

# Observer

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No. 264/265 December 2007-January 2008 [www.oecdobserver.org](http://www.oecdobserver.org)

Climate: A Bali road map?

Infrastructure: Mind the gap!

Anti-Bribery Convention at 10

Comparing China and India



## Babies and Bosses

What lessons for governments?

ECONOMIC OUTLOOK...ECONOMIC OUTLOOK...ECONOMIC OUTLOOK...ECON

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On the cover  
**Babies and Bosses**  
What lessons for governments?  
By OECD Observer  
©Arnd Wiegmann/Reuters



A man pulls a child on a sledge outside the federal Chancellery in Berlin. Several policy messages have emerged from the OECD's *Babies and Bosses* series. For instance, countries with the highest female employment rates are among the very countries with the highest birth rates! Yet,

workplaces and policies still fail to fully support fathers and mothers in combining their work and family responsibilities. And while the work/family balance is foremost a matter for parents and employers, governments can make a difference. Read how on pages 18-20.

# Observer

**oecd**

[www.oecdobserver.org](http://www.oecdobserver.org)  
© OECD 2008

2008 subscription rate:  
€64 – US\$82 – £43 – ¥8 900  
ISSN 0029-7054  
Tel.: +33 (0) 1 45 24 80 66  
Fax: +33 (0) 1 45 24 82 10  
[sales@oecd.org](mailto:sales@oecd.org)

Founded in 1962  
The magazine of the Organisation for  
Economic  
Co-operation and Development

OECD Publications  
2 rue André-Pascal  
75775 Paris cedex 16, France  
[observer@oecd.org](mailto:observer@oecd.org)  
[www.oecd.org](http://www.oecd.org)

Published in English and French  
by OECD and  
Pressgroup Holdings Europe SA  
San Vicente, 16-6-1  
46002 Valencia, Spain  
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Fax.: +34 96 303 1234  
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PUBLISHER: Angus McGovern  
ADVERTISING DIRECTOR: Liam Murray

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PRESS  
GROUP

## Healthy immigration?

You rightly point out that "the supply of medical staff reflects global movements of labour" (No 262, Databank, July 2007). But many of us might disagree with your upbeat headline: "Healthy immigration". In a report published in 2005, the Royal African Society argues that while recruitment of African medical professionals has shored up western health services, it has left the health sector in sending countries facing permanent crisis or even complete collapse. Take Malawi for instance. The country is one of the most severely affected by the HIV/AIDS epidemic, yet according to the Royal Society, there are more Malawian medical personnel in

Birmingham, England than in Malawi itself. Nobody would argue that African doctors and nurses should not have the right to emigrate (apart from anything else they and their home countries can benefit from the experience, and salaries, gained abroad). But the sending nations have invested heavily in training these professionals, and the OECD countries could do much more to ensure that the benefits of this investment are not lost, e.g. by financing schemes to train and retain staff in their home countries.

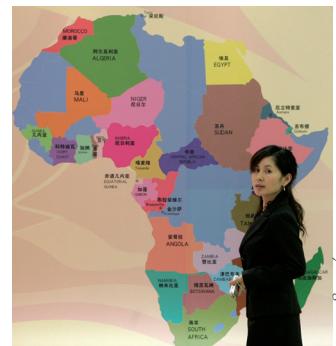
**Patrick Larmor**  
Edinburgh, UK

## China in Africa

Well done on a clever choice of photo for "Africa: An emerging markets frontier" (No 263, October 2007). Africa is certainly in a better state than it was and, as you point out, all that new investment coming from around the globe is encouraging. The test is how long it will all last. Some

economists say that large growing markets in China and India in some ways cushion Asia from a US recession, but can we say that about Africa? As your photo implies, perhaps Chinese investment could also cushion Africa if the world economy takes a dip.

**Maria Klakig**  
Bronx, NY, US



## "Comment.org"

The following is a selection of recent comments on articles registered at [www.oecdobserver.org](http://www.oecdobserver.org). Contacts are available at the site.

### Wire for development

"Someone at OECD [should] come up with better ideas of how to wire-up the developing world, in a way similar to OLPC (One Laptop per Child). OLPCs and Classmate PCs seem to be catching. However, only a proper communications infrastructure (i.e. access to the Internet) will leverage the real potential. PCs without net access are just mere toys nowadays." A reader commenting on "The Internet economy: Towards a better future", No 263, October 2007.

### Tyred

"It is deceptive to claim burning more tyres is an environmental good news story. Hopefully more can be recycled." Commenting on "Not so tyred", in Databank, No. 258/259, December 2006

### Do you agree with OECD

Observer articles, or want to add your view? Why not write a letter to the editor at [observer@oecd.org](mailto:observer@oecd.org) or key in your point using the special Comment button at [www.oecdobserver.org](http://www.oecdobserver.org)? Please include an address so we might contact you in the event of publication.



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# Ensuring a smoother flight

**Angel Gurría**, Secretary-General of the OECD

If Shakespeare was right, and the world is a stage, then “Gathering Storm” could be the title of the play as we enter 2008. With a US economy flirting with recession, the euro area losing stamina under a strong euro, a barrel of oil close to \$100, international food and commodity prices reaching record levels and climate change intensifying, it looks like we are heading into a turbulent zone.

However, the OECD is not here to shout “fasten your seatbelts”—there are many others doing that already. We are here to present scenarios, identify good practices and provide innovative solutions to assure a smoother flight and a safe landing. Reversing these negative trends will require an extraordinary degree of multilateral co-operation, and a lot of creative thinking. We can make a difference, and actually, the OECD is already making a valuable contribution.

Ancient wisdom says: be careful what you wish for, because you just might get it! Our member countries have entrusted us with many important briefs and honouring them will demand hard work, talent and co-ordination. In 2008, the OECD must carry these initiatives forward and consolidate our role as a hub of globalisation.

Looking back on our achievements of 2007 fills me with a sense of satisfaction that the organisation is adapting to a constantly changing world with remarkable agility and speed.

Take enlargement talks with Chile, Estonia, Israel, Russia and Slovenia. The accession roadmaps have already been delivered to capitals in candidate countries, with kick-off missions already launched.

Our process of “enhanced engagement” with five of the world’s major emerging economies—Brazil, China, India, Indonesia and South Africa—has gathered momentum too, as shown by the growing participation of these countries in OECD work.

This historical “opening” is giving the OECD new weight and significance in global affairs.

Further testimonies of this vibrant, more relevant OECD are everywhere. They include the creation of the Heiligendamm Process Support Unit to facilitate G8 dialogue with major emerging global players, and the Partnership for Democratic Governance to help build capacity in new democracies and fragile states around the world. Our collaboration on development matters with other international organisations like the World Bank, the WTO, the UNDP and the regional development banks has never been stronger.

On promoting the political economy of reform, we are helping countries as diverse as Mexico, Hungary and France in setting

forth the conditions needed to achieve higher sustainable growth paths. Our PISA survey of student competence has proven itself as an international reference for the improvement of educational systems, with the model now being used to assess adults too. And on health, we are drawing worldwide attention to neglected infectious diseases.

Our active participation in the UN Climate Change Conference in Bali in December underlined our capacity to propose innovative solutions and facilitate a better understanding of the way forward on what is set to be the most important global challenge of this century. We will continue our efforts in April at our environment ministerial meeting, and again at our main OECD ministerial council meeting in June, which will focus on the economics of climate change.

Meanwhile, the implementation of the OECD Innovation Strategy is moving ahead, to help our members enhance their economic performance in the global economy by investing in research, new value-added products and new ways of doing business. A strong global economy also relies on policies for supporting infrastructures, and that includes the still evolving Internet, whose future challenges will be addressed by member governments in an important ministerial meeting in Korea next June.

We must further our work in many other areas too: on migration, labour, governance, competition, trade and agriculture, etc. However, our challenges are not just external. We are also engaged in a process of internal reform, to strengthen the OECD’s institutional foundations. Our staff and financial rules, including our auditing arrangements, budget and human resource policies: all must be reviewed to enable the organisation to move forward and meet fresh challenges .

The start of 2008 also marks the opening of the OECD’s state-of-the-art conference centre in Paris, giving new physical expression to a new chapter now unfolding in this institution’s history.

For the OECD is not merely a group of international officials, economists or diplomats; we are a multicultural team that believes a new reality is possible. As Woodrow Wilson would have it: “We are here in order to enable the world to live more amply, with greater vision, with a finer spirit of hope and achievement. We are here to enrich the world, and we impoverish ourselves if we forget this errand.”

The OECD is in the business of helping to transform this world into a better place. With hard work and talent, and the commitment of our member countries, we can face the gathering storm and build a brighter future for everyone. ■

• News brief •

## Accession talks go ahead

**O**ECD countries have given a green light for the start of accession talks with five candidates for membership: Chile, Estonia, Israel, Russia and Slovenia.

The approval of so-called "roadmaps" setting a negotiating framework for each of the five countries marks the formal launch of a process agreed at an OECD ministerial meeting in May 2007. In parallel, the OECD has announced plans to engage more closely with five major emerging economies: Brazil, China, India, Indonesia and South Africa. The twin-track process is designed to reinforce the OECD's role as a hub for dialogue on global issues, said OECD secretary-general, Angel Gurría.

"By extending our membership and deepening our relations with other big players in the world economy, we are broadening our perspectives and consolidating our role as a source of policy solutions," Mr Gurría added.

"Governments must work together to tackle issues like innovation and intellectual property rights, poverty and inequality, climate change and international migration. OECD provides a forum for doing that."

Created in 1961, the OECD has 30 members, the newest member being the Slovak Republic, which joined in 2000. Accession negotiations will take place individually between the candidate countries and the OECD committees that handle the organisation's work, in policy areas ranging from farming to financial affairs and from taxation to trade.

Once OECD committees are satisfied that a candidate country fulfils their requirements for membership, a final decision on whether to issue an invitation for membership will be taken on a basis of consensus by the OECD's governing council. ■

## Anti-corruption fight rewarded—

The OECD has marked the 10th year anniversary of its Anti-Bribery Convention by receiving not one but two accolades for its work against corruption. Transparency International presented one of its two annual Integrity Awards to Mark Pieth, the chair of OECD's Working Group on Bribery, for his "outstanding leadership in fighting corruption on an international scale."

Separately, *African Investor* magazine "highly commended" the OECD's Anti-Corruption Division for its work with South Africa. In a speech accepting the award for Smart Regulation, Patrick Moulette, head of the Anti-Corruption Division, said that this recognition gave "an important signal that the African business community is willing to take measures to tackle foreign bribery—a crucial step for ensuring an attractive and stable African investment climate."



©OECD/Jacques Brunon

Mark Pieth

South Africa had already become the first African country to sign the OECD Anti-Bribery Convention earlier in the summer, joining the OECD Working Group on Bribery as its 37th member (see *OECD Observer* No. 262, page 4).

Congratulating both Prof. Pieth and members of the Anti-Corruption Division, OECD Secretary-General Angel Gurría said these awards were a clear signal of support for the international fight against corruption and noted a growing recognition that corruption undermines democratic institutions and damages the investment climate in developing countries. See also page 23. ■

## —as Brazil and Turkey warned

Meanwhile, the OECD's Working Group on Bribery is keeping up the pressure in monitoring the progress of the 37 countries that have signed the treaty. The most recent reviews are of Brazil and Turkey, which the OECD says urgently need to do more to meet their commitments under the OECD's Anti-Bribery Convention.

For Brazil this includes clarifying tax rules in order to prohibit the

deductibility of bribes to foreign officials. More should also be done to raise public awareness of the fight against such bribery. In a separate report, the Working Group found that Turkey, a Party to the Convention since 2000, has yet to implement some of its key elements, such as the enforcement of foreign bribery offences and the establishment of corporate liabilities for the bribery of foreign public officials. ■

For more information, visit  
[www.oecd.org/daf/nocorruption](http://www.oecd.org/daf/nocorruption)

## • News brief •

### Latin American reforms

Democracy, macroeconomic stability, deregulation and privatisation have helped bring about significant positive change in many Latin American countries since the early 1990s. However, for progress to continue, many more reforms are needed, says the *Latin American Economic Outlook*—the first-ever OECD economic outlook survey for the region.

Making public sector spending both more efficient and equitable should rank high on the to-do list. For example, access to basic services, such as clean water and electricity, still remains poor in certain regions.

### Jobless benefits

Roughly one-third of all OECD countries have cut unemployment benefits in the last six years in an effort to increase work incentives, according to the recent OECD report, *Benefits and Wages 2007*. In 2005, the average net replacement rate (the ratio of income out of work to income in work, after taking account of taxes and

In fact, according to the survey, fewer than one in four Latin Americans believe their taxes are being well spent.

Simplifying tax codes and making them less regressive should also be another priority. Latin America has one of the highest levels of income inequality in the world.

Rising levels of foreign investment have spurred noticeable advances in certain areas, such as in telecommunications. Telephone density (lines per 100 inhabitants) has easily increased the most where FDI per capita in the sector has been greatest. The survey also found that, contrary to widespread fears throughout the region, the rise

of China and other Asian nations has been, on the whole, a strong driver of growth, particularly in Latin American countries which rely on commodity exports.

In order to boost the region's low level of savings, the survey also encourages Latin American governments to treat Chile's pension reforms as a model. Private pensions in Chile have led to savings levels much higher than the regional average, while also helping to stimulate the rapid development of Chile's financial markets. ■

For more, contact [Colm.Foy@oecd.org](mailto:Colm.Foy@oecd.org) or order the report at [www.oecdbookshop.org](http://www.oecdbookshop.org), ISBN: 9789264038264.

### Economy

The standardised **unemployment rate** for the OECD area was 5.5% in November 2007, 0.1 percentage point lower than the previous month and 0.4 percentage point lower than a year earlier. At 7.2% in November 2007, the euro area standardised unemployment rate remained the same as the previous month, while down 0.7 percentage point from the previous year. The rate for the US for December 2007

benefits) in the OECD stood at 56%, down from 59% in 2001.

Benefit levels for the unemployed are highest in the Nordic countries, at over 70%. The US, Italy, Greece and Turkey, with levels all below 30%, have the lowest benefits. While high benefit levels are one factor which may discourage people from seeking employment, there are others. High tax burdens for the employed create

a similar disincentive, the study finds. In fact, an unemployment benefit recipient returning to a full-time job at average pay loses a staggering 66 cents for each euro or dollar earned in the new job when both in-work taxes and the loss of out-of-work benefits are taken into account. ■

See *Benefits and Wages 2007: OECD Indicators*, ISBN 9789264023789.

was 5.0%, 0.3 percentage point higher than the previous month and 0.6 percentage point higher than in December 2006. For Japan, the rate was 3.8% in November 2007, 0.2 percentage point lower than the previous month and 0.2 percentage point lower than the previous year.

Inflation increased as **consumer prices rose** by 3.3% in the OECD area in the year to November 2007, compared with 2.8% in the year to October 2007. It also rose on a monthly basis, by 0.5% in November after

an increase of 0.3% between September and October 2007.

Energy and food items account for most of the increase in inflation. Excluding these items, consumer prices rose by 2.0% in the year to November compared with 1.9% in October, while prices for energy increased by 13.3% year-on-year in November, compared with a rise of 8.5% in October. Consumer prices for food were up by 4.6% year-on-year in November, compared with 4.1% in October.

### Soundbites

#### Hard times—

"The year ahead is an important one for Ireland. It marks a transition from a prolonged phase of sustained economic and social progress to a period of slower growth in employment and living standards. This transition will be difficult, as Irish society seeks to come to terms with life in a slower lane."

Editorial, *The Irish Times*, 1-2 January 2008

"We need an interest rate reduction. It is the toughest [trading conditions] I have seen in a decade..."

Sir Stuart Rose, CEO of retailer Marks & Spencer, quoted in *Financial Times*, 10 January 2008

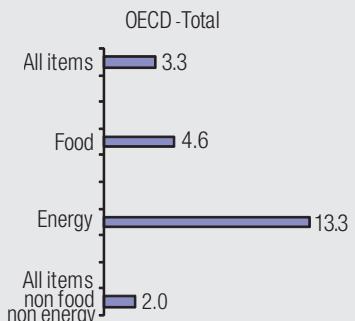
#### —and tough lessons

"France should not be falling behind like this. We are way below the European average."

Xavier Darcos, France's minister for education, on the results of the OECD PISA 2006 survey of student performance, cited in *Les Echos*, 30 November 2007. OECD *Observer* translation.

### Consumer prices

OECD total, Nov. 2007  
% change on a year earlier



Source: OECD

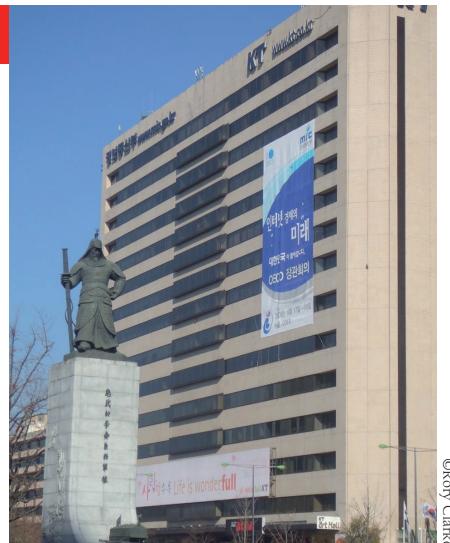
(continued on page 6)

• News brief •

## Guarding the Net

A statue of Korea's legendary General Lee Soon Shin stands guard outside the Ministry of Information and Communications in central Seoul. A poster announcing a major international joint Korean/OECD ministerial conference on the Future of the Internet Economy to be held on 17-18 June 2008 hangs at the front of the building.

See "The Internet economy: Towards a better future", by Susanne Huttner in the previous edition (No 263, October 2007, now available online). For more details on this major ministerial conference, please see [www.oecdministerialseoul2008.org/en/](http://www.oecdministerialseoul2008.org/en/) and [www.oecd.org/FutureInternet](http://www.oecd.org/FutureInternet) ■



©Rory Clarke

## Nano-safety

A new programme has been launched to test the safety of manufactured nanomaterials. Managed by the OECD Working Party on Manufactured Nanomaterials, it will measure the physical-chemical properties, environmental degradation and accumulation impact, environmental toxicology and mammalian toxicology of nanomaterials which are already or will be in use.

Nanotechnology refers broadly to a field of applied

science and technology whose unifying theme is the control of matter on the atomic and molecular scale—normally one to 100 nanometres—and the fabrication of devices with critical dimensions that lie within that size range. Nanotechnology is now used in a wide variety of applications, from computer chip design to sunscreen and tennis rackets. ■

For more, see [www.oecd.org/env/nanosafety/](http://www.oecd.org/env/nanosafety/)

## Italian red tape

Italy should cut red tape by further streamlining regulation between different regions and increasing co-ordination between national and regional government, says a new OECD report, *Italy: Ensuring Regulatory Quality across Levels of Government*. It explains that such measures would help boost innovation, strengthen competition, and improve economic performance throughout the country.

Decentralisation and membership in the EU has

been a major stimulus to innovation in Italy, the report notes. But much more needs to be done in the form of clarifying the roles and competencies of national and local government, simplifying existing laws and introducing a more transparent legal framework. Increased use of arbitration and conciliation to settle disputes would lower costs and reduce the strain on the legal system. ■

Order the report at [www.oecdbookshop.org](http://www.oecdbookshop.org), ISBN: 9789264037977.

## Steely growth

The global steel market is in its sixth year of strong output and demand growth. But the outlook for 2008 is less buoyant amid weaker prospects for global economic growth, according to industry and government officials at the OECD's Steel Committee meeting in Paris on 3-4 December 2007.

Global crude steel production is on track to grow by 8%, to roughly 1.3 billion

tonnes for 2007. Weaker growth in North America and the EU is being offset by rapid production expansion in emerging economies, especially in Asia, with China continuing to drive world production growth.

Factors such as the US housing market downturn and high prices of many raw materials may moderate these projections. ■

For more, [sti.contact@oecd.org](mailto:sti.contact@oecd.org) or see the website [www.oecd.org/sti/steel](http://www.oecd.org/sti/steel)

## Economy

(continued from page 5)

For individual countries, consumer prices in the US increased by 4.3% over the year to November, compared with 3.5% in the year to October 2007. Over the 12 months to November, consumer prices rose by 0.6% in Japan, 3.1% in Germany, 2.5% in Canada, 2.4% in Italy and in France, and 2.1% in the UK. ■

For more details and data on OECD economic statistics, see [www.oecd.org/std/newsreleases](http://www.oecd.org/std/newsreleases)

## • News brief •

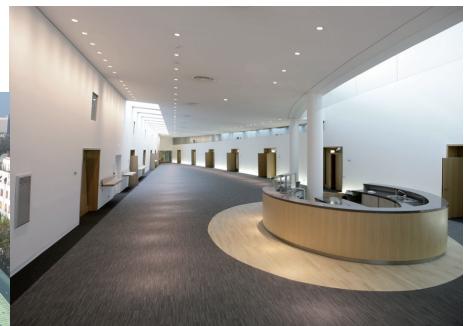
# New conference centre opens

The OECD's state-of-the-art conference centre finally opened with its inauguration by the secretary-general,



reception area was designed with six lanes for visitors to claim their security badges. The rooms can be divided and subdivided with various permutations, for instance into 13 rooms at a time, from 70 to 400 m<sup>2</sup>

The OECD headquarters' renewal project, which was launched in 2000, also includes renovation of the



Angel Gurría, on 16 January. The 12,000 m<sup>2</sup> conference centre provides a spacious welcome and reception area, a media centre with radio and TV studios, an Internet café with WiFi access, and a new OECD bookshop. There are some 3,000 m<sup>2</sup> of conference rooms, all equipped with the latest in acoustics and audiovisual aids, not forgetting 48 interpretation booths. The centre, built on three levels, is capable of hosting 2,000 conferences per year, with 1,500 participants at a time. The



each, with an auditorium of 150 m<sup>2</sup>. Half of the conference rooms can be adjoined to create one large space of 1,600 m<sup>2</sup>. A 600-seat auditorium is also incorporated.

1922 château, completed in 2005, and a complete revamping of the main OECD office building, which is expected to re-open fully in 2009. A French-American team of well-known architects SCAU Macary, Menu & Delamain, and Pei, Cobb, Freed & Partners is leading the project. ■

For more information, contact [observer@oecd.org](mailto:observer@oecd.org)

## World Bank ties

The World Bank and OECD have agreed to step up their co-operation in a number of key areas, including efforts to promote sustainable growth, the economics of climate change, aid for trade, innovation and the design of comprehensive country frameworks for investment.

The announcement was made at a joint seminar in Washington DC in December, attended by OECD Secretary-General Angel Gurría and World Bank President Robert Zoellick. "Addressing the challenges of the globalising economy means addressing the needs of those people and countries

that remain on the fringes, as well as those which are emerging into the mainstream," said Mr Zoellick. "There are many areas in which the World Bank Group and the OECD can intensify their co-operation, as the Bank moves to operationalise a vision of inclusive and sustainable globalisation."

