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KEY ISSUES PAPER

OECD

BETTER POLICIES FOR BETTER LIVES

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.

EXECUTIVE SUMMARY

1. Multilateral cooperation has grown rapidly in the past 70 years and has achieved many outstanding successes, including the eradication of serious diseases, the reversal of the erosion of the ozone layer and the liberalisation of world trade. In recent years, however, dissatisfaction has been expressed in various quarters about different aspects about how multilateralism is working. Among the main complaints have been that countries have been too slow to create new multilateral responses to address emerging issues, that multilateralism has not been effective in ensuring that all parties play by the rules and that different parties' voice in multilateral processes are not consistent with their importance in the global system. In particular, current multilateral settings have also fallen short of integrating large emerging economies that have been gaining importance and influence in the global economy. Multilateral processes have also been seen as ineffective to ensure that the benefits of globalisation are widely shared.

2. A reshaped multilateralism therefore needs to be one in which the right parties are involved, with the right representation, looking at the right issues and with the right mechanisms for implementation. This is an evolving process that requires current institutional settings to change and deliver better.

3. With increased interconnectedness across countries, multilateralism is needed more than ever. The range of global policy challenges that cannot be handled by any one country alone and that require multilateral cooperation has expanded considerably, while international dialogue and the sharing of evidence and practices is increasingly useful to address more common domestic policy challenges.

4. There is plenty of evidence that this is widely understood. Broad international cooperation has been forthcoming in a number of important areas, such as with the Paris Agreement, the 2030 Agenda for Sustainable Development, and the reforms of the international tax system. The OECD has both led on some initiatives and nurtured many other multilateral processes on cutting-edge issues and carried out state-of-the-art analytical work underpinning international cooperation, for example on trade (GVCs, TIVA, STRI), well-being or inclusive growth.

5. But much more needs to be done, and the OECD's flexible types of contributions to multilateralism can be particularly effective to address today's challenges, in particular related to making sure global flows and domestic policies are shaped in a way that ensures a level playing field as well as inclusive and sustainable growth, while improving the management of global goods (development and the protection of the environment) and addressing 'global bads' such as malicious cyber activity, illicit trade, or corruption.

Looking at the right issues

Multilateralism to better shape global flows and promote an open, level and well-governed playing field

6. The available evidence suggests that cross-border economic openness is associated with stronger productivity growth and innovation as well as better working conditions. But while openness is yet to be fully achieved in a number of sectors, the way in which globalisation is proceeding is meeting a number of additional challenges, including: an insufficiently transparent and efficient international tax system; markets distorted by government support to internationally-active state-owned enterprises in some countries, rising corporate concentration and mark-ups in some sectors; more interventionist approaches towards international investments in some countries, while some others are facing difficulties removing barriers to foreign companies; complexity of corporate structures that cut across jurisdictions. Digital technology also raises new challenges for competition policy, especially in its cross-border dimensions.

7. Efforts are ongoing in multilateral fora to address all these challenges, and the OECD is playing its part, for example via the OECD/G20 Inclusive Framework on BEPS and the Global Forum on Transparency and Exchange of Information for Tax Purposes, or the OECD's facilitation of the Global Forum on Steel Excess Capacity (GFSEC). More work should be carried out to ensure the full implementation of the agreed measures or targets, and to continue addressing remaining or new issues such as in the fields of digital competition, digital taxation, state-owned enterprises, or overcapacity in other various sectors.

8. A world ever more connected by the Internet is also one in which cross-border criminal activity, such as malicious cyber activity, corruption and illicit trade, is easier to engage in and harder to detect. These threats require further international cooperation.

9. The OECD is facilitating further international cooperation to address the dark side of digitalisation, notably through the Oslo dialogue on fighting tax crimes and other financial crimes, the OECD Anti-Bribery Convention, the OECD Task Force on Countering Illicit Trade and the recently created Global Forum on Digital Security for Prosperity. But much more needs to be done.

10. Finally, international companies also need to ensure and demonstrate that global competition can improve the outcomes for all. Expectations that corporations respect human rights and manage environmental and social risks throughout their operations and supply chains, even in countries with weak governance, has increased with the development and broad recognition of international standards such as the OECD Guidelines for Multinational Enterprises. In addition, these guidelines embed the expectation that enterprises carry out due diligence to identify, prevent and mitigate real and potential adverse impacts across their operations and business relationships and to account for how those impacts are addressed.

11. The OECD has been a leader in developing due diligence guidance for responsible business conduct, including in specific fields such as minerals, extractives, agriculture, garment and footwear, and finance. A draft Recommendation on Due Diligence Guidance for Responsible Business Conduct, is expected to help promote the use and implementation of the new guidance for all sectors. Further work is needed to strengthen the National Contact Points as the grievance mechanism of the Guidelines and

to extend adherence to, and use of, the various instruments among a larger group of countries and to a large variety of stakeholders.

Multilateralism for inclusive growth

12. As discussed at last year's Ministerial Council Meeting, a perceived failing of the existing multilateral system is that economic globalisation has proceeded in a way that has not delivered benefits equitably.

13. One objective for an improved multilateralism is therefore for economic growth to be both stronger and more inclusive. To a large extent, delivering faster and more inclusive growth is a matter of getting structural reforms and domestic policy settings right, but even here, multilateralism has an increasingly important role to play, by promoting convergence through peer-learning in multilateral settings and through common standards.[1] In this way, and in addition to traditional areas of cooperation and exchanges on structural reforms, there are additional contributions to be made by multilateralism to ensure the right policies are designed and implemented to support each of the following pillars of inclusive growth: ensuring inclusive outcomes from growth (notably via the tax and benefit system); fostering inclusive markets (through policies on labour markets, housing, quality infrastructure, small and medium-sized enterprises, regional development and the integration of migrants); delivering equal opportunities for future prosperity (via policies on education, child well-being, global competencies, gender equality and health); and governance.

14. The OECD is contributing to the process of achieving stronger and more inclusive economic growth via the development of a Framework of Policy Action on Inclusive Growth. The OECD has long worked on many of the individual sectoral policy issues, but more needs to be done in many areas that have received less or insufficient attention in international discussions such as housing, children and quality infrastructure.

Multilateralism to improve the management of 'global goods'

15. Multilateralism has long been an instrument to address environmental challenges, such as those arising from climate change, biodiversity loss and unsustainable natural resource management. This is, however, another area where outcomes are often lagging well behind shared objectives, suggesting the need for a reinvigorated multilateralism.

16. In the area of environmental policies, the OECD will continue to support governments in their implementation of the nationally-determined targets in line with the Paris Agreement's goals, in the measurement of distance to the target for Members and Partners and to navigate the transition to a low-carbon economy. The OECD's work on Green Finance and Investment as well as green budgeting, and on the effective integration of social and distributional aspects of climate policy are of particular relevance. The OECD will also strengthen its focus on biodiversity, including the blue economy, and on plastics.

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[1] The use of the term "standards" refers to its meaning within the OECD framework and not to any definition, reference or interpretation which may be used in other international organisations, including the WTO.

17. Another major challenge for multilateralism is for it to play its full role in addressing new global policy issues, notably those arising from the digitalisation of our economies. The OECD's Going Digital project, involving a large number of Directorates and Committees, will conclude at the end of this year, but follow-up work on the issues identified will continue. Additional work on issues such as the sharing and use of data, blockchain technology, or artificial intelligence will be also crucial to reap the benefits of digitalisation and address emerging challenges.

18. The international community has already embraced the ambitious 2030 Agenda for achieving the Sustainable Development Goals (SDGs), which itself was a positive example of multilateral action. Multilateralism will have an even more important role to play in achieving the SDGs, however, including in mobilising financing and helping to measure progress.

19. The OECD is already doing much to support multilateralism's contributions to achieving the 2030 Agenda, notably as regards the measurement of the achievements and the financing of the Agenda in developing economies, and this will continue. Domestic resource mobilisation and taxation have a key role to play and the OECD is helping with the implementation of Automatic Exchange of Information (AEOI) and technical assistance provided by the joint OECD/UNDP Tax Inspectors Without Borders Initiative. Achieving the SDGs will also require a better coordinated approach to financing for development, which the OECD is promoting notably through the Blended Finance Principles and the new measure of Total Official Support for Sustainable Development.

Ensuring the Involvement of the Right Parties and the Right Mechanisms of Implementation at the OECD

20. The OECD has much to offer to help multilateralism evolve in the way that is needed. Over the years, the OECD has developed a variable geometry approach to multilateralism with three characteristics:

- Through its global relations policy and its engagement in global fora like the G20, the OECD, with its Members, has shown its capacity to bring together different sets of countries that matter for a specific discussion or issue. In recent years, this has been particularly noteworthy for example in PISA, the Inclusive Framework of BEPS, or the Anti-Bribery Convention.
- Thanks to its broad cross-disciplinary mandate, the OECD is responding with flexibility to complex, cross-sectoral and emerging issues affecting its Members and Partners. This has recently been the case on the digital economy, as well as on inclusive growth or well-being.
- The OECD is able to make its contributions to multilateralism in a number of different ways, including: data collection and analysis; supporting Members in international agenda setting; exchanges on best practices and experiences; and soft standard-setting or legally binding instruments with a peer pressure mechanism.

Emerging economies, the OECD, and inclusive multilateralism

21. Multilateralism needs to be sufficiently responsive to shifts in the economic centre of gravity in the world, including the increasing weight of new major economic players. This will help ensure the implementation of common standards across all relevant players and thus promote a level playing field.

22. The counterpart to the rise in the share of emerging economies in global GDP is a decline in the share accounted for by OECD Members, from 60% in 2000 to a projected 44% by 2032. The OECD has reinforced its engagement and cooperation with its five Key Partners: Brazil, China, India, Indonesia and South Africa. The new enlargement process will be key to the dissemination of its standards and the establishment of a more level playing field. The Organisation is also looking to further strengthen its Regional Programmes, in close cooperation with regional partners.

23. In addition, a consequence of other changes in the world economy is that multilateralism should increasingly not only mean cooperation between national governments. Multilateralism needs to embrace a growing number of actors, including the private sector and civil society, increasingly representing cross-national interests and developing their soft regulatory power and influence across borders, as well as more varied modes of engagement in international co-operation. This extended approach to multilateralism complements rather than replaces formal discussions, rules and standards among states.

24. Through its formalised engagement with unions and business through TUAC and BIAC, and a reinforced stakeholders' interface, the OECD is committed to strengthening itself and its inclusivity by amplifying the voice of civil society in its work.

Supporting a more flexible and effective multilateralism

25. The OECD has established itself as a trusted partner to key international fora, including the G20, G7, and regional governance fora, which have all emerged as flexible approaches to multilateralism. The OECD has supported these groups by informing agendas, facilitating discussions, promoting policy coherence, helping to bring successful tools and initiatives to a global scale and supporting effective implementation. Major recent successes include the BEPS Inclusive Framework, the GFSEC or the Gender Target. The OECD has also contributed to informing and accompanying major United Nations (UN) agendas over the decades. The OECD needs to continue to step up its support to these various fora.

26. A reshaped multilateralism must strengthen the coherence and effectiveness of international cooperation rules. The OECD is facilitating a platform for sharing experiences among international organisations on effective international rule-making, so as to ensure coordination and collaboration in this area.

27. Having established more than 400 legal instruments since its creation, the OECD will also redouble its efforts to ensure the continued relevance and impact of its standards, including through the Organisation-wide standard-setting review launched in 2016. In this context, the Organisation will continue to support Members in their discussions on the need for further standards on emerging issues, in areas such as state-owned enterprises, competition, corruption, illicit trade or cybersecurity. More efforts should be carried out to strengthen the implementation of standards.

Strengthening the basis: international statistics

28. International statistics are one of the building blocks of multilateral decision making, and are being challenged by the need to better understand cross-country interconnectedness. The OECD is in the process of stepping up its work in this area, notably in the assessment of transboundary footprints, international financial interdependence, the economic activities of MNEs, and 'data on data'. The OECD is also

at the forefront of efforts to better measure the ultimate objective of all economic policy, i.e. people's well-being. Potential benefits from developing such indicators include highlighting objectives that matter to people but are often missed in policy; supporting the alignment of policies across government; promoting a more comprehensive evaluation of impacts of policies on lives; and fostering compatibility between sustainability and improving well-being today.

1. A more connected world

1.1. Growing interconnectivity calls for a reshaping of multilateralism

29. Multilateralism refers to any process or institution that is neither unilateral nor bilateral.[2] Across a wide range of issues, economic and non-economic, it can offer substantial advantages. Unilateralism can provoke adverse responses that result in all parties being worse off, while negotiating bilateral agreements with all countries on all issues is time-consuming and resource-intensive, and can result in an excessively complicated overall system.

30. Multilateralism blossomed after the Second World War, notably with the creation of the UN system. It has proved an effective way of maintaining peace and promoting global prosperity. Its achievements include for example the eradication of smallpox via an immunisation campaign led by the World Health Organisation, the reversal, via the Montreal Protocol, of damage to the ozone layer, and the progressive liberalisation of global trade via the World Trade Organisation and its pre-cursor, the General Agreement on Tariffs and Trade. In the context of the OECD, multilateral co-operation has helped establish ground rules and standards[3] to achieve a more level playing field, and through analysis, peer learning and the identification of best practices, it has helped improve domestic policies. In an increasingly interconnected world, a reinvigorated multilateralism is the surest and most efficient way of delivering desired outcomes.

31. To some extent, this is already happening. Recent successes at deepening multilateral co-operation include agreements on climate, financial sector regulation following the 2008 crisis, and international tax.

32. But much more needs to be done to reap the benefits from, and respond to the challenges of, interconnectedness. As highlighted in the 2017 Ministerial Council Meeting, the current backlash against globalisation in some advanced economies comes – at least in part – from the fact that in recent years the existing global economic system has not been delivering benefits to all. In particular, in some advanced economies median incomes have been stagnant over long periods while income and wealth at the top end of the distribution has continued to advance rapidly. Tax scandals like the Panama Papers

[2] Sometimes, when a process or institution involves only a few countries, it is referred to as plurilateral; there is no set number of parties that distinguishes between plurilateral and multilateral.

[3] The use of the term “standards” refers to its meaning within the OECD framework and not to any definition, reference or interpretation which may be used in other international organisations, including the WTO.

have drawn attention to the link between these trends and globalisation. And all of this has added to existing concerns among some citizens about the links between the global economic system and climate change and excessive natural resource extraction.

33. The OECD is, like other international organisations, inherently multilateral, bringing together 35 member countries from Europe, Asia and the Americas. It is, however, unusual in involving different groups of countries in different contexts. For example, the Anti-Bribery Convention currently has 43 signatories, including 8 countries that are not OECD members, while 78 countries have so far signed the Multilateral Convention to Implement Tax-Treaty-Related Measures to Prevent Base Erosion and Profit Shifting. At the same time, some bodies within the OECD comprise sub-groups of the membership. This “variable geometry”, together with the OECD’s broad cross-disciplinary mandate, multiple types of contributions (ranging from data collection and analysis through exchange of best practices and various soft standards to legally binding treaties), and the variety of its approaches to Partners – leaves the organisation well placed to contribute to the effective, inclusive and targeted multilateralism that is needed to meet the challenges facing the global economy.

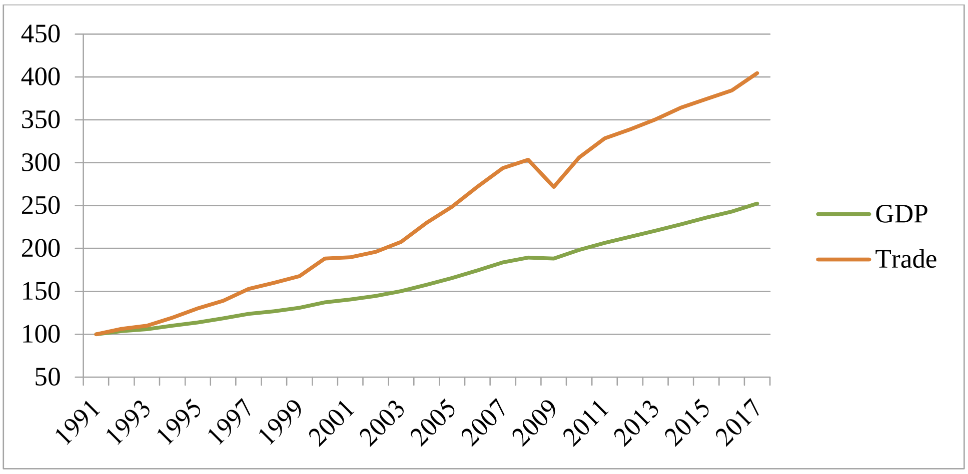
1.2. The world is more interconnected than ever before

34. People across the world are now more economically interconnected than at any previous time. Some indicators show evidence of a pause in the trend towards greater connectedness since the eve of the global crisis in 2008-09, but others have continued to move ahead, and the overall trend appears intact, driven as it is by the powerful intertwined forces of technological change (which reduces the cost of transportation and communications) and market opening.

35. Global trade integration has been proceeding since the end of the Second World War, with particularly rapid growth of trade in goods and services in the two decades leading up to the global crisis (Figure 1). Trade in services, particularly knowledge-intensive services, has grown even faster than goods trade (Figure 2).

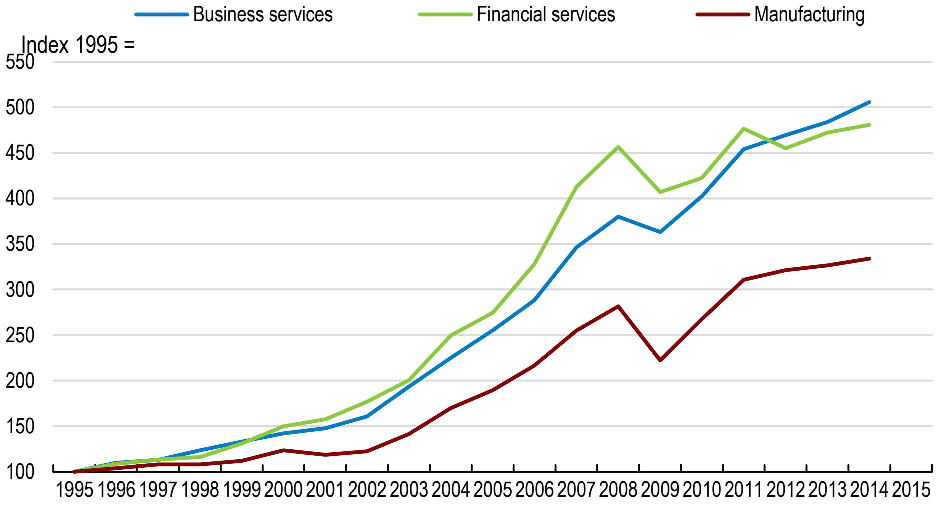
Figure 1. Global trade in goods and services and world GDP

Volume index, 1991 = 100



Source: OECD provisional May 2018 Economic Outlook database.

