The OECD Reinvents Itself

Although it is often dismissed as sleepy and technocratic, the OECD
has found a way to remain relevant in a quickly shifting global landscape, and other multilateral organizations would be wise to pay attention.

The OECD, like numerous other international bodies, must adapt to changing geopolitical dynamics that have left new major global players outside its ranks. Its response is a so-called “key partner” initiative that allows it to engage—and seek to influence—pivotal nonmember states. This method strikes the right balance between maintaining the OECD’s symbolic role as the enforcer of Western norms and meeting its practical need to maintain a foothold on the global stage.

A RICH MAN’S CLUB NO MORE

Despite the OECD’s low profile, no other institution so perfectly embodies the Western liberal order. The organization’s impressive ascent dates from the Marshall Plan. In 1948, Washington insisted that its European allies create a multilateral entity to coordinate postwar recovery efforts. The countries responded by forming the Organization for European Economic Cooperation, which in 1961 became the OECD and took on a transatlantic dimension by adding Canada and the United States. Between 1964 and 1973, the group incorporated Australia, Finland, Japan, and New Zealand and became truly global.

Throughout the Cold War, the OECD served as a standard setter in policy areas ranging from trade subsidies and economic development to corporate governance; education, health, and labor policy; and energy security and environmental protection. Its clout reflected the economic dominance of its members—which collectively accounted for 62 percent of global GDP by 1990—earning the group the nickname “rich man’s club.” The OECD’s traditional approach was to first negotiate common standards internally, then seek to win
acceptance for them within more encompassing frameworks such as
the United Nations and the successive negotiating rounds of the
General Agreement on Tariffs and Trade.

The end of the Cold War only bolstered the OECD’s symbolic
importance. The 1994 U.S. National Security Strategy focused on
expanding the global community of market democracies—or, in
effect, on strengthening an ever-expanding OECD bloc. Between 1994
and 2000, the OECD added six new members: the Czech Republic,
Hungary, Mexico, Poland, Slovakia, and South Korea. (All four
postcommunist states joined the OECD before entering the European
Union). In 2010, the OECD expanded yet again, adding Chile,
Estonia, Israel, and Slovenia—continuing a pattern in which each new
European nation was balanced by a country from another region. At
the head of the queue today are Costa Rica, Colombia, Latvia, and
Lithuania.

But the OECD’s challenge today differs both quantitatively and
qualitatively from its earlier expansion efforts. Previous enlargements
were launched when Western countries dominated the global
economy, and candidate countries tended to be relatively advanced
economies of modest size, whose governments were reliably
democratic. The OECD’s authority was enhanced by widespread faith
in the West’s economic model and in the ability of its technocratic
approach to transcend politics. As a result, the OECD could easily
incorporate new members without diluting its standards.

Today, however, the world is experiencing the fastest redistribution of
economic power in history. The OECD now represents only 47
percent of global GDP. By 2030, this figure will fall to 43 percent.
Although Brazil’s entry into the OECD is plausible in the near term, it
is unrealistic to imagine that China and India—which together
contain 37 percent of the world’s population compared to the OECD’s
17 percent—would join as full members, given their status and
self-image as developing states.

Moreover, the OECD’s prescriptions do not command the respect they once did. The global financial crisis has left the Western economic model badly frayed, if not completely discredited. The age of Western economic tutelage is long gone. There would also be significant political barriers to admitting communist China and increasingly authoritarian Russia. (Russia’s halting accession talks, begun in 2007, were suspended indefinitely last spring following its invasion of Crimea.)

LEAGUE OF NATIONS

The OECD can thus neither offer full membership to huge emerging nations nor expect to bring them around to its favored positions. And yet, in order to remain relevant as a premier global standard-setting body, the organization must engage these rising giants and secure at least their partial buy-in. The painful alternative would be to watch them set their own international standards and leave OECD members at a competitive disadvantage.

The OECD has picked a smart response: establishing a flexible halfway house between full membership and disengagement by allowing outside nations to become “key partners.” Five countries—Brazil, China, India, Indonesia, and South Africa—have already acquired this status and now participate in most OECD committees as well as a range of other activities, including policy reviews.

This participation takes the form of a dialogue. The OECD offers these states a voice during the early negotiation of new standards in the hope of getting them to embrace and implement the group’s new
policies later on. At the same time, the arrangement permits individual partners to opt in or opt out of specific standards and practices, depending on their readiness to move toward common ground in a given sector.

Activities in which key partners are allowed to participate include “bodies, projects, and legal instruments”—and there are already 65 of them. Their ambits range from fiscal affairs and corporate governance to digital and regulatory policy, and from combating bribery of foreign governments to bolstering the effectiveness of international aid. The OECD’s agenda is broader than that of other global bodies such as the World Bank and the IMF, offering more opportunities for diverse players—rising powers and advanced market democracies alike—to find common ground.
OECD's "key partner" countries have been eager participants in joint activities. The five states — Brazil, China, India, Indonesia, and South Africa — have accepted most of the OECD's invitations to collaborate. (This collaboration can take the form of bodies, projects, and legal instruments, according to the OECD.)

![Graph showing opportunities to collaborate for OECD countries.]

*Figure compiled by Naomi Egel using OECD data from October 2014.*

Still, partnership is not the same as full membership. Key partners are not eligible to participate in all OECD activities, and they may pick and choose only among those they have been invited to join; importantly, invitations depend in part on their past record. Key partners also lack a formal role in OECD decision-making, which limits their normative and practical influence over the setting of standards. In addition, only OECD members may fully participate in OECD-affiliated organizations, including the International Energy Agency and the Nuclear Energy Agency.
Naturally, some key partners are more enthusiastic than others. Brazil and South Africa have indicated interest in eventual membership and involved themselves heavily in OECD activities. China and India, who are more wary of OECD efforts to dictate policies and standards, have been more selective and expressed little interest in full membership. These two countries also boycotted the first high-level meeting of the Global Partnership for Effective Development Cooperation, which the OECD organized in April 2014, citing their commitment to South–South cooperation and concerns that the outcome document would be binding and linked to other UN processes.

The final key partner, Indonesia, lags behind the other three countries in its acceptance of OECD projects and legal instruments. This is partly a reflection of the country’s relatively recent transition to democracy and its shorter history of collaborating with the OECD. Viewed from that perspective, officials in Jakarta claim that its level of engagement with the OECD is impressive. It is also intensifying.

STILL STANDING

The OECD’s key-partner strategy is a promising, pragmatic solution to integrating rising powers into a common corpus of international norms and standards. Rather than presenting outsiders with an all-or-nothing choice between full membership and being left out, it lets them pick and choose their levels of cooperation. This flexibility allows the OECD to treat each partner differently and to bring each along at a pace determined largely, though not entirely, by the country itself. And it encourages all parties to focus on the practical challenges of harmonization while preserving a sense of forward momentum—and leaving the door open for full membership at a later time.
To remain relevant in the twenty-first century, the OECD needs the cooperation of rising powers—arguably more so than those powers need the OECD. Finding the right balance between flexibility and cohesion will remain a constant challenge. Still, the OECD’s smart à la carte approach is arguably the most promising strategy adopted to date by any international organization, and it could serve as a good model for others to follow.

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