

**Meeting of the Council at Ministerial Level, 7-8 June 2023**

**THE OECD'S CONTRIBUTION TO PROMOTING OPEN MARKETS AND A  
RULES-BASED INTERNATIONAL TRADING SYSTEM IN GOOD  
WORKING ORDER**

**JT03520055**

## 1. The OECD's contribution to promoting open markets and a rules-based international trading system in good working order

1. The [2021 OECD Vision Statement](#) renewed the OECD's explicit support for open markets and a rules-based international trading system, as reflected in the chapeau and Article 1 of the 1960 Convention on the Organisation for Economic Co-operation and Development.
2. This support is based on overwhelming evidence of the multiple benefits of trade and market openness, which go hand-in-hand with better economic performance in countries at all levels of development. Trade creates opportunities for workers, consumers and firms and has helped lift millions out of poverty. Trade lowers prices and increases choice, enabling access to goods and services that would otherwise be unavailable or costly. Open economies grow faster than closed ones, while wages and working conditions are better in companies that trade. Rules-based trade enables opportunities for all countries, providing the predictability and certainty needed for the private sector to invest and create jobs. Trade is also a source of economic resilience and diversification along supply chains. Ultimately, labour rights and climate objectives are better secured under conditions of prosperity, opportunity, stability and security for all.
3. At the same time, a range of issues are leading to heightened activity in competition, investment, economic security, environmental and social policy design with spill-over effects on trade costs and trade incentives. They are leading to a reassessment of the elements that a rule book for open markets should contain. The Russian war of aggression against Ukraine adds further complexity to these challenges. This situation makes the OECD's role in supporting open markets through evidence, analysis, policy advice and providing a forum for exchange more important than ever. In this context, the role of the OECD in informing and shaping policy and rules relevant for international trade merits strategic reflection.
4. Going forward, a fundamental challenge facing the OECD community of like-minded countries is how to act in an effective and coordinated manner to ensure economic security and prosperity while preserving the benefits of open markets and a rules-based international trading system in line with the OECD's founding values and principles. This note sets out an OECD-wide approach in this context. It has been refined following discussions at Council and also takes into account the recent discussions in the Trade Committee.

## 2. An international trading system under stress

5. Over the past decades, the international trading system has been exposed to important changes in the global economic and policy environment that together are putting the system under significant pressure. Governments have been under increased scrutiny when negotiating bilateral or regional trade agreements and have sometimes found it difficult to gain support in parliaments to ratify such agreements. Geopolitical tensions have compounded trade frictions, and trade policies are increasingly seen as tools for pursuing geopolitical goals. At the multilateral level, the World Trade Organization (WTO)'s negotiating function has struggled, with comprehensive liberalisation undertakings stalled, although plurilateral and regional initiatives have been making some progress. The WTO dispute settlement system is under unprecedented strain, while the WTO's monitoring function requires greater Member adherence to transparency

obligations. Against this background, recent years have witnessed a maturing of a debate around the need for WTO reform.

### ***Limited progress in trade liberalisation and rule making***

6. Since the conclusion of the Uruguay Round and the 1995 Marrakesh Agreement Establishing the World Trade Organization (WTO), tariffs have fallen significantly around the world. Average applied industrial tariffs stood at 11% in 1995 and have now halved to about 5%, with OECD Members having reduced them down to near zero. In agriculture, progress has been less pronounced. Applied rates have fallen from an average of around 13% in 1995 to 9%, with less marked differences between OECD and non-OECD averages.
7. For services, the structure of market access is asymmetric, with OECD countries having made more progress in market opening and non-OECD countries overall characterised by more stringent barriers to services trade. As measured by the OECD Services Trade Restrictiveness Index (STRI), the average level of restriction in non-OECD countries across 22 sectors is 180% higher than in OECD countries.
8. Average protection profiles hide cases where reform has been more difficult and tariffs, as well as non-tariff barriers, remain relatively high. One indication of those areas where there has been less reform is the sectors that have been most frequently targeted in trade disputes over time, notably, the agricultural sub-sectors of cereal grains, oil seeds and meat; while on the industrial side, motor vehicles and parts, machinery and equipment, as well as transport equipment, have also been frequent targets, leading to discussions at the WTO.
9. With the demise of the Doha Development Round and notwithstanding the progress made at the 12<sup>th</sup> Ministerial Conference, the evolution of WTO rules has been moderate. This poses particular challenges in an era where digitalisation has significantly changed the nature of trade and has raised complex new issues for policymakers. Digitalisation holds significant potential to make trade inclusive, lowering costs and increasing access for micro, small and medium enterprises (MSMEs), youth and women. Yet while digital markets are global, regulation remains largely national and particular challenges arise in finding ways to enable data to move across borders with trust, without which the benefits of digital trade cannot materialise. More broadly, there is a need to modernise the trade rulebook to ensure that it is fit for purpose for trade in the digital era.

### ***Inability to level the playing field***

10. Open markets deliver benefits when competition in these markets is fair. This explains why WTO rules attempt to discipline the use of subsidies in the industrial and agricultural sectors. But existing rules have proven insufficient. The strengthening of subsidies rules foreseen under the Doha Round has not happened and attempts to design rules to discipline the use of subsidies in the services industry have been largely set aside.
11. Subsidies are today common across all sectors, are used by countries at all stages of development, take many forms, and affect all countries albeit at different scales. OECD work has identified extensive and growing government support across the agriculture and industrial sectors (see the [OECD government support and subsidies portal](#)), with subsidies prevalent in both OECD countries and large emerging markets.