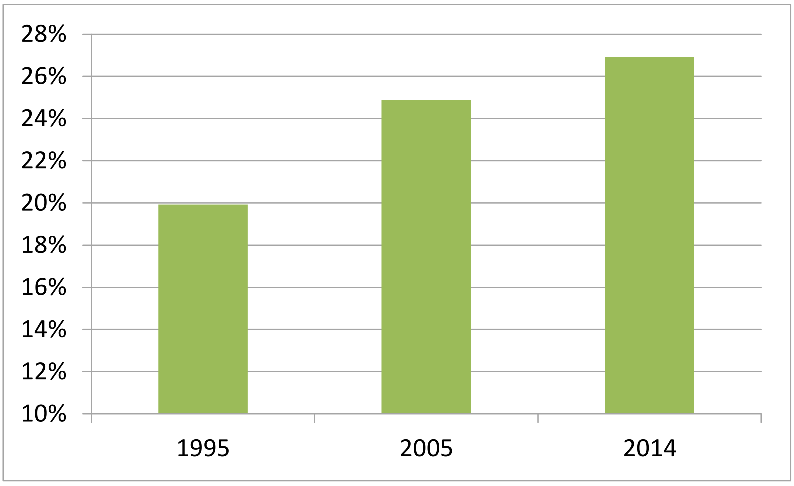
Figure 2. Global exports



Source: OECD calculations based on UN Comtrade database.

36. Not only has the volume of trade increased but its nature has also shifted in such a way as to create deeper economic connections between countries. The rise of global value chains (GVCs) has been a distinguishing feature of the past few decades (Figure 3). Falling transport and communication costs, supported by increasingly liberal trade and investment policies, have fostered the international fragmentation of production, which has created complex patterns of interdependencies between economies.

Figure 3. Foreign content as a percentage of world exports

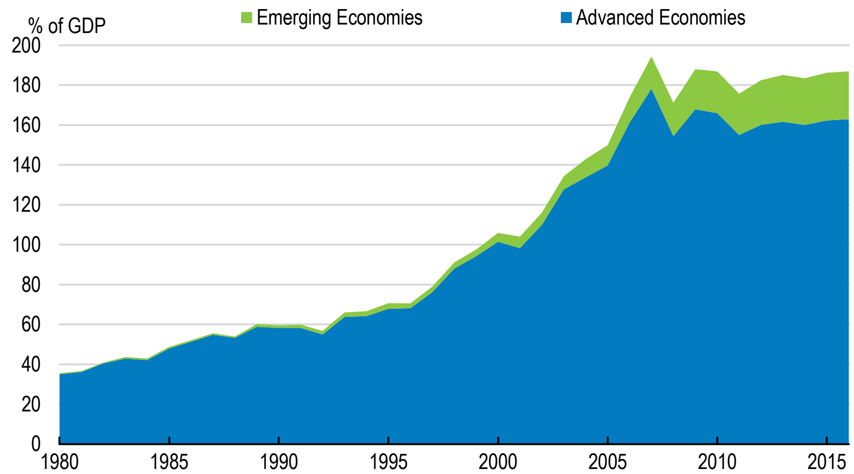


Source: OECD Trade in Value Added (TiVA) database.

37. Financial deepening and deregulation have been an additional source of integration of national economies. The rise in holdings of foreign assets from the 1990s to the onset of the financial crisis was spectacular: the sum of all countries' foreign asset positions grew from about 60% of GDP in 1990 to more than 180% in 2007 (Figure 4). The financial crisis resulted in a contraction of global capital flows, but to a varying degree across economies and types of capital flows. The reduction in cross-border bank exposures largely reflects a post-crisis contraction on the part of European banks. Cross-border bank lending in the post-crisis period has been constrained by bank deleveraging and tighter prudential regulation, but international debt security markets, which are less regulated, have continued to expand rapidly (Figure 5). Foreign exchange market turnover, supported by the growing number and importance of derivatives, quintupled between 2001 and 2016 (BIS, 2016).

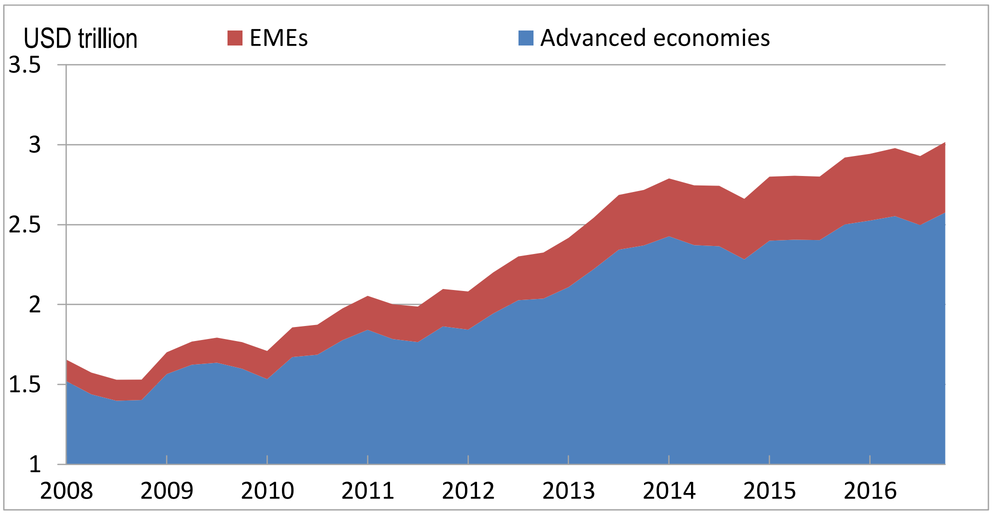
Figure 4. Global aggregate of foreign asset stocks

In percent of world GDP



Source: OECD calculations based on IMF Balance of Payments and WEO databases.

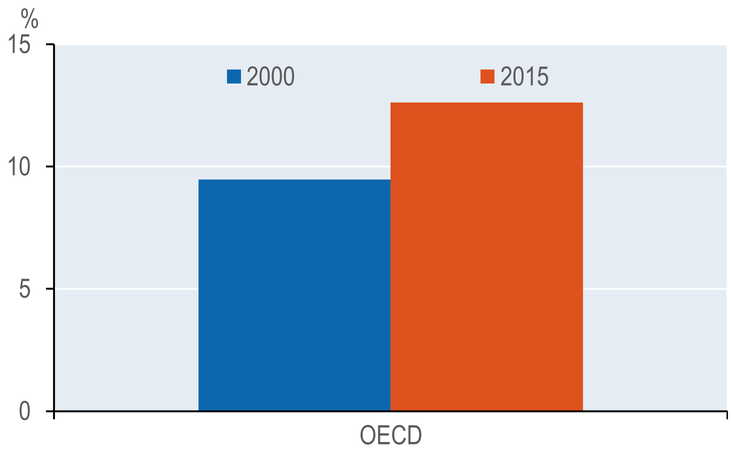
Figure 5. Outstanding debt securities of non-financial corporations in international markets



Source: Bank for International Settlements; and OECD calculations.

38. Knowledge is also increasingly flowing freely around the world. Analysis of patent data shows that at a global level, international collaboration among inventors has increased across almost all technology fields (OECD, 2017a). Flows of people across borders are also on a clear uptrend. Economic migration is being driven by demographics in both source and receiving countries (rapid population growth in many source countries and ageing and shrinking populations in many of the advanced economies to which migration tends to be directed), along with large and persistent disparities in living standards across countries. In 2016 immigration to OECD countries hit 5 million entrants, a new record (OECD, 2017b), and nearly a seventh of the population of OECD member countries is now foreign-born (Figure 6). Between 2005 and 2015, immigrants represented 65% of the increase in the labour force in the United States and 92% in the European Union. Temporary migration has also increased: in 2015, international intra-firm mobility rose by more than 10% and the secondment of workers within the European Union by 3% (OECD, 2017b). And international flows of students have risen sharply over the past four decades (Figure 7).

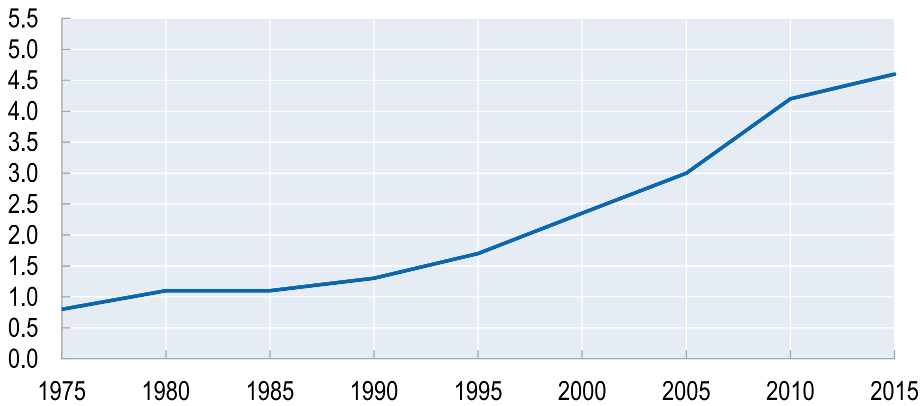
Figure 6. The OECD average of foreign-born as a percentage of the total population, 2000 and 2015.



Source: OECD International Migration Database.

Figure 7. Long-term trends in the global number of students enrolled abroad

Total foreign students enrolled in tertiary programmes, whole world (millions)

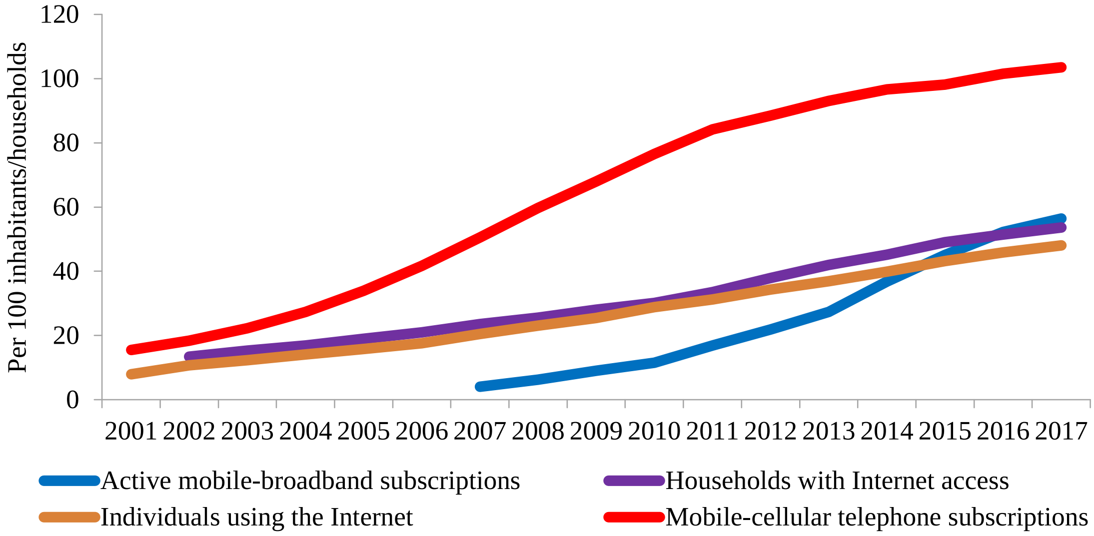


Source: OECD (2017), *Education at a Glance*.

39. Probably the most dramatic increase in international connectedness has come in the area of data flows. Our evidence base on the size and types of data flows, their uses and value, remains relatively primitive, suggesting an urgent need for "data on data flows". The OECD can play a leading role in filling this need, with its connections to a wide range of stakeholders, including national statistical offices and the private sector (where policy-relevant data are increasingly held), and its extensive experience in developing measurement guidelines and novel indicators. There are, however, some data available that allow the broad outlines of global flows to be discerned. Data from the International Telecommunications Union show that most of the world's inhabitants now have access to mobile telephony and the internet (Figure 8). Meanwhile, MGI (2016) reported that used cross-border bandwidth had increased by 45 times between 2005 and 2014 and was expected to have grown by a further 3½ times by the end of this year. Information on Google searches and YouTube viewing revealed an almost universal

trend of users increasingly accessing content outside their own country (OECD, 2016a), while data on financial flows over Paypal's payment system showed that the Internet is enabling significant cross-border financial transfers.

Figure 8. Global changes in levels of ICT uptake, 2001-17



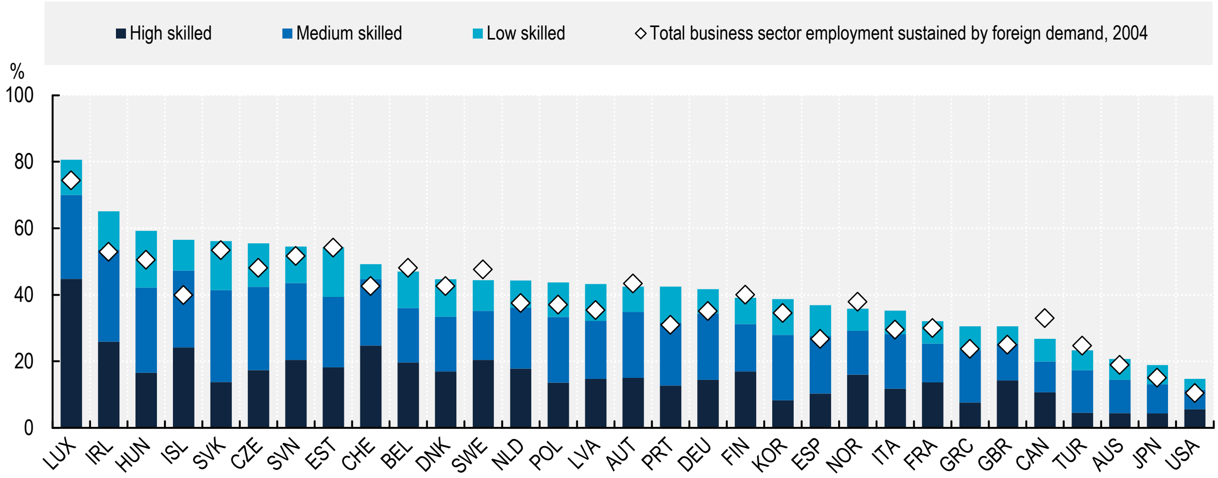
Note: The figures for 2017 are ITU estimates.
Source: ITU (2017), *Measuring the Information Society Report 2017*, International Telecommunications Union, Geneva.

1.3. This has obvious benefits, but also raises policy challenges.

40. Global interconnections, through trade, GVCs, digitalisation and migration deliver affordable goods and services that underpin everyday well-being and create opportunities for quality jobs. In 2014, 13 million workers in the United States and 54 million workers in the 22 EU countries of the OECD were engaged in production for foreign final demand. Of these workers, 38% in the United States and 36% in the EU were high-skilled (Figure 9).

Figure 9. Business sector jobs sustained by foreign final demand, by skill intensity, 2014

As a percentage of total business sector employment



Note: Data refer to 2011 for Australia and to 2012 for Korea.
Source: OECD (2017a), based on the OECD Inter-Country Input-Output (ICIO), Annual National Accounts, Structural Analysis (STAN) and Trade in Employment (TiM) databases, the World Input-Output Database, European Labour Force Surveys, national Labour Force surveys and other national sources.

41. For firms, access to international markets and global knowledge networks, to foreign suppliers and to foreign labour is a critical driver of productivity. It enables businesses to scale up, access quality inputs at competitive prices and learn innovative technology, know-how and management practices from the global frontier.

42. Global integration also opens up opportunities to secure environmental sustainability. Trade and investment in Environmental Goods and Services (EGS), both as final products and as intermediate goods, are important channels for countries to access cleaner technology. This can have substantial benefits for countries – in particular emerging economies – that need EGS to achieve their climate change mitigation and other environmental objectives.

43. There are also, however, downsides and challenges associated with the trend towards greater interconnectedness. For one thing, as discussed at the 2017 MCM, there is some evidence of a link between globalisation, intertwined with digitalisation and other technological changes, and the stagnation or slow growth of median incomes in many advanced economies, at the same time as income and wealth at the top end of the distribution continued to grow rapidly (C/MIN(2017)2). There are several mechanisms for such a link, including the polarisation of advanced country labour markets, with a hollowing out of medium-skilled jobs, an erosion of collective bargaining, pressure to reduce the progressivity of tax systems and increased corporate concentration.

44. Another problem with globalisation has been that the disruption it causes tends to be geographically concentrated (OECD, 2017c). Those impacts have likely contributed to the growing regional productivity divide between the top regions in a country and the rest, across OECD countries (OECD, 2016b). While global interconnectedness helps economies weather localised, asymmetric macroeconomic shocks, it increases their exposure to foreign real and financial shocks. Global production networks can propagate and amplify demand shocks along the chain of suppliers, as was observed during the

trade collapse of 2008-09. Large foreign asset and liability stocks create strong wealth effects for investors from changes in foreign bond and equity prices and exchange rates. And foreign policies have spillover effects on domestic financial conditions through international investors' portfolios. Flows of short-term capital between advanced and emerging economies are particularly sensitive to changes in investor sentiment and macroeconomic policies in advanced economies, with the result that such shifts can have large effects on activity, inflation and investment in other countries, especially for emerging economies.

45. Trade and economic integration can also lead to increased environmental pressures. For example, CO_2 emissions from international trade-related freight transport amounted to more than 5% of global emissions in 2015, and are expected to grow by 120% over the period of 2015-50 in a business-as-usual scenario (OECD/ITF, 2017). Global integration can also enhance leakage and pollution haven effects where there are significant differences in environmental policy stringency among the trading parties. Exporters under relatively stringent environmental policies are more specialised in exporting in "cleaner" sectors than "dirty" sectors, suggesting the shifting of pollution-intensive domestic production abroad through international trade (Koźluk and Timiliotis, 2016). Furthermore, trade liberalisation can lead to more waste trade destined to countries with lower environmental policy stringency compared to their trading (Kellenberg, 2013).

46. Dissatisfaction among citizens with various aspects of globalisation – tax avoidance and evasion, local blight associated with offshoring or foreign competition, surges in migration – has plausibly contributed to the erosion of trust in governments in many parts of the world. In the OECD, only 43% of citizens trust their government according to a 2015 survey (OECD, 2015). In Latin America and the Caribbean (LAC), the share of the population having little or no trust at all in governments reached 75% in 2017 (up from 55% in 2010; OECD/ECLAC/CAF, 2016). According to the Afrobarometer survey across 36 countries in 2014/2015, Africans expressed more trust in informal institutions such as religious and traditional leaders (72% and 61% respectively) than in the formal agencies of the state (on average 54%).

