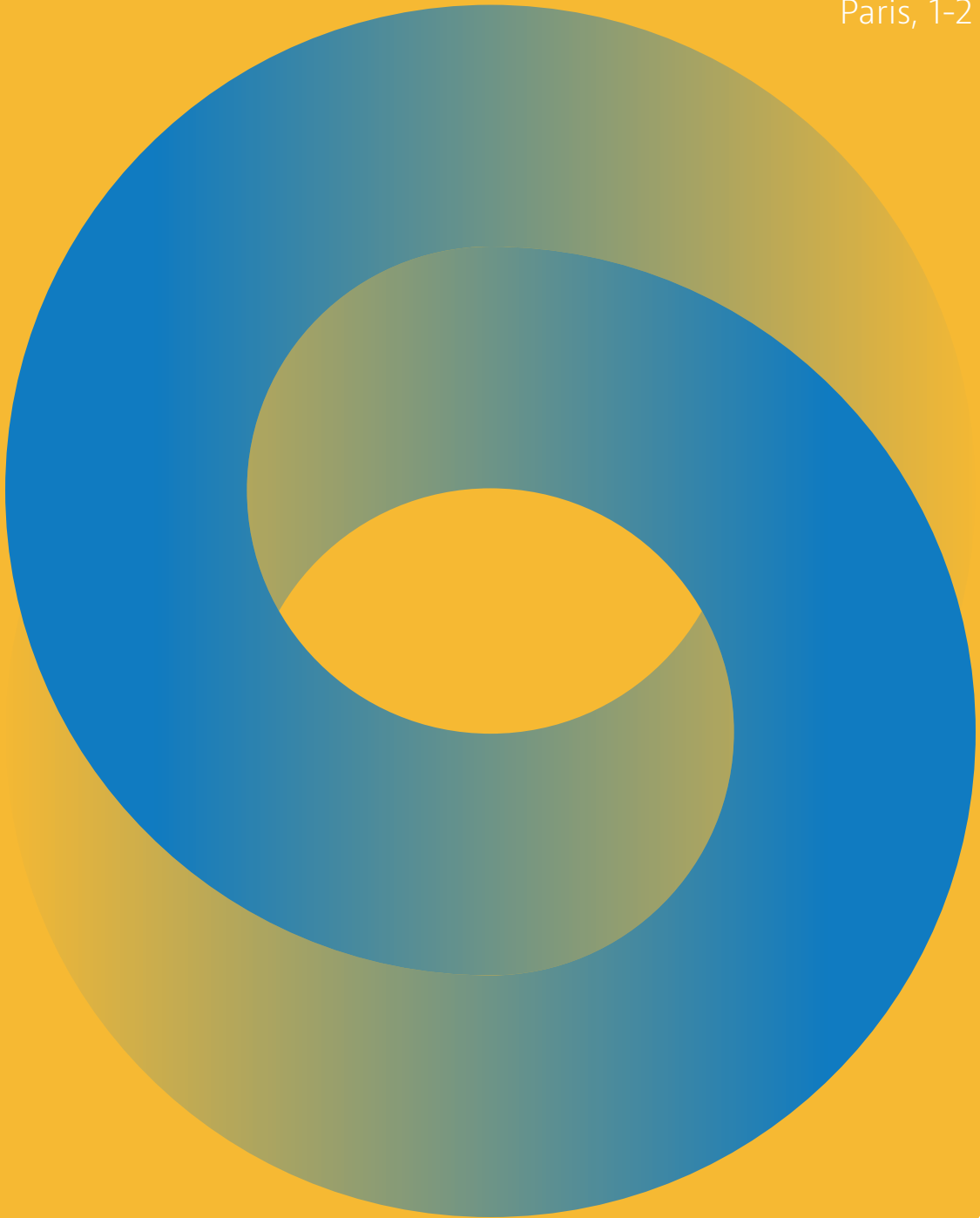


# Meeting of the OECD Council at Ministerial Level

Paris, 1-2 June 2016



## KEY ISSUES PAPER

# Key Issues Paper

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The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

## INTRODUCTION

1. **This year's MCM is devoted to the theme of enhancing productivity for inclusive growth.** The pace of productivity gains, which are the main driver of long-term improvements in living standards, has slowed in most OECD economies in recent years, while the multi-decade trend towards greater income and wealth inequality has continued in much of the OECD area. More research is needed on these developments and their interlinkages, and not all countries have been affected to the same degree or in the same way. But the first conclusions of the early OECD work has identified some possible common factors, and points to a number of policy recommendations to revive productivity growth and ensure that this results in broadly shared gains in well-being. When economic progress is not widely shared, and when countries fail to invest in people, cities and regions that are left behind, the productive capacities of their economies may be diminished. The MCM will draw on OECD work to offer Ministers an opportunity to explore possible policy solutions for enhancing productivity while fostering more inclusive growth.

2. **This paper follows the structure of Ministers' substantive discussions.**\*\* Ministers will first discuss the global economic outlook, informed by the OECD Economic Outlook that will be released at the beginning of the MCM. A discussion of the Secretary-General's Strategic Orientations will follow, during the working lunch. The main session for taking up the theme of the MCM will be Item 3. The first segment will be devoted to a discussion of the causes and consequences of the productivity growth slowdown and rising inequality. The second segment will be split into 3 breakout groups, discussing interactions between productivity growth and changes in the distribution of income with a focus on policy options for addressing the key problems. The penultimate substantive session, in Item 6, is devoted to a discussion of how the OECD can support countries' efforts to achieve the Sustainable Development Goals. Finally, Ministers will discuss how international trade and investment can contribute to inclusive growth.

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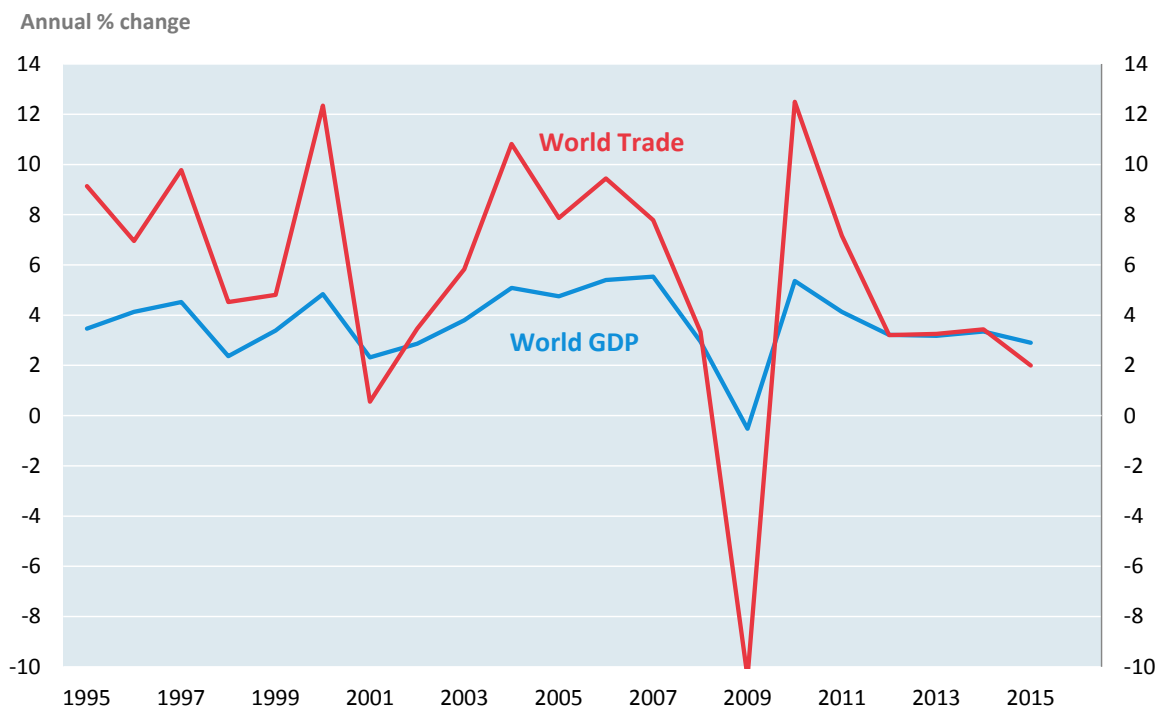
Issues covered in Item 4 the Ministerial Dinner, and Item 5, the Working Breakfast, are not covered in this Key Issues Paper. Discussions in Item 4 will be framed by presentations by external speakers. Item 5 is a closed session of the Ministerial Council Meeting. See also the Draft Annotated Agenda for the Meeting of the Council at Ministerial level.

## ITEM 1: ECONOMIC OUTLOOK

3. **A pick-up in global growth remains elusive**, with global GDP growth projected to be around 3% in 2016, little changed from 2015. Only a modest improvement is projected for 2017. These growth rates are the lowest since the financial crisis, and well below long-run averages. Growth has slowed sharply in many emerging economies, particularly commodity producers, and the upturn in the advanced economies remains modest, held back by inadequate wage growth and subdued investment.

4. **Sluggish demand growth is reflected in weak global trade, low commodity prices and below-target inflation in most major economies.** Although labour market slack has shrunk in most economies, unemployment remains very high in some countries, and wage growth is generally anaemic. While global trade flows have begun to grow again from the sharp decline in the first half of last year, they nevertheless remain subdued, reflecting low investment, commodity price falls and the challenging rebalancing underway in China.

Figure 1. Several consecutive years of sub-par global GDP and trade growth<sup>1</sup>



World trade is goods plus services trade volumes. World GDP growth is measured at purchasing power parities.

