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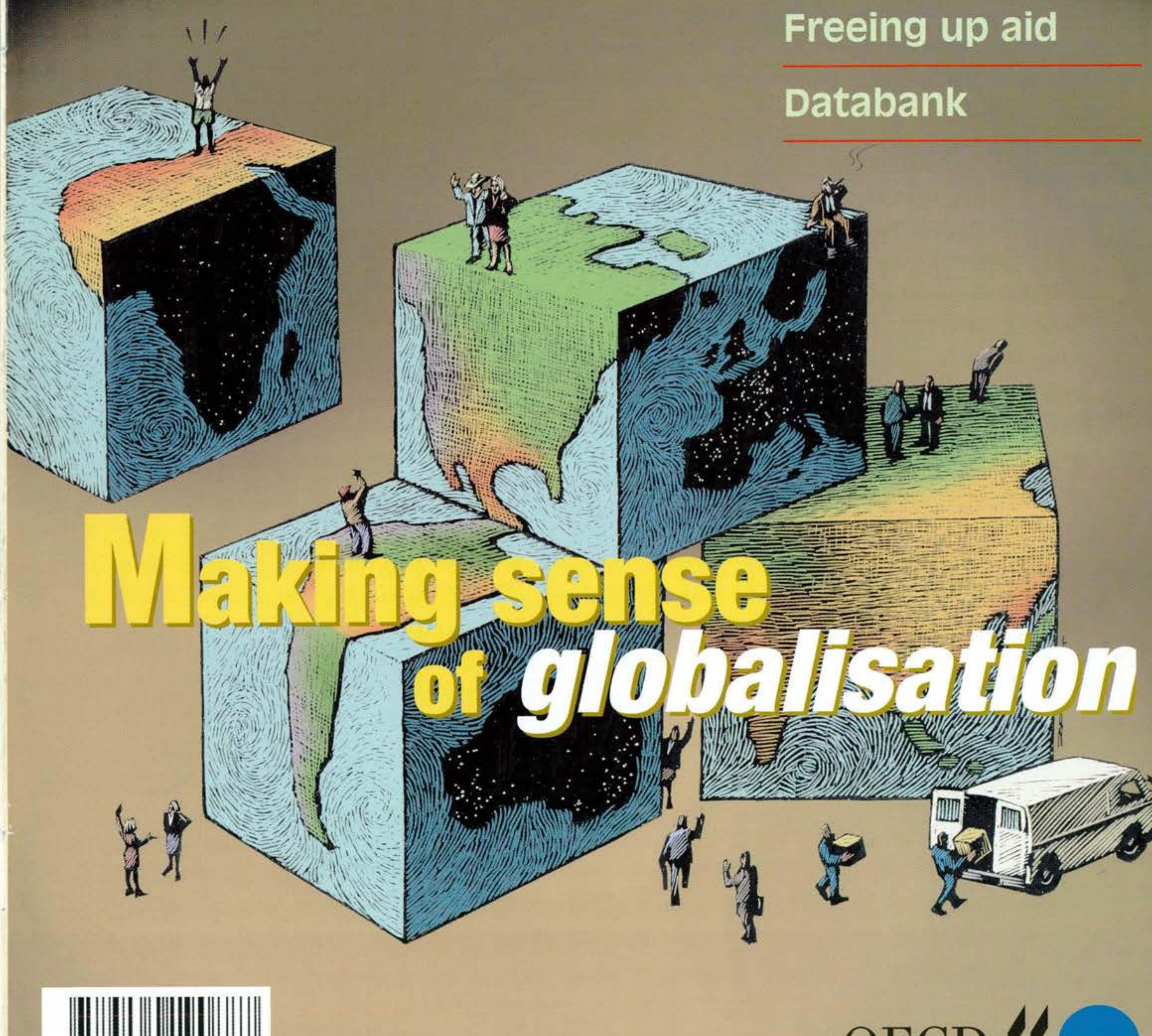
No. 228 – September 2001 www.oecdobserver.org

Germany and trade talks

Brazil's better prospects

Freeing up aid

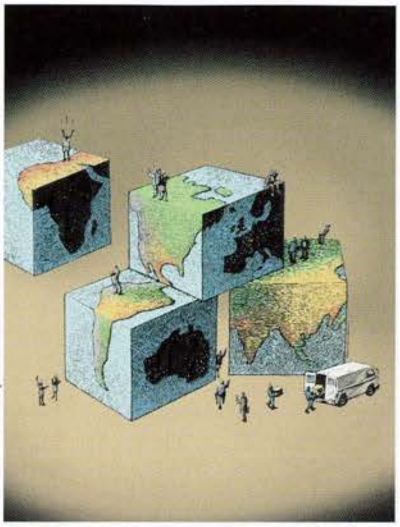
Databank



Making sense of globalisation

OECD

GM food • Sustainable development • Tax burdens



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Globalisation is alternatively condemned as a worldwide agenda driven by greedy multinational corporations and bureaucrats where the rich get richer and the poor poorer, or praised as the way forward to increased prosperity for all and the answer to the dire circumstances of billions of distressed people on planet earth. But what does globalisation really mean and why is there such a polarisation around the issue?

Observer oecd

www.oecdobserver.org

Published in English and French by the OECD

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

OECD

Observer oecd

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2001 subscription rate:
FF282 – US$50 – €43 – £30 – ¥5,900
ISSN 0029-7054
Tel.: +33 (0) 1 45 24 82 00
Fax: +33 (0) 1 45 24 82 10
sales@oecd.org

Founded in 1962
Published in English and French
by the Organisation
for Economic Co-operation
and Development

OECD Publications
2 rue André-Pascal
75775 Paris cedex 16, France
observer@oecd.org
www.oecd.org

Shared sorrow

In place of our normal letters page, here are some messages and thoughts following the terrorist attacks in the United States, September 11, 2001.

(See OECD messages, page 7.)

"We have come together here today in this hall to show our solidarity with you and your fellow Americans all over the world, to share your grief and sorrow and also to seek comfort and consolation together with you. On behalf of us all I offer our condolences.

There are moments in life when one feels small and helpless. You realise what is futile and what is important. Love is important, friendship is important, solidarity is important, life itself is important. When you look around you will find that you are surrounded by friends.

What has been done to you, to your country, to your society, has also been done to us. For we share the same values of freedom, openness, tolerance, democracy. We work with you here every day. We agree and we disagree. But on a day like this, I wonder: what would the world be like without America, without the US.

A darker place, certainly. A place with less freedom. A place with more dogmatism, a place with less tolerance and openness. With less wisdom. With more poverty.

What I am trying to say is simply this: we need you, and we are with you in your difficult moment as you have been with us in our difficult moments."

Anders Ferm, Swedish ambassador to the OECD, September 14, 2001. Ambassador Ferm delivered his message to colleagues at Chateau de la Muette before the three-minute silence in mourning for those killed in the terrorist attacks on the United States on September 11.

European Union

"There should be no illusion that it was only the Americans that faced this attack. Democracy itself and the values of freedom and tolerance were the real target." Belgium's prime minister, **Guy Verhofstadt**, in his capacity as president of the European Council, on announcing that Friday 14 September would be considered a day of mourning by the European Union.

From fellow workers

"TUAC joins the rest of the international labour movement in expressing horror and outrage at the callous killing of so many innocent women, men and children in the terrorist attacks of 11th September. All of us in the international labour movement stand in solidarity with our American colleagues at this time resolute in defence of democratic and open societies, based on the universal values of freedom and human dignity."

John Evans, General Secretary Trade Union Advisory Committee to the OECD (TUAC)

From business and industry

"On behalf of all our members, we would like to extend our deepest sympathies to those touched by the unconscionable terrorist attacks in the United States on Tuesday, September 11, 2001."

Douglas C. Worth,
Secretary-General
Business and Industry Advisory Committee to the OECD (BIAC)

United Nations

"The vicious acts that have been perpetrated against your country have cut us all to the core, for they are an attack on humanity itself." So wrote the UN secretary-general, **Kofi Annan**, in a letter to US president, George W. Bush. "The United Nations expresses its solidarity with the American government and people in this hour of trial."

To the Mayor of New York City, Rudolf Giuliani, Mr Annan wrote that the UN was grieving with other New Yorkers at the "gaping wound that has been inflicted on this wonderful city – the city that has been such a good and welcoming host to us."

IMF

"I wish to express our shock and deep sorrow at the tragic events that occurred in the United States yesterday, to express our sympathy with the United States of America, and to extend our heartfelt condolences to the victims and their families."

Horst Köhler, Managing Director, IMF

World Bank

"We express our deepest sympathy and solidarity with the American people, and the United States authorities, and extend our heartfelt condolences to the families of all who were killed or injured in New York, Washington DC, and Pennsylvania.

James D. Wolfensohn, President, World Bank

A New Yorker's view

Playwright **Arthur Miller** called the attacks a war against the human race. Speaking to a French daily, *Le Monde*, he said the attacks were by madmen in love with death. "It is so easy to destroy a town. The extreme vulnerability of New York with its towers, its bridges and its tunnels strikes me every time I cross the city." Mr Miller believes Americans will not make the mistake of falling into a trap of hatred against peoples or religions. He hopes they resist isolationism.

"Nationalism and religion are just excuses. No doubt there were hundreds of Muslims among the victims…Our prosperity has always depended on exports…We need the world as much as the world needs us. Power also brings responsibility." But humanity, he laments, can be a "terribly dangerous species".

Text translated from French.

Shaping globalisation

Donald J. Johnston, Secretary-General, OECD

I confess to being somewhat tired of the term "globalisation" which seems to find its way into the speeches and writings of everyone who has any interest in public policy. Globalisation is alternatively condemned as a worldwide agenda driven by greedy multinational corporations and bureaucrats where the rich get richer and the poor poorer, or praised as the way forward to increased prosperity for all and the answer to the dire circumstances of billions of distressed people on planet earth.

Tired as I may be of the term, I am hard-pressed to find a replacement that adequately captures contemporary events and trends. But what does globalisation really mean and why is there such a polarisation around the issue? Why is it so important?

In its simplest form I would define globalisation, when fully matured, as a "borderless economic world", where trade and investment on a planetary scale flow and locate as freely as within national boundaries and where workers can cross borders freely to find jobs. We are a long way from achieving that degree of globalisation, but economic integration has certainly accelerated, spurred by new transportation and information and communication technologies as well as by business strategies and public policy.

When I arrived at the OECD five years ago I suggested that achieving balance in a "triangular paradigm" between economy, society and governance would be necessary for real progress. The concept is largely a statement of the objectives of good governance and is inherent in the aims set out in the OECD Convention. All the challenges and priorities of our democratic societies – from poverty reduction to managing the environment – fit within this concept. Remove or unbalance any one of its corners and social and economic progress slows down and is often arrested. History is replete with examples, the extreme ones being revolutions.

The paradigm does not imply a standardised mould for all countries. Each democracy has to find its own balance within the paradigm, based on its own social, economic and cultural particularities. Just contrast the degree of responsibility for citizens' well-being that many European nations assign to government with the individualism that countries like the United States espouse. Different preferences have led to important differences in many policies, affecting the distribution of national income for instance, the flexibility of labour markets, taxation, and indeed in the role of government itself. The notion of social equity also varies among democracies but, provided there is social stability, one cannot conclude that the balance achieved in one national paradigm is better or worse than any other. Only the electorate can decide that.

It may be time to revisit this paradigm, especially in light of the passions raised in the debate about globalisation. Serious clashes arise between those who support freer markets (including international markets through multilateral trade and investment) as the prescription for economic growth and job creation, and those who believe that social equity is being placed in jeopardy by the unbridled play of market forces.

It is not always easy to see where the answer lies. Yet for globalisation to work, there needs to be balance in this triangular paradigm at world level too. The public demonstrations in several cities in recent years suggest some imbalance. The question is: where?

There is no doubt that the fruits of globalisation, namely, trade and investment liberalisation, have brought much increased wealth to the world as a whole. But there is no point arguing that globalisation is good because no one is getting poorer. Individuals within OECD countries have been falling behind as others race ahead and there is a sense that the North-South gap is widening. Is the social equity side of the paradigm getting enough attention? Do the governance aspects require strengthening?

Many would agree that globalisation offers great potential for world development. So how can diverging interests be brought behind what may be a unique opportunity? As the phenomena of globalisation touch almost every aspect of economic life, so shaping it inevitably involves a wide range of public policies – not only for trade and investment, but also competition, labour, environment, financial markets, energy, agriculture and development, to name a few. No government, ministry, union or business is an island in today's community of economies and societies.

The democratic governments of the OECD work together to improve policy, build co-operation and enhance the well-being of our countries. We take decisions by consensus and operate through dialogue, including with business, labour and civil society. We work closely with non-OECD countries too. We know there are downsides to globalisation which have to be managed, especially adjustment costs. Opening markets introduces competition, rewards efficiency and productivity and penalises the inefficient – even to the point of closing business and putting people out of work. The economic gains from globalisation on one side of the paradigm must be matched by measures to ensure social equity and stability. This is the business of good governance and the hallmark of the work of the OECD.

Globalisation for all represents an opportunity we cannot afford to miss. In fact, it is a moral responsibility of our times. ■

Countries can't go it alone

Eduardo Aninat, Deputy Managing Director of the International Monetary Fund (IMF)*

Globalisation, of course, is not new. In fact, some would argue that it even dates back at least to Marco Polo's voyages in the 1300s. But what is new is the qualitative nature of the recent big wave that began in the 1990s, signifying a new stage in the evolution of the global economy. The implications for public policy — and thus international institutions — are immense. Indeed, countries, more than ever, need to work together in supranational efforts to successfully navigate the challenges of an increasingly globalised world.

What is different qualitatively about this newest wave? In a significant way, it is the new technological revolution, resulting in the unprecedented ease with which information can now be standardised, exchanged and processed, constantly expanding the range and quality of goods and services that can be traded, and greatly facilitating the movement of capital across countries. But it also reflects the greater importance of the way in which economic activity influences the "global commons" — such as climate changes or the availability of clean water supplies.

If the international community fails to make globalisation work for those who are being left behind, everyone will lose.

The sea change in information technology is in many respects increasingly allowing the world economy to more closely approximate conditions where many of the benefits of an integrated global market economy may be realised. Technological breakthroughs in transportation, computers and telecommunications are to thank, accelerating flows of information and reducing adjustment costs. Not only capital, but workers are moving to seek out better returns in personal incomes, and the cost of achieving better production options is falling sharply, benefiting consumers. Consuming intangible, information-intensive goods has become more simple than ever, from reading Latin American newspapers on a computer screen in Paris to playing an online chess game against a stranger 15,000 miles away. Countries also have less scope now to introduce traditional policy wedges that distort the fair price for their goods, capital or labour, and there are increasing new pressures for harmonisation of policies and practices.

But in other key ways, the current wave of globalisation is making it harder to ensure that people all over the world benefit. That is why we see an uneasiness in developed and developing countries alike about some of the globalisation changes. What are the new forces at work?

One is that the speed with which information and capital can move magnifies the risks of investor herd behaviour and financial "contagion", as when the Asian crisis in 1997-98 spread to Russia and then Latin America. Also, the ripple effects of actions taken in one country on the citizens of others are far greater, as is the speed with which they are felt. The effects might be delayed but powerful — witness many developing countries' concern for global warming's likely impact on their economies, reflecting principally carbon emissions from the industrial countries. And the boundaries of the "local" environment are being redefined, blurring once clear-cut definitions in trade, and now extending in unprecedented ways the geographical scope of competition.

So what can policymakers do to accentuate the good and limit the bad of globalisation? Countries can do a great deal individually to harness the good through investing in education, fostering technology research and development, practising greater transparency, working for adherence to universal standards and codes of good practice in economic and financial policy, and promoting effective social policies.

But it is far more difficult to see how most nation states can, on their own, counter the undesirable effects. Some nations or groups of nations have tried; witness the ASEAN countries' so far unsuccessful efforts to achieve common tax incentives policies or the initiative of southern African countries to harmonise their tax policies. However, it remains to be seen whether such initiatives, however well co-ordinated, can gain enough adherents to make a significant difference.

Ultimately, it is up to the international community as a whole to ensure that globalisation works for all. This requires stepping up technical assistance to developing countries, and decisively opening up the markets of industrial and emerging market economies to low-income countries' exports. Furthermore, there can be no substitute for supranational efforts to tackle those aspects of globalisation — financial contagion, global warming or marginalisation and social exclusion — that markets can still only imperfectly deal with.

In recent years the IMF has undertaken a variety of initiatives directed at improving many of the institutions, markets and practices that governments, businesses and individuals use. These include beefing up our monitoring of national economies. One particularly innovative effort — jointly with the World Bank — is "health checks" of a country's financial system (Financial Stability Assessments). Another initiative has been to increase the transparency and dissemination practices of economic and financial data. We have crafted better international standards and codes of good practice. Bretton Woods institutions are also heavily promoting anti-corruption practices in the economic spheres of both developed and developing countries.

The IMF's initiatives are part of a global effort, reflecting the enormous stakes at hand. For if the international community fails to make globalisation work for those who are being left behind, all will lose, and efforts to promote globalisation will be self-defeating. ■

* This article is based heavily, but not entirely, on "Reflections on the Impact of Globalization," by Eduardo Aninat, Peter Heller, and Alfredo Cuevas, July 2001. The other authors are, respectively, the Deputy Director of the Fiscal Affairs Department, IMF, and Senior Economist, Fiscal Affairs Department, IMF.

• News brief •

More tax co-operation

Bahrain has announced its willingness to work with the OECD in eliminating harmful tax practices, after being included last year on an OECD list of 35 tax havens. Bahrain committed to transparency and exchange of information and said it would change its laws where necessary by the end of 2005, working with the OECD. It will now not be considered for inclusion on an OECD list of non-cooperative countries and territories and will be invited to attend the next meeting of the OECD Global Forum on tax practices. The Bahrain government said its commitment "will further strengthen Bahrain's position as a leading, well-regulated financial centre, without changing Bahrain's policy on taxation and on promoting investment." Aruba, which also featured on the tax haven list, has also made a commitment to eliminate harmful tax practices by December 31, 2005. In July, the OECD announced that Tonga, another country on last year's list, is no longer considered a tax haven and will not be included in any OECD list of unco-operative jurisdictions. Bermuda, the Cayman Islands, Cyprus, the Isle of Man, Malta, Mauritius, the Netherlands Antilles, San Marino and the Seychelles have already made commitments to work with the OECD on harmful tax practices. Over the coming months, the OECD will continue to engage in discussions with other jurisdictions interested in co-operating to address the issues raised by harmful tax practices. ■

The full text of Bahrain's commitment is available on the OECD's website:
http://www.oecd.org/daf/fa/harm_tax/com_Bahrain.htm
For more on the OECD's work on harmful tax practices:
http://www.oecd.org/daf/fa/harm_tax/harmtax.htm/

Money laundering list gets longer

Four jurisdictions have been taken off the Financial Action Task Force (FATF) list of non-cooperative countries and territories, but eight more have been added, for a total of 19 jurisdictions worldwide considered not to be helping with the international fight against money laundering. The four identified last year as non-cooperative that have been taken off the list are Bahamas, Caymans, Liechtenstein and Panama. Russia and Nauru remain on the non-cooperative list, but an FATF meeting in Paris in early September lifted a call for members to take counter-measures against them after both passed anti-money laundering legislation. However, "the Philippines has still not enacted long-awaited and necessary legal reforms," the FATF said, urging members to take additional counter-measures if it did not do so by the end of September. The FATF, a 29-member independent international body whose secretariat is housed at the OECD, has also added eight new countries to the non-cooperative list following a new round of reviews – Egypt, Guatemala, Grenada, Hungary, Indonesia, Myanmar, Nigeria and Ukraine. The FATF asks member countries to ask their financial institutions to give special attention to businesses and transactions involving the countries or territories on the list. ■

For the full report on non-co-operative territories visit the FATF website:
http://www.oecd.org/fatf/

The full list of non-cooperative countries and territories published by the FATF in September:

- Cook Islands
- Dominica
- Egypt
- Guatemala
- Grenada
- Hungary
- Indonesia
- Israel
- Lebanon
- Marshall Islands
- Myanmar
- Nauru
- Nigeria
- Niue
- Philippines
- Russia
- St. Kitts and Nevis
- St. Vincent and the Grenadines
- Ukraine

Jobless rate steady

The economic slowdown may be biting, but unemployment held steady in the OECD area in July at 6.3%, unchanged from the previous month and the same as a year earlier. The jobless rate in Japan rose to 5.0% in July from 4.9% in June and 4.7% in July last year, while in Portugal it rose to 4.3% from 4.2% in June and 4.1% a year earlier. In France unemployment was 8.5%, unchanged since May, but well below the 9.4% in July last year. In Spain the jobless rate fell to 13.0% in July, a full percentage point down from 14.0% a year earlier, while in Sweden it also fell a full percentage point over 12 months to 4.8%. The US jobless rate stood at 4.5%, up from 4.0% a year ago, while in Australia the unemployment rate of 6.9% was unchanged from June but up from 6.1% a year earlier.

For full details of OECD unemployment rates:
http://www.oecd.org/media/new-numbers/sur/sursept01_a.htm

• News brief •

Export credits should help the world's poorest

Export credits to the world's poorest countries should focus on projects that contribute to poverty reduction and social and economic development, the OECD's export credit group agreed in July. The group adopted a statement of principles designed to discourage officially supported export credits for "unproductive" expenditure in the Heavily Indebted Poor Countries (HIPC). OECD and G8 ministers had called for stronger measures to ensure that export credit to these countries was not used for non-essential capital goods and projects, which increase the external debt burden without contributing to social or economic development.

The HIPC countries "are not major export credit markets at present, but officially supported export credits have contributed to the debts of these countries in the past," said Birgitta Nygren, Swedish chairperson of the export credit group. "We do not want this to happen again once the debts have been forgiven and these countries return to creditworthiness as a result of the HIPC initiative," an IMF/World Bank project to ease the debt burden of the world's poorest countries. Members of the export credit group will report transactions supported in the HIPC countries and review them annually. The export credit group includes all OECD countries except Iceland and the Slovak Republic. ■

For the full statement of principles: http://www.oecd.org/ech/

New US ambassador

Jeanne L. Phillips started work in September as the new US permanent representative to the OECD, replacing Amy Bondurant who had held the post since 1997. Originally from Texas, Ambassador Phillips was executive director of the 54th presidential inaugural committee for US President George Bush. She was president of Jeanne Johnson and Company, Inc., in Dallas, Texas, from 1981 to 1994 and managing director of the Dallas Office of Public Strategies, Inc., from 1995 to 1998. Ambassador Phillips is a graduate of Southern Methodist University. All 30 OECD countries appoint a permanent representative to the OECD. ■

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Health measures

How can governments – and patients – be sure they are getting value for money from their health systems? As technological advances, rising consumer demand and the need to control public spending put pressure on national health systems, measuring how health systems are performing is more vital than ever.

