs Andersson became assistant under-secretary in the Ministry of Foreign Affairs where she was in charge of policy planning and budgeting of the department for international development co-operation.

After working as director of the United Nations Relief and Works Agency for Palestine Refugees, she became state secretary for social security and then state secretary for development co-operation, migration and asylum policy, a post she held until her appointment at the OECD.

...and deputy secretary-general

Senior Japanese diplomat Kiyotaka Akasaka has been appointed deputy secretary-general of the OECD. Mr Akasaka, 54, has been Japan's consul-general in Sao Paulo, Brazil, since November 2001. He will take up his post at the OECD in August 2003.

Mr Akasaka has been involved with the work of multilateral organisations throughout his career. As deputy director-general in the Japanese foreign ministry's Multilateral Co-operation Department from 1997 to 2000, he was one of his country's top negotiators in the Kyoto conference on climate change in December 1997 and in various follow-on conferences. He was Japan's ambassador to the UN in 2000–2001, and he has held posts at the General Agreement on Tariffs and Trade (GATT), the precursor of the World Trade Organization, from 1988 to 1991, and the World Health Organization from 1993 to 1997. ■

EU prospects boost reform in south-east Europe

The prospect of joining the EU is acting as a powerful catalyst for improving the investment climate in south-east Europe, but a number of countries need to make faster progress on economic reform.

This recommendation from the latest Investment Compact Monitoring Report was presented at a meeting of the Project Team of the Investment Compact for South-East Europe, a key component of the Stability Pact, held at OECD headquarters in Paris in May 2003.

Bulgaria and Romania have already met policy targets ahead of schedule, and all other countries are making progress, the monitoring report found, with Albania and Montenegro showing a significantly improved performance. However, further efforts are needed across the region, particularly in the areas of competition, corporate governance and reducing administrative barriers affecting investment and business operations.

In 2002, the inflow of foreign direct investment (FDI) to the region totalled around €3.8 billion, a 10% drop from the peak reached in 2001, but a good performance considering the amplitude of the global downturn in FDI.

A project team, co-chaired by Austria, Romania and the OECD, is charged with identifying key priorities for policy reform as well as concrete actions to boost private sector investment and improve the business environment for investors in the Investment Compact countries. Ministers from south-east Europe will meet to discuss these issues in Vienna on 10-11 July 2003. ■

- For more on the OECD's work with the Investment Compact: www.oecd.org/ccnm/see

Do voluntary approaches to the environment work?

Voluntary approaches in environmental policy are increasingly popular in a number of countries, but a new OECD report, *Voluntary Approaches for Environmental Policy: Effectiveness, Efficiency and Usage in Policy Mixes*, questions their environmental effectiveness and economic efficiency. The report notes that there are few cases where such approaches have improved the environment beyond a business-as-usual baseline. It also raises doubts about their economic efficiency because the cost of achieving additional environmental improvements differs considerably between polluters, in part because the environmental targets are set for individual firms or sectors, rather than at a national level.

Voluntary approaches include agreements on environmental performance negotiated with industry and public programmes in which firms can volunteer to participate. They are increasingly supplementing or replacing other environmental policy instruments such as regulations, taxes and tradable permits.

This report provides an in-depth assessment of the use of voluntary approaches, building on a number of new case studies and an extensive search of the available literature. The focus of the analysis is both on voluntary approaches used in isolation and on such approaches used as part of policy mixes.

The report shows that various types of administrative and transaction costs vary greatly between different voluntary approaches. However, if too few resources are spent in their preparation, negotiation and enforcement, their environmental impacts are likely to be very modest.

The study of policy mixes indicates that combining a voluntary approach with a tax or a tradable permit system can trigger quite significant additional administrative costs. In addition, the environmental impacts of the other instrument can be weakened. ■

- Visit www.oecd.org/environment

50 years of improving transport research

The challenges for policy

Transport is safer today – road deaths have been halved since the early 1970s. Transport is also faster and more reliable – just think of high-speed trains and the growing availability of low-cost air travel. Mobility has increased substantially in all areas of the transport sector. Despite these improvements, however, the transport sector is in crisis. Congestion is omnipresent in urban areas. Pollution, largely from vehicle emissions, causes premature deaths. What can be done?

It is precisely questions like this one that the European Conference of Ministers of Transport (ECMT) will consider when it celebrates its 50th anniversary at its 16th international symposium on Theory and Practice in Transport Economics, in Budapest on 29-31 October 2003. The theme of the symposium is "50 years of transport research: experience gained and major challenges ahead".

One of the ECMT's achievements over the years has been to persuade its members that increased mobility carries costs which must be controlled. Transport consumes such resources as energy through use of fuel, space through infrastructure and time through traffic and simply getting from A to B. It also has other impacts, such as the damage to the environment, wear and tear on road surfaces, as well as the severance effects of road-building. These costs are only partially taken into account by end-users. Motorists have seen no increase in fuel costs in constant terms and public transport users remain unaware of the subsidies that governments pay to cover investment and even the operating costs of their services. Deregulation of road freight has made haulage activities cheaper and more efficient. In contrast, the railways, which have not emulated this trend, have experienced comparatively little growth in productivity.

But while greater competition and deregulation could help the railways, stricter environmental measures can reduce pollution at source. The example of the congestion charge to limit through-traffic flows in London shows what innovative measures can achieve in urban areas.

