

Meeting of the OECD Council at Ministerial Level

Paris, 1-2 June 2016



CHAIR'S SUMMARY

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"Enhancing Productivity for Inclusive Growth"

1. Ministers from OECD countries met under the Chairmanship of Chile, and the Vice-Chairmanship of Finland, Hungary and Japan on 1-2 June, for the 2016 Ministerial Council Meeting (MCM): **Enhancing Productivity for Inclusive Growth**. The 2016 MCM benefited from the participation of Ministers and representatives from Colombia, Latvia, Costa Rica and Lithuania, as well as from Brazil, China, India, Indonesia and South Africa. In addition, Kazakhstan, Morocco, and Peru participated in Sessions 6 and 7, and Argentina and Hong Kong (China) attended Session 7.

2. After welcoming remarks by the Secretary-General, the President of Chile, Ms. Michelle Bachelet, delivered a keynote address highlighting the need to raise productivity to improve living standards and well-being and to place inclusiveness considerations at the core of policymaking. She called for more and better opportunities to increase the contribution of all to make economies more productive and reap the benefits of better economic outcomes. President Bachelet stressed the importance of preparing citizens for the future of work, ensuring a level-playing field and building cities as a platform of innovation and social inclusion, in order to achieve productivity and inclusion goals in mutually reinforcing ways. She also highlighted the importance of addressing gender inequalities.

Economic Outlook

3. Ministers exchanged views on recent economic developments, noting that trade and investment remain subdued, financial conditions have tightened, debt levels are high, and commodity prices remain low. They observed that sluggish demand is contributing to low inflation and investment, and inadequate wage and employment growth. Ministers noted that population ageing is also slowing growth. Views on the overall economic outlook were mixed.

4. Concerns over slowing productivity, rising inequality, and declining job quality in many countries was discussed extensively. Ministers noted that persistent low-growth reflects legacies from the crisis and past policy mistakes. They maintained that we are in a low- (or middle-) growth trap that is both an economic and political phenomenon, which calls for strong action. Ministers mentioned that downside risks to the global economy have increased and that pre-existing risks have intensified markedly, driven by rising geopolitical pressures and conflict. Ministers observed that many emerging market economies (EMEs) have lost momentum, especially commodity-exporting countries, where lower commodity prices have constrained investment and confidence.

5. Ministers urged the OECD to step up its efforts to strengthen the international tax system, building on the success of the OECD-G20 Base Erosion and Profit Shifting (BEPS) Project and the Automatic Exchange of Information initiative in response to recent high-profile cases of fraud and tax evasion.

6. In the first high-level panel, Ministers outlined the collective macroeconomic policy actions needed to support demand and provide a more favourable environment for growth-enhancing structural policies, including through public investment and stepping up skills and active labour market policies. They discussed the need for a more balanced monetary and fiscal policy mix and an acceleration of structural reforms to strengthen growth. They also called for decisive action to boost trade and investment.

7. During the second high-level panel, Ministers shared views on the causes of slowing productivity, including weakening investment in knowledge-based capital, challenging financial market conditions, the slow diffusion of new technologies, and the possible growing market power of incumbent firms. Ministers mentioned that the digital economy can be a major driver of productivity, pointing to the potential benefits of new business models and the opportunities of big data. However, they noted that security risks and the digital divide must be properly addressed.

8. Ministers observed that slowing productivity may be feeding into rising or persistently high inequalities of income, wealth and opportunity. Ministers also noted that long-term unemployment, insufficient access to work-based training, the digital divide, skills gaps, and “winner-takes-all” market dynamics are possible factors driving further inequality and undermining productivity growth. They looked at possible policies to enhance productivity growth in an inclusive way. Ministers underlined the need for a new narrative that includes measures to support people, firms and regions to fulfil their potential.

9. Specific measures to strengthen youth engagement in the labour market were mentioned, including higher financial resources for education, support for youth entrepreneurship, and enhanced efforts to match the skills taught in education systems with those in demand by firms, with a particular emphasis on Science, Technology, Engineering and Mathematics (STEM) and gender.