Healthcare policymakers, experts, doctors and nurses, insurers and patients from around the world will be discussing ways to evaluate and improve their health systems at a major conference in Ottawa on November 5-7, hosted by the OECD and the Canadian government. And the health ministers of Canada, the United States, Mexico, France and Finland will join the debate. Find out more about "Measuring Up: Improving Health Systems Performance" at http://www.oecd.org/els/health/canconf/index.htm ■

Messages of sympathy to the United States

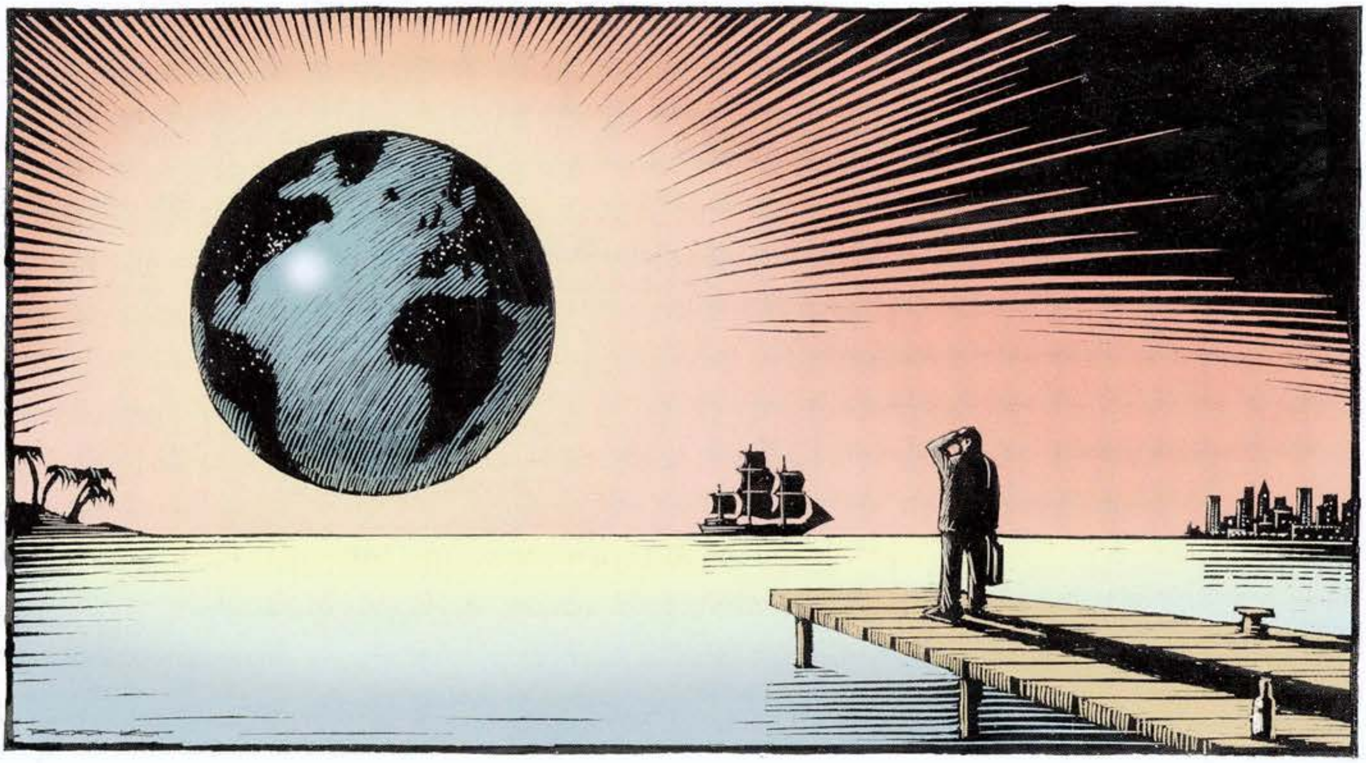
OECD Secretary-General Donald Johnston sent the following message after the terrorist attacks on the World Trade Center in New York and the Pentagon in Washington on September 11: "On behalf of the OECD Secretariat, I wish to express our solidarity with the United States and the American people in condemning these barbaric acts and extend our sincere sympathy to those who have relatives or loved ones among the victims."

In a message to her OECD colleagues, US Ambassador Jeanne Phillips said they had been open and responsive in their sympathy and grief for the victims and their families: "We know that you, as we, are praying for and thinking of the people who have lost loved ones and colleagues." The OECD observed a three-minute silence as a sign of mourning on September 14.

The acceptable face of globalisation

Nicholas Vanston, OECD Economics Department*

Globalisation means many things to many people, but in essence it is actually quite a simple idea. Some of the accusations levelled against it appear to be without substance.



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One of the characteristics that distinguishes us from the animal kingdom is that mankind loves to trade. No self-respecting pair of dogs would ever consider trading a spare bone against a spare piece of meat, but children barely above the age of reason have already worked out how to augment their Pokémon card collections by swapping them in the playground.

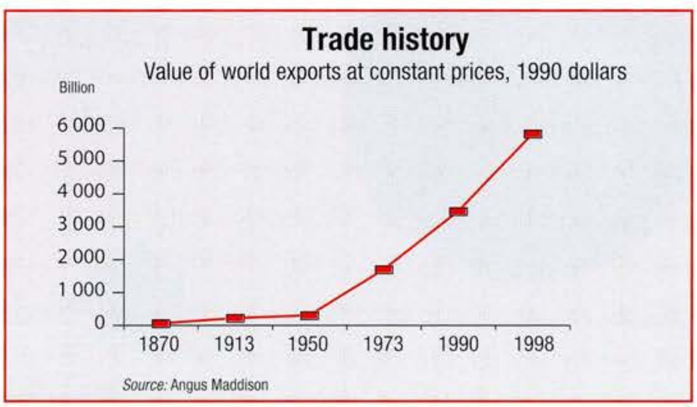
Another distinguishing characteristic of ours is that we are intelligent. That is why we trade, because we foresee that by exchanging the fruits of our own particular efforts with others, we can all be better off. Those early men who trekked hundreds of kilometres to the Hallstatt valley in modern-day Austria to exchange axe-heads and food against sacks of salt did so because it was worth it. I am not exploiting my baker when I pay him less for a loaf of bread than it would cost me to bake it myself, and he is not exploiting me when he sells it for more than it cost him to make it.

There is no doubt that there is a huge difference in average incomes between the poorest and the richest countries, but it is hard to argue that they are the direct effect of globalisation.

The gains from trade arise whether it takes place between individuals or companies, or within a country, or between countries. The spur of mutual advantage is the same. If political or economic barriers to trade fall, trade will rise, and living standards will rise as well, and vice versa. In the 1930s country after country tried to insulate itself from spreading economic chaos and depression by erecting tariff and financial barriers to trade and capital flows, and succeeded only in making things worse. The contrast with the period after the Second World War is startling: GATT-inspired multilateral agreements to reduce trade barriers, and an international monetary system overseen by the IMF that provided transparency and discipline were followed by over 20 years of the greatest and widest-spread increase in economic prosperity the world had ever experienced.

According to Angus Maddison (see references and Books section), world trade rose six-fold in real terms during the period 1950-73 and per capita GDP rose faster in all regions of the world than during any previous period in world history. Later on, the entry of China and some other East Asian countries into the international trade system on a large scale showed again how powerful trade is as an engine of growth. By the end of the 20th century, the inhabitants of Hong Kong and Singapore were more prosperous on average than those of most European countries. And in China, incomes have tripled in the past 20 years. This what economists mean by globalisation: rising world trade and capital flows because of lower man-made barriers, and cheaper and faster transport and communication.

But for its opponents, globalisation seems to mean something else: rising inequality between and within nations, rising pollution, the perceived ability of multinational companies to impose their will throughout the world, reckless exploitation of irreplaceable natural resources, and the sacrifice of cultural and other values to the diktats of the marketplace. Frankly, these phenomena, however unpleasant and real they are, have very little to do with globalisation in the economists' sense. Indeed, some of them are caused by insufficient globalisation. Hence, the remedy is not to discourage world trade, but rather to tackle these problems at source – once it is certain that they really are problems.



Trade history
Value of world exports at constant prices, 1990 dollars
Source: Angus Maddison

Let us start with inequality. There is no doubt that there is a huge difference in average incomes between the poorest and the richest countries, between the US$500 per year or so in several African countries, and the well over $20 000 per year in most OECD countries. But it is hard to argue that these differentials are the direct effect of globalisation. Apart from the handful of oil-rich countries, incomes have grown fastest in countries in East Asia that were the most enthusiastic participants in global trade. Many other developing countries maintained high tariff barriers and exchange controls, and some of them have been racked by civil strife and misgovernment. Globalisation (or rather, the expansion of trade and investment) largely passed them by as a result, and they have stagnated or regressed.

There has also been a rise in inequality within countries, more reliably quantified in OECD countries than elsewhere. In particular, there has been a big rise in the past 10 years or so in the proportion of the very rich, mostly because of the increase in the share of profits in national income, reversing a trend which started in the early 1970s.

There are two main considerations here. One is that it is hard to argue that globalisation as such has been a factor, as no such phenomenon was experienced in earlier years when world trade was expanding even faster. The second is that an increasing number of very rich people should not be a problem as long as there is not also an increasing number of very poor people. And of course as long as poverty is defined in relative terms (relative to average or median earnings or income), then indeed the poor will always be with us. A family classed as living on the poverty line in, say, Sweden would be counted as relatively rich in many non-OECD countries.

Polluting does not pay

The environmental charge that globalisation leads to higher pollution is easy to refute. Some pollution is the inevitable by-product of growing populations and their economic activity. True, increased competition may lead to investment pressures. But legislation and technical developments have greatly reduced the grosser forms of pollution in most OECD countries, and a growing number of non-OECD countries. The fear that multinational companies would relocate their polluting activities to developing countries where environmental controls are presumed to be laxer – a race to the bottom – is less plausible today than, say, 20 or 30 years ago. Research shows that such companies follow higher environmental standards now than statutorily required (and they also usually pay higher wages than the local average). And anyway, the overwhelming bulk of multinational company investment continues to be located within OECD countries.

Moreover, multinational companies have to obey the same rules and laws as their domestic counterparts, and often more stringent ones. They bring highly-appreciated investment and technology to areas of the world that need it, but their importance should not be exaggerated. Some of them are big by any standard (the major oil and auto companies), but collectively they account for a tiny proportion of the world's investment and assets.

Exploitation of natural resources, replaceable and irreplaceable, has been going on throughout human history. The forests that once covered Europe began to be cut down already in the Iron Age, and the mining industry has existed since records began. Using, and using up, of natural resources is a fact of life. It is happening at a higher rate now because there are more people in the world, and they are – almost all of them – better off than a few decades ago. To the extent that globalisation makes people better off, use of natural resources will increase. What we must aim for is to make sure that that increase does not occur to the detriment of wealth itself; after all, natural resources are at the source of growth and a derelict planet would be no good to anyone. This decoupling between growth and environmental degradation lies at the heart of what is fashionably called sustainable development. But halting exploitation altogether would be unworkable, if not fanciful. Is the solution to reduce the number of people in the world? To stop people becoming better off? Or is it to find alternative products and processes?

McDonald's would be a problem if by its existence nobody else was allowed to sell hamburgers, or if there were no other restaurants. This is not the case.

Markets are seen by some as inhuman, destructive, ruthless and remorseless. But what are they, really? They are no more than normal people with something to sell looking for bargains to buy. They are as far removed as possible from the alternative of decisions by faceless and unaccountable bureaucrats and planners, which affect the lives of thousands without consultation or the possibility of appeal. That system has been tried, and it comprehensively failed both society and the environment. Markets by contrast respond to the desires, tastes and possibilities of everybody who uses them, provided that they do not fall under the control of a few operators, or of officialdom.

Take McDonald's, for some reason a target of anti-globalisers everywhere – yet, there are now far more Japanese restaurants in a city like Paris than there are McDonald's outlets. This fastfood restaurant would be a problem only if by its existence nobody else was allowed to sell hamburgers, or if there were no other restaurants. But thanks to globalisation this is not the case.

Consumers now have a choice of goods and services of a variety and quality that were undreamed of half a century ago. We are certainly well beyond the Ford quip of having your car any colour as long as it is black, and when buying food we do not to accept any burger, as long as it is overdone. As for drinks, people often point the finger at global soft-beverage companies, but thanks to globalisation, countries like Chile and Argentine have also discovered that the world likes their wine.

Markets respond to social pressures as well as financial ones. Companies that show they are socially responsible in their employment and environmental policies do well (see article by Chris Boyd). Race towards the bottom, labour standards, frankenstein foods, losing democratic control to business interests: whatever grain of truth such accusations might hold, they are often used by certain NGOs simply to further their own interests, not those of others. Ironically, some of these NGOs themselves are the product of globalisation (indeed, they thrive on it), are non-accountable and can in some cases be found cosying up to business.

Fortunately, we do not live in a standardised world and globalisation reflects, even furthers, this diversity. A catch word much used in marketing today is not globalisation, but *glocalisation*: how global brands are adapted to suit local needs and wants. I wonder what the arguments would be against that? ■

**The views expressed in this article are those of the author and do not necessarily represent those of the OECD.*

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The politics of globalisation circa 1773

Emma Rothschild, Director of the Centre for History and Economics, Cambridge University

Newness in politics has a long and eventful history. Globalisation and the battle for and against are no exception, as the events of the late 18th century show.


Before Seattle

19th century drawing of Boston Tea Party; © Mary Evans Picture Library

There has been a "revolution in commerce, in the power of nations, in the customs, the industry and the government of all peoples." The industrious peoples of the north "circulate unceasingly around the globe." Continents are connected as though by "flying bridges of communication." These are the observations not of 2001, but of the Abbé Raynal, one of the most popular political commentators of the 18th century, writing in 1770.

It was because of commerce, Raynal wrote, that countries had lost their "national and individual independence." They had also lost their ability to tax the

revenue from capital. "The proprietor of stock is properly a citizen of the world, and is not necessarily attached to any particular country," Adam Smith wrote in 1776. The proprietor of financial capital, in Condorcet's description of the same year, is someone "who, by a banking operation, within an instant becomes English, Dutch or Russian."
The modern political system was dominated by the "principle of commerce," Edmund Burke wrote in 1769, and it was "wholly new in the world." It was pervaded by an extensive and intricate trading interest, "always qualifying, and often controlling, every general idea of constitution and government." It was associated, above all, with the rise of the great financial and trading companies. The East India Company, for example, collected more than £3.5 million in taxes from its subjects in India, at a time when the total expenditure of the British government was about £7 million. Government gave up power in its relations with the companies, in Burke's description, and gained credit in exchange. It gave up a part of its sovereignty: "in such a case, to talk of the rights of sovereignty is quite idle." Globalisation is often depicted as a condition of the present and the future, a phenomenon without a past. But the exchange of information, commodities, investments, tastes and ideas between distant societies that constitutes globalisation has been a characteristic of many earlier epochs, in Asia as well as in Europe and America. The idea of a global economy is itself a cause of globalisation. The idea of distant influence, of instant communication, of exhilarating or insidious worldwide empire has from time to time exercised a profound effect on the political imagination and on political philosophy.

The 1850s and 1860s, for example, were a period of sometimes euphoric activity in inventing the political institutions of economic integration, including the completion of German unification, the English-French treaty of (partially) free trade of 1860, the promotion of international commercial codes and uniform weights and measures and coins. But the phase of innovation came to an end, as Luca Einaudi has shown in a recent study (see references), in bitter domestic and international disputes over the mechanisms of a proposed European monetary unification, and over a new currency, of which prototypes were minted in 1867, and which was to be called the "Europe."

Old foes

The end of globalisation in the 1920s and 1930s was far more catastrophic, as Harold James has shown in a recent book. The backlash against globalisation which began in the late 19th century brought political mobilisation and protectionist restrictions against consumer goods, against immigration, and against capital movements.

After the First World War, the ideology of "internationalism" itself became the object of vitriolic political attack, in a destructive sequence of economic crises, failure of the institutions of international co-operation, and nationalist enthusiasm.

The politics of globalisation in the 18th century commercial revolution has been the subject of less recent attention. But the 18th century disputes are in some respects of particular interest to the choices of the early 21st century. One reason is that companies and corporations were at the centre of the global discussions over sovereignty and commerce, to an extent that was far less familiar in the 19th century age of formal empire. Another is that the politics of global information, in a period of expansion in long-distance shipping and in large-scale printing and publishing, was at the heart of political and philosophical dispute. "The eye of the world is upon her," one orator said of British policy, in a parliamentary debate about the East India Company in 1772; "The eyes of the world have been blinded by publications," said another.

The global politics of credit, too, was much discussed. The financial crisis of 1763 "spread terror to every commercial city on the continent," in a contemporary description. The credit crisis of 1772 began with the failure of a London bank with Glasgow connections, and led to the failure of Dutch banks with speculative holdings in East India Company stock, the bankruptcy of the chairman of the English East India Company, and bankruptcies and suicides in Virginia. "One link gave way – the charm was instantly dissolved, leaving behind it consternation in the place of confidence, and imaginary affluence changed to real want and distress," a Hamburg linen merchant said in the House of Commons in 1774.

The politics of global influence was itself a subject of public, popular and even violent protest. The most striking illustration has to do with the American Revolution, and with the global politics of a fashionable beverage. Tea that was shipped from China to England by the East India Company, and from England to North America, was the subject in 1773 of new legislation, designed to extend the Company's worldwide market, and to reduce the price of English tea in America. It was the East India Company's tea which arrived off the shores of Massachusetts in November 1773, and which a group of tradesmen, disguised as American "Indians," threw overboard in Boston harbour. This was the Boston Tea Party.

"That worst of plagues, the detested tea, shipped for this port by the East India company, has now arrived," the Massachusetts patriots announced. The East India company, Thomas Jefferson wrote, "send hither many

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ship loads of that obnoxious commodity," and "We view it with Horror." The revolutionary theorist John Dickinson compared the prospective oppression of the East India Company in America to being "devoured by Rats." The Company had corrupted England and had wreaked "the most unparalleled Barbarities, Extortions and Monopolies" in Bengal, he wrote; they now "cast their Eyes on *America*, as a new Theatre, whereon to exercise their Talents of Rapine, Oppression and Cruelty."

The events of 1773-1774 came as a surprise. The prime minister, Lord North, said afterwards that "it was impossible for him to foretell the Americans would resist at being able to drink their tea at 9d. in the pound cheaper." The immediate cause was apparently trivial (a residual duty of 3d. per pound.) Yet a dispute over a modest object of consumption, Burke said in 1774, had "shaken the pillars of a Commercial Empire that circled the whole globe."

Tea was a symbol of foreign luxury. It also came to represent the political corruption of the new global empire, and the powerlessness of individuals in distant provinces. The Americans had considerable information, much of it obsolete and some of it false, about English politics. The ship which brought the fateful tea had on its preceding voyage brought a cargo of magazines which detailed the parliamentary investigations of the East India Company. The tea was evidence, or so it seemed, of the corruption of the English politicians, of their intention to enslave America, and of their disdain for the individuals who were affected by their policies.

The political consequences of global commerce and influence, in the period following the American Revolution, became a preoccupation of national politics in much of Europe. England was a new Carthage, which had corrupted the world with its waves of gold and its miserable trinkets, the French revolutionary politician Bertrand Barère said in 1793. "A ridiculous Anglomania" had subjugated France; "commissioners of customs, metal workers, speculators in colonial commodities, shippers of Indian fabrics, these are our real masters." The Anglomania of German consumers, the economist Adam Müller wrote a few years later, was accompanied by a "so-called Anglomania – in relation to English manners, the English language, even the British constitution."

The political ideas of the late 18th century in Europe and North America, including ideas of the universal rights of all individuals, and of universal freedom of commerce, are at the heart of the modern ideology of "global market democracy." These ideas have been associated, at times, with new institutions of international or oceanic political co-operation. English projects of an Atlantic parliament, in which the American colonies would be either "virtually" represented, or would send their own members on the long and perilous journey to Westminster, for example, were discarded in the new ideas of national sovereignty which followed American independence. French projects of a peaceful European federation were discarded in the new national enmities of the Revolutionary and Napoleonic Wars.

But the old ideal of the late Enlightenment, in which the respect for individual rights can be combined with ever more dispersed and ever more universal conceptions of political co-operation, is of importance, still, to the new global world of the 21st century. The experience of the reactions against globalisation, in the 1870s and in the 1930s, provides a sobering insight into how swiftly the politics of protest against global influence can deteriorate into economic as well as political destruction. It is time, once more, to imagine new political institutions for our own new world of global commerce. ■

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Understanding global public goods

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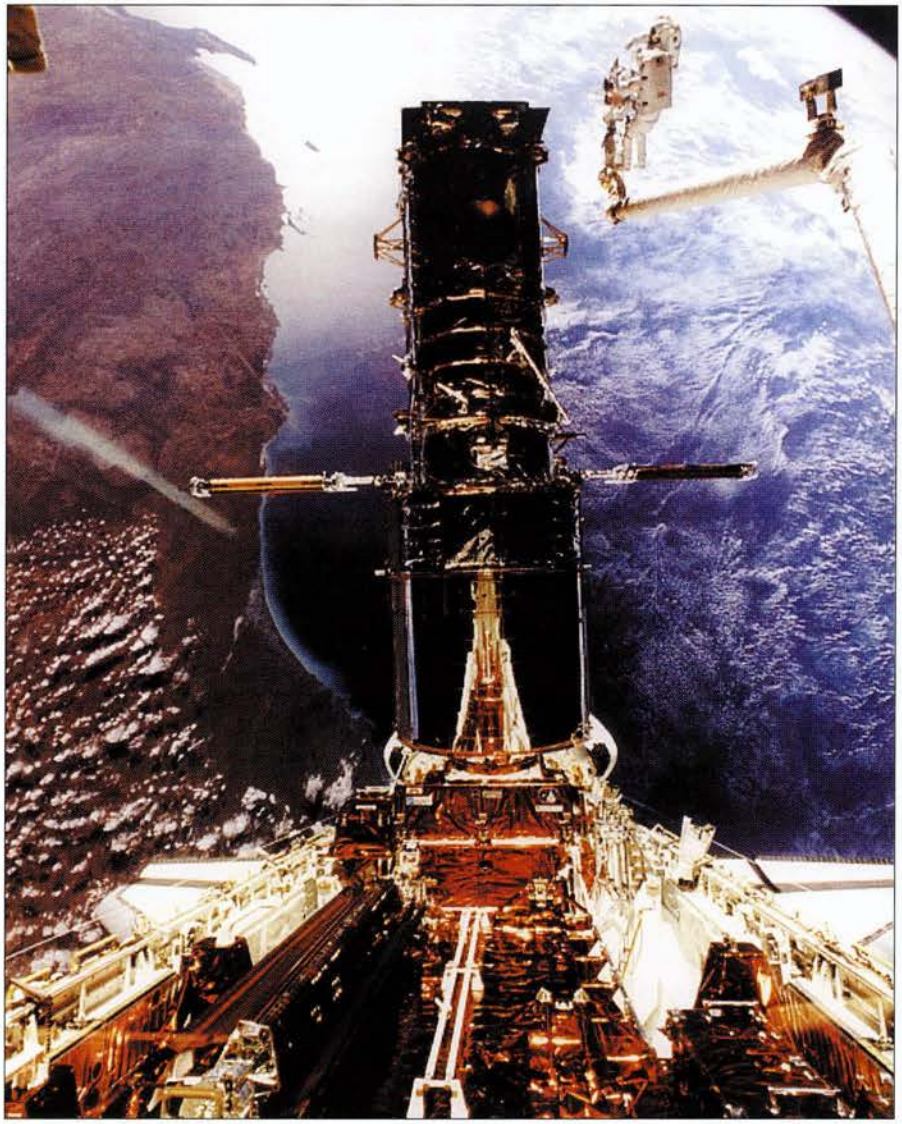
Globalisation has highlighted the need to take a closer look at challenges, from reducing pollution to tightening disease control, whose consequences are shared across the world. But if we are to make best use of such global public goods, we need to understand how they work and how to measure them.



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Global workstation

In recent years there has been an increase in activities that spill over national borders, known as transnational or global public goods. The unfolding tragedy of the AIDS epidemic is an instance where a disease with local origins has created consequences worldwide. Likewise, the Internet, which offers instant global communication, can be exposed to tremendous harm from hackers and the spread of insidious viruses. Acid rain, resulting from sulphur and nitrogen pollutants, respects no borders as emitted particles travel for up to a week before deposition, often in another country. We live in an era where global warming, ozone-shield depletion and financial instabilities place risks on an ever-integrating world. Since the collapse of the Soviet bloc inter-state wars have given way to intra-state civil wars and such localised conflicts require a greater peacekeeping capacity by the international community.

Such global effects can be good or bad; they are described as public goods because of the broad nature of their impact. Any breakthrough in treating AIDS, or any reduction in sulphur and nitrogen pollution, helps people everywhere. But a chemical or biological bomb in an underground of a capital city can alert a nation to a political grievance half a planet away, and lead to billions of dollars being spent on measures to counter such attacks.

Unlike other pollution problems, where there are only losers, climate change offers the prospect of winners. Some farmers in higher latitudes may benefit by gaining a longer growing season.

There has been an increase in global and transnational public goods, and our awareness of them in recent years for several reasons. For a start, new products and technologies are increasing the number of activities with cross-border or global effects. A classic example of this is chlorofluorocarbons (CFCs) and related compounds used for refrigeration, propulsion, and cleaning. They depleted the stratospheric ozone layers, thus leading to greater ultraviolet radiation exposure worldwide. And as methods for identifying cross-border issues, such as carbon accumulation in the atmosphere, improved, so did our awareness of the global aspect of these problems.

Another reason is the proliferation of smaller states following the collapse of the Soviet Union. That means more borders, and therefore a greater incidence of the effects of public goods spilling over national boundaries, whether air pollution or cleaner river water.

At the same time, market globalisation has brought the realities of some foreign labour standards and financial practices closer to home: if news spreads that popular brand-name clothes sold in US stores are being produced by child labour in poor countries, sales can fall and public pressure mount for improved conditions for the developing country workers.

The media clearly facilitates awareness of transnational spillovers. In fact, media reports about the ozone hole in the mid-1980s helped mobilise nations to conclude the Montreal Protocol on reducing CFC emissions.

But being aware of cross-border and global effects is not enough; the challenge is actually to increase the benefits and reduce the costs. To achieve that, we need to understand the different types of public goods, and define who is producing them, who is benefiting and who is paying.

Curbing global warming is perhaps the most difficult current challenge. The world's nations were able to reach agreement to curb emissions of CFCs that were depleting the ozone layer at least partly because everyone clearly understood that the problem and the gains would be shared by all, with no real losers. This is not the case with global warming. Significant action is needed by many countries. Efforts by just a few large industrial nations would probably be only a short-term fix, because as emerging and less-developed countries grow and increase their energy appetite, greenhouse gas accumulation will accelerate. Moreover, myriad activities from agriculture to mining add to global warming, so no one area of activity can be targeted to reduce emissions easily.

And the process of climate change remains poorly understood, which fosters inaction. The United States is not convinced that the benefits of emissions cuts would be enough to justify the costs. Elsewhere, some farmers in higher latitudes may actually benefit from global warning by gaining a hotter, wetter, and longer growing season. So, unlike other pollution problems, where there are only losers, climate change offers the prospect of winners, which also leads to inaction. Another argument that inhibits decisive reduction of greenhouse gases is the fact that action taken and paid for today is unlikely to have a noticeable consequence until many decades into the future. Most policymakers are not sufficiently farsighted or altruistic towards future generations to worry about the long run. The lack of progress on global warming reflects these difficulties.

Clearly, for transnational and global public goods to make sense, we need to be able to measure them. "Aggregation technology" is used to find out how individual contributions influence a good's overall effect. The most common way is to use summation technology, as for measuring CFCs, since the total reduction is simply the sum of each nation's reduced emissions, with the gains equally shared by all.

But other cases are more complex. In the case of acid rain, for instance, a weighted sum applies because the influence of one nation's cutback on other nations' pollution depends on location, wind patterns, and the pollutant's airborne time.

From weak link to best shot

Then there is the "weakest link" scenario. Preventive measures to contain the spread of a disease transnationally, for example, are only as effective as those in the country exercising the least care. If one country has weak disease control, for instance, all countries pay the price. Even boosting measures in other countries will not add to the total benefit. This is why richer, more capable countries may help poorer ones fund measures to curb the spread of threatening diseases.

At the other end of the scale is the "best shot" scenario, in which the overall quantity of the public good equals the quantity of the largest individual provision level. In searching for a cure for diseases such as AIDS or malaria, the research team expending the largest effort is most likely to succeed. Once a cure is found or a discovery is made, additional efforts become redundant. But best-shot public goods can present co-ordination problems between nations. Take superconductors, for instance. It makes little or no sense building several superconductors in different countries, given their complexity and high cost. One will probably do, but for that, its location and funding have to be co-ordinated. Resources may have to be pooled between countries, such as with Europe's fusion reactor project. Under best shot, supply efforts should be concentrated where the prospects of success are greatest, although if potential suppliers have equal likelihood of success, then multiple providers may make sense, as in the case of the hunt for a cure to major diseases. With the best-shot approach, there is a rationale for assisting the efforts of the richer nations or forming a partnership among diverse participants to help the most likely candidates to succeed.

Global public goods are a key feature of the new international policy landscape but there is no single blueprint for supplying them. So to think sensibly about provision of global public goods, about sharing their benefits and controlling the costs, we must realise that the different types of public goods imply different incentives for action. ■

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Globalisation's misguided assumptions

Markets, competition and free trade are all essential for healthy globalisation to take place. Or are they? Critics argue that while globalisation has the potential to become a positive force for economic growth, too many of the benefits go to well-off countries, while the costs of adjusting markets and institutions are being borne by millions of already poor workers worldwide. Others go further still and blame free trade for many of the woes of the poor everywhere, and farmers in particular. José Bové of France's Confédération Paysanne (Small Farmers' Federation) is one such anti-globalisation activist. In this article he explains what he considers to be the "false assumptions" underlying the arguments of the free-market camp. The article originally appeared in the French newspaper *Le Monde.**

Humanity is grappling with a formidable creed, which, like so many others, is totalitarian and planetary in scope, namely free trade. The gurus and zealous servants of this doctrine ("responsible" people) are saying that the Market is the only god, and that those who want to combat it are heretics ("irresponsible" people). So we find ourselves faced with a modern-day obscurantism – a new opium on which the high priests and traffickers are sure they can make populations dependent. Recent articles in the international press supporting new trade rounds and the like are quite clear on the dogma that some people would like to impose on the men and women of this planet.

More and more people are coming out against the free market credo advocated by the WTO, the damage inflicted by it being so plain to see, and the falsehoods on which it is based so blatant.

The first falsehood is the market's self-regulating virtues, which form the basis of the dogma, but this ideological mystification is belied by the facts. In the field of agriculture, for example, since 1992 the major industrialised countries have embraced global markets with open arms – the United States enacted the FAIR (Federal Agriculture Improvement and Reform) Act, a policy instrument that did away with direct production subsidies, instead "decoupling" aid and allowing farmers to produce with no restrictions whatsoever – but this has done nothing to calm the wild swings in the markets.

It has, in fact, done quite the opposite, since markets have experienced unprecedented instability since the trade agreements signed in Marrakech in 1995. The most spectacular effect of this American "decoupling" has been the explosion of emergency direct subsidies to offset declining prices. These subsidies reached a record high of more than $23 billion in 2000 (four times more than the amount budgeted in the 1996 Farm Act).

So, contrary to free-marketers' assertions, markets are inherently unstable and chaotic. Government intervention is needed to regulate markets and adjust price trends, to guarantee producers' incomes and thus ensure that farming activity is sustained.

The second blatant untruth is that competition generates wealth for everyone. Competition is meaningful only if competitors are able to survive. This is especially true for agriculture, where labour productivity varies by a factor of a thousand to one between a grain farmer on the plains of the Middle West and a spade-wielding peasant in the heart of the Sahel.

To claim that the terms of competition will be healthy and fair, and thus tend towards equilibrium if farm policy does not interfere with the workings of a free market, is hypocritical. How can there be a level playing field in the same market between a majority of 1.3 billion farm workers who harvest the land with their hands or with harnessed animals, and a tiny minority of 28 million mechanised farmers formidably equipped for export? How can there be "fair" competition when the most productive farmers of rich countries receive emergency subsidies and multiple guarantees against falling prices on top of their direct and indirect export bonuses?

The third falsehood is that world market prices are a relevant criterion for guiding output. But these prices apply to only a very small fraction of global production and consumption. The world wheat market accounts for only 12% of overall output and international trade takes place at prices that are determined not by aggregate trade, but by the prices of the most competitive exporting country.

The world price of milk and dairy products is determined by production costs in New Zealand, while New Zealand's share of global milk production averaged only 1.63% between 1985 and 1998. The world price of wheat itself is pegged to the price in

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José Bové

The proponents of free trade cannot bear the idea that life can reproduce on its own, free of charge, whence the race for patents, licences, profits and forcible expropriation.

the United States, which accounted for only 5.84% of aggregate world output from 1985 to 1998.

What is more, these prices are nearly always tantamount to dumping (i.e., to selling below production costs in the producing and importing countries) and are only economically viable for the exporters thanks to the substantial aid they receive in return.

The fourth falsehood is that free trade is the engine of economic development. For free marketers, customs protection schemes are the root of all evil: they claim that such systems stifle trade and economic prosperity, and even hinder cultural exchanges and vital dialogue between peoples. Yet who would dare to claim that decades of massive northbound coffee, cocoa, rice and banana exports have enriched or improved the living standards of farmers in the south? Who would dare to make such a claim, looking these poverty-stricken farmers straight in the eyes? And who would dare to tell African breeders, bankrupted by competition from subsidised meat from Europe, that it is for their own good that customs barriers are falling?

Between the absolute sovereign attitude of nationalists and the proponents of free trade, there are other roads.

To achieve their ends, the proponents of free trade exploit science in the name of so-called "modernism", asserting that the development of any scientific discovery constitutes progress – as long as it is economically profitable. They cannot bear the idea that life can reproduce on its own, free of charge, whence the race for patents, licences, profits and forcible expropriation.

Obviously, when talking about agriculture, it is impossible not to evoke the farce of GMOs. Nobody is asking for them, yet they must be the answer to everyone's dreams! There is pressure on us to concede that genetically modified rice (cynically dubbed "golden rice") is going to nourish people who are dying of hunger and protect them from all sorts of diseases, thanks to its new Vitamin A-enriched formula. But this will not solve the problems of vitamin deficiencies, because a person would have to eat three kilograms of dry rice every day, whereas the normal ration is no more than 100 grams.

The way to fight malnutrition, which affects nearly a third of humanity, is to diversify people's diets. This entails rethinking the appalling state of society, underpinned by free market economics which strives to keep wages in southern countries as low as possible in order to maximise profits. It is therefore a good idea to throw some vitamins into the rice that is sold to poor people, so that they don't die too quickly and can continue working for low wages, rather than helping them build a freer and fairer society. Jacques Diouf, Director-General of FAO, recently pointed out that "to feed the 8 003 million people who are hungry, there is no need for GMOs" (*Le Monde*, 10 May). No wonder the Indian farmers of Via Campesina, an international small farmers' movement, destroy fields of genetically modified rice.

The FAO is not the only international institution to question some of the certainties and radical WTO positions regarding the benefits of free markets. The highly free-market OECD acknowledges in a recent report entitled *The Well-being of Nations* that the preservation and improvement of government services (healthcare, education) are a key factor underlying the economic success of nations.

We therefore have every reason to oppose the dangerous myth of free trade. Judging by the substantial social and environmental damage free trade has inflicted, before anything else, it is necessary for all of us – farmers and non-farmers alike – to make it subject to three fundamental principles: food sovereignty – the right of peoples and of countries to produce their food freely, and to protect their agriculture from the ravages of global "competition"; food safety – the right to protect oneself from any threat to one's health; and the preservation of bio-diversity.

Along with adherence to these principles must come a goal of solidarity-based development, via the institution of economic partnership areas among neighbouring countries, including import protection for such groups of countries having uniform structures and levels of development.

The WTO wants to take its free-market logic even further. Next November, in the seclusion of a monarchy that outlaws political parties and demonstrations – Qatar – it will attempt to attain its goals. But if major international institutions are becoming increasingly critical and are casting doubt on these certainties, then mobilised citizens can bring their own laws to bear on trade.

Between the absolute sovereign attitude of nationalists and the proponents of free trade, there are other roads. To echo the theme of the World Social Forum that took place in Porto Alegre last January, "another world is possible!" – a world that respects different cultures and the particularities of each, in a spirit of openness and understanding. We are happy and proud to be part of its emergence. ■

* José Bové's article originally appeared (in French) in *Le Monde*, 12 June 2001; see http://www.lemonde.fr/

Brazil: more than just potential

Joaquim Oliveira Martins and **Tristan Price**, OECD Economics Department

For years Brazil was said to be a country forever condemned to having a great future. That future may be approaching at last.*

At the end of 2000, Brazil – one of the world's largest countries – was finally benefiting from a virtuous economic cycle of falling inflation and buoyant growth. Following a large exchange rate fall in early 1999 after the peg to the US dollar was broken, growth – initially export-led – gradually became broader-based, reaching a healthy 4.5% for 2000 (see chart). This in turn led to higher tax revenues, helping fiscal adjustment. Inflation and the currency, the *real*, remained stable, while interest rates progressively fell, supporting both investment and a reduction in public debt.

Economic reform is only part of the story. Brazil faces a plethora of social challenges, though significant advances have been made in the last ten years.

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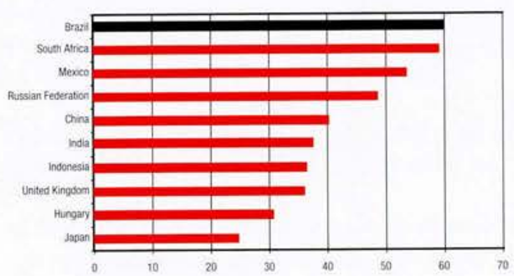
Improved outlook

But over the last few months, growing contagion originating in neighbouring Argentina, another country with "potential", has put continuing pressure on the exchange rate and, in due course, interest rates. And another year of low rainfall underlined how reliant Brazil is on hydropower, raising the spectre of energy shortages acting as a brake on growth. All of this undermined expectations and led to falling investment. The ability of the region to achieve sustained growth was called into question.

Yet look at the longer term and the signs for Brazil are encouraging. Indeed, the country may have crossed that threshold from volatile to at least the beginnings of durable growth. For the first time there is a critical mass of reform on the table. Although the economy remains vulnerable to external shocks – it must continue to attract significant capital inflows to cover its current account deficit and debt servicing – there are a number of positive points illustrating how far Brazil has changed.

More unequal than others
International inequality: the Gini coefficient



The Gini coefficient measures income inequality. The higher the index, the higher the concentration of income. So a country with a GC of 100 has complete concentration and inequality – there are no known cases – and one with 0 has a completely even distribution of income. Brazil is one of the world's most unequal countries; the highest 10% of the population has 50% of total income, whereas the lowest 10% have 1% of total income.

Brazil: some basic indicators

Population (official estimates, 2000)	170 million
GDP (official estimates 2000, US dollars)	588 billion
GDP per capita (1998, US dollars PPP)	6,937
Trade (Goods & services 1999 % of GDP)	22
Current account (% of GDP, 2000)	-4.2
Short-term benchmark interest rate (end-2000)	16.25
Inflation (CPI, end-2000)	7.0
Life expectancy (1998, men/women)	64/72

A particular strength of Brazil's reform programme has been the success of its macroeconomic stabilisation programme. Hard budget constraints have been imposed at all levels of government – a remarkable achievement in light of the strongly federal (and sometimes fractious) structure of Brazil. States and municipalities are effectively now obliged to balance their books: new budget rules that will have to be strictly enforced if Brazil is to reduce the burden of its debt.

But a number of pieces of legislation, culminating in the 2000 Fiscal Responsibility Law, provide good reason for confidence. In a parallel supporting track, the federal government has also signed legal contracts with state governments by which the latter will benefit from debt restructuring and preferential interest rates on outstanding debt in return for a commitment to fiscal probity. Encouraging indeed, though to sustain these improvements, tax reform (difficult in a federal system) and contentious pension reform for civil servants must still be tackled.

Another plus in Brazil's favour is its new framework for monetary policy, which has given the central bank greater authority in setting interest rates to achieve lower targeted inflation. The recent volatility is subjecting this new structure to a stiff test. In order to help overcome what is likely to prove a difficult period, central bank independence could be legally entrenched, bolstering the framework further.

The fundamentals in the enterprise sector have improved too, thanks to several ongoing reforms. First, the reduction of tariffs and trade barriers, that started in the late 1980s, has helped to make the Brazilian market more open and competitive. In this regard, Brazil's flexible exchange rate is an asset. Over time, though, more competition, both at home and from abroad, will be needed to enhance firms' competitiveness and generate sustained export revenues.

Reform in the financial sector has also come a long way. A number of state-level banks have been restructured and privatised; prudential constraints have been tightened and supervision improved. Nevertheless, the costs of borrowing are still kept high, partly due to weaknesses in the legal system. There has been success in large privatisation (for instance, the telephone monopoly, Telebras, and state banks like Sao Paulo's Banespa), though the competition and regulatory regime has yet to be tested. In particular, rules for the energy sector must be clarified and developed if private investors are to make commitments on the scale needed.

However, economic reform is only part of the story. Brazil faces a plethora of social challenges, though significant advances have been made in the last ten years. Social policy in Brazil has been gradually improved, and social indicators such as poverty, school enrolment, and infant mortality are now closer to what could be expected given its level of per capita income.

That said, Brazil remains a strikingly unequal country: the richest 10% of the population account for nearly half of national income, compared with less than 1% that goes to the poorest 10%. The Gini index (see chart page 21), which measures income distribution, does not cast Brazil in a favourable light. And yet, Brazil cannot simply grow its way out of poverty, since a large part of its social outlays do not go to the most needy. Social spending must become better targeted both in terms of choosing the right kind of spending (education rather than civil service pensions, for instance) but also by making sure that the poorest benefit.

On top of concerns about the impact of a world economic slowdown, short-term events have drawn attention away from the fundamentals in Brazil. Even if it is affected by a turbulent economic climate, the bottom line is that the country is manifestly not the place it was ten years ago. Reforms are taking hold and, assuming there is continued political commitment, should progressively favour growth and even smooth out the rather exaggerated stop-and-go pattern of expansion that has typified the region up until now. This is more than just potential, and a better environment in which to face the daunting social challenges of inequality and poverty may now be within reach. ■

** The OECD published its first Economic Survey of Brazil in June 2001. Through its Centre for Co-operation with Non-Members (CCNM) the OECD funds work with countries such as Brazil that are not members of the OECD. There are ongoing programmes with other major non-OECD countries. In this context, the OECD's fourth Economic Survey of Russia and a comprehensive review of trade and investment in China are forthcoming.*

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Taxing times

Paul Van Den Noord, Economics Department, and **Christopher Heady**, Directorate for Financial, Fiscal and Enterprise Affairs

Death and taxes may be inevitable, but a persistent rise in tax levels may not be, judging by recent evidence. There are signs that an upward trend across most OECD countries is coming to an end after more than three decades, though not before tax levels reached 50% of GDP or close to it in some countries. The unweighted average of total tax revenue in the OECD area soared almost 45% between 1965 and 1999, from 25.8% of GDP to 37.3%. But the increase was greatest up to 1990, when tax revenue reached 35% and the 1999 level was little changed from the previous year.

Declining tax ratios to GDP have emerged in some countries – as many as a third of OECD members in 1999 – although reductions in the tax ratio from the peak levels of 1985 or 1990 in most cases (including Ireland, Japan, New Zealand and Sweden) have been small. In transition countries recent data also suggest falling tax revenues related to GDP, although this may partly reflect erosion of the tax base while they grapple with the transition process.

Very few countries have consistently resisted the trend of rising tax ratios since 1965. Only in the Netherlands are they below their 1975 level, while in Mexico, the United Kingdom and the United States tax receipts have developed broadly in line with GDP over a long period. Tax ratios in the European Union, averaging 42.1% of GDP on a weighted average in 1999, are generally higher than those elsewhere.

Of non-European OECD countries, only Canada and New Zealand have tax ratios above 30% of GDP. The decline in tax ratios largely reflects public expenditure trends, although in some countries a favourable cyclical position has buoyed the tax take as a percentage of GDP despite tax cuts.

Raising revenue
Total tax revenue as percentage of GDP

	1965	1990	1999[1]
Australia	22,4	29,3	..
Austria	33,9	40,2	44,3
Belgium	31,1	43,1	45,4
Canada	25,9	36,1	..
Czech Republic	..	..	37,5
Denmark	29,9	47,1	50,6
Finland	30,3	44,7	46,5
France	34,5	43,0	46,0
Germany[2]	31,6	32,6	37,7
Greece[3]	18,2	29,4	37,1
Hungary	..	..	37,0
Iceland	26,2	31,4	35,4
Ireland	24,9	33,6	31,9
Italy	25,5	38,9	43,0
Japan	18,3	30,9	27,7
Korea	..	19,1	23,8
Luxembourg	27,7	40,8	42,1
Mexico	..	17,3	16,5
Netherlands	32,8	42,8	40,3
New Zealand	24,7	38,1	..
Norway	29,6	41,8	41,8
Poland	..	..	..
Portugal	15,8	29,6	34,5
Spain	14,7	33	35,1
Sweden	35,0	53,7	52,1
Switzerland	19,6	30,9	35,1
Turkey	10,6	20,0	31,8
United Kingdom	30,4	36,0	36,6
United States	24,7	26,7	..
Total OECD			
Unweighted average	25,8	35,0	37,3
Weighted average[4]	23,1	30,3	33,0
European Union			
Unweighted average	27,8	39,2	42,1
Weighted average[4]	29,1	37,7	40,7

1. Figures for 1999 are estimates.
2. Unified Germany beginning in 1991.
3. Figures for 1999 are based on a submission by the national authorities.
4. Using 1995 GDP at purchasing power parities as weights. In 1999 the average is based on the latest year for which data are available.

Source: OECD Revenue Statistics, 1965-1999.

Still, tax ratios are high; so how has the money been raised? The largest part of the increase in tax to GDP ratios since 1965 has come from higher social security contributions needed to finance expanded social insurance systems, notably in Europe. Higher personal income taxes also played a significant role, though chiefly before 1975.

Taxes on corporate income and wealth, more constrained by the potential geographical mobility of their bases than social security contributions, have risen more modestly, as have taxes on goods and services. The vast bulk of tax revenue, more than 80%, currently stems from three main sources, of roughly equal size: personal income tax, taxes on goods and services, and social security taxes.

Special sections on tax in some OECD surveys of individual countries show that the reasons for the changes differ widely. Greece and Portugal, for example, show increases in their tax burdens well above the OECD average increase. But their tax ratios are still below the OECD average and these countries could be seen as being involved in a catch-up process within the EU, in particular as they have been developing their social policy systems and infrastructure. In the 1990s these countries were also faced with the need to curb deficits to meet the criteria for joining Economic and Monetary Union (EMU).

Among emerging and transition market economies, Korea and Poland have seen tax burden growth close to the OECD average, although Poland, like other transition countries, has reduced its burden in the past few years. Among industrial countries, Switzerland also shows increases in its tax burden above the OECD average, although its tax ratio remains below the OECD average. The rise is at least partly due to an increase in social security contributions reflecting record unemployment in the 1990s and increasing health costs.

Some countries have reduced their tax burdens since 1990, but for very different reasons and from varying starting positions. In Mexico, for instance, overall tax levels have fluctuated sharply to offset volatility of oil-related non-tax resources, but tax fell from 17.3% of GDP in 1990 to 16.5% in 1999. This decline to some extent reflects a deliberate policy choice to lower VAT and import tariffs, but also difficulties of developing a tax base. Japan's tax reduction occurred in several steps from 1994 onwards, mostly in a bid to stimulate economic growth. Reductions in the tax burden in New Zealand, on the other hand, from 38.1% of GDP in 1990 to 35.2% in 1998, reflect deliberate policy decisions to reduce the size of the state in the economy. ■

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Germany and trade: why we must talk

Werner Müller, Federal Minister of Economics and Technology, Germany

In a special to the OECD Observer, Mr Müller explains why Germany wants broad-based trade talks to forge ahead. For Doha to succeed, industrialised countries may have to make some substantial concessions.

In a few weeks the fourth Ministerial Conference of the WTO will be held in Doha, Qatar. Together with the European Union as a whole, Germany will endeavour to ensure that a new, comprehensive trade round is initiated at the conference. Given the increasing level of international trade flows, it is essential that the rules of the WTO are further developed and adapted to the challenges of globalisation. A balanced agenda for the negotiations must cater in equal measure for the interests of both industrialised and developing countries.

Trade has always been strategically significant, and common rules have needed to be laid down. This is shown by the first known written agreements, dating from the 3rd century BC, which concerned questions of trade. A country like Germany, which has few raw materials of its own, owes much of its present prosperity to trade. In Germany alone, around a third of GDP is dependent on exports. On average, one job in four depends on trade.

Over the past five decades the increase in trade flows has been disproportionately high, and world trade has increased by a factor of seventeen. The current volume of trade in goods and services amounts to over US$ 1 billion per hour.


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Werner Müller

It has long been recognised that trade rules could not be expected to develop spontaneously, that certain basic rules needed to be established. The establishment of the General Agreement on Tariffs and Trade (GATT) was a sound and forward-looking economic policy move. This is strikingly evident from the fact that the GATT – founded in 1948 though never formally entering into force – was always generally respected in the form of a gentlemen's agreement. In the eight rounds of negotiations it held, it succeeded in lowering customs duties in the industrialised countries from 40% to an average level of 4%.

GATT's replacement by the WTO in 1995 was the obvious next stage, providing the only multilateral regulations governing trade worldwide. It is in the German and European interest to strengthen this organisation and help it maintain the worldwide recognition it has rightfully earned. Moreover the importance of the WTO regulations goes far beyond trade itself. The increase in international integration as a result of continuous trade flows ensures political stability. In addition to its economic importance, it has profound foreign policy implications.

Why now?

There are economic reasons for holding a new trade round now rather than later. The removal of existing barriers to trade leads to greater prosperity: economic studies are based on the belief that a reduction of trade barriers by a third in agriculture, services and manufactured goods can produce economic gains amounting to US$613 billion, equivalent to the GDP of Canada, a G7 country. The removal of all impediments to trade would produce economic gains as high as US$1.9 trillion, the equivalent of twice the GDP of China. For Germany the increase in prosperity, should the targets set for the trade round be reached, is estimated at around DM23 billion, with the creation of 55,000 additional jobs.

But the political dimension of a new world trade round is not to be underestimated.

Since Seattle, trade policy has become an explosive issue in the public mind. Many social groups, particularly in the industrialised countries, are demanding regulations for globalisation. The age of simple tariff rounds is over. The close connection between free trade and the environment, social conditions, food safety and the provision of vital medicines can no longer be ignored. This means taking the very positive step of laying down rules for trade in a global market on a democratic basis.

The age of simple tariff rounds is over. The close connection between free trade and the environment, social conditions, food safety and the provision of vital medicines can no longer be ignored in a democratic global market.

There is no other alternative. The absence of multilateral rules would result in uncontrolled abuse on the part of those with the most economic power at any given time. The message for foreign affairs must be clear: trade creates common interests and international integration and thereby increases political stability.

Development is another important consideration. Hitherto people in developing countries have derived very little benefit from the trade system. The majority of the world population lives in dire poverty. The causes of this are manifold and are not normally related to trade policy. War, bad government, corruption, mismanagement and natural disasters hinder the economic development of many countries.

Germany has a particular interest in changing this situation and enabling developing countries to play a greater part in international trade. As the second largest trading nation in the world, we feel we have a responsibility in this area. At the same time we realise that substantial concessions will be required on the part of the industrialised countries. At present there are still far too many trade barriers, either confronting developing countries or in the developing countries themselves, and these barriers need to be removed.

Germany managed to ensure that the "Everything but Arms" initiative was successfully adopted as part of EU policy in February 2001. It gives the poorest developing countries completely free market access in the EU for all but a few sensitive products, for which there are interim regulations. As part of the trade round it is also necessary to introduce measures to facilitate trade for the other developing countries, notably trade in textiles and agricultural produce, in which developing countries are particularly competitive.

The greatest threat to developing countries is not globalisation, but marginalisation. Developing countries are in urgent need of a trade round that will enable them to further their interests and benefit from the multilateral system. Associated with a comprehensive development strategy, free trade is an indispensable precondition for prosperity.

Main concerns

The agenda for a new round must fully cater for everybody's particular areas of concern. Only if the content of the round is broadly based will it be possible to ensure that balanced results are achieved at the end and that all those participating in the negotiations feel that proper account has been taken of their interests.

In addition to the negotiations over agriculture and services, already underway, the traditional trade themes belong on the agenda, particularly the lowering of customs tariffs, the elimination of quotas, the removal of non-tariff obstacles to trade, and anti-dumping.

For Germany the "new" themes of environment, investment and competition are particularly important. We must give careful consideration to the arguments of those opposed to globalisation. However, we cannot turn back the clock, as many demonstrators want. The free world market offers more in terms of opportunities and advantages than disadvantages. The world trade system has to be developed. Internal and external transparency must be increased and the participation of democratic institutions and society has to be improved. In addition, account must be taken of environmental protection, social development, food safety and the provision of vital medicines. In our view, multilateral agreements on investment and competition are necessary adjuncts to the system. And it is essential that the International Labour Organisation and the WTO engage in an ongoing, high-level dialogue on the question of "core labour standards".

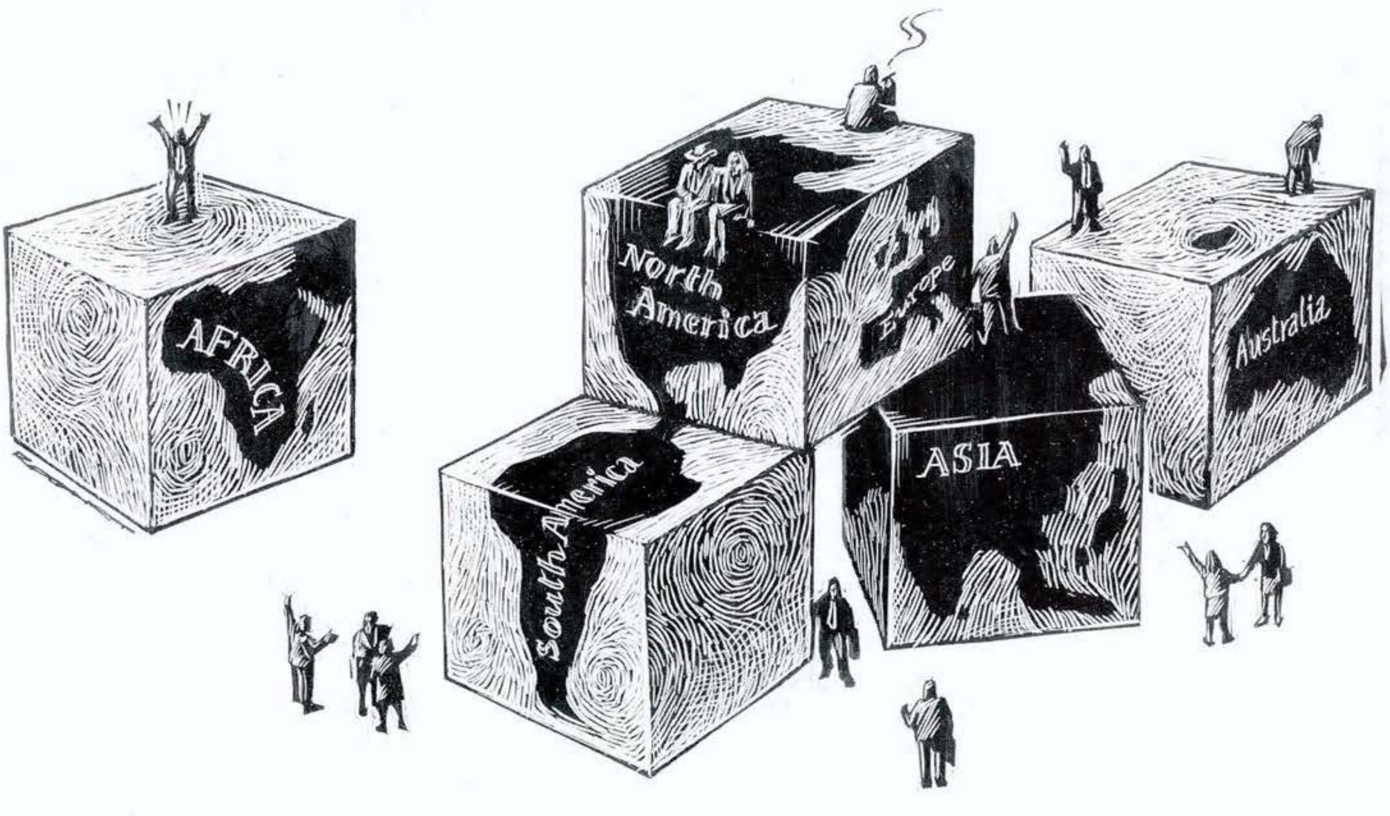
Since Seattle, it has become clear that the successful achievement of a trade round depends on the agreement of the developing countries, which make up a four-fifths majority of the WTO member states. With the other EU member states we shall strive to ensure that the justifiable interests of these countries are taken into account at the Ministerial Conference in Doha and in the context of a trade round. Concessions on subjects of importance to developing countries, such as the implementation of the Uruguay Round, market access in areas where developing countries are competitive, and willingness to provide technical assistance will be key. ■

• Visit the website of the German Economics and Technology ministry at www.bmwi.de/

Making the global market work

Ken Heydon, Deputy Head, OECD Trade Directorate

Regional trading blocs may have their advantages, including helping to open up markets, but they can cause complications in the long run which multilateral talks then have to resolve. Though perhaps slow to start with, multilateral agreements can deliver a more effective, coherent, global marketplace.



As Doha approaches, it is worth reminding ourselves that liberalisation of trade multilaterally, through the WTO, is not the only game in town. Multilateral efforts co-exist with unilateral, bilateral and regional initiatives. Unilateral market opening by developing countries in services has, for example, been widespread as a way to draw in skills and investment and to strengthen the synergies between the service sector and the rest of the economy. But unilateralism can also have a darker side – where it involves the extra-territorial application of domestic laws or the imposition of the will of the stronger over the weaker members of the international trading community. Unilateral pressure can also influence regional and, particularly, bilateral preferential trade agreements. But as this year's OECD ministerial communiqué points out, while WTO-consistent preferential trade agreements can complement coherent multilateral rules and progressive multilateral liberalisation, they cannot replace them.

Much recent interest surrounds regionalism, which broadly speaking includes bilateral as well as wider trade agreements. Regionalism commands attention first because of its scale. The percentage of world trade accounted for by preferential regional trade agreements (RTAs) is expected to grow from 43% at present to 55% by 2005 if all expected RTAs are realised. The thickening web of RTAs is bringing greater diversity and complexity to international trade relations.

The percentage of world trade accounted for by preferential regional trade agreements may grow from 43% to 55% by 2005 if all expected agreements are realised.

This includes APEC, which is a non-preferential arrangement; free trade areas where individual members retain their own, differing, tariff regimes, requiring complex rules of origin; or customs unions with a common external tariff. Some agreements, such as the European Union, go further and entail a process of deep integration, including – as we are about to witness – the adoption of a common currency.

But the key reason for the sharpened focus on regionalism has to do with motivation. Traditionally RTAs have predominantly been between adjacent countries seeking to maximise the benefits of proximity, often with a strong underlying political or strategic rationale. More recently, the growth of RTAs has reflected an additional element: a belief on the part of government that regional or bilateral arrangements are both speedier to negotiate and more far-reaching than multilateral agreements through the WTO. This creates pressure for more RTAs, as countries seek to avoid being left out. This pressure may help explain why Japan and Korea are now actively discussing RTAs, not only with one another but with Singapore in the case of Japan and as far away as Chile in the case of Korea. This is a sea change for these major traders who until now had eschewed preferential regional agreements. A similar shift away from geographic considerations – if not from traditional political ones – is also seen in free trade agreements signed recently between South Africa and the EU, between Mexico and the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland), between the United States and Jordan and between the EU and Egypt.

Business too may have played a role in sparking these shifts. As product cycles get shorter and multilateral negotiating cycles get longer – the Uruguay Round took seven years – regional and bilateral arrangements may appear to bring speedier results in terms of opening markets. Indeed, as policymakers prepare for the WTO ministerial meeting in Doha in November, there is a perception that the business community is less engaged in supporting multilateral negotiations than it was in the lead-up to the Uruguay Round.

Building blocks or stumbling blocks?

But do RTAs actually help or hinder multilateral trade liberalisation? In fact they can do both and it is perhaps this dual characteristic which helps explain why it is so difficult for the WTO's Committee on Regional Trade Agreements to establish whether particular RTAs conform to WTO rules and obligations. In many ways RTAs complement the multilateral trading system, by helping to foster a culture of market opening and structural reform. They promote "trade creation", to the extent that high-cost domestic production is replaced by lower cost imports from partners. They foster growth, as market enlargement allows firms to exploit economies of scale more fully. And, as widely remarked, they can act as laboratories for deeper integration. In services, for example, the Canada-US free trade agreement provided an opportunity to test the principles of national treatment and non-discrimination in a way that helped structure negotiation of the General Agreement on Trade in Services (GATS) in the Uruguay Round, which in turn fed back into the treatment of services in the North American Free Trade Agreement (NAFTA), initially grouping the US, Canada and Mexico.

But there are also potential downsides to preferential regional and bilateral agreements. They can detract from multilateral efforts by stretching scarce negotiating resources and political capital. They can distort trade through "trade diversion" to the extent that imports from low cost producers outside the agreement are replaced by higher cost production from partners within it. And, as a counterpart to breaking new ground, RTAs can cause friction between systems by generating potentially incompatible rules and standards between different RTAs and the rules and disciplines of the WTO. The most stark example of this is the proliferation of different rules of origin, which are needed to prevent third countries accessing an entire trade agreement area via the member with the lowest tariff.

RTAs are hardly a coherent way of setting the rules and standards for an expanding global marketplace. Nor does their complexity help to reduce transaction costs for business. Some countries belonging to many agreements now have 20 or more different tariff rates for the same product. Multiple dispute settlement fora can encourage forum shopping, with plaintiff countries going from one body to another in a bid to obtain satisfaction, thereby prolonging disputes and adding further uncertainty to the conduct of business. And different arrangements for contingency protection, such as anti-dumping, in different RTAs can lead to grey areas and an increased risk of trade harassment and rent seeking.

All of this can leave the global marketplace in quite a muddle. So while RTAs may break new ground, they may also leave some of the more intractable market access problems to be sorted out multilaterally.

Questions to answer

Several questions have to be asked. To what extent do RTAs really complement the WTO, even symbiotically as regionalism and the multilateral trading system give and take ideas from each other? Are RTAs more, a WTO-plus? Do particular agreements – including in sensitive areas like agriculture and textiles – go beyond or fall short of WTO commitments? How far do rules or provisions – in areas like the environment, competition policy, labour, and special and differential treatment – go beyond what might be possible, or desired, in the WTO? The OECD's answers on these are likely to be nuanced. But they will not challenge the proposition clearly stated at this year's OECD ministerial meeting: regionalism, though often stemming from deeply-rooted political or strategic objectives, cannot substitute for the multilateral trading system. Importantly, the predictability afforded by multilateral rules helps smaller players, whether countries or businesses. And the bigger the numbers of players, the bigger are likely to be the gains. As Jean-Jacques Rousseau, the French philosopher, put it in *Du Contrat Social*:

"Enfin chacun se donnant à tous ne se donne à personne, et comme il n'y a pas un associé sur lequel on n'acquière le même droit qu'on lui cède sur soi, on gagne l'équivalent de tout ce qu'on perd, et plus de force pour conserver ce qu'on a."

("Finally, each man, in giving himself to all, gives himself to nobody; and as there is no associate over whom he does not acquire the same right as he yields others over himself, he gains an equivalent for everything he loses, and an increase of force for the preservation of what he has.") ■

Note: the English version is from a published translation of the whole work by GDH Cole, an English historian and social theoretician who died in 1959. It is available at http://www.constitution.org/jjr/socon.txt.

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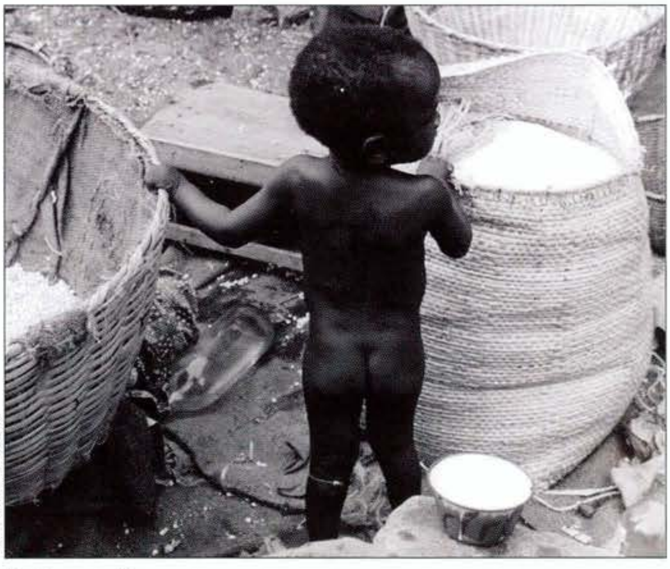
Development choices

Frans Lammersen, OECD Directorate for Development Co-operation

Untying aid to the least developed countries of the world has been an objective at OECD for many years. Now a breakthrough has been made which could see the world's poorest countries being able to spend more of their bilateral aid funds according to market demands, rather than those of donor governments.

Approximately US$5.5 billion, or about 70% of all bilateral official development assistance (ODA) to the least developed countries will be untied as of January 2002. This is a significant breakthrough in one of the longest (and arguably most divisive) debates the OECD has seen over the years. It means that from next year, poor countries that receive bilateral aid will be free to purchase most goods and services from third countries and not be tied to making purchases from the donor country.

Which begs the question, why tie aid in the first place? There may be several reasons. For a start, aid is a financial outflow from donor countries, which governments counter by getting recipients to put in export orders, for instance. But a more important reason appears to be the commercial advantages that businesses (and governments) in donor countries can gain by connecting contracts to procurement conditions. This protectionism of course distorts prices, often raising the cost of many goods and services by between 15-30%. On the other hand, some governments have pointed out that tying aid strengthens public and business support for the development effort. And, they argue, development assistance extends beyond a mere economic exchange, with tying aid sometimes seen as a way of communicating donors' cultural and ethical values, and as a sign of its willingness to co-operate closely with the people in developing countries.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Better options

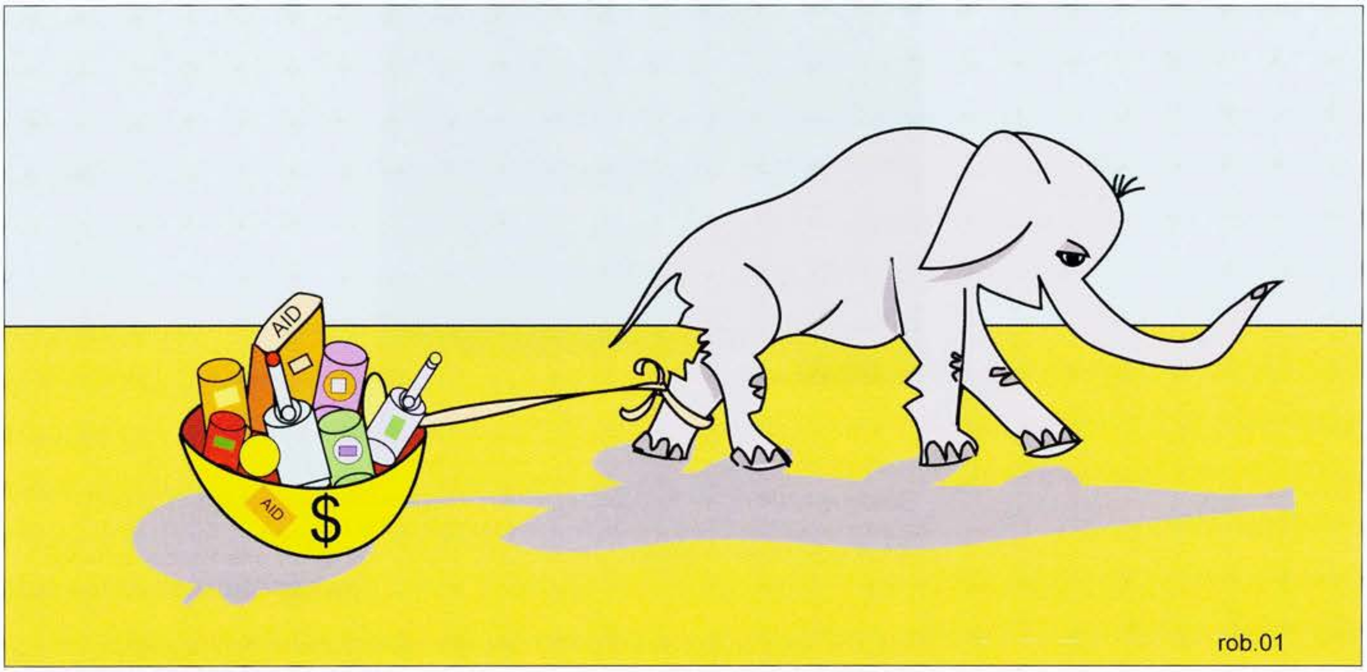
Echoes of protectionism, quip opponents, who see tying aid as a constraint on choice and freedom in the global marketplace. Tied aid tends to favour capital investment or high value technical expertise over smaller and more poverty-focused programmes suited to the recipient. It is a costly way of subsidising jobs in richer donor countries.

Untying aid is a more efficient way to deliver assistance, allowing recipients to spend their money on another supplier, and not necessarily from the donor country. This would lead to savings by removing those price distortions, while relieving some of the administrative burdens on both recipients and donors. And different donor programmes would be easier to co-ordinate too, since there would be less to protect.

Developing countries have pressed for untying aid for some time now. And recently in the UNCTAD X Plan of Action, they identified the issue of untying as a key test of the coherence and credibility of donors' policies towards them. Many OECD countries have long been in favour of untying more aid as well, with attempts to reach agreement going as far back as 1969. Most member countries of the organisation's Development Assistance Committee (DAC) have gradually come round to a consensus that now sees tying as incompatible with involving developing countries in the selection, design and implementation of aid programmes and projects, for instance. They recognise that competitive firms have to be able to bid for contracts in a manner that is consistent with the free trade principles of the WTO, in particular its Agreement on Government Procurement.

Civil society will also be pleased with recent progress. A coalition of over 900 NGOs based in Europe has urged the European Commission to abolish the tied aid programmes both

developed countries, the rest being untied.
It is already clear there will be important differences between individual donors both in the amount of aid that is covered by the Recommendation and the overall volumes and shares of aid that are untied. Effort-sharing is the key word, and DAC members intend to ensure that their aid to the least developed countries will not decline as a result of untying.



under the responsibility of the Commission and those of individual EU member states.

So what does the new OECD Recommendation to free up aid actually do? By 1 January 2002, ODA to the least developed countries will be untied in the following areas: balance of payments and structural adjustment support; debt forgiveness; sector and multi-sector programme assistance; investment project aid; import and commodity support; commercial services contracts, and ODA to NGOs for procurement-related activities.

The eight-page DAC Recommendation accepts that different approaches will be required for different categories of ODA. It strikes a balance between maintaining a sense of national involvement in donor countries' development co-operation policies alongside the objective to procure on the basis of open international competition. With respect to technical co-operation and food aid, donors can opt to keep their aid programmes tied. Had this not been agreed, food aid programmes and possibly the untying process may have been jeopardised. But these categories represent only a quarter of all bilateral ODA to the least

Transparency, implementation and review procedures are central to the Recommendation being respected. Prior to the opening of any bidding, donors will notify the OECD of untied aid offers covered by the Recommendation. The notification will be made public. After bidding, donors will inform the OECD of the company that has been awarded the contract.

ODA has been declining from OECD countries, with most of them falling well short of the UN's recommended target of 0.7% of GNP. Untying aid will not reverse that trend, but at least it will help to improve the effectiveness of aid. ■

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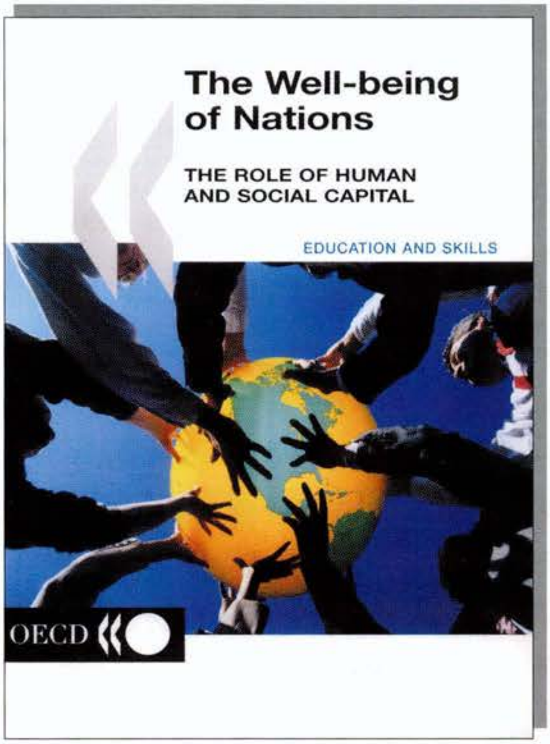

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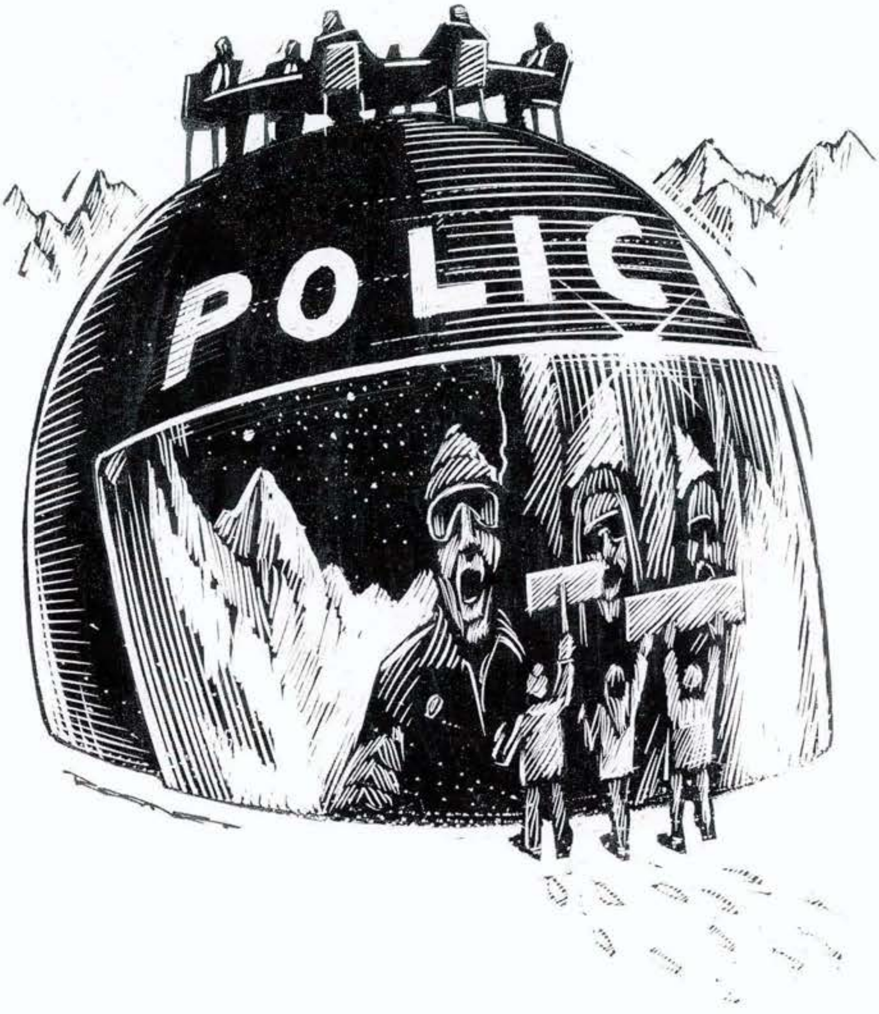
Better ways to run the world

Ann Florini, Senior Associate, Carnegie Endowment for International Peace, Washington D.C.



It will happen again in Doha in November, just as it did in Seattle, Prague, Quebec City, Washington and, most horrifically, Genoa. Wherever government ministers and international bureaucrats gather to debate and shape the global economy, hordes of protesters converge. And now some of the groups involved in the co-ordinated protests plan to diversify their targets to include multinational corporations. Who are these people? What do they want? And what should be done about them?

Commentators frequently dismiss the protestors as ill-informed Northern do-gooders or wild-eyed anarchists. Most are neither. The call to mobilisation around the September 2001 meetings of the World Bank and the International Monetary Fund, for example, was issued by a coalition including groups from a dozen mostly poor countries. The "counter-Davos" World Social Forum in Brazil in January was heavily populated by Southern-based groups. The violent fringe is just that, a tiny minority widely resented by the much larger number of peaceful protesters.

The protests themselves are merely the visible tip of a vast iceberg of transnational networks tying together people from all parts of the world who share grievances about the current rules governing global economic integration. Those grievances are often voiced by the rapidly growing number of civil society groups working locally or nationally who find that the roots of their problems lie at the global level. If your interest is national environmental protection or labour rights, you must pay attention to global trade rules that affect domestic regulations. If your concern is national economic development, you cannot ignore the implications of conditionality and financial volatility.

The most objectionable biases of global economic decision-making were exemplified in Quebec, when citizens were denied access to the negotiating text that was nonetheless granted to hundreds of corporate leaders.

Asking what these civil society groups want is like asking what governments want, as though all governments would share a common agenda merely by dint of being governments. Different civil society groups want different things, from environmental safeguards to old-fashioned protectionism, the end of capitalism, or liberty and justice for all in a globalised world. But one basic idea does pervade the protest movement: an end to secretive and exclusionary processes of decision-making. The leaders of the September 2001 mobilisation, for example, called for "institutional reform to make openness, full public accountability and the participation of affected populations in decision-making standard procedures at the World Bank and the IMF." Other groups aim similar demands at national governments, trade negotiators and other international institutions. All complain, rightly, that corporations are getting far too much say in setting the rules for economic integration, and that other interests, including the public interest, are getting far too little.

One priority in responding to these groups obviously must be to contain the violence. The non-violent majority is already taking steps to repudiate the anarchist hooligans and are proposing codes of behaviour for peaceful protest. But the responsibility for ensuring public safety cannot lie with non-governmental organisations, which have every right to speak out publicly and assemble peacefully. The security operations surrounding global gatherings have been deeply flawed. Amnesty International and others have reported many cases of extreme police brutality directed against non-violent protestors, or even uninvolved bystanders. Many protestors are convinced that violence is often permitted or even deliberately provoked by police forces seeking excuses to round everyone up. Good policing, in co-operation with the peaceful protestors, is essential.

But the more important question in the long term is how to respond to the demands for broader participation in global governance. The egregious case of the Quebec City trade negotiations, when citizens were denied access to the negotiating text that was nonetheless granted to hundreds of corporate leaders, exemplifies the most objectionable biases of global economic decision-making. While some institutions, such as the WTO and the IMF, are getting better about providing information to the public, few have developed meaningful channels for enabling that public to have input into their work.

There are models for how to get participation right. The original plan for the International Trade Organization in the 1940s envisaged that non-governmental organisations would receive documents, propose agenda items, and even speak at conferences. Many environmental agreements contain language allowing non-governmental groups "technically qualified" in areas related to the agreement to be admitted as observers and/or to assist the secretariat. To permit broad participation while keeping out the lunatic fringe, groups are allowed in unless a super-majority of member states wants them out.

Transnational civil society networks should not and will not end up making the rules themselves: the final decisions must rest with governments. But the protest movement has become too large to ignore, and it will not go away. Unless international organisations and corporations wish to relocate to Antarctica, they will have to seek out ways to grant a meaningful voice to these groups. And because many of the groups are raising important substantive points about real flaws in the current rules for running the world, incorporating their views can help make the rules better and more effective as well as more broadly legitimate and thus politically sustainable. ■

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Sustainability is good business

Chris Boyd, Senior Vice-President, Environment and Public Affairs, Lafarge*

Sustainability, the triple bottom line of economic profitability, respect for the environment and social responsibility: these are the new buzzwords of many a corporate annual report. Global companies everywhere are falling over themselves to declare their adherence to the principles of sustainable development. Is this a new moral crusade on the part of big business, or simply the result of pressure from demonstrators like those in Seattle and Genoa?

For some, either of these arguments may be true, but on the whole, sustainability is largely a question of good business. In fact, there is no fundamental contradiction between concern for the environment or social responsibility and the profit motive that has largely created the developed world as we know it today. In short, greed is still good for you.

Not that unrestrained market forces will deliver sustainability. There is clearly a role for government in setting the right framework for markets to deliver those broader based outcomes we all want for our planet. On the environment side, there are externalities – costs not borne by the polluter – that are excluded from influencing the market at present. This has occurred for various reasons, but mainly because resources, like fresh air and clean water, were simply treated as costless until recently. Historically, we have seen examples of such externalities being successfully internalised – the bringing of common grazing lands into private ownership, thereby creating the incentive to conserve, is one case – though not without conflict. Greenhouse gas emissions that cause global warming are an obvious environmental externality that we now know needs to be internalised. Only in a few countries are emissions regulated or taxed in some way. In most countries, it is "costless" for firms to emit CO_2, so of course there is little incentive for them to change their behaviour unless governments act. Indeed, many companies support efforts to reach worldwide agreement on combating climate change in order to make the necessary economic adjustments in an orderly fashion.

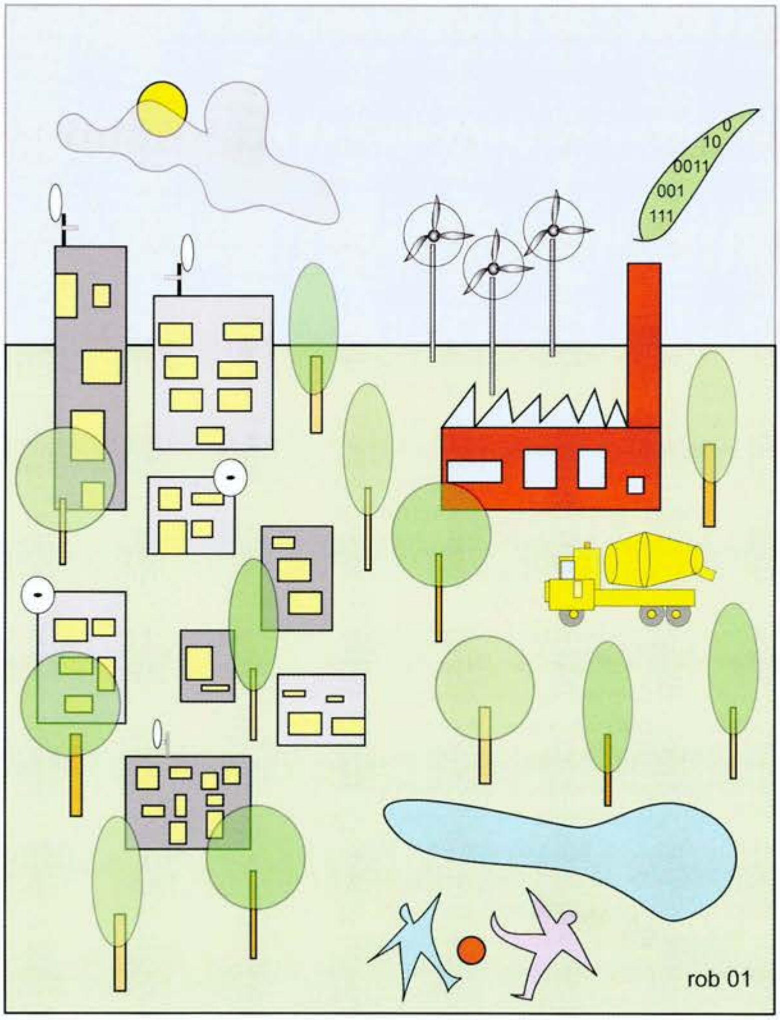
There is no fundamental contradiction between concern for the environment or social responsibility and the profit motive. In short, greed is still good for you.

Governments also have a crucial role to play in setting the right framework for markets to function in socially responsible ways. Tax and spending policies should be set in ways that complement the market economy by providing public goods efficiently. More controversially perhaps, governments are mainly responsible for ensuring human rights and fighting corruption, although companies, especially large global ones, cannot and do not ignore these issues.

However, it is good business for companies to act in a more sustainable way, even where the market does not yet provide the appropriate signals. Take climate change as an example. The cement industry is a significant producer of CO_2, the principal greenhouse gas, causing about 5% of the world's emissions. As the world's largest cement producer, Lafarge has an interest in reducing its carbon intensity, not only to prepare itself for a future carbon-constrained world, but also to help avoid rushed and poorly designed legislation. Not only Lafarge in the cement industry, but also companies such as BP and Shell in the oil industry, TransAlta in the power sector and Dupont in chemicals have a similar view of climate change.

On the social side too, our concern for sustainability is grounded in good business reasons. Our cement plants and our quarries often dominate other industries in their local communities. Lafarge has learned over its almost 170 years of existence that the implicit "license to operate" from local communities, gained through actions coming out of dialogue and transparency, is as important as the regulatory permits from the authorities. Without the support and understanding of local communities, changes such as quarry extensions or fuel switches to use waste fuels like used tires, which reduce costs and save fossil fuels, would be more difficult if not impossible to obtain. Our business would become precarious and less flexible.

Acting in a sustainable way can make firms more competitive, more resilient to shocks, nimbler in a fast-changing world, more unified in purpose, more likely to attract and hold customers and the best employees, and more at ease with regulators and financial markets.



Financial markets are beginning to notice these positive effects. Between 1 January 1999 and 30 June 2000, the Dow Jones Sustainability Group World Index – composed of sustainability-driven companies including Lafarge – outperformed the Dow Jones Global World Index by 127 basis point in US dollar terms. The index consists of the top 10% of companies seen as leaders in sustainable development. Their value advantage held in both bull and bear markets.

A strategy that pays

The main business drivers of sustainability for manufacturing firms make a good strategic concept for improving business performance:

- Eco-efficiency: Reducing inputs of limited natural raw materials or fuel consumption, reducing waste production and utilising by-products from other industries, allow firms to cut costs;
- Improving product added value: With a sustainability approach, firms expect to be able to expand their product lines to sell more complex and technological products, with more value added (licenses, exclusive technology, etc). Links with customers and users will become closer and better established in the long term and loyalty will be improved;
- Creating new market opportunities: A sustainability policy should facilitate firms' expansion into new countries or regions through more sensitive and proactive methods of integration and an enhanced environmental approach. New products will allow firms to respond better to the emerging expectations of their customers;
- Strengthening socially responsible management: Such a policy will strengthen corporate culture, help firms to maintain the loyalty of their employees and attract high-potential new employees;
- Improving reputation: A proactive strategy will help firms keep their "license to operate", and improve their corporate image in order to maintain brand value, as well as their relationships with local authorities and communities. This helps to reduce the prospect of inappropriate new taxes and regulations and avoid crises.

Smart markets

Given the right framework, competitive and open markets are the right way to move towards sustainability. Markets, with all their imperfections, are nevertheless the best means that man has found to produce innovation and efficiency. By rewarding success, markets harness creative energy. It is difficult to imagine that government officials, however well-meaning or efficient, will be better at organising a route to sustainability than the market mechanism, as long as this is properly framed to encourage sustainability.

Certainly, sustainable development should not become an excuse for governments to impose yet more heavy-handed regulation and yet more taxes. Just look at the French government's attempts to impose sustainability reporting by law with over thirty indicators proposed in the social field alone or the US Superfund legislation, which benefits mostly lawyers. More energy should be spent on getting the price and other signals right so that markets work in a more sustainable fashion. This means convincing, not coercing. After all, sustainability will not progress if those that are meant to implement it are alienated from the concept. It also means that governments should take a comprehensive approach. Sustainable development is by its very nature not amenable to the partial, unco-ordinated methods that different government departments tend to employ. An example is the enormous subsidies still paid to fossil fuels in many countries, which conflict with climate change concerns.

No one has a monopoly of knowledge on how to progress towards sustainability. Dialogue and partnership, between governments and civil society in general on the one hand and business on the other, is the way forward. Who knows exactly what will emerge in terms of agreements and initiatives? But what is clear is that markets can and must be made to work for the benefit of all. Without them progress towards global sustainable development will be much more difficult, if not impossible, to achieve. ■

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What about the workers?

Tim Harcourt, Chief Economist, Australian Trade Commission

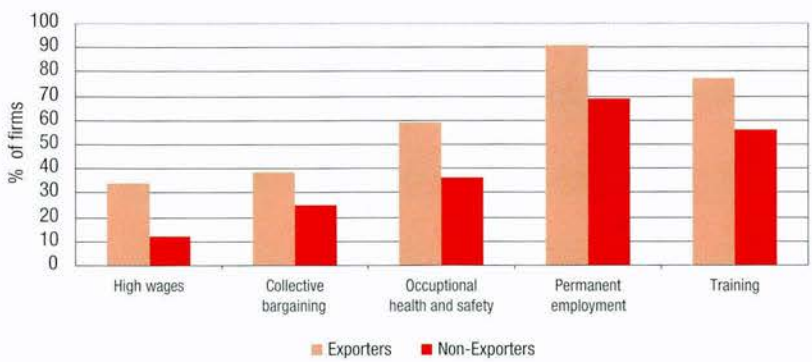
Some workers in industrial countries fear that increased trade is bad news for their jobs, but evidence is beginning to emerge that export firms have better working conditions.

Since the Battle for Seattle in November 1999, the world has seen a wave of anti-globalisation protests in Washington DC, Prague, Melbourne and more recently Gothenburg and Genoa. Anti-globalisation protestors have expressed concerns about a diverse range of policy issues including the environment, world poverty, multinational corporate strategy and trade policy. At the same time, proponents of globalisation and trade liberalisation have emphasised the gains in efficiency, dynamism and economic welfare that open markets bring to citizens of both rich and poor nations.

A key issue in the ruckus in the globalisation debate is the impact of increased trade on the labour market. Does trade hurt or help workers in getting and keeping jobs? The question has been debated in the economics literature chiefly as regards the effects of imports on workers and their conditions in industrialised economies. British development economist Adrian Wood, for example, attempted to measure the impact of trade between North and South on the wages of unskilled workers in the North and found an adverse impact. His findings were disputed by other economists who argued that most trade and investment flows were between OECD economies rather than between the OECD and developing countries and that these OECD flows determined wages more. Also, many of these economists would regard technology as a more important influence on the labour market than trade.

But for all the talk about imports from cheaper countries, there has been insufficient discussion of the *exporting* side of the trade equation. This is unfortunate, as the exporting sector, with its overall dynamism and knowledge economy focus, often provides significant labour market improvements for workers in national economies. This has certainly been the case in Australia. A recent study by the Australian Trade Commission (see references) found that exporters, on average, paid their workers 60% more than non-exporters. This remained true even after allowing for the different types of industry involved and the different sizes of the firms surveyed. Australian exporters were also more likely to use collective bargaining to raise wages and productivity within the business than non-exporters who barely paid minimum wages.

Exporters do better



Source: Australian Trade Commission

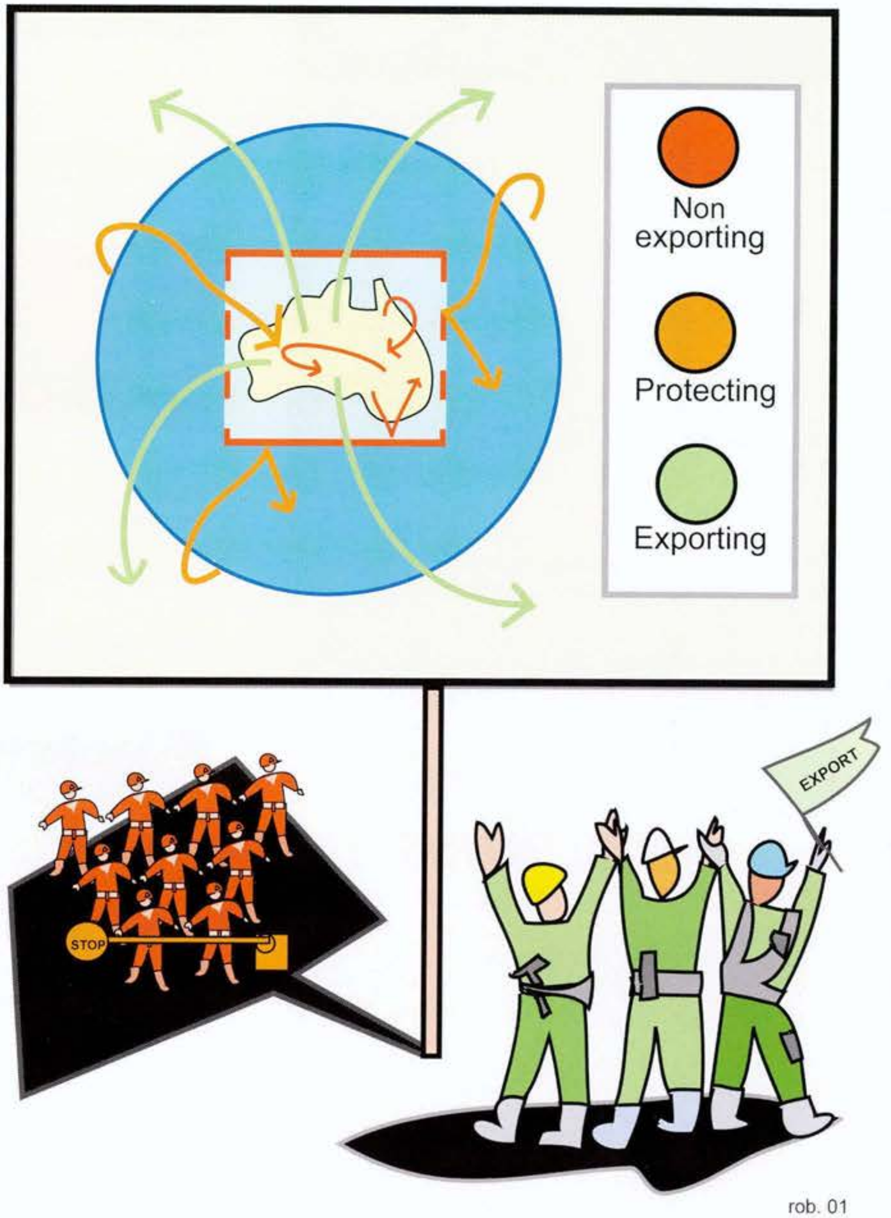
And the differences do not just concern wages. The Australian study produced data about a whole gamut of employment issues. For instance, exporters were found to have a higher commitment to occupational health and safety than non-exporters. In terms of employment status and job security, exporters provided a higher proportion of full-time and permanent jobs in the labour market than did non-exporters.

Much of the story is about human capital. A significant finding of the Australian study was the commitment of exporters to the education and training of their workforce. Exporters were more likely than their non-exporting counterparts to send their staff on training courses, buy them computers, form alliances with universities and other training providers and invest in their longterm career development. The commitment to training is also reflected in the relative "information age" savvy of exporters and the benefits in terms of technology and knowledge that come from competing in international markets. This in turn helps productivity and overall business performance.

That is fine for an OECD country, you may say, but what about developing and transition economies? The superior performance of exporting firms relative to non-exporters has also shown up in countries like Bulgaria, Chile, and Taiwan. In each country, the efficiency gains of exporters drive productivity improvements that help the economy's competitiveness while improving labour conditions for their own workforce.

So what are the main messages from the evidence on trade and labour markets?

First, it is important to remember the exporting side of the equation, since too much emphasis is given to the effects of imports. After all, one country's imports are another's exports. Moreover, from the evidence in this study, exporters are good employers in terms of wages, occupational health and safety, employment status, job security and education and training. This is important to remember when considering the impact of trade on OECD countries as well as developing and transition economies.



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Exporters may have it right. But it will take proper institutions to get the message to non-exporters or to import-competing firms who can no longer rely on trade protection. Education and training programmes matter, as they assist with labour market adjustment when economies change and new industries replace older ones. Even in the trade and wages debate, Adrian Wood does not support a return to trade protection as a policy response, but instead prefers labour market adjustment policies, including education and training for unskilled and semi-skilled workers in the North. In short, if labour market institutions are fair and efficient they will provide the best insurance policy against a return to trade protectionism. ■

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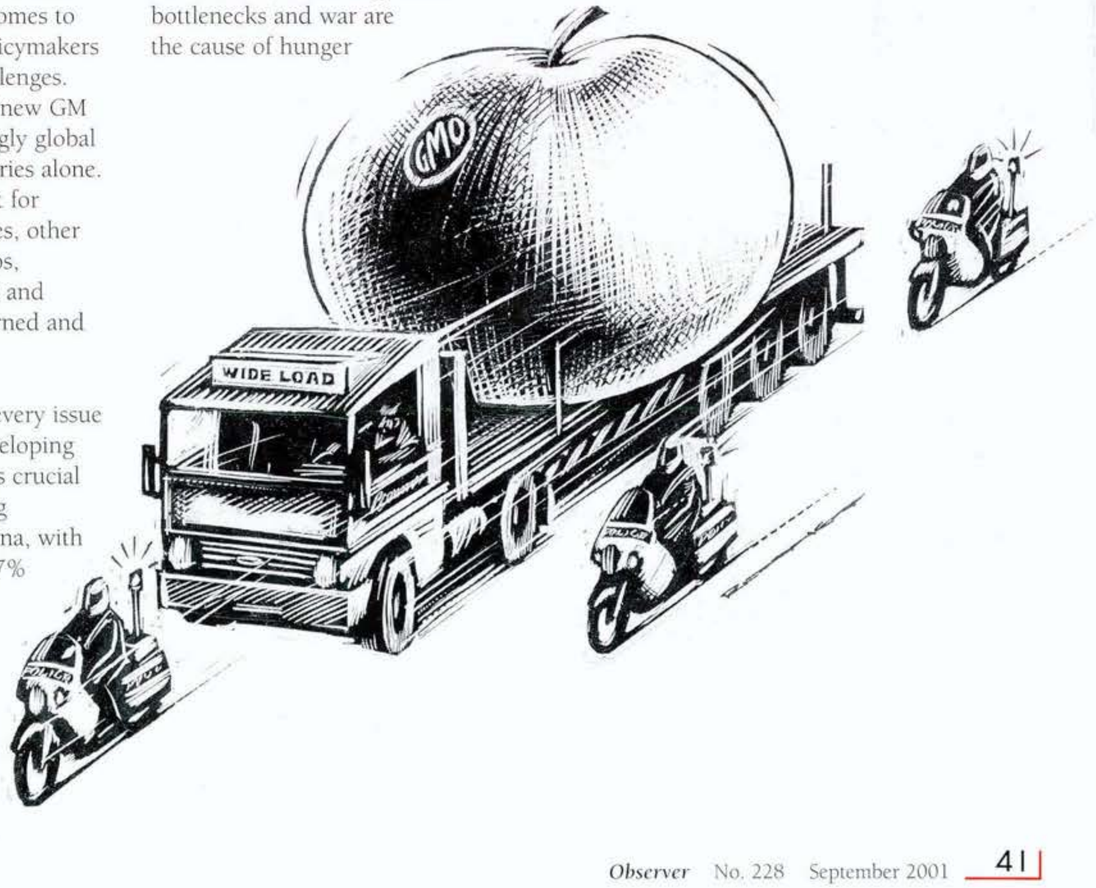
GM food: science, safety and society

Peter Kearns, OECD Environment Directorate

How can we be sure that the food on our plates is safe to eat? Globalisation and the development of genetically modified crops are making this an increasingly complex question of concern to all countries, not just OECD members.

The OECD and its member countries have been developing a science-based approach to assessing the safety of new biotechnology products for almost 20 years. But times have moved fast and when it comes to genetically modified foods, policymakers are waking up to two new challenges. First, the commercialisation of new GM crops and foods is an increasingly global issue, not one for OECD countries alone. Second, this is not an issue just for governments. In many countries, other stakeholders – consumer groups, environmental NGOs, business and industry – have become concerned and increasingly active.

Views differ widely on almost every issue related to GM foods. Some developing countries see GM technology as crucial to feeding their rapidly growing populations, noting that in China, with 20% of world population and 7% of land surface, and in North America people have been eating GM foods for almost a decade with no adverse effects reported in scientific literature. But many consumer groups counter that it is too early to dismiss the possibility of unforeseen long-term impacts. Another argument is that poverty, faulty distribution of existing food stocks, technology-transfer bottlenecks and war are the cause of hunger in developing countries, not lack of GM crops, and that traditional agriculture could feed the population if properly managed.



Environmental concerns also loom large, with discussion focusing mainly on potential risks and benefits associated with GM crops. Many environmentalists feel that the risks associated with genetically modified organisms (GMOs) cannot be evaluated effectively given the current state of knowledge. But proponents claim that GM crops provide demonstrable environmental benefits, such as pest resistance that reduces the need for toxic pesticides.

Consumers all over the world are insisting on the right to know exactly what is in the food they are buying, whether it has been genetically modified and whether it is safe.

The majority of stakeholders do not reject biotechnology *per se*, but want to see more careful oversight and monitoring of the processes and products derived from new biotechnology. Many say they do not believe science has satisfactorily addressed their concerns about the effects of GMOs on human health or the environment.

One thing is clear: the need for transparency. Consumers all over the world are insisting on the right to know exactly what is in the food they are buying and whether it has been genetically modified. They also want to know whether their food is safe.

Reconciling such widely diverging views will clearly not be easy, but a first step is to establish what the different views are and why. The OECD has been working on identifying the views and concerns of all stakeholders in the GM issue since November 1999, when it invited more than 50 non-governmental organisations from civil society and the scientific and business communities to meet in Paris. Consumer health and food safety emerged as key concerns, and food safety was addressed in greater detail at a conference on GM Food Safety in Edinburgh three months later. Representatives of both OECD and non-OECD countries attended this meeting, as well as a range of stakeholders.

A key message from Edinburgh was that policy decisions about GM foods, as well as the assessment of their safety, should be more inclusive and open than had typically been the case in the past. People want to be consulted and to know how decisions have been reached.

This theme of "openness and inclusiveness", was echoed at a joint OECD/ UK conference on New Biotechnology Food and Crops: Science, Safety and Society, in Bangkok in July. Participants included experts from intergovernmental organisations, scientific institutions, consumer and environmental groups and industry, as well as government regulators and policymakers.

The aim was to look at ways to ensure that the best scientific knowledge available is made an integral part of the international process of consensus building and to further the concept of open and transparent consultation with all stakeholders.

Edinburgh had focused on the safety factors considered during the assessment of new GM foods, such as toxicity, allergenicity and nutrition. Conference chairman Sir John Krebs concluded that some of the current methods need re-examination. At Bangkok, conference chairman Lord Selborne concluded that in the future such information should not only satisfy the regulatory process but should also form part of an exercise in accountability to all stakeholders: civil society, countries and the environment. He added that all national and international bodies concerned with new biotechnology should participate in appropriate stakeholder fora.

There is general agreement that all people, in developed and developing countries alike, have the right to safe food and a safe environment. But some developing countries need financial assistance to build their research capacity and ensure that they are in a position to judge if particular developments, whether GM food or new farming methods, are safe and appropriate for them. More publicly funded research would provide greater confidence and allow projects for which no financial return can be expected, in developed and developing countries.

One outstanding issue that has frequently been raised at the meetings on food safety and biotechnology is the underlying science related to the environmental impacts of transgenic organisms. To address this, the OECD will be holding a conference on the environmental aspects of living modified organisms (LMOs) in Raleigh, North Carolina, in November.

Views on the potential of new biotechnology remain strongly polarised and these differences are unlikely to be reconciled in the near future. OECD experts will continue to play an important role in identifying and addressing the needs of stakeholders throughout the world. ■

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- A large number of OECD documents related to biotechnology/ biosafety can be accessed at http://www.oecd.org/ehs/public.htm

Keeping track of decoupling

Kenneth G. Ruffing, Deputy Director, OECD Environment Directorate

How can we be sure that actions to curb environmental damage are effective? Establishing reliable ways to measure the results is crucial to meeting this challenge.

Economic growth should not mean an accompanying increase in the pace of environmental degradation over the next decade, OECD ministers agreed at their annual meeting in May. But for this strategy to succeed, governments must be able to measure the effect of actions aimed at decoupling environmental pressures from economic growth. Removing lead from petrol is not enough: we need to be able to demonstrate that the link has been broken between increased vehicle use and increased emissions. Without such decoupling, sustainable development cannot happen. Governments have asked the OECD to develop indicators of sustainable development – economic, environmental and social – including indicators for environmental decoupling.

The OECD has carried out work on indicators for many years, including in its reviews of environmental policy in OECD and some non-OECD countries. Giving more emphasis in these reviews to the pace of decoupling will be an important part of the Environment Strategy from now on, perhaps along the lines shown in the recent review of Germany (see box). Decoupling indicators will be needed for both pollution (e.g., air, water and waste) and natural resource use (e.g., climate change, water, eco-system protection and biological diversity). The choice and the presentation of such indicators will have to be guided by their relevance to policy and by the extent of decoupling required.

Decoupling is strong when economic growth leads to at least no increase in environmental degradation. This is rather rare but has been seen in OECD countries in the case of emissions of several local air pollutants, ozone-depleting CFCs and lead emissions from petrol. Weak decoupling is more common; most OECD countries have realised some level of decoupling of environmental degradation from economic growth for energy, water and resource use in recent decades, though environmental degradation continues. In energy, for instance, total final energy use in OECD countries grew 17% between 1980 and 1998, but the energy intensity (the ratio of total primary energy supply to GDP) of economic activity fell by 16% over the same period. Unfortunately, not even weak decoupling is yet evident for some indirect sources of environmental pressure, like municipal waste generation and transport use, in particular cars, in most OECD countries.

While strong decoupling is clearly desirable in some cases, such as in toxic pollution, weak decoupling would be sufficient for natural resource use. Environmental science can help determine the "correct" level of environmental pressures, for example, by determining the maximum level of a certain pollutant that a water system can assimilate.

But setting the actual limits is a policy question. After all, in taking account of the costs and benefits to society of achieving a certain amount of decoupling, it may not always be possible to determine scientifically the "right" level of decoupling. The use of a renewable natural resource, whether water or a plant or animal species, should not exceed its regenerative capacity. Establishing the right level of use beyond that will usually involve "getting the prices right" and allowing the market to determine how much use will be made at the established price.

This means making users pay the full costs for their use of the resource, for example, by removing environmentally harmful subsidies and ensuring that firms "internalise" all of their environmental costs. Changes in consumption patterns, which may be encouraged by instruments such as eco-labelling or direct consumer pressure, often with the help of NGOs, can also slow the relative growth in demand for particularly pollution-intensive or resource-intensive goods and services. Voluntary business initiatives such as including some environmental impacts in company reporting can also help. Several organisations, such as Global Reporting Initiative, are working on ways to achieve this (see article by Robert Massie, *Observer* No. 226-227).

The aim of good indicators for sustainable development clearly has to be to simplify policy decisions and to ensure that reductions in one pressure are not offset by increases in another. An aggregate indicator for the overall extent of decoupling of environmental pressures from economic growth would of course be useful, but finding the right one may be a long way off. Many existing measurement systems have serious drawbacks. The "ecological footprint" approach, for instance, which uses the land needed to support the activities of a country's people as a measure of the total pressure on the earth, may help to show whether decoupling is occurring, but not its pace. Nor does it take into account the effects of pollution, surely one of the most serious environmental problems. Another candidate, total material use, which measures the total material required per unit of GDP, suffers from the same weaknesses.

Aggregate measures may emerge in the future, but for now, indicators covering a "cluster" of environmental pressures seem more feasible. Impacts on human health measured in terms of healthy years lost because of pollution, combined with data on the health effects of specific levels of individual pollutants, could be used to produce a weighted index of local air pollution for instance. Cluster indices would make the information much more accessible, comprehensible and useful.

Whatever the approach, the right level of decoupling will be hard to calculate, whether for pollution or for natural resource use. Indeed, developing a set of policy-relevant indicators of decoupling that meet the expectations of governments and citizens, and that can be agreed on for use in the OECD's economic, social and environmental reviews, will clearly be a major challenge over the months to come. ■

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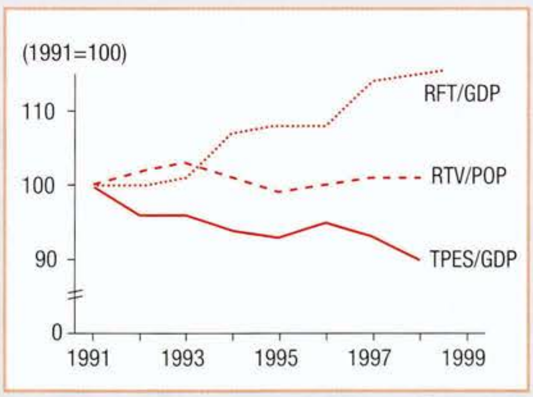
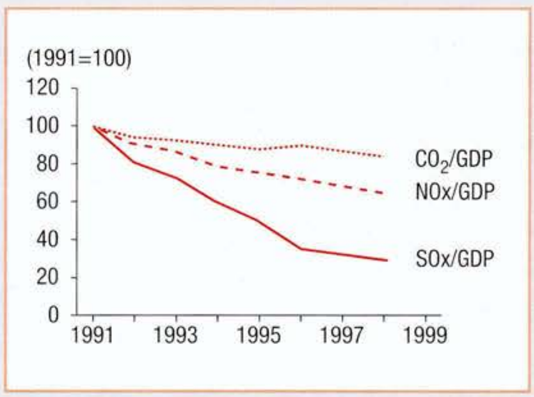
Decoupling in Germany



RTF/GDP: Road freight traffic/GDP

RTF/POP: Road traffic volume/population

TPES/GDP: Primary energy supply/GDP



Gas pressures from vehicles are likely to rise again – probably after 2020 in OECD as a whole – unless environmental policy results in ever more stringent vehicle emission standards sufficient to overcome the effect of rising volumes. The German example helps to understand why. There, a marked decoupling took place between gas emissions and GDP in the 1990s. Nevertheless, there was no decoupling between road traffic and GDP, and an increase in freight traffic intensity. The ratios of carbon dioxide (CO_2), nitrogen oxide (NO_x) and sulphur oxide (SO_x) to GDP all declined substantially in Germany. The reduction in SO_x intensity of more than 70% was facilitated by a reduction of energy intensity of 10% over the same period. The reduction of NOx intensity of 35% occurred despite continuing increases in road traffic volume.

Source: Environmental Performance Reviews: Germany, OECD, 2001

Governments discuss sustainable development, trade and new economy

OECD Council at Ministerial Level, May 2001

Sustainable development, the new economy and prospects for a new round of global trade talks were high on the agenda when OECD ministers gathered for their annual meeting in Paris in May. For the first time, OECD environment and economy ministers met together in the same plenary session to discuss sustainable development and how to make economic growth and environmental conservation more consistent with each other. Areas like global warming and action to cut emissions pollution received particular attention.

Under the chairmanship of the Danish prime minister, Poul Nyrup Rasmussen, ministers asked the OECD to work to develop indicators of sustainable development, measuring economic, environmental and social impacts, and to report progress ahead of the Johannesburg summit on sustainable development in September 2002. Ministers also agreed that sustainable development should be an overarching theme of the OECD's work.

French finance minister, Laurent Fabius, and French environment minister, Dominique Voynet

This year's ministerial calendar was particularly busy, with an environment ministers' meeting immediately before the full annual ministerial. They endorsed a new environmental strategy for the coming decade aimed at ensuring that continued economic growth is not accompanied by continued damage to the environment. This decoupling involves improving information and measuring progress through indicators and maintaining ecosystems by efficient management of natural resources.

On the trade front, OECD trade ministers met with ministers of eight non-member countries (Brazil, China, Indonesia, Mali, Romania, Russia, Singapore and South Africa) to discuss their concerns ahead of a WTO ministerial meeting in Doha in November to launch a new round of world multilateral trade talks.
In another first, Danish environment minister, Svend Auken, reported to the joint environment/economy ministers' session on the civil society debate at the OECD's Forum 2001 meeting on the theme of sustainable development and the new economy, thereby making the Forum an integral part of the OECD process. ■

Global deal for sustainable development

Review of OECD Forum 2001

Danish environment and energy minister, Svend Auken, called for a global deal on sustainable development between North and South at the start of the second annual OECD Forum in May. This challenge kicked off two days of debate on the theme "Sustainable Development and the New Economy" which attracted more than 1 500 participants from 80 countries. Mr Auken carried the results of their debates back to a special session on sustainable development at the OECD annual ministerial meeting (see above) immediately after the Forum.

Svend Auken

The gathering at La Cité des Sciences et de l'Industrie in Paris from 14-16 May enabled representatives from government, business, labour and civil society to debate with high-level speakers like Donald Evans, US Secretary of Commerce, Mike Moore, Director-General of the World Trade Organisation, Thierry Demarest, Chairman of TotalFinaElf, Govindasamy Rajasekaran, Secretary-General of the Malaysian Trades Union Congress, Ricardo Navarro, Chairman of Friends of the Earth and David Ignatius of the International Herald Tribune. Participants included more than 20 ministers, as well as international CEOs, labour leaders, NGOs and media personalities. Christine Ockrent of France Télévision, Martin Wolf of the Financial Times and Daniel Franklin of The Economist Group moderated public discussions on the social and economic challenges facing societies in achieving sustainable development. In a riveting presentation on "The Future of Life", Harvard entomologist, Professor E.O. Wilson, warned Forum participants that the radical reduction of the world's biodiversity has already wrought irreversible damage in the form of the complete elimination of many species.

The Forum created a platform for debating three major OECD reports, on the "new economy", sustainable development and

Ministerial communiqué

For the complete text, consult:
http://www.oecd.org/media/release/nw01-48a.htm

Highlights of the communiqué, "Towards a Sustainable Future", issued by OECD ministers at the end of their two-day annual meeting in Paris on May 17:

OECD and the world: Ministers endorsed the organisation's co-operation with non-member countries and welcomed their growing interest in participating in its work. Discussions with non-member countries at the ministerial meeting contributed to strengthened confidence in the multilateral trading system and a step toward the launch of new WTO negotiations. OECD Forum 2001 was an effective multi-stakeholder dialogue providing valuable input to OECD work.

Sustainable development: Sustainable development is an overarching goal of the OECD and member governments. OECD countries bear a special responsibility for leadership on sustainable development worldwide. OECD members will ensure that sustainable development strategies are in place in all OECD countries by the World Summit on Sustainable Development in Johannesburg in September 2002. OECD will develop agreed indicators that measure progress in sustainable development and will report progress to ministers in 2002. Ministers recognised climate change as the most urgent global environmental challenge and asked the OECD to continue to contribute to analysis and international dialogue on these issues.

Deepened **social cohesion** is a central objective for sustainable development and the consequences of **population ageing** remain a major concern for OECD economies. Member countries must urgently address the barriers against hiring, retraining and retention of older workers, and ministers look forward to the OECD's work on this topic. **Migration** is an increasingly pressing issue. Ministers look to the OECD to deepen and extend its analysis of the economic and social impacts of migration, including the international mobility of workers at different skill levels.

Growth, technology and human capital: Ministers endorsed the main conclusions of the report *The New Economy: Beyond the Hype*. The work of the Growth Project is central to concerns about improving growth performance. The OECD will continue its analysis, strengthen its benchmarking and peer review of structural reform and deepen its work on the relationship between growth and sustainable development and report to ministers in 2003.

Governance: Strengthening effective and coherent public governance remains a priority. The OECD should continue to make a vital contribution through its dialogue on public governance with non-members. Ministers asked the OECD to explore further the challenges and opportunities of e-government. Ministers support OECD work to develop principles and best practices for the regulation of private pensions.
Fighting corruption remains a high priority. Monitoring implementation of the Bribery Convention and the related Recommendations must be rigorously pursued and reinforced. Ministers encouraged efforts to engage a broad range of non-OECD countries in the fight against corruption. Ministers noted the work undertaken on harmful tax practices and looked forward to the conclusions of the OECD project.

Corporate governance and responsibility: Ministers looked forward to analytical work and exchange of information among member countries in preparation for the first assessment of the OECD Corporate Governance Principles in 2005. Ministers reaffirmed commitment to the Guidelines for Multinational Enterprises and supported further agreed analytical work in the field of corporate responsibility.

International investment: The OECD Global Forum on Investment in November 2001 and the UN High Level Conference on Financing for Development, to be held in Mexico in 2002, will benefit from OECD analytical work on foreign direct investment.

Multilateral trading system: Ministers are committed to the launch of a new global round of multilateral trade negotiations at the WTO Ministerial Conference in November and will engage constructively with all countries within the WTO to this end. Ministers urged all WTO members to seek ways to address developing country requests and concerns and to build confidence as preparations for Doha proceed. Ministers welcomed OECD efforts to promote greater coherence between trade and development co-operation policies and looked forward to a progress report in 2002.

Shipbuilding: Ministers asked the OECD to redouble its efforts to explore solutions to bring about normal competitive conditions in shipbuilding, and encouraged shipbuilding countries outside the OECD to participate in this work.

Food safety: In co-operation with other international organisations, the OECD will contribute to analysis and policy dialogue on wider issues of food safety.

Life sciences and biotechnology: Ministers stressed the importance of biological diversity and of making biodiversity data available to all. They looked forward to progress in the OECD's work on issues arising from the mapping of the human genome.

Development co-operation: Ministers welcomed the Recommendation on Untying Aid to the Least Developed Countries and encouraged the organisation to deepen its work on policy coherence and development.

Secretary-General: Ministers congratulated Donald Johnston on his reappointment as Secretary-General for another five years and asked him to take forward the reform agenda to equip the OECD to respond to the policy challenges of the next decade and beyond. ■

the OECD Environment Strategy for the 21^{st} century. These discussions helped shape the three OECD ministerial meetings which took place that week involving economic, trade, environment and energy ministers. The OECD sees partnerships between government and all branches of society as an essential part of building sustainable societies. And through the Forum, the OECD has lifted its co-operative activities with civil society to the highest level, effectively becoming the OECD's "civil society summit" and an integral part of the ministerial process. At their annual council, OECD ministers "welcomed OECD Forum 2001 as an effective multi-stakeholder dialogue providing a valuable input into our work". Next year's Forum is already being planned for May 2002 in Paris, with the theme "Partnerships for Sustainable Societies". ■

Knowledge without borders

Thomas Andersson, Deputy Director, OECD Science, Technology and Industry Directorate, and **Young Chul Kang**, Chief Secretary, World Knowledge Forum

We live in a knowledge economy. But how can we ensure that the world reaps all its benefits, and that they are fairly shared?

Today, information can be gathered and diffused on a global scale, bringing with it countless opportunities, but also fear and frustration, with many people worrying that they are being left behind.

So, can we speak of an information technology (IT) revolution? In the wake of the painful series of dot.com collapses and the plummeting share prices of many leading technology corporations, it has become all too clear that technology alone will not suffice to ensure economic success. The true source of competitiveness and the key to improving human welfare is knowledge.

But how can we define and promote the knowledge which is needed to succeed in the 21^{st} century global economy? There is no standard answer, but certainly it cannot be achieved through command and control. Policymakers and businesses must together foster institutions and incentives for developing, diffusing and using knowledge throughout society.

How can nations and businesses reap the benefits of the knowledge revolution? What are the ethical bases for a knowledge-based economy? How can we identify best practices in knowledge-based corporations or policy strategies? How can we bring together the best brains around the world in a particular field? These are just some of the questions that the World Knowledge Forum to be held in Korea in October will attempt to answer.

"We aim to discuss what potentials we can realise by using knowledge. More realistic issues, such as value creation, leadership, learning and technology are the main topics," says Dae Whan Chang, executive chair of the WKF. Dr Chang is also president of Maeil Business Newspaper & TV, Korea's leading business information provider, which is organising the WKF event, the second of its kind. This year's theme is "Drawing a Roadmap for the Knowledge Economy and Global Prosperity".

The OECD's recently completed two-year study of the effects of IT and other "new factors" on economic growth noted the importance of knowledge sharing, a key topic of the WKF. The OECD is a knowledge partner of the event and OECD secretary-general Donald Johnston will speak for the second consecutive year, along with figures such as incoming World Trade Organization director-general, Panichipakdi Supachai, and secretary general of the Business and Industry Advisory Committee to the OECD, Bruno Lamborghini.

The WKF will bring together key actors and stakeholders for a structured debate on how to capture the major opportunities of our time while trying to overcome the hurdles that curtail their potential, and risk limiting the benefits to the favoured few. It aims to be inclusive, with representation from small enterprises and poor countries as well as representatives from big business and academia, and to present an innovative format and set-up while focusing on the key issues which are essential for constructive progress. ■

References

- Find out more about the World Knowledge Forum, Seoul, October 17-19 at: http://www.wkforum.org/
- For more about the OECD's work on the knowledge society: www.oecd.org/dsti/

Calendar of forthcoming events 2001

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

SEPTEMBER – Some highlights

3-4 **Effective Policies for Agriculture and Food: Domestic and International Dimensions**, high-level meeting of the Committee for Agriculture, organised by the Directorate for Food, Agriculture and Fisheries (AGR).

5-7 **Financial Action Task Force (FATF)**, plenary meeting to review progress made on anti-money laundering efforts and adopt a new programme of work.

6 **OECD Economic Survey of Canada** published.

12-13 **Information Security in a Networked World**, workshop organised by the Directorate for Science, Technology and Industry (STI) and co-hosted by the government of Japan. Tokyo, Japan.

17-18 **The Steel Industry**, high-level meeting organised by the STI to discuss the current steel market situation.

17-20 **Nuclear Criticality Safety**, meeting organised by the Nuclear Energy Agency.

17-21 **International Tax Evasion and Avoidance**, workshop organised by the Russia Programme of the Centre for Co-operation with Non-Members (CNNM), and the Directorate for Financial, Fiscal and Enterprise Affairs (DAF). Moscow, Russia.

18-19 **Corporate Governance in Romania**, meeting organised by the CCNM/DAF, USAID, the Romanian National Securities Commission and the Bucharest Stock Exchange. Bucharest, Romania.

20-21 **Shareholder Rights and Equitable Treatment**, Corporate Governance Roundtable. Bucharest, Romania.

24-25 **Harmful Tax Practices**, meeting organised under the auspices of the Global Forum on Taxation.

24-26 **The Challenges of Information and Communications Technologies in Education**, seminar in Spanish, organised by the Spanish and Mexican governments and CERI. Santander, Spain.

24-28 **VAT and Electronic Commerce**, workshop organised by the CCNM Programme for Transition Economies of Europe and Central Asia, and DAF. Ankara, Turkey.

25 **The Internet and Business Performance**, Business and Industry Policy Forum organised by STI. Mons, Belgium.

26 Parliamentary Assembly of the **Council of Europe**. Strasbourg, France.

27-28 **Practical Application of Tax Treaties and Transfer Pricing**, Global Forum organised by DAF.

29-30 **IMF/World Bank** annual meeting. Washington, D.C., US.

OCTOBER

8-9 **Winds of Change in Latin America's Higher Education: Fostering and Managing its Transformation**, seminar organised by IMHE in co-operation with the Universidad Nacional Autonoma de Mexico (UNAM). Mexico City, Mexico.

15 **Biotechnology and Sustainable Development: Voices of the South and the North**, international conference sponsored by the Egyptian government. Cairo, Egypt.

15-16 **Managing University/Industry: The Role of Knowledge Management**, organised by CERI. Tokyo, Japan.

16 **Aid Review of the United Kingdom** by the Development Assistance Committee (DAC).

17 **World Knowledge Forum** in Seoul, South Korea.

17-18 **Global Forum on Competition**, organised by DAF.

17-19 **Food and Agricultural Statistics in Europe**, meeting organised jointly by OECD Statistics Directorate, UN Economic Commission for Europe, Eurostat and the FAO. Geneva, Switzerland.

25 **Tourism and Air Transport** roundtable, organised by STI.

25-26 **Regulation of Private Pensions in China**, workshop organised by the China Programme of the CCNM and DAF. Beijing, China.

25-26 **International Development Co-operation in OECD Countries: Public Debate, Public Support and Public Opinion**, workshop organised by the Development Centre with the support of the Swedish International Development Agency and Ireland Aid. Dublin, Ireland.

NOVEMBER

5-7 **Measuring Up: Improving Health Systems Performance in OECD Countries**, international high-level conference hosted by the Canadian Government and organised by the Directorate for Education, Employment, Labour and Social Affairs (ELS). Ottawa, Canada.

5-9 **World Food Summit**, organised by FAO. Italy.

9-13 **World Trade Organisation** ministerial meeting. Doha, Qatar.

10,12,13 **Competitiveness and New Technologies in Latin America and the Caribbean**, International Forum on Latin American Perspectives, organised by the Development Centre in co-operation with the Inter-American Development Bank. Madrid, Spain on 10th and 12th. Paris on 13th.

20 **OECD Economic Outlook** no 70, publication of preliminary version.

20 **Aid Review of Germany**.

22-23 **Devolving Power to More Autonomous Public Bodies and Controlling Them: the Governance of Public Agencies and Authorities**, high-level conference organised by the Public Management Service (PUMA) and hosted by the Slovak Republic. Bratislava, Slovak Republic.

26-27 **Global Forum on International Investment in the 21st Century**, organised by the Mexican government and DAF, in Mexico.

28-30 **The Environmental Impacts of Living Modified Organisms**, international conference hosted by the US government and organised by the Environment Directorate (ENV)/biotechnology programme. Raleigh, NC, USA.

DECEMBER

3-4 **Institutional Responses to Changing Student Expectations: Europe and North America**, seminar organised by CERI/IMHE.

5-7 **Continuous Reporting System on Migration** (SOPEMI), annual meeting organised by ELS.

6-7 **Foreign Direct Investment - Mergers and Acquisitions in OECD Member Countries and China**, conference organised by the China Programme of CCNM, and DAF.

12 DAC High Level Meeting.

1000 years of globalisation

Hamish McRae, Associate Editor, *The Independent*, UK*

Empires rise and fall while the economic wheel keeps turning. The last millennium saw the west gain ascendancy – but our decline is inevitable.

Why do North America, western Europe and Japan dominate the world economy? The difference in wealth per head between those three regions and the rest of the world is seven to one. It was not always so: in 1820 it was only double, while 1,000 years ago wealth per head was much the same everywhere.

Those facts come from a study of the past millennium, *The World Economy*, by the economic historian Angus Maddison, published by the OECD early this summer. For anyone interested in the reasons why the world is now so diverse, this book contains some powerful insights. We naturally (and maybe a little arrogantly) accept a world dominated by our technology, but that does not explain how and why we developed those technologies, still less whether that lead will be sustained.

Go back 1000 years and Asia (excluding Japan) accounted for two-thirds of world GDP. Africa accounted for nearly 12%, much more than western Europe. We learn our history through European eyes. We can see physical evidence of that period in buildings like the Tower of London, designed to show the might of the victorious Normans. But in global economic terms the whole of western Europe was only just on the map. Even by 1500 Asia accounted for more than 60% of world output and Europe for less than 18%.

Then Europe's run picked up pace, so that by 1870 it was responsible for one-third of world output. During the past century the baton of economic power was taken over by the US, and by 1950 western Europe and the US (plus Canada, Australia and New Zealand) accounted for 57% of world output, while Asia was down to little more than 15%.

In the year 1000 Africa was very slightly richer than Europe. Today, the US is 20 times as rich as Africa; in 1820 it was only about three times as rich.

The east-west balance of economic power was almost a mirror image of the balance in 1000 or 1500. But look what has happened since then. In the past 50 years Asia has pulled up dramatically. Even excluding Japan, it is now a larger economic power than Europe or America. We have moved to a far more evenly balanced world.

There are, of course, many more people in Asia than in western Europe or North America, but even in terms of GDP per head the gap is narrowing. In 1000 the world was running close to subsistence, with an income of around $400-$450 a head measured in 1990 dollars. Africa and Asia actually were very slightly richer than Europe. The whole world had gone backwards for 1000 years, for the living standards of the Roman empire seem to have been about $450 a head – though I'm sure the spread of wealth was very uneven (not much fun being a galley slave).

Now people in western Europe, Japan and particularly the US are vastly richer than in other regions: on a per-head basis, the US is 20 times as rich as Africa; in 1820 it was only about three times as rich. In several African countries – including Chad, Tanzania and Sierra Leone – people have to make do with living standards that are on average little higher, maybe no higher, than those of the Roman Empire. Parts of Asia are narrowing the gap fast; but parts of Africa are still going backwards both in relative and absolute terms.

How can one begin to explain why first Europe and then Europeans living in North America and Australasia have outpaced everyone else? Angus Maddison's answer comes in three parts: conquest and settlement of relatively empty areas, international trade and capital movements, and technological and institutional innovation.

In the first category, the most dramatic example was the European conquest of the Americas, after which population, productivity and living standards rose sharply. The best example of the second was the development of trade and financial services in Europe, first by the Venetians and then by the Portuguese, Dutch and British. As for the third, after the Reformation, Europe became good at disseminating knowledge, developing a culture of learning that enabled technology first to move slowly forward and then, after about 1820, to race along.

Well, if that is the past, what happens next? Angus Maddison is an economic historian, not a futurist, so the paper does not go into that – though he does note that the pace of technical advance seems to be slowing, notwithstanding the Internet revolution. But I think there are some conclusions that are implicit in this analysis.

One is that economic success has deep cultural roots, in particular an open-mindedness to new ideas and a commercial and legal environment that fosters growth. Another is that no country or region has a monopoly of these qualities: Asia's growth over the last half-century shows how an underperforming region can quite suddenly start to narrow the gap.

A further conclusion is that if Africa is to reverse its relative decline – and all humankind must hope and pray for such a reversal – it has to make profound changes in culture, attitudes and organisation. Otherwise the sad experience of the last 1000 years is likely to be continued.

A final conclusion, surely, is that the present dominance of the world economy by the US, western Europe and Japan will gradually ebb. We are, in relative terms, already losing ground. That is not a catastrophe – such a shift is natural and inevitable. But we need to be sensitive and thoughtful about this shift in power: to use the power we do have sensitively and to be thoughtful about the interests of the (at present) less powerful parts of the world. For the times, they are a-changing. ■

* *Mr McRae's article originally appeared in the UK's* Independent on Sunday, *26 August 2001. See http://news.independent.co.uk/business/commentary/*

Reference

- Maddison, A., *The World Economy: A Millennial Perspective*, OECD, 2001. Order your copy by visiting http://www.theworldeconomy.org/

Was it all just an e-dream?

The New Economy: Beyond the Hype
The OECD Growth Project

In 2000 commentators everywhere were hailing the boom in some western economies as the dawn of a new economy. In 2001, with a slowdown biting in the US economy, dot.coms folding and information and communications technology firms feeling the pinch globally, the headline writers have swung the other way, saying that it was all a myth. Was it?

The New Economy: Beyond the Hype, looks past the elation and gloom to help policymakers think and act with the facts. It explores the causes of the discrepancy in economic performance in the OECD area. It shows that while technology has had a pervasive and profound effect on economies and societies, it alone was not the reason for fast growth. What counts more is how that technology is put to work.

Productivity is a key factor; if it shows an increase, then faster rates of non-inflationary economic expansion can be achieved. ICT seems to have facilitated productivity enhancing changes in both new and traditional industries, but only when accompanied by greater skills, and changes in the organisation of work. Importantly, growth is not the result of a single policy or institutional arrangements, but a comprehensive and co-ordinated set of actions to create the right conditions for future change and innovation.

The book argues forcefully that whatever the outlook for the business cycle, we are now faced with a new economic environment. It urges policymakers to adopt a comprehensive growth strategy combining five policy areas that can engage ICT, human capital, innovation and entrepreneurship in the growth process alongside policies to mobilise labour and increase investment for the long term. Naturally, good fundamentals – macroeconomic stability, openness and competition, as well as sound economic and social institutions, and proper social protection – are a prerequisite for success. ■

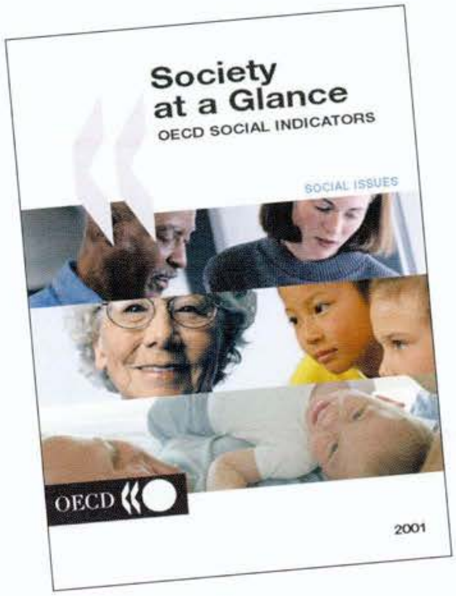
Social view

Society at a Glance
OECD Social Indicators 2001

A common complaint heard at this time of the year is about the state of our education. Yet, spending on schools grew as fast as GDP in most OECD countries from 1990 to 1997, to an average of 6.1% of GDP. Nevertheless, while more than 60% of the working age population have completed at least upper secondary education, less than 10% of adults in Italy, Portugal and Turkey have a university diploma. These are some of the facts to be gleaned from *Society at a Glance*, a new compilation of indicators on 45 issues of social concern, from literacy and employment to suicide and divorce. It looks at social developments in OECD countries and asks how policy can effectively address these trends.

More glimpses: Suicides have increased in OECD countries by more than 10% in the last 30 years. Divorce rates have tripled, from 14.3% in 1970 to an average of 41.2% in 1998. Drug use has also risen in most OECD countries, with some of the highest consumption of cannabis and amphetamines occurring in New Zealand, Australia, the United States and the United Kingdom.

Each indicator chosen for the book is backed up by explanation and analysis. This is useful, as it helps to understand national differences in social trends, as well as status indicators on areas like self-sufficiency, equity, health and social cohesion. It becomes clear, for instance, that addressing drug abuse means looking at related indicators, like potential years of life lost and suicide rates, as well as healthcare expenditure and crime aspects. The book runs into just over 100 pages, which shows that there is more to a glance than meets the eye. ■



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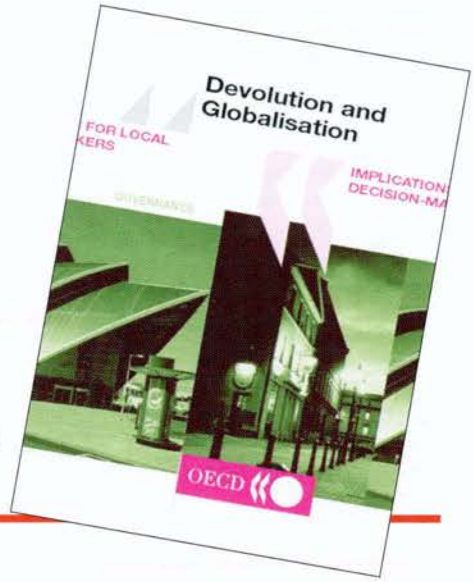

It's a *g*local world

Devolution and Globalisation
Implications for Local Decision-Makers

The creation of a new Scottish Parliament two years ago was more than just a case of constitutional reform. By devolving local decision-making powers to Scotland, the UK was responding to the need for innovative governance brought on by the forces of globalisation. *Devolution and Globalisation* addresses that need and takes it a step further, to show the challenges these seemingly contradictory trends have for regional and city governments.

In fact, national governments have been quietly shifting economic responsibilities and decision-making to local governments for the last 30 years, from electoral changes in Italy and post-unification *Länder* in Germany to American school system reform. By bringing decision-making closer to the people, national policies are both more effective and timely.

At the same time, globalisation means that cities and territories now have the potential to exploit larger markets and to tap into external sources of technology and finance. But they are also increasingly exposed to international competition and economic restructuring, facing new pressures on local labour market infrastructure and social cohesion.

The book urges local policymakers to focus on strengthening competitiveness by supporting entrepreneurship and developing human capital, and to keep an eye on increased social inequalities that can be generated by globalisation. ■

HNEW01A

New publications, June - September 2001

All publications available in paper and electronic book format. This is a selected list. For more titles, please consult www.oecd.org/bookshop

AGRICULTURE AND FOOD

Agricultural Policies in OECD Countries Monitoring and Evaluation, 2001 ❑

This annual publication provides data on the level and composition of support and protection to agriculture, and evaluates the extent to which countries are reforming their agricultural policies. Food safety issues were a high priority for many governments in 2000. Available on CD-ROM.

ISBN: 9264186859
July 2001, 276 pages, 77 tables, 27 charts
€64 FF419 US$59 DM125 £39 ¥6,450

Agricultural Policies in Emerging and Transition Economies Special focus on non-tariff measures ❑

The use of non-tariff measures (NTMs) on food and agricultural products has risen rapidly in recent years. This has coincided with tighter restrictions on the use of tariffs, prompting concerns that NTMs present an increasing barrier to international trade. Available on CD-ROM.

ISBN: 9264186867
September 2001, 216 pages, 38 tables, 88 charts
€45 FF295 US$40 DM88 £28 ¥4,550

Review of Fisheries in OECD Countries ❑

Statistics on fisheries and aquaculture in OECD countries for 1998 and 1999.

ISBN: 9264087389
August 2001, 302 pages
€60 FF394 US$54 DM117 £37 ¥6,050

DEVELOPMENT AND AID

The World Economy, A Millennial Perspective ❑

By Angus Maddison

See review.

ISBN: 9264186085
June 2001, 384 pages, 179 tables
€29 FF190 US$26 DM57 £19 ¥2,900

Don't Fix, Don't Float ❑

Should the monetary authority fix the exchange rate of the national currency? Should it instead let the currency float in foreign exchange markets? What about bands, baskets and crawls between the fix and the float corners? The case for intermediate regimes is made for five country groups in Africa, Asia and Latin America.

ISBN: 9264195335
August 2001, 88 pages
€20 FF131 US$19 DM39 £12 ¥1,900

Creditor Reporting System on Aid Activities in Asia ❑

ISBN: 9264091173
August 2001, 290 pages, 240 tables
€30 FF197 US$35 DM59 £19 ¥3,500

Creditor Reporting System on Aid Activities in Africa ❑

ISBN: 9264091165
August 2001, 300 pages
€30 FF197 US$35 DM59 £19 ¥3,500

ECONOMICS

The New Economy: Beyond the Hype The OECD Growth Project ❑

See review.

ISBN: 9264187294
August 2001, 64 pages, 42 charts
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Each survey: €32 FF210 US$34 DM63 £21 ¥4,000

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Special features: Fiscal reform, corporate sector competitiveness, financial markets

ISBN: 9264191410
August 2001, 284 pages, 63 tables, 82 charts

Czech Republic 2000/2001 ❑

Special features: fiscal policy, public expenditure, structural reform

ISBN: 9264191380
August 2001, 96 pages, 42 tables, 49 charts

Spain 2000/2001: ❑

Special feature: Pensions reform

ISBN: 9264191372
July 2001, 100 pages, 28 tables, 58 charts

Ireland 2000/2001: ❑

Special features: Enhancing environmentally sustainable growth, reform

ISBN: 9264191364
June 2001, 108 pages, 25 tables, 30 charts

EDUCATION

E-Learning: The Partnership Challenge ❑

Are the new information and communication technologies transforming education and learning in OECD countries? This publication explores the e-learning developments respectively in the school and in the higher education sector in terms of market prospects and partnership creation.

ISBN: 926418693X
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€20 FF131 US$19 DM39 £12 ¥1,900

Teachers for Tomorrow's Schools ❑

Increasingly, teachers play a central role in efforts to improve the functioning of education systems and raise learning outcomes. But do government policies consistently reflect this? This volume is the second in a series analysing the education indicators developed through the OECD/UNESCO World Education Indicators programme.

ISBN: 9264186999
June 2001, 228 pages
€22 FF144 US$20 DM43 £14 ¥2,200

Starting Strong: Early Childhood Education and Care ❑

What are the most promising strategies for organising policy in ways which promote child and family well-being? This book provides a comparative analysis of major policy developments and issues in 12 OECD countries, highlights innovative approaches, and proposes policy options.

ISBN: 9264186751
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ENERGY

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This book lays out the problem posed by growing standby power consumption, explores the technologies available to reduce it, and outlines how increased collaboration among industry, governments and international organisations can help.

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Energy Policies: New Zealand ❑

ISBN: 9264186441
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€86 FF564 US$75 DM168 £52 ¥8,200

Energy Policies: Australia ❑

ISBN: 9264187332
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€84 FF551 US$75 DM164 £52 ¥8,450

Energy Statistics of OECD Countries, 1998/1999 ❑

Data on energy supply and consumption in original units for coal, oil, gas, electricity, heat, combustible renewables and waste.

ISBN: 9264087230
July 2001, 440 pages
€123 FF807 US$110 DM241 £76 ¥12,400

Nuclear Energy Data 2001 ❑

The OECD Nuclear Energy Agency's annual compilation of statistics on electricity generation and nuclear power in OECD countries.

ISBN: 9264087079
May 2001, 48 pages, 21 tables
€20 FF131 US$19 DM39 £12 ¥1,900

ENVIRONMENT

OECD Environmental Indicators: Towards Sustainable Development 2001 ❑

Key environmental indicators organised by issues such as climate change, air pollution, biodiversity, waste or water resources.

ISBN: 9264187189
September 2001 167 pages, 33 tables, 53 charts
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Environmental Goods and Services The Benefits of Further Global Trade Liberalisation ❑

To what extent are there trade impediments to the transfer and adoption of environmental goods and services? How can these be addressed by global trade negotiations? What is the role of complementary measures in order to ensure «win-win» benefits — that is promoting both environmental protection and economic growth?

ISBN: 9264187278
July 2001, 116 pages
€37 FF243 US$33 DM73 £23 ¥3,700

Water Management and Investment in the New Independent States ❑

This book analyses the causes underlying the deteriorating condition of water infrastructure in the countries of the ex-Soviet Union, and presents recommendations for addressing it.

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ISBN: 9264186735
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Special focus: The Contribution of the Financial Sector to Sustainable Development
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Innovation and Productivity in Services ❑
Services are the driving force in OECD economies, accounting for at least 70% of GNP in many countries. However, their potential contribution is hampered by government policies that were designed for manufacturing industries. This report shows that policies can be adapted to stimulate innovation and boost productivity in service sectors, with economy-wide benefits for employment and growth.
ISBN: 9264186093
August 2001, 160 pages
€35 FF230 US$31 DM69 £22 ¥3,500

New Patterns of Industrial Globalisation ❑
Cross-border Mergers and Acquisitions and Strategic Alliances
See Databank.
ISBN: 9264186778
August 2001, 200 pages, 115 charts
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OECD Science, Technology and Industry Scoreboard 2001 ❑
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July 2001, 150 pages
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This report reviews and compares vehicle emissions standards and examines incentives for sulphur-free fuels - which can contribute to reducing both conventional air emissions and carbon dioxide. It assesses the adequacy of emissions limits for new passenger cars and heavy duty diesel engines.
ISBN: 9282113639
August 2001, 128 pages
€33 FF217 US$30 DM65 £20 ¥3,300

HNEW01A

Nuts and bolts of pollution trading

The US withdrawal from the 1997 Kyoto Protocol on climate change may have been a political blow, but economically, it might make it easier for the 178 nations that stuck with the agreement in Bonn to achieve their individual emission-reduction targets. The reason is the market for trading pollution permits, enabling countries to buy and sell pollution rights, as long as they keep within their total emissions targets. According to a recent report by the International Energy Agency, the US, as the source of about 25% of world emissions, would have been a major buyer of emissions credits on the world market. With the US in, the IEA puts the price of a ton of carbon at about $100.

With the Americans absent, the price could fall to about $10 or less. The absence of the United States may greatly reduce the environmental reach of the agreement struck in Bonn, but the emergence of emissions trading in itself is a major step forward, the IEA report says. The report translates into layman's terms the highly technical language of the agreement reached in Bonn in July, from how emissions trading will work to claiming credits for "sinks" — land-use and forestry activities that absorb carbon dioxide from the atmosphere and which can be counted as credits. Bonn also laid down some ground rules on what happens when a country fails to meet its greenhouse gas reduction targets – it must "repay" them with a 30% extra penalty over the following target period, say, 2013 to 2017. ■

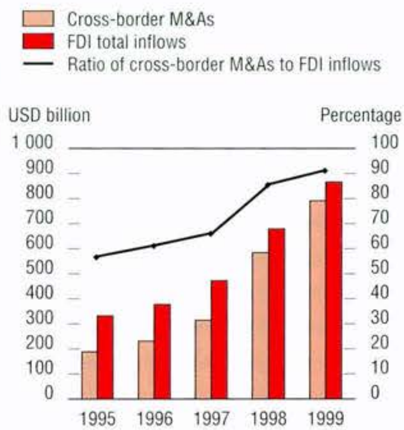
What Happened in Bonn? The Nuts and Bolts of an Historic Agreement, available on the IEA website: http://www.iea.org/about/bonn.pdf. A print copy is available from IEA on request.

Merging markets

Business mergers have gone global in recent years, and by 1999 cross-border mergers and acquisitions (M&As) had become the largest component of foreign direct investment flows worldwide. Cross-border M&As were valued at 92% of total FDI in 1999, compared with less than 60% in 1995. Such mergers grew rapidly in the 1990s, from US$153 billion in 1990 to almost US$1 trillion in 2000, and played an important role in the globalisation and restructuring of industry, with an increasing tendency towards very large-scale deals. One reason for the rise in cross-border M&A activity is that firms are buying and selling assets and operations in other countries, rather than investing in building new plants in these markets. The advantage of buying in rather than building is that it allows firms quick entry into a market by establishing an immediate critical mass of production facilities and intangible assets in a particular industry. A number of factors have helped drive this acceleration in global activity, including liberalisation of trade and capital movement, rapid technological change and advance in information technology. Privatisation and regulatory reform in service and utility sectors such as finance, telecommunications and electricity have also played an important role. ■

Global business

Cross-border M&As and FDI inflows

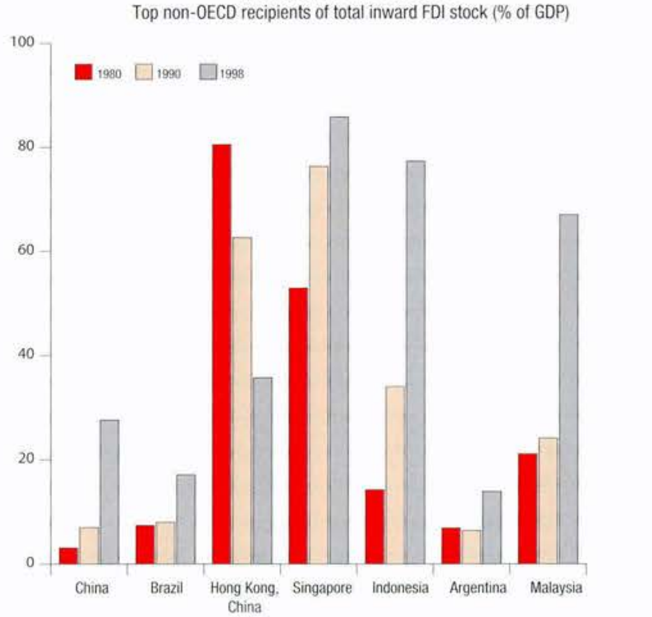


Source: Thomson Financial and UNCTAD, 2000

New Patterns of Industrial Globalisation: Cross-border Mergers and Acquisitions and Strategic Alliances, OECD, 2001.

Investment flows

Top non-OECD recipients of total inward FDI stock (% of GDP)



Note: For certain Asian countries, the large increase in FDI to GDP ratio from 1995 to 1998 is caused by the effects of the Asian crisis, which caused GDP to decline.

Source: UNCTAD, 2000

Investing in development

Foreign direct investment (FDI) in developing countries has risen sharply in recent years, becoming the most important source of external financing for some of them. In China, the top non-OECD recipient in value terms, FDI was equal to 27.6% of GDP in 1998, compared with 3.1% in 1980, and employees of foreign firms numbered 18.4 million people, 2.6% of the total workforce. FDI plays an even more important role in other leading non-OECD recipients, with Indonesia showing an FDI to GDP ratio of 77.3% in 1998, up from 14.2% in 1980, while in Argentina the ratio doubled during the period from 6.9% to 13.9%. But perhaps the most striking increase came in Vietnam, with FDI at 0.2% of GDP in 1980 and 54.5% in 1998 when it was ranked 19th among non-OECD FDI recipients. By contrast, the world average FDI to GDP ratio is around 14%, with the EU at 17.3% and the US level at 9.5%. ■

World Investment Report, UNCTAD, 2000.

			% change from:				level:	
			previous period	previous year			current period	same period last year
Australia	Gross domestic product	Q1 01	1.1	2.1	Current balance	Q2 01	-1.79	-4.44
	Leading indicator	June 01	1.1	2.2	Unemployment rate	July 01	6.9	6.1
	Consumer price index	Q2 01	0.8	6.0	Interest rate	July 01	5.04	6.20
Austria	Gross domestic product	Q1 01	0.5	2.3	Current balance	June 01	-0.20	-0.22
	Leading indicator	July 01	-0.5	-3.0	Unemployment rate	July 01	3.8	3.6
	Consumer price index	July 01	0.0	2.6	Interest rate*		. .	. .
Belgium	Gross domestic product	Q1 01	0.5	2.5	Current balance	Q1 01	3.29	3.84
	Leading indicator	July 01	0.2	-6.4	Unemployment rate	July 01	6.8	6.9
	Consumer price index	Aug. 01	0.0	2.7	Interest rate*		. .	. .
Canada	Gross domestic product	Q2 01	0.0	2.1	Current balance	Q2 01	5.58	3.35
	Leading indicator	July 01	-0.8	-6.4	Unemployment rate	July 01	7.0	6.8
	Consumer price index	July 01	-0.3	2.6	Interest rate	Aug. 01	4.06	5.87
Czech Rep.	Gross domestic product	Q1 01	. .	3.8	Current balance	Q2 01	-0.55	-0.36
	Leading indicator		. .	. .	Unemployment rate	Q1 01	8.2	9.2
	Consumer price index	July 01	1.0	5.9	Interest rate	Aug. 01	5.57	5.34
Denmark	Gross domestic product	Q1 01	-1.2	1.1	Current balance	June 01	0.53	0.43
	Leading indicator	July 01	0.6	-2.7	Unemployment rate	June 01	4.6	4.7
	Consumer price index	July 01	-0.3	2.4	Interest rate	Aug. 01	4.57	5.65
Finland	Gross domestic product	Q1 01	-0.2	3.3	Current balance	June 01	0.82	0.35
	Leading indicator	Apr. 01	-1.4	-17.0	Unemployment rate	July 01	9.0	9.6
	Consumer price index	July 01	-0.5	2.5	Interest rate*		. .	. .
France	Gross domestic product	Q1 01	0.5	2.9	Current balance	June 01	2.97	3.32
	Leading indicator	July 01	-1.0	-6.2	Unemployment rate	July 01	8.5	9.4
	Consumer price index	July 01	-0.2	2.1	Interest rate*		. .	. .
Germany	Gross domestic product	Q2 01	0.0	0.6	Current balance	June 01	-3.78	0.66
	Leading indicator	July 01	-0.2	-5.5	Unemployment rate	July 01	7.9	7.9
	Consumer price index	Aug. 01	-0.2	2.6	Interest rate*		. .	. .
Greece	Gross domestic product	1999	. .	3.4	Current balance	Jan. 01	-0.96	-1.31
	Leading indicator	May 01	0.4	1.2	Unemployment rate		. .	. .
	Consumer price index	July 01	-1.8	3.9	Interest rate*		. .	. .
Hungary	Gross domestic product	1999	. .	4.2	Current balance	June 01	-0.29	-0.41
	Leading indicator		. .	. .	Unemployment rate	Q1 01	5.8	6.5
	Consumer price index	July 01	0.0	9.3	Interest rate	July 01	10.74	10.60
Iceland	Gross domestic product	1999	. .	4.3	Current balance	Q1 01	-0.18	-0.17
	Leading indicator		. .	. .	Unemployment rate	July 01	1.2	1.3
	Consumer price index	Aug. 01	0.3	7.9	Interest rate	July 01	10.95	11.40
Ireland	Gross domestic product	2000	. .	11.5	Current balance	Q1 01	-0.78	-0.07
	Leading indicator	July 01	-2.5	-11.1	Unemployment rate	July 01	3.8	4.1
	Consumer price index	July 01	-0.3	4.8	Interest rate*		. .	. .
Italy	Gross domestic product	Q1 01	0.8	2.4	Current balance	May 01	-0.58	-1.03
	Leading indicator	June 01	0.3	-1.7	Unemployment rate	April 01	9.5	10.7
	Consumer price index	Aug. 01	0.0	2.8	Interest rate*		. .	. .
Japan	Gross domestic product	Q1 01	0.1	0.2	Current balance	June 01	6.31	12.18
	Leading indicator	June 01	-0.4	-1.4	Unemployment rate	July 01	5.0	4.7
	Consumer price index	June 01	-0.3	-0.5	Interest rate	Aug. 01	0.05	0.27
Korea	Gross domestic product	Q2 01	0.5	2.7	Current balance	July 01	0.51	1.04
	Leading indicator		. .	. .	Unemployment rate	June 01	3.6	3.9
	Consumer price index	Aug. 01	0.5	4.7	Interest rate	July 01	5.30	7.20

			% change from:				level:	
			previous period	previous year			current period	same period last year
Luxembourg	Gross domestic product	2000	. .	8.5	Current balance		. .	. .
	Leading indicator	July 01	0.0	-8.1	Unemployment rate	July 01	2.4	2.4
	Consumer price index	July 01	-1.0	3.0	Interest rate*		. .	. .
Mexico	Gross domestic product	Q2 01	0.1	0.0	Current balance	Q2 01	-3.37	-3.56
	Leading indicator	July 01	1.8	2.6	Unemployment rate	July 01	2.5	2.1
	Consumer price index	July 01	-0.3	5.9	Interest rate	Aug. 01	8.54	15.71
Netherlands	Gross domestic product	Q2 01	0.4	1.5	Current balance	Q1 01	4.84	4.99
	Leading indicator	July 01	0.7	-1.9	Unemployment rate	June 01	2.3	2.9
	Consumer price index	July 01	0.2	4.6	Interest rate*		. .	. .
New Zealand	Gross domestic product	Q1 01	0.2	0.4	Current balance	Q1 01	0.04	-0.35
	Leading indicator		. .	. .	Unemployment rate	Q2 01	5.2	6.1
	Consumer price index	Q2 01	0.9	3.2	Interest rate	Aug. 01	5.83	6.74
Norway	Gross domestic product	Q1 01	0.2	0.3	Current balance	Q2 01	5.85	4.59
	Leading indicator	June 01	-0.5	-1.1	Unemployment rate	Q2 01	3.4	3.2
	Consumer price index	July 01	-1.4	2.7	Interest rate	July 01	7.37	6.91
Poland	Gross domestic product	2000	. .	4.0	Current balance	April. 01	-0.52	-0.85
	Leading indicator		. .	. .	Unemployment rate	July 01	16.1	14.1
	Consumer price index	July 01	-0.3	5.1	Interest rate	July 01	14.77	16.35
Portugal	Gross domestic product	Q1 01	-0.1	2.2	Current balance	Q2 01	-2.54	-3.15
	Leading indicator	July 01	-1.3	-1.5	Unemployment rate	July 01	4.3	4.1
	Consumer price index	July 01	0.1	4.3	Interest rate*		. .	. .
Slovak Republic	Gross domestic product	Q1 01	..	3.0	Current balance	May 01	-0.21	-0.10
	Leading indicator		..	..	Unemployment rate	Q1 01	19.3	18.9
	Consumer price index	July 01	0.1	8.1	Interest rate	July 01	8.80	10.80
Spain	Gross domestic product	Q1 01	1.0	3.3	Current balance	May 01	-0.58	-1.27
	Leading indicator	July 01	-0.6	0.4	Unemployment rate	July 01	13.0	14.0
	Consumer price index	July 01	0.2	3.9	Interest rate*		. .	. .
Sweden	Gross domestic product	Q1 01	0.7	2.2	Current balance	June 01	0.80	0.80
	Leading indicator	June 01	-0.7	-4.2	Unemployment rate	July 01	4.8	5.8
	Consumer price index	July 01	-0.5	2.7	Interest rate	Aug. 01	4.28	4.00
Switzerland	Gross domestic product	Q1 01	0.5	2.2	Current balance	Q1 01	5.94	8.63
	Leading indicator	July 01	-0.3	-0.8	Unemployment rate	July 01	1.8	2.0
	Consumer price index	Aug. 01	-0.6	1.1	Interest rate	Aug. 01	3.10	3.38
Turkey	Gross domestic product	Q1 01	. .	-1.9	Current balance	Q2 01	1.07	-3.27
	Leading indicator		. .	. .	Unemployment rate	Q1 01	8.6	8.3
	Consumer price index	Aug. 01	2.9	57.5	Interest rate	Aug. 01	62.54	42.58
United Kingdom	Gross domestic product	Q2 01	0.3	2.1	Current balance	Q1 01	-0.26	-5.57
	Leading indicator	July 01	0.2	0.4	Unemployment rate	May 01	5.1	5.6
	Consumer price index	July 01	-0.6	1.6	Interest rate	July 01	5.19	6.11
United States	Gross domestic product	Q2 01	0.0	1.2	Current balance	Q1 01	-109.56	-104.90
	Leading indicator	July 01	-0.3	-5.0	Unemployment rate	July 01	4.5	4.0
	Consumer price index	July 01	-0.3	2.7	Interest rate	Aug. 01	3.48	6.61
Euro zone	Gross domestic product	Q1 01	0.5	2.5	Current balance	June 01	-0.68	-0.57
	Leading indicator	July 01	-0.5	-4.3	Unemployment rate	July 01	8.3	8.9
	Consumer price index	July 01	-0.2	2.8	Interest rate	Aug. 01	4.35	4.78

Definitions and notes

Gross domestic product: Volume series, seasonally adjusted except for Czech Republic, Slovak Republic and Turkey; ***Leading indicator:*** A composite indicator, based on other indicators of economic activity (employment, sales, income, 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; not seasonally adjusted except for Australia, the United Kingdom and the United States; ***Unemployment rate:*** % of civilian labour force – standardised unemployment rate; national definitions for Iceland, Korea, Mexico, Poland, Switzerland and Turkey; seasonally adjusted apart from Slovak Republic and Turkey; ***Interest rate:*** Three months, except for Turkey (overnight interbank rate); . . not available; *Refer to Euro zone.

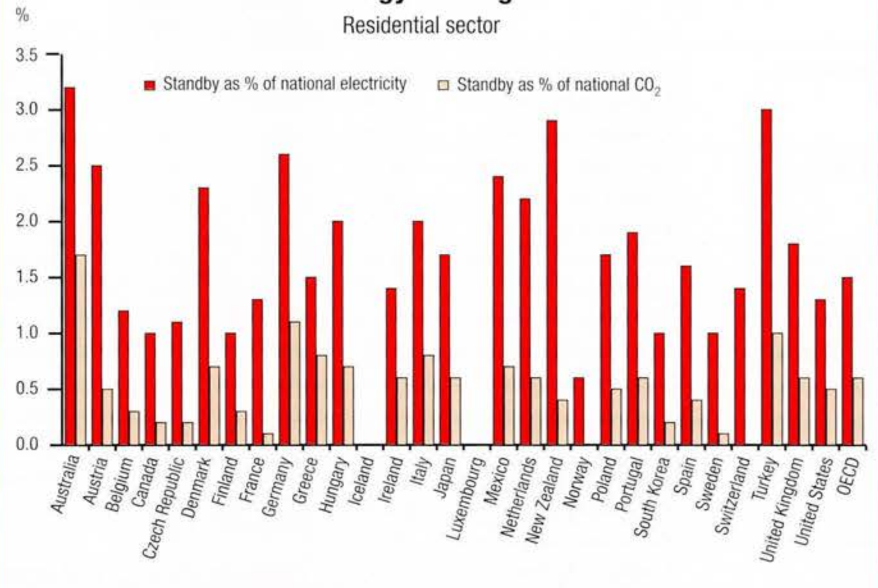
Source: ***Main Economic Indicators***, OECD Publications, Paris, September 2001; Quarterly National Accounts database.

Power blips

Did you know your household appliances were consuming electricity even when you had turned them off? Digital displays, remote control capability and other common features that function even when the television, microwave oven, radio or video recorder are turned off now account for around 10% of household electricity use in OECD countries – or the equivalent of a 60-watt light bulb operating continuously in every household. Overall, such invisible consumption accounts for an estimated 1.5% of total OECD electricity use and is responsible for an estimated 0.6% of carbon dioxide emissions in OECD countries, according to a new book from the IEA, *Things That Go Blip in the Night: Standby Power and How to Limit It*. While many OECD countries have launched programmes to reduce standby power consumption in the most used appliances, such as televisions and personal computers, these programmes need to be extended to cover other products, where the amount of energy used in standby mode is often unnecessarily high. Greater use of existing power management technology could reduce total standby energy consumption in some appliances by as much as 75%, the book says. ■

Energy drainage

Residential sector

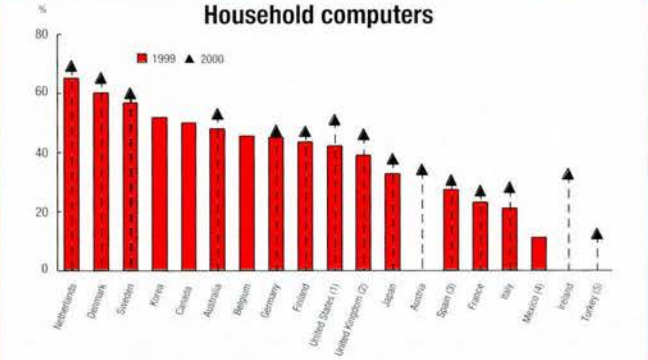


Source: IEA, 2001

Net connections

More than half the households in many OECD countries now have a home computer, but there is still a large gap between countries such as the Netherlands at 69% or Denmark (68%) and France (27%) or Turkey (12% of urban households) at the other end of the scale. And while many households use their computers to access the Internet, this is by no means always the case. In Germany, only 34% of households with a computer have Internet access while in Sweden less than 50% of households have Internet access but 68% of individuals are using the Internet – which means they are going online via their mobile phones, or at work. But in the United States there is little difference between the level of households with access and the number of individuals using the Internet, reflecting a tendency to spend time online at home. ■

Household computers



1. 1998. 2. Q4 2000. 3. Provisional. 4. Urban areas over 15,000 population. 5. Urban areas.
Source: DSTI, 2001

Science, Technology and Industry Scoreboard: Towards a Knowledge-based Economy, 2001 Edition, OECD, September 2001.

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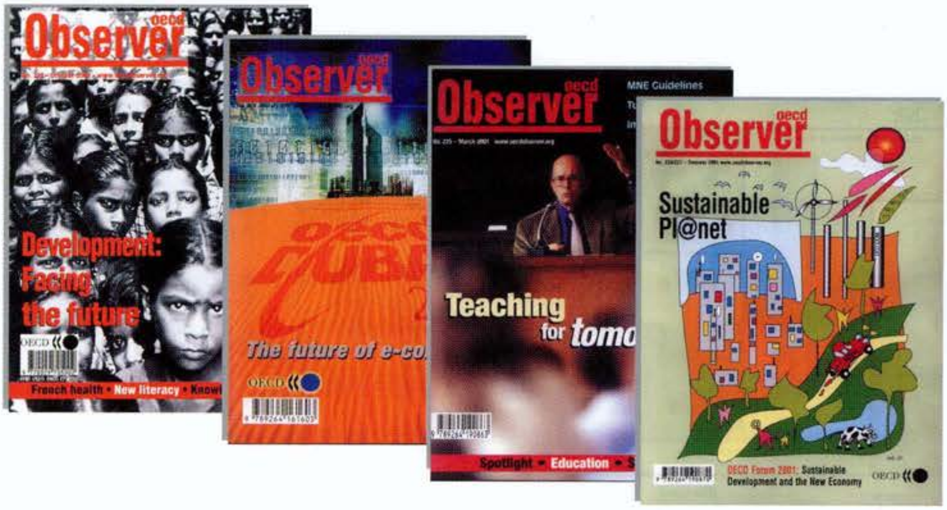

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