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ENHANCED ENGAGEMENT

**TOWARDS A STRONGER PARTNERSHIP BETWEEN MAJOR EMERGING ECONOMIES AND
THE OECD**

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EXECUTIVE SUMMARY

Enhanced engagement is a proposal to forge a stronger partnership between major emerging economies and the OECD

a) The world economy is transforming as new emerging economies of great significance become major economic players and trading partners. OECD Member countries therefore appreciate that key issues of global relevance can be explored more fully and to mutual benefit if these economies participated more directly in the Organisation's work.

b) In this context, the OECD Ministerial Council meeting of May 2007 invited the Secretary General to "strengthen OECD cooperation with Brazil, the People's Republic of China, India, Indonesia and South Africa through enhanced engagement programmes with a view to possible membership". The mandate also requested an exploration of an enhanced relationship with selected countries and regions of strategic interest to the OECD, particularly South East Asia.

c) To be effective, Members believe that enhanced engagement (EE) should incorporate certain core elements that would be common with all partner countries. Partners would benefit from a fuller use of OECD working methods built around analysis, dialogue, peer review and advice based on internationally comparable data. Members encourage dialogue to reach a common understanding on crucial multilateral policy disciplines that open market economies need, and welcome EE partners' participation in the development of OECD instruments in specific areas. EE partners also are encouraged to share knowledge and experience with OECD countries on global best practices for sound regulatory systems and good public governance.

This report provides some illustrative examples of what the OECD can offer to EE partners

d) This report provides (in Chapter 2) a select overview of concrete issues and modes of engagement, given for illustrative purposes only, as enhanced engagement should be developed incorporating areas of mutual interest and on a basis of further discussions with each country participating in it. In the current global context an enhanced form of dialogue would be most relevant on the global economic outlook, international investment issues, environment and climate change, as well as social aspects of globalisation and concerns about growing regional or income inequalities. OECD also welcomes enhanced engagement countries' participation on horizontal projects where the Organisation is addressing multi-disciplinary issues and challenges. These include Health, Migration, Water, Innovation, as well as the Political Economy of Reform.

Enhanced engagement can now move forward, given shared political resolve

e) The content of enhanced engagement will be incremental by nature and vary with partner countries. Specific proposals can be put into action subject to mutual interest by partner and Member countries, as the former respond by communicating their areas of interest. Where necessary high level bilateral liaison groups can establish mutually beneficial priority areas, and monitor progress.

f) Enhanced engagement is a proposal to go beyond business as usual in policy dialogue between the OECD Members and major emerging economies and pave the way for coherent policies amongst major open economies. The success of Enhanced Engagement will reflect our collective willingness to pursue that common objective.

1. Context and Mandate

1. The OECD's principal goal is to provide high quality economic policy advice derived from evidence based analysis, best practices shared values and, where relevant, mutually agreed disciplines, in order to create prosperity in Member and non-Member countries and thus contribute to the development of the world economy.

2. The world economy is transforming as new emerging economies of great significance become major economic players and trading partners. OECD Member countries therefore appreciate that key issues of global relevance can be explored more fully and to mutual benefit if these economies participated more directly in the Organisation's work.

3. Enhanced engagement (EE) is part of an overall strategy of the Organisation to become more relevant, open and representative. It is linked to the strategic goal of becoming an important hub for dialogue on policy issues of global significance. Furthermore, it is intended that the future relationship with each of the enhanced engagement partner countries be developed in close partnership with the goal of maximising mutual benefits and supporting ongoing and emerging reform processes. The OECD and the EE partner countries have much to offer and much to gain.

4. In this context, the OECD Ministerial Council meeting of May 2007 invited the Secretary General to "strengthen OECD cooperation with Brazil, the People's Republic of China, India, Indonesia and South Africa through enhanced engagement programmes with a view to possible membership". The mandate also requested an exploration of an enhanced relationship with selected countries and regions of strategic interest to the OECD, particularly South East Asia.¹ Enhanced engagement thus is a powerful message by the thirty Member countries of the OECD and forms the basis for the pursuit of an expanded relationship with these important countries as partners.

5. While these five economies have had an ongoing relationship with the OECD to varying degrees, enhanced engagement is envisioned as an intensified effort to work more closely with these countries in a manner that is more focussed, comprehensive, coherent and mutually beneficial. Working more actively within the OECD's committee structure would provide enhanced engagement partners important opportunities to contribute to the debate and maximise the benefits to be gained from a closer association with the OECD.

General principles and core objectives

6. Enhanced engagement aims to establish a new kind of relationship between the OECD and the partner countries. Given their distinct national interests and perspectives, and the varying degrees of their existing involvement at the OECD, enhanced engagement with individual countries would necessarily be differentiated, flexible and incremental. The composition of activities and scope of enhanced participation at the OECD will be determined in discussions with each partner country individually. Ultimately, the OECD seeks to strengthen the participation of the EE partners in the substantive work of the Organisation, contributing their own perspectives and approaches to policy issues and exercising a degree of influence on OECD substantive work.

7. The objectives, modalities and timeframe of each EE programme will be discussed and agreed upon with each partner country and will build upon existing activities. The OECD will seek to strengthen each relationship and establish stronger lines of communication. The work programme will be assessed periodically to determine its effectiveness in developing greater policy coherence and coordination, as well as increased impact and expanded value of activities within OECD committees. If enhanced engagement is

to enable greater mutual understanding and pave the way for coherent policies, the OECD believes that it should incorporate certain core elements that would be common with all partner countries. For example:

- Making fuller use of OECD working methods built around dialogue and peer review through participation in relevant OECD bodies, subject to mutual interests and capacities.
- Moving closer towards standardised, comprehensive statistical indicators which are the basis for making meaningful comparisons among countries.
- Sharing global best-practices in economic analysis and multilateral peer review, including participation in regular OECD Economic Reviews of partner countries.
- Reaching common understandings on crucial multilateral policy disciplines that open market economies need.
- Participating in the development of OECD instruments in specific areas.
- Sharing knowledge and experience on global best practices for sound regulatory systems and good public governance.
- Exchanging experience on relevant policy reforms by participating in thematic, cross-country or country-specific reviews in a wide range of areas.

2. Enhanced engagement to address global issues and common policy agendas

8. Enhanced engagement implies that partner countries join Member countries at the OECD inter-governmental bodies as peers; that is on an equal basis sharing relevant experiences and insights willing to discuss priority policy issues affecting the world economy, and engage in peer reviews and policy advice to shape greater coherence. This chapter provides a select overview of concrete issues and modes of engagement, given for illustrative purposes only, as enhanced engagement should be developed incorporating areas of mutual interest and on a basis of further discussions with each country participating in it. In the current global context an enhanced form of dialogue would be most relevant on the global economic outlook, international investment issues, environment and climate change, as well as social aspects of globalisation and concerns about growing regional or income inequalities. OECD also welcomes enhanced engagement countries' participation on horizontal projects where the Organisation is addressing multi-disciplinary issues and challenges. These include Health, Migration, Water, Innovation, as well as the Political Economy of Reform.