Strategic Orientations

10. Ministers welcomed the start of the third mandate of Mr. Angel Gurría as Secretary-General. They expressed appreciation for his leadership and efforts to strengthen the relevance and impact of the OECD. They welcomed his role in proposing new initiatives, including in his *Strategic Orientations*, and updating on the findings and progress of OECD horizontal projects and cross-cutting initiatives. They exchanged views on how the Strategic Orientations were aligned with national agendas. Ministers underlined the importance of the OECD agendas on better understanding the productivity-inclusiveness nexus, tackling persistent inequalities, and anticipating future trends, including harnessing the benefits of the Next Production Revolution and the digital economy. They also voiced support for the OECD’s work on antimicrobial resistance and anti-corruption. They highlighted the importance of the OECD’s work at the national level to support national reform agendas, as well as the need to build on its successes on topics related to the international taxation system and to strengthen its efforts on global priorities, including anti-corruption, illicit trade, climate, and SDGs. They welcomed the progress made by the OECD with its multidisciplinary approach, notably through the New Approaches to Economic Challenges (NAEC) initiative.

Enhancing Productivity for Inclusive Growth

11. Ministers discussed the twin challenges of slow productivity growth and rising inequality, as well as possible interlinkages between these trends. Ministers welcomed the OECD’s report on the *Productivity-Inclusiveness Nexus* and exchanged views on the report’s key findings. They noted that productivity is a multidimensional concept that requires better measurement tools and data collection and analysis. They also agreed that a broader, more inclusive approach to productivity growth — grounded in investments in education, skills, health, and quality jobs for individuals, and policies that position lagging regions and firms to realise their productive potential, as well as greater focus on facilitating market access and promoting competition, especially in new technology sectors — could be the key to strengthening productivity growth for the benefit of all segments of society. They called on the OECD to explore further on policies to enhance productivity while fostering inclusive growth by deepening its understanding of the micro and macroeconomic underpinnings of aggregate productivity growth and potential links between firm-level productivity, the allocation of resources, and increased inequality. Ministers encouraged the OECD to leverage the Inclusive Growth Initiative and the Global Forum on Productivity to build the evidence base for productivity analysis and measurement.

Anticipating Trends — Education, Skills and Quality Jobs

12. Ministers discussed the future of work in response to digitalisation and rapid technological change, as well as the risks on employment creation and job quality. They noted that the risks of job losses from automation are relatively modest. Ministers agreed that countries must invest in the right skills,

promote job quality, and adapt labour market institutions and social protection systems to harness the benefits of digitalisation for productivity and growth, taking into consideration the challenges arising from the platform economy.

13. Several policy priorities emerged from their discussions: promoting access to quality education and training for all, particularly those from disadvantaged backgrounds; encouraging lifelong learning; removing barriers to the employment of youth, women, and vulnerable groups to capitalise on and further develop their digital skills; creating better incentives for workers and firms to upskill; developing well-targeted labour market programmes to reduce the effects of displacement, limit skills loss, and facilitate the transition to new jobs and careers; providing adequate work-related benefits and social protection. They also observed that institutional conditions that facilitate the adoption and diffusion of new technologies are important, and noted that traditional models of worker protection may not be calibrated to the new world of work. Ministers noted the need for policies to support people over the life cycle, from early childhood to the elderly.

14. Ministers noted the importance to broaden the definition of skills to include social and emotional dimensions and global competencies, and support policymakers to assess and anticipate changing skills needs.

Preparing for the Next Production Revolution (Innovation, Entrepreneurship and the Digital Economy)

15. Ministers underscored the need to facilitate technological diffusion in lagging firms by stimulating innovation and experimentation at the firm level, fostering technology and knowledge diffusion, investment in digital infrastructure, R&D and other forms of knowledge-based capital. They called for specific support to SMEs, given observed lags in the diffusion of digital technologies to small businesses that have hampered their productivity performance. Ministers noted the importance of supporting digital infrastructure to address the digital divide and fostering social dialogue to adapt our economies, including regulatory frameworks, to the technological revolution.

16. Horizontal work exploring the opportunities and challenges of digitalisation received strong support. Ministers encouraged the OECD to leverage its wide-ranging policy and analytical expertise to develop an integrated and coherent strategy that positions Members and Partners to capitalise on the digital revolution. They called on the OECD to deepen its analysis on the impact of emerging technologies, including biotechnology, artificial intelligence, the sharing and circular economy, and platform markets.

17. Ministers recognised the capacity of digitalisation to address global challenges including climate change and wider environmental concerns, development, and ageing populations. Ministers noted that these issues will be explored further in the 2016 Ministerial Meeting on the Digital Economy, Innovation, Growth and Social Prosperity.

Enabling Environment (Regulatory Policy and Competition, Finance and Corporate Issues) for Dynamic and Inclusive Economies

18. Ministers debated the conditions necessary for firms to thrive and innovate, with an emphasis on small, young firms and start-ups. They agreed on the need to foster sound regulation and institutional arrangements to deliver a level-playing field for incumbents and new entrants, including on market access, competition and financing, particularly for SMEs. They called on the OECD to develop further indicators on competition, regulation and trade for OECD Members and Partners.

