



**The Voice of OECD
Business**

**REINFORCING THE CASE FOR PRIVATE
SECTOR-LED GROWTH, INVESTMENT
AND JOBS**

*Discussion Paper for the Consultation
with the OECD Liaison Committee*

The Business and Industry Advisory Committee to the OECD (BIAC) represents national business, industry and employer associations from OECD member and observer countries, as well as international sector-specific associate experts. The OECD is the world's foremost purveyor of cross-cutting statistics and fact-based policy recommendations.

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REINFORCING THE CASE FOR PRIVATE SECTOR-LED GROWTH, INVESTMENT AND JOBS

EXECUTIVE SUMMARY

Economic recovery across the globe remains uneven and continues to be exposed to considerable risk. Business confidence remains guarded. While some economies have recently shown signs of improvement, the structural deficiencies exposed by the financial crisis persist.

Companies are challenged to navigate in a policy environment that is sometimes hard to predict and in markets that are often impeded by barriers and excessive regulation. Many governments are struggling to understand the lessons of the recent economic crisis and to identify and implement the necessary reforms. High unemployment, in particular among young people, poses a threat to the integrity of our economies and societies. The comprehensive OECD review of *New Approaches to Economic Challenges* should lead to a better understanding of our economies and the trade-offs that may come with policy choices.

Greater policy consistency and economic predictability are vital for companies to take risks and succeed in competitive markets. Bold and coherent structural reforms in product and labour markets are needed to encourage companies to invest, innovate, and create more employment. Financial market regulation must be well co-ordinated and proportional to enable companies of all sizes to finance more investment and innovation. The international and domestic tax environments must be predictable and levels of taxation must be consistent with policies that encourage investment. The cost of regulation must be considered in all decisions concerning the functioning of markets.

Global investment and trade, major driving forces for our economies, are far below their potential. The recent agreement of Trade Ministers in Bali is a much needed boost for the multilateral trading system. But much more needs to be done to open markets and to avoid market fragmentation, to facilitate trade, and to convince governments to refrain from protectionist measures. The importance of competitive neutrality and open markets to economic growth and employment creation must continue to have the attention of policy makers.

The business community looks to the OECD for leadership in thought, knowledge and action to advise governments on appropriate policies that will unleash the potential for growth across their

economies. Many important projects are underway, including work on global value chains, investment, taxation, education and skills, employment and governance. It is of great value for business that these OECD activities increasingly include emerging markets and potential new member countries. The role of the OECD as a knowledge partner for the G20 is critical. We encourage the OECD to continue deepening this outreach for the benefit of a level playing field in global markets and for the resilience of our economies.

For 2014 and beyond, BIAC recommends that the OECD and governments should focus on:

- Balanced macro-economic policies and bold structural reforms
- A comprehensive investment agenda
- The value of multilateral trade and open markets
- Policies that encourage job creation and skills

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THE CONTEXT

1. Since the onset of the 2008-09 global financial and economic crisis, BIAC's message has been clear: private sector-led growth is essential for a strong and sustained recovery of our economies. We continue to emphasise the need for consistent economic policies to instill confidence and to encourage companies to invest, innovate and create more employment.
2. For many years, the OECD has undertaken important work to reach out to emerging markets and new member countries. The role of the OECD as a knowledge partner for the G20 is of particular value for the functioning of markets and global trade. The many useful legal instruments that the OECD develops and the evidence-based policy advice it offers to governments can contribute to a more level global playing field in markets and can help companies to make new investment decisions.¹
3. BIAC, with the support of its members, has also furthered its efforts to arrive at a better understanding of markets and the conditions necessary for companies to create more growth and employment. A number of projects have been launched concerning good economic governance.² These are designed to complement OECD work in areas such as taxation, skills, gender and youth unemployment, among others.
4. Despite these efforts, OECD analysis suggests that the pace of structural reforms in many member countries has been slowing – and a considerable number of countries appear to have even moved away from market-friendly regulation in recent years. A late 2012 BIAC survey³ echoes this disconcerting observation: only 2% of the OECD's 2011 *Going for Growth* recommendations to governments were perceived by business respondents to have been fully implemented and 30% not implemented at all.

