

For the Record

Ministerial Communiqué

The OECD Council at ministerial level met on 26–27 May 1997, under the chairmanship of Jean Arthuis, Minister of Economy and Finance, France, assisted by the vice-chairs from Mexico and the Czech Republic, to discuss the issues of sustainable growth and social cohesion, multilateral trade and investment liberalisation, and the role and evolution of the OECD in a globalising world economy.

Ministers welcomed the accession of Poland and the Republic of Korea to the OECD, and their contribution to the work of the Organisation.

Ministers underlined their conviction that globalisation offers a real opportunity to improve living standards in their own countries and to allow all countries to participate in sustainable world development. Taking advantage of this opportunity, the rapid advance of technology, and the growth of a knowledge-based society, requires individuals, businesses, governments and whole societies to adjust and innovate. The challenge for governments is to pursue policies whereby the benefits of globalisation are fully realised and widely shared by all groups of society.

Much is at stake. There is an historic coincidence of interests for OECD and non-OECD countries in today's globalising world economy. Reflecting this, the OECD's linkages study, *Towards a New Global Age*, outlines a vision for the year 2020 which promises a large increase in prosperity and welfare across the world, and the progressive integration of developing and transition countries into the global economy. But realising it requires governments to seize the opportunities and continue to move forward with trade and investment liberalisation, macro-economic discipline, comprehensive product and factor market reforms, strengthening of financial systems, and implementation of effective environmental policies. They also must respond to, and anticipate the needs and opportunities of, the emerging knowledge-based societies, which are driven by new information and communication technologies. Ministers are determined to implement this ambitious agenda.

Ministers called on the Organisation to use its unique strength to analyse important national and international

problems in a multidisciplinary and forward-looking way. The OECD plays an invaluable role in charting the path for how countries – OECD and non-OECD alike – can best take advantage of the opportunities and meet the challenges of globalisation. Ministers noted the important analytical work which has been carried out. They welcomed the successes in implementing OECD decisions, recommendations and agreements, but also recognised that much remains to be done. In this context, they drew the following conclusions.

Promoting Sustainable Growth and Social Cohesion

Ministers agreed that macro-economic policies focused on sound public finances and effective control of inflation, combined with enhanced structural reforms, are essential to achieving improved and sustainable growth and employment outcomes. Both are a necessary component in the fight to eliminate persistent and unacceptably high unemployment that exists in most OECD countries. They agreed on the need for regulatory reform, for the elimination of structural rigidities in product and factor markets and for policies to improve the innovative capacity and competitiveness of enterprises, so that economic activity can flourish more robustly. They also agreed that attention needs to be given to improving the prospects for the most vulnerable in society.

Macro-economic Policy

Ministers noted that economic growth in 1997–98 is projected to average 2½–3% in the OECD area. Growth

will be more balanced, and inflation will remain low almost everywhere, but substantial output gaps and high levels of unemployment will remain in some countries. Ministers confirmed their commitment to pursue policies to achieve strong sustainable non-inflationary growth. They recognised that transforming this growth momentum into rising employment will require some differences in the short-run orientation of macro-economic policies to reflect countries' varying cyclical positions while respecting the medium-term objectives of fiscal consolidation. They also noted that the pursuit of sound monetary and fiscal policies, combined with continued co-operation on exchange rates, sound financial systems and structural reforms, can contribute to smoothly functioning international financial markets. Ministers welcomed the efforts of the European Union countries to achieve a successful introduction of the Euro and a well-functioning EMU with a scheduled date of entry into force of 1 January 1999, underpinned by sound macro-economic and structural policies, that would contribute to the stability of the international monetary system.

Ministers agreed that fiscal consolidation will continue to be a priority in most OECD countries to create the conditions for sustained growth. Many OECD countries have budget deficits or debt levels which are still too high, and population aging threatens to push up public spending further. Given high tax burdens, the main effort in cutting deficits will have to fall on expenditures. In addition to the need for rationalisation, Ministers agreed that improving the quality of expenditure requires increased focus on programmes that contribute to economic growth through enhancing human capital and innovation. Continuing reform of public-sector management to increase policy effectiveness and expenditure efficiency will also assist in controlling budgets.

Employment and Implementing the OECD's Jobs Strategy

Eliminating high and persistent unemployment is the major economic policy challenge for most OECD countries. The Jobs Strategy review concluded that for the OECD area as a whole, unemployment has fallen only slightly from its peak in 1994 and that structural unemployment has risen. In a number of countries, it is at unacceptably high levels. Ministers agreed that the bulk of this unemployment remains structural in nature, although there is also cyclical unemployment in some countries.

Ministers noted a major finding of the country review process, that those countries that had moved ahead with the comprehensive implementation of the macro-economic and structural policies recommended in the

Jobs Strategy, including labour- and product-market reforms, had experienced significant improvements in their employment situation. While it is recognised that these policies take time to bear fruit, in other countries reforms were insufficient to bring a fall in structural unemployment in the 1990s. Ministers also acknowledged that the structural changes often required may involve difficult adjustments for some firms, regions, sectors and segments of the work-force. But they agreed that hindrances to competition and technological progress or other sources of structural change would constrain growth and thus run counter to the interests of member countries. At the same time, ministers recognised that the gap between the 'haves' and 'have nots' within some OECD countries may have widened, the latter more often than not being less skilled. Whilst the key pre-occupation is to boost employment, there are also some concerns about widening income inequalities or unequal access to opportunities and there is a need to prevent people from drifting into long-term unemployment and social exclusion.

Ministers agreed that a key element in dealing with the problems of marginalisation is putting in place policies which improve access to work, encourage greater employment and raise future earning prospects. The recommendations in the Jobs Strategy represent an effective approach to doing this that can be implemented in different ways. Reforms in tax and benefit systems can improve incentives to find and stay in employment and avoid excessive hiring costs. Workers can be re-integrated into employment by effective active labour-market policies. At the same time, those job-protection measures and restrictions on working time that are excessive and thereby hinder job creation should be eliminated. Ministers stressed the key role that small and medium-sized enterprises play in job creation, as well as the importance of adopting 'best policy practices' for innovation and technology diffusion, for improving people's knowledge base and skills and for ensuring that active participation in society is maintained for at-risk groups. They look forward to reports in these areas, including the work on entrepreneurship and indicators of human capital investment, at their next meeting. Ministers also agreed on the urgent need to implement effective strategies for lifelong learning for all, to strengthen the capacity of individuals to adapt and acquire new skills and competences.

The country-review process has indicated that policies should be implemented consistently over time and need to be tailored to the specific circumstances of each country. While ministers were greatly encouraged by the success of certain countries' experiences in implementing the Jobs Strategy, they agreed that greater reform efforts are necessary in most countries. They called for further action in tackling unemployment and asked the OECD to continue to review progress with the im-

plementation of the Jobs Strategy recommendations. They asked for an update at their next meeting and for a further full review in 1999.

Aging Populations

Ministers discussed the emerging policy challenge of aging populations. For several decades, but especially after 2010, there will be large increases in the proportion of people in older age groups in OECD countries. Furthermore, many people are leading longer lives without disability. Living standards will be put under pressure unless productivity growth picks up significantly during this period and existing trends towards early retirement are changed. Ministers recognised the need to achieve more flexibility in the balance between learning, work, leisure and care over the course of a life span through a shift in policies and attitudes. They voiced support for the concept of 'active aging' which addresses the question of participation in socially useful activities, including participation in the labour force. Changes in pension and health care systems, already under way in some OECD countries, may be required to arrest their escalating costs and ensure their viability. Interaction between labour-force participation, pensions and saving policies should be further analysed. The ministers looked forward to a report on aging populations in 1998. They also stressed the importance of sharing national experiences in the social policy area as proposed in the 'Initiative for a Caring World' and encouraged the OECD's activities in this regard.

Regulatory Reform

Ministers agreed that the attack on structural rigidities in their economies should encompass comprehensive regulatory reform, including higher-quality regulation and deregulation where existing regulation is excessive. Regulatory reform aims at improving economic efficiency and the ability of economies to adapt to change and to become more productive. By enhancing competition, it can create new businesses and jobs, speed the diffusion of new technologies and business methods, enhance trade and investment opportunities, and reduce the scope for trade frictions. Reform can also provide more cost-effective means of attaining important social and environmental goals. Ministers took note of the OECD work which suggests that some countries can expect to see significant increases in real GDP levels from comprehensive reform.

Ministers welcomed the Report on Regulatory Reform and endorsed its principles. They agreed to work to implement its recommendations, which focus on how governments can improve their regulations and regulatory processes. They noted the intention to undertake further work in sectoral and policy areas and requested the OECD to conduct reviews of regulatory-reform efforts in member countries beginning in 1998, based in

part on self-assessment, with the goal of contributing to the steady improvement of regulatory practices in member countries. They asked for an update on the project at their 1998 meeting.