2. Adapting multilateralism to address new economic and financial challenges

47. The need for a reformed and reinvigorated multilateralism largely stems from the imperative to make the most out of the linked processes of technological progress – especially digitalisation – and growing interconnectedness of people and firms around the world. Three major new policy challenges that arise from these processes concern taxation, the digital transformation, and tackling the dark side of growing interconnectedness: cyber-attacks, illicit trade, corruption etc.

2.1. The digital transformation

48. The ongoing digital transformation brings enormous opportunities for progress in virtually all sectors. It is also allowing small start-ups to thrive, fostering innovation, broadening consumer choices, and enhancing communication across individuals.

49. Given that digitalisation is virtually all-encompassing in its economic effects, it naturally has implications for policies in many areas, and with successful digital businesses being "born global", in many cases adequate policy response will be at least partly multilateral. The most critical properties of the digital transformation in the multilateral context are the virtually limitless scalability of digital products, the rise of intangible capital, and the changing importance of particular locations. These properties imply that firms and platforms can scale quickly and globally; assets in the form of know-how, business processes, or organisational structures can be digitised and easily transferred; and software and data can in principle be stored or exploited anywhere. In that regard, the widespread and equal access to **high-speed connectivity** will be crucial for reaping the benefits of the digital transformation.

50. One area where policy makers are challenged by the digital transformation is **competition**. Competition problems that are the focus of national competition law systems – cartels or abuses of dominant position to exclude competitors – can manifest themselves across national borders, which are easily spanned by digital networks.

51. Policymakers must adapt to today's challenges by deepening international co-operation among competition authorities. For example, there are opportunities for better information-sharing when prosecuting cross-border cartels, and working to ensure consistency in the enforcement of competition law across jurisdictions.

52. Digital markets may exhibit some features – especially economies of scale and network effects – which facilitate dominance of the market by one or a few firms. Moreover, the ability to locate a digital business virtually anywhere makes it easy to shift a company's domicile to where competition policy (along with other features of tax, legal and regulatory regimes) is relatively weak. Against that, the ability to scale quickly and with relatively little capital could facilitate competition and market dynamism, ensuring that markets remain contested. Which of these effects prevails is an empirical question,

and will likely vary across sectors and jurisdictions. The evidence to date is that corporate concentration has been increasing in many sectors but further research is needed in this area.

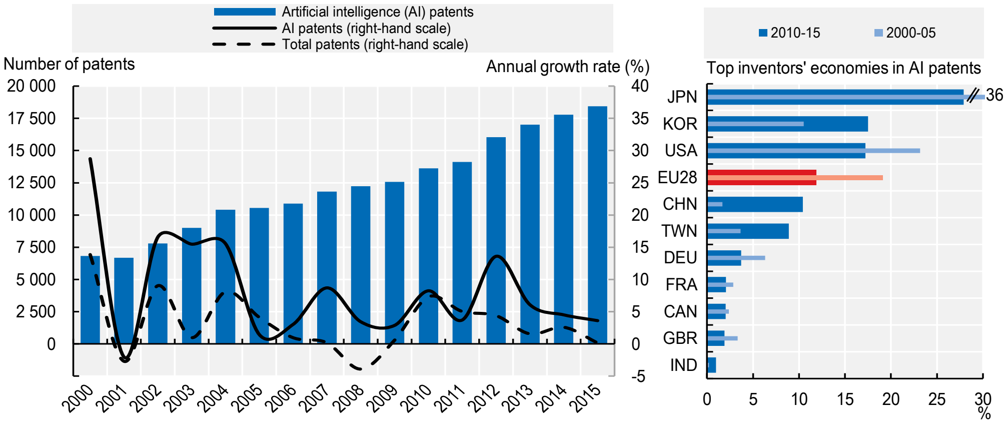
53. Competition authorities will need to be vigilant with respect to potential abuses and restrictions of competition in markets that may have shown a tendency towards winner-take-most outcomes, including at a global, rather than simply a national, scale. This underlines the need to enhance international co-operation in this sphere. It also raises fundamental questions regarding how government could handle possible natural monopolistic tendencies apart from any question of abuse of dominance, including possibly with the use of algorithmic pricing.

54. Competition authorities frequently come together in international fora such as the OECD's Competition Committee to share experiences and identify emerging issues in enforcement as well as competition advocacy. Further, several jurisdictions have signed co-operation agreements, for example to share information during cross-border cartel investigations. However, there remain opportunities to better respond to the challenges of digitalisation for competition. The exchange of information between competition authorities for investigation purposes could be facilitated by formulating legal standards to protect confidentiality. The development of formal criteria for competition authorities to request investigative assistance or enforcement actions in other jurisdictions is another opportunity. Competition authorities could also consider ways to further advance in co-ordination, with a view to more easily recognising the decisions of authorities in other jurisdictions, or designating a non-binding "lead jurisdiction" in investigations of cross-border misconduct or mergers. Finally, competition authorities could co-ordinate their leniency programs to incentivise cartelists to come forward. Such efforts could make competition authorities more effective, avoid inconsistencies and duplication of effort, and ensure legal certainty to firms, particularly to multinational businesses.

55. Another important area is the field of **artificial intelligence** (AI). Increases in computational power, new statistical methods, and advances in **big data** have brought major breakthroughs to this field of artificial intelligence and its practical uses are wide – from automating production processes, to revolutionising healthcare, entertainment, marketing and finance. The development of **AI-related technologies**, as measured by inventions patented in the world's five top IP offices, is proceeding at a rapid pace, with emerging economies including China and India playing a growing role (Figure 10).

Figure 10. Patents in artificial intelligence technologies, 2000-15

Number of IP5 patent families, annual growth rates and top inventors' economies



Source: OECD, STI Micro-data Lab: Intellectual Property Database, http://oe.cd/ipstats, June 2017. See OECD (2017a), *OECD Science, Technology and Industry Scoreboard: The digital transformation*, OECD Publishing, Paris. http://dx.doi.org/10.1787/888933616978

56. At the November 2017 Global Strategy Group meeting, participants discussed how to harness science, technology and innovation, including AI, for inclusive growth and well-being. As part of the OECD review of standard-setting there has been discussion of a possible instrument on AI that would establish principles and ethical guidelines, as well as a possible instrument to support open and responsible innovation in neurotechnology. The OECD's Going Digital project and the follow-up to that would help to support work of this nature. To support international dialogue, and depending on further discussions by its Members, the OECD could also establish an observatory on new emerging technologies such as AI, as well as blockchain and the Internet of Things. This could help countries better assess the impacts of these technologies and the policy responses for reaping and sharing their benefits.

57. The digital transformation has significantly reduced the cost of engaging in international trade; facilitated the co-ordination of global value chains; helped diffuse ideas and technologies across borders; and connected more businesses and consumers globally, pushing out the digital trade frontier.

58. But the digital transformation is also raising new questions regarding **regulatory practices**. Digital firms may be "born global", but borders and regulatory differences among countries remain, and the costs of differing regulation can be high, especially for SMEs. Trade rules are also based on whether what is being traded is a good or a service, yet digital trade flows can involve a mix of both. New issues such as data flows can also affect market openness. Data underpin digital trade. They are an element of production, a tradeable commodity, a means of delivering digital products and co-ordinating global value chains, and an enabler of trade facilitation. But concerns about security, privacy, and regulatory reach have led to some governments restricting cross-border transfers of data or requiring that data be stored locally. Global dialogue on interoperability of different regimes is important in finding an appropriate balance between ensuring adequate security and privacy and the benefits from data-enabled trade.

59. Trade has a long history of multilateral approaches, and international trading relationships are already governed by bilateral, regional, and multilateral trade and

investment agreements. These are increasingly addressing digital trade issues, and trade-related aspects of the digital transformation are also covered under multilateral agreements and plurilateral agreements forged at the WTO.

60. However, certain aspects of the digital transformation are generating opportunities for further multilateral discussion in the trade arena. At the 2017 WTO Ministerial Conference in Buenos Aires, 71 WTO Members agreed as a group to initiate exploratory work together toward future WTO negotiations on trade-related aspects of electronic commerce. Action in multilateral fora is of particular importance in promoting the mutual interest of countries in promoting trade liberalisation and building confidence between firms and the societies in which they operate on the widest possible basis. OECD analysis and dialogue can play an important supporting role in helping countries reach a shared understanding of the policies in place and their impacts. Reaping the benefits of digital trade is likely to increasingly require international dialogue on approaches that ensure the interoperability of differing regulatory regimes, including for data. Regulatory co-operation underpins global trade, and cooperative efforts on key regulatory issues in the digital sphere, including a market openness perspective, are needed to maintain the benefits of the digital transformation. From a trade perspective, fostering a regulatory environment that is transparent, non-discriminatory and which does not restrict trade more than necessary to achieve public policy objectives is important.

61. **Data governance** is another critical area where multilateral approaches will probably be called for. The flow of data across borders helps fuel the digital transformation but also underlies some thorny policy issues. The value of assets and firms increasingly depends on access to and use of data, and the public sector can also benefit significantly from better use of data in policy development, monitoring and implementation. But there are also difficulties and trade-offs to consider.

62. Issues include the attribution of responsibility and liability for data-driven decisions, the transparency of algorithms versus the protection of proprietary intellectual property rights (e.g. patent, trademark, copyrights, trade secrets), differing approaches to personal privacy as well as digital security risk management, protection of privacy and intellectual property from governments' monitoring, access to and the use of data for collective well-being and the balance between rewarding innovation and investments in customer knowledge and ensuring competition. The global nature of data flows means that all these policy issues would benefit from multilateral discussion and debate. A shared understanding of the issues and common views on how to enable more seamless management of differing regulatory approaches may be critical for enhancing access to data and reaping the benefits of the torrents of information flowing in the digital age.

63. The OECD is considering the possibility of developing a recommendation on enhanced access to data. Coupled with progress on measurement of data flows, this type of multilateral initiative, while very complex and needing to be also protective of intellectual property, could help countries shape the digital transformation for broader economic and social gains.

64. **Blockchain** is a technology with the potential to disrupt markets and institutions across the world. It has many applications such as the transfer, authentication and tracking of ownership of digital and physical assets. Transactions can be performed among peers that do not need to trust each other, since the whole network guarantees the regularity of transactions. Furthermore, the distributed ledger (i.e. the blockchain) can be accessed and checked by any participant in the network. In addition, "smart contracts",

predetermined, contingent self-executing algorithms, can enhance trust in the transactions and reduce uncertainty.

65. For governments, adoption of blockchain could help combat tax avoidance and evasion; create digital land titling and other registries to help citizens prove their identity and vote; and increase the efficiency and transparency of public services. Outside of government, adoption might lead to firms disaggregating their different departments and outsourcing some of them to specialists (since transaction costs between them will almost entirely disappear). It may also offer SMEs an efficient and trusted way of trading with consumers, helping these businesses overcome disadvantages associated with their scale, and improve their access to finance.

66. At the same time, blockchain poses some regulatory challenges for governments. There is a need for international dialogue on potential adjustments of existing regulatory frameworks to enable businesses to innovate and develop the technology in a competitive environment, subject to rules that preserve fundamental values such as safety and integrity. To do so will require sharing of best practice, ongoing monitoring, and continuing to discuss to possibly come up with long term and commonly agreed solutions.

67. **Innovation in financial technology** (FinTech) has important implications for the future shape of banking and other financial services. The benefits to consumers include an improved customer experience, a wider range of products and services at a lower cost, and a widening of access to financial services. (OECD, 2018f). But FinTech poses challenges for policy makers, who will play a key role in unlocking the potential efficiency benefits of financial innovation, while seeking to safeguard a level playing field for market participants, consumer and investor confidence and trust, and overall resilience in the financial system.

68. One of the more prominent FinTech innovations is blockchain-based digital cryptographic assets such as Bitcoin, which have experienced wild price swings recently. while the expansion of applications using blockchain technology, including but not limited to crypto assets, is fuelling innovation and opportunity (efficiency gains, secure transactions, access to financing and certain new services), the potential risks in terms of consumer protection, market integrity, cross-border capital flows, taxation, and energy demand etc. should be analysed.

69. Nevertheless, digital or crypto-currencies have potential benefits such as lower transaction costs. This is especially pertinent for cross-border transactions, where, for example, the costs of remittances could be substantially reduced. As governments face the challenge of producing regulations for innovative financial products, they have to consider proportionality in regulation and balance concerns over consumer protection and financial stability against harnessing the benefits of innovation. Many of these issues cut across existing OECD legal and policy instruments, making the OECD well-suited to address questions arising from the emergence of crypto-asset technologies and practices within its existing remit, including: financial consumer protection; good corporate governance; SME financing; anti-corruption; and international capital movements. The OECD can leverage existing bodies of work to help members manage key risks and realise opportunities arising from the expanding use of crypto-asset technologies and also complement existing initiatives on crypto assets.

2.2. Taxation in globalised and digitalised economies

70. While taxes are a feature of national sovereignty, the scale of interconnectedness and cross-border activity means that each country's tax policy can increasingly affect the effectiveness of tax policies in other countries. There has been growing recognition of this by the international community, which has used multilateral organisations and processes to improve transparency and efficiency in tax matters. The OECD has been at the core of the efforts over the past decade to redefine the international tax landscape on a co-operative basis. Through the OECD/G20 Inclusive Framework on BEPS (the Inclusive Framework) and the Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum) the international community has built a new institutional framework that reconciles the concept of tax sovereignty with multilateralism, establishing a blueprint for policy-making in a globalised world.

71. The key challenge for the coming years is to exploit the potential of this new institutional framework by maintaining the multilateral dynamic that has been essential to its success to date. The emphasis will be on the implementation of the agreed standards. In addition, new policy landmarks could also be developed to tackle new challenges, particularly as regards the digitalisation of the economy.

72. The digitalisation of the economy raises fundamental questions about traditional tax concepts and international tax principles, breaking down borders and posing policy questions that can only be solved on a multilateral basis. The BEPS project already identified some key concepts that all governments must grapple with. Importantly, it will not be feasible, especially over the longer term, to identify a part of the economy that is "digital", as the economy as a whole is being transformed by digitalisation. New business models have emerged and will continue to evolve. These new business models are characterised by scale without mass and a heavy reliance on intangible property, with users and user-generated content playing an increasingly important role. Scale without mass allows firms to have an enormous economic presence in a market with little or no physical presence. Tax rules may need review to ensure that they encompass the intangibility inherent in digital activity.

73. The Inclusive Framework is analysing how digitalisation has changed the way companies do business, the consequences for value creation, and how to ensure that our international tax rules remain relevant for the digital age. An interim report was delivered to the G20 Finance Ministers in March 2018. The Inclusive Framework will continue to work towards a long-term solution, with an update to be provided in 2019. A final report that aims to build a global consensus on how the international tax rules could be adapted to take into account changes resulting from digitalisation (together with globalisation) will be delivered in 2020.

74. At the same time, digitalisation is opening new opportunities within the tax domain. Work under the OECD's Forum on Tax Administration has showed that digitalisation has led to the greater collection of data in electronic form, and the rise of multi-sided platforms may increasingly attract users whose activities were previously within the informal economy. Where tax administrations can access this information, it can lead to the recovery of previously unpaid tax, increases in taxpayer registration and the shrinking of the informal economy. The increase in third-party data offers greater ability to pre-fill tax returns and therefore, to simplify citizens' compliance with their tax obligations. A larger amount of more sophisticated information also allows the tax authorities to carry out their risk-assessment activities more efficiently, and to tackle the

misuse of new technology, such has been seen in the spread of sales suppression software, false invoicing and the use of blockchain technologies and crypto-currencies for illicit purposes. These multi-sided issues are faced by many tax administrations across the world and are ripe for global and co-ordinated answers.

2.3. The dark side of international flows

75. The intensification of international connections has had innumerable benefits, but it has also made some cross-border criminal activity easier to engage in and/or harder to detect. The same processes of technological progress and economic liberalisation that fostered enormous and beneficial growth in cross-border flows of goods, services, people, capital and data also facilitated the growth of money laundering, illicit trade, cyber-crime, illicit money flows and other cross-border criminal activity including corruption. And just as multilateral approaches have been essential for maximising the beneficial effects of growing interconnectedness, so too have they already proved their worth in tackling the dark side of globalisation. But the growth of existing problems and the emergence of new ones call for continued and strengthened multilateral approaches.

76. The global flow of information across the Internet has brought great benefits, including for research and innovation, entrepreneurship and trade, education and self-expression. But the power and reach of the internet have also been used by malicious actors to carry out **malicious cyber activity** around the world, degrading trust in the digital economy, and undermining the potential benefits of the digital transformation. Malicious cyber-activity exposes individuals, businesses and governments to a variety of risks, including extortion, sabotage of industrial production lines, degradation of personal and corporate reputations, as well as theft of individuals' identities and organisations' proprietary knowledge. Malicious cyber-activity that targets increasingly digital-dependent critical infrastructure and essential services such as energy, transport, finance and health can also threaten the core functioning of economies and societies.

77. The annual economic cost of **cyber-crimes** is estimated to be over USD 1 trillion (World Economic Forum, 2018), with the share of companies that report having been affected by a cyber incident continuously increasing, but statistical evidence on the economic impact of digital security incidents is limited by a lack of internationally agreed methodologies and definitions as well as companies' reluctance to disclose information about their losses.

78. Malicious actors take advantage of the borderless and global nature of the Internet and benefit from deficiencies in understanding and managing digital security risks. For example, a large number of digital products and services that include basic security vulnerabilities are nevertheless commercialised and used, including for sensitive and critical activities such as in health, energy and transport. Small and medium-sized enterprises are particularly vulnerable to these risks as they often lack the awareness, skills and resources to protect themselves, and may thus represent a weak link in essential services value chains. In response, global multilateral co-operation is essential to gain a shared understanding of digital security risk and inter-dependencies, and to devise policy responses that are effective across borders.

79. Inter-governmental organisations such as the OECD play an important role in supporting multilateral co-operation on digital security issues, along with organisations addressing other aspects related to defence and international security, criminal law enforcement and technical standards. Since the early 1990s, the OECD has been

addressing digital security for prosperity. This multilateral dialogue, inclusive of all stakeholders, has proved instrumental in helping develop cybersecurity policies that build trust in a globally open and interconnected digital environment without reducing digital openness, impeding innovation or inhibiting digitally-driven growth. Examples include the 2015 OECD Council *Recommendation on Digital Security Risk Management for Economic and Social Prosperity*, and the 2008 *Recommendation on the protection of critical information infrastructures*, which is currently being revised.