¹ We note for example China's adherence to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, Malaysia's joining of the OECD system for the Mutual Acceptance of Data in the Assessment of Chemicals, Costa Rica's recent adherence to the OECD Declaration on International Investment and Multinational Guidelines, the OECD's work programme on Base Erosion and Profit Shifting (BEPS), ground-breaking OECD analysis of global value chains and trade in value-added and the OECD Action Plan for Youth.

² Examples include: the BIAC Tax Principles and BIAC Best Practices for Engaging with Tax Authorities in Developing Countries (September 2013), the BIAC Education Committee Survey (June 2013), and the BIAC survey on gender equality, launched in October 2013.

³ "Private Sector Growth in 2013: BIAC Survey on Priorities for Structural Reforms and Implementation", December 2012.

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5. In light of the major challenges facing business, it is evident that there is a pressing need for bold reforms that improve private sector-led growth:
- There is clearly potential for greater domestic and foreign private investment. Recent data shows that global foreign direct investment (FDI) fell by nearly a third in the second quarter of 2013, with international investors pulling more money out than they invested across a record number of OECD countries.⁴
 - Stronger global trade is also urgently needed, with estimated growth rates at 2.5% in 2013 and 4.5% in 2014, and significantly less than the average rate of 5.4% over the past 20 years.⁵
 - Prolonged periods of low business investment have profound implications for employment. Hiring is one of the largest investment decisions for companies, and without the business confidence to invest, unemployment remains high at nearly 8% on average across the OECD and 12% in the Euro area. More worryingly, youth unemployment stands at 16% across the OECD.⁶
 - Many structural weaknesses were revealed by a slowdown in 2013 across a number of emerging markets, with consequences for cross-border investment and trade. For example, in China, credit expansion has been rapid, raising fears about the sustainability of its current economic growth, while underlying structural issues call for significant reform. The large informal sectors of many emerging and developing economies pose a serious impediment to their growth and undermine their countries' tax bases.
6. The drag effect of these economic developments on business will remain considerable unless decisive action is taken. Companies ultimately need consistent policies that foster the greater economic predictability that is required to confidently take risks and make investments in competitive markets.

⁴ OECD FDI in Figures, October 2013.

⁵ WTO, International Trade and Market Access Data, September 2013.

⁶ OECD Harmonised Unemployment Rates, October 2013.

ACTIONS FOR ECONOMIC GROWTH

7. A sustained economic recovery driven by the private sector requires consistent policy frameworks, good governance and regulation that does not impede the efficiency of markets.
8. As stated by BIAC to OECD Ministers in May 2013⁷, fiscal discipline and private sector-driven growth can work hand-in-hand: this means consolidating public budgets where needed in a way that minimises impacts on future growth, as well as implementing structural reforms. In particular, this should involve shrinking public administration structures and reducing the unfair advantages accrued to numerous state-owned enterprises (SOEs). This should also involve simplifying the decision making processes and freeing up resources that could be allocated to growth-oriented measures such as investment in public infrastructure.
9. Regulatory burdens in countries should be reduced in order to remove unnecessary hurdles and strengthen business confidence and ability to invest and generate growth.⁸ In the case of the financial sector, uncoordinated national or regional measures that diverge from the internationally-agreed Basel III financial regulatory programme could collectively distort the availability of financial services to businesses, thereby undermining economic recovery.
10. More than ever, business depends on a predictable tax environment. Ensuring stable, transparent, non-distortive frameworks for taxation at both domestic and international levels is essential for attracting investment. Business looks to the OECD as the standard setter for international tax principles.⁹ Recognising that the international tax system has not kept pace with global business models, BIAC views the OECD project on *Base Erosion and Profits Shifting* (BEPS), mandated by the G20, as an opportunity to restore public and private sector confidence in the corporate taxation system. Regulatory co-ordination also underpins effective international co-operation. Importantly, this contributes to greater certainty and confidence in the international tax system, benefiting both governments and business alike.

