

**OECD Policy Forum**  
**Role of Advanced Nations in the Global Economy**  
**21 July 2006**  
**Tokyo, Japan**  
**Address by Angel Gurría, Secretary-General, OECD**

**1. Introduction**

It is a great honour to be speaking right after Mr. Toshihiro Nikai, Minister of Economy, Trade and Industry and to listen to his interesting presentation of the New Economic Growth Strategy. Actually, one of the aims of this, my first visit to Japan as the new Secretary General of the OECD (but the 60th in some other capacities), was to present the OECD Economic Survey 2006 of this country. I am glad to say that our conclusion regarding the growth prospects for the Japanese economy is rather positive, and therefore we are certain that, with the right combination of monetary and fiscal policy, and clear advances in the structural reform agenda, Japan will again be a leading force in the growth of the world economy.

I was invited to speak about the role of the advanced countries in the world economy. But let me rephrase this proposal into something that is much more compelling and concerns the challenges in the world economy and the role of the OECD. In this sense, I will first review some of the most pressing challenges in front of us, and second I will mention some of the actions that this organisation has taken to address them. In doing this, I will also outline my priorities for the OECD.

I do not need to give you much background on the OECD – the Organisation I have the privilege to lead. The OECD has a mandate to promote economic growth and development in countries throughout the world. We have 30 members and work with many other countries. We promote market-oriented economies and open, rules-based, and non-discriminatory trading and financial systems, supported by good governance.

**2. Main challenges for the world economy**

Now turning to my first topic on the main challenges - despite high and volatile energy prices, **global expansion** is expected to continue and broaden this year and next. It should be helped by still fairly supportive financial market conditions, notwithstanding the recent “corrections”. In the OECD area, growth should remain in the 3% range, with – I am pleased to underline – Japan as one of the OECD frontrunners. Indeed, nowadays, Japanese growth is closer to US than to European rates.

However, there is no time for complacency as there are many challenges to be faced:

- Current account imbalances have reached unprecedented levels. Although they have not yet caused great disruptions, it is clear that they can not continue indefinitely.
- Increased instability and confrontation in the Middle East, underlined by recent events that contribute to the already fragile situation, coupled with growing oil

demand and limited supply suggest that energy prices are not going to fall drastically any time soon.

- Economic convergence among member countries has halted or even reversed. There are great differences in economic performance throughout the OECD, not to mention the gap with developing countries, not only regarding growth rates but also in terms of productivity and living standards.
- As Minister Nikai mentioned, population ageing is an additional challenge in some OECD countries. This raises the importance of pensions and health care infrastructure. Moreover, when coupled with slowing or negative population growth it produces a need for enlightened migration and integration policies.
- We have seen the emergence of questionable restrictions which limit Foreign Direct Investment even among OECD countries. This is unacceptable as we have witnessed how free flows of trade and investment have fostered growth for several decades. Given that the OECD countries supply around two-thirds of global FDI, avoiding protectionist trends becomes an urgent task for the benefit of the world economy.
- We need to overcome the current situation that has forced multilateral trade negotiations to a halt. To complete them by the end of 2006 is a great challenge. To do this, it will be necessary to agree on modalities on Agriculture and NAMA (Non - Agriculture Market Access) by the end of this month, but there is not yet an agreement among WTO members, or even among OECD members on these modalities.

The benefits from a successful round are very significant for the global economy; not only for OECD countries but especially for developing countries. According to latest OECD estimates, the full removal of tariffs on manufactured and agricultural goods would result in global annual welfare gains of around USD 68 billion, of which USD 39 billion would go to developing countries. Gains would be much higher when other hoped-for results – in agriculture, services, trade facilitation – are added, and when greater openness enhances productivity.

- Many ecosystems are in a state of decline, and the essential services that they provide – from food production and water to disease management and climate regulation – are being eroded. Climate change is perhaps one of the greatest potential threats mankind has ever faced. OECD countries have a key role to play in protecting the global environment, and in working to ensure that trade, investment, and development assistance policies are mutually supportive of environmental objectives.
- Poverty and income disparities are other pressing challenges. What is more, poverty constitutes the ultimate systemic threat. We have witnessed increasing disparities inside OECD countries -and this is one of the concerns in the current Japanese agenda- but what is more serious is the difference between developed and developing countries. It is in our own interest to transform the lives of 2.6 billion people living with less than 2 dollars a day, which include around one billion living with less than that. Addressing the poverty challenge is a goal for ethical and moral reasons, but it is also an imperative on purely economic grounds.

- Investing in human capital constitutes a strong pillar in this endeavour. This has to be done not only through better education and better job opportunities, but also through better quality of life and better health.

To deal with all these challenges, the OECD, better known as the “house of best practices” has been working on different activities and proposals. It would not be possible to cite all of them, but let me share with you some of the recent ones:

The first one concerns investment. Yesterday, I launched for the first time in Japan the OECD Policy Framework for Investment along with Minister Aso and ADB President Kuroda. This Framework is intended to mobilise private investment to support economic growth and sustainable development. Drawing on good practices from OECD and non-member economies, the Framework offers guidance in ten policy fields identified in the 2002 United Nations Monterrey Consensus on Financing for Development as critically important for improving the quality of a country’s environment for investment. It enables policy makers to ask appropriate questions about their economy, their institutions and their policy settings so they can identify priorities, develop appropriate policies and evaluate progress. The Framework was developed by a task force involving officials from some 60 governments, half of them from non-OECD economies. It is now being put into action, used for country reform and regional co-operation with the OECD in collaboration with the World Bank and others.

A second example is the Paris Declaration on Aid Effectiveness adopted in 2005 and inspired by OECD work in this area. After several decades of development assistance experience, the development community is now better placed to try to increase the Effectiveness of Aid for the benefit of recipient countries. More aid has to be more effective aid. Otherwise it will not get the support of taxpayers in donor countries, nor of the population in developing countries. This requires big changes in our aid delivery model. The Marshall Plan, devised in 1949 to speed the recovery of Europe is often taken as a model. But then there was just one big donor, and that donor, the US, required that the recipient countries take responsibility for deciding how to use the aid and that they do so in cooperation with one another on a European basis. (That was, incidentally, the origins of the OECD).

The current model of assistance is less effective and therefore suggests the need to change. After a period of intense review by a special DAC Task Force on the donor practices, we have, with the World Bank, the UN and the regional development banks, secured agreement from a wide range of donors, partner countries to a fundamental reform programme, the Paris Declaration of 2005. This programme sets out commitments on improving over sixty specific aid practices and we have set specific targets to measure progress in twelve areas. The OECD’s DAC has become the host of this major international effort, and we are determined that the reform effort will fundamentally change the way the aid industry works on the ground.

In essence the key changes are that all donor agencies should work towards the partner countries’ own strategies and strengthen the countries’ own capacities and systems. Progress will be monitored and fostered along the way and there will be mutual accountability to make reforms work. An Accra Forum will be held in Ghana in 2008 to follow up the 2005 Paris High Level Forum.

The third one is the Program for International Student Assessment, better known as PISA. Through PISA, OECD member countries developed a set of reliable and comparable international indicators on student performance. It aims at improving educational outcomes, and explaining the factors that underpin educational success. PISA does not measure students' curricula, but how well they have acquired analytical skills to help them succeed in the knowledge society. In 2006 we will present the third edition of PISA, focusing on the science and technology areas. Previous exercises focused on mathematical abilities (2003) and literacy (2000).

Through PISA, the OECD informs and supports education authorities to make the necessary reforms in the educational systems of their countries. It allows them to learn from each other and to monitor results. Its main objective is to strengthen education results for the benefit of the young students. Following the success of PISA for 15 years old, the OECD will launch a PISA for working people and we are hoping to have also a PISA for the health sector.

These are just three examples of areas where progress has been made in terms of common objectives. Let me now turn to some of the areas that deserve to be treated as priorities in our work program.

The key priorities I have set for the OECD are Health, Migration and Water.

Health is the most important single sector in OECD economies. It represents an average of 10% of GDP in member countries, reaching 15% in the US. Making sure that the health system performs well in terms of equity and quality is a must to guarantee healthy and productive societies.

Water is my second priority. As we address the poverty agenda, water could be considered as a proxy for most of the Millennium Development Goals. I have witnessed the impact that access to clean water can have on the poorest. It is therefore imperative to guarantee access to clean water and sanitation to those that still do not have it.

The third priority is international migration. In the globalised economy, there is a need to develop intelligent and win-win migration policies. Well managed migration and assimilation policies could contribute to the wellbeing both of recipient and sending countries.

### **3. Conclusion.**

As you can see, the OECD agenda is vast and complex, mirroring the world we live in. We need to strengthen this kind of international infrastructure to promote cooperation and face our common challenges together. Advanced nations have a clear responsibility to support a positive environment for this cooperation. But it is the challenge of all of us to build a fairer and more prosperous world.

Many thanks.