Source: OECD November 2015 Economic Outlook database ([http://dx.doi.org/10.1787/eco\\_outlook-v2015-2-en](http://dx.doi.org/10.1787/eco_outlook-v2015-2-en))

5. The fact that a decline in prices has been seen across a broad range of commodities over the past two years suggests that **weak demand has played a role**, although positive supply shocks have also been

important in some cases, notably for oil. Low commodity prices should continue to support consumption in commodity-importing economies in 2016, but will restrain investment and add to financial pressures on commodity-producing firms and commodity-exporting countries.

6. **There are several prominent downside risks** stemming from volatile financial markets, geopolitical conflicts and some tensions in the European Union. Financial instability risks are substantial, with some emerging market economies particularly vulnerable to shifts in capital flows and hard landing. There is a risk that the resulting uncertainty dampens investment further and leads to more difficult financial conditions.

7. **A stronger policy response is urgent** given the modest growth outlook and heightened downside risks. Experience to date suggests that reliance on monetary policy alone will not deliver satisfactory growth. Greater use of fiscal and structural levers is needed to complement continued accommodative monetary policy. Policy strategies that combine macroeconomic and structural efforts are especially desirable, allowing full advantage to be taken of their complementarities for demand and resource reallocation.

8. **Collective fiscal and structural policy actions would help to support demand and provide a more favourable environment for growth-enhancing structural policies.** Fiscal positions are generally more favourable than a few years ago, and many governments can currently borrow at very low (and sometimes even negative) interest rates, creating room in many countries to follow the lead of China and Canada in increasing government investment. Raising public investment collectively would boost demand while still safeguarding fiscal sustainability. Investment spending has a high multiplier and quality infrastructure projects would help make up for the shortfall in public investment seen in many countries in recent years. A still greater impact on the private sector could be achieved if structural reform momentum were revived. Structural reform packages to boost employment and productivity growth over the long term should also focus on possible short-term demand benefits, given the weak global economy. A special chapter in the *Economic Outlook* (OECD 2016a) focuses on the joint effects of structural policies on productivity and inclusive growth. Some reforms, such as easing barriers to entry in product markets, boost both employment and productivity, with gains across the income distribution. Additional measures may, however, be needed to support low-skilled and low-income workers, who are the most vulnerable to job loss. Steps to shift social protection from jobs to individuals are needed in many countries, permitting the reallocation of resources that typically underpins dynamic, growing economies while ensuring that the dividends of higher growth are shared among the whole population.

## ITEM 2: STRATEGIC ORIENTATIONS

### *The Secretary-General's Strategic Orientations*

9. **The MCM 2016 Ministerial lunch is the first opportunity in the Secretary-General's renewed mandate for him to discuss with Ministers his vision for the way forward for the OECD** based on the "21 for 21" proposal he made last year to country leaders to consolidate and advance an agenda for a more relevant and useful Organisation. This proposal sets out the Secretary-General's vision for the OECD as a truly global organisation with the tools and capacity to help countries address today's challenges. The Secretary-General argues that the OECD must work with others to develop a new growth narrative based on people's well-being and environmental sustainability, and to help countries carry out reforms to improve productivity and address inequality. It must help countries reap the benefits of digitalisation and the New Production Revolution and be ready to address emerging challenges such as the integration of migrants. It must further strengthen its contributions to the global governance agenda, including in the G20, G7 and APEC, and support the implementation of agreements reached on the global scene in various fora, including the Sustainable Development Summit and COP21. It must continue mainstreaming the NAEC (New Approaches to Economic Challenges) approach across its work, and be at the forefront of emerging policy issues [[C/MIN\(2016\)4](#)]. And it must continue to break down policy silos and deliver relevant and timely advice on complex and interconnected policy issues.

10. **The Strategic Orientations [[C/MIN\(2016\)1](#)] proposed this year to Ministers are based on the substance of this agenda and also reflect the outcomes of the 2015 Ministerial Council Meeting**, as well as the ongoing discussions in the Council on the preparation of the Programme of Work and Budget 2017-2018, the Convergence Paper by Ambassadors, and the Secretary-General's discussions with country leaders and different stakeholders.

11. **Eight years after the crisis, the policy mix is still not delivering as it should.** The pressures that have undermined global growth – the slowdown in emerging economies, debt overhangs, impaired banking systems, and the negative social impacts of the crisis – are still acting. The observed slowdown in productivity growth seems to be becoming structural, in the context of increased inequalities of income, wealth and outcomes for people. Despite the great need for policy action, there has been a slowdown in the pace of structural reforms in recent years, as highlighted in the latest *Going for Growth* (OECD 2016b).

12. **Concerns over people's well-being remain at centre stage.** In many countries, people's real incomes have not risen for years. Income inequality is at high levels, as are other forms of inequality, including in wealth or access to quality education, which limit opportunities. Unemployment remains high in many countries. Youth unemployment remains above pre-crisis levels in nearly every OECD country. Also, protracted conflict and insecurity have, in recent months, given rise to the worst refugee crisis in recent history. Humanitarian migration on this scale brings with it a range of challenges to integration systems, and to host communities, as nations help refugees, their children and unaccompanied minors to find their place in society. The OECD needs to continue to apply strategic foresight and its multidisciplinary approach to help countries address these challenges.

13. **The OECD should continue delivering on its agenda for inclusive growth**, and make sure that the Inclusive Growth Framework remains relevant for countries. The next frontier for this agenda is children. Latest OECD research and elsewhere shows that children are particularly affected by the

widespread rise in income inequalities. One in seven children across the OECD lives in income poverty, and child poverty has increased in more than two thirds of OECD countries. Migrant children are particularly vulnerable. Thanks to its various tools (PISA, Network on Early Childhood Education and Care, family database, Indicators of immigrants' integration), the OECD has shown how early childcare interventions can improve lifetime outcomes. A policy focus on child well-being and the needs of families with children is crucial to reduce the intergenerational transmission of disadvantage, combat child poverty, enhance skills and capabilities and promote inclusive growth.

14. **The last year has seen a number of important developments in the global policy environment.** Major agreements on the Sustainable Development Goals (SDGs) and on climate change (COP21) marked significant international consensus, as did conferences on Financing for Development (Addis Ababa), resilience (Sendai) and trade (Nairobi). Also, the OECD achieved – with the G20 and others – a major re-design of the international tax system through both the Base Erosion and Profit Shifting project, and our work on Automatic Exchange of Information for tax purposes. The focus of the international community – and of the OECD – must now turn to implementation of these major agendas. The recent widely publicised revelations of large-scale possible cases of tax evasion, avoidance and fraud are a reminder that we need to accelerate our efforts to strengthen global governance, including on taxation. The Organisation must continue identifying the areas where strengthened global standards are needed and OECD can add value, and make sure that the standards that the OECD membership has developed achieve their goals.

15. Against this backdrop, **the Secretary-General's top priorities** for the years ahead are to:

- **Deepen efforts to "go national" as we enhance the usefulness and relevance of the Organisation to Members and Key Partners.** This includes further strengthening the Organisation's support of policy design and implementation at the national level, and grounding these efforts in upgraded multidisciplinary tools and approaches. One aspect of this is to help countries advance their reform agendas, with our quantitative analysis of the benefits of reform.
- **Continue our efforts to build a growth narrative that focuses on the well-being of people, and on inclusive growth.** This includes further considering the distributional aspects of our policy advice, as well as renewing our focus on children, migrants, skills and the productivity-inclusiveness nexus. It also means mainstreaming outcomes from NAEC.
- **Lead policy debates on emerging issues, while reinforcing our capacity to address them.** This includes efforts to integrate trends and megatrends into our work, in particular developing our understanding of the digital revolution and its implications, as well as the issue of job quality.
- **Advance the global agenda and support collective policy action.** This includes efforts to leverage the installed capacity of the OECD to support the implementation of the Sustainable Development Goals and the COP21 climate agreement, as well as pursuing the implementation of major agreements on tax in an inclusive way to ensure that the existing loopholes in the international tax system are speedily addressed. Migration will remain important; the 2016 International Migration Outlook will include a chapter on migration policies' response to geopolitical shocks, focussing on new pathways for refugees and on how to adapt existing legal migration pathways to benefit refugees. The report will also touch on initiatives to improve the situation of refugees by fostering labour market integration and mobility.
- **Further develop our productivity and competitiveness agenda.** This includes advancing policy-focused research on productivity, as well as efforts to improve the enabling environment



for trade and investment. It means investigating how to leverage digital technologies and enhance the Next Production Revolution by improving the innovative capacities of our economies.

- **Strengthen the implementation and the impact of our standards and identify areas in which existing gaps suggest that new ones should be developed.** This includes reflecting on the extent to which existing OECD standards meet today's needs, and also deepening our understanding of the impact and outcomes of OECD standards.
- **Consolidate efforts to enhance the effectiveness, inclusiveness and global reach of the OECD.** This includes efforts to engage Key Partners more in our work, to maximise the benefits of OECD regional and country programmes, and to strengthen partnerships with other international organisations. It means ensuring that developing countries' perspectives are included in our analysis, and that the Action Plan for the SDGs is integrated in our agenda.
- **Continue enhancing the quality, transparency, and efficiency of the Organisation's management, administrative, communications and financial systems,** This includes efforts to advance diversity in our workforce, to promote horizontal collaboration, and to sustain our coherent and consistent communication efforts.