⁷ BIAC Statement to the OECD Ministerial Council Meeting, 29-30 May 2013.

⁸ "Private Sector Growth in 2013: BIAC Survey on Priorities for Structural Reforms and Implementation", December 2012.

⁹ The OECD Model Tax Convention and Transfer Pricing Guidelines, and the new VAT Guidelines, are the basis for international tax policy that supports the growth and competitiveness of open markets.

BIAC calls on the OECD to:

- ***Advise governments to step-up their structural reforms.*** The OECD should engage in tailored support to governments whose reform agendas are lagging, while also seeking the expertise of national business associations in order to support countries' implementation efforts.¹⁰ BIAC calls for policies that encourage investment, business creation, new research and innovation.
- ***Support proposed OECD work for measuring the cost of regulation for business.*** This should include the costs of diverging regulatory frameworks between countries. OECD work in this area would be particularly useful to develop more effective and higher quality regulation.
- ***Work towards a more balanced and co-ordinated approach to financial regulation.*** We recommend that the OECD focus on the governance of financial regulation, in co-operation with the Financial Stability Board (FSB), to improve co-ordination and undertake analysis of regulatory and economic approaches for financial regulation that is conducive to economic growth, financial stability and returns on investment. Such analysis should be a main feature of the *New Approaches to Economic Challenges* (NAEC) initiative. The OECD should undertake this work through collaboration between the Working Party on SMEs and Entrepreneurs, the Committee on Financial Markets, and other relevant bodies.
- ***Ensure that OECD tax standards and tax policy frameworks support long-term investment and growth.*** We urge the OECD to continue close engagement with business in the BEPS project and other key OECD/G20 tax policy initiatives, including the development of a common reporting standard for the automatic exchange of information. It is critical that the analytical review of international tax rules to bring them up-to-date does not dampen the potential for private sector growth and job creation through cross-border trade and investment. BIAC believes this will only be possible with regular and constructive business involvement.
- ***Increase OECD work on entrepreneurship.*** We encourage the OECD to undertake proposed work on benchmarking countries' policies for SMEs and start-ups, which should include analysis of the costs of regulation and administrative requirements, opportunities for public procurement, access to finance, aspects of tax policy and labour market regulation, and more. Such benchmarking could generate peer pressure among countries, incite reforms

¹⁰ A BIAC survey due to be released later in 2014 will seek to contribute to OECD efforts in this area.

conducive to SME activity, and seek to provide advice to countries on reducing the size of their informal sectors.

- ***Ensure the revised OECD Principles on Corporate Governance highlight the importance of value creation.*** Good corporate governance is important for ensuring the long-term sustainability of businesses and the stability of capital markets. The revised Principles should therefore encourage a long-term perspective. Recognising the need to update the Principles to ensure they remain relevant and bearing in mind the importance of solid overarching principles, the consultation process should also give due regard to the need for flexibility to address the unique and dynamic needs of business to achieve effective governance.

OPEN AND COMPETITIVE MARKETS

11. Despite rapid globalisation and the growing importance of cross-border value chains, BIAC still observes a significant proliferation of protectionist barriers for trade and investment in many markets. This development has serious and adverse consequences for the productivity and growth of our economies. Economic uncertainties and downturns have encouraged governments to favour domestic suppliers and to introduce protectionist measures. This trend must be reversed if our economies are to realise their potential for more growth and employment.
12. The OECD is at the helm of multilateral efforts to promote international investment. Furthering this work is critical, as restrictive foreign investment regulation is still a reality. Due to the dramatic drop in FDI quoted earlier, long-term economic growth in OECD and non-OECD countries is likely to suffer. Governments should eliminate investment protectionism and favour the development of attractive investment frameworks in countries around the world. As a complement to multilateral guidance, bilateral investment treaties (BITs) offer an important framework and safeguard for the investment decisions of companies.
13. Attracting private investment is particularly crucial for spurring development and should be an important focus of the post-2015 development agenda. The *OECD Policy Framework for Investment* is an important tool for enhancing conditions for private sector investment in