2.1. *Global economic outlook and national economic performance*

9. Enhanced engagement economies already account for a significant share of world output (**Figure 1**). There is a clear mutual advantage to their active engagement in the OECD's central economic policy processes. The Organisation provides mutually-reinforcing processes of cross-country, economy-wide comparative analysis as well as country-specific peer review mechanisms in a manner that has served Members well. The EE partners have participated to some extent in these processes, on an ad hoc basis, but they can utilise these resources more fully and more systematically, subject to mutual interest and priority setting together with each one of them. In this context, the Economic Policy Committee (EPC) provides a mechanism to exchange views amongst senior policymakers from economics/finance ministries and central banks on the current economic situation and on topical macroeconomic and structural issues, with special attention to the international effects of national policies. The EPC plays a key role in discussing the

analyses published twice a year in the OECD *Economic Outlook* and once a year in *Going for Growth*. Currently China is invited to take part on an ad hoc basis alongside the OECD Member countries.

Enhanced engagement at the OECD can assist domestic reforms...

10. At the same time the partner economies need to maintain rapid growth from their current levels of per capita output (**Figure 2**) to reach their own development objectives² and fully realise the benefits of their integration in the world economy. Enhanced engagement at the OECD can assist the economic reform process in the partner countries, just as it does for Members. The EE countries have had varying contacts with the Economic and Development Review Committee (EDRC) which formulates country-specific recommendations on macroeconomic and structural policies as well as the interaction of these policies in raising economic performance, and assesses performance in a peer review format.³ There is a strong case for their regular participation in the country-specific as well as multilateral economic review mechanisms, and they should benefit from the considerable synergies between them, as the EPC's work feeds into the country review process in the EDRC, and vice versa.

... help coherent policies to foster innovation...

11. Science and innovation are of growing importance in the international agenda and the engagement of major emerging economies in this field reflects the new global landscape for innovation. As the innovation process becomes more open, ideas and knowledge for innovation are drawn from many, often global, sources. As a result, international linkages and cooperation are of growing importance for successful innovation. This is also essential to meet global challenges, including those related to the environment, health and energy efficiency. OECD work on innovation enables the enhanced engagement countries to make progress in moving towards good policy practices, which should help underpin sustainable development. Further work in this area can build on strong existing links with the partner countries. For example, reviews of innovation policy have already been carried out for China and South Africa, and others are planned for 2009-2010. The Organisation also looks forward to their participation in the OECD Innovation Strategy.⁴

...and expand the availability of comparable statistical indicators across countries.

12. Finally, more systematic involvement by the EE partners in the OECD central economic policy review activities would necessitate a more systematic participation in the core statistical databases and many sector- or activity-specific ones subject to mutual interest.⁵ In this regard, further exposure to the Committee on Statistics and the statistical working parties of the policy groups can assist the partner and OECD countries in developing and reporting comparable statistics.

2.2 Strengthening frameworks for investment, business and markets

Enhanced engagement partners are becoming significant investors abroad...

13. Global foreign direct investment (FDI) flows have become more multilateral in recent years, with an increasing number of economies becoming significant source and destination jurisdictions at the same time. These are chiefly the EE partner countries, which represented about half of FDI outflows from developing countries (UNCTAD definition) in 2006 (up from a quarter in 2004). Indeed FDI outflows from the EE countries have grown remarkably in the last few years (**Figure 3**) and equal three-quarters of inflows into them (up from 40 percent in 2004).⁶ Even when taking into account round tripping and one-off factors that might partly explain this surge, and notwithstanding the uncertainty regarding FDI flows in the near future under the current economic environment, there is no doubt that enterprises from EE countries are becoming engines of globalisation in their own right.

...and have a growing interest in an open multilateral investment framework.

14. As the EE countries become sources of investment to the OECD area (via sovereign wealth funds, state-owned enterprises, large private-sector multinationals and SMEs), to third markets (e.g. Africa) and to themselves in that their investors compete with those from other countries in their own domestic markets, the OECD's main instruments on international investment become operationally more relevant for them. For instance, the key OECD instrument in this area, the Declaration on International Investment and Multinational Enterprises, ensures national treatment to foreign enterprises, which is of benefit to the EE partners investment in both directions. The Declaration is strengthened by the OECD's MNE Guidelines, which include, inter alia, provisions on core labour standards, environmental protection, corporate governance, and other major areas of potential concern to both partner and OECD countries. The OECD investment instruments do not simply impose obligations on adherents but also establish rights and protection, including national treatment for EE country investors overseas and access to home country National Contact Point in case of MNE misbehaviour in an EE country.

Enhanced engagement can help partner country companies to operate more freely...

15. There is thus an opportunity for enhanced engagement within the framework of the Investment Committee by associating the interested partner countries (and other economies, for example, from South East Asia) in the OECD's standard setting work fully and from the outset. This could include:

- Convergence to best practice in FDI statistics and participation in further methodological developments such as the updating of the OECD Benchmark Definition of FDI.
- *OECD Investment Policy Reviews* of individual countries, using the OECD's Policy Framework for Investment, which provides a checklist of important policy issues for consideration in order to create an environment that is attractive to all investors and in enhancing the development benefits of investment to society, especially the poor.
- Participation in the Investment Committee's Roundtables on Freedom of Investment, National Security and "Strategic" Industries, which over the past years have worked on developing a common approach to reconcile legitimate national security and public order concerns with maintenance of an open international investment climate. The Committee has just released its work on Sovereign Wealth Funds, which restates the need to keep open markets for investment.

...and help improve frameworks for finance, insurance and pensions to support economic development and financial stability.

16. Particularly in the present environment of economic slowdown, the financial markets of EE countries and emerging markets may not remain decoupled from OECD markets.⁷ By adding their weight to increased transparency and better regulation in the financial markets, the partner countries have an opportunity to strengthen regulatory frameworks and moderate uncertainties regarding their own capital markets. In addition, greater cooperation in financial education could help EE country financial consumers to raise awareness of risks, come to terms with complex financial products, and better manage the risks associated with them. An OECD conference on financial education will be organised in Jakarta in October 2008.

17. Responding to growing demographic pressures, all EE countries are engaged in pension reform, including the promotion of private schemes where OECD countries' experiences can provide essential benchmarks. Brazil, China, India and South Africa were closely involved in the recent development of OECD good practices for private pensions and all have hosted OECD meetings in this field. OECD is also

helping EE countries address the financial consequences of major catastrophes and a joint OECD/UN meeting will be held in China in September 2008.

Enhanced engagement can also further corporate governance reforms...

18. The EE countries are becoming increasingly important in shaping the global corporate governance agenda. Dynamic stock markets in China, India and Brazil have attracted major investments from OECD countries. Governments of the EE countries are often important owners of publicly traded companies; indeed they are dominant shareholders in five of the world's ten largest listed companies. Thus, OECD and partner countries have a strong mutual interest in assuring a shared understanding on acceptable ownership and corporate governance practices that focus on market integrity, transparency and investor protection. Working towards this result will benefit both corporations seeking access to capital and shareholders seeking opportunities to invest. The EE countries participate in the OECD's regional corporate governance roundtables in Asia, Latin America and Southern Africa, offering a sound basis for deepening cooperation and promoting coherent policies. There is broad international agreement that efforts in this area should build on the OECD Principles for Corporate Governance and that the Guidelines for State Owned Enterprises that are seen as the global benchmark.

