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ANNUAL DEBATE ON THE ACTIVITIES OF THE OECD  
BY THE ENLARGED PARLIAMENTARY ASSEMBLY  
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## **INTRODUCTION**

President and Members of the Enlarged Parliamentary Assembly of the Council of Europe, it is a great pleasure and an honour for me to appear before you today and to address the world economic situation in general, and the work of the OECD in particular. OECD Secretary-General Donald Johnston deeply regrets that he cannot be with you today, and has asked me to send his personal regards to each and every one of you.

I would like to congratulate Mr. Abdulkadir Ates for his excellent report which deals with the world economic situation and prospects, corporate governance and the role of the OECD. My intervention today will cover much of the same territory.

## **THE WORLD ECONOMY**

First, I would like to make some comments on the world economic situation. Further to the June 2004 Economic Outlook, on which Mr. Ates based his report, the OECD has recently updated its economic assessment, mostly based on recent developments in large member economies. A fuller assessment will be contained in the OECD's next Economic Outlook of November 2004

The economic recovery foreseen in June this year remains on track. Available indicators suggest that activity has strengthened again following the slowdown in the second quarter which was caused in large part by higher oil prices. GDP in the six largest economies could expand by around 3½ per cent in 2004 on a year-average basis. The resilience so far shown by OECD economies in an environment of geopolitical uncertainties and turbulence in oil and commodity markets suggest that, looking further ahead, growth should remain solid.

It is unclear to what extent the oil price rise will prove transitory. Part of the recent oil price increase may stem from short-term supply bottlenecks or the speculative behaviour of investors. In any event, the link between the oil price and core inflation has weakened substantially over the years. Central bank commitments to price stability are rightly seen as robust and credible. Economic analysis also suggests that the effects of oil price increases on economic growth are modest in the short run. Clearly, permanent oil shocks can have a significant effect on economic growth over the longer term.

Moving on to specific economies, the expansion in the United States this year may be slightly weaker than foreseen – 4.3 per cent rather than 4.7 per cent. In the euro area, growth during the first half of the year has been higher than projected and is set to retain its momentum during the second half. Euro area growth in 2004, which is mainly pulled by exports, could reach 2.0 per cent, rather than the 1.6 per cent projected. Stark differences persist between euro area countries, with domestic demand vigorous in France, but lacklustre in Germany and Italy.

In Japan, economic growth will be driven by buoyant exports and business investment spending and may achieve 4.4 per cent compared with the 3.0 per cent foreseen. Robust expansions are also unfolding in a number of smaller economies (notably the Nordic countries, Hungary, Poland, Turkey and Korea), notwithstanding their sometimes greater exposure to rising energy costs.

Fiscal policy consolidation is becoming increasingly urgent in the six largest OECD countries as well as a number of smaller ones. To re-establish sustainability, governments should reduce structural deficits and resist any pressures to spend cyclical revenue windfalls. They also need to address the public finance implications of population ageing, most crucially through further reforms of their pension and health systems.

One of the main sources of potential tension underlying the economic outlook, particularly beyond the near term, is the US current account deficit. Such a deficit cannot be sustained indefinitely, even if it may persist for some time. Fiscal consolidation would certainly help contain this deficit.

In China, the most likely scenario is ‘soft-landing’ with a continued gradual moderation of growth. Over the longer term, the sustainability of China’s dynamism hinges on how successfully it continues to reform – in particular, restructuring of the bloated state-owned enterprises and banks, and strengthening of social safety nets to facilitate this restructuring and to cushion the strains of rural to urban migration.

I would like to conclude this section of my remarks by addressing an issue which has attracted much attention of recent times – namely the issue of what is sometimes called international outsourcing. Advances in information and communication technologies now facilitate the outsourcing of white-collar service-sector jobs, most prominently from English-speaking OECD countries to India and China but also to countries such as Malaysia, the Philippines, Sri Lanka and South Africa, and from France and Germany to North Africa and Central Europe.

This rapid expansion of international trade in services has raised concerns regarding the “hollowing out” of the service sector in advanced OECD countries. However, outsourcing is part of the continuing trend towards international integration, and should be welcomed because it leads to higher productivity and real incomes. Above all, it can make an important contribution to poverty reduction in developing countries, a goal shared by us all, and a goal at the heart of the Doha Development Agenda.

Concerns of this nature are not new: blue-collar manufacturing jobs were seen to be migrating to Japan in the 1960s and 1970s, to South-East Asia and Latin America in the 1980s and 1990s, and to China more recently. What is true is that in the short run, job turnover associated with off shoring is not costless and may disproportionately affect certain regions, sectors and firms. This calls for a sufficient degree of labour market flexibility and adaptability – there is need for progress in this area in many OECD countries particularly in continental Europe.