All transport users must be offered high-quality services whose cost is commensurate with the resources consumed. But raising the taxes on transport is only acceptable if the revenue is reinvested in transport systems. Driving through messages like these and helping to put transport on a more economically rational footing will continue to be the ECMT's aim in the next 50 years. ■

- For further information on the Symposium, see: http://www.cemt-symp.hu/english/
- Visit: www.oecd.org/transport

Calendar of forthcoming events

Please note that many of the meetings mentioned are not open to the public or the media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For further information, consult the OECD website at www.oecd.org, under "key upcoming events", which is updated weekly.

JULY

10-11 **Gender and Post-Conflict Reconstruction**, meeting of the Development Assistance Committee (DAC) Network on Gender Equality and the UN Interagency Network on Women and Gender Equality.

10-11 **Attracting Investment to South-East Europe: Removing Obstacles**, ministerial conference. Vienna, Austria.

28-30 **Water Management workshop**, organised by the Directorate for Science, Technology and Industry (STI) and the Mexican government. Cuernavaca, Mexico.

AUGUST

10-16 **Stockholm Water Symposium**, organised by the Stockholm International Water Institute. Stockholm, Sweden.

28-29 **Intellectual Property Rights, Innovation and Economic Performance**, meeting organised by STI.

28-30 **Monetary Policy and Uncertainty: Adapting to a Changing Economy**, 27th Economic Policy Symposium, organised by the Federal Reserve Bank of Kansas City. Jackson Hole, Wyoming, US.

SEPTEMBER

4-5 **APEC Finance Ministers meeting**. Phuket, Thailand.

8-10 **Entrepreneurship and SME development**, workshop organised by the Directorate for Employment, Labour and Social Affairs (ELS) and hosted by the Hungarian government. Budapest, Hungary.

10-14 **World Trade Organization**, 5th ministerial conference. Cancún, Mexico.

11-12 **Evaluation of Environmental Health Risks for Children**, workshop organised by the Environment Directorate (ENV).

18-19 **Innovation in Tourism and Growth**, conference organised jointly by STI and the Swiss Authorities. Lugano, Switzerland.

21 **Meeting of the Heads of Multilateral Financial Institutions**, organised by the Islamic Development Bank. Dubai, UAE.

21-28 **World Forestry Congress**, 12th annual forum. Québec, Canada.

22-24 **Globalisation and National Environmental Policy**, conference organised by Tilburg University. Tilburg, the Netherlands.

23-24 **IMF/World Bank** annual meeting. Dubai, UAE.

29-30 **Employment and labour Ministerial meeting**, "Towards More and Better Jobs", organised by ELS and chaired by François Fillon, French minister of Social Affairs, Labour and Solidarity.

OCTOBER

5-9 **World Forum on Energy Regulation**, organised by the Italian Regulatory Authority for Electricity and Gas. Rome, Italy.

6-7 **Conflict, Peace and Development Co-operation**, network meeting organised by DAC.

14-15 **The Economics of Waste**, workshop organised by ENV.

14-17 **World Knowledge Forum**, "Creating a New World Order and Economy". Seoul, Korea.

20 **Trade dialogue** between civil society organisations and the OECD Trade Committee.

20-24 **Taxation of Electronic Commerce**, seminar organised by the Directorate for Financial, Fiscal and Enterprise Affairs (DAF). Vienna, Austria.

28 **Development Assistance Committee (DAC)** aid peer review of Ireland.

29-31 **50 Years of Transport Research**, symposium organised by the European Conference of Ministers of Transport (ECMT). Budapest, Hungary. (See oecd.org)

NOVEMBER

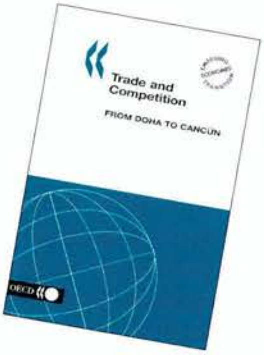
3-4 **Trade in Educational Services**, forum organised by the Education Directorate.

17-18 **OECD-World Bank Services Experts** meeting, bringing together trade negotiators, migration specialists, academics and – for the first time – regulators from both OECD and non-OECD countries to debate the General Agreement on Trade in Services (GATS).

26 **OECD Economic Outlook** No. 74, published.

26-27 **Trade Capacity Building and Private Sector Development in Asia**, workshop sponsored by DAC. Phnom Penh, Cambodia.

Can you understand Cancún?



Trade and Competition: From Doha to Cancún

A cry for transparency always accompanies any WTO trade round, and Doha is no exception. Yet trade talks remain clogged with terms of reference, jargon and ambiguities. *Trade and Competition: From Doha to Cancún* tries to respond to this problem, coming as it does out of a meeting of trade and competition experts from developed and developing countries who met to explore and clarify some key themes in the Doha Declaration.

It starts by addressing the core principles of non-discrimination, transparency and procedural fairness. The fundamental raison d'être for the trade agreement calls for non-discrimination on both a national level, in which members agree to accord all other member nations identical trade conditions, and on a "most favoured nation" level, which states that any advantage given to one member country is automatically conferred on the other members.

But, acknowledging imbalances in trade between developed and developing countries, exceptions, exclusions and exemptions have crept in, and the devil is in the details. What does "timely" mean in the context of micro-chip exports, how does a country put into practice "transparent" policies without sufficient resources, and what would "fair and equitable procedures" mean if applied to trade between small, local enterprises and multinationals.