12. The International Monetary Fund (IMF), OECD, World Bank and WTO jointly [recently warned](#) that the growing use of distortive subsidies alters trade and investment flows, detracts from the value of tariff bindings and other market access commitments, and undercuts public support for open trade. In addition, they also noted that such subsidies sometimes have a damaging impact on climate change and biodiversity, rather than facilitating the green transition. This inter-agency report also argues that sharp differences over subsidies are contributing to global trade tensions that are harming growth and living standards.
13. The recent COVID-19 pandemic, Russia's war of aggression against Ukraine, concerns about security of supply in high tech sectors, and the need to invest in the digital and green transformation are compounding this situation as they have led to even higher levels of government intervention in markets in many countries, including OECD economies.

### ***Economic, environmental and social sustainability***

14. Recent years have seen an increased incidence of shocks (financial, environmental, logistical), the rise of geopolitical tensions, and the use of coercive instruments (boycotts, sanctions or export restrictions) by trade and investment partners for economic or political reasons. While trade is still an important tool to promote win-win economic integration, shocks have led to concerns about the risks related to an interconnected global economy. In particular, the COVID-19 pandemic, Russia's large-scale aggression against Ukraine and other growing geopolitical tensions have prompted some countries to analyse their trade links in order to identify specific relationships that could cause disruptions, be used as tools of coercion, or create national security risks. Firms and governments are facing the challenge of ensuring the economic sustainability and resilience of supply chains at a time when the environmental and social impact of trade are already under scrutiny.
15. Climate change has brought the field of environmental policies to the forefront of policy makers' agendas. This raises new questions about how international trade policies and practices can go hand in hand with advancing climate and other environmental ambitions (like plastic waste reduction), in a situation where countries have different levels of ambition and approaches. In parallel, the question of how international trade rules interact with domestic environmental policies and multilateral environmental initiatives and regulations has become a top priority for many governments. Whilst the multilateral trading system has a long-standing agenda on trade and environment, it has traditionally found it difficult to set rules for and monitor the interface between the two policy areas. In the meantime, multilateral environmental processes, national financial reporting requirements, and the availability of data and calculation tools to estimate environmental impacts are facilitating the spread of reporting, accounting, and other standards at the firm, local, national and regional level that are complicating the landscape of trade because of the lack of harmonisation and mutual recognition.
16. Finally, while globalization has contributed to an important reduction of poverty and an increase of economic opportunities across countries over the past decades, it has gone hand in hand with rising inequality of income, wealth and opportunity within some countries. This contributes to perceptions that gains from trade are not well distributed and that trade liberalisation may limit government policy space in pursuing other legitimate objectives, such as labour-related sustainability. While ensuring the social sustainability of trade and public support for openness requires effective transitional

measures for those most negatively impacted, these have also proven challenging to implement. Yet, scrutiny on the labour and other social standards applied within supply chains has increased in recent years, leading to increased monitoring and reporting requirements for firms active in supply chains.

### *The geopolitics of trade*

17. Heightened scrutiny of the economic, environmental and social sustainability of trade and increased economic security concerns raise awareness of differences among economic and political systems and approaches to environmental and social issues. This has engendered discussion of concepts like “friendshoring”, “[partial friendshoring](#)”, “nearshoring”, “reshoring” or “decoupling” in the debate around trade, and consideration of the sustainability of economic integration between economic systems characterised by significantly divergent values and principles.
18. In a [recent paper](#) by the WTO, for instance, the global economy is divided into a “Western bloc” and an “Eastern bloc” based on differential scores in foreign policy similarity (as measured by similarity in United Nations votes). The paper assesses welfare effects of significantly reducing trade between blocs. In the main simulation, all OECD countries are part of the “Western bloc”. The People’s Republic of China (China) and Russia are part of the “Eastern bloc”. According to WTO estimates, which are relatively conservative, the disintegration of the global economy into two blocs would reduce global GDP by 5%. Developing countries would face disproportionate losses, with a 7% reduction in long-term GDP. Among OECD countries, the European Union and Japan would face a 4% reduction in GDP, and the United States 1%.
19. This debate is now giving rise to discussions about the extent to which the gains from trade and economic security can be ensured through deeper integration among trusted like-minded partners with shared values, while resisting protectionism and uncoordinated actions against those that undermine prosperity and well-being.

### **3. The OECD’s unique strengths to inform multilateral, regional and bilateral trade policies**

20. In the context of an international trading system under stress, the OECD’s unique strengths in advancing the shared interests of Members include *inter alia*:

#### *A common foundation of data and evidence-based analysis*

21. The OECD’s objective measurement helps inform policymaking and contributes to the transparency of policy regimes. Countries are all subject to the same methodology, building comparability and a shared basis for dialogue. This has helped to build trust and credibility among OECD Members and beyond.
22. Multi-year investments in comparable cross-country data have resulted in unique tools such as the Services Trade Restrictiveness Index (STRI), Trade Facilitation Indicators (TFIs), the OECD Trade in Value Added (TiVA) database and Inter-Country Input-Output (ICIO) tables, and the OECD database on Export Restrictions and Critical Raw Materials. These resources are complemented by complex, cutting edge analysis (on issues such as industrial subsidies, servitisation, and trade costs). The OECD’s agile and timely analysis is critical in responding to emerging interests and concerns of Members.

Taken together, this foundation of data and analysis represents a unique analytical infrastructure from which OECD Members benefit.

23. The OECD's measurement and analysis enables countries to move forward with negotiating and enforcing international rules.
  - The OECD's role in assessing and addressing level playing field questions (from Producer Support Estimates (PSEs), Fisheries Support Estimates (FSEs), Fossil Fuel Subsidies (FFS) and Export Credits to support industrial sectors) put us in a key position to contribute to this discussion. Development of concepts at the OECD has facilitated negotiations and rulemaking at the WTO.
  - Continued collection of data has contributed to monitoring and facilitated implementation of agreements. The OECD TFIs both motivated and informed negotiation of the WTO Trade Facilitation Agreement (TFA) and are now contributing to its monitoring.
  - Work on policy transparency helps inform and smooth the functioning of international markets (e.g., STRI, TFIs, Export Restrictions Database, and OECD contributions to the Agriculture Market Information System (AMIS), a key instrument for the smooth and transparent functioning of markets for key staple crops).
24. Furthermore, OECD data and modelling bring an understanding of how trade affects different groups of people – central to the political economy of reform and to ensuring that trade works for all.

#### *A forum for dialogue, learning and best practices*

25. Robust dialogue among Members helps ensure the relevance and responsiveness of our work to policymakers. The like-mindedness and shared values of Members enable the OECD to be a trusted partner in periods of change.
26. The OECD Trade Committee and its subsidiary bodies play an important role as spaces for peer exchange, bringing countries together to share experience and ideas and to find collective solutions in crises – as shown in COVID-19 – informed by timely analysis.

#### *A whole-of-government perspective*

27. The OECD's multi-disciplinarity enables a whole-of-government approach, situating trade policy in the wider governance environment that makes markets work – policies on environment, competition, investment, tax, Responsible Business Conduct (RBC), labour, gender, social protection and regulation. All of these both shape the environment for trade and open markets and are shaped by it.
  - This is critical in ensuring that trade works for all, as policy action will be required across multiple fronts – trade is necessary, but not sufficient, to deliver inclusive and sustainable growth.
  - It enables Members to share good practices and lessons learnt, for example in effective transition support measures to support those negatively affected by trade adjustment.

- But this also raises the challenge of policy coherence, both within and across governments. There is a need to find the synergies, but also to be able to manage the trade-offs.
28. OECD work programmes engage diverse policy communities and expertise to bring an understanding across key challenges for open markets and the rules-based international trading system:
- *To contribute to the environmental sustainability debate, including to the interface between trade and environment.* Cooperation between TAD and ENV is longstanding, with a Joint Working Party on Trade and Environment (JWPTE) that covers all major aspects of the trade and environment interface and joint work on measuring FFS and cooperation on the circular economy. OECD-wide projects such as the Horizontal Project on Building Climate and Economic Resilience, the International Programme for Action on Climate (IPAC) and the new initiative for an Inclusive Forum on Carbon Mitigation Approaches (IFCMA) also benefit from data and analysis on trade and TAD participation.
  - *To contribute to the interaction between trade, investment and tax systems.* OECD work to reform the international tax system, culminating in the 8 October, 2021 *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy* agreed between 137 countries and jurisdictions will help address burgeoning trade disputes arising from unilateral measures and has significant potential to generate a more equal distribution of the benefits from globalisation.
  - *To contribute to the challenges of digitalisation for the multilateral trading system.* The trade and market openness perspective has been an important component of all three Going Digital horizontal projects, with TAD work on cross-border data flows playing a key role in informing the OECD's contribution to global debates on data governance.
  - *To contribute to discussions on the interface between trade policy and competition policy.* Cooperation has included a joint note on the design of government support to avoid long-term market distortions.
  - *To highlight the interlinkages between trade and investment, and the implications for policymaking across international supply chains.* This includes the challenge of ensuring coherent trade and investment policies and the challenge of ensuring resilient and sustainable supply chains, including in the context of promoting responsible business conduct.
  - *To contribute to more inclusive trade policies.* OECD has developed a framework for analysing trade's impacts on women, and has recommended policy reforms to ensure trade supports women in its first Trade and Gender country review.

### ***Inclusion of private sector and civil society***

29. The OECD has established relationships with business and labour unions, and civil society that enable a stakeholder perspective to trade discussions. These help enrich the dialogue on good practices and lessons learnt in public consultation and engagement on trade.
- The OECD has developed and supports the implementation of one of the most important RBC standards (OECD MNE Guidelines) and has an established

relationship with business, labour unions and civil society, through Business at OECD (BIAC), the Trade Union Advisory Committee (TUAC) and OECD Watch. This institutionalised relationship has provided the platform for exchange with the private sector that facilitated the creation of tools such as the “Four Keys for Resilient Supply Chains”. It also puts the OECD in an ideal position to assist members with better linkages between trade agreements and RBC instruments and to build the bridge between trade and RBC policies.