80. But as the magnitude of incidents rises, it is clear strengthened efforts are needed. Consistent with the 2017 G7 Taormina Communiqué[4] and to reinforce multilateral efforts to maintain a trusted, secure and resilient digital environment, the OECD recently launched an *OECD Global Forum on Digital Security for Prosperity*. Still nascent, this Forum has the potential to tackle many issues that require the engagement of all stakeholders in Member and non-Member countries, including how to foster information sharing and public-private partnerships, how to encourage the development of less vulnerable digital products and services, and how to develop digital security skills. In the long term, the Forum will help consolidate a network of experts and policy makers, foster sharing of experiences and good practice on digital security risk and its management for prosperity, stimulate mutual learning and convergence of views on core issues, and facilitate co-operation with other international/regional governmental and non-governmental organisations.

81. **Financial crimes** such as tax evasion, corruption and money laundering all thrive in a climate of secrecy. Enhancing international exchange of information and greater co-operation at the national and international level are needed. Because these crimes are borderless and increasingly complex, the capacity of administrative and law enforcement authorities to tackle these crimes must be strengthened by enabling them to work more closely together and use all available resources, investigative techniques, and networks. The Financial Action Task Force sets standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

82. The OECD's Oslo Dialogue was launched in 2011 to promote a 'whole of government' approach to fighting tax crime and other financial crimes. It gathers 47 member countries and organisations within the Task Force on Tax Crime and Other Crimes (TFTC), which focuses its work on improving inter-agency co-operation. Following the call of the G7 Bari Declaration of May 2017, the TFTC published an update of its *Report on effective Inter-Agency Co-operation in Fighting Tax Crimes and Other Financial Crimes*. It identifies successful practices and provides recommendations on improving the effective prevention, detection, investigation and prosecution across government of all forms of financial crime.

[4] "The recent cyber-attacks hitting critical infrastructures worldwide reinforce our commitment to increased international co-operation to protect an accessible, open, interoperable, reliable and secure cyberspace and its vast benefits for economic growth and prosperity. We will work together and with other partners to tackle -attacks and mitigate their impact on our critical infrastructures and the well-being of our societies." (G7 Taormina Leaders' Communiqué, 2017: Paragraph 15)

83. One example of effective inter-agency co-operation is in the area of tax crimes and money laundering. In 2015, the TFTC released a report *Improving Co-operation between Tax and Anti-Money Laundering Authorities: Access by Tax Administrations to Information Held by Financial Intelligence Units for Criminal and Civil Purposes*. This report analyses the levels of co-operation between the authorities combatting serious financial crimes such as tax crimes, bribery, money laundering and terrorism financing. It finds that there are significant potential benefits from greater co-operation, with each authority pooling their knowledge and skills. The report recommends that subject to the necessary safeguards, tax administrations should have the fullest possible access to the Suspicious Transaction Reports received by the FIU in their jurisdiction.

84. In 2017 the TFTC also published *Fighting Tax Crime: the 10 Global Principles* – the first comprehensive guide to fighting tax crimes. It sets out ten global principles, covering the legal, strategic, administrative and operational aspects of addressing tax crimes. The TFTC will continue its work in facilitating international co-operation on fighting tax crime, particularly on issues where multilateral action is required to address common challenges. This could also include collaborating to create an agreed strategy for addressing tax crimes that have cross-border elements. Such a strategy could include identifying the risks of such tax crimes, defining the additional data and other mechanisms that are needed to more effectively combat such tax crimes and working towards ensuring that data and mechanisms are available and efficient in practice.

85. A key pillar of the Oslo Dialogue is the intensive capacity-building programmes, now part of the OECD's International Academy for Tax Crime Investigation established in 2014 in partnership with the *Guardia di Finanza* (financial and economic police force). The Academy runs training programmes for investigators, judges, prosecutors and tax officials, with a view to improving transparency, intelligence gathering and analysis, detection and sanction of criminal activities. A new centre, the OECD Africa Academy for Tax and Financial Crime Investigation, was established in June 2017, hosted by Kenya, under the auspices and with the financial contribution of both the Italian G7 Presidency and the German G20 Presidency.

86. The OECD's Forum on Tax Administration (FTA) and its 50 members are working on the implications of digitalisation for tax administration and tackling tax crimes. Technology is fast becoming an indispensable tool for tax authorities. Although technology can enable taxpayers to use more sophisticated methods to evade tax, it can also be a powerful tool for tax authorities to swiftly identify such methods and to tackle the informal economy.

87. A number of tax authorities have already had success in preventing and detecting tax evasion and fraud through the use of technology tools, which has led to the recovery of billions of euros in tax revenue. The FTA 2017 report *Technology Tools to Tackle Tax Evasion and Tax Fraud* provides an overview of some of these tools, focussing on electronic sales suppression and false invoicing. The TFTC 2017 report *Shining Light on the Shadow Economy: Opportunities and threats* looks at the impact on the shadow economy of changes in ways of working and business models, the growth of the digital economy and the emergence of new technologies. While these are causing some new shadow economy activities to emerge and some existing ones to expand in scale or scope, they are also providing tax administrations with new opportunities and tools to enhance compliance. It also makes recommendations to help improve tax administrations' ability to tackle collectively and in a co-ordinated way the cash and shadow economy activities, including for collaborative work on the sharing and gig economy.

88. The international community has mobilised around illicit flows in specific sectors and regions. Production and trade of mineral resources can be associated with multiple types of risks, including violation of human rights, corruption, money laundering, tax evasion and conflict and terrorism financing. The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals aims to help companies respect human rights, avoid contributing to conflict and cultivate transparent mineral supply chains and sustainable corporate engagement in the mineral sector and should support mineral supply chain transparency and integrity.

89. Complementing this sectoral work, a recent OECD report, *Illicit Financial Flows: The Economy of Illicit Trade in West Africa* (2018a), examines the nature of thirteen overlapping, and often mutually reinforcing, criminal and illicit economies driving IFFs in West Africa.

3. Multilateralism that leaves no-one behind: working together to build inclusive societies and deliver well-being

90. How can multilateralism best contribute to achieving more inclusive and sustainable growth in all countries? Are there areas in which deficiencies in multilateral action makes it more difficult for individual countries to implement the policies needed to achieve inclusive and sustainable growth? How does the growing interconnectedness of people and firms across borders affect the ability of national governments to pursue inclusiveness and sustainability goals?

91. Ensuring that global integration yields growth in an inclusive and sustainable manner requires national and international policies and mechanisms that interact in ways that will differ by policy area. In some cases, such as with climate change, the goals themselves are global in scope and cannot be addressed effectively without multilateral action. In other cases, the linkages between domestic policies and the global environment need to be taken into account in order to achieve greater inclusion at the national level (e.g. skills need to be built in a context of global competitiveness). Multilateralism can help address domestic challenges for inclusive growth by promoting convergence through peer-learning in multilateral settings and common standards. With growing interconnectedness, the likelihood of countries facing an increasing number of similar domestic policy challenges in a more simultaneous manner is growing, enhancing the value added of cross country exchanges and peer learning through international cooperation. It can also foster co-ordination around shared goals (e.g. the G20 Brisbane target to boost female labour force participation so as to reduce gender gaps in participation by 25% by 2025).

92. Multilateral discussions are already well advanced on some of these issues, while renewed focus is being given to the impact of other issues, such as infrastructure development, housing, or children's wellbeing, as structural factors for inclusiveness. The OECD can play a major role in this respect as a policy platform for policy dialogue and cooperation, but also through its work on policy and institutional coherence – both at the national level and increasingly also at the international level.

93. At the heart of national and international efforts to deliver inclusive and sustainable growth there must be a renewed focus on providing equal opportunities of economic and social mobility to all, while ensuring high productivity growth. Investment is needed in strategic areas to level the playing field across people, firms and regions and bridge the many divides that undermine prosperity, social cohesion and well-being for all. In particular, targeted quality investment, which aims at exploiting potentials, is needed in the groups and regions that are lagging behind to ensure that they can fulfil their full potential and sustainably contribute to growth and well-being. Such investment is indeed instrumental to deploy the nexus "productivity-inclusiveness". Governments need a framework to steer and carry out such strategic investments, assure legal security and adapt their models of governance to the twin objectives of equity and efficiency. Against this background, the OECD Framework of Policy Action on Inclusive Growth

suggests four areas of focus for policies that can catalyse key dynamics for growth and well-being opportunities for all:

- Inclusive outcomes from growth: Fair and efficient redistribution with tax and transfer systems that reduce poverty for those at the bottom of the income and wealth distribution, while strengthening the progressivity of tax systems to effectively tax labour and capital income;
- Inclusive markets: Enable strong, inclusive markets and prepare for the future of work – by boosting technology diffusion and productivity dynamics in connection with creation and retention of good jobs, while rewarding responsible business conduct, incentivising and making possible economic mobility and the efficient allocation of resources across firms and economic structures and helping the low-skilled workers to adapt and reskill swiftly in case of disruptions;
- Equal opportunities for future prosperity: all by investing in people and places through early-life interventions to compensate for initial disadvantage, life-long learning, and construction of comprehensive economic and social infrastructures and networks, while ensuring innovation and knowledge diffusion across regions, and providing affordable housing and connectivity;
- Inclusive growth governance: Re-build trust in governments and businesses by reasserting public and corporate governance of high integrity and accountability, while addressing the challenges and opportunities of digitalisation and big data.

The contribution of multilateralism to inclusive growth can likewise be viewed through the prism of these pillars.

3.1. How international co-operation can help deliver inclusive, sustainable growth

3.1.1. Inclusive outcomes from growth

94. Governments' main tools for influencing the distribution of economic rewards are the **tax and social protection systems**. These are almost without exception domestic in nature, and there is currently little appetite for limiting national discretion on setting tax and benefit rates. Multilateralism can still help to improve outcomes, however, even in the absence of that sort of co-ordination. Participating in multilateral institutions will help countries better understand the common challenges they face in adapting their tax and social protection systems to the digital transformation, globalisation and ageing while promoting stronger and more inclusive growth.

95. International experience shows that, to achieve inclusive growth in open and interconnected economies, tax and social protection systems can strengthen incentives to increase employment, wages and labour market formality (Fournier and Johansson, 2016; Akgun et al., 2017). This involves making work pay by reducing the tax burden on labour income for those with low skills and supporting in-work benefits. The financing of social protection could also be shifted toward general taxation revenue instead of social security contributions, and strengthened for those in non-standard work.

96. Shifting tax mixes towards tax bases that are less mobile and therefore less vulnerable to globalisation, including property taxes, would help make revenues more stable. Implementing such a shift while maintaining equity implies broadening the tax base and reducing tax expenditures that disproportionately benefit the best off. Recurrent taxes on immoveable property constitute only a small share of total tax revenue in most

countries; these taxes are progressive, economically efficient, and difficult for taxpayers to avoid. Inheritance taxes may also have a role to play in mitigating wealth inequality.

97. The 2017 OECD policy paper "*A Fiscal Approach for Inclusive Growth in G7 Countries*" emphasises how tax policy can contribute to meeting inclusive growth objectives, often considered as part of a broader, multi-faceted policy discussion. In addition, the 2017 *OECD Tax Policy Study on Taxation and Skills* considers the role that tax policy can play in promoting skills development in OECD countries. It assesses the returns to tertiary and adult education and examines how these returns are shared between governments and students, noting that for every $1 invested by governments in educating a typical student, more than $1 is likely to be returned to government in the form of extra personal income tax revenue (not including returns through other taxes, higher employment levels and faster growth).

3.1.2. Inclusive markets

98. Effective **domestic labour market policies and institutions** are key to enabling firms to compete globally and workers to manage transitions to new jobs with the least possible disruption. Much more can and should be done, however, to increase understanding of the growing importance that international co-operation has in shaping key opportunities and outcomes for people – notably as regards employment and retirement income. For instance, in a context where the workforce is becoming more mobile, skills recognition plays a growing role to make the best use of available talents and to address mismatches. Similarly, workers' retirement revenue may depend on agreements on the portability of contributions across countries. The OECD can make an important contribution to fostering such co-operation. Already, the OECD Skills Strategy projects provide a strategic and comprehensive approach to assess the challenges and opportunities that countries face in terms of skills in a globalised world, and build more effective skills systems. And the new OECD Jobs Strategy agreed through multilateral discussion among OECD and partner countries – provides a framework for promoting more and better jobs in a changing world of work, based on evidence showing that countries that perform well are those that jointly achieve job quality, job quantity and greater inclusiveness.

99. One area where sharing of knowledge and practices could be useful is in exploring strategies for improving worker protections and benefits for those employed in new forms of employment, in particular independent contractors. Several countries have introduced new regulations and policies affecting independent contractors working for digital platforms or are planning to do so. Yet there is little co-ordination, which creates the potential for arbitrage by the platforms which are global companies and exploitation of differences in countries' regulatory, tax and policy regimes.

100. The effective functioning of **housing** markets and urban development matters for productivity, equality of opportunities, social cohesion, and labour mobility, as well as environmental sustainability and financial resilience. Housing policy is essentially purely domestic, although the increased international mobility of people, especially the most affluent, does mean that there can be spillover effects between countries. Probably the main way in which multilateralism can play an enhanced role in improving housing policies is by identifying and sharing best practice and by encouraging the production of comprehensive and comparable data. New cross-country metrics on housing market performance and policy impact assessments would help to develop coherent strategies to foster resilient, efficient and inclusive housing markets. The OECD is well placed to help

fill this gap. Housing policy is essentially purely domestic, although the increased international mobility of people, especially the most affluent, does mean that there can be spillover effects between countries. Probably the main way in which multilateralism can play an enhanced role in improving housing policies is by identifying and sharing best practice and by encouraging the production of comprehensive and comparable data.

101. **Quality infrastructure** with open and fair access is a key driver of growth and well-being that can make a crucial contribution to the Sustainable Development Goals and to achieving the objectives of the Paris Agreement. It is estimated that by 2030, USD 6.3 trillion of investment in infrastructure will be required annually to meet global development needs, and an additional USD 0.6 trillion per year will be needed to make these investments climate compatible (OECD, 2017j). But while potential financing, including assets held by institutional investors (USD 80 trillion), is huge, it is not being directed to infrastructure investment to the required degree. Major reasons include a lack of bankable projects and the inadequacy of the policy environment. Further efforts are urgently needed to improve the standardisation of contracts and processes and data collection, while considering new approaches to promote risk mitigation and allocation, better public governance and innovative mechanisms such as blended finance.

102. Multilateral processes and organisations, including the OECD, have a role to play in bringing about the necessary policy response. OECD work for the G20 has underlined the need to match financing with investment needs at the global scale, and the importance of quality infrastructure has been confirmed by the recently adopted G7 Ise-Shima Principles for Promoting Quality Infrastructure Investment and the mandate given at the Ministerial Council Meeting in June 2017 to the OECD to develop these principles.

103. **Small and medium-sized enterprises** (SMEs) are less active in global trade as compared to their contribution in national economies. This likely adds to the wage gap with larger firms: in countries where SMEs represent a higher share of exports, their wage gap with larger firms is lower (OECD, 2018b). For SMEs to succeed, not only is greater international co-operation needed to identify global solutions to global challenges, from traditional standards to new regulatory issues in the digital age, but also domestic whole-of-government approaches which address the constraints that SMEs face in internationalising, including access to information, skills, technology and finance, as well as trade facilitation and connectivity. SMEs stand to benefit from an open and interconnected economy, but policy efforts are needed to capitalise on them.

104. A **regional development** strategy can help regions seize opportunities offered by a globalised context, while linking such efforts to the skills agenda. Public investments that provide quality public services for households also benefit firms seeking to attract and retain skilled workers. Providing infrastructure that enables workers to reach their jobs and goods to circulate efficiently, as well as being environmentally sustainable, can provide local competitive advantages. The implementation of these policies at the relevant territorial scale can enable regions to build the complementarities that reduce, not increase, the trade-offs for growth and inclusion that come from being more interconnected. Such governance arrangements concern not only efforts across policy sectors and local jurisdictions, but also between national and subnational governments.

105. The main contribution of multilateralism to delivering good regional development strategies is via participation in multilateral organisations like the OECD that identify and share best practices.

106. **Better integration of migrants** is also necessary for inclusive growth in the host country and for migration to have a positive impact on development (OECD, 2017f). In OECD countries, there are more than 10 million highly-educated migrants who are not employed or are overqualified for the job they do. This is a situation in which the host country, the country of origin, and the migrant all lose. In part, this is because migration is not sufficiently taken into account in sectoral and development strategies. To enhance the contribution of migration to development, host and source countries need to adopt a more coherent policy agenda, improve co-ordination mechanisms and strengthen co-operation at bilateral and regional levels.

107. As migration continues to grow, a multilateral framework could be useful to co-ordinate flows, and some promising steps are being taken to that end. A UN Summit in 2016 on addressing large movements of refugees and migration led to the New York Declaration for Refugees and Migrants. The Declaration calls for the protection of migrants, support for rescue missions, better integration of migrants in their host countries, fighting negative perceptions associated with migration and improving the governance of international migration. The General Assembly subsequently decided to develop two global compacts: one for safe, orderly and regular migration and the other for refugees. The aim is to adopt the compacts by December 2018. These non-legally binding initiatives show the importance and possibility of multilateral dialogue while still respecting State sovereignty and the right of States to control or manage their borders.

108. Multilateral organisations and fora can also help countries improve their integration of migrants. OECD work on integration provides countries with important insights on how to get the best out of the skills potential of migrants to the benefit of host and origin countries and of migrants themselves.

3.1.3. Equal opportunities for future prosperity

109. One aspect of effective participation in a more interconnected world is the capacity to appreciate and benefit from cultural differences. Education can help shape future generations who care about global issues and engage in tackling the social, political, economic and environmental challenges of globalisation. The OECD has developed a new learning and assessment framework on **education for global competence** (OECD, 2018a). The framework aims to support evidence-based decisions on how to improve curricula, teaching, assessments and schools' responses to cultural diversity in order to prepare young people to live together harmoniously in multicultural communities and in a globalised world. The OECD's global competence framework is a good example of how multilateral institutions can contribute to fostering global competencies. The framework is based on the idea of promoting the values of human dignity and cultural diversity to help young people address ethical dilemmas, protect other people's dignity and confront in a positive way people who hold different views. These values provide critical filters through which a person processes information about other cultures and decides how to engage with others. Individuals who cultivate these values become more self-aware and are motivated to fight against exclusion, ignorance, violence, oppression and war.