...and strengthen dialogue on competition policy and practice.

19. Effective and transparent competition policies support international trade and investment, as well as economic efficiency and growth. Three of the EE countries (Brazil, Indonesia and South Africa) are already contributing to policy dialogue with the leaders of the world's main competition authorities who meet in the OECD's Competition Committee. China and India could also benefit from participation in this forum.

2.3 Environment and climate change

Partner countries can contribute to OECD analyses of global issues such as climate change and the development of energy sources...

20. There are major interdependencies between developing and developed economies on global environmental issues. A separate paper submitted to Ministers reviews those on the economics of climate change.⁸ This paper highlights the need for all major economies to take action to reduce greenhouse gas emissions, if ambitious targets to reduce emissions over the long-term are to be achieved and at an affordable cost globally. Internationally, a challenge for the post-2012 international framework on climate change will be to ensure sufficient market incentives, technological development and deployment, and capacity building to support mitigation action and adaptation to climate change, particularly in emerging economies which are the most vulnerable to the impacts of climate change. The EE countries can benefit from direct participation in related OECD activities on climate change, as the OECD has developed through several decades of work, substantive understanding of the economic aspects of climate change.

21. Their participation in OECD Ministerial Council Meeting in June 2008, which is focussed on the economics of climate change is therefore welcomed, as the OECD is working to develop an economic footing for a post-2012 international framework on climate change. The partner countries could also benefit from OECD work on eco-innovation and sustainable production - conducted under the auspices of a number of OECD bodies including the Environment Policy Committee (EPOC), the Committee on Scientific and Technological Policy (CSTP - and its Working Party on Biotechnology) and the Committee on Industry, Innovation and Entrepreneurship (CIIE) - and bring in their perspectives on what is required to accelerate the uptake of cleaner production or structural shifts away from heavily polluting activities.

...and reap tangible benefits from practical cooperation on environmental issues.

22. There are also numerous environmental issues of common interest other than climate change, such as biodiversity, water and environmental health, or on integrating environment into development assistance to other countries. EE partners may participate in the analysis of these issues, by integrating into the OECD environmental data collection systems which underpin cross-country reviews such as the *OECD Environmental Outlook to 2030*.

23. Within the framework of the Council Decision on Mutual Acceptance of Data (MAD) in the assessment of chemicals, the OECD Chemicals Committee works to establish conditions to avoid duplicative testing of chemicals, facilitates the optimal use of resources available in governments and in industry for chemicals testing, and thereby helps avoid non-tariff barriers to trade of chemicals. This Decision is open for adherence by non-Members. South Africa is a full adherent while Brazil and India are provisional adherents. Full participation would bring considerable savings to industry from all major countries with significant chemicals production and trade.

The OECD Horizontal Project on Water is a key shared priority.

24. OECD work on water is also likely to be particularly relevant for major emerging economies which face important challenges when managing water resources. EE partner countries face major challenges in ensuring adequate access to safe water and basic sanitation for their populations, and they are among the countries that will be most seriously affected by scarcity of water resources (**Figure 4**). These pressures will intensify as their economies and populations grow, and with increasing urbanisation and the effects of climate change. The OECD's Horizontal Water Programme is addressing these issues. Several meetings are planned in 2008 to finalise this work, and the involvement of EE countries would be helpful for the project and provide them with a range of good practice approaches for addressing these issues.

2.4 Employment, social and equity issues in open market economies

Major emerging economies increasingly participate in a global market for skills and work.

25. Labour markets continue to be globalised, partly through migration flows, which have recently increased.⁹ But growing trade integration, and the increasing share of the EE country labour force involved in global value chains has a far greater impact on the labour markets of all countries.

26. In this context the EE countries clearly have the potential to contribute to future incremental labour needs in global value chains and the associated global competition for talent (**Figure 5**). Major emerging economies (especially China and India) are also increasing their domestic capacity to provide high-quality teaching and research. Sharing OECD countries' experience with expanding education can help enhanced engagement partners improve the quantity and quality of their own human capital, so as to maximise the growth of their own living standards.

A better understanding of best practices is needed on migration issues...

27. Notwithstanding an indirect integration of labour markets through trade, migration as such - at all skill levels - remains an important economic linkage between countries. Brain-drain/brain-gain issues and the management of labour migration to support economic growth have jumped up the policy agenda in OECD countries, with recognition of the need to maintain economic growth prospects in the context of ageing populations. Increased cooperation between origin and destination countries is needed to better share the benefits of international mobility. In this context, the OECD's horizontal project on *Managing Migration to Support Economic Growth* represents an opportunity for substantive dialogue where the perspectives and priorities of EE countries can contribute to the OECD analysis and development of policy

advice. More specifically enhanced engagement in the education, employment and mobility areas can offer the following:

- Participation in OECD bodies, including the Education Committee (where China has been invited), and the Committee on Employment, Labour and Social Affairs (ELSAC) and its Working Party on Migration.
- Inclusion in OECD databases and flagship publications such as Indicators of Education Systems (INES) and *Education at a Glance* (both of which covers Brazil), *Labour Force Statistics*, *Employment Outlook*, *International Migration Outlook*, and *Main Science and Technology indicators (MSTI)*, with improved comparability of data, and further methodological development enriched by the EE countries' perspectives and needs.
- Inclusion in surveys of educational outcomes such as the *Programme for International Student Assessment (PISA)* (in which Brazil participates) and its planned equivalent for the adult populations, the *Programme for the International Assessment of Adult Competencies (PIAAC)*.
- Bringing in emerging economy perspectives by participating in path-breaking new methodological work such as studies on the Careers of Doctorate Holders or Mobility of Human Resources in Science and Technology (where China and India already participate).

...on addressing concerns about disparities between regions or individuals ...

28. Policy makers of many EE partners and Member countries are concerned that rising income inequality may lead to an eroding consensus within societies for pursuing an economic model of openness, integration and competitiveness. Outside the OECD countries globalisation indeed creates opportunities for many but can also lead to social exclusion, especially for the poorest segments of the society and the most remote regions. This affects particularly certain groups of workers – the informally employed – who have access to jobs but lacks basic work rights, appropriate social protection and are often pushed into exclusion. There is a strong case for OECD countries and EE partners working together draw lessons from one-another by comparing their experiences with effective policies. This can provide better ways to demonstrate what has worked to bring people into the labour market, allowing countries to take better account of equity concerns in macroeconomic (growth, fiscal spending, monetary) policies, and understand the impact of migration (internal and international) in an increasingly interdependent world.