16. The Strategic Orientations propose that these are supported by the inclusion of the work on the productivity-inclusiveness nexus and children's well-being in the existing horizontal project on Inclusive Growth. Through this horizontal project, the OECD aims to help governments not only deliver improvements to material well-being for all, but also ensure lifetime opportunities are accessible by all income groups in our societies, and in particular the most vulnerable. To achieve this, the Organisation will aim at better understanding the links between productivity and inequality, in particular, whether and how skills gaps, bad health, and deficiencies in infrastructure and social provision undermine aggregate productivity growth and feed inequalities at both the national and regional level, and how barriers to competition can also cause a weakening of productivity growth and worsen inequalities. The Strategic Orientations propose that the OECD's work on children also be renewed, examining the role of early childhood interventions for well-being and analysing the intergenerational transmission of disadvantages.

17. New horizontal projects are also proposed in order to advance work on migration and refugees, as well as in the area of digitalisation. Building on existing OECD work on migration and the integration of migrants, the OECD will provide additional high quality and internationally comparable evidence and analysis to help governments better manage the consequences of migration, facilitate migrant integration, including at the school level, close knowledge gaps on the economic impact of migration, and support the exchange of views and experiences among countries on policy responses to migration. On digitalisation, the OECD will assess how the emergence of the digital economy and the Internet of things, can enable higher productivity and growth, while addressing potential impacts on the labour market and ensuring digitalisation contributes to more inclusive growth. The Organisation will identify policy priorities to spread the benefits of digitalisation in fostering better job opportunities and well-being while mitigating transitional impacts.

***Questions for discussion:***

- How well do the priorities identified in the Strategic Orientations align with national policy agendas?
- What other policy priorities should be addressed by the OECD in the coming year and beyond?
- On what areas should the OECD focus to improve global standards further?

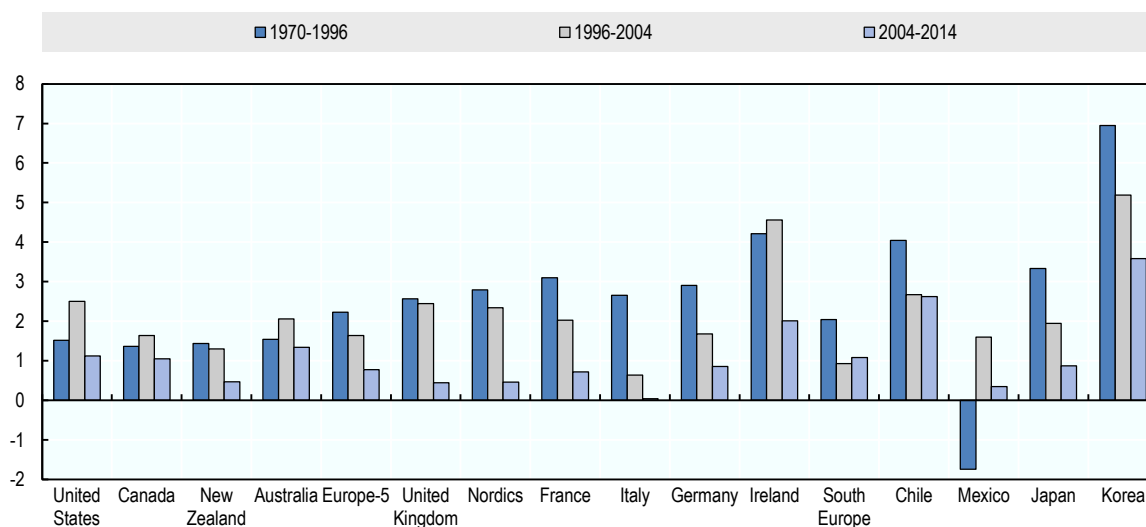
## ITEM 3: ENHANCING PRODUCTIVITY FOR INCLUSIVE GROWTH

### Introduction

18. This session addresses the main theme of the 2016 Ministerial Council Meeting, enhancing productivity for inclusive growth. Ministers will discuss the problems of slow productivity growth and rising inequality as well as possible interlinkages between them, drawing on the substantial body of OECD work on these developments. Such work highlights the importance, *inter alia*, of knowledge diffusion, skill-matching, access to finance and infrastructure, with various policy settings affecting each of these. In the first segment of the breakout group session Ministers will discuss the general theme of enhancing productivity for inclusive growth, while in the second segment they will take up some specific issues.

**Figure 2. Labour productivity growth has slowed in most OECD economies**

GDP per hour worked; annual average growth



Notes: Europe-5 includes Austria, Belgium, Luxembourg, the Netherlands and Switzerland; Nordics includes: Denmark, Finland, Iceland, Norway and Sweden; Southern Europe includes Greece, Portugal and Spain. For 1970-96, Europe-5 excludes Austria.

Source: OECD Productivity database, January 2016.

### Breakout Group Session

#### First segment. Enhancing productivity for inclusive growth

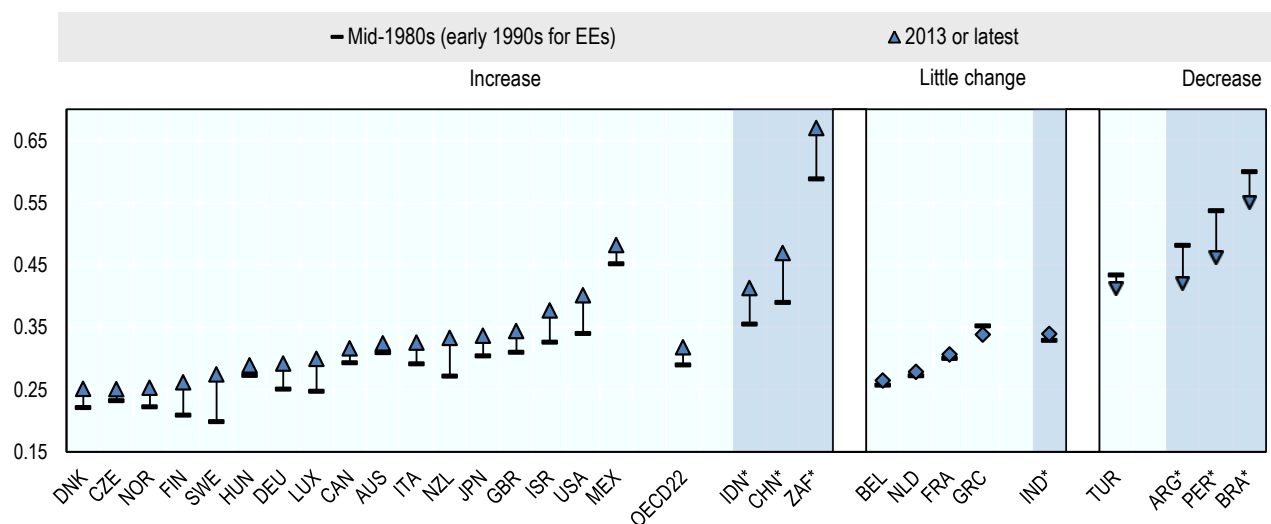
19. The OECD's work on the productivity-inclusiveness nexus [C/MIN(2016)3] has identified a number of stylised facts and gathered empirical evidence on the main factors behind slower productivity growth and rising inequality. It identifies possible linkages between these trends and argues that the two concerns should be addressed jointly. It also draws preliminary conclusions on the type of policy packages that are needed.

20. **The persistent slowdown in labour productivity growth is particularly perplexing as it comes despite several decades of rapid technological advancement**, which should have brought strong productivity gains. OECD analysis suggests that one feature of the 2000s was a growing dispersion in productivity performance between leading firms, which registered strong productivity gains, and their non-frontier counterparts within countries and sectors. This dispersion can be attributed to several possibly complementary factors, with different contributions in different countries. The diffusion machine from the frontier to the rest of the economy may have broken down; the leading firms may have been able to accumulate rents; and/or poorly-performing firms may have remained in the market rather than exiting, trapping valuable resources in unproductive activities.

21. **The last three decades have seen widespread increases in income inequality in OECD countries**, with the richest 10% of the population now earning on average 10 times more than the poorest 10%. A main driver has been an increased dispersion in wages. Beyond the impact of the crisis, longer-term structural adjustments engendered by changes in technology and labour market institutions have also contributed to the rise in inequality. In particular, the decline in trade union density has been linked to increased earnings dispersion – enhanced social dialogue would be useful to address this tendency. Also, new technologies have placed a premium on high-skilled workers, and may have led to job polarisation and a hollowing out of the middle class. What happens at the top of the income distribution also matters, and brings to the discussion wealth distribution that is more unevenly distributed than income, in large part because of inheritance. In many countries, the effectiveness of redistribution declined in recent decades, and well-designed tax and transfer systems remain a key instrument for achieving inclusive growth (OECD 2015a).

**Figure 3. Income inequality increased in most OECD countries**

Gini coefficients of income inequality, mid-1980s (early 1990s for emerging economies) and 2013, or latest available year



Note: The Gini coefficient is a measure of income inequality ranging between 0 in the case of perfect equality (everyone has same income) and 1 in the case of perfect inequality (all income is held by 1 person/household). "Little change" in inequality refers to changes of less than 1.5 percentage points. Data for Argentina, Brazil, China, India, Indonesia, Peru and South Africa (different background) come from external sources are not strictly comparable with the OECD Income Distribution Database data. The Gini coefficients are based on equivalised disposable incomes for OECD countries, and per capita incomes for other countries except India and Indonesia for which per capita consumption was used. Mid-1990s data for Peru and Indonesia refer to 1997 and 1996 respectively.

Source: OECD Income Distribution Database (IDD), [www.oecd.org/social/income-distribution-database.htm](http://www.oecd.org/social/income-distribution-database.htm), for OECD countries. World Bank, Poverty and Inequality Database for India. Statistics Indonesia (Susenas) for Indonesia. SEDLAC database for Argentina Brazil and Peru. National Bureau of Statistics of China for China. National Income Dynamics Survey for South Africa.

