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Globalisation in times of crisis and war: the role of the OECD since the Russian Federation's aggression against Ukraine

Report[1]
Committee on Political Affairs and Democracy
Rapporteur: Mr George KATROUGALOS, Greece

Summary

The report focuses on the ways in which the new global context resulting from shocks provoked by Covid-19 pandemic and the Russian Federation's war of aggression against Ukraine, has affected the existing negative trends in globalisation. Most OECD countries are faced with fiscal deficits, elevated public debt levels, a subdued outlook for economic growth and inflation pressures. The combined effects of the pandemic, global conflicts, the climate crisis and rising inequalities have also intensified extreme poverty.

The report looks at various policy initiatives developed at the OECD to mitigate negative trends. It argues that holistic policies taking account not only of fiscal and economic challenges but of all aspects of economic realities, including environmental challenges, labour and social policies, hold the key for an efficient response, with a focus on leaving no-one behind. It calls for policies which promote cohesion and tackle social inequalities, in particular in the fields of youth employment, education, public health, training and adequate pensions.

It is essential that the community of OECD member and candidate countries remains committed to fundamental values of democracy, the rule of law, human rights, gender equality, social justice, environmental sustainability and tackling inequalities, as well as diversity and inclusion. It is also essential that OECD member and candidate countries reaffirm the importance of multilateralism and the unity in addressing global challenges.

1. Reference to committee: Doc. 15607, Reference 4683 of 10 October 2022.

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A. Draft resolution[2]

1. The Parliamentary Assembly of the Council of Europe, enlarged to include the delegations of the national parliaments of the Organisation for Economic Co-operation and Development (OECD) member States that are not members of the Council of Europe and a delegation from the European Parliament, is a unique platform for parliamentary scrutiny of OECD activities. Every two years, it holds the enlarged Assembly debates focusing on specific themes, defined in collaboration with the OECD.

2. The last enlarged Assembly debate held in April 2021 focused on "Fighting fiscal injustice: the work of the OECD on taxation of digital economy". Resolution 2370 (2021) underlined that fair and redistributive taxation, was both an essential tool for governments to raise the funds necessary for the proper functioning of public services and a fundamental anchor for democracy, and commented on the role of the OECD in this field and its work on the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) which were instrumental in reaching global consensus on how to make the international tax system fairer and more stable.

3. This time, the enlarged Assembly focuses on the ways in which the new global context resulting, *inter alia*, from shocks provoked by the Covid-19 pandemic and the Russian Federation's war of aggression against Ukraine, has affected the already existing negative trends in globalisation, and the role that the OECD can play to mitigate them. Worries about trade dependencies and supply disruptions are not new, but current public debates put them in the spotlight, particularly as global economic and geopolitical outlooks are worsening. They have recently resulted in another wave of calls for "slowbalisation", "deglobalisation", "friendshoring", "nearshoring", creation of "trading blocks" or "relocalisation". Tensions between the USA and China on broader geopolitical issues raised also the spectrum of "decoupling" of the two world's biggest economies. Even the perspective of eventual US-EU trade wars was discussed, in the aftermath of the US Inflation Reduction Act (IRA), which came into effect on 1 January 2023.

4. The enlarged Assembly notes with interest the OECD's statement on the occasion of the 2023 OECD Ministerial Council Meeting, under the theme: "Securing a Resilient Future: Shared Values and Global Partnerships". On this occasion, OECD member States reaffirmed the following: "our like-minded community remains committed to the shared values of individual liberty, democracy, the rule of law, human rights, gender equality, environmental sustainability and tackling inequalities, as set out in our 2021 Vision Statement; as well as diversity and inclusion. … We reaffirm the importance of multilateralism and standing united in addressing global challenges, and in reaching out beyond our current membership to enhance and develop global partnerships. … We value the OECD's role in promoting free and fair trade, investment, and supply chain resilience, as set out in the new OECD trade strategy; and facilitating international co-operation to counter attempts to undermine open, market-based economic systems."

5. The enlarged Assembly is worried that, according to the OECD, in the wake of the Covid-19 pandemic, the Russian Federation's war of aggression against Ukraine, and the related energy and cost-of-living crisis, most OECD countries were grappling with fiscal deficits, elevated public debt levels and a subdued outlook for economic growth. In 2022, across the OECD as a whole, the total general government spending was estimated to be close to 43% of GDP, about 2,5% higher than the 2017-19 average. The public debt/GDP ratio is estimated to have increased by almost 6% over the same period. The recent increases in public sector wages and welfare benefits to reflect high inflation introduced further pressure on public spending. Medium and longer-term trends such as population ageing and the rising relative price of services will continue to put additional pressure on government spending on pensions, public health, and long-term care.

6. The enlarged Assembly is further worried that the compounding effects of the Covid-19 pandemic, global conflicts, the climate crisis, and rising inequalities have reversed global progress on poverty reduction. The number of people living in extreme poverty, which had markedly fallen for almost 25 years, is now on the rise. In 2020, 700 million people were living in extreme poverty and nearly half of the world was living with less than US$6.85 a day. The Human Development Index value is declining for the first time on record, with 9 out of 10 countries globally registering a backslide in health, education, and standard of living. In this framework, democracies are under unprecedented levels of pressure from within and without. The polarisation of political discourse, geopolitical tensions, rising inequalities, public health and economic crises, and creeping foreign interference in democratic processes – all also fuelled by mis- and disinformation – have tested citizens' trust in public institutions and are driving many governments to strengthen and protect democratic values and processes.

2. Draft resolution adopted unanimously by the committee on 9 October 2023.

7. Inflation pressures emerged in nearly all OECD economies at an unusually early stage during the recovery from the pandemic in 2021, pushed up by supply bottlenecks and a rapid rebound in the demand for goods. With the Russian Federation's war of aggression against Ukraine in February 2022 disrupting food and energy markets, inflation around the globe has increased to levels that many economies had not experienced since the 1970s. High inflation has generated a cost-of-living crisis, eroding households' real disposable income and living standards and slowing consumer spending growth, with strong distributional effects. Low-income households and rural households are typically hit the hardest by higher food and energy prices given the composition of their spending. Nominal wages have not kept up with inflation and real wages have declined in virtually every OECD country. The Covid-19 crisis affected the economic well-being of vulnerable groups, such as youth and children from disadvantaged households, much more than other groups. Low-skilled workers and low-income families are also more likely to be hit in the current environment of high inflation, economic slowdown and the Russian Federation's war of aggression against Ukraine.

8. In this framework, the enlarged Assembly recalls its Resolution 1899 (2012) "The activities of the Organisation for Economic Co-operation and Development (OECD) in 2011-2012", where it noted the urgent need for policies which promote cohesion of our societies and tackle social inequalities, in line with the suggestions of the International Labour Office (ILO), *inter alia* in the fields of youth employment, education, public health, training and adequate pensions. The enlarged Assembly once more urges the OECD to intensify its work in these areas and to seek synergies with relevant international partners, notably the European Union and the ILO in order to improve public response on fiscal, labour and social challenges. In the medium to longer term, governments would need budget frameworks to ensure fiscally responsible spending levels, by reallocating resources from low-valued areas to those where they are most socially needed, as encapsulated in the OECD Spending Better Framework.

9. The enlarged Assembly notes that in 2021, the inaugural OECD Trust Survey of 22 OECD countries found that four in ten respondents trusted and four did not trust their national government. Fewer than one-third of respondents, cross-nationally, thought the political system in their country allowed them to have a say in government decision making, and a similar share believed that the government would adopt opinions expressed in a public consultation. Younger people, those with lower levels of education and lower incomes on average trust government less than other groups do. These trends demonstrate the need for OECD countries to reinforce their democratic governance systems, through measures that strengthen citizens' participation in the political process and confront the spread of mis- and disinformation, which can discourage democratic engagement, distort policy debates, and undermine societal resilience. In this vein, the enlarged Assembly welcomes the OECD Declaration on Building Trust and Reinforcing Democracy, adopted by Ministers in November 2022 during the OECD Public Governance Ministerial meeting, which includes commitments and actions to strengthen trust and democracy. It also welcomes the biennial OECD Trust Survey, which monitors public perceptions of competence and values of public institutions and their relationship with levels of trust in the country.

10. The enlarged Assembly is also extremely worried that, in view of the current extreme poverty rise trend referred to in paragraph 6 above, a projected 575 million people will still be living in extreme poverty and only one-third of countries will have halved their national poverty levels by 2030, pushing the UN's Sustainable Development Goal (SDG) 1 to "end poverty in all its forms everywhere" out of reach. As low- and middle-income countries simultaneously face growing financing needs, spiralling debt and declining available financing for sustainable development, notably in terms of government revenues, their SDG financing gap reached US$3.9 trillion in 2020, a 56% jump from 2019. In this framework, the Community of Practice on Poverty and Inequalities (CoP-PI) of the Development Assistance Committee (DAC), a platform developed by OECD to support DAC members in maximising their development co-operation's focus is a useful tool. The enlarged Assembly urges the international community and especially Council of Europe member States to strengthen international assistance and solidarity, ensuring that support for short-term crises is coupled with a maintained focus and accelerated progress in pursuit of long-term development goals and a fairer global economic order, particularly in support of the world's poorest and most vulnerable countries.

11. In the same vein, the enlarged Assembly notes that the slowdown of international migration witnessed during the Covid-19 pandemic has been reversed, due to a strong bounce back in economic and administrative activity, the re-opening of borders and the Russian Federation's war of aggression against Ukraine, which triggered a refugee and humanitarian crisis at a scale unforeseen in Europe since the Second World War. There are also concerns that climate change could spur large-scale movements of people. According to some projections, natural disasters will displace hundreds of millions of people in the coming decades. The impact of climate change on human mobility is difficult to isolate. Climate change is only one of several, often compounded, factors that influence migration and displacement, which include declining or volatile agricultural incomes, shrinking livelihoods, conflicts over natural resources, and rising food insecurity.

12. The polycrises of the last years have forced the re-examination of climate policy design and implementation, bringing new challenges as well as opportunities. Climate change mitigation will require a fundamental, massive and rapid transformation of our economies and energy supply. Strong policies to reduce emissions, improved technologies and large-scale investment will be crucial. The substantial changes implied by a resilient transition to net-zero emissions cannot be seen in isolation from rapidly changing wider circumstances – socially, economically and environmentally. Holistic policies should serve simultaneously the environment and social justice. However, the enlarged Assembly notes that increased long-term climate ambition has not been met with commensurate credible action in the short term. A rapid acceleration in action is still needed if climate goals are to be reached. Avoiding the worst impacts of climate change means reducing emissions globally by 45% from 2010 levels by 2030, and to net-zero emissions by 2050, according to the Intergovernmental Panel on Climate Change (IPCC). The urgency of the climate crisis is amplified by the growing risks of crossing climate tipping points. At a certain level of warming, these elements of the global climate system may pass points of no return that would result in irreversible and often abrupt changes to our environment including potentially severe regional or local hazards. The enlarged Assembly fully supports initiatives such as the Inclusive Forum on Carbon Mitigation Approaches, a recent OECD initiative designed to reduce carbon emissions through better data and information sharing, evidence-based mutual learning and inclusive multilateral dialogue. Especially useful are also the OECD's other two flagship initiatives on climate and economic resilience, the "Net Zero+" project and the International Programme for Action on Climate.