#### 4. The OECD’s place within the international trading system

30. Since its creation, the OECD’s Trade Committee and other OECD bodies have played an important role in shaping the international trading system through the use of soft power from Members. These methods, and the channels used to deploy soft power, have differed according to themes and over time.
31. At the OECD’s origin, the development of standards and policy recommendations was considered to be a key component of trade facilitation, as reflected in the early adoption of the Codes and Schemes for Agriculture, as well as numerous legal instruments covering export credits. Over time, OECD bodies other than the Trade Committee have become increasingly active in the design of trade-related standards. This is, for instance, the case of the Competition Committee, the Working Party on Responsible Business Conduct, the Corporate Governance Committee, the Environmental Policy Committee, the Investment Committee or the Public Governance Committee. The OECD Trade Committee, in contrast, has increasingly focused on generating evidence, analysis and policy advice upstream of trade negotiations in support of rules and instruments ultimately developed outside of the OECD, notably at the WTO or in preferential trade agreements.

##### *Supporting the multilateral trading system*

32. The OECD has traditionally played an important role in informing multilateral trade discussions by providing data, tools and evidence-based analysis. A prominent example is the development of the producer support estimate (PSE) approach for agriculture that developed concepts and measurements that, as noted above, influenced the negotiation of the WTO Agreement on Agriculture. OECD work on fisheries support estimates (FSEs) has played a similar role in the ongoing WTO negotiations on fishery subsidies, and OECD work on the level playing field in the industrial sector can play such a role for a future renegotiation of the WTO Agreement on Subsidies and Countervailing Measures (ASCM). In a similar vein, the ongoing negotiations under the OECD Export Credit Arrangement are laying the ground for new approaches to dealing with “sustainable finance” in the context of the multilateral trading system.
33. On digital trade, OECD work has informed debates on the extension of the WTO moratorium of customs duties on electronic transmissions and fed directly into the Joint Statement Initiative negotiations, through the Digital Trade Inventory and in shaping the debate on regulation of cross-border data flows. In the area of services trade, the OECD STRI has provided evidence informing negotiations on Services Domestic Regulation under the relevant Joint Statement Initiative and, as noted above, the OECD TFIs play a role in monitoring progress under the WTO TFA. On gender, OECD work has informed debates in the WTO’s Informal Working Group on Trade and Gender.



34. Sometimes, the process used to bring themes from the OECD to the WTO involves intermediary steps via the G7 and the G20. An example of this is the OECD work on digital trade and cross border data flows that informed the G7 Digital Trade Principles endorsed by Trade Ministers under the UK Presidency. In 2022, OECD work on sustainable and resilient value chains was solicited by both the G7 (Germany) and the G20 (Indonesia) presidencies. In other instances, collaboration with regional bodies or forums like APEC, UNECA or UNESCAP have facilitated OECD engagement to expand beyond OECD membership. The work on services trade (STRI, digital STRI) has particularly benefited from this. The OECD Codes and Schemes for Agriculture are open to global membership and represent a standardization and certification mechanisms that is compatible with the WTO's Agreement for Technical Barriers to Trade (TBT).

### ***Informing preferential trade agreements***

35. The OECD Trade Committee is also used by Members to discuss and compare approaches in preferential trade or integration agreements. An example of this are the discussions on digital trade agreements (such as the Digital Economic Partnership Agreement) within the OECD Group of Friends of Digital Trade. Other examples include the support of the OECD to APEC, notably in the area of services trade, as well as work in progress that looks at provisions in trade agreements that concern state-owned enterprises and gender.
36. The OECD has, however, so far not served as a platform for preferential integration agreements among its Members, nor has the Trade Committee engaged in the development of standards to foster convergence on trade-related matters among OECD Members.

### ***Facilitating sectoral and thematic understandings***

37. In a number of areas, the OECD has served as a platform for agreements on sectoral or thematic understandings that are of high relevance for the multilateral trading system.
38. The Arrangement on Officially Supported Export Credits [[OECD/LEGAL/5005](#)] (Arrangement), for instance, preceded the WTO ASCM and has been integrated into its legal text. The Arrangement contains separate annexes that contain sector specific rules. There are currently five sector understandings that cover export credits in the areas of (i) ships; (ii) nuclear power plants; (iii) renewable energy, climate change mitigation and adaptation, and water projects; (iv) rail infrastructure; and (v) aircraft. The Ship Sector and the Aircraft Sector Understandings have Participants that are different from those of the general Arrangement, which is not the case for the other sector understandings.
39. To facilitate implementation of the OECD Guidelines for Multinational Enterprises [[OECD/LEGAL/0144](#)] (OECD MNE Guidelines), a number of supply chain specific instruments have been designed under the Working Party on Responsible Business Conduct. These include due diligence guidelines for garments and footwear, extractive industries, mineral supply chains and agricultural supply chains (with FAO).
40. At the sectoral level, concerns about the level playing field and market concentration in the steel sector also led to the 2016 establishment of the Global Forum on Steel Excess Capacity pursuant to a G20 call, the conduct of which has been facilitated by the OECD (notably the Science, Technology and Innovation Directorate (STI)).

*Public-private activities*

41. The OECD plays a key role in private sector initiatives or public initiatives involving the private sector that complement the state-to-state multilateral trading system. A key example is the OECD MNE Guidelines that provide recommendations addressed by governments to multinational enterprises to guide the behaviour of firms active in international trade. Preferential trade agreements increasingly make reference to the MNE Guidelines.
42. Another example is the Agricultural Market Information System (AMIS), a G20-initiated activity supported by a consortium of international organisations (including the OECD) that plays an information and co-ordination platform role based on public and private sector information. AMIS has been instrumental in mitigating food price crises. Attempts to set up a similar platform for medical goods essential for fighting the COVID-19 pandemic were abandoned in the design phase.