Then there are issues of discrimination between, for instance, two countries that have built up special co-operative relationships, or between regions that disagree on international sales of specific commodities. According to *Trade and Competition: From Doha to Cancún*, the relevant issue is not whether exclusions and exemptions are beneficial or harmful from the competition policy standpoint, but whether those that do exist discriminate against foreign enterprises.

Other sticky issues addressed here include the pros and cons of voluntary co-operation as opposed to binding commitments; the identification and categorisation of hardcore cartels, as distinct from export cartels and state-owned cartels, plus effectiveness of enforcement (i.e. tools to identify, investigate and sanction cartels); it asks why the capacity building and technical assistance of the last 30 years has not been successful; plus, it takes a look at the competition policy peer reviews in the OECD's regulatory reform programme. ■

All for one

Regionalism and the Multilateral Trading System

Hammering out the multilateral negotiations at Cancún in September will take the present WTO trade round only halfway to its January 2005 deadline. Meanwhile, the percentage of world trade accounted for by preferential regional trade agreements (RTAs) is expected to grow from 43% at present to 55% by 2005 if all expected RTAs are realised. The EU, NAFTA, APEC and MERCOSUR are all examples of regional initiatives. Is smaller better? *Regionalism and the Multilateral Trading System* makes the case that regional trade agreements are rather a complement to, not a substitute for, a multilateral system.

In fact, many consequences of regional trade agreement activity bolster the case for a strengthened multilateral framework. Through an examination of 10 key areas, from services and labour mobility to intellectual property rights and environment, *Regionalism and the Multilateral Trading System* shows how RTAs may both help and hinder multilateral trade liberalisation.

At Doha, former WTO director general, Mike Moore, referred to the risk of an *à la carte* approach in RTAs, in areas such as investment and competition, as being a recipe for confusion. What emerges from this study is a more nuanced picture. RTAs may detract from multilateral efforts by stretching scarce negotiating resources and political capital, or can cause friction between systems generating potentially incompatible rules and standards between different RTAs and the multilateral rules and disciplines of the WTO.

Yet regional trade agreements foster a culture of market opening and structural reform, and frequently go beyond the WTO by either containing provisions that are more far-reaching, or by engaging countries outside of the WTO. But in some particularly sensitive areas, like agriculture and textiles, regional initiatives have been no more successful – and in some cases less successful – than activity at the multilateral level. Furthermore, all RTAs are driven in large measure by geopolitical considerations. The EU has helped Europe unite, for instance, and through NAFTA the United States has consolidated its relations with Mexico. But their role in building a global free trading system is by definition much more limited. ■

Friendly subsidies?

Overcoming Obstacles to Policy Reform: Work on Environmentally Harmful Subsidies

While bemoaning the global impact of rich countries' subsidies on poorer economies, environmentalists are taking a closer look at how the elimination of some subsidies may be detrimental to the environment.

The economic sectors with the largest share of global subsidies – agriculture/fisheries, transport and energy, accounting for 81% of world subsidies – are also those most implicated in greenhouse gas emissions, air pollution and water pollution. Yet one of the authors in this compilation of reports argues that it is not sufficient to simply cite the numbers and list resultant environmental damages. In the interest of sustainable development, social and economic effects must also be gauged and figured into any negotiations on agricultural subsidies.

According to *Work on Environmentally Harmful Subsidies*, there is a *prima facie* case for supposing that subsidies which encourage more production will be environmentally harmful. Price guarantees encourage over-production and hence environmental damage.

Also, many subsidies directly or indirectly contribute to the depletion of natural capital, one of the "pillars" of sustainable development. Water logging and salinisation from subsidised irrigation water; excessive air pollution and greenhouse gas emissions due to transport fuel and stationary energy subsidisation; and over-fishing due to support of fishing fleets, are some well-known examples. Yet short-term subsidies for farm equipment like trailers or earth-movers, for instance, can facilitate the purchase and use of newer, "cleaner" technologies.

However, only recently has the link been made between subsidies, environmental damage and loss of human capital, versus natural capital. For instance, the global burden of disease and accidents, which government support can help to combat, has recently been calculated for environmentally induced health problems arising from inadequate water supply and sanitation, indoor and outdoor air pollution, and agro-industrial wastes and pollutants. One estimate states a global loss of value in human capital of US$1.75 trillion for 2000. While this loss cannot be blamed solely on subsidies, it argues for further research so as to complete the picture of the impact of agricultural support. ■

Virtual revolution

The e-Government Imperative

Can technology bring better government? Education, healthcare and employment take precedence for most citizens over the simple question of whether they can email their senator or member of parliament. But government websites have changed from simply being static showcases to providing a virtual kiosk of essential government services. While a huge part of what governments are expected to post is simple information – who, what, where and how – posting election and tax information, health alerts, even traffic ticketing, can open bureaucratic doors to more direct participation. For example, the audiovisual system introduced by the Swiss Parliament has increased public access to political debates, while providing up-to-date online interactive information and data.

According to *The e-Government Imperative*, policymakers need to respond to citizens' demands for more transparency, easier handling of red tape and actually conducting business on-line, whether it be receiving legislative updates, filing tax returns or applying for a business license. Besides, it can save them money. An e-procurement system adopted in 2000 by the Italian government led to a 30% reduction in the total cost of procured goods and services. In Germany, the electronic processing of education loans repayments introduced by the government brought €4.5 million in savings in the first year of operations.

