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Letters to the editor

Future of the euro

Sir, Vincent Koen pronounces the euro to be a success, and argues that economic fundamentals suggest that the euro will appreciate against the US dollar over the longer term. I believe that such an assessment is premature: while the euro may appreciate in the medium term, its longer-term prospects look less robust.

It is necessary to be honest about what economic and monetary union is. It may sound and look like an economic accord, but in reality it is at first a political deal – from the premises of its inception to the discounting of the Maastricht criteria in 1998. EMU has merely glossed over the fault lines (of which I think five are significant) between the participating economies. While some of these – such as the pace of deregulation – are problems for the European Union in general, I would argue that the real risks to the euro arise from the differences among the countries. In the face of electoral pressures, national governments will seek accommodations. Instead of promoting greater intra-EU competitive pressures, the euro may foster more political interference with economic affairs, undermining the European Union's long-term growth prospects.

The first of the fault lines is the asynchronous business cycles. The second fault line is the transmission of monetary policy, which acts on different lags and with varying impact on output on the national economies. Taken together, these two points suggest that while the ECB may be able to set an optimal monetary stance in the aggregate, monetary policy may be inappropriate for individual countries. Countries feeling excessively squeezed may demand a loosening of policy, leading to an inflationary bias for the euro area as a whole, and a risk that some of the more dynamic economies could over-heat. The third schism is the labour market: without a flexible exchange rate to mask trends in real wage differentials, but with continued labour market rigidities, unemployment may prove to be the mechanism that brings unit labour costs into greater alignment in the euro area. This could translate into legislation to protect jobs – jeopardising future employment growth.

The fourth potential problem is the pace of regulatory reform, much of which is determined in Brussels. While it is true that the EU is engaged in a process of liberalisation, so is the rest of the world. As the cliché goes, in the old economy, size was important, but in the new economy, speed counts. Those who reform more rapidly will be frustrated as the more lethargic countries hold up the pace of liberalisation at the EU level. Finally, there are long-term fiscal imbalances, notably the generational imbalances caused by an ageing population and expensive pension commitments, which could undermine the EU-wide commitment to fiscal prudence.

The dynamics of EMU will undoubtedly make the euro area a more homogeneous economic unit, and I do not think EMU will collapse. The risk to the euro is that competing national interests will render the euro area an unattractive business environment, and capital will flow out to seek better rates of return. The euro was designed to replace the Deutschemark, with the hope that it would replicate that currency's post-war success. It may end up looking more like the British pound, with periods of strength unable to mask a long term weakness.

MARK FEIGE
Washington DC

Sir, The received wisdom that the euro zone remains an unreformed economy doomed to high unemployment and low growth rates fails to satisfy on two counts. Firstly, it makes the mistake of treating all euro zone countries as homogeneous examples of the European "social model", ignoring the wide diversity of actual practice.

Nor does it recognise the important change of tone in European economic policymaking since the Lisbon economic summit last spring. European governments now recognise that for the euro to become a long-term success, the liberalisation programme begun with the creation of the Single Market must be completed. There remains much work to be done and, in particular, some doubts must remain about the pace at which reform can be achieved in acutely sensitive areas such as pensions. However, with European growth set to outstrip that of the US for the first time in nearly a decade, surely the euro zone countries deserve the benefit of the doubt?

ALASDAIR MURRAY
Centre for European Reform, London

The new economy: technology is not enough

DONALD J. JOHNSTON, SECRETARY-GENERAL OF THE OECD

Over several months I have participated in many discussions with experts from all over the world on the issue of the new economy. The question usually raised: is there a new economy? The consensus answer seems to be "perhaps". There may be an element of media hype about it all, but there is also substance behind the headlines. As OECD chief economist, Ignazio Visco, points out in this special edition of the OECD Observer, trends are finally emerging in the economic data that the new economy might help to explain, especially in the area of productivity.

The reference for most people in assessing this new economic wave is the United States. Many credit the US phenomenon – the longest period in history of uninterrupted expansion, high productivity growth, low inflation and low unemployment – in part to the invasion of information and communication technologies (ICT) and their effect not only on the technology sector itself, but on their application to old and new industries alike.

Take the Internet for example. It is in much greater use in the United States than in most other countries, and between September 1999 and March 2000, the US added twice as many Internet hosts to its stock in per head terms than Germany, Japan and the United Kingdom together. It is estimated that between 1990 and 1996, investment in ICT accounted for about 0.4 percentage points of overall 2.8% growth in US output. In both absolute and relative terms, that was significantly more than in other G7 countries.

Such figures make the argument about ICT being behind the new economy seem compelling. But as Socrates said, doubt is a sign of intelligence. It is also a prerequisite of asking the right questions, making progress, legislating and making policy intelligently. All the more reason to look at the arguments closely. Is ICT the only reason? Well, personally I remain a sceptic. ICT is clearly important in improving information flows and productivity, but so were many "transformational" technologies in the past. There was the spinning jenny, for example, which revolutionised the textile industry, though it did migrate into industry more generally because of its specific applications. The electric motor was transformational because it had applications far beyond its immediate area, as did its predecessor, the steam engine. After all, the latter even entered the automobile age with the Stanley Steamer! It is interesting to note, as Alan Greenspan has often done, that the electric generator took decades to transform the way industry worked on the plant floor!

There can be little doubt that what we are dealing with today is also a truly transformational technology. Electronic commerce has challenged us all, consumers, producers and governments alike. Notions of work and workplaces are being recast. The key force of the new economy is speed, not just because the velocity at which information and finance travels around the globe is bewildering, sometimes even alarming. In fact, the speed with which technology is introduced, diffused and mastered has become a fundamental component of success. This point may help to explain why the United States took such a remarkable, if not unassailable, lead in recent years; as Risaburo Nezu underlines in his article on e-commerce, the technology was available everywhere, but for many reasons, some unexplained, the United States harnessed it first. And now other countries, including technology-minded Japan, are scrambling to catch up.

Clearly, there is more to the success of the US economy and its nine years of expansion than the existence and spread of ICT. Those who wish to emulate the US experience will not, in my judgement, find it by simply moving rapidly to invest in and disseminate these exciting new technologies.

For ICT to make a solid contribution to long-term growth, the markets must be allowed to work, and not be held back by non-supportive regulatory frameworks. Macro-economic policies must be supportive, especially monetary policy, whose aim remains that of maintaining price stability, the concomitant result being to keep interest rates low, thereby providing more interest and opportunities for equity capital.

Entrepreneurial "animal spirits", to quote Keynes, must be encouraged by the right framework conditions, with venture capital being available to entrepreneurs. Of course, exit strategies for venture capitalists must also exist, which is why well functioning and properly regulated financial markets and stock exchanges are so important.

Success does not come easily to entrepreneurs. This means that many failures are to be expected. They must be tolerated as part of the dynamic process. Is this cultural? A good and important question. Certainly in North America this tolerance by lenders and investors seems fairly well established. Those who fail in business are not ostracised, provided they have been transparent and honest. They can start again and usually do. But in other OECD countries, this may not be the case. Honest entrepreneurs should not be prevented from making a new start; they are the catalysts that marry up the components of economic growth. Without these risk takers, this world would still be plodding on with 19th century technology at best.

Another quality of the United States is its low administrative barriers to business start-ups, its efficient capital markets, and open and competitive markets for goods and services. It actively promotes links between science and industry. It is open to the new ideas that immigrant populations can bring. It makes a virtue of labour mobility and workplace flexibility, a notion which should not be confused with the idea of job insecurity. In short, it is not technology alone which drives a new economy, nor the success of the United States.

The United States is the largest country in the OECD, but look for a moment at the case of one of the smallest, Ireland, which not long ago was one of the poorest. Ireland has been the OECD's fastest growing economy for several years and is now in the top ten OECD countries in terms of its GDP per head. Ireland is also one of the world's leading software exporters. How can this be explained? Some cite its tax policy to attract investment, yet other countries offer that too, without the same results. Some will point to EU funds, yet other recipients have not transformed their economies to the same extent. The English language and traditional links with the United States are also assets, although these did not make a difference 20 years ago. Could it be investment in skills, or indeed the government's prudent policy management since the late 1980s and its partnerships with unions and employers, that has produced today's stable business environment? The answer seems to be a combination of all of these. In short, correct policies breed advantages that are self-reinforcing over time.

It may be true that a country like Ireland might not have enjoyed this success without the emergence of ICT, with its weightlessness and global applications. Nevertheless, it emphasises the extent to which the new economy is a great opportunity, provided the policies are right.

The new economy is therefore not exclusively a US affair; its global dimension is part of its vitality. We are effectively living in a "global village". This phrase, coined by Marshall McLuhan some 40 years ago, was at first original, then for me a dreadful cliché, and is in fact now a reality of our time.

As the UN High Commissioner for Human Rights, Mary Robinson, argues in the pages of this *Observer* special issue, the new economy has the potential to act as a liberating force for a whole generation of underprivileged people. Already, in both developed and developing countries, we are seeing ICT delivering new business opportunities to even quite modest people. Used wisely, it gives people everywhere an opportunity to participate in new sources of economic growth and expression, while acquiring skills and trades along the way. Policymakers have an important responsibility to work alongside business, unions and civil society to ensure that these opportunities are not missed. Through ICT and the network, we have effectively entered the global village from which we must never exit. ■



The new economy: fact or fiction?

IGNAZIO VISCO, CHIEF ECONOMIST, OECD, ECO.CONTACT@OECD.ORG

Everyone is talking about the new economy, but what about the economics? Does the new economy really exist? Probably, though for economists, and indeed policymakers, more evidence may be needed.



©Reuters

The US economy has been growing at a staggering pace for almost a decade, outstripping all expectations, to produce the longest expansion in a century. But could it have been forecast? Ten years ago, the productivity paradox was well established: as Nobel laureate Robert Solow aptly put it, the computer age was everywhere except in the productivity statistics! In the last decade, those statistics have finally begun to come through. They show that the computer age has finally emerged and, with it, sustained high growth with minimal inflation, very low unemployment, rising real wages, and lots more besides – from stock options to biotechnology, from venture capital to the Internet. None of this is strictly confined to the United States, though progress seems to be rather uneven across the OECD area. In any case, it is now fashionable to talk of the "new economy", a term that defies precise definition but apparently summarises all the many changes, mostly for the good, that are currently taking place. These changes can be seen in communications, finance, trade and, more importantly, in the way businesses are run and how we organise our lives.

Three questions seem pertinent. What is the new economy about and, more importantly, what is it *not* about? What evidence has been gathered up to now on those fundamental changes in the United States and other OECD economies? And what key policy considerations, if any, might be derived from all this?

Before looking at what the new economy actually means, it has to be understood that we are going into uncharted waters. Ironically, despite the information revolution, economic information proper is in many cases sorely lacking. International comparisons often have to rely on very imprecise measures. However, there is probably enough evidence now to help economists build interesting hypotheses and draw some preliminary conclusions, as well as suggest possible lines of action.

The notion of a "new economy" is closely tied to the effects of technical progress on economic growth, and in the present debate the role played by information and communications technologies (ICT) on economic performance is key. A hotly debated issue is whether innovation in, and diffusion of, ICT can boost a country's potential growth rate in economic output, allowing for larger increases in national income without stoking any major inflationary pressures. This does not necessarily mean the "death" of inflation, or indeed a permanent dampening of the business cycle, as sometimes is emphatically proclaimed, but simply that higher non-inflationary growth can be sustained over longer periods of time.

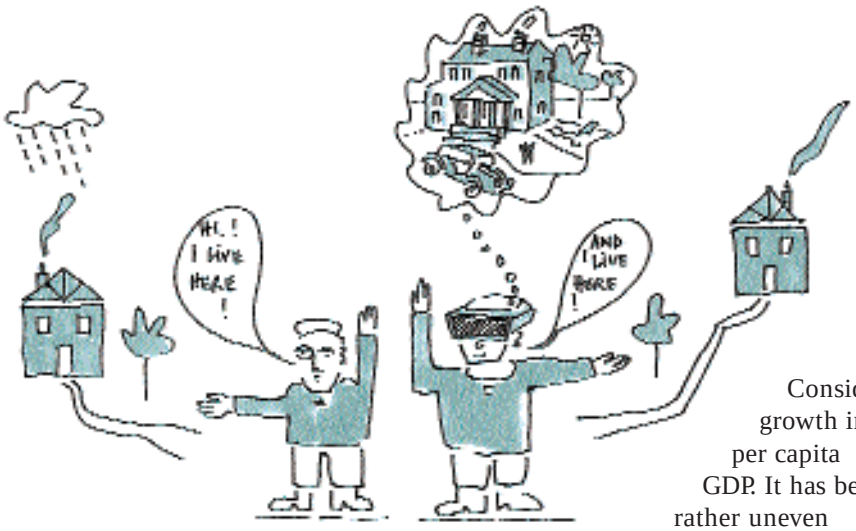
A hotly debated issue is whether innovation in, and diffusion of, ICT can boost a country's potential growth rate in economic output.

There are three channels by which ICT can lift potential growth rates. The first is that of the ICT-producing sectors themselves, which contribute directly to overall growth by virtue of their own (increasingly efficient) output. The second channel is higher ICT investment, which raises the capital intensity of production in the economy at large, reflecting sharp increases in quality and a fall in the prices of ICT equipment. The third is the so-called spill-over effects, like the spread of the Internet and the development of e-commerce. This last channel might deliver significant cost reductions and organisational improvement to firms. In the aggregate economy, these savings and efficiency gains would show up in the form of faster expansion in that part of growth not accounted for by the increase in the quantity (and quality) of labour and physical capital used in the production process. This is what economists call multi-factor productivity (MFP) growth.

When new is nothing new

The "new" in new economy should not be taken to mean that there have never been other new economies in the past. On the contrary, economic history, especially that of the last two centuries, is also the history of a succession of technological changes. There was the electrical revolution and the invention of the internal combustion engine. There have been communications breakthroughs before too, such as the invention of the telegraph, the telephone and, of course, radio and television, not to mention forms of transportation. All have transformed the way we live. But the question economists are asking is, did any of these earlier new economies produce a permanent rise in long-term growth?

It is not easy to say, even if they led to substantial improvements in our standards of living. In fact, the introduction of a new technology may initially cause a slowdown in productivity and a reduction in



economic growth. The diffusion of a new technology, and the organisation and development of human capital around it, involve a lot of trial and error – this is learning-by-doing par excellence. It inevitably complicates the relationship between the beginning of the economic exploitation of a technology and its effects on productivity growth.

The effects eventually come through of course, which is when productivity growth pops up in the statistics. For the benefit to be sustained over time, impulses above those directly related to the accumulation of human and physical capital must also continue to be present, generating overall social benefits that outweigh the costs linked to innovation. Part of the problem is that while innovation can be quickly introduced, it sometimes takes a while for these wider benefits to show through. The productivity paradox – the slowdown observed in the 1970s and 1980s – can be explained this way. And, according to some, so can the new economy fad.

Look at the evidence

Are they right? Is this the "something new" everyone has been talking about? After all, the evidence suggests something different *is* happening.

Consider growth in per capita GDP. It has been rather uneven across the OECD in the 1990s, with a slowdown in most countries. The United States is one of the few notable exceptions. The increase in US per capita growth stands out because it has been achieved through a combination of higher labour and multi-factor productivity growth rates in a context of increased labour utilisation. It is rather surprising that a country that is already at the world productivity frontier in many industries should be pulling away from the rest with such vigour. A large fraction of the productivity recovery in the United States is due to the diffusion of ICT, in part prompted by falling technology and communications prices. Recent estimates indicate that about a quarter of the overall US output growth in the last four to five years may have been due to ICT production and investment, much more than in any other G-7 country.

It is rather surprising that the United States, which is already at the world productivity frontier in many industries, should be pulling away from the rest with such vigour.

Besides the considerable direct impact on overall growth of investment in ICT equipment, a notable increase in multi-factor productivity growth has also become apparent in the United States in recent years. This certainly reflects activity in the ICT-producing sector itself. With respect to spill-over effects, the macroeconomic evidence is still largely uncertain, even if microeconomic and anecdotal evidence indicates that businesses may be starting to achieve substantial productivity improvements thanks to network advantages of the Internet and e-commerce.

A few other countries, such as Australia, Canada, New Zealand and the Nordic European countries, have also experienced faster increases in their multi-factor productivity, though the contexts differ. In the case of Australia, Denmark and Norway, improvements in the growth rate of MFP have gone hand-in-hand with rising labour utilisation and rapid GDP growth. In contrast, in Sweden and especially Finland, increases in MFP growth rates have been accompanied by a slowdown in GDP per capita and significant cuts in employment. What the different countries appear to have in common is an increase in business enterprise R&D intensity and an acceleration in productivity growth. While the direction of causality is not clear, as the diffusion and increase in efficiency of ICT must also play a role in fostering innovation in other sectors, the data nonetheless lends statistical support to the presumption that the social returns of R&D investment have begun to outweigh the costs.

World economic prospects are bright

Contact.Eco@oecd.org

World economic prospects are brighter than they have been for some time. OECD-wide output is projected to grow by 4% this year, the fastest pace in more than a decade, before slowing to 3% in 2001. A tightening of monetary policy is expected to keep inflation low nearly everywhere, although a modest upward drift in consumer prices will be apparent in many countries. OECD-wide unemployment should decline by more than 2 million between 1999 and 2001 – mainly in the euro area – falling to 6% of the OECD labour force. With the strong and widespread rebound of economic activity outside the OECD, world output may rise by some 4% this year and next.

This is a welcome trend. Except in Japan, where prospects are improving but remain uncertain, there are even some upside risks to watch out for. International linkages, including through global trade, could reinforce growth beyond the OECD's central projections. This could affect inflation. Moreover, the surge in growth across countries could also stimulate further rises in commodity prices, including oil.

Overall, the emergence of simultaneous rapid growth in many OECD countries has coincided with the absence of marked stabilising forces in global financial markets. Monetary authorities should take care not to underestimate the global strength of demand nor its potential effect on prices. If they do, the result could ultimately be a stronger monetary policy reaction and a substantially more pronounced cycle than envisaged in the OECD projections. This would lead to turbulence in equity markets and, given projected large external imbalances, a loss of confidence in the dollar.

In the United States, there is a real possibility that new technology and structural change have raised the economy's non-inflationary potential. Nevertheless, the recent strength of demand is not sustainable and inflationary pressures are beginning to show. A further tightening of monetary policy may soon be needed, with the federal funds rate possibly having to rise to above 7% by August 2000, to ensure a soft landing.

In the euro area, the critical question now is how long the expansion can last without running into inflationary bottlenecks. The European Central Bank should continue shifting monetary policy towards a neutral stance, raising interest rates only gradually, while taking account of possible supply side improvements. Improved cyclical conditions have generated unexpectedly strong budgetary revenue growth in a number of euro area countries. Some have already announced plans to use the revenue gains to reduce tax burdens and increase government spending. To the extent that tax reductions can help boost the economies' supply potential, they are welcome. However, given the current economic buoyancy and limited spare capacity, any major easing of fiscal policy by euro area governments would be ill-advised.

In Japan, recovery now appears to be in place, although consumer spending remains sluggish. Policy should aim to sustain the recovery in the short run, while encouraging the speedy implementation of reforms in product and labour markets as well as continuing restructuring in the corporate and financial sectors.

Forecast summary a
Seasonally adjusted at annual rates

		1999	2000	2001
		% changes from previous period		
Real GDP				
	United States	4.2	4.9	3.0
	Japan	0.3	1.7	2.2
	Euro area	2.3	3.5	3.3
	Total OECD	3.0	4.0	3.1
		%		
Inflation b				
	United States	1.5	2.1	2.3
	Japan	-0.9	-0.8	-0.1
	Euro area	1.2	1.5	1.9
	Total OECD c	1.1	1.6	1.9
	Total OECD	2.5	2.8	2.5
		% of labour force		
Unemployment				
	United States	4.2	4.0	4.2
	Japan	4.7	4.8	4.8
	Euro area	10.1	9.2	3.3
	Total OECD	6.6	6.3	6.1
		% of GDP		
Current account balances				
	United States	-3.7	-4.5	-4.4
	Japan	2.5	2.6	2.9
	Euro area	0.6	0.7	1.2
	Total OECD	-0.8	-1.2	-1.0
		%		
Short-term interest rates d				
	United States	5.4	6.8	7.3
	Japan	0.2	0.3	0.7
	Euro area	3.0	4.3	5.1

a) The cut-off date for these projections was 19 May 2000.
b) GDP deflator, percentage changes from previous period.
c) Excludes high inflation countries: Greece, Hungary, Mexico, Poland and Turkey.
d) US: 3-month eurodollars; Japan: 3 month CDs; euro area: 3 month interbank rates.

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New policy?

No single policy lever holds the key to the new economic environment; rather, a constellation of mutually re-enforcing policies are required. Of particular importance are education and labour market policies to expand investment in human capital and encourage the swift reallocation of labour to the changing needs of the economy. Also, countries still have to promote frameworks that are conducive to entrepreneurship, innovation and open and competitive markets. Otherwise, the opportunities offered by new technologies might be delayed, or missed entirely.

At the same time, there seem to be some new factors at play, so a number of policy-relevant questions deserve a closer look. How important is venture capital in fostering innovation? Are administrative regulations affecting the start-up of new innovative enterprises? Is excessive employment protection legislation preventing the reallocation of labour to more productive activities?

The distributional aspects of the new economy also need to be better understood. On the one hand, the new "weightless" ways of creating wealth give the underprivileged, both in developed and developing countries, an opportunity to "get wired" and participate in the economy. On the other hand, the notion of a "digital divide" cannot be excluded, even if similar "divides" existed with the introduction of most technologies, from the car to the telephone.

It is still too early to say for sure how much of the recent pick-up in productivity really has to do with a new economy and how much is just due to a powerful cyclical effect. Could it be that we are simply living in a period of euphoria, confusing excessive market valuations of high-tech companies with perceived technical progress?

Unlikely. The importance of ICT is rising all the time and productivity growth is clearly picking up in several countries. This does not necessarily mean that we should expect a permanently higher growth rate in the future: we might just be witnessing a sequence of important "level" shifts, which will eventually come to a halt after having delivered large increases in the level of income. When that will be is a question for the market, but there may be further shifts to come. Think of the possibilities on offer in communication networks that are still largely to be exploited, even in the United States. Higher sustainable growth might not be that unrealistic after all. However, as has been the case for the computer, it may take a little time before we see the Internet and the dot.coms showing up in the productivity statistics. ■

Could it be that we are simply living in a period of euphoria, confusing excessive market valuations of high-tech companies with perceived technical progress?

How can access to bank information be improved?



See page 110

Which model of capitalism?

RICHARD BRONK, VISITING FELLOW, LONDON SCHOOL OF ECONOMICS

Capitalism takes different forms, each with deep roots. What can we learn from the very different examples of Germany and the United States?



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One world, one capitalism?

Capitalism has won. The key question now is what type of capitalism will prevail? And what are the prospects for a new global model of capitalism, given the rapid globalisation of product and financial markets, and the emergence of new, more homogenous technologies? Other processes are also forcing the pace of change. Increasing integration of world markets and the interdependence of national economies are leaving less and less room for idiosyncratic national institutions or economic policies, while liberalisation of trade and capital markets is widely seen as making further liberalisation of labour and social markets indispensable for countries who wish to remain competitive. On this view, OECD countries should be assessed on their readiness to accept necessary convergence on a dominant model of capitalism based on liberal economic principles. This article probes whether such wholesale convergence of capitalist models is really inevitable, or indeed desirable, by examining the reasons for past divergence and the continuing implications.

Effacing national differences may deprive the world economy of some of its economic vibrancy and diversity.

One key divergence relates to the level of social protection and the structure of labour markets. While most continental European countries have sought to retain generous welfare states and other key elements of their distinctive social models, Anglo-Saxon economies have favoured a more 'residual' welfare state, with reduced tax rates and flexible labour markets which incorporate high incentives to finding work. Such divergence is often characterised as depending primarily on different political conceptions of the appropriate trade-off between economic efficiency on the one hand, and social justice on the other – with liberal market, social market, or "third-way" conceptions offering different trade-offs. But, as this article will argue, the variation between national models also reflects wider differences of view as to how economic efficiency itself can be best achieved, depending in part on the different comparative advantages of the economy concerned.

Aristotle argued that virtue lay in a "mean between two vices", and since the Enlightenment, most democratic nations have sought, consciously or otherwise, to maintain a balance between collective action and individual liberty; between co-operation in the pursuit of public goods and the creative power of competition; and between respect for social values and the pursuit of individual self-interest. In the field of economics and business, the search for such an elusive balance has been not merely for an optimal trade-off between social fairness and economic efficiency but also for the most efficient model of capitalism itself. It has long been understood that efficient market-based capitalism requires more than a system of market exchange, property rights and the rule of law. Social norms engendering trust and removing the threat of opportunism are essential if economic agents are to engage in any relationships more durable than "spot transactions" without being burdened by the costly (and ultimately futile) search for the "complete" legal contract. Organisational structures, too, have a profound impact on economic efficiency, depending on the extent to which they enable, for example, co-operative innovation and teamwork. Without these, markets all too easily fail to maximise economic and social value – producing too much pollution because its value is not reflected in market prices, or producing too little employee training or customer-specific investment by suppliers because – in the absence of commitment mechanisms – they are unduly risky. But as Aristotle might have pointed out, too much commitment between economic agents can be as damaging as too little – leading to social and economic rigidity and a lack of incentives. There must be a balance between commitment and flexibility and between public and private goods.

As Aristotle might have pointed out, too much commitment between economic agents can be as damaging as too little – leading to social and economic rigidity and a lack of incentives. There must be a balance between commitment and flexibility and between public and private goods.

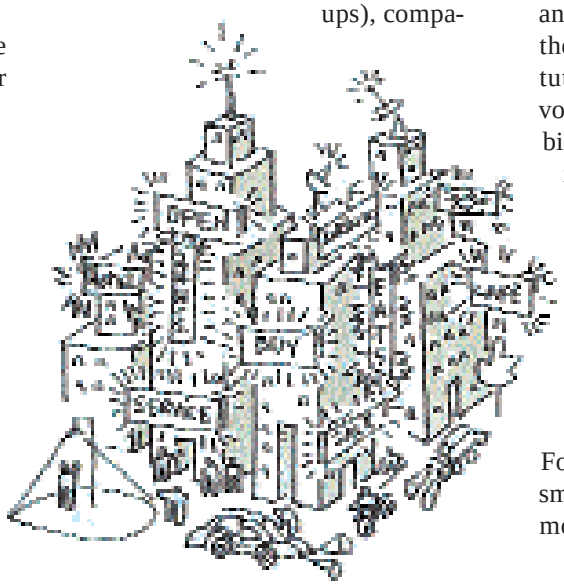
Over the last fifty years, many different models of capitalism have emerged which seek in different ways to achieve such a balance. Their evolution has, of course, been to some extent path-dependent – reflecting pre-existing differences in institutional structures, economic specialisations, and political coalitions. While most OECD countries (and some regions) have distinguishable versions of capitalism, two models (often in somewhat idealised form) have come to typify two essentially divergent approaches. One is the US model, which typifies the liberal market approach seen in Anglo-Saxon countries; the other is the German model, which shares many features with other so-called "co-ordinated" market economies, such as those of Sweden and Japan. There are, of course, some hybrid systems such as the French, but for reasons of brevity, this article will concentrate on a schematic comparison between the archetypal German and US models.

Both models share a broad acceptance of free trade, market determined product pricing and autonomous monetary policy. But, whereas the US model largely relies on market co-ordination of economic agents and seeks to address market failures by providing additional market elements where they are missing (e.g., tradable pollution permits, patents, etc.), the German model relies in many areas on non-market coordination, supplemented by a generous system of welfare protection. So, for example, Germany has a widespread and successful vocational training system that is underpinned by cooperation: between firms in the setting of standards and the avoidance of free-riding; between firms and

The smooth evolution of a new hybrid model – representing a finely calibrated compromise – may not be likely. To expect such is to ignore the extent to which the various features of any one model are interdependent, limiting the possibility of cherry-picking features from other models without introducing institutional inconsistency.

employees, through collective wage bargaining and co-determination (via a largely mandatory system of works councils and worker participation on supervisory boards); and between these social partners and the education system. There is also substantial inter-firm collaboration in research and development (in conjunction with state-sponsored research institutions). Employees and companies alike are willing to make substantial relationship-specific investments and technology transfers on the basis of the trust engendered by co-determination, formal business organisations and the long-term provision of capital from "hausbanks" and committed cross-shareholdings. All this contrasts markedly with the US model with its "residual" welfare state, and its emphasis on competitive relations between companies, flexible labour markets, management autonomy, general education, market-determined technological standards and capital market financing. US companies have, of course, often succeeded in inspiring commitment from staff by creating a cohesive internal corporate "culture", and their focus on shareholder value can demand an impressive attunement with the desires of the marketplace. Extensive legal liability, shareholder activism and, in some cases, "social audits", can also align the interests of the US corporate sector with broader social goals.

Over the last decades, there has been considerable focus on the degree of flexibility shown by the different models in response to economic shocks, technological changes and the internationalisation of capital markets. In Germany, as in many other European countries, a high degree of employment protection appears to have interacted with other labour rigidities and with demand shocks to create an "insider-outsider" problem in the labour market – preventing the wages of those still in work being bid down low enough to price the unemployed back to work. Moreover, extensive cross-shareholdings, long-term bank finance, and co-determination (the very features that have helped underpin a long-term approach to investment and innovation) may have also prevented reallocation of capital and resources to radically new technologies with the scale and rapidity that we have seen in the US. By contrast, flexibility is built into the heart of the Anglo-Saxon model, in particular by the rigours of the capital markets on which it relies for finance. Given the emphasis on tangible short-term returns (outside the area of hi-tech start-ups), compa-



nies need a high degree of flexibility to react quickly to product-market and technological developments. They therefore place a high premium on management autonomy and the ability to hire and fire. The market for corporate control in particular increases the need for flexibility.

What then is likely to be the impact of the spread of international capital market financing and a market for corporate control to Germany? Will it imply a further need for flexibility? And if German companies are forced by capital markets and hostile takeovers to adopt a more short-term focus, will this imply that many of the "commitment" features of the German model become seen as harmful "rigidities"? To many commentators it seems clear that the German and other similar models no longer represent the optimal trade-off between commitment and flexibility. Faced with the internationalisation of finance, a revolution in technology and persistently high unemployment, they seem to need a new mix of institutions – retaining, for example, a vocational training system, but combined with greater labour-market flexibility. Such thinking suggests that it may be time for a new institutional compromise incorporating the best of the various national models, perhaps now at a European or international level since many of the key institutions or actors are no longer nationally bounded.

For various reasons, however, the smooth evolution of a new hybrid model – representing a finely calibrat-

ed compromise – may not be likely. To expect such is to ignore the extent to which the various features of any one model are interdependent, limiting the possibility of cherry-picking features from other models without introducing institutional inconsistency. It may be no accident, for example, that countries with liberal capital markets and flexible labour laws have generally been relatively unsuccessful in vocational training, incremental innovation, and long-term investment. Employees who are unsure of their prospects may not choose to invest in very specific (as opposed to general) training, while companies operating in a market for corporate control may be more wary of inter-firm co-operation in technology transfer and more driven to maximise shareholder value over the short term. To the extent that the German system is, then, a complex system of mutually-reinforcing and interdependent features, the change of some key features, such as the introduction of hostile takeovers and less employment protection, might imply a radical shift to a new institutional equilibrium. It is a general feature of complex systems involving increasing returns from a complementary mix of factors that the change of certain key elements can lead to a non-linear development and to a sudden "flip" to a new self-reinforcing equilibrium. The timing and extent of such a change is usually difficult to predict.

At the same time, however, the fact that a major reform might lead to a radical unraveling of the whole model concerned should ensure that those key actors who benefit from its existence strive hard to preserve it. This should be especially true to the extent that each model meets the functional requirements of that country's particular specialisation. Countries have generally developed specialisations that suit their respective institutional structures and vice versa. This in turn gives key national actors a strong vested interest in retaining those institutions they deem essential to the competitiveness of their respective specialisations. The institutional framework of the US, with its strong venture capital, general education and flexible labour laws – suits admirably an economy focused on high-technology industries characterised by radical innovation. But, likewise, the German system, with its vocational training and long-term cooperation, may be ideally suited to engineering industries reliant on incremental innovation, long-term investment and the production of customer-specific products. Wholesale change in either system might entail a weakening of that country's area of comparative advantage. This does not, however, prevent pressure for change if a country's preferred area of specialisation is contested and if key actors (such as international investors) are not nationally bounded and therefore do not share the system's interests.

It is the interdependence of the features of each model of capitalism and the different functional requirements of each country's particular area of specialisation which make prescription in this area so difficult. Not only do national models of capitalism reflect historical political compromises and core social values, they can also represent part of the very basis of each country's comparative advantage. Effacing national differences may deprive the world economy of some of its economic vibrancy and diversity. There may be good economic as well as democratic reasons for hoping that international actors in the world economy seek to exploit the comparative advantages of different models of capitalism rather than remove them. Some change – perhaps significant change – is necessary or inevitable in most models if they are to achieve a balance between flexibility and commitment that is suited to the demands of the modern global economy. But, as the eighteenth century German philosopher Herder argued, it is important for each nation to sing its own song and develop according to its own distinctive historical rhythm. Transposing his scepticism of the logic of universalism to today's context might suggest that international capital markets, no less than the European Union, should respect a degree of subsidiarity. Each country needs to find its own path to economic efficiency, regardless of how full a participant it is in the global economy of tomorrow.

Not only do national models of capitalism reflect historical political compromises and core social values, they can also represent part of the very basis of each country's comparative advantage.

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Case study: France and the new economy

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How is France embracing its third economic revolution in fifty years?

This is the third economic revolution France is undergoing in less than fifty years. The first one took place in the Fifties and the Sixties, and was about modernisation. Admittedly, France had been a very rich and innovating industrial country, second only to the United Kingdom, since the very beginning of the 19th century. But then, during the first half of the 20th century, it had been bypassed by newcomers like the United States, Germany and even Italy, Russia and Japan – a factor that, along with a weak demography, contributed in no small measure to the ignominious defeat of 1940. Post-War France made economic recovery and reindustrialisation a top priority – and succeeded in an amazing way. By the late Seventies, it was the fourth economic power in the world, right after West Germany, and an undisputed leader in such strategic fields as cars, avionics, space, high-speed railways, underground railways, nuclear power, oil, public works, pharmaceutics and medical research. While agriculture's share in the economy had sharply declined in relative terms, from 35 % of the GDP to less than 15 %, it remained very significant in absolute terms, against a rapidly growing overall GDP: the traditional peasantry had been replaced, in fact, by a state-of-the-art food industry catering not just for native consumers but for the world. The same was true about the restructured prestige industries (fashion, luxury goods). As for services, from banking to travel to the hotel industry, they had grown from less than 40% of a sluggish GDP right after the War to over 60% of thriving GDP some thirty-five years later.

The second economic revolution took place in the Eighties and the Nineties. It was about freedom. For all its achievements, France's renaissance from 1945 to 1981 had been a largely statist affair. It first entailed the most comprehensive and possibly the most generous network of government-sponsored schools and universities in the world, with a genuinely meritocratic system of examination and graduation. Then, it was based on a huge State-owned sector that included not just traditional monopolies like railways, the tobacco industry, broadcasting and TV or the post office, but also most or all of such key sectors as the car industry, coal, oil, steel, chemicals, banking, insurance, and even advertising. Even private companies were eager to co-ordinate their strategies with the state and tended to appoint senior public servants on leave as senior executives. And last but not least, unions were bribed into the system through a wide range of incentives, from Soviet-style low cost housing to membership into the constitutionally sanctioned but unelected nation's third assembly, the Economic and Social Council (Conseil Economique et Social).

Eight out of the forty companies listed in the Paris CAC-40 index belong to the digital economy.

Ironically, it took a socialist president, François Mitterrand, to overhaul the system. For two years, from 1981 to 1983, Mitterrand allowed an overstatisation of the economy and even more companies to be nationalised. The results were so clearly catastrophic that a complete change of policies was decided in 1983 and put into effect by staunch free market converts like Laurent Fabius and Pierre Beregovoy. State companies were privatised. Employment was made more flexible. Union powers were curtailed. Adjustment to the world market was turned into a dogma. Moreover, Mitterrand saw to it to couple France's economic liberalisation with the gradual setting up of a European single market and a European single currency. There were many social side-effects, like a surge in unemployment and the emergence of an underclass of "new poors". By and large, however, the free market revolution dramatically enhanced France's economic standing and helped to rival Germany as the leading country in Europe. Whatever their second thoughts, neither the Classic Left, with Lionel Jospin and Dominique Strauss-Kahn or, again, Fabius, nor the Conservative Right (who, in France, can often be as Statist-minded as the Left), with

Edouard Balladur and Jacques Chirac, have sought to resist the change or to reverse it.

The third revolution, which can be dated from the late Nineties and has taken off for good only a few months ago, is about the New Economy. Some figures are quite impressive. By the first half of the year 2000, eight out of the forty companies listed in the Paris CAC-40 index belong to the digital economy. Their combined capitalisation amounts to over 50 % of the total index capitalisation and they can be seen as the driving force behind a bullish Paris Stock Exchange. When introduced on the French Nasdaq, Nouveau Marché, 'new economy' companies are usually making spectacular advances, with stock prices soaring by 100 % or 200 %. More established companies are equally attractive. France Telecom, the leading company in telecoms and internet-related operations, achieved a 25% increase in one single day, in March, when its CEO, Michel Bon, disclosed his plans for letting its internet provider Wanadoo go public. Two months later, its daring acquisition of Orange helped the market to rebound right after the mini-crash that affected some e-business companies. Global investment for start ups (the French have coined a rather sexy word for them : "gazelles") seems to be increasing by 300 % every year. New Economy companies are burgeoning all over the country and have already changed the face of several neighbourhoods in Paris, from the old garment-industry district Le Sentier, rechristened "Silicon Sentier", to the 11th arrondissement, along Rue Oberkampf and Avenue Parmentier, formerly one of the city's dullest areas and now a hotbed of smart, little office buildings and trendy cafés.

France's New Economy revolution owes a lot to its two previous ones and may even be described as their culmination. What is the New Economy, anyway? Is it just the Old Economy being digitalised? By their sheer volume and their sophistication, the French industry and services have provided a strong market basis for the emerging computer and internet related technologies. This was true even within a context of State-run juggernauts. By the late seventies, the then largely nationalised banking industry was instrumental in the launching of the "smart" credit card. A lot can be said against Minitel, the computerised home network set up by the then fully state-owned France Telecom some twenty years ago: it was incredibly slow and ineffective and expensive, and its main commercial application was sex fora. Nevertheless it was the world's first attempt in global on-line services before the Internet explosion of the Nineties. It became even truer within the more open and more entrepreneur-friendly environment of the Nineties.



New French salesmen

But what about the future? France may have to face hard choices quite soon. One vexing instance, in that respect, is the brain drain. France's superior educational system has generated brilliant graduates in almost every field. Until recently, they were happy to contribute to their nation's renaissance. But the more successful the French economy is, the more global it is becoming. And globalisation, in turn, means that young people from France are more likely than in the past to look for better opportunities abroad. Some 250,000 French people are said to live in Tony Blair's free market Britain. Some 500,000 are deemed to have migrated to the United States. California's Silicon Valley alone may host 60,000 French expatriates. They are attracted by higher salaries, more generous stock options, lower taxes, more enticing opportunies to start one's own business, to get rich (really rich) and to enjoy more flexible working patterns. Similar developments may occur in the future between France and Germany if Gerhard Schröder's fiscal reforms are to be fully implemented.

Will France manage not only to reverse the trend but even to attract more brains and more qualified personnel from the rest of the world? The present Minister of Economy and Finance, Laurent Fabius, certainly has a clear perception of what is at stake. Other leaders may be more confused about it. But the decisive answer will come from the people themselves. My guess is that, all and all, the French are quite thrilled by the shining prospects of the New Economy and ready to undergo some drastic changes in order to get it consolidated. The third economic revolution has only just begun, after all. ■

Responsible business conduct in a global economy

MARIA LIVANOS CATTAUI, SECRETARY-GENERAL OF THE INTERNATIONAL CHAMBER OF COMMERCE

Companies are now subject to intense public scrutiny. How should they respond?

Companies today are facing multiple challenges that go beyond the traditional objectives of running a profitable business, serving shareholder interests, meeting the needs of consumers and providing a fair wage and good working conditions for employees.

Demands on business have become more insistent because the very process of globalisation has heightened expectations of what companies can or should contribute to environmental and social progress.

Increasingly, companies are responding to these challenges by means of explicit business principles that set out their commitment to act as responsible members of society in the way they conduct their business.

When establishing these principles – whether formally expressed or an unwritten part of the corporate culture – companies need above all to maintain a balance between economic responsibilities to customers, employees and shareholders and their responsibilities as global citizens and members of the local communities in which they operate.

At issue is the place that business should occupy in society, an issue that raises a host of questions about how companies can or should – in their own sphere of influence – contribute to progress in areas such as the environment, labour conditions, and human rights. Many of these questions relate to the role of business in a global economy, and to the respective role of business and governments in the management of globalisation.

Demands on business have become more insistent because the very process of globalisation has heightened expectations of what companies can or should contribute to environmental and social progress.

Companies can do much by setting an example through good corporate practice, as well as by working at the philanthropic level. They cannot be expected to assume responsibilities that are properly the preserve of governments. Therefore, business has a clear interest in stable and effective government that respects the rule of law and sees that it is applied.

One reason why companies are increasingly being pressed to solve problems outside their economic remit is that they are rightly seen as contributors to the positive aspects of globalisation. Research by various international organisations on the activities of multinational corporations has found that they have contributed to raising standards in the countries in which they operate.

Much is being demanded of companies because they are prime movers in making globalisation happen. Indeed, it is difficult to imagine the emergence of a global economy without the stimulus of business enterprise.

The only effective response is for businesses to demonstrate that they are both responsible and accountable. This means that business must engage in dialogue and debate, unafraid to justify itself and explain its constructive and indispensable role in society.

Above all, business must demonstrate that:

- global economic development is the best way to increase prosperity

The way to ensure a greater business contribution to environmental and social progress is not through prescriptive codes and regulations imposed from outside, but by persuasion and peer pressure.

within and among countries, and to create opportunities for millions of people, especially in the developing world, to secure a decent life for themselves and their children;

◆ companies most effectively establish their credentials of good corporate citizenship by applying their own principles of corporate conduct. These may take the form of formal codes or unwritten values and internal monitoring, appraisal and reporting procedures that guide corporate operations.

To be effective, business principles should be developed and implemented by the companies themselves. Whether formal or informal, they can play an important role in bridging cultural diversity within companies and in enhancing awareness of societal values and concerns.

Internal guidelines and procedures on specific issues such as environmental management, safety and occupational health, or ethics and integrity, often supplement business principles.

Company principles must be appropriate to conditions in the different countries in which they operate. That is one reason why a "one-size-fits-all" approach will not work. Apart from the contrasting external conditions companies must face, they themselves differ greatly. History and corporate culture, the nature of the business and its goals, geographical location and size, are all factors to be considered.

In the final analysis, it is corporate behaviour that counts – not the existence of a formal set of business principles.

Government-mandated or other external codes may be valuable as external benchmarks, but they are unlikely to be a viable alternative to voluntary principles developed by the companies themselves. And demands by unaccountable external groups seeking to impose codes and to assert the right to audit companies' compliance are invariably counterproductive.

Rather than reacting to outside pressures, a company's decision to adopt its own business principles should be motivated by the desire to express its values for the benefit of its own employees. Whether it disseminates them externally is a decision that must rest with the company.

Clearly, the way to ensure a greater business contribution to environmental and social progress is not through prescriptive codes and regulations imposed from outside, but by persuasion and peer pressure. Business is opposed to the use of codes or guidelines as "soft law" by outside parties to judge the behaviour of individual companies.

The futility of attempting to impose a universal code of conduct on multinationals was amply demonstrated by the failure of negotiations that lasted 13 years in the UN Commission on Transnational Corporations. The effort finally foundered on an attempt to introduce an implementation procedure that would have judged individual corporate behaviour in light of the code's provisions.

Far from being a disadvantage, the diversity of voluntary business initiatives and principles is a source of innovation in defining responsible business conduct. This is the spirit in which ICC, on behalf of world business, is supporting the Global Compact between business and the United Nations proposed by Secretary General Kofi Annan to promote human rights, improve labour conditions and protect the environment.

Kofi Annan cited universally agreed values expressed in the Universal Declaration of Human Rights, the International Labour Organisation's Declaration of Fundamental Principles and Rights at Work, and the Rio "Earth Summit" Declaration on Sustainable Development.

All three declarations, primarily directed at governments, are also relevant to business and provide an over-arching framework of values that companies can use in establishing their own individual business principles.

Many companies also support general business codes produced by business and other organisations, and often they incorporate passages from them in their own internal rules of conduct.

Some, among them the OECD Guidelines for Multinational Enterprises, provide broad recommendations, while others give more specific or sectoral guidance, like ICC's Rules of Conduct on Extortion and Bribery in International Business Transactions, the ICC Business Charter for Sustainable Development, and the various ICC marketing and advertising codes.

ICC, on behalf of world business, is supporting the Global Compact between business and the United Nations proposed by Secretary General Kofi Annan to promote human rights, improve labour conditions and protect the environment.

Just because company codes of practice are voluntary in the sense that they are not imposed from outside, it should not be thought that they are without teeth. In fact, company discipline can ensure that they are implemented.

Companies today need to be seen to be maintaining high standards of corporate citizenship. They must pay careful attention to external reactions to their activities. Transparency and effective communications are vital factors.

Perhaps more than in the past, business needs to take part in dialogue and debate, and to demonstrate to opinion leaders and a wider public that it is regulating itself effectively and is a positive force in the world.

After all, companies make a powerful contribution to the defeat of poverty and improving the quality of life. They do this by creating wealth and jobs, promoting scientific and technological progress, and constantly improving products and services under the stimulus of competition.

As the world business organisation, the International Chamber of Commerce is uniquely well placed to deliver this message. Among ways that it is doing so is through a dedicated section of its website (www.iccwbo.org) on the business contribution to the Global Compact, which I commend to readers of this book. ■



Managing financial crises: public and private roles

NGAIRE WOODS, UNIVERSITY COLLEGE, OXFORD UNIVERSITY

Across the world, the public sector was increasingly called upon to bail out the private sector in the late 1990s. Is it finally time to set out the exact roles of the two sectors in times of trouble?

Financial crises in Mexico, East Asia, Russia and Brazil over the last decade have focussed the minds of policymakers on a new kind of global economic problem. Private capital flows have not only become more volatile, but reflect a much larger range of investors and are held by an increasingly diverse set of borrowers. This makes a large group of countries vulnerable to crises catalysed by events which may well take place outside their own borders. As a result, policymakers have been cast into a debate not only about the desirable speed and nature of adjustment and response to financial crises, but equally about who should bear the burdens of intervention and adjustment.

Taxpayers in industrialised countries are concerned that they are being asked to foot the bill for poor investment decisions taken in the private sector.

One of the most controversial issues which has arisen from public intervention in the financial crises of the 1990s is the idea that the private sector is being bailed out with public money. Taxpayers in industrialised countries are concerned that they are being



"Maybe the government can help"

asked to foot the bill for poor investment decisions taken in the private sector. Furthermore, many economists argue that bailouts are magnifying the prospect of future crises by setting up incentives for investors to make poor decisions. A broader issue raised by bail-outs is who bears the most cost of a crisis: critics of existing policies argue that the social costs of crises are being borne disproportionately by poorer sections of populations within debtor countries – a further reason for ensuring that the private sector bear more of the burden of adjustment in the working out of financial crises.

The present sharing of roles between public and private sector has been moderated by the international financial institutions. Yet the consequences of their intervention have been asymmetric. Until the 1990s, interventions by the IMF ensured that debtor countries undertook radical adjustment programmes and honoured their external debt commitments. The IMF refused, for instance, to lend to members in arrears to private creditors – saying essentially that a government would only have access to Fund resources if it kept repaying all its other debts. Of course, it was (and still is) much easier for the IMF to lean on a debtor government seeking assistance, than to attempt to co-ordinate the actions of a divergent group of private sector creditors and their governments. In 1998 and 1999, however, the IMF began to stake out a new role, extending its policy on lending into arrears and thus opening up more latitude for governments to negotiate with their private creditors. Additional means have also been used to involve the private sector more fully in sharing the burdens of crisis management.

One solution has been to 'bail-in' the private sector, pressuring creditors to lengthen their credit lines to countries. For example, in Korea the G-7 Central Bankers and the IMF applied heavy pressure to persuade European, Japanese and US banks to roll over their loans for a short period so as to allow the government to negotiate a more comprehensive restructuring package. However, Korea was, in the words of a senior Fund official, 'easy' given that 'the only thing that was involved basically was inter-bank lines, and you could get those banks together around the table and get central banks to exert a little moral suasion on them to roll over and then to restructure'. More profoundly, the Korean example underscores the difference between 'bailing-in' and 'not bailing-out'. By ensuring that private creditors provided bridging funds at very high cost to the crisis-ridden borrower, the international institutions lightened the load on themselves, but did not substantially redistribute the burden of adjustment away from the borrower and towards the creditors. A stronger commitment 'not to bail-out' creditors, by contrast, would redistribute burdens – as has occurred in other cases.

In 1998 and 1999 the IMF began to stake out a new role, extending its policy on lending into arrears and thus opening up more latitude for governments to negotiate with their private creditors.

A very different solution was found for crises in Pakistan and Ecuador which involve a large variety of different instruments and creditors. In these cases, governments effectively defaulted on their bond obligations, with the approval of international institutions, forcing creditors to renegotiate. The precedent created here is for financial crises to be resolved through some kind of stay on payments or informal 'standstill' – at least in smaller countries whose crises do not pose a risk to international financial stability. Yet this way of resolving crises has been trenchantly opposed by the private sector, especially in the United States. Interestingly, however, the present climate in Washington DC may well bring this method of resolving crises more to the fore – albeit through the backdoor. Let me elaborate.

The alternative to 'standstills' is for the IMF or the private sector to provide emergency funds to countries in crisis, giving creditors an incentive not to exit too hastily. The private sector provision of such credit, although politically popular, has proven extremely problematic. Commercial contingency lines of credit were arranged in the late 1990s for Argentina, Indonesia, and Mexico. However, it is clear that banks are not willing to provide this kind of finance to all countries – especially poorer or less well-placed countries. Furthermore, the relationship of these lines with other forms of credit has not been clarified. It bears noting that Argentina, Indonesia and Mexico have all continued heavily to rely upon IMF credits (Argentina receiving approval for a US$7.2billion drawing on 10 March 2000; Mexico for a US$1,216billion drawing approved on 17 March; and Indonesia for a

US$5billion drawing approved on 4 February). Finally, from the banking and financial risk side of the question, it has been argued that banks may well adopt dynamic hedging strategies in respect of these credits which end up leaving their overall exposure to a country the same – reinforcing and not alleviating the risks crises pose to financial stability, and hence the need for official intervention.

Continuing to use the IMF to provide credits (such as through the recently created 'Contingency Credit Line') is also problematic. It is criticised politically, as already noted above, for 'bailing-out' the private sector. Furthermore, if the Fund were to extend such credits to all qualifying cases (and also those which simply have to be dealt with due to systemic risks), the United States and other major shareholders would have to provide much more money. This is almost inconceivable given the present level of opposition and hostility in the US Congress towards the IMF.

So what is the way forward? A patchwork of smaller measures have been proposed and seriously debated in order to effect some kind of stay on payments in a crisis. The most widely-debated proposal within this patchwork is for 'collective-action clauses' to be included in bond covenants. This would make it possible for a government to renegotiate bonds without kicking off a slew of paralysing legal actions (at present the unanimous consent of bondholders is often required for any restructuring and hence any renegotiation can activate cross-default and acceleration clauses).

The problem with collective action clauses is that many governments fear that it will increase their cost of credit unless all governments undertake to include such clauses in all bonds. For this reason some emerging market governments have joined the private sector in rejecting such proposals. Proponents argue that there is little evidence of additional costs – pointing out that UK-style government bonds are already framed with some measure of this protection relative to US-style government bonds and yet face no special premium as a result. At the policy level, proponents argue that the way to avoid any such additional premium is for all governments – led by the G-7 – to include such clauses in their own bonds as a normal and everyday occurrence. However, as yet, the technical objections to such measures have overwhelmed the arguments in favour of them.

There will be acute pressure on investors to monitor the position of borrowing governments more carefully so as to attempt to exit before some form of stay on payments begins. This, in turn, could easily result in more crises being catalysed by such exits.

A more ambitious proposal is to amend the IMF's Articles of Agreement (specifically Article VIII 2b) so as to put the IMF in a legal position to endorse a stay on payments of a country. This would be the 'muscular' standstill option – introducing the beginnings of a form of international bankruptcy procedure. Yet the proposal has not attracted the necessary political support. Although several members of the IMF approve of it, the United States is rather implacably opposed, and US agreement is both politically vital and formally required for any such amendments to the Fund's Articles.

Yet in spite of the Fund's limited formal powers, the institution is already participating in debt workouts such as those in Ecuador and Pakistan which involve informal stays of payment. So too, lending into arrears and behind-the-scenes pressures have become part of the Fund's armoury in managing crises. In looking to the future, it is hard to imagine that financial constraints will not further push the Fund in these directions. In particular, the IMF already does not have adequate resources to offer bridging finance to all potential debtors-in-crisis. Its resources will only permit it (in most cases) to offer support in the context of some kind of standstill or renegotiation.

The consequences for these longer terms trends are manifold for the private sector. There will be acute pressure on investors to monitor the position of borrowing governments more carefully so as to attempt to exit before some form of stay on payments begins. This, in turn, could easily result in more crises being catalysed by such exits. Furthermore, in the absence of a formal, institutionalised standstill procedure, creditors will have to be much more determined in resolving their own collective action problems. In other words, private sector actors will have to co-operate to suppress individual incentives to exit in ways which provoke and magnify crises. They will need to organise themselves to maximise the collective incentive to participate in more orderly workouts. The experience to date, however, suggests that for investors so to do, they will need ongoing and substantial official pressure. ■

Corporate governance: a basic foundation for the global economy

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Corporate governance is not just a business matter. It concerns the well-being of whole economies and populations too, and is a partnership question par exellence.



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Figures of responsibility

Most of us, when we hear corporate governance, tend to think of codes, like the well-known Cadbury Code, that have emerged over the past few years. These governance codes usually recommend that companies change their board structures and procedures to make the company more accountable to shareholders. Often they suggest increasing the number of independent directors on boards, separating the position of chairman and chief executive officer, introducing new board committees – such as the audit committee – and so on.

If this were all that corporate governance was about, then one could legitimately ask, why the OECD, an intergovernmental organisation whose mandate is to advise on public policy matters, is interested in the topic at all. Isn't corporate governance something that should be handled by corporations, as the name implies?

No. Governance is more than just board processes and procedures. It

involves the full set of relationships between a company's management, its board, its shareholders and its other stakeholders, such as its employees and the community in which it is located. The quality of governance is directly linked to the policy framework. Governments play a central role in shaping the legal, institutional and regulatory framework within which governance systems are developed. If the framework conditions are not in order, the governance regime is unlikely to be either.

The policy framework covers considerations such as the legal rights of shareholders and their ability to obtain redress in case their rights are violated. The framework includes the protection of shareholders through regulation and through requirements for full disclosure of risks. These are just two examples. There are a great number of other factors that impact the way the company is controlled, managed and held accountable, and many of these factors fall squarely in the realm of policymakers.

The root of a crisis

Why should we care about the quality of governance? There are several reasons. An immediate one is that poor governance can harm national economic performance and ultimately global financial stability. The financial crises in Asia, Russia and elsewhere have demonstrated this beyond question. Though circumstances differed, what crisis countries all had in common was distorted governance structures that led to inefficient economic decision-making. When imbalances became too large to be ignored, they prompted a rout in financial markets, setting back the development efforts of entire countries and regions.

The challenge to improve governance is not limited to emerging market and transition economies. All countries stand to gain from improving the way their enterprises operate.

Problems specific to each country were important too. In Asian countries, interest groups linked to large financial institutions, even to the state, ran vast conglomerates under conditions that prevented external scrutiny. Because of their high-level connections and the perception of implicit government guarantees, these conglomerates had easy access to external debt and equity finance without having to go through the appropriate controls. However, minority shareholders – domestic and foreign – as well as creditors, were given neither the information nor the authority to monitor corporate operations. Lack of transparency and accountability led, in turn, to distorted incentive structures, over-investment and dangerously high corporate indebtedness. Poor disclosure and audit procedures only made the situation worse by preventing early warning of the deteriorating financial conditions of corporations.

In the context of countries making the transition from centrally-planned to market economies, corporate governance must respond to the needs of the different stages of reform. In many transition countries, weak corporate governance has been blamed for the delay in restructuring after privatisation. In other words, while privatisation succeeded in transferring ownership of enterprises from public to private hands, ambiguous property rights and an inadequate regulatory and institutional framework resulted in unchecked control by corporate insiders and opaque ownership and control structures. In many cases the rights of minority shareholders were very poorly protected indeed. At the end of the day, this poor governance undermined confidence in the markets and held the whole financial system hostage.

It is also worth noting that the challenge to improve governance is not limited to emerging market and transition economies. All countries stand to gain from improving the way their enterprises operate. Even the most advanced economies are discussing, questioning and working towards better practices. In the United States the separation of the chairman and chief executive – preferred by many investors – is unusual. European countries face mounting calls for better treatment of minority shareholders and greater transparency in mergers and acquisitions. In Japan, efforts to rekindle economic dynamism clearly require improvements in areas such as information disclosure and board practices. In Australia, the United Kingdom, France, Germany and Sweden, important long-term efforts have been undertaken in the area of company law and the regulation of take-overs.

Impatient capital

One of the implications of the communications revolution and the increasingly integrated global economy is that, unfortunately, capital is rarely "patient". In their constant search for investment opportunities, investors will not hesitate to take their money around the globe. If companies are to attract and retain

long-term capital from a large pool of investors, they need credible and recognisable corporate governance arrangements. Companies and governments have to respond.

Of course, governance is not simply an issue relevant to foreign investors. Yes, it is true that they often sound the initial warning. However, by far the most investment in almost all countries comes from home-grown sources. Strengthening domestic confidence in a country's own corporations and stock markets matters greatly to the long-term competitiveness of businesses and to the overall health and vitality of national economies. It should not be surprising that studies have shown that countries with weaker investor protection tend to have smaller, less liquid, capital markets.

In the 21st century, stability and prosperity will depend on the strengthening of capital markets and the creation of strong corporate governance systems.

It is in the context of growing awareness of the importance of good corporate governance that the OECD has developed a set of Principles of Corporate Governance. The results represent a collective view of the most important core elements of a good corporate governance framework. They are designed to leave adequate flexibility for implementation according to specific circumstances, cultures and traditions in different countries. The Principles are non-binding. They are intended to serve as a reference point for governments as they review and refine their frameworks for corporate governance. They also provide guidance for stock exchanges, investors, private corporations and national commissions on corporate governance as they elaborate best practices, listing requirements and codes of conduct.

The OECD Principles cover five main areas: the rights of shareholders and their protection; the equitable treatment of all categories of shareholders; the role of employees and other stakeholders; timely disclosure and transparency of corporate structures and operations; and the responsibilities of the board towards the company, shareholders and other stakeholders.

To get to the heart of the matter, the Principles can be summarised in terms of four values. These are equitable treatment, responsibility, transparency and accountability. The Principles identify those core values or principles that we feel hold true in all countries – principles that underpin the development of a strong governance framework which, in turn, supports the development of a sound capital market.

These values also link corporate governance to other important elements of governance in a broader sense: the battle against bribery and corruption; corporate responsibility and ethics; public sector governance; and regulatory reform. The pursuit of good governance requires co-ordinated efforts in all of these interconnected areas, so that nations can reap the full benefits of the globalising economy.

Now that the Principles have been completed, the real work is only just beginning. At present, the main task for the OECD is to encourage a process of examination, dialogue and ultimately change. We are seeking to promote governance reforms in close co-operation with other international organisations, in particular, under a joint programme with the World Bank, and with the participation of the IMF, the regional development banks and other bilateral partners.

The OECD's main responsibility within the context of this co-operative effort is to organise a set of regional corporate governance roundtables, bringing together senior policymakers, regulators and market participants from the region in order to improve their understanding of governance and help them develop reasoned, robust policy. Roundtables are now in operation for Asia, Latin America, and Russia and further roundtables are planned for Eurasia, which is basically the CIS countries – except Russia – plus Mongolia and Africa.

In the 21st century, stability and prosperity will depend on the strengthening of capital markets and the creation of strong corporate governance systems. While it is encouraging to see emerging economies rebound from the traumatic financial crises of the last several years, it is important that the momentum for reform of corporate governance regimes be maintained. The OECD can work alongside governments, stock exchanges and other private parties around the world to assist them in their own efforts to strengthen their economies. The Principles of Corporate Governance can help in the process too. They might not be able to prevent shocks from occurring completely, but if adhered to, they could prevent a shock from becoming a crisis. ■

References

◆ See the Principles of Corporate Governance at http://www.oecd.org/daf/governance/principles.htm

Corporate governance: the role of market forces

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Interest in the economic role of corporate governance – and governance reform – increased markedly around the world in the last decade of the twentieth century and shows no signs of abating. The reasons are many: corporations of all shapes and sizes have come to play a dominant role in organizing both our economic and social spheres; large multinational corporations are viewed by some as now more influential then many national governments; regulatory barriers to the flow of goods and services, and – importantly – the flow of investment capital have fallen drastically; equity investors, who have become more sophisticated and have vast amounts of capital, see a link between effective governance (shareholder rights, corporate transparency, managerial accountability) and lower investment risk – and they are causing market pressures for governance improvement; and, post-Asian crisis, international policymakers have come to recognize the link between effective corporate governance and access to lower-cost, more patient equity capital.

It is in this context that the academic discussion about "global corporate governance convergence" arises. Those who express doubts about convergence tend to frame the discussion as follows: will all corporations and all nations adopt a single set of corporate governance rules, or will individual corporations and nations continue to follow a rich diversity of practices that express the unique values and cultures of a given society? Of course, framing such a complex issue in stark but simplistic extremes tends to polarise participants in the discussion rather than lead to insights. And, as is usually the case in such matters, reality can be expected to fall between the extremes. The global reality is that convergence is happening – if convergence means the act of moving toward a common understanding and acceptance of the basic elements of effective corporate governance. And yet, we will probably never see all nations and all corporations adopt identical governance rules and practices, within identical legal and enforcement frameworks. Absolute conformity is neither necessary nor likely to be very healthy.

In my view, convergence of governance principle and diversity of governance practice are not inconsistent. Convergence to me refers to the ongoing movement of national governance rules and practices toward a common global understanding. Motivated by market forces, nations and corporations are increasing corporate transparency and shareholder protections to attract low-cost capital. The proliferation of corporate governance guidelines and codes of best practice underscore both convergence and diversity. Where these guidelines and best practice maintain differences, one can examine both the particular national environments that set them apart from one another as well as the underlying principles that frequently indicate a more fundamental compatibility.

The OECD's Principles of Corporate Governance respect differences in national frameworks and cultures and yet articulate a common set of underlying principles. The Principles grew out of a Report issued by the OECD's Business Sector Advisory Group on Corporate Governance: Improving Competitiveness and Access to Capital in Global Markets[1]. The Report was based on a series of discussions with international business leaders and institutional investors. The Advisory Group specifically sought to

1. The Advisory Group did not constitute a formal subsidiary body of the OECD, and its members served on a voluntary basis, and in their personal capacities. The members of the Advisory Group were Michel Albert (France), Sir Alan Cadbury (United Kingdon), Robert E. Denham (United States), Professor Dieter Feddersen (Germany) and Nobuo Tateisi (Japan). Ira M. Millstein chared the Advisory Group.

identify which protections were valued across borders, regardless of diverse cultures and business environments.

The Report found the following. Governance practices constantly evolve to meet changing conditions and are expected to continue to evolve. Corporate and regulatory practices vary significantly across nations and cultures, and corporate governance practices vary as a function of differences in ownership and regulatory structures, business circumstances, competitive conditions, corporate life cycles, and numerous other factors. And yet, despite these differences, participants from a range of nations agreed that basic common principles of governance can be articulated and convergence around these basics is likely as countries, nations and corporations compete to attract affordable equity capital. Quite simply, as global competition for capital increases, investment capital will follow the path to those national economies and corporations that adopt effective governance practices. Those practices include acceptable regulatory infrastructures, accounting and disclosure standards, satisfactory investor protections, and board practices designed to provide independent, accountable oversight of managers.

The members of the Business Sector Advisory Group discussed the philosophical differences concerning the corporate mission – but all agreed that the end game of effective governance is positioning the corporation to succeed. The need to compete successfully, to attract capital and to provide a competitive return to investors is the market reality for all publicly-traded corporations, no matter what society imposes as the corporate objective. Whether the primary corporate objective is to create jobs, pay taxes, provide goods and services, contribute to national consumption, or return profits to shareholders, corporations must succeed. And to succeed, they must attract capital at competitive rates and perform in an efficient and accountable manner.

And a corollary point of consensus emerged. To the extent that a nation or an individual company adopts corporate goals that are not directed at providing returns for shareholders, such "diversity" is fine so long as it is disclosed – so that investors can make informed decisions. If it is clear to investors that a national system values job security for employees at times at the expense of shareholder value, or that a company has a commitment to social responsibility well above what the law requires and this commitment

As global competition for capital increases, investment capital will follow the path to those national economies and corporations that adopt effective governance practices.

imposes significant costs and reduces potential profits, the market can place a value on that investment accordingly. Viewing corporate governance through this lens, the fundamentals of effective corporate governance are hard to take issue with:

◆ Fairness: Ensuring the protection of shareholder rights and the enforceability of contracts with resource providers

◆ Transparency: Requiring timely disclosure of adequate information concerning corporate financial performance. (International accounting standards and comparable disclosure requirements respecting corporate ownership structure would be useful in this respect.)

◆ Accountability: Clarifying governance roles and responsibilities, and supporting voluntary efforts to ensure the alignment of managerial and shareholder interests, and monitoring by a board of directors capable of objective judgment.

◆ Responsibility: Ensuring that corporations comply with the other laws and regulations that reflect a society's values.

To me, these are the core values of corporate governance that transcend national boundaries, and we will see convergence in that we will see these values expressed. How they are expressed, however, will be for each nation – and to some degree for individual companies – to decide. Market driven demands for investor protections will continue to encourage national "rules of the corporate governance game" to converge. And, the OECD Principles of Corporate Governance – which expand on the four core values – have spurred Member countries to examine their own legal systems and societal expectations, and move toward more common standards, especially as to the transparency of information about corporate performance and governance, and the accountability of corporations to investors. ■

The WTO: moving forward

MIKE MOORE, DIRECTOR-GENERAL, WORLD TRADE ORGANISATION

Seattle was a drama, not a crisis. The doomsters got it wrong.

Trade used to be unspectacular – even boring – to most people. Negotiations on tariff-rate quotas, voluntary export restraints and technical barriers to trade did not set too many pulses racing. The World Trade Organisation's predecessor, the General Agreement on Tariffs and Trade (GATT), plodded on with the dry work of liberalising world trade amid the silence of public apathy.

The 15-fold rise in world trade over the past 50 years has probably done more to raise living standards and lift people around the globe out of poverty than any other man-made device.

How times change! The WTO is now at the heart of a passionate debate about the defining issue of our time: globalisation. We get the same sort of media coverage as sport or national politics. It's either triumph or disaster; victory or defeat; nothing in between is recognised.

To be sure, the nuts and bolts of the multilateral trading system's work has not changed that much. Government negotiators still spend hours holed up haggling over the minutiae of international trade deals. But they now do so under the spotlight of public scrutiny and amid the crossfire of a burgeoning backlash against globalisation.

I welcome the new scrutiny. The WTO does important work and decisions taken in this institution affect the lives of ordinary men and women all over the world. It is right that the WTO be held accountable for its record.



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Time for a positive outlook

Let me add that we have nothing to hide. On the contrary: we have plenty to be proud of. The multilateral trading system is a powerful force for good in the world. The 15-fold rise in world trade over the past 50 years has probably done more to raise living standards and lift people around the globe out of poverty than any other man-made device. The gains to the world economy from the Uruguay Round alone come to over $240 billion a year. That's a pretty good return on the $75 million a year that governments chip in to the WTO's budget. The WTO also provides a stable and predictable framework for business by locking in governments' commitments to liberalise. And we

operate a dispute-settlement system which makes it easier for member governments to resolve their trade disputes without coming to blows.

Perhaps inevitably, though, the WTO has had trouble adapting to the new environment in which it operates. And we are also just beginning to develop responses to new agendas which some people and groups are seeking to have placed before this institution. To some extent the pressures of this new environment were reflected in the failure to launch a new round of world trade negotiations in Seattle last December. And yet, although it was a great disappointment, this was not the first – nor probably the last – time that trade ministers fail to agree. Old GATT hands will recall the abortive attempt to launch a new round in Geneva in 1982 or the stalemate in Brussels in 1990. Yet Seattle was widely portrayed both in the media and by our critics as a death-knell for the WTO. They turned a drama into a crisis.

Thankfully, the critics have been proved wrong and the doom and gloom stories of six months ago have been shown up for the nonsense they were. The WTO has survived and we are making good progress on a very important negotiating agenda.

First, we have successfully launched major negotiations on agriculture and services. These negotiations are proceeding much better than many expected. Together, the sectors account for over two-thirds of world output. The potential gains from further liberalisation in these areas are huge.

Thirty candidates, more than 1.5 billion people, are lining up to join the WTO. This is a clear vote of confidence in the WTO system and we are doing everything we can to facilitate their entry under the appropriate conditions.

Let me give an example. According to one OECD calculation, consumers and governments in rich countries pay $350 billion per year to support agriculture – enough to fly their 41 million dairy cows first class around the world one and a half times. Think of the benefits to everybody if the cost of these support levels were reduced.

Second, we have worked through an important package to help the world's poorest countries reap greater benefits from the world trading system. This package includes better access to rich-country markets, increased technical assistance, and closer co-operation between the WTO and other global institutions that promote development, notably the World Bank.

Third, we have established a mechanism for dealing with the problems that some developing countries have with implementing some of their commitments from the Uruguay Round. This was a major area of difference at Seattle.

Fourth, we are looking at ways to improve how the WTO works, and in particular how to adjust to having 137 members, all of whom demand respect and their rightful seat at our table.

Last but certainly not least, thirty candidates, more than 1.5 billion people, are lining up to join the WTO. This is a clear vote of confidence in the WTO system and we are doing everything we can to facilitate their entry under the appropriate conditions. In June Georgia became our 137th member and the fourth former Soviet republic to join. Russia itself is actively pursuing accession. China, Croatia and Oman are on track to join the WTO this year. Once they do, the WTO will be much closer to being a truly "World" Trade Organisation.

The overall effect of these efforts is a climate in the WTO which is much better and more encouraging than a year ago. There is lots more to be done and we can't be complacent. But we are institutionally in good shape to move the multilateral trade agenda forward significantly.

Many of our critics would rather the WTO did nothing. They claim we do enough harm as it is. At the same time as we acknowledge and seek to respond seriously to the many issues and banners that our detractors carried to Seattle and more recently Washington, we must never lose sight of our deeper commitment to improving the living standards of all people in our 137 member countries and 30 applicant countries. ■

ICME viewpoint: WTO rules and the trade and environment interface

GARY NASH, SECRETARY-GENERAL, INTERNATIONAL COUNCIL ON METALS AND THE ENVIRONMENT (ICME)

The record shows that the GATT/WTO system can make major contributions to economic development and rising standards of living in both developed and developing countries. This is due, in part, to a steady liberalisation and widening of WTO rules which are enforced through a dispute settlement mechanism that respects both the sovereign rights of WTO member countries and the fundamental principles on which the multilateral trading system is based (i.e., non-discrimination and avoidance of disguised barriers to trade). The record also shows that the current trade regime can help create the enabling conditions that contribute to economic growth and, when properly supplemented by appropriate domestic policies, to the broader sustainable development objectives of society.

Concerns about global and regional environmental problems as well as their possible association with rapid economic growth and trade liberalisation have led to increasing pressure to broaden the interpretation of WTO rules to allow for the use of discriminatory trade measures to achieve environmental objectives. Pressure for change is mounting despite the fact that the GATT/WTO agreements already provide significant scope for members to adopt international environmental agreements as well as national environmental policies that have trade implications (i.e., non-discriminatory in nature). Reports from the 3rd WTO Ministerial in Seattle attest to the politically divisive nature of the issues related to the trade and environment interface. While the environmental objectives driving such pressures for change may be valid, there are serious concerns regarding the consequences that the key proposals to modify WTO rules could have for the nature, pattern and future growth of international trade and investment and, ultimately, global welfare. It is important that these concerns be taken into account by the international community.



Concerns about global and regional environmental problems as well as their possible association with rapid economic growth and trade liberalisation have led to increasing pressure to broaden the interpretation of WTO rules to allow for the use of discriminatory trade measures to achieve environmental objectives.

Considerations

Key proposals to modify or interpret WTO rules to further accommodate environmental objectives relate to: the use of discriminatory trade measures against WTO members that are non-signatories to Multilateral Environmental Agreements (MEAs); the use of unilateral trade measures that discriminate between "like" products based on Process and Production Methods (PPMs); the use of trade measures based on the precautionary principle; and, PPM-based multi-criteria

Is the WTO the best instrument for responding to a variety of environmental and social issues? Or are other international organisations better positioned to respond to needs for international technical cooperation and to address policy instruments that strike a balance between environmental protection and broader economic and social objectives?

eco-labeling schemes. The WTO has also been called upon to improve access to information as well as increase the transparency of its proceedings, including granting NGOs, and possibly other civil society groups including industry, the right to make submissions to WTO panels in trade-environment disputes.

In considering the above proposals, a number of questions need to be examined. For example, if these proposals were to be adopted, what would be their impact on the current momentum towards increased trade and investment liberalisation, on the effective functioning of the current multilateral trading regime, and on the integrity of key principles underlying the GATT/WTO system? Also, could their adoption result in more politically/economically driven – as opposed to science-based – trade measures and thus open the door to increased trade protectionism and disguised barriers to trade? What would be the implications for the rights and obligations of WTO member countries and the sovereign right of countries to establish their own environmental priorities and policies within their respective jurisdictions? Could the adoption of the above proposals establish a precedent that would lead to demands to modify WTO rules in order to address other elements of sustainable development, e.g., labour and social standards, human rights, etc.?

With respect to the specific issue of MEAs and the use of discriminatory trade measures, a number of definitional issues need to be clarified. For example, what is covered under the term “environment” and what constitutes a “global environmental problem”? Also, how many countries would be required to sign on to an MEA to make it “multilateral” and to legitimise the use of discriminatory trade measures? On a related matter, what would be the consequences if internationally agreed criteria were developed to guide the use of discriminatory trade measures in MEAs? Would such criteria be used in the WTO dispute settlement process and thus become functionally equivalent to a modification or reinterpretation of WTO rules?

The consequences of the above proposals for international trade relations and economic development must also be considered. For example, if adopted, would the above proposals result in more trade disputes between the United States and Europe, as well as between developed and developing countries? Also, would the proposed changes chiefly benefit technologically advanced countries and could their adoption lead to increased regionalism at the expense of multilateralism? What would be the implications for developing countries and small resource-based economies? Is it possible that the adoption of such proposals could restrict market access and deny such countries the very revenues that are needed to further environmental protection and sustainable development objectives?

A recent case study in the Philippines by UNCTAD illustrates the possible consequences of using discriminatory trade measures to further MEA objectives. The Basel Ban Amendment, if and when ratified, will prohibit trade in hazardous waste materials destined for either final disposal or recycling/recovery operations between largely OECD member countries and developing countries. According to the study, early implementation of the provisions of the Ban Amendment by the European Union has led, in the case of recycled lead acid batteries, to diminished trade in and access to these recyclable materials. Consequently, there has been a restructuring of the industry in favour of the smaller, informal sector, with undesirable environmental consequences. As well, the competitive position of Filipino industry has been undermined in relation to the lead acid battery manufacturing industry in OECD member countries.

The linkages between trade, economic development, poverty alleviation and environmental standards are complex. Also, sustainable development requires that a balance be struck between economic, environmental and social considerations that reflects local circumstances. This suggests that in developing countries and economies in transition, policy instruments such as capacity building, international aid, technology transfer and assistance may offer greater scope than trade measures in dealing more directly and effectively with environmental problems. This begs an obvious question: is the WTO the best instrument for responding to a variety of environmental and social issues? Or are other international organisations better positioned to respond to needs for international technical co-operation and to address policy instruments that strike a balance between environmental protection and broader economic and social objectives (e.g., the United Nations Environment Programme (UNEP), the World Bank, and the United Nations Conference on Trade and Development (UNCTAD)?

On the issue of transparency, there is broad consensus that the WTO should attempt to ensure greater transparency in its proceedings by providing a wider and more rapid distribution of its documents. International symposia to encourage dialogue among international organisations, member governments and civil society groups have proven useful and should continue on a regular basis. However, proposals to give civil society groups, including industry, the right to make submissions in dispute settlement proceedings need to be carefully considered. For example, if such a right were given, what would be the implications for the dispute settlement process, in terms of its workload as well as its efficiency and effectiveness?

Next steps: addressing the analytical gaps

In the Post-Seattle period, an opportunity exists to explore in greater depth some of the above considerations and, in so doing, provide the basis for informed decision-making in the future. Importantly, the WTO Committee on Trade and Environment as well as other international organisations, including the OECD, might consider initiating a comprehensive but open and transparent programme of work to examine thoroughly the consequences of the above proposed changes to WTO rules on international trade and the effective functioning of the multilateral trading system and of the WTO itself. The organisational implications of the proposed changes, including technical expertise requirements, for the WTO and the dispute settlement process should also be examined.

In addition to the above questions, other priority areas for analysis include:

- Undertake detailed quantitative and qualitative analyses of the effectiveness of trade measures (both those that are discriminatory in nature and those that are compatible with WTO rules), relative to alternative policy instruments, in addressing regional and global environmental problems.
- Assess a number of issues in relation to the use of trade measures in MEAs, including the potential costs and benefits of a "principles and criteria" approach, and examine the possible use and interpretation of this approach in the WTO dispute settlement process.
- Examine the likelihood of developing operational criteria to ensure the consistent application of the precautionary approach at the international level.
- Assess the advantages and disadvantages of lifecycle, multi-criteria eco-labeling schemes relative to eco-labeling schemes that focus on providing relevant factual information to consumers.

The WTO Committee on Trade and Environment as well as other international organisations, including the OECD, might consider initiating a comprehensive but open and transparent programme of work to examine thoroughly the consequences of the above proposed changes to WTO rules on international trade and the effective functioning of the multilateral trading system and of the WTO itself.

- Examine the scope for greater co-operation among international institutions and the possibility of strengthening the effectiveness of certain UN agencies in order to address regional and global environmental problems.

Until such information becomes available and is fully assessed in public fora and ultimately by WTO members, ICME is of the view that it would be premature to consider any proposals that could arbitrarily undermine the fundamental principles underlying current WTO rules in order to further accommodate environmental objectives. ■

ICME is a non-governmental, industry-funded organisation whose mandate is to promote sustainable development policies and practices by firms engaged in the mining and production of primary metals which will ensure the safe production, use, recycling and disposal of metals. For additional information, please consult ICME's web site (www.icme.com) and, in particular, the ICME paper entitled "WTO Rules and the Trade and Environment Interface: An ICME Assessment" (List of Publications, Limited Edition Series).

Sustainable development and governance

CHRIS PATTEN, MEMBER OF THE EUROPEAN COMMISSION

Persuasion, not posturing, will reverse the degradation of our world.

The phrase sustainable development was first coined by the United Nations Conference on the Human Environment in 1972. A friend of mine neatly summarises the case: 'We should live here on earth as though we were intending to stay for good, not just visit for the weekend.'

Most governments these days – the good, the bad and even the ugly – have an Environment Department and an Environment Minister. However, sustainable development requires more than just a department, a minister and white papers. It requires a mosaic of institutions, policies and values. Good governance is required to create a political eco-system that is adequate to save the real one.

Throughout the world, and not just in developing countries, political repression, war, corruption and woeful economic management have been the enemy of the environment and the well-being of present and future generations. Just as Amartya Sen has convincingly argued, famines do not happen in open, independent societies, so dictators are rarely friends of the earth.

But can we depend on democratic systems, even at their most sophisticated, to produce governments able to take uncomfortable decisions for the unverifiable benefit of future generations? I would argue that accountable government is by its nature more able to secure the popular legitimacy necessary to take difficult decisions, and is less prone to corruption. This makes democracy better placed to incorporate environmental costs into political and economic decisions.

Good governance is required to create a political eco-system that is adequate to save the real one.

However even those democratic leaders who espouse environmentalism sometimes appear fatally constrained by a prevailing public mood or a powerful private lobby. This is where we need to look wider than simply the ballot box. A liberal democracy requires more than elections. It needs an environment of checks and balances, of accommodating not exclusive values, that enables it to flourish in the interests of all its citizens, not merely in the interest of the largest number of them.

Part of this essential fabric of a liberal democracy is what we call today civil society – the independent groupings and bodies, from professions and churches to non-governmental organisations. Their role and influence has massively increased as fast as that of national elected governments has been reduced. Where democratic governments fail, civil society – non-governmental organisations – can come to the rescue. Hence it is suggested that we need to take far greater account of civil society in order to secure sustainable development.

However there is a danger here. Everywhere, the mass political organisations upon which democratic governments have traditionally been based are crumbling. This threatens to put political parties in hock to the rich with opinions, or to interest groups with their own focussed ambitions. The authority of the traditional mechanisms for delivering sensitive and sensible majoritarian government are being compromised at the same time as governments have to cope with the growth in power of multinational corporations.

Governments and multinational enterprises are smart enough to know that the pooling of national sovereignty is required in some areas where national boundaries have been overrun by economics, environmental change and technology. International

organisations – on a regional or a global scale – have been created to try to manage the consequences of globalisation. But they have difficulty in attracting the public loyalty necessary to give them the legitimacy they require; and they also lack the public approbation gained by a sense of participation in decision-making and of openness to public accounting.

We are not likely to get answers if the debate in developed countries becomes dominated by an undemocratic minority, however well-intentioned. Good governance does not mean that the minority is always right.

Into the gap floods a tide of NGO activity which is in many respects an admirable and welcome demonstration of growing global pluralism. In many developing countries the NGOs are more democratic than the structures of government. But that is not the case in the richer north of the globe. Too often good arguments are pursued in a manner that threatens us all with something worse than majoritarianism, namely minoritarianism.

The question that we need to address is how to spread the benefits of dynamic trade, helping the minority of countries and the minorities within countries who are left behind when the growth in trade makes most people better off. We are not likely to get answers to this if the debate in developed countries becomes dominated by an undemocratic minority, however well-intentioned. Good governance does not mean that the minority is always right.

Democratic governments need to face this challenge by encouraging more responsibility in debate from NGOs. Political parties should create structures that enable interest groups to contribute fully to the party political debate. Governments and international organisations need to open up the discussion on public policy, to tap the expertise of informed minorities, in a process whose end result will be determined by the majority. They should also involve NGOs far more in the delivery of services and not just the discussion of politics.

To ensure that the debate on sustainable development is as constructive as possible, and that it delivers results that can command majority consent and attract minority acquiescence, the rich, pluralist, developed democracies need to understand that they have lessons of governance to learn as well.

Behind these organisational and political shifts is a reaffirmation of the democratic spirit, the understanding that democracy is an adventure in dialogue, the attempt to persuade and secure consent, the belief in Adlai Stevenson's memorable phrase that average men and women are a great deal better than average.

We have lived through an era of political leadership as superstardom, the articulation of promises and solutions usually beyond the reach of even the most charismatic leaders, however many electoral terms they are awarded. Naturally, leaders can move things a little this way or that, for better or worse. But I believe that it is necessary for human vanity to take a second, sustainable place to a style of political leadership that recognises the value of persuasion over posturing. It is reason alone that can produce the aggregate of benign acts that alone can reverse the degradation of our world, its natural environment and for that matter its spiritual ideals.

I am not being entirely novel in making this appeal. Six centuries before Christ, Lau Tzu, Chinese sage and Keeper of the Imperial archives, wrote this:

"A leader is best
When people barely know that
he exists
Not so good when people obey and
proclaim him.
Failure to honour people,
They fail to honour you.
But a good leader, who talks little,
When his work is done, his aim
fulfilled,
They will all say, 'We did this
ourselves'".

Exactly. And what they will have done, if we are fortunate, is revitalised democracy to save our world. ■

This is an edited extract from Chris Patten's BBC Reith Lecture.

Sustainable development and business

BJÖRN STIGSON, PRESIDENT, WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT (WBCSD)

As governments retreat from their wide-ranging role, the private sector must step into the breach.

The striking feature of the global drive toward sustainable development is the extent to which the agenda has evolved since the 1992 'Earth Summit' in Rio: at least, certainly the way in which the emphasis has changed. This has important implications and poses new challenges for business.

The immediate post-Rio focus for business was on how to marry economic efficiency with environmental excellence to ensure continued economic growth, while consuming the world's resources and protecting its environment in a way that did not compromise the needs of future generations.

The business response was the concept of eco-efficiency: combining environmental and economic performance to create more value – for business itself and also, crucially, for the whole community – with less impact. Many companies are today well advanced toward eco-efficiency, and it has also become a widely accepted policy concept, endorsed by, among others, the OECD and the European Commission.

Of course, more in business need to adopt eco-efficiency, not only the multinationals based in the industrialised countries but also small and medium enterprises in all sectors in all countries. So the work of the WBCSD in pushing eco-efficiency further and faster within the whole business community remains of the utmost importance.

But sustainable development is built on three pillars: economic growth, ecological balance and social progress. These items have always been on the sustainability agenda, but until recently the third – the social pillar – has received less attention. That is changing: far greater emphasis is being placed now on social progress, and specifically on what business is doing to contribute to this goal, and how it is delivering its contribution. This has opened up a raft of issues.

One is globalisation with a human face, as UN Secretary-General Kofi Annan has described the issue. Opening up world markets has, without doubt, created unprecedented global economic growth – with the promise of even more prosperity. Unfortunately, the benefits of this have not been shared equally across the globe. This is leading, understandably, to some questioning about the role and function of free markets.

Clearly, business believes in free and open markets, but markets must work for everyone. That is why the WBCSD has accepted Kofi Annan's invitation to engage in the process of developing a 'Global Compact' between the UN and business to promote a shared set of core values. The aim is to underpin globalisation and free, open markets with stable societies and a fair distribution of the benefits.

Of course, companies have long been responding to social changes and pressures. The difference now, as the emphasis is put more on the social pillar of sustainable development, is that corporate social responsibility has become an institutionalised element in the debate about what civil society expects from business.

Making markets work fits in with this. The question of sustainable production and sustainable consumption was raised at Rio in 1992, and will be a key theme for the third Earth Summit in 2002. Though it has more to do, business has largely got to grips with the production issues: the more difficult challenge is the consumption side of the equation – more difficult because it involves much more complicated trade-offs in society generally. The WBCSD's working group on 'sustainability through the market' is using multi-stakeholder dialogues to try to develop and agree new solutions to this issue.

Transparency and accountability are further challenges for business.

"Everyone knows everything about you all the time" in today's information-driven, globalised world. The management of reputation thus becomes a central element in running a corporation, and this involves communicating, explicitly, the values and principles on which companies base their operations – and, centrally, how they live up to those values and principles. Corporations face increasingly intense scrutiny: to contend with this, they will have to enforce a set of globalised corporate values throughout their operations.

Corporations cannot be managed on the basis of philanthropic arguments: they must be able to demonstrate that sustainable development is good business.

Changing roles

Society's expectations are indeed considerable, and they reflect a substantial shift in the political landscape since the 1992 Earth Summit.

Then, the world was described as bipolar, with governments and non-governmental organisations. Today, there is general acceptance that the world is *tripolar* with governments, business and civil society. The challenge, of course, is how these three component parts can interact constructively to find solutions to the challenges of sustainable development.

Civil society has matured, at a time when governments have been weakened. This means that important decisions affecting society can no longer be pushed through without wide consultations with stakeholders.

Meanwhile, the role of business has strengthened as well: the more so when, in many parts of the world, governments retreat from their once wide-ranging role and the private sector is asked to step into the breach. As a consequence, business today is expected to produce results in areas previously the undisputed remit of governments. Overall, the three parts of society have to engage in partnerships to find solutions together with other stakeholders.

Another major item on the business agenda for sustainable development is innovation and technology.

Many people are suspicious of new technologies, as the debate over genetically modified organisms (GMOs) is demonstrating. Yet, new technologies will be a key contribution to sustainable development everywhere. Industry has the innovation and creativity to bring new technologies to the market, and is already engaged in large-sale technology transfer and cooperation with the developing countries. This is particularly important to help these nations 'leap frog' environmentally damaging manufacturing processes, develop the necessary skills, and introduce innovation into the marketplace.

Another area where technology is key is climate change. We have entered a new era, a carbon-constrained world in which carbon emissions will carry a cost. Obviously, the issues at stake are very different in the developed and developing world, and responses depend upon each country's individual circumstances and requirements. Yet one thing is sure: the flexible mechanisms, in particular the Clean Development Mechanism, need to be made operational if the Kyoto targets are to be met.

All in all therefore, business has much to do to contribute to sustainable development, including to engage in areas with which it previously did not concern or involve itself. In fact, the redrawing of boundaries and the redistribution of roles and responsibilities within the new tripartite world have created two sustainable agendas for business.

One remains the business agenda: what companies need to continue to do in their everyday operations to become eco-efficient, to reduce environmental impact and create more value with reduced impact – in short, to "do more with less". Corporations cannot be managed on the basis of philanthropic arguments: they must be able to demonstrate that sustainable development is good business.

The other is the political agenda set and steered largely by forces from outside the business sector, focused on the framework conditions within which business must work, and increasingly driven by what governments and civil society now expect from business.

Many – a fast-growing number – in business understand what is required of them on both fronts. But, and this needs stressing, it is not only business that has to deliver.

On the contrary, if tripolar governance is to work, all three key players – government, civil society and business – have to abandon old, outdated antagonisms, forge new alliances, and co-operate together as partners to find and implement workable and sustainable solutions.

We all have to succeed – and it is this challenge that marks our arrival into a critically important new phase in the push for sustainable development. ■

The present status and future prospects of the Hungarian economy

GYÖRGY MATOLCSY, MINISTER, MINISTRY OF ECONOMIC AFFAIRS, HUNGARY

The three years that elapsed between 1997 and 1999 provided evidence for Hungary that accelerating economic development does not necessarily exclude either the improvement of internal and external balances or the abatement of inflation. Favourable results were achieved despite the fact that the 1998 stock market and currency crises in Asia and Russia, as well as several turbulent changes on international capital markets, rendered the situation more difficult for the global economy. In 1999 external and internal conditions deteriorated further: the western European boom lost vigour and the protracted Yugoslavian war as well as a series of natural disasters had an adverse impact on the Hungarian economy. However, at the beginning of the year 2000, there were favourable signs in the relationships most important for Hungary, and forecasts suggest that global economic growth is gathering speed.

1999 was the third successive year in which Hungary experienced economic growth of between 4 and 5%. (GDP increased by 4.6% in 1997, 4.9% in 1998, 4.3% in 1999, and is expected to grow by 4.5 to 5.0% in 2000.) The forces driving growth were first and foremost exports and domestic demand – which stimulated both investment and consumption. In 1997 exports made a quantum leap, and in the following two years they still exceeded the global average (calculated in US$ by 22, 20 and 9% per cent in 1997, 1998 and 1999, respectively) several times. This was due primarily to a rapid increase in the output of production and service capacities which had been developed earlier, built in the first place on the processing industry and on the different

1999 was the third successive year in which Hungary experienced economic growth of between 4 and 5%.

machine engineering branches and fuelled by foreign capital. Capital investments also increased at an equally rapid – though fluctuating – pace (in 1998 their growth rate was 12.7% while in 1999 it was 6.6%). Simultaneous with a growth in real income, from 1997 private consumption also exhibited an increase; however, its rate did not exceed the growth registered in productivity.

The decline in the employment rate came to a halt and turned around in 1997. Though the increase experienced from 1998 onwards is moderate and highly differentiated according to age group, gender, region and profession, it keeps on steady and unbroken. As a result of an active employment policy and a reduction of deductions taken from wages, the unemployment rate has dropped from 8.7% in 1997 to 7% in 1999. In the meantime, the economic activity of labour was low in an international comparison: in 1998 it hardly amounted to 52%. From the turn of the century onwards a modest annual increase of 1.5 – 2% is expected.

Between 1997 and 1999 the rate of inflation declined every year. In 1997 the consumer price index was 18.3 while the industrial price index was 20.4. In 1998 the respective figures amounted to 14.3 and 11.3, while in 1999 they changed to 10 and 5.2%. For the year 2000 the consumer price index is predicted to fall somewhere

between 6-7%. The reasons for this include the facts that the major price rate rearrangements accompanying the country's transition to a market economy already took place in the first half of the decade, while world market prices remained favourable for the most part of the same period, the government adopted an anti-inflationary policy and the expectations regarding inflation also sobered down.

The decisive part of Hungary's foreign trade turnover (87% of exports and 80% of imports) is transacted with OECD member states. The balance of our trade with EU member states turned out to be positive, but total Hungarian foreign trade turnover closed with a deficit. The shortfall amounted to US$2.1 billion in 1997, 2.7 billion in 1998 and 3.0 billion in 1999. It should be remembered, however, that this increasingly negative balance evolved simultaneously with a dynamic rise in turnover, and so the relative values of the negative balance exhibit only slight changes (exports amounted to 11% in 1997 and 12% in the following year).

Foreign direct investments worth roughly US$2 billion flow into the country every year, and by the end of 1999 total investments had reached US$20.7 billion

The current account deficit ranged between 4 and 5% of GDP in 1998 and 1999. The reasons why investors still considered this relatively high value as acceptable include the facts that the country could achieve well-balanced macro-economic results, on the one hand, and that bridging its economic gap demanded significant investments, on the other. Thus the current account deficit could be financed from external resources that did not generate debt (the aggregate value of FDIs and portfolio investments worked out to US$1.4 billion in 1998 and US$2.6 billion in 1999), and therefore the country's indebtedness steadily declined.

Foreign capital played an extremely significant role in the Hungarian economy's development. Foreign direct investments worth roughly US$2 billion flow into the country every year, and by the end of 1999 total investments had reached US$20.7 billion, which reflects foreign investors' confidence in Hungary. The government's investment encouraging policy is directed at promoting a constant influx of capital simultaneously with a regional distribution of investments, whereby it wishes to mitigate territorial isolation and increase foreign companies' involvement in the Hungarian economy.

Despite favourable trends, neither economic, nor social development is free of difficulties and conflicts. These include the fact that by the turn of the century the Hungarian economy had adopted a dual structure from several points of view. Duality is manifest, among other ways, in the fact that barely fifty multinational firms – for the most part operating in offshore areas – yield the major part of the gross national product, transact the majority of exports and perform most of the R&D activity, while domestic small- and medium-sized enterprises' contribution remains insignificant. This clearly indicates that the fast-growing sector of the economy has not been able to have the propelling effect that could be expected of it if minor ventures were integrated. Another symptom of duality becomes obvious in regional differences: the eastern parts of the country fall considerably behind the other regions. Hungary's GDP, calculated in purchasing power parity, is approaching half of the EU average; however, this figure cloaks two- or even threefold differences at the regional level.

Aware of these concerns, the government has developed a new economic programme. The main objective of the "National Development Plan" is to close the existing economic gap between Hungary and the advanced European countries. Once the targets highlighted in the Plan are implemented, the Hungarian economy will become more competitive, its development will speed up and become more balanced, and the country's accession to the European Union will become easier. ■

OECD and Hungary

BÉLA KÁDÁR, AMBASSADOR, PERMANENT DELEGATION OF THE REPUBLIC OF HUNGARY TO THE OECD

During the past 20 years, the world economy has begun to speed up the voyage towards a borderless international system. The member countries of the OECD have a central role in developing sound strategic responses to the increasingly globalising economy. These countries are linked to each other not only through economic realities, flows, economic policy principles, and regulatory systems, but also by certain like-mindedness, through a community of values. Member countries as servants of common interests, common values and common sense can be in no doubt that their progress and even survival in our interdependent world will depend on the success of their co-operation.

This feeling is probably stronger in Hungary than in some other countries with happier pasts and more geographically removed from the historically developed demarcation line between more developed and less developed countries, as well as between the two parts of the post-Yalta and pre-Malta Europe.

Hungary is one of the countries most integrated into the OECD group. At present, 87% of its exports are directed to, and more than 90% of FDI comes from, OECD countries. After the systemic change, Hungary did not wish to reach for the stars, but to shape a healthy, dynamic position in the international system. In this spirit, it has always attached a particular importance to the OECD, which was the first international organisation to recognise the particular – definitely not only "mainstream specific" – problems and the economic policy realities of the historically unique transition process. The OECD was the first international organisation to accept Hungary as a full member in 1996, after successful working relations of six years. Full membership in the OECD has contributed substantially to implementing the Euro-Atlantic integration policy of Hungary, and has favourably affected the country's image in the international business community. It is very instructive that even pre-accession co-operation in the OECD contributed in an important way to the acknowledged fast track of the transition process in institution building, the modernisation of legislation, policy formulation, and marketisation. For reasons of size and strategic interests, Hungary has simply no rational alternative to active membership in a continuously renewing OECD. As a structurally, politically and institutionally open economy, Hungary has no problem in adopting some basic requirements of modern democracies and international organisations such as openness, transparency and accountability.

The spirit of global co-operation inspires the openness of OECD towards new reformed and restructured members ready to share values, ethics and methods, particularly from the East-Central and South-Eastern European region, the stability and progress of which is so important for the Western community of states and for European development. Having left behind the transition phase of her development, Hungary is now coping with problems of catch-up and of macro management characteristic of market economies, and is ready to share her positive and negative experiences concerning timing, sequencing, and implementing processes which might be useful for countries at a less advanced stage of transition.

A small and necessarily open economy like Hungary's has no doubt about the relevance of the message of history. The bargaining power of a small country in the international arena can always be improved by harmonising interests of different social, regional, professional and political groups and by developing links to organisations of civil society. The mastermind of the big historic compromise between Austria and Hungary, Ferenc Deák, showed some 140 years ago, that policy is not a scientific discipline but an art of creating harmony.

Building a consensus in the international institutional system helps to answer the challenges of growing social, regional, and sectoral disparities and practices of unfair competition, bribery and corruption. It is particularly the new member countries of the OECD, the new democracies, which are struggling with the big issues: how to govern the new, information-based economy, manage growing social diversity, exercise authority and foster capacity to govern.

On the broad range of existing and coming challenges, we can be sure that the OECD, with its accumulated skills, experience, and the dowry of the member countries, faces a long and interesting future. ■

Making the new economy work for human rights

MARY ROBINSON, UNITED NATIONS HIGH COMMISSIONER FOR HUMAN RIGHTS

The new economy is a potential boon for human rights the world over. How to realise that potential is a major challenge.

The theme of the OECD Forum 2000 — "partnerships in the new economy" — may at first glance not appear to be relevant to the issue of human rights. After all, we live in a world where racial discrimination and gender inequality are daily realities for millions, where torture, arbitrary execution and trafficking in women and children remain common practice in many countries. With these serious and persistent violations to deal with, why should human rights advocates be discussing the new economy?

I would argue that while we must continually strengthen our efforts to fight the evils of intolerance and oppression, we should not underestimate the growing impact of the global economy on the enjoyment of human rights nor the potential of partnerships to bring its benefits to all people. Harnessing this potential and taking full advantage of the opportunity the new economy holds out is, I believe, one of the key policy challenges on the international human rights agenda at the start of the new century.

There can be no denying that in the past 50 years progress has been made in economic growth and wealth creation on a scale previously unimagined. This progress has been accompanied by significant improvements in human development indicators, such as life expectancy, levels of education and nutrition standards.

It has become evident that the global economy and the information technology revolution currently favour the "haves" of this world – those with assets such as education and economic resources – at the expense of the "have nots".

But it has also become evident that the global economy and the information technology revolution currently favour the "haves" of this world – those with assets such as education and economic resources – at the expense of the "have nots". The evidence of growing disparities between the rich and the poor is difficult to dispute. The overall gap between the richest 20% of humanity and the poorest 20% doubled between 1940 and 1990. And if the gap between rich and poor countries is growing, so too is the phenomenon of poverty and exclusion within societies. In many developing countries, even those experiencing some increase in net national wealth, the gulf between the poorest in society and the richest has been growing dramatically. If economic growth has been unable to narrow this gap, what must be done to shift the tide and ensure that the new economy provides opportunities for all people?

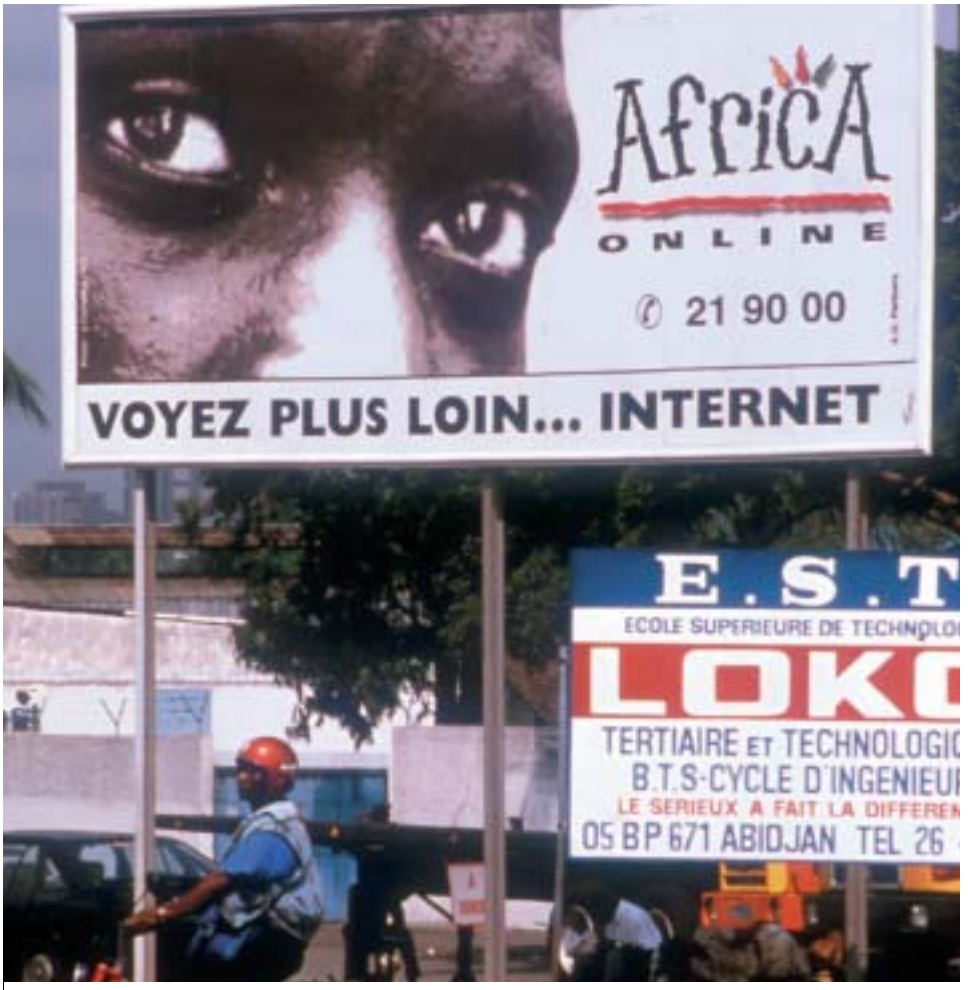
Back to basics

A necessary first step is to look with fresh eyes at the Universal Declaration of Human Rights, which came into being half a century ago. The Declaration proclaims the rights to education, to social security, to work and an adequate standard of living including food, housing and health care on the same footing as the rights to life, liberty and security of person, to equal recognition before the law, to freedom of movement and freedom of religion. The truth is that we have not promoted this broad range of human rights on equal terms, despite the fact that those rights have been translated into binding international obligations, most fully in the International Covenants on Economic, Social and Cultural Rights; on Civil and Political Rights; and in the Convention on the Rights of the Child.

A "rights-based approach" to making the new economy work for all requires us to take each and every one of these commitments seriously. Such an approach would result in the full integration of the norms, standards and principles of the international human rights system into social and economic plans, policies and processes. It seeks to empower individuals by creating the conditions needed for popular participation in decision making and by strengthening institutions of governance and democracy. It recognises that a culture of human rights cannot flourish where people do not enjoy access to food, healthcare or education. In simple terms, the rights-based approach means that the priorities of governance at all levels are focused on ensuring respect for all human rights.

At its recent session, the United Nations Commission on Human Rights took an important step along this path by adopting a Resolution on the role of good governance in the promotion and protection of human rights. The Resolution states that transparent, responsible, accountable and participatory government, responsive to the needs of people, is the foundation upon which good governance rests, and that such a foundation is a *sine qua non* for the promotion of human rights.

The OECD's work in the area of ethics and good governance has highlighted the importance of exercising power wisely and making good decisions over time across a spectrum of economic, social, environmental and other areas (see article by William Witherell). However, many aspects of the relationship between good governance and human rights need careful reflection and study. The Commission's



Web vision

Resolution has requested my Office to invite all member states to give practical examples of activities that have been effective in promoting good governance outcomes.

Progress in human rights requires first and foremost that governments live up to their commitments. It is a matter of setting priorities and mustering political will. There are positive signs to report in this area. Governments are increasingly adopting national plans of action for human rights, seeking out best practices from other countries and recognizing the power of co-operation. Yet in many countries, due to severe lack of resources, the crushing burden of external debt, and an international financial and trade system which is often stacked against them, even best intentions are not enough.

Making the new economy work for human rights will also require that governments, international organisations, corporations, non-governmental organisations and wider networks of civil society join together in innovative, mutually beneficial alliances to achieve what none could accomplish alone.

Digital development

Such partnerships will of course rely heavily on the main instrument of the new economy – the digital revolution. In his report to the upcoming Millennium Summit, United Nations secretary-general, Kofi

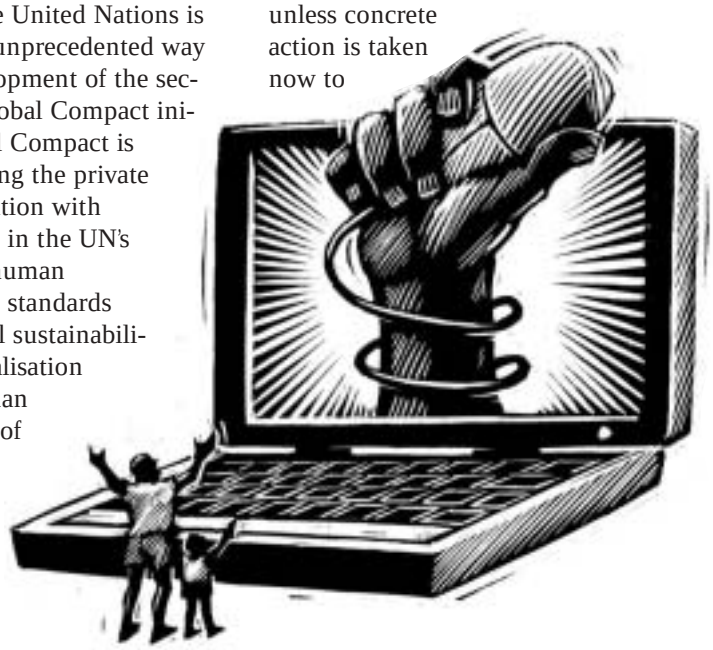
Annan, stresses how dramatically the digital revolution could stimulate economic growth and development if adequate resources and commitment were brought to bear. The core product of the digital revolution – information – has enormous power to affect the lives of people who have been excluded from the benefits of globalisation.

A concrete demonstration of the power of information and partnership announced in Mr Annan's report is a new Health InterNetwork that will establish and operate 10,000 online sites in hospitals, clinics and public health facilities throughout the developing world. It aims to provide access to up-to-date health and medical information, tailored for specific countries. The initiative is being led by the World Health Organisation and the WebMD Foundation, in co-operation with other foundation and corporate partners.

Business leaders increasingly recognise that to be sustainable, the new economy must be based on shared values and respond to the aspirations of people everywhere. This is a crucial challenge. The United Nations is responding in an unprecedented way through the development of the secretary-general's Global Compact initiative. The Global Compact is focused on engaging the private sector, in co-operation with wider civil society, in the UN's work to advance human rights, core labour standards and environmental sustainability – to make globalisation responsive to human needs. In the area of human rights, the Compact's principles call on corporations to ensure that, first, they uphold and respect human rights and, second, that they are not themselves complicit in human rights abuses.

Within the framework of the Global Compact, my Office is gearing up to advise, support and encourage businesses in implementing these principles. Just imagine how principled partnerships could contribute to improved access to education for all, or how technological innovation could help ensure adequate distribution of food, energy and building materials – all of which, by the way, would contribute to the realisation of fundamental rights enshrined in the Universal Declaration and the International Covenants.

Business is only one player in this, although a crucial one. The Global Compact framework should provide guiding principles for governments, international organisations and civil society just as much as for the private sector. What will happen if we don't work together more effectively for the promotion and protection of human rights? In an increasingly interdependent world, my fear is that unless concrete action is taken now to



Progress in human rights requires first and foremost that governments live up to their commitments.

make human rights a reality for all people, the progress made by many countries and the spread of democratic societies in all regions will not be sustainable. As the former US president, Franklin Roosevelt, put it more than sixty years ago: "The test of our progress is not whether we add more to the abundance of those who have much, it is whether we provide enough for those who have too little."

People are the essential members of any partnership. But they cannot be silent partners in the new economy. It is vital that they are active participants in the betterment of their own lives. To achieve this goal, human rights must be part of the central criteria for all key decisions in an age of globalisation. ■

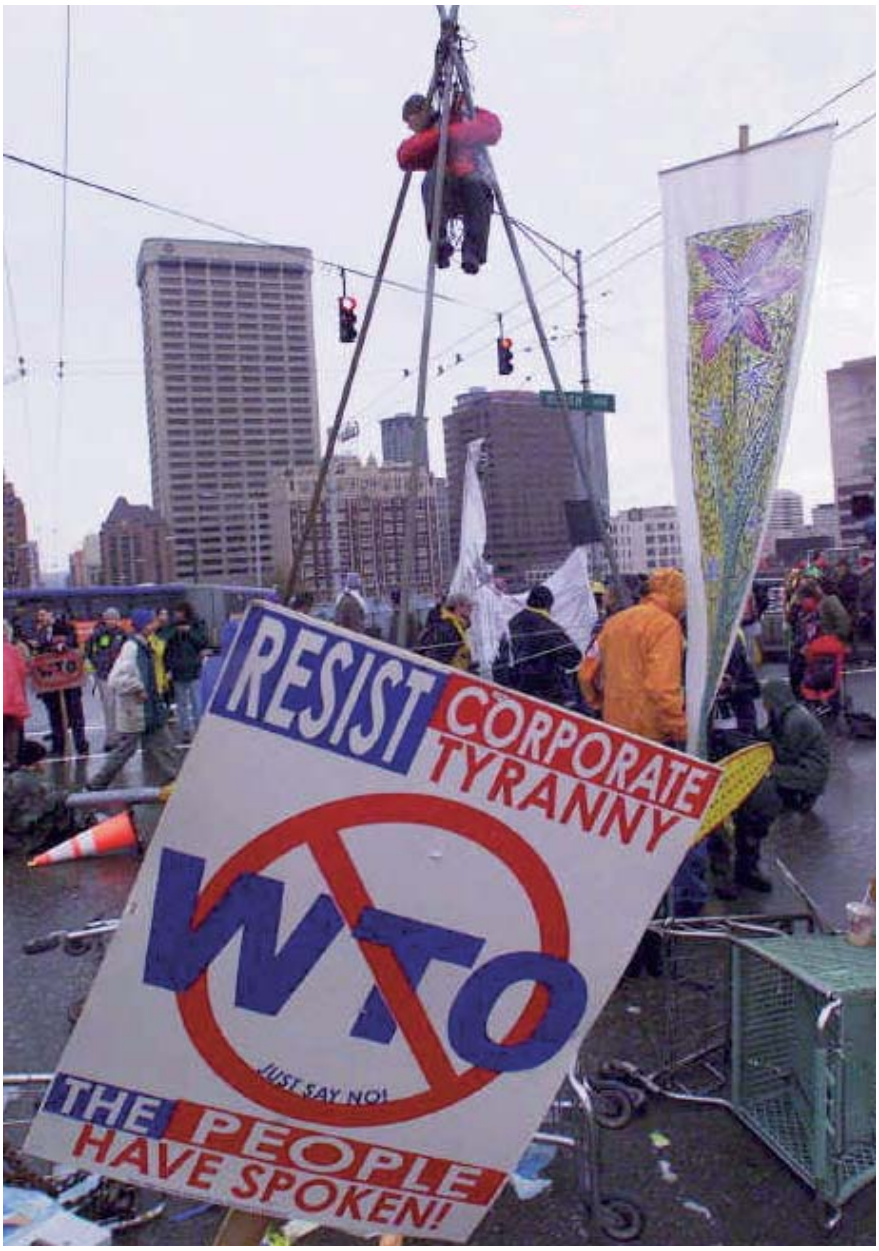
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Seattle: failure or new departure?

JEAN-MARIE METZGER, DIRECTOR OF TRADE, ECH.CONTACT@OECD.ORG

Civil society and the developing countries are growing more assertive. Meeting their concerns without jeopardising multilateralism is the big test for policymakers.



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Sign of the times

The tear gas had only just evaporated from the streets of Seattle and the shouts of the demonstrators still seemed faintly audible when, on the doorstep of the OECD's Paris headquarters, a café organised a philosophical debate on the theme "Can failure give birth to progress?". The reply seems obvious since, from time immemorial, Man has only been able to evolve through a process of trial and error. The multilateral trade system is no exception; there are times when goals are not achieved, when results fall short of expectations.

But what progress can result from the "failure" of Seattle? Was it really a failure? And if so, was it any more serious than that of the 1982 Ministerial meeting of the GATT which proved unable to launch a new round of multilateral negotiations (indeed, four more years were needed before the Uruguay Round was launched); or the meetings of Montreal in 1988 or Brussels in 1990, all of which failed to meet their goals, including conclusion of the Uruguay Round?

A distinctive feature of the Seattle meeting was that media expectations were undoubtedly higher than those of the participants. True, there were differences among the developed countries themselves, but the failure was not as substantial as the media portrayed it to be. Why focus on the lack of results, when in fact the Seattle meeting can take credit for

bringing to public attention two key forces in the debate: civil society, whose protests were loud enough for their governments to hear, and developing countries. Together, these largely contributed to the breakdown of the Millennium Round.

The latter group is important. Further multilateral talks, and how those talks are organised, depend on encouraging developing country representatives to participate more actively at the negotiating table, and on taking their interests and expectations into account. Not that the developing countries are altogether newcomers to the multilateral trading system. They were, from the outset, involved in the process of development and negotiation, but were either in the minority or only a few of them were given a say in the proceedings (or access to the now much-discredited "green room"). Though few in number, they were extremely important in terms of the effectiveness of their participation and the success in making their opinions heard. Countries such as India, Brazil, Egypt and Morocco, as well as Bangladesh, El Salvador, Tanzania and Jamaica, to name a few, have always participated actively in the work of the GATT and its successor, the WTO. Nevertheless, it has to be admitted that the more delicate negotiations have largely been dominated by the principal trading partners of the "Quad" – the European Union, United States, Japan and Canada.

The frustration being expressed today addresses both substance and form. As for substance, over the years in which the trading system has developed, from the Havana Charter to the GATT and then the WTO, the interests of developing countries have usually been taken into account by means of "escape clauses" vis-à-vis the rules defined by and for developed countries ("à la carte" membership of the Tokyo Round codes, transition periods of the Marrakech Agreements). As it is not feasible to have two different trade institutions in a world of multiple and global links, a number of rules will always be applied differently, depending on the level of development. This approach of special and differentiated treatment has to be maintained.

It is equally important to be more goal-oriented in the definition of rules, including those concerning market access, that directly promote development. From this point of view, the term "developing country" warrants careful consideration, as some of those which claim to be in that bracket and which are relatively well-off, have a real responsibility towards the poorest countries among them. The OECD will contribute its ideas on these issues to the WTO, in particular addressing the way in which trade liberalisation or the definition of rules, past and future, affect developing country economies.

As for the form of the frustration, the increase in WTO membership of transitional and developing countries – which at 113 out of 136 now constitute a very large majority – means that thought has to be given to the organisation of discussions, and to representation in restricted meetings (restricted in terms of numbers, not in the sense of confidentiality). The WTO and its director-general, Michael Moore, are currently working on this question. Resurrecting an institutional organisation like the CG-18 of the 1980s, which at the time was purely advisory, is one possibility, provided that it better reflects the new composition of the WTO; another option is rotational representation. Proposals were made at one time to set up a sort of economic Security Council, and the WTO would do well to look at this again.

Protecting the planet's environment and raising living standards and working conditions are laudable objectives which cannot be brushed aside. The problem is that in many cases the very people these ideas are supposed to help, reject them for being at best neo-colonial, at worst, protectionist.

The other issue raised at Seattle (and later at Washington) is public concern about globalisation's seeming disregard for people, the result of some international conspiracy led by nebulous governments and multinationals. Apart from the errors of analysis and fallacious arguments about the non-democratic nature of international organisations or the power of multinationals (which, incidentally, must abide by the rules governments make and the WTO implements), the ideas they put forward are often altruistic and undeniably moral, even if the most vociferous critics are those benefiting most from the system. Protecting the planet's environment and raising living standards and working conditions are laudable objectives which cannot be brushed aside. The problem is that in many cases the very people these ideas are supposed to help, reject them for being at best neo-colonial, at worst, protectionist.

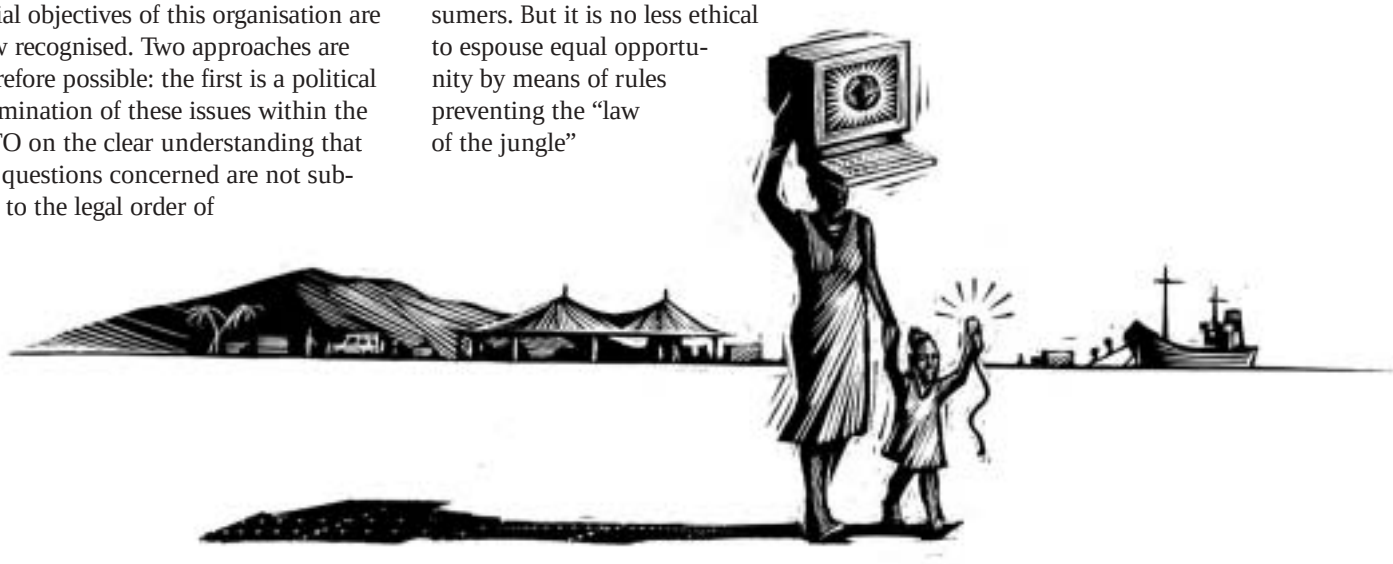
The common objective in the ideals expressed at Seattle, whether in conference rooms or on the streets, is development for all, including protection of the environment, workers and consumers. But it is no less ethical to espouse equal opportunity by means of rules preventing the "law of the jungle" whether public or private.

Therefore, without rejecting these ideals, which can only contribute to the general well-being of the planet, the real question is whether the WTO should, or even can, incorporate them into its legal order, on a functional basis. It should be emphasised that the WTO's current legal system is based on the balance of rights and obligations: when one of its members fails to comply with its obligations, as decided by the dispute settlement procedure, it is obliged to rectify the situation. The implementation of retaliation/compensation depends on how much trade was prejudiced by non-compliance with the rules. The concept of moral or social prejudice does not exist in the laws of the WTO; it is probably impossible to address moral concepts within the current legal framework.

This does not mean, however, that the WTO should disregard them entirely, especially since the environmental and social objectives of this organisation are now recognised. Two approaches are therefore possible: the first is a political examination of these issues within the WTO on the clear understanding that the questions concerned are not subject to the legal order of the organisation or to the system of sanctions/withdrawal of concessions authorised in the framework of its dispute settlement procedure. This political examination, using a "peer pressure" approach such as the OECD uses, should be conducted in close collaboration with the other organisations concerned, perhaps on the basis of reports they could prepare for the WTO; this is certainly in the spirit of the kind of collaboration mooted with the ILO, for example. The second approach would rely more directly on governments, both at national and international levels. It would also depend on good governance and the coherence of policies with general principles universally recognised at international level.

The common objective in the ideals expressed at Seattle, whether in conference rooms or on the streets, is development for all, including protection of the environment, workers and consumers. But it is no less ethical to espouse equal opportunity by means of rules preventing the "law of the jungle" whether public or private: this is, after all, the fundamental goal of multilateralism. It would be useful to rank the objectives called for at Seattle and to consider whether there is not one from which the others would naturally flow. And as previous and current studies suggest, development is at the root of individual and community well-being. Future endeavours must focus on this objective in all its aspects – market access, equal opportunity, adaptation of rules. Legitimate moral objectives would then follow. Indeed, tools like persuasion, incentives and the cultivation of new levels of awareness about environmental, social and human rights issues will surely be more effective than coercion and confrontation.

If the lesson of the fundamental importance of development has been learned, if adequate measures are taken that meet the expectations of the developing countries themselves, especially the poorest among them, then Seattle will not have been a failure, but simply a false start. The OECD is one organisation ready to help build the bridges needed to ensure that the next departure will be a real one. ■



Seven goals for world development

BRIAN HAMMOND, DEVELOPMENT CO-OPERATION DIRECTORATE, OECD, AND ERIC SWANSON, DATA DEVELOPMENT GROUP, WORLD BANK

What can be done in the new millennium to ease the suffering in the poorest parts of the world? A joint initiative by four major international organisations may hold part of the answer.

Poverty in all its forms is the greatest challenge to the world community. Some 1.2 billion people live on less than $1 a day, another 1.6 billion on less than $2. Together these groups make up nearly a half of the world's population. Can anything be done?

A new annual report, *A Better World for All*, is a step in the right direction. In the first ever report to be signed jointly by the United Nations, the OECD, the International Monetary Fund and the World Bank, it shows progress towards the goals to reduce poverty by 2015. By agreeing to them, the international community has made a commitment to the world's poorest and most vulnerable – and to itself.

In just 24 pages, the report succinctly addresses the seven goals whose achievement over the next 15 years would improve the lives of billions of people. The goals are rooted in the agreements of the world conferences organised by the United Nations in the first half of the 1990s.

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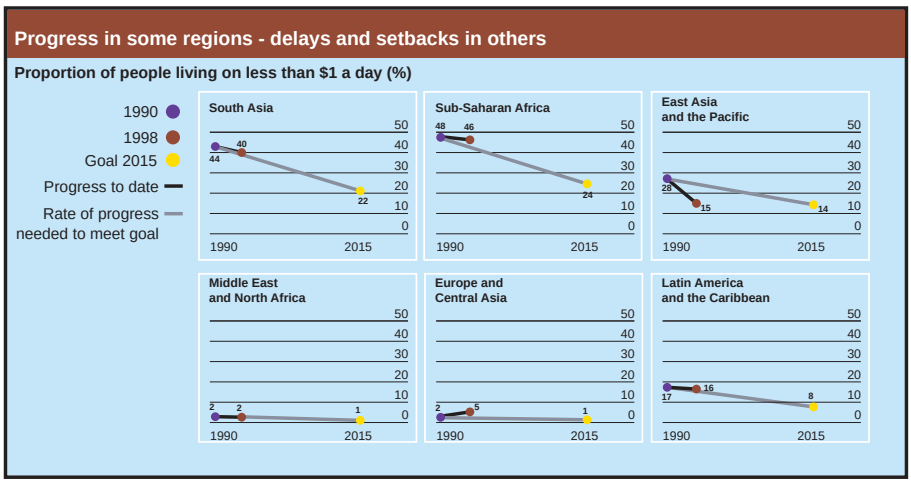
The first of the seven goals is to reduce the proportion of people living in extreme poverty by half between 1990 and 2015. In part this requires sustained economic growth to cut poverty rates, as occurred in Asia in recent years, though not in Africa.

The second aim is to enrol all children in primary school by 2015. Enrolment rates are not rising fast enough. On current trends, more than 100 million school-age children will not be in school in 2015.

The third of the seven objectives is to demonstrate progress towards gender equality and empowering women by eliminating gender disparities in education by 2005. Though the gender gap may be narrowing, girls' enrolments are persistently behind those of boys.

The fourth goal is to reduce infant and child mortality rates by two-thirds between 1990 and 2015. Here more needs to be done: for every country that cut infant and under-5 child mortality rates fast enough to reach the goal, 11 lagged behind, often because of HIV/AIDS.

More has to be done to save mothers' lives as well. Skilled care during pregnancy and delivery can help to avoid many of the half million maternal deaths each year. The proportion of births attended by skilled personnel rose slowly in the 1990s. Continuing along this path is the fifth goal laid





Empowering and caring for women

out by the international organisations, with the aim of reducing maternal mortality ratios by three-quarters between 1990 and 2015.

The sixth goal is again family based: it is to provide access to reproductive health services by 2015 to all who need it. The proportion of people in poverty may have declined through the mid-1990s, but population growth meant that the number of poor people has increased. 120 million couples are without contraception; addressing their needs would help.

The seventh goal is broad, calling for the implementation of national strategies for sustainable development by 2005 in a bid to reverse the loss of environmental resources by 2015.

As *A Better World for All* clearly warns, none of the goals will be easy to achieve. Yet the task ahead is by no means a hopeless one. In fact, some countries have shown what can be done. China reduced its number in poverty from 360 million in 1990 to about 210 million in 1998. Mauritius cut its military budget and invested heavily in health and education. Today all Mauritians have access to sanitation, 98% to safe water, and 97% of births are attended by skilled health staff. And many Latin American countries have moved much closer to gender equality in education.

But there are major concerns, chief among them the prospects for Sub-Saharan Africa, where armed conflict is undermining social development. Malnutrition remains a severe problem too, for although there are 150 million underweight children in the developing world, Africa is the only region where the proportion is not falling. Moreover, sustained economic growth – that vital ingredient for long-run reductions in poverty – still eludes half the world's countries; for more than 30 of them, real per capita incomes are lower today than they were 35 years ago. And in the transition countries of the former Soviet Union, the proportion of poor has increased sharply in the last ten years.

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The seven goals can be met, but it will take hard work. Goals cannot be imposed – each country must identify its own particular path to development, through dialogue with its citizens. That means giving stronger voices to the poor and achieving growth that helps them. It means providing basic social services for all, opening markets for trade and technology and providing enough resources for development. In this, the support of the international community and the high-income countries is vital.

Everything is interlinked of course. Only with better government can there be better policies, greater access to markets and a more effective use of resources. Likewise, although each of the seven goals addresses one aspect of poverty, they are mutually reinforcing. Higher school enrolments reduce poverty and mortality, just as better basic healthcare reduces poverty and increases enrolment.

But the overriding aim of these seven goals is that most compelling of human desires – a world free of poverty and misery. The prize might not be quite the fully integrated, global economy and society many would like, but at least, achieving the goals by 2015 will make the world better, and safer, for all. ■

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Available online at www.paris21.org/better-world and in print from http://www.oecd.org/bookshop/

Sustainable chemical management: a challenge for government and industry

Elaine J. Dorward-King, Ph.D. , Global Executive Environment, Health and Safety, Rio Tinto Borax

Sustainable development has been an important part of the public policy debate for the last decade. It has evolved into a widely subscribed ideal for how business and society should interact and function. Sustainable development provides an umbrella under which many of the difficult environmental, economic and social issues that must be faced by society in the coming years can be addressed. The challenge will be to deliver an acceptable standard of living for many more people, while ensuring that the ecological foundations on which society depends are protected and are themselves sustainable. Successfully integrating economic growth, social enhancement and environmental improvement on a local scale, while understanding the broader consequences of decisions on a national or regional scale, will be required.

This transition to a more sustainable world will not be made overnight nor will it have a definable end point. All sectors of society will have roles in the transition. These roles may sometimes overlap, and in any case will evolve as the transition matures. For example, government methods of enforcing environmental compliance will continue to shift toward partnership and co-operation, rather than command and control. There will be changes in how business is conducted and in how industry and government interact. Change in some cases will be gradual and in others dramatic. Corporate responsiveness to growing public expectations for corporate stewardship and transparency will drive some of these changes. Many corporations realise that there are business benefits associated with having corporate strategies aligned with the priorities of sustainable development. Corporate goals that are consistent with the values of society better ensure continued licence to operate; reduce risks and lower associated costs; and protect corporate reputation.

The chemical industry has made notable contributions to society and human well-being for the last 150 years. Contributions include better quality, more reliable, food supplies; antiseptics, medicines and medical/hygiene practices that have increased longevity and quality of life; and discoveries and inventions such as detergents, polymers, preservatives, and insulation materials that improve the quality of life everyday.

There have been mishaps along with these contributions. Some have been caused by producing products to solve particular problems without adequately evaluating the long-term environmental consequences. One example is DDT, a pesticide that saved thousands of lives in hot climates from insect-born diseases such as malaria and typhus. But DDT also harmed beneficial species and persisted in the environment long after application. Pesticides used today can be just as effective, but are used more sparingly, are more selective, less toxic, and relatively short-lived. The chemical industry has also had incidents involving chemical production facilities themselves. In Minamata, Japan, in the 1950s and 1960s, mercury-con-

taining wastes were discharged into local waters and contaminated fish caught and eaten by local people with devastating effects. Another example is Bhopal, India, where in 1984 a cloud of methyl isocynate gas escaped from a chemical plant; more than 6,400 people have since died from exposure to the gas.

Today, the challenge for the chemical industry is to continue contributing positively to society by creating and producing needed materials and products while more successfully assessing, managing and reducing risks. The concomitant challenge for governments is to encourage industry creativity in solving problems while ensuring that the systems and processes are in place for effective chemical management.

Today, the challenge for the chemical industry is to continue contributing positively to society by creating and producing needed materials and products while more successfully assessing, managing and reducing risks.

Industry will increasingly be required to work with government in a participatory process to develop policies and regulations while managing business activities from a baseline of uncompromising regulatory compliance. Industry's role is to design and develop new, more effective and energy efficient materials, products and services that enhance human well-being while protecting the environment. Improving efficiencies in manufacturing and distribution of goods and services is a critical business priority for economic as well as environmental reasons.

While government will retain many of its traditional roles, how it discharges its responsibilities and interacts with business may change significantly. Setting policies that reflect the values and priorities of the public and ensuring regulatory compliance are important priorities for government. Equally important, at all levels of government, will be establishing and consistently applying regulations and standards relevant to the goals of sustainable development.

Non-governmental organisations and the academic community have roles in overseeing the performance of both industry and government. They must challenge policies and regulations and the processes through which they are established; drive and communicate societal expectations for environmental stewardship; develop and foster the skills and cognisance in students required for successful participation in a sustainable economy; and communicate to the public on matters of importance.

Successful chemical management in the future will surely require all sectors of society to work together to balance economic, social and environmental priorities. The economic objectives and social benefits that derive from chemical manufacture and use must be compatible with the objectives of protecting human health and the environment. These objectives can only be met through establishing and implementing reliable policies, standards and systems at all governmental levels, by engaging the NGO community, and by industry fully discharging its responsibilities.

Chemical management must be based on both hazard and exposure assessment so that the risks of the chemical when it is used can be identified. There are opportunities currently to develop better systems for hazard identification and classification and ultimately, a harmonised system for classifying and labeling dangerous substances. However, chemical management cannot be based on hazard identification alone. Good chemical management requires:

- Evaluation of high-risk chemicals first
- Distinction between chemicals with little potential for harm from those with high probability of adverse effects
- Consideration of realistic patterns of exposure and use
- Labeling guidelines that communicate understandable information to users

It is important that industry takes on the burden of assessing the risks of their chemicals. Industry and government developing mutual trust, a common understanding of principles and co-operating effectively can achieve the common goal of sustainable chemical management.

Most regulatory systems have several instruments by which chemicals can be managed. These instruments need to be integrated to ensure that chemical management does not depend solely on the intrinsic hazardous property of a chemical and that a rational decision on the actual risk in use of a substance can be made. In the EU the current practice of classification and labeling (based on Directive 67/548/EEC), has been applied to classify chemicals solely on their intrinsic hazardous properties without full consideration of all the criteria, e.g. normal handling and use. Since there are many downstream regulations that are impacted by hazard classification, including restrictions and marketing bans; this process undermines confidence in chemical legislation and is not consistent with sustainable chemical management.

Every day, people balance potential hazards of chemicals with the benefits of their use. Many chemicals used safely everyday in households and workplaces are toxic to test animals when the animals are exposed at high concentrations of the chemical. A simple common example is sodium chloride (table salt). Salt is used safely every day to enhance quality of life without causing adverse effects. Similarly, vitamins and minerals are essential for animal and human health, yet exposure to these same chemicals at high concentrations may cause adverse effects.

To be credible and to contribute to the long-term economic and social needs of society, assessments of substances must evaluate toxicological information in the context of a chemical's intended application. Realistic potential exposure scenarios for the chemical must be considered. All industry efforts should then be directed to reducing the exposure to chemicals that are shown to pose unacceptable risks.

There is a legitimate public need for regulations that protect human health and the environment. The efforts made in the last 30 years to clean up water and air pollution have resulted in significant improvements in environmental and human health. There is a similar legitimate need for a chemical management system that provides distinction between chemicals that present a true risk from their distribution, handling and use, and those that do not. Such a system, fully implemented, would be a significant contribution toward the transition to sustainable development.

If most chemicals have the same precautionary label because only toxicological test data are considered in the absence of relevant exposure information, then little useful information is provided to the public. The sensible use of the precautionary principle is likely to be negated. Indeed, a response opposite from that desired may result, i.e. public complacency or indifference, where labels are ignored and standards (and those that set them) lack credibility. A chemical management system that uses risk assessment as its fundamental basis is able to reduce risks effectively and to substitute chemicals that pose unacceptable risks with chemicals that are of a lesser risk, without confusion to the public

It is also important that industry takes on the burden of assessing the risks of their chemicals. Industry and government developing mutual trust, a common understanding of principles and co-operating effectively can achieve the common goal of sustainable chemical management. ■

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We the People! An NGO view

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Globalisation in its current form cannot deliver the benefits expected of it. Civil society, particularly in developing countries, must ensure that it does.



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Champions of change

A few years ago someone predicted the "end of history", and the end of conflicts, material and of ideas, as all countries and peoples embrace the shared goal of free markets and liberal democracy.

But the end of the Cold War did not usher in universal prosperity or brotherhood. Instead, we stand at the beginning of a new millennium, facing the serious crises handed over from the last one. The scandal of poverty remains more entrenched, and there are rising inequalities between countries, social classes, men and women, indigenous people and those who want to colonise their resources. Instead of peace and security, there is conflict and insecurity, some resulting from global pressures and from inequities and poverty. There is the environmental crisis, raising questions about the survival of the Earth and humanity. There are the risks of technology going wrong, such as in nuclear power, toxic chemicals and genetic engineering. In the area of health, scientists are predicting the end of the antibiotics era as disease-bearing bacteria and viruses overcome overused antibiotics, posing the threat of new epidemics.

Globalisation is another feature of our age. There are different attitudes to this phenomenon. Some say it is inevitable and basically good, that we have to adjust to it and learn to reap the benefits. Others worry about the costs and advocate some safety nets for the losers. In truth, the essence of globalisation is the push by big companies and financial institutions to have more power, to grow bigger through taking over others, and make more profits. They have lobbied their governments, of the rich countries, to break down the national barriers that prevent them from totally free access to markets across the world, especially in the developing countries.

These economies had suffered during colonialism, so in the first phase of independence, many of their governments instituted measures to boost their weak domestic firms, banks and farms. They had affirmative action policies in favour of the local economy, and defended them from predatory big foreign business. These big firms now want to break down the barriers so that they might take over the local firms and farms of these developing countries and strengthen their monopoly. Thus we now see the liberalisation of trade, finance and investment. But in areas where the big companies and their governments would lose from liberalisation, they practise protectionism. They impose high intellectual property standards, for example, which is protectionist since it helps them to hinder technology transfer.

Globalisation as practised today is a kind of apartheid. It is a misleading term and it skirts the issue to talk only in terms of "sharing better the benefits of globalisation" and helping the "marginalised". This presumes that globalisation only produces benefits, but some gain more than others. In reality, globalisation creates benefits for some, losses for others, and worse, some of the benefits of the gainers generate losses for the losers.

Globalisation is a new form of colonialism. When the people fought

against slavery, apartheid and colonialism, they did not speak in terms of sharing better the benefits of slavery or apartheid or colonialism. They fought the systems themselves. So too we cannot just talk of sharing better the benefits of globalisation. We have to fight the system of globalisation itself.

Power problem

The crux of the problem is the unequal distribution of power and wealth in the world. We must recognise this and not skirt the issue. Those that hold power and wealth want to keep it and protect it. Thus we see the double standards that exist between what is preached and what is practised.

There has been the successful campaign to ban land mines, which was a victory of the people's movements. But the nuclear powers still refuse to ban nuclear weapons. There is much talk and conditionality about transparency and democracy at the national level; we NGOs have been part of this campaign in our countries. But the major countries refuse to democratise at the international level, where the global decisions are taken mainly by the G8 or the OECD or the Bretton Woods institutions and the WTO. And this without the adequate participation of smaller nations, let alone civil society.

Whatever happened to the UN? It has been disempowered not because it is inefficient, but because it is too transparent and too democratic, and its decisions are taken with the participation of all countries. The Security Council is the exception. UN decisions are taken on the basis of one country, one vote. This did not favour the minority of large powers, which decided in the early 1990s to reform and reshape the UN, and to transfer its authority on economic and social issues over to the IMF, the World Bank and the WTO. The IMF and World Bank's decisions are on the basis of one dollar one vote. The WTO has a system of decision-making that at crucial moments has excluded most developing countries, including through the notorious "green rooms".

Clearly, this cannot continue. We need a democratisation of global institutions, and to inject people's rights into them. For that to happen, the big powers have to agree to loosen their grip on international institutions and relations. They will do this only when people's movements and civil society demand it.

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We need democratisation and transparency in the private sector too, in financial markets and transnational companies alike. We need to voice our concern about their concentration of wealth through takeovers and mergers, and their ability to destroy the wealth of small countries through financial speculation. In short, we need a transformation of the financial system and institutions.

As to the multilateral trading system, change is needed there too. The WTO's operating principles have caused dislocation. Many of its agreements are flawed and should be changed. For example, the agriculture agreement that leads to import liberalisation in developing countries threatens millions of rural livelihoods and food security. Food products of developing countries intended or local consumption should be excluded from the agreement's obligations on import liberalisation and domestic subsidy. The TRIPS agreement on intellectual property will raise prices of medicines, prevent technology transfer and facilitate biopiracy. How ironic for a trade organisation that is supposed to promote liberalisation, not protectionism!

The UN by contrast should be strengthened. Yes, it should also be reformed, especially in its decision-making structure and at the level of the Security Council. Rich countries should not hold back their payment to the UN, whose future depends on its regaining its former legitimate role in economic and social policymaking. The World Bank, IMF and WTO will have important roles to play, but only by promoting the right policies and assuming more appropriately-sized roles.

And so, We the Peoples must go beyond the nice words of diplomats and bureaucrats, cautious and polite language. We must strive to identify and remove the sources of poverty and conflict and the inequality of wealth. In doing so, we must first honour and pay homage to those who fought to overthrow the big oppressive forces of slavery, feudalism and colonialism. Who fought to give rights to ordinary and poor people, the small farmers and peasants, the workers in factories, the jobless and homeless. Those who fight for people's rights to a good environment. The local communities who fought against toxic waste dumps. The indigenous people and their supporters who fight against destruction of their forests and rivers. Those who are struggling, with their lives for land reform and property rights, for rights to decent pay and conditions, for the destitute in slums and plantations.

No, history is not about to end. We pledge to absorb the spirit and lessons of these champions of change and to take on the struggles of the new age. We the people can work towards a world that is socially just and ecologically sustainable, peaceful and secure. We invite the world's governments, and agencies like OECD, to join us. But with or without them, we the people have no choice but to carry on, to fulfil our mission of bringing about a better world. ■

This article is based on a speech given at the Opening Session of the Millennium Forum, UN General Assembly Hall, New York, 22 May 2000.

FORUM 2000: OECD FIRST INTERNATIONAL CONFERENCE AND KNOWLEDGE FAIR PROGRAMME

Monday 26 June 2000

8:00-9:30 Registration and Coffee

9:30-10:30 Opening Session
Moderator: Shirley Williams, House of Lords, UK
* Donald J. Johnston, Secretary-General, OECD
* Peter Costello, MP, Treasurer, Australia

10:30-11:00 Knowledge Fair Opens: Coffee and Visit

11:00-12:30 Partnerships for the 21st Century
* Pierre Sané, Secretary General, Amnesty International
* Louise Fréchette, Deputy Secretary General, United Nations
* Sir Robert Wilson, Executive Chairman, Rio Tinto plc., UK

12:30-14:15 Lunch and Knowledge Fair

14:15-15:30 Equity, Globalisation and Development
Moderator: Jean-Claude Faure, Chairman, Development Assistance Committee, OECD
Panel:
* Bülent Eczacibasi, CEO, Eczacibasi Holdings, Turkey
* Fouad El-Hage, President, Caritas International
* Moisés Naim, former Industry Minister, Venezuela; Editor of Forign Policy

Government, Business and Civil Society: Building Partnerships in Public Policy
Moderator: Maria Cattaui, Secretary General, International Chamber of Commerce, Paris
Panel:
* Yotaro Kobayashi, Chairman, Fuji Xerox, Japan
* Thierry de Montbrial, President, IFRI, France
* John W. Sweeney, President, AFL-CIO, US
* Kwang-Woong Kim, Chairman, Korean Civil Service Commission

15:30-16:15 Coffee and Knowledge Fair

16:15-17:30 Bridging the Digital Divide
Moderator: Jacques Dunogué, Secrétaire Général, Groupe Alcatel, France
Panel:
* Dr. Dae-Whan Chang, President and Publisher, Maeil Business Newspaper
* Christine Herron, CEO, Mercury 2, US
* Kent McGuire, Head, Office of Educational Research and Improvement, US Department of Education
* Guy Sorman, Writer, France

Corporate Governance
Moderator: Maria Cattaui, Secretary General, International Chamber of Commerce, Paris
Panel:
* Peter Dey, Chairman, Morgan Stanley, Canada
* Mary Keegan, Head, Global Corporate Reporting Group, PricewaterhouseCoopers, UK

17:30-19:00 Reception

Tuesday 27 June 2000

8:30-9:00 Registration

9:00-9:45 Society and Technology: Managing Change
Bernard Vergnes, Chairman, Microsoft Europe, Middle East and Africa

10:00-11:15 Are We Living in a 'New Age' Economy?
Moderator: Martin M. Bailey, Chair, Council of Economic Advisers, US; Chair, OECD Economic Policy Committee
Panel:
* Kenneth Lay, CEO, Enron, US
* Leszek Balcerowicz, Deputy Prime Minister, Poland
* Bill Emmott, Editor, The Economist
* Ignazio Visco, Chief Economist, OECD
* Kihwan Kim, Chairman and CEO, Media Valley Inc., Korea
* Taichi Sakaiya, Minister for Economic Planning, Japan

Are We Moving Towards Sustainable Development?
Moderator: Simon Upton, Chairman, OECD Round Table on Sustainable Development, Former Minister for the Environment, New Zealand
Panel:
* Gerrit Zalm, Minister of Finance, The Netherlands
* Patricia Feeney, Senior Policy Adviser, Oxfam International
* Jaakko Ihamuotila, Executive Director, Fortum Corporation; Chairman, Business and Industry Advisory Committee to the OECD, Finland
* Bjorn Stigson, President, World Business Council for Sustainable Development, Geneva
* Simon Tay, Chairman, Singapore Institute of International Affairs

10:30 Knowledge Fair Opens

11:15-11:45 Coffee and Knowledge Fair

11:45-13:00 Enhancing Ethical Behaviour in Business and Government
Moderator: Mark Pieth, Chairman, OECD Working Group on Bribery and Corruption
Panel:
* Hanfjörg Elshorst, Managing Director, Transparency International
* Yuzaburo Mogi, President and CEO, Kikkoman Corporation, Japan
* Jung-Suk Yoo, Deputy Minister for Policy Analysis and Evaluation, Korea

Sustainable Development: Climate Change
Moderator: Jan Pronk, Minister for the Environment, The Netherlands
Panel:
* Svend Auken, Minister of Energy and Environment, Denmark
* Jonathan Lash, President, World Resources Institute, US
* Robert Z. Lawrence, Council of Economic Advisors, US
* Cecilia Brighi, International Policies Department, CISL, Italy

13:00-14:15 Lunch and Knowledge Fair

14:15-15:30 Who's in Charge? People or Technology?
* Jacques Attali, President, Attali & Associés, France
* Bill Joy, Chief Scientist and Corporate Executive Officer, Sun Microsystems, US

15:30-16:00 Coffee and Knowledge Fair

16:00-17:15 Reaping the Full Benefits of Trade for Development
Moderator: Arne Rodin, Chairman, OECD Trade Committee
Panel:
* Duk-soo Han, Minister for Trade, Korea
* Jagdish N. Bhagwati, Columbia University, US
* Mike Moore, Director General, WTO, Geneva
* Martin Khor, Director, Third World Network, Malaysia
* Herminio Blanco, Minister for Trade and Industry, Mexico
* LeRoy Trotman, General Secretary, Barbados Workers' Union

Sustainable Development: Biotechnology and Food Safety
Moderator: Michael Oborne, Deputy Director, Directorate for Science, Technology and Industry, OECD
Panel:
* Willy De Greef, Regulatory and Government Affairs, Novartis Seeds
* Philippe Kourilsky, Directeur général de l'Institut Pasteur, France
* Ismail Serageldin, Vice-President, World Bank

17:15-18:30 Enhancing the Coherence Between Trade and Other Policies
Moderator: Peter Sutherland, Chairman, Goldman Sachs International, UK
Panel:
* Leif Pagrotsky, Minister for Trade, Sweden
* Mark Vaile, Minister for Trade, Australia
* Hassan Abouyoub, Moroccan Ambassador to France, Former Minister for Trade, Former Minister for Agriculture
* Béatrice Marre, Deputy of L'Oise, National Assembly, France
* Kimmo Sasi, Minister for Forign Trade, Finland

Corporate Responsibility
Moderator: Bruno Lamborghini, Chairman, Olivetti Lexikon; President, European Information Technology Observatory
Panel:
* Alice Tepper Marlin, President, Council for Economic Priorities, US
* Marinus Sikkel, Chair, OECD Working Group on Guidelines for Multinational Enterprises, The Netherlands
* John Evans, Secretary General, Trade Union Advisory Committee to the OECD (TUAC)
* Ambassador Luiz Felipe de Seixas Correa, Secretary-General of External Relations, Brazil

18:30-19:45 Reception

Wednesday 28 June 2000

8:30-9:00 Registration

9:00-9:30 The Internet: Building Consumer Confidence
Malcolm Williamson, CEO, Visa International

9:30-10:30 The Internet: Protecting and Empowering Citizens
Moderator: Jytte Ølgaard, National Consumer Agency, Denmark; Chair of the OECD Committee on Consumer Policy
Panel:
* Philip Jennings, General Secretary, International Federation of Commercial, Clerical, Professional and Technical Employees (FIET), Geneva
* Erika Mann, MEP, European Parliament, SPD, Germany
* James Love, Consumer Project on Technology, US
* Philippe Lemoine, Co-President, Groupe Galeries Lafayette, Chairman, Electronic Commerce Project Group, MEDEF, France

E-Commerce: Addressing the Taxation Challenges
Moderator: Jospeh Guttentag, Senior Advisor to the US Treasury on Electronic Commerce
Panel:
* Judith Scarabello, Director, Federal Government Affairs, AT&T, Chair, Joint Working Group on Taxation of Electronic Commerce, US

Entrepreneurs in the Globalising Marketplace
Moderator: Michael Short, NewsAlert, European Chief Executive
Panel:
* Jeroen van der Veer, Group Managing Director, Royal Dutch Shell, The Netherlands
* Avigdor Itzhaki, Chairman, Israel SMEs Authority, Israel
* Tim Ash, Economist, Central and Eastern Europe, WestLB, UK
* Sue Love, Owner and Director, International Circles, UK
* Yves Delacour, President, Leonardo Finance, France

10:30-11:00 Coffee and Knowledge Fair

11:00-12:00 The Internet: Expanding Global Markets
Panel:
* Bruno Lamborghini, Chairman, Olivetti Lexikon; President, European Information Technology Observatory
* Elliot Maxwell, Special Advisor to the Secretary for the Digital Economy, US Department of Commerce
* Paul Twomey, Chairman, Governmental Advisory Committee, Internet Corporation for Assigned Names and Numbers (ICANN), Australia
* Michel Danet, Secretary-General, World Customs Organisation

Partnerships in Enterprise Development
Moderator: Tim Ash, Economist, Central and Eastern Europe, WestLB, UK
Panel:
* Michael Short, NewsAlert, European Chief Executive
* Dylan Jones-Evans, Professor of Entrepreneurship and Regional Development, University of Bangor, Wales, UK
* Roberto Antonione, President of the Friuli Region, Italy

12:00-13:00 Concluding Session – Globalisation and Society
Jean-Marie Messier, President, Vivendi, France

13:00-15:00 Lunch

**Programme subject to change at discretion of organisers.*
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2020: a clearer view for the environment

JOKE WALLER-HUNTER, DIRECTOR FOR ENVIRONMENT, ENV.CONTACT@OECD.ORG

Environmental issues feature highly on the international agenda. What are the main threats, and what does the future hold?



The destruction of tropical forests, encroaching deserts, dry wastelands, millions more species lost, weather patterns playing havoc, cities choking, water courses trickling and vast dead oceans heaving with oil and other undigestables left behind by the human race. This is an exaggerated and harrowing view of the future and, thankfully, no such scenario for the world's environment is in prospect, at least not between now and 2020. But is a spoiled planet really as improbable as all that?