The objective of this co-operation is "to help countries benefit from and tackle the challenges of globalisation," Mr Gurría explained. ■

For more, see news release of 18 December 2007 at [www.oecd.org/media](http://www.oecd.org/media) or contact [Observer@oecd.org](mailto:Observer@oecd.org)

## Plus ça change...

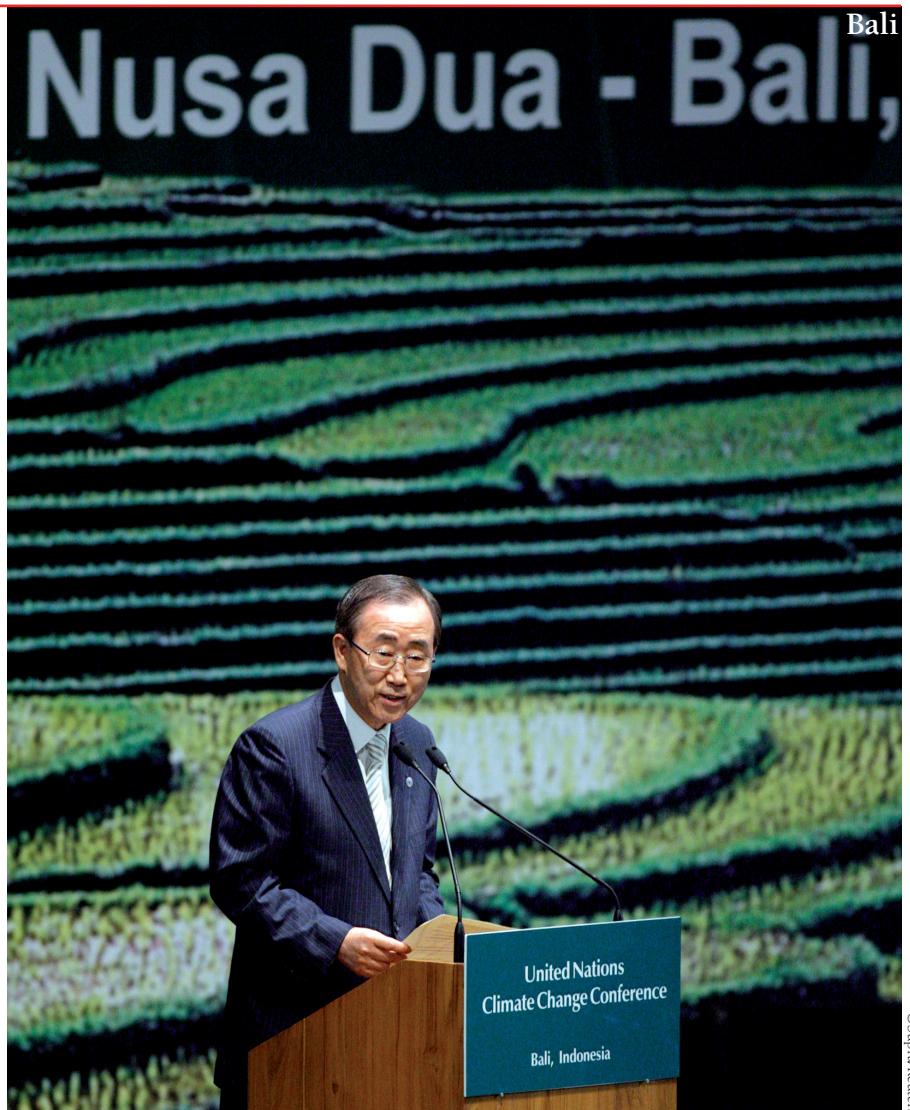
It is now abundantly clear that, if the pace of scientific progress is to be turned to good account for the national welfare and for the well-being of individual citizens, a higher level of understanding and technical competence will be required of an ever-growing proportion of the population.

Henning Friis, "Preventing a bottleneck in economic progress: OECD works to avoid shortages of scientists and engineers". From *OECD Observer* No. 4, June 1963

# The **Bali** road map

**Adrian Macey**, Climate Change Ambassador of New Zealand, Ministry of Foreign Affairs and Trade

**The United Nations Framework Convention on Climate Change Conference in Bali in December 2007 was high in political stakes as well as emotion. But did it produce a result and what more might be done? New Zealand's climate change ambassador offers his views.**



Ban Ki-moon, Secretary-General of the UN, speaks at the conference on climate change in Bali, December 2007

**T**he dramatic last day of the UN Climate Change Conference in Bali produced an agreement, but to do what exactly? Stripped of the constructive ambiguity needed to reach consensus, it amounts to acceptance of the need for global cuts in emissions, in which all developed countries take a leading role, and developing countries make quantifiable contributions in return for assistance in technology, financing and adaptation. A commitment to address reducing emissions from deforestation is another key outcome.

It's not really a road map yet—rather a sketch of a route over unmapped territory. The next two years of negotiations will have to create the

necessary roads and milestones. It is a daunting task to undertake in such a short time, but one in which there is a leading role to be played by both OECD governments and the Organisation.

For New Zealand the comprehensiveness of the outcome on post-2012 arrangements is welcome. Our own contribution to comprehensiveness is our emissions trading scheme. It gets under way next year, and by 2013 is intended to include all sectors of the economy and all greenhouse gases. It was fitting that the legislation introducing the scheme passed its first reading in our parliament during the Bali meeting with only two votes against. New Zealand is also leading research on non-CO<sub>2</sub>

greenhouse gases from livestock, which has had little international attention so far, even though for some countries this can be 25% or more of total emissions—and in New Zealand's case almost 50%. We have established an international research network, the Livestock Emissions Abatement Research Network (LEARN), to take this work forward.

What can the OECD as an organisation contribute to the Bali road map? The OECD's major assets are its analytical capacity and its engagement with some of the major developing countries and emerging economies. Being a forum for engagement rather than negotiation gives the OECD more freedom to explore issues with developing country partners.

Climate change is already a crowded field. There is no need for the OECD

to duplicate work that is being done elsewhere, such as the fundamental design of the post-2012 arrangements, sectoral approaches to reducing emissions, or improving the Kyoto Protocol's existing flexibility mechanisms.

The International Energy Agency (IEA), a sister organisation of the OECD, is playing a fundamental role in the single most important issue of climate change, the future of energy supplies and production. The OECD/IEA Annex I Expert Group established under the United Nations Framework Convention on Climate Change (UNFCCC) in 1994 to address analytical issues also plays a useful role, from providing guidance on standardised reporting to laying the groundwork for emissions trading and other market instruments in the Kyoto Protocol. Environment, trade and development experts all play their part.

But in looking at climate change across the OECD there needs to be a stronger shift from compiling the work of individual directorates to greater co-ordination under strategic priorities, aligned with the needs of the post-2012 negotiations. There are gaps to be filled, many of them in the economic field. Topics the OECD could continue to address include: modelling of macro and microeconomic impacts; trade and climate change; financial instruments; assessing the costs of mitigation; possible burden-sharing arrangements to ensure comparability of effort between different countries; and criteria to guide the participation of developing countries.

Cracking some of these difficult issues would be a welcome contribution to turning the Bali sketch into a veritable road map. ■

## Green agenda

**T**he environment, particularly climate change, features high on the agenda in OECD business in the months ahead.

“Environment and Global Competitiveness” is the theme of the 2008 **OECD environment ministers meeting** (Meeting of OECD Environment Policy Committee at Ministerial Level), which will take place 28-29 April. Among the highlights, ministers will discuss the results of the **OECD Environmental Outlook to 2030**, to be released on 5 March. Policy discussions will likely touch on environmental priorities for the coming decades, environmental co-operation with major emerging economies, competitiveness, eco-innovation and climate change. The OECD environment ministers last met in April 2006, when they were joined by the OECD development co-operation ministers. More detail

will be available in February at [www.oecd.org/envmin2008](http://www.oecd.org/envmin2008). Information on the *OECD Environmental Outlook to 2030* is available at [www.oecd.org/environment/outlook2030](http://www.oecd.org/environment/outlook2030). Contact: [Kumi.Kitamori@oecd.org](mailto:Kumi.Kitamori@oecd.org)

The OECD-based **International Transport Forum** has set “Transport and Energy: The Challenge of Climate Change” as the subject of its first ministerial meeting, to be held on 28-30 May in Leipzig, Germany. Ministers there will discuss advances in energy-efficient transport technologies, reducing CO<sub>2</sub> emissions in goods transport, changing behaviour in passenger transport and the degree of transport dependency on oil. See [www.internationaltransportforum.org/forum2008.html](http://www.internationaltransportforum.org/forum2008.html)

Barely a week later, OECD ministers will meet on 4-5 June to discuss

“Outreach, Reform and the Economics of Climate Change” at the 2008 **Meeting of the OECD Council at Ministerial Level**. This is the summit in the OECD calendar, and this year France's minister of economy, finance and employment, Christine Lagarde, will chair the event. Information will soon be available at [www.oecd.org/mcm2008](http://www.oecd.org/mcm2008)

Environment also forms part of the theme of this year's **OECD Forum 2008**, a multistakeholder public debate that takes place in conjunction with the ministerial meeting on 3-4 June. “Climate Change, Growth, Stability: The price of reform and the cost of inaction” will be debated by the OECD Forum's gathering of over 1,000 leaders from government, business, labour and civil society, as well as from other international organisations. For more, see: [www.oecd.org/forum2008](http://www.oecd.org/forum2008)



# Clean Development Mechanisms Can they work?

Market-based credits can help control emissions alongside other instruments, though the system needs more work. And time.

**C**limate change is a global challenge and must be fought on many fronts, but where to start? After all, some countries and sectors emit more greenhouse gases than others, and reducing emissions does not cost the same everywhere. A sensible approach would be to start mitigation efforts wherever reducing emissions can be achieved for the least cost.

This is what the Clean Development Mechanism (CDM) aims to encourage, as well as promoting sustainable development. Set up under the Kyoto Protocol, the mechanism seeks to reduce greenhouse gases by allowing firms in developed nations to meet some of their emissions targets by initiating greenhouse gas reduction projects in developing countries where reduction costs are lower.

How does it work? The CDM is market-based, allowing projects in developing countries to generate "credits", corresponding to their emission reductions. There are several conditions that a project has to fulfil before it can qualify as a CDM project, including approval by the host country government. Projects are developed either unilaterally, i.e. by a project developer in a developing country, or with funding from a party whose credits count towards greenhouse gas limitation or reduction targets in developed countries.

Projects are vetted for their "additionality" to ensure that any reductions in carbon are new and would not have occurred anyway. An "emissions baseline" is also established to help calculate the level of greenhouse gas emissions that would have

been generated if the CDM project had not gone ahead.

Does the market work? The answer is a "yes, but". Though set up in 2005, at latest count for 2007, before the UN Climate Change Conference in Bali in December, over 850 CDMs had been registered, with 1,700 in the pipeline. (For updates, see [cdm.unfccc.int](http://cdm.unfccc.int), click "project activities".) This is a positive sign, but there are question marks, not least about the quality of some of the projects and whether they deliver real cuts in emissions.

One issue has been a tendency to target projects that deliver high volumes of credits, but that are not widely replicable. The CDM has proved effective in cutting emissions of one particular hydrofluorocarbon (HFC-23),

## Clean credits

notably in China where output was high and relatively cheap and easy to correct.

While this focus on low-hanging fruit may be normal in new markets, it nonetheless highlights a challenge: how to channel investment in widely replicable GHG-reducing projects that also have significant sustainable development benefits.

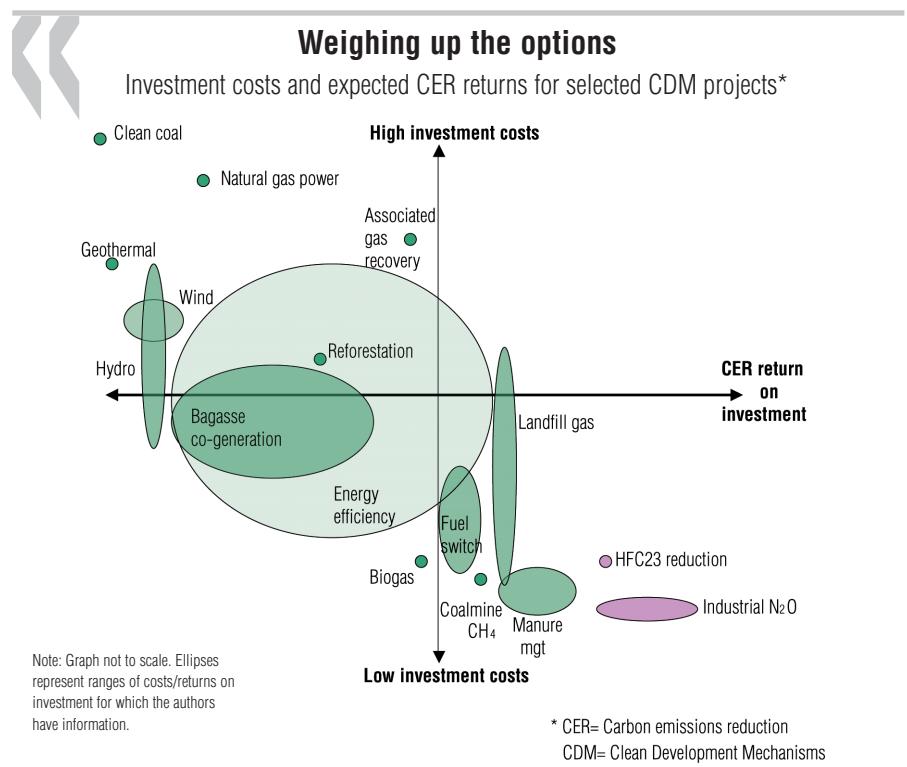
For example, energy efficiency, sustainable transport and non-hydro renewable energy projects are still a small part of the CDM portfolio. This is for several reasons, including that these types of projects often generate relatively low numbers of credits, have a high investment cost, and/or generate low returns.

Some say this risk aversion reflects the uncertain future of the CDM after 2012, when the current Kyoto Protocol is due to expire. An extension over a longer timeframe would incite investments with a longer payback.

There are other structural issues in the CDM market to resolve. Largesse in setting baselines for carbon should be tightened up, as should procedures in deciding whether reductions are truly additional. And there is a concern about whether the market has not driven up the price of some credits for quite straightforward projects, such as removing HFC-23 or N<sub>2</sub>O, which could have been removed by other cheaper means.

Another criticism surrounds the uneven geographical concentration of credits. By 2012, China, India, Brazil, Korea and Mexico are expected to account for 84% of CDM credits. China alone accounts for 53%. Three-quarters of HFC-23 credits concern Chinese projects, as do half of all landfill gas projects. Sure enough, China is a major emitter, but investment is needed to promote sustainable development elsewhere too.

How can the Clean Development Mechanism direct buyers towards projects with high overall benefits in terms of sustainable development and carbon reduction, even if with lower initial returns? One problem is that the mechanism's architecture does not specifically reward returns on downstream benefits, such as



Source: OECD, IEA

## CDMs were designed to help OECD governments and corporations fight climate change more affordably.

revenue from electricity, or cost savings from recycling, for instance. Some market players complain about the complexity of procedures, too: a tonne of carbon may be obviously cheaper to remove in a project in a developing country, but when assessment and approval is added on, the costs rise. A simpler procedure would keep compliance costs down and those returns attractive.

In other words, the CDM market has the potential to deliver more real emissions cuts, but it has to work in tandem with regulatory approaches. And this also supposes ironing out incoherent policies. For instance, renewable energy projects should not be scuppered by limitations on the amount of electricity independent producers may feed into national grids, or by red tape affecting foreign investment and ownership. And

subsidies for fossil fuels or heating can cancel out efforts to produce cleaner energy.

CDMs have other positive spin-offs. They promote transfers of technology to poorer countries, and also focus minds on how to tackle climate change in a cost-effective manner.

The CDM was designed to help OECD governments and corporations fight climate change more affordably, and it is growing quickly to be a significant instrument. It is expected to reduce more than 2 billion tonnes of emissions by 2012, and those gains could be built on. Such market instruments clearly have a role to play and policymakers must do more to improve the framework so that the Clean Development Mechanism can deliver genuine emissions cuts. ■ *RJC/LT*

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- For more on OECD work on the CDM, contact [Jane.Ellis@oecd.org](mailto:Jane.Ellis@oecd.org)
- For more on OECD work on climate change in support of the United Nations Framework Convention on Climate Change, see [www.oecd.org/env/cc/aixg](http://www.oecd.org/env/cc/aixg)

# Avoiding a catastrophe

**The emergence of China and India on the world economy still unfolds. Lifestyles are evolving fast, and that means more demand, more energy consumption and more greenhouse gas emissions. But what of the impact on climate change?**

China is now the world's second largest energy market, and its CO<sub>2</sub> emissions level has more than doubled since 1985. With more economic expansion ahead, the government is acting to curb energy intensity. However, given current policies, the International Energy Agency sees China's primary energy demand nonetheless rising, from

1,742 Mtoe (million tonnes of oil equivalent) in 2005 to 3,819 Mtoe in 2030. The IEA's *World Energy Outlook 2007* also sees slowing in industrial use of energy from 2015, with a shift towards electricity from coal. There is little doubt that stricter enforcement of existing policies, as well as some new ones, would improve the picture even more, the IEA says, reducing demand for oil and coal, though boosting it for nuclear energy, renewables and natural gas. With more efficiency, the benefits to China would be economic as well as environmental, and given the country's weight in the world, the planet would win out too.

As for India, its energy demand was also rising by some 3.2% per year in 2000-2005, and in 2005 stood at the level of Japan—about 537 Mtoe. The IEA's business-as-usual scenario sees industrial energy demand accelerating to 4.7% per year in 2005-15, fuelled by infrastructure needs. Transport demand also surges.

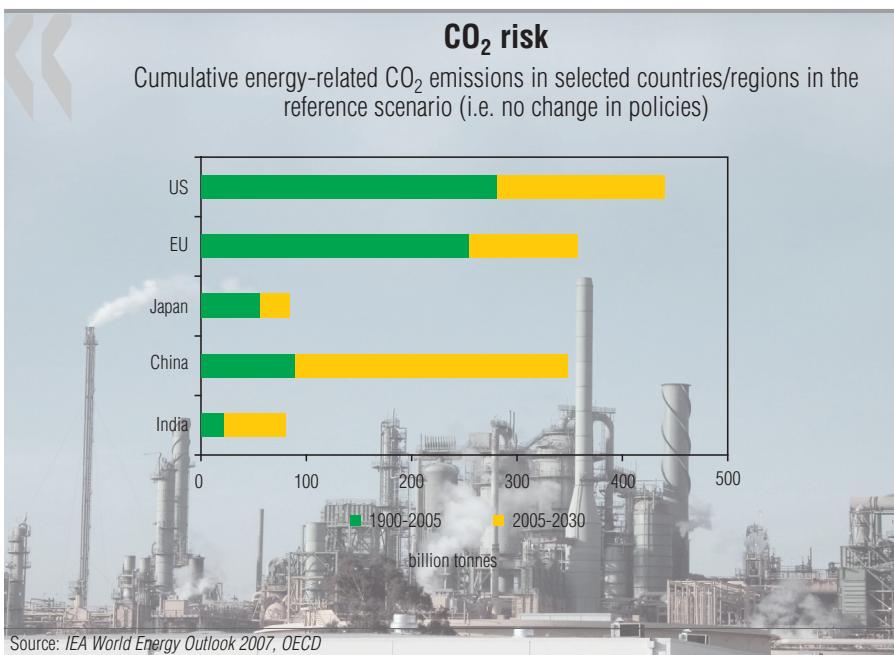
India would become the largest CO<sub>2</sub> emitter in the world by 2015. Again, as with China, this picture could change if new policies under consideration were implemented, with coal savings being particularly high, and savings in investment costs as well.

Given the IEA's base scenarios, the hope must clearly be that China and India will implement new policies, especially as the report's authors emphasise that continued development "need not be incompatible" with environmental goals.

But what if China's and India's economies grew even faster than expected? Indeed, what if they caught up in GDP per capita with the OECD?

This scenario, the report says, would require a level of energy use beyond the world's energy resource endowment to provide. It would also be unsustainable without new policies, outstripping the planet's absorptive capacity.

Take oil. If per capita oil demand in China and India were to rise to current US levels, under present policies the combined increase in their oil demand would be almost twice the level of current world oil demand. Without major changes, total world demand would deplete proven oil reserves in 15 years. And if their per capita CO<sub>2</sub> emissions reached US levels, world emissions would be three times higher than today. In other words, without new policies, more co-operation and different development paths, for the IEA, the effect on climate change would simply be "catastrophic". ■ RJC



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# Flood warning

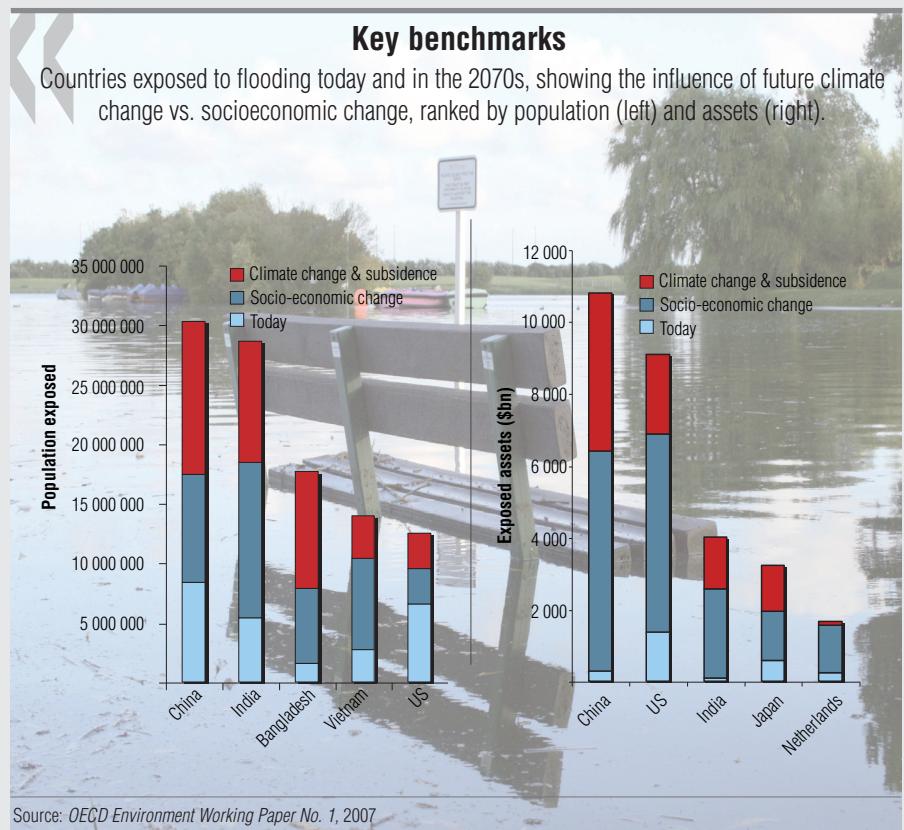
**M**ore than three times the number of people around the world could be exposed to coastal flooding by 2070, largely because of climate change, a new report argues. With urban development along coasts increasing, an estimated 150 million people—up from 40 million people today—could be exposed to a one in 100 years coastal flood event.

The estimated financial impact of such an event would rise to US\$35 trillion, up from \$3 trillion today.

The OECD report, co-authored with experts from the University of Southampton, Risk Management Solutions, Météo-France, and the Centre International de Recherche sur l'Environnement et le Développement, is the first in a series that will focus specifically on the impacts of climate change on cities.

Looking at over 130 port cities around the world, it found that around half of the total population exposed to coastal flooding is contained in just 10 cities. By 2070, an estimated eight out of ten of these cities will be in Asia, as unprecedented growth and development of Asian megacities increase the risks of global flooding. Mumbai is currently the most vulnerable city. Yet, by 2070 Calcutta will surpass Mumbai as the city's population exposed to coastal flooding increases sevenfold to more than 14 million people. Calcutta and Mumbai will be closely followed by other Asian cities, such as Dhaka, Guangzhou, Ho Chi Minh City and Rangoon.

That ranking changes when the cities with the highest value of property



and infrastructure are considered. Those cities whose assets are exposed to coastal flooding are primarily in developed countries. So while Miami is expected to rank ninth in terms of city populations most vulnerable to coastal flooding, by 2070 it is estimated to come in highest in terms of assets, whose exposure to flooding will surge from \$400 billion to \$3.5 trillion. Miami is followed by other cities such as New York and Tokyo, as well as major cities in developing countries, such as Calcutta, Shanghai and Bangkok.

How can policymakers respond? Sure enough, mitigation strategies can slow and limit the exacerbating effects of climate change on coastal flood risk, but already an estimated consequence of climate change includes a sea level rise of half a

metre by 2070, due in part to polar melting. And since effective coastal defences can take 30 years to put in place, policies to encourage people to adapt will have to be quickly implemented today if they are to make a difference tomorrow. So, while policies to fight against climate change should be encouraged, more focus should be placed on adaptation strategies to new climate realities, such as better land use planning and selective relocation away from exposed city areas. ■ SK

See Environment Working Paper No. 1, "Ranking Port Cities with High Exposure and Vulnerability to Climate Extremes", 2007, at [www.oecd.org/env/workingpapers](http://www.oecd.org/env/workingpapers)

See also "Don't forget the coastal waters!" in *OECD Observer* No. 254, March, 2006.