The e-Government Imperative encourages the use of the Internet as an instrument to improve government structures and processes and to foster the culture and values of public administrations. As for the submission of forms containing sensitive information, progress is under way: as of 2002, 26 of the 30 OECD countries had passed legislation recognising digital signatures. While some worry that the technology may erode privacy, others point out the challenge of keeping up with quick-changing technology. The decisions taken today commit administrations to a future that may be unpredictable. Errors are costly both on a financial level, and in terms of losing the trust of citizens and businesses, *The e-Government Imperative* warns. Still, as the title suggests, governments can no longer shirk the demand for transparency, and will have to manage change responsibly, while maintaining that public confidence. More e-government can help them to achieve this. ■

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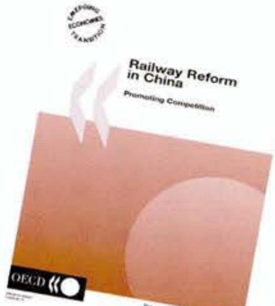
Back on track

Railway Reform in China



How do you manage transport in a rapidly growing country of over 1 billion people? Developing the railways may be the simple answer. Increasing demands are being placed on China's transport infrastructure, and the OECD's *Railway Reform in China* suggests that the development of an efficient, innovative and market-oriented rail network would facilitate investment and modernisation, alleviate the growing income gap and spread the benefits of economic reform more widely.

Rail still carries the bulk of transport in China. The figures have decreased somewhat from 1980, when rail transport accounted for 48% of the freight transport market (now 31%) and 61% of the passenger market (now 37%). However, more freight and people have to be transported than 20 years ago, and the density of traffic on the Chinese railway is the highest in the world, 10 times higher than for rail systems in Europe. So, today's rail usage figures are still significant when compared to western Europe, where rail carries 14% of the freight and less than 7% of passengers.

As with other state-owned railways in OECD countries, Chinese railways have relatively low labour productivity, and do not perfectly match consumer demand. Problems include slow travelling speeds, poor frequency of trains, and overcrowding, which drives away some consumers. The government uses an elementary system for regulating prices, based on passenger kilometres, varying according to the hardness of the seat (or bed) and the speed of the train. There is no difference made according to peak or off-peak periods. Yet demand for rail transport, though not growing at the rate of the economy overall, is still rising.

China's Development Research Center (DRC) identifies four goals for rail reform in China, including a separation between government functions and enterprise management, with an independent regulation/supervision body, promotion of competition within the rail sector, and the creation of market incentives based on a sounder regulatory framework. Some separation of the different roles the state plays in running the railway may be required, along with the flexibility to set prices and services.

Successful rail reform takes time; if the Chinese economy is to have an effective rail sector by the year 2010, according to the DRC, the government should start now to determine the reform path for Chinese railways in the future. ■

If you can't measure it, then you can't manage it

"If you can't measure it, then you can't manage it." As South African minister of finance, the Hon Trevor Manuel, said at an April 2002 workshop in Cape Town, South African stakeholders are striving to agree on common indicators of progress towards development. Yet for much of the developing world, the capabilities for producing the statistics required to monitor progress have stagnated or have been largely ad-hoc.

For the development partners struggling with the challenge of ensuring that their resources are optimally spent in the world's poorest countries, the focus is now on aid effectiveness. Convincing supporting evidence to assess the performance of development efforts comes largely from statistical systems. Without gauging the extent to which efforts to reduce poverty are effective, those efforts proceed in the dark. Statistics shed the light necessary to see the path to sustainability.

Statistics

Unfortunately, statistics are perceived as dull, which has hampered investment in statistical governance. Very little public acclaim is earned from an investment in statistics, compared with investments in health, agriculture, and nutrition. Yet without statistics to measure the benefits of investments in social programmes, who can say that the money was well spent?

To achieve our common goals of development – including the millennium development goals (MDGs) agreed in the 2000 millennium declaration – development practitioners on all levels must work hand in hand. And if measuring the progress of development is not treated as one of the costs of meeting the MDGs, then we, globally, are unable to hold all the signatories accountable.

Data on a country's progress must originate from within the country. Statisticians are now being asked to meet new challenges, good governance is widely regarded as a prerequisite for development, and statistics are now being used in calibrating governance indicators. Statistics are themselves part of good governance. While the major users of statistics are governments themselves, statistics must also be made available to the general public and to civil society to hold their governments to account. Statistics are vital to the democratic process; they ensure transparency and accountability and provide the background information against which private investors make their decisions. It is for this reason that support to statistical offices in developing countries for sustaining the design and implementation of poverty reduction policies and monitoring their impact is crucial.

Statistics are vital to the democratic process; they ensure transparency and accountability

Partnerships

The New Partnership for Africa's Development (NEPAD) promotes principles of country ownership, transparency, good governance and the fight against poverty. These principles are complemented by those of the Partnership in Statistics for Development in the 21st Century (PARIS21) in its collaborative action with national, international and regional bodies in Africa to promote country-owned strategies for the more effective use of information and statistics in the development process.

Hosted by the OECD's Development Co-operation Directorate, PARIS21 acts as a catalyst for promoting a culture of evidence-based policymaking and monitoring. We focus on promoting high-quality statistics, making these data meaningful and designing sound poverty-reduction policies. Our role in PARIS21 is to foster more effective dialogue among those who produce development statistics and those who use them, through facilitating international events, supporting country-based activities, organising regional workshops, and convening subject matter task teams. PARIS21 actively promotes south–south co-operation and lesson learning between countries in the region, reinforcing NEPAD's peer review approach.

Initiatives such as NEPAD are echoing the call for dialogue on how to provide information and statistics in developing countries. This demand must be met with a change of culture and with professionals communicating between countries and across their areas of specialisation to accelerate the change process.

PARIS21 exists to facilitate this communication, and we therefore feel a kinship with the *OECD Observer*'s mission, as we both serve as a forum for dialogue on issues related to policy development. PARIS21 congratulates the *Observer* for its 40 years of dedicated service to the OECD and the wider community of policy experts. We applaud your work in opening discussions on important themes and wish you continued success.

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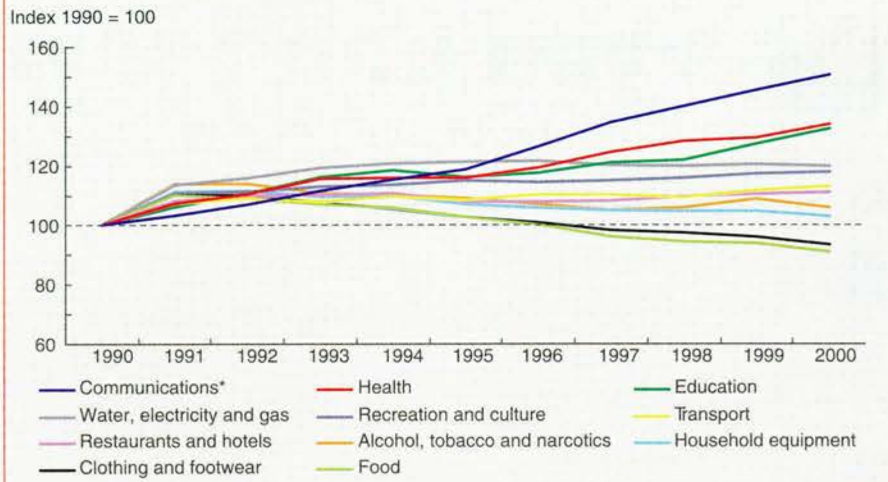
Free speech?

Higher communication spending

Changes in the proportion of communication and other spending in disposable household income



* *Communications includes telecommunication equipment and services, and postal services.*
Note: Hungary, Norway, Slovak Republic, Switzerland and Turkey are not included in this index.
Source: OECD, SNA database

Telecommunications costs – phone installation and the cost of time spent on calls – have fallen sharply in recent years, so why is it that OECD households are devoting an ever larger share of their income to communications? Food, clothing and household equipment are all taking up a smaller share of the family budget than a decade ago, and while services such as health, education and water have increased their share, none has boosted its part of household spending as significantly as communications.

One reason, of course, is the advent of the Internet and the mobile phone, which helps explain the acceleration of the growth in communications spending from 1995, the latest edition of the *OECD Communications Outlook* shows (see article by Sam Paltridge et al). But it is also true that cheaper calls have encouraged people to spend more time talking on the phone – and at greater distances – than before, ultimately putting more cash in the telecommunications companies' coffers.

Households devoted about 1.6% of their consumer spending to communications in 1991, but this had risen to 2.3% by 2000, or an extra US$399 per person per year. A sizeable proportion of that money went on mobile phones, with the number of users increasing from 15 million to 600 million during the decade. During the same period, spending on food and non-alcoholic drinks fell from 13.4% of the total to 10.7%, while spending on clothing and footwear fell from 6.9% to 5.7%.

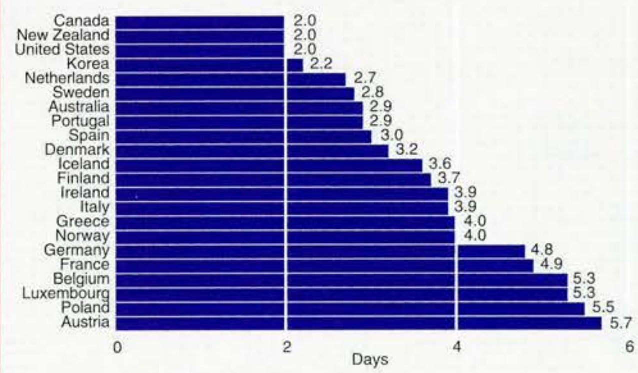
As much as 90% of communications spending goes on telecommunications services, with 8% for telecoms equipment, and the remaining 2% being spent on good old-fashioned postal services. The average monthly spending on communications in OECD countries is around US$62.50, although the level varies between countries from about US$40 to US$106. ■

- *OECD Communications Outlook 2003* is available at www.oecd.org/bookshop

Birth rights

Maternity stays

Average length of hospital stays for normal delivery, 2000



Source: OECD Health Data 2003

Hospital stays are getting shorter, and concerns are being raised in some OECD countries that mothers are being sent home too soon after giving birth, the latest *OECD Health Data* shows. In 2000, the average length of stay in OECD hospitals for a normal delivery was four days. But there were striking variations between countries in the amount of time spent in hospital. Women in Canada, New Zealand and the United States spend two days in maternity care, while in Poland and Austria new mothers stay in hospital on average for almost six days.

The number of women dying when giving birth has also fallen in the past decade, with the average number of maternal deaths per 100,000 live births falling from 14.2 in 1990 to 10.1 in 2000. Infant mortality rates have also fallen, from 11.1 deaths per 100,000 live births in 1990 to 7.1 in 2000. In Poland, infant mortality fell from 19.4 per 100,000 live births in 1990 to 8.1 in 2000, while in Canada it fell from 6.8 to 5.3 and in the United States from 9.2 to 6.9.

