



Business and Industry Advisory Committee to the **OECD**

Comité Consultatif Economique et Industriel Auprès de l' **OCDE**

The Challenge of Economic Recovery in a Dramatically Changed Environment

Doha: What's Next?

BIAC Statement for the 2001 BIAC Consultation with the OECD Liaison Committee with International Non-Governmental Organisations

The business community of the OECD member countries sees a cross-roads of economic opportunity and risk. Talk of recession is in the air and, at the same time, we face the invigorating prospect of multilateral negotiations and the market opening that promises. First, we will address the risks and then look at the promise of Doha.

1. Global Economic Outlook

Yes, there is an economic cycle, a business cycle and, of course, product cycles. They seem to be inevitable, perhaps necessary and part of the process of creative destruction¹ underpinning the logic of the market economy. Our recently acquired 'new economy' temperament should not infer that we now have a reduced ability to endure an economic slowdown. Nor does a slowdown imply that all the expected benefits of an increasingly knowledge-based economy come to nigh.

This is a time for discipline among policy-makers - and the commentators surrounding them - in terms of making judicious observations about economic developments, risks and what are the lasting benefits of the last several years' economic boom in most OECD countries.

Monetary and fiscal policy can have an ameliorating effect on the depth and length of the economic downturn in most countries that have not exhausted all room for manoeuvre (Japan unfortunately being an example for the latter at the current juncture). But we should not forget that given the enormous momentum inherent in the economy's own cycle, government intervention will not simply wipe away the adjustment or "destruction". Hence, our discussions on macro-economic policy need not appear to aim at cancelling the effects of the cycle but be oriented towards accelerating the recovery.

There is sufficient evidence and belief, even conviction, within the business community that the move towards balanced budgets and reduced government deficits at the beginning of the 1990s was one of the key factors underpinning the long boom in the US in the last decade - which is what led to a world-wide and useful debate on the emergence of a 'new economy.' What macro-economic easing may now be required and justified in the current recessionary environment, however, should not become the beginning of a return to chronic budget deficits.

With these warnings in mind, the main features of the current economic outlook, as seen by the OECD business community, include the following:

- Global economic activity will continue at a sluggish pace through the first 2002-quarter.
- Central banks' aggressive policy rate cuts to boost private spending will soon kick in.
- U.S. fiscal stimulus, mostly personal and business tax rate cuts, will also spur activity.
- An improvement in the European economic outlook should come about in the second 2002 quarter, with recovery gaining momentum only in the second part of 2002.
- Slower global expansion means a significant drop in oil prices, down 30 percent from peak.
- Japan's economy continues to deteriorate due to weaker banks and export markets.
- Emerging Asia technology exports have fallen 40 percent this year; some countries are in recession.
- Latin America's fiscal and debt problems are exacerbated by weaker external markets.
- All regions will focus on the benefits of market creation and opening inherent in multilateral negotiations, especially the developing countries that will step up their engagement and thus their participation in the competitive, market-based economy.

The current global economic outlook with projected quarterly patterns is summarised in the table below. It is clear that global growth has slowed sharply with likely recessions in several countries including the U.S. and Japan. A sharp rebound is expected in the second half of 2002.

Table 1. Real GDP Growth Rates
(Annual Percent Change)

	1H01	3Q01	4Q01	1Q02	2Q02	2H02	2000	2001	2002
World	1.9	0.9	0.4	0.5	1.1	2.4	3.9	1.3	1.6
Americas	1.9	0.7	-0.2	-0.1	0.6	2.4	4.1	1.0	1.4
U.S.	1.9	0.8	-0.3	-0.3	0.5	2.4	4.2	1.0	1.3
Canada	2.3	1.2	0.7	0.4	0.9	2.6	4.4	1.6	1.5
Argentina	-1.3	-1.2	-1.0	-0.5	0.0	1.6	-0.5	-1.2	0.7
Brazil	3.0	0.7	0.0	0.5	1.1	2.2	4.4	1.7	1.5
Mexico	0.9	-0.7	-0.7	0.0	1.0	2.5	6.9	0.0	1.5
EMEA (*)	2.1	1.5	1.2	1.1	1.5	2.4	3.6	1.7	1.8
Eurozone	2.0	1.3	0.9	0.9	1.3	2.1	3.4	1.6	1.6
Germany	1.2	0.5	0.3	0.5	0.9	1.9	3.0	0.8	1.3
France	2.5	1.6	1.0	0.8	1.2	2.2	3.4	1.9	1.6
Italy	2.3	1.5	1.1	1.0	1.0	1.6	2.9	1.8	1.3
U.K.	2.5	1.8	1.3	1.3	1.4	2.3	2.9	2.0	1.8
Asia Pacific	1.8	0.3	0.4	0.6	1.4	2.1	3.9	1.0	1.6
Japan	-0.3	-1.8	-1.7	-1.5	-0.5	0.3	1.5	-1.0	-0.4
Australia	1.4	1.5	1.7	1.8	2.3	2.5	3.3	1.5	2.3
China	8.0	7.0	7.0	6.7	6.8	7.2	7.7	7.5	7.0