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# Eco-innovation, policy and globalisation

**Nick Johnstone**  
and **Ivan Hasic**  
OECD Environment Directorate\*

**Investment in clean technologies can help achieve a wide range of environmental objectives, from mitigating climate change to controlling air and water pollution, and enhancing resource efficiency in general.**

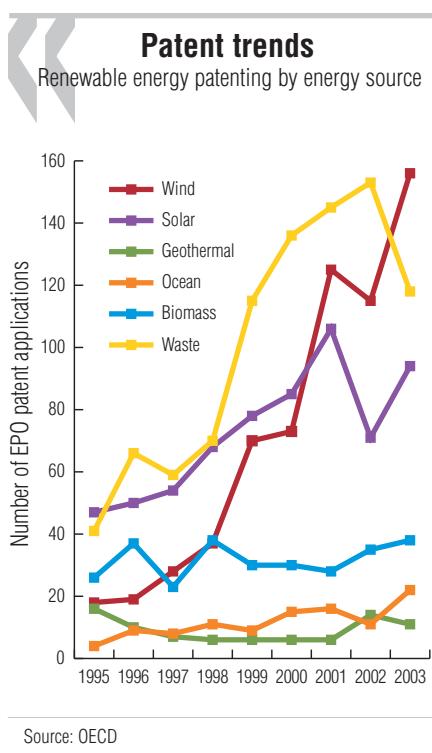
**M**any governments now see technological innovation as a key channel through which they can lift their economies onto a more sustainable path. But what role can public policies play in encouraging such innovation?

Answering this question requires an accurate measure of innovations that reduce adverse environmental impacts—what is widely called eco-innovation. Patent data is a particularly attractive place to look for such a measure. Patented inventions are categorised into over 60,000 different technology classes in the International Patent Classification system. The classes are application-based, which allows for the identification of patents that are relevant for specific environmental concerns. For instance, inventions can be identified that are directly related to generation of energy from wind power, or the abatement of local air pollutants. In addition, as patents represent tangible outputs from inventive

R&D, their study can give policymakers a real handle on how to orientate their innovation strategies.

Take **renewable energy** first of all. Using the OECD patent database, we have identified innovations related to renewable energy production for a panel of 26 countries over the period 1978–2003. A clear trend is that wind power, solar power and waste-to-energy technologies have recorded continuous growth in patenting, particularly since the mid-1990s. Innovation with respect to ocean energy has also been growing, but from a very low base, and more R&D in the future could change this picture. Not surprisingly, large countries such as Germany, the US and Japan, along with France and the UK, have the highest number of patents in renewables. However, relative to the size of the economy, a number of smaller countries appear as significant innovators in niche fields—Denmark for wind, Switzerland for solar and geothermal, Austria for

## Innovation



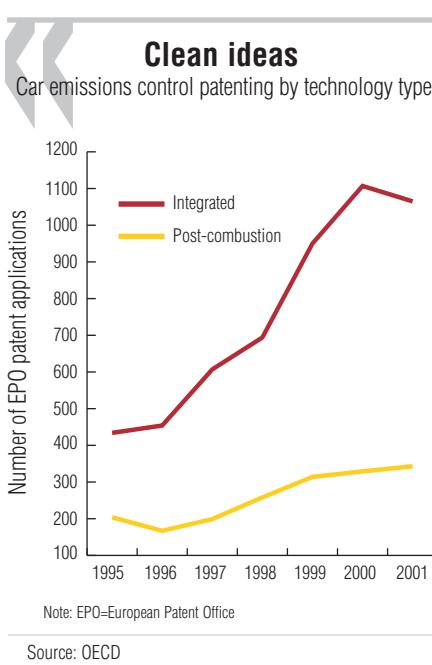
among the top inventors—that is, a relatively large part of their inventive activity is devoted to renewables.

Public policy can play an important role in encouraging such innovation. The role of public R&D expenditures is self-evident since many of the applied inventions which have been patented by businesses arose out of publicly-financed basic research. But there are other types of policies which may induce business-led innovation. For example, fiscal reforms may encourage technological innovation in renewable energy sources either by decreasing the relative price of the use of renewable energy compared to fossil fuels, or by providing upstream tax incentives for private sector investment in R&D and capital investment. Increasing demand for electricity generated from renewable sources through production quotas can also encourage innovation in renewable energy technologies. In short, the right policies can improve the returns

produced in the first place, and away from the likes of catalytic converters, particulate filters and other post-combustion technologies. This shift appears to have been encouraged by the use of more flexible environmental regulations and by higher motor fuel prices. The end result is the development of technologies which both reduce emissions and the operating costs for car users.

This is welcome news for governments, who see eco-innovation as a means to achieve both key environmental objectives and create competitive business conditions for their domestic firms. In fact, domestic inventors have typically dominated patenting activity in most large economies and for most technologies. For example, it is no surprise that Japanese inventors are responsible for 86% of vehicle emission abatement patents deposited in Japan. However, when it comes to patents for the same technologies deposited in the US, the Japanese also take first place, outperforming their US counterparts! Indeed, in general the data show that the marketplace for eco-innovation is becoming more global, as inventions originating in one country are increasingly diffused throughout the world economy.

## Inventions originating in one country are increasingly diffused throughout the world economy.



on innovation with respect to renewable energy sources. Indeed, our own work shows that tax-based measures and production quotas, as well as support for research and development, have played a significant role in encouraging innovation in renewable energies.

Consider **automotive emissions** next. These are major sources of local air pollutants, such as carbon monoxide, particulate matter, hydrocarbons, nitrogen oxides, as well as a significant and growing contributor to greenhouse gas emissions. We examined patenting activity undertaken by the automobile industry in the US, Europe (with an emphasis on Germany) and Japan to study the effects of domestic and foreign environmental policies on innovations in automotive emissions control technologies. What we see is a shift toward the use of more “integrated” abatement technologies which reduce emissions by improving fuel efficiency or by preventing emissions from being

Our work on this question will continue as we launch into a new phase to examine eco-innovation in areas such as waste prevention and recycling, carbon capture and storage, building energy efficiency, wastewater treatment, “green” chemistry, etc. But the results so far highlight the importance of strengthening domestic conditions for innovation, while taking full account of the evolving global marketplace for technology. Most importantly, this demands flexible environmental policies to encourage the development of innovations that are widely applicable too. ■

\*Assistance of Hélène Dernis and Dominique Guellec from the OECD Directorate for Science, Technology and Industry is gratefully acknowledged.

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- For more details visit [www.oecd.org/env/cpe/firms/innovation](http://www.oecd.org/env/cpe/firms/innovation)  
Information on the OECD patent database is available at [www.oecd.org/sti/ipr-statistics](http://www.oecd.org/sti/ipr-statistics)



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# Babies and Bosses

## What lessons for governments?

**Willem Adema**

OECD Directorate for Employment, Labour and Social Affairs

**Work and family constraints can lead to too few children and too little employment, affecting quality of life and economic performance. Yet many parents would like to go out to work more, while others would like to spend more time raising their children. What can policymakers do to help parents achieve a better work/family balance? The OECD's *Babies and Bosses* series offers some lessons.**

**M**ore and more parents in OECD countries face a balancing act between managing a family and a busy job. However, juggling babies and bosses is not just an issue for parents, but for government policy too. This is because a proper work/life balance of families helps achieve a range of goals, from well-being of parents and children to higher productivity. In other words, governments have an interest in assuring the provision of affordable childcare facilities where they are insufficient, and fostering a workplace culture that allows both parents to reconcile the tasks of going to work and bringing up their children.

The emphasis of underlying policy objectives varies across OECD countries, and what constitutes a key issue in one country may be unimportant, or even out of bounds, in others. So while recent family policy debates in Japan or Korea discuss low fertility rates, British and Dutch policymakers barely touch what they widely consider to be a private family matter. Rather, increasing female/maternal access to employment has been the main driver of family-friendly policy development in the Netherlands, while in the UK concerns about child poverty have spurred policy reform since 1997, and helping parents in employment is often an effective way to reduce child poverty. Formal childcare and early education policy in Nordic countries is also shaped by quality and child development concerns, and by gender equity, an issue that also underpins Portuguese policy thinking.

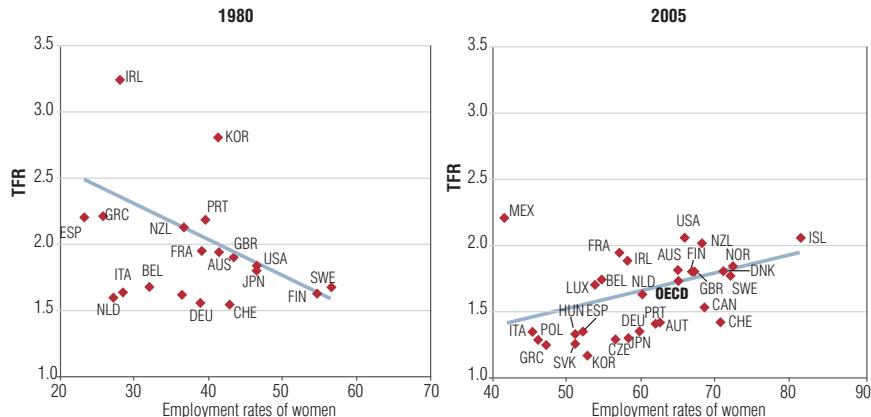
Looking back at recent history in work/family outcomes, two key trends emerge: since 1980 female labour force participation increased by almost 10 percentage points to around 60% on average across the OECD in 2006, while over the same period fertility rates fell from 2.1 to 1.6 children per woman. In many OECD countries parents have fewer children partly because of the difficulties of combining work and care commitments. However, with changing female aspirations the relationship between employment and fertility has also changed (see graph). Unlike in 1980, the countries with the highest female employment rates in 2005 were also among the OECD countries with the highest birth rates, giving the lie to the idea that greater employment opportunities for women must inevitably lead to lower fertility.

The work and career aspirations of female workers may have evolved in recent years, but in many countries workplaces and policies still fail to fully support fathers and mothers in combining their work and family responsibilities. Looking across the OECD area, combining child rearing and being in employment is particularly difficult in southern and central European countries, such as Italy and Poland, but also Japan and Korea. Nordic countries and Australia, the Netherlands, New Zealand, the UK and the US have better outcomes, with their birth



## Babies and jobs

Total fertility rate (TFR) and female employment rate  
1980 and 2005



Source: OECD Babies and Bosses series

### Countries with the highest female employment rates were also among the OECD countries with the highest birth rates.

rates over 1.75 per woman and with two-thirds of women in employment.

Sometimes these better outcomes reflect parents making use of flexible workplace practices in countries such as Australia and the Netherlands, or else the comprehensive public support systems, such as parental leave, childcare and out-of-school hours care, as in Nordic countries. This policy approach is expensive, but brings dividends as it allows parents to realistically plan their work and family commitments. Then again, the cost to families and the economy of weak or ineffective family-friendly support is also large.

One goal of policy nowadays is to free up mothers for work by getting fathers to spend more time with their young children. As long as women rather than men take time off work to provide care, employers will still see women as less career-oriented than men, and do less to invest in their career opportunities. In Japan and Korea, women are widely expected to leave regular employment for good at childbirth or

marriage. Moreover, long working hours, commuting times and social customs make work and home care commitments difficult to square. Little surprise that, at 35 to 40% of male earnings, gender wage gaps in these countries are the widest in the OECD.

So even if mothers find employment, they often end up in low-paid jobs that do not do justice to their skills and training. This is a clear waste of investment in human capital. Yet, Japan and Korea need mothers to return to quality employment for several reasons, including to overcome looming labour shortages and help pay for the fiscal costs of an ageing society. Employers, unions and the government will all have to work together to reduce the barriers to female employment, and improve their pay. One step would be to increase the role of performance-related pay, rather than basing pay on seniority, which penalises anyone who takes time out of their careers. Nor should greater access to part-time and flexible work be seen as detrimental to career progression.

More generally across the OECD, if fathers were also to take leave to care for children on a comprehensive basis, this kind of gender inequity in employment would likely disappear. Many European countries already encourage fathers to spend more time with their children by legislating periods of paid paternal leave. The

## Babies and Bosses

approach has had some success, though these short (2 to 4 week) periods hardly amount to a fundamental behavioural change. There is scope for improvement, as Iceland has shown: since the reform of paid parental leave in 2001, each parent in Iceland has had the right to a three-month leave period while parents can share another three-month leave entitlement. Although women still take the most days off, the effect of reform has been substantial: in 2000, the share of paternal leave days in all parental leave days in Iceland was only 3.3%, but as high as 33% in 2005.

One point is clear from the evidence: childcare should not be allowed to become a barrier to work. True, parental childcare fees are often high, and in Ireland and the UK, the costs of childcare can be so high as to penalise second earners. Nordic countries invest heavily in childcare, but not many OECD governments are willing to commit the heavy public spending needed to sustain a comprehensive support system that keeps childcare fees low. Nevertheless, many other countries have started to develop their formal childcare support systems.

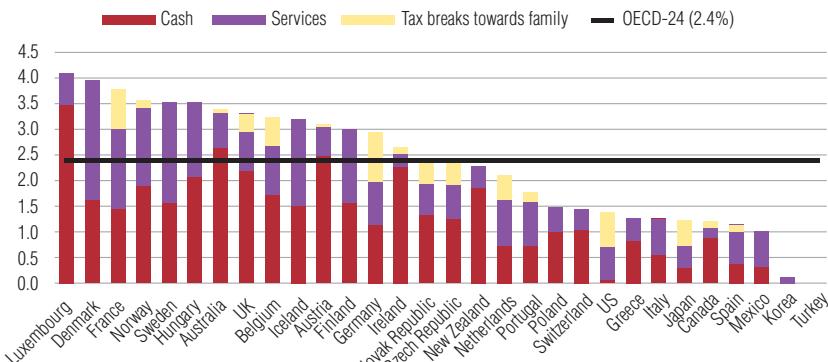
The *Babies and Bosses* reviews advocate a mixture of financing tools, including direct subsidies towards capital investment in facilities and to assist providers in deprived and/or scarcely populated areas and for children with special needs. In addition, as in Australia and the Netherlands, the private sector can provide affordable good childcare with high coverage, thanks to assistance for parents, such as vouchers. Some regulation of providers is normally necessary to ensure quality, and any public funding of (private) providers should be strictly tied to compliance with agreed quality standards.

Nor do childcare issues stop when children enter primary school. In theory, the cost of providing out-of-school hours (OSH) care for schoolchildren is much lower than for younger childcare because child-to-staff ratios for school-age groups mean proportionally lower costs for teachers/carers. Moreover, no new capital investment is required as existing school buildings can be used. This is what happens in Denmark and Sweden, the only countries with a comprehensive system. In other



## Childcare priorities

Family spending in cash, services and tax measures, % of GDP, in 2003



Public family spending has the greatest focus on childcare services in France and the Nordic countries.

Notes:

- Public spending included here only concerns public support that is exclusively for families (e.g. child payments and allowances, parental leave benefits and childcare support). Spending recorded in other social policy areas such as health and housing support also assists families, but not exclusively, and is not included here.
- OECD-24 excludes Greece, Hungary, Luxembourg, Poland, Switzerland and Turkey where tax spending data are not available.

Source: OECD Babies and Bosses series

countries, such as France, OSH care happens on a case-by-case basis, and depends too much on the willingness of school management to play ball. Policymakers in other OECD countries should do more to develop such care and be more insistent in overcoming the traditional reluctance among educational authorities to allow schools to be used for this purpose.

Tackling childcare is just one area for action, another is changing workplace practices. Most governments are understandably reluctant to be seen as interfering, but there is room to exert influence. Some countries have introduced legislation entitling employees to flexible workplace practices. For example, in the Netherlands employees of enterprises with 10 workers or more can change their working hours for whatever reason, unless the courts uphold employer objections. And in Sweden working parents are entitled to reduce working hours until their youngest child enters primary school. UK policymakers have granted parents with children under age six the right to request flexible working hours (which includes reduced working hours). The “right to ask” approach emphasises employer and employee dialogue and is flexible enough to focus on measures that satisfy both the

workplace and the worker. Moreover, it covers low-income workers whose bargaining position is relatively weak. It is one of many examples that show that while the work/family balance in the first instance may be a matter for parents and employers, policymakers can indeed make a difference. ■

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# Science rocks

**F**inland took the number one spot in the OECD's PISA 2006 survey, a comprehensive and much-quoted international yardstick of secondary school student performance.

Finland was followed by Hong Kong-China, Canada, Chinese Taipei, Estonia, Japan and New Zealand. Australia, the Netherlands, Korea, Germany, the UK, the Czech Republic, Switzerland, Austria, Belgium and Ireland also scored above the OECD average. Mexico finished last among OECD countries.

After focusing on reading skills in 2000 and on mathematics in 2003–Finland was among the brightest on these occasions, too—PISA 2006 updates these tests, and turns its attention to science. It examined more than 400,000 15-year-old students in 57 countries (together making up some 90% of world GDP) on both their general scientific knowledge and their ability to apply that knowledge to everyday problems and challenges. The tests involved questions on a wide range of topics, from greenhouse gases to the benefits of exercise and healthy eating. Take this question:

The temperature in the Grand Canyon ranges from below 0° C to over 40° C. Although it is a desert area, cracks in the rocks sometimes contain water. How do these temperature changes and the water in rock cracks help to speed up the breakdown of rocks? A. Freezing water dissolves warm rocks. B. Water cements rocks together. C. Ice smoothes the surface of rocks. D. Freezing water expands in the rock cracks.

While 67.6% of students got the correct answer (which is D), the future of science is nonetheless a matter of some concern in many countries. Although 93% of students acknowledged the importance of science, only 37% saw it

as a potential career (see our book review, page 38). Students who performed better in science showed greater awareness of environmental issues, but were also more pessimistic, with fewer than one in six believing that problems such as air pollution and nuclear waste disposal would improve over the next 20 years.

In Australia, Canada, Finland, Japan and New Zealand, at least one in seven students reached the top two levels of scientific literacy. In Greece, Italy, Mexico, Portugal, Spain and Turkey, in contrast, the proportion was lower than one in 20.

As for reading tests, the five countries which scored highest were Korea, in first place, followed by Finland, Hong Kong-China, Canada and Ireland. In maths, Finland once again occupies top spot, followed by Korea, Hong Kong-China, Azerbaijan and Canada. Based on this, the overall pattern is hardly a surprise, with Finland, Hong Kong-China and Canada coming in the top five on all three tests.

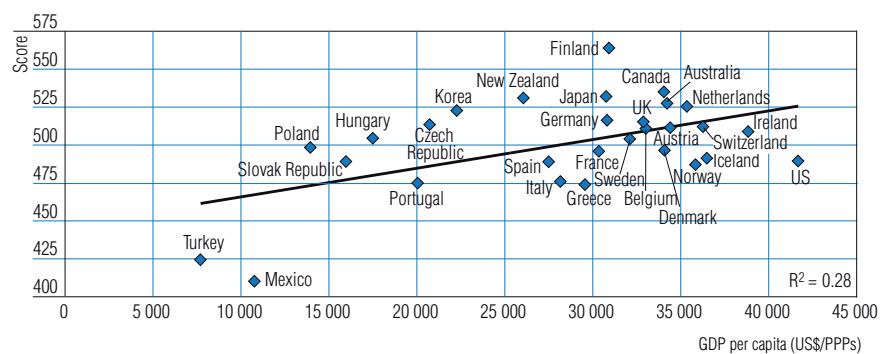
Although several countries have improved their rankings since 2000, there has been little progress on PISA test results for the OECD as a whole. Yet, expenditure on education in OECD countries has risen by 39% on average between 1995 and 2004.

Students who scored well on PISA tended to come from wealthier socio-economic backgrounds. At the same time, higher GDP per head did not deliver best performances in some countries. The survey found that students in schools with high levels of autonomy, accountability and competition also fared better than the average, regardless of background. Higher spending per student is a key part of the mix, though the highest spenders were not necessarily among the best performers. On the other hand, Mexico, one of the OECD's least wealthy member countries, finished last among OECD countries in all three tests. ■ DK

Order the report at  
[www.oecdbookshop.org](http://www.oecdbookshop.org)  
 See [www.oecd.org/edu/pisa](http://www.oecd.org/edu/pisa)

## Student performance and income

Relationship between performance in science and GDP per capita, in US\$, purchasing power parities (PPPs)



Source: OECD PISA 2006 database

StatLink <http://dx.doi.org/10.1787/14184475532>



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# The OECD Anti-Bribery Convention 10 years on

**Nicola Bonucci**, Director, OECD Legal Directorate  
and **Patrick Moulette**, Head of the OECD Anti-Corruption Division\*

The OECD Convention on Combating Bribery of Foreign Public Officials celebrated its 10th anniversary in November 2007.\*\* A decade on, the aim of the Convention—to fight against active corruption (offering bribes)—is as pertinent as ever.

For months now, the press around the world has featured almost daily revelations of presumed or actual cases of cross-border bribery, many involving reputable corporations. This does not necessarily mean that the prevalence of bribery has increased over the past ten years, but no doubt there is a higher level of consciousness on the part of the media and public opinion, and a shifting perception of a practice that was long tolerated and even secretly encouraged.

Against this backdrop, which is also shaped by expanding global economic activity, it is only right to wonder how the OECD and its Anti-Bribery Convention can effectively counter cross-border corruption today.

Let's start by stating an obvious, yet relevant, point: if businesses or the individuals who run them are now being prosecuted for bribing foreign public officials, it is because national laws transposing the obligations of the OECD

### Corruption

Convention have in fact been adopted in the 37 countries adhering to the Convention, and because the courts and relevant authorities are ensuring that those laws are enforced.

Clearly, the general trend is towards more and more investigations, prosecution and convictions for instances of international bribery. In Germany, Siemens is subject to multiple criminal and tax investigations linked to an estimated €1.3 billion slush fund, which have so far resulted in the imprisonment of several former top executives of its power generation unit and the confiscation of the company's alleged "profit" from the transactions in question, which have been estimated at €38 million. A €201 million fine was also imposed for illicit profits in relation to illegal payments by Siemens' communication unit. Other criminal proceedings related to this

#### A strong impression remains that institutions and resources are inadequate for combating economic crimes.

company are ongoing in Germany, Hungary, Indonesia and the United States. At the end of April, a US court fined the American firm Baker Hughes \$44 million and placed it under the watch of an outside observer for a period of two years. Although one of the investigations into BAE was suspended by the United Kingdom, the US has picked up the baton, and at least seven other investigations of the same firm are still active in Britain. In France, many newspapers have devoted extensive coverage to indictments of senior executives of Total and other companies operating in international markets. In Korea, several persons have been convicted for bribery of foreign public officials.

In all, investigations of allegations of foreign bribery are currently open in 26 State parties to the Convention. All of these cases are also examined when the OECD Working Group on Bribery analyses legislation and systems to combat international corruption, insofar as it is the Working Group that upholds

the integrity and effectiveness of the OECD Convention. Nonetheless, major problems persist. Apart from the political determination of the parties to the Convention, investigations and prosecutions that have been launched in Europe have seldom resulted in convictions.

In France, numerous investigations have been initiated, and several persons indicted, but for the time being no court case has been adjudicated and no one convicted of bribing a foreign public official. This situation, which is not unique to France, must be held up against experience in the United States, where procedures such as plea bargaining can expedite the process, even if in some cases it results in lesser penalties. Thus at the beginning of January 2008, the French telecommunications giant Alcatel-Lucent agreed to pay \$2.5 million to settle bribery charges stemming from travel and expense payments made by Lucent Technologies to Chinese public officials, before it merged with Alcatel in 2006.

European legal traditions, which emphasise individualised criminal sanctions, and the tendency of judges to begin by ascertaining the responsibilities of individuals, provide a partial explanation of this difference with the US approach. Even so, a strong impression remains that institutions and resources are inadequate for combating economic crimes, and cross-border bribery in particular.

Moreover, the effectiveness of the OECD Anti-Bribery Convention also hinges on implementation by the leading emerging countries. South Africa recently became the first African country to adhere to the Convention. But it is essential that other countries, such as China, India and Russia, join in the efforts to combat international corruption. Indeed, Russia is a candidate for OECD membership, while the OECD is stepping up its relationship with China and India.

With the OECD and United Nations Conventions, corruption and bribes are

now universally condemned. Nevertheless, much remains to be done before what is now a highly comprehensive arsenal of standards can be enforced effectively. Stringent and ongoing monitoring mechanisms, such as the OECD's, as well as an ever stronger commitment by the major players in world trade, will be crucial in the battle against international corruption.

The G8 countries need to set an example and exhibit determination at all times and at every level—a point that was reaffirmed explicitly at the summit in Heiligendamm in June 2007. As a recent ruling of the International Centre for Settlement of Investment Disputes proclaimed, international corruption is contrary to international public order and ought to be treated and combated as such.

