The Voice of OECD Business

The Business Contribution to the OECD Ministerial Council Meeting (MCM)

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1. The Economic Outlook and New Approaches to Economic Challenges

The lacklustre recovery

While there are some signs of improvement in major advanced economies[1], the revival of the global economy from the 2008-09 financial and economic crisis remains slow, uneven and fragile:

- *Slow*, as we note for example that the 2013 real GDP in the G20 is still 2% below the downside scenario projected in 2010.[2] Investment in the G20 remains 18% below pre-crisis trend, while global FDI flows stand 30% below their 2007 peak.[3,4] Global trade growth is estimated at 4.5% in 2014 – significantly less than the average rate of 5.4% of the past 20 years.[5]

- *Uneven*, as we witness continued high unemployment (7.6% on average across the OECD and 12% in the Euro area) and 15.7% youth unemployment across the OECD, as well as major regional disparities in economic recovery.[6]

- *Fragile,* as risks remain that inhibit market confidence and could destabilise global growth, such as structural weaknesses revealed by the 2013 slowdown across a number of emerging economies, as well as continued policy uncertainty.

Unleashing private sector-led growth

The world economy is embarking on a descent to lower potential growth unless urgent and decisive actions are taken.[7] The challenge facing policymakers is to unlock greater growth that is both sustainable and inclusive. The comprehensive OECD review of *New Approaches to Economic Challenges (NAEC)* should lead to a better understanding of our economies,

[1] OECD (2014) “Interim Economic Assessment”.
[2] IMF (2014) “Macroeconomic and Reform Priorities”, prepared by IMF Staff with inputs from the OECD and the World Bank.
[3] *Ibid*.
[4] OECD (2014) “FDI in Figures”, February 2014.
[5] IMF (2014) and WTO (2013) “International Trade and Market Access Data” (September 2013).
[6] OECD (2014) “Harmonised Unemployment Rates” (March 2014).
[7] IMF (2014) finds that the G20 is now on a lower potential growth path than pre-crisis.

particularly the trade-offs and synergies that may come with policy choices, and crucially should cement the policy foundations for economic recovery. At the heart of this effort, bold reforms that unleash private sector activity will be essential.[8]

A return to business confidence lies at the root of any recovery. Greater policy consistency and predictability are vital for companies to take risks and succeed in competitive markets, thereby reinvigorating trade, investment, innovation and job creation. BIAC looks to the OECD for leadership in thought, knowledge and action to advise governments on appropriate co-ordinated policies towards these objectives.

2. Resilient Economies and Inclusive Societies

Structural reforms are key for resilient economies…

Strong, resilient, inclusive growth and job creation call for ambitious and comprehensive structural reforms.[9] However, OECD analysis shows that the pace of actions across product and labour markets has slowed over the past two years and has been largely piecemeal.[10] For product and services markets, a slowdown in the pace of liberalisation has been witnessed over the past five years. BIAC points to the urgent need to reduce regulatory burdens in order to strengthen business ability to invest and generate resilient growth. Domestic and international private investment must be restored as a critical driving force for economies. In some countries, greater fiscal discipline is also needed to reduce excessive levels of government debt and thus generate more sustained growth.

In the case of the financial sector, a more co-ordinated approach to financial regulation is needed that is conducive to economic growth, financial stability and investment.[11] This should include improvements to SMEs' access to credit and financial services, larger enterprises' access to capital markets and hedging activities to manage their risks, and institutional investors' engagement in infrastructure and other long-term investments.

Business depends on stable, transparent, non-distortive tax frameworks at both domestic and international levels. The review of international tax rules currently being undertaken in the G20/OECD project on base erosion and profit shifting (BEPS) should encourage, not dampen, the potential for private sector growth and job creation through cross-border trade and investment. BIAC points to the extraordinary engagement and expertise of business in the BEPS process addressing a full range of complex issues concerning the international tax system. We believe this effort to provide structured and comprehensive input is vital for a successful and timely outcome of the BEPS project.