*Multidisciplinary approaches*

43. In the context of rising awareness of the interlinkages across different policy areas, work in other OECD committees and legal instruments developed by them are of increased importance to the international trading system. (The relationships between cross-Directorate activities and outputs relative to TAD strategic priorities are set out in the Annex to this note).
  - **Investment policy:** Awareness of the linkages between trade and investment policies has risen in recent years and notably led to their joint discussion at the G20 level (Trade and Investment Working Group). In the WTO, to date, only limited aspects of investment policies are being discussed or have been negotiated (investment in services, trade related investment measures, investment facilitation). At the OECD, a number of investment standards have been developed, but so far, no attempts have been made to link them to trade agreements. Such standards include the Recommendation on Guidelines for Recipient Country Investment Policies relating to National Security [[OECD/LEGAL/0372](#)] under the Investment Committee and the MNE Guidelines under the Working Party on Responsible Business Conduct.
  - **Corporate governance:** The OECD Corporate Governance Committee co-ordinates and guides the Organisation's work on corporate governance, corporate finance and state-owned enterprises and is notably responsible for the Recommendation on Guidelines on Corporate Governance of State-Owned Enterprises [[OECD/LEGAL/0414](#)] that are relevant for trade given increased concerns about the potential for State-Owned Enterprises to distort international markets.
  - **Competition policy:** The OECD has an active competition policy agenda under the Competition Committee that is relevant for level playing field discussions in the Trade Committee. Competition policy was on the WTO negotiating agenda in the past but was abandoned in 2004. The relationship between work in the Competition Committee (in particular the Recommendation on Competitive Neutrality [[OECD/LEGAL/0462](#)]) and the Trade Committee is currently actively discussed in the Trade Committee.
  - **Environmental Policy:** The importance of the relationship between trade and the environment led to the creation of a joint OECD Working Party in 1991. The WTO

Committee on Trade and Environment was created in 1995. Recently, discussions on the theme have geared up at the WTO under the umbrella of the Trade and Environmental Sustainability Structured Discussions (TESSD) that focus on six areas (trade-related climate measures and policies; trade in environmental goods and services; circular economy; promoting sustainable supply chains; challenges and opportunities for sustainable trade (Aid for Trade); and environmental effects and trade impacts of relevant subsidies. TAD and ENV support those discussions based on OECD work on environmental goods and services, circular economy, sustainable supply chains and environmental effects and trade impacts of relevant subsidies. Yet, contributions to TESSD are not co-ordinated at OECD level, nor are they prepared in a strategic manner, for instance, in the Joint Working Party on Trade and Environment (JWPTE). So far, legal instruments of relevance to the interface between trade and environment have only been developed by the Environmental Policy Committee (EPOC) and include the Decision-Recommendation of the Council on Exports of Hazardous Wastes from the OECD area [[OECD/LEGAL/0224](#)] and the Global Harmonised Submission and Transport Standard for Pesticides.

- **Tax policy:** Ongoing OECD work on carbon pricing and carbon mitigation is highly relevant for trade, as international agreements on carbon pricing and carbon tracing would reduce the potential for carbon leakage in open markets and for border measures to tackle such leakage. The WTO is conducting analytical work and meta analyses to assess the impact of environmental policies on trade flows and TAD is in close touch with the relevant counterparts at the WTO. Work on carbon pricing, including flagship reports such as “Effective Carbon Rates and Taxing Energy Use” at the OECD is led by CTP.
- The **Inclusive Forum on Carbon Mitigation Approaches** seeks to foster multilateral dialogue, informed and facilitated by technical and objective analysis, to help ensure the effectiveness of combined carbon mitigation efforts, also by working to avoid any negative spillovers, which may slow progress in lifting climate ambition and effort to the level required to achieve carbon neutrality. This analysis would allow for a meaningful and transparent comparison of the expected contributions made to cutting emissions. Over time, this approach could form the basis for a more rigorous assessment of the effectiveness and cost-efficiency of different policy approaches. This would ultimately help foster improved international coordination of mitigation policies and broaden the level of public support for a more ambitious, globally more coherent and better coordinated approach to carbon mitigation efforts.
- **Illicit Trade:** The work of the Public Governance Committee and in particular the OECD Recommendation on Countering Illicit Trade: Enhancing Transparency in Free Trade Zones [[OECD/LEGAL/0454](#)] is of relevance for the international trade community and for discussions on illicit trade at the WTO, UNCTAD and the World Customs Organization.
- **Regulatory collaboration:** Regulatory heterogeneity is increasingly perceived as a non-negligible source of trade costs, which has become more visible with the gradual reduction of traditional trade barriers such as tariffs. Recent efforts to reduce trade costs emphasise promoting greater interoperability for businesses and supply chains working across countries with varying regulatory requirements. In parallel, efforts to improve regulatory quality through the consistent application of good regulatory practices have intensified across countries (as illustrated by the adoption of the

Recommendation on Regulatory Policy and Governance [[OECD/LEGAL/0390](#)] by the Council in 2012. Trade-related international regulatory co-operation seeks ways to reduce avoidable trade costs of regulatory divergence without compromising the quality of regulatory protection. It is a key element in harnessing the benefits of open markets while addressing societal objectives related to issues such as consumer protection, environmental performance and plant- and animal diseases.