It is in this spirit that we wish to mark the 10th anniversary of the OECD Anti-Bribery Convention, by launching a fresh appeal to businesses—particularly to the world's leading corporations. If we are to make progress in the next 10 years, chief executives of these firms must realise once and for all that the cancer of corruption eats away at economies, and that means their businesses too. A company that wins contracts through bribery is not a healthy business. It is a carrier of disease it thinks it can control, but which sooner or later will cause the business's own demise. We openly invite corporate leaders to join us in the fight against international bribery. ■

\* The opinions expressed herein are the authors' alone.

\*\*The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was adopted on 21 November 1997. It has since been ratified by all 30 OECD member countries and by seven non-member States (Argentina, Brazil, Bulgaria, Chile, Estonia, Slovenia and South Africa).

#### References

- For more on the OECD Anti-Bribery Convention, see [www.oecd.org/daf/nocorruption/convention](http://www.oecd.org/daf/nocorruption/convention)

# Infrastructure

## Mind the gap



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**Barrie Stevens**  
and **Pierre-Alain Schieb**  
OECD International Futures Programme

Ageing, migration, climate change, healthcare, poverty: these all form part of the lengthening list of pressing public policy challenges for the 21st century. But what about infrastructure?

With competition for finance putting budgets under pressure, how can we afford to upkeep our roads, sanitation, energy, ports, and other communications systems, let alone invest in new ones?

Infrastructures have always been part of the lifeblood of strong economies and societies. Consider the aqueducts that for centuries brought clean water to ancient Rome. Built and extended from 312 BC,

at the height of imperial Rome this advanced water system provided over a cubic meter of clean water per day per inhabitant, which is a lot even by modern standards. In the 5th and 6th centuries AD, the aqueducts were cut by besieging warriors, further weakening an empire already in demise.

Now as then, infrastructure is a vital means for ensuring the delivery of goods and services that promote prosperity and growth and contribute to quality of life. It underpins social well-being, the health and safety of citizens, and the quality of their environments. Infrastructure is more

### **With a sizeable part of infrastructure already in private hands, the riddle is how to secure more financing.**

than just a means to an end—it embodies an economic sector in its own right, commanding huge investment in capital equipment and employment, as well as procurement services, financing and so on. Whether water, energy, transport or communications, now as in the past, infrastructure demands constant and heavy investment.

Modern-day globalisation has brought new challenges in the form of the so-called networked economy. Thanks largely to technology, as well as new skills, management and markets, infrastructure systems now interact ever more closely with one another, linking systems as well as cities, regions and countries. This creates efficiencies, but also greater interdependencies. It heightens vulnerability and risks too. The attendant policy challenges have both intensified and become more global.

Already, infrastructures face huge pressures. The infrastructure requirements of OECD countries and countries such as China, India and Brazil are ever greater, reflecting economic growth and the drive for modernity and competitiveness. The world economy could grow by some 3% per annum to 2030 as many experts forecast, and the performance of

developing countries should outstrip that of the developed countries by a wide margin—4% per annum versus 2.4% per annum. Add to this the emergence of new markets and new players, and it is easy to see that supply chains will only lengthen, and pressures mount on key ports, airports and transit corridors, not to mention roads and other communications systems.

Other factors will affect the broader picture. Ageing populations, urbanisation and migration all impact on infrastructure, as will tighter public finances, security concerns and environmental issues, such as climate change. Technological progress also counts, especially, but not only, in information and communications. And let us not forget the constant need to maintain and upgrade existing infrastructures.

The troubling issue is that, looking across the full range of economic, social and environmental forces affecting the infrastructure sectors addressed in this project, nowhere does the current public policy, regulatory and planning frameworks appear adequate to tackle the multiple challenges facing infrastructure development over the next 25 years.

Yet bridging the infrastructure gap is necessary to avoid costly congestion, unreliable supply lines, blunted competitiveness and growing environmental problems. Indeed, investment is needed to safeguard and improve living standards and the quality of life.

But what orders of magnitude of infrastructure investment are we talking about? Rough estimates from the OECD Infrastructure Project to 2030 suggest that annual investment requirements for telecommunications, road, rail, electricity (transmission and distribution) and water taken together are likely to total around an average of 2.5% of world GDP. If electricity generation and other energy-related infrastructure investments in oil, gas and coal are included, the annual share rises to around 3.5%. Remember, our project does not cover ports, airports

and storage facilities, and clearly the figures would rise if it did.



OECD countries will mainly need to invest in maintenance and upgrading. This is because many infrastructure networks and systems are, broadly speaking, already in place. However, maintenance and upgrading are not easy, and getting old infrastructures to work more efficiently can be harder than starting from scratch. New technologies and management strategies will be needed to better control traffic flows through road, rail, electricity and water systems. In most developing countries, by contrast, the lion's share of investment is in new construction, which brings its own heavy costs.

In either case, a central issue is financing. In advanced countries, public capital investment has accounted for a steadily declining proportion of total government expenditure. Indeed, for the OECD area as a whole, government spending on gross fixed capital formation as a share of total general government outlays fell from 9.5% in 1990 through 8% in the mid-1990s, to approximately 7% in 2005.

Whatever priorities different electorates place on tax and public spending policies is a consideration, but the fact remains that public spending is under pressure everywhere from competing needs. Costs of health, pensions, old-age care and education are rising too and are squeezing public spending choices. Those social expenditures rose on average from about 16% of GDP in 1980 to 21% in 2003. The trend is likely to continue. In fact, expenditures on health and on the retired population are expected to outpace the growth in government budgets and in GDP; OECD projections



transport, the riddle is how to secure more financing without placing an unsustainable burden on public borrowing or taxation.

A more recent trend is the emergence of business models based on public-private partnerships. These offer scope for unlocking capital and expertise, while fulfilling public service goals. They already exist in some large-scale projects from major road building to power stations. Pension funds and insurance companies, some of which have a public-private partnership element, should find infrastructure investments more attractive in the future, given their low-risk and steady returns profile. In the OECD area alone, pension funds today amount to some \$18 trillion, up from \$13 trillion in 2001.

Governments cannot rely on private funds alone of course, and so will have to find new income sources themselves. This means diversifying by making more and better use of user fees, creating mechanisms for securing long-term financing for infrastructures as Canada and Switzerland have done, or exploring the possibilities offered by land value capture, such as the elaborate scheme being used to finance Copenhagen's metro system. Another route is to promote innovative variations of traditional financing mechanisms, for instance by using revenue-based bonds in North America.

Other actions will also be important if progress is to be made in closing the infrastructure gap, not least in regulation. After all, private investment must yield a return, and several governments could do far more to improve the business attractiveness of their regulatory environment to draw in private capital, while still upholding standards of public services. Regulatory changes to promote more competition in procurement and operation could enhance efficiency in building and operation, boost management and improve reliability. Legal and administrative changes to speed up planning, procurement and implementation, while setting standards in terms of environmental and security challenges, can bring concrete results too.

suggest that for the OECD area as a whole, spending on public health and long-term care could increase from the current level of 6.7% of GDP to between 10.1% and 12.8% by 2050, while pensions could rise on average by around 3 to 4 percentage points of GDP over the same period. Another constraint will come from scarcer labour, which could force more investment in all forms of education, including lifelong learning, not to mention acting as a drag on income tax receipts. In short, the scope for public investment in infrastructure within government budgets will be constrained.

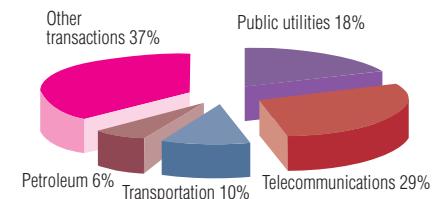
What we face is the prospect of an infrastructure investment gap. More private sector finance will be needed to help finance it. This is not new; private finance has traditionally had a strong presence in infrastructure sectors in some countries. In fact, the private sector share in investment in infrastructures has increased in recent years. This reflects privatisations of state-owned assets, which since the 1980s reached more than US\$1 trillion, and over the 1990-2006 period, almost two-thirds of all privatisations in the OECD area have concerned utilities, transport, telecommunications and oil facilities.

Elsewhere, too, privatisation activity has been vigorous. Over roughly the same period, some \$400 billion of state-owned assets were sold in non-OECD countries, of which about half were accounted for by infrastructures.

With a sizeable part of infrastructure already in private hands in areas like telecommunications, power supply and

## Private owners, public interest

Value of privatisation infrastructure transactions as % of total value of privatisation, 1990-2006



Source: OECD

It can stimulate new design and the application of innovative technologies, and may spark whole new markets and business models. Infrastructures are major markets with strong global networks, and improving international co-operation would give policymakers the support and confidence they need to move forward.

All good planning, financing and management relies on sound basic tools, in which information, data collection, research and analysis are vital. And there is ample scope in education and training institutions for greater efforts to develop the interdisciplinary skills and knowledge that will be required to tackle the opportunities and problems raised by infrastructures in the years ahead.

Some of these initiatives will require patience, skill and inventiveness to implement, others may be more straightforward. What is clear is that policymakers must act, as waiting will not make the infrastructure challenge any easier. ■

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- OECD (2006), *Infrastructure to 2030: Telecom, Land Transport, Water and Electricity*, Paris.
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- Visit [www.oecd.org/futures](http://www.oecd.org/futures)

# In Bali

Secretary-General Angel Gurría led a high-level mission of OECD economists and environmental experts at the UN Climate Change Conference in Bali in December. In this extract from one of his interventions at the conference, Mr Gurría explains some of the reasons why economics and markets must be at the heart of any effective and equitable strategy to tackle climate change.

**T**he ambitious and comprehensive policies necessary to tackle climate change are known, available and affordable.

The OECD has arrived at this conclusion after working for nearly two decades on the economics of climate change. [...]

Our *OECD Environmental Outlook*, to be launched next March in Oslo, concludes that, to put us on the path to stabilising greenhouse gases in the atmosphere—at about 450 parts per million in carbon dioxide-equivalents—would reduce global growth by only about one tenth of one percent per year (on average) from now to 2050. This is an affordable cost. [...]

The post-2012 climate framework must rely on a solid economic footing to have a chance to succeed. [...]

However, in our quest to limit the cost of adaptation and mitigation, we need to be accurate and to act upon evidence-based information. For example, a number of countries have focused their climate change policies on subsidising the “good” solutions, rather than on taxing the “bad” ones. This is an inefficient choice, because it tends to increase the costs of reducing GHG emissions.

Subsidising “good” behaviour risks locking in technologies that may later be considered obsolete or inefficient. On the other hand, taxing bad behaviour (emissions), provides a consistent incentive for increased efficiency and innovation. [...]

How do we manage this transition to a low carbon world in an economically efficient and socially responsible manner?

Although it is frequently cited as a solution, our work shows that many developing countries may face far bigger GDP losses than the industrial world if a uniform global tax is used. For example, in the 450 ppm scenario, the OECD would lose two-tenths of a percentage of GDP by 2030, and 1.1% by 2050, but Brazil, Russia, India and China could lose five times as much.

And this is where the political economy of climate change comes in. The real problem is not how much it costs, but who pays for it.

The OECD is examining ways to distribute the burden of the costs of action in an equitable and fair manner, while ensuring that mitigation action takes place wherever it is least costly. [...]

Compared to the introduction of a uniform global tax, a global emissions trading permit system could significantly lower the impact on developing countries of achieving aggressive global emission reduction targets. This can be done through differential target setting and allocation of emission permits. Thus, developed countries could undertake a relatively greater financial responsibility for emissions reduction than developing countries.

The full speech, along with other interventions delivered in Bali, can be found at [www.oecd.org/speeches](http://www.oecd.org/speeches).

## Recent speeches by Angel Gurría

For a complete list of speeches and statements, including those in French and other languages, go to [www.oecd.org/speeches](http://www.oecd.org/speeches)

### Getting globalisation right through improved policy coherence

19 December 2007  
Special meeting at the invitation of Chancellor Angela Merkel  
Berlin, Germany

### OECD and the economics of climate change

14 December 2007  
Remarks at the high-level segment of the UN Climate Change Conference  
Bali, Indonesia

### The economics of climate change: The fierce urgency of now

12 December 2007  
Speech at the OECD high-level panel discussion on ensuring a sound economic basis for the post-2012 climate change framework, UN Climate Change Conference  
Bali, Indonesia

### Climate change

11 December 2007  
Remarks at the high-level event with finance ministers, UN Climate Change Conference  
Bali, Indonesia

### Education: OECD's Programme for International Student Assessment (PISA)

4 December 2007  
Speech at the launching of the results of PISA 2006  
Tokyo, Japan

### Making investment reforms succeed

28 November 2007  
Opening remarks at the second ministerial meeting and the launch of the second phase of the MENA-OECD Investment Programme  
Cairo, Egypt

### Making the most of globalisation: OECD and MENA

27 November 2007  
Remarks at the Egyptian Council for Foreign Affairs  
Cairo, Egypt

### MENA-OECD business forum

27 November 2007  
Remarks at the business forum  
Cairo, Egypt

### MENA-OECD women business leaders forum and business forum

27 November 2007  
Opening remarks  
Cairo, Egypt

### Global capital – threat or salvation?

23 November 2007  
At the 17th European Banking Congress  
Frankfurt, Germany

### Le pari de la croissance : Exposé devant la Commission Attali pour la libération de la croissance française

22 November 2007  
Presentation to the Attali Commission on growth  
Paris, France

### OECD Anti-Bribery Convention: Its impact and its achievements

21 November 2007  
Marking the 10th anniversary of the OECD Anti-Bribery Convention  
Rome, Italy

### Aid for trade: Making globalisation work for all

20 November 2007  
Presentation of the OECD/WTO report *Aid for Trade at a Glance* at the Aid for Trade Global Review, organised by the World Trade Organization  
Geneva, Switzerland

### Hungary's reform programme: A solid base for long-term prosperity

16 November 2007  
Remarks at the GKI (economic research institute) International Business Conference  
Budapest, Hungary

### América Latina: el compromiso emergente de la OCDE

7 November 2007  
Launching the first *Latin American Economic Outlook* at the Economic Commission for Latin America and the Caribbean  
Santiago de Chile, Chile

### Chile's innovation policy

8 November 2007  
Presentation of the OECD's evaluation of Chile's innovation policy  
Santiago de Chile, Chile

### The impact of China and India in Latin America: Challenges and opportunities

8 November 2007  
Presentation at a meeting of Iberoamerican enterprises  
Santiago de Chile, Chile



© REUTERS/Tobias Schwarz

German Chancellor Angela Merkel hosts a special conference with heads of international organisations on “Fair Ground Rules for a Socially Equitable and Open Global Economy,” Berlin, 19 December 2007. To Ms Merkel's right are Angel Gurría (OECD), Pascal Lamy (WTO) and Juan Somavia (ILO), and to her left are Germany's labour minister, Olaf Scholz, Robert Zoellick (World Bank) and Dominique Strauss-Kahn (IMF).

# Fisheries committee clocks 100

**W**ith ocean stocks depleting, sustainable fisheries is now high on political agendas in OECD countries. Governments grappling with reform may find it reassuring to know that one of the OECD's oldest committees, the Committee for Fisheries, is still going strong after 46 years at the helm. Indeed, the committee just held its 100<sup>th</sup> session on 29-31 October 2007. The first session was held on 16-17 October 1961 and was attended by 31 delegates from 18 countries, with the UN Food and Agriculture Organization as an observer. In a sign that some things never change, a major

agenda item in the first meeting was the issue of subsidies and other financial support to OECD fishing industries. Nearly half a century later, fisheries subsidies are still hotly debated, though far more is now known about the impact of fisheries subsidies on the sustainability of fish stocks—effects that are far from being ideal.

Sustainable fisheries management and the political economy of reform were still very much the order of the day at the 2007 jubilee forum. For James Leape, the director-general of WWF, reform must also embrace issues like illegal,

unreported and unregulated fishing, and the reform of regional fisheries management. With an emphasis on the US fishing sector, Jon Sutinen, from the University of Rhode Island, left delegates in no doubt as to the highly political nature of reform, which must be taken on board in formulating policy recommendations. Meanwhile, Mogens Kjorup, who heads the National Fisheries Policies Office of the Danish Food, Agriculture and Fisheries Ministry, showed how reform could work, with a detailed account of recent changes to the Danish fishing sector, making it more economically responsive.

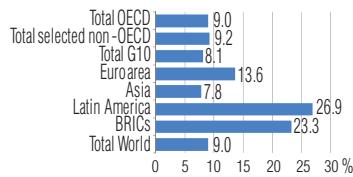
## Pension news online

With ageing and pressure on public finances, monitoring the pensions market has become an important task for policymakers. The market is vast: in 2006 the total OECD-funded pensions market was valued at some \$24.6 trillion, with a ratio of OECD pension fund assets to OECD GDP of nearly 73% in 2006, and above 100% in a few countries. One way to keep track of the market is to read the OECD's online newsletter, "Pension Markets in Focus", whose fourth edition can now be downloaded at <http://www.oecd.org/dataoecd/46/57/39509002.pdf>.

"Pension Markets in Focus" monitors the main trends and features of funded pension plan systems in a clear and concise format, with recent comparable data and analysis of the various types of funded pension arrangements. This edition features a short focus on sovereign and public pension reserve funds, which are becoming a key financing element of pension systems. Most of the tables and graphs, together with the underlying data, can be found in Excel spreadsheets on the website. Previous editions can be found at [www.oecd.org/daf/pensions/pensionmarkets](http://www.oecd.org/daf/pensions/pensionmarkets).

## Growth in world's pension fund assets

Average growth rate by region, 2004-2006



Source: OECD.

For further detail, readers can access frequently requested pension statistics from the Global Pension Statistics database, available under the item "Online statistics database" at [www.oecd.org/daf/pensions/gps](http://www.oecd.org/daf/pensions/gps). See also [www.oecd.org/daf/pensions](http://www.oecd.org/daf/pensions)

A number of other **online newsletters** are also available, including the International Transport Forum newsletter, at [www.internationaltransportforum.org](http://www.internationaltransportforum.org); the Investment newsletter, at [www.oecd.org/daf/investment](http://www.oecd.org/daf/investment); plus two on development, DAC News at [www.oecd.org/dac](http://www.oecd.org/dac) and the Financing Development newsletter, at [www.oecd.org/dev/newsletters](http://www.oecd.org/dev/newsletters)

## New ambassadors

**22 November 2007**-Christopher Egan takes up his post as US ambassador to the OECD. He replaces Constance Morella.

**30 November 2007**-Laurence Argimon-Pistre succeeds Michel Vanden Abeele as the new ambassador of the European Commission.

**14 January 2008**-Nikolaos Tatsos is the new ambassador for Greece. He succeeds Anthony Courakis.

**21 January 2008**-Christopher Langman takes up his post as ambassador for Australia. He replaces Veronique Ingram.

## Tax-benefit calculator online

How do your taxes and social benefits differ from your peers in other countries and what is the effect on your income? How much income do unemployed people get in different countries? The new OECD online tax-benefit calculator may have the answer. Our experts have taken all those complex legal rules about who is entitled to what benefit and who should pay how much tax in different countries and put them into a simple tax-benefit calculator so that you can decide yourself which comparisons you would like to make. For each country, you can choose from a selection of different family types and earnings levels. Just click on the Calculate button to see the answer. Calculations take into account the taxes and social security contributions due on earnings and benefits. Unemployment benefits, social assistance, and family, housing and in-work benefits are also included in the calculations. Care has been taken to ensure the accuracy of the models, but errors can occur and so users are advised to use the calculator as a guide only and to verify results against national sources. See the calculator at [www.oecdobserver.org](http://www.oecdobserver.org)

# Calendar of forthcoming events

Please note that many of the OECD 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 a more comprehensive list, see the OECD website at [www.oecd.org/media/upcoming](http://www.oecd.org/media/upcoming), which is updated weekly.

## DECEMBER - JANUARY Highlights

- 3-14 Dec UN Climate Change Conference (COP 13). Bali, Indonesia.
- 4 Results from PISA 2006 published.
- 11 The Challenges of Scaling Up at Country Level: Predictable Aid Linked to Results, global forum organised by the Development Co-operation Directorate.
- 24-25 Jan Integrity and Trust in Government, global forum organised by the Directorate for Public Governance and Territorial Development. Santiago, Chile.
- 31-1/02 Cost and Effectiveness of Policies to Reduce Vehicle Emissions, roundtable organised by the OECD International Transport Forum.

## FEBRUARY

- 20 Economic and Security Committee of the NATO Parliamentary Assembly in a special meeting with the OECD, organised by the Public Affairs division.
- 21 High-level parliamentary seminar, organised by the Public Affairs division.
- 21-22 Global Forum on Competition, organised by the Directorate for Financial and Fiscal Affairs.

## 25-29

Financial Action Task Force on Money Laundering meets.

## 28-29

Meeting Energy Efficiency Goals: Enhancing Compliance, Monitoring and Evaluation, workshop organised by the International Energy Agency (IEA) and the International Task Force for Sustainable Products.

## MARCH

## 4

Going for Growth 2008 published.

## 5

Publication of Environmental Outlook 2008.

## 13-14

New Modes of Innovation, workshop on non-technological innovation, organised by the Directorate for Science, Technology and Industry. Copenhagen, Denmark.

## 14-16

G20 ministerial meeting on global warming and clean energy. Chiba, Japan.

## 17

Structural Reform in Europe, conference organised by the Economics Department and the IMF.

## 23-24

China Towards 2020, China Development Forum, with participation of the OECD secretary-general. Beijing, China.

## APRIL

## 5-6

G8 development ministers meeting. Tokyo, Japan.

## 12-13

IMF/World Bank annual meetings. Washington, DC, US.

## 28-29

Environment Policy Committee meeting at ministerial level.

## MAY

## 7-8

Financial Education, conference organised by the Directorate for Financial and Enterprise Affairs and the US Department of the Treasury. Washington, DC, US.

## 28-30

Ministers meet for the 2008 International Transport Forum, on Transport and Energy: the Challenge of Climate Change. Leipzig, Germany.

## JUNE

## 3-4

OECD Forum 2008: Climate Change, Prosperity and Stability.

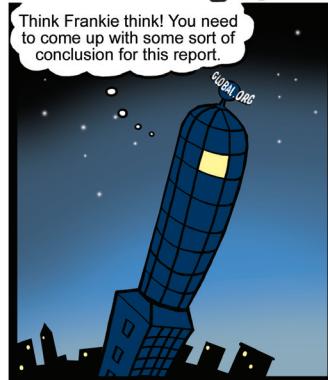
## 4-5

OECD Council meeting at ministerial level: Outreach, Reform and the Economics of Climate Change. Chaired by France.

## 17-18

The Future of the Internet Economy, meeting at ministerial level. Seoul, Korea.

## Frankie.org by Stik



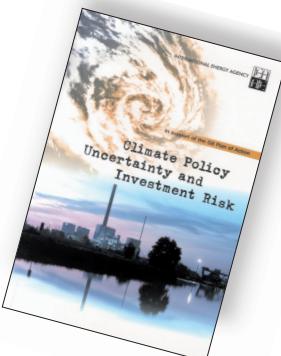


# Uncertain climate

*Climate Policy Uncertainty and Investment Risk*

The UN Climate Change Conference in Bali in early December 2007 may have raised new hopes of progress, but as everyone knows, dealing with climate change will require more than just political goodwill. Providing for abundant, affordable, clean energy will require considerable investment in new power generation—more than US\$11 trillion to 2030, based on an estimate in the IEA's *World Energy Outlook 2006*. This investment will need to be timely, respond to market signals, promote the development and deployment of affordable new technologies and provide a reduced carbon footprint. Yet there are many other places where investors can put their capital. How can we be sure that adequate investment will be made into powering and protecting the planet?

The first report from a four-year study by the IEA, *Climate Policy Uncertainty and Investment Risk*, looks at the power



sector and identifies how the uncertainty of climate change policy may affect investment, notably in electricity generation. For power companies, whose capital stock is intensive and long-lived, those risks can delay investment. The report shows that the risk premiums of climate change uncertainty can add 40% of construction costs of a plant for power investors, and add 10% of price surcharges for the electricity end-users.

Satisfying our energy needs with low or near-zero net emissions of greenhouse gases, the report warns, will require an almost complete turnaround in the world's energy infrastructure. The dilemma is how to ensure that policies are effective for seemingly different issues, both supplying energy profitably and curtailing climate change. *Climate Policy Uncertainty and Investment Risk* calls on governments to improve climate policy mechanisms with policies that create a more secure environment for power investors and users alike. ■

See also article by Barrie Stevens et al on page 25.  
ISBN 9789264030145

# Small business, world travel

*Tourism in OECD Countries 2008: Trends, Policies and Globalisation*



Did you know that 60% of international tourism takes place in the OECD area? Or that it accounts for between 2 and 12% of GDP in OECD countries and between 3 and 11% of employment? The tourism industry is an important economic activity, surpassing traditional sectors like agriculture in many countries. Should policymakers take note?