[8] BIAC (2014) "Reinforcing the case for private sector-led growth, investment and jobs: Discussion paper for the Consultation with the OECD Liaison Committee".
[9] We define herein "resilience" as the capacity of individuals, economies and societies to endure, adapt, and grow when faced with periods of stress and/or sudden shocks.
[10] OECD (2014) "Economic Policy Reform 2014: Going for Growth Interim Report", OECD Publishing.
[11] BIAC (2014) "The case for a more co-ordinated approach to financial regulation".

Innovation and entrepreneurship drive new growth, and we welcome current OECD analysis on young firms, which identifies their critical role in employment growth.[12] BIAC encourages continued OECD efforts to benchmark costs of regulation and administrative requirements, opportunities for public procurement, access to finance, access to raw materials, aspects of tax policy and labour market regulation. These issues are even more challenging for SMEs, which have been particularly held back by reduced access to finance and red tape in recent years.[13]

Leveraging the benefits of Information Communications Technology (ICT) and the Internet as critical productivity tools and platforms for innovation, entrepreneurship and lifelong learning should be a central element of policies across sectors.[14] The OECD has highlighted the importance of Global Value Chains (GVCs) and Knowledge Based Capital (KBC) for the productivity of our economies; in this context, governments should avoid restrictions on cross-border data flows that negate the competitive advantages that technology can deliver to business and consumers.

…and also for inclusive societies

There are several synergies between the impacts of structural reforms on growth and inequality which embody the concept of "inclusive growth". New OECD analysis finds that many structural reforms such as lowering labour taxation, promoting active labour market policies, and reducing regulatory barriers to domestic competition, trade and FDI, are found to lift incomes of the lower middle class in the long-term and thus help to narrow inequality in disposable incomes.[15] BIAC asserts that it is critical for policymakers to develop policies that provide people with equality of opportunities, rather than equality of outcomes. At the same time, it is critical for OECD countries to ensure that their social security programmes are sustainable.

Addressing the challenge of inequality depends to a large extent on increasing the employability and social mobility of individuals. In addition to labour market reforms, access for all groups to quality education is critical, from early childhood throughout adult life. BIAC emphasises the need for improvements in school curricula to increase their relevance to labour market needs, better teacher training and career professionalization, strengthening of secondary and post-secondary vocational education including to broaden the scope and quality of apprenticeships, and adequate assessment of learning outcomes. In response to high youth unemployment in many economies, BIAC and the International Organisation of Employers (IOE) launched the *Global Apprenticeships Network (GAN)*.[16] BIAC also calls for

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[12] OECD (forthcoming), "The Dynamics of Employment Growth: New Evidence from 18 Countries", *STI Policy Paper*, OECD Publishing.
[13] OECD (2013), *OECD Science, Technology and Industry Scoreboard 2013: Innovation for Growth*, OECD Publishing.
[14] Investing in the full range of knowledge-based capital (such as intellectual property, R&D and skills) has positive linkages to productivity. See OECD (2013), *Supporting Investment in Knowledge Capital, Growth and Innovation*, OECD Publishing.
[15] OECD (forthcoming) "Structural Policies and Income Distribution".
[16] See: http://www.ioe-emp.org/fileadmin/ioe_documents/publications/Policy%20Areas/youth_employment/EN/_2013-10-01__GAN_flyer__final_.pdf

action on gender equality and is working to advance business leadership on these issues through a BIAC project on women's entrepreneurship.[17]

Health is fundamental to support employment, mobility and gender equality. Healthcare is also vital for a productive labour force, where business advocates policies for behavioural changes that enhance prevention and health promotion over the long-term, rather than relying on short-term quick-fixes. The rise of non-communicable diseases and issues related to ageing – including accelerating the fight against Alzheimer's disease – require OECD governments to address health horizontally across education, infrastructure, and long-term prevention policies.

Promoting greener growth

Through its Green Growth Strategy, the OECD has made an important contribution to fostering policy coherence among different disciplines and increasing our understanding how "green" and "growth" can go together. In BIAC's view, the OECD plays an important role in helping countries to pursue a long-term strategy built around stimulating innovation, new solutions and an active role of business. The OECD can add real value by convincing governments of the necessity to foster practical, cost-effective and coherent policy measures which should be tailored to national and regional contexts, as well as dialogue within and between national governments, the business community and other key stakeholders.