13. The 2021 enlarged Assembly debate found the role of the OECD to be instrumental in facilitating discussions and providing solutions in complex multinational negotiations on fiscal justice. So far, the delineation of policies in two pillars, the programme of work, the January 2020 statement as well as the latest economic impact assessment of the tax challenges arising from digitalisation, published in October 2020, and the Cover Statement by the OECD/G20 Inclusive Framework on BEPS on Pillar One and Pillar Two Blueprints have provided a concrete basis for discussion. The enlarged Assembly considers that maintaining momentum and finding solutions to the remaining issues through the Inclusive Framework is paramount for all countries and institutions involved in the process. As already stated in Resolution 2370 (2021), the absence of implementation of the two-pillar solution would put the world at a greater risk of a proliferation of uncoordinated and unilateral tax measures (such as digital services taxes) and could result in an increase in damaging tax and trade disputes.

14. The enlarged Assembly considers it essential that the community of OECD member countries and accession candidate countries remains committed, as reiterated in the 2023 Ministerial Council Statement, to shared values of individual liberty, democracy, the rule of law, human rights, gender equality, environmental sustainability and tackling inequalities, as well as diversity and inclusion. It is also essential that OECD member countries and accession candidate countries reaffirm the importance of multilateralism and the unity in addressing global challenges, as well as the willingness to reach out beyond the current membership to enhance and develop global partnerships. The role of collaborating institutions, such as the Council of Europe, should be to support building consensus amongst its members, while offering a helping hand in bridging diplomatic divides. The enlarged Assembly also invites the OECD to provide the participants of the enlarged debate, between now and the next debate, with information regarding its policy initiatives on the issues to which this resolution refers. Holistic policies taking account not only of fiscal and economic challenges but of all aspects of countries' economic realities, including environmental challenges, labour and social policies, hold the key for an efficient response, with a focus on leaving no-one behind.

15. The enlarged Assembly welcomes the two new members of the OECD, Colombia and Costa Rica. It decides that twelve seats and votes will be allocated to the delegation of Colombia, and four seats and votes will be allocated to the delegation of Costa Rica, to participate in the debates of the enlarged Assembly.

16. The enlarged Assembly reiterates its belief that full respect for democracy, human rights and the rule of law, including international law, should constitute an essential criterion for judging whether a candidate country should be invited to join the OECD. In this context, it welcomes the adoption of Accession Roadmaps for candidate countries to OECD membership: Brazil, Bulgaria, Croatia, Peru and Romania. The enlarged Assembly encourages the OECD to continue further enlargement and to invite countries meeting membership criteria to accession negotiations.

17. The enlarged Assembly also welcomes the OECD's increased global outreach, including its close work with some of the world's largest economies: Brazil, China, India, Indonesia, and South Africa, who are OECD key partners, and its collaboration with many other countries at a regional level, notably through regional initiatives, covering Africa, Eurasia, the Middle East and North Africa, Latin America and the Caribbean, Southeast Asia and South East Europe.

18. Lastly, the enlarged Assembly resolves to amend the Rules of Procedure for enlarged debates of the Parliamentary Assembly on the activities of the OECD (see appendix) to take account of the OECD enlargement, as well as various changes in the Parliamentary Assembly Rules of Procedure.

Appendix – Modification of the Rules of Procedure for enlarged debates of the Parliamentary Assembly on the activities of the OECD

1. The Rules of Procedure for enlarged debates of the Parliamentary Assembly on the activities of the OECD are modified as follows:

1.1. in Section I on "General Principles", replace paragraph 2 with the following paragraph:

"These debates shall be public and shall usually take place every two years on the occasion of a part-session of the Parliamentary Assembly. These debates shall be based on a report presented by the Committee on Political Affairs and Democracy and focused on specific themes to be defined by the rapporteur in collaboration with the OECD."

1.2. in Section II on "Participants", paragraph 2, replace the words *"Appendix 1"* with the word *"Appendix"*.

1.3. in Section V on "Right to speak", replace paragraph 5 with the following paragraph:

"Speakers in a debate may speak for not more than 3 minutes. The rapporteur shall have 10 minutes to introduce the report and to reply to the debate. However, if circumstances so require, the occupant of the Chair may reduce these speaking times."

1.4. in Section IX on "Procedure in committee and examination of the report in reply to the OECD activity report", replace paragraph 2 with the following paragraph:

"At meetings of the Parliamentary Assembly committee in question, delegations of the national parliaments of the OECD member States which are not members of the Council of Europe shall be allocated the following number of votes:

- Japan, Mexico and United States of America: 4 votes

- Canada, Colombia and Republic of Korea: 3 votes

- Australia and Chile: 2 votes

- Costa Rica, Israel and New Zealand: 1 vote.

1.5. in Appendix "Apportionment of seats and votes", replace paragraph 2 with the following paragraph:

"The Parliaments of the following States shall have the number of seats and votes specified below (maximum 18):

- Australia 8

- Canada 12

- Chile 7

- Colombia 12

- Costa Rica 4

- Israel 3

- Japan 18

- Republic of Korea 12

- Mexico 18

- New Zealand 4

- United States of America 18»

B. Explanatory memorandum by Mr George Katrougalos, rapporteur

1. Introduction

1. Relations between the Council of Europe and the Organisation for Economic Co-operation and Development (OECD) were officially established in 1962 and the first Parliamentary Assembly debate on the activities of the OECD took place in 1963 on the basis of the report transmitted by the OECD to the Council of Europe.

2. The enlarged Parliamentary Assembly debates were introduced in 1993, on the basis of special rules, to allow delegations of national parliaments of OECD member States which are not members of the Council of Europe and of the European Parliament to participate. Since then, the enlarged Assembly operates as a unique platform for parliamentary scrutiny of the OECD activities.

3. A new methodology for enlarged debates was agreed upon in January 2019 with the aim of achieving a stronger and more efficient institutional relationship between the Assembly and the OECD, streamlining procedures and making better use of both Organisations' strengths.

4. In line with this agreement,[3] enlarged Assembly debates on the activities of the OECD take place every two years, on the basis of a report presented by the Committee on Political Affairs and Democracy. Reports will focus on specific themes to be defined by the Rapporteur in collaboration with the OECD. During the same year, an exchange of views with OECD experts will be organised as part of the agenda of the committee, in the context of the preparation of the committee's report on the OECD activities.

5. The last report of the enlarged Assembly dates from April 2021 and focused on "Fighting fiscal injustice: the work of the OECD on taxation of digital economy" (Resolution 2370 (2021)). The report underlined that fair and redistributive taxation, was both an essential tool for governments to raise the funds necessary for the proper functioning of public services and a fundamental anchor for democracy. Frequent revelations of aggressive tax planning, tax avoidance and artificial profit-shifting practices combined with the deterioration of public finances since the 2008 global crisis and exacerbated by the Covid-19 pandemic, have made the need for internationally co-ordinated policy responses to tackle tax injustice more urgent than ever before. According to the report, the booming digital economy, where most value is created through virtual and stateless platforms run by tech giants, calls for a rethink of the traditional model for distributing the international tax base, moving away from the concept of "permanent establishment" underpinning it since the 1920s. The report commented on the role of the OECD in this field and its work on the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) which were instrumental in reaching global consensus on how to make the international tax system fairer and more stable.

6. In September 2022, the Committee on Political Affairs and Democracy tabled a motion for a resolution entitled "The activities of the Organisation for Economic Co-operation and Development (OECD)"[4] aimed at initiating a new report to be debated in 2023. The motion was referred to the committee on 10 October 2022 and I was appointed rapporteur for the present report on 13 October 2022.

7. In accordance with the new procedure, I carried out a visit to the OECD Headquarters on 27 January 2023 to discuss specific themes for the 2023 report with OECD Secretary-General Mathias Cormann. It was agreed that the report would focus on globalisation in times of crises and war and the role of the OECD. I had a further opportunity for a more detailed discussion on issues to be covered in the report with Ms Ingrid Barnsley, Chief of Staff to the OECD Secretary-General, former Deputy Director of the OECD Environment Directorate, and Ms Elsa Pilichowski, Director of Public Governance and Director of Public Affairs and Communications, on the margins of the meeting of the OECD Global Parliamentary Network in Paris on 4-5 April 2023. On this occasion, it was agreed that various OECD departments would make substantial written submissions offering, on the one hand, an analysis of the major trends and threats that the global economy was faced with in the new global context, and on the other hand, an overview of relevant OECD activities aimed at preventing or mitigating negative trends and promoting positive trends. I am sincerely grateful to OECD colleagues for a most valuable contribution which is at the core of my report.

8. On 24 April 2023, I presented an outline report and the committee agreed with my proposal to change the title of the 2023 report to "Globalisation in times of crises and war: the role of the OECD since the Russian Federation's aggression against Ukraine".

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3. See AS/Pol(2019)04, declassified on 24 January 2019.
4. Doc. 15607.

9. As the new title suggests, I intend to study the ways in which the new global context resulting, *inter alia*, from shocks provoked by the Covid-19 pandemic and the Russian Federation's war of aggression against Ukraine, has affected the already existing negative trends in globalisation, and the role that the OECD can play to mitigate these negative trends.

10. Worries about trade dependencies and supply disruptions are not new, but current public debates put them in the spotlight, particularly as global economic and geopolitical outlooks are worsening. They have recently resulted in another wave of calls for "slowbalisation", "deglobalisation", "friendshoring", "nearshoring", creation of "trading blocks" or "relocalisation".[5] Tensions between the USA and China on broader geopolitical issues also raised the spectrum of "decoupling" of the two economies. Even the perspective of eventual US-EU trade wars was discussed, in the aftermath of US Inflation Reduction Act (IRA), which came into effect on 1 January 2023. IRA subsidises green technologies made in the United States for over US$370 billion and according to its critics would inflict damage on major trading partners and allies that they would have to retaliate. The General Director of the International Monetary Fund (IMF) has warned that "fragmented world's rival blocs may risk a new cold war"[6]. However, in the recent G7 Communique of May 2023, the leaders of the West openly declared that "we are not decoupling or turning inwards. At the same time, we recognise that economic resilience requires de-risking and diversifying."[7] Is the world moving away from unconstrained globalisation centred on growth and efficiency, toward a fractured system of competing technological standards, higher costs, and increased constraints? This report will try to highlight these issues, from the vantage point of the OECD.

11. On the occasion of the 2023 OECD Ministerial Council Meeting, under the theme: "Securing a Resilient Future: Shared Values and Global Partnerships", OECD member States reaffirmed that "[o]ur like-minded community remains committed to: the shared values of individual liberty, democracy, the rule of law, human rights, gender equality, environmental sustainability and tackling inequalities, as set out in our 2021 Vision Statement; as well as diversity and inclusion. (…) We reaffirm the importance of multilateralism and standing united in addressing global challenges, and in reaching out beyond our current membership to enhance and develop global partnerships. (…) We value the OECD's role in promoting free and fair trade, investment, and supply chain resilience, as set out in the new OECD trade strategy; and facilitating international cooperation to counter attempts to undermine open, market-based economic systems."[8]

12. In addition, I am planning to look at the developments with regard to the OECD's ongoing work against fiscal injustice and the taxation of digital economy, on Base Erosion and Profit Shifting (BEPS) as a follow up to the 2021 Assembly report.

2. Prospects for Globalisation against the background of major global shocks

2.1. New global context

13. In the wake of the Covid-19 pandemic,[9] the Russian Federation's war of aggression against Ukraine, and the related energy and cost-of living crisis, most OECD countries were grappling with fiscal deficits, elevated public debt levels and a subdued outlook for economic growth. Many governments introduced new fiscal policy measures or extended existing support schemes to cushion the impact of higher food and energy prices on households and businesses (OECD Economic Outlook, 2023[10]). In 2022, across the OECD as a whole, total general government spending was estimated to be close to 43% of GDP, about 2½ percentage points higher than the 2017-19 average. The public debt/GDP ratio is estimated to have increased by almost 6% over the same period (OECD Economic Outlook, 2023). The recent increases in public sector wages and welfare benefits to reflect high inflation introduced further pressure on public spending.