22. **Inequality is not only about income and wealth;** outcomes diverge widely across a range of well-being dimensions in OECD countries, including access to quality public services and education. These inequalities tend to accumulate, which may impede skill acquisition and thereby exert drag on aggregate productivity growth.

23. **The observed rise in inequality has been driven by many factors, one of which is likely to have been a growing dispersion of productivity across firms.** This seems to be associated with both the observed slowdown in aggregate productivity growth and a widening of the wage distribution. Other evidence suggests that possible rent capture by frontier firms and sub-optimal resource allocation may have hindered productivity gains while entrenching inequalities of income.

24. **The policy settings associated with these dynamics, their trade-offs and complementarities, need to be explored further.** However, it is clear that individuals can only fulfil their productive potential if they can access high-quality education and training; and firms will only be able to fulfil theirs if they can access talent and financing, and do not face barriers to enter new markets. Hence, policy settings across a range of areas need to be adjusted to ensure that the well-being benefits from technological progress materialise and are broadly shared. The work at the OECD on the Productivity-Inclusiveness Nexus [[C/MIN\(2016\)3](#)] signals that productive capacity is diminished if investment in people, cities and regions that have been left behind is neglected, and therefore, their contributions to the economy and society are also diminished. It calls attention to the fact that compensation by governments at a later stage is less effective than investing in these groups earlier, before their capacities deteriorate. This is particularly true for disadvantaged children.

25. **The policy focus should be on those towards the bottom of the income distribution, who have fewer opportunities to fulfil their productive potential.** Boosting productivity growth and reducing inequality requires action to ensure that everyone is given the chance to fulfil their productive potential. Beyond adequate social safety nets and labour market activation policies, this calls for effective education and skills policies and for policies targeted at improving health and job quality. A focus on the many that are largely deprived of such opportunities is essential and should include policies that reduce the barriers faced by disadvantaged groups in accessing digital technologies, innovation, finance, and entrepreneurship.

26. **Policy action is needed in a wide range of areas.** To be able to offer employment opportunities, contribute to skills development and provide the knowledge and technology that diffuse across the economy, firms need an environment that ensures a level playing-field for incumbents and challengers and that enables innovative companies to access finance, technology and skills. Creating such an environment will require policy action in areas including skills, product and labour market regulation, competition, financial regulation and innovation. Particular attention will have to be paid to the needs of SMEs, which represent a key under-exploited resource for addressing the productivity challenge.

27. **Productivity also has a territorial dimension.** Gaps in productivity between frontier and lagging regions have widened across the OECD area, although they stabilised after the crisis due to a growth slowdown in the most advanced regions. Indeed, over the period 1995-2013, the GDP per worker of the top OECD regions grew on average by 1.7% per year, while those at the bottom by 1.3%. This growth differential, when cumulated over the same period, generates an increase of around 63% in productivity gaps between the frontier and lagging regions. These disparities result in part from agglomeration forces that both increase productivity in regions that contain large cities and the income inequality among residents in the same metropolitan area.

28. **Many policies will need to be adapted to local circumstances,** calling for actions at the regional and urban level. For instance, local conditions can be crucial to the effectiveness of efforts to improve matching, training and/or subsidies to employers. Economy-wide policies to increase skill levels

must often undergo local adaptation to the characteristics of the local communities. In addition, regional and urban policies can do much to reduce or remove the barriers that result in worse outcomes for people and firms. Access to jobs is a key part of a system that promotes both productivity growth and inclusion. Well-conceived and implemented urban planning and transport can better match existing workers to jobs. Land-use planning and transport, along with housing and commercial development policies, are highly complementary and, if well-coordinated, can support both productivity and inclusiveness.

29. **Mechanisms to strengthen public governance and transparency – including a whole-of-government approach – and reinforce public institutions and avoid rent-seeking and corruption are essential for both productivity and inclusiveness.** A new approach to policy-making is needed to ensure stronger policy efficiency and alignment, with complementary policies designed in accordance with all relevant policy actors to ensure effective implementation.

**Questions for discussion:**

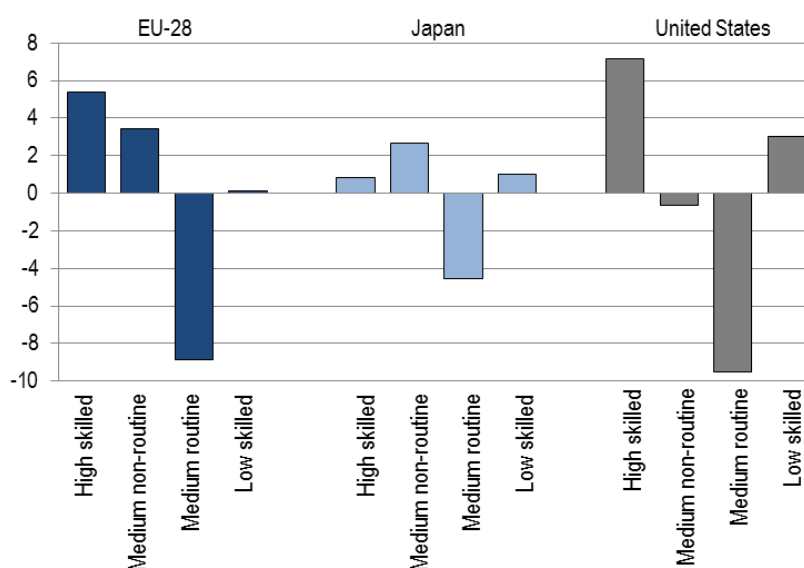
- Are there other channels where interlinkages between inequalities and productivity may arise in OECD and Partner economies? Which are the main policy responses to better take advantage of virtuous circle between productivity and inclusiveness?
- How to address the possible widening gaps across firms, regions and people in their adaptation to the evolution of technologies and the economy? How to ensure that all have the opportunity to contribute to increased productivity?
- How can the OECD help Members and Partners to develop effective strategies to ensure that all people and regions have the opportunity to contribute to the building of more productive economies?

**Second segment**

**Breakout group 1: Anticipating Trends – Education, Skills and Quality Jobs**

**Figure 4. Increased shares of high-skilled jobs and decreased shares of routine jobs**

Percentage point change in employment shares by occupation category, 2002-2014



Source: OECD calculations based on EU-LFS, Japanese Labour Force Survey and BLS Current Population Survey.

30. **There are concerns about the risk of large increases in “technological unemployment”.** Digitalisation has already led to the automation of many jobs involving mostly routine tasks, and new advances are extending this to tasks including reasoning, sensing and problem-solving. While this boosts productivity, it has led to fears about a large-scale displacement of workers.

31. **Such fears appear overblown.** Occupations as a whole are unlikely to be automated as there is great variability in the tasks involved across jobs within each occupation (Autor and Handel, 2013). Using information on the task content of jobs from the Survey of Adult Skills (PIAAC) yields an estimate of just 6-12% of jobs in OECD countries that have a high risk of being automated (Arntz, Gregory and Zierahn, *forthcoming*). Moreover, technological change will not just disrupt existing jobs but also generate new jobs. Nevertheless, even if only 6-12% of all current jobs are at risk of disappearing over the next 10 to 20 years as a result of the digital revolution, it still represents a policy challenge to facilitate a shift of workers of this magnitude from declining firms and sectors into expanding ones, beyond the usual job churn.

32. **Digitalisation has made possible new ways of organising work** that enable a more efficient matching between the demand and supply for employees, products and tasks. These arrangements also allow workers to manage their time independently, choose where they work, and achieve a better work-life balance. However, the ‘platform economy’ is largely based on non-standard work arrangements – which raises issues about job quality in terms of wages, labour rights and access to social protection.

33. **Improving job quality does not have to come at the cost of the number of jobs.** Between 2007 and 2013 most OECD countries suffered a decline in labour market security and earnings quality, and concerns about the future impact of digitalisation on job quality have been overshadowed by the more immediate impact of the economic crisis. But the good news is that there appears to be no major trade-off between the quality and quantity of jobs. In fact, countries that do relatively well with respect to job quality tend also to have relatively high employment rates.

34. **Digitalisation and globalisation have led to a polarisation in the skill demands of employers in many OECD countries** (Marcolin, Miroudot and Squicciarini, 2016). Employers increasingly need high-skilled workers to perform complex tasks but also workers to perform service-orientated tasks such as hospitality or caring duties that require more physical and inter-personal skills. There has been a hollowing out of the demand for workers with mid-level skills who increasingly compete with workers with fewer skills. This, together with changes in labour market institutions, has contributed to a trend rise in earnings inequality in many countries, with strong real gains in earnings for high-paid workers but smaller or even negative gains for lower-paid workers.

35. **Better adaptation policies are needed.** While technological change involves transition costs, it ultimately drives productivity and can lead to higher wages, better-quality jobs and greater inclusiveness – provided the right policies are put in place to help workers and firms adapt to these changes efficiently. These include better policies for guiding lifelong skills development, facilitating labour mobility, stimulating innovation and rapid diffusion of productivity gains, and providing adequate social protection.