*Tourism in OECD Countries 2008: Trends, Policies and Globalisation* examines key trends, with an eye to meeting future challenges in this increasingly competitive industry. For instance, it looks at the effects of globalisation and the international travel and tourism industry on small and medium-sized enterprises (SMEs). The report analyses in close detail the nature of the global value chains in which tourism SMEs now operate and concludes that such

businesses can benefit from globalisation through diligent use of networks and clusters, and by the adoption of IT. Using national case studies in countries such as Australia, Austria, Korea, Spain, Poland and Switzerland, the study shows how governments can work with SMEs in the tourism sector.

Furthermore, services trade liberalisation could play a role in fostering tourism growth in developing countries. The report shows that tourism may be one of the most interconnected service sectors in Brazil, India and Indonesia. However, additional case studies in Cambodia, India, Madagascar, Mozambique and South Africa indicate that the growth of tourism may be undermined where the most important service sectors, such as transport, infrastructure, electricity, water or education, are lacking or expensive. Given this cross-sectoral nature of tourism, the report urges governments to establish policies that improve the business environment *per se* and address social and physical constraints, in order to enhance the vitality, sustainability and competitiveness of an industry that is one of the hallmarks of globalisation. ■

ISBN 9789264039674

# New OECD publications

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Angus Maddison's argument that China will resume its place as the world's largest economy is further buttressed in the new edition of his bestselling *Chinese Economic Performance in the Long Run*.

*Performance in the Long Run*. The new edition has one completely new chapter and almost all other chapters and annexes have been updated. Mr Maddison is a well-known authority on historical economic data.



The EU needs to push ahead with the internal market and open up network industries to competition, according to the first *OECD Economic Survey of the European Union*.

Europe faces challenges from technological change, globalisation and population ageing. Globalisation brings opportunities for adaptable economies but punishes rigid ones, while ageing populations will put welfare systems under pressure.



Expanding higher education can boost job chances for early school-leavers too, according to the 2007 edition of *Education at a Glance*. Between 1995 and 2004, France, Ireland and

Korea had the fastest growth in higher education attainment and saw unemployment among the less well qualified decline or rise only marginally.

Publications listed on these pages are available at subscribing institutions via our online library, SourceOECD, at the URLs indicated. If your institution is not a subscriber, ask your librarian to subscribe today! These publications are also available through the OECD Online Bookshop.

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OECD's twice yearly journal of economic analysis. This issue features articles on taxation and the business environment as drivers of FDI, product market regulation, regulation and economic growth, drivers of expenditure on health, and fiscal autonomy of sub-central governments.

13-Sep-2007, 196 pages

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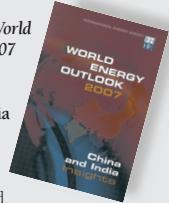
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*Ageing and the Public Service* finds that government workforces are ageing even more rapidly than the rest of society. This increases fiscal burdens while decreasing immediate capacities to deliver services. In the long run, however, it also offers a strategic opportunity to downsize the public sector workforce if necessary and to change employment conditions and the management of government employees where this is deemed reasonable.



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## FEATURED PERIODICAL



**Higher Education Management and Policy** is the journal of the OECD's Programme on Institutional Management in Higher Education (IMHE). Appearing three times each year, it covers practice and policy in the field of system and institutional management through articles and reports on research projects of wide international scope.

13-Sep-2007, 160 pages  
 2008 subscription: €120 \$154 £82 ¥16800  
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# Focus on climate change

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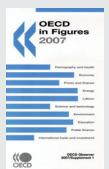
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science as a whole, pointing to a shortage that will grow worse unless governments take steps to raise enrolment levels in science and technology education.

It will be a tough challenge. The latest OECD PISA survey of scientific competence among 400,000 students in 57 countries, reports that while young people acknowledge the importance of science, they show little enthusiasm for taking it up as a career. Little wonder there is also widespread pessimism among secondary school students about the future of the environment. A recent publication from the OECD's Global Science Forum, *Encouraging Student Interest in Science and Technology Studies*, reports that the best students are not choosing science because it is not well understood. It says the image of scientists in white coats doesn't help, either. But perhaps more importantly in a world of mind-boggling bonuses in financial trading, science is simply not seen as a field for making money in. After all, finance requires smart people too. Pay might not be the only factor, but it will take a genius to reverse the scientist shortage without addressing it. Assuming there are any geniuses left, that is. ■

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# SPECIAL FOCUS

# Economic outlook



2008  
2009

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# Economic outlook

## Dealing with risks

Jørgen Elmeskov, Acting Head, OECD Economics Department

**The OECD economic forecast for 2008-09 has been revised down. For the authors of the latest *OECD Economic Outlook*, policy settings should be adjusted accordingly.**

Several shocks have hit OECD economies recently: financial turmoil, cooling housing markets, and higher prices of energy and other commodities. Fortunately, they have occurred at a time when growth was being supported in three ways: by high employment that boosts income and consumption; by high profits and strong company balance sheets that underpin investment and bring added resilience in the face of financial losses and tighter credit; and by still buoyant world trade driven by robust growth in emerging economies.

So, although near-term growth has been revised down virtually everywhere in the OECD area, the baseline scenario presented in the latest *OECD Economic Outlook* is actually not that bad in view of the recent shocks. It represents the outcome that carries the highest probability in the current more uncertain situation and involves:

Accelerated adjustment in the US housing sector that will drag down growth to low levels in the near term but will not trigger a recession and will only modestly push up unemployment. Over the next two years, inflation will revert to a more comfortable level and the recent fall in the external deficit will be preserved—in both cases despite high oil and commodity prices.

A partial decoupling of euro area activity from that of the US, with a limited near-term slowdown in the underlying rate of expansion at a time when capacity constraints were beginning to bite. Once immediate headwinds have faded, growth might return to potential, while headline inflation should ease to desired levels.

A continued albeit weakened expansion in Japan, which remains driven by the external sector but will eventually lift the economy out of deflation, thereby heralding a more balanced growth pattern.

The trouble lies on the downside. The main risks include a more pronounced or generalised cooling of housing markets than projected; additional turbulence in financial markets; and further upward pressures on already high commodity prices. There are several areas where appropriate policy settings can help to deal with such risks. Thanks to well-anchored inflation expectations, a number of central banks have been able to respond flexibly to the recent financial turmoil, through providing liquidity to interbank markets as well as through lower than expected interest rates. Expectations of low inflation also help the adjustment to higher oil and commodity prices and allow for monetary policy to respond to cooling housing markets where necessary. Overall, this confidence that inflation will remain low, built up through a long and sometimes painful process of disinflation, constitutes a major policy asset.

However, these circumstances cannot be taken for granted. Indeed, margins of slack throughout much of the OECD have shrunk markedly. Moreover, OECD economies have been hit by cost shocks: raw material prices have soared and, partly connected to this, the disinflationary effects of manufactured imports from China are fading. If signs emerge that inflation expectations are drifting up, it might be necessary to pay a price in terms of lower activity in the short term to preserve this vital policy asset.

Turning to the fiscal side, public finance outcomes have tended to be better than budgeted in the recent past, mostly on account of buoyant receipts. Part of this revenue bonanza is likely to be temporary, partly reflecting high profits in business activities related to finance and housing.

The impetus for fiscal consolidation seems to have already diminished as a result of these windfalls. The OECD projections, which are based on currently legislated or clearly announced policies, show no further progress in reducing the underlying OECD-wide fiscal deficit. This is regrettable, not least in view of expected future spending pressures. Further, there is a risk that some countries that cannot afford it will nonetheless take decisions that permanently raise spending or reduce taxes on the basis of temporarily high receipts. This could weaken the underlying budget position. Should the downside risks to growth subsequently materialise, such weaknesses could surface and prevent fiscal automatic stabilisers from working just when these are needed most. In other words, fiscal policy must stay on the straight and narrow, despite buoyant revenues.

The financial model based on the origination of loans, their rebundling and securitisation, and subsequent distribution has enabled credit to flow to agents who might not otherwise have found it. At the same time, sophisticated financial instruments have allowed the associated risk to be allocated to investors willing to bear it. However, the model also has some deficiencies that have come out into the open with the collapse of the sub-prime market in the US. One such deficiency is the lack of information as to where in the system various risks are concentrated. Moreover, the re-pricing of assets and recognition of losses now that the assessment of risk has changed are proving slow. The combination of uncertainty as to who holds risk and slow recognition of losses has caused liquidity to dry up in some markets.

As long as the process of re-pricing and loss discovery continues, financial markets are likely to remain a source of uncertainty and therefore vulnerability to shocks. Hence,

<b>OUTLOOK SUMMARY*</b>			
	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Real GDP growth (% change)</b>			
US	2.2	2.0	2.2
Japan	1.9	1.6	1.8
Euro area	2.6	1.9	2.0
<b>Total OECD</b>	<b>2.7</b>	<b>2.3</b>	<b>2.4</b>
<b>Inflation (%) **</b>			
US	2.6	2.1	2.0
Japan	-0.5	-0.3	0.3
Euro area	2.2	2.2	2.3
<b>Total OECD</b>	<b>2.3</b>	<b>2.1</b>	<b>2.1</b>
<b>Unemployment (%)</b>			
US	4.6	5.0	5.0
Japan	3.8	3.7	3.6
Euro area	6.8	6.4	6.4
<b>Total OECD</b>	<b>5.4</b>	<b>5.4</b>	<b>5.3</b>
<b>Current account balance (% of GDP)</b>			
US	-5.6	-5.4	-5.3
Japan	4.7	4.8	5.2
Euro area	0.2	-0.1	-0.2
<b>Total OECD</b>	<b>-1.4</b>	<b>-1.4</b>	<b>-1.4</b>
<b>Short-term interest rate (%)</b>			
US	5.3	4.6	4.7
Japan	0.7	0.6	0.9
Euro area	4.3	4.2	4.1
<b>World trade growth (% change)</b>			
	<b>7.0</b>	<b>8.1</b>	<b>8.1</b>

\* Assumptions underlying the projections include: no change in actual and announced fiscal policies; unchanged exchange rates as from 12 November 2007; in particular 1\$ = 109.38 yen and 0.69 euros; the cut-off date for other information used in the compilation of the projections is 20 November 2007.

\*\* Increase in GDP deflator

Source: *OECD Economic Outlook*, No. 82, preliminary edition, December 2007

Countries have been, and will be, hit differently by financial turmoil and housing-related weakness. In such circumstances, the natural response of market economies includes a re-pricing of currencies. As long as such movements do not become a source of instability, they tend to facilitate the necessary adjustment process by redirecting demand to where it has fallen. Recent dollar depreciation is a case in point. The OECD projections rest on the assumption of unchanged exchange rates, but should downside risks over and above those that have already crystallised affect economies differently, this could well be accompanied by exchange rate adjustment. This could lead to concern about lower activity in countries facing appreciation and about higher inflation in countries witnessing depreciation.

A striking feature as regards exchange rates is the so far limited appreciation of the renminbi. Given symptoms of overheating and high domestic inflation, faster appreciation would seem to be in China's own interest. It would also contribute towards a narrowing of some of the current international payments imbalances.

Timely and orderly exchange rate adjustments may also help alleviate protectionist pressures in OECD countries. These carry risks not just for trade but also for investment. Given the size of projected current account imbalances, a number of countries—not least oil producers—will be recycling large export earnings and will aim to boost the return on recycled funds by investing through sovereign wealth funds or similar vehicles. Protectionist noises, whether in the trade or investment area, are not helpful for business confidence, especially at a time of significant downward risk. The best response would be progress in a multilateral setting, including on trade in the Doha Round and investment in organisations such as the OECD. ■

\* This article is based on the editorial of *OECD Economic Outlook* No. 82, preliminary edition, December 2007. The sign-off date is 27 November 2007. Order the full edition at [www.oecdbookshop.org](http://www.oecdbookshop.org).

A forecast update will be presented in March. See [www.oecd.org/economics](http://www.oecd.org/economics) for details.



# United States

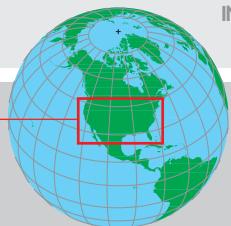
## Downside risks

**H**ealthy gains in private consumption have helped to keep GDP growth above trend so far this year. However, the correction in residential construction is likely to accelerate over the near term, and housing wealth could decline which, together with weaker labour market conditions, could lead to lower consumption growth over time. Real GDP growth should therefore slow to a pace below potential in 2008 and then recover in 2009, although there are considerable downside risks. Headline inflation has recently moved up, but core inflation seems to have stabilised near 2% and, assuming that energy prices level out, inflationary pressures should remain fairly moderate over the projection period.

The current stance of monetary policy, slightly accommodative, seems appropriate, but the federal funds rate should be brought back to neutral when the economy recovers. The room for fiscal manoeuvre is limited, including for widespread support to distressed borrowers, since the slowdown in activity is likely to curb revenues, pushing up the federal government deficit. In addition, the challenge of funding entitlements will become more pressing with the baby boom generation beginning to retire in 2008.



### KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	299 399
Area (000 sq km)	9 376
Currency	Dollar
GDP (Billion US\$) 2006	13 185
Life expectancy at birth (Women, Men) 2004	80.4, 75.2
Total labour force (000s) 2005	150 564
Government	Federal Republic

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	2.2	2.0	2.2
Household savings ratio	0.7	0.7	1.2
Consumer price index	2.8	2.7	1.9
Short-term interest rate (%)	5.3	4.6	4.7
Unemployment rate (%)	4.6	5.0	5.0
General government financial balance (% GDP)	-2.8	-3.4	-3.5
Current account balance (% GDP)	-5.6	-5.4	-5.3

Source: OECD

# Japan



## Deflation over?



### KEY ECONOMIC FORECAST & INDICATORS

Source: OECD

Population (000s) 2006	127 770
Area (000 sq km)	378
Currency	Yen
GDP (Billion US\$) 2006	4 077.9
Life expectancy at birth (Women, Men) 2005	85.5, 78.5
Total labour force (000s) 2006	66 500
Government	Constitutional Monarchy

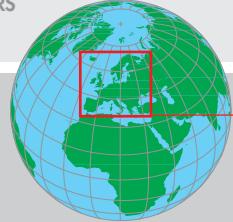
	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	1.9	1.6	1.8
Household savings ratio	3.2	3.0	3.0
Consumer price index	0.0	0.3	0.4
Short-term interest rate (%)	0.7	0.6	0.9
Unemployment rate (%)	3.8	3.7	3.6
General government financial balance (% GDP)	-3.4	-3.8	-3.4
Current account balance (% GDP)	4.7	4.8	5.2

Source: OECD

**T**he economic expansion—the longest in Japan's post-war history—continues despite some deceleration in the pace of growth since early 2007. A further tightening of the labour market is projected to reverse the decline in wages, helping to sustain output growth of some 1.5-2% in 2008-09 and pushing inflation into positive territory.

The Bank of Japan should not raise the short-term policy interest rate further until inflation is firmly positive and the risk of renewed deflation becomes negligible. It is essential to achieve the target of a primary budget surplus by fiscal year 2011 as a first step in reducing the public debt to GDP ratio. This requires spending cuts and a comprehensive tax reform. Structural reforms are needed to boost productivity, particularly in the service sector, which would help maintain living standards by offsetting the accelerated fall in the working-age population.

## KEY ECONOMIC FORECAST &amp; INDICATORS



Population (000s) 2006	317 547
Area (000 sq km)	2 503
Currency	Euro
GDP (Billion US\$) 2006	10 553.7
Life expectancy at birth (Women, Men) 2004	82.5, 76.7
Total labour force (000s) 2006	147 313

## Euro area



## Outlook relatively good

The expansion has continued but at a slower pace than in 2006. Higher interest rates, a stronger euro and tighter credit conditions are all damping activity. But the outlook remains relatively good, with growth projected to return to its potential rate following some slight near-term weakening. Rising employment and a moderate upturn in wage growth will underpin household incomes and consumption. Inflation has veered up due to a sharp rise in energy and food prices, but is expected to decelerate to below 2%.

With risks to activity on the downside and inflation likely to slow, further increases in interest rates are not needed at this point. The recent improvement in the fiscal position is welcome, but governments need to maintain the momentum and aim for budget balance or better. Strengthening the internal market in the EU would improve Europe's long-term growth prospects and make the monetary union run more smoothly. The fragmented system of financial supervision may need to be rethought.

Source: OECD



## Germany

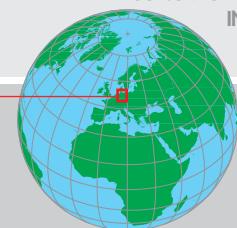
## Unemployment edging down

After slowing in the second quarter, growth has picked up in the third quarter on the back of strong domestic demand. The output gap is likely to be almost closed. Growth is projected to advance at near trend rates during 2008 and 2009. Following some near-term headwinds, unemployment may continue to edge down but at a much slower pace than in the recent past. The slower projected expansion largely reflects a diminishing contribution from net exports that is not fully compensated by stronger private consumption.

Helped by strong revenue increases, the general government budget is projected to reach balance this year. In 2008, fiscal policy will turn slightly expansionary due to the corporate tax reform. Further pro-cyclical easing should be avoided. As the supply of skilled labour will become a bottleneck, the government should avoid taking any measures that could impede incentives to take up work.



## KEY ECONOMIC FORECAST &amp; INDICATORS



Population (000s) 2006	82 368
Area (000 sq km)	357
Currency	Euro
GDP (Billion US\$) 2006	2 639
Life expectancy at birth (Women, Men) 2005	81.8, 76.2
Total labour force (000s) 2006	41 521
Government	Federal Republic

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	2.6	1.8	1.6
Household savings ratio	11.1	10.4	10.0
Consumer price index	2.2	2.3	1.8
Short-term interest rate (%)	4.3	4.2	4.1
Unemployment rate (%)	6.4	5.7	5.6
General government financial balance (% GDP)	0.0	0.1	0.3
Current account balance (% GDP)	6.0	6.0	6.0

Source: OECD



# France

## Reforms needed

**A**fter slowing in 2007, growth is projected to average below 2% in 2008, with a weak first half but some rebound thereafter, and continuing at near potential rates in 2009. Job creation will continue, albeit at a slower pace, allowing for further slight declines in the unemployment rate. Following several years of budgetary consolidation, no further improvement in the budget deficit is expected, with a reduction in both revenues and spending in relation to GDP.

The recent fiscal stimulus package will contribute to sustaining demand in the near term. However, to strengthen longer-term growth prospects, planned reforms of public administration, pension schemes and labour contracts will have to be carried out so as to help contain public expenditure growth, achieve EU commitments and slow the decline in labour force participation.



### KEY ECONOMIC FORECAST & INDICATORS

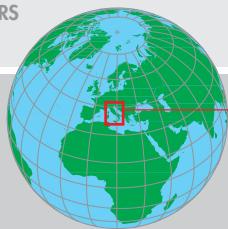


Population (000s) 2006	61 300
Area (000 sq km)	549
Currency	Euro
GDP (Billion US\$) 2006	2 005.9
Life expectancy at birth (Women, Men) 2004	83.8, 76.7
Total labour force (000s) 2005	27 475
Government	Republic

	2007	2008	2009
% change unless otherwise indicated			
GDP growth	1.9	1.8	2.0
Household savings ratio	13.1	12.8	12.4
Consumer price index	1.5	2.2	1.9
Short-term interest rate (%)	4.3	4.2	4.1
Unemployment rate (%)	8.0	7.5	7.4
General government financial balance (% GDP)	-2.5	-2.6	-2.6
Current account balance (% GDP)	-1.3	-2.2	-2.3

Source: OECD

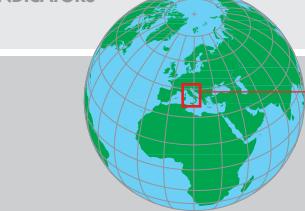
# Italy



## Watch that deficit



### KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	58 435
Area (000 sq km)	301
Currency	Euro
GDP (Billion US\$) 2006	1 723.1
Life expectancy at birth (Women, Men) 2005	83.2, 77.6
Total labour force (000s) 2006	24 662
Government	Republic

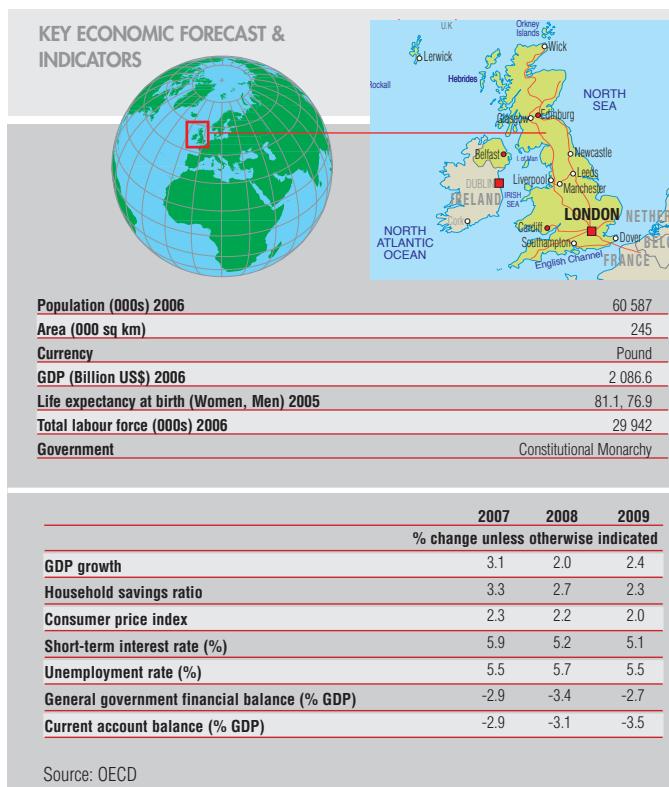
	2007	2008	2009
% change unless otherwise indicated			
GDP growth	1.8	1.3	1.3
Household savings ratio	6.8	7.3	6.7
Consumer price index	2.0	2.4	1.9
Short-term interest rate (%)	4.3	4.2	4.1
Unemployment rate (%)	5.9	5.8	5.8
General government financial balance (% GDP)	-2.2	-2.3	-2.0
Current account balance (% GDP)	-2.0	-2.1	-2.2

Source: OECD

**G**DP slowed in the first half of 2007, as export growth weakened, rebounded in the third quarter but may weaken again in the fourth. Growth over the course of 2008-09 is projected at near its potential rate of just under 1.5%.

Unemployment, which continued to fall through the first half of 2007, should decline further, but at a slower rate. The recent pick-up in price inflation may persist into 2008 and 2009.

A promising improvement in the underlying fiscal situation seen in 2006 and throughout most of 2007 has been slowed in the revised 2007 budget and that for 2008. The upward revision in spending plans is not the best response to unanticipated and possibly temporary buoyancy in revenues. Tax rates are already quite high, the overall debt level is the second highest in the OECD and increases in age-related spending are on the horizon, even though pension reform, provided it is fully followed through, has put Italy in a situation that seems better than in many countries. The government needs to convince public opinion that its plans to reduce the deficit and debt must be maintained and, preferably, strengthened.



## United Kingdom



### Weaker growth ahead

DP grew at an above-trend pace of close to 3% through the first three quarters of 2007. However, growth is expected to be weaker in coming quarters, as both investment and consumer demand are likely to be damped by much weaker activity in the housing market, together with tighter credit conditions. Consumer price inflation has dropped sharply and is expected to remain close to the 2% target over the next two years.

After narrowing slightly in 2006, the government deficit now seems likely to move back above 3% of GDP. With fallout from the recent financial turmoil expected to limit tax revenues, additional measures will be needed to reduce the fiscal deficit more rapidly and ensure that the fiscal rules can be met in the medium term. Given the outlook for weaker output growth, the Bank of England can probably afford to ease monetary policy without risking additional inflationary pressures. Improved planning regulations, a reconsideration of the green-belt boundaries in fast-growing areas, as recommended by the Barker review, and better incentives for land development would raise potential growth and reduce the chance of house prices rebounding again.