Birth is not the only area for which hospital stays are shorter. The average length of stay in hospital for other reasons is also falling in OECD countries, as a result of less invasive surgical treatment and efforts to control costs. The average length of stay for acute hospital care in OECD countries fell to 7.0 days in 2000 from 8.8 days in 1990. ■

- *OECD Health Data 2003* is available as a quadrilingual CD-ROM with free Internet updates from the OECD online bookshop at: www.oecd.org/bookshop

Indicators

			% change from:				level:	
			previous period	previous year			current period	same period last year
Australia	Gross domestic product	Q1 03	0.7	2.9	Current balance	Q1 03	-5.99	-2.91
	Leading indicator	May 03	0.0	1.5	Unemployment rate	May 03	6.0	6.2
	Consumer price index	Q1 03	1.3	3.4	Interest rate	May 03	4.78	4.84
Austria	Gross domestic product	Q1 03	0.1	0.4	Current balance	Q4 02	1.90	-0.18
	Leading indicator	May 03	0.0	2.7	Unemployment rate	May 03	4.3	4.3
	Consumer price index	May 03	0.0	1.1	Interest rate	May 03	*	*
Belgium	Gross domestic product	Q1 03	0.2	1.4	Current balance	Q1 03	2.30	2.82
	Leading indicator	May 03	-0.5	-5.7	Unemployment rate	May 03	7.9	7.3
	Consumer price index	Jun. 03	0.3	1.6	Interest rate		*	*
Canada	Gross domestic product	Q1 03	0.6	2.6	Current balance	Q1 03	5.33	4.25
	Leading indicator	May 03	2.0	0.0	Unemployment rate	May 03	7.8	7.7
	Consumer price index	May 03	0.1	2.9	Interest rate	May 03	3.32	2.59
Czech Republic	Gross domestic product	Q1 03	-2.2	2.2	Current balance	Q1 03	-0.93	-1.02
	Leading indicator		..	..	Unemployment rate	May 03	7.0	7.3
	Consumer price index	May 03	0.0	0.0	Interest rate	May 03	2.45	3.81
Denmark	Gross domestic product	Q1 03	0.4	1.4	Current balance	Q1 03	1.56	1.11
	Leading indicator	May 03	0.1	2.6	Unemployment rate	May 03	5.2	4.4
	Consumer price index	May 03	-0.2	2.2	Interest rate	May 03	2.49	3.66
Finland	Gross domestic product	Q1 03	-1.3	1.2	Current balance	Apr. 03	0.52	0.52
	Leading indicator	Apr. 03	1.0	-6.6	Unemployment rate	May 03	9.0	9.1
	Consumer price index	May 03	-0.1	0.7	Interest rate		*	*
France	Gross domestic product	Q1 03	0.3	1.1	Current balance	Apr. 03	-2.32	1.68
	Leading indicator	May 03	0.6	-1.9	Unemployment rate	May 03	9.1	8.7
	Consumer price index	May 03	-0.1	1.8	Interest rate		*	*
Germany	Gross domestic product	Q1 03	-0.2	0.2	Current balance	Q1 03	11.82	10.28
	Leading indicator	May 03	0.3	0.9	Unemployment rate	May 03	9.4	8.5
	Consumer price index	May 03	-0.2	0.7	Interest rate		*	*
Greece	Gross domestic product	2001	..	4.1	Current balance	Apr. 03	-1.15	-0.96
	Leading indicator	May 03	0.4	0.9	Unemployment rate	Dec. 02	9.6	10.6
	Consumer price index	May 03	0.4	3.9	Interest rate		*	*
Hungary	Gross domestic product	Q4 02	2.3	3.7	Current balance	Apr. 03	-0.63	-0.23
	Leading indicator		..	..	Unemployment rate	May 03	5.9	5.5
	Consumer price index	May 03	0.3	3.6	Interest rate	Apr. 03	6.40	8.41
Iceland	Gross domestic product	Q1 03	-4.8	3.3	Current balance	Q4 02	-0.02	0.06
	Leading indicator		..	..	Unemployment rate	May 03	3.4	2.3
	Consumer price index	Jun. 03	0.0	1.8	Interest rate	May 03	4.78	8.70
Ireland	Gross domestic product	Q4 02	2.5	6.4	Current balance	Q1 03	-1.12	-0.18
	Leading indicator	May 03	0.3	8.7	Unemployment rate	May 03	4.6	4.3
	Consumer price index	May 03	-0.1	3.7	Interest rate		*	*
Italy	Gross domestic product	Q1 03	-0.1	0.8	Current balance	Jan. 03	-2.01	-0.06
	Leading indicator	May 03	0.4	-1.1	Unemployment rate	Apr. 03	8.7	9.0
	Consumer price index	May 03	0.2	2.7	Interest rate		*	*
Japan	Gross domestic product	Q1 03	0.1	2.5	Current balance	Apr. 03	10.07	8.72
	Leading indicator	May 03	-0.1	-1.0	Unemployment rate	May 03	5.4	5.4
	Consumer price index	May 03	0.2	-0.2	Interest rate	May 03	0.03	0.05
Korea	Gross domestic product	Q1 03	-0.4	4.0	Current balance	May 03	0.23	0.58
	Leading indicator		..	..	Unemployment rate	May 03	3.4	3.1
	Consumer price index	Jun. 03	-0.3	3.0	Interest rate	May 03	4.40	4.80