developing markets. We also recognise the importance of OECD work in the area of long-term investment and we look forward to engaging more closely in this project. For public procurement, having effective and transparent mechanisms that allow for competitive neutrality among bidders would increase access to markets and improve the procurement functions. Greater use of public-private partnerships can also help to attract private investment, particularly for infrastructure development. The recently adopted *OECD Principles on Effective Public Investment* and the *G20-OECD High-level Principles of Long-term Financing by Institutional Investors* provide important guidance for investment in public infrastructure.

14. Bilateral and regional agreements can drive forward the urgently needed reforms in opening trade and investment for growth and jobs. They promote global trade liberalisation and develop rules and regulatory solutions towards multilateral agreements. The growing interrelations in trade between goods, services and investments represent a key area of work in the future.
15. Barriers to trade in different forms continue to emerge and unnecessarily reduce efficiency of the supply chain across different business sectors. We are encouraged by OECD analysis of the economic consequences of protectionist policies. The OECD projects on trade facilitation, SOEs, the services trade restrictiveness index, forced localisation, raw materials and regulatory co-operation provide important evidence for the role of open trade in generating economic growth.
16. The OECD work on Global Value Chains (GVCs) is fundamental for understanding open and competitive markets. Governments should leverage the potential GVCs offer for economic growth through access to networks, global markets, capital, technology, and know-how. The efficient allocation of resources is of vital importance to business: any barriers will lead to higher costs for goods and services and will lower global trade, productivity and welfare for businesses and the societies in which they operate.
17. Open and competitive markets depend on actions that eliminate corruption. With the *OECD Anti-Bribery Convention* and its related instruments, the OECD provides an advanced standard which should be duly promoted and monitored.
18. The *OECD Guidelines for Multinational Enterprises*, updated and strengthened in 2011, are an important and comprehensive reference for companies engaged in global markets to

promote responsible business conduct. The Guidelines are the internationally-accepted voluntary standard for business and are important for a global level playing field.

BIAC calls on the OECD to:

- ***Launch an ambitious, cross-cutting investment agenda.*** We call for action to further strengthen the OECD's role in the international debate on freedom of investment, and embark on a proactive investment programme to help ensure that markets in member and non-member nations are kept open for FDI. In this context, we encourage the OECD to contribute to an analysis of the positive effects of investment in home and host countries and the issues that are at stake. We call upon the OECD to carry out fact-based analysis on the important role of clear Investor-State Dispute Settlement (ISDS) provisions and BITs in providing protection for investments in uncertain environments. BIAC sees an important function for the OECD to consider cases in which the freedom of investment seems to be at risk.
- ***Examine the consequences of protectionist policies.*** Forced localisation requirements, domestic requirements for procurement tenders and unfair competition with SOEs or companies which are at an advantaged competitive position due to their access to subsidies or funding under no commercial conditions, are a barrier for trade and ultimately compromise the competitiveness of those who impose them.
- ***Deepen the understanding of Global Value Chains.*** The OECD should continue and expand its groundbreaking work on GVCs to further the understanding of the importance of open markets for the success of our economies. BIAC suggests that the OECD (in co-operation with the WTO and other relevant institutions) consider further evidence-based analysis upon which to draw the relevant policy conclusions for a post-Bali trade agenda, including the effects of diverging regulatory frameworks.
- ***Recognise the adverse effects and implications of cross-border data flow restrictions on trade.*** In today's interconnected world, more and more enterprises rely on technology and data to do business. However, cross-border data flow restrictions and other related policies have raised the costs of operations or prevented the private sector from operating in territories where these policies are too restrictive.
- ***Identify non-tariff trade barriers – including regulations that benefit local industries unfairly.*** The levels and dispersion of non-tariff measures (NTMs) pose a major challenge to the international business community. The introduction of new measures such as local content

requirements, with the intention of benefiting the local industry, threatens the ability of the international businesses to undertake long-term investments that favour both host countries and investors.