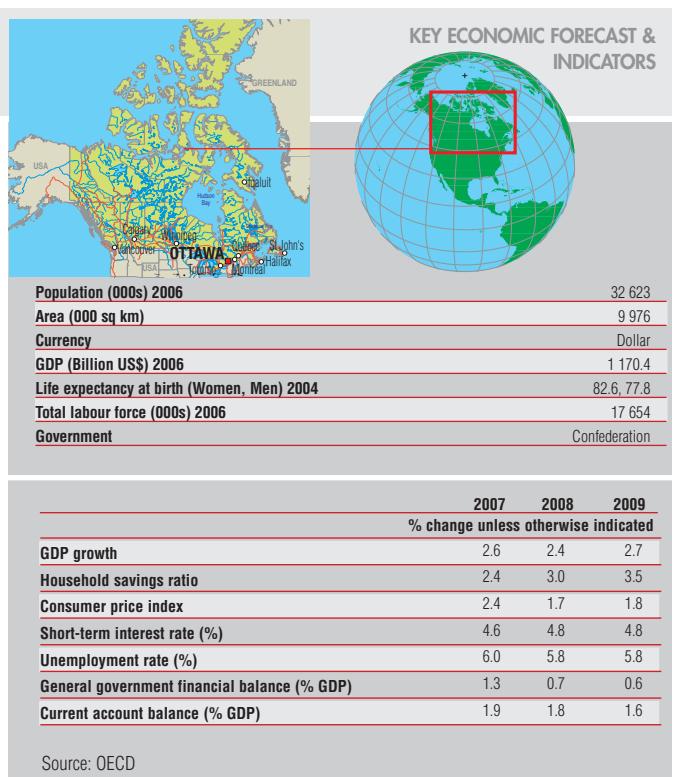


## Canada

### Slowing expected

The economy has been operating above its estimated production potential, but is expected to decelerate noticeably in the short term as lower external demand and the marked currency appreciation damp activity. Yet growth is likely to rebound quite rapidly once the effects of these international factors disappear. A slowing in commodity-price increases, the federal goods and services tax cut and the stronger Canadian dollar should contribute to a temporary decline in inflation.

With large uncertainties as to the international environment, the Bank of Canada should hold its interest rate constant for now. As these uncertainties dissipate and the just-announced tax cuts take hold, the Bank should stand ready to raise rates, with the timing dependent on incoming information. Fiscal settings at all levels of government need to remain prudent, and windfall gains from non-renewable resource rents should be set aside to prepare for the looming spending effects of ageing.





# Australia

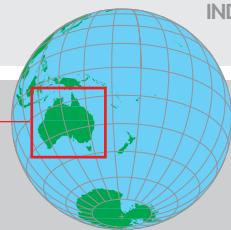
## Raise labour supply

**O**utput growth, which could reach 4.25% in 2007, is expected to slow gradually to 3.5% in 2008 and 3% in 2009, a pace close to the potential growth rate. This slowdown, which will be accompanied by a further tightening of monetary policy to keep inflation in line with the Reserve Bank's inflation target, should ease strains in the labour market.

Prudent budget management, while allowing the automatic stabilisers to operate, would also help moderate the pressures on capacity that may be heightened by the announced tax cuts. Given that demand could remain brisk over the medium term, it is important to continue efforts to stimulate labour supply, especially with respect to skilled labour, and preserve job market flexibility.



### KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	20 605
Area (000 sq km)	7 687
Currency	Dollar
GDP (Billion US\$) 2006	720.9
Life expectancy at birth (Women, Men) 2005	83.3, 78.5
Total labour force (000s) 2006	10 765
Government	Independent Federal State, UK Monarch

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	4.3	3.5	3.0
Household savings ratio	0.3	0.5	0.6
Consumer price index	2.3	3.2	2.7
Unemployment rate (%)	4.3	4.4	4.8
Short-term interest rates	6.6	7.2	6.7
General government financial balance (% GDP)	1.3	1.2	1.0
Current account balance (% GDP)	-6.0	-6.4	-6.9

Source: OECD

### KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	8 282
Area (000 sq km)	84
Currency	Euro
GDP (Billion US\$) 2006	298.8
Life expectancy at birth (Women, Men) 2005	82.2, 76.7
Total labour force (000s) 2006	4 124
Government	Federal Republic

# Austria



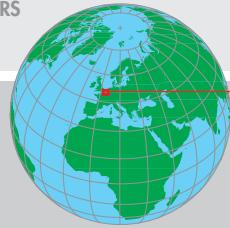
## Slower growth

**A** slowdown in net exports and investment is expected to result in GDP growth decelerating from almost 3.5% in 2007 to about 2.5% in 2008 and 2009. Headline inflation is projected to temporarily move above 2% in the short term on account of rising oil and food prices.

The government should stick to its important fiscal consolidation plan and resist pressures to spend cyclical windfalls. The contribution of the inflows of workers from the new EU member states, which cater to labour market needs and help keep wage increases in line with productivity growth, could be made more effective by terminating contract restrictions for these workers.

Source: OECD

## KEY ECONOMIC FORECAST &amp; INDICATORS



Population (000s) 2006	10 548
Area (000 sq km)	31
Currency	Euro
GDP (Billion US\$) 2006	366.7
Life expectancy at birth (Women, Men) 2004	82.4, 76.5
Total labour force (000s) 2006	4 647
Government	Constitutional Monarchy

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	2.6	1.9	2.0
Household savings ratio	10.0	9.3	9.0
Consumer price index	1.7	2.3	2.0
Unemployment rate (%)	7.7	7.3	7.0
General government financial balance (% GDP)	-0.2	-0.4	-0.2
Current account balance (% GDP)	2.6	2.9	2.7

Source: OECD

## Belgium



## Cost pressures

Real GDP growth has moderated from its recent robust pace and is likely to slow further towards the country's potential rate in the short term, though leaving the output gap positive. Domestic demand continues to underpin expansion, boosted by higher employment and real incomes. Inflation is projected to increase somewhat in response to rising cost pressures.

The planned budget surplus is unlikely to materialise in 2007 as the post-election political situation did not allow the implementation of all planned fiscal measures. To meet the medium-term fiscal objectives, the new government will need to implement substantial fiscal consolidation measures, which require expenditure restraint at all levels of governments. Better labour market participation incentives and improved targeting of public employment subsidies to low-income workers are also important to raise employment and improve long-term fiscal trends.



## Czech Republic

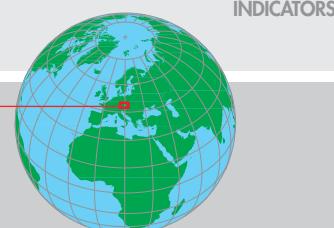
## Inflation spike

A policy-driven spike in inflation in the first half of 2008 is going to temporarily dent otherwise healthy economic conditions, and real GDP growth will dip below potential as the increases in indirect taxation and administered prices squeeze consumption. Underlying inflation is low, but is creeping up and further tightening of monetary conditions is expected.

The upcoming spike in inflation is due to increases in indirect taxation and regulated prices contained in a package of fiscal and structural-reform measures voted by parliament in September. The ambitious plans for further structural reform should be pushed forward, but the weak political mandate of the ruling coalition government means that progress may be slow.



Population (000s) 2006	10 251
Area (000 sq km)	79
Currency	Koruna
GDP (Billion US\$) 2006	226.4
Life expectancy at birth (Women, Men) 2004	79.1, 72.9
Total labour force (000s) 2006	5 199
Government	Parliamentary Democracy



	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	6.1	4.6	4.9
Consumer price index	2.7	4.6	3.1
Unemployment rate (%)	5.4	5.0	4.7
Short-term interest rates	3.0	4.0	4.0
General government financial balance (% GDP)	-3.7	-3.1	-2.5
Current account balance (% GDP)	-2.9	-1.5	-0.6

Source: OECD

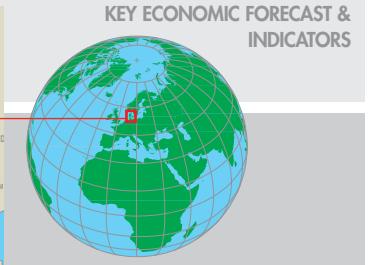


# Denmark

## Competitiveness warning

**G**DP growth has slowed, but the positive output gap remains large, with labour and capacity shortages evident. The inflow of workers from abroad has allowed employment to rise strongly. Nevertheless, wage growth is now gaining momentum, and loss of competitiveness is expected to weigh down on growth in the coming years.

Monetary conditions are no longer stimulating aggregate demand, but fiscal policy is set to do so in 2008, with rising public consumption and tax cuts that are not financed in the short run. This stimulus and additional municipal and regional overspending should be avoided or offset by savings elsewhere. Measures to boost labour supply should be pursued in ways that help long-run fiscal sustainability.



### KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2006	5 435
Area (000 sq km)	43
Currency	Krone
GDP (Billion US\$) 2006	195.5
Life expectancy at birth (Women, Men) 2005	80.2, 75.6
Total labour force (000s) 2006	2 904
Government	Constitutional Monarchy

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	2.0	1.7	0.8
Household savings ratio	3.2	3.9	4.4
Consumer price index	1.6	2.4	2.7
Unemployment rate (%)	3.5	3.4	3.6
Short-term interest rates	4.3	4.3	4.2
General government financial balance (% GDP)	4.8	3.8	3.0
Current account balance (% GDP)	1.2	1.0	0.7

Source: OECD

# Finland



## Output to moderate

**O**utput grew by 5% in 2006, and strong growth has continued into 2007, underpinned by a robust export performance and sustained strength in consumption. While healthy employment growth is projected to continue, leading to a further decline in unemployment, output growth is expected to moderate.

To address the significant imbalances emerging in the labour market, more needs to be done to better match those out of work with the growing number of unfilled vacancies. The government should consider tightening fiscal policy to offset the effects of the large wage increases agreed in the current round of wage negotiations.

Population (000s) 2006	5 267
Area (000 sq km)	338
Currency	Euro
GDP (Billion US\$) 2006	175.5
Life expectancy at birth (Women, Men) 2005	82.3, 75.5
Total labour force (000s) 2006	2 670
Government	Republic

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	4.2	2.9	2.6
Consumer price index	1.5	2.3	2.4
Unemployment rate (%)	6.6	6.3	6.1
General government financial balance (% GDP)	4.0	4.4	4.2
Current account balance (% GDP)	6.0	6.1	5.8

Source: OECD

Population (000s) 2006	5 267
Area (000 sq km)	338
Currency	Euro
GDP (Billion US\$) 2006	175.5
Life expectancy at birth (Women, Men) 2005	82.3, 75.5
Total labour force (000s) 2006	2 670
Government	Republic

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	4.2	2.9	2.6
Consumer price index	1.5	2.3	2.4
Unemployment rate (%)	6.6	6.3	6.1
General government financial balance (% GDP)	4.0	4.4	4.2
Current account balance (% GDP)	6.0	6.1	5.8

## KEY ECONOMIC FORECAST &amp; INDICATORS



Population (000s) 2006	11 149
Area (000 sq km)	132
Currency	Euro
GDP (Billion US\$) 2006	352.1
Life expectancy at birth (Women, Men) 2005	81.7, 76.8
Total labour force (000s) 2006	4 880
Government	Republic

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	4.1	3.7	3.9
Consumer price index	2.9	3.3	3.1
Unemployment rate (%)	8.6	8.4	8.3
General government financial balance (% GDP)	-2.9	-2.0	-2.0
Current account balance (% GDP)	-11.9	-11.7	-11.5

Source: OECD

## Greece



## After the fires

Activity has been strong so far in 2007, despite the impact of forest fires and a slowing of housing investment towards a more sustainable level. Growth is set to weaken in 2008, before edging up to around 4% in 2009. Inflation is likely to rise in light of demand pressures and the current account deficit is expected to remain large.

The correction of fiscal imbalances has been impressive, but consolidation needs to continue, given the sizeable future costs from population ageing. Long-run fiscal sustainability requires strict control of primary spending and wide-ranging reforms of the pension and healthcare systems. Greater administrative efficiency is also critical. Fostering competition in key network industries and reducing labour market rigidities are essential for maintaining strong growth while keeping a lid on inflation.



# Hungary

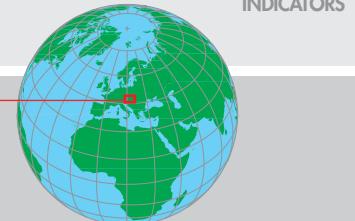
## Public finance challenge

Growth decelerated markedly during 2007, reflecting fiscal consolidation. It is likely to recover over the projection period, supported by buoyant exports and gradually reaccelerating investment and consumption. Inflation is projected to decelerate towards the 3% target, as wage growth remains moderate. The external deficit should continue to improve.

The main challenge is to restore the sustainability of public finances. If public-expenditure reform goes according to plan it will bring dividends to the economy via increased confidence, lower interest rates and reduced tax and social security wedges. This progress, along with reforms to improve labour supply, will be conducive to more stable growth in the longer term.



## KEY ECONOMIC FORECAST &amp; INDICATORS



Population (000s) 2006	10 071
Area (000 sq km)	93
Currency	Forint
GDP (Billion US\$) 2006	184.3
Life expectancy at birth (Women, Men) 2005	76.9, 68.6
Total labour force (000s) 2006	4 247
Government	Parliamentary Democracy

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	1.8	2.6	3.8
Consumer price index	7.8	4.7	3.4
Unemployment rate (%)	7.3	7.2	7.1
Short-term interest rates <sup>1</sup> (% GDP)	7.5	6.3	5.9
General government financial balance (% GDP)	-6.4	-4.3	-3.5
Current account balance (% GDP)	-4.6	-3.8	-3.5

Source: OECD



# Iceland

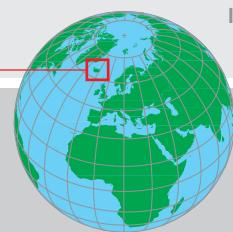
## Risk of hard landing

**E**xpansionary government measures have rekindled demand and inflation pressures at a time when imbalances in the economy remain substantial. Still, tight monetary policy is expected to eventually succeed in slowing the economy, taming inflation and reducing imbalances. However, the slow and uneven adjustment process leaves the economy vulnerable to changes in foreign investor sentiment, especially in a context of fragile global financial market conditions, and has increased the risk of a harder landing of the economy.

The authorities should not hesitate to tighten the monetary stance further if this is necessary to anchor inflation expectations at the official target and thereby minimise the second-round effects of a possible exchange-rate depreciation. To facilitate the task of monetary policy, priority should be given to reforming the public Housing Financing Fund's operations; moreover, the implementation of new public investment projects should be made dependent on progress in cooling down the economy.



### KEY ECONOMIC FORECAST & INDICATORS

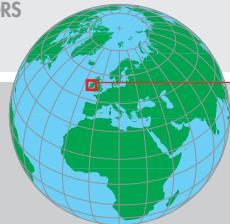


Population (000s) 2006	304
Area (000 sq km)	103
Currency	Krona
GDP (Billion US\$) 2006	11.8
Life expectancy at birth (Women, Men) 2005	83.1, 79.2
Total labour force (000s) 2006	175
Government	Constitutional Republic

	2007	2008	2009
% change unless otherwise indicated			
GDP growth	1.2	1.0	1.6
Consumer price index	4.9	4.4	2.8
Unemployment rate (%)	2.5	3.2	3.3
General government financial balance (% GDP)	4.2	0.8	-1.3
Short-term interest rates	14.3	13.6	9.9
Current account balance (% GDP)	-13.9	-11.1	-9.9

Source: OECD

### KEY ECONOMIC FORECAST & INDICATORS



#### Population (000s) 2006

#### Area (000 sq km)

#### Currency

#### GDP (Billion US\$) 2006

#### Life expectancy at birth (Women, Men) 2005

#### Total labour force (000s) 2006

#### Government

4 235

70

Euro

175.1

81.8, 77.1

2 108

Republic

	2007	2008	2009
% change unless otherwise indicated			
GDP growth	5.2	2.9	4.2
Consumer price index	2.8	2.5	2.0
Unemployment rate (%)	4.8	5.6	5.4
General government financial balance (% GDP)	2.2	1.0	0.2
Current account balance (% GDP)	-4.0	-3.0	-2.8

Source: OECD

# Ireland

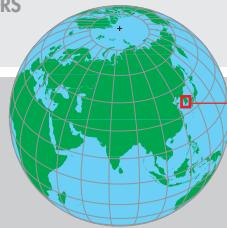


## Housing slump fall out

**A**ctivity was strong in the first half of 2007, but the slump in house building will slow growth substantially. GNP is expected to increase by 3% in real terms in 2008, which is considerably below the growth rate of potential output, but to recover to grow at 4.5% in 2009 as housing construction levels out at a sustainable level. Inflationary pressures will ease, but unemployment is likely to increase.

Tax revenues partly depend on the property market and will grow more slowly in coming years. Expenditure growth needs to be limited to maintain sound public finances over the medium term. Public investment that eases supply-side constraints should be given priority over current spending, while sharp pay increases in the public sector need to be avoided. Regulatory reforms, particularly in network industries, have the potential to improve competitiveness.

## KEY ECONOMIC FORECAST &amp; INDICATORS



Population (000s) 2006	48 297
Area (000 sq km)	100
Currency	Won
GDP (Billion US\$) 2006	1 133.4
Life expectancy at birth (Women, Men) 2005	81.9, 75.1
Total labour force (000s) 2006	23 978
Government	Republic

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	4.9	5.2	5.1
Household savings ratio	3.9	4.0	4.0
Consumer price index	2.5	2.8	3.0
Unemployment rate (%)	3.3	3.3	3.3
Short-term interest rates	5.1	5.5	6.2
General government financial balance (% GDP)	3.0	3.0	3.0
Current account balance (% GDP)	0.5	-0.2	-0.2

Source: OECD

## Korea



## Exports stay firm

An acceleration of domestic demand, combined with continued buoyant exports, is projected to keep economic growth at around 5% in 2008-09. Strong demand from other Asian countries is sustaining export growth at double-digit rates, despite the appreciation of the won, which has helped to keep inflation below the Bank of Korea's target zone.

Monetary policy should focus on the medium-term inflation target, while concerns about a possible bubble in the housing market need to be addressed through measures aimed at increasing supply. In this regard, price regulations on new houses, which were introduced to stabilise the real estate market, should be gradually phased out. Korea should maintain a flexible exchange rate policy, while adopting reforms to boost productivity growth, especially in the services sector.

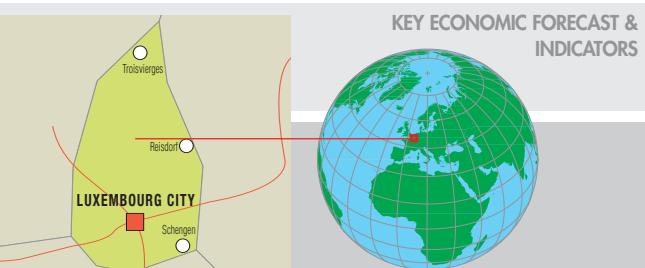


## Luxembourg

### Financial resilience

Growth was well above that in other European economies in 2007. Largely unaffected by the turmoil on international markets due to its strong position in the mutual funds sector, financial services continued to be the main driver of economic growth. Strong private investment and manufacturing exports also contributed to the expansion. The improved employment prospects spread from cross-border workers to residents, enabling a gradual reduction in the unemployment rate. Despite a loss in price competitiveness, the recovery is set to weaken only moderately and growth is likely to remain above potential growth through to 2009.

For a balanced pattern of growth, labour force participation should be stimulated further, so as to increase employment growth among residents. With output growing above potential, fiscal consolidation should concentrate on further expenditure restraint.



Population (000s) 2006	460
Area (000 sq km)	3
Currency	Euro
GDP (Billion US\$) 2006	35.9
Life expectancy at birth (Women, Men) 2005	82.3, 76.2
Total labour force (000s) 2006	329
Government	Constitutional Monarchy

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	5.2	4.9	4.1
Consumer price index	2.6	3.3	3.0
Unemployment rate (%)	4.4	4.2	3.9
General government financial balance (% GDP)	1.2	1.0	1.7
Current account balance (% GDP)	11.0	10.1	9.6

Source: OECD



# Mexico

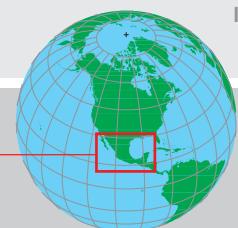
## Growth to accelerate

After a moderate slowdown in 2007, reflecting a weakening of external demand, GDP growth is expected to accelerate in the course of 2008 and reach 4.25% in 2009. The approval of the fiscal reform should boost business confidence, underpinning stronger domestic and foreign investment. Inflation, affected by the increases in international oil and food prices, may rise to above 4% during 2008, easing down thereafter, and approaching the inflation target by the end of 2009. The current account deficit is expected to widen gradually.

With inflation at the top of the variability interval around the target, the central bank tightened the monetary stance, taking action to raise interest rates in October; this was appropriate. The recent tax reform is expected to bring additional revenue, reducing the reliance of the budget on uncertain oil revenue and helping to finance higher public spending in key areas such as infrastructure, healthcare and education. A strong commitment to increase spending efficiency would contribute to improve growth prospects over the longer term.



### KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	104 874
Area (000 sq km)	1 996
Currency	Peso
GDP (Billion US\$) 2006	1 210.0
Life expectancy at birth (Women, Men) 2005	77.9, 73.0
Total labour force (000s) 2006	43 216
Government	Federal Republic

	2007	2008	2009
<i>% change unless otherwise indicated</i>			
GDP growth	3.0	3.6	4.3
Consumer price index	3.8	3.7	3.6
Short-term interest rates	7.3	7.3	6.8
Unemployment rate (%)	3.3	3.2	3.2
Current account balance (% GDP)	-1.0	-1.7	-2.4

Source: OECD

# Netherlands



## Above-potential growth

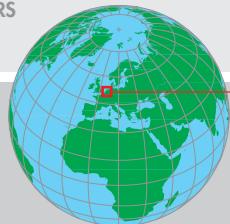
The economic expansion remained strong in 2007 and is expected to reach 3% for the second year in a row.

Over the projection period above-potential growth is projected to continue, reflecting both robust domestic demand and dynamic export markets. However, labour shortages are likely to persist, partly reflecting population ageing, which will increasingly hamper the expansion of the economy. Indeed, inflation pressures are expected to increase gradually.

To facilitate stronger sustainable growth, policies aimed at raising labour utilisation should be intensified. Moreover, given the unusual uncertainty in short-term economic prospects, the government should be ready to allow the full functioning of the automatic stabilisers.



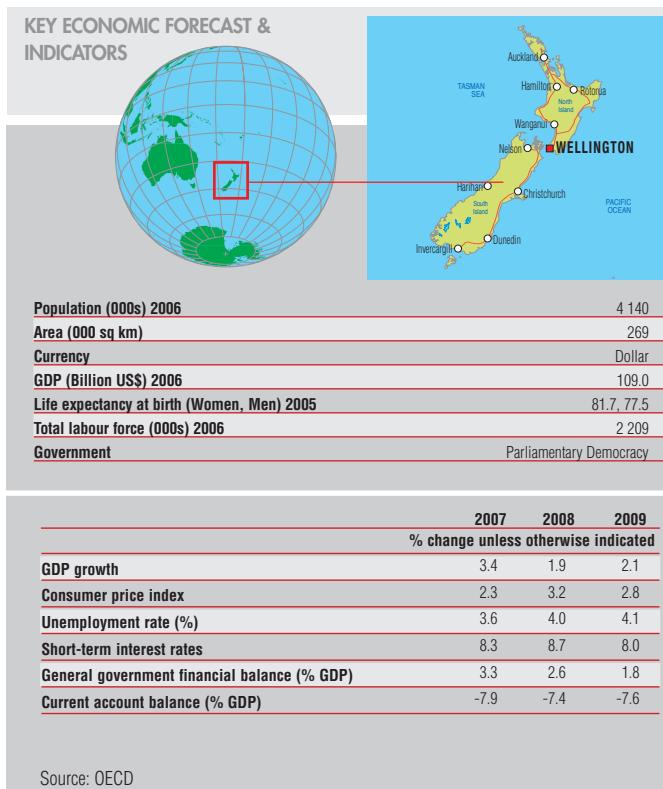
### KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	16 346
Area (000 sq km)	41
Currency	Euro
GDP (Billion US\$) 2006	608.9
Life expectancy at birth (Women, Men) 2005	81.6, 77.2
Total labour force (000s) 2006	8 562
Government	Constitutional Monarchy

	2007	2008	2009
<i>% change unless otherwise indicated</i>			
GDP growth	3.0	2.4	2.3
Household savings ratio	6.1	7.0	8.5
Consumer price index	1.6	2.0	2.4
Unemployment rate (%)	3.3	2.9	2.7
General government financial balance (% GDP)	-0.1	0.6	1.1
Current account balance (% GDP)	6.9	6.5	6.3

Source: OECD



## New Zealand



### Easing back

A ctivity so far in 2007 has picked up markedly in a context of unprecedented high prices for New Zealand's major commodity exports, maintaining pressure on resources and inflation. Monetary conditions have been tightened, while domestic risk spreads have widened in conjunction with the international financial market turbulence. These factors should cause growth to slow over the near term, allowing a moderation of inflation and eventual monetary easing.