(*) EMEA: Europe, Middle East and Africa regions combined growth rate.

Source: IBM Corporation, Economics Department (because of the importance of the ICT sector, we have used these economic data from "inside" the industry)

Overall, the case for a significant rebound by at least mid-2002 results from activities and policies currently underway. These include (a) monetary easing, aggressive in some countries, (b) fiscal easing, less important but still a plus, (c) inventory liquidation which is catching up to softer demand, and (d) strong incentives from the continued advance of information technology price performance improvements in the 20 percent-25 percent range.

United States

A decelerating economy was dealt a staggering blow on September 11. It is generally accepted that the expected recovery will be delayed by these tragic events.

The Fed’s Open Market Committee voted at its 6 November meeting to cut the overnight lending rate (Fed funds rate) another 50 basis points to 2.0 percent, the tenth cut this year, for 450 basis points. This sets the stage for a vibrant rebound beginning in the second quarter of next year.

For now, recession conditions have surfaced. Third quarter GDP growth fell 0.09 percent from the second quarter (-0.35 percent annual rate). Year-to-year growth was 0.8 percent, in line with expectations. The fourth quarter, given monthly indicators, is not likely to show improvement, although a sharp hike in government spending, up 7 percent so far, will partly offset the decline in private outlays.

The labour market is key to both the depth and length of the slump. October’s employment data were dismal and support weak consumer confidence. About 415,000 jobs were lost in the month while the unemployment rate rose to 5.4 percent. Job losses were across the board, although IT services added 3000 jobs in the month following 5000 in September.

The IT sector is in recession. Computer shipments peaked in October 2000 and have plunged 45 percent through September. Backlogs are flat and inventory is at a half year of shipments. A composite index of leading economic indicators for the industry, summarised in the table below and pictured on the last page, took a small dip (1.5 percent) in August and a big dip (4.1 percent) in September, signalling that an industry rebound is not yet assured. All series are government data.

TABLE 2. U.S. IT INDUSTRY DATA WATCH
IT Industry Leading Indicators

	Q/Q percent Change				M/M percent Change					
	4Q00	1Q01	2Q01	3Q01	Apr	May	Jun	Jul	Aug	Sep
Turning Point Components										
Macro Economic Lead Index	-0.8	-0.3	0.3	0.4	0.0	0.6	0.2	0.3	-0.1	-0.5
Computer Overtime	3.1	-33.3	-22.7	2.9	-21.4	0.0	9.1	8.3	-30.8	20.0
Computer Stocks	-24.0	-17.2	2.1	-20.0	-4.5	1.3	5.6	-1.6	-6.8	-12.8
Semi Overtime ^h	3.4	-13.8	-32.1	-7.9	-26.7	-15.1	0.0	-14.3	16.7	7.1
Semi New Orders	2.8	-19.2	-19.4	-4.0	-40.3	34.6	-5.2	-24.3	20.4	16.0
Semi Stocks	-35.2	-17.8	-2.8	-9.7	-6.4	0.6	3.2	-1.2	0.9	-9.4
Total Leading Index	-11.1	-9.1	-1.9	-5.6	-2.7	-0.3	1.2	0.0	-1.5	-4.1

IT Industry Coincident Indicator

Computer Shipments	3.3	-12.5	-11.5	-18.7	-3.8	-3.4	-4.8	-4.8	-9.4	-5.6
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Source: IBM Corporation, Economics Department

Europe

With a marked slowdown already in place, the terrible blow to business and consumer confidence from the recent tragedy and the spill-over from the recession in the US have led to a significant deterioration of the prospects for economic activity in Euroland. Although we can not rule out an outright recession, the consumer sector should hold up sufficiently to offset the decline in investment and the drag to growth from net exports. More generally, the lack of major imbalances in Euroland, particularly in terms of over-investment in parts of the ICT sector, should render sharp retrenchment in capital spending unnecessary.