36. **More and different skills will be needed.** One aspect of offsetting the adverse distributional consequences of skill-biased technological change is increasing the supply of skills. Particular emphasis should be put on equal access to high-quality basic education, in order to prevent the exclusion from the labour market of disadvantaged groups. The educational sector itself could also use technology better to support teaching, track progress and tailor programmes to better suit the learning capacity of children. Beyond this, policy could focus on reducing skill mismatches. The traditional approach of expanding education in the hope that it generates skills is of little use if people do not use the skills they have. Adult or life-long learning programmes should focus on skills complementing technical progress so as to facilitate adaption to rapid change in the nature of tasks associated with specific jobs and thereby encourage lifelong employability. For example, the teaching of entrepreneurship should be more widespread to foster business creation and experimentation with new ideas. Lifelong learning and

management skills are especially an issue for SMEs, which are less likely to have their staff participate in continuing formal vocational education and training than large firms. In addition to measures supporting formal training in SMEs, such as dual training schemes and in-work training subsidies, there is a role for the formal recognition of employee skills. More research is needed to understand the interaction of skills with economic development, and to analyse the over-skilling/under-skilling hypothesis. Skills development policies should ensure that workers are equipped not only with information-processing skills but also ICT skills and complementary socio-emotional skills such as teamwork, creativity and adaptability. Concerted policy action is needed to enhance socio-emotional skills, which are affected by childhood experiences both at home and school.

37. **The skills taught in the education and training systems must not only be well-aligned with the needs of employers today but also anticipate future requirements and lifelong employability.** This requires the provision of good information on current and emerging skill needs and incentives to use this information to adjust courses and investment decisions in training by individuals and firms. Rapid technological change and increasing longevity mean that training systems must help workers improve and adapt their skills throughout their working lives. In addition to the provision of information on skill needs, improving incentives to upskill is also necessary, particularly for low-skilled workers, who are the least likely to receive training. This needs to go hand-in-hand with better credentialing and skills recognition systems. It is also important that skills are put to effective use to prevent them from eroding.

38. **Active labour market programmes and social protection, adapted to the regional context, need to adapt to the changes in the organisation of work and facilitate labour mobility.** Through job search assistance, training, employment subsidies, entrepreneurship programmes or direct job creation, active labour market programmes can reduce the effects of displacement, limit skills loss among jobseekers and facilitate transitions to new jobs. While skill development can help ensure that workers are not trapped in low-paying and precarious jobs, benefit schemes will need to ensure that individuals are better off in work, even in low-paying jobs. This can be achieved through in-work benefits and, depending on the existing situation in the country, proper statutory minimum wage or tax-funded wage subsidies. Social protection will also need to be adapted to ensure adequate coverage of new forms of work. A dynamic social dialogue will be important to enable these changes in societies.

39. **Policy settings affect not only whether digitalisation enhances productivity and inclusive growth, but also the pace at which digitalisation occurs.** The adoption of technology depends, above all, on having a skilled labour force. Other institutional factors related to the adoption and diffusion of technological advances (e.g. low corruption levels and low regulatory barriers) are also required.

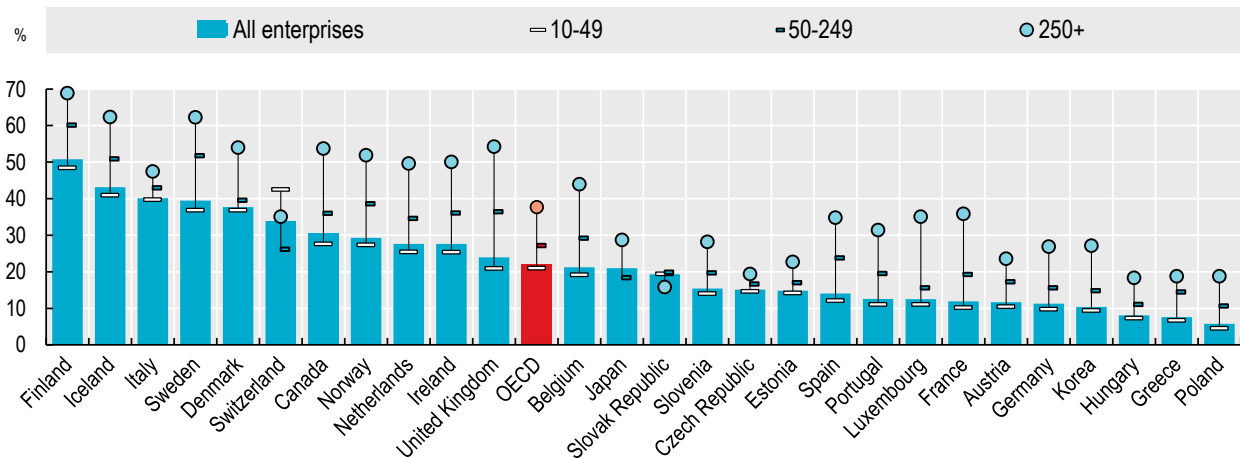
***Questions for discussion:***

- How can education and training systems better prepare people for employment and entrepreneurship in a rapidly changing world of work, and how can firms and workers be incentivised to ensure that the right skills are acquired? How should the needs of vulnerable groups be addressed in terms of education and skills?
- How can workers displaced by technological advances be reskilled and incentivised to be mobile?
- What are the best ways to address skill mismatches?
- What can policy-makers do to ensure that new jobs created (including in the ‘platform economy’) are quality jobs?

**Breakout group 2: Preparing for the Next Production Revolution (Innovation, Entrepreneurship and the Digital Economy)**

**Figure 5. Increasing use of cloud computing is one example of the growth of the digital economy**

Enterprises using cloud computing services as a percentage of enterprises in each employment size class, 2014



Source: OECD (2015), Digital Economy Outlook 2015, <http://dx.doi.org/10.1787/888933224863>.

40. **Digital technologies have become a key tool for individuals, businesses and governments.** Such technologies empower users in their daily lives and can help foster social inclusion, by facilitating communication and providing information to disadvantaged groups. In 2014, nearly 95% of enterprises in the OECD area had a broadband connection. However, only 21% of firms conducted e-sales, and only 22% were using cloud computing services. Overall, differences among countries in the use of various ICT technologies remain considerable, in part because of differences in the share of smaller firms.

41. **Efficient and reliable communication networks are the foundation on which the digital economy is based.** It is essential that governments promote investment and competition in the provision of high-speed networks and services, ensuring that key enablers are in place (e.g. sufficient spectrum, an independent regulator, pro-competitive regulatory systems).

42. **Investment in digital technologies must be accompanied by investment in knowledge-based capital (KBC)** such as R&D, intellectual property, brands, firm-specific skills, and organisational know-how. Estimates for a range of OECD economies and a number of emerging economies show that investment in KBC has risen rapidly during recent decades. Today, firms in many OECD countries invest more in KBC than in physical capital. Business investment in KBC must go hand-in-hand with sufficient and well-designed public investment in R&D, education and knowledge infrastructure (e.g. broadband networks). Many key technologies in use today, including the internet and genomics, have their roots in public research, illustrating how essential public investments are.

43. **Structural reform is important to get the most out of investments in KBC.** The impact of investment in KBC is enhanced when resources can flow easily to KBC-intensive firms, so that these can increase their market share (Andrews and Criscuolo, 2013). Well-functioning product, labour and capital markets and bankruptcy laws that do not overly penalise failure can raise the expected returns to investing in KBC. These benefits are realised partly through stronger competitive pressures and more efficient reallocation, which make it easier for successful firms to implement new ideas, as well as through reducing the costs of failure, encouraging firms to experiment with new business models and technologies. Public



institutions providing R&D and higher education also have an important role to play in fostering an enhancing KBC environment, including by ensuring effective collaboration with businesses.

44. **Policy frameworks do not always evolve quickly enough to favour KBC investment.** For example, the rapid expansion of digital technologies has created both new challenges and new opportunities for intellectual property rights (IPRs). Copyright, in particular, is being challenged by digital technologies, as it has become easier, faster and cheaper to create, duplicate and disseminate content. Empirical evidence is still limited, but it suggests that among the different types of IPRs, copyright is attracting the most investment, and at the highest growth rate. In addition, copyright-intensive sectors have had a higher job growth rate over the last 25 years than other IP- and non-IP-intensive sectors. And where the intellectual property regime is too weak, the empirical evidence suggests that foreign companies are less likely to invest and engage in local R&D and less willing to share technologies with local partners. Given the global nature of frontier firms, a global coherence of IPR regimes – e.g. via greater international harmonisation of national patents systems and patent enforcement – would also be useful.

45. **A new wave of technological change is transforming the nature of production,** ushering in “the Next Production Revolution” [see [C/MIN\(2016\)5](#)]. Many potentially disruptive technologies are on the horizon and some are already starting to have an impact, including: *data analytics* and big data; *robotics and artificial intelligence*, which will yield robots and systems that are more intelligent, autonomous and agile; *synthetic biology*; *3D printing* that is becoming cheaper and more sophisticated; the *internet of things*; or *nanotechnology* that could make materials stronger, lighter and more conductive. At the same time, new business models, such as those grounded in the collaborative economy, are emerging, opening up new opportunities for change in the way services are provided and products consumed.

46. **This transformation will have major economic implications.** New production technologies will be able to significantly boost productivity and support an inclusive growth process. Open trade and FDI regimes, which foster integration in GVCs, are key to reaping these gains. New technologies could also make production safer, as some of the most dangerous manufacturing tasks become automated. The environmental implications will be significant as well, heralding a transition to a more resource-efficient economy and opening new possibilities for a circular economy. Aligning the opportunities provided by technological innovation with the needs for more resource efficiency through well-designed policies in consultation with relevant stakeholders is therefore critical. For SMEs to take part in the Next Production Revolution, comprehensive support in the fields of investment, skills adaptation and the removal of regulatory barriers will be required.