In the light of persistent capacity tightness and external imbalance, caution should be exercised in reducing the large fiscal surplus. A slower than planned decline could ease pressure on both interest and real exchange rates, thereby supporting a shift towards more supply-friendly growth led by exports and investment. The rapid increase in public spending should be scrutinised for its efficiency and sustainability.

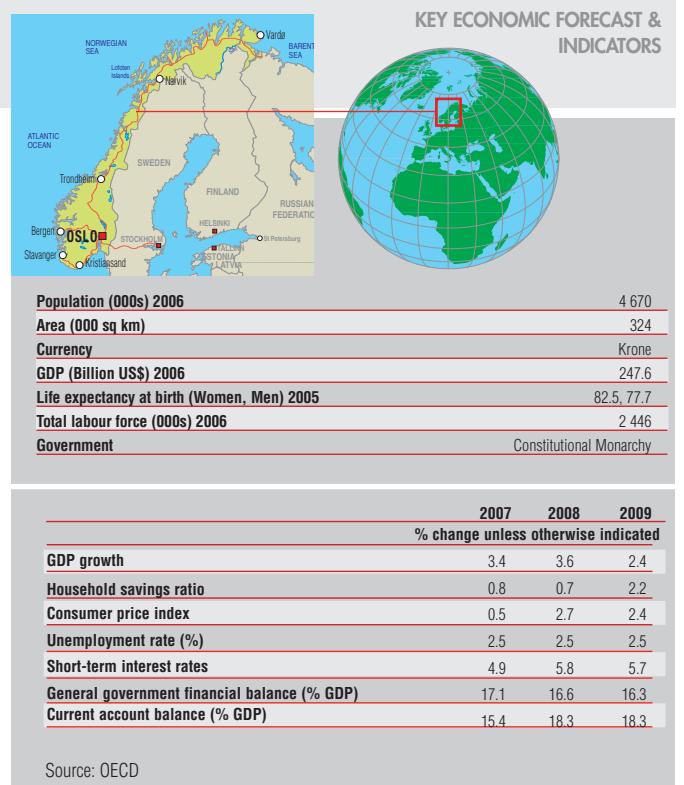


## Norway

### Reaching a peak

**A**fter a long period of robust growth, which continued unabated in the first half of 2007, there are signs that mainland Norway (i.e. non-offshore sector) is reaching the peak of the cycle with a large positive output gap. Tightening monetary conditions are beginning to exert a cooling effect and further expansion is made difficult by very high capacity utilisation. Some of the forces that kept price increases down are diminishing and inflation is now picking up slightly.

Further monetary policy tightening is expected ahead, broadly in line with the path forecast by Norges Bank, the central bank. Fiscal policy has been expansionary and needs to be tighter than the fiscal rule would imply if overheating is to be avoided. Structural policies aimed at increasing labour utilisation, notably among youth and elderly, remain a priority.





# Poland

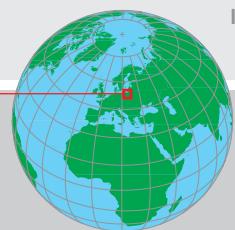
## Strong wage increases

The first half of 2007 saw an acceleration of economic activity, driven by booming domestic demand. Growing labour shortages have fuelled strong wage increases. The pick-up in unit labour costs and record-high capacity utilisation rates have darkened the inflation outlook. Persistent strength in domestic demand should support growth, but the current account deterioration is projected to continue.

The fiscal outcome has improved this year, and the outgoing government started to reduce the tax wedge. Yet the recent decision to increase spending and decrease revenues renders all the more uncertain Poland's EU commitment to reduce its excessive deficit. With a pro-cyclical fiscal stance and above-potential GDP growth, the burden of staying on a non-inflationary growth path falls on monetary policy alone. A better policy mix would call for significant fiscal retrenchment.



### KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	38 132
Area (000 sq km)	313
Currency	Zloty
GDP (Billion US\$) 2006	571
Life expectancy at birth (Women, Men) 2005	79.4, 70.8
Total labour force (000s) 2006	16 992
Government	Republic

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	6.5	5.6	5.2
Consumer price index	2.3	3.6	4.2
Unemployment rate (%)	9.7	8.4	7.7
General government financial balance (% GDP)	-2.8	-3.2	-3.0
Short-term interest rates	4.7	6.5	6.7
Current account balance (% GDP)	-4.9	-5.7	-6.2

Source: OECD

### KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	10 586
Area (000 sq km)	92
Currency	Euro
GDP (Billion US\$) 2006	222.1
Life expectancy at birth (Women, Men) 2005	81.4, 74.9
Total labour force (000s) 2006	5 587
Government	Parliamentary Democracy

# Portugal



## Stronger expansion

The expansion has become more broadly based in 2007. Following a period of buoyant export growth, investment is picking up. Growth is expected to strengthen further in 2008 and 2009, largely driven by domestic demand. The still large negative output gap should drive inflation down in 2009. Though gradually declining, unemployment remains high and, as a result, wage increases are set to be moderate.

The budget deficit continues to decline. It is important that the government maintains momentum in structural reforms to ensure further consolidation. This will help to underpin growth in the long run. Further progress in enhancing human capital and increasing competition in the domestic market would also help boost productivity and growth over the longer term.

Source: OECD

## KEY ECONOMIC FORECAST &amp; INDICATORS



Population (000s) 2006	5 391
Area (000 sq km)	49
Currency	Koruna
GDP (Billion US\$) 2006	94.9
Life expectancy at birth (Women, Men) 2005	77.9, 70.1
Total labour force (000s) 2006	2 655
Government	Parliamentary Democracy

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	9.3	7.3	6.9
Consumer price index	2.7	3.2	2.8
Unemployment rate (%)	11.0	10.1	9.4
Short-term interest rates	4.1	4.1	4.1
General government financial balance (% GDP)	-2.6	-2.3	-1.8
Current account balance (% GDP)	-4.1	-3.0	-1.8

Source: OECD

**Slovak Republic****Euro a target**

Economic growth is projected to ease to 7% by 2009 as the rate at which new export-oriented manufacturing capacity coming on stream declines. Unemployment is projected to fall to about 9.5% in 2009. Further disinflation will be slowed by higher food prices, increases in indirect taxes and the assumed euro changeover in 2009.

Labour market reforms should continue to help bring the long-term unemployed back into work and make entry into the labour force more attractive to young women and older workers. This would help spread the gains from strong growth more widely. Fiscal policy should continue to remain tight to ensure that Slovakia meets the Maastricht criteria on European economic and monetary union and to counteract the danger of a boom-bust cycle after the likely euro area accession.

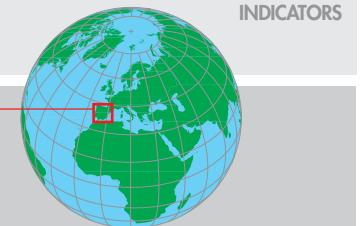
**Spain****Residential construction falls**

Economic growth is likely to slow in 2008 and 2009, as residential construction falls. Private consumption may decelerate, reflecting lower employment gains and tighter credit conditions. From a peak in late 2007, inflation should decline as demand pressures moderate.

In order to minimise output losses resulting from the slowdown in domestic demand, the indexation of wages to past inflation should be eliminated. Competition in product markets, in particular in retail distribution, needs to be nurtured to raise medium-term growth prospects. Calls for further relaxation of fiscal policy should be resisted in order to tackle the future fiscal consequences of population ageing.



## KEY ECONOMIC FORECAST &amp; INDICATORS



Population (000s) 2006	44 068
Area (000 sq km)	505
Currency	Euro
GDP (Billion US\$) 2006	1 270.1
Life expectancy at birth (Women, Men) 2005	83.9, 77.4
Total labour force (000s) 2006	21 585
Government	Parliamentary Monarchy

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	3.8	2.5	2.4
Household savings ratio	10.3	10.6	10.8
Consumer price index	2.8	3.6	2.5
Unemployment rate (%)	8.1	8.1	8.3
General government financial balance (% GDP)	1.9	1.5	1.3
Current account balance (% GDP)	-9.8	-10.0	-10.1

Source: OECD



# Sweden

## Domestic demand strong

After posting very strong growth in 2006, the Swedish economy cooled during 2007, due mainly to weaker export growth. Domestic demand is expected to continue to grow markedly in the near term as strong employment growth and income gains should boost private consumption.

Inflation is set to continue rising, as tight labour market conditions might gradually fuel wage growth. The central bank should continue moderate tightening of monetary policy, and expansionary fiscal policy should be avoided.



### KEY ECONOMIC FORECAST & INDICATORS

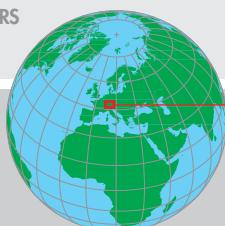
Population (000s) 2006	9 081
Area (000 sq km)	450
Currency	Krona
GDP (Billion US\$) 2006	309.6
Life expectancy at birth (Women, Men) 2005	82.8, 78.4
Total labour force (000s) 2006	4 671
Government	Constitutional Monarchy

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	3.4	3.2	2.6
Household savings ratio	9.9	6.8	4.4
Consumer price index	1.9	2.5	2.6
Unemployment rate (%)	4.6	3.8	3.6
Short-term interest rates	3.6	4.3	4.6
General government financial balance (% GDP)	2.9	3.1	3.1
Current account balance (% GDP)	7.0	6.7	6.8

Source: OECD



# Switzerland



## Budget surplus to decline

### KEY ECONOMIC FORECAST & INDICATORS

Population (000s) 2006	7 484
Area (000 sq km)	41
Currency	Franc
GDP (Billion US\$) 2006	283
Life expectancy at birth (Women, Men) 2005	83.9, 78.7
Total labour force (000s) 2006	4 464
Government	Federal Republic

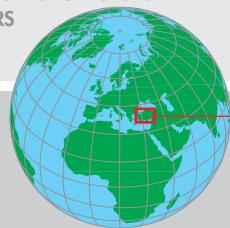
	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	2.7	2.0	2.0
Consumer price index	0.6	1.5	1.4
Unemployment rate (%)	3.3	3.2	3.0
Short-term interest rates	2.6	2.9	3.0
General government financial balance (% GDP)	1.2	1.2	1.0
Current account balance (% GDP)	15.8	15.2	15.5

Source: OECD

Economic growth is expected to slow to about 2% in 2008 and 2009, close to the potential rate, with a diminished contribution from net exports. Employment should continue rising, although unemployment may not fall much further. Inflation is projected to rise modestly, reflecting past oil price rises and a high level of capacity utilisation. The government budget surplus will decline.

Should economic growth remain solid in 2008, as projected, a further quarter point increase in policy interest rates is likely to be necessary. Comprehensive removal of remaining non-tariff trade barriers vis à vis the EU would stimulate competition and trade, raising supply capacity, as would further measures to facilitate market entry in network industries.

## KEY ECONOMIC FORECAST &amp; INDICATORS



Population (000s) 2006	72 974
Area (000 sq km)	781
Currency	Lira
GDP (Billion US\$) 2006	625.9
Life expectancy at birth (Women, Men) 2005	73.8, 68.9
Total labour force (000s) 2006	25 276
Government	Republican Parliamentary Democracy

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	5.1	5.8	6.3
Consumer price index	8.6	6.8	5.5
Short-term interest rates	18.2	14.1	11.8
Unemployment rate (%)	9.6	9.4	9.1
Current account balance (% GDP)	-7.7	-7.4	-7.1

Source: OECD

## Turkey



## Restore restraint

The economy, which had slowed down earlier in the year as a result of monetary tightening in 2006 and political uncertainties in the spring, gained momentum after the summer elections. In the absence of shocks, growth should settle at around 6% in 2008 and 2009.

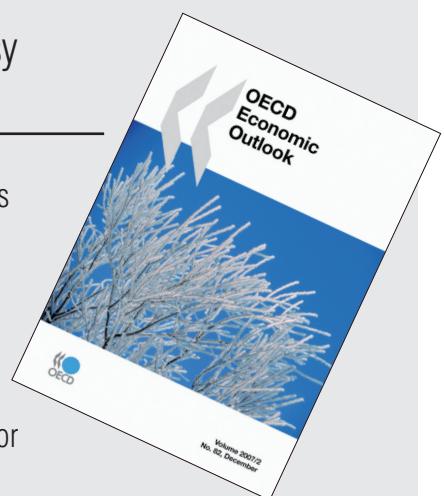
Progress with enhancing the resilience and performance of the economy is at risk from a loss of competitiveness provoked by booming capital inflows. In this context the government is encouraged to restore fiscal restraint, which would help the central bank to continue reducing interest rates, and to increase the flexibility of product and labour markets to help the economy to cope with strong appreciation.

**Note about the *OECD Observer* snapshots:** All GDP values in the tables are at current market prices. Data in the lower tables come from the *OECD Economic Outlook* preliminary edition. For the upper tables, sources include *OECD in Figures*, *OECD Main Economic Indicators* and other sources.

These country snapshots were brought to you courtesy of the *OECD Economic Outlook*, No. 82, 2007.

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## Brazil

### Strong demand growth

**G**DP growth picked up in the first half of 2007. Private consumption continues to support activity on the heels of strong credit increases and rising incomes. The expansion of investment has been particularly sharp. Export performance remains robust. But a vigorous pickup in imports, especially of capital goods and intermediate inputs, is beginning to weigh on the trade surplus. Inflation remains well below the central target, despite an uptick in mid-year on the back of food price hikes.

A two-year cycle of monetary easing was interrupted in October owing to the strength of demand growth. A fiscal impulse is expected at year-end and into 2008 due to an unexpectedly back-loaded execution of investment commitments from the pro-growth policy package announced in January 2007. The policy mix is by and large supportive of continued expansion over the projection horizon. But current public expenditure growth should be reined in over the medium term.



#### KEY ECONOMIC FORECAST & INDICATORS



Population (000s) 2006	187 228
Area (000 sq km)	8 515
Currency	Réal
GDP (Billion US\$) 2006	1 067
Life expectancy at birth (Women, Men) 2006	76.2, 68.7
Total labour force (000s) 2006	97 528
Government	Federal Republic

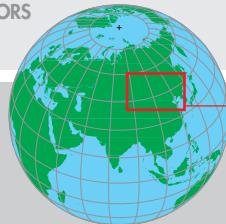
	2007	2008	2009
	% change unless otherwise indicated		
Real GDP growth	4.8	4.5	4.5
Inflation (CPI)	3.9	4.0	4.0
Fiscal balance (% of GDP)	-1.9	-1.4	-1.0
Primary fiscal balance (% of GDP)	3.8	3.8	3.8
Current account balance (% GDP)	0.6	-0.1	-0.4

Source: OECD

## China



### Scope for social spending



#### KEY ECONOMIC FORECAST & INDICATORS

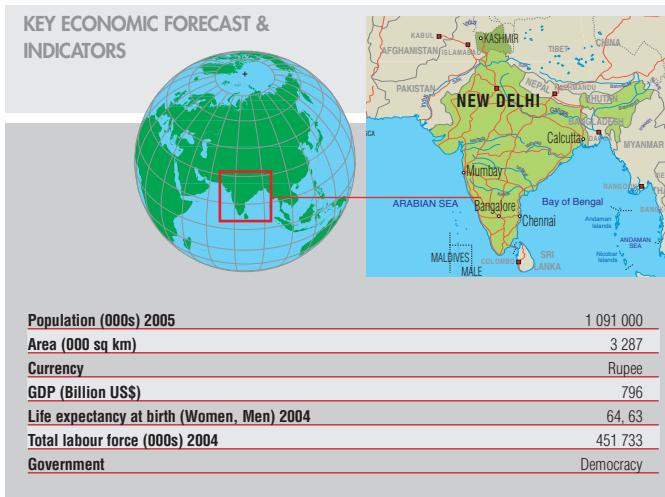
Population (000s) 2006	1 307 600
Area (000 sq km)	9 597
Currency	Renminbi
GDP (Billion US\$) 2006	2 645
Life expectancy at birth (Women, Men) 2006	74, 70
Total labour force (000s) 2006	782 440
Government	Communist state

	2007	2008	2009
	% change unless otherwise indicated		
Real GDP growth	11.4	10.7	10.1
Inflation	4.4	4.5	4.6
Consumer price index	4.5	4.0	3.9
Fiscal balance (% of GDP)	2.0	1.8	1.7
Current account balance (% GDP)	11.2	11.3	11.8

Source: OECD

**A**fter moderating in the second half of 2006, economic growth has accelerated again and is expected to reach almost 11.5% in 2007, leading to a widening of the output gap. The inflation rate is projected to increase to around 4.5% in 2007 and stabilise thereafter as weaker food prices are estimated to offset accelerating non-agricultural prices. Despite continued strong export growth, output is likely to slow in 2008 and 2009 as imports accelerate. Nonetheless, the current account surplus is projected to rise from around \$350 billion in 2007 to over \$500 billion in 2009, passing from 11.25 to 11.75% of GDP.

The balance of risks suggests that some tightening of macroeconomic policies is needed to reduce overheating, help ease inflation and calm equity markets. Rebalancing growth away from net exports continues to be a key concern, implying that a faster appreciation of the currency should be part of this tightening. There is also scope to redirect public spending to meet pressing social needs.



	2007	2008	2009
	% change unless otherwise indicated		
Real GDP growth	8.8	8.6	8.4
Inflation	5.4	4.9	4.5
Consumer price index	6.4	5.8	5.0
Short-term interest rate	8.7	8.6	7.5
Long-term interest rate	7.9	7.7	7.5
Fiscal balance (% of GDP)	-5.6	-5.2	-5.2
Current account balance (% GDP)	-2.0	-2.1	-2.0

Source: OECD

## India



### Extensive reforms needed

The economy grew rapidly in the fiscal year (FY) 2006, expanding by 9.4%. Strong growth was fuelled by a good performance of the agricultural sector and continued strength of industrial output. In the first half of FY 2007, investment remained buoyant, leading to improvements in the supply potential of the economy. With higher interest and exchange rates, output growth is projected to gradually slow to 8.4% by 2009. The current account deficit is likely to widen from 1.1% of GDP in FY 2006 to 2% by 2009. Inflation, as measured by the GDP deflator, is expected to ease back somewhat over the projection horizon as increases in food prices moderate.

Achieving strong and sustainable economic growth will require a significant package of economic reforms. Fiscal deficits will need to be further reduced to make room for private corporate investment. Tariffs should be lowered further and measures taken to reduce the administrative burden on enterprises. At the same time, restrictive labour market policies should be eased so that companies are encouraged to employ staff on a long-term basis, thereby helping to reduce poverty. Improvements in public service delivery are also needed to raise the quality of education and infrastructure.

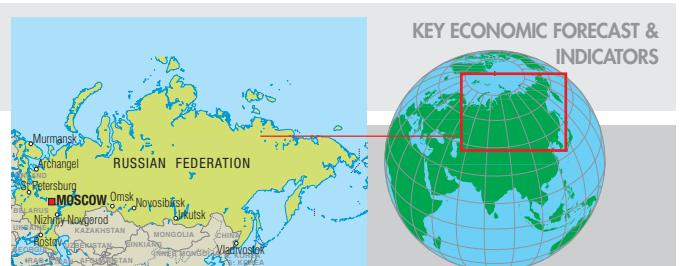


## Russia

### Inflation above target

Real GDP growth is set to accelerate in 2007, before moderating over the projection period as oil and metal prices stabilise at their current high levels. Domestic demand will remain strong, but the exceptional rates of investment growth observed in the first half will not be sustained. Fuelled by relaxed monetary conditions and the tightening of the labour market, inflation is set to hit double digits at the end of the year and will, in any case, exceed the central bank target of 8% by a wide margin.

Fiscal loosening is adding to inflationary pressures and the non-oil fiscal balance is set to deteriorate sharply this year. While the government has turned to artificial administrative measures to limit retail price increases, the key factor to bringing down inflation would be a return to a much tighter fiscal stance. Strengthening pro-competitive market regulations would certainly help but, in this respect, the trend towards ever greater state activism in industrial policy is a source of concern.



Population (000s) 2006	142 200
Area (000 sq km)	17 098
Currency	Rouble
GDP (Billion US\$) 2006	985.5
Life expectancy at birth (Women, Men) 2005	72.4, 58.9
Total labour force (000s) 2006	74 187
Government	Federation

	2007	2008	2009
	% change unless otherwise indicated		
GDP growth	7.3	6.5	6.0
Inflation	11.0	9.5	8.5
Fiscal balance (% of GDP)	5.5	3.8	1.5
Current account balance (% GDP)	6.0	4.7	2.0

Source: OECD

# China and India

## Making sense of innovation and growth

Sean Dougherty, OECD Economics Department

**Innovation has played a modest role in explaining growth in both China and India in recent years, but both countries have work to do to sustain their promising growth paths. Moreover, there are important differences between the respective challenges that each country faces.**

Last October at a conference on China and India's innovative capacity at the US National Academy of Sciences, participants debated at length whether university graduates from either country were of adequate quality to support competitive businesses in our global economy. One participant from India said, "we can just train employees... there is no need for them to graduate from college." There was little consensus on the adequacy or inadequacy of current human capital investments, despite having so many experts assembled in one place. While there is little doubt that in sheer numbers (of engineers, scientists, etc.) both economies are converging rapidly with advanced economies in the OECD, it is much less clear how long that will take, or even whether they will ever converge with each other.

This begs a question one widely hears nowadays: can India simply follow China's lead and blast off into the 21st century? It is an urgent question that goes well beyond issues of resilience. After all, vast numbers of people in India are still in poverty—indeed, far more than previously thought if recent reappraisals of purchasing

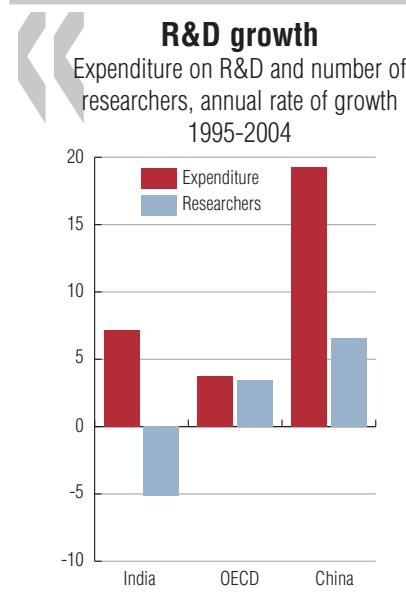
power parities prove accurate. Poverty remains widespread in China too, despite a decade of heady growth: average income levels in India and China are far beneath those of the OECD. However, both countries manage to send spaceships aloft on a regular basis, and both are a major source and attractive target of vast foreign direct investment and portfolio flows. In other words, these economic giants matter. Nevertheless, a closer look reveals many differences between them, in innovation as well as other sources of growth.

Until recently, China's per capita GDP growth was nearly twice as rapid as that of India, despite India being poorer and starting from a lower base. But in the past few years the growth gap has narrowed, as the Indian economy has accelerated. Where has all the growth come from? In China's case, much of it has come from very high

and sustained rates of investment, almost twice as high as for India. This brute force is evident in China's faster infrastructure development that has enabled urbanisation to take place twice as fast as in India. Even for the more subtle and sophisticated type of growth—through total factor productivity that captures how well capital and labour are combined together—China has exceeded India's achievement by 40%, and the gains in efficiency have in turn enhanced returns on investment.

What has driven productivity gains? This is one key to understanding the differences between the two economies. Productivity is an important long-term driver of growth, and because it influences innovation, expenditure on R&D is one of its main determinants in advanced economies. Lifting R&D spending can improve the absorptive capacity for adopting new technologies. Both China and India have increased their R&D expenditure significantly in recent years, with China's growing at almost 20% per year. However, the number of researchers has grown much more slowly, and in the case of India, their absolute numbers appear to have actually fallen! On the other hand, R&D wages have risen, as the premium on skills has increased. While relatively low R&D expenditure is not necessarily a problem in a developing economy, the stagnation of India's R&D intensity at about 1% of GDP is a concern, particularly as China's has recently risen to over 1.4%.