110. Furthermore, transnational issues are having an increasing impact on the **future prospects of youth**. For instance, digitalisation is reshaping labour markets and the demand for skills, raising questions about the capacity of education and training systems to respond, the role of international migration and the potential for further job polarisation and greater income inequality. We also need to better understand what

actually matters for young people in terms of job characteristics and employment conditions. Today, in many countries, a key development challenge is that existing jobs do not meet the hopes of youth (OECD, 2017h). The chilling effects that unmet youth aspirations can generate on society calls for cooperative and cross-border solutions.

111. International discussions and peer learning in the field of **education** have advanced very successfully through the OECD, notably with world-leading tools such as PISA and PIAAC, both of which are being used as sources of data for SDG4 monitoring. The development of educational standards can help ensure that everyone has access to inclusive and equitable quality education and lifelong learning opportunities (SDG 4). The OECD is advancing international standards in the field of education and skills through two legal instruments which respectively aim to support quality provision in cross-border higher education and help keep schools and their students safe from earthquakes and other natural disasters.

112. More recently, research has shown that **child well-being** is of structural importance to the prospects for inclusive growth. The OECD has started to conduct policy-oriented research on children, enhancing child well-being and promoting equal opportunities among children, as demand has grown for better comparative information across a range of children's outcomes. In response to this, the OECD has also initiated a new study of children’s early learning and well-being, which will enable countries to learn from each other to improve children’s outcomes and to track progress over time. **Early childhood** is a particularly critical period for the cognitive, social and emotional development of individuals, and it strongly influences outcomes later in life in terms of employment, income, educational attainment and health. In OECD countries, around 13% of children live in income poverty on average (OECD, 2017i). Child poverty can reduce learning outcomes later in life and hinder the development of the social and non-cognitive skills (e.g. self-confidence, pro-social behaviour), that are needed to adapt in a complex and interconnected world.

113. Countries have also used multilateral fora to promote **gender equality**. Gender mainstreaming is an essential international commitment to ensure that the overall work of governments – policies, budgets, services and programmes – creates concrete benefits for and responds to the diverse needs of both men and women. The OECD 2017 Ministerial Council Statement recognised that progress in closing gender gaps has been very slow, and that gender gaps have even widened in some countries. Ministers therefore agreed to undertake to reinforce their efforts, including by adopting comprehensive plans and measures to mainstream and improve gender equality in line with the OECD Gender Recommendations. Multilateral frameworks are an effective way to identify key policy standards and highlight good practices. A “gender lens” should be included in multilateral standard-setting processes, and multilateral organisations should aim to develop gender sensitive indicators and benchmarks. The G20 decision to adopt the target of “25 by 25” – reducing the gender labour force participation gap by 25% by 2025 – is an example of how multilateral coalitions can motivate and track member countries to reach for gender equality. Another example is EPIC – the Equal Pay International Coalition – a coalition established in 2017 by the OECD, ILO and UN Women.

114. The OECD Recommendations on Gender Equality, adopted in 2013 and 2015 by OECD and member countries, outline a set of shared policy principles that countries can implement to promote gender equality. The collection and analysis of gender-sensitive data in different policy areas and across multilateral efforts is necessary to constitute a global evidence base on issues of gender inequality. Solid data can help advocate for and

enact change in business models, mind-sets and behavioural patterns across cultures, reduce gender bias and discrimination and promote more inclusive economic and social outcomes. Through its work on the Social Institutions and Gender Index (SIGI), the OECD Development Centre has established the first database on discrimination against women in laws and practices, which is helping to track progress at the global level through SDG 5.1 as well as at the country level. Finally, the 2018 OECD Gender Toolkit can be an instrument to raise awareness of gender parity and demonstrate gender issues can be promoted at the international level.

115. Beyond the need for co-ordinated international efforts to address pandemics, **health** outcomes increasingly depend on international co-operation. OECD countries face a number of joint challenges in healthcare quality and access, as well as on specific issues such as mental health. A key necessity in tackling these challenges is developing new benchmarks that enable effective comparison of policy outcomes across countries and at the regional level within countries.

116. The OECD is developing a new international initiative for monitoring health system outcomes – the Patient Reported Indicators Survey initiative (PaRIS) –which will allow international benchmarking of patients' own experiences of medical care and health care outcomes, thereby making health systems more patient-centred and strengthening the monitoring of health system performance. The OECD is also working with the WHO and ILO in delivering the Working for Health programme, which will support international efforts to standardise data collection and analysis of health workforce and develop a health workforce mobility platform to maximise benefits from international health worker mobility for Universal Health Coverage (UHC). And the OECD is also continuing its work on mental health, which draws upon the collaborative multilateral work that established the 2015 OECD Recommendations on Integrated Mental Health, Skills and Work Policy. Upon the requests in 2017 of OECD Health Ministers and the G7, the OECD will advance benchmarking of mental health policies and outcomes, enabling countries to better measure and understand their performance on mental health, including for children and adolescents.

117. Health is also a key area where global co-operation can deliver enormously valuable public goods. The eradication of diseases (e.g. smallpox) is one of the great achievements of multilateralism. Viruses and bacteria rarely stop at borders – and thus a policy in one country can deeply affect another. In the context of its work on policies and practices related to health care delivery systems, the OECD has started to work on addressing the spread of antimicrobial resistance by fostering appropriate use and affordable access to antimicrobials, as well as reinvigorating the R&D pipeline. Improved collaboration in research to boost antimicrobials is necessary, as it is unlikely that any country acting alone will be able to tackle this threat. Harmonising regulatory standards and joint technology assessment and procurement processes are examples of areas that would benefit from further international co-operation.

3.1.4. Inclusive growth governance

118. Much of the dissatisfaction that has been expressed about multilateralism in recent years has related to concerns about insufficient inclusiveness of one form or another. Sometimes this has been about which voices are heard in multilateral organisations and processes. At other times it has been more about the results of the process, given that in many countries living standards for the many have barely advanced while income and wealth at the top end of the distribution have risen rapidly. In trying to

reinvigorate multilateralism so that it delivers more widely shared gains, attention therefore needs to be paid to its governance. Multilateralism will have to be more inclusive in the sense of bringing in a wider range of countries and in consulting more thoroughly with stakeholders, including civil society. And more attention should be paid to ensuring that the growth yielded by the global economic system is inclusive.

3.2. Going beyond GDP: measuring well-being

119. The debate on the relevance of GDP as a measure of people's well-being is almost as old as the measure itself, and several initiatives (including by the OECD) have been launched in recent years to bring into greater focus measures that capture people's living conditions, the quality of their lives, and the threats to sustainability that may be associated with higher economic production. While all of these measurement initiatives share the idea that GDP growth should always be viewed as a means to other ends, rather than as an end in itself, they also recognise that measuring well-being is not the ultimate goal: for well-being indicators to contribute to better lives, they must be used in decision-making by policy makers and the general public.

120. Several OECD and non-OECD countries (including New Zealand, France, Israel, Italy, Sweden, the United Kingdom and Ecuador, among others) have recently launched initiatives to embed well-being metrics in their policy process. While these initiatives are fairly recent and in different stages of the policy cycle, these country experiences illuminate the many benefits of using well-being indicators in a policy context. Benefits include highlighting objectives that matter to people but are routinely missed in policy; supporting the strategic alignment of policies across government; promoting a more comprehensive evaluation of (intended and unintended) impacts of policy programmes on lives; and fostering compatibility between sustainability and improving well-being today. The differing impacts across countries have aided best practice learning and development of a blueprint for successful implementation.

4. Delivering on the 2030 Agenda for Sustainable Development

121. The 2030 Agenda for Sustainable Development provides a useful global framework for advancing economic, social and environmental development objectives within a multilateral framework. Seventeen goals and an elaborate framework of indicators and targets provide a means through which to measure progress. The agenda extends well beyond measurement, though, offering a normative framework for global development. Delivering on the SDGs will require action at the international, national, and subnational levels, with governments and communities in the driving seat.

122. Members have called on the OECD to play its part, both in support of the UN-led international follow-up efforts, and in accompanying individual governments in their implementation efforts. The OECD Action Plan on the Sustainable Development Goals sets out some of the ways in which the OECD is responding to this call. The 2030 Agenda recognises the importance of high quality, evidence-based public policies. Delivering it will also require more integrated approaches to policy-making, which deal with coherence across sectors and levels of government, as well as balancing domestic and transboundary dimensions.

4.1. The SDGs call for better evidence and new approaches to public policy

4.1.1. Assessing the starting points of countries with respect to the SDGs

123. Unlike the Millennium Development Goals (MDGs), the SDGs are universal, applying to countries at all levels of development. This includes OECD countries. OECD countries also have a responsibility to support others as they implement the SDGs, both by providing targeted support to developing countries, and by contributing to a global enabling environment for sustainable development – contributing to global public goods, and working to curb global public “bads”.

124. The availability of data for SDG follow-up remains a challenge for OECD countries, and to an even greater extent for many partner countries. Within the UN Global Indicator Framework for monitoring global progress on SDGs, more than half of the indicators are either not yet developed or the data are not widely available. This means that the statistical agenda for monitoring achievement on SDGs is substantial. Countries will have to take into consideration national circumstances and priorities in order to create a nationally relevant monitoring system.

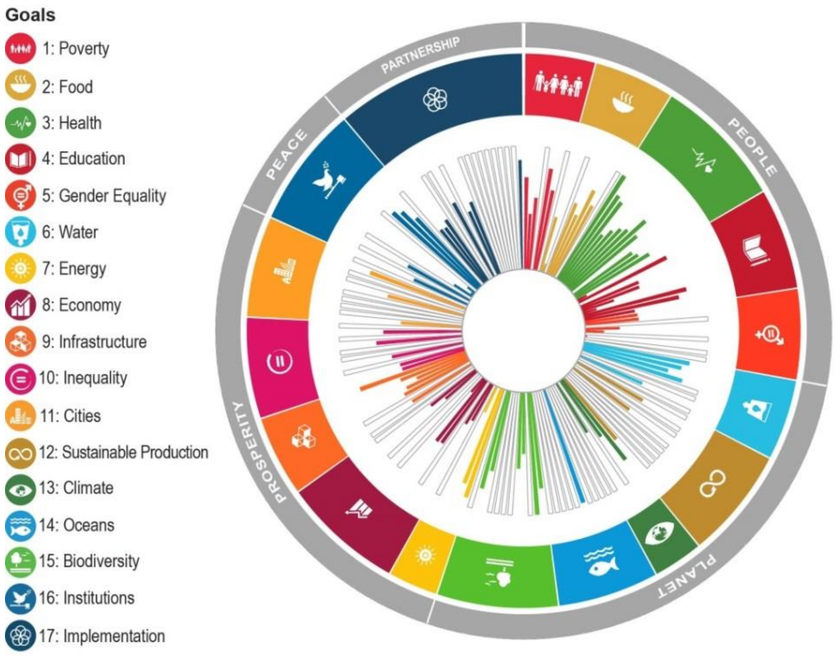
125. The OECD *Study on Measuring Distance to the SDG Targets* (OECD, 2017g) helps countries recognise their strengths and challenges in achieving the SDGs, and also describes the statistical agenda ahead by showing countries which targets and goals have statistical coverage and which are lacking. Data coverage is a challenge, especially for the goals relating to Planet and Partnerships.

126. Members have varying abilities to implement and monitor progress toward the SDGs. The OECD can play a role in supporting them. Many questions arise. For

example, how far are countries from achieving the SDGs for different groups – children, women and migrants? Disaggregation of data is vital for this analysis. How far will Members be from achieving the SDGs in 5, 10 and 15 years, if present trends continue? And what are the effects of OECD countries on others when working to achieve the SDGs? Understanding these dynamics can help countries in identifying policy tools and areas which require action, and to minimise unintended effects. OECD work in this area will continue to complement work being undertaken by the UN and other actors.

Figure 11. OECD countries have some way to go in meeting most of the SDGs

Distance to selected SDG targets for OECD, 2016 or latest available



Source: OECD () *Study on Measuring Distance to the SDG Targets: An assessment of where OECD countries stand*, OECD, Paris www.oecd.org/std/measuring-distance-to-the-sdgs-targets.htm

4.1.2. New approaches to planning for and implementing the SDGs

127. The integrated nature of the SDGs incentivises governments to develop and implement policy in new ways, considering the inter-linkages across policy domains. The lack of awareness of inter-linkages brings with it the risk that progress towards one goal occurs at the expense of another. For example, reliance on fossil fuels to expand access to energy (SDG 7) could exacerbate climate change and ocean acidification, undermining progress in climate action (SDG 13) and in ocean conservation (SDG14), as well as contributing to health problems (SDG 3).

128. Since the adoption of the SDGs, countries have taken different approaches to developing national strategies. Recent OECD studies have highlighted the range of approaches taken by governments so far, recognising that there is no single best-practice model.[56] However, political commitment, broad national ownership and stakeholder engagement appear to be an essential foundation for national implementation of the SDG, underpinned by strategic, institutional and monitoring frameworks.

129. Tools such as the OECD *Multi-dimensional Country Reviews (MDCRs)* promote a multi-dimensional approach for the SDGs, which accounts for the complementarities and trade-offs between diverse objectives and complex policy issues; and which takes the multiple dimensions of development into account.

4.2. Delivering on the 2030 Agenda requires new and better financing

130. More and better development finance from all sources will be crucial to the achievement of the 2030 Agenda. The Addis Ababa Action Agenda (AAAA) underscores the importance and complementarity of different types of financing – public and private, domestic and international – and the interlinkages among them.

131. Official development assistance (ODA) will remain a pillar of development finance to support developing countries to achieve the SDGs. While ODA reached an all-time high of USD 145 billion in 2016, in 2017, net ODA stood at USD 146.6 billion or 0.31% of gross national income (GNI), reflecting a decline in donors' spending on refugees inside their own borders – some of which is reported as ODA –. In addition, ODA's importance is diminishing in relation to external flows. Remittance flows to developing countries decreased by 2.4%to USD 429 billion in 2016 before rebounding by an estimated 3.3% in 2017.

132. The AAAA recognised that ODA flows can catalyse other resources and direct them to where most needed, for example through blended finance – i.e., the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries. An OECD assessment of financing amounts mobilised by official development finance in 2012–15 found that 77% of the USD 81 billion mobilised went to middle-income, rather than low-income and/or least developed, countries, suggesting that blended finance could be more strategically targeted.

133. A key policy issue is for countries to get the most out of inward foreign investment. Private investment, particularly foreign investment, can serve as a conduit, enabling domestic industries to access international markets and linking them with multinational enterprises and global value chains, promoting skills and fostering gender inclusiveness among others. The objective of a new OECD project, to be carried out over the next 3-5 years, is to equip policymakers with a set of actionable tools to help FDI to exploit existing potential, i.e. investment that maximises inclusive and sustainable growth

[5] OECD (2017), *Policy Coherence for Sustainable Development 2017: Eradicating Poverty and Promoting Prosperity.*

[6] OECD (2017), *Getting Governments Organised to Deliver on the Sustainable Development Goals – Summary Report and Next Steps*.

and supports progress towards the SDGs. This Quality FDI Toolkit builds on two core OECD instruments: the OECD Policy Framework for Investment (PFI), which provides policy guidance for mobilising private investment that supports steady economic growth and sustainable development; and, the OECD Guidelines for Multinational Enterprises that address responsible business conduct.

134. In all of these areas and others, better data will be key to shaping incentives and tracking progress. A new Global Outlook on Financing for Development will look across all financial resources. It will provide a framework, data and concrete solutions to navigate the new global development finance architecture, so as to support better policies for finance in support of inclusive and sustainable development at all levels.

135. Indeed, achieving the SDGs will require a more holistic and better co-ordinated approach to financing for development, bringing policy communities and stakeholders together and maximising available resources (mobilising new resources and increasing the impact of already-committed resources). The OECD promotes this inclusive approach through the Blended Finance Principles adopted in 2017, the new measure of Total Official Support for Sustainable Development (TOSSD), its work on Illicit Financial Flows and Social Impact Investment, and the forthcoming Global Outlook referenced above. The OECD will also contribute to improved functioning of the financing for sustainable development market through increased transparency and better rules, and promote new forms of partnership between public and private actors. As such, the OECD can serve as a “hub” for information on financing for sustainable development.

136. Looking ahead, the OECD can enhance its collaboration with other relevant international organisations in the field of development co-operation (in particular, with UN agencies) to support policy coherence for sustainable development. The Organisation is also well placed to analyse the targeting and reach of the policy support and financing provided by multilateral development organisations (e.g., targeting of the poorest and most marginalised segments of the population in developing countries) as well as an analysis of their role in fostering new growth models and global initiatives and regulations that can lead to globalisation that effectively creates equitable benefits for all.

137. In addition to mobilising new sources of financing, efforts to tackle illicit financial flows out of developing countries also need to be stepped up, and this should involve increased transparency, inter-agency co-operation, and international collaboration. Tax crimes, money laundering, corruption and other financial crimes threaten the strategic, political and economic interests of developing countries and deprive governments of revenues needed for sustainable development.

138. The Addis Ababa Action Agenda recognises that much of the increased public financing to reach the SDGs will have to be generated domestically. Domestic resource mobilisation and use have a key role to play in financing the SDGs.

4.2.1. Base Erosion and Profit Shifting (BEPS)

139. 113 countries and jurisdictions have joined the global alliance to fight BEPS, all working together on an equal footing in the Inclusive Framework to implement the BEPS package and to continue work on remaining BEPS issues. The BEPS project stands to protect the revenue base of all countries, and is particularly significant for developing countries owing to their reliance on corporate tax revenues.

140. Bespoke technical assistance is available to developing countries to implement the BEPS package. This includes the joint OECD/United Nations Development Programme Tax Inspectors Without Borders Initiative (TIWB). The initiative continues to grow (with a target of 100 deployments by 2020), and has resulted in tax revenue increases for developing countries of over USD 328 million between 2012 and 2017.

141. Through its participation in the Platform for Collaboration on Tax - a partnership with the International Monetary Fund, the UN and the World Bank Group - the OECD also produced additional toolkits to assist developing countries with high priority tax issues related to the BEPS Project.

4.2.2. Tax Transparency

142. Tax transparency and exchanging information for tax purposes are key instruments in the fight against illicit financial flows. The 148-member Global Forum on Transparency and Exchange of Information for Tax Purposes has intensified its technical assistance activities, with a focus on beneficial ownership and implementation of the standard on automatic exchange of information (AEOI). A comprehensive 2-3 year induction programme for new developing country members is now underway, and technical assistance was delivered to more than 50 jurisdictions in 2017. Legislative support in drafting beneficial ownership requirements has been provided to more than a dozen jurisdictions across the world.