- **Gender:** Members are increasingly integrating specific concerns related to women and other vulnerable groups in their trade agreements. The [2013](#) and [2015](#) OECD Gender Recommendations, [monitored every five years](#), have motivated analyses of progress in multiple aspects of gender equality, including trade.

## 5. Towards a whole-of-OECD approach

44. In order to be a trusted partner for change, it is important to have an integrated approach across the OECD and to meet Members' expectations that trade expertise is brought to bear on relevant issues and work.
45. Co-ordination and collaboration mechanisms already exist:
  - Strong working level contacts and good dialogues across Directorates. Informal cooperation plays an important role, as well as formal cooperation.
  - Horizontal projects are an important avenue and their governance structures are evolving.
  - Joint subsidiary bodies exist (JWPTE) and joint Committee meetings have been facilitated (e.g., Trade and Investment; Trade and Regulatory Policy Committee) with mixed experiences.
  - Regular updates on trade are provided to Council as part of broader economic briefings.
  - The Trade Committee has a standing agenda item on "Relevant work underway across the OECD" under which it has started to invite chairs of other committees for targeted exchanges starting with the Chairs of EPOC and of the Working Party on Responsible Business Conduct.
46. To further strengthen co-ordination, the Trade Committee introduced a standing agenda item on "work underway elsewhere in OECD" for its committee meetings. Discussions are ongoing in the Committee on other and potentially new forms of governance for selected horizontal collaborations.
47. More remains to be done to ensure whole-of-OECD coherence on the package of policies that make open markets work. This is an important topic of ongoing debate and consideration amongst Members and has notably resulted in the proactive outreach by the Trade Committee to other committees.
48. Finding an effective approach to cross-disciplinary governance within the OECD will be key for the OECD to take advantage of its unique breadth of reach into multiple ministries at the same time and to be a powerful driver of any "trade and" debate.

## 6. OECD action to promote open markets and rules-based international trade

49. This strategic note is presented at a moment that may represent a turning point in global economic relations. For a number of years, important segments of voters in OECD Member countries have been wondering whether openness could be married with domestic preferences regarding the distribution of gains from globalisation and the environmental sustainability of economic growth. In light of increased geopolitical tensions, voters now wonder whether their economies are resilient enough to resist economic coercion by other countries or whether access to essential products are at risk. In this context, a number of OECD Members have intensified the development of industrial policy tools. Based on the considerations set out above, it is time to reassess the OECD's role in promoting open markets and a rules-based international trading system in good working order.
50. As a whole of government organisation of like-minded Members, the OECD is well positioned to support its Members, building the necessary trust, in promoting both the extent and the quality of economic integration. The idea that it is important to continue working towards trade integration in order for integration not to stop or even reverse is often referred to as the bicycle theory of trade. Traditionally, the bicycle theory has focused on integration in terms of level of openness as a process that sustains the momentum of world trade. It may be time to include the quality of openness in this theory and hence the ability to integrate common values into moves towards increased integration. In fact, some would argue that one cannot advance sustainably without the other.
51. For an organisation that has an expressed interest in global integration and multilateralism it is important, in parallel, to sustain and build trust among non-Members. This is a precondition for progress to generate a multilateral trading system that is inclusive, sustainable and resilient in the future.
52. With this in mind, the OECD Secretariat will explore how to enhance the Organisation's role in promoting open markets and a rules-based international trading system in good working order by intensifying work in the following areas:
- In a context of increased demands for reassurance as to the resilience of OECD economies, the OECD can play a role in enhancing exchange and co-ordination among its like-minded Members with a view on enhancing trade ties among them, in particular in supply chains of geostrategic importance, technological relevance and systemic importance for national economies.
  - In a context of continued high demand for enhancing sustainability and the distributional outcomes of trade, the OECD can complement existing multilateral efforts by helping Members accelerate the design of trade policy tools that effectively integrate existing and evolving supply chain tools and relevant tools developed by other policy communities. The OECD's whole-of-government approach and private sector outreach capacities position the organisation well for such a role.
  - Reflecting the continued belief of its membership in a strong and rules-based international trading system, the OECD will continue its engagement with the WTO and other relevant platforms. It will also continue to enhance transparency in international trade and to contribute to underpinning multilateral trade negotiations and WTO reform discussions, notably with its work on level playing field, export restrictions, trade facilitation, digital trade, services trade restrictiveness and gender.

53. The following outlines possible steps that the pursuit of such a collective and co-ordinated approach could entail. Work in the three areas above should progress in parallel in order to meet the objective expressed in the OECD 60th Anniversary Vision Statement to provide support for open markets and a rules-based international trading system. Work in these areas reflects, and would be further developed in the context of, the agreed Programme of Work and Budget of the Trade Committee.