29. There are similar concerns that rising regional inequalities may undermine support for sustainable and open globalisation policies. Indeed, regions have different capacities to exploit the variety of opportunities and face the challenges they are confronting. For example, in China, the income gap among urban residents between the richest and the poorest 10 percent increased from 4.6/1 to 9.2/1 during 2000-2005. In South Africa and Brazil the process of urbanisation is closely tied with a rise in income inequalities and pockets of poverty within cities: in Cape Town poverty increased from 23 percent to 32 percent and in Brazil cities concentrate half of the nation's poor citizens. OECD countries are grappling with similar challenges and partner countries can participate and enrich OECD work, particularly within the framework of the Territorial Development Policy Committee, which investigates ways to promote improved coordination across levels of government. Measuring results and providing evidence for decision making on regional disparities and competitiveness issues is also a key challenge. The bi-annual OECD publication *Regions at a Glance* provides information and analysis on key determinants of growth at the regional level.

... as well as on social protection and health.

30. Likewise, OECD is one of the few international bodies where governments are engaged in substantive dialogue on the design and ongoing adaptation of social protection or health care systems in the context of globalisation. As the EE countries are pursuing their development as open market economies governments are increasingly turning their attention to equity or poverty issues. Thus the EE countries have much to benefit from sharing the experience of OECD economies on reconciling equity and efficiency objectives. On the other hand, they also have much to contribute from their own innovative experiences (e.g., Brazil's *Bolsa Familia* programme). Enhanced engagement on these issues can be pursued through:

- Participation in OECD bodies such as the ELSAC and its Working Party on Social Policy (both of which recently invited South Africa to participate), the Health Committee or the Insurance and Private Pensions Committee (where Brazil, India and South Africa are already Observers).
- Inclusion in OECD databases and flagship publications such as *Income Distribution*, *OECD Health Data*, *Health at a Glance*, *Society at a Glance*, or *Regions at a Glance*.

2.5 *Shared interests on international trade, agriculture and global value chains*

Enhanced engagement partners are already significant trading nations...

31. Together, the five Enhanced engagement partners accounted for 11 percent of world trade in goods and services in 2006 - seven percentage points of which were due to China alone. Again, China alone represented 16 percent of growth in world merchandise exports between 2001 and 2006. China became the third largest trading nation after the United States and Germany in 2005. China and India occupy the fourth and fifth positions in world commercial services trade (counting the EU as one). Brazil and Indonesia are major players in managing the policy links between trade in forest products, deforestation, biodiversity, and greenhouse gases. Trade with South Africa has a large impact on many least-developed economies in Africa.

...with growing technological intensity...

32. The participation of emerging economies in skilled production activities and high-technology exports has also grown strongly. For instance trade in high-technology goods by EE countries has grown eight-fold (**Figure 6**), while its share in their total trade more than doubled in twelve years to exceed 30 percent by 2006.¹⁰ China has been the largest exporter of ICT goods in the world since 2004.¹¹

...and they are also at the heart of the transformation in world agricultural trade.

33. The EE countries account for an important and rising share of world agricultural trade. For some commodities, EE country trade dominates markets developments. For example, between 1996 and 2006 Brazil's share of world soybean exports tripled to 36 percent, while China's share of world soybean imports rose seven-fold to 43 percent. More than half the world's farmers live in EE countries, with agriculture accounting for a substantial share of GDP in most cases. But these economies are transforming rapidly, giving rise to huge adjustment challenges. For example, China is currently going through the largest flow of labour out of agriculture in human history. If the Doha round of negotiations is to be successful, the agricultural concerns of these countries will need to be addressed, and it is vital that OECD and EE countries have the opportunity to reflect both on shared concerns, and areas where their perspectives differ.

Food price inflation

Changes in the food and farm sectors of the EE countries may affect the structure of world food and agricultural markets, for example via the use of sugar cane for biofuel, or through income growth and the associated transformation of diets. Indeed, changes in the EE countries' farm economies partly explain the recent spike in world food prices. Recent OECD analysis is helping policy makers disentangle short-term factors (such as bad harvests which have drained down stocks of certain grains, and the associated panics in markets) from longer term ones (such as the much welcome increase in purchasing power in emerging economies, or high oil prices and rising biofuel production), and will continue to build on its analytical capabilities to shed light on structural factors affecting the food and commodity markets. (See separate MCM document for more information.)

They have much to gain from promoting the multilateral trading system.

34. As the weight of EE economies in global trade grows, they stand to be major beneficiaries of further trade liberalisation on a multilateral basis.¹² Many of them also have leading roles in international trade diplomacy as part of WTO negotiations and participate in country groupings such as the G20. Especially in the current macroeconomic environment with significant downside risks, prospects for trade-led growth for a wide range of countries in the world would be strengthened if major emerging economies added their weight to efforts to understand and articulate the benefits and costs of globalisation and the associated political economy and adjustment challenges.

Participation at the OECD can facilitate that...

35. The EE countries, other major emerging economies (such as those in South East Asia) and OECD Members could all benefit by engaging in frank and open dialogue in the OECD Trade Committee (where Brazil is already an Observer). As the Committee is not a negotiating forum, policy dialogue amongst these actors can take place on the emerging trade and global policy issues. Such a forum could also promote coherence between trade and other policies.

...while better understanding genuine differences in perspective.

36. While trade policy is often seen in terms of negotiations on the basis of well-understood differences on interests, there are many policy areas linked to it where national or international actions are evolving rapidly. For instance, global issues such as energy security, climate change or water management are calling for increasing attention to international technology transfer and related trade and intellectual property issues. There is also increasing focus by governments in promoting innovation and exploiting more fully the benefits offered by open innovation models and the globalisation of research and development. A better understanding in both developed and emerging economies of how progress in developing and implementing policies in the trade, IP and technology fields should be linked could help a more coherent approach to trade issues.

37. Most EE countries are now significant providers of export credits and can benefit from engaging in a frank dialogue with the OECD Member countries, within the framework of the Working Party on Export Credits and Credit Guarantees, on any relevant issues that require senior level attention, including competition and cooperation. Their meaningful involvement could help provide access to an OECD database of officially supported export credit transactions, facilitate the development of their own export credit disciplines and coordination of them with those of the OECD providers.

2.6 Taxation

Taxation has a significant impact on the global relations of enhanced engagement countries...

38. Work on taxation at the OECD lies at the heart of the global economic agenda. Internationally, tax standards and guidelines are fundamental to free flows of trade and investment untrammelled by the obstacle of double taxation, and exchange of information between, and transparency of, national tax systems enable a cooperative global environment ensuring that tax is paid where it is due.

39. The EE partners have been significantly interested in this work, generally recognising the importance of bilateral tax agreements based on the OECD model and an agreed set of guidelines on connected party cross-border transactions which protects them from significant losses to their tax bases. But a closer partnership is needed to ensure that OECD standards meet their needs and that their views are heard as these develop.

...and internally effective tax systems provide the basis for infrastructural development.

40. In the national sphere, clear and focussed tax policy, and a transparent and certain tax administrative environment provide the essential precondition for effective revenue collection and therefore the foundation for development and the alleviation of poverty. Most of the EE countries have worked with the OECD on tax policy development and implementation though the crucial role of experience sharing both among themselves and in the wider global community.