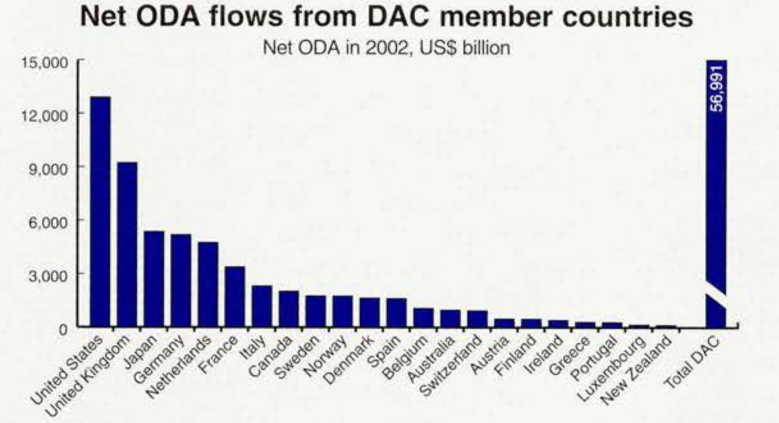
			% change from:				level:	
			previous period	previous year			current period	same period last year
Luxembourg	Gross domestic product	2001	..	1.0	Current balance	Q4 02	0.14	0.63
	Leading indicator	May 03	-0.3	-6.2	Unemployment rate	May 03	3.6	2.7
	Consumer price index	May 03	0.0	1.9	Interest rate		*	*
Mexico	Gross domestic product	Q1 03	-0.5	0.8	Current balance	Q1 03	-2.29	-3.42
	Leading indicator	May 03	3.7	9.5	Unemployment rate	Apr. 03	2.8	2.7
	Consumer price index	May 03	-0.3	4.7	Interest rate	Apr. 03	8.00	6.40
Netherlands	Gross domestic product	Q1 03	-0.3	-0.1	Current balance	Q1 03	0.64	2.76
	Leading indicator	May 03	0.1	-0.9	Unemployment rate	Apr. 03	3.9	2.6
	Consumer price index	May 03	-0.1	2.3	Interest rate		*	*
New Zealand	Gross domestic product	Q1 03	0.8	3.6	Current balance	Q1 03	-0.50	-0.27
	Leading indicator		..	..	Unemployment rate	Q1 03	5.0	5.3
	Consumer price index	Q1 03	0.4	2.5	Interest rate	Jun. 03	5.23	5.96
Norway	Gross domestic product	Q1 03	0.3	0.6	Current balance	Q1 03	7.51	6.04
	Leading indicator	Apr. 03	0.3	-0.9	Unemployment rate	Apr. 03	4.5	3.8
	Consumer price index	May 03	-0.5	2.1	Interest rate	May 03	4.92	6.90
Poland	Gross domestic product	Q2 02	6.1	1.0	Current balance	Dec. 02	-0.29	-0.40
	Leading indicator		..	..	Unemployment rate	May 03	20.1	19.7
	Consumer price index	May 03	0.0	0.3	Interest rate	Apr. 03	5.70	9.59
Portugal	Gross domestic product	Q1 03	0.1	-1.2	Current balance	Q1 03	-1.62	-2.40
	Leading indicator	May 03	0.1	-5.2	Unemployment rate	May 03	7.5	4.7
	Consumer price index	May 03	0.6	3.7	Interest rate		*	*
Slovak Republic	Gross domestic product	Q1 03	-4.8	4.1	Current balance	Q1 03	-0.14	-0.36
	Leading indicator		..	..	Unemployment rate	May 03	16.6	18.9
	Consumer price index	May 03	0.1	7.6	Interest rate	May 03	8.00	8.82
Spain	Gross domestic product	Q1 03	0.5	2.1	Current balance	Feb. 03	-1.56	-0.57
	Leading indicator	May 03	1.7	9.1	Unemployment rate	May 03	11.3	11.3
	Consumer price index	May 03	-0.1	2.7	Interest rate		*	*
Sweden	Gross domestic product	Q1 03	0.6	2.0	Current balance	Dec. 02	0.0	0.85
	Leading indicator	Mar. 03	0.4	5.7	Unemployment rate	May 03	5.4	4.8
	Consumer price index	May 03	-0.1	1.8	Interest rate	Jun. 03	2.81	4.28
Switzerland	Gross domestic product	Q1 03	-0.3	0.0	Current balance	Q4 02	8.35	6.93
	Leading indicator	May 03	0.1	3.0	Unemployment rate	May 03	3.7	2.4
	Consumer price index	Jun. 03	0.0	0.5	Interest rate	May 03	0.18	1.14
Turkey	Gross domestic product	Q4 02	-22.2	11.4	Current balance	Q1 03	-2.34	-0.32
	Leading indicator	May 03	2.4	0.8	Unemployment rate	Q4 02	11.4	10.6
	Consumer price index	May 03	1.4	30.7	Interest rate	May 03	41.00	48.00
United Kingdom	Gross domestic product	Q1 03	0.1	2.1	Current balance	Q1 03	3.91	-4.51
	Leading indicator	May 03	0.6	-3.0	Unemployment rate	Mar. 03	5.0	5.1
	Consumer price index	May 03	0.2	3.0	Interest rate	May 03	3.57	4.08
United States	Gross domestic product	Q1 03	0.4	2.0	Current balance	Q1 03	-136.11	-106.73
	Leading indicator	May 03	1.2	0.0	Unemployment rate	May 03	6.1	5.8
	Consumer price index	May 03	-0.2	2.1	Interest rate	May 03	1.22	1.82
Euro area	Gross domestic product	Q1 03	0.0	0.9	Current balance	Apr. 03	-1.09	0.27
	Leading indicator	Apr. 03	0.1	0.5	Unemployment rate	May 03	8.8	8.3
	Consumer price index	May 03	-0.1	1.9	Interest rate	May 03	2.41	3.47