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5. Crowe, D. and Ł. Rawdanowicz (2023), "Risks and opportunities of reshaping global value chains", *OECD Economics Department Working Papers*, No. 1762, OECD Publishing, Paris.
6. *The Guardian*, 23 April 2023, "Fragmented world's rival blocs may risk new cold war, says IMF head".
7. *New York Times*, 23 May 2023, "Biden Sees Coming 'Thaw' With China, Even as He Rallies Allies Against Beijing".
8. 2023 Ministerial Council Statement, Meeting of the OECD Council at Ministerial Level, Paris, 7-8 June 2023.
9. For OECD analysis on the impact of the Covid-19 shock on global value chains, see C. Schwellnus, A. Haramboure and L. Samek (2023), "Policies to strengthen the resilience of global value chains: Empirical evidence from the Covid19 shock", *OECD Science, Technology and Industry Policy Papers*, No. 141, OECD Publishing, Paris.
10. OECD (2023), *OECD Economic Outlook, Volume 2023 Issue 1*, OECD Publishing, Paris, https://doi.org/10.1787/ce188438-en.

14. Medium and longer-term trends such as population ageing and the rising relative price of services will keep adding pressure on government spending on pensions, public health, and long-term care.[11] One should also bear in mind the digital transition, which would require public investments for the digital transformation of public services, but also possibly in education and skills for the up-skilling and re-skilling required. In addition, I should mention increased spending in defence in the context of the Russian Federation's war of aggression against Ukraine and other rising geopolitical tensions. In the absence of policy reforms, these changes are estimated to raise spending by around 5% of GDP by 2060 in the median OECD country. Climate change adaptation and the green transition will also require new investment, increasing pressures on public spending to the extent that investment is financed by the State. These trends, together with evolving shorter-term policy priorities, reinforce the need to ensure public finances are on a sustainable path.

15. Three years on from the start of the Covid-19 crisis, labour markets have recovered relatively well; in June 2023, the OECD average unemployment rate was at 4.7%, compared to 5.3% in December 2019.

16. Indeed, across the OECD, many companies have faced significant difficulties in recruiting new workers.[12] The Russian Federation's war of aggression against Ukraine added significant risks for employment and well-being, driving a global rise in inflation. While tight labour market conditions have contributed to a pick-up in nominal wage growth in many OECD countries, nominal wages have not kept up with inflation and real wages have declined in virtually every OECD country and by 5% on average year-on-year in the fourth quarter of 2022. The particularly sharp increases in energy and food prices are having a significant impact on low-income groups, for whom food and fuel account for a larger share of their household expenditure, and who have less capacity to bridge the gap with savings or borrowing.

17. Moreover, the compounding effects of the Covid-19 pandemic, global conflicts, the climate crisis, and rising inequalities have reversed global progress on poverty reduction. The number of people living in extreme poverty, which had markedly fallen for almost 25 years, is now on the rise. In 2020, 700 million people were living in extreme poverty and nearly half of the world was living with less than US$6.85 a day.[13] The Human Development Index value is declining for the first time on record, with 9 out of 10 countries globally registering a backslide in health, education, and standard of living.[14]

18. In this framework, democracies are under unprecedented levels of pressure from within and without. The polarisation of political discourse, geopolitical tensions, public health and economic crises, and creeping foreign interference in democratic processes – all also fuelled by mis- and disinformation – have tested citizens' trust in public institutions and are driving many governments to strengthen and protect democratic values and processes.

2.2. The impact of the pandemic

19. Evidence gathered by the OECD since the onset of the Covid-19 crisis confirms that international trade of goods and services has experienced unprecedented structural changes.[15] At the beginning, many countries faced disruptions when seeking to source masks, respirators and other medical equipment as factories in countries specialised in their production were unable to cope with surging demand and, in some cases, faced shutdowns due to lockdowns.

20. The spread of lockdowns, border closures, disruptions of transport and logistics, and significant shifts in consumer demand and government spending, drove supply disruptions for a wider range of products such as plastic, glass, lumber or semiconductors, and for related downstream industries such as construction and automobiles. Since early 2023, goods trade is largely back to pre-pandemic levels, but its geographical directions and product structure remain significantly altered.[16]

21. However, the extent to which the supply disruptions seen during the pandemic were due specifically to what might be called insufficient resilience of supply chains and whether less internationally developed supply chains would have reduced shortages are still up for debate.

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11. Y. Guillemette and D. Turner (2021), "The long game: Fiscal outlooks to 2060 underline need for structural reform", *OECD Economic Policy Papers*, No. 29, OECD Publishing, Paris.
12. OECD (2022), *OECD Employment Outlook 2022: Building Back More Inclusive Labour Markets*, OECD Publishing, Paris, https://doi.org/10.1787/1bb305a6-en.
13. World Bank (2022), "Poverty and Shared Prosperity 2022: Correcting Course".
14. UNDP (2022), "Human Development Report 2021-22".
15. Arriola, C., et al. (2023), "Challenges to international trade and the global economy: Recovery from Covid-19 and Russia's war of aggression against Ukraine", *OECD Trade Policy Papers*, No. 265, OECD Publishing, Paris.
16. Ibid.

22. During the pandemic, unprecedented shifts in consumer demand and policy interventions affecting the functioning of factor and product markets[17] aggravated pressures on some supply chains. In several cases, global value chains (GVCs) reconfigured swiftly to address unprecedented surges in demand, especially for masks, tests and vaccines, home-nesting products and semiconductors[18] (with imports increasing by more than 1000% over just three months in some cases). Most recently, certain supply chain pressures have eased, and shipping costs have declined,[19] which was also due to reduced demand for imports resulting from the worsening macroeconomic outlook.

2.3. International trade and disruption of supply and value chains

23. The economic shocks of the Covid-19 pandemic and the ramifications of the Russian Federation's war of aggression against Ukraine have reinvigorated the debate on whether the benefits of production in GVCs outweigh their associated risks and what might be the best ways of tackling them. Increasing policy uncertainty, geopolitical tensions, volatility of climatic conditions, and an increasingly competitive landscape in raw materials markets are increasing GVC risks. National security and strategic autonomy concerns, together with calls on governments to limit dependency on foreign economies, are putting open markets and rules-based trading systems under pressure.

24. In this context, the overwhelming perennial evidence of the benefits of international trade, investment and non-discriminatory market openness – including the contribution of international trade to peace – which go hand-in-hand with better economic performance in countries at all levels of development, when combined with adequate social measures of protection of income, are often neglected. It is important not to lose sight of how markets can enable the diversification and balancing of supply and demand, underpinning resilient supply chains. It should also be kept in mind that resources, skills and know-how are unevenly distributed across countries and that trade is key for many countries to overcome the constraints of what is available in their domestic economy.

25. The heterogeneity of changes in trade flows across products, sources and destinations seen during the pandemic suggests an increased uncertainty and high adjustment costs. The Russian Federation's war of aggression against Ukraine has resulted in additional supply disruptions for several agricultural commodities, natural resources, steel, and other manufacturing products.

26. Both the pandemic and the war imply an increased need – and incentives – for consumers, firms and governments to adopt new or intensify existing risk mitigation strategies. We are seeing some shifts in global supply chains related to geopolitical tensions and the Russian Federation's war of aggression against Ukraine. For example, Western companies are facing some pressure to diversify away from China, and the Chinese economy has become less attractive for foreign companies. However, some of OECD's most recent research suggests that broadly, over the past decades, there has been no general trend towards de-globalisation.[20]

27. Recent analysis of global value chain dependencies[21] reveal that upstream dependencies (reliance on foreign inputs) are particularly pronounced in manufacturing, where production may rely heavily on critical inputs that are produced by only few suppliers. This exposes downstream production to supply shocks that can vary in nature (for example conflicts, natural disasters, pandemics, financial crises). These shocks can have a large impact on downstream production when there is little capacity to substitute with alternative suppliers. Recent shocks (for example shortage of semiconductors) have exposed the importance of upstream risks, and the need for a better mapping of vulnerabilities. In the case of the Russian Federation's war of aggression against Ukraine, many countries may be exposed, directly or indirectly, to adverse consequences related to the supply of, for example, agricultural, energy or metal products.

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17. C. Arriola, P. Kowalski and F. van Tongeren (2022), "Understanding structural effects of Covid-19 on the global economy: First steps", *OECD Trade Policy Papers*, No. 261, OECD Publishing, Paris.
18. OECD (2022), "Global supply chains at work: A tale of three products to fight COVID-19", *OECD Policy Responses to Coronavirus (COVID-19)*, 1 April 2022.
19. "Challenges to international trade and the global economy: Recovery from Covid-19 and Russia's war of aggression against Ukraine", op. cit.
20. A. Jaax, S. Miroudot and E. van Lieshout (2023), "Deglobalisation? The reorganisation of global value chains in a changing world", *OECD Trade Policy Papers*, No. 272, OECD Publishing, Paris.
21. Schwellnus, C., et al. (2023), "Global value chain dependencies under the magnifying glass", *OECD Science, Technology and Industry Policy Papers*, No. 142, OECD Publishing, Paris.

28. The Russian Federation's war of aggression against Ukraine has revealed the importance of better mapping the positioning of countries in value chains. For instance, with its abundance of mineral resources, Russia is relatively upstream in global value chains, and thus a disruption in Russian supplies can have significant consequences on downstream production in many countries either directly (for example by increasing the production cost for steel) or indirectly (for example by increasing the cost for downstream users of steel, such as the car industry). Geopolitical tensions with Russia exposed the difficulty of replacing Russian gas with other sources of energy and, in the short run, aggravated economic impacts.

2.3.1. Rise of energy prices

29. The Russian Federation's war of aggression against Ukraine has driven global energy prices up, exacerbating inflation in a context where the costs of living were already rising rapidly around the world. As a result, inflation rose to levels not seen in decades, reducing economic growth around the world.

30. The prices of oil, natural gas, electricity and coal had already increased strongly during 2021, but soared further, often to historic peaks after the beginning of the Russian Federation's war of aggression against Ukraine in February 2022. Energy is an important input to the economy, hence a rise in energy prices can hamper firms' output, raises price levels and erode the purchasing power of households, as energy expenditures tend to increase, crowding out other spending.

31. The large and sudden energy price increases motivated governments to implement a range of relief measures, mostly consisting of: (i) price caps and tax cuts on energy, and (ii) income transfers and tax credits to consumers. The aim of these measures was to protect households' purchasing power and the viability of firms. Consequently, untargeted measures accounted for 80% of the total gross fiscal cost of announced support for 2022-23. Such untargeted measures often result in large fiscal costs, disproportionate support for better-off households, weakened incentives to save energy, and sustained demand for fossil fuels. Energy support schemes should become more focused on the most vulnerable, preserving incentives to reduce energy use and freeing scarce budget resources to help address other policy priorities (OECD Interim Economic Outlook[22]). The gross fiscal costs of support measures are large and vary widely across countries, amounting to about 0.7% of GDP in 2022 and 0.8% in 2023 in the median OECD economy but exceeding 2.5% of GDP in some countries.[23]

32. While many energy prices have receded from their 2022 peaks, the recent energy crisis has evidenced energy-security risks, insufficient progress towards reducing dependence on fossil fuels and the vulnerability of energy consumers. Appropriate policy responses involve tackling the short-term energy crisis, while making progress towards long-term objectives through cost-effective policies that increase long-term energy security, accelerate the climate transition and benefit from public support.