An improvement in the economic outlook should come about in Q2 next year, with recovery gaining momentum only in the second part of 2002, following the improvement in confidence, the acceleration in global economic activity and the rise in household disposable income from the fall in inflation. The appreciation of the euro and the lack of a fiscal or monetary stimulus comparable to the US will maintain the strength of the recovery within the limits of potential growth, with no risks of over-heating of the economy in the foreseeable future. The picture at the aggregate Euroland level reflects consistent developments in all the countries that adopted the euro; common are the external shock and the monetary policy reaction to it and very similar the budgetary responses.

Under the assumption of declining oil prices in spite of the increased political and military tensions, headline inflation is set to go below 2 percent in the March next year, a slow decline in part due to the increase in indirect taxation in Germany in January. The descent will continue and become quicker in Q2 2002 because of favourable basis effects, with headline inflation falling below 1.5 percent.

Monetary policy has already started providing some support and, hopefully, further scope remains and should be exploited. Fiscal policy should provide support through the working of automatic stabilisers but no further discretionary fiscal action should be undertaken, particularly in countries still far a balanced position, so as not to undermine the progress of fiscal consolidation.

We do not subscribe to the widely held view that structural rigidities are more easily removed during periods of buoyant economic growth – indeed the progress on this front in the last expansion has been very unsatisfactory. Urgent policy action is needed to increase the flexibility of the European economies, particularly in the labour market. The worsening of the economic outlook simply makes immediate action all the more necessary.

Asia-Pacific

Leading indicators signal that Japan's recovery from recession and more than a decade of sub-par economic activity has been postponed further. Deflation accelerated in October as domestic wholesale prices fell for the third month 0.4 percent or 1.1 percent year-on-year. This year's 1 percent decline in economic activity is the worst since 1980.

Machinery orders plunged 13.2 percent from September and are down 11.8 percent year-on-year. This data tends to lead capital equipment spending by 3 to 6 months. On a quarterly basis capital spending declined in both the second (1.7 percent) and third (6.3) percent quarters

Given the weakening economy, the yen remains fairly strong, at less than 125 to the US dollar. Intervention to lower its value to the dollar or euro has not been especially successful in the past, in part because Japan still runs a trade surplus with the U.S. and Europe.

China's industrial output growth slowed to 8.8 percent in October from 9.5 percent in the prior quarter as export growth slows. Massive domestic fiscal stimulus is offsetting much of the drag from exports. In addition, the Bank of China has cut foreign currency interest rates 75 basis points. Eventually, WTO membership will boost China's trade, investment and growth which will further reduce, relatively, Hong Kong's role as a regional trade centre.

Taiwan's central bank has also been cutting interest rates to stem a stubborn recession as export markets and regional demand continue to slow. And Singapore's economy *shrank* 5.6 percent, year-on-year, in 3Q01, amid the worst contraction in 30 years. Again, interest rates are being cut and the currency band has been widened.

Australia's unemployment rate soared to 7.1 percent in October from 6.7 percent in September. This is the highest level in more than two years reflecting slowing global growth, battered business confidence and high profile corporate mid-year collapses (Ansett Airlines, Pasminco Ltd.). The export expectations index plunged and the tourism index (tourism is 5 percent of GDP) fell even more.

2. What is left of the 'new economy?'

Farsighted minds inserted an auspicious sentence into the 1999 OECD Ministerial Communiqué calling for the Organisation to "study the causes of growth disparities, and identify factors and policies (such as rapid technological innovations and the growing impact of the knowledge society and its demand on human capital,) which could strengthen long-term growth performance." At that time, the term 'new economy' had scarcely been heard. That thoughtful act has led to a flurry of activity in this and many other organisations aimed at identifying what may have changed in the relationship of technology and innovation with economic performance. Though popular commentary may have given other impressions, the heart of the argument for a new economy was centred on the following hypotheses:

- innovation has become more crucial to sustain growth in a larger number of OECD economies that no longer have the luxury of relying mostly on technological catch up;
- higher productivity resulting from innovation is *altering the trade-offs* (as distinct from removing them) among growth, employment, productivity, and inflation, making job-full growth with low inflation more sustained; and
- new or newly popularised information technologies are enabling a significant and rising share of innovation and organisational responsiveness, making investment in them a powerful determinant of growth; *but*,
- a large part of the economic growth differentials observed among OECD countries result from differences not in pure productivity growth but in the ability to increase the use of labour and capital inputs, most importantly the former.

Much of this has been proven to be valid by the two-year long OECD study on Growth and similar work elsewhere. Do they still hold after one summer, several downward revisions in growth forecasts and confidence shaken by violence?

Firstly, the message that emerged from OECD's growth study was a complex one. Much of the complexity in the issue of growth differentials has been poorly understood in public discussions. The OECD did make it clear that the growth differentials were in large measure due to differences in the ability to augment the use of labour and capital. This point has nearly been lost in the world-wide debate on the 'new economy', and perhaps an over-emphasis on elevated productivity figures was generated by all commentators. On the subject of productivity growth as such, OECD - and BIAC in its Discussion Papers on Sustainable Growth - went to some length to place the emphasis on innovation, as distinct from raw technology and its invention.

We articulated the point that, rather than looking at one particular area of technology such as ICT as the source of miracles, the roots of good performance in productivity and growth should be sought in a *juxtaposition* of factors, including the quality of regulation in factor and product markets, and the level of competition which generates the *motivation* to innovate. We spoke of a policy *mosaic*.

It will be of interest to see if the familiar trade-offs among macro-economic variables (e.g., employment growth vs. price stability) behave differently in the current recessionary environment and, with an undeniable increase in the velocity of the business cycle, whether the economy's ability to rebound from a recession has improved. Clarifying this point would be an important task for the OECD in the near future.

Notwithstanding the current slowdown which is turning into recession in some OECD areas, most of the findings of the growth study concerning the last 5 or 10 years remain valid and the growth differentials registered in that period among the three major OECD areas are real and *acquis*. In addition, it remains valid that those countries that are in the bottom of the league in terms of regulatory relevance and labour market adaptability are also the laggards in terms of growth performance (e.g., Japan, Germany, Italy, among the larger economies). These also tend to take a comparatively small part (in relation to their size and potential) of direct investment inflows and the international movement of R&D and skilled labour.

A number of smaller, outward-oriented economies performed brilliantly during the last several years as mass producers of ICT goods and recipients of significant foreign capital (within the OECD area Finland, Ireland, Hungary). They are now doubtless feeling the negative effects of the downturn in major markets for their products much more sharply than less open economies. Does that invalidate the value of openness and reliance on 'globalisation'? We believe that it does not. Even with a recession, the net gain from these countries' bold dash into 'globalisation' has been tremendous. Finland has used the process to cancel the effects of what may have been a crippling malaise following the collapse of the COMECON trade and raw material prices in the 1990s. Hungary has established herself as a credible candidate for the European Union. Today, Ireland's per capita income is higher than United Kingdom's.

By definition, a development strategy which uses international linkages as its prime engine also accepts the risk of enduring a higher-than average loss when major export markets undergo an economic slowdown. But, experience shows that the net gain from such participation in globalisation is positive, and the alternative implies a huge opportunity cost, as still incurred by most of the developing world.

A continuing debate on productivity

At times, simplistic critiques in public policy discussions can have a positive, indeed salutary eventual effect. The polemic regarding the impact of computers on productivity has encouraged a vast amount of research into the subject and shifted to focus to the broader issue of innovation, including the *application* of technological advances. Hopefully, the current mindless street fighting regarding globalisation is also engendering a great deal of illumination of the extent to which economic and, indeed, political prosperity of advanced market economies depends largely on openness to cross-border interaction.

The economic slowdown has brought back some of the cynicism regarding whether or not there was a step up in productivity. Some of policy-makers' attention has been occupied by revised productivity statistics in the US during late summer. Several salient facts remain:

- It has always been unwise to make judgements on productivity performance on the basis of quarterly and even yearly data. Longer observation periods are necessary to reveal conclusive evidence. ***Hence, there is a need to continue work on refining the data and the analysis through this slowdown period.***
- In productivity measures, just as in economic growth, small differentials sustained over the long term make the big difference. In that respect, differentials of about one percentage point between the US and other OECD economies are of political significance. To the best of our knowledge such differentials exist among major market economies. ***If there were factors which sustain productivity growth differentials over the long-term, this would lead to a divergence between OECD member countries in terms of level of prosperity, economic structure, and eventually policy needs, with consequences on political cohesion among them.***
- Although there is a logical trade-off between labour productivity growth and employment growth in the short-term, there seems to be sufficient evidence that ***in the long-term sustained productivity growth (labour or multi-factor) evades countries that have not solved their employment problem and reformed poor-quality regulation.*** This points to a congruence of policies necessary for labour market adaptability and regulatory quality with those necessary for sustained productivity and economic growth. It is not the magic of technology, per se, which brings productivity improvement, but the constant drive to apply it, create new opportunities and perform better, all closely associated with a flexible, business-enabling regulatory environment.
- These point to the crucial importance of the OECD work on the Jobs Strategy and, more broadly, Regulatory Reform.

Another positive note on the productivity discussion - in the United States third quarter productivity grew 2.7 percent, even as the economy shrank, signalling that relatively fast, low-inflation growth is *possible* once the downturn ends. That was the fastest growth in over a year, and hints at coming labour cost and corporate profit improvements. The productivity gain adds evidence to the conviction that the gains from the ICT investment boom of the past seven years were no fluke and underpin future growth.

However, security-related investments are likely to rise substantially in wake of terrorism issues, possibly at the expense of other investments. They tend to have very little productivity value

compared to ICT investment. And we see no turnaround in ICT investment in the short term. Hence an easing in productivity gains may be inevitable for a while.

3. Structural Reform

The current macro-economic situation provides a good opportunity to focus on some unfinished business in the area of structural policy. Both good times and bad ones in the economy are good for revisiting the structural agenda and revitalising the reform effort, albeit with priorities which may differ.

The last several years' debates on innovation and productivity were shrouded within a broader impression that the OECD economies are diverging in economic performance. Most spectacularly the largest economy, the United States, which is supposed to be at the forefront in terms of productivity and per capita income not only appeared to be advancing faster on those fronts than all other large economies but also combining a higher rate of increase in *labour* productivity with a higher rate of job creation, hence declining unemployment.

Some recent data and studies imply that differences in productivity performance between Europe and the United States may have been less than initially thought. While judgement on productivity measures should not be allowed to be altered on very short-term changes in the data, it may well be true that an impression of a Europe 'falling behind' was exaggerated by many in the policy community. From a political point of view, however, that may be salutary, as there remains much to be done in Europe in terms of structural reform.

There may now be the risk that the gains made in the larger Continental European countries in terms of reducing unemployment are reversed. One of the earlier assertions of the OECD Jobs Strategy was that, particularly in Europe, while economic downturns did increase unemployment significantly, periods of strong growth did not reduce it by a similar rate. Europe entered each downturn with a higher plateau from which unemployment would increase again. Growth was relatively 'job-less'. This judgement now needs to be altered somewhat.

There have indeed been significant reductions in unemployment in a number of smaller European economies (e.g., the Netherlands, Ireland to a spectacular extent.) Beyond that, the larger Continental economies did make important efforts to reduce rigidities in their labour markets and saw a significant reduction in unemployment from 1998 through the first half of 2001, largely aided by a favourable economic conjuncture. (See Figure 1 which sets the performance of four large Continental European economies (France, Germany, Italy and Spain, which between them account for 80 percent of the Euro-zone population) against Japan, the United Kingdom and the United States.) However, with the worsening conjuncture, there is now reason to believe that the downward movement of unemployment is coming to a halt and being reversed in France, Germany, and quite possibly in the other larger Continental economies as well.

The over all picture of Continental Europe in terms of unemployment, seen on a similar chart several years from now when through the current slowdown, may well show that Europe, while having made some progress, has failed to utilise the boom years in the second half of 1990s to make a decisive break with high unemployment. The larger European countries do not seem able to sustain a steady rate of reduction in unemployment for periods of 7 or 8 years, as the United Kingdom and the United States were able to. A look at *employment* rates as such would probably corroborate the same finding. Continental Europe's employment problem remains and the region is once again entering a new phase of economic slowdown from an already high level of

structural unemployment. The findings and recommendations of the OECD Jobs Strategy remain valid and to be implemented.

Beyond unemployment as such, the broad agenda of reform in Europe, as identified by the EU business community through UNICE in their 2001 benchmarking report, *The reNewed Economy*, includes the need to develop a stronger spirit of enterprise (including enabling and rewarding entrepreneurship), a more competitive business environment (flexible labour markets, larger and more diversified capital markets, more competitive product markets), an improved knowledge infrastructure, and a society more supportive of change.

The perception of a United States with a clear overall lead over Europe in economic terms is, however, a simplistic one. The flurry of research on innovation and productivity is increasingly showing that, with somewhat different measures and methodologies, European performance is not far behind the United States' in average terms, and some European countries occupy leading positions in new technology usage and innovation. This would lead us towards a happier conclusion that, the current conjuncture and structural rigidities already highlighted notwithstanding, the two mature industrial regions of the world are still capable of considerable economic dynamism. In effect, they are in a position to lead innovation and growth world-wide despite their mature position. The major sources of concern in the world economy at present are located elsewhere. They include:

- the inability of the third major industrialised 'region', Japan, to regain economic dynamism and indeed risk being engulfed in a destructive downward economic spiral, which also has a negative spill-over effect on what was the most dynamic region outside the OECD area, namely East Asia as a whole; and
- the apparent inability of the vast majority of developing nations to keep up with, let alone catch up with, the advanced market economies in terms of innovation, productivity and growth. The market opening promise of Doha should help address this chasm.

The case of Japan is particularly worrying. Fiscal and monetary policies involving greater public investment and a larger supply of funds are recognised to have reached their limits. At the same time, there is a fear that the much needed structural reform will worsen the deflationary spiral. The Japanese business community is also concerned that the political debate on economic reform is excessively focused on the elimination of non-performing loans at the expense of the broader agenda. A combination of reflationary macroeconomic policy with bold structural reform appears to be the best recipe for Japan.

The desirability of regulatory reform in Japan is unquestionable, as revealed by OECD's own analysis. The short term cost of reform, through the contraction of inefficient sectors and increased unemployment, is probably inevitable. But, the need to promote new business, new enterprise, greater use of technology is vital. Hesitation and delay in reform is simply lengthening the period of suffering in this otherwise 'first-class' economy. Japanese enterprises across many sectors have to put up with very low rates of return on investment in comparison to other industrial economies. Likewise, top managers of Japanese enterprises are paying for apparent stability with substantially lower compensation in comparison to other their peers in other OECD areas. It is very important for outside commentators not to blur the message on the need for regulatory reform.

The decision to accept a sharp pain now to break this deadlock and take some risk in return for renewed economic dynamism is ultimately a political one and can only be made through the

democratic process of the country. But, Japan would do a huge favour first to herself, then to her OECD peers, and, last but not least to outward-oriented developing economies by re-inserting herself at the top of the economic performance league.

4. Trade, Investment, Openness, and Economic Reform - World-wide

Introduction

The business community of the OECD is pleased that an agreement to launch a new broad-based “round” of multilateral trade negotiations was reached in Doha and that we have this milestone behind us. We extend our congratulations to the WTO and its member states for keeping the process on track. The world trading system and the open markets that it promotes are essential to sustainable economic growth, supporting and diffusing innovation and technology, and bringing about poverty reduction by creating wealth. In the current climate of economic uncertainty, the positive results achieved at Doha shows the determination of all WTO members, the developed as well as developing countries, to support the integrated, global market economy as a positive force in addressing the world’s challenges.

New trade negotiations have been and remain a high priority for business. At the same time, many challenges will lie ahead in reaching a productive conclusion. The success of negotiations will depend upon continued and enhanced consensus-building among all WTO members, especially with regard to the engagement of developing countries. This engagement is critical to shape the pending decisions on modalities into useful negotiations.

The psychological impact of a new round on business cycles should not be underestimated. Business people are the risk takers who will act upon the expectations and opportunities opened up by serious negotiations. As member governments, especially in the developing countries, begin to see the scope of their future commitments, they will start to put in place those elements of the policy mosaic that supports market liberalisation.

With the establishment of an agenda for trade negotiations at the WTO, the OECD has a key role to play in fostering further confidence in and support for the global trading system. It can generate important analytical work to enhance the understanding of complex issues dealt with in the WTO, and thus provide a base for the negotiations outlined in the Doha Declaration. In addition, the OECD’s outreach programmes can provide skilled resources for improving the technical capacities of the developing countries in the field of trade policy. Encouraging and participating in this process is fundamental for the OECD.