Creating the right incentives for business to invest is essential to making green growth deliver. Success will depend on co-operation across sectors and borders, but also on further technology development and diffusion, fostering skills, modernising infrastructure, and promoting resource-efficient processes in OECD countries and beyond. BIAC calls on Ministers to recognise the importance of fostering conditions, which ensure that the necessary investments for greening our economies and addressing global challenges will come forward. We also call upon the OECD to continue its fact-based analysis of the economic effectiveness and environmental efficiency of policy options to address climate change and foster global dialogue to help achieve a successful outcome at the COP 21 climate conference in 2015.

3. Global Resilience and Development

The private sector's role in development

As for OECD countries, the sustainable, inclusive growth of emerging and developing economies necessitates reforms that facilitate private sector investment, trade, innovation and job creation. Companies are challenged to operate in a global policy environment that is sometimes hard to predict and in markets that are often impeded by barriers and excessive regulation. Such obstacles and inconsistencies are detrimental to resilient growth and development.

[17] For further information on the BIAC Gender Survey and project on women's entrepreneurship, see: http://www.biac.org/news/2013/131004_BIAC_launches_Survey_on_Gender.htm

In order for the private sector to thrive and lead development, bold and co-ordinated reforms are needed that increase the competitiveness of domestic industries to engage in global value chains, liberalise markets for trade and investment, incentivise firms and individuals to transit from informal to formal economies, encourage private and public investment in infrastructure (such as water, energy, transport, health care, and telecommunications), combat corruption, improve governance and the rule of law, strengthen human capital, and foster innovation, among others.[18] Governments also need to invest and engage in public-private partnerships to stimulate much-needed private sector-led economic growth.

A key role for the OECD in the global development agenda

BIAC looks to governments to make good use of OECD instruments, good policy practices and knowledge for the success of their economies – OECD, emerging and developing alike – in order to foster an increasingly level global playing field for private sector-led development. We encourage further steps to raise awareness and to promote adherence to the *OECD Guidelines for Multinational Enterprises,* recognising that an open investment environment and responsible business conduct go hand-in-hand. BIAC looks forward to making a constructive contribution to the OECD Global Forum on Responsible Business Conduct in June 2014. We also support additional adherence and effective implementation of the *OECD Anti-Bribery Convention* and its related instruments*,* increasing public-private co-operation, as well as fostering and rewarding companies' efforts in tackling corruption.

The OECD's regional initiatives, together with its continued engagement with major emerging economies ("Key Partners"), should continue with this key objective in mind. BIAC welcomes the launch of the OECD Southeast Asia Regional Programme.[19]

Specifically, the OECD's work on "policy coherence for development" should be strengthened to serve as a central narrative not only in the OECD Development Strategy, but also in the OECD's contributions to the international processes in shaping a post-2015 development framework. Due attention should also be paid to the use of official development assistance (ODA) in leveraging private investment, and governments should make greater use of officially-supported guarantees in order to catalyse private investment.

4. Strengthening the Multilateral Trade System – Global Value Chains

Bali ushers in a new trade landscape

Bali gives new hope to multilateralism: it shows trade ministers are committed to improving the way goods and services cross borders to support economic growth. A timely implementation of the Bali package is now paramount to ensure trade negotiations are in tandem with trade practice. Implementation of the Bali agreement also provides the opportunity to increase support for capacity-building in least developed countries. Commending the outcomes from Bali, the international business community calls on

[18] BIAC (2013) "Preliminary BIAC Perspectives for the Post-2015 Development Agenda".
[19] BIAC and its Indonesian Observer, KADIN, submitted a joint business statement in contribution to the first OECD Southeast Asia Regional Forum in March 2014.

governments to engage in policies that will further support the multilateral trading system. To address the many challenges on trade, governments have an opportunity to turn insights from OECD's trailblazing work on Global Value Chains (GVCs) into policies that will ensure international trade lives up to its potential and brings benefits to our economies in the coming years.

GVCs as the focus of multilateralism

BIAC believes trade should not be an end goal in itself, but a means towards growth, job creation, and long-term prosperity in all economies. Over the past decade, trade agreements have yielded provisions that enable value creation and facilitate production across borders. The next wave of multilateralism – focusing less on tariffs than on GVCs – carries several policy implications that require careful consideration and further exploration. This shift is crucial: any barriers to trade, in both goods and services, will lead to higher costs and will lower productivity for businesses and welfare for societies. The reach of GVCs and productivity depend both on open markets, which in turn require a cohesive policy framework. In this regard, business efforts in identifying areas for increased co-operation on regulatory frameworks and standard-setting should be supported by OECD governments and their respective agencies.

Addressing the changing nature of protectionism

Many OECD and non-OECD countries are currently involved in negotiations on bilateral or regional trade agreements (RTA), focusing on so-called "deep provisions'' – negotiations on how the production of goods and services can be facilitated through capital movement, investment treaties, movement of business persons, and procurement, among others. In parallel, protectionist arguments have emerged more forcefully – and in more subtle ways – as trade agreements go beyond tariffs. Many of these trends coincide with a perception that further liberalization will undermine environmental protection, labour rights, consumer protection, or other hard-won societal advances. Local content requirements imposed on foreign companies, unfair advantages granted to state-owned enterprises, public procurement rules that stifle competition, and other such non-tariff measures show that protectionism is both costly and harmful to societies and businesses.[20] Not only do protectionist policies ignore the degree of technological advance and interconnectedness of our economies, they also threaten long-term growth and stability.

OECD's role: shed light into how different trade initiatives can support open markets

BIAC is convinced the OECD can further strengthen the multilateral trading system by producing new evidence on how bilateral, regional and plurilateral trade agreements (PTAs) can facilitate trade and pave the way for multilateralism. OECD's policy guidance is critical to understand how regionalism and multilateralism can best interact. Open questions remain on the types of provisions that could be multilateralised, and how RTAs are affecting decisions of companies to invest and allocate resources in markets across the globe. With the increasing number of divergent preferential trade agreements, the OECD could help develop

[20] The OECD Services Trade Restrictiveness Index (STRI) should encourage governments to address many of these barriers.

high-level standards and disciplines, including non-discriminatory rules, for PTAs that yield maximum market access. Through its fact-based analysis, OECD will play a crucial role to identify the elements that FTAs need to take into account to foster the efficient operation of GVCs, increase regulatory co-operation, and provide a basis to improve trade talks at multilateral fora.

Policies for international private investment

For many years, the OECD has been at the forefront of multilateral efforts to promote international investment. Furthering this work is critical, as restrictive foreign investment regulation has direct consequences for long-term economic growth. As a complement to multilateral guidance, bilateral investment treaties (BITs) offer an important framework and safeguard for the investment decisions of companies. We call upon the OECD to further step up its work in highlighting the need to eliminate investment protectionism, ensure protection of investment, and favour the development of attractive investment frameworks in countries around the world. In this context, the OECD Policy Framework for Investment (PFI) is an important tool for enhancing conditions for private sector investment in developing markets, and BIAC seeks to contribute actively to the process for updating the PFI before the 2015 MCM. Recognising the growing role of state-owned enterprises (SOEs), we also welcome that Ministers will reflect on the concerns of competitive neutrality and steps to address them. Building on previous OECD analysis, BIAC strongly supports an ambitious OECD work programme to help ensure competitive neutrality, which is a key issue for the OECD business community.

5. Conclusions

Policymakers across the OECD, emerging and developing countries are all pressed to improve the resilience and inclusiveness of their economies in the face of an uneven and uncertain global economy. In order to do so, there is a compelling need for bold and consistent reforms conducive to private sector-led growth. To this end, business recommends:

- Structural reforms for more growth and jobs, and enhancing conditions for private sector investment
- Addressing trade and investment protectionism, and strengthening the multilateral trading system
- Strengthening the resilience of economies through education, skills, and gender equality
- Promoting greener growth through innovation and investment
- Unlocking the potential of the private sector for development

The OECD is in a unique position to support this objective by promoting good economic governance globally. As close dialogue with the private sector is vital for the design and implementation of reforms, BIAC remains committed to our close co-operation with the OECD.