- ***Make private sector investment a priority for the post-2015 development agenda.*** The *OECD Strategy for Development and Global Partnership for Effective Development Co-operation* should examine which conditions are needed to kindle private sector-led growth in developing countries, recognising that the private sector will be instrumental to all of the post-2015 goals. Due attention should also be paid to the use of official development assistance (ODA) in leveraging private investment, where the OECD Development Assistance Committee (DAC) should incorporate guarantees into the ODA definition currently under review. Close co-operation between the OECD DAC and the OECD Working Party on Export Credits and Credit Guarantees should be encouraged.
- ***Establish a high-level, cross-committee policy review on SOEs.*** BIAAC strongly supports the current in-depth OECD work across committees on SOEs, which should be accelerated and deepened in member and key non-member countries. It is critical for the OECD to analyse the implications of SOEs for markets and promote level playing fields between state enterprises and private sector entities. Given the cross-cutting nature of SOEs, OECD should co-ordinate policy work conducted in the Corporate Governance, Competition, Trade, and Investment Committees to formulate co-ordinated recommendations to policymakers.
- ***Foster global co-operation and action against bribery and corruption.*** BIAAC calls for enhanced global efforts to implement the *OECD Anti-Bribery Convention* and increase dialogue between the public and private sector in fighting corruption (collective action). BIAAC also underlines the importance of a well-functioning legal and judicial system, as well as fostering and rewarding the compliance efforts of companies.
- ***Promote adherence to the OECD Guidelines for Multinational Enterprises in non-OECD countries.*** Underlining the importance of a global level playing field, we encourage further steps to raise awareness and to promote adherence to the *OECD Guidelines for Multinational Enterprises* in non-OECD countries.

JOBS AND SKILLS

19. The business community remains concerned about persistently high unemployment in many economies, particularly among young people, and the consequences of long-term unemployment. The resulting erosion of skills, social exclusion and poverty risk creating long-term negative impacts on individuals, economies and society.
20. Competitive economies require that employment strategies be comprehensive and provide incentives and opportunities for all who seek to engage in work. Employment strategies must primarily support job creation, activate people into work, enhance employability and instill confidence for business to hire. BIAC members emphasise that despite efforts in many countries, further labour market reform is urgently needed to support sustainable job creation.
21. Structural reforms should aim to support flexibility in labour markets, including contractual arrangements which enhance the ability for companies and individuals to adapt to changes and opportunities in today's workplace. Flexibility in labour markets should be balanced with appropriate employment and social benefit systems that serve to support and maximise work opportunities for all groups. Flexibility is a critical factor for competitiveness, though at the same time it should be complemented with policies that promote education and training, labour market mobility, social security and public services infrastructure. Importantly in this respect, regulatory frameworks, including employment protection and tax and benefit systems, critically must provide incentives and not disincentives to employment, entrepreneurship and enterprise growth. The structural reform of labour markets together with fiscal and social benefit systems that provide an incentive for job creation are also critical to reducing informality in our economies.
22. Efficient and effective public services including healthcare, education, public transportation and infrastructure are equally essential to supporting employment, mobility and gender equality. Healthcare is 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.

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23. BIAC commends OECD work on employment. The *OECD Jobs Strategy* continues to provide an important framework for fact-based analysis on employment policy and developments in labour markets.
 24. As demonstrated by OECD research, addressing the challenges of unemployment and inequality depends to a large extent on increasing the employability of individuals. Access for all groups to quality education, from early childhood education through to adult education, is a critical factor for lifelong employability in OECD, emerging and developing economies alike, with important implications for productivity and innovation. Education and training based on a lifecycle approach to learning as emphasised by the *OECD Skills Strategy* is critical.
 25. We value the *OECD Survey of Adult Skills*¹¹: this work provides important information on the skills landscape and will provide an improved basis for communication by all stakeholders on the supply and demand for skills. In the age of globalisation, skills and competences develop best in international learning communities with interdisciplinary, flexible learning pathways. New tools for learning are being developed in higher education where there are also new opportunities for business development and entrepreneurship.
 26. Increasing overall employment and the employability of all groups, including youth, is a priority for business. BIAC is carrying out a number of its own initiatives towards this objective, including the BIAC/IOE Global Apprenticeship Network, the BIAC Gender Survey and project on women's entrepreneurship, and the BIAC Education Survey.¹²

BIAC calls on the OECD to:

- ***Continue fact-based analysis on employment and social policy in order to address employment challenges in the wake of the global economic crisis.*** We commend continued OECD leadership in the context of the G20 Labour Ministerial process and on issues related to job creation and employment across the OECD.

¹¹ Part of the OECD Programme for the International Assessment of Adult Competencies (PIAAC).

¹² For further information on the BIAC/IOE Global Apprenticeship Network, see: http://www.ioe-emp.org/fileadmin/ioe_documents/publications/Policy%20Areas/youth_employment/EN/_2013-10-01_GAN_flyer_final_.pdf

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

For further information on the BIAC Education Survey, see: http://www.biac.org/statements/edu/130605_BIAC_Education_Survey_PREMIUM.pdf

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- ***Engage business in the OECD Action Plan on Youth and ensure that work on youth employment supports job creation.*** BIAC welcomes the *OECD Action Plan on Youth* and looks forward to engaging with the OECD on practical initiatives to support and enhance training and work opportunities for youth.
 - ***Deepen the understanding of gender equality.*** BIAC is supporting the OECD work on gender, and is responding to the May 2013 *OECD Council Recommendation on Gender Equality* with its phase II project on women's entrepreneurship. This will provide business evidence on initiatives in OECD and developing countries, including the organisation of a workshop and developing a business report in 2014.
 - ***Push for closer co-operation between governments, education institutions and employers.*** As emphasised in the BIAC Education Survey, greater dialogue with employers in education policymaking should be a priority across all forms of education. Engaging employers in education reform is crucial for all parties to understand what skills will be required for individuals of any working age to become as employable as possible. The *2014 OECD Skills Outlook* and *OECD Education Policy Outlook* will provide other important references for governments and business in this key area of concern.
 - ***Examine new learning environments and international platforms in higher education.*** Following the *2008 OECD Thematic Review of Tertiary Education*, further work should be carried out on skills development in higher education, including new tools for lifelong learning, international and interdisciplinary programmes, and cost-effective learning processes.

CONCLUSIONS

27. Policymakers across the OECD, emerging and developing countries alike are all pressed to improve the resilience of their economies in the face of an uneven and uncertain global economy. In order to do so, there is a compelling need for reforms conducive to private sector-led growth. This should be an overarching priority for the OECD Ministerial Council Meeting in 2014 as well as the G20 Australian Presidency.
28. The OECD's unparalleled leadership in advising and supporting countries' reform agendas will be essential for sparking private sector-led growth. Specifically, this calls for measures to reduce the regulatory burden facing businesses, promote access to financial services, foster entrepreneurship and innovation, build stable and non-distortive tax frameworks, commit to open and competitive markets for trade and investment on a level playing field, infuse more flexibility in labour markets and strengthen skills across all ages, among many other related reform priorities.
29. The OECD is in a unique position to promote good economic governance globally. BIAC sees *New Approaches to Economic Challenges* (NAEC) as an important review that, in analysing the trade-offs that may come with policy choices, should lead to policies that will encourage growth as a condition and as a catalyst for employment, the improvement of material living standards, and better lives.
30. As reflected throughout the recommendations in this paper, maintaining close dialogue with the private sector is vital for the design and implementation of reforms that will enable the business activities that are at the heart of our economies and societies. BIAC remains committed to our close co-operation with the OECD with the objective to reinforce the urgent case for private sector-led growth, investment and job creation.

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