## **CORPORATE GOVERNANCE**

I would now like to turn to another subject of critical importance for economic growth, that is, corporate governance. Good corporate governance underpins market confidence, integrity and efficiency, and hence promotes economic growth and financial stability.

The OECD plays a leading role in the international movement towards raising the quality of corporate governance. The OECD Principles of Corporate Governance, first issued in 1999 reflect a call by member countries for a set of corporate governance standards to guide policy makers, parliamentarians, regulators, investors and other private sector actors.

The numerous high-profile corporate scandals have focused the minds of governments, parliamentarians, regulators, companies, investors and the general public on the weaknesses in corporate governance systems and the associated threat posed to the integrity of financial markets. In response, in 2002 OECD Ministers called for an

assessment and review of the OECD Principles. These Revised Principles were approved by the OECD Council in April 2004.

The revised Principles aim to tighten the oversight of management by the board, and to improve the accountability of the board to shareholders. They call for the exercise of informed ownership by shareholders through both strengthening their ability to influence the board and by lowering the costs of exercising ownership rights. In addition, the Principles call for an increased attention to managing conflicts of interest through enhanced disclosure and transparency. The need to declare and manage conflicts of interest now concerns not only managers and controlling shareholders, but also institutional investors, auditors, brokers and analysts. The OECD is now taking this work forward by developing corporate governance principles for state-owned enterprises, pension funds and insurance companies.

The effectiveness of the revised Principles now calls for their active use by governments, parliamentarians, regulators and private parties, as well as continuing international policy dialogue and the sharing of experiences with successful implementation policies. We are strengthening our dialogue with emerging and developing countries, as well as with representatives from business and investors, and labour and civil society.

In addition, tomorrow, the OECD will be holding a High Level Seminar on corporate governance with parliamentarians, and I am delighted that some of you here today will be able to attend this seminar. Parliamentarians have a key role to play in helping governments and societies to improve corporate governance standards, and thereby improve the foundations for economic growth and development the world over.

## **SUSTAINABLE DEVELOPMENT**

Charles Caccia's excellent report of last year focussed on this important issue and it continues to be a key subject of debate at the OECD. The OECD this year completed a three-year project on sustainable development. It found that governments could achieve the same results in protecting the environment at significantly lower cost through the greater use of more cost-efficient instruments in many countries.

OECD countries need to work harder at implementing policies to limit and reduce greenhouse gas emissions, halt biodiversity loss, better manage urban transport demand, improve regulation of harmful chemicals, and reform environmentally harmful subsidies, but environment ministries cannot achieve this on their own.

Follow-up work on sustainable development in the OECD will focus on environmentally harmful subsidies, the use of economic instruments in environmental policy, and improving sustainable resource use. An Annual Report on the work of the OECD on sustainable development will now be prepared, and an annual meeting of sustainable development experts will be held to guide this process. The first annual meeting was held at OECD headquarters in Paris just last week.

## **THE ROLE OF THE OECD IN MANAGING GLOBALISATION**

I would like to conclude my remarks to you with some comments on the role of the OECD in managing globalisation.

Communication and other technologies, and trade and financial liberalisation have closely linked the lives of all peoples around the globe. Global interdependence now offers unprecedented prospects for growing prosperity and poverty reduction. But, global interdependence also has negative aspects. Pollution drifts across borders. Financial turmoil in one national market can spill over to others. And terrorism knows no frontiers. Nor do crime and disease.

Central to the OECD's mission is helping governments and societies the world over exploit benefits of globalisation and tackle its economic, social, environmental and governance challenges.

In the time that I have been working at the OECD, I have seen great advances in pursuit of this mission – most particularly:

- its political responsiveness in areas as diverse as health, steel, fighting spam and the financing of terrorism; and
- its development of norms and guidelines like the Corporate Governance Principles, the Guidelines for Multinational Enterprises and Guidelines for the Security of Information Systems.

As in any living organisation, reform is an ongoing process at the OECD. And this year, OECD Ministers welcomed the recent Council agreement to a number of measures concerning the future role and governance of the OECD, including a strategy for enlargement and for strengthening relations with non-OECD economies; the establishment of a new decision-making method for special cases; and the amendment to the scales of contribution by Members to the budget of the Organisation. Possible enlargement of the OECD membership is a very complex issue which Member countries are discussing now and will report on to next year's Ministerial meeting.

I would like to close by saying that parliamentarians and legislators have always been important partners for the OECD in its work, and this is particularly the case with the Parliamentary Assembly of the Council of Europe whose relationship goes back to the 1950s to the precursor of the OECD, the Organisation for European Economic Co-operation.

President and Members of the Enlarged Parliamentary Assembly of the Council of Europe, I am very grateful for this opportunity to address you, and I look forward to any questions and comments that you may have.