## 6.1. Intensifying work in three areas

### Supply chain resilience

54. An immediate challenge Members face for any work on supply chain resilience is the relevant weakness of data and analytical tools to assess and address supply chain vulnerabilities. Digitalisation and data collection by a larger set of global players has added to the existing complexities. Greater understanding of the challenges could underpin closer collaboration of Members on policies to address vulnerabilities and enhance resilience. The OECD can assist in several ways:
- ***Convening and working with Members:*** OECD Member Chief Trade and Agricultural Economists met at the end of June to share insights and best practices on mechanisms for identifying, monitoring and minimising supply chain vulnerabilities and logistical bottlenecks in advance of shocks. Follow up meetings of this group are envisaged and could include a focus on specific issues of concern, such as security of access to key raw materials and critical minerals, energy, fertilisers and critical technologies.
  - ***Dialogue to foster cooperation among governments:*** On the basis of greater shared understanding of challenges, governments could explore the scope for greater cooperation to help promote resilience, transparency, diversification, security and sustainability of supply chains. Such dialogue and cooperation could also be used to foster a shared understanding of the nature of economic coercion and the ways in which like-minded countries can cooperate to limit the damage to individual economies and support stable, predictable and open global markets.
  - ***Diversification strategies:*** Dependencies vulnerable to shocks are best addressed by diversifying suppliers to increase adjustment channels. While diversification is not always feasible (e.g. for natural resources) or in line with market forces (e.g. in sectors with high scale economies), governments can provide economic incentives as well as create an enabling environment, including through removing trade and investment barriers and streamline regulations. The OECD provides cutting edge analysis in these areas, including through the TFIs and the Four Keys to Resilient Supply Chains web tool. OECD work on government support also provides important insights into the greater need for transparency and good practices on subsidies in an environment where their use is likely to increase in the short term.
  - ***Engagement with firms:*** With supply chains primarily coordinated at the firm level, public-private dialogue can help achieve resilience in supply chains and deal with disruptions by improving the shared understanding of challenges and opportunities. The OECD can play a role in these actions, acting as a forum for dialogue with the private sector.
55. With a view to ensuring that OECD work on supply chain resilience forms a stepping stone towards a multilateral trading system that is inclusive, sustainable and resilient in the future, Members may wish to engage with non-Members on this topic, including

through G20 processes. Indeed, non-Member economies may be key players in the supply chains for certain sensitive products, and maintenance of wider trading relationships for other goods and services will be facilitated by an approach that continues to emphasise global openness. Any product and geographical re-focusing needs to take into account wider impacts on trade relations, on sustainable development in developing countries, and on current and future geostrategic partnerships and alliances.

### **Social and environmental sustainability**

56. Strategies to enhance the economic resilience of supply chains could go hand in hand with strategies to enhance their social and environmental sustainability. Stronger public-private co-ordination and collaboration is key for achieving economic resilience and for achieving social and environmental sustainability, as reflected in the growing number of relevant initiatives at the national level, the increased prominence of discussions on sustainable supply chains in international forums like the G7 and the G20, and the growing prominence of the theme in academic literature. RBC standards and other corporate social responsibility standards play an important role in this context.
57. To date, trade policy and policies for RBC have tended to be developed in separate spheres. This creates risks of legal uncertainty and lack of transparency as to which rules apply where and when. The OECD's whole-of-government approach and its institutionalised relationship with the private sector, trade unions, and civil society position the organisation well to contribute to addressing this. The OECD RBC instruments can be of particular relevance in this context. The OECD can complement existing multilateral efforts by helping Members accelerate the design of trade policy tools that effectively integrate existing and evolving RBC tools, and other relevant tools developed by other policy communities.
58. With a view to ensuring that OECD supply chain sustainability work forms a stepping stone towards a multilateral trading system that is inclusive, sustainable and resilient in the future, Members may wish to engage with non-Members on this topic as considered suitable, including through G20 processes.

### **Continued engagement with the WTO**

59. The relationship between the OECD and the WTO has traditionally been strong and there is a continued commitment by OECD Members to strengthening the multilateral trading system. The OECD should continue its engagement with the WTO along the themes described above and others. The theme of government support/subsidies will continue to play an important role in this context. Further work is expected to evolve around the following axes:
  - Work on the measurement, monitoring and analysis of industrial subsidies will continue with a view to supporting WTO reform processes that will have to address concerns about the role of industrial subsidies and of State-Owned Enterprises in major WTO members like China.
  - Additional work on understanding green government support, including practices regarding design.
  - Follow up to the joint report on subsidies undertaken by the OECD, IMF, WTO and WBG envisages the creation of a joint data portal, providing easier access to all available data on subsidies. As the key source of such data through its [corporate](#)

[subsidies portal](#) covering government support in fisheries, agriculture, industry and fossil fuels, there is an opportunity for the OECD to enhance its global profile and role in this area.

- The OECD's active agenda on Competitive Neutrality under the Competition Committee has the potential to complement efforts by the Trade Committee because of its potential relevance for WTO rules.
60. With its expertise across policy areas and consideration of both domestic and international policy impacts, OECD work will be particularly important in promoting greater transparency and good practices in a context of growing use of government support and where the potential for harmful competition or waste of scarce domestic resources is high.