41. Taxation policy and administrations differ significantly between governments both within the OECD as well as outside of it. But transparency and certainty lie at the core of effective and efficient systems. These principles, and the operation of the tax system, also underpin the governance of the state by developing and reinforcing the relationship between state and population, and strengthening the accountability of the former to the latter. Taxation systems do not need to be compared across simple numerical indicators. But the Committee on Fiscal Affairs provides a forum for continuous dialogue and exchange of experience among participants (which include China, India and South Africa). The EE partners have many lessons to share in this area, both with OECD countries and with other emerging economies for whom such considerations are critical to reform and development.

2.7 Public governance

42. Well functioning public sector systems are a key ingredient of public policy to address wider issues such as pressures on resources or rising inequalities, and sharing experience and successful practices in this field has been frequently identified as a key priority in many of OECD's contacts with high-level policy makers from EE partners and other countries. Indeed, governance issues relate directly to each of the international policy areas discussed above as often the success of those policies depends, at least in part, on government institutions and government capacity. For example, with respect to strengthening frameworks for business and markets, regulatory reform (which contributes to higher growth and productivity, and making economies more resilient and flexible) and integrity in the public sector are fundamental elements for ensuring strong investment flows. To support this, the OECD is building a database on the outputs and outcomes of public sector actions, to appear as a bi-annual publication *Government at a Glance* (starting in 2009).

43. OECD countries have an agreed set of regulatory principles about policies, tools and institutions to deliver regulatory quality and performance and they have been working toward meeting the standards implied by these principles. The EE countries are aware of the importance of a sound regulatory management system to deliver quality regulations, as discussed in the Working Party on Regulatory Management and Reform and in the Group on Regulatory Policy. In this domain China and Indonesia

participate in the APEC-OECD Co-operative Initiative on Regulatory Reform through the APEC Economic Committee. And OECD Reviews of Brazil and China demonstrate that the extension of the OECD conceptual framework to non-Members is feasible and useful to them. This is a horizontal theme, at once important on its own as an aspect of good governance, and also as a foundation for improving market openness, competition, and investment.

44. More specifically, anti-corruption and integrity standards are key elements in a successful policy framework for investment (domestic and international) and growth. Since its inception in the 1990s OECD work in this area has helped Member governments tackle these issues, and attracted considerable interest and participation from other countries. For example, Brazil and South Africa are parties to the Anti-Bribery Convention, and China, Indonesia (both parties to the UN Convention Against Corruption - UNCAC) and India have endorsed the Asian Development Bank/OECD Anti-Corruption Initiative.

3. Moving forward with enhanced engagement

OECD dialogue with the enhanced engagement partners has intensified since MCM 2007.

45. All enhanced engagement partners have had an ongoing participation in OECD work prior to the MCM 2007 resolution. However, this participation has varied in depth, level and effectiveness (see Annex). Since May 2007 a number of steps have been taken to develop a more focussed systematic relationship:

- The Ministerial resolution inviting the OECD Secretary-General to strengthen cooperation with Brazil, the People's Republic of China, India, Indonesia and South Africa through enhanced engagement programmes has been formally communicated by the Secretary-General to the heads of government of these countries. There have also been intensified contacts at the head of government and minister-level through official visits by the OECD Secretary-General or Deputy Secretaries-General, accompanied in some instances by Ambassadors of OECD countries leading the Organisation's Reflection Groups on these countries (see below), which have helped explain enhanced engagement and invited country views and priorities for a closer partnership. In all of the countries visited, there has been a seriously considered, positive and constructive reaction towards this initiative.
- Several of the EE partner countries are undertaking a high level, formalised, interagency process of evaluating this initiative which includes the involvement and coordination of ministers and decisions at cabinet level. As they proceed with their analysis, they have included in the equation all aspects of the mandate, including potential membership, and are evaluating a range of options that demonstrate their seriousness and their appreciation for the opportunities and challenges that are inherent in this new relationship.
- A number of EE partner countries have established or have indicated that they will establish coordination mechanisms to facilitate communication and better formulate their views on strengthened cooperation with the OECD. Brazil has formally established the competence of their Ambassador to France for promoting the interests of and coordinating the relations of Brazil with the OECD.
- Informal Reflection Groups of Members established for each of the EE partner countries as well as South East Asia by the OECD External Relations Committee have provided a more systematic and coherent approach to cooperation with them at the OECD. They have gathered expertise from within and outside the OECD and have helped develop a better understanding of EE among the partner countries.

- The substantive committees of the OECD, and their supporting Directorates, have been invited to identify forums, projects, and activities where a greater level of participation and an enhanced dialogue between the EE partner countries and OECD Members can be mutually beneficial. Importantly, preparations are underway to appropriately prioritise the relationship with EE partner countries and include recommendations for an enhanced relationship in the proposed programme of work and budget for the biennium 2009-2010.
- The Secretariat and the Informal Reflection Groups have regularly briefed the Paris-based embassies of the partner countries regarding the content and objectives of enhanced engagement. They continue to consult the representatives of the business and labour advisory groups (BIAC and TUAC) on their priority issues where OECD's cooperation with the EE countries could be strengthened, and consultations continue with the World Bank and other IGO's and regional organisations on complementarities between enhanced engagement and their activities. In this regard the OECD will also develop its dialogue with the business communities of the EE partner countries to strengthen support for reforms and help better understand country priorities.
- The OECD has initiated or expanded its substantive work in a number of areas that are of urgent and common interest to partner countries as well as OECD Members, such as on food and commodity price inflation, biofuels, or sovereign wealth funds.
- The Reflection Group on South East Asia has developed recommendations concerning cooperation with that region, and a methodology for pursuing closer ties through a "dual-track approach" combining regional initiatives with country-specific engagement with selected partners. This approach, implemented in a selective way, could serve as an example for any further initiatives to develop OECD cooperation with other regions.
- In line with the Council Resolution on Enlargement and Enhanced Engagement¹³, the Secretariat is reviewing options to develop recommendations to Council on expanding OECD's relations with other countries and regions of strategic interest.

Enhanced engagement can now move forward in a number of respects...

46. *Enhanced participation in economic surveillance:* Partner countries may consider regular participation in the OECD's core multilateral and country-specific economic review mechanisms and thematic discussions. This would inter alia imply participation in the relevant statistical databases for core economic indicators.

47. *Making full use of OECD working methods:* The OECD's distinctiveness "lies in its working methods, which are built around dialogue and peer review within a committee structure. The OECD provides evidence-based policy advice and analysis based on comparable international data. It enjoys strong credibility as an objective interlocutor among governments and stakeholders. Most important, it benefits from the wealth of experiences of its Members and many non-Members in the process of reform; involvement of stakeholders; and built-in monitoring and evaluation through peer reviews. All of these mechanisms allow assessment of policy reforms against stated objectives, leading to the identification of OECD 'best practices'.¹⁴ Participation of partner countries in the OECD substantive committees, on which potential or actual illustrative examples have been given above, should be seen as a means to making a greater use of these capabilities, and strengthening them by bringing in the diverse points of view and experience by them.

48. *Identifying priority substantive areas for enhanced engagement:* This report provides an already rich - albeit illustrative and thus selective - list of substantive areas where enhanced engagement with the

EE countries could be deepened (Chapter 2). The partner countries could consider communicating their priority areas for enhanced engagement at the OECD. This would also imply participation in the statistical work underpinning the areas where they have expressed an interest, and transmission of data for inclusion in key OECD databases and publications.

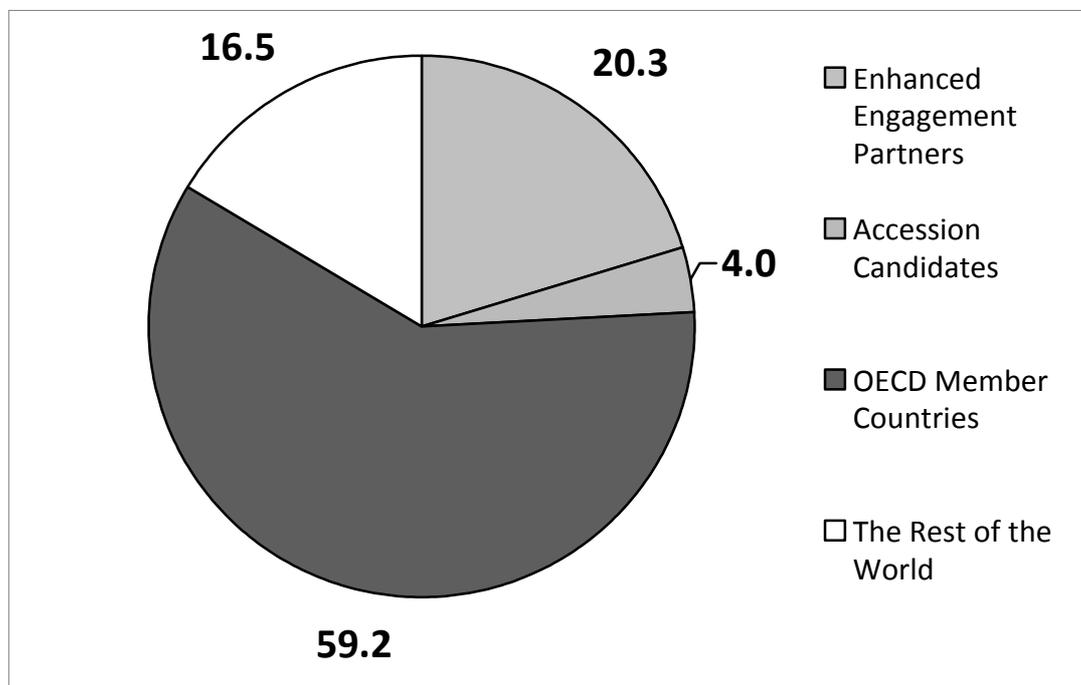
49. *Participation in the OECD Development Centre as a full Member:* Partner countries may consider making use of the possibility to participate as a full Member in the OECD Development Centre, which Brazil, India and South Africa already do (along with Chile, Egypt, Israel, Romania, Thailand and Vietnam outside the OECD area). These countries enjoy full and equal membership status of the Centre's Governing Board, which gives them a significant presence in the Organisation-wide analysis and dialogue on development issues and on a wide range of other policy areas. It also provides them with greater knowledge and understanding of the OECD's working methods.

...given shared political resolve.

50. The content of enhanced engagement will be incremental by nature and vary with partner countries. Specific proposals can be put into action subject to mutual interest by partner and Member countries, as the former respond to the OECD by communicating their areas of interest. Where necessary high level bilateral liaison groups can establish mutually beneficial priority areas, and monitor progress.

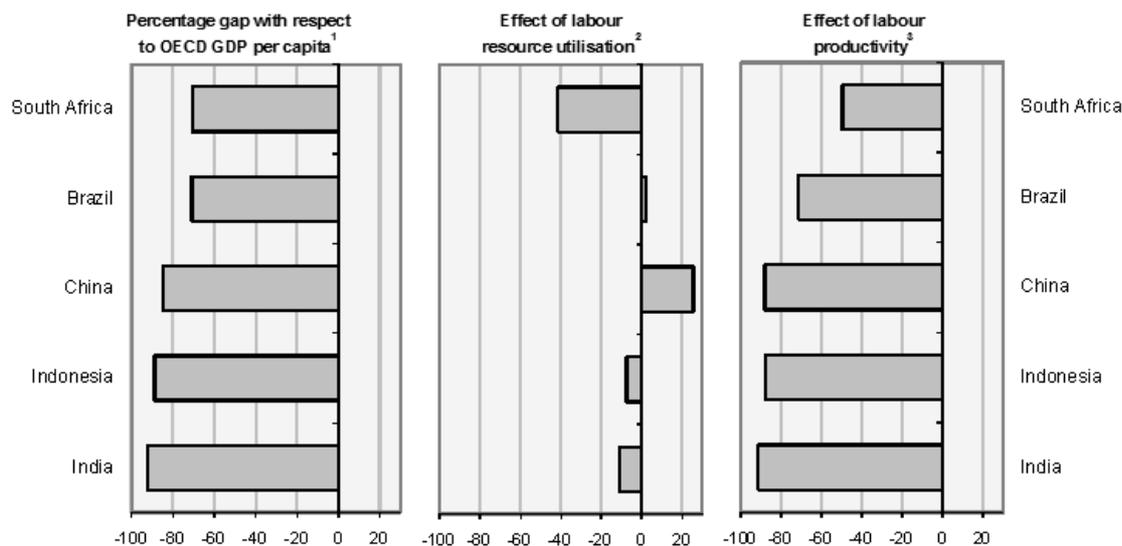
51. Enhanced engagement is a proposal to go beyond business as usual in policy dialogue between the OECD Members and major emerging economies and pave the way for coherent policies amongst major open economies. The success of enhanced engagement will reflect our collective willingness to pursue that common objective.

Figure 1.
Percentage shares of global output in 2007 (at 2005 PPPs)



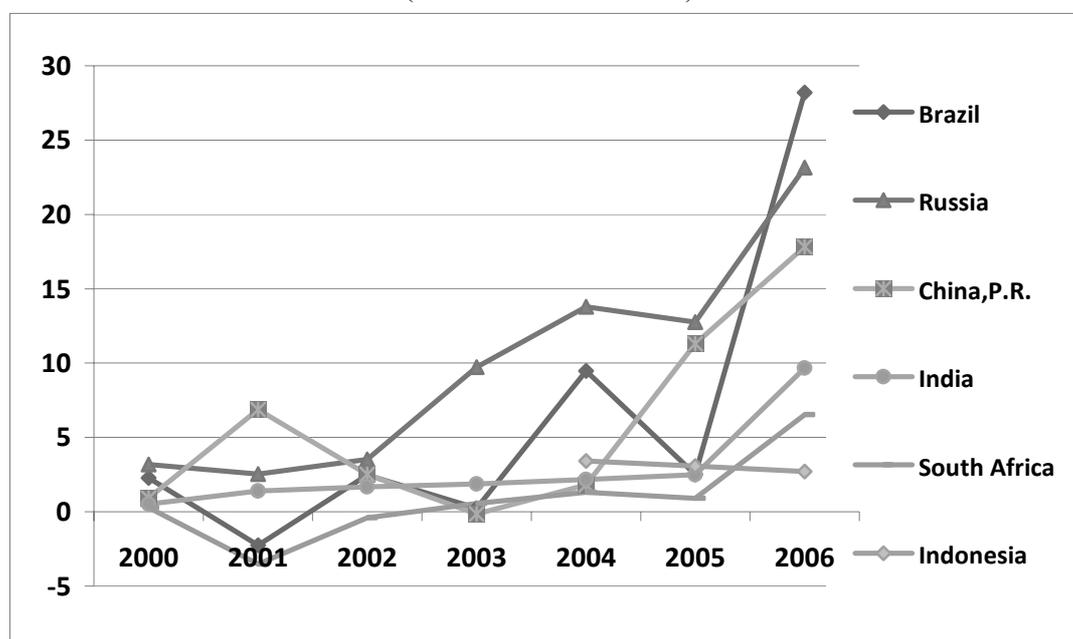
Source: OECD, EC and the World Bank, International Comparisons Project, February 2008

