# KEY CEE MARKETS TAKE CRUCIAL STEP TOWARDS OECD MEMBERSHIP

## Bulgaria, Croatia and Romania move closer to joining unique global economic forum

### February 2022

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| **Issues & Sectors** | Global Economy, Finance, Investments, Public Policies |
| **Stakeholders** | OECD, EU, Bulgaria, Croatia, Romania |

Bulgaria, Croatia and Romania have together taken the long-awaited step in their bid to join the Organization for Economic Cooperation and Development, after the Council of the OECD decided on January 25th to begin accession talks with the governments of the three Central and Eastern European markets. The move opens up the possibility of including every regional EU member state in one of the world's most influential economic organizations.

OECD membership could bring a number of advantages for Bucharest, Sofia and Zagreb as they look to increase their convergence with the European Union and continue their post-pandemic recoveries, with their enhanced ability to attract more foreign investment expected to be the most significant impact.

Below, Aretera provides a brief overview on the importance of last week's OECD decision and its implications for the three CEE markets.

**This memo will cover:**

## Aiming To Join the Most Advanced Economies

On January 25th, the Council of the Organization for Economic Cooperation and Development (OECD) decided to formally open negotiations to discuss OECD membership with six candidate countries, including three from Central and Eastern Europe: Bulgaria, Croatia and Romania (alongside Argentina, Brazil and Peru).

The OECD Council decision comes after years of pre-accession discussions in the three CEE candidate countries and full membership is expected to bring a range of economic benefits. Established in 1961, when it replaced the Marshall Plan's Organization for European Economic Cooperation (OEEC) for North American and Western European economies, the OECD is today one of the most influential international economic organizations globally and is widely considered the "club of wealthy nations."

Headquartered in Paris and functioning on an inter-governmental basis through various committees, working groups and expert bodies led by its senior decision-making Council, the OECD has become the leading organization in shaping the global economic agenda and influencing economic policies in its member states and beyond. Over the years, it has been recognized as one of the most influential publishers of trustworthy economic data, as well as prominent forecasts and rankings such as the Better Life Index which compares the socio-economic well-being of its economies, or the SME Policy Index that assesses governmental policy frameworks in (non-OECD) emerging economies. A primary example of the latter is the OECD's SME Policy Index for the EU's Eastern Partnership, which allows the evaluation and comparison of six former USSR states – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine – in this regard.

The OECD currently has 38 member countries, connecting economies from the Americas, Europe, Asia and Australia. At present, eight of Central and Eastern Europe's 11 EU member states are members of the OECD. In 1995, the Czech Republic became the first CEE economy to join the organization from the region, with the three Baltic countries – Estonia, Latvia and Lithuania – having been admitted most recently, between 2016 and 2018.

Bulgaria, Croatia and Romania immediately welcomed the decision from the OECD Council and pledged to work with the international organization to reach membership status as soon as possible. However, the accession talks have no deadline, leaving it uncertain when the three countries could eventually join the organization. Past experience shows the accession process takes at least a year.

## Why OECD Membership Matters

The membership bids of the Bulgarian, Croatian and Romanian government come as all three CEE (and EU) economies are aiming not only to continue their post-pandemic recovery, but also to accelerate their convergence with the rest of the European bloc. Among others, both Bulgaria and Croatia have entered the Eurozone's waiting room in mid-2020, while Romania also hopes to introduce the Euro in due course.

Membership status in the leading intergovernmental economic organization of the Western hemisphere could bring a number of considerable benefits for the three CEE candidate countries:

- OECD membership is widely considered a prestigious recognition in terms of meeting high economic standards. Candidate countries could join an organization that includes the most advanced economies of the world. Member countries belong to an exclusive group that is characterized by a high level of exchange and cooperation with developed countries.

- Member countries become benchmark states that set quality standards in a number of policy areas, particularly trade and investment. By meeting international standards and completing the reviews of OECD delegations, OECD members are generally seen as more attractive targets for foreign investment. Past experience shows that foreign direct investment (FDI) increased in newly joined member economies shortly after they officially received membership.
- Receiving OECD membership also means availability of a greater variety of comparative macroeconomic data, as well as specific publications about a number of policy areas. Consequently, it allows investors to properly compare countries in a more efficient way when companies make decisions about FDI, while the organization's regular set of recommendations helps its members to improve their economies.
- Furthermore, being part of the organization includes a number of institutional advantages, such as networking and knowledge-sharing. Countries belonging to the OECD are often considered as adhering to 'best practice' in a number of public policies, as well as economic and business conditions. This particularly holds for taxation, foreign aid and anti-corruption practices, areas in which the OECD is particularly active.
- The accession process alone could prove beneficial for candidate countries, even before full membership is secured. This will include an in-depth evaluation of the economies of the candidate countries by various special committees, in order to recommend how to better align it with the OECD's standards and practices. Once these reviews are completed, policy changes may be requested from the candidate country that could cover a number of areas, ranging from trade and investment to anti-corruption efforts and climate change.

## At the Forefront of Global Corporate Taxation

Taking the current policy agenda of the organization into account, the OECD's global significance can hardly be overestimated. Under crucial OECD leadership, after years of intense negotiations around the globe, 136 countries – including the US, the UK, China and all EU countries – signed a detailed plan to overhaul international corporate tax regulations, leaving multinational corporations under a new global minimum tax rate of 15% from 2023. Although discussions about the details of implementation are ongoing (with Hungary, Poland and Estonia criticizing certain measures), this landmark deal will significantly impact the world's largest companies, many of which are crucial investors in Central & Eastern Europe, Russia and Central Asia.

Over the years, the OECD has proven particularly active in key areas such as taxation, anti-corruption practices and foreign aid distribution, with the organization having the potential to come up with important initiatives in areas covering the green and digital transition. While discussions about its details are still ongoing, OECD members last year also endorsed a plan to tax large digital companies based on where their services are sold, envisaging additional taxation changes for corporations in the sector going forward.

## Conclusion

The decision of the Council of the OECD could pave the way for Bulgaria, Croatia and Romania to join Central and Eastern Europe's other eight EU economies within the ranks of the global economic organization in the foreseeable future.

OECD membership will bring a number of advantages for the three CEE markets, including better networking and knowledge-sharing, evolving key areas of public policy, as well as being provided high-value policy recommendations to improve their economic and business environment. Above all, however, membership in the organization could ultimately raise the investment profile of these countries.

Over the years, the organization has become a key policy forum for shaping the global economic agenda that was most recently evidenced by an OECD-brokered deal on introducing a global minimum corporate tax rate of 15% from 2023. This landmark agreement will have considerable impacts on the region and the world economy, with the organization poised to discuss similarly important initiatives, particularly in digitalization.

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***If you would like to schedule a discussion of this paper, please contact:***
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