143. As the evidence of the benefits delivered through AEOI continue to emerge, the interest of developing countries in this powerful anti-evasion tool is growing. At its plenary meeting, which took place on 15-17 November 2017 in Yaoundé, the Global Forum adopted the Plan of Action for Developing Country Participation in AEOI which draws a pathway for developing countries by offering a structured step-by-step approach to implementing AEOI. Recognising that significant resources are required to support developing countries' efforts through the provision of technical assistance, the Global Forum plenary called on the international development agencies, governments and other potential donors to support this vital agenda. With more than a dozen developing countries already receiving assistance under the step-by-step approach, this call for support is now also turned to the G20 countries.

4.2.3. Monitoring Support for Capacity Development for Domestic Revenue Mobilisation

144. The OECD continues to monitor Official Development Assistance dedicated to tax system development in developing countries, commitments of assistance to domestic revenue mobilisation increased from USD 181m in 2015 to USD 288m in 2016.

5. Harmonising rules of the game in trade and investment and improving business conduct

145. A major concern about the way that globalisation has proceeded is that not all countries or companies are competing on a level playing field. This reflects both the use by governments of various support measures to favour their own suppliers and differences in the degree of respect for labour and environmental standards among firms.

146. Addressing concerns about competition in the global economy requires a global conversation. But it is not only governments that need to act: companies also need to show that global competition can raise standards rather than lower them.

147. Understanding the links between trade and investment requires an understanding of how multinationals are optimising global production using different channels of internationalisation – trade, FDI, and/or strategic partnerships. The expansion of the digital economy and services trade is likely to increase the complexity of this relationship, multiplying interactions and indirect effects. Against this background, Members should aim to build greater policy coherence between trade and investment and design and implement coherent international policy frameworks that ensure better outcomes from globalisation.

148. International organisations such as the OECD have an important role to play in supporting international economic co-operation. OECD evidence and analysis can help countries develop a shared understanding of the policies and instruments in place and their effects. The OECD can also convene discussions on ways forward – be they international standards or codes of conduct to fill gaps in international trade and investment rules, international regulatory co-operation or simply providing a forum where governments can hold each other to account.

5.1. Government support and state-owned enterprises

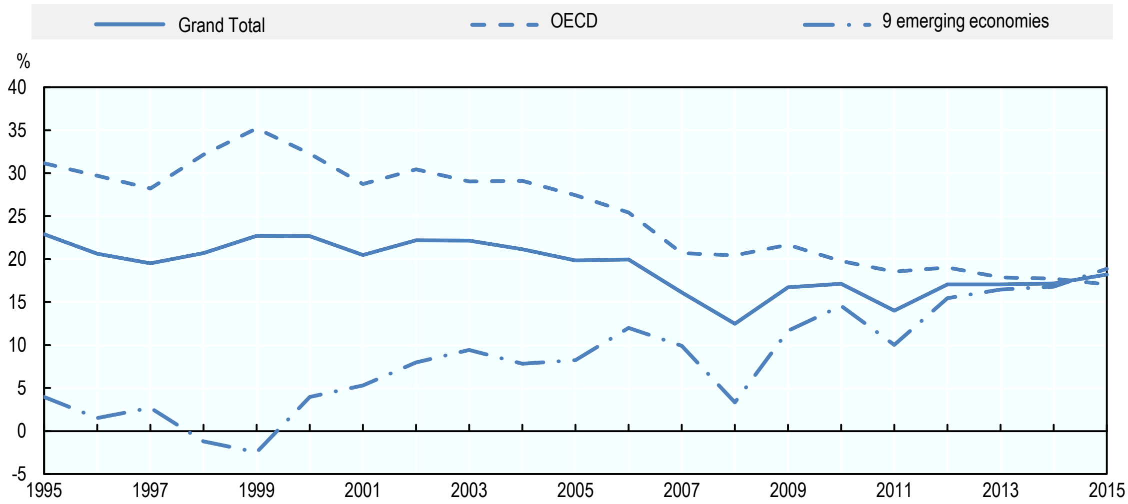
149. Government support remains a feature of the global trading environment. Agricultural support is a well-known example, but concerns have arisen in other sectors about over-capacity linked to government support and about state-owned enterprises (SOEs). Patterns of support are also changing as large emerging markets join the global economy.

5.1.1. Agricultural markets remain heavily distorted

150. Government support is significant in the agriculture sector, and how this support is provided matters. In the years 2013-15, an annual average of USD 585 billion

(EUR 469 billion) was provided directly to agricultural producers[7] for the 50 countries covered in the OECD agricultural monitoring report. Of this, on average, 68% was provided in the form of market price support: payments based on output or on input use without constraints – all measures that distort production decisions and can significantly distort markets and trade. For the OECD countries as a whole, average support levels have roughly halved since 1995-97, mainly as a result of policy reform in some countries. At the same time, mainly driven by China and Indonesia, the average support level in the emerging economies has increased from very low or even negative levels to average levels and, in 2015, above the average of the OECD (Figure 12). These averages mask wide differences across countries: some OECD countries have very low levels of support, and support in major emerging markets, while rising, remains well below the highest levels provided in some OECD countries.

Figure 12. Evolution of Producer Support Estimate, 1995 to 2015 (percentage of gross farm receipts)



Notes: % PSE: Producer Support Estimate in percentage of gross farm receipts. The OECD total does not include the non-OECD EU Member States. The Czech Republic, Estonia, Hungary, Poland, the Slovak Republic and Slovenia are included in the OECD total for all years and in the EU from 2004. The emerging economies are Brazil, China, Colombia, Indonesia, Kazakhstan, Russia, South Africa, Ukraine and Viet Nam. Viet Nam is included from 2000 onwards.
Source: OECD (2016d), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), http://dx.doi.org/10.1787/agr-pcse-data-en.

151. While disciplines on agricultural support are negotiated at the WTO, OECD analysis continues to help inform the debate and make the case for reform. Discussions in the Committee on Agriculture enable countries to learn from each other's experiences with the aim of achieving a more sustainable and productive agriculture and food system in less trade-distorting and more efficient ways.

[7] USD 87 billion (EUR 69 billion) was also provided for general services for the sector.

5.1.2. Subsidies are also important in fisheries

152. The OECD has also been calling for greater transparency and a better understanding of the effects of fisheries support. Some fisheries subsidies contributing to overcapacity, overfishing and/or to IUU activities not only affect trade but also contribute to stock depletion and ecosystem impoverishment. Competition from subsidised distant water fleets can also make it economically unviable for developing countries to develop their own fisheries. The OECD Fisheries Support Estimate (FSE) database allows users to compare how fisheries support differs among countries and is evolving over time. The FSE database shows budgetary support to fisheries of USD 13 billion (EUR 11.7 billion) in 33 economies in 2015.

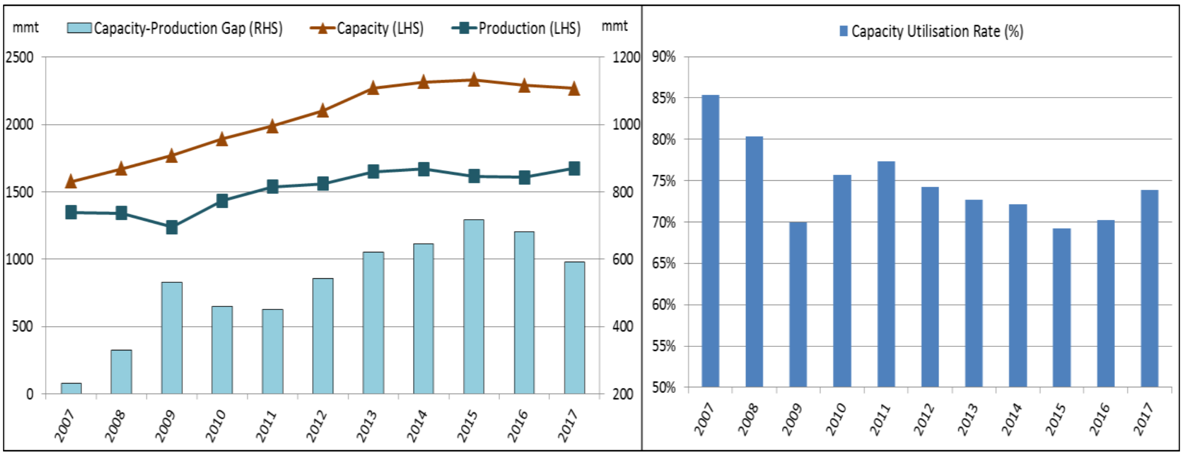
5.1.3. Market-distorting support in other sectors has led to over-capacity

153. Over-capacity in the steel sector is creating significant difficulties for producers in advanced, emerging and developing economies alike. Exacerbated by weak global demand, over-capacity can be driven by different forms of government intervention, including support to new investment projects or market-distorting subsidies and other types of government support that prevent firm exit and hinder market functioning. Over-capacity is depressing prices, undermining profitability by lowering utilisation rates, precipitating job losses, jeopardising the existence of companies across the world, and creating regional imbalances as well as frictions in international trade.

Figure 13. Global crude steelmaking capacity and crude steel production

A. Capacity-Production gap (mmt)

B. Capacity Utilisation Rates



Source: OECD Steelmaking capacity database for capacity figures; World Steel Association for production figures.

154. A multilateral approach is essential for effective action. The Global Forum on Steel Excess Capacity (GFSEC), mandated by the G20 and facilitated by the OECD, brings together 33 economies at different stages of development, accounting for more than 90% of global steel production. Through the GFSEC information-sharing mechanism, an initial inventory of policies that can affect excess steelmaking capacity was drawn. The OECD, under the direction of the GFSEC, prepared a report setting out concrete policy solutions to reduce excess capacity, which was approved at the GFSEC Ministerial meeting together with six guiding principles for governments. On this basis,

specific policy recommendations were developed that emphasise the need for the right policy framework conditions; call for the removal of subsidies and other measures that distort steel markets; and stress the need for a level playing field among steel enterprises of all types of ownership.

155. Beyond steel, there are growing concerns in a number of countries that government interventions – ranging from direct budgetary transfers to targeted tax concessions, soft loans, regulated prices, local-content obligations, forced technology transfer, or export restrictions, for example on raw materials – are causing market distortions in other sectors. The OECD is working on identifying and measuring government support, currently focused on the aluminium value chain, with a view to informing multilateral, co-ordinated efforts to discipline the use of support measures by all governments. The problem of excess capacity is also discussed at the OECD's Working Party on Shipbuilding (WP6) with a view to exploring possible development of a new legally binding instrument to remove obstacles to normal competitive conditions.

5.1.4. There are growing concerns about the role of SOEs

156. In some cases, state interventions extend to direct action via SOEs. Insofar as these strategies are pursed in the domestic context they may not give rise to wider concerns, although they may impact the capacity of smaller businesses to compete in local and global markets. Competitive neutrality is essential for a level playing field for businesses of all sizes. Market entry and growth of new and small businesses encounter limitations when SOEs benefit from an unfair edge in domestic and cross-border activities (OECD, 2012a; 2017g).

157. There is a risk that interventionism could spill over into the international marketplace. Multilateral approaches have focused on trade rules against subsidisation (e.g. at the WTO) and specific provisions in investment treaties, on the assumption that other concerns could be addressed through sound domestic competition policies and professional state ownership. However, there is a growing awareness of gaps in coverage, and the need to lay out specific expectations relating to the transparency of SOEs and other state-favoured companies operating in the global marketplace. The 2017 OECD Ministerial called on the OECD to "examine the possibility to develop a voluntary global reporting standard for internationally active SOEs". This work, involving among others the competition, investment, state ownership and steel communities, is expected to deliver outputs for the 2019 and 2020 MCMs.

5.1.5. A truly international framework on officially supported export credits is needed

158. International guidelines for providing officially supported export credits are the key to ensure a level playing field. The OECD Arrangement on Officially Supported Export Credits provides such guidelines, but the non-OECD economies remain outside of this framework. Against this background, the International Working Group on Export Credits was established in 2012 to develop a new set of guidelines with the participation of the major OECD countries and emerging economies, including the BRIICS. The work of that group has to be accelerated in order to ensure a level playing field in this area. In the 2017 OECD Ministerial Council Meeting, the Ministers "call[ed] for the OECD export credit bodies to continue their work on good governance guidelines and financial rules for official export credits and reiterate[d] our support for the work of the International Working Group on Export Credits".

5.1.6. Some investment policy trends may threaten open investment

159. In the years following the 2008 financial crisis, governments generally continued to emphasise openness to investment, as shown in the regular monitoring by the OECD and UNCTAD of G20 countries and in recent updates of the OECD's FDI Regulatory Restrictiveness Index.

160. However, there have been signs that some governments are moving in the direction of more interventionist approaches towards international investments in a number of domains, while some others are facing difficulties removing barriers to foreign companies, including with respect to the use of currency-based measures to manage capital inflows, investment incentives, and the imposition of controls on outward investment. Also, further research is needed on technology-transfer measures given their potential to be distortive, given that they offer financial benefits and often target specific firms, sectors or technologies. The issue of the broader or stricter review of investments using national security screening mechanisms in response to new security threats is a complex matter of increasing relevance that requires monitoring, and would deserve further international cooperation and sharing of practices. The OECD Codes of Liberalisation, as the only international agreement dedicated to openness and transparency of capital flow policies, provide both a strong and transparent legal framework to analyse these issues as well as a forum for discussion on capital flow management via its Task Force. Through its work under the Policy Framework for Investment, and in particular through Investment Policy Reviews, the OECD continues to provide guidance to countries, and increasingly to regional groupings, on how they can mobilise private investment that supports steady economic growth and sustainable development and contributes to the economic and social well-being. While the Policy Framework for Investment promotes open investment regimes, it takes a comprehensive, whole-of-government approach to investment climate reforms, taking into account the needed policy action to not just increase investment but to enable inclusive and sustainable impacts of investment.

5.1.7. Corporate Governance – connecting finance and the real economy

161. Capital markets are growing in importance and play a critical role in making sure that financial resources are available for quality investments in the real sector. Of particular importance is an efficient supply of equity to those future-oriented companies that will constitute tomorrow's industrial base. How well this process of capital allocation and capital formation works will to a large extent depend on the quality of the corporate governance framework aiming to facilitate the connection between the financial sector and the real economy. As a consequence, corporate governance should be included in the list of key structural reforms that can reverse decreasing and uneven business sector dynamism, low productivity growth and weak capital formation. Indicators of these symptoms of sclerosis may differ between economies but include an ageing business population, a decreasing share of smaller high-growth firms and a substantial portion of the capital stock being sunk into non-viable so-called zombie companies that survive on short term credits and delay the important process of "creative destruction". Many OECD countries have also seen a significant drop in the number of companies that use public equity markets to finance their investments and growth.

162. The G20/OECD Principles of Corporate Governance provide a number of key developments that should be considered when shaping corporate governance reforms, including the increased complexity of the capital market investment chain, the changing

business models of stock exchanges and new corporate ownership structures. Reforms also need to take into account an increasingly interconnected world of business and finance where access to capital by corporations and the search for investment opportunities among shareholders, frequently cross national borders. If companies are to reap the benefits of the today's globalised capital markets, corporate governance rules and practices must be credible, well understood across borders and adhere to internationally accepted principles.

163. As the globally recognised standard-setting body, the Corporate Governance Committee has an increasingly important role to play in monitoring and guiding national reforms that facilitate the connection between the financial sector and the real economy. Special attention should also be given to ensuring a smooth integration of global equity markets and corporate governance frameworks that promote responsibility, transparency and accountability.

5.2. Ensuring a level playing field for businesses of all sizes

164. Multilateral efforts are needed to foster a level playing field in global markets and ensure the benefits are fairly shared across firms of all sizes. A multilateral approach is required in particular to define norms and standards that may enable SMEs to benefit from globalisation, take part in GVCs and address new regulatory issues in the digital age. The OECD could facilitate discussions and the sharing of best practices regarding policies in this area.

165. While co-ordinated and integrated domestic policy approaches are essential to foster SME participation in global markets, GVCs and digitalisation amplify the importance of goods and services trade policies and international co-operation. Trade costs and restrictions impact SMEs disproportionately, as do anti-competitive practices and aggressive tax avoidance by larger groups. Also, regulatory divergence across countries imposes an additional layer of difficulty to small firms, and the increased number and complexity of digital "border control" may condition the benefits that SMEs gain from digital trade (OECD, 2018e). In this regard, greater attention is needed on SME-related issues in international trade dialogue.

166. In addition, certain risks may arise for SMEs that participate in GVCs, due to their typically weaker bargaining power vis-à-vis larger firms. In this respect, due diligence requirements and their implementation matter for creating a level playing field. The OECD Guidelines for Multinational Enterprises, which cover also relationships with sub-contractors and suppliers, represent an important reference in this respect.

167. Access to finance is another area where multilateral discussion is essential, in particular to ensure that financial regulation facilitates SMEs' access to a broad range of financing instruments, without compromising financial stability and investor protection, and enables a return on investment. The OECD Scoreboard on Financing SMEs and Entrepreneurs provides an international standard for monitoring access to finance by SMEs over time and regularly exchange knowledge on policy developments in this area. The G20/OECD High-level Principles on SME financing present a comprehensive framework to foster SME access to diversified sources of finance, and work is ongoing to identify effective approaches for their implementation across jurisdictions.

168. The OECD is also working to help countries identify effective approaches to create a level playing field in domestic markets, to enable SMEs to increase their

competitiveness, scale up and integrate global markets (OECD, 2017m). This is crucial in the current context, as increased competitive pressures and the fast pace of technological change demand agility, innovative behaviour and access to strategic resources. While framework conditions affect overall business investment, innovation and growth, some dimensions impact SMEs disproportionately.

5.3. Competition policy

169. In addition to the emerging challenges of the digital economy addressed in Section 2.3, there remain several opportunities in the area of competition law to help ensure that international trade operates on a level playing field, and enhances rather than distorts competition.

170. The first opportunity is to ensure that antitrust authorities are equipped to tackle cartels that extend beyond national borders. The effects of cross-border cartels can be particularly pernicious, in terms of both their reach and their effect on consumers, notably on disadvantaged consumers who spend most of their income on basic goods, including food products and medicines.