Yes, if the right policy action is taken to avoid it. The hard fact is that environmental pressures have increased, and some urgently need to be brought under control. Developing the right policies demands some knowledge of the kinds of pressures we are facing, what is driving these pressures, and how they are likely to evolve. Building a sound view of how the environment might look in 2020 is therefore a crucial exercise. The OECD is engaged in building such an outlook, the final results of which will be presented to environment ministers in 2001. The report may not be exhaustive, focusing instead on key areas of concern; but even so, it is a delicate task. It means analysing recent trends, taking stock of the present state of the environment, and making projections for developments in the most environmentally sensitive issues, as well as for the underlying social and economic forces that drive them. But projections are not set in stone – they can be changed by direct policy actions. Key environmental policies for a more environmentally friendly future are thus analysed in the report.

Environmental pressures have increased, and some urgently need to be brought under control.

Warning lights

While the final report will not be ready until April 2001, some preliminary results are now emerging. The box below provides a simplified picture of some of the issues which, on an early reading, will have to be addressed over the next 20 years. Green light issues in the graph are those less urgent areas where OECD countries can "proceed with caution", while yellow light issues are marked by uncertainty; they require some attending to now. Red light issues are the most problematic ones and generally require immediate policy action.

Over-fishing is an example of a red light issue. It is a worldwide problem. According to the FAO, an estimated 70% of the world's natural fisheries are already either exhausted, over-fished or in a state of recovery. In the absence of dramatic policy changes, global production from these fisheries might decrease by over 12% from 1997 levels in 2010. Deforestation may be another serious problem on a global scale. While total forest coverage in OECD countries has been expanding in recent years – by almost 4% since 1970 – worldwide deforestation of tropical and established, old-growth forests continues at an alarming rate. Sustainably managing OECD forestry poses a challenge, but not at the red-light level of tropical forests. Another urgent issue is that of biodiversity

which, while difficult to measure, appears to continue to be under significant pressures.

Technological fixes

Identifying environmental pressures is one thing, but coming up with ways of dealing with them is another. Technological "fixes" have lessened many environmental pressures. Most of the technological developments have been in the form of either eco-efficiency improvements, such as reductions in the amount of energy or resources used in manufacturing goods, or systems or technologies to increase the level of renewable resources production (e.g. increased input use in forestry & agriculture, fish feed, use of biotechnologies). The development of aquaculture, which is intensively managed fish farming, can be seen to fall in the latter category, and has helped to divert some of the demand for fish products away from over-stressed natural fisheries. It has been expanding rapidly and is projected to increase by up to 35% globally between 1997-2010. Similarly, industrial plantation forests are expected to play an increasing role in meeting wood production needs. However, such technological "fixes" do not come without cost, since even if aquaculture and forest plantations help reduce global pressures on natural resources, they can have damaging local effects. As a result, both get a yellow light in our schema.

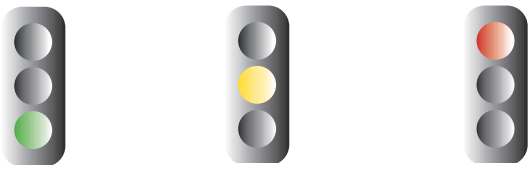
New biotechnologies, including genetically modified organisms (GMOs), are being hailed as the solution to many of our resource use problems; they have the potential to reduce the amount of damaging inputs (pesticides, fertilisers) used in natural resource sectors (agriculture, forestry, fisheries), and increase production levels. However, the jury is still out on their effects on human health and ecosystems, and thus their future potential.

Decoupling growth and the environment

In general, environmental degradation has kept pace with economic growth. But the use of energy and other resources, like raw agricultural materials, water and metals, now appears to be on the decline in relation to GDP in many OECD countries. This fall in intensity points to a potential decoupling between the respective directions the economy and the environment are taking, with an easing in the rhythm of environmental degradation in relation to economic growth. In some cases, these reductions in resource intensity have been large enough to lead to absolute, rather than just relative, environmental improvements, by offsetting the overall effects of total economic and population growth. At least nine OECD countries reduced their total water consumption between 1980-1997 (see graph).

Signals ahead

Some preliminary results, OECD Environmental Outlook



Agriculture, forestry & fisheries	● OECD forest coverage ● Organic agriculture	● Plantation forests ● Aquaculture ● Biotechnology	● Tropical deforestation ● Over-fishing ● Agricultural pollution
Industry	● Point source pollution ● Resource efficiency	● Chemicals in the environment	● Total resource & energy use
Energy & transport	● Energy efficiency		● Total energy use ● Transportation
Waste		● Waste management	● Waste generation
Environmental effects	● Some air pollutants (CO, SO_2, lead) ● Surface water quality	● Total water use	● Global biodiversity ● Groundwater pollution ● Greenhouse gas emissions ● Some air pollutants (VOCs & NO_x)

This table, which is drawn from the OECD Environmental Outlook, refers to environmental pressures that require action: issues under the red light are matters requiring urgent action; yellow are issues marked with uncertainty, demanding some policy attention; while on green-light issues, policymakers can proceed with caution. Items under the green and yellow lights *may* also be seen as solutions to red light problems, such as aquaculture for over-fishing, plantation forests, organic agriculture, energy efficiency.

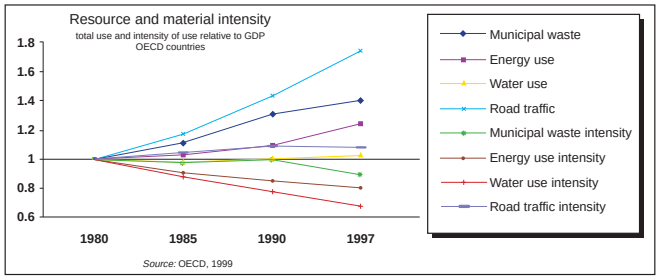
However, despite such eco-efficiency improvements, overall environmental degradation has persisted in most cases. OECD countries reduced the energy intensity of their economies by 31% between 1973-1996, but they increased total energy consumption by 23% over the same period. Their total energy use is expected to grow by a further 30-50% to 2020.

Greenhouse gas emissions tell a similar story. While the output of GHG emissions relative to GDP has fallen for OECD countries in recent years, total absolute emissions have risen. Under current policies, OECD countries could increase GHG emissions by a further 30% to 2010, far from the overall Kyoto Protocol target of a 5% reduction from 1990 levels to 2008-2012.

In some cases, there are no signs of any real improvement. This is true of transportation, where motor vehicle kilometres travelled in the OECD are expected to increase by at least 65% between 1990-2020 and passenger air kilometres are expected almost to quadruple. Similarly, levels of OECD municipal waste generation in 2020 are expected to continue following GDP growth, approximately doubling from the 1980 levels.

Hard road ahead

What can policymakers do to tackle these environmental pressures? For a start, they should look at examples where improvements have taken place. These have often been linked to pricing incentives or regulatory intervention. Recent reductions in water use have been most pronounced in countries, such as the United Kingdom, Scandinavian countries and some central European countries, that have removed subsidies and applied charges that better reflect costs. Similarly, the main reductions in energy intensity of OECD economies, while not policy driven, occurred between 1974-75 and 1979-82, during the major oil price shocks when energy prices soared.



Source: OECD, 1999

Government regulations and direct intervention have been particularly successful in reducing industrial pollution, cleaning up the worst polluted surface waters, and cutting back some air pollutants, for example, by phasing out leaded petrol (an initiative which was made possible by technology of course). In other cases, government policies can facilitate environmentally beneficial changes in consumption patterns. This is true for the development of organic agriculture, whose rapid growth in OECD countries is partly due to increased consumer demand, partly to government support.

To some extent, the most tractable environmental problems have already been "cherry-picked". Recycling, cutting lead in the atmosphere, cleaning water courses – all these are being dealt with. But the problems for the future are likely to be more complex, and their resolution will require more difficult sacrifices.

Take the case of chemicals. There have been significant reductions in chemical emissions from industry in recent decades, yet manufactured chemicals are still widespread in the environment, and are difficult to tackle because of releases through diffuse uses, like driving cars and farming. Groundwater pollution harbours a similar problem, for unlike the more manageable surface water and point source problems (such as rivers and industrial factories), its causes are also diffuse, primarily from agricultural run-off. Likewise, while some air pollution emissions have been reduced (lead, sulphur dioxide and carbon dioxide), others, such as volatile organic compounds and nitrous oxide emissions which contribute to photochemical smog, are on the increase. Again, easy regulatory solutions for this simply do not exist.

The message is clear. The issues which will require most urgent attention in the next few decades are transport use, waste generation, diffuse sources of pollution and the over-use of some renewable resources. While strong regulatory frameworks will remain necessary, they must be combined with more innovative policy packages. Otherwise, alleviating the underlying pressures on the environment will become extremely difficult. Using stronger pricing mechanisms for consumers and producers would appear to be one way forward; voluntary agreements, tradable permits, eco-labels and information-based incentives are others. If we fail to act, the prospects in 2020 could be more harrowing than we would like to imagine. ■

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Bearded men in mountain cabins

DOUGLAS C. WORTH, SECRETARY-GENERAL OF THE BUSINESS AND INDUSTRY ADVISORY COMMITTEE TO THE OECD (BIAC)

The imperative that government be sensitive to the needs of business will be greater than ever in the era of the new economy.

Only bearded men in mountain cabins want government to disappear. The rest of the population understands that yielding a certain amount of personal "sovereignty" is a fair trade for a few curbs on the effects of human frailty.

Fortunately, the rest of the population has also come to the conclusion that a market-based economy is superior to the other alternatives that have been tried over the years. Commerce is close to a natural human instinct; the market has given us the basis for a common expression or language. Frankly, we have barely begun to experience the benefits of this remarkably binding concept.

Globalisation is the catchword for the spreading of this recognition of commonality. Like any other human endeavour, it has its sharp edges. I am perplexed to see more and more statements and action from governments and even business organisations along the theme of "globalisation with a human face". The political source for this defensive posture is obvious, but I believe that it represents a significant error in logic, as people grapple with the global market's emergence. The truth is globalisation already has a human face, since no one but humans is involved.

Blaming the inequalities of the world on the market economy is nonsense. The facts are that the experimenting with non-market systems has left great masses of people poor and disaffected. This common understanding of the market is relatively new: that the market is clearly the answer, not the problem.

At the centre of this global phenomenon is the entrepreneur, individually and collectively in a business enterprise, the risk-taker who creates the rewards of wealth. The entrepreneur or firm is surrounded by institutions intent upon curbing those human frailties.

So be it, but there is a healthy and growing recognition that honing all the edges in this way has disastrous consequences. When institutional prescriptions crowd out innovation, the chances of total failure occurring may be diminished, but the price in resistance to change is incalculable. For it is change, the recognition that one course of action or product is less than optimal, that another is better, which feeds the creative mind. For the market to work, there must be a right to be wrong.

However, the firm is, by its nature, born of positive expectations and driven by its response to market demands. Increasingly, the management of the firm is finding commonality across sectors in the elements of this new economy paradigm, as some are wont to call it.

An array of themes is apparent in the strategies and operations of a private enterprise that is gearing itself for future success. From McDonald's fast foods to Nokia phones, from Volkswagen automobiles to Sony consumer electronics and Tata software, firms will be focused on the introduction, marketing and management of their brands. After all, despite all their differences, human beings have converging tastes in many products and services. The important point is that each one of those themes has implications for the makers of public policy, at every level of government, everywhere on the globe.

In every sector – agriculture, retail, banking, steel or semiconductors – there will be a premium on innovation. The application of technology to the business model will be pervasive, and will frequently be the difference between success and failure. The potential scope of enterprise,

large or small, will be international, if not global. And though the range of consumer choices will be stunning, the competition will be intense.

As a result, profit margins will continue to shrink, making growth essential.

fluid. Trade and investment will blend in every international company strategy.

More than any other fact of life for a globally competitive firm, I wish to draw your attention to the most important and least understood of them all:

This common understanding of the market is relatively new: that the market is clearly the answer, not the problem.

Even the most product-oriented firm will leverage its talent in services. As a result, organisations will be less hierarchical and employment will be more

velocity. This is new in private enterprise: the speed at which investment moves through the business cycle. The source of this exponential change is

invention which, thanks to technology, feeds on itself, permitting the management of the private enterprise model to alter the model's composition with remarkable speed. Moreover, that invention is opening new possibilities for the customers of those new goods and services, sometimes causing demand to shift so quickly that even the most sophisticated forecasters cannot keep up. In the technology business, model builders have taken to thinking in "web years", that is, periods of three months.

It is the surge in application of new technology that is the essence of



©Reuters

Velocity at work

sustained growth in the broader economy. The application of technology enables the same "modeling" and new market possibilities to spread throughout business and industry.

Every government produces a range of policies that shape the micro-economic models of the private sector, resulting in a public sector burden that private players then have to carry with them into the market place. The tax load is the most obvious example of this, and policy choices give rise to a myriad of similar micro-economic costs.

Other examples include excessive labour protection rules, under-performing education systems, regulatory demands, market restrictions and tariffs. To a considerable degree, the debate about disparate rates of growth in developed economies hinges on the extent to which the state makes demands of the firm.

Nimble government

Clearly, there is a need for business and government to understand each other's perspective, if not to work together. One reason is that few private enterprises will escape either the global algorithm of competitiveness or the demand for nimble adjustment. As the public burden is so great in comparison to the operating margins of the private enterprise, a responsive, efficient government can have a disproportionate impact on strengthening the comparative and competitive advantage of its private sector.

Indeed, the speed with which an enterprise can react to change is directly tied to governmental policies and regulations; this is most crucial when it comes to having to shift resources out of marginally productive activities and into those with significant growth possibilities. This is Dr Schumpeter's creative destruction. The trouble is, with narrower margins and speedier product cycles, it is all the more urgent for governments to attune their policies to improving competitiveness and to allow that adjustment to take place unfettered. Otherwise the creative part of the Schumpeter equation will be impeded, with devastating consequences.

When institutional prescriptions crowd out innovation, the price in resistance to change is incalculable. For the market to work, there must be a right to be wrong.

Any lack of competitiveness, private or parastatal, sends ripples of inefficiency throughout the economy, distorting resource allocation and affecting the cost structure of customers. It is in the interests of governments and business to ensure this does not happen.

To the extent that governments ignore these realities, their policy shortcomings will most likely appear in the prices of goods and services. This is a micro-economic effect. In turn, those higher prices will impact the productivity of their workforce and the standard of living of their people. These are the macro-economic consequences. In short, the impacts of poor policy choices will not go away or be shifted to oblivion. Payment will be due.

In this context, the OECD's Forum 2000 has a chance to differ significantly from the majority of other intergovernmental "talks". Its analytical base, intellectual rigour and inclusiveness of business and other players is key, particularly in the face of mounting opposition to globalisation that is currently being expressed in the streets. By including antagonistic voices in the "formal" debate, the Forum obliges stakeholders to express themselves and face critical review. Everyone will have to hold their ground not on the basis of noise or numbers, but of argument and scrutiny. This is nothing new at OECD, which has always sought the opinion of business and labour representatives at the policy table of international government. What it does demand is that those invited come to the discussion to listen and make their case clearly. They will have influence in so far as their arguments make sense. That is what partnerships are all about. We could hardly ask for more. ■

Which key agricultural issues will confront policy makers over the next five years?



See page 110

Making recycling an integral part of the economy of the future

WOLFRAM BRÜCK, CEO, DUALES SYSTEM DEUTSCHLAND AG

The recycling of materials and products will steadily become more important in the 21st century. Economic experts see closed material cycles as an ecologically – and economically – efficient way of simultaneously limiting the use of primary raw materials and assuring lasting economic development. The prototype of a universal closed-cycle economy is already in existence today for used packaging from households and small businesses. What has been realised in this sector can now serve as a model for other branches of industry.

On the one hand, the German Council of Environmental Advisors estimates that the drop in finite primary raw materials will significantly influence the price of products based, for instance, on crude oil from the year 2010. On the other hand, according to current prognoses by the Öko Institut in Darmstadt, the quantity of plastic waste produced in Germany will rise to around 6m tonnes in 2005 due to the increased use of plastics in many branches (in 1995 it was just 3.7m tonnes). This is why materials must be kept moving in cycles for as long as possible.

Managing raw materials

A completely new approach is imperative in order to achieve ecologically, economically and socially viable development. While handling our remaining natural resources in an efficient manner, we must also take account of economic demands. Establishing efficient recycling systems is a vital part of sustainable development. The quantity of secondary raw materials realised by collecting used packaging is certainly not large enough to overcome a potential scarcity of raw materials. But packaging recycling is only the beginning. Further products and materials will follow. Higher recycling quotas for plastics throughout the entire European Union, for instance, will increase the potential for conserving crude oil. In the long term, the integration of material management into production processes will guarantee the easy return of materials to production loops.



View into the blast furnace melt (2,000 degrees): plastic waste replaces heavy oil

The German example

Since 1991, Germany has been developing a comprehensive infrastructure (the “Dual System”) which ensures the nationwide collection, sorting and recycling of used sales packaging in densely populated cities and rural areas. A viable financing model – the Green Dot – gives industry an incentive to develop and produce recycling-friendly packaging and hence to reduce consequential ecological costs. It is based on internalising the real recycling costs in the product price.

Pioneering technical work was, and is still, being carried out for feedstock and mechanical recycling of plastics. Around 610,000 tonnes of plastics were recycled in 1999. When the system started up, practically no processes or capacities were available for the recycling of plastic packaging as compared, for instance, with paper. The first step was therefore to develop processes that met the ecological and legal requirements. This has now been achieved. The present emphasis is on making these processes much cheaper and creating marketable products from prepared plastics. Today, mixed plastic agglomerate is used, for

example, in the production of pig iron in steelworks, and recycled plastic products are becoming more and more successful on the market. A decrease in the subsidies paid for the recycling of prepared plastics, and the fact that costs have started to fall, point to the economic efficiency of the system.

Eco-efficiency

The aim is now to create versatile secondary raw materials using economical processes to ensure competitiveness in the market. In this way, technological developments can help to minimise costs. At present, technologies are being pushed with a view to providing solutions in the most cost-intensive sectors of the system – the sorting of lightweight packaging and the recycling of plastics. These investments will pay off because the nationwide use of high-tech sorting plants in Germany will cut the cost of sorting and preparing used packaging by up to 50 %. At the same time, better material qualities will create a wider field of application for recycled plastics.

The first industrial-scale and fully automatic sorting plant, SORTEChnology 3.0, has started operation at the EXPO 2000 in Hanover, the first world exposition in Germany. It processes the lightweight packaging waste produced by the anticipated 40 million visitors to EXPO.

All processes used are selected on the basis of their eco-efficiency; the ecological effects caused by recycling are also assessed economically. In its efforts continuously to optimise and open up new technologies, the system also relies on medium-sized businesses and inventors. Plants have an opportunity to try out completely new process concepts. This co-operation will lead to new perspectives on packaging recycling and cause spin-off effects in other materials. Faced with the possibilities of mechanical recycling, feedstock recycling and energy recovery, we therefore intend to select the soundest process in ecological terms for the case in question.

The economic gap between the incineration and recycling of plastics will continue to close and the old, cost-related argument in favour of incineration will lose importance. Mechanical and feedstock recycling techniques already offer much higher energy efficiency. According to the Öko Institut, the cost of recycling plastics within the framework of the Dual System is in the same order of magnitude as other socially desirable environmental protection measures at present and is likely to drop substantially in coming years.

The closed-cycle economy

What has been achieved in the field of used sales packaging can and must be transferred gradually to other sectors of industry.

They must prove that they are equipped for the future and ready to participate in environmental protection and the conservation of natural resources. Further ordinances within the framework of the German Recycling and Waste Management Act feature the principle of product responsibility. Return and recycling routes have existed for used cars and old batteries since 1998 – others will follow.

The recycling of vehicles or computer parts no longer poses an insoluble technical problem. Most of the materials used can be recycled, for example, metals and plastics as well as glass from screens and tubes. Political requirements, public demand and the increasing merging of industrial sectors, combined with new return systems and sorting and recycling techniques, will help to prevent even more waste in future. Today, when a product comes to the end of its life, it is no longer simply earmarked for landfilling or incineration. On the contrary, it is generally viewed as a raw material that can be used again.

Production and recycling should be regarded as integral parts of one single, value-added process. It is unlikely that a perfect closed-cycle economy, without residual materials, will be available in the near future. But we must promote secondary materials and eliminate the use of primary raw materials wherever possible. ■

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Workers in the new economy

JOHN EVANS, GENERAL SECRETARY OF THE TRADE UNION ADVISORY COMMITTEE TO THE OECD

What will be the role of unions in the new global economy?

The rapid technological changes affecting economies and societies around the globe may have transformed firm-to-firm transactions, generated new forms of production and exchange, and created new forms of work, but the new economy has not begun to remove the old economy's social problems.

The changes underway are being superimposed on a very unequal world. The gap between "amazon.com" and the Amazon is growing. The past decades of globalisation have increased, not decreased, inequality in the global economy. Per capita incomes in the richest fifth of countries in the world was 30 times greater than in the poorest fifth in 1960, soaring to 60 times greater in 1990 and 74 times greater in 1995. Increased global access to mobile phones or computing will not be translated into development, unless people in poorer countries have access to clean drinking water and basic education.

The past decades of globalisation have increased, not decreased, inequality in the global economy.



©Serge Attal

"Digital divide? I don't see any!"

Within the industrialised countries of the OECD, there is a continuing growth in inequality, with many countries having a disturbing number of workers below the poverty line. In the United States, the ratio of average chief executive officers' pay in Fortune 500 companies to that of the average production worker rose from 42 to 1 in 1980 to 419 to 1 in 1998. A growing number of the young unemployed in OECD countries are concentrated in households where no one works – they are detached from the labour market and excluded from society. The challenge now is to stop this growing social divide being reinforced by a "digital divide" between those who have access to the new technologies and those who do not.

In some OECD countries the increase in casualisation or itinerant work has contributed to a sense of growing insecurity for many workers, rather

than wellbeing. But even in countries where there has not been a significant change in job tenure, there is evidence, recorded in past OECD work, of an increasing sense of insecurity. The accelerating pace of change and increasing work pressure are leading to more anxiety. This is bad in itself, but is also economically inefficient – growing insecurity and fear do not make a good foundation on which to build a high performance economy.

Meeting all these challenges will call for an effective public policy response. First and foremost, governments must restore the objective of achieving full employment by ensuring that their economic policies translate potential productivity increases into real social and economic gains. Updated regulatory mechanisms, on areas ranging from tax and consumer policy to the enforcement of competition and anti-trust policy, are also required.

In the area of labour market regulation, we have to step beyond the simplistic notion of "flexibility", where workers are expected to give up social protection, decent wages, or job security. In the knowledge-based economy, competitive advantage will lie with those countries that have strong social cohesion built on investment in education and training as well as solid industrial relations that give workers an effective voice and the tools to influence change. In other words, the most successful countries of the new age will be those with institutions that are able to balance the market pressures of adaptation and dynamism with social concerns of security and dignity.

A key priority for governments must be to invest in education and training and to adapt them both to the needs of a changing (and volatile) economy and society and to the objective of raising the level and quality of employment. That means widening access to education and creating a general entitlement to lifelong learning, rather in the same way as entitlement to retirement pensions was established in the past. Unions are institutions which counterbalance the centrifugal forces created by globalisation and technological change. They can play a crucial role both in redressing imbalances of power in the process of change and in ensuring that productivity increases are used to raise living standards in an equitable way.

In the knowledge-based economy, competitive advantage will lie with those countries that have strong social cohesion built on investment in education and training as well as solid industrial relations that give workers an effective voice and the tools to influence change.

In today's brave new, though uncertain, world, it should come as no surprise to learn that new groups of workers are looking to unions to represent them. In 1999, the membership of affliliates to the OECD's Trade Union Advisory Committee in North America and the United Kingdom went up for the first time in two decades. This reflects employment growth, but also the priority now given to organising new categories of workers into unions. A significant initiative was taken in November 1999 when Union Network International (UNI), the new international secretariat for "new economy" employees, launched a world-wide day of action to draw attention to the worsening conditions of workers in international call centres. UNI has followed this up by also launching a campaign for "on-line rights for on-line workers".

The provision of computers and low cost internet access is one way of avoiding a "digital divide". It is also a means of stepping up communication between union members. Several Nordic unions have provided computers for members for some years and, in the United States, the AFL-CIO has launched "working families.com", which provides low cost computers and internet access. Unions have established internet gateway sites offering a mixture of access to general news and specific union information.

Unions have also stepped up their efforts to negotiate with employers to



help manage change in organisations. A central feature of these negotiations has been the need to train and retrain workers and so give "lifelong learning" some practical meaning. Research by the OECD and others confirms that unions tend to raise the amount of training done by firms and spread that training more widely. Significantly, OECD research has also found that firms which have a union or works' council are often characterised by innovative forms of work organisation that raise productivity.

But beyond their role as negotiators and campaigners for "lifelong learning", unions also have a role as providers. In the United Kingdom, a public sector union, UNISON, has forty education officers, offering union members the chance to return to education and study up to postgraduate level. For those workers who had

Firms which have a union or works' council are often characterised by innovative forms of work organisation that raise productivity.

dropped out of formal education and may be wary of training institutions and employers, the union movement provides a source of confidence and support to return to a learning environment. Such approaches are not new – unions played a key role in the foundation of the adult education movement a century ago in many OECD countries. With change driving the need for wider access to recurring education and training, they now represent a pillar in approaches to lifelong learning.

OECD work on the knowledge economy and growth process interestingly points to the fact that current changes in productivity growth cannot be explained on a "business as usual" basis in several OECD countries. It also shows that economic policy, through its impact on investment, is key to growth in today's world and that decisions on corporate governance, as well as labour markets, matter to productivity outcomes. Clearly, unions are very much part of the solution to re-linking growth and the social progress. Only with them will social problems of the old economy begin to be solved. ■

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Going mobile? Jobs in the new economy

NORMAN BOWERS AND JOHN P. MARTIN, DIRECTORATE FOR EDUCATION, EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS

To what extent does the new economy change the rules of the game in the labour market? Perhaps not as much as some think



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Plus ça change. . . shifting stock in a French e-com warehouse

It is all over the media: the "new economy" is changing the rules of the game, with potential major implications for workers and labour markets. Indeed, an editorial in *The Economist* from as long ago as 1993 (20 July) hit directly upon the theme with a catchy phrase: "Your company needs you, for the time being". In a more recent article on "The Future of Work" (29 January 2000), the same newspaper even claimed that "the old social contract between employers and workers is being shredded". The implication is that many, if not most, workers will have to change their jobs and occupations many times throughout their working lives, and certainly change them more frequently than in the heyday of "lifetime employment". The debate about job insecurity and company loyalty has become headline news again, but to what extent does the new economy make a difference?

The arguments are widely touted, but what about the facts?

First, let's see what the workers think. According to survey data in the 1997 OECD Employment Outlook, workers were concerned about their job security in the 1990s, as they were about the loss of fringe benefits, such as health insurance and pensions. These concerns are still widespread and not simply confined to countries with high and persistent unemployment. They are also noticeable in countries, such as the United States and the United Kingdom, where unemployment has fallen to historic lows in recent years.

But while there is no doubt that workers feel their jobs are less secure nowadays, what about actual job tenures – how long, on average, have workers spent with the same firm? In the following table, two facts stand out. First, it is only in Spain and the United States that one can clearly see a decline in average tenures. Second, average tenures have in fact increased in a number of countries, such as France, Germany, Japan and the Netherlands.

These averages could conceal as much as they reveal. An ageing workforce, typical in most OECD countries, would normally be expected to show higher average tenures compared with a more youthful workforce. And rising levels of education might be expected to lead to better job matches in early career, thereby reducing turnover rate and increasing average tenures. However, more sophisticated analysis, which takes such arguments into account (see references), does not alter the basic conclusion: at worst, average job tenure has remained rather stable in recent years; at best, it has increased in far more countries than it has declined.

Steady work

Average job tenure (trend in years)

	Early 1980s	Mid-1980s	Late 1980s	Early 1990s	Mid to late 1980s
Australia	6.6	5.5	--	6.3	6.4
Canada	7.0	7.4	7.2	7.2	7.9
Finland	7.9	8.4	8.0	8.4	9.2
France	9.5	10.1	--	9.7	10.4
Germany	--	9.8	10.2	--	10.8
Japan	9.3	10.3	10.8	10.9	11.3
Netherlands	--	9.4	--	8.2	9.6
Spain	--	11.5	--	9.1	9.1
United Kingdom	--	8.3	--	7.8	8.3
United States	7.1	7.5	7.3	7.2	6.9

Sources: See *OECD Employment Outlook*, 1997; US Bureau of Labour Statistics, "Job tenure amoung men", 6 October 1998

This suggests that the supposition about entering a new age in which the bonds between workers and their firms are breaking down rapidly may be out of kilter with reality.

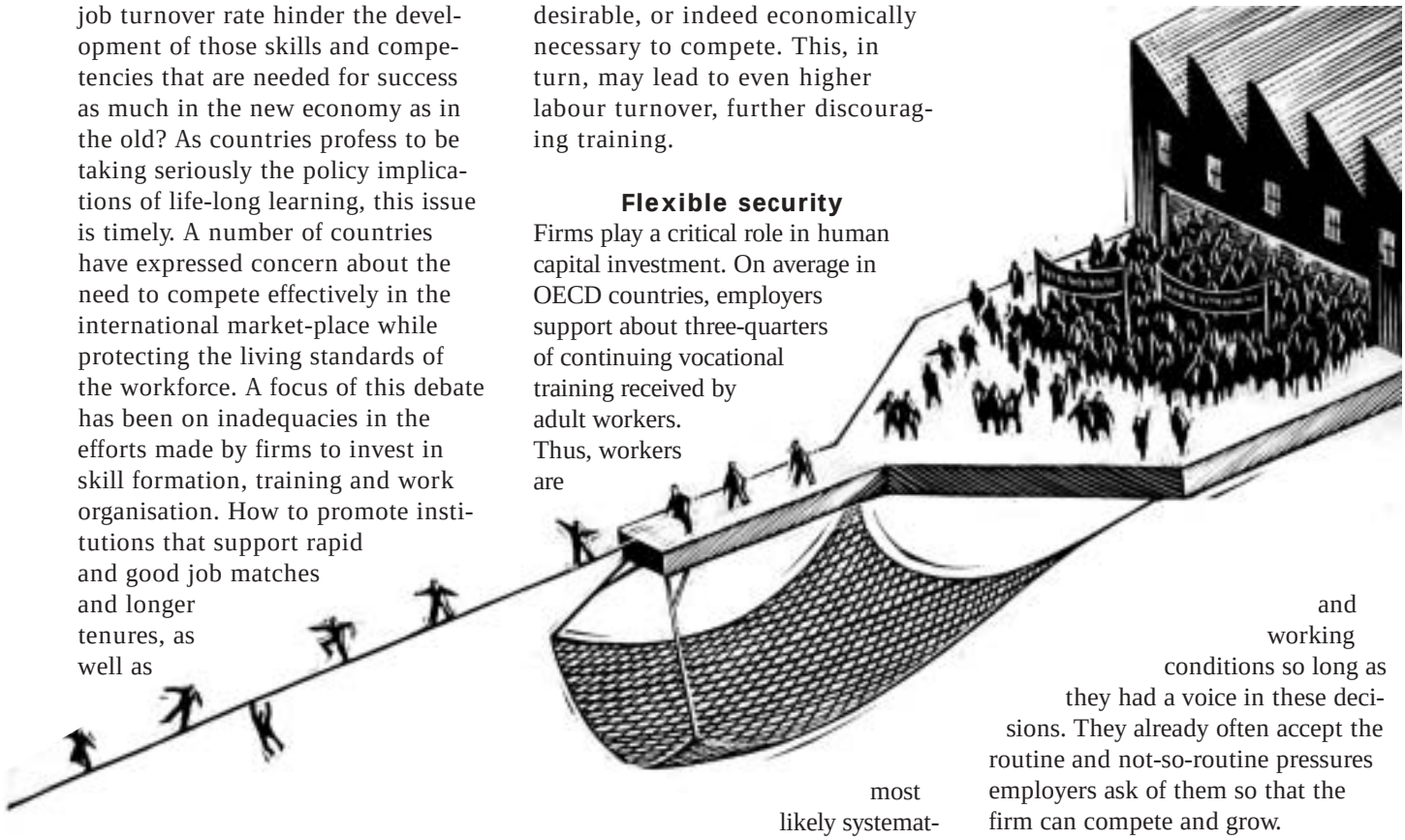
How does one reconcile these facts with the anecdotal evidence in the press suggesting that job changes have become much more frequent, at least for certain groups of highly skilled workers, such as star engineers and high-level programmers – the “Silicon Valley” set? The answer is simple. One cannot generalise from such small instances of genuine increases in job mobility to conclude that there is a broad trend towards job instability among upper-level workers. In fact, OECD analysis shows that problems with job instability, along with higher perceptions of job insecurity, are much more pronounced among less-educated workers than among the highly-skilled. This dichotomy in perceptions and job stability between less-educated and highly-skilled workers is hardly a new phenomenon. Furthermore, while the new economy may have had some influence on the labour market, the effect is unlikely to have been that great, given the still relatively small scale of investments in information and communications technology.

While there may be no general trend towards increased labour and job turnover, it is true that large numbers of workers move in and out of jobs every year. Both the 1994 and the 1996 Employment Outlooks show that roughly 10% of all jobs are newly created each year and about 10% are destroyed. Many firms adjust employment levels even in good times: some firms go bust and new firms are started up. This turbulence generates both costs and benefits. From an employer's perspective, high turnover can enhance flexibility of staffing levels in an uncertain world. However, it also directly increases such costs as, for instance, the (repetitive) recruitment procedures that high turnover makes inevitable. It can also lower productivity and product quality by, for example, undermining staff morale, especially among those workers who have mastered the specific skills and knowledge required to function efficiently in the firm. A labour market with a high degree of turnover may make it somewhat easier for workers who quit or are fired to find another job, though there will be uncertainty as to the quality of the new job and its likely duration.

This gives rise to a fundamental question: could an excessively high

job turnover rate hinder the development of those skills and competencies that are needed for success as much in the new economy as in the old? As countries profess to be taking seriously the policy implications of life-long learning, this issue is timely. A number of countries have expressed concern about the need to compete effectively in the international market-place while protecting the living standards of the workforce. A focus of this debate has been on inadequacies in the efforts made by firms to invest in skill formation, training and work organisation. How to promote institutions that support rapid and good job matches and longer tenures, as well as other institutions – that can ensure adequate worker participation or "voice" in the firm – has been a key point of discussion.

Another way of asking the question about turnover and skills is this: can firms have it both ways, as some of them appear to desire, and retain a highly skilled and flexible workforce while insisting on the freedom to hire and fire as they wish? It seems unlikely. Worried about their next job switch, workers, not surprisingly, may not care much about the fortunes of their firm unless given an incentive to do so. Businesses fear losing valuably-trained workers to competitors and this can lead to less investment in skills than is socially desirable, or indeed economically necessary to compete. This, in turn, may lead to even higher labour turnover, further discouraging training.



Flexible security

Firms play a critical role in human capital investment. On average in OECD countries, employers support about three-quarters of continuing vocational training received by adult workers. Thus, workers are most likely systematically to update and enhance their job skills if their employer views training them as a sound business investment. This is more likely to occur if the worker is expected or encouraged by personnel practices to remain with the firm for an extended period of time. Stability of employment can enhance skill training; this is demonstrated by the tendency of firms in industries with above-average job tenures and lower labour turnover to offer more training. Moreover, firms are more likely to implement flexible forms of work organisation successfully if these initiatives are combined with intensive training and improved job security.

In sum, both firms and workers have to become more adaptable and flexible – the onus is on both partners in the employment marriage. Many workers would accept changes in pay practices and working conditions so long as they had a voice in these decisions. They already often accept the routine and not-so-routine pressures employers ask of them so that the firm can compete and grow. Employers, in turn, need to deal with specific problems that workers have, such as child-care and other family-related issues. In short, the rule goes for the new economy as much as it did for the old: to get on, firms need to win the hearts and (increasingly skilled) minds of their workers. ■

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Immigration in the European Union: problem or solution?

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The number of asylum seekers is rising sharply across the European Union. Given the EU's ageing population, is a return to selective immigration inevitable?

Europe's history has been shaped by migration. For centuries, merchants, craftsmen and intellectuals crossed the continent to practice their trades or start new lives. Millions emigrated from Europe, first to the colonies and later to the Americas and the Antipodes. Europe also has a long history of forced migration: from the expulsion of the Jews from Spain to the population shifts in southeast Europe caused by the many wars between the Russian, Austro-Hungarian and Ottoman empires.



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Large-scale immigration into western Europe is more recent. From 1960 to 1973, the number of foreign workers in western Europe doubled from 3 to 6% of the workforce. It was highest in places like the UK and France, with relatively open access for citizens of their former colonies; in Germany, too, the number of foreigners (nearly half Turks) rose 4m in the 25 years after 1960, although they seldom became citizens. But primary immigration into Europe – driven by labour needs – all but ended with the oil crisis of 1973. The foreign-born population has continued to grow, not least because most countries still issue tens of thousands of residence permits each year for the purposes of family reunification (nearly 80% of the 58,700 people accepted for permanent settlement in the UK in 1997 were wives and children). EU countries also issue thousands of work permits each year. In Britain in 1997, nearly half of the 54,000 permits went to Americans and Japanese mainly in highly skilled jobs; elsewhere in Europe the permits often go to seasonal farm workers. But the proportion of foreign-born residents in the EU remains low, ranging from 9% in Austria, Belgium and Germany, to under 2% in Spain.

Since the late 1980s, the number of people applying for asylum has increased sharply. In 1984 there were only 104,000 applications in western Europe. This figure grew to 692,000 in 1992 and then declined during much of the 1990s. Numbers grew again to 350,000 in 1998 and about 400,000 in 1999, although this year they have begun to fall away. Thus asylum has become one of the principal means of immigration into the EU.

Why this sudden surge? The end of the Cold War lifted the lid on a number of small wars and ethnic conflicts around the world. In this type of warfare, the combatants – regular troops complimented by paramilitaries – often target civilian populations. Many people applying for asylum are ostensibly fleeing such "ethnic cleansing", most notably in Bosnia in the early 1990s and Kosovo in the late 1990s. Also, with the end of communist rule many eastern Europeans believe that their aspirations for a better life can only be served in the west. With freer movement and cheaper travel, it is not surprising that many have tried to emigrate westward. The problem is that tens of thousands have tried to use the asylum process to do so,

leading to a backlash, in some countries, against all types of migrants.