19. Ministers stressed the importance of implementing policies that enable innovative firms to grow and facilitate the restructuring or exit of poorly-performing firms. They agreed that the public sector can

contribute to aggregate productivity by improving the efficiency of public services and reducing administrative burdens and recognised that public sector productivity is difficult to measure. They also called on the OECD to provide guidance for effective territorial strategies, recognising that strong urban-rural linkages and effective collaboration between all levels of government can foster productivity growth among firms.

20. Ministers looked forward to the OECD's contributions to the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) in October 2016, which will set out the New Urban Agenda for years to come.

All on Board for 2030: A Universal Agenda for Inclusive and Sustainable Development

21. Ministers discussed the OECD's efforts to support the implementation of the 2030 Agenda for Sustainable Development. They welcomed the *OECD Action Plan on the Sustainable Development Goals (SDGs)*, stressing the important role that the Organisation can play to support the achievement of the SDGs, based on its analytical capabilities and core strengths, in collaboration with the UN system. Ministers emphasised that policy coherence will be central in this agenda and that the OECD can help to bridge institutional silos and bring evidence to bear on synergies and trade-offs in public policymaking.

22. Ministers underscored the importance of high quality data and analysis. Some countries welcomed the idea of embedding SDG analytics into existing OECD review processes, such as Economic Surveys and Multi-Dimensional Country Reviews. They highlighted the universal nature of the SDGs throughout the discussions. They also identified gender equality as a pressing challenge facing countries at all levels of development.

23. Ministers observed that the success of the 2030 Agenda is closely linked to the effective mobilisation of development finance, including domestic resources. They stressed the importance of Official Development Assistance (ODA), particularly for countries most in need, recognising that middle-income countries may continue facing development challenges in specific areas. Discussions also underscored the importance of finance beyond ODA, considering in particular the OECD's contribution to domestic revenue mobilisation in developing countries, international tax reforms (e.g. BEPS, Tax Inspectors Without Borders), as well as support for private sector investment through initiatives such as the Policy Framework for Investment (PFI).

24. The continued prevalence of corruption was identified as a key obstacle to inclusive growth, productivity, and sustainable development. Ministers congratulated the OECD for hosting the 2016 Anti-Bribery Ministerial, and for its contribution to the UK Anti-Corruption Summit. Members called on the OECD to strengthen its anti-corruption work within its existing mandate. Ministers called for greater efforts to strengthen outreach and improve coordination with emerging and developing economies to enhance the impact and outcomes of the OECD's anti-corruption analysis, tools and standards.

25. Ministers encouraged the OECD to support countries' individual efforts to meet their COP21 commitments - working in partnership with the IEA, NEA and ITF - by generating the necessary resources and support for phasing out inefficient fossil fuel subsidies, implementing effective emissions reduction policies, and tracking climate finance. Ministers welcomed the report *Towards a Recommendation on Water: Progress Report* and encouraged further work with the aim of developing an OECD Recommendation that builds on the existing OECD acquis on water and recent policy analysis from OECD bodies.

26. Ministers noted the global call for an effective response to the current refugee crisis and humanitarian challenges at the World Humanitarian Summit in Istanbul. They welcomed the efforts made by the OECD in order to better measure migration trends and to promote effective integration policies.

Strengthening the Contribution of Trade and Investment to Productivity and Inclusiveness

27. Ministers recognised the need to boost trade and investment to foster productivity and achieve inclusive and sustainable growth. They concluded that an open, rules-based multilateral trading system that is calibrated to the rapidly-evolving global economy is critical for this purpose. Ministers encouraged greater coordination between trade and investment policies to increase their coherence in an environment characterised by global value chains. They also stressed that ‘flanking’ policies - covering labour markets, education, responsible business conduct (RBC), and social protection - are necessary to ensure that benefits of trade and investment are widely shared. Ministers also discussed the role of trade and investment for raising productivity in the agricultural sector.

28. Ministers welcomed recent WTO-complementary bilateral, regional and plurilateral initiatives aimed at promoting trade and productivity growth, and encouraged rapid implementation of the expanded Information Technology Agreement (ITA), the entry into force of the Trade Facilitation Agreement (TFA), and the conclusion of negotiations on the Environmental Goods Agreement (EGA) and the Trade in Services Agreement (TiSA). They called on the OECD to deepen its work on the OECD Services Trade Restrictiveness Index (STRI), Trade in Value Added (TiVA) and Trade Facilitation Indicators (TFIs), to better understand developments in the global trading system.

29. They supported the advances in the negotiation on outstanding issues building on the outcomes of the Nairobi Ministerial Conference. Ministers encouraged the integration of new and emerging issues, such as digital trade, regulatory coherence, competition and investment, in the post-Nairobi multilateral negotiating agenda.

30. Ministers urged the OECD to deepen its analytical work on the provisions of regional trade agreements to better understand them and their impact. They also underscored the importance of resisting protectionist measures, with a particular emphasis on phasing out WTO-inconsistent measures in the agriculture and services sectors.

31. The 40th anniversary of the OECD Guidelines for Multinational Enterprises, within the framework of the OECD Declaration on Investment, was noted by Ministers. They called on the OECD to strengthen the functioning of the National Contact Points and foster work on due diligence.

32. Ministers underlined the importance of Responsible Business Conduct (RBC) and noted good progress in the implementation of RBC Standards. They called on the OECD to: facilitate further knowledge-sharing and dialogue on the challenges of designing and implementing effective RBC policies; deepen analytical work on the link between trade, investment and RBC standards; reinforce outreach activities on RBC; continue efforts to develop due diligence guidance for companies; and improve the system of National Contact Points through peer reviews, training, learning events, and tools to help adhering governments implement the OECD Guidelines for Multinational Enterprises.

33. Ministers recognised that the contribution of international investment to productivity, innovation, and technology transfers depends on open, transparent, and rules-based investment policies. They called on the OECD to continue analysing investment trends, broaden its analytical work on current and emerging areas of investment treaty policy and consolidate its co-operation with international organisations and the G20’s Trade and Investment Working Group.

Launch of the OECD Latin America and the Caribbean (LAC) Regional Programme

34. Ministers welcomed the formal launch of the LAC Regional Programme, noting it will consolidate the OECD's longstanding advice and support on the region's main challenges and shape strategic responses related to increasing productivity, advancing social inclusion, and strengthening institutions and governance. They also noted that addressing these issues is central to achieving the SDGs and the 2030 Agenda for Sustainable Development. Ministers called on the OECD to take further steps to support implementation of the LAC Regional Programme, including through the establishment of the Steering Committee, co-chaired by Chile and Peru, and the Advisory Board, and also by mobilising expertise and support from regional organisations, such as the Economic Commission for Latin America and the Caribbean (ELCAC), the Inter-American Development Bank (IDB) and the Development Bank of Latin America (CAF).

Accession of Latvia

35. Ministers congratulated Latvia for successfully concluding the accession process. They acknowledged Latvia's longstanding efforts to make progress on structural reforms and noted that many of its core priorities — reducing inequalities, maximising trade and investment, fostering innovation, fighting corruption and optimising the effectiveness of education, health and labour market policies — are aligned with the OECD's agenda. Ministers wholeheartedly expressed their support for Latvia's membership of the OECD.

OECD's global reach

36. Ministers commended the progress made by Colombia, Costa Rica and Lithuania in their ongoing accession processes. Ministers agreed on the value of the OECD's global reach and called for a strategic reflection by the OECD on its future size and membership. Ministers acknowledged the OECD's continued efforts to advance engagement with its Key Partners (Brazil, China, Indonesia, India and South Africa) and noted the progress on the Country Programmes (Peru, Morocco and Kazakhstan).

37. Ministers welcomed the OECD's strong collaboration with the G7, G20, APEC, and the Pacific Alliance. They called on the OECD to advance further its work on the international governance architecture, and its work with emerging and developing countries, to raise the global visibility and impact of the OECD's work and standards. Ministers discussed the OECD's core regional initiatives, including the Southeast Asia Regional Programme, the new LAC Regional Programme, the Eurasia Competitiveness Programme, and the Regional Programme for Southeast Europe. Some mentioned that expanding regional work to sub-Saharan Africa would complement these initiatives.

Closing Session and Outcomes

38. During the closing session, the *Declaration on Enhancing Productivity for Inclusive Growth* was adopted and Ministers also adopted the 2016 *Ministerial Council Meeting Statement*. Ministers welcomed the decision of Colombia, Costa Rica, Latvia and Lithuania to adopt the Declaration and join the Statement.

39. Ministers welcomed the extensive use of breakout groups in this Ministerial meeting chaired by Chile, noting they facilitated more engaging discussions and supported an in-depth analysis. They also appreciated previous consultations with TUAC and BIAC held in Santiago, and the discussions at the 2016 OECD Forum "*Productive Economies, Inclusive Societies*".