171. Competition authorities are enhancing their co-operation in the area of cross-border merger reviews and antitrust investigations. Whether through stand-alone agreements between competition authorities or clauses in international trade agreements, more legal instruments are being developed to facilitate co-operation. However, more work could be done to understand how co-operation tools can be enhanced to enable more sharing of information, for example in investigations of cross-border cartels. Such measures could also facilitate other types of cases that may become particularly relevant in the era of digitalisation of cross-border commerce, such as abuses of dominance. Co-ordination would also be valuable to ensure that different competition authorities come to consistent decisions and remedies, despite jurisdictional legal differences, and undertake investigations of similar types of conduct by the same company. Co-operation among competition authorities could also reduce companies' costs of compliance with distinct multi-jurisdictional decisions, and reduce uncertainty for companies that operate across national borders. Such co-operation requires strong safeguards on confidential information, for which standards could be developed. Countries should also consider whether their cartel leniency systems would be more effective if they were better harmonised – in other words, whether the fragmentation of leniency systems creates disincentives for firms to come forward and report collusion.

172. Furthermore, governments may also need to re-assess policies that distort competition on an international scale. Achieving a more level playing field in global markets means allowing efficient and innovative firms to reach their global potential.

173. In particular, governments adopting new industrial policies, or reconsidering the role of the private sector in some markets for public services, may wish to apply competitive neutrality principles in order to prevent distortionary and unequal treatment of private firms. The OECD's Competition Committee has long promoted competitive neutrality, and could explore how competition authorities can help governments grapple with the application of these principles.

174. Governments should also review whether certain regulations inadvertently encourage collusion among firms in a market, with consequences that reach beyond their

jurisdiction. The OECD's Competition Assessment Toolkit provides guidance on assessing regulation for such unintended consequences.

175. Finally, some governments could step up co-operation with and technical assistance to less experienced competition authorities. In an increasingly complex economic environment, ensuring quality standards and consistent principles by competition authorities around the world is key to strengthen the solidity of the global competition system. The OECD has long devoted resources to training programmes for younger competition authorities and could provide assistance in this respect.

5.4. Beyond governments, companies have an important role to play

176. Companies as well as governments need to ensure and demonstrate that global competition can raise environmental and social standards rather than lower them. Today's business leaders have an unprecedented opportunity and responsibility to show that companies can do well by doing good. The OECD has a wealth of legal and policy instruments designed to promote responsible business conduct (RBC) that advise governments on how to create fair market conditions, and often provide companies with guidance on how to comply with the rules set by their governments. The OECD, the FSB and many national authorities are working to improve corporate leaders' enforcement of governance and compliance systems so as to ensure that they are capable of addressing the risks their activities engender, including regarding illicit financial flows. The G20/OECD Principles of Corporate Governance offer a sound framework and proven recommendations to conduct this work.

177. Concerns about the level playing field also relate to how companies behave, including whether they are respecting environmental and social standards. One element in particular relates to modern slavery. Companies need to help governments combat trafficking in persons, which transcends borders and affects many sectors' supply chains.

178. The OECD is promoting RBC through the Guidelines for Multinational Enterprises and guidance on due diligence for specific sectors, including minerals, extractive, agriculture, garment and footwear, and finance. The Guidelines seek to boost the contributions firms can make to economic, environmental and social progress, and comprise a set of recommendations in all major areas of corporate citizenship.

179. The Guidelines recommend that enterprises should carry out risk-based due diligence to identify, prevent, or mitigate actual and potential adverse impacts and account for how these impacts are addressed.

180. Production and trade of mineral resources, for example, can be associated with multiple types of risks. In order to promote RBC and enhance integrity in global supply chains of minerals, the OECD has since 2011 been working closely with governments (in particular in Africa), international organisations (such as the UN), the private sector and civil society organisations to promote and disseminate the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals.

181. Other sectors where due diligence guidance has been developed include extractive industries, agriculture, garments and footwear, and finance.

182. The 2017 MCM "encouraged the OECD to develop a set of general due diligence guidelines that can be applied to any sector." Building on existing OECD instruments, the Due Diligence Guidance for RBC provides practical support to enterprises. This plain language Guidance is directed to all enterprises, large and small, covers every business

sector, and is global in scope, providing a common, government-backed instrument on due diligence for business.

183. The OECD Guidelines also offer a unique built-in grievance mechanism: the National Contact Points (NCPs), which each adherent to the Guidelines is required to set up. Their mandate is to promote the Guidelines and to handle issues related to their implementation. The dual mandate of NCPs allows them to both provide advice and information to help enterprises understand and implement responsible business standards, and to provide a mechanism to stakeholders to submit complaints when enterprises do not respect those standards. NCPs handle issues (also known as "specific instances") related to the conduct of enterprises operating in or from their territories and therefore can have transnational reach. The NCPs' role is to mediate, i.e., to bring the parties together to agree on a solution. In 2017, parties reached agreement in 83% of the 12 specific instances where mediation occurred.

184. Establishing a central interlocutor between enterprises, stakeholders, and policy makers in order to clarify expectations is especially important as governments are increasingly introducing regulations or policies related to RBC and supply chain due diligence. As such, NCPs are increasingly involved in the design and implementation of policies to promote RBC and playing a role in promoting co-ordination and coherence within the government among all relevant policies relating to RBC, through for example National Action Plans on Business and Human Rights (NAP). As of December 2017, 19 countries, all of which are Adherents to the OECD Guidelines, had adopted a NAP.

5.5. Addressing the challenges of corruption and illicit trade on a global scale

185. **Corruption** in international transactions is a complex, multi-disciplinary phenomenon which is often hidden by opaque corporate structures, made possible by inconsistencies and gaps in legal frameworks and insufficient co-operation across jurisdictions and between government agencies. The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which has been ratified by 43 OECD and non-OECD countries, was designed to address this problemIt is crucial for government agencies to work together at both the domestic and international level in order to prevent, detect and prosecute corruption crimes. This is a task for central government but also for subnational governments and for other bodies such as parliaments, audit institutions and civil society. Building on the OECD Recommendation on Public Integrity and its implementation toolkit, the OECD offers support to governments by reviewing what it takes to successfully implement and drive policy changes in the field of integrity and the critical factors for success.

186. In the fight against transnational corruption, law enforcement authorities continue to face practical and legal problems, many of which also face officials in charge of investigating transnational financial crimes, including money laundering and the financing of terrorism. It is essential to develop the OECD's existing networks of law enforcement officials and co-operation with other relevant bodies such as the FATF, to foster a holistic approach to combatting transnational bribery and other complex cross-border financial crimes, drawing on the wealth of experience gained through monitoring implementation of the OECD Anti-Bribery Convention and related instruments.

187. The OECD, with the support of the United Kingdom, has developed a whole of OECD Strategic Approach to fight corruption and promote integrity which aims to implement a more coherent approach in its overall work on anti-corruption.

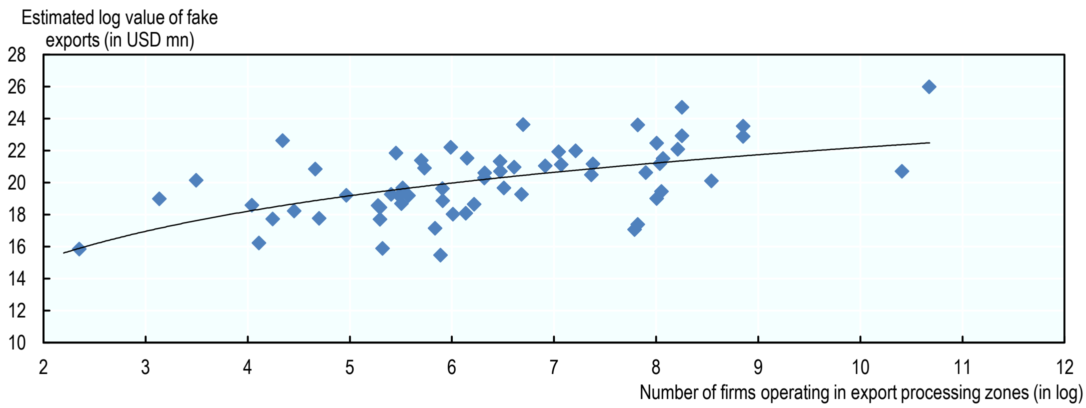
188. Also, the sophisticated markets of the global economy are opening up new opportunities for criminal networks to expand **illicit trade** activities, including trafficking in persons, migrant smuggling, wildlife trafficking, narcotics, counterfeit medicines, fake goods, tobacco and alcohol, with serious negative consequences for the economy and society. OECD estimates that volumes of international trade in counterfeit and pirated goods, which is only one sector of illicit trade, could be as high as USD 461 billion, or around 2.5% of global trade, while the total volume of international organised crime was estimated to be as high as USD 870 billion, or 1.5% of global GDP (OECD, 2016e; OECD/EUIPO, 2016). Trade in counterfeit goods undermines the competitive advantage of rights holders, hampers innovation and employment, reduces tax revenue and can jeopardize public health and security. Illicit trade may also ultimately undermine the rule of law and citizens' trust in government.

189. Criminal networks that engage in illicit trade tend to ship illicit goods via complex routes, with many intermediary points. The transit points are used to facilitate falsification of documents in ways that camouflage the original point of departure; establish distribution centres for illicit goods or repackage or re-label them. While local enforcement authorities do target imports of counterfeit goods, they have less incentive to inspect goods in transit.

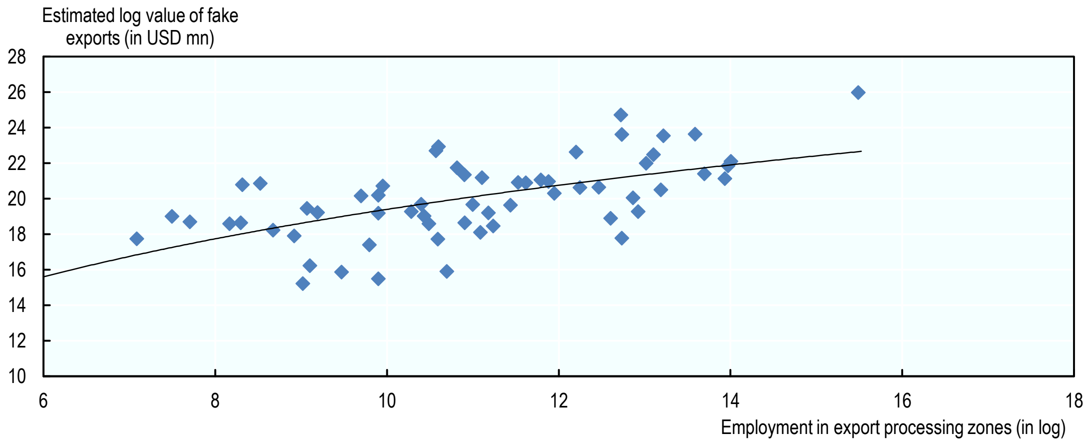
190. This is particularly the case in some Free Trade Zones (FTZs), where oversight is low or missing due in part to the misconception that these zones are excluded from the jurisdiction of the national territory where they are established. There is currently no global instrument to counter illicit trade. The OECD has developed robust evidence that charts the complex routes of illicit trade and documents the abuse of FTZs, including the fact that the existence, number and size of FTZs increase the value of counterfeit and pirated products exported by a given economy (Figure 14). To address these challenges, the OECD Task Force on Countering Illicit Trade has begun to develop a shared understanding of possible solutions, offering potential guidance for countering illicit trade related to FTZs that would increase transparency of trade flows while keeping the benefits of free trade.

Figure 14. Size of Free Trade Zones (FTZs) and value of exports of counterfeit goods.

(a) Number of firms operating in FTZs



(b) Employment in FTZs



Source: OECD/EUIPO (2018), Trade in Counterfeit Goods and Free Trade Zones: Evidence from Recent Trends, OECD Publishing, Paris/EUIPO.

6. Addressing challenges related to biodiversity, climate and natural resources

191. Multilateralism remains fundamental to addressing the major global environmental challenges. Emissions in each country affect the climate globally, so an economically efficient response to climate change involves countries taking account of the global marginal benefits of emission reductions in setting national policies. Biodiversity loss and ecosystem damage can cascade, affecting vital ecosystem services, such as food provisioning, water purification and the global carbon storage cycle. Multilateral co-ordination is needed to facilitate any adequate response to these global challenges. A reinvigorated multilateralism would cultivate trust, strengthening countries' resolve to act on these issues, confident that others are doing their share. International agreements such as the 2015 Paris Agreement are designed to provide a framework for action. Some environmental challenges are predominantly domestic or regional, but could still benefit from comparative analysis and sharing best practices.

192. Measuring progress towards global biodiversity, climate and broader SDGs is a complex but essential task. Many SDG targets are multifaceted or qualitative in nature. In addition to the ongoing development of the OECD Green Growth Indicators, the OECD is contributing to the development of statistical indicators combining environmental and economic information under the System of Environmental Economic Accounting (SEEA; UN, 2014), posing challenges, including for measurement and data collection. OECD work in relation to SEEA focuses on environmentally related taxes, environmental protection expenditure and material flow accounts (production-based and demand-based).

6.1. Biodiversity, land-use and ecosystems

193. Investments to support biodiversity and natural ecosystems yield major long-run benefits. The importance of terrestrial and marine ecosystems to human health and well-being is captured in the SDGs. Healthy ecosystems are also vital for clean water as well as climate mitigation and adaptation. Oceans, for example, produce half of the world's oxygen and have absorbed more than 93% of the heat humans have added to the planet – but are under "major stress" as a result (UN, 2017). Greater efforts are needed to promote sustainable forest management and agriculture, land rehabilitation and restoration, biodiversity-friendly and efficient agricultural land use, and a more resilient and sustainable ocean economy, using measures that minimise trade impediments and maintain economic opportunity. Such ecosystem-based approaches go beyond climate change mitigation and adaptation, yielding a suite of socio-economic and environmental 'no-regret' benefits by preventing irreversible damage to the Earth's ecosystems and biodiversity. The benefits of protection far exceed the costs. Financing natural capital should, just like financing of grey infrastructure, always be considered as investment.

194. Biodiversity is currently declining at a rapid rate, and OECD projections suggest that it will decrease by a further 10% in terrestrial areas by 2050 (OECD, 2012b). The Convention on Biological Diversity's Aichi Targets expire in 2020, providing an

opportunity for governments worldwide to reaffirm and reinvigorate international efforts on biodiversity, supported by a new set of targets and indicators. OECD analysis in 2019-20 aims to support the development of this post-2020 framework, building on its unique datasets and economic expertise. The OECD could also assist in work developing new indicators on protected areas using satellite geospatial data.

195. Concerted multilateral efforts will also be needed to address subsidies that are harmful to biodiversity: OECD research estimates that the amount of finance mobilised to conserve and sustainably use biodiversity amounts to just a tenth of only two types of subsidies that are potentially harmful to the environment, including USD 373 billion of fossil fuel subsidies globally (OECD, 2018c). OECD work for 2019-20 is set to support governments in identifying and assessing such subsidies at the national level.

6.2. Climate change

196. In aggregate, countries' current contributions to emissions reduction beyond 2020 are not consistent with the aim of limiting the global average temperature increase to well below 2°C. The 2015 Paris Agreement provides the necessary institutional framework to build the trust over climate action and support that will enable countries to accelerate and rapidly scale up their ambition in a nationally determined manner. An effective multilateral response that builds resilience and adaptive capacity requires not only strong and transparent mitigation action, but also mobilising support for developing countries. All countries shall take their fair share in the fight against climate change, taking into account the costs and spill-over effects of concrete actions in this direction.

197. Recent OECD analysis shows that strong climate action needs not come at the expense of economic growth. The report *Investing in Climate, Investing in Growth* (OECD 2017j) finds that combining coherent climate action with fiscal and structural reforms has the potential to increase long-run GDP by nearly 5% on average across G20 countries by 2050 when accounting for the positive effects of averting climate damage, or 2.8% even without accounting for the benefits of avoided climate damages.

198. A number of pro-growth policy priorities for OECD countries increase the implicit or explicit relative price of polluting activities and raise incentives for environmentally-friendly innovation (OECD, forthcoming). These include increasing reliance on environmental taxes, extending user road pricing, increasing the availability and efficiency of public transport and reducing subsidies to agriculture and inefficient fossil fuel subsidies that encourage wasteful consumption. OECD research (2017j, 2018d) indicates that the potential of carbon pricing to incentivise reductions in emissions is far from being realised. In turn, structural reforms to encourage entry of new firms and successful transitions for workers improve responsiveness to environmental prices and regulation, encouraging low-carbon innovation, the take-up of new technologies and more efficient use of resources.

199. Quality investment in modern, clean and resilient infrastructure in the next decade will strongly influence the climate's future. Similarly, land-use planning must be a force for decarbonisation, rather than encouraging energy- and carbon-intensive behaviour by design. Decisions made now could lock countries into high-carbon development pathways or force them to face the dilemma between stranding assets or allowing them to continue to operate, putting at risk the climate and development goals and increasing the physical impacts of climate change. The Paris Agreement has an aim of making financial flows consistent with a pathway towards low-emissions, climate-resilient development.

Collectively and individually, countries will want to assess progress against this aim and OECD analysis will evaluate and inform government decisions on data requirements and methodologies to make such assessments.

6.3. Resource efficiency and the transition to a circular economy

200. As human consumption has already exceeded many of the Earth's capacities in waste-carrying and providing natural resources, a resource efficient circular economy is vital to environmentally sustainable growth. In a circular economy, materials and products are re-used and recycled rather than discarded, helping to increase material security and efficiency. As well as providing potential economic benefits, and improving resource efficiency, furthering the transition to a circular economy will support the achievement of multilateral climate and biodiversity goals. Achieving higher levels of materials recycling should also help to reduce the impacts of plastics on the environment and human health, particularly in the oceans and through the diffusion of hazardous chemicals that they sometimes contain.

201. In the face of increasingly inter-connected and globalised value chains as well as rapid technological change, further multilateral co-ordination can enable governments to promote circularity. While one of the key success factors in the circular economy is the multiple opportunities for value creation at different points, jurisdictional issues linked to the globalisation of value chains can create barriers. For instance, online sales can be used by producers and importers to escape from the obligations that many countries impose through systems where producers take responsibility for the end-of-life management of the goods they put on the market.

202. Multilateral co-operation provides a potentially crucial means of addressing these challenges, through co-ordinated efforts to influence supply chain management, setting of common standards for certain product groups and end-of-waste criteria, environmental labels and information systems.

203. The OECD could provide support on many of the challenges of transitioning to a circular economy, as well as for improving resource efficiency data and developing more robust economic analysis of the challenges and the policy options that are available, including the digitalisation of energy. This could usefully include best practice exchange on the use of economic policy instruments that promote a circular economy. Specific efforts in the area of better managing plastic wastes are also ongoing and relevant in the context of recent G7 and G20 initiatives.

6.4. Green finance and aligning national budget processes with environmental goals

204. Both public and private capital should be mobilised to achieve an ecological transition. The OECD's Centre on Green Finance and Investment, established in October 2016, aims to harness the Organisation's international, multi-disciplinary reach to help governments catalyse and support investment and financing for the transition. Mobilising private finance requires an enabling investment environment as well as financial instruments and channels that can attract investment in green infrastructure while ensuring the security of energy supply.