The top six countries from which British asylum-seekers came last year were China, Somalia, Sri Lanka, Yugoslavia, Poland and Afghanistan. But most of the world's refugees do not get to Europe. They remain in the region close to their countries, often in camps. Iran was housing some 1.9m refugees in 1998, mostly from Iraq and Afghanistan, and there are some 2m Afghan and Iraqi refugees in Pakistan.

But in some EU states, asylum has become a totemic issue. It overlaps with other emotional matters such as ethnicity and identity, revealing an illiberal streak in liberal democracies. But we should keep things in perspective. It may have been easier for migrants to enter the UK 100 years ago, but once there they were far more likely to face violence and had nothing like the legal and social protection of today's welfare states. None the less, resentment of "the other" can be exploited by demagogues, especially when there is no obvious gap in the job market for refugees to fill. Overall, refugees are only a small burden on taxpayers – but this may not be how it seems in areas of high refugee density (in Britain this means a few London boroughs or towns like Dover), where migrants share services such as schools, hospitals and housing with the poorest locals.

The end of the Cold War lifted the lid on a number of small wars and ethnic conflicts around the world.

A pan-European issue

Most people think about the asylum issue in domestic terms, but it is pan-European. Across the continent, the policy issues and the debate are remarkably similar. Even Ireland, whose modern history is one of mass emigration, saw asylum applications leap from 39 in 1992 to more than 4,600 in 1998. Some countries have experienced much larger increases than others. Germany has consistently received more refugees than other EU countries – more than 60% of all those who applied for asylum in western Europe in 1992. Austria, Holland, Sweden and Switzerland have, at times during the last decade, received high numbers of refugees per head of their populations, while some of the larger states, especially France, Italy and Spain, have received relatively fewer. Britain is in the middle of the field. It had 17,000 applications in 1989 and 71,000 a decade on – more than Germany. The largest annual tally was 73,000 in 1991, under a Conservative government.

There are, of course, nuances in the tone of the debate and the policy framework in different states. But the stress everywhere has been on reducing the flow, while trying to distinguish genuine asylum-seekers from purely "economic" migrants. The Bonn government responded to the Balkan influx in the early 1990s – and to some attacks on refugees – by tightening its previously liberal asylum law. This introduced a "safe third country" rule: if a person has passed through a country which Germany deems safe, he or she cannot apply for asylum in Germany. Since Germany considers all neighbouring countries as safe, asylum-seekers who do not arrive by plane are likely to be rejected.

After these restrictions were introduced in 1993, the number of applications fell sharply, prompting other EU states to follow. In Holland, the numbers of asylum-seekers rose considerably after 1996. The Dutch authorities (like the British, see below) are experiencing difficulties in dealing quickly with applications. As in Britain, Dutch politicians talk of the "flood" of "bogus" refugees, although Dutch newspapers use more temperate language than the British tabloids.

The Dutch government has devised a new Aliens Act, due to come into effect next year. The law, which has been hotly debated, is designed to streamline the asylum procedure and reduce the average time for processing applications from 22 months to six. It will also give all asylum-seekers (who are eligible to stay) a more temporary status. Instead of giving full refugee status after the initial procedure, each case will be reviewed after three years, and only then approved or rejected.

In some countries, asylum is only one element in a wider debate about immigration and national identity. Jörg Haider's far-right Freedom party exploited Austrians' unease about immigrants and refugees to manoeuvre itself into the federal government.

In Italy, the biggest issues are what to do with the large number of illegal immigrants or clandestini already in the country, how to tackle the large-scale trafficking of migrants, particularly by speed-boat from Albania, and concern at the involvement of the mafia in the smuggling gangs. Silvio Berlusconi, leader of the right-wing Forza Italia, and Umberto Bossi, leader of the Lega Nord, successfully fought April's regional elections on a stringent anti-immigration, anti-asylum platform.

But, for a number of reasons, Italy has tended to receive small numbers of asylum applications. Many refugees, particularly from Somalia and the former Yugoslavia, are given work permits on humanitarian grounds, which relieves them of the need to apply for asylum. Periodic amnesties for illegal immigrants means that they can regularise their situation rather than apply for refugee status. And many migrants use Italy as a port of entry, travelling on to Germany, Switzerland or Britain, where they enter clandestinely (often in lorries) or apply for asylum.

In France and Spain, which receive few asylum-seekers relative to the Netherlands, Britain and Germany, asylum has not been such a big issue. In France, the Front National, wracked by infighting, has lost its way. Government attempts to deport illegal immigrants – provoking hunger strikes and demonstrations – have subsided. Integrating existing immigrants and regularising the situation of the sans papiers, many of whom may have been resident in France for years, now dominates the debate on immigration.

It is obviously beyond the immediate power of the EU to eradicate the root causes of all migration. But over time, if the EU wants to reduce migratory pressure, it will have to provide more development aid, debt relief, and fair trade, and it will need to be better equipped to prevent conflict and keep the peace in trouble spots around the world. These objectives lie at the heart of the EU's common foreign and security policy. (The EU's resolute position in the Kosovo crisis no doubt owed much to a fear of a mass exodus of Kosovan refugees.)

Comparing Europe and the US

But should European states even try to stop economic migration? Europe's population is set to decline over the next 50 years. Italy will lose 28% of its population by 2050. In order to maintain its working age population, Italy would need to start importing more than 350,000 immigrants per year or, alternatively, keep its citizens working until they are 75.

The US (population 275m) has tended to take only small numbers of asylum-seekers – fewer than Europe, relative to its population. But it has a more liberal immigration regime. By the late 1990s, the US was taking in about 1m immigrants a year: 730,000 legal immigrants, 200,000 illegal aliens and about 100,000 refugees. About 70% of legal immigrants are admitted for the purposes of family reunification.

Should European states even try to stop economic migration?

The in-flows of migrants during the 1980s and 1990s – the second great migration of the 20th century – has literally changed the face of America. In 1970 the US population was 5% Hispanic, 1% Asian and 12% black. A recent projection indicates that by 2050, it will be 26% Hispanic, 8% Asian and 14% black.

Immigration in the US is embraced more enthusiastically by the free market right than the trade union left, but it has brought real benefits. Immigrants contribute to innovation – witness the number of foreigners in Silicon Valley. And they do jobs that native workers refuse, such as sustaining Californian agriculture.

But in his new book, Heaven's Door, Harvard economist George Borjas claims that the economic benefits brought by the latest 20-year wave of immigrants are more disputable. He points to the fall-off in skills relative to those who emigrated to the US in the 1950s and 1960s. He argues that America should admit only 500,000 immigrants per year, and select the most highly skilled. These are criteria which, he acknowledges, would have prevented him, a refugee from Cuba, from immigrating in the early 1960s.

Congress recently approved an extra 200,000 visas for skilled workers. European governments are taking similar steps. Germany wants 20,000 information technology workers from outside Europe, particularly software engineers from India (prompting the Christian Democrats to campaign on the slogan Kinder statt Inder, "children not Indians"). Britain, too, wants to recruit east European computer experts but is only too keen to turn away their less skilled compatriots.

No one knows what will happen to asylum trends – indeed, no one knows what is really happening now; one reputable estimate puts the number of illegal migrants smuggled into the EU each year as 400,000. The probability is that more small wars and the increasing urbanisation of the world's population will keep the asylum numbers high. But immediate attention in Europe is likely to shift back to more conventional labour-shortage recruitment. There will be no return to the open door policy of the 1960s (let alone the 19th century), but the EU economy will require an increase in selective primary immigration. ■

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E-commerce: a revolution with power

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E-commerce offers a truly global marketplace. How is this affecting the traditional economic powerhouses and will they be able to adapt?

Information and communications technology (ICT) and e-commerce have not only begun to change the shape of business, but the map of the world economy has been affected too.

Everyone is talking about the new economy revolution, but what about the power it gives to those sectors and countries that marshal it? Any major shift of economic power among countries usually presupposes a new product or process to exploit new technology. Japanese industry surged in the 1960s, finally taking the lead from the United States in the 1980s in automation, semiconductors, electronics and computers. It did so by capitalising on the so-called lean production system, exploiting Japanese management know-how and putting technology to work to keep costs down. In the 1990s, the United States stormed back to the top and is now, despite recovery or strong growth in several European countries, possibly even widening its lead in a range of sectors.

The US performance has been impressive, catching many competitors off guard. Indeed, policymakers around the world have been puzzling over it; after all, are we not living in a global marketplace, where trade, investment and the movement of people and technology bind nations together? Surely in this environment, economic performances should converge, rather than diverge.

While there appears to be no single explanation for this trend, most people have agreed that a fundamentally new force is at work and that ICT lies at its heart. Contrary to the adage about computers showing up everywhere other than in the statistics (see article by Ignazio Visco), the figures for ICT speak loud and clear. According to the economists on the US Federal Reserve Board, the contribution of ICT to US growth from 1996 to 1999 was more than 20% (1.1 percentage points out of a growth rate of 4.9 %). For the two other Anglo-Saxon G7 countries, the United Kingdom and Canada, the picture was similar. And despite all the talk that technology would put workers out of jobs, these dynamic economies have reduced their unemployment rates to among the lowest in the OECD area. In contrast, until recently, Japan and the three main continental European economies – France, Germany and Italy – had shown rather modest growth of new ICT investment and overall output.

While many extravagant stories have been told about new types of electronic business, from online bookstores to virtual trading floors, the explosion on the scene of so-called dot.com companies is only part of the story.

This is the direct contribution of ICT equipment and software production to growth, but what of its total impact on the deeper reaches of the US economy? Productivity figures provide a clue. The long-term trend in productivity was 1.4% growth per year between 1973 and 1995. This figure more than doubled to 2.9 % after 1995. The timing of this trend-change coincides with the emergence of electronic commerce.

During previous business cycles, productivity tended to show strong growth in the initial years of recovery, but to taper off as the recovery matured. This time, in spite of the long duration of the current expansion period, productivity is still gathering speed.

Business net

While many extravagant stories have been told about new types of electronic business, from online bookstores to virtual trading floors, the explosion on the scene of so-called dot.com companies is only part of the story. The effect of ICT on

conventional industrial sectors and on national competitiveness has been remarkable.

Take company procurement, for example, of parts, components, raw materials and fuels. The Internet has opened up the possibility of doing business with the best possible suppliers, no matter where they are located. A deal can be concluded in several minutes, without the need for costly business trips. The result is that the carefully nurtured long-term business relations between companies that was for so long key to the success of Japan and Germany – a relationship whose cohesiveness was fastened by cross-holding of stocks – is now falling apart. Electronic commerce has rendered this cosier business model obsolete.

As the industry and service sectors embrace electronic commerce more fully, dislocation of redundant white-collar workers will occur on a large scale. This is already happening – in banking, for instance. All types of jobs will become insecure, though particularly vulnerable will be those of office clerks whose task it is to pass information around, like company reps, certain types of brokers and other intermediaries. Even middle-level managers are no longer safe. It is a very different situation from the streamlining of the last 20 years, whereby blue-collar, mainly manual, workers were the primary casualties. In order to survive, white-collar employees will have to develop new skills and expertise. They may even have to "outsource" themselves.

In fact, outsourcing by firms, large and small, is a hallmark of the new economy. Primarily used in advertising and publishing, outsourcing is now spreading into the central functions of firms, such as personnel and cash flow management.

The outsourcing by large firms, mainly of their non-value-adding administrative tasks, and concomitant births of small firms specialising in those business services, is a major feature of the US economic landscape today.

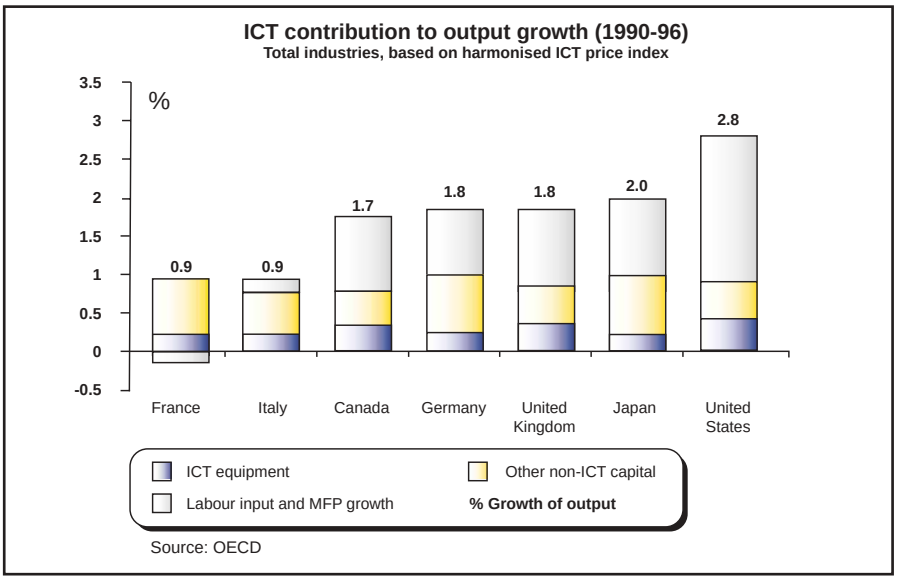
These companies are mostly connected with their client companies through information networks and, from the point of view of the outsourcer, have the potential to operate as though they were an internal unit in the company itself. However, quite often the outsourcing company finds it has to employ someone, or even a team, to manage the outsourced areas of its business. This raises an interesting question about traditional corporate boundaries – where one company ends and where another company begins.

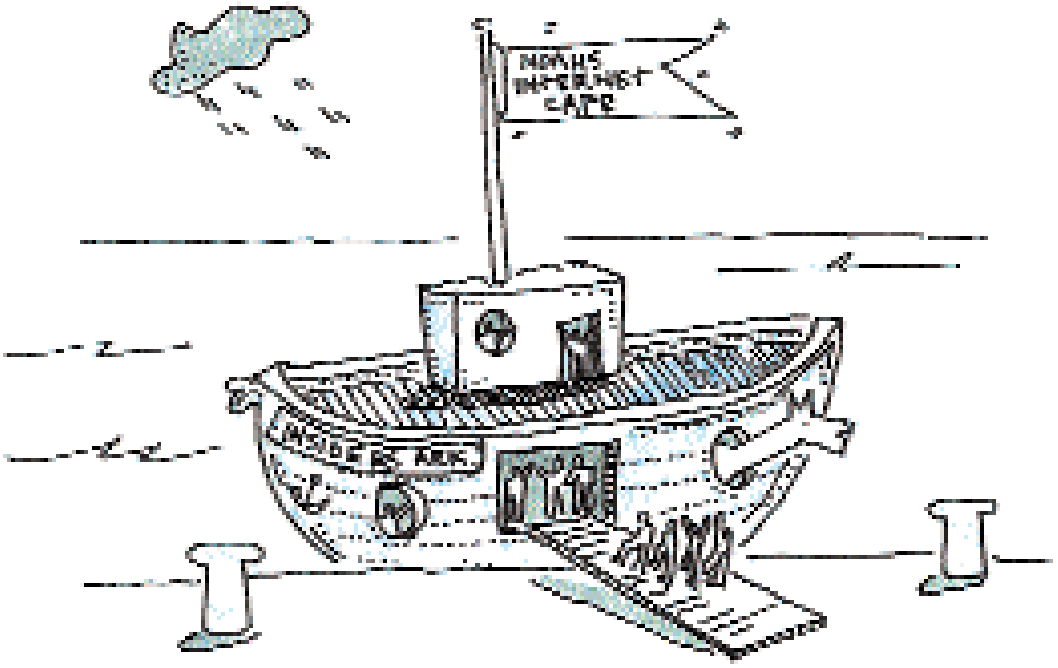
Deregulation in financial services and communications is strongly correlated with the uptake of electronic commerce, with banks and financial investment firms being the most aggressive users of the new technology. Very soon, most financial trade and services will be provided on-line. Dot.com addresses are becoming as important as main street addresses – in some businesses, even more so. That has meant branch closures, but also a boom in the IT equipment and advice business.

Slowly forward

The move to electronic commerce is happening more slowly in some of the old industrial superpowers for several reasons. One reason is the strong resistance in some countries to abandoning traditional business practices and industrial relations. Dismissal and dislocation of employees are considered to be the last resort by managers, who are expected to hold out against change until the last. Some business leaders and managers are sceptical that the new economy is real. They see it as putting long-standing business relations at risk. Such caution is understandable, particularly in large companies.

But that, of course, is part of the problem, for in e-commerce, speed is key. It is not certain that the rest of the world will therefore benefit from information technology in the same way the United States has. Every country has a different political and





social make-up and will react differently to the challenge of ICT as a result. But get ahead they must.



In March, the European heads of state met in Lisbon and reaffirmed their determination not to let the US domination of the ICT sector go unchallenged. A further liberalisation of the European telecommunications market may be in store. And in Japan – which is surprisingly lagging among OECD countries when it comes to Internet use – industry and government are co-operating on putting a programme together to enable their country to make up ground more quickly, even sparking a Japanese renaissance.

There will be competition though. In Asia, emerging market countries could be transformed if they manage to harness the new technology in innovative and efficient ways. And countries like China and India are already beginning to leverage the new economy to improve their foothold in world markets. One thing is sure: the drama of the e-commerce saga is far from over, and the opening decade of the 21st century promises to be eventful indeed as the industrial powers scramble for the lead. Who knows, perhaps a new demarcation of economic power will unfold. ■

Every country has a different political and social make-up and will react differently to the challenge of ICT as a result. But get ahead they must.

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Society and technology: managing change

BERNARD VERGNES, CHAIRMAN, MICROSOFT EUROPE, MIDDLE EAST AND AFRICA

Today's technological revolution is a cycle of innovation, moving at incredible speed to reshape the way we work, learn, play, and communicate. As we seek ways to manage that change, we should first remember that technology itself has no power to drive the cycle. Innovation comes not from the inventions, but from human imagination, creativity and action.

Whether the cycle of innovation carries us toward our shared goal – an Information Society for All – depends on two things. First, we must ensure that all of humankind has the opportunity to contribute to the creative force that drives the cycle by ensuring the broadest possible access to information technology. And second, we must provide a climate that fosters innovation on the broadest possible scale.

The cycle of innovation

Innovation is our past, present and future at Microsoft. Twenty-five years ago, a handful of young entrepreneurs had a vision of the personal computer as a tool that we could use in our everyday lives. They created the first PC software tools, gradually attracting an ever wider audience of users who demanded that PCs do more, and do it better. Responding to those demands required another kind of vision – not just one bold idea, but a team of IT professionals with a long-term commitment to better products for the consumer. Over time, that approach inspired new entrepreneurs, new inventions, new demand and new responses, and the cycle continued – and still continues.

People are the essence of innovation. For a company or a society to be on the frontier of innovation requires inventor-entrepreneurs with vision, and technology workers with the skills to realise and refine that vision. But above all, innovation requires a diverse and demanding community of users to teach us what the future of technology should look like. To build a true Information Society – one where the benefits of innovation are not limited to a fraction of the population – all of us, including persons with disabilities, citizens of the developing world, the poor, and the unemployed, must be counted among those users.

Ensuring access

Access is the single most important factor in determining who participates in the cycle of innovation. Those who lack access risk falling further and further behind, at a faster and faster pace. That is why we must make access to technology an immediate priority.

Here in the European Union, our leaders have taken a crucial step by launching the eEurope initiative. The theme of access resounds throughout eEurope's priorities, most explicitly in the form of inexpensive access, faster access, and greater participation for the disabled. Other eEurope priorities aim to make access more meaningful to a broad cross-section of society through

IT learning programmes for youth and adults, and through commitments to accelerate e-commerce, content development, healthcare online, and government online. Such government initiatives are essential to ensuring broad access for groups like the unemployed and the disabled – but not sufficient.

In many cases, overcoming access barriers will require a determination on the part of government and industry to work in concert. The example of the growing IT skills gap illustrates the urgent need to embrace a new culture of public/private partnerships. In Europe alone, recent studies estimate that 1.2 million IT positions will remain unfilled this year, increasing to 1.75 million by 2003. At the same time, unless we act to change matters, unemployment will remain high in communities that lack access to essential IT skills.

We should start with the principle that governments should regulate the Internet only when truly necessary, and then only using the least restrictive means to achieve their policy objective.

Public/private partnerships can help to close this gap. Microsoft is far from alone in the field, but consider as one example our experience with the Microsoft European Scholar Programme, under which we have worked with labour ministries and employment agencies to provide IT training to the unemployed. Over the past 5 years, more that 10,000 people in 12 countries have obtained IT certification – and over 90% of our graduates have subsequently received well paid IT jobs.

Imagine programmes like this multiplied thousands of times in different areas and among different underserved communities, and you will begin to comprehend the potential value of public-private partnerships to expand the cycle of innovation. There is a pressing need to exchange information on these activities, review lessons learned, and draft a blueprint for more and greater partnerships.

Creating an environment for innovation

Our second challenge is to create an environment in which innovation itself can flourish. The explosive growth of the Internet has largely occurred in a lightly regulated environment, an environment that has encouraged constant change. Therefore, we should start with the principle that governments should regulate the Internet only when truly necessary, and then only using the least restrictive means to achieve their policy objective. Where government intervention is necessary, our approach should be to regulate in ways that *enable* private actors, rather than anchoring them to yesterday's ideas and technologies.

This means strong intellectual property protection to encourage creativity, and strong encryption products to provide security. It means recognition for electronic contracts and signatures and protection for privacy, but in both cases within a framework that allows private actors, rather than governments, to make informed choices about the appropriate level of protection. It also means curbing the worst content – like child pornography – through strict regulation, while giving individuals the power to filter other forms of content that may be regarded as either offensive or redeeming.

In all these cases, we need governments to set some basic standard. But it is not always the case that governments should, or can, dictate standards to govern all situations. Just as the IT industry must shape innovation around the needs of the market, so governments must shape regulation around the needs of the market.

In summary, our fundamental task as managers of change is to broaden access to the cycle of innovation and create a climate in which that cycle can thrive. We must – with apologies to Shakespeare – ensure that all the world is a stage for technological innovation, and all its inhabitants, players. ■

How safe is genetically modified food?

Principal Conclusions of the OECD Edinburgh Conference on the Scientific and Health Aspects of Genetically Modified Foods, 28 February - 1 March 2000

SIR JOHN KREBS, CHAIRMAN OF THE EDINBURGH CONFERENCE AND OF THE UK FOOD STANDARDS AGENCY

Food safety

Worldwide, many people are eating GM foods (especially in North America and China) with no adverse affects on human health having been reported in the peer-reviewed scientific literature.

There could, in theory, be long-term effects on human health that have not yet been detected because GM foods have been available for less than ten years.

Decision-making, assessment and choice

In the future, policy decisions about GM foods, as well as the assessment of their safety, should be more inclusive and open than has typically been the case in the past. People want to know how decisions have been reached and to be consulted. This process will help to remove suspicion.

Having said this, there was no clear conclusion on how attitudes and beliefs that might become apparent as a result of consultation should be incorporated into the assessment and communication of GM food safety. For many, safety assessment remains an essentially technical and scientific process.

Consumers should be allowed to choose. Labelling of GM foods is important, although there was no agreement on how far this should extend (e.g. to GM derivatives? To animals fed on GM?). It is important also to note that the labelling applies to the process by which organisms are created and not the food product, which in many cases is identical to its conventional counterpart.

The assessment of GM food safety

The assessment of the safety of any novel food, including GM food, involves a variety of kinds of evidence. One commonly used tool is the concept of "substantial equivalence". The essence of this idea is that a comparison between the novel food and one already in the diet provides the basis for asking questions about the safety of the novel product. Substantial equivalence is not a quantitative criterion or a hurdle, but a framework for thinking. It is continually modified and updated, but it is timely now, after six years of using the tool, to undertake a more detailed review.

On two more technical issues, (a) there is no clear agreement about the importance of animal feeding trials (other than toxicity trials) in assessing the safety of novel foods, including GM foods; (b) the methods for testing toxicity and allergenicity of GM foods need re-examination.

Existing international bodies are working to achieve consistent standards and criteria for the assessment of food safety, and this is to be applauded. The precautionary principle is now beginning to be discussed internationally in relation to food safety, but it has not yet been translated into an agreed operational form.

GM technology in developing and developed countries

The majority of speakers from developing countries stressed the crucial importance of GM technology as part of the armoury for feeding their population in the future. In China, with 20% of the world's population and 7% of the land surface, GM is already playing a major role in food production, and its importance was also emphasised by speakers from Africa and Latin America. However, the view was also expressed that the future application of GM technology in developing countries should be more explicitly tuned to the needs of local people rather than of multinational corporations.

In light of this last comment, GM technology for the developing world should be carried forward through a mixture of public and private funding.

Whilst it is essential that standards of safety assessment should be consistent and high throughout the world, the strongly expressed demand for GM technology in developing countries casts substantial doubt on proposals for a worldwide moratorium made by some participants.

The first generation of GM crops and foods are perceived as having bought little direct benefit to consumers in developed countries, but this may well change as new products appear with direct quality, health or price benefits.

Concerns about GM other than food safety

The principal concerns of the opponents of GM related less to food safety than to the broader question of why GM food is being produced at all. Most developing country speakers argued forcefully that GM technology is an essential part of their future food production, but this was rejected by some NGO speakers from Europe and North America. They argued, instead, for solving world food shortage by redistribution, better prevention of loss during storage, and so on. They also pointed out, as did some developing country participants, that citizen engagement in decision-making and discussion should be improved in developing countries.

A second concern about GM agriculture was the potential environmental impact. Although there have been many field trials and, in some parts of the world, large-scale commercial planting of GM crops, there has been insufficient work fully to assess environmental impacts, especially in the biodiversity- rich tropics.

The way forward

The most significant aspect of the Edinburgh Conference was that it included all sides of the debate surrounding GM foods and nevertheless identified certain areas of agreement. It also succeeded in identifying issues in which there is disagreement or uncertainty due to lack of knowledge, and in separating issues which are subject to scientific analysis and those which are related to political factors, beliefs and values. Further detail is available in the rapporteurs' report.

The conference represents a new start in the global debate about GM food and agriculture: a more inclusive approach in which the protagonists discussed some of the key issues with each other. There was support for continuation of this process to deal with other parts of the debate.

I therefore recommend that an international forum be set up to continue the process started in Edinburgh. The aim of such a forum would be to provide governments with state of the art assessment of scientific knowledge about GM technology, and to set this assessment in the context of broader concerns of society.

A model for such a global assessment is the Intergovernmental Panel on Climate Change (IPCC). This Panel allows governments to draw on worldwide expertise in climate science. It informs but does not make policy and it acknowledges the minority scientific views as well as the current majority view. It also updates its reports at intervals.

The forum I propose would have similarities to the IPCC, but would include not only scientists but also other stakeholders.

The following suggestions indicate how the forum might be developed:

(a) It should build on and interact with, rather than duplicate or replace, the work of existing international groups such as Codex Alimentarius.
(b) It should be global in scope and not restricted to G8 countries or a subset thereof. In particular, a key message of the Edinburgh conference was the role of developing countries where application of the technology is proceeding rapidly.
(c) It should be led by the world's best scientific experts, but include a wider range of expertise and opinion than scientists.
(d) Two initial themes for the forum would be food safety and environmental safety of GM agriculture and food production.
(e) There would be two kinds of outputs: (a) scientific assessments in the form of reports that inform policy; (b) an inclusive and global debate about the relationship between GM technology and society. It will be essential that governments take ownership of the forum and its reports.
(f) The reports should be produced in a timely way so as to facilitate the assessment of rapidly emerging technologies.

Summary

This proposed forum could serve two important functions by enabling a global debate and assessment of GM technology in food and agriculture.

First, it will allow the best scientific analysis risks and benefits of the new technology, as it develops, to be carried out in order to provide governments worldwide with appropriate expert advice. This advice will acknowledge the range of scientific opinion and uncertainties, as well as indicating the current majority opinion.

Second, it could create a better understanding of the relationship between technological developments, policy, and the concerns and aspirations of citizens. This would be achieved by widening the forum beyond purely scientific analysis, to include the broader issues that I have referred to in relation to the Edinburgh conference.

There is more than one way of achieving these twin objectives. One approach would be to have an expert panel, led by scientists but including other stakeholders, to carry out the scientific assessments. Draft reports of this expert panel could be used as the basis for discussion by a broader forum, along the lines of the Edinburgh meeting, in which the non-science issues are brought into the debate. The expert panel might choose to revise its report in light of this broader discussion.

I have deliberately left the details of implementation to others, because I want to sketch out the vision rather than the detailed mechanisms. ■

Challenging the food crisis: is there a place for biotechnology in agriculture?

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Developed in a responsible way, biotechnology might allow poorer countries the means to help themselves: rice farmers with extension worker in Indonesia (main picture) and rice harvest in Indonesia

The world faces the extraordinary challenge of feeding perhaps nine billion people by the middle of this century. The United Nations has been telling us for years, rightly, that it is a profound moral imperative to make a success of it. The big change in the past decade is that few people now doubt it can be done. The question now is: in what way? Can wise policy and clever technology combine to deliver a new and sustainable agriculture? Can poor countries develop the means of providing for themselves with dignity? We feel confident that seed development, including new methods of genetic modification, can and will play a big part in meeting these challenges.

The FAO predicts that perhaps 90 percent of the massive world population growth will be in developing countries, and much of it in cities. In much of Asia and Latin America, food production has so far outpaced population growth, because yields have increased dramatically. But even there, and even more so in Africa, great increases will still be needed in yield and quality of food crops. Crucially, it is the amount, type and timing of all sorts of inputs which will determine whether the food is produced in an environmentally sound way – and that is true everywhere in the world.



Those with an informed understanding of agriculture have to remind the public of the value of the agricultural progress that has already been made. It also needs to be stressed that it is impossible to move forward without innovation and the responsible use of science and technology.

Just as boiling water can either make a nice cup of tea or scald a baby, biotechnology can be a powerful instrument for good, if it is directed at the right target. The target is the immense challenge presented by the World Food Summit to the agricultural community: essentially eradicate hunger in the next few decades, while making agriculture more sustainable. The production vs. distribution debate on the causes of continued undernourishment is a false debate. In the real world we need to vastly improve both. While distribution of food is clearly crucial to eradicating hunger, producing the food for distribution is an agricultural challenge of equally daunting proportions.

There are only two components to influence the supply side of food security: to produce more food, we can either increase the land under cultivation or increase yield on already cultivated land. That's it. Irrespective of improving distribution to the most needy, we only have those two options at the global level. In reality we only have one, since increasing land under cultivation is becoming increasingly untenable from an environmental viewpoint.

Last year the Subsidiary Body on Scientific, Technical and Technological Advice (SBSTTA) of the Biodiversity Convention (CBD) ranked habitat loss as the most important threat to global biodiversity. Much of this loss was due to the

expansion of cultivated land. The challenge for biotechnology is to contribute to finding a solution to this threat by improving yield in a sustainable manner.

Management is the key to making this work while reducing the global footprint of agriculture on the environment. We see this with the Green Revolution of modern "conventional" seeds and chemicals. They have made the preservation of a viable wild and semi-wild habitat easier to achieve by allowing vast parts of the world to meet the population boom of the second half of the 20th century virtually without increasing the cultivated land area. They have already produced a better living for farmers with lower-impact inputs in much of Asia and Latin America. Conversely, FAO studies show that in Africa, where the Green Revolution has been slow to take off, increased food production is hard to achieve without putting more land under the plough.

Genetically modified (GM) crops, in combination with other technological innovations, will be a great help here. But to deliver on the promise of these technologies, it is essential to have an informed societal consensus, leading to realistic policies. Industry wants to take part in and promote such a debate, but cannot drive it alone. We believe that only an inclusive debate will ensure that rational rules and laws are in place for the development of biotechnology and its application will be adapted to rich and poor countries alike.

Obviously, individual nations will legislate for the development of these new technologies according to their own needs and the expressed views of their citizens. Nonetheless, we believe that democratic legislation should take into account the powerful moral imperatives for viewing this technology with hope, not scepticism. We take great heart that independent voices such as the Nuffield Foundation's Council on Bioethics have framed this discussion. We agree with them, and with Professor Gordon Conway of the Rockerfeller Foundation, that the benefits of biotechnology are not "silver bullets" or inevitably beneficial to all. But even a nuanced view accepts insights that many of the critics of biotechnology ignore.

Two examples

Firstly, GM technologies will help farmers of many different sorts. The family farm everywhere – from the prairies of North America to the shambas of Africa – is under threat. But far from helping only big farmers, in North America GM seeds are already helping farmers of almost every scale to be more profitable. Quality seed is the farmer's resource that is most scale-independent in its beneficial effects. It is indeed because of this that the Green Revolution was able to lift so many millions of farmers out of poverty. The "Doubly Green Revolution", another vision of Conway, will integrate our lessons from mistakes of the past in reaching as many farmers as possible.

Naturally, the first crops grown with GM seeds were those that brought economic or other advantages to Western producers and consumers. Companies develop products for markets which can reward investment and business risk. In doing so, they are working in markets rich enough to support the enormous cost of the development and regulatory scrutiny needed for pioneering technologies. Now, however, we see developments in GM rice enhanced to provide vitamin A, and many other crops, including tropical subsistence crops, which will help farmers reduce costly and damaging inputs, whilst improving the nutritional quality of their produce. As Prof. Conway told the Financial Times recently: "There are about 1,000 Third World biotechnologists working on crop varieties, mostly rice. The debate is going on in the north and we're not hearing the voices coming from the developing world."

Secondly, it is true that almost all technological developments have tended to pass by the very poorest farmers in the world. That sad fact is no reason to ignore the potential value of this technology to them. Getting GM technologies to the poorest farmers may need imaginative support schemes, perhaps along the lines being developed to bring drugs to the aid of poor sufferers of AIDS and malaria. The US Congress has just agreed to support work on GM crops in tropical agriculture research centres – a welcome reverse to a recent weakening of such international funding. Many countries will need help with building the right regulatory framework for these developments, as the Biosafety Protocol usefully encourages.

In the West, it is fashionable – but wrong – to divide the world into producers and consumers. In Africa, where 60 per cent of the consumers are the producers themselves, helping the farmers is the shortest route to helping the majority of the population. Africa and many other parts of the world are desperate for wealth-creating business. The equitable distribution of abundant food requires that the poor be sufficiently enriched to buy it. Biotechnology will help farmers in poor countries to generate not only cheaper and better food for local consumption, but also the incomes on which modern societies can be built.

As corporate citizens, we are keenly aware that we do most good when the social and legal framework is right. We are keen on rigorous, sensible regulation, since it ensures us "a licence to operate" while providing us with the trust of the society of which we are part. In the case of GM crops especially, we rely on international and national official support for the fundamental case underpinning progress, and for the regulatory framework which ensures it is safe, orderly and equitable. ■

Biotech isn't a luxury in some nations

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Recent world conferences on agricultural biotechnology have made it unmistakeably clear that if governments foil the growth of this technology, mankind will be denied solutions to a host of problems that plague many nations, particularly in the developing world.



Seeds of plenty

The biotechnology debate in Europe is dominated by cultural and ethical issues, potential food and environmental safety questions, and an underlying scepticism with regard to the role of multinational corporations and "industrialised" agriculture. The case for biotechnology in developing countries can be made much more easily: it is needs-based.

Rich countries may engage in lengthy disputes about real or imagined risks. We suggest that this is largely a luxury debate. Meanwhile, the rest of the world needs to focus on a rigorous risk-benefit analysis. From the perspective of many developing and newly industrialised countries, agricultural biotechnology's benefits are very real and urgently needed today and indispensable tomorrow.

The developing world cannot afford to let Europe's home-made problems negatively impact on the future growth in our countries.

In South Africa, small-scale farming is still the norm rather than the exception. Field trials with genetically modified crops have been taking place since the mid-1990s, and commercial planting of crops with insect-resistant and herbicide-tolerant traits started in 1998. The results are extremely encouraging. The benefits are tremendous, especially in small-scale farming. Studies in the Makatini Flats in the KwaZulu-Natal province in 1998 showed a 20% yield increase in cotton through the use of insect-resistant, genetically modified cotton seed. Preliminary results from the 1999 growing season even suggest a twofold yield increase in this area.

In the cases of some commercial farmers, operators were able to forgo pesticide spraying completely. We also observed an increase in beneficial insects in and around the fields planted with "Bt" cotton. These field results stand in marked contrast to the fears in some industrialised countries that such crops might endanger "non-target" insects, such as the monarch butterfly in the United States.

Biotechnology offers farmers and consumers in South Africa more than just higher yields and pesticide-free crops. The nation's geography and climate regularly bring drought to large areas that otherwise could produce substantial farm crops. Drought-tolerant seed research is making tremendous progress in South African laboratories, promising improved production and economic opportunity.

Half-way around the world, China has more than 20% of the world's population and only 7% of the world's arable land. With the still-rapid increase of its population and changing eating habits, as well as an ongoing loss of cultivable land, food security is an imminent concern.

China turned to biotechnology to hit this concern head-on, beginning in the mid-1980s. More than 100 laboratories across the country have been involved in the effort. In 1997, China started to commercialise transgenic crops, most of them with traits such as insect and virus resistance. Roughly 1 million acres of transgenic crops were planted, making China one of the world's top three countries growing transgenic crops.

As Europe hems and haws, China's research effort is moving forward at a brisk pace. Scientists are now, or will be, focusing on bacterial, fungus and virus resistance, salt and drought tolerance, nutritional enrichment and quality improvement. Additionally, even more advanced applications, such as "bio-pharming" for edible oral vaccines and recombinant pharmaceuticals, are in the picture.

Given the socio-economic realities and needs in countries like South Africa and China, it is almost trivial to discuss whether they should use a technology that already has shown its benefits to their populations.

Given the socio-economic realities and needs in countries like South Africa and China, it is almost trivial to discuss whether they should use a technology that already has shown its benefits to their populations. These countries cannot afford to limit themselves to the industrialised world's narrow interpretation of risk assessment. Likewise, they cannot afford to allow the Western debate to slow developing countries' access to already existing and expected future benefits of biotechnology. ■

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Towards world tax co-operation

The OECD has been examining harmful tax competition for several years. On 26 June it is issuing a list of 47 preferential tax regimes which are potentially harmful in the OECD area. It is also issuing a list of 35 jurisdictions which meet the criteria of being a tax haven. We asked Jeffrey Owens, Head of Fiscal Affairs at OECD, to explain.

