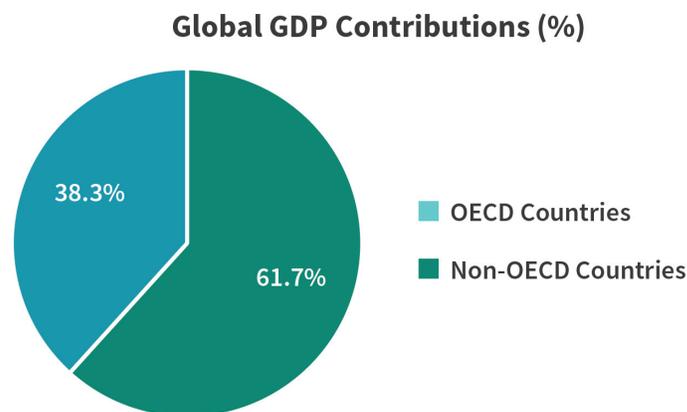


The OECD Faces a Decision Point in 2021

Daniel F. Runde, Shannon McKeown, and Thelma Askey

In 1961, the Organization of Economic Cooperation and Development (OECD) replaced the Marshall Plan's Organization for European Economic Cooperation (OEEC). Its 20 original European and North American members endorsed the founding principle of the prior organization that declared "their economic systems are interrelated and that the prosperity of each of them depends on the prosperity of all." Since then, the OECD membership has expanded to include [37](#) member countries that span the globe, from North and South America to Europe and the Asia-Pacific. Together, the current members of this exclusive "club," all upper-income or upper-middle-income (sometimes imperfect) democracies, represent [62.2 percent](#) of the world's total GDP.

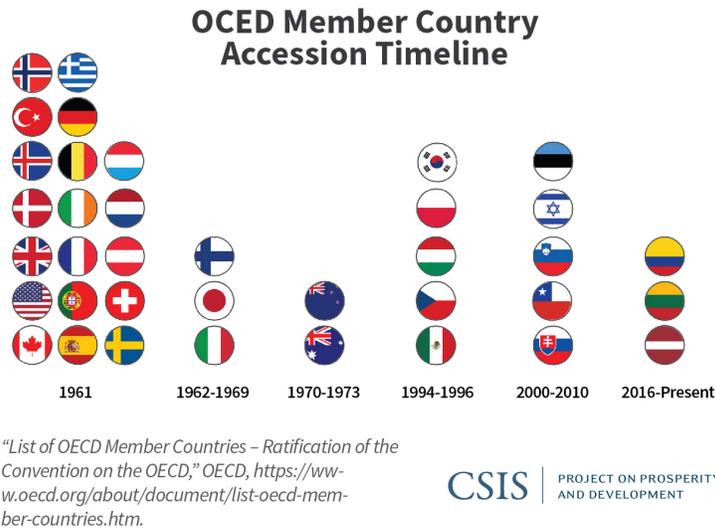
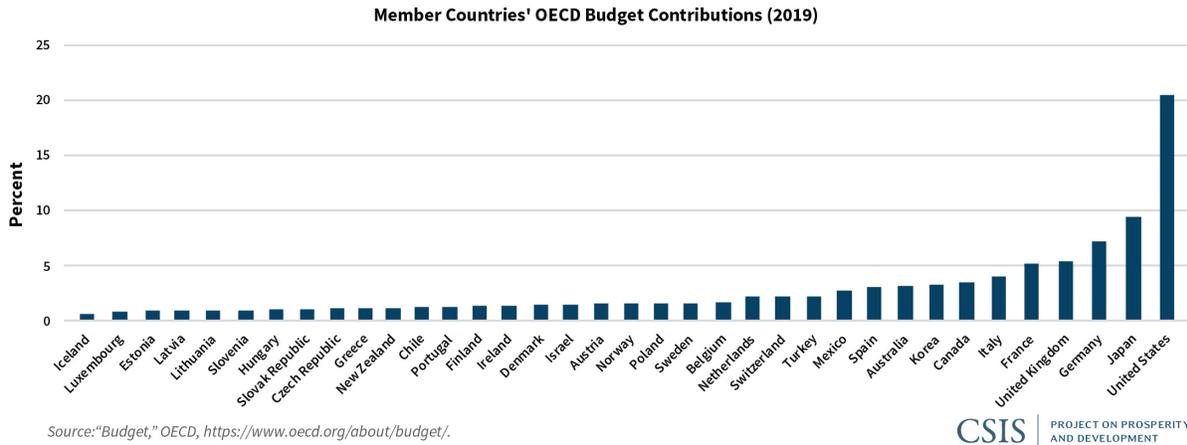


Source: "Gross domestic product (GDP)," OECD.Stat, <https://stats.oecd.org/index.aspx?queryid=60702>.

CSIS | PROJECT ON PROSPERITY AND DEVELOPMENT

The OECD plays a critical role in shaping the global economic agenda and informing economic policies. It has served as an important policy forum and a platform for best practices in issues such as taxes, education, the environment, governance and public integrity, and international development. As opposed to

large organizations such as the United Nations or World Bank, the OECD's smaller contingent of members allow it to be more specialized and innovative. Its lean structure is composed of directorates, committees, and working groups, which are guided and overseen by the OECD Council (the member states). Through its many working groups and committees, the OECD exercises important and outsized global influence for an organization that is not well known outside of circles of experts.



Over time, the OECD has become a leading and respected organization for comparative analysis in a globalized world. It is now clearly the “go-to” multilateral forum and database for taxes, foreign aid, and anti-corruption. Going forward, the OECD could play an outsized role in digital taxes, digital trade, artificial intelligence, and data privacy.

In 2021, the OECD will consider the term expiration of certain top leadership positions, particularly the secretary-general (SG), who is the top manager of OECD activities and interface. It is in the interest of the United States to advocate for new leadership and to engage actively in identifying a successor SG who reflects U.S. interests around the world in trade, tax policy, foreign aid, and global governance. It is also important to look at the internal balance of influence and participation within the OECD, as well as how the organization outwardly reflects its mission.

During the 14-year tenure of [Angel Gurría](#), the current OECD secretary-general, the organization has become a pillar of the global economic governance architecture. Today, the OECD has a [3,300](#) person staff, a [\\$421 million budget](#), and a stable financing mechanism. The organization is recognized for being one of the [most active international organizations](#) at the G20. The end of Gurría's term provides a crucial opportunity for the OECD to reassess its core mission for the next 10 years and evaluate how to most effectively project the organization's relevance and accomplish its goals and objectives. In doing so, the new SG should prioritize the emerging disciplines of technology applications (including artificial intelligence) and digital tax issues—topics that will be increasingly important in the coming decades.

The Evolving Nature of the OECD

[Over the past 50 years](#), the OECD has strengthened its global outreach by attracting new members and cooperating more closely with emerging economies. Countries that wish to become OECD members undergo a rigorous review process. The Council has established a standardized [framework](#) with five conditions to be addressed in accession discussions. These are state of readiness, including market, tax, and financial indicators; commitment to OECD values and membership obligations; institutional framework, including considerations of government type and legal system; key economic indicators; and relations with the OECD.

In recent years, the OECD has played an important role in upgrading and updating standards and adopting an inclusive and multidisciplinary approach in its efforts to build a stronger and fairer world economy. The OECD has since strategically refocused its work in fewer but important policy areas including taxes, export credits, education, labor, and peace. It also has worked to better project the OECD method of comparative exchanges among countries along with the OECD vaunted analytical work product where most needed, such as to assist the G20, the G7, the World Bank, IME, IDB, and other multilateral organizations. In doing so, the OECD has become more dynamic and effective in supporting its own member states as well as those countries that choose to participate in its programs and activities.

Selected Areas of Influence of the OECD:

DIGITAL ECONOMY

One of the OECD's key assets is its work on the digital tax system. Issues regarding taxing the digital economy arose when European countries began pursuing unilateral taxes on digital companies that have many users in European countries yet reside outside of Europe and therefore pay little in taxes in Europe. The United States protested such taxes, claiming that the policy would disproportionately impact U.S.-based tech companies, such as Facebook, Amazon, and Google. Recent U.S. response to European digital taxation has largely centered around tariffs, such as the [\\$2.4 billion](#) tariff proposed on French goods in 2019.

Despite disruptions emerging from Covid-19, the OECD plans to [continue](#) digital tax discussions among 137 countries and jurisdictions. The OECD talks provide an opportunity for a multilateral agreement across member states. The current talks are negotiating Pillar One, which would establish rules regarding where taxes should be paid and how profits should be allocated. The OECD aims to complete the talks by the end of the calendar year.

GLOBAL BUSINESS AND TRADE STANDARDS

A second important area of the OECD's work is its [contribution and support for reforms](#) in a variety of countries, such as labor reforms in Spain and Italy and tax reform in Japan. At the interagency level, OECD has worked with several international organizations during the negotiation of agreements; for instance, in 2013, OECD contributed to the Bali Agreement by [providing analytical support on the trade facilitation agenda](#).

Box 1: OECD and G20's Inclusive Framework on Base Erosion and Profit Shifting

Recently, the OECD and G20 released an inclusive framework on base erosion and profit shifting (BEPS). Over 135 countries collaborated to create the OECD's Inclusive Framework on BEPS, which aims to end tax avoidance strategies employed by multinational companies that take advantage of gaps and variance in tax rules in order to avoid paying tax. Tax avoidance strategies are estimated to result in \$100-240 billion in lost revenue annually, which hurts developing countries in particular as they are more reliant on corporate income tax collections. The framework outlines 15 actions to “tackle tax avoidance, improve the coherence of international tax rules, and ensure a more transparent tax environment.”

The OECD's [international standards](#) have had an increased impact over the years and have become generally accepted, especially in the area of anti-corruption, investment, responsible business conduct, corporate governance, and free movement of capital and goods. In April 2009, the OECD implemented the Automatic Exchange of Information (AEOI), which by 2011 had already yielded 37 billion euros of additional revenue in approximately 25 member countries and G20 countries.

FOREIGN ASSISTANCE

A third key area of the OECD's work is foreign assistance with the Development Assistance Committee (DAC). The DAC is sort of the Major League Baseball Commission of foreign aid, setting the rules for what “counts” in measuring foreign aid. The DAC is comprised of 30 member states and works primarily in four areas: monitoring official development assistance, setting development cooperation standards, developing and sharing guidance on good principles, and conducting peer reviews of the performance of member states. For the 2018-2022 period, DAC is focusing on development cooperation and the implementation of the 2030 Agenda for Sustainable Development. Since its founding in 1961, DAC has been effective in setting global standards and policy priorities. One example is the DAC's work in setting the table for the Millennium Development Goals, which were launched in 2000 as a result of the DAC's [Shaping the 21st Century report](#) in 1996.

The OECD's Significance to the United States

As a global organization, the OECD provides unique value to the United States. The member states control considerable portions of the world's economy, and their decisions in the OECD have the ability to exert substantial influence in the shaping of global economic and trade policy. The relatively small number of seats and community of interests represented at the table allows for focused and high caliber discussions among member states. An important example of the fruits of such discussions is the [OECD Export Credit Agreement](#). Export credits are used to finance the sale of goods or services to international markets. Under the agreement, the quality and quantity of goods and services being exported determine the competition for export sales. The United States long sought an agreement that more closely followed U.S. practice and ensured that export credits did not distort the price of goods and services.

The United States benefits from OECD deliberations and agreements in various fields, including technology, exports, and tax policy. Through OECD participation, the United States can work with its allies to promote consensus on global governance norms and standards regarding trade and anti-corruption measures. The [Anti-Bribery Convention](#) benefits U.S. exporters and investors by reducing bribery and corruption in the international marketplace. The proposed digital tax agreement is estimated to produce revenue gains of [\\$100 billion](#) annually, per the OECD's economic analysis.

The OECD is an important forum for the United States to assert its global leadership in a time of strategic competition. As China increases its influence by securing top positions at multilateral organizations, the United States must get better at multilateral leadership campaigns and placing qualified Americans or others who will champion the U.S. reform agenda in roles in these organizations. With the SG position open in 2021, the United States has an opportunity to support a candidate in line with its interests while also encouraging the OECD to continue its important work.

Looking Forward: The Next Five Years of the OECD

As Secretary-General Gurría's third term comes to an end, it is an opportune time to ensure that succession is imminent and to voice support for the next SG to tackle some pressing internal challenges as well as to take steps to modernize the institution to better serve its member states and its global mission. The new SG has the opportunity to further cement OECD's status and reputation for data analysis and technical expertise, as well as elevate its role on the global stage where appropriate.

1. SELECTION PROCESS AND LEADERSHIP SUCCESSION

The selection process for the SG successor begins in August 2020. The [selection process](#) starts with the nomination of candidates by member countries. The candidates are further reviewed by representatives of all members in individual hearings, and the high stature of the candidates is confirmed by the Council, meeting at the level of [Head of Delegations \(HOD\)](#). Among all the requirements, the candidates should have broad international experience, proven management and leadership skills, substantive experience in the OECD's core economic areas, and fluency in one of the two official languages of the organization. The process continues with three rounds of consultations which are mandated by the dean of the permanent representatives and two facilitators. In the first round, the dean identifies the candidates that are best placed to win eventual consensus for appointment to the position. The second round of consultations narrows down the field to fewer candidates. Lastly, the third round of consultations aims to reach a consensus among the OECD member countries in the Council that selects the SG for a period of five years.

After SG Donald J. Johnston stepped down in May 2006, six countries nominated candidates to fill the position. The OECD's dean of ambassadors first chose to continue forward with candidates nominated by Mexico, Poland, and Japan and then further narrowed the field to Mexico and Poland's candidates. When it came to a full-member vote, Mexico's candidate, Angel Gurría, won a majority of support and the position of SG.

However, the OECD lacks a concrete system of leadership succession. SG Angel Gurría has held the top leadership role at the OECD for a long time—since 2006. Although he was instrumental in repositioning the institution in an era of globalization, the system could benefit from term limits that specifically outline how long future SGs' mandates should be. Rotating, fixed ten-year terms will provide a greater opportunity for all regions represented by the membership to compete for the top management. Moreover, the next OECD SG should be a consensus-builder who can bring together member countries. A good understanding of the digital economy with relevant private sector and government experience should also be prerequisites for the SG role.

It is important for the United States and like-minded countries to assert their interests and any firm demarcations as early in the process as possible. Perhaps, to reflect diversity and regional balance, a non-European or a "new European" should be high on the list of candidates. Candidates from Australia or New Zealand, for example, likely would have very similar views to the United States on key issues. Importantly, such a candidate would reflect an economically important but underrepresented region. Another region

that might field excellent candidates from the U.S. perspective is the smaller but economically successful and market-oriented group of countries in Central Europe. The United States should aggressively pursue its interests in the selection process for SG as well as in any restructuring that may need to occur at the time of this transition.

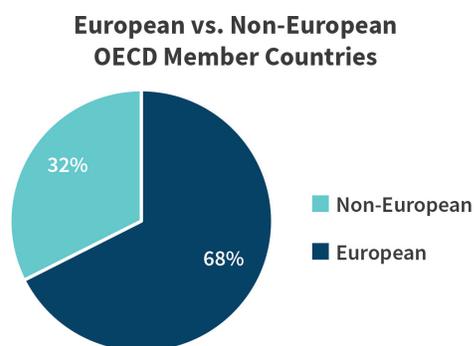
2. REFOCUSING ITS CORE AGENDA

The OECD must remember its advantages in comparative analysis and shared country introspection (economic surveys), which are designed to identify and understand best economic and developmental practices and to measure compliance and progress. The OECD should guard against joining popularized or politicized movements or duplicating the tasks of other respected multilateral organizations. Particularly, the OECD should continue to lead in the important technical work of the Committees and Directorates, strengthening their efforts and projecting its excellent outcomes where needed most. The OECD should resist creating a confusing web of outsourced work, particularly outside its core competencies, and should guard its reputation for diligence and excellence. The studies and other products of the OECD also should not be used to interject in disagreements or negotiations among member states. The work product of the OECD also should reflect consensus by the member states, particularly material published under OECD auspices, rather than sowing confusion about any narrower origins.

Yet, the OECD needs to respond to an evolving and challenging world. The core mission of the OECD is not static, but it must have stature. This is a time when the expanding integration and influence of new technologies, sometimes called the [Fourth Industrial Revolution \(4IR\)](#), are disrupting both advanced and emerging economies. All countries need to better prepare for the advancing digital age; the OECD should be the premier institution that countries turn to help navigate these changes. This likely would require greater commitment and higher-level participation by member states. Leveraging these areas of expertise, the OECD can continue to distinguish itself as an important force in the multilateral system.

3. BALANCE OR DIVERSITY?

Third, the OECD must decide as an institution whether it sees itself as a more European-aligned organization or takes into consideration the regional diversity of its member countries. Nearly three-fourths of its membership European countries and extensive European staff representation, the OECD has been criticized for being oriented to favor European interests. While member country expansion has contributed to a better member state diversity, the OECD could benefit from a more engaged non-European contingent.



Source: OECD, <http://www.oecd.org/>.

CSIS | PROJECT ON PROSPERITY
AND DEVELOPMENT

In this regard, the OECD should continue with a measured pace of expansion (one or at most two countries at a time) in order to preserve the technical committee work that serves at the core of the OECD's work. The most recent countries invited to join the OECD since 2016 include Colombia, Lithuania, and Latvia. Costa Rica, whose accession process began in 2015, is still currently in [consideration](#) for OECD membership. In addition, President Macri announced Argentina's intention to ascend to the OECD in 2016 and the country's action plan in 2017. Since then, Argentina has been closely cooperating with the OECD to undergo a number of policy actions and legal and institu-

tional reforms. However, the OECD has yet to extend the invitation for the formal ascension process to Argentina, despite support from its member states.

China and the OECD

The significant and protracted discussion within the OECD concerning the status of China seems to have grown in relevance. Some members have raised the question of why China maintains enhanced engagement status rather than full member status. As the world's largest economy (in PPP terms), China [accounted for 1 percent](#) out of a total growth rate of 3.6 percent in 2017, creating an interdependence between China and OECD countries. Furthermore, China has committed to putting in place measures that aim to open up its economy, make progress towards achieving the Sustainable Development Goals (SDGs), and cooperate in green growth initiatives.

Within the OECD, advocates of inviting China to full membership argue that it would result in China committing to the practices of OECD countries and working further towards an open market structure while expanding access to the OECD for policy work in the region. Others question the motives and intentions of China, pointing to China's behavior in other multilateral organizations as well as its own embedded trade, economic, and social practices. The argument in favor of China is going to experience some pushback from those who believe that the theory of China as a "responsible stakeholder" has failed and that the OECD should prevent itself from going the way of the WHO or the WTO, where China is seen as overly influential.

China is not a democracy nor an advocate of free-market principles. Its practices often are not transparent, and protection of intellectual property is far less than satisfactory. China's government-owned enterprises are spread throughout its economy, and managed trade is widely practiced by Chinese leadership. It is questionable whether China is ready to fulfill the expected demands of OECD membership, given its unwillingness to put forward an SG candidacy that might be opposed by some members.

OECD and the Future

Looking forward, the OECD should refine its agenda and leverage what it is best known for: tax policies, anti-corruption, development assistance, digital economy, and artificial intelligence. As new technologies and subsequent issues arise in data privacy and artificial intelligence, the OECD, in tandem with member states, can pilot the development of widely embraced standards and practices in this critical field.

The United States should continue to support the OECD's work and play an active role in the selection process for the new SG. The United States and like-minded countries should grasp the opportunity for increased leadership at the committees and directorates, both at the level of technical staff and executive leadership. Playing a larger role in the OECD's processes, specifically its digital tax talks, will protect and project U.S. particular interests, as well as its broader national interests, in the multilateral organization space that perhaps is more difficult to achieve in larger bodies such as the United Nations.

The OECD must carefully examine its unique and invaluable position among multilateral organizations. The stature and high standards traditionally embodied in the OECD remain the envy of all countries aspiring for progress and economic success. That being said, the OECD should prioritize the needs of its member states and work closely to renew a level of interest and participation from a ministerial and heads-of-state level. It should guard and nurture its fundamental principles, practices, and expectations while welcoming enhanced participation of perhaps an expanding list of key partners along with customary participation through OECD structures and programs. In this way, the OECD can effectively respond throughout the world—to countries or regions in various stages of development or market orientation—while maintaining its own embodiment of the very highest principles, standards, and practices.

APPENDIXES

APPENDIX 1: PAST SECRETARIES-GENERAL OF THE OECD

Thorkil Kristensen (Denmark), 1961-1969
Emile Van Lennep (Netherlands), 1969-1984
Jean-Claude Paye (France), 1984-1996
Donald J. Johnston (Canada), 1996-2006
Angel Gurría (Mexico), 2006-Present

APPENDIX 2: OECD MEMBERSHIP EXPANSIONS SINCE 1990

Mexico, 1994
Czech Republic, 1995
Hungary, 1996
Poland, 1996
Korea, 1996
Slovak Republic, 2000
Chile, 2010
Israel, 2010
Slovenia 2010
Estonia, 2010
Latvia, 2016
Lithuania, 2018
Colombia, 2020

APPENDIX 3: OECD DIRECTORATES

[Development Co-operation Directorate](#)
[Economics Department](#)
[Directorate for Education and Skills](#)
[Directorate for Employment, Labor and Social Affairs](#)
[Center for Entrepreneurship, SMEs, Regions and Cities](#)
[Environment Directorate](#)
[Directorate for Financial and Enterprise Affairs](#)
[Directorate for Public Governance](#)
[Directorate for Science, Technology and Innovation](#)
[Statistics and Data Directorate](#)
[Center for Tax Policy and Administration](#)
[Trade and Agriculture Directorate](#)

APPENDIX 4: COUNTRIES CURRENTLY IN ACCESSION TALKS

Russia entered into accession discussions in 2007, though the accession process was indefinitely postponed in 2014.

Costa Rica entered into accession discussions in April 2015, and the Council adopted a roadmap for Costa Rica in July 2015. The accession process remains ongoing.

APPENDIX 5: OECD KEY PARTNERS AND COUNTRY PROGRAMS

The OECD's Key Partners program is a form of enhanced cooperation with countries that are not full mem-

bers. The Key Partners program aims to “promote direct and active participation of these countries in the work of substantive bodies of the Organization.” OECD Key Partners include:

- Brazil
- China
- India
- Indonesia
- South Africa

The OECD’s Country Program is another form of enhanced cooperation with countries that are not full members. Participant countries can “leverage OECD expertise and best practices, strengthen institutions, and build capacity for successful policy reforms.” The Country Program includes:

- Morocco
- Kazakhstan
- Peru
- Thailand

***Daniel F. Runde** is senior vice president, director of the Project on Prosperity and Development, and holds the William A. Schreyer Chair in Global Analysis at the Center for Strategic and International Studies in Washington, D.C. **Thelma Askey** is a former deputy secretary-general of the Organization for Economic Cooperation and Development (OECD). **Shannon McKeown** is a program coordinator for the Project on Prosperity and Development at the CSIS.*

This report is made possible by general support to CSIS. No direct sponsorship contributed to this report.

This report is produced by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author(s).

© 2020 by the Center for Strategic and International Studies. All rights reserved.