Figure 2
The source of real income differences, 2006
 (% deviation from OECD average)



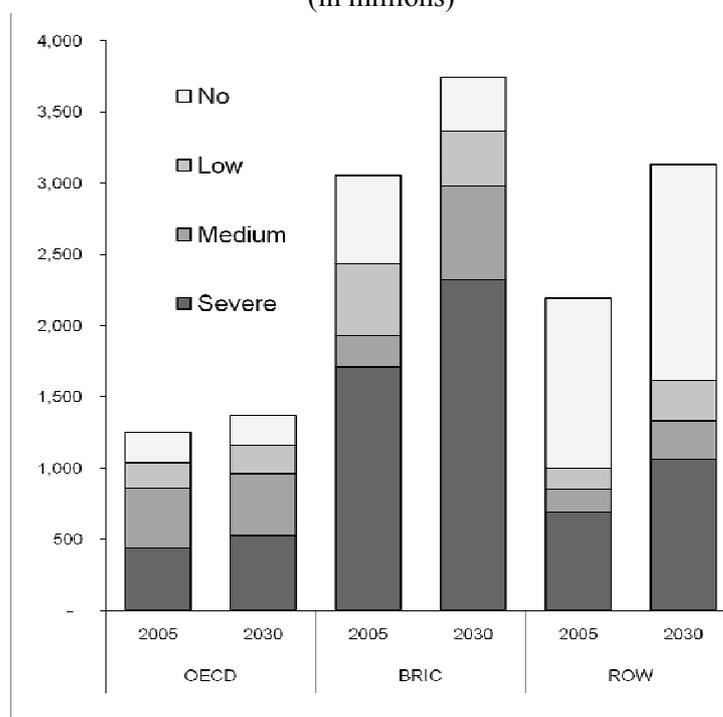
1. Based on revised 2006 purchasing power parities (PPPs) from the World Bank.
 2. Labour resource utilisation is measured as the employment rate, based on national labour force surveys, except for India where it is an OECD estimate based on the National Sample Survey.
 3. Labour productivity is measured as GDP per employee.
 Source: OECD and the World Bank.

Figure 3.
Foreign Direct Investment Outflows
 (billions of current US\$)



Source: IMF.

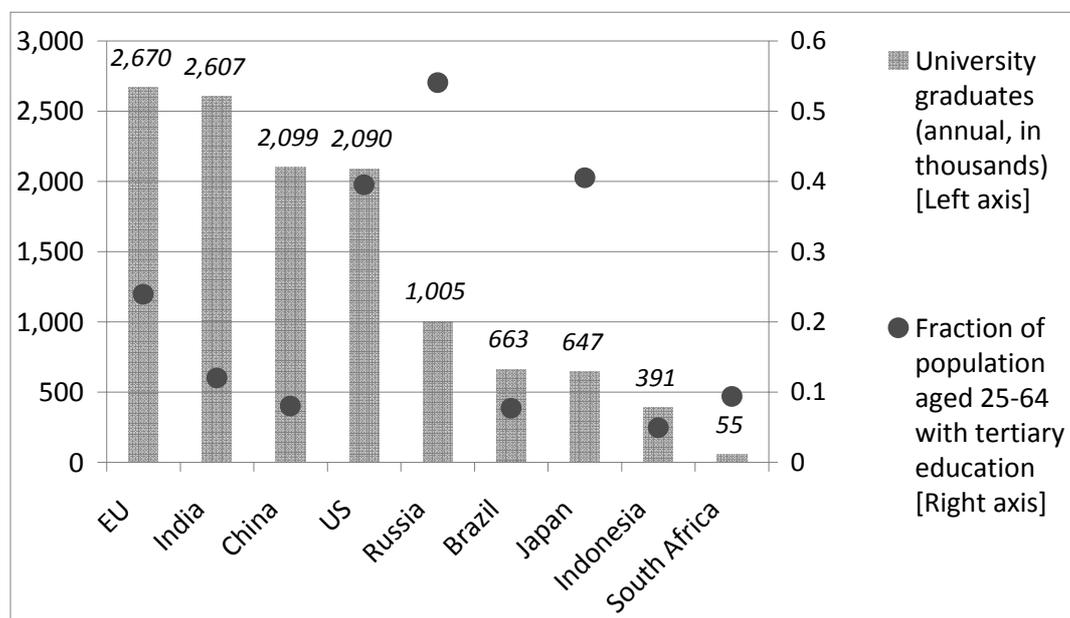
Figure 4. Number of people living in areas of water stress, by level of stress
 (in millions)



Note: BRIC: Brazil, Russia, India and China.

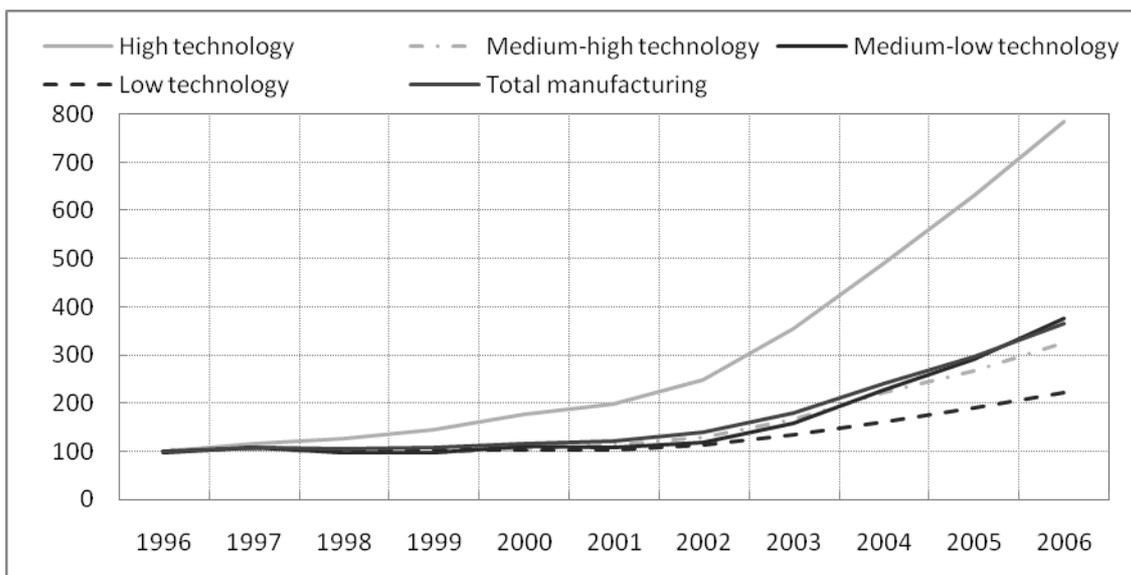
Source: OECD (2008) *OECD Environmental Outlook to 2030*, page 220.