OECD Observer: Is the OECD against tax competition?

Jeffrey Owens: OECD is not against all tax competition. Our member countries are prepared to engage in fair competition for financial service activities which are transparent and open. Tax competition can have positive effects. For example, the implementation in one country of a long needed tax reform may encourage other countries to undertake similar tax reforms in order not to lose their relative international competitiveness.

The aim of the OECD's work is not to restrain competition, but rather to restrain harmful tax practices that erode the tax bases of other countries; that direct mobile investment from one location to another; that distort trade and investment patterns; that increase the administrative costs and compliance burdens; and that undermine the fairness and neutrality of tax systems.

What does the OECD mean by 'harmful tax competition'?

We define harmful tax practices by any of three operative criteria: lack of effective exchange of information, lack of transparency, and attracting business with no substantial domestic activities (e.g. ring-fencing) where coupled with low or zero tax rates. By discouraging these practices, the Report will serve to strengthen and to improve tax policies internationally. These efforts will improve overall economic well-being for all taxpayers.

We are not asking tax havens to stop being financial centres, but we are asking them to comply with international standards of disclosure, transparency and non-discrimination.

What is the size of the tax haven problem?

The problem is big and getting bigger. It is hard to estimate with any degree of accuracy because we are speaking of unreported income. But we do know, for example, that over 1 trillion dollars (US) is invested in offshore funds, and that the number of funds has increased by more than 1400% over the last 15 years.

What does the tax haven list mean? Is it a "blacklist"?

The tax haven list is a list of jurisdictions that meet the criteria for being tax havens. We want to give the listed jurisdictions an opportunity to understand clearly what would be required for them to make a commitment to eliminate harmful tax practices. For instance, the commitment does NOT mean getting rid of a zero-tax system. It does mean greater transparency and effective exchange of information practices. To give tax havens the time they need, no action is intended with regard to jurisdictions on the June list. Instead, OECD will establish a second list – the List of Unco-operative Tax Havens – in the next year. Jurisdictions named on this second list will be targeted for co-ordinated defensive measures.

Some other jurisdictions claim that they have co-operated with OECD and yet they are still listed. How do you explain this lack of consistency?

Many jurisdictions have co-operated with OECD, in terms of providing information, meeting with the Forum, and working to understand our project. For this very reason we

have given the additional year for listed jurisdictions to decide whether to commit to eliminate harmful tax practices, before we move forward on co-ordinated defensive measures.

What are these international standards that you are asking countries to meet?

The international standard is to allow information to be effectively exchanged on geographically mobile income so that the home country can fairly and effectively audit the foreign activities of its residents. The international standard means, for example: (1) The beneficial ownership of shares and trusts must be kept on records that can be accessed by governmental authorities. (2) There are audited or filed financial accounts. (3) There is an efficient administrative process to all the tax authorities of another state to obtain information needed to enforce its own revenue laws with regard to geographically mobile income. These are some examples of the international standards of transparency and disclosure that tax havens are being asked to meet. And let me emphasise that it is going to be the same standards for all member countries and non-member countries.

What is going to happen to the economies of listed jurisdictions?

We believe there will be an initial adverse impact on some although not all of these economies, as reputable companies relocate their activities. In the longer term some of these jurisdictions may be able to regain this business as they comply with the new international standards. Of course we are attentive to the potential impact on their economies, which is why we have initiated a dialogue with our Development Assistance Committee. We are also participating in other conferences and meetings, such as with the World Bank and Commonwealth, to consider the development agenda of small states.

All countries should recognise that their choice to go against the international standard on transparency and exchange of information can have a negative impact on the sovereign right of other countries to have the taxation system they choose.

What do you say about the accusation that the OECD's campaign against unfair harmful tax practices is led by countries that refuse to lower their tax rates?

Countries are free to have whatever kind of tax structure they think is required for their own economic situation, including not having an income tax. There are no minimum rates or other restrictions on any general tax measures. In fact, the project is meant to encourage open and transparent government. Governments must be able to choose the level and structure of taxes best suited to their social, economic and political situations. Part of that freedom comes from being able to choose tax rates and systems. What we do try to prevent are measures that facilitate non-reporting of income and income shifting unrelated to economic activity, but all countries should recognise that their choice to go against the international standard on transparency and exchange of information can have a negative impact on the sovereign right of other countries to have the taxation system they choose. And as a consequence other countries may choose to adopt defensive measures that could have a reciprocal negative effect on tax havens.

For decades, rich countries and international organisations have encouraged many of the listed tax havens to diversify to become economically independent. Many have responded to this encouragement by developing viable international financial service sectors. Is it not unfair that the OECD now plans to destroy these economies with draconian sanctions? What do you expect tax havens to do if they stop being financial centres and can no longer sell bananas?

We are not asking tax havens to stop being financial centres, but we are asking them to comply with international standards of disclo-

sure, transparency and non-discrimination. We are asking that these jurisdictions stop holding themselves out as places where taxpayers can escape tax legally due. The very fact that some notable financial centres have made advance commitments is evidence of this objective.

Isn't OECD bullying small island states, without giving any thought to the developmental and economic needs?

Let's be clear. For decades some of these states have been eroding the tax base of not just OECD countries but those of developing countries as well (as confirmed in a recent report by Oxfam). They have been assisting dishonest taxpayers to avoid paying their fair share of taxes in their countries of residence. And who has borne the burden of these activities? Honest taxpayers.

Were the listed jurisdictions consulted?

We have aimed to be fully transparent to the jurisdictions, advising them of the status of our work and also obtaining their input on numerous occasions. Each reviewed jurisdiction had an assigned OECD contact country and there were frequent bilateral discussions. Jurisdictions were given the opportunity to review and comment on reports, which describe these regimes, and the majority agreed to these texts. They were also invited to attend consultations with the full Forum on Harmful Tax Practices. So, there were many opportunities to participate in the process, and the majority of jurisdictions took advantage of these opportunities.

What is the relationship between the work undertaken by the OECD Forum, FATF and the Financial Stability Forum? Do you in any way co-ordinate your work?

The OECD's work is specifically related to taxation, and it is the only one of the present international initiatives focused on taxation. The work of the FATF is focused on anti-money laundering, and the FSF is concerned with the consequences of offshore centres for the stability of international financial markets. However, there is some common ground in that all three projects deal with the need for transparent, well-regulated, non-discriminatory regimes in offshore centres. All three seem to be moving in the direction of distinguishing between co-operative and uncooperative jurisdictions. We believe the OECD process is perhaps the most evolved in terms of avoiding "name and shame" and seeking a co-operative solution to these problems, as evidenced particularly by the existence of advance commitments.

Are sanctions envisaged? Does the OECD have authority to apply sanctions?

The OECD does envision co-ordinated defensive measures, but it is the member countries, not the OECD, which will apply those measures. All OECD does is provide a framework in which co-operation can take place. The counter measures envisaged are only for uncooperative jurisdictions that choose not to work to meet international standards. OECD's role is to help think through the most effective measures, issues that would arise in implementation, and so forth.

The Report to Ministers is gentle on OECD member countries, indicating only that regimes are "potentially harmful", and at the same time the Report is harsh and condemnatory on tax havens. How do you justify this difference?

The Report is condemnatory neither for tax havens nor for OECD countries. The Report identifies 47 regimes of OECD countries that are potentially harmful. Our member countries are committed to eliminating the harmful features of any regimes found to be actually harmful by April 2003. The Report, then, is balanced, and might even be said to subject OECD countries to a higher standard and subjects them to a shorter deadline.

Reference

Visit: http://www.oecd.org/daf/fa/harm_tax/harmtax.htm

Need to know all about the labour force country by country over the last 20 years?



See page 110

The British Virgin Islands: taking the high road

ROBERT MATHAVIOUS, DIRECTOR OF FINANCIAL SERVICES

Offshore centres are being kept busy this year as the OECD and a whole raft of acronyms (EU, FATF, FSF, G7, IMF, UN) put them under the microscope.

The BVI is committed to addressing international concerns. We don't mean a few players' concerns about whether offshore centres should exist at all. The respectable centres facilitate global trade and respond to consumer/investor demand. They have become a vital tool in the long-term planning of many individuals and corporations around the world.

We mean the concerns about how offshore centres operate. In the BVI, we believe that reputations are slowly established but can be quickly lost. We believe it is in our interest as well as that of investors to be reputable and respectable and to regulate activities to internationally acceptable standards.

The BVI has a well-established track record of bilateral and regulator-to-regulator co-operation. Eleven separate pieces of legislation enable us to co-operate efficiently with information requests. Last year, we received what was generally regarded as one of the better reports in a Caribbean Financial Action Task Force mutual evaluation exercise into anti-money laundering measures.

And we have a track record of co-operating with international initiatives, such as the KPMG review of financial services regulation in Bermuda and the Caribbean Overseas Territories (COTs), jointly commissioned by the UK Government and the COTs; and the thoughtful UN Offshore Forum.

That isn't to say that dealing with these initiatives and others has always been straightforward, particularly given the apparent lack of co-ordination between them. Ironically, responding has forced us to divert resources from completing some of the very regulatory reforms sought, on which we have long been working.

In this respect, we welcome the OECD's decision to give offshore centres an extra year to establish steps towards eliminating the so-called "harmful" aspects of their regimes. We intend to do what is worthy and sustainable in the long term, not expedient in the short term.

Practical examples of BVI co-operation planned for 2000 are: new compulsory powers legislation to provide regulator-to-regulator access to information; enhanced laws on company management, banks, trust companies and mutual funds; a broader Anti-Money Laundering Code of Practice; and a deeper Mutual Legal Assistance Treaty with the USA. We intend to address concerns about the opaqueness of our highly successful International Business Companies.

The BVI also supports efforts to spread transparency as far as possible. We have long argued for the development of an international Information Exchange Protocol and are keen to play a part in shaping this.

The BVI will continue to take the high road, seeking only respectable business and doing what is right and proper, not because of the international initiatives but because this has always been our way.

We are persuaded that, if we stay this course, not only will we continue to attract good quality business but our prudence will eventually result in an international assessment that recognises beyond doubt the BVI's status as a top-echelon offshore financial centre. ■

The Isle of Man: competitive but co-operative

THE HON. R. K. CORKILL, MHK, MINISTER FOR THE TREASURY, ISLE OF MAN

The Isle of Man, an internally self-governing Dependency of the British Crown, has announced a new taxation strategy which reflects continuing co-operation with the OECD while maintaining the Island's competitive position as an international services centre.

As the government of a reputable and responsible jurisdiction, we in the Isle of Man have responded positively to the OECD's "Harmful Tax Competition" initiative, despite having reservations over some aspects of the approach adopted. The Island recognises that the initiative may well lead to some new international standards in relation to what is and is not acceptable as regards tax practices, and we have taken this reality into account in preparing our tax strategy for the next five years.

The strategy, produced to the Island's own timetable, is the culmination of two years' work. It addresses OECD concerns by starting to roll back "ring fencing" regimes so that there is consistency of tax treatment between international business and its domestic equivalent, and by providing for extended exchange of information through the medium of modern Double Taxation Agreements. The Isle of Man government anticipates continuing the constructive dialogue opened with the OECD and playing a full part in future discussions as the tax competition issue evolves.

It is the policy of the Isle of Man government that its Financial Services Industry operates to international standards, but also that it should maintain a competitive and fair tax system within those standards. An important driver for the new strategy, which will lower standard income tax rates for businesses and individuals, is the need for the Island to protect its own economic interests by preserving a competitive position in relation to other international services centres.

Much attention has been focused in recent months on the smaller financial centres in the world. Part of this attention has been directed to questioning their role and validity in a global economy which is characterised by liberalised financial markets and advances in technology which in turn facilitate the easy movement of money.

The OECD and the European Union initiatives aimed at combating harmful tax competition have fuelled the debate and there has been much stereotyping of the small centres, with assumptions being made:

- that small centres exploit their position to create tax regimes which set out to attract financial business away from larger jurisdictions;
- that lax regulation, secrecy and lack of co-operation internationally prevail, allowing criminal activity to flourish; and
- that they exist for the benefit of the few, and are characterised by a divided society in which economic benefits do not flow down to the general population.

The small financial centre is to be found throughout the world, perhaps as an enclave within a larger jurisdiction, perhaps as an autonomous entity. It may be wealthy or not, and it may or may not operate within the mainstream of legitimate financial business. Stereotyping is an inaccurate and inappropriate approach to these centres as they need to be considered individually.

The Isle of Man is a small finance centre which has deliberately set out its stall to become the model of a small finance centre for the 21st century, combining legitimacy with probity, a social conscience, and a willingness to work within international frameworks.

The Isle of Man government promotes the Island on the basis that a financial centre, to earn its position in the world market place, needs to demonstrate five features:

◆ Constitutional legitimacy. The centre should not be an artificial creation but should have an autonomous legitimacy rooted in its history.

The Isle of Man is an ancient Kingdom which has never been part of the United Kingdom but is an internally self-governing British Crown dependency.

◆ High standards of regulation. There should be no place in the 21st century for an inadequately regulated financial centre, large or small.

The Isle of Man government remains committed to ensuring the highest standards of supervision and regulation in its financial services industry. The quality of that regulation was verified by the independent Review of Financial Regulation in the Crown Dependencies (Edwards' Review), commissioned by the Home Secretary and published in November 1998.

The Isle of Man is a small finance centre which has deliberately set out its stall to become the model of a small finance centre for the 21st century, combining legitimacy with probity, a social conscience, and a willingness to work within international frameworks.

◆ International co-operation. The ability to move money internationally, rapidly and easily, aids the criminal. It is of paramount importance, if the criminal is to be combatted effectively, that countries co-operate readily with each other. The Edwards' Review has confirmed the quality of the Isle of Man legislation, particularly on money laundering and international co-operation, and the Island's willingness and track record in co-operating internationally in the pursuit of crime.

◆ Responsible tax regime. While all financial centres need to provide a taxation environment which allows their business to be competitive, there is a growing recognition internationally that the taxation environment has to be legitimate and responsible. Although the Isle of Man will continue to protect its companies' competitive position, it is not a tax haven and it is resolved to respond constructively to the changing international norms and standards that are emerging from the current debate on harmful tax competition. In addition to income tax, the Island has comprehensive VAT and National Insurance regimes which parallel those in the United Kingdom and provide a balanced taxation environment.

◆ Socially responsible public services. It cannot be acceptable for a jurisdiction to compete internationally on the basis of low tax where the consequence of that low tax is that its public services are under-funded and deficient. The Isle of Man, while its national income per head remains modest and below the United Kingdom national average, has public services, particularly in relation to health, education and welfare, which are at least the equivalent of those in the United Kingdom. It continues to be the policy of the Isle of Man government that the benefits of the Island's growing prosperity should be shared by the whole of the population.

The Isle of Man is a case study of a small financial centre which has adapted to the global economy and to the changing international perceptions of what is the legitimate role of the financial centre within that global economy. It provides a balanced and responsible environment where good business can be transacted in an atmosphere of probity, quality and social cohesion.

The new tax strategy being proposed by the Isle of Man is a balanced package designed to reflect our vision of what the small financial centre should be in the 21st century. Certainly, tax regimes must be competitive, but they must be responsible and not predatory and there must be a recognition that jurisdictions must work co-operatively to defeat international financial crime, whether that be fiscal, money-laundering, fraud or drug-related. The strategy embraces all of this and, we believe, places the Isle of Man in the vanguard of small financial centres. ■

OECD harmful tax competition report: developed countries' gain, Caribbean pain

CARIBBEAN COMMUNITY SECRETARIAT

The OECD's attack on global 'harmful' tax competition may adversely affect the financial services sector of some 47 jurisdictions, several in the Caribbean. Its 1998 Report, entitled *Harmful Tax Competition: An Emerging Global Issue*, deemed many of these countries to be tax havens, eroding the developed countries' revenue base. The threatened actions pose dangers not only for the financial services sector of the countries concerned but also for other areas of their economy. This is of grave concern to small economies in the process of diversification.

A major challenge to small states over the last 40 years or so has been to diversify their economic structures. This has arisen because of the need to find economic opportunities for increasing populations, particularly in urban centres and in the face of the reduction in the viability of their major agricultural export crops due to competition in traditional markets. In the Caribbean, the two main agricultural export crops, sugar and bananas, have been under severe pressure. The first efforts at diversification were towards light, labour-intensive manufactures and later towards services such as tourism, financial and ship registry. Light manufacturing has not fared well but some economies such as The Bahamas, Barbados, Cayman Islands and Antigua and Barbuda have emerged as essentially service economies.

Yet these economies remain highly vulnerable and structurally undiversified. As recently as March 2000, the Commonwealth Secretariat/World Bank Joint Task Force on Small States issued a Report in which they found that these small states were characterised, among other conditions, by very high levels of export and import in relation to total production, limited diversification, limited institutional, financial and human capacity in the private and public sectors, and restricted access to global capital markets arising from high transaction costs, high income volatility and a general perception of riskiness.

As developed countries and large developing countries expanded agricultural and manufacturing production with the aid of ever-advancing technology, small economies globally and in the Caribbean were urged by multilateral financial institutions and developed countries to shift into export services. In a 1990 *Report on the Caribbean Region Current Economic Situation: Regional Issues and Capital Flows*, the World Bank argued that 'preferential markets and market arrangements and prospects for Caribbean commodity exports which were important sources of foreign exchange earnings and of economic activity in the 1980s may be subject to change' (p.i). The environment has indeed changed. By 1996, the services sector accounted for over 60% of GDP in seven of the 13 independent CARICOM Member States and in excess of 70% in four.

Export services is being developed in competition with large and highly developed economies. Except through the conclusion of Double Taxation Agreements, developed countries have not taken many steps to encourage their investors to locate in small economies or in other developing countries. Small states were advised to restructure and strengthen their macroeconomic environment to make them attractive to foreign investors. They were warned that their high corporate tax rates were major disincentives for investors. As recently as 1996, in a report on *Prospects for Service Exports from the English-Speaking Caribbean*, the World Bank advised that 'the countries would have to forego virtually all potential tax revenue from the off-shore sector to enable firms to compete' (p.36). Most of the countries have established low or no tax regimes for this sector. Given the assessment by the World Bank of the requisites for firms in Caribbean jurisdictions to compete, such tax regimes could hardly be described as providing unfair competition to developed jurisdictions such as London and New York with their panoply of incentives and facilities.

Caribbean countries have been making efforts to strengthen their macroeconomic frameworks, upgrade their incentive regimes and strengthen their supervisory and regulatory arrangements. These policy actions have coincided with the general movement to liberalise cross-border flows of goods, services and investment. Some of these jurisdictions have had increased activity in the financial services sector, including in the off-shore financial services sub-sector. This is as should be expected. The global liberalisation of cross-border

trade – in goods and services and in investment – was expected to promote and shift economic growth.

The OECD members are clearly uncomfortable with the competition for mobile capital and investment. The OECD 1998 Report, entitled *Harmful Tax Competition: An Emerging Global Issue*, indicates that the members are finding difficulty adapting to the new global environment, of which they have been the chief architects. In the words of the Report:

'The OECD believes that the progressive liberalisation of cross-border trade and investment has been the single most powerful driving force behind economic growth and rising living standards. The Organisation seeks to safeguard and promote an open, multilateral trading system and to encourage adjustments to that system to take into account the changing nature of international trade, including the interface between trade, investment and taxation.' (p.8-9)

The adjustments to the system are clearly to ensure that it serves the OECD's interest. In an effort to adjust the system to its liking, the 29-member OECD group, all members of the World Trade Organisation (WTO), has arrogated unto itself the mandate of the WTO. They have chosen to adjust the system unilaterally rather than use the WTO mechanism.

The OECD Report purports to address issues of harmful tax competition in one particular area, financial services. This results in a discriminatory and distorted view of the world economy. The OECD's own initial mandate proposed a wider review. Further, and to be consistent, the OECD would need to consider, in the social field, the impacts on Caribbean and other developing countries of issues like 'harmful drug consumption practices', 'harmful violent cinematic practices', 'harmful gun control practices', and 'harmful criminal deportation practices'. All these emanate from their jurisdictions.

The Caribbean countries will continue to co-operate with any attempt to build a sounder international financial architecture and to develop international best practices. However, the process must be even-handed. It must take into account the special situation of small and disadvantaged economies in seeking to establish a level playing field. Tax competition needs to be considered in a holistic context, with all sectors and activities under review, and all incentives and subsidies under scrutiny. The tax implications of a federal/central and state government system must also come under review.

In recognition of the dynamic nature of international business, Caribbean countries, working collectively, established a Policy Advisory Committee in 1999 to review the legislative and administrative framework of the various Caribbean jurisdictions. This is additional and complementary to actions by national jurisdictions. Caribbean countries have also communicated to the OECD their preparedness to participate in a process of international dialogue to examine the multilateral system and rules in the interest of all countries. For example, if the accepted legal status of 'tax avoidance' is to be changed to equate it with tax evasion, that must be done through multilateral agreement, not through the power of any one particular group.

The Caribbean believes that a process of dialogue and negotiation, leading to genuine international co-operation, is the best way forward. These negotiations should be carried out in appropriate international fora based on known rules and practices and free of threats, arbitrary deadlines and ultimatums. In this regard, the Caribbean is concerned about the effort of some OECD members to influence and use the international financial institutions to effect their national policies.

The OECD Harmful Tax Competition Report is part of the triumvirate of initiatives specifically targetting offshore financial centres. The initiatives are the work of the Financial Action Task Force and the Financial Stability Forum (FSF). These are however only a part of an even wider strategy targetting the services sector. Instance the attack on ship registry services. The effort in the Uruguay Round to bring services within the disciplines of the WTO was precisely because some OECD members assumed that they had a comparative advantage in that sector.

All the unilateral initiatives involve the strategy of 'name and shame'and of threatening concerted retaliatory action (such as abrogation of double taxation treaties, freely entered into, and the denial of correspondent banking facilities). The view seems to be that inherent in underdevelopment and small size is the inability and ineligibility to be on equal terms with the powerful OECD economies in international rule-making. The press release issued, without prior dialogue, by the FSF on 26 May 2000 branding Caribbean and other offshore financial centres for 'perceived' low quality of supervision constitutes a dark day in the history of international relations, especially since the very Report found that OFCs to date do not appear to have been a major causal factor in the creation of systemic financial problems.

The Caribbean believes that a clear lesson from Seattle is that policies and strategies for international development must emerge from genuine consultative processes, be inclusive and provide space for developing countries. ■

How safe is genetically modified food?

Principal Conclusions of the OECD Edinburgh Conference on the Scientific and Health Aspects of Genetically Modified Foods, 28 February - 1 March 2000

SIR JOHN KREBS, CHAIRMAN OF THE EDINBURGH CONFERENCE AND OF THE UK FOOD STANDARDS AGENCY

Food safety

Worldwide, many people are eating GM foods (especially in North America and China) with no adverse affects on human health having been reported in the peer-reviewed scientific literature.

There could, in theory, be long-term effects on human health that have not yet been detected because GM foods have been available for less than ten years.

Decision-making, assessment and choice

In the future, policy decisions about GM foods, as well as the assessment of their safety, should be more inclusive and open than has typically been the case in the past. People want to know how decisions have been reached and to be consulted. This process will help to remove suspicion.

Having said this, there was no clear conclusion on how attitudes and beliefs that might become apparent as a result of consultation should be incorporated into the assessment and communication of GM food safety. For many, safety assessment remains an essentially technical and scientific process.

Consumers should be allowed to choose. Labelling of GM foods is important, although there was no agreement on how far this should extend (e.g. to GM derivatives? To animals fed on GM?). It is important also to note that the labelling applies to the process by which organisms are created and not the food product, which in many cases is identical to its conventional counterpart.

The assessment of GM food safety

The assessment of the safety of any novel food, including GM food, involves a variety of kinds of evidence. One commonly used tool is the concept of "substantial equivalence". The essence of this idea is that a comparison between the novel food and one already in the diet provides the basis for asking questions about the safety of the novel product. Substantial equivalence is not a quantitative criterion or a hurdle, but a framework for thinking. It is continually modified and updated, but it is timely now, after six years of using the tool, to undertake a more detailed review.

On two more technical issues, (a) there is no clear agreement about the importance of animal feeding trials (other than toxicity trials) in assessing the safety of novel foods, including GM foods; (b) the methods for testing toxicity and allergenicity of GM foods need re-examination.

Existing international bodies are working to achieve consistent standards and criteria for the assessment of food safety, and this is to be applauded. The precautionary principle is now beginning to be discussed internationally in relation to food safety, but it has not yet been translated into an agreed operational form.

GM technology in developing and developed countries

The majority of speakers from developing countries stressed the crucial importance of GM technology as part of the armoury for feeding their population in the future. In China, with 20% of the world's population and 7% of the land surface, GM is already playing a major role in food production, and its importance was also emphasised by speakers from Africa and Latin America. However, the view was also expressed that the future application of GM technology in developing countries should be more explicitly tuned to the needs of local people rather than of multinational corporations.

In light of this last comment, GM technology for the developing world should be carried forward through a mixture of public and private funding.

Whilst it is essential that standards of safety assessment should be consistent and high throughout the world, the strongly expressed demand for GM technology in developing countries casts substantial doubt on proposals for a worldwide moratorium made by some participants.

The first generation of GM crops and foods are perceived as having bought little direct benefit to consumers in developed countries, but this may well change as new products appear with direct quality, health or price benefits.

Concerns about GM other than food safety

The principal concerns of the opponents of GM related less to food safety than to the broader question of why GM food is being produced at all. Most developing country speakers argued forcefully that GM technology is an essential part of their future food production, but this was rejected by some NGO speakers from Europe and North America. They argued, instead, for solving world food shortage by redistribution, better prevention of loss during storage, and so on. They also pointed out, as did some developing country participants, that citizen engagement in decision-making and discussion should be improved in developing countries.

A second concern about GM agriculture was the potential environmental impact. Although there have been many field trials and, in some parts of the world, large-scale commercial planting of GM crops, there has been insufficient work fully to assess environmental impacts, especially in the biodiversity- rich tropics.

The way forward

The most significant aspect of the Edinburgh Conference was that it included all sides of the debate surrounding GM foods and nevertheless identified certain areas of agreement. It also succeeded in identifying issues in which there is disagreement or uncertainty due to lack of knowledge, and in separating issues which are subject to scientific analysis and those which are related to political factors, beliefs and values. Further detail is available in the rapporteurs' report.

The conference represents a new start in the global debate about GM food and agriculture: a more inclusive approach in which the protagonists discussed some of the key issues with each other. There was support for continuation of this process to deal with other parts of the debate.

I therefore recommend that an international forum be set up to continue the process started in Edinburgh. The aim of such a forum would be to provide governments with state of the art assessment of scientific knowledge about GM technology, and to set this assessment in the context of broader concerns of society.

A model for such a global assessment is the Intergovernmental Panel on Climate Change (IPCC). This Panel allows governments to draw on worldwide expertise in climate science. It informs but does not make policy and it acknowledges the minority scientific views as well as the current majority view. It also updates its reports at intervals.

The forum I propose would have similarities to the IPCC, but would include not only scientists but also other stakeholders.

The following suggestions indicate how the forum might be developed:

(a) It should build on and interact with, rather than duplicate or replace, the work of existing international groups such as Codex Alimentarius.
(b) It should be global in scope and not restricted to G8 countries or a subset thereof. In particular, a key message of the Edinburgh conference was the role of developing countries where application of the technology is proceeding rapidly.
(c) It should be led by the world's best scientific experts, but include a wider range of expertise and opinion than scientists.
(d) Two initial themes for the forum would be food safety and environmental safety of GM agriculture and food production.
(e) There would be two kinds of outputs: (a) scientific assessments in the form of reports that inform policy; (b) an inclusive and global debate about the relationship between GM technology and society. It will be essential that governments take ownership of the forum and its reports.
(f) The reports should be produced in a timely way so as to facilitate the assessment of rapidly emerging technologies.

Summary

This proposed forum could serve two important functions by enabling a global debate and assessment of GM technology in food and agriculture.

First, it will allow the best scientific analysis risks and benefits of the new technology, as it develops, to be carried out in order to provide governments worldwide with appropriate expert advice. This advice will acknowledge the range of scientific opinion and uncertainties, as well as indicating the current majority opinion.

Second, it could create a better understanding of the relationship between technological developments, policy, and the concerns and aspirations of citizens. This would be achieved by widening the forum beyond purely scientific analysis, to include the broader issues that I have referred to in relation to the Edinburgh conference.

There is more than one way of achieving these twin objectives. One approach would be to have an expert panel, led by scientists but including other stakeholders, to carry out the scientific assessments. Draft reports of this expert panel could be used as the basis for discussion by a broader forum, along the lines of the Edinburgh meeting, in which the non-science issues are brought into the debate. The expert panel might choose to revise its report in light of this broader discussion.

I have deliberately left the details of implementation to others, because I want to sketch out the vision rather than the detailed mechanisms. ■

Estonia on its way

MINISTRY OF FOREIGN AFFAIRS, ESTONIA

The increased co-operation between nations provides a unique opportunity for designing the more than ever globalised world where all countries stand to benefit.

Over the last centuries the world has witnessed steadily increasing co-operation between nations. It has intensified dramatically over the past 100 years through the emergence of numerous international and regional organisations bridging societies and allowing them to profit from co-operation in the fields of the economy, environmental protection and security arrangements.

The OECD societies have been a striking example of how nations have shaped and can shape their future through co-operation. The European Union of today is in many ways a product of Europeans' enormous efforts and co-operation, a rebuilding process unprecedented in recent history.

Estonia's membership in the WTO as of November 1999 has opened a new and broader opportunity to participate in the global trading system.

Similarly, Estonia has enthusiastically invested its talent and energy in rebuilding its society and, through co-operation and mutually beneficial interdependence, in integrating itself into regional and transatlantic structures, and reinforcing its economic and social ties with countries once constituting the Hanseatic League and beyond.

Today's Estonia is a fast growing, dynamic and open economy. Estonia has rapidly and successfully developed into a market economy and has performed an impressive economic growth driven by a dynamic private sector and fuelled by large inflows of foreign direct investment. In this development, Estonia has decisively turned to the West; at present, trade with the OECD member countries makes up almost 75% of Estonia's total trade. Estonia is among the most successful countries in Central and Eastern Europe in terms of foreign investment per capita, reaching as high as USD 202 in 1999. The lion's share of these investments is of western origin.

Increasing economic interdependence is a powerful growth engine that enables economies to exploit comparative advantages, and create additional synergies to maintain an environment necessary for sustainable non-inflationary growth in output and employment. It is in this context that Estonia has become an integral part of the world economy or "mutual interdependence".

This is best illustrated by the achievements in trade, investment and cross-border co-operation on a regional level where co-operation and integration have brought economic prosperity and dynamism. Enjoying annual economic growth rates well above the EU average is proof of effective resource allocation that leads to more advanced technologies and means of production. As a result, one may observe today the latest state of the art technologies in Estonian companies.

The sound progress has been supported by the institutionalisation of the Estonian-EU relationships (e.g. the Europe Agreement in 1995). The consolidation process deepened further by the launch of the EU accession negotiations with Estonia at the EU Summit in Helsinki in 1997. A comprehensive harmonisation process of Estonian legislation with that of the EU acquis is well advanced and should lead to a full implementation of membership obligations by 1 January 2003. Presently 12 chapters out of 31 under negotiation have been preliminarily closed.



Tallinn skyline

Estonia's membership of the WTO as of November 1999 has opened a new and broader opportunity to participate in the global trading system. Foreign trade plays a major role in the Estonian economy and the high foreign trade/GDP ratio at 1:6 is excellent proof of that. Thus we can consider ourselves a trading nation and have a direct interest in promoting and benefiting from trade and investment with other WTO member countries.

Along with changes in trade patterns, the mutually beneficial co-operation implies significant changes in the whole economic environment. It narrows the differences in policy-making and sets a similar policy agenda for all parties concerned.

By contributing to security and prosperity, Estonia aims to take advantage of global trends and exploit synergies deriving from international co-operation. This impells Estonia to pursue a mutually beneficial dialogue with OECD member countries on issues that are at the heart of the OECD's work. These include corporate governance, statistics, investment, pension reform, life-long learning, environment, globalisation, social policy, macroeconomic management, public finances and administration.

All these activities are also reflected in the OECD Baltic Regional Programme which enables Estonia to make full use of the OECD's multidisciplinary expertise. Since the launch of the Programme in Tallinn in 1998, Estonia has continuously increased the OECD's presence in policy formulation and implementation.

As part of our endeavours increasingly to contribute to global development, Estonia, along with Latvia and Lithuania, initiated at the Programme's evaluation meeting in Paris in May 2000 a new proposal to link the Programme's objectives with the future OECD membership of the Baltic countries.

For Estonia, this comes as one step in the path towards OECD membership with the sole purpose of designing a better globalised world together with the world's most industrially advanced economies that share common values based on market economy, pluralistic democracy, and respect for human rights. ■

What's new? Some answers from Ancient Greece

ARMAND D'ANGOUR, FELLOW AND TUTOR IN CLASSICS AT JESUS COLLEGE, OXFORD UNIVERSITY

In the new millennium, what lessons can the modern world learn from one of the oldest civilisations?

New economies, new politics, new technologies, new media. New products and services, new software and hardware. New, new, new. . . the modern world is devoted to innovation, the promotion and exploitation of new ideas and discoveries. Unless human psychology has undergone a radical change in recent times, there can be little new about the interest, excitement and anxiety aroused by such a pursuit. But until the dawning of our era of science and technology, can we point to any former age in which such a premium was attached to newness?

One likely candidate is Ancient Greece. It is well known that the classical 'golden age' of Greek antiquity was a time of intense novelty and creativity. From the 7th to the 4th century before the birth of Christ, the Greeks embarked on a series of extraordinary innovations which laid the basis for two millennia of Western thought and achievement in areas including literature, art, architecture, philosophy, politics, medicine, and mathematics. The Greeks might reasonably lay claim to having discovered innovation, since they were not only conspicuously innovative but (having invented the world's first true alphabet) were the first people to write about it. The earliest known term for 'innovation', the Greek word *kainotomia*, is used in a comedy by the Athenian playwright Aristophanes dating from 422 BC.

The key innovations of ancient Greece arose in thought and culture rather than in science and technology. But on investigation it appears that the principles of innovation today are essentially the same as those formulated and implemented in Greek antiquity. Does this mean that there is really 'nothing new under the sun'? The expression, familiar from the biblical book of *Ecclesiastes*, originally derives from the ideas of the early Greek philosophers Pythagoras and Parmenides. If we look at innovation in the past from what may to us be a new perspective – through the eyes of those who lived in the vibrant and diverse centuries of classical Greece – we can learn something about innovation in the present and the future.



Same thoughts, different millennium

So what were these principles? One starting-point is suggested by Aristotle, the most comprehensive analytical thinker of the ancient world, whose surviving writings include seminal works on logic, ethics, literature and biology. A preliminary consideration for Aristotle was that *innovation means different things depending on the area in which it is applied*. In his *Politics* he remarks that it is false to suppose that the fact that innovation is a positive thing in one context necessarily means that it will be beneficial in another: socio-political innovation, for instance, is quite different from technical or artistic innovation. Tantalisingly, he drops the matter after a few brief comments, promising to take it up on another occasion; but in fact no extended philosophical analysis of innovation survives (though it might be fun to try and reconstruct what Aristotle would have said). In any case, he reminds us of an obvious but often overlooked principle. A strategy for innovation should consider at the outset such questions as: What does innovation mean in this context? Precisely what sort of innovation is required here?

Further principles stemming from the ancient Greeks' encounter with innovation can be pieced together from the great variety of writings which have come down from the 5th and 4th centuries BC. Perhaps the most important general consideration that emerges is that innovation is dynamic. It must involve an active interchange between individual innovators and the public, and consumer contexts. Significantly, the musical innovations of ancient Greece which caused such alarm also elicited positive reactions. The record shows that the new musicians, though they left no lasting mark on the Western musical tradition, at the time found favour with younger and less conservative sections of the Athenian public. Then as now, fashions come and go; few, if any, can

Calling something 'new' is generally perceived to be an effective rhetorical tool: New economy, New Labour, New World Order. Of course, just because something is called 'new' does not make it an innovation. Or does it?

tradition and change, old and new. In music, for example, the ancient Athenians encountered a series of bold innovations which struck listeners as a radical departure from musical tradition. The innovators were subjected to scathing satire for (in Aristophanes' words) 'plucking their novelties from the blue'. The philosopher Plato, a firm opponent of the new music, would ideally have banned it altogether, arguing that innovation should be no more than a variation or recombination of familiar elements and structures. For innovation to succeed, it must appeal to existing individual and social perceptions about what is valuable and effective: innovation pursued in a vacuum is likely to arouse aversion, or at least incomprehension.

But at the same time, the kind of pluralistic environments which foster the pursuit of innovation also tend to generate diverse responses.

Innovations may after all have *uneven* diffusion; the evaluation of their impact and potential requires some consideration of variable time-scales

expect to obtain immediate and universal appeal. In the event, the new musicians attained to fame and financial success in their lifetimes, and a later generation regarded their works as classics. It is hard not to draw an analogy with the Beatles.

Further principles emerge from the innovations in medical theory and practice initiated by the school of physicians associated with Hippocrates. In advocating the empirical investigation of disease and cure – rather than, say, magical or arbitrary methods of treatment – ancient Greek physicians were radical innovators in their time. Ironically, however, they saw themselves as traditionalists, and expressed exasperation at the sometimes bizarre novelties perpetrated by fellow-professionals for the sake of public acclaim and financial gain. They were specifically concerned to combat innovation in the form of new theories of human health and sickness. But for certain kinds of innovation, then as now, the principal element and strategy is, precisely, retheorisation. The alternative physicians of ancient Greece who set about constructing new and unverifiable theories about human nature had discovered a fruitful procedure. For over two thousand years before the rise of modern medicine, medical practice thrived (often at the expense of its patients) on their theories of 'the humours'.