205. Governments and development finance institutions can incentivise green finance by deploying risk mitigation tools that better integrate environmental and climate risks for financial actors, enhancing transparency for the investors on the benefits and costs of

green investments, and supporting private sector efforts to improve transparency related to climate and other environmental, social and governance risks. A key priority is to enhance investors' ability to understand clearly the climate and other Environmental, Social and Governance (ESG) risks of investments, an increasing priority for institutional investors. Facilitating understanding of investment risks in turn raises the broader question of the role of the financial system in pricing and managing climate-related risks and the extent to which financial stability may be impacted by climate change.

206. In a global financial system, multilateral engagement is essential to ensure a level playing field across jurisdictions. Further OECD work is anticipated in a number of areas related to integrating climate factors into investment decisions, taxonomy of "green" financial instruments and related market challenges and policy issues, as well as a country-focus on the development of enabling investment environments.

207. Government budgets should also be geared up for the ecological transition. "Green budgeting" involves an overall assessment of how tax and expenditure policies, and analytical processes, must adapt to support achievement of climate and other environmental commitments. The *Paris Collaborative on Green Budgeting*, launched in December 2017, will develop new tools to promote co-ordination of public policies and fiscal frameworks, and to understand the implications of the ecological transition for budgetary policy and sustainability.

7. OECD's variable geometry contributions to multilateralism

208. Multilateralism is at a crossroads. The growing cross-border flows of people, goods, services, assets, data and knowledge have considerably expanded the range of global policy challenges that cannot be handled by any one country alone. They have also had the result that different countries are increasingly tending to face more similar domestic policy challenges in some areas at the same time. Multilateralism is thus in transition, and as such, is contested in some settings. It needs to evolve to deliver the stronger, more inclusive and sustainable growth that the future calls for.

209. The OECD, with its broad cross-disciplinary mandate, has evolved in a mode of 'variable geometry' engagement in support of multilateralism that is particularly useful in this context. It provides its Members with an appropriate setting to support their future collective advancements. This variable geometry relates to:

- Who the OECD involves in its work and at what stage: The OECD can bring different countries that specifically matter for a discussion. For example, the OECD can have 113 jurisdictions in the BEPS Inclusive Framework, or bring the most significant players within GFSEC, but limit discussions to its 35 members on other issues.
- What the OECD should work on: most areas of public policy are within its mandate, and the Organisation benefits from a high degree of flexibility allowed by the absence of lending and financial assistance programmes and its independent analytical capacity. This supports the OECD's unique ability to respond to rapid changes affecting Members' economies, including those that are cross-sectoral by nature.
- How the OECD contributes: top-quality data collection and analysis; benchmarking; a forum of exchanges across countries; soft standard-setting or legally binding instruments with a peer pressure mechanism.

210. Nevertheless, as discussed below, four key aspects of the Organisation's functioning and deliverables will need to evolve in the years to best serve its Members.

7.1. Emerging Economies, the OECD and Inclusive Multilateralism

7.1.1. The Rise of Emerging Economies and Multilateralism

211. The share of OECD Member countries in the global economy is declining. The most recent estimates point to a share of 44% for the current OECD Members in 2032, down from 60% in 2000. India is about to leapfrog the UK and France in 2018 to become the 5th largest economy (in nominal GDP terms), while Indonesia will figure in the top ten in 2032. The Asia-Pacific region stands out as the fastest grower, and ASEAN is set to become the equivalent of the world's fourth largest economy by 2030. Meanwhile, China represented 19% of the global economy based on PPP and contributed 40% of total

global GDP growth in 2017. China's GDP in PPP terms has already outstripped that of the United States and is expected to move steadily further ahead.

212. The rise of emerging economies is transforming the multilateral setting. The creation of the G20 allowed a co-ordinated response to the crisis. This forum of global economic co-ordination has, since then, developed an issues-based and more inclusive agenda that combines collective action on the most pressing challenges with a focus on complex longer-term issues that affect global economic growth. International organisations' participation in the G20 has been a powerful tool for their co-ordination and for leveraging their combined expertise.

213. The G7 and regional fora (such as APEC or the Pacific Alliance) have also broadened and deepened their agendas, while other multilateral fora, institutions or initiatives gathering Partners among themselves or at sub-regional level have gained ground.

214. Against this background, and in a world of fast changing technological, economic and societal challenges, the OECD, as a source of expertise on domestic and multilateral public policy solutions to address evolving challenges, has a key role to play i) in suggesting ways to address common challenges, recognising the increasing importance of emerging economies; and ii) in ensuring that OECD standards, which help level the global level playing field, are implemented in all the largest economies.

7.1.2. Reinvigorated UN agendas and OECD's support

215. The OECD's engagement with UN processes is not new – the Organisation has contributed proactively over the decades to the design of major agendas, including the Rio Earth Summit (1992); the 1995 Conference of Parties (COP) on climate change and its successive rounds; the Millennium Declaration (2000) and its accompanying Millennium Development Goals (MDGs); the Monterrey Consensus (2002); and subsequent follow-up processes.

216. The year 2015 saw the delivery of several landmark outcomes: the endorsement of the 2030 Agenda, including 17 Sustainable Development Goals (SDGs); the adoption of the Paris Agreement; the endorsement of the Addis Ababa Action Agenda on Financing for Development; and the adoption of the Sendai Framework for Disaster Risk Reduction. These outcomes are aspirational, and have helped to build a collective level of ambition around challenges that are truly global. The OECD contributed to shaping these agreements, and is actively involved in supporting international follow-up efforts.

217. Through these outcomes multilateralism has delivered the elements of a framework for economic, environmental and social progress, and the international development finance architecture will continue to be an important pillar in the implementation of this new consensus development agenda. But improved domestic policies will be another such pillar, and in this respect international co-operation will be crucial. Sharing evidence of what works, and codifying good practices in standards, is in the OECD's DNA. The OECD's Action Plan on the Sustainable Development Goals sets out – in a non-exhaustive manner – some of the ways in which the Organisation is contributing to national, regional and international implementation efforts.

218. Looking ahead, closer co-ordination and ever-more active participation in relevant UN processes will provide the opportunity for the OECD to help shape and ground in evidence relevant debates, and to support coherence with the OECD Members' priorities.

7.1.3. The OECD Global Relations Strategy

219. Developing and implementing OECD standards and policies with and for OECD Members and making them count worldwide has always been at the heart of the OECD 's mandate and is at the same time the raison d'être for OECD's Global Relations Strategy. This thought is already anchored in the OECD Convention [Article 1 b], which defines as a principal aim of the Organisation "to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development".

220. The principal building blocks of the OECD's Global Relations Strategy have been in place since 2007, but were reinforced by the Members' 2011 Vision statement. The Ministerial Council Meeting held in that year set in motion a series of new accession processes to OECD membership. It reinforced the engagement with five Key Partners: Brazil, the People's Republic of China (China), India, Indonesia and South Africa, "with a view to possible membership". As the OECD aims to become a "Global Policy Network" to make its standards and recommendations count globally, it has reinforced its engagement with these five Key Partners; created new tools for engagement with Partner countries and regions; and used accession as a powerful instrument for anchoring domestic reforms.

221. This strategy has since been worked out by the creation of new tools for engagement. The OECD established itself as a valued partner and advisor to the G20/G7 processes. A New Comprehensive Regional Programmes in regions of strategic priority was created in Southeast Asia (2013), a region of strategic priority of the OECD, with a view to identifying countries for possible membership. A regional Programme was also established in and Latin America and the Caribbean (2016), while the Regional Programmes for the Eurasia and the Middle East and North Africa (MENA) were given new and broader mandates (2015).

7.1.4. Supporting targeted, effective and inclusive multilateralism

222. In its broader meaning, international cooperation is made of multiple interactions across many institutions, fora, and actors. The G20 and the G7 have recently added to the institutional co-ordination of states' multilateral responses to global challenges. In the current challenging context, they represent flexible forms of multilateralism that are well equipped to address difficult issues and reach consensus out of reach in more formalised structures or institutions. The OECD has already established itself as a trusted partner to these fora and should continue in this direction, notably through the following.

- Informing policy discussions regarding global issues: The OECD is a trusted source of global evidence-based policy advice. It has also developed strong narratives on broader megatrends leveraging its data, solid and action-oriented research leveraging the work of its committees, global fora and other platforms.
- Facilitating discussions to broker consensus among Members: The OECD has played the role of an honest broker to facilitate discussions in challenging contexts, basing the agreements on solid analytical evidence. The Global Forum on Steel Excess Capacity, the BEPS initiative and the women empowerment target that the OECD was asked by the G20 to monitor, are good examples.
- Co-ordinating responses and promoting global policy coherence: The OECD standards are key to level the global playing field. The OECD is supporting sound and common approaches to tax (G20/OECD BEPS Project, as well as the work on

transparency and exchange of information), capital flows (OECD Codes of Liberalisation), SME financing (G20/OECD High-Level Principles on SME Financing), corporate governance (G20/OECD Principles on Corporate Governance; SOE Guidelines), investment (MNE Guidelines) or anticorruption (Anti-Bribery Convention), to cite a few examples.

- Helping to bring successful tools and initiatives to a global scale: the development of inclusive fora such as the 148-Member Global Forum on Transparency and Exchange of Information for Tax Purposes has brought a truly global dimension to the OECD's work, as joint initiatives with other organisations, such as the OECD-UN-IMF-World Bank supported Platform for Collaboration on Tax, has helped to disseminate OECD standards and promote cross-fertilisation of key debates across different governance fora. On the implementation front, partnerships with other international organisations have helped to expand the update of OECD tools and standards at the national level. This is the case with the PISA for Development initiative, for example, where the OECD partners with UNESCO, UNICEF and the World Bank. The OECD/UNDP-supported Tax Inspectors Without Borders initiative is another pertinent example.
- Supporting effective implementation: The OECD supports other multilateral fora with immediate, concrete policy actions to specific challenges. The international tax and anti-corruption agendas are examples of how the OECD can support multilateralism with concrete changes through various fora.

7.1.5. Possible critical Next Steps

223. To best contribute to helping Members address the pressing challenges to global economic relations, in the context of further discussions with its Members, the OECD's engagement should consider the following:

- Take a decision on the enlargement process being discussed with countries which have the potential to play a key role in the dissemination of OECD standards;
- Step up engagement in the global economic architecture (e.g. UN, G20, G7, APEC) by strengthening the OECD's capacity to fulfil the functions outlined above;
- Strengthen its contribution in key UN processes, leveraging its role as a Permanent Observer to the General Assembly and ECOSOC more effectively to advance Members' interests, bringing evidence to relevant UN discussions, and partnering with UN and other entities in ways that help to strengthen the global reach of OECD tools and standards;
- Continue broadening the geographic scope of its data coverage and analysis, aiming for it to systematically cover all G20 countries (while preparing for different levels of data availability in emerging and developing economies), strengthen involvement of Partners in Committee work and in the upstream development of its standards and in downstream implementation;
- Reach agreement with the five Key Partners on a further reinforced co-operation;
- Further strengthen the Regional Programmes in Southeast Asia, Latin America and the Caribbean, Eurasia, Southeast Europe and the MENA region, in close co-operation with regional partners, such as ASEAN and the Pacific Alliance, reflect on how the institutionalisation of these regional programmes should evolve in the future, and strengthen engagement with Africa;
- Deepen the relationship with Southeast Asia, as a region of strategic importance;

- Reflect on the future of future specific Country Programmes with strategically relevant Partners.

7.2. Strengthening the OECD's standard-setting capacity

7.2.1. Strengthening the OECD's standard setting

224. The OECD has traditionally been one of the major global standard setters, having developed more than 400 legal instruments since its creation in 1961, 235 of which are in force today. In recent years, it has continued to adopt innovative standards on cutting-edge issues like the taxation of multinational enterprises (BEPS) and automatic exchange of tax information (AEOI).

225. In May 2016, the Secretary-General launched an OECD-wide standard-setting review to ensure that OECD legal instruments continue to respond to the challenges faced by governments and to strengthen their impact and relevance. The first phase of the review resulted in the adoption of 28 standard-setting Action Plans by OECD committees to abrogate, revise, review or monitor the implementation of existing legal instruments. The second phase of the review will focus on the implementation of these Action Plans as well as reflection and discussion of proposals for possible new instruments to address emerging policy challenges where the OECD could help foster better domestic policies and effective international rules to ensure a level playing field.

226. The standard-setting review also provides an opportunity to best use the standard-setting function of the OECD in the medium to long term. The OECD works to ensure that its standards are kept up to date over time and respond to changes in the policy environment. In the context of its discussions with Members, it will also be important for the OECD to remain at the forefront of standard setting by identifying emerging issues on which the OECD can bring added value, in areas such as quality infrastructure, state-owned enterprises, governance and competition, anti-corruption and integrity, illicit trade, cybersecurity. In this endeavour, the OECD will need to draw on its strengths: its ability to move fast, work in flexible configurations and draw on its multidisciplinary mandate to make links between different policy areas. While maintaining its evidence-based, bottom-up approach, it will also be crucial to have a cross-disciplinary perspective with more strategic and cross-sectoral direction.

227. Ensuring the success of its standards will require the OECD to extend their reach and impact in order to ensure a global level playing field, through adherence by countries outside the OECD, greater representativeness in standard-setting activities and linking in to other processes such as the G20. The impact of the standards also depends on strengthening their implementation, drawing on the OECD's tried-and-tested methods including toolkits and other guidance for implementation, as well as peer review.

7.2.2. Improving international co-operation on rules

228. The OECD's standards are part of a web of norms in the global environment. Global rules should be effective and relevant, and for that purpose, should be inclusive. But while there is widespread agreement on the good practices to develop rules at

domestic level,[8] the evidence of what constitutes good international rule-making practices has only recently been the subject of international discussion.

229. Since 2014, the OECD has facilitated a partnership between 50 international organisations to promote greater quality, effectiveness and impact of international rules, regardless of their substantive scope. Ultimately, this work helps to build greater confidence of countries in international rules and support greater uptake of good quality international instruments in national legislation. This joint effort has already led to a unique report that maps the practices of international organisations and the variety of organisations involved in setting international rules (2016f). One of its conclusions is that international rule-makers need greater institutional inclusiveness, transparency, relevance and co-ordination in their rule-making activity to adapt to a faster-changing world.

230. This work will also feed into the OECD’s ongoing standard-setting review, providing examples of initiatives and best practices which the OECD can adopt or adapt as appropriate. Looking ahead, there is scope for further strengthening the effectiveness of international rule-making by making it more evidence-based, systematically evaluating the impact of instruments and engaging with stakeholders. Ongoing research aims to shed further light on the rule-making activities and practices of international organisations, including with a view to greater co-ordination in normative action.

7.3. Relationships with other actors in multilateralism: business, civil society, unions

231. The emergence of civil society and business as active actors in global issues is a fact. They have always been present behind the work of national governments, but what is new is their growing representation of cross-national interests, soft regulatory power and influence by checking on other actors across boundaries (for example, the work of economic rating agencies, human rights organisations etc.). This is a welcome development that has great potential to strengthen the checks and balances in international policy discussions and that will help international organisations consider multi-faceted, multi-level perspectives in their work. Nevertheless, it raises a number of organisational challenges for governments and international organisations, including related to the representativeness of these groups.

232. Civil society is increasingly engaged in formal decision-making and engagement processes at different levels in many multilateral bodies, including the UN, the G20, and the World Bank Group. The IMF/World Bank Group, for instance, hosts a Civil Society Forum and Programme in parallel with the Annual and Spring Meetings, with over fifty sessions of policy dialogue mostly organized by CSOs. An increasing number of CSOs attending the Annual and Spring Meetings further demonstrate intensifying engagement. Other international organisations, notably the WTO, have more informal civil society engagement, focusing on country governments as a means of engaging with civil society. Partnerships between civil society and governments or businesses are growing in parallel.

233. The Organisation should consider ways to develop greater access for civil society stakeholders to ensure that their views are taken into account. A more active stakeholder interface will make the OECD stronger and more inclusive, allowing its products and

[8] As reflected in the 2012 Recommendation of the Council on Regulatory Policy and Governance.

norms to reflect the concerns of those most affected by them and most influential in their adoption. The OECD has a formalised and systematic engagement with business and unions through the involvement of TUAC and BIAC. In addition, the OECD Forum, held in the days before the MCM, brings together the broader stakeholders with government ministers and leaders of international organisations to discuss key issues and feed discussions and conclusions in the MCM. Many OECD directorates also hold regular consultations with civil society and other stakeholders, a practice that could be expanded. Online consultations have broadened public participation in OECD's work, and many discussions involve both meetings and web tools. This engagement with broader stakeholders could be further deepened and systematised in the years to come.

7.4. Strengthening the OECD's statistical and analytical capacity

234. The OECD's capacity to provide sound evidence-based analysis is crucial to its mission. In addition to supporting policy makers on domestic issues, international statistical standards are, in themselves, building blocks of multilateral decision making.

235. In an ever more interconnected world, the quality of the analysis increasingly depends on the Organisation's understanding of cross-country interconnectivity and (economic, social, environmental) interdependencies, for which existing data are currently weaker than in other areas. A case in point – where much better data, methodologies and understanding are needed – is that of the transboundary impacts (i.e. footprints) of policies. Another example is international financial interdependence. As part of the G20 Data Gaps initiative, the OECD is currently compiling national accounts-based balance sheet data that map financial assets and liabilities across institutional sectors and countries ('who-to-whom tables'). This will allow gauging the strength and direction of transmission of shocks to the financial system.

236. Another specific area is the exchange of information between countries on the economic activities of MNEs, which would allow a better measurement of their contribution to the GDP of each country.

237. There is a growing volume of data held by private sector companies, including those involved in data centres. This increasing volume of data also provides an opportunity for the OECD to strengthen its evidence-based analysis by leveraging a broader range of private-sector data for statistical purposes, and of addressing the many barriers (legal, technical, methodological, quality-proofed) that such systematic use still faces. The OECD could become a "hub" for the analysis of data flows, for which the Organisation will need to enhance its capacity to gather 'data on data''.

238. Finally, the OECD needs to remain at the forefront of analytical thinking and continue improving its analytical framework with cross-cutting research and analysis. To this end, since 2012 the New Approaches to Economic Challenges (NAEC) initiative has provided a setting where leading thinkers in economics and other social sciences share their findings to improve the evidence basis for policy. NAEC has catalysed this effort across the Organisation, which is now reflected in the Innovation Lab and the foresight efforts that have informed deep reflection of plausible scenarios for policy decisions.

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