33. Climate change mitigation will require a fundamental, massive and rapid transformation of our economies and energy supply. Strong policies to reduce emissions, improved technologies and large-scale investment will be crucial. While countries globally and individually have committed to emission reduction targets, they have provided insufficient details on how they will achieve their climate change mitigation, adaptation and financing objectives. Their achievement would require enacting standards and regulations, public investment, innovation subsidies, as well as price- and non-price-based incentives. The relative importance of these instruments differs across countries depending on their circumstances and preferences. The transition will also be determined by the interaction of climate policies with macro, energy and structural policies.

2.3.2. Other commodities

34. The prices of several commodities, such as aluminium, copper and nickel, are currently at, or close to, historical highs. They have increased markedly since the beginning of the millennium, particularly during the global financial crisis of 2008-2009 and the Covid-19 pandemic, and the Russian Federation's war of aggression against Ukraine has exacerbated this trend. The most direct effects were on energy, food and some raw materials markets, which were highly dependent on supplies from Russia and Ukraine. Some of these effects proved transitory but some have contributed to the global inflationary pressures that emerged after the pandemic and have directly disadvantaged consumers and put pressure on costs of producers in food, energy and raw-material-intensive industries.

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22. OECD (2023), *OECD Economic Outlook, Volume 2023 Issue 1*, op. cit., https://doi.org/10.1787/ce188438-en.
23. Hemmerlé, Y., et al. (2023), "Aiming better: Government support for households and firms during the energy crisis", OECD Economic Policy Papers, No. 32, OECD Publishing, Paris.

35. The Russian Federation's war of aggression against Ukraine is directly damaging Ukraine's agricultural production and exports, given the importance of the two exporters in several agricultural markets, and is threatening global food security (OECD policy brief). The partial reopening of Ukraine's ports thanks to the Black Sea Grain Initiative relieved pressure from global food markets. The FAO food price index, which monitors the price development of the major agricultural commodities globally, shows agricultural commodity prices have been declining since the peak in March 2022 but are still 25% above the average before the start of the Covid-19 pandemic. The OECD is an active member of the G20 initiative Agricultural Market Information System (AMIS) which monitors market and policy developments for wheat, maize, rice and soybean as well as for fertilisers.

36. Fertilisers are a major input for agricultural and food production and their production is strongly linked to energy and mineral deposits. Russia is a major player in production and exports, especially for potash and nitrogen.[24] Prices have fallen from their peaks in 2022 but remain high compared to long-term averages and lead to increasing agricultural prices as assessed in the forthcoming OECD-FAO Agricultural Outlook 2023-2032.[25]

37. Prices of many industrial raw materials used intensely across the manufacturing sector and essential to digitalisation and building renewable energy technologies– such as aluminium, copper, nickel, lithium and graphite – have reached record highs. This is particularly concerning in the context of the green transition because, as countries pursue their CO2 emission reduction targets and use less fossil fuels, demand for such critical raw materials is estimated by the International Energy Agency (IEA)[26] to grow severalfold and tensions in international raw materials markets have been on the rise, as illustrated by the ongoing surge in export restrictions on these materials as documented by the OECD.[27]

2.4. Inflation and its repercussions on income and labour and social policies

38. Inflation pressures emerged in nearly all OECD economies at an unusually early stage during the recovery from the pandemic in 2021, pushed up by supply bottlenecks and a rapid rebound in the demand for goods. With the Russian Federation's large-scale war of aggression against Ukraine in February 2022 disrupting food and energy markets, inflation around the globe has increased to levels that many economies had not experienced since the 1970s. High inflation has generated a cost-of-living crisis, eroding households' real disposable income and living standards and slowing consumer spending growth.

39. As of April 2023, inflation and the cost-of-living crisis continue to weigh on economies worldwide with annual inflation projected to remain well above central banks' inflation targets almost everywhere through most of 2024.[28] Goods price inflation has begun to recede, helped by the easing of global supply bottlenecks and global energy prices, but services price inflation has yet to peak in most countries.

40. The need to lower inflation durably and to provide support to firms and households while food and energy prices remain high has prompted substantial changes in the macroeconomic policy mix over the last two years. Governments have rolled out considerable fiscal support to cushion the impact of higher food and energy prices. Most central banks rapidly tightened monetary policy since late 2021, with the impact becoming increasingly visible from the second half of 2022.

41. Inflation has strong distributional effects. Low-income households and rural households are typically hit the hardest by higher food and energy prices given the composition of their spending. The real value of outstanding debt and savings is also reduced. A key risk is that higher inflation becomes entrenched over time, with high price inflation, pushing up wage growth and labour costs and generating further price increases.

42. In this context labour market and social policies have an important role in protecting living standards. Governments have been taking action to protect living standards, especially for vulnerable populations, notably through minimum wage increases and income support for individuals and their families, for instance through targeted support measures such as energy price subsidies or lump-sum payments, adjusting existing

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24. International Food Policy Research Institute, IFPRI Blog.
25. OECD/FAO (2023), *OECD-FAO Agricultural Outlook 2023-2032*, OECD Publishing, Paris, https://doi.org/10.1787/08801ab7-en.
26. IEA (2021), "The Role of Critical Minerals in Clean Energy Transitions", IEA, Paris.
27. P. Kowalski and C. Legendre (2023), "Raw materials critical for the green transition: Production, international trade and export restrictions", *OECD Trade Policy Papers*, No. 269, OECD Publishing, Paris.
28. OECD (2023), *OECD Economic Outlook*, Volume 2023, Issue 1, OECD Publishing, Paris.

social transfers to inflation, or applying discretionary benefit boosts to existing targeted support such as child-related entitlements or in-work benefits. However, the burden of inflation must be shared fairly between households, employers, and governments.

43. As already mentioned above, nominal wages have not kept up with inflation. Although nominal year-on-year wage growth reached 5.6% on average across 34 countries in the first quarter of 2023, it fell short of inflation by -3.8% on average. At the end of 2022 real wages were below their fourth quarter of 2019 level by an average of -2.2% in 24 of the 34 OECD countries with available data. On top of the immediate challenges of the cost-of-living crisis and the post-Covid recovery, global megatrends – demographic change, and the green and digital transitions – are transforming labour markets and social policy needs. Digital skills are in high demand across countries, and digital skills shortages are already arising, on top of the unprecedented broader levels of vacancies in the post-Covid context. In Canada, the United Kingdom and the United States, for example, on-line job postings for data scientists increased by more than 40 times between 2012 and 2021.[29]

44. The Covid-19 crisis affected the economic well-being of vulnerable groups, such as youth and children from disadvantaged households, much more than other groups.[30] Low-skilled workers and low-income families are also more likely to be hit in the current environment of high inflation, economic slowdown and the Russian Federation's war of aggression against Ukraine. For instance, in February 2023 at the European Union level, the average year-on-year inflation level experienced by poor households[31] was more than 1 percentage point higher than that of non-poor households (12.6% for the non-poor and 13.9% for the poor)[32]. Similarly, inequalities are still prevalent across the OECD. Provisional estimates for 2020 suggest that on average in the OECD, people in the top 20% of the income distribution were between 4.1 and 5.1 times richer than people in the bottom 20% (compared to 4.7 times in 2019). The ratio ranged from 2.8 to 7.5 across the OECD countries.[33]

2.5. Repercussions on democracy and trust in institutions

45. In 2021, the inaugural OECD Trust Survey[34] of 22 OECD countries found that four in ten respondents trusted and four did not trust their national government. On average across the OECD, citizens are reasonably confident they can rely on their governments to deliver public services and are relatively happy with these services. Yet governments do not always meet people's expectations on participation, representation and responsiveness; and perceptions of public integrity can also be an issue. For example, fewer than one-third of respondents, cross-nationally, thought the political system in their country allows them to have a say in government decision making, and a similar share believed that the government would adopt opinions expressed in a public consultation. Younger people, those with lower levels of education and lower incomes on average trust government less than other groups do. These trends demonstrate the need for OECD governments to reinforce their democratic governance systems.

46. The spread of mis- and disinformation poses a fundamental threat to the free and fact-based exchange of information that underpins democracy. False and misleading information can discourage democratic engagement, distort policy debates, and undermine societal resilience. By making it more difficult to access timely, relevant, and accurate information, the amplification of mis- and dis-information can undermine the public's willingness and ability to engage constructively in democratic life. Reinforcing the integrity of information that people consume can help prevent the blurring of lines between authentic political speech and purposefully deceptive content, and in turn strengthen resilience to polarisation and foreign and malign interference. While the existence of falsehoods is not new, their immediate and global amplification poses novel threats to democracies. Recent health, economic, and geopolitical crises, such as the Russian Federation's war of aggression against Ukraine, have highlighted the urgency for governments to strengthen their capacity to respond to the spread of false and misleading information, while simultaneously building more resilient societies.

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29. OECD (2022), *Skills for the Digital Transition: Assessing Recent Trends Using Big Data*, OECD Publishing, Paris, https://doi.org/10.1787/38c36777-en.
30. OECD (2021), *Covid-19 and Well-being: Life in the Pandemic*, OECD Publishing, Paris, https://doi.org/10.1787/1e1ecb53-en.
31. Poor households are defined as households below the national relative poverty line.
32. OECD-DG Employment, Labour and Social Affairs, forthcoming (2023) report on project *Who is Paying the Cost of High Inflation?*
33. Levy, H. (2023), "Nowcasting and provisional estimates of income inequality using microsimulation techniques", *OECD Papers on Well-being and Inequalities*, No. 12, OECD Publishing, Paris.
34. OECD (2022), "Building Trust to Reinforce Democracy: Main Findings from the 2021 OECD Survey on Drivers of Trust in Public Institutions", *Building Trust in Public Institutions*, OECD Publishing, Paris.

2.6. Poverty in low- and middle-income countries

47. As already mentioned above (2.1), extreme poverty, which had markedly fallen for almost 25 years, is now on the rise. In 2020, 700 million people were living in extreme poverty and nearly half of the world was living with less than US$6.85 a day.[35] Under current trends, a projected 575 million people will still be living in extreme poverty and only one-third of countries will have halved their national poverty levels by 2030, pushing the UN's Sustainable Development Goal 1 to "end poverty in all its forms everywhere" out of reach.[36] While international assistance and solidarity are needed more than ever, mounting and competing needs exacerbated by the polycrises are putting unprecedented strain on aid budgets, and risk further diluting aid's focus on poverty alleviation.

48. As low- and middle-income countries simultaneously face growing financing needs, spiralling debt and declining available financing for sustainable development, notably in terms of government revenues, their SDG financing gap reached US$3.9 trillion in 2020, a 56% jump from 2019.[37]

49. OECD data shows that official development assistance rose to an all-time high of US$204 billion in 2022, up 13.6% in real terms from 2021. The increase was primarily due to a sharp rise in spending on processing and hosting refugees within donor countries (US$29.3 billion in 2022, up from 12.8 billion in 2021) and a jump in aid to Ukraine following Russia's invasion and ongoing war of aggression (US$16.1 billion in 2022, up from just US$918 million in 2021). 2022 registered a fall in net bilateral official development assistance flows from Development Assistance Committee (DAC) countries to Least Developed Countries (-0.7%), Africa (-7.4%) and to sub-Saharan Africa (-7.8%). On average, DAC members allocated 0.09% of their gross national income to least developed countries, falling short from the UN target of 0.15-0.20%. Ensuring that support during short-term crises is coupled with a maintained focus and accelerated progress in pursuit of long-term development goals, particularly in support of the world's poorest and most vulnerable countries, will be critical to fast-track progress towards ending extreme poverty.

2.7. Migration issues

50. The slowdown of international migration witnessed during the Covid-19 pandemic was reversed in 2021, due to a strong bounce back in economic and administrative activity and the re-opening of borders. 2022 was marked by even greater flows, resulting from the Russian Federation's war of aggression against Ukraine, which triggered a refugee and humanitarian crisis at a scale unforeseen in Europe since the Second World War.