At one extreme this kind of innovation appears to involve nothing more than the manipulation of words – a mere rhetoric of novelty. At another, it can present itself as part of a comprehensive intellectual and psychological reorientation, the kind of thing described as a 'paradigm shift'. The idea of rhetoric introduces a complex element to the question: rhetoric is a means of presenting something persuasively, in a way that may or may not reflect the truth behind the image – in other words, a technique of marketing. Calling something 'new' is generally perceived to be an effective rhetorical tool: New economy, New Labour, New World Order. Of course, just because something is called 'new' does not make it an innovation. Or does it? When rhetoric was systematised by Greeks in Sicily in the 5th century BC, its pioneers taught that it could be used for 'making the old (seem) new and the new old'. We might like to think we can distinguish what is *really* new from what is simply *called* new. But for rhetoricians and marketeers, what matters is the result. In a world in which novelty attracts a premium, 'new' sells. If there is in reality nothing new under the sun, at least the public may be temporarily induced to buy the idea that novelty is on offer. Whether it is an old product

relaunched or an old idea recycled, marketing can make all the difference.

This indicates the need to distinguish layers or levels of innovation. Creating a perception is different from generating a *new* product or implementing a process of innovation. All of these may be crucial to the dynamics of innovation, each requiring a different kind of approach and expertise. What kinds of individuals, organisations or cultures are best suited to wield such expertise? The ideas of freedom, competition and incentive are widely recognised to be key for 'cultures of innovation'. The ancient Greeks were no strangers to these notions: they invented democratic politics and created the first large-scale monetary system in history. But Greek political freedoms were not extended to women and slaves,

The modern world has less time for reflection about the destruction that innovation can entail.

and competitiveness was destructively manifested in constant warfare between independent states. In 338 BC. the orator Demosthenes lamented that military innovation (e.g. in strategy and siege-artillery) had superseded all other kinds of innovation, and shortly afterwards Alexander of Macedon and his successors created the first world empire. Innovation, then, in one sphere may encourage *or* discourage innovation in others. With the centralisation of political power, the creative energies of the ancient Greeks were dispersed into quieter channels.

Innovation means change, and change means loss. The new takes the place of the old. And since this is sometimes bound to mean the loss of real value, we must also learn when *not* to innovate. To retain their creativity, innovative individuals and societies need to acknowledge what is of lasting value, and to work through loss. The ancient Greeks held on to valuable traditions, and allowed space for mourning, institutionalising it in religious rituals and in public practices. The modern world has less time for reflection about the destruction that innovation can entail. If the result is that today's ceaseless innovation brings anxiety and disaffection (as well as excitement and wonder), we might benefit by taking time to refresh our perspective on innovation by reviewing the experience of the past. In the end, perhaps, there is nothing new under the sun. ■

Alternative futures AD 2000-2025

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Of the many potential scenarios, global governance looks the most fruitful.

We start with three facts of world affairs. The first is the interdependence of states – their mutual vulnerability in many domains. Second is globalisation – the many forces that transcend state borders – from epidemics to electronic banking. Third is the pyramid of power – military, economic, political, cultural. At the onset of the 21st century the world is unipolar. It combines a single superpower with successive levels of great, medium, regional, and rising powers.

Six scenarios

Many alternative futures are conceivable but let us focus on six. We portray each scenario as a fact – not what "could," "would", or "should" be. The first scenario proceeds from the present pyramid of power.

I. Unipolar stability

US hegemony is rooted in tangible and intangible assets that show no sign of weakening. The unipolar world continues for decades. It proves to be the most peaceful and prosperous era in human history. It is a world in which most states deal with global interdependence so as to generate mutual gain. International actors focus more on creating values for mutual gain than on aggressive exploitation or parasitism. The model the Canadian-Mexican-US relationship than, say, to the triangle of India, Sri Lanka, and Pakistan. Unipolarity proves to be more conducive to peace than multilateral balancing or bipolarity. It does not, however, prevent disorder among lesser states and "failing" states. Outside powers, usually with UN blessing, intervene in some but not all trouble spots.

The United States is a new kind of hegemon on the world stage. A deal takes shape: Washington does not abuse its power and other countries do not gang up against it. The sole superpower seldom acts alone. Washington seeks and usually gets the support of other actors for its key goals, as it did in forging a policy to contain Iraq and North Korea in the 1990s.

At the onset of the 21st century the world is unipolar. It combines a single superpower with successive levels of great, medium, regional, and rising powers.

Economic prospects for most of the world are positive. The world is sufficiently rich and well informed to find paths to sustainable development. The World Bank formulates guidelines by which countries can enlarge their GDP and improve their Human Development Index ratings. Infant mortality continues to decline in most countries. Russia begins to realise its economic potential. New giants arise – China, Brazil, Argentina, Indonesia, Kazakstan. But none of these countries has the wish or the means to challenge the global hegemon.

Europe and Japan remain powerful trading states. Europe, however, is at most a confederation. Real union is unfeasible due to language, cultural, and economic differences. Alliance with America remains the linchpin of Japan's security. The country faces severe limits. Its archipelago remains crowded. The population becomes greyer with fewer workers to support retirees. Japan's foreign markets shrink as Korea and other neighbours fill the same demands at lower prices.

Authoritarian rule curtails the once vibrant growth of Singapore and Hong Kong. Most Pacific rim economies slow their torrid pace as fresh inputs of labour, capital, and energy become more costly.

II. Fragmented chaos

Extrapolations from the relative calm and prosperity of the late 20th century may miss the mark. How could chaos replace stability? A serious change in any part of the system can ripple throughout the whole. First, the biosphere fails to support human life in some places where it flourished in the 1990s. The affluent Pacific rim sits on a ring of fire – volcanoes and fault lines – that devour life and property. Storms and droughts increase due to climate change and deforestation. Both environmental and economic barriers impede growth. It is easier to call for "sustainable development" than to practice it.

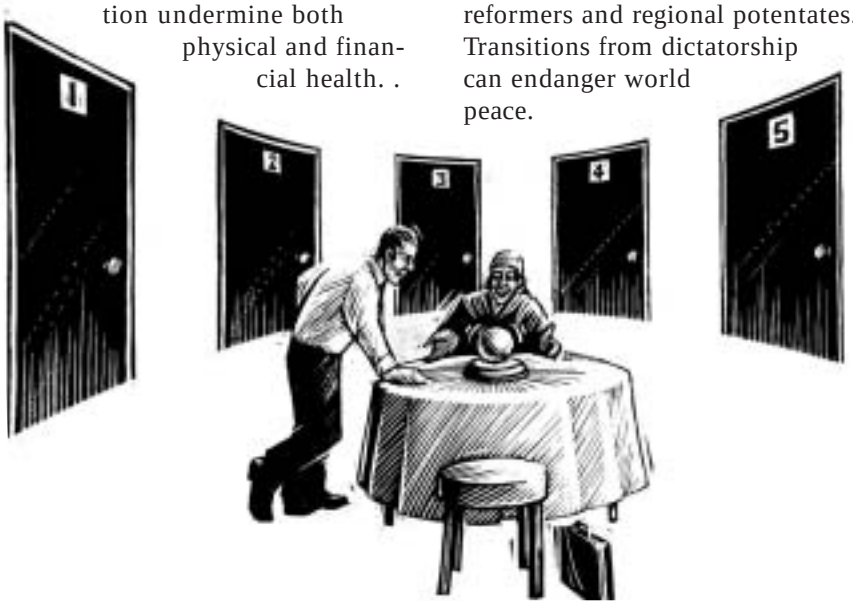
Epidemics such as H.I.V. infection undermine both physical and financial health. .

Second, the rational calm inspired by expanding prosperity is not shared by actors whose deep demands go unmet. Unemployed youth in many countries resent the gap between haves and havenots. Religious and ethnic zealots incite violence. Some states fail.

Third, weapons of mass destruction become more accessible. A single nuclear explosion near a city – set off by mechanical accident, human error, or design – makes Chernobyl and Oklahoma City look like child's play. Reports that Iraq is ready to launch anthrax-filled warheads create panic in Iran and Israel.

A serious change in any part of the system can ripple throughout the whole.

When the awakening giant China trembles, there are global repercussions. Millions are unemployed as the economy slows. Malthus strikes: China has sacrificed too much farm land to industry. Border peoples become more restive. Authoritarian rule is challenged by democratic reformers and regional potentates. Transitions from dictatorship can endanger world peace.



The United States fails to lead or throws its weight too aggressively. It antagonizes followers or loses them. Washington oscillates between do-nothing complacency and hubristic arrogance of power. The US home front deteriorates as racial and class cleavages multiply; as Hispanic and other groups reject the long dominant culture; as guns rule some streets and many schools; and as Congress and the public refuse to invest in science, public health, or infrastructure.

As many countries follow the US lead, their democracy suffers from brain washing by mass media technology. Couch potato fast-food obesity and drug dependency impede brain power and physical health. Parasitism also takes its toll. Many actors try to free-load. While more and more individuals "bowl alone" – some of them lost in cyberspace – a global time of troubles engulfs humanity.

III. Challenge to the hegemon

Nothing lasts. When Uncle Sam appears weak or overbearing, rising powers challenge the hegemon. Most Chinese remain poor, but the country's enormous GDP permits Beijing to build formidable armed forces. China's engineers move the country to the leading edge of technology. China's oil requirements deepen its motives to hold onto Central Asia and to dominate the South China Sea.



Problems multiply when China cracks down harder on its

Uygurs, Kazakhs, and Tibetans; insists that Japan stop building antimissile defences; and demands that Taiwan join in a Beijing-dominated federation. Washington again sends aircraft carriers to the Taiwan Straits. The danger to peace is far greater than when an Austrian archduke died in Sarajevo.

Here the road forks. One direction sees China back down before the US show of force. Like Russia's rulers in 1911 and 1962, however, Beijing swears never again to retreat before rival power. China steps up military investments and prepares for a confrontation one or two decades hence.

The other fork also leads to trouble: Washington pulls back while Beijing incorporates Taiwan into China. The PRC then bullies other neighbours – Vietnam, Korea, Japan, Russia, India. Washington wants to contain China, but blows hot and cold. Emboldened, China marches toward a collision with the enfeebled hegemon, believing it will win the next round.

IV. Bipolar co-operation
China and the United States have equivalent GDPs by 2025. Their economies are more complementary than competitive. Beijing and Washington have no territorial claims on each other. Co-operative projects convince their peoples that mutual gain is possible in all fields.

The Taiwan issue no longer troubles PRC-US relations. China adapts the Taiwan model as technocrats supplant ideologists in Beijing. Mainland China and Taiwan are linked economically but distinct politically. They agree to disagree on politics.

China keeps to its late 20th century borders and focuses on internal problems. China suffers many severe economic and environmental challenges but other countries give or sell food and other goods to fill deficits. China is not active at the United Nations but rarely objects to peacemaking by others.

When Uncle Sam appears weak or overbearing, rising powers challenge the hegemon.

V. Multipolar co-operation
The poles of power are diverse but complementary. Democracy and peace reinforce each other. Most governments are representative democracies, linked by trade and other collaborative ventures. Cyberspace joins scientists, cultural figures, business people, relatives, and e-mail pals across the world.

Even before 2025 Moscow and Washington cut their nuclear arsenals to 600 strategic warheads. Other nuclear powers keep their arsenals well below this number. The military requirements set out in Articles 43-47 of the UN Charter are fulfilled. The UN Security Council has a Military Staff Committee; and most UN members have earmarked forces for use by the Security Council. Collective security is becoming a reality. The tough action taken by the UN against Saddam Hussein in the 1990s encourages confidence in collective security and discourages rogue attacks on the evolving world order. Israel and most of its neighbours are learning how to co-exist and trade.

North-South differences narrow. More Asian, African, Middle Eastern, and Latin American countries enter the path of rapid and sustainable development. New strains of wheat, rice, maize, and other crops permit nearly every region to feed itself without heavy irrigation or chemicals. Few countries still depend on a single commodity. Both developing and industrialised countries shift resources from defence to development needs. Biodiversity in the Amazon and other tropical regions is protected and becomes profitable.

VI. Global governance without world government
The transnational civil society develops across many countries and regions. Common values – political choice, trust in free markets, respect for human rights – are shared by more than three-quarters of humanity. Territoriality weakens as a principle of organisation. There is no world government by a supranational authority. National governments remain, but they share power with a medley of non-governmental agencies – business and labour groups as well as nongovernmental organisations (NGOs). Together they form expanding networks of institutions designed to meet a wide range of human needs.

National governments confer among themselves and with responsible specialists from international and transnational agencies. This is functionalism writ large – decision-

Global governance cultivates a rich emergent structure in which NGOs and governments face complex challenges together. Such teamwork provides the flexibility and reach needed to deal with emerging needs.

making informed and managed by experts, mediated and supervised by representatives of elected governments. To cope with epidemics, for example, government experts form a committee drawn from national medical boards, the World Health Organization, the International Committee of the Red Cross, and the recently formed International Academy of Health Sciences. To deal with economic problems – from currency fluctuations to commodity prices – government experts form a committee drawn from the OECD, World Bank, the IMF, leading commercial banks, and the recently formed International Academy of Economic and Social Scientists.

To deal with threats to peace and security, governments depend heavily on the UN Security Council and the UN Secretary-General. Some governments retain nuclear arsenals, but the Security Council has its own rapid reaction force, backed by designated units from most UN members. The UN Secretary-General has a panel of mediators whom she/he can propose to disputants. A committee of elders drawn from Nobel Peace Prize laureates advises the Security Council and the Secretary-General.

By 2005 the University of the Middle East, founded by Arabs and Israelis who met in US graduate schools, has received help from some governments and foundations. By 2025 it has trained a generation of men and women more concerned with peaceful development than with sectarian passions. By 2025 they have launched several projects that knit Israel and its neighbours in mutual gain.

World governance is global public policy responding to the dangers and opportunities inherent in globalisation.

Which scenario is best? Which is most feasible?

It is easy to say which scenarios are the worst. Scenarios II and III could destroy many lives and waste valuable assets. Wise planners will act to block the roads that lead in these directions.

Any scenario that promotes peace and prosperity is acceptable. But scenario VI – world governance – has advantages. First, it postulates development of a truly transnational society. Without such a society, the state system may eventually break down.

Second, global governance cultivates a rich emergent structure in which NGOs and governments face complex challenges together. Such teamwork provides the flexibility and reach needed to deal with emerging needs.

Is learning possible before the roof crashes? A vision of international relations rooted in global interdependence provides a broader framework than realism or idealism for planning the future. Actors may see that past practices do not suffice to deal with looming problems such as global warming. Even antagonists may find themselves condemned by interdependence to negotiate better solutions.

The concept of interdependence underlines both the dangers and the opportunities inherent in globalisation. As a guide to policy it does not presume that humans are good or bad. But it hopes that enlightened self-interest will guide governments and other actors to create values for mutual gain rather than try to seize them for one-sided advantage. ■

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Do legal measures exist to protect e-commerce?



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A brief history of the OECD

DR TIMOTHY BAINBRIDGE, AGENDA PUBLISHING

The Organisation for Economic Co-operation and Development (OECD) is one of that distinguished family of international institutions the history of which can be traced back to the period immediately after the Second World War, such as the International Monetary Fund (1944), the United Nations (1945), NATO (1949), and the Council of Europe (1949). The OECD grew out of the offer made by US Secretary of State General George C. Marshall in June 1947 to assist European economic reconstruction by making available generous amounts of American aid under the European Recovery Programme, better known as the Marshall Plan. At the meeting held in Paris in July 1947 between the US government and the European countries willing and able to participate in the Plan, three key conditions were laid down: the Europeans were to dismantle any barriers to trade between each other; they were to co-operate in formulating their requirements; and they were jointly to oversee the implementation of the Plan. In General Marshall's words: 'There must be some agreement among the countries of Europe as to the requirements of the situation. . . It would be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a programme designed to place Europe on its feet economically. This is the business of the Europeans. The ini-

The OECD grew out of the offer made by US Secretary of State General George C. Marshall in June 1947 to assist European economic reconstruction by making available generous amounts of American aid under the European Recovery Programme, better known as the Marshall Plan



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Secretary-General Robert Marjolin on the first anniversary of the OEEC, predecessor of the OECD, 16 April 1949

tiative, I think, must come from Europe. . . The programme should be a joint one, agreed to by a number of, if not all, European nations.' Clearly, a new institution was required, and in 1948 the Organisation for European Economic Co-operation (OEEC) was set up in Paris. Although General Marshall's offer had been extended to any European state, the Soviet Union prohibited any of the countries in its sphere of influence from taking part, so the OEEC was composed solely of Western European countries. Founder members were Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom and the British, French and American zones of occupied Germany. The newly-founded Federal Republic of Germany joined in 1949, and the following year the United States and Canada joined as associate members. Spain joined the OEEC in 1959.

Not only did the OEEC successfully oversee the Marshall Plan, it sponsored other forms of co-operation between member states' economies, of which the best-known was the European Payments Union. The OEEC helped its members recover full convertibility of their currencies, an essential condition of trade liberalisation. Moreover, the OEEC acted as a forum in which member states could discuss other more ambitious proposals. Of these, the most far-reaching were those amongst the countries already known as the Six (Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany), who had already formed the European Coal and Steel Community under the 1951 Treaty of Paris. Now, on the basis of proposals put forward by Jan Beyen, the Dutch Foreign Minister, they were discussing the establishment of a customs union and an atomic energy community. These discussions led in 1955 to the Messina Conference and to the drawing up of the European Economic Community Treaty (the Treaty of Rome) and the Euratom Treaty in 1957.

The OECD in its present form may be traced back to a meeting in Paris in December 1959

Although the aims of the Six were not wholly incompatible with those of the OEEC, the founding of the EEC resulted in the formation of a powerful bloc within the OEEC and fundamentally altered its character. It resulted in the abandonment of a rival British proposal to create a free trade area (limited to industrial goods) between all OEEC members. Instead, the British had to content themselves with the European Free Trade Association (EFTA) under the Stockholm Convention of 1960. The United Kingdom, by far the biggest economy amongst the EFTA states (the so-called Seven, the others being Austria, Denmark, Norway, Portugal, Sweden, and Switzerland), was thus enabled to continue its policy of applying low or no tariffs on goods imported from the Commonwealth, which it would not have been able to do under a customs union arrangement of the type favoured by the EEC.

The OECD in its present form may be traced back to a meeting in Paris in December 1959 attended by the French and US Presidents, the West German Chancellor, and the British Prime Minister. In their communiqué they stated their agreement that 'virtually all of the industrialised part of the free world' was now able to turn its energies to 'the development of the less developed countries' and to 'trade policies directed to the sound use of economic resources and the maintenance of harmonious international relations, thus contributing to growth and stability in the world economy and to a general improvement in the standard of living'. Five months later, in May 1960, a conference was held to discuss the reconstitution of the OEEC along these lines. In December 1960 the OECD Convention was signed in Paris. By September 1961 ratification of the Convention by the signatory states – now including the United States and Canada as full members – was sufficiently far advanced for the new organisation to come into being. The OECD Council met for the first time in December 1961.

The aims of the OECD are to promote policies to secure the highest sustainable economic growth and employment, and thereby a rising standard of living, in member countries; to contribute to the expansion of world trade on a multilateral, non-discriminatory basis; to promote social and economic welfare in the OECD area by coordinating member countries' policies; and to assist in the 'sound and harmonious development and good functioning of the world economy by stimulating and harmonising Members' efforts in favour of developing countries'.

The OECD's governing body is the Council, composed of one representative from each member state. It meets both at Ministerial level (normally once a year, chaired by the Minister representing the country elected to this office for a one-year term) and at Head of Permanent Delegations level (about twice a month, chaired by the Secretary-General). Fourteen members of the Council, designated annually, form an Executive Committee. Decisions and Recommendations of the OECD are adopted by 'mutual agreement of all members of the Council', i.e. by consensus. The activities of the OECD are shared among 14 Directorates and Services, assisted by over 200 specialised committees and working parties. These are normally composed of civil servants from member countries' capitals or from those attached to the Permanent Delegations accredited by the OECD as diplomatic missions. The International Secretariat of the OECD, whose official languages are English and French, numbers about 1,700 people.

The aims of the OECD are to promote policies to secure the highest sustainable economic growth and employment, and thereby a rising standard of living, in member countries

Attached to the OECD are several autonomous or semi-autonomous bodies, each with its own governing committee. These include the OECD Nuclear Energy Agency; the International Energy Agency; the OECD Centre for Educational Research and Innovation; and the OECD Development Centre. The OECD works closely with the European Conference of Ministers of Transport.

The OECD's co-operation with non-member states (of which 30 have expressed interest in establishing formal contact through full membership, regular dialogue, or participation in particular activities) is conducted under the responsibility of the Council Group on Non-Member Economies. This Group oversees both the Unit for Liaison and Coordination for Asia and Latin America, and the Centre for Co-operation with Economies in Transition (CCET) in Central and Eastern Europe and the newly-independent states. The CCET's involvement in the development of these countries' economies is built around the 'Partners in Transition' programme. ■

Is it possible to define and measure knowledge as a social stock of intellectual capital?



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TRANSPORT

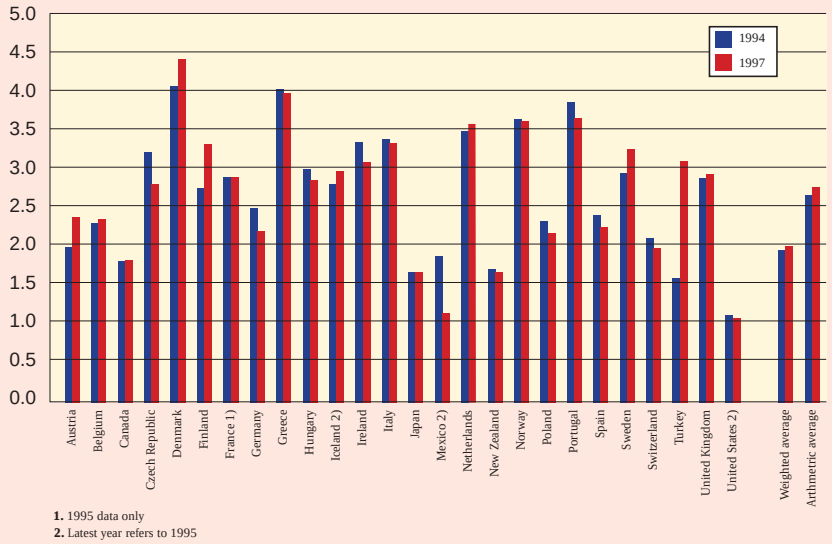
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Counting on green taxes

Revenues from environmentally related taxes in % of GDP



1. 1995 data only
2. Latest year refers to 1995

The use of environmental taxes and green tax reforms is one way of helping to curb environmental pressures from energy consumption, chemical wastes and air and water pollution. In OECD countries, revenues from environmentally-related taxes currently average about 2.5% of GDP and around 7% of total tax revenues.

Green taxes work. By increasing the price of the goods and services on which they are levied, they discourage the use of these goods and services. For example, current estimates indicate that a 1% increase in energy prices would in the long-term reduce energy use by around 5%. If the use of other polluting goods such as batteries, packaging and pesticides increased due to tax hikes, consumers would use them less, especially if alternatives were available.

Given the growing importance of green taxes, the OECD, in co-operation with the European Commission, has developed a unique, user-friendly database, which was launched in May. (The graph shown here is drawn from the database.) The database contains detailed information on more than 170 environmentally-related taxes and 160 fees and charges in use in member countries. It should provide useful examples for other countries, as it details the tax rates on more than 1,750 tax-bases. Most of these concern motor vehicles, while others are related to energy products and waste management. The primary focus of the database is on individual pollution-oriented taxes and is not confined to taxes with an explicit environmental purpose. After all, a tax on fuel oil introduced for purely fiscal reasons will have the same environmental impact as a tax on fuel oil introduced to combat carbon dioxide emissions. The new green tax database, which also specifies more than 850 exemptions and refund mechanisms included in the taxes, should prove an important tool for making international comparisons.

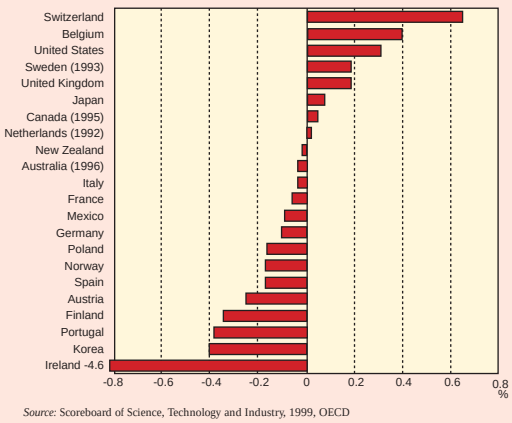
Reference

www.oecd.org/env/policies/taxes/index.htm

Technology balance

Analysts of today's knowledge-based global economy would do worse than to watch the technology balance of payments, even if the results are not huge in terms of GDP. The balance registers international transfers of technology — licensing contracts, purchases of patents, know-how and R&D, and technical assistance. In most OECD countries, technology receipts and payments increased sharply during the 1990s as a result of technological globalisation. Receipts and payments each represents about 0.3% of OECD-area GDP.
Not surprisingly, the OECD area has a net surplus vis-à-vis the rest of the world (of more than $20 billion). Some countries do have net deficits – they import more technologies than they export. This is particularly true of countries that are catching up, such as Portugal and Korea, which both showed technology balance of payments deficits of some 0.4% of GDP in 1997. The case of Ireland is fairly atypical, because it is the only OECD country to have recorded a balance of more than 1% of GDP in 1997, and that happened to be a deficit of 4.6%!

Technology balance of payments
% of GDP, 1997 or latest available year



Source: Scoreboard of Science, Technology and Industry, 1999, OECD

Among the major exporters of technology are Switzerland (with a surplus of 0.65% of GDP in 1997), Belgium (0.4%) and the United States (0.31%). These countries are categorised by intense R&D activity and a large number of internationalised firms. The United States is still by far the world's largest exporter of technology, with a surplus $25.5 billion in 1998.

Bookworm or TV addict

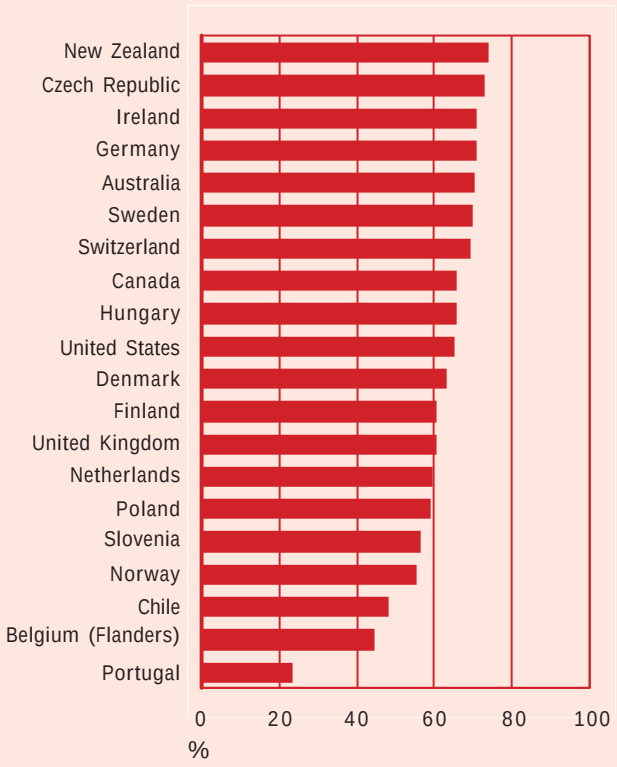
Surfing the Internet may be a growing hobby, but television and books are both alive and well in the information age. For the 21 countries participating in the International Adult Literacy Survey between 1994 to 1998, 45% watch television more than two hours per day, an average of 62% read a book at least once a month.

Nevertheless, literacy skills are not as high as today's information society requires. Even the most economically advanced societies have a literacy skills deficit, according to the final report of the survey. In 14 out of 20 countries, at least 15% of all adults have literacy skills at only the most rudimentary level. Even in Sweden, which scored highest in prose literacy, 8% of the adult population lack the minimum reading level for the demands of modern life and work.

The most important predictor of literacy proficiency is education. On average, people increase their literacy scores by about 10% for each additional year they attend school. Educational attainment is also the most important determinant of earnings in most countries, and the survey shows that literacy also has an independent effect on wages, as well as increased longevity and healthier habits and lifestyles. The new report, *Literacy in the Information Age*, is available at http://www.oecd.org/bookshop.

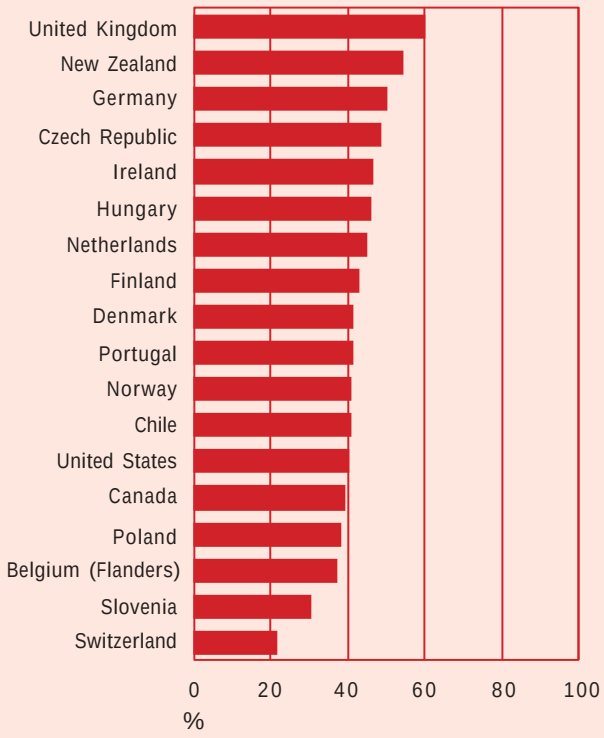
READING BOOKS

A. % of population aged 16-65 who reported reading a book at least once a month, 1994-1998



WATCHING TELEVISION

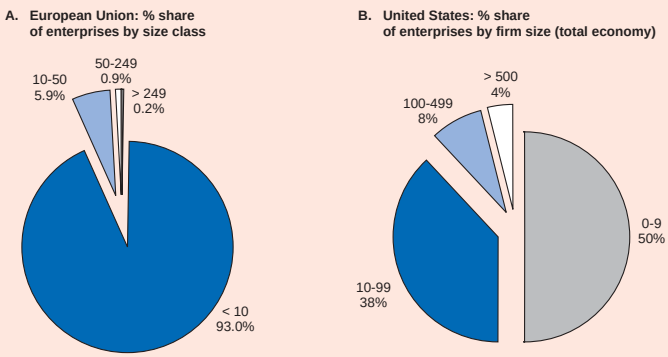
B. % of population aged 16-65 who reported watching television for more than 2 hours per day, 1994-1998



Source: International Adult Literacy Survey, 1994-1998.

Small is beautiful

Share of SMEs in business firms



Source: Joint OECD/Eurostat database on SME statistics.

Businesses in OECD countries are getting smaller, according to the OECD Small and Medium Enterprise Outlook, which is available at www.oecd.org/bookshop. The vast majority of enterprises in OECD countries are non-subsidiary, independent firms called SMEs, or small and medium-sized enterprises. There are almost 19 million small businesses in the European Union with less than 250 employees. In the United States, where SMEs are defined as having less than 500 employees, they account for over 99% of employer businesses. In the United Kingdom, 99% of these businesses have fewer than 50 employees, while in Canada, most businesses have fewer than 20 employees.

One reason for the shrinking of companies is the increase in outsourcing by large firms, which now concentrate on core competencies (see article by Risaburo Nezu). SMEs account for a high percentage of manufacturing firms, and predominate in service sectors, particularly construction, wholesale and retail trade and hotels and restaurants. They also play a key role in strategic business services, such as computer software and information processing. Spectacular growth in these sectors is due in large part to developments in information technology and the market access it gives.

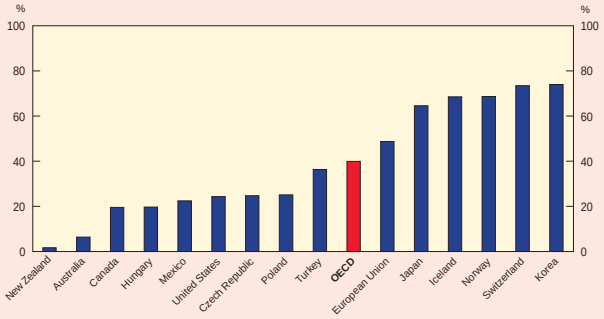
SMEs surpass larger firms in creating jobs, accounting for approximately half of total employment in the OECD area, although they are less secure. Women-owned enterprises make up a quarter to a third of the total business population in some countries, including Iceland, Switzerland and the United States. The publication of the OECD report coincides with a high-level conference in Bologna, Italy, on 13-15 June, entitled "Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies"; for more information, visit http://www.oecd.org/dsti/sti/industry/smes/news/bologna.htm .

Agricultural support rises

While liberalisation in industry and services appears to be gathering pace, old farm habits die hard. In fact, despite greater market orientation of agriculture over the long term, with low world farm prices and new emergency payments, support to agriculture has returned to its high levels of a decade ago (1986-88). Total support to farming accounted for an average of 40% of farm receipts in 1999 across the OECD area, albeit with wide variations across countries. Support accounted for over 70% of receipts in Switzerland and Korea, while in New Zealand and Australia it was less than 10% of their total receipts from support. Commodities such as wool, eggs and poultry received the least support, and the highest went to milk, sugar and rice.

In 1999 the overall cost of agricultural support to OECD consumers and taxpayers was US$361 billion, or 1.4% of OECD GDP. Two thirds of this support – down from four-fifths in the mid-1980s – is provided through measures that keep domestic prices above those on the world market.

Producer Support Estimates by country, 1999
% value of receipts



Source: OECD, PSE/CSE database.

Overall farm household incomes (which include revenues other than from farming) are generally comparable to other household incomes in most OECD countries. The degree to which this can be attributed to government support policies is unclear, although as little as a quarter of aid from market-price support goes to farmers, the rest being dissipated among suppliers, traders and land owners. Clearly, protection and support have to be reduced and better targeted in OECD countries. This would help to improve world markets and provide an exporting chance to efficient producers in developing countries. It would also benefit the environment, which some support-induced farming practices unfortunately do not.

Calendar of forthcoming events 2000

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

JUNE Some highlights

1 Opening of *Hannover Expo 2000* in Hannover, Germany. Until 31 October.

13-15 *Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies.* High-level conference organised jointly by the Directorate for Science, Technology and Industry (STI) and the Italian Ministry of Industry. Bologna, Italy.

16-17 *Learning Sciences and Brain Research: Potential Implications for Education Policies and Practices.* High-level forum, organised by the Directorate for Education, Employment, Labour and Social Affairs (ELS). New York City, USA.

20 *Employment Outlook* annual report published.

22 *Economic Outlook* No. 67, full version published.

22 *Financial Action Task Force Annual Report 1999-2000* published.

22-23 *Public Sector Reform: Challenges and Vision for the 21st Century.* Symposium organised by the Public Management Service (PUMA) and the Korean Ministry of Planning and Budget. Seoul, Korea.

26-27 *Nuclear Power Plant Life Management in a Changing Business World.* Workshop organised by the Nuclear Energy Agency (NEA). Washington D.C., USA.

26-27 *OECD Council at Ministerial level.* Foreign affairs, finance and trade ministers hold their annual meeting.

26-28 *Partnerships in the New Economy, OECD Forum 2000.* Public international conference and knowledge fair held concurrently with the OECD ministerial meeting. Centre for New Industries and Technologies (CNIT), Paris.

26-28 *The Contribution of Social Sciences to Policy Making.* Workshop organised by the Directorate for Science, Technology and Industry (STI). Bruges, Belgium.

29-30 *Improving International Co-operation to Counter Harmful Tax Practices.* High-level symposium organised by the Centre for Co-operation with Non-Members (CCNM) and the Directorate for Financial, Fiscal and Enterprise Affairs (DAF).

JULY

3-4 *Development Resource Mobilisation in the Post-Crisis Period.* Sixth International Forum on Asian Perspectives, organised by the Development Centre in co-operation with the Asian Development Bank.

3-4 *Small- and Medium-Sized Enterprise Financing in Asia.* Workshop organised jointly by the Asian Development Bank and the CCNM/DAF Emerging Market Economy. Manila, Philippines.

3-4 *Labour Market Policies and the Public Employment Service: Lessons from Recent Experience and Directions for the Future*. Conference organised by the ELS. Prague, Czech Republic.

4-7 *Adoption of Technologies for Sustainable Farming Systems.* Workshop organised by the Directorate for Food, Agriculture and Fisheries (AGR).

6 *Economic Survey of France* published.

9-11 *Water Quality*, workshop organised by STI. Basingstoke, United Kingdom.

10-11 *Ten Years of Trade Liberalisation in Transition Economies.* Round table organised by the CCNM and the Trade Directorate.

12 *Microbiological Testing of Drinking Wate.* Expert meeting organised by STI. Basingstoke, United Kingdom.

12-14 *Migration: Scenarios for the 21st Century.* International conference organised by the Agenzia Romana per la Preparazione del Giubileo, with the patronage of OECD. Rome, Italy.

13 *Climate Change and Development*. High-level meeting organised by the Environment Directorate.

21-23 *2000 G-8 Summit* in Okinawa, Japan.

AUGUST

28-31 *Stakeholder Confidence.* Forum organised by the Radioactive Waste Management Committee of the NEA.

28-1/9 *Taxation of Financial Instruments.* Workshop organised by DAF. Beijing, China.

SEPTEMBER

26-28 I*nternational Monetary Fund and the World Bank Group* hold their annual meeting. Prague, Czech Republic.

27 *Industry and Sustainable Development.* An OECD Business and Industry Policy Forum organised by STI.

OCTOBER

16-17 *Water Management and Investments in NIS: Overcoming Policy and Institutional Obstacles.* Ministerial consultations organised by ENV. Almaty, Kazakhstan.

16-17 *Benchmarking Industry/Science Relationships.* Conference organised by STI in collaboration with the German authorities. Berlin, Germany.

18 *World Knowledge Conference*. Seoul, Korea.

23-26 *"Monte Carlo 2000": Advanced Monte Carlo for Radiation Physics, Particle Transport Simulation and Applications.* International conference organised by the NEA. Lisbon, Portugal.