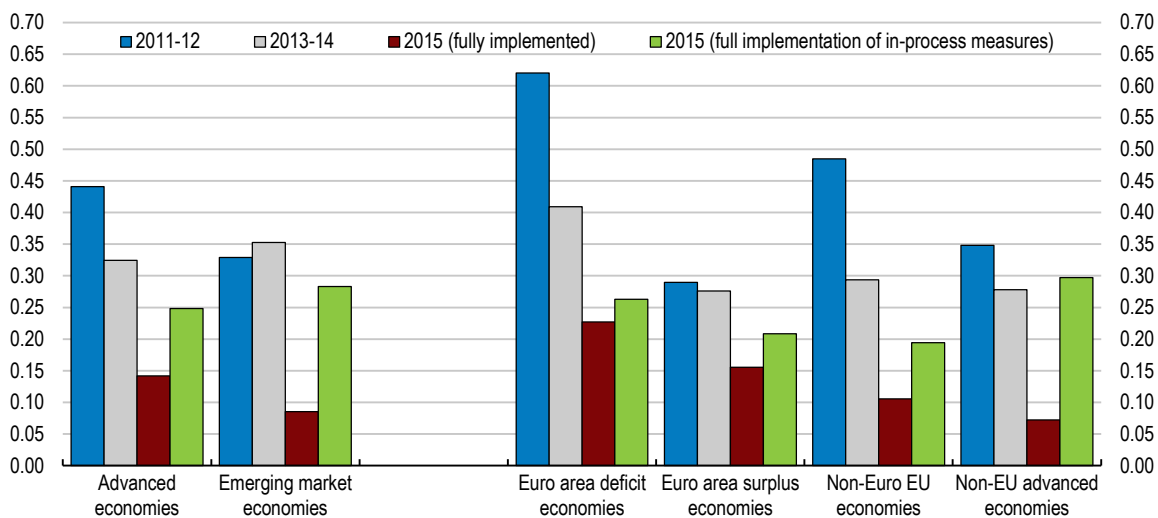
47. **There are policy challenges relating to the rapid spread of digital technologies.** In particular, governments need to strike the right balance between the social benefits of openness, private preferences for a less open system and the need to protect privacy. Security and trust are necessary for sustainable technological development, but must be compatible with an open and accessible internet, with high fixed and mobile bandwidth. The internet has become a platform for innovation, a place where creativity, the exchange of ideas, entrepreneurship and experimentation can flourish. Furthermore, an open internet enables the management of GVCs.

**Questions for discussion:**

- What can policy-makers do to foster the necessary investment in digital infrastructure and the related knowledge-based assets?
- What has been your experience in designing policies to reap the potential of fast-evolving new areas of economic activity (e.g. digital technologies and bio, circular, sharing and platform economies)? What scope is there for policies to that end at the international level?
- Which policies need to be adjusted to best allow technological diffusion across firms and across regions? How to support SMEs in the digital transformation?
- How can governments incentivise experimentation with new technologies and business models that encourage innovation and inclusive growth and facilitate business dynamism and the growth of young firms? How can they strengthen trust in innovation and new technologies, by reinforcing the bridge between scientists and citizens, ensuring privacy protection and emphasising the benefits of technological change for society?

**Breakout group 3: Enabling Environment (regulatory policy and competition, finance and corporate issues) for Dynamic and Inclusive Economies**

**Figure 6. The pace of reform has decelerated in 2015**  
The share of implemented *Going for Growth* recommendations<sup>1</sup>



<sup>1</sup> The chart illustrates the pace of reform in previous periods captured by the indicator of reform responsiveness (RRI) and the hypothetical level of responsiveness in 2015 based on two different scenarios. See the *Going for Growth* 2010 issue for an explanation on RRI, and the main text on how the hypothetical RRI is computed. Following Ollivaud and Schweltnus (2013), the euro area surplus economies are defined as the euro area members for which the current account surplus was on average larger than 1% of GDP over the period 2000-05 (Austria, Belgium, Germany, Finland, Luxembourg and the Netherlands). The euro area deficit economies include the remaining members of the OECD euro area (France, Estonia, Greece, Ireland, Italy, Portugal, the Slovak Republic, Slovenia and Spain).

Source: OECD 2016b.

48. **Many structural policy settings affect the dynamism and inclusiveness of economies.** Factors found to affect productivity include competition, policies relating to investment in knowledge-based capital, the ease of firms' access to finance, policies affecting skill mismatches and barriers to labour mobility, and the efficiency and integrity of the public sector. Many of these same factors also affect inclusiveness.

49. **Greater market openness boosts productivity** by encouraging a more efficient use of inputs and stimulating innovation and a faster diffusion of knowledge through FDI and trade in goods, including participation in GVCs.

- Barriers to trade and FDI remain high in some countries, mostly through foreign ownership restrictions, preferential treatment of domestic suppliers in public procurement, taxes and subsidies, and behind-the-border complications such as the non-recognition of foreign regulation.
- Competition law enforcement is national while the biggest businesses are global. More joined-up work on cross-border cases could make competition law more effective.
- Even in countries with strong competition laws, the market position of incumbents could be more easily challenged through easier entry of new suppliers. The OECD indicator of product market regulation suggests that there is still significant scope in most countries to reduce barriers to entry in specific network industries and professional services.
- Countries should ensure that their bankruptcy legislation facilitates the exit of weakly performing firms while not excessively penalising business failure.

50. **Access to finance also has an influence on firm entry and exit.** Small businesses face difficulties in accessing external financing, limiting their ability to invest and innovate. Greater transparency, including through strengthened information infrastructures for credit risk assessment, could help overcome the obstacles to access and uptake by young and small businesses. Also, some young firms have untapped resources in the form of intellectual property (IP), which, if properly valued and if markets for IP-based financing function well, can be used to attract financing. Promoting the use of patents as collateral requires greater transparency of IP ownership and transfer. Government agencies and development banks can also help via risk-sharing mechanisms.

51. **A number of factors on the corporate side are found to affect productivity growth.** An OECD analysis of listed companies worldwide (OECD 2016c) suggests that an equity-finance focus with stronger R&D and M&A has been the most effective strategy in the post-crisis period for lifting stock prices. Governments might therefore consider ways to foster equity funding, especially by an equal tax treatment of debt and equity. In emerging economies, the poor performance of equity prices in recent years suggests the need for structural reform, including better corporate governance of SOEs.

52. **Governments have a key role in fostering investment in KBC,** including by strengthening the collaboration between research centres/universities and industry as well as by increasing the level and efficiency of public support for private R&D.

- Effective public funding of research is crucial for innovation and compensating for the inherent underinvestment in research due to the partial appropriability of discoveries. But such support must be cost-effective, non-distorting and targeted to activities with positive spill-overs. The fruitful collaboration of public research institutions and universities with the private sector is also essential.

- IPR protection through patents and trademarks is important to encourage firms to invest in innovation, although excessive protection can actually hinder innovation by inhibiting technology diffusion. Improving the transparency and the efficiency of the patent system, as well as enhancing patent quality, should be policy priorities of OECD countries to promote further technological development. This may be achieved through improved co-operation among major patent offices by making the record of technological innovation maintained by patent offices more accessible and easily usable through information technologies and by enhancing centralised application processes, in particular under the PCT system, allowing for more efficient patenting and quicker access to the relevant information.

53. **The efficiency of resource allocation can be enhanced by measures to reduce barriers to labour mobility.** This includes reforms of housing market policies that raise transaction costs, restrict housing supply or reduce the fluidity of rental markets. Policies that reduce the stringency of employment protection legislation for open-ended contracts can also help to reduce the skills mismatch: OECD work suggests that a reduction from the maximum level observed in the OECD (in Germany) to the median level is roughly associated with a 3 percentage point reduction in skill mismatch.

54. **Governments can facilitate digital readiness that promotes inclusion.** First, it is essential that governments spur investment and competition in the provision of high-speed networks and digital services like “cloud” computing, ensuring that key digital resources such as spectrum and Internet Protocol addresses are amply available. Second, governments should promote access to digital technologies and services for all; individuals and firms need reliable access to open cost-efficient digital networks and services to benefit from digital opportunities. Third, governments should avoid unfairly disadvantaging digital newcomers. In periods of economic and social transformation, it is common for incumbents to lobby for rules that protect them from disruption. In addition, given that these markets tend to have network economies and low marginal costs, thereby favouring “winner-take-all” contests, policy-makers need to exercise care to avoid premature lock-in or dominance.

55. **Policies to promote investment in KBC should avoid favouring incumbents.** Apart from their possible link to a widening dispersion of wages, the adoption of ICT and investment in KBC can widen income inequality through the channel of capital income. Innovation-based productivity increases are more likely to be associated with higher and more concentrated returns on capital, the ownership of which is skewed towards higher-income households. The impact on inequality can be particularly significant if the accumulation of KBC takes place in a market and policy environment that enables firms benefiting from winner-takes-all dynamics and market concentration to exploit their power to lock-in their dominance and protect their rents. There is also some evidence that while innovation may raise inequality it can increase social mobility, provided the position of incumbents can be challenged by new entrants (Aghion et al., 2015). Thus, for example, R&D tax incentives should have provisions for immediate refunds for R&D spending or for deducting current losses against future profits, to enable young innovative firms experiencing losses in the early phase of a project to benefit from such incentives.

56. **Although it is often poorly understood and difficult to measure, public sector productivity is key to overall productivity.** The goods and services produced by the government, such as education and health care, represent 21% of GDP across OECD countries. Also, public employment varies from around 8% of the labour force in Japan to 35% in Denmark, making the efficiency of government operations and its use of human resources important dimensions of overall productivity. Innovations led by user-centred collaborative approaches in service delivery, improvements in efficiency and effectiveness through modern budgeting and procurement practices, ex-post spending reviews and ex-ante impact assessments, and skills-building in the civil service, are, with digitalisation and the leveraging of the potential of big data, crucial for raising public sector productivity.