51. After a record decrease of more than 30% in 2020 due to the Covid-19 crisis, permanent-type migration to OECD countries bounced back by 22% in 2021. Family migration increased by 40% in 2021 and remained the largest category of inflows: 4 in 10 new permanent immigrants to the OECD were family migrants. Labour migration to OECD countries also recovered by 45% in 2021, accounting for 18% of total permanent-type inflows.

52. The global competition for talent continues as OECD countries are introducing new pathways to attract highly educated migrants, remote workers, and investors. At the same time, in an effort to alleviate hiring challenges due to labour shortages and offer better working conditions to precarious foreign workers, many governments expanded their temporary labour mobility schemes and bilateral agreements.

53. Integration policy reforms have mostly focused on increasing individualisation, improving mentorship, language training, and helping migrants gain rapid and stable access to the labour market. Recognition of skills remains high on the integration policy agenda. In 2021, around 70% of immigrants were employed, and 9% unemployed, OECD-wide. In OECD countries, the labour market performance of recently arrived immigrants in 2021 improved more compared to their longer-settled counterparts.

54. The Ukrainian refugee crisis led to a significant influx of refugees in 2022. More than 10 million Ukrainians have become either internally displaced or refugees abroad. By April 2023, there were around 4.7 million displaced Ukrainians in OECD countries. Many remained in neighbouring countries, but others have moved onward, including increasingly to non-EU OECD countries, or have returned to Ukraine. Early evidence on the labour market inclusion of Ukrainian refugees indicates that their entry into the labour market has been faster than for other refugee groups in the OECD. By November 2022, the share of working-age

35. World Bank (2022), "Poverty and Shared Prosperity 2022: Correcting Course".
36. United Nations (2023), "The Sustainable Development Goals Report, Special Edition".
37. OECD (2022), *Global Outlook on Financing for Sustainable Development 2023: No Sustainability Without Equity*, OECD Publishing, Paris, https://doi.org/10.1787/fcbe6ce9-en.

Ukrainian refugees in employment was already over 40% in some OECD countries. Elsewhere, the share was lower but increasing. However, much of the early employment uptake has been concentrated in low-skilled jobs and skills mismatches are widespread.

55. There are also concerns that climate change could spur large-scale movements of people. According to some projections, natural disasters will displace hundreds of millions of people in the coming decades. Initially movements have mainly been within countries, but long-term and long-distance emigration have become more significant. The impact of climate change on human mobility is difficult to isolate. Climate change is only one of several, often compounded, factors that influence migration and displacement, which include declining or volatile agricultural incomes, shrinking livelihoods, conflicts over natural resources, and rising food insecurity.

2.8. Environment and climatic crises

56. The economic and social shocks caused by Covid-19 and the Russian Federation's war of aggression against Ukraine are occurring in the shadow of other complex, interlinked global threats and challenges. Climate change is key among these. As highlighted by the most recent IPCC 6th Assessment Report the science increasingly suggests that the impacts of warming – even at levels below 2°C in global temperature rise – are likely to be more severe than previously thought.

57. The COP26 Glasgow Climate Pact, reaffirmed at COP27, demonstrates strong global consensus on the need to transition to net-zero greenhouse gas emissions by 2050 and accelerating adaptation action, with many countries committing to achieving net-zero emissions. However, increased long-term climate ambition has not been met with commensurate credible action in the short term. A rapid acceleration in action is still needed if climate goals are to be reached. Avoiding the worst impacts of climate change means reducing emissions globally by 45% from 2010 levels by 2030, and to net-zero emissions by 2050, according to the IPCC. The urgency of the climate crisis is amplified by the growing risks of crossing climate tipping points. At a certain level of warming, these elements of the global climate system may pass points of no return that would result in irreversible and often abrupt changes to our environment including potentially severe regional or local hazards. The latest science shows that tipping points are likely to occur at lower levels of warming than previously thought; already at current levels of climate change, some tipping points cannot be ruled out. This has stark implications for near-term policy making. For example, the collapse of the Atlantic Meridional Overturning Circulation would represent a complete reorganisation of ocean circulation and lead to a redistribution of heat around the planet as well as shifting rainfall patterns affecting sea ice, global sea levels, agricultural systems, marine and terrestrial ecosystems, and exacerbating the biodiversity loss crisis.[38]

58. Against this backdrop, Covid-19 recovery spending presented an opportunity to enhance climate policy efforts, yet evidence shows that it did not quite live up to the promise of "building back better". Only around a third of total recovery spending was environmentally friendly, and almost 15% of total recovery spending went towards environmentally harmful activities.[39] The Russian Federation's war of aggression against Ukraine further highlighted pressures on global energy prices, supply chains and food security, providing a stark example of how both short- and long-term climate goals can be impacted by global shocks and disruptions. This has called for a re-thinking of our approach to climate policy making and a focus on embedding a systems lens to ensure "resilient by design" approaches – for example, seeking to be prepared for, and to respond to, multiple disruptions without knowing their exact nature. This includes identifying systemic bottlenecks and potential socio-economic and environmental disruptions, and designing policies to anticipate them.

59. Critical to applying a systems approach, is addressing the interlinkages between action on climate change, biodiversity loss and pollution – spanning air, water, and plastics. This represents a core focus of the OECD's efforts to tackle climate change in the context of this triple planetary crisis. For example, climate mitigation and adaptation remain largely compartmentalised and are dealt with separately from other environmental challenges such as biodiversity loss. Yet, there are key synergies that must be harnessed if the climate crisis is to be addressed effectively.

38. OECD (2022), *Climate Tipping Points: Insights for Effective Policy Action*, OECD Publishing, Paris, https://doi.org/10.1787/abc5a69e-en.
39. OECD, Focus on green recovery, www.oecd.org/coronavirus/en/themes/green-recovery.

60. Conserving, restoring and improving the management of forests, grasslands, wetlands and agricultural lands, could deliver an estimated 23.8 gigatonnes of cumulative CO2 emission reductions by 2030. However, biodiversity loss remains a serious environmental challenge; compromising nature's ability to provide essential ecosystem services that we all rely on, such as crop pollination, water purification, nutrient cycling, flood protection and carbon sequestration.[40]

61. Nature-based solutions have received increasing attention as a means to both mitigate emissions and adapt to climate impacts. Natural systems are often considerably more resilient than those managed by human intervention. For example, efforts to restore forests or mangroves create an opportunity to increase ecosystems' carbon storage capacity, while also contributing to the reduction of weather-related risks, such as landslides or coastal storm surges.

62. At the same time, pollution – air pollution and waste – remains a significant environmental challenge calling for a systems approach to addressing the triple planetary crisis – and to facilitate important co-benefits in tackling pollution, climate change and biodiversity loss through whole-of-government action.

63. This is at the heart of the OECD's approach to supporting policy makers drive action on climate change and the environment. The OECD's organisation-wide initiative, "Net Zero+": Building Climate and Economic Resilience in a Changing World,[41] represents a multi-year whole-of-Organisation push to help governments better embed the climate crisis in economic policy making. The initiative specifically looks at applying systems thinking to drive policy outcomes that not only safeguard the resilience of the global transition to net-zero emissions, but also help build systemic resilience to the impacts of climate change itself in the face of diverse global challenges.

3. What the OECD can do to prevent or mitigate the negative trends and promote positive trends?

3.1. International trade of goods and services

64. OECD's work supports the diagnosis of possible wider economic and social impacts and helps identify the best policy alternatives to minimise exposure to risks. Several studies used the OECD Inter-Country Input-Output tables and Trade in Value Added statistics[42] and modelling tools to identify potential supply chain bottlenecks. Some of the conclusions of these studies were that vulnerabilities to shocks associated with high global value chains dependence are amplified by high geographic concentration of suppliers or buyers,[43] and that China is the most critical choke point in global value chains across a broad range of industries, both as a dominant supplier and as a dominant buyer.[44] However, some policies to localise value chains are likely to be less efficient and would not necessarily offer more stability in the face of shocks.[45] A forthcoming OECD report summarises the large and still emerging OECD and external evidence on global value chain risks and possible responses.[46]

65. OECD's interactive webtool "Keys to Resilient Supply Chains" emphasises and provides practical tips on how to in principle anticipate risks, minimise exposure, build trust and keep markets open. As a forum for discussion and co-ordination, in 2022 and 2023, the OECD organised two Member Economists Conferences on Supply Chain Interdependencies. These conferences aim at facilitating the discussion between Member countries to better understand, analyse and monitor the nature and magnitude of international crises and supply chain disruptions, and to better co-ordinate related policy responses.

66. The OECD has also contributed to promoting standards of conduct to reduce risks of supply chain disruptions and minimise negative effects once such disruptions materialise via the responsible business conduct framework, in line with the OECD Guidelines for Multinational Enterprises and OECD due diligence

40. OECD (2021), *Managing Climate Risks, Facing up to Losses and Damages*, OECD Publishing, Paris, https://doi.org/10.1787/55ea1cc9-en.
41. OECD (2023), *Net Zero+: Climate and Economic Resilience in a Changing World*, OECD Publishing, Paris, https://doi.org/10.1787/da477dda-en.
42. Trade in Value Added.
43. "Global value chain dependencies under the magnifying glass", op. cit., https://doi.org/10.1787/b2489065-en.
44. Ibid.
45. Arriola, C., et al. (2020), "Efficiency and risks in global value chains in the context of Covid-19", *OECD Economics Department Working Papers*, No. 1637, OECD Publishing, Paris.
46. "Risks and opportunities of reshaping global value chains", op. cit.

guidance. The OECD/IEA Climate Change Expert Group has highlighted ways to ensure that "Internationally Transferred Mitigation Outcomes" under the Paris Agreement are traded in a way that promotes environmental integrity.[47]

3.1.1. Energy prices

67. Regarding energy prices, the OECD will continue focusing on the energy-environment-economy nexus in its work. Energy affordability, security and addressing climate change – and their macroeconomic consequences – are now at the core of the policy analysis and recommendations in the OECD's Economic Outlook and Economic Surveys. Over the years, the Organisation developed comprehensive work programmes on the effects of energy and climate policies on firms and households, their interactions with other economic and social policies as well as the public acceptability of climate policies. Consequently, the OECD aims to support countries in adopting and implementing a full, environmentally effective, economically efficient and publicly acceptable climate strategy, in line with the OECD's 2022 Framework to Decarbonise the Economy and the Horizontal Project on Climate and Economic Resilience.

68. The OECD collaborates extensively with the International Energy Agency, the International Transport Forum, the Nuclear Energy Agency and other international organisations and governments. This has enabled the Organisation to draw upon and build up relevant expertise regarding energy and climate policies and to integrate this expertise into mainstream economic analysis. This is particularly evident in recent Economic Outlooks which devoted significant attention to energy market developments and related work focused on fiscal policies to cushion the effects of the energy price shock on households and firms (ECO/CPE (2023)6)[48]. But it particularly pertains to longer-term work ranging from innovative initiatives on monitoring outcomes and environmental, energy and economic policies relevant for the climate transition, to the development of long-term scenarios considering their macro- and microeconomic consequences and feedback loops.

69. Notably, to support climate change action, the OECD recently launched the Inclusive Forum on Carbon Mitigation Approaches, which is an initiative designed to help improve the global impact of emissions reduction efforts around the world through better data and information sharing, evidence-based mutual learning and inclusive multilateral dialogue. It brings together all relevant policy perspectives from a diverse range of countries from around the world, participating on an equal footing basis, to take stock of and consider the effectiveness of different carbon mitigation approaches.