Importance of Trade to Economic Recovery and Sustainable Economic Growth

The recent World Bank Report on 2002 Global Economic Prospects and the Developing Countries, states that a reduction in world barriers to trade could accelerate growth, provide stimulus for new forms of productivity-enhancing specialisation, and lead to a more rapid pace of job creation and poverty reduction around the world.ⁱⁱⁱ

Services, in particular, are the fastest growing components of the global economy. In virtually every country, the performance of the service sectors can make the difference between rapid and

sluggish growth. Even though governments can initiate reforms of services unilaterally, multilateral agreements through the GATS should help to accelerate domestic reform and improve access to foreign markets for developing countries^{iv} This a trade policy area in which the OECD has considerable history and competence. No opportunity should be overlooked in advancing understanding and negotiating progress.

Doha Results: A Closer Look

The most important result of the Doha Ministerial was a clear call for negotiations on a full agenda. Now, the task at hand is to build bridges between those WTO members that want broad negotiations and those that are still uncertain of the benefits to be gained. In particular, we need consensus with respect to the Singapore issues, and the language for negotiation on trade and environment.

In this context, key negotiating areas for business include, most importantly, continued progress on market access for services, agriculture and industrial goods. Also of importance are trade facilitation, transparency in government procurement, trade and investment, WTO rules on antidumping and subsidies and trade and environment.

Building support for progress on these issues will be critical to a successful completion of the negotiations within three years from now. The business community played active role leading up to and during the Doha meetings, and will remain engaged throughout the negotiations.

At Doha, developing countries purposefully represented their interests. This was a most welcome impetus towards a broader participation by those countries that will offer the most expansive possibilities for market growth. The response of the developed world to the increased profile of developing and least developed countries at the Ministerial was broad, significant, and is reflected in the Ministerial Declaration in the decision on implementation related issues, and in the declaration on TRIPS and public health.

In this context, commitment to capacity building is one of the most important issues for the developing countries' ability to implement commitments made in the WTO agreements. It will be critical to ensure that developing countries continue to engage in the WTO process and benefit from trade through economic growth and poverty reduction. Mainstreaming trade in development policy and sustained adequate funding of capacity-building activities in this field is therefore necessary.

The business community welcomes the accession of China and Taiwan to the WTO. We recognise the significant impact the participation of China will have on the negotiation process and in the sum total of gains from the final undertaking. In particular, an important focus for the early stages of China's membership will be to develop a full understanding of requirements for transparency and thorough implementation of WTO rules. Here, there is a significant role for the OECD through its considerable outreach to China already in process.

BIAC Recommendations for OECD Work

Open markets have never been more important to the diffusion of trade benefits for wealth creation and development at local and international levels. The OECD has an important role in developing fact-based analysis of policies that make explicit the benefits of open markets.

In a number of areas, including trade and investment, trade facilitation, transparency in government procurement, and agriculture -- especially with respect to fisheries subsidies-- OECD work can contribute to ensuring both members and developing countries that negotiations in these areas will be beneficial for all WTO members.

With respect to specific OECD work related to WTO negotiations and open markets in general, BIAC:

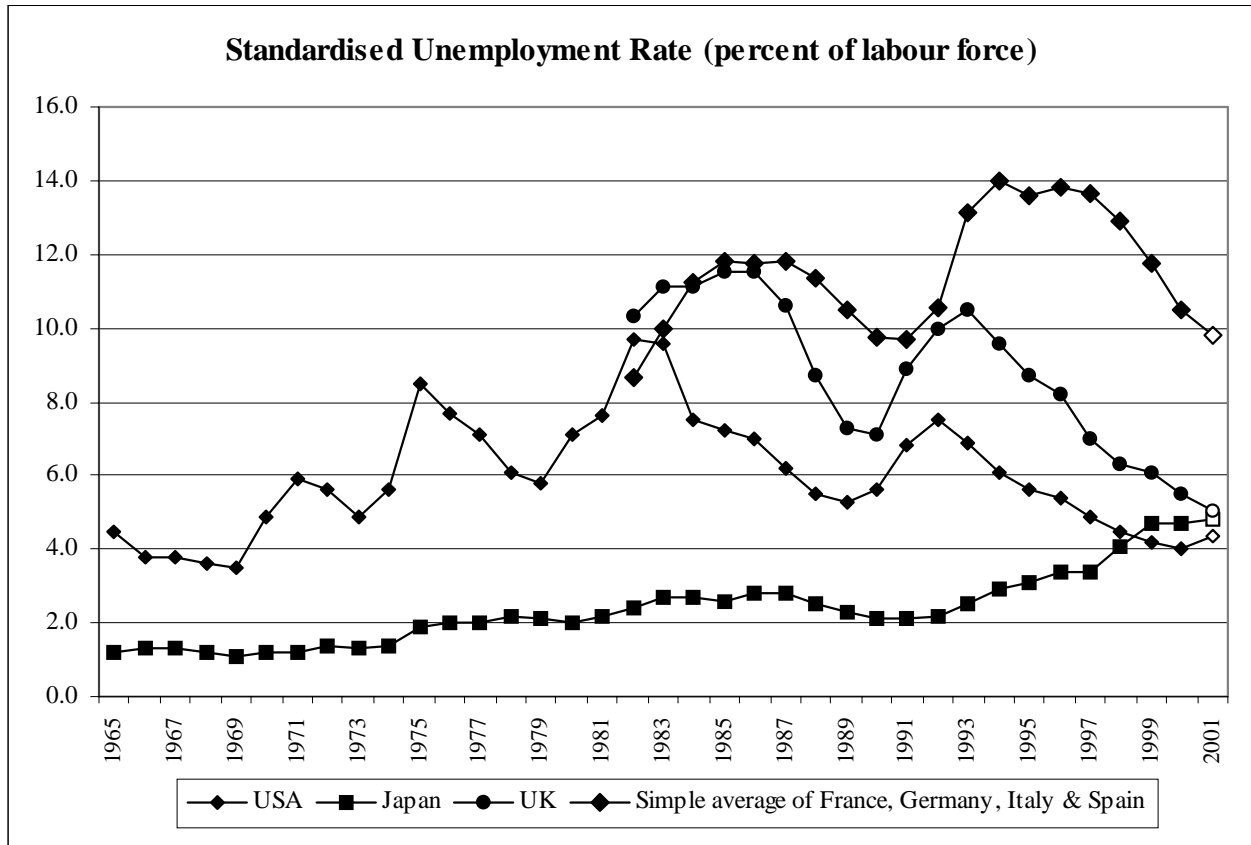
- recommends that the OECD update its study Open Markets Matter as it is an important tool for both promoting the benefits and addressing the challenges to market liberalisation and sustainable growth;
- applauds the recent OECD study on Open Services Markets Matter, and encourages wide dissemination of this publication, and continued updates to the study as necessary;
- recommends that the OECD undertake an approach similar to that of Open Markets Matter in the area of agriculture, with particular focus on the substantial costs of heavily protected markets;
- recommends that the OECD Trade Committee remains strongly engaged as relevant OECD Committees undertake work on the Singapore issues, including trade and investment, transparency in government procurement, trade facilitation, to assist with analytical work that can lead to useful results in these areas. Furthermore, the OECD, through its outreach strategy establishing global forums with non-members, use these meetings to share analysis and build confidence among and between OECD members and non-members;
- recommends that the OECD continue to pursue work on the relationship between trade policy and other relevant international fields such as development policy, agriculture, e-commerce issues, environment, competition policy and regulatory quality and reform.
- recommends that the OECD analyse the use and effects of anti-dumping and countervailing measures.

We urge that trade and investment be recognised as central elements in OECD horizontal work on sustainability and growth. Development of indicators should reflect the scope of these issues. The pace of this work should be timed to support the formation of the final undertaking and become an essential part of the rationale that governments employ to sell the results to the public at large.

Now, the business community is in anticipation of significant liberalising results, not just from the final undertaking but from those governments that begin to prepare their markets and create attractive opportunities for the risk takers and entrepreneurs who rely on the forward movement of the world trading system.

Figure 1. Standardised Unemployment Rate (percent of labour force)

Source: *OECD Labour Force Statistics*. Obtained from the OECD OLIS Statistics section and the 2001 paper edition. Data for 2001 is the average of first two quarters and is obtained from *OECD Main Economic Indicators* October 2001.



NOTES

ⁱ It is the word *creative* that is of interest in this expression, as by destruction we do not mean the obliteration of productive resources but their withdrawal from activities which are no longer gainful or sustainable. Whereas the creative bit does imply the emergence of new opportunities. We have ample evidence that over time the net effect of the creative destruction process is strongly positive, when the process is allowed work.

ⁱⁱ The term “semi” refers to semi-conductors

ⁱⁱⁱ The International Bank for Reconstruction and Development/The World Bank, *Global Economic Prospects and the Developing Countries* 2002, Washington, DC, 2001, p. xi.

^{iv} *Ibid*, pp. xv-xvi.