Corporate Governance

Corporate governance – the rules and practices through which investors, employees, management and other enterprise stakeholders operate – has important impacts on corporate behaviour and hence a country's overall economic performance. Ministers called on the OECD to continue to study the complex links between policy frameworks, corporate governance practices and economic outcomes and to report on the conclusions as soon as possible.

The Information Society and Electronic Commerce

Information and communication technologies are fundamental driving forces in globalisation. The information society promises economic and social benefits for all our citizens, companies and governments. Ministers endorsed the recommendations of the Global Information Infrastructure/Global Information Society report. They welcomed the OECD cryptography policy guidelines as an important contribution to international co-operation in this area and called on the OECD to review developments and to launch dialogue with non-members as soon as possible. The stakes and challenges ahead are enormous. Ministers noted the great potential of electronic commerce. They asked the OECD to examine carefully its implications for areas such as taxation, commercial transactions, consumer protection, privacy and security, so that these issues can be addressed within a coherent policy framework; Ministers further asked for an update report in 1998.

Bearing in mind the great potential of the Internet, Ministers looked forward to the results of the study being undertaken in the OECD to compare national legislation and policies concerning the Internet, recognising the important advisory role of the private sector, and to identify areas in which international co-operation may be needed. Ministers also strongly condemned the dissemination on the Internet of child pornography and information that promotes child abuse. They urged that this abhorrent and unacceptable misuse of the Internet be addressed immediately, including in the appropriate international organisations.

Pursuing Trade and Investment Liberalisation

Ministers affirmed the central role which international trade and investment play in creating employment, improving economic efficiency, and raising standards of living in all nations. They are therefore committed to

work for a strong, rules-based, open and effective multilateral system of trade and investment, capable of responding to the challenges of globalisation and enhancing sustainable development. Actions on a broad front are needed to achieve further liberalisation of measures directly affecting such flows and the reform of domestic policies which can also act as important barriers to market access and presence.

Support for the Multilateral Trading System

Ministers welcomed the outcome of the WTO Singapore Ministerial Conference which advanced and broadened the trade agenda, thereby giving strong impetus to further liberalisation, including through the subsequent success in achieving the information technology agreement and the agreement on basic telecommunications services.

Ministers reaffirmed the important role of the OECD in support of the WTO and the multilateral trading system. They attach utmost importance to maintaining the momentum of trade liberalisation in 1997 and beyond. Ministers continue to place high priority to the full and effective implementation of the Uruguay Round Agreements. Accordingly, they are determined to pursue vigorously the built-in agenda agreed at the end of the Uruguay Round, together with the WTO work programme as agreed at Singapore which includes the new and important work on investment, competition, trade facilitation and transparency in government procurement. They encouraged the WTO to continue its work on the issue of trade and the environment. Ministers noted the contributions that the OECD Committees, within their existing work programmes, might make to the process of information exchange and analysis now underway in the various WTO Committees, while avoiding unwanted duplication with work in other fora. In this context ministers also noted that it has been ten years since the pioneering 1987 OECD Ministerial Principles for Agricultural Policy Reform were agreed, and noted the ongoing process of implementation in member countries.

Ministers pledged to work towards successful conclusion of the current WTO negotiations on financial services with a high level of liberalisation on a full MFN basis by December 1997. They agreed to explore further market-opening initiatives. They also agreed to refrain from actions that would undermine progressive liberalisation; to continue their efforts to ensure that public opinion fully understands the benefits of open, two-way trade, globalisation and further liberalisation; and to resolve disagreements co-operatively and in consistency with the WTO's Dispute Settlement Understanding.

They reaffirmed their commitment to observe internationally recognised core labour standards as well as to reject the use of labour standards for protectionist

purposes, as agreed in the Singapore Ministerial Declaration. They agreed that building on OECD work in this area is important to better understand the subject.

Ministers agreed to work to ensure that regional trade agreements are complementary to and consistent with the rules of the WTO system and to integrate developing and transition economies fully into the multilateral trading system, paying particular attention to the least-developed countries. They also support the early accession on commercially viable terms of applicants to the WTO, while preserving the integrity of WTO rules.

They looked forward also to new and deepened analytical work on the benefits of further trade liberalisation and the interaction between trade policy and other policies.

Ministers urged the early ratification of the OECD Shipbuilding Agreement by all participants to establish normal competitive conditions within the international shipbuilding market and to encourage other countries to become parties to the Agreement.

Export Credits

Ministers welcomed the success of negotiations on guidelines for premia setting in officially supported export credits. Efforts will continue to strengthen disciplines in this area. Ministers encouraged Participants to conclude negotiations on export credits for agricultural products as soon as possible and to make a report to their next meeting in 1998.

Harmful Tax Competition

Liberalisation and the advent of global information and communications technologies have exposed tax systems to competitive forces and have increased the risk of competitive bidding between countries for geographically mobile activities. Such behaviour may lead to harmful tax competition which can erode the tax base and distort trade and investment flows. In response to the 1996 Ministerial mandate, the OECD is actively addressing this issue to establish a common approach to this problem. A report will be presented to Ministers in 1998.

Combating Bribery in International Business Transactions

Bribery in international business is another key issue in an increasingly interdependent world economy. Bribery hinders competition, distorts trade and harms consumers, taxpayers and the efficient honest traders who lose contracts, production and profits. It can also undermine public support for government. Ministers endorsed the Revised Recommendation on Combating Bribery in International Business Transactions. In particular, they reaffirmed their commitment to criminalise bribery of foreign public officials in an effective and co-ordinated manner. They noted that an international convention in conformity with the common elements agreed to by

members is an appropriate instrument to attain such criminalisation rapidly. They recognised that achieving progress in this field requires not only efforts by individual countries but multilateral co-operation, monitoring and follow-up. They recommended that member countries should submit criminalisation proposals to their legislative bodies by 1 April 1998 and seek their enactment by the end of 1998. Ministers decided, to this end, promptly to open negotiations of a convention to be completed by the end of this year with a view to its entry into force as soon as possible within 1998. Ministers urged the prompt implementation of the 1996 Recommendation on the tax deductibility of such bribes. Ministers stressed the global relevance of bribery in international business transactions and called on non-OECD countries to join forces to fight this phenomenon.

The OECD's Global Role

The globalisation of the world economy is accelerating, with a growing number of countries embracing pluralistic democracy, respect for human rights and the market economy. These are welcome developments for the OECD, which has long advocated the principles behind these positive trends.

Membership Issues

Five countries have joined OECD since 1994 and several other countries have expressed their wish to become members. Ministers welcomed this interest and reaffirmed that the future role and membership of the Organisation need to evolve. They recalled that the Organisation must remain open to states sharing the common values of OECD members, on the basis of mutual interest. It should also be selective while preserving the tradition of high standards for membership. Both of these principles are important in reinforcing the OECD's effectiveness and relevance to its members. Ministers agreed that the accession process of the Slovak Republic should be concluded as soon as this country is ready and able to share the common values and assume all the responsibilities of OECD members.

Co-operation with Non-members

Ministers welcomed the intensification of co-operation between the Russian Federation and the OECD, to be reflected in the establishment of a Liaison Committee. Such co-operation with the Russian Federation should help it establish a fully fledged market economy within a framework of democratic institutions, and to meet and sustain all the conditions for its membership in the OECD, the ultimate goal shared by both parties.

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Ministerial Statement on the Multilateral Agreement on Investment

Ministers are convinced of the importance of international investment and the need for fair, transparent and predictable rules for investors and investments. They welcome the major progress made in developing a comprehensive Multilateral Agreement on Investment (MAI) with high standards for the liberalisation of investment regimes and investment protection and with effective dispute settlement procedures. They recall that the MAI will be a free-standing international treaty open to all OECD countries and the European Community, and to non-OECD countries.

Ministers express their determination:

- to resolve outstanding questions and achieve a high standard of liberalisation and investment protection
- to achieve a satisfactory scope and balance of commitments
- to pursue intensified dialogue with non-member countries, particularly those interested in joining the MAI
- to conclude the Agreement in time for the 1998 Ministerial Meeting.

Ministers also considered the various elements of the Organisation's ongoing dialogue and co-operation with non-member economies. They acknowledge the importance of such activities for the OECD's mission and of deepening dialogue and co-operation with emerging and transition economies on their integration in the world economy. In this respect, they recognise the role of the Organisation in favouring the transition process, through its thematic and country-based programmes. In the context of reform of the OECD, ministers also called for rationalisation of such programmes and structures to ensure that they continue to evolve in an effective manner, and with increasing focus on the core activities of the Organisation, while preserving the capacity for flexible and differentiated co-operation with non-members. Ministers endorsed the actions already taken and urged the Organisation to pursue its efforts to achieve that objective.

Ministers agreed that the OECD's dialogue and co-operation must be a mutually beneficial process which enables OECD and non-OECD countries to share their own policy experiences. Ministers also agreed that the increasingly integrated global economy makes it essential that OECD analysis and monitoring of OECD economies takes proper account of the growing importance of non-member countries.

Co-operation with International Organisations

Concerning OECD's relationships with other international organisations, both global and regional, ministers asked that synergies with these organisations be fully exploited and unwanted duplication eliminated. In this regard, ministers welcomed the effective working relationships that have been established with the WTO and other institutions.

Global Environmental Issues

The integration of economic, social and environmental objectives underpins global sustainable development. Ministers noted that OECD analytical work on these issues helps member countries ensure that environmental considerations are properly taken into account in the elaboration of policies. Its work also assists OECD members in their preparations for international work in this area, including for the Special Session of the United

Nations General Assembly in June, and the Framework Convention on Climate Change, in the light of the critical meeting of the Conference of Parties to the Convention scheduled for December in Japan. In this connection, they further acknowledged the need for member countries to advance research and development, and dissemination, of relevant technologies as one way to address global environmental problems. Ministers welcomed the report on green taxes and noted that a report on evaluating the impact of subsidies on the environment will be discussed in 1998. Ministers urged the Organisation to consider how better to integrate the environment in other relevant activities of the Organisation.

Development Issues

Work on development and interdependence has highlighted both the remarkable successes over recent decades of many developing countries in integrating themselves into the mainstream of trade and investment systems, but also the serious difficulties still confronting others. Ministers welcomed the co-ordinated efforts embodied in the OECD's partnership strategy to help those countries that are assuming responsibility and ownership for their programmes and striving to achieve sustainable development and avoid marginalisation, including in Sub-Saharan Africa and South Asia, to build their own capacities for development. Ministers welcomed OECD's continuing review and discussion of the objectives set out in the OECD's partnership strategy which is now shared by many developing countries and international organisations. Achieving these development objectives requires an integrated approach, encompassing the pursuit of sound economic policies, including appropriate trade and investment liberalisation policies; a vigorous private sector; balanced social development; expanded participation; strengthened governance; as well as environmental sustainability and sufficient monitoring capacity. Ministers recognised the need to increase the volume of development assistance and called for the effective mobilisation of financial resources for development from all sources – private and public, internal and external – including the maintenance of substantial levels of official bilateral and multilateral development assistance, as part of a comprehensive and

coherent approach to development, in particular towards the poorest countries. Ministers recalled the agreement of the Singapore Ministerial Conference on a plan of action, including provision for taking positive measures, for example duty-free access, on an autonomous basis, aimed at improving overall capacity of the least developed countries to respond to the opportunities offered by the trading system. Ministers considered that the forthcoming WTO/UNCTAD/ITC High Level Meeting in Geneva in October 1997 provides an excellent opportunity to bring forward proposals which seek to give operational content to this plan of action, and they also called on non-member countries to contribute to the success of the High Level Meeting.

Such goals require that the OECD's partnership strategy should continue to be implemented in close collaboration with partner countries and emerging donors, as well as with other multilateral organisations. Ministers welcomed OECD's new guidelines on co-operation aimed at conflict prevention and peace-building, the proposed work for helping to address excessive military expenditures and progress with anti-corruption measures for aid procurement. They asked that OECD members report on these three issues to the 1998 Ministerial Council meeting. They also asked for an update on implementation of the OECD's partnership strategy at their next meeting and for a full review in 1999.

The OECD's Future Role

Ministers strongly support the process of reform set in motion by the Secretary-General and now underway in the Organisation and look forward to the results of the current streamlining and priority-setting exercises in the 1998 programme of work and budget of the Organisation. They believe that a well-focused and effective OECD, working to improve policies in both the national and international context, is an especially potent instrument of global change and reform. A key task is to help governments to lead a better informed public debate on the issues at stake. In this regard, Ministers request the OECD to produce a focused, multi-disciplinary report explaining the benefits of trade and investment liberalisation.

It is 50 years since General Marshall's speech at Harvard first launched the period of international economic co-operation which gave birth to the OEEC, the forerunner of the OECD. Ministers believe that while the OECD's mandate as laid out in its Convention remains valid and relevant, the Organisation must and can adapt its operations and work priorities to meet the continuing resource pressures and the changing needs of its members. Ministers expressed their strong support for the Organisation and committed to work collectively towards strengthening its role in the global economy of tomorrow.