3.1.2. Other commodities

70. For many critical raw materials, current production and investment plans meet only a part of the projected requirements. Investments in new mining capacity, recycling and new renewable technologies must therefore be scaled up rapidly. Recent advancements in modernising the OECD Arrangement on Officially Supported Export Credits, which includes an expansion of the scope of green or climate friendly projects to clean energy minerals and ores, is a step forward in this direction. The modernisation will make financing of climate friendly and green transactions under the Arrangement more flexible, and it will create further incentives for supporting a wider range of climate friendly and green transactions.

71. New mining projects typically take several years to come on-line. This is why efficient exploitation of current mining and processing capacities, and unimpeded international trade of critical raw materials are equally essential to easing short-term and medium-term scarcity problems. A recent report on international trade in critical raw materials[49] indicates an increasingly competitive landscape: the production and international trade of several raw materials has become more concentrated amongst a handful of extracting and processing locations which account for the bulk of global supply. Concentration of both imports and exports is particularly significant for unprocessed forms of lithium, borates, cobalt, colloidal precious metals, manganese and magnesium.

72. Critical raw materials are more prone to both production and trade concentration, and political rivalries and policy intervention in comparison with other sectors. State intervention, including in the form of special regulation, such as state ownership, investment restrictions, strategic support policies and export measures, is

47. L. Lo Re and J. Ellis (2021), "Operationalising the Article 6.4 mechanism: Options and implications of CDM activity transition and new activity registration", *OECD/IEA Climate Change Expert Group Papers*, No. 2021/02, OECD Publishing, Paris; C. Falduto, J. Ellis and K. Simeonova (2021), "Understanding reporting and review under Articles 6 and 13 of the Paris Agreement", *OECD/IEA Climate Change Expert Group Papers*, No. 2021/04, OECD Publishing, Paris.
48. "Aiming better: Government support for households and firms during the energy crisis", op. cit.
49. "Raw materials critical for the green transition: Production, international trade and export restrictions", op. cit.

pervasive in the raw materials sector. The OECD's Inventory of Export Restrictions on Industrial Raw Materials –initiated with support of the European Union in the early 2000s—has been documenting the use of restrictions on exports of raw materials with a view to improving the transparency of governments' practises in this area and facilitate assessment of their economic impact.

73. The OECD's latest report on international trade in critical raw materials[50] shows that export restrictions on critical raw materials have seen a five-fold increase since the OECD began collecting data in 2009, with 10% of global trade in critical raw materials now facing at least one export restriction measure. Export restrictions on ores and minerals — in essence the raw materials located upstream in critical raw material supply chains — grew faster than restrictions in the other segments of these supply chains. This correlates with increasing concentration of upstream production, imports and exports. China, India, Argentina, Russia, Viet Nam and Kazakhstan issued the most of the new export restrictions for critical raw materials from 2009 to 2020, and also account for the highest shares of import dependencies of OECD countries.

74. The trend toward increasing export restrictions is likely playing a role in key international markets, with potentially sizable effects on both the availability and prices of these materials. This situation warrants further scrutiny. In order to explore co-operative options for alleviating harmful export restrictions, future OECD work in this area will focus on improving the understanding of motivations of the countries using export restrictions and the effects they have on trading partners.

3.1.3. Supply and value chains

75. One of the highest priorities of the OECD is supporting countries' efforts to enhance supply chain resilience. Since the pandemic, supply chain disruptions and their impacts on inflation and recovery have received prime attention in the OECD's Economic Outlooks. The OECD has been assisting its members in developing supply chain resilience strategies that are compatible with multilateral trade rules and that also increase environmental and social sustainability in supply chains.

76. OECD's work supports the diagnosis of possible wider economic and social impacts and helps identify the best policy alternatives to minimise exposure to risks. Several studies used the OECD Inter-Country Input-Output tables and Trade in Value Added statistics and modelling tools to identify potential supply chain bottlenecks. Some of the conclusions of these studies were that vulnerabilities to shocks associated with high global value chain dependence are amplified by high geographic concentration of suppliers or buyers, and that China is the most critical choke point in global value chains across a broad range of industries, both as a dominant supplier and as a dominant buyer.[51] Ukraine has recently been included in these databases to provide analysts and policy makers with insights into Ukraine's pre-war integration in global value chains. This approach aims not only to provide a better understanding of the immediate global impacts of the war, but also to help identify longer-term opportunities for Ukraine's recovery, for example its comparative advantages for optimal future integration into global and regional value chains.

77. Also, the OECD has recently developed indicators of Foreign Input Reliance, and Foreign Market Reliance, which can help countries to map their own vulnerabilities in times of global economic uncertainty. OECD global value chain-related indicators can reveal the origins of risks to downstream production, for example intra-regional or extra-regional supply chains. Recent research by OECD has shown that a higher concentration of upstream supply can amplify the reaction to shocks.

3.2. Fiscal policies

78. Regarding fiscal policies, the OECD has carried out cross-country analyses of the policy responses to the pandemic and the energy price shock, drawing lessons on how best to design policy interventions which have strong impacts on public spending, such as job retention schemes or support to energy consumers (for example OECD, 2021; ECO/CPE(2023)6)[52].

79. In the medium to longer term, governments would need budget frameworks to ensure fiscally responsible spending levels[53] and to reallocate resources from low-valued areas to those where they are most needed, as encapsulated in the OECD Spending Better Framework.[54]

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50. Ibid.
51. "Global value chain dependencies under the magnifying glass", op. cit.
52. "Aiming better: Government support for households and firms during the energy crisis", op. cit.
53. Rawdanowicz, Ł., et al. (2021), "Constraints and demands on public finances: Considerations of resilient fiscal policy", *OECD Economics Department Working Papers*, No. 1694, OECD Publishing, Paris.

80. Spending reviews are a core instrument for expenditure prioritisation and reallocation. They support the sustainability of public finances through systematic analysis of existing expenditure. The OECD Best Practices for Spending Review[55] describe common features of successful spending reviews. The OECD Public Finance Dataset enables the analysis of the effects of changes in the composition of public spending on growth and income inequality.[56] The OECD has also considered the application of cross-governmental issues, such as climate change and gender equality in budgeting, when countries conduct spending reviews. On gender budgeting for instance, integrating a gender perspective is to ensure that budget reprioritisation does not increase gender gaps, but instead supports the achievement of gender goals.[57]

81. The OECD has also done extensive work on how to alleviate future pressures on public spending and, more generally, on public finances (for example OECD, 2021). This includes labour market and retirement policies which raise employment rates, eliminate early retirement pathways, and keep effective retirement ages rising by some fraction of future gains in life expectancy. The OECD has also analysed the long-run implications for GDP growth of an accelerated energy transition and how carbon taxation could help address public finance challenges (for example ECO/CPE/WP1(2023)3;[58] D'Arcangelo et al., 2022[59]). Country specific reform priorities are discussed in the OECD Going for Growth report, released every two years. The OECD Economic Surveys provide detailed, country-specific recommendations on fiscal policy, public finance, and structural reforms, both regarding the shorter and medium term.

3.3. Inflation

82. Regarding inflation, calibrating monetary policy is a difficult task and needs to take on board a wide range of indicators and developments, including but not limited to labour markets, financial markets, and product markets. According to OECD, calibrating the right dose of restrictive monetary policy in a given country constitutes a key policy challenge, particularly given significant policy tightening in other countries. Excessive tightening could push economies into a recession, while a failure to tighten sufficiently could lead inflation expectations of households and firms to be de-anchored, potentially requiring even more drastic interest rates hikes later. A further complication results from the uncertainty over the strength of the impact of monetary policy tightening on the real economy after an extended period of very accommodative policy. A tightening of financial conditions is a key channel through which higher interest rates take effect, but this could trigger renewed stress in the financial system and a sharper downturn in property markets. Tightening in advanced economies has also global effects. For example, several low-income countries have already faced increasingly tight financing conditions including rising debt service burdens. Sudden further shifts in global financial markets could further expose pre-existing vulnerabilities in emerging-market and developing economies.

83. The OECD will continue to provide its expertise on macroeconomic analysis and policies through its Economic Outlook, Interim Economic Outlook and working paper series. The Economic Outlook (EO) routinely features in-depth analysis on drivers and consequences of inflation (for example: drivers of the rise of energy prices, EO December 2021;[60] differences between the current period of inflation and the aftermath of the 1970s oil price shocks, EO June 2022;[61] the pass-through from producer to consumer prices, EO June 2022;[62] supply- and demand-driven inflation in OECD economies, EO November 2022,[63] or the contribution of unit profits to domestic inflationary pressures, EO June 2023)[64]. The Interim Economic Outlook provides updated projections on growth and inflation for G20 countries.

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54. This Framework sets out the key features that constitute quality budget institutions. Together, they provide the foundations for spending decisions that ensure resources are allocated to where they are most valued, safeguarding fiscal sustainability in the long-term (forthcoming).
55. Tryggvadottir, Á. (2022), "OECD Best Practices for Spending Reviews", *OECD Journal on Budgeting*, vol. 22/1.
56. D. Bloch, and J. Fournier (2018), "The deterioration of the public spending mix during the global financial crisis: Insights from new indicators", *OECD Economics Department Working Papers*, No. 1465, OECD Publishing, Paris.
57. Nicol, S. (2022), "Gender perspectives in spending review", *OECD Journal on Budgeting*, vol. 22/3.
58. "Long-term scenarios update: incorporating the energy transition" (forthcoming), OECD Economic Policy Papers.
59. D'Arcangelo, F., et al. (2022), "Estimating the CO2 emission and revenue effects of carbon pricing: New evidence from a large cross-country dataset", *OECD Economics Department Working Papers*, No. 1732, OECD Publishing, Paris.
60. OECD (2021), *OECD Economic Outlook*, Volume 2021, Issue 2, OECD Publishing, Paris.
61. OECD (2022), *OECD Economic Outlook*, Volume 2022, Issue 1, OECD Publishing, Paris.
62. Ibid.
63. OECD (2022), *OECD Economic Outlook*, Volume 2022, Issue 2, op. cit.
64. OECD (2023), *OECD Economic Outlook*, Volume 2023, Issue 1, op. cit.

84. The working paper series complements the macroeconomic analysis, see for example work on inflation and its distributional effects.[65] In addition, the OECD Employment Outlook[66] provides an annual report on jobs and employment in OECD countries, taking into account recent economic trends and policy developments. OECD Economic Surveys provide country-specific recommendations on macroeconomic policies and have covered the issues of inflation and macroeconomic policy responses extensively. Supply-boosting structural reforms have the potential to counteract the long-term decline in underlying growth rates without increasing pressures on inflation or even reducing inflation. OECD Economic Surveys devote considerable attention to country-specific analysis and recommendations of structural reforms while taking into account inclusiveness and environmental sustainability. Going for Growth provides further analysis and recommendations, including rankings of country-specific priorities for structural reforms and evaluations of past reforms.

3.4. Labour and social policies

85. There is a risk that less-skilled workers will be left behind by the digital revolution, unless they are given appropriate access to lifelong education. In addition, populations are aging in OECD countries: the old age dependency ratio is expected to rise from 31% in 2023 to almost 59% in 2075.[67] This transformation is already having an impact on pension and health systems. Retaining older workers in the labour force requires policies that improve working conditions, strengthen lifelong learning, and help workers reconcile employment with health issues and caring responsibilities. Without such measures countries will see skills shortages and job vacancies rise as populations age. Finally, the green transition will likely create new job opportunities but, without appropriate support to up- or re-skill, some groups risk being left behind as high-carbon jobs are phased out. Shoring up public support for action to combat climate change will also require policies to help low income households adjust to higher energy costs.