Definitions and notes

Gross Domestic Product: Volume series; seasonally adjusted except for Czech Republic, Hungary, Iceland, Ireland, Poland, Slovak Republic and Turkey; ***Leading Indicators:*** A composite indicator based on other indicators of economic activity (qualitative opinions on production or employment, housing permits, financial or monetary series, etc.), which signals cyclical movements in industrial production from six to nine months in advance; ***Consumer Price Index:*** Measures changes in average retail prices of a fixed basket of goods and services; ***Current Balance:*** $US billion; seasonally adjusted except for Greece and Ireland; ***Unemployment Rate:*** % of civilian labour force – standardised unemployment rate; national definitions for Iceland, Korea, Mexico, Switzerland and Turkey; seasonally adjusted apart from Turkey; ***Interest Rate:*** Three months, except for Turkey (overnight interbank rate). * refer to Euro zone. ..=not available.

Source: Main Economic Indicators, July 2003.

Aid on the rise



Source: OECD

Donor countries in the OECD Development Assistance Committee (DAC) increased their official development assistance (ODA) by almost 5% in real terms in 2002 to US$57 billion, raising ODA to 0.23% of gross national income (GNI). This marked the beginning of a recovery from the all-time low of 0.22% of GNI seen in each of the past three years.

The rise included a 12% increase in US aid to US$12.9 billion (0.12% of its GNI), reflecting additional and emergency funds in response to the 11 September 2001 terrorist attacks and new initiatives in health and humanitarian aid.

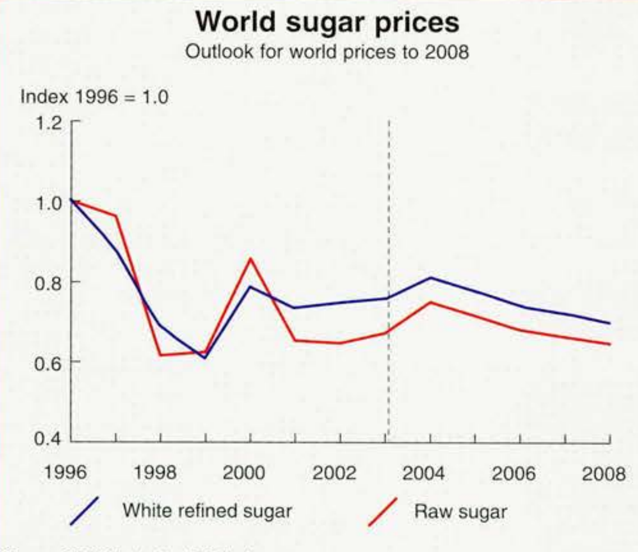
Aid from European Union countries rose 3% in real terms to US$29.1 billion, representing 0.34% of their combined GNI and including significant increases of 34% in Greece and 32% in Italy. On the other hand, there were falls in Austria and Spain, both down 16%, largely due to the fact that their 2001 figures had been boosted by exceptional debt relief operations.

Canada, meanwhile, increased its aid by 32%, including substantial debt forgiveness. Five countries – Denmark, Luxembourg, Netherlands, Norway and Sweden – met the UN target for ODA of 0.7% of GNI. Three other countries have also announced their intention to meet the 0.7% target: Ireland by 2007, Belgium by 2010 and France by 2012.

The broader outlook for aid is positive. Following commitments from most donors at the International Conference on Financing for Development at Monterrey, Mexico, in 2002, aid volume is expected to increase by about 30% in real terms by 2006. A meeting in late April of high-level officials from the OECD DAC countries, who, between them, account for about 95% of total ODA, welcomed this trend and stressed the need to continue to improve aid effectiveness, so as to speed progress towards the Millennium Development Goals. ■

- For more on the work of the DAC, visit: www.oecd.org/dac and www.oecd.org/development

Sugar lows



Source: OECD Agricultural Outlook

World sugar prices are likely to remain low over the next few years due to increased exports from low-cost producers and continuing high support and protection in many OECD countries, the latest issue of the *OECD Agricultural Outlook* found. Brazil, the leading low-cost producer, has a competitive sugar industry that matches the total tonnage currently traded on world markets. Developing countries hold the key to consumption growth, and the potential in the longer term to eat into the large stocks of sugar on the world market and improve the balance between supply and demand. The *Agricultural Outlook* cites China as a country with apparent scope to boost consumption and imports as incomes rise, but notes that other factors, such as official import policies and the availability of artificial sweeteners, must also be taken into account.

The latest *Agricultural Outlook* sees raw sugar prices improving slightly to US$191.8 per tonne in 2004/2005, up from US$172.0 in 2003/2004, but then falling in subsequent years to reach US$165.3 per tonne in 2008/2009. World stocks will see little change, at 68.3 million tonnes in raw sugar equivalent in 2008/2009 compared with 67.5 million in 2003/2004.

World production of agricultural products in general is forecast to grow over the period to 2008, boosted by a revival of the world economy from 2004 onwards, with an increase in consumption of coarse grains and oilseeds and a shift away from wheat- and rice-based staple foods towards more processed food and higher protein products such as meats. ■

- *OECD Agricultural Outlook 2003-2008* is available at www.oecd.org/bookshop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