## **6.2. Enhancing the quality of global integration**

61. In terms of working practices and outputs, the range of OECD products typically spans the development and collection of cross-country data and indicators, through analysis, impact assessments, and the identification of best practices to the development of standards and policy recommendations. Over the past 15-20 years, OECD Trade Committee delegates have prioritised the front end of the spectrum, focussing OECD evidence and analysis upstream of trade negotiations in support of rules and instruments ultimately enshrined in bilateral, regional and multilateral agreements. This practice remains well-aligned with the interests of OECD Members.
62. With the increased activity of OECD bodies other than the Trade Committee in the design of trade-related standards described in section 4, the OECD and its Members will ensure a coherent approach to the organisation-wide priority of promoting open markets and a rules-based international trading system in good working order. This will require coordination and collaboration across OECD committees and Directorates.
63. In the future, to the extent that OECD Members seek new balances between the long-standing economic merits of international trade and increasing political calls for resilience and strategic autonomy, a collective and coordinated OECD approach along these lines can contribute to economic security while preserving the benefits of open markets and a rules-based international trading system in good working order. In this context, Members could consider exploring modalities, approaches and initiatives for further strengthening OECD work on open markets, trade and economic resilience.
64. In its 2021 Vision Statement, the OECD has renewed its explicit support for open markets and a rules-based international trading system. Well-functioning global markets are fundamental for economic growth and wellbeing. OECD Members believe in this and so do the other Members of the WTO. Governments have a role to play in designing the rules of well-functioning global markets. These rules will have to take into account that government intervention should not distort the global level playing field. At the same time, these rules will also have to take other legitimate policy objectives - like environmental sustainability, social sustainability and economic resilience – into account. The OECD has the technical knowledge, the whole-of-governance set-up and the partnerships necessary to support the design of trade rules for the future. We stand ready to support our Members and others in this direction.



## Annex: Interlinkages between TAD strategic pillars and other OECD activities

<b>Strengthening transparency and the level playing field in global markets</b> <i>Open and rules-based global markets</i>	<b>Managing policy interlinkages</b> <i>Economic, environmental and social sustainability</i>	<b>Maximising benefits of innovation and new technology</b> <i>Policies and good practices</i>	<b>Enhancing global supply chains</b> <i>Sustainability and resilience</i>	<b>Anticipating and managing change</b> <i>Forecasting, and policy responses</i>
<ul style="list-style-type: none"> <li>• Recommendation on Competitive Neutrality (DAF)</li> <li>• Recommendation on Competition Assessment (DAF)</li> <li>• Recommendation on Guidelines on Corporate Governance of SOEs (DAF)</li> <li>• Global tax/BEPS/Global minimum corporate tax (CTP)</li> <li>• The Steel Committee (STI)</li> <li>• Shipbuilding (STI)</li> <li>• *Fossil fuel subsidies (ENV, CTP)</li> <li>• OECD Code of Liberalisation of Capital Movements (DAF)</li> <li>• OECD Code of Liberalisation of Current Invisible Operations (DAF)</li> <li>• OECD Guidelines for Multinational Enterprises (DAF)</li> <li>• Work on The Role of Government In Promoting Responsible Business Conduct (DAF)</li> <li>• Work on Due Diligence for Responsible Project and Asset Finance (DAF)</li> <li>• Country RBC Reviews (DAF)</li> <li>• OECD Anti-bribery Convention (DAF)</li> <li>• OECD Blended Finance Principles (DCD)</li> <li>• Aid for Trade (DCD)</li> <li>• Illicit trade (GOV)</li> <li>• Government procurement (GOV)</li> </ul>	<ul style="list-style-type: none"> <li>• Border carbon adjustments (CTP, ECO, ENV, STI)</li> <li>• Trade in Embodied CO2 indicators and related modelling analysis (STI)</li> <li>• Net effective carbon rates (ENV, CTP)</li> <li>• Responsible Business Conduct (DAF)</li> <li>• Aid for Trade – Empowering connected sustainable inclusive trade (DCD)</li> <li>• Recommendation on SME and Entrepreneurship Policy (CFE)</li> <li>• Recommendation on FDI Qualities and related Policy Toolkit (DAF)</li> <li>• Trade and gender (ELS, DCD)</li> <li>• Making Trade Work for All (ELS, DAF, GOV, ECO, CTP, STI)</li> </ul>	<ul style="list-style-type: none"> <li>• Going Digital III (STI): cross-border data flows, measuring data and data flows</li> <li>• Handbook for measuring Digital trade (SDD with comments and sections from TAD)</li> <li>• Shaping a just digital transformation (DCD, TAD)</li> <li>• Data localisation trends and challenges (STI)</li> <li>• OECD Toolkit notes: Interoperability of Privacy and Data Protection Frameworks               <ul style="list-style-type: none"> <li>– Declaration on Government access to personal data held by the private sector (STI)</li> <li>– Recommendation on Enhancing Access to and Sharing of Data (STI)</li> <li>– Recommendation on Privacy Guidelines (STI) Reports on Measuring the value of data flows (STI)</li> </ul> </li> <li>• Digital taxation (CTP)</li> </ul>	<ul style="list-style-type: none"> <li>• TIVA (STI, SDD)</li> <li>• Trade and Investment (DAF, RBC)</li> <li>• Health Supply Chains (ELS)</li> <li>• Recommendation on the Governance of Critical Risk (GOV)</li> <li>• Recommendation on the Governance of Infrastructure (GOV)</li> <li>• Recommendation on Public Procurement (GOV)</li> <li>• OECD Regulatory Enforcement and Inspection Toolkit (GOV)</li> <li>• OECD Guidelines for Multinational Enterprises (DAF)</li> <li>• Recommendation on the Policy Framework for Investment (DAF)</li> <li>• Recommendation on International Regulatory Co-operation to Tackle Global Challenges (GOV)</li> </ul>	<ul style="list-style-type: none"> <li>• Economic Outlook (ECO)</li> <li>• Long Term projections (ECO)</li> <li>• Trade ‘now casting’ (SDD, NAEC innovation lab)</li> <li>• Environment Outlook (ENV)</li> <li>• Employment Outlook (ELS)</li> <li>• Technology Outlooks (STI)</li> <li>• Foresight: OECD foresight unit</li> </ul>