57. To better address the spatial dimensions of productivity growth and inclusiveness, **regional development and structural reforms should go hand-in-hand**. Doing so requires a better integration of policies at national and regional levels to maximise synergies across policy sectors, levels of government and across sub-national jurisdictions. For example, improving metropolitan governance offers a double dividend of improving productivity and inclusion. As highlighted in the Recommendation of the Council on Effective Public Investment across Levels of Government [[C\(2014\)32](#)], there are many co-ordination, capacity and framework conditions that can reinforce better governance at regional and local level. Such actions can yield a ‘governance premium’ that improves the productivity of public action, which in turn can translate into better outcomes for people.

58. **More effective policies to avoid rent-seeking and corruption are essential to both productivity and inclusiveness**. Corruption and rent-seeking undermine competition and the allocation of resources, and increase inequalities across firms, in addition to undermining trust in institutions. The growing interconnectedness of the world economies and the increased sophistication of financial and business processes are both a challenge and an opportunity in the fight against corruption, and imply that there is a need to step up the efforts of the international community. In particular, it is crucial to better integrate and widen the anti-corruption agenda and better link it to areas such as tax evasion, bid rigging, corporate governance, and economic crime. New approaches need to be developed to further engage emerging economies, invest heavily in capacity-building for implementation and enforcement, involve the business sector and civil society, and address areas where corruption may occur systematically or may help finance illicit activities.

***Questions for discussion:***

- How can governments ensure a smooth transition from declining firms and business models to growing and new innovative firms?
- How should governments foster investment in KBC and the growth of young innovative firms?
- How should governments improve the access to finance of young companies?
- How can governments best embark on regulatory improvement and administrative simplification to enhance productivity while also improving their services through digitalisation?

## ITEM 6: ALL ON BOARD FOR 2030: A UNIVERSAL AGENDA FOR INCLUSIVE AND SUSTAINABLE DEVELOPMENT

59. **Over the last twelve months, the international community has forged an ambitious vision for sustainable development.** The *2030 Agenda for Sustainable Development* – and its 17 Sustainable Development Goals (SDGs) – are cause for celebration. The SDGs were the outcome of a remarkable global consultation effort and reflect a broad-based vision on inclusive, sustainable development. The agreement reached at COP21 on an international response to climate change forms a central part of this agenda.

60. **It is now crucial that the momentum built in 2015 result in tangible actions.** Many of the 17 goals and 169 targets agreed in 2015 will remain aspirational unless they are translated into meaningful actions at the regional, national and sub-national levels. All countries – Members and non-Members alike – will need to examine where they currently stand in relation to the Goals, targets and indicators, and to prioritise national responses, while remaining mindful of the integrated, indivisible nature of the agenda. The OECD can build upon its expertise in relevant policy fields to support countries in defining their Baseline and reflect on national response and priorities.

61. **An integrated agenda calls for integrated thinking – and implementation.** The MDGs underpinned record increases in Official Development Assistance (ODA), and in many developing countries provided a useful backdrop for elaborating strategies for poverty reduction and economic development. Yet for most OECD governments, the MDG agenda was largely addressed through the work of foreign ministries and development agencies. The SDG agenda better reflects today's complex world, and implementing it will require our governments (along with other public and private stakeholders) to think how to adapt to new challenges – and then act – across intellectual and institutional silos. The OECD will build on its existing fora and tools, building on its core strengths and expertise, to support governments as they engage in a whole-of-government and whole-of-society approach to SDG implementation. Existing and emerging OECD tools such as Economic Surveys, Economic Assessments, Environmental Policy Reviews, Multi-dimensional Country Reviews, and the Policy Coherence for Sustainable Development Toolkit can provide useful entry points.

62. **Sound policies and “smart” approaches to financing development must go hand-in-hand.** The quality and quantity of financing for development remain crucial. Last year's *Addis Ababa Agenda for Action* sets out over 100 actions and commitments, with an emphasis on domestic resource mobilisation through improved tax policy and administration, mobilising private investment, and international efforts to tackle tax avoidance and evasion. It also recognises the continued importance of ODA, particularly for the countries most in need, and takes into account the specific challenges of emerging economies. More needs to be done to harness private finance in effective ways, including foreign direct investment (FDI), remittances and blended finance. OECD initiatives such as the Policy Framework for Investment and Responsible Business Conduct provide tangible tools in this regard. Ongoing OECD work to assess ways in which public and private funding interact can also make a useful contribution. For example, the Total Official Support for Sustainable Development measurement framework will provide valuable new information on development finance, complementing ODA statistics.

63. **Meeting intergenerational responsibilities will require continued efforts to promote green growth and combat climate change.** Without shifting to a more sustainable growth path, the impacts on natural resources and the ecosystem services on which human well-being depends will be colossal. Economic growth and environmental objectives need to be aligned across ministries, for example through cross-portfolio co-ordination and removal of regulatory barriers, while transforming public policies that cut across sectors, such as inefficient fossil fuel subsidies. The social implications of green growth need to be addressed jointly with green growth objectives. The 2030 Agenda also clearly refers to helping countries fight climate change, an agenda to which the OECD has made major contributions in recent years and will continue to do by providing, jointly with other international organisations, advice on how to support the effective implementation of the Paris Agreement and achieve climate financing goals.

64. **The 2030 Agenda marks a break with the artificial “north-south” dichotomy.** A universal agenda means all of us. Rising income inequality and youth unemployment are challenges faced by many OECD countries, for example, while advancing gender equality remains a challenge in all countries. The distinction between implementing the SDGs “at home” and “abroad” is artificial. Domestic policy choices often have implications for the well-being of other countries, and global public goods and “bads” need to be addressed in national policy processes. For example, cutting inefficient fossil fuel subsidies has potentially positive impacts on the global environment and health, as well as freeing up resources for such things as investing in renewables and spending on targeted anti-poverty programmes, resulting in a “win-win” outcome. Countries’ efforts to prosecute in cases of bribery of foreign officials impact directly on the ability of other countries to mobilise and use public funds effectively. The OECD already holds a wealth of evidence on these issues and many others, but more could be done to analyse this evidence in areas where the OECD’s expertise could be used to benchmark countries’ efforts.

65. **A universal agenda must not result in a loss of focus on the needs of the poorest and most vulnerable people, and on the countries most in need.** Some 800 million people worldwide continue to live in extreme poverty. The Least Developed Countries (LDCs), in particular sub-Saharan African countries, landlocked developing countries and small island developing states deserve special attention, as do countries in situations of conflict and fragility. Aid figures suggest that LDCs are receiving less aid in real terms than before (USD 41 billion in 2014, compared with USD 46 billion in 2010, implying a decline from 34.1% of total ODA to 30.5%). OECD DAC countries must now implement their commitment to reverse this trend, to maintain focus on the countries most in need, and to further improve aid quality to bring about sustainable inclusive growth and poverty reduction.

66. **The installed capacity of the OECD must be harnessed to support the achievement of the 2030 Agenda.** Following last year’s MCM, during which Ministers welcomed the preparation of a strategic response to guide OECD support of the SDGs, the *OECD Action Plan on the Sustainable Development Goals* [C/MIN(2016)6] was prepared following a broad and inclusive reflection process, and provides a framework for using OECD assets most effectively to meet the demands of the 2030 Agenda. It builds on the OECD’s Strategy on Development (2012), recognising the strengths of the OECD as a multidisciplinary policy hub and identifying actions to further adapt OECD tools to the SDG agenda, to better leverage OECD data in support of the SDGs, and to accompany countries as they tackle the SDGs in a comprehensive, whole-of-government manner [see also [C/MIN\(2016\)6/ADD1](#)].

67. **The international system works best when it works together.** The OECD has a strong track record of collaboration with the United Nations system and other international organisations. The breadth and magnitude of the challenges presented by the SDGs should encourage further collaboration among international organisations as they support governments in their efforts, keeping in mind that countries have the primary responsibility for implementing the 2030 Agenda. The OECD is actively contributing to the UN-led global follow-up and review process for the SDGs, and several key OECD data series, including PISA, Official Development Assistance, Aid for Trade and Producer Support Estimates, may be

part of the global indicator framework. The OECD is also considering how to leverage its status as a permanent observer of both the UN General Assembly and the Economic and Social Council (ECOSOC) to contribute to evolving global policy debates.

68. Monitoring and review is an essential part of the 2030 Agenda. The newly established High Level Political Forum will serve as an important platform for reviewing the implementation of the Agenda and related achievements. As countries prepare for voluntary country reporting, the OECD can support their efforts with the OECD experience of peer reviews and its indicator-based policy review work.

***Questions for discussion:***

- How can countries take advantage of the installed capacity at the OECD, in particular its fora and tools, to support the achievement of the SDGs and the monitoring of progress?
- How can the OECD strengthen its contributions in this field, both by supporting Members and working with non-Member economies?
- How can the OECD enhance its co-operation with the UN system, to create synergies and mutual support in this global agenda?



## **ITEM 7: STRENGTHENING THE CONTRIBUTION OF TRADE AND CROSS-BORDER INVESTMENT TO PRODUCTIVITY AND INCLUSIVENESS**

69. **Trade and cross-border investment can play an important role in enhancing productivity and creating not only new jobs, but better jobs**, by shifting capital and labour into more internationally competitive activities, integrating firms in global value chains and transferring technology, knowledge and expertise. Those firms that ride the wave of continuing transition toward higher productivity in tradable activities typically pay higher wages to their workers, and these workers tend to have greater skills and be in less routine occupations. With the right flanking measures, the positive effect of trade and cross-border investment on income can have important implications for reduced child labour, workplace injuries, and informality, while offering new opportunities for female entrepreneurs.