86. Each year the OECD Employment Outlook[68] gives a snapshot of OECD labour markets, and a deep dive into the most topical issues. After the 2022 edition focused on the cost-of-living crisis, the 2023 edition has a special focus on the impact of artificial intelligence to respond to the potentially transformative impact that new artificial intelligence models, such as generative artificial intelligence, may have on the labour market. It will also examine ways to tackle issues of bias, discrimination, accountability, control and skills needs through policy and regulation. The OECD's work on skills – for example, Getting Skills Right: Future-Ready Adult Learning Systems[69] – also focuses on preparing the workforce for changing labour market needs through modern and inclusive adult learning systems, as the green, demographic and digital transitions will require more modern and accessible lifelong training approaches. OECD work also takes a deep dive into policy responses to respond to our changing world, for example looking for ways to keep older workers in the workforce in Retaining Talent at All Ages, assessing the impact of the digital transition on labour market trends in Skills for the Digital Transition, harnessing digitalisation in Public Employment Services, and taking a topical focus on the impact of the cost-of-living crisis on pensions, minimum wages, and income support for working-age individuals and their families.

3.5. Reinforcement of democratic governance

87. To support OECD Members in meeting today's challenges for democratic governance, the OECD Reinforcing Democracy Initiative has the dual goal of reinforcing democratic governance in established democracies and protecting it from existing and emerging threats.[70] The initiative identifies policy response to five governance challenges for advanced and mature democracies: i) combating mis- and disinformation, ii) enhancing representation, participation and openness in public life, iii) strengthening open democracies in a

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65. Causa, O., et al. (2022), "A cost-of-living squeeze? Distributional implications of rising inflation", *OECD Economics Department Working Papers*, No. 1744, OECD Publishing, Paris.
66. OECD (2022), *OECD Employment Outlook 2022: Building Back More Inclusive Labour Markets*, OECD Publishing, Paris, https://doi.org/10.1787/1bb305a6-en.
67. The number of individuals aged 65 and over per 100 people of working age, https://data.oecd.org/pop/old-age-dependencyratio.htm.
68. OECD (2023), *OECD Employment Outlook 2023: Artificial Intelligence and the Labour Market*, OECD Publishing, Paris, https://doi.org/10.1787/08785bba-en.
69. OECD (2019), *Getting Skills Right: Future-Ready Adult Learning Systems*, Getting Skills Right, OECD Publishing, https://doi.org/10.1787/9789264311756-en.
70. OECD (2022), "Building Trust and Reinforcing Democracy: Preparing the Ground for Government Action", *OECD Public Governance Reviews*, OECD Publishing, Paris.

globalised world: embracing the global responsibilities of governments and building resilience to foreign influence, iv) governing green, or the capacity to respond to climate and other environmental challenges, and v) transforming public governance for digital democracy.

88. The OECD Declaration on Building Trust and Reinforcing Democracy, adopted by Ministers in November 2022 during the OECD Public Governance Ministerial meeting, includes commitments and actions to strengthen trust and democracy, including:

– welcoming a set of action plans on combating mis- and disinformation; on representation, participation and openness (including gender equality); and governing green;

– calling for the development of two action plans on embracing the global responsibilities of government and building resilience to foreign influence; and on transforming public governance for digital democracy, for 2024;

– launching the OECD Global Forum on Building Trust and Reinforcing Democracy as a platform to share knowledge, assess and improve public governance to meet the challenges facing democracies;

– inviting the OECD to carry out the Survey on the Drivers of Trust in Public Institutions[71] every two years;

– launching the OECD DIS/MIS Information Resource Hub, to support governments in establishing a strengthened whole-of-society approach among governments, media and civil society organisations to strengthen information integrity.

89. Through the biennial OECD Trust Survey[72], Members continuously monitor public perceptions of competence and values of public institutions and their relationship with levels of trust in the country. The survey results feed into the Gateway to Reinforcing Trust, which provides a framework to develop and deliver future waves of the Trust Survey, conduct in-depth analyses on different public governance drivers of trust, and support countries in taking concrete action to build trust and track progress over time. The OECD has done extensive work looking at the drivers of trust in public institutions in Finland,[73] Korea,[74] New Zealand,[75] Norway[76] and Portugal,[77] and further reports are in preparation.

90. The OECD has delivered analysis on the role of disinformation and the Russian Federation's war of aggression against Ukraine (OECD, 2022). Through the OECD DIS/MIS Resource Hub, the Organisation promotes engagement between countries, facilitates information collection, and develops analysis and actionable recommendations to support the design of governance measures that strengthen information integrity. The OECD's work in this area also provides a space for co-operation and policy co-ordination, where decision makers, along with representatives of civil society, academia, and the private sector, can meet to discuss challenges and find effective solutions. The Hub includes a catalogue with a range of government initiatives, tools and policies to prevent and mitigate risks of mis- and disinformation both domestically and internationally.

3.6. Poverty challenges

91. The OECD has a long-standing tradition in the collection and publication of income poverty, inequality and wealth statistics, as well as data on material and non-material deprivations,[78] providing the underpinning for evidence-based policy. In addition, analytical work has highlighted the far-reaching consequences of deprivations on people's lives, most recently regarding the multi-dimensional impacts of the Covid-19

71. OECD (2022), "Building Trust to Reinforce Democracy: Main Findings from the 2021 OECD Survey on Drivers of Trust in Public Institutions", *Building Trust in Public Institutions*, OECD Publishing, Paris.
72. Ibid.
73. OECD (2021), "Drivers of Trust in Public Institutions in Finland", *Building Trust in Public Institutions*, OECD Publishing, Paris.
74. OECD/KDI (2018), "Understanding the Drivers of Trust in Government Institutions in Korea", OECD Publishing, Paris.
75. OECD (2023), "Drivers of Trust in Public Institutions in New Zealand", *Building Trust in Public Institutions*, OECD Publishing, Paris.
76. OECD (2022), "Drivers of Trust in Public Institutions in Norway", *Building Trust in Public Institutions*, OECD Publishing, Paris.
77. OECD (2023), "Lessons from the OECD Trust Survey in Portugal", *OECD Public Governance Policy Papers*, No. 27, OECD Publishing, Paris.
78. See, for example, the Income and Wealth Distribution Databases, the OECD How's Life database, flagship report series and country profiles, analysing the various well-being dimensions that matter for people's lives and providing policy advice on how to integrate a well-being approach in policy making, as well as for children, the OECD Child Well-Being Data Portal and the Starting Unequal report.

pandemic[79] and of childhood socio-economic disadvantage.[80] For example, people who are disadvantaged at the start of life tend to have worse physical and mental health outcomes, lower earnings and fewer job prospects than the better-off and are more likely to live in less affluent neighbourhoods.

92. The OECD also provides tailored support to countries that seek to improve the prospects of those currently being left behind, most recently through the launch of the OECD Observatory on Social Mobility and Equal Opportunity.[81] The Observatory will strive to fill data gaps, devise effective policy solutions, and explore how the broader context (for example businesses and civil society) shapes opportunities. Most recently, tailored support to promote social mobility has been provided to Austria[82] and Germany.[83]

93. To address the critical and urgent challenges of poverty, the OECD Development Co-operation Directorate:

– tracks official development assistance and other development finance – including total official support for sustainable development – to enhance transparency and accountability against international commitments;

– provides a platform – the Community of Practice on Poverty and Inequalities (CoP-PI) of the Development Assistance Committee (DAC) – to support DAC members in maximising their development co-operation's focus, allocations and impact on poverty and inequality reduction through exchange and learning among peers and with partners from multilateral organisations, partner country governments, academia, and civil society organisations. Through exchanges, learning and analysis, the CoP-PI strengthens collective understanding of challenges faced by DAC members in translating their poverty and inequality commitments into practice, and identifies good practice, approaches and tools to drive progress;

– sets standards, policy recommendations and guidelines to support DAC members in upholding and strengthening the quality and poverty focus of their development co-operation. The OECD's "Development Co-operation Report 2023: Debating the Aid System"[84] takes stock of opportunities and challenges confronting the aid system and presents concrete ideas for action for keeping development co-operation relevant and impactful amid daunting challenges, including by targeting poverty and inequalities better. The OECD DAC Peer Reviews, which provide in-depth examinations of development systems and policies in all DAC members, monitor the extent to which policies set out a clear approach to reducing poverty and inequalities, notably gender inequalities, and to leaving no-one behind. Together with the United Nations Development Programme (UNDP), the OECD provides the secretariat to the Global Partnership for Effective Development Co-operation, the primary multi-stakeholder vehicle for driving development effectiveness, to "maximise the effectiveness of all forms of co-operation for development for the shared benefits of people, planet, prosperity and peace", with a focus on leaving no-one behind.

3.7. Migration challenges

94. The OECD International Migration Outlook[85] provides annual updates on international migration movements and policies in OECD countries. Settling In[86] periodically updates integration outcomes of immigrants and their children in all OECD, European Union and selected G20 countries. The OECD has published a number of policy briefs on the Ukrainian refugee crisis (rights and support for Ukrainian refugees in receiving countries,[87] labour market impact, skills and early labour market outcomes, housing,

79. OECD (2021), *Covid-19 and Well-being: Life in the Pandemic*, OECD Publishing, Paris, https://doi.org/10.1787/1e1ecb53-en.
80. Clarke, C., et al. (2022), "The economic costs of childhood socio-economic disadvantage in European OECD countries", *OECD Papers on Well-being and Inequalities*, No. 9, OECD Publishing, Paris.
81. See more information here: OECD, Observatory on Social Mobility and Equal Opportunity, www.oecd.org/wise/observatorysocial-mobility-equal-opportunity.
82. M. Förster and S. Königs (2020), "Promoting social mobility in Austria", *OECD Social, Employment and Migration Working Papers*, No. 251, OECD Publishing, Paris.
83. OECD (2021), *Is the German Middle Class Crumbling? Risks and Opportunities*, OECD Publishing, https://doi.org/10.1787/845208d7-en.
84. OECD (2023), *Development Co-operation Report 2023: Debating the Aid System*, OECD Publishing, https://doi.org/10.1787/f6edc3c2-en.
85. OECD (2022), *International Migration Outlook 2022*, OECD Publishing, Paris, https://doi.org/10.1787/30fe16d2-en.
86. OECD/European Union (2018), *Settling In 2018: Indicators of Immigrant Integration*, OECD Publishing, Paris/European Union, Brussels, https://doi.org/10.1787/9789264307216-en.

communication, vocational education and training, and on Ukrainian refugee women's integration challenges). Moving forward, the OECD will develop a dual intent integration framework to promote speedy socio-economic inclusion of Ukrainian refugees, while deliberatively minimising return barriers for them.

95. On 21 June 2023, the OECD gathered in Paris climate experts and migration policy makers from OECD and non OECD member countries to take stock of available evidence on linkages between climate change, migration, and displacement. At the meeting, participants noted that international migration policy could play a role in addressing the complex issue of climate-induced migration and displacement. In addition to alleviating skills shortages in the context of the green transition, migration could serve as a climate adaptation strategy. The OECD stands ready to support stakeholders in their critical work on the nexus of climate change, migration, and displacement.

3.8. Environmental challenges

96. The OECD's flagship initiative on Climate and Economic Resilience, the "Net Zero+" project, is supporting countries deliver transformational climate policy, drawing on the full multidisciplinary reach of the Organisation. "Net Zero+" represents work from 17 OECD policy committees and is a central contribution to the OECD's organisation-wide efforts to support a systems approach to climate action in practice. It provides policy makers with recommendations on how to future-proof climate and economic policies for a net-zero world[88] having regard to the critical climate, socio-economic, and environmental systems.

