BIAC THE VOICE OF BUSINESS AT THE OECD

19 January 2015

# Investment, Innovation, and Entrepreneurship—A Growth Agenda for 2015 (and beyond)

## BIAC Statement to OECD Liaison Committee Meeting

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.

## INTRODUCTION

While there are signs of improvement in some markets, policymakers and businesses continue to be challenged to lead our economies on a path to sustainable growth. For some years now, BIAC has advocated for structural reforms that unleash the potential of the private sector to drive growth. Such reforms are needed more than ever as we prepare for lower than expected growth in 2015 (estimates suggest 3.4 to 3.8% GDP growth),[1] lacklustre performance of world trade growth (still well below the 1990-2007 average), sub-par investment, and struggling recovery in many labor markets.[2] We therefore focus this year's BIAC consultation with Ambassadors on selected, but fundamental, elements of an agenda for growth across OECD countries and globally.

**Trust** is a key concern for this agenda, as also identified by the OECD Ministerial Council Meetings in 2013 and 2014. Much can be done to strengthen trust in the fundamental virtues of open and competitive markets, investment, innovation, and entrepreneurship, hand-in-hand with responsible business conduct. Business depends on governments to honor their commitments for consistent economic policies, good governance, and measures that will strengthen the productive potential of our economies. Worryingly, however, OECD research points to a slowdown in the pace of OECD countries' implementation of structural reforms over the past two years.[3]

Economies rely on private sector business activities and competitive markets. With the right conditions in place, **business can be a dynamic force for the success of our economies and the wellbeing of citizens,** investing in people, jobs, technologies and infrastructures, serving billions of consumers daily, and paying taxes that supply government spending and support public services.

Most fundamentally, we urge the OECD to **build a compelling case for growth.** At their summit in Brisbane, the G20 have put structural reforms squarely at the center of the global growth agenda.[4] Using the lessons learned and working practices from the *New Approaches to Economic Challenges* (NAEC) process, the OECD is well placed to promote structural reforms conducive to strong and sustainable growth, with opportunities for all individuals to participate and prosper in economies and societies.

Recognizing that the global recovery is more accurately a patchwork of different country-specific economic pathways, it is crucial that the OECD should therefore not only advise governments on their respective national policies, but also show how policies should be coordinated and sequenced at the international level to leverage growth potential while also avoiding possible unintended impacts.

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[1] As per estimates of the IMF (October 2014) *World Economic Outlook: Legacies, Clouds, Uncertainties*, World Bank (June 2014) *Global Economic Prospects: Shifting priorities, building for the future*, and OECD (November 2014) *OECD Economic Outlook.*
[2] OECD (September 2014) *Interim Economic Assessment.*
[3] OECD (November 2014) *Advance G-20 Release: OECD Economic Outlook.*
[4] G20 (2014) *G20 Brisbane Action Plan.*

BIAC works with the OECD in shaping a growth agenda for 2015 and beyond. Our three overarching recommendations to the OECD and its member governments – developed in more detail in the following chapters and annexes – are:

I. ***Address protectionism in global markets and build the enabling environment for investment, at local levels and across borders***

II. ***Deliver advice for integrated policies across sectors that foster innovation and support sustainable growth and employment in the digital economy***

III. ***Establish better understanding of the potential of SMEs and entrepreneurship, with due focus on skills development, labor conditions, financing, and women's entrepreneurship***

## *I. Investment*

The OECD's ground-breaking work on trade and investment is essential for promoting open and competitive markets, which are a fundamental prerequisite for investor confidence, job creation, and economic growth. Many governments are currently engaged in discussions concerning investment as part of bilateral, regional, or plurilateral agreements.

Trade and investment go hand-in-hand. Both are inextricably linked given the importance of intermediate goods and inter-company trade flows to produce final goods and services – and thus barriers to trade also impact on investment and vice-versa. Recent research finds that the stock of trade and investment restrictions in G20 countries introduced since the onset of the crisis in 2008 now stands at 962 – a 12% rise since November 2013.[5] Localization barriers to trade and cross-border data flow restrictions are prime examples of the detrimental measures government policies must address in order to support trade and enable job creation and growth. We are encouraged by the steps taken in November for the implementation of the Bali package, which could foster multilateral negotiations again. To achieve its full implementation and to overcome potential roadblocks in future, it will be important for the OECD to continue developing evidence that shows the benefits of trade and investment, including trade facilitation, global value chains, trade in services and risk mitigation instruments. This work remains critical to advancing trade at the multilateral and regional levels.

### *Barriers to Markets*

The threats of protectionism and barriers to markets need to be addressed as a priority. