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What Lies Ahead for the OECD

By **Richard Woodward**

The 'rise of the rest' has prompted questions about the capacity and willingness of the U.S. to lead the liberal international order established under its post-war hegemony. Some prophesize that stronger connections amongst emerging powers are the basis for a parallel international order parading different rules, norms and institutions.[1] Contrastingly, Ikenberry argues that the visionary use of U.S. power has woven capitalist and democratic societies together into a uniquely entrenched 'Western' order that is "hard to overturn and easy to join."[2] Prevailing arrangements will condition the environment within which rising powers make their decisions nevertheless, by joining the Western order they may alter its character. Which of these visions pans out is vitally important to the outlook of a quintessentially Western institution, the Organisation for Economic Cooperation and Development (OECD).

Emerging from the ashes of the Organisation for European Economic Cooperation (OEEC), an institution created to foster European partnerships through allocating Marshall Plan aid, the OECD epitomized and espoused Western values in the Cold War. Unlike other international organizations, the OECD rationed membership to states committed to democracy and a market economy. Elevation to this exclusive club was a badge of honor bestowed on countries that extolled the ideals of the liberal international order. As well as being a manifestation of a community committed to democracy and capitalism, the organization repeatedly gathered officials from member states together with the OECD Secretariat to develop knowledge and ideas about how best to navigate the policy problems flowing from greater interdependence. A continual process of peer review and the transformation of these standards

[1] Barma, N., Ratner, E. and S. Weber, *A World Without the West*, The National Interest, Vol. 90, 2007, pp. 23-30.
[2] Ikenberry, J., *The Rise of China and the Future of the West*, Foreign Affairs, Vol. 87, No. 1, 2008, pp. 23-37, p. 24.

into soft law pressurized countries into adopting best practices. Finally, the OECD played a 'palliative' role in global governance,[3] especially by dissolving obstacles to progress in other organizations prompted by feuds amongst its members.

Paradoxically, the triumph of the OECD's values over an alternative international order predicated on central planning and authoritarianism prompted questions about its appropriateness as a crucible in which to forge the post-Cold War world. The OECD would only provide a vehicle for the globalization of Western values if questions surrounding the legitimacy, effectiveness, and relevance of an organization whose predominantly transatlantic membership was starting to contrast with the contours of global power could be overcome. The exclusion of 'the rest' has resulted in the OECD increasingly being by-passed as a platform for deliberations amongst leading states. For example, because many trade squabbles now involve non-OECD members, senior trade officials prefer to convene at the World Trade Organization (WTO) rather than the OECD Trade Committee.[4] Similarly the OECD's Development Assistance Committee (DAC), where the world's foremost bi-lateral donors strive to expand the volume and effectiveness of aid, is "losing relevance"[5] because of the slew of non-DAC aid donors. Dialogue regarding exchange rates and balance of payments has drifted away from the OECD Working Party Number Three on Policies for the Promotion of Better International Payments Equilibrium to the Group of 7/8 (G7/8) and latterly the Group of 20 (G20).

To arrest this trend, the OECD instigated an enlargement and outreach strategy. Between 1994 and 2000 the OECD welcomed six new members (Mexico, the Czech Republic, Hungary,

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[3] Woodward, R., *The Organisation for Economic Cooperation and Development*. Abingdon: Routledge , 2009.
[4] Wolfe, R., "From Reconstructing Europe to Constructing Globalization: The OECD in Historical Perspective," In *The OECD and Transnational Governance*, edited by R. Mahon and S. McBride, pp. 25-42. Vancouver: UBC Press, 2008.
[5] Paulo, S. and H. Reisen. *Old habits, new donors.* Development and Cooperation, Vol. 50, No. 10, 2009, pp. 386-387.
OECD. *OECD Annual Report 2009*. Paris: OECD, 2009, p. 386)

Poland, South Korea, and the Slovak Republic) and fortified linkages with Brazil, China and the Russian Federation—all large non-members salient to the organization's work. Under Angel Gurria, the OECD's Mexican Secretary-General appointed in 2005, the reform momentum intensified. The 2007 Ministerial Council meeting witnessed the simultaneous launch of accession negotiations with Chile Estonia, Israel, Slovenia (all of whom join in 2010), and the Russian Federation, and "enhanced engagement programs" with Brazil, China, India, Indonesia, and South Africa.[6] This second initiative immerses selected states in a spectrum of OECD committees, surveys, legal instruments, peer reviews, and statistical reporting regimes with full membership a possible eventuality. Shortly afterwards, the G8 chose the OECD to facilitate its interactions with the Outreach-5 (O-5) countries, the so-called 'Heiligendamm Process'.

For the OECD, a more diverse membership and tighter integration with, or future membership of, emerging powers has several attractions. Broadening the range of participants will rejuvenate OECD committees by bringing fresh perspectives and enriching the consensual knowledge upon which the organization trades. Trawling more states into the peer review system will disseminate OECD ideas to a bigger audience. Adopting an inclusive approach should enhance the legitimacy of OECD standards and resurrect the OECD's reputation as a forum where systemically important states can reach consensus prior to taking issues forward into formal negotiating settings. This rosy scenario ignores numerous problems, not least the lukewarm enthusiasm for OECD membership exhibited by emerging powers and the effects their membership would have on the character and operation of the organization.

Presently, OECD membership for enhanced engagement countries is a remote prospect. Their desire to retain capital controls, massage statistics, and endemic bribery and corruption

[6] OECD. *OECD Council Resolution on Enlargement and Enhanced Engagement*, OECD, 2007a: http://www.oecd.org/document/7/0,3343,en_2649_201185_38604487_1_1_1_1,00.html.

mean they would not pass the gauntlet of technical assessments central to the OECD accession process. Even if reforms in these areas were forthcoming, the OECD[7] has stated that political "matters (for example on democracy, rule of law, human rights, etc.) may be considered as particularly important parameters" for evaluating likely members. If these political criteria are strictly applied none of the enhanced engagement countries would be eligible for OECD membership. The presumption is that inveigling non-members more tightly into its work will instill them with OECD values rendering them eligible for membership. The German ambassador to the OECD asserts that the Heiligendamm Process "must drive home the message that market-oriented rules…..are preconditions for global development and prosperity. It is in this context that we wish to come to an understanding with our partners on the core challenges facing the global economy."[8] Others note that the OECD Secretariat's control of the agenda and speaking notes for Heiligendamm Process meetings privileges G8 and OECD concerns over those of the 0-5.[9]

The conviction that the rest can be socialized into the OECD rests upon the experiences, amongst others, with Japan, Mexico, and South Korea who undertook substantial domestic reforms to secure entry into the OECD's hallowed portals. Unfortunately, the current crop of systemically important non-members is not clamoring for OECD membership. South Africa apart, none of the Heiligendamm countries has expressed serious interest in OECD accession, therefore dangling the carrot of OECD membership is unlikely to wring drastic changes in their attitudes. Indeed emerging powers have plenty of reasons *not* to join the OECD. First, as Rubens Ricupero, Brazil's former finance minister argues, enlisting in what is perceived to be the rich

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[7] OECD. *A General Procedure for Future Accessions C(2007)31/FINAL*. Paris: OECD, 2007b.
[8] Hoffman, M., *Building Global Partnerships*, OECD Observer, Vol. 261, pp. 5-6.
[9] Vickers, B., "South Africa: Global Reformism, Global Apartheid, and the Heilingendamm Process," In *Emerging Powers in Global Governance: Lessons from the Heilingendamm Process*, edited by A. F. Cooper and A. Antkiewicz, pp. 163-192. Waterloo: Wilfred Laurier Press, 2008.

countries club would be “political suicide” because of the adverse effects on their relationships with fellow developing countries.[10] Furthermore, membership could strip them of their developing country status and imperil their concomitant preferential trade and financial arrangements. Second, ‘the rest’ are wary of being corralled into a suite of rules that they have not authored and which might constrain their capacity to exercise their newfound power. Consequently, these countries may choose the status quo using their observership of OECD committees to garner the benefits of the organization’s research and knowledge without the entanglements of membership. Finally, by gate-crashing the top table of global governance through, amongst other things, G20 membership, obviates the need for them to kowtow to the OECD. They are in no rush to assist the OECD in addressing its legitimacy and effectiveness deficits by assuming membership and without them, the OECD risks being consigned to the periphery of global governance. In short, the OECD needs them more than they need the OECD.

Smaller states are apprehensive that the influence they enjoy in the OECD, compared with more universal organizations fixated with formal negotiating, will be diminished by the integration of the emerging powers. Article 16 of the OECD Convention grants all members a veto over new accessions however, given that states are not in the habit of bankrolling obsolete institutions, weightier members may urge the OECD to be more pragmatic towards membership and greater formal input from the emerging powers. The G7 countries provide three quarters of the OECD budget. The U.S. alone accounts for 25% of the organization’s funding, where it is vulnerable to lobbyists keen to rein in expenditures on international organizations, especially one they view as a Cold War anachronism or suspect of peddling a European agenda favoring big government. Beset by serious financial constraints, the OECD cannot ignore the exigencies of its

[10] Ricupero, R., *Brazil would commit political suicide by joining the OECD, says ex-finance minister Rubens Ricupero*, PR Log Press Releases, 2009,

main benefactors. The dilemma is how to ensure that the legitimacy conferred by a more inclusive OECD is not outweighed by the possible damage to the organization's effectiveness and personality. Bulging committees are already jeopardizing the efficacy of the peer review process and stymieing the quest for consensus upon which the OECD operates. These problems will be exacerbated if the OECD is required to mollify those who question whether capitalist and democratic principles are the best means to achieving peace and prosperity. Competing values held by emerging states will leach into the organization's bloodstream contaminating or fundamentally altering the nature of the OECD community and undermining its ability to re-affirm market democracy as the founding principles of the liberal democratic order.

The OECD is a substantial economic and political bloc. In 2009, OECD countries accounted for 71.9% of worldwide Gross National Income (GNI), 60.5% of trade, 94.9% of official development assistance, and 45.9% of carbon dioxide emissions (OECD 2009). Despite the geopolitical upheavals afoot, OECD countries taken collectively will outrank the 'rest' for some time ahead. This and the OECD's expertise over an array of policy domains, talent for interdisciplinary enquiry, adaptability, and fondness for soft power approaches that Nye believes are "the means to success in world politics,"[11] means it is unlikely to vanish abruptly. The OECD's strategy of reaching out to countries that are both like-minded (committed to capitalism and democracy) and significant players (those which exert a substantial influence on the global economy and which would strengthen the organization's global influence) is problematic because like-minded countries are not significant players and significant players are not sufficiently like-minded. The accession of the likeminded will not assuage those that accuse the OECD of elitism and illegitimacy. Rather, the accession of the significant players will buy legitimacy, but undermine the homogeneity and effectiveness of the organization. The OECD

[11] Nye, J.S., *Soft Power: The Means to Success in World Politics*, New York: Public Affairs, 2004.

cannot easily resolve these tensions. Instead, it must navigate between these problems if it is to secure its place at the heart of global economic governance in the 21^{st} century.[12]

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[12] See also Bergsten, C.F., *A Partnership of Equals: How Washington Should Respond to China's Economic Challenge*, Foreign Affairs, Vol. 87, Vol. 4, 2008, pp. 57-69.