97. The *"Net Zero+" p*roject sits alongside two other flagship OECD initiatives on climate action. First, the OECD's Inclusive Forum on Carbon Mitigation Approaches, which looks to improve data and information sharing about the comparative effectiveness of different carbon mitigation policy approaches. Second, the International Programme for Action on Climate – developed as part of the "Net Zero+" project – has established a detailed set of headline indicators to track and monitor both the impacts of climate change and our climate action responses – adaptation and mitigation – across OECD and non-OECD countries annually.

4. Follow-up to Assembly Resolution 2370 (2021) "Fighting fiscal injustice: the work of the OECD on taxation of digital economy"

98. The 2021 Report has found the role of the OECD to be instrumental in facilitating discussions and providing solutions in complex multinational negotiations on fiscal justice. The delineation of policies in the two pillars, the programme of work, the January 2020 Statement as well as the latest economic impact assessment of the tax challenges arising from digitalisation, published in October 2020, and the Cover Statement by the OECD/G20 Inclusive Framework on BEPS on Pillar One and Pillar Two Blueprints provided a concrete basis for discussion.

99. Maintaining momentum and finding solutions to the remaining issues through the Inclusive Framework is paramount for all countries and institutions involved in the process. The divergence of positions maintained in negotiations, specific country-interests and ideological differences in taxation norms posed great risks in reaching agreement within the envisaged timeframe. Notwithstanding these challenges, the Inclusive Framework delivered a consensus-based solution with the 8 October 2021 Statement on the two-pillar solution to address the tax challenges, which has been agreed by 138 countries and jurisdictions.

100. At the 2023 OECD Ministerial Council Meeting, OECD member States reaffirmed their commitment "to continue to work together to reform the international tax system through a timely and effective implementation of the OECD/G20 Inclusive Framework's two-pillar solution to address the tax challenges arising from the digitalisation and globalisation of the economy."[89]

101. During the 15th meeting of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), on 11 July 2023, 138 countries and jurisdictions agreed an Outcome Statement, which is discussed in more detail below. This Outcome Statement summarises the package of deliverables developed by the Inclusive Framework to address the remaining elements of the two-pillar Solution.

102. Today, the main priority of the Inclusive Framework remains the swift implementation of the two-pillar Solution to stabilise the international tax system, while making it fairer and delivering tax certainty.

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87. OECD (2022), *Rights and Support for Ukrainian Refugees in Receiving Countries*, OECD Publishing, Paris, https://doi.org/10.1787/09beb886-en.
88. OECD, "Net zero+: Climate and economic resilience in a changing world - synthesis report".
89. 2023 Ministerial Council Statement, Meeting of the OECD Council at Ministerial Level, Paris, 7-8 June 2023.

4.1. Pillar One: bringing dated international tax rules into the 21st century

103. Amount A of Pillar One aims to ensure a fairer distribution of profits and taxing rights among countries with respect to the largest multinational enterprises (MNEs), those with a global turnover above €20 billion, by allocating new taxing rights on 25% of their residual profits (namely profits in excess of 10% of revenues) to market jurisdictions, regardless of whether they have a physical presence in such jurisdictions. Tax certainty is a key aspect of the new rules, which include a mandatory and binding dispute resolution process for Pillar One but with the caveat that developing countries will be able to benefit from an elective mechanism in certain cases, ensuring that the rules are not too onerous for low-capacity countries. The agreement to re-allocate taxing rights on MNE's profits under Pillar One further includes a commitment to the removal and standstill of Digital Services Taxes and other relevant, similar measures, which will help ease trade tensions.

104. Pillar One also has a second component called Amount B, which provides a simplified and streamlined approach to the application of the arm's length principle to in-country baseline marketing and distribution activities, with a particular focus on the needs of low-capacity countries.

4.2. Pillar Two: setting multilaterally agreed limits to tax competition on corporate income tax

105. Under Pillar Two, the global minimum tax puts a floor on tax competition with respect to corporate income tax through the introduction of a minimum corporate tax rate, set at an effective tax rate of 15%, which countries can use to protect their tax bases. It is known as the "GloBE rules" and will apply to MNEs with a turnover above €750 million (with exclusions for certain entities like government entities, some non-profit organisations, and pension or investment funds). The global minimum tax will ensure that large MNEs pay a fair share of tax wherever they operate or generate their profits. Source jurisdictions, including developing countries, will benefit from the ability to apply a Qualified Domestic Minimum Top-up Tax, ensuring that the minimum tax is paid in their jurisdictions. This minimum tax will take pressure off developing countries to offer inefficient tax incentives to MNEs, and will allow them to mobilise additional domestic resources, while maintaining their ability to attract investment.

106. Pillar Two also protects the right of developing countries to tax certain base-eroding payments when they are not taxed up to a minimum nominal rate of 9%, through the "Subject to tax rule". This rule will help developing countries protect their treaty networks from abuse through profit shifting to low tax jurisdictions.

4.3. Ongoing work

107. Since October 2021, the Inclusive Framework delegates, through the Task Force on the Digital Economy, have worked intensively on the technical elements and a text of the Multilateral Convention for Amount A. The work has progressed through several rolling public consultations on the different building blocks of Amount A.[90] Two progress reports, released for public consultation by the Inclusive Framework in July and October 2022, provide a good overview of the proposed overall design of the Amount A rules and how they will operate in practice. Since then, the Inclusive Framework also released a document on the withdrawal of digital service taxes and other relevant similar measures for public consultation from December 2022 to January 2023.

108. For the global minimum tax, the Inclusive Framework has completed the "legislative" work on the GloBE rules. The Model Rules were finalised in December 2021 and the Commentary to the GloBE Rules was agreed in March 2022. Countries have started to implement these rules and the global minimum tax is now a reality. Over 40 countries have already agreed to legislate or have taken steps to implement the reform. It includes all 27 EU member States, the United Kingdom, Switzerland, Japan, Korea, Singapore, Hong Kong, and many others. Based on the countries already implementing the global minimum tax, it is estimated that almost 90% of global MNEs with revenues above €750 million will be subject to the minimum tax by 2025. With this momentum, there is a domino effect, with even more countries now expected to move quickly to implement. To ease this process, the Inclusive Framework is continuing to release implementation guidance. Since December 2022, several guidance documents have been released, including on Safe Harbours and Penalty Relief, and Administrative guidance on the interpretation or administration of the global minimum tax. It includes the recognition of the US minimum tax (also known as Global Intangible Low-Taxed Income, GILTI) under GloBE, and more general guidance on the scope, operation, and transitional elements of the new rules.

90. Nexus / Revenue sourcing / Tax base determination / Scope / Profit Allocation / Tax Certainty / Elimination of double taxation / Administration / Unilateral measures.

It also features the design of the Qualified Domestic Minimum Top-up Tax, which will particularly benefit to developing countries. Public consultations have also been organised on key elements, such as the GloBE information Return and Tax Certainty.

4.4. The 2023 Outcome Statement and next steps

109. During the 15th meeting of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), on 11 July 2023, 138 countries and jurisdictions agreed an Outcome Statement recognising the significant progress made on the two-pillar solution. This followed 20 months of intense technical negotiations by delegates to continue the work to implement the two-pillar solution and reflects collaboration and compromise among all jurisdictions during negotiations by Inclusive Framework members since October 2021.

110. The Outcome Statement summarises the package of deliverables developed by the Inclusive Framework to address the remaining elements of the two-pillar solution and was published on 17 July 2022. The package includes:

– A Multilateral Convention (MLC) developed by the Inclusive Framework, which will allow Parties to exercise a domestic taxing right over a portion of MNE residual profits (Amount A of Pillar One). The Inclusive Framework has published the text of the MLC. This should allow a signing ceremony to be organised by the end of 2023 with the intention of allowing the MLC to enter into force during 2025, allowing for the domestic consultation, legislative, and administrative processes applicable in each jurisdiction.

– A proposed framework for the simplified and streamlined application of the arm's length principle to in-country baseline marketing and distribution activities (Amount B of Pillar One); where input from stakeholders is requested though public consultation on certain aspects, prior to the publication of the final report and incorporation into the Transfer Pricing Guidelines by January 2024.

– The Subject-to-Tax Rule together with its implementation framework, which will enable developing countries to update bilateral tax treaties to tax certain intra-group payments where these are subject to a nominal corporate income tax that is below the minimum rate. The Multilateral Instrument implementing the STTR will be released and open for signature by the end of the year.

111. A comprehensive action plan will also be prepared by the OECD to support the swift and co-ordinated implementation of the two-pillar solution, co-ordinating with regional and international organisations.

112. In addition, to preserve the stability of the international tax system, 138 countries and jurisdictions also agreed in the Outcome Statement to refrain from imposing newly enacted digital services taxes or relevant similar measures on any company before 31 December 2024, or the entry into force of the MLC if earlier, provided the signature of the MLC has made sufficient progress by the end of 2023.

113. As already stated in the last report, the absence of implementation of the two-pillar solution would put the world at a greater risk of a proliferation of unco-ordinated and unilateral tax measures (such as digital services taxes) and could result in increase in damaging tax and trade disputes. The OECD has estimated that, under a worst-case scenario, these disputes could cost more than 1% of global GDP in the absence of the reform.[91]

114. In addition to making the tax system fairer and more stable, the revenue stakes associated with the two-pillar solution are high. According to the latest OECD analysis of the economic impact assessment of the pillars, Pillar One will allocate new taxing rights on about US$200 billion to market jurisdictions annually. The analysis also finds that, under Pillar One, low and middle-income countries are expected to gain the most as a share of existing corporate income tax revenues. Pillar Two could also bring in up to US$200 billion in additional revenues to governments each year.

115. Looking forward, and beyond agreeing the final technical elements of the Pillars as mentioned above, building tax capacity will be key. One of the main priorities of the OECD will be to focus on ensuring that all countries can benefit from the new rules, as developing countries account for around half of the membership of both the Inclusive Framework and its Steering Group. Work is already ongoing on building tax capacity to implement the Two Pillars across all members of the Inclusive Framework. The OECD is also endorsing

91. OECD (2020), "Tax Challenges Arising from Digitalisation – Economic Impact Assessment: Inclusive Framework on BEPS", *OECD/G20 Base Erosion and Profit Shifting Project*, OECD Publishing, Paris.

capacity building efforts through bespoke training and pilot programmes, including the OECD/UNDP Tax Inspectors Without Borders Initiative, to support developing countries in the implementation of the global minimum tax.

5. Conclusion

116. Over the last few years, the global economy has sustained a series of major shocks, including the Covid-19 pandemic and the Russian Federation's war of aggression against Ukraine. As a result, global supply chains have been disrupted, and prospects for economic recovery, as well as energy and food security, have been undermined. While global growth has been more resilient than expected, the outlook remains relatively weak, and downside risks have increased.

117. Under these circumstances, the role of the OECD in conceiving policies to prevent or mitigate the negative trends whilst promoting positive trends is more important than ever. It is essential that the community of OECD member countries and accession candidate countries remains committed, as reiterated in the 2023 Ministerial Council Statement, to fundamental values of individual liberty, democracy, the rule of law, human rights, gender equality, environmental sustainability and tackling inequalities, as well as diversity and inclusion.

118. Furthermore, it is essential that OECD member and candidate countries have reaffirmed, in the 2023 Ministerial Council Statement, the importance of multilateralism and the unity in addressing global challenges, as well as the willingness to reach out beyond the current membership to enhance and develop global partnerships.

119. Consequently, the role of collaborating institutions, such as the Council of Europe, should be to support building consensus amongst its members, while offering a helping hand in bridging diplomatic ridges. Holistic policies taking account not only of fiscal and economic challenges but of all aspects of countries' economic realities, including environmental challenges, labour and social policies hold the key for an efficient response, with a focus on leaving no-one behind. A strength of the OECD is precisely the holistic and multi-dimensional nature of its work.