Figure 5.
Tertiary educational attainment of adult population and annual graduates, 2004 or nearest



Source: OECD and UNESCO. Share of population with tertiary education for China and India are 2003 data cited in “China and India: Their Impact on Labour Markets in OECD Countries” [ECSS(2006)2].

Figure 6.
EE countries’ total manufactured exports plus imports by technology intensity
 (Index 1996 = 100)



Source: OECD, Bilateral Trade Database, 2008 edition (forthcoming).

ANNEX

LIST OF OECD BODIES and PROGRAMMES IN WHICH EE PARTNER COUNTRIES ARE CURRENTLY REGULAR OBSERVERS OR FULL PARTICIPANTS

BRAZIL

Full Participant

Governing Board of Development Centre

Working Group on Bribery in International Business Transactions of the Investment Committee

Party to the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions

Steel Committee

Investment Committee work related to the Declaration on International Investment and Multinational Enterprises

Party to the Declaration on International Investment and Multinational Enterprises

Financial Action Task Force**

Arrangement on Export Credits** (participates fully in work dedicated to aircraft)

Regular Observer

Investment Committee.

Competition Committee

Trade Committee

Agriculture Committee

Public Governance Committee

Joint Working Party on Trade and Environment

Joint Working Party on Agriculture and Trade

Working Party on Private Pensions (IPPC)

Committee on Statistics

Committee for Information, Computer and Communications Policy

Environment Policy Committee (EPOC) Working Group of National Coordinators of the Test Guidelines Programme

EPOC Working Group on Good Laboratory Practice

Committee for Scientific and Technological Policy

Committee on Industry, Innovation and Entrepreneurship (CIIE) Working Party on SMEs and Entrepreneurship

Party to the Paris Declaration on Aid Effectiveness (“to be confirmed”)

(**) Programme hosted by OECD

PEOPLE'S REPUBLIC of CHINA

Full Participant

OECD Tractor Certification Scheme

Committee for Scientific and Technological Policy

Committee on Fiscal Affairs

Party to the Paris Declaration on Aid Effectiveness

INDIA

Full Participant

Steel Committee

Governing Board of the Development Centre

OECD Tractor Certification Scheme

Regular Observer

Committee on Statistics

EPOC Working Group on Good Laboratory Practice (GLP)

EPOC Working Group of National Coordinators of the Test Guideline Programme.

Committee for Information, Computer and Communications Policy

Committee on Fiscal Affairs

Insurance and private Pensions Committee (IPPC) Working Party on Private Pensions

Committee on Consumer Policy

Party to the Paris Declaration on Aid Effectiveness

INDONESIA

Regular Observer

Competition Committee

Party to the Paris Declaration on Aid Effectiveness

SOUTH AFRICA

Full Participant

Governing Board of the Development Centre

Working Group on Bribery in International Business Transactions of the Investment Committee

Party to the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions

That part of the Joint Meeting of the Chemicals Committee and the Working Party on Chemicals, Pesticides and Biotechnology related to the Mutual Acceptance of Data (Session B)

EPOC Working Group of National Coordinators of the Test Guidelines Programme

EPOC Working Group on Good Laboratory Practice

OECD Seed Certification Scheme

OECD Scheme for Fruit and Vegetable Certification

Financial Action Task force **

Regular Observer

Joint Meeting of the Chemicals Committee and the Working Party on Chemicals, Pesticides and Biotechnology

Steel Committee

Committee on Statistics

Competition Committee

Committee for Scientific and Technological Policy

Committee on Fiscal Affairs

Committee for Information, Computer and Communications Policy

IPPC Working Party on Private Pensions

Party to the Paris Declaration on Aid Effectiveness

SOUTH EAST ASIA

MALAYSIA

Regular Observer

Steel Committee

Party to the Paris Declaration on Aid Effectiveness

SINGAPORE

Full Participant

Financial Action Task Force **

Regular Observer

EPOC Working Group of National Coordinators of the Test Guidelines Programme

EPOC Working Group on Good Laboratory Practice

Committee for Information, Computer and Communications Policy

Committee on Financial Markets

THAILAND

Full Participant

Governing Board of the Development Centre

Regular Observer

Fisheries Committee

CIIE Working Party on SMEs and Entrepreneurship

Party to the Paris Declaration on Aid Effectiveness

VIETNAM

Full Participant

Governing Board of the Development Centre

Party to the Paris Declaration on Aid Effectiveness

NOTES

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- ¹ Council Resolution on Enlargement and Enhanced Engagement adopted by Council at Ministerial Level on 16 May 2007 [C/MIN(2007)4/FINAL].
- ² Such as Indonesia's Vision 2030 or South Africa's Accelerated and Shared Growth Initiative.
- ³ The EDRC expects to have discussed draft surveys or assessments for all five enhanced engagement countries between late 2006 and early 2009.
- ⁴ See "OECD Innovation Strategy - Progress Report" [C(2008)62/REV1] submitted to Ministers, for more information on OECD work in this area.
- ⁵ The annual publication *OECD Factbook* provides the most complete panorama of different statistical indicators tracked by the OECD. The EE countries are currently included in some indicators published by the OECD. For example, a cursory survey of the *OECD Factbook 2008* contents shows that the coverage of most EE countries varies between roughly 30 percent (South Africa) and 60 percent (Brazil), whereas Indonesia is currently not covered in that publication.
- ⁶ UNTAD (2007) *World Investment Report 2007*.
- ⁷ OECD (2008) *Financial Market Trends: No. 94 Volume 2008 Issue 1* (forthcoming).
- ⁸ C/MIN(2008)2.
- ⁹ C/MIN(2007)2, "Innovation: Advancing the OECD Agenda for Growth and Equity" (note for MCM 2007), and OECD (2008) *A Profile of Immigrant Populations in the 21st Century*.
- ¹⁰ OECD (2007) *Staying Competitive in the Global Economy: Moving Up the Value Chain*. Updated with data from OECD (2008) *Bilateral Trade Database*, 2008 edition (forthcoming).
- ¹¹ OECD (2008) *Information Technology Outlook 2008* (forthcoming).
- ¹² OECD (2005) *Trade and Structural Adjustment* (report to MCM 2005).
- ¹³ C/MIN(2007)4/FINAL.
- ¹⁴ "Political Economy of Reform" [C(2008)61/REV1].