70. **The growth rate of global trade has been worryingly low over the past few years**, and fell further in 2015. Robust trade and global growth go hand in hand. Trade strengthens competition, keeping domestic firms fit and prices low, and expands variety for consumers and firms. Voluntary technology transfer through trade contributes to the diffusion of innovation and thereby to productivity growth. World trade has been a bellwether for global output, and the growth rates of global trade observed of late have, in the past, been associated with cyclical downturns in the world economy. Healthier global growth is unlikely without a revival of trade growth, and one means to that end is stepped-up efforts to remove trade barriers. Increases in the stock of protectionist measures has been a factor undermining the positive effect of trade and cross-border investment on productivity and inclusive growth. As of October 2015 G20 countries had introduced 1,441 new restrictive measures in the seven years since the onset of the global crisis, and only 354 of those had been removed (OECD-WTO-UNCTAD 2015). The OECD's METRO model indicates that these measures may have a negative impact on GDP of as much as 0.5% in some countries.

71. **The multilateral trading system is an essential driver of the global trade liberalisation and rulemaking**. The agreements on trade facilitation reached at the 9<sup>th</sup> WTO Ministerial Conference in 2013 and on the elimination of export subsidies in agriculture reached at the 10<sup>th</sup> WTO Ministerial in Nairobi in 2015 were important. Although there was no consensus among WTO members to continue the Doha Round in its current form, members did express a commitment to advance negotiations on the remaining Doha issues. Meanwhile, a growing number of WTO members are pursuing regional and plurilateral approaches.

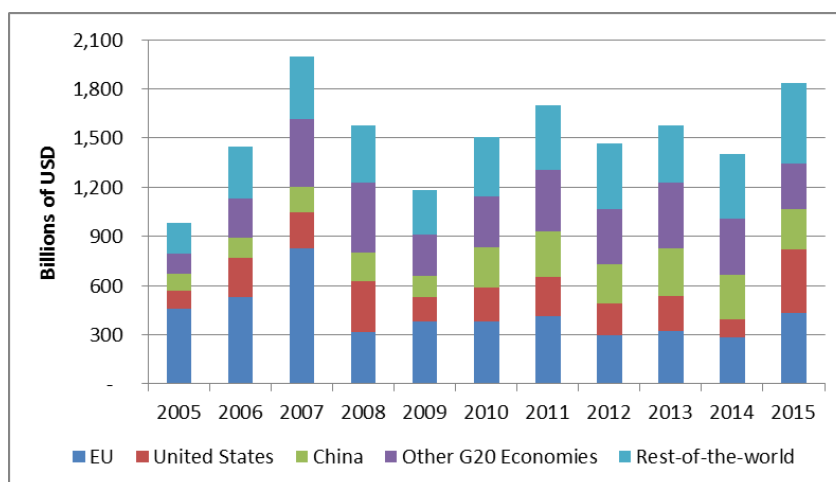
72. **'Business as usual' post-Nairobi is not an option; new approaches to achieve multilateral market opening and rulemaking need to be explored**. The core interest is to allow 'ready and willing' countries to define and to advance a negotiating agenda under the auspices of the WTO, without being restrained by members that are satisfied with the status quo, and keeping the option open to all WTO members to join any negotiation or concluded agreement if and when they are ready to meet its terms. Absent such an approach, the trend towards a myriad of individual country, region, and sector negotiations is likely to accelerate over time. More efforts are needed to integrate new and important issues that are currently subject to trade rulemaking in regional trade agreements (RTAs) into the post-Nairobi multilateral agenda. This would help to ensure that RTAs make a positive contribution to further multilateral market opening.

73. **National efforts can also significantly stimulate trade and spur economic growth**. For example, well-functioning services including transport, communications and finance are needed to ensure the co-ordination of value chains. OECD analysis based on the Services Trade Restrictiveness Index shows that all countries have much to gain from opening services markets. Inefficient border procedures also

impose unnecessary costs on traders. The OECD estimates that simply ratifying and implementing the Trade Facilitation Agreement would reduce trade costs for business by up to 17.5% in some countries.

74. **Global FDI flows stagnated following the global financial crisis and, despite a pickup in 2015, still remain about one tenth below their pre-crisis peak.** Part of the increase in 2015 was due to corporate and financial restructuring, such as corporate inversions rather than to new investments. The sluggish recovery of global FDI flows is largely due to persistent weak growth in the EU, and to a much lesser extent the United States, following the financial crisis. In contrast, FDI flows into China are higher than before the crisis.

**Figure 8. Global FDI inflows by selected country and region, 2005-2015**



Source: OECD.stat.

75. **The OECD is developing an approach that integrates FDI flows into the Trade in Value Added (TiVA) framework, shedding new light on the trade-investment nexus.** FDI by multinational enterprises (MNEs) is a key element of GVCs and hence a major driver of trade. According to a joint OECD-WTO-UNCTAD report, the production networks of multinational enterprises account for about 80% of global trade. The joint OECD-WTO work on TiVA has transformed our understanding of trade in a world of GVCs, but it is silent on the role of FDI. The new analysis shows where income is generated along a GVC, and who benefits, thus allowing the estimation of upstream and downstream spill-overs generated by FDI. For example, for OECD countries where data are available, we can explore the share of direct domestic value added in exports produced by domestic companies and by foreign-owned companies. The portion produced by foreign-owned companies can then be further broken down into labour compensation – which is most likely to 'stick' in the host economy – and operating surplus – which may be repatriated to parent companies abroad.

76. **The contribution of international investment to productivity, innovation, and technology transfers increasingly depends on open, transparent, and rules-based investment policies.** When investment frameworks have these qualities, firms can locate their productive activities in such countries, fine-slicing their value chains and locating specific functions where these can be carried out most efficiently. Conversely, policies that distort markets can lead to increased costs of inputs, suboptimal levels of international investment and lower productivity across the value chains.

77. **The protection of intellectual property rights is an important incentive to invest in R&D,** fostering the creation of new products and processes. It also gives IPR-holders the confidence to share new

technologies (e.g. through joint ventures and licensing agreements), diffusing innovations within and across economies. Empirical evidence suggests that where rights are strong, foreign companies are not only more likely to invest but are also more willing to share technologies with local partners and more likely to engage in local R&D. However, it is imperative to get the balance between protection and diffusion right, and this concerns not only traditional IPR systems, but also those related to the knowledge-based economy such as investments in human capital in form of education and training (Cavazos Cepeda, Lippoldt and Senft, 2010). The correct balance is likely to vary across countries.

78. **Investment policies can support job quality and inclusiveness by clearly communicating expectations concerning the behaviour of firms.** In the context of international investment in GVCs, investment policies can also help firms to promote a culture of responsible business conduct (RBC) that transcends borders. In developing countries, up to three-quarters of non-agricultural employment is informal, with workers facing high risks of low pay and unsafe conditions. Constructive engagement with the informal sector requires an approach that promotes formalisation alongside skills upgrading, promoting access to finance and social services, and social dialogue. The OECD's MNE Guidelines, created 40 years ago and repeatedly updated and upgraded, most recently in 2011, continue to provide the most comprehensive global standard on RBC. The OECD's sectoral work on due diligence is helping businesses operationalise best practices in RBC to ensure that supply-chain management supports transparency and inclusivity. It also helps promote labour market formalisation. Building on the path-breaking work in the extractive and agriculture sectors, these efforts on due diligence are being extended to the financial and clothing sectors, and work has begun on an over-arching, cross-sectoral framework.

79. **Possible trade-offs between productivity and other social objectives have been at the heart of the recent debate on investment treaties.** Reflecting this, and in response to the 2015 MCM mandate, the OECD has stepped up its analytical work and its multi-stakeholder dialogue through the *Freedom of Investment (FOI) Roundtable*. Analytical work has focused on policy issues such as the costs and benefits of investment treaties and the optimal balance between investor protection and governments' right to regulate. This work informed the first two annual *Conferences on Investment Treaties*, held in March 2015 and 2016, which brought together leading lights from business, civil society, law, academia and international organisations. In addition, a new *Dialogue on Investment Treaties* was established through the FOI Roundtable as a platform for treaty negotiators to exchange experiences and best practices. The OECD is also lending its support to the G20 Chinese Presidency in this area. This year the G20 created a Trade and Investment Working Group, which addresses issues related to investment principles.

80. **The OECD Code of Liberalisation of Capital Movements also plays a role in fostering an open rules-based framework for capital movements.** The Code is the only binding multilateral agreement on cross-border capital flows. It is adhered to by all OECD countries, and was amended in 2012 to allow for adherence by non-Members. Work has started at the OECD on the review of the Code; one aim of the review is to increase engagement with non-Members. Key areas of work will include examination of the treatment of capital flow management measures used with a declared prudential intent and consideration of improvements in the governance of the instrument.

***Questions for discussion:***

- Following the WTO MC10 in Nairobi, what are possible pathways to resolve the outstanding issues and ‘new’ issues of most concern to businesses? How can the OECD help shape a 21<sup>st</sup> century trade agenda?
- How can the trade rulemaking in regional trade negotiations be brought to the multilateral level?
- What information, tools, and statistics do governments need to promote the economic and social benefits of trade and investment?
- How can the OECD do more to strengthen the contribution of trade and investment to promote growth, quality jobs and inclusiveness? How can Responsible Business Conduct be further promoted?

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