While the valuation of these intangible investments is far from clear due to quality differences, the divergence in inputs is reflected in research outputs as well. In particular, the number of articles published by China's scientific community has grown at a furious pace, but India's have remained comparatively static. This is ironic, as India's



Source: OECD

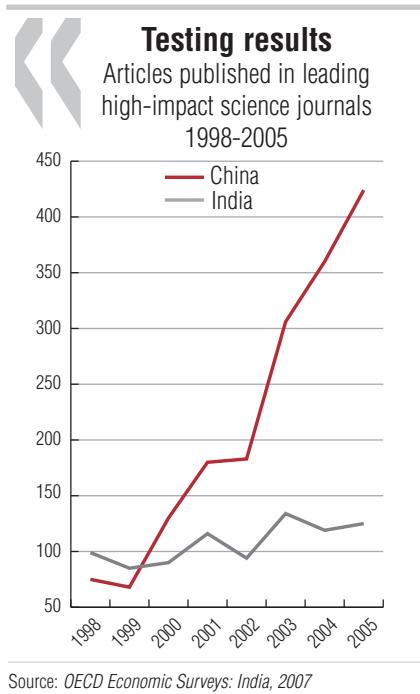
legal system appears to offer better intellectual property rights protection than China's, and so should promote more research activity.

Despite the importance of R&D and innovation, more basic drivers of productivity are at least as important at earlier stages of development. Chief among these is for businesses to be able to compete and expand when successful, or to close shop easily if they are not. In the case of India, there are serious restraints at both ends. One example is the country's stringent labour legislation that applies to the formal sector, where virtually all Indian exports are produced. As a result, Indian businesses are profoundly undersized by international comparison, with nearly 90% of industrial employment in firms with fewer than 10 employees, whereas in China, and most OECD countries, this share is well under 10%.

The small scale of Indian businesses is a major lost opportunity in terms of productivity, as larger firms can obtain economies of scale that deliver as much as a two-fold gain in output compared with smaller firms in the so-called informal sector. In the case of China, a similar gain in productivity has occurred through the downsizing of the state sector and the development of the private sector. While China still has a larger share of its business activity in public hands, India has been slower to privatise, despite its state sector's lower productivity.

Restrictive regulations can go a long way to explaining the weaknesses in both economies' growth patterns. These include restrictions on financial and product markets. Excessive state control in particular inhibits competition in many states and sectors. There are also restraints on business entry and operation across the board, not to mention thickets of government red tape. India's restrictions vary almost as much across states as can be observed across OECD countries.

But perhaps a more critical distinction between China and India concerns labour regulations. India's restrictions on collective dismissals in factories are more stringent



Source: *OECD Economic Surveys: India, 2007*

than those of any OECD or major emerging economy, while China's are close to the OECD average. These regulations deter large businesses, and drive jobs into the informal sector, where productivity is lower. China is currently strengthening its labour market restrictions considerably. While there is room to improve basic protections for laid-off workers in China, care should be taken not to undo the flexibility that has delivered China so many advantages.

Although there is surely much to do to make policy more conducive to business and investment, labour productivity in China and India has advanced thanks to capital deepening in firms and gains in total factor productivity. This has kept real labour costs at about 20% of the US equivalent, even in a context of rapidly rising wages. These low costs have continued to attract investors and exporters to both economies, although with a very different composition of exports: India's trade is much more oriented toward services—particularly information technology related business services; while China's is focused on goods, although its services trade is also expanding at a fast pace. This low-cost trade has helped keep the lid on inflation in the OECD area in recent years.

Worries about the competitive threat of China and India's trade abound in developed economies, and indeed the value-added technology content of this trade is increasing, in China especially, as it has become the world's third largest exporter. However, tempering these worries is the fact that the lion's share of this trade is still carried out by wholly foreign-owned firms, which do mainly final assembly work. And India has remained a much smaller player in global trade, representing only one-sixth of China's 7% global market share.

Instead, a more basic and pressing problem for India is to improve educational attainment, and produce more college graduates (see *OECD Observer*, No 263, October 2007). China now produces twice as many college graduates per year as India, up from parity less than a decade ago. The future is less certain, as demographic trends suggest China will age before it gets rich, and India's population structure is such that it will remain "young" for the foreseeable future. This will boost savings in India compared to China, whose population will begin to draw down savings more in retirement. The effect of this could be a convergence of GDP growth rates between the two economies sometime in the next decade.

There is no doubt the huge economic potential—let alone ambitions—of India and China. Yet they also have their differences, and India has arguably more basic groundwork left to do to support a rapid catch-up with OECD countries than China does. But ultimately they both face the same challenge as all major economies, and that is to reform and innovate to sustain future growth and development. ■

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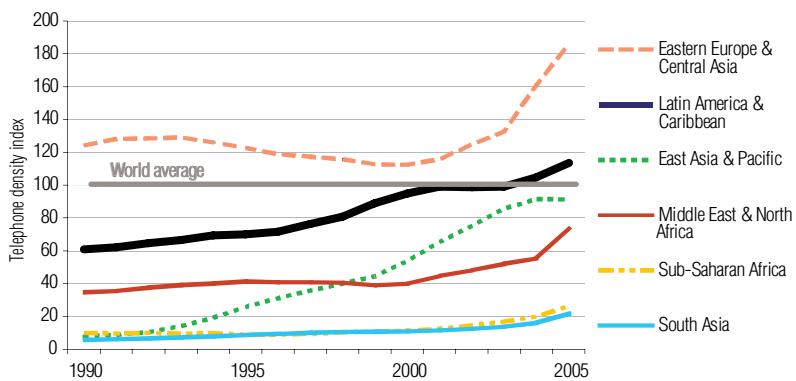
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# Latin America calling

Latin Americans' access to telecommunications services has expanded fast since the early 1990s, with a telephone density now above the world average. Chile and Argentina lead the continent, with 90 and 82 telephone lines per 100 inhabitants respectively. Fewer, albeit wide, disparities still exist. Haiti and Cuba lag in both access and uptake, while the poorest Central American and Andean countries have started to catch up. In Ecuador, for instance, annual growth in teledensity accelerated from around 30% in the early 2000s to 53% in 2005. The OECD's first *Latin America Economic Outlook* puts greater access down to several factors, including new technologies (e.g., mobile communications), improved regulation and substantial foreign investment, facilitated by a more liberalised market. Connectivity to land and mobile lines has grown between 10 to 25% per year per

## Phone developments

Telephone density in selected regions  
World average = 100, population weighted



Source: OECD Development Centre, *Latin America Economic Outlook 2008*

StatLink <http://dx.doi.org/10.1787/121203470338>

capita in Latin American countries that have privatised their telecom industries.

Improving access remains a policy challenge though. Chile, for example, has allowed companies to bid for the right to supply low-income neighbourhoods with service, known as "universal access

projects", with the contract going to the company that requests the lowest government subsidy to complete the project. ■

Order the OECD's *Latin America Economic Outlook* at [www.oecdbookshop.org](http://www.oecdbookshop.org) or see [www.oecd.org/development](http://www.oecd.org/development).  
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# Korea's young workers

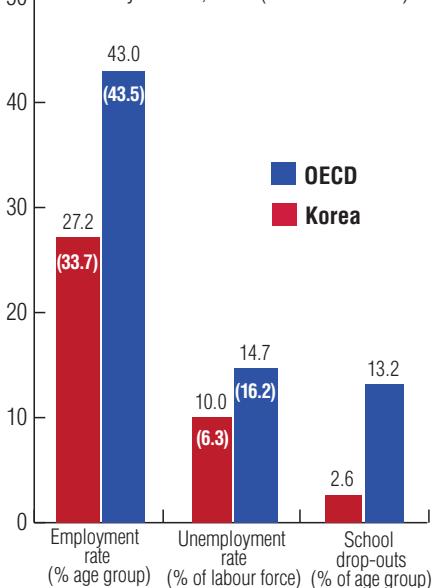
The Korean economic wave continues forward, with strong growth and low unemployment expected in 2008-2009. But the upsurge appears to have left some younger people behind. True, at 10%, Korean youth unemployment is below the OECD average of nearer 15%, and though the country has a lower employment rate, this reflects a much lower school drop-out rate and high participation in education. However, youth employment has in fact declined quite sharply since 1996, while, unlike the OECD average, unemployment has risen. More needs to be done, says a new report, *Jobs for Youth: Korea*.

Over a third of young workers get trapped in so-called "non-regular" short contracts with limited career prospects, while many graduates cannot find jobs to fit their skills. *Jobs for Youth: Korea* identifies several reasons. First, the rapid expansion of tertiary education has led to skill mismatches. Second, regulatory obstacles deepen divisions in the job market. And third, unemployed youth, particularly those with less qualifications, need more support when seeking a job. The report makes several recommendations to update the education system and labour market regulatory framework, including to better link education and work, reform employment protection legislation, and prioritise less qualified youth. ■

*Jobs for Youth: Korea* is the latest in a series by the OECD covering some 16 countries. Order it at [www.oecdbookshop.org](http://www.oecdbookshop.org).

## Korean youth

15-24 years old, 2006 (1996 in brackets)



Source: *Jobs for Youth: Korea*

			% change from:		Current balance	level:		
			previous period	previous year		current period	same period last year	
<b>Australia</b> 	Gross domestic product	Q3 07	1.0	4.3	Current balance	Q3 07	-13.20	-9.77
	Leading indicator	Nov. 07	0.0	0.2	Unemployment rate	Nov. 07	4.50	4.60
	Consumer price index	Q3 07	0.7	1.9	Interest rate	Nov. 07	7.15	6.37
<b>Austria</b> 	Gross domestic product	Q3 07	0.8	3.4	Current balance	Q2 07	3.29	1.14
	Leading indicator	Nov. 07	-0.2	-1.8	Unemployment rate	Nov. 07	4.30	4.50
	Consumer price index	Nov. 07	0.5	3.1	Interest rate	*	*	*
<b>Belgium</b> 	Gross domestic product	Q3 07	0.5	2.6	Current balance	Q3 07	3.01	3.28
	Leading indicator	Nov. 07	-0.3	-1.9	Unemployment rate	Nov. 07	7.20	8.00
	Consumer price index	Dec. 07	0.3	3.1	Interest rate	*	*	*
<b>Canada</b> 	Gross domestic product	Q3 07	0.7	2.9	Current balance	Q3 07	0.99	5.05
	Leading indicator	Nov. 07	-0.7	0.0	Unemployment rate	Nov. 07	5.90	6.20
	Consumer price index	Nov. 07	0.3	2.5	Interest rate	Dec. 07	4.79	4.32
<b>Czech Republic</b> 	Gross domestic product	Q3 07	1.4	6.1	Current balance	Q3 07	-1.81	-1.35
	Leading indicator	Nov. 07	0.1	2.2	Unemployment rate	Nov. 07	4.80	6.50
	Consumer price index	Nov. 07	0.9	5.2	Interest rate	Dec. 07	4.05	2.56
<b>Denmark</b> 	Gross domestic product	Q3 07	1.3	1.7	Current balance	Q3 07	0.99	2.03
	Leading indicator	Nov. 07	-0.7	-3.3	Unemployment rate	Nov. 07	3.30	3.70
	Consumer price index	Nov. 07	0.7	2.5	Interest rate	Dec. 07	4.71	3.77
<b>Finland</b> 	Gross domestic product	Q3 07	0.7	4.1	Current balance	Oct. 07	0.96	0.82
	Leading indicator	Nov. 07	-0.4	-1.4	Unemployment rate	Nov. 07	6.70	7.30
	Consumer price index	Nov. 07	0.2	2.9	Interest rate	*	*	*
<b>France</b> 	Gross domestic product	Q3 07	0.8	2.2	Current balance	Oct. 07	-3.77	-3.48
	Leading indicator	Nov. 07	-0.1	-1.2	Unemployment rate	Nov. 07	7.90	8.90
	Consumer price index	Nov. 07	0.5	2.4	Interest rate	*	*	*
<b>Germany</b> 	Gross domestic product	Q3 07	0.7	2.5	Current balance	Q3 07	56.78	31.81
	Leading indicator	Nov. 07	-0.2	-3.0	Unemployment rate	Nov. 07	7.90	9.20
	Consumer price index	Nov. 07	0.5	3.1	Interest rate	*	*	*
<b>Greece</b> 	Gross domestic product	Q3 07	0.9	3.8	Current balance	Oct. 07	-4.14	-2.68
	Leading indicator	Nov. 07	-0.6	-1.8	Unemployment rate	Sept. 07	8.20	8.70
	Consumer price index	Dec. 07	0.4	3.9	Interest rate	*	*	*
<b>Hungary</b> 	Gross domestic product	Q3 07	0.3	1.1	Current balance	Q3 07	-2.07	-1.79
	Leading indicator	Nov. 07	0.0	0.1	Unemployment rate	Nov. 07	7.30	7.50
	Consumer price index	Nov. 07	0.6	7.1	Interest rate	Dec. 07	7.41	7.98
<b>Iceland</b> 	Gross domestic product	Q3 07	1.0	4.1	Current balance	Q3 07	-0.54	-1.08
	Leading indicator	..	..	..	Unemployment rate	Nov. 07	0.80	1.20
	Consumer price index	Dec. 07	0.7	5.8	Interest rate	Nov. 07	15.19	15.02
<b>Ireland</b> 	Gross domestic product	Q3 07	1.4	3.9	Current balance	Q3 07	-2.98	-2.27
	Leading indicator	Nov. 07	-1.7	-8.2	Unemployment rate	Nov. 07	4.30	4.20
	Consumer price index	Nov. 07	0.6	5.0	Interest rate	*	*	*
<b>Italy</b> 	Gross domestic product	Q3 07	0.4	1.9	Current balance	Jul. 07	-2.72	-5.03
	Leading indicator	Nov. 07	-0.4	-2.7	Unemployment rate	Sept. 07	6.00	6.50
	Consumer price index	Dec. 07	0.3	2.6	Interest rate	*	*	*
<b>Japan</b> 	Gross domestic product	Q3 07	0.4	2.0	Current balance	Oct. 07	22.13	15.56
	Leading indicator	Nov. 07	-0.2	-6.3	Unemployment rate	Nov. 07	3.80	4.00
	Consumer price index	Nov. 07	-0.2	0.6	Interest rate	Nov. 07	0.76	0.41
<b>Korea</b> 	Gross domestic product	Q3 07	1.3	5.0	Current balance	Nov. 07	0.08	2.46
	Leading indicator	Nov. 07	-1.2	-6.6	Unemployment rate	Nov. 07	3.20	3.40
	Consumer price index	Dec. 07	0.4	3.6	Interest rate	Dec. 07	5.73	4.76

			% change from:		Current balance	level:	
			previous period	previous year		current period	same period last year
<b>Luxembourg</b> 	Gross domestic product	Q2 07	1.3	5.3	Current balance	Q3 07	1.35
	Leading indicator	Nov. 07	-0.6	-4.8	Unemployment rate	Nov. 07	4.90
	Consumer price index	Dec. 07	0.3	3.4	Interest rate	*	*
<b>Mexico</b> 	Gross domestic product	Q3 07	1.5	3.7	Current balance	Q3 07	-1.65
	Leading indicator	Nov. 07	-0.2	1.8	Unemployment rate	Nov. 07	3.70
	Consumer price index	Dec. 07	0.4	3.8	Interest rate	Dec. 07	7.60
<b>Netherlands</b> 	Gross domestic product	Q3 07	1.8	3.8	Current balance	Q3 07	12.65
	Leading indicator	Nov. 07	-0.1	-0.8	Unemployment rate	Nov. 07	2.90
	Consumer price index	Nov. 07	0.1	1.9	Interest rate	*	*
<b>New Zealand</b> 	Gross domestic product	Q3 07	0.3	3.4	Current balance	Q3 07	-2.69
	Leading indicator	Oct. 07	-0.4	-3.1	Unemployment rate	Q3 07	3.50
	Consumer price index	Q3 07	0.5	1.8	Interest rate	Dec. 07	8.90
<b>Norway</b> 	Gross domestic product	Q3 07	1.4	3.4	Current balance	Q3 07	17.30
	Leading indicator	Nov. 07	0.8	3.0	Unemployment rate	Sept. 07	2.60
	Consumer price index	Nov. 07	1.6	1.5	Interest rate	Dec. 07	5.96
<b>Poland</b> 	Gross domestic product	Q3 07	1.2	5.8	Current balance	Oct. 07	-1.95
	Leading indicator	Nov. 07	-0.7	-3.6	Unemployment rate	Nov. 07	8.50
	Consumer price index	Nov. 07	0.7	3.5	Interest rate	Dec. 07	5.68
<b>Portugal</b> 	Gross domestic product	Q3 07	0.0	1.8	Current balance	Oct. 07	-1.45
	Leading indicator	Nov. 07	-0.4	0.6	Unemployment rate	Nov. 07	8.20
	Consumer price index	Nov. 07	0.3	2.8	Interest rate	*	*
<b>Slovak Republic</b> 	Gross domestic product	Q2 07	2.4	9.8	Current balance	Q3 07	-1.23
	Leading indicator	Nov. 07	-1.1	0.0	Unemployment rate	Nov. 07	11.00
	Consumer price index	Nov. 07	0.5	3.1	Interest rate	Sept. 07	8.35
<b>Spain</b> 	Gross domestic product	Q3 07	0.7	3.8	Current balance	Sept. 07	-12.88
	Leading indicator	Nov. 07	-0.1	-2.7	Unemployment rate	Nov. 07	8.20
	Consumer price index	Nov. 07	0.7	4.1	Interest rate	*	*
<b>Sweden</b> 	Gross domestic product	Q3 07	0.6	2.6	Current balance	Q3 07	6.72
	Leading indicator	Nov. 07	-0.5	-5.2	Unemployment rate	Nov. 07	6.00
	Consumer price index	Nov. 07	0.6	3.3	Interest rate	Dec. 07	4.12
<b>Switzerland</b> 	Gross domestic product	Q3 07	0.8	2.8	Current balance	Q3 07	19.49
	Leading indicator	Nov. 07	-0.8	-4.9	Unemployment rate	Q3 07	3.60
	Consumer price index	Dec. 07	0.2	2.0	Interest rate	Dec. 07	2.76
<b>Turkey</b> 	Gross domestic product	Q3 07	-1.2	1.8	Current balance	Q3 07	-9.85
	Leading indicator	..	..	..	Unemployment rate	Sept. 07	9.30
	Consumer price index	Dec. 07	0.2	8.4	Interest rate	Oct. 07	16.14
<b>United Kingdom</b> 	Gross domestic product	Q3 07	0.7	3.3	Current balance	Q3 07	-40.52
	Leading indicator	Nov. 07	-0.6	-0.4	Unemployment rate	Sept. 07	5.20
	Consumer price index	Nov. 07	0.3	2.1	Interest rate	Dec. 07	6.35
<b>United States</b> 	Gross domestic product	Q3 07	1.2	2.8	Current balance	Q3 07	-178.46
	Leading indicator	Nov. 07	-0.8	-1.5	Unemployment rate	Dec. 07	5.00
	Consumer price index	Nov. 07	0.6	4.3	Interest rate	Nov. 07	4.97
<b>Euro area</b> 	Gross domestic product	Q3 07	0.8	2.7	Current balance	Oct. 07	1.91
	Leading indicator	Nov. 07	-0.3	-2.3	Unemployment rate	Nov. 07	7.20
	Consumer price index	Nov. 07	0.5	3.1	Interest rate	Dec. 07	4.84

**Definitions and notes**

**Gross Domestic Product:** Volume series; seasonally adjusted. **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:** Billion US\$; seasonally adjusted; **Unemployment Rate:** % of civilian labour force — standardised unemployment rate; national definitions for Iceland, Mexico and Turkey; seasonally adjusted apart from Turkey; **Interest Rate:** Three months. \*refer to Euro area. ..=not available.

**Source:** Main Economic Indicators, January 2007.

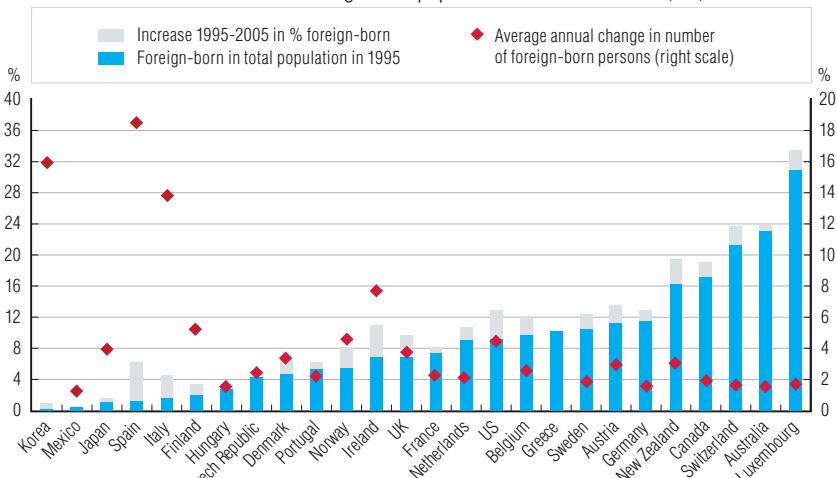
## New directions

Both the size and the relative incidence or frequency of the foreign-born population have increased in all OECD countries since 1995. So while there have been large increases in traditional migration countries such as the US and New Zealand, there have also been sharp rises in Denmark, Korea, Ireland, Italy, Norway and Spain, where inward migration has recently taken off. And as the *International Migration Outlook 2007* notes, Ireland has even surpassed the UK as an immigration country over the past decade, whereas France, once a significant country of immigration, now finds itself with proportionally fewer immigrants than either Ireland or the UK, or indeed Greece or Norway. At the same time, there have been small relative increases in the four countries with the highest prevalence of foreign-born persons, namely Australia, Canada, Luxembourg and Switzerland.

The foreign-born populations now represent at least 10% of the total population in about half of OECD

### Rising immigration

Prevalence and evolution of the foreign-born population in OECD countries, %, 1995-2005



Note: Data for Japan, Korea, Italy and Spain are for the foreign population. The earlier data year for Ireland and New Zealand is 1996, for Austria and the Czech Republic 1998 and for France 1999. The later data year for Germany is 2003.

Source: OECD, *International Migration Outlook 2007*

StatLink <http://dx.doi.org/10.1787/015028624173>

countries. Add in the offspring of immigrants, particularly in "mature" migration countries, such as Australia, Canada, New Zealand and Switzerland, and the percentage of persons with an immigrant background almost doubles, reaching as high as 40% or more. In some countries such as Belgium,

Germany and the Netherlands, the fertility rates of immigrant women have been higher than that of native-born women, so that the second generation outsizes the parental generation. ■

Order *International Migration Outlook (SOPEMI) 2007* at [www.oecdbookshop.org](http://www.oecdbookshop.org)  
ISBN 9789264032859

## Trading with China and India

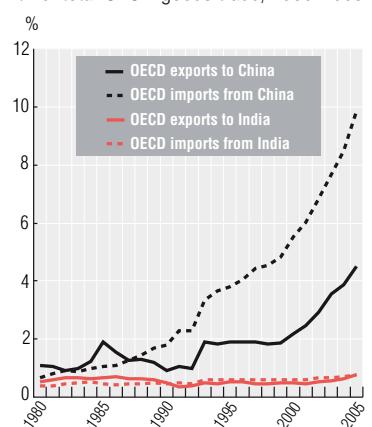
There has been a rapid rise of goods and services exports from large emerging economies in recent years, in particular, Chinese manufactured goods and Indian business services. In 1980, goods trade between the OECD and India and China was relatively small, representing in total only 2% of total OECD trade. These shares followed a relatively flat growth path until the early 1990s. Since then, trade with China has grown strongly, especially OECD goods imports. China's share of total OECD goods imports grew from 2% in 1990 to 10% in 2005, with more than half of that growth occurring since 2001. Indeed, China is now one of the world's leading exporters, largely but

not only from foreign-owned firms, and with products of increasing sophistication.

Goods trade with India has also risen since 1980, but at a much slower pace than with China. However, where India's trade has grown markedly is in services, yet to a share of world services exports of still only 2.3% in 2005. This is slightly less than half of China's share and much smaller than the 15% US export share. India's share of services imports nearly equals its export share. Though the OECD share of world services trade fell from 78 to 75% between 1995 and 2005, OECD countries are still by far the largest exporters and importers of services. ■

### Emerging markets

OECD goods trade with China and India as % of total OECD goods trade, 1980-2005



Source: OECD *Employment Outlook 2007*  
StatLink <http://dx.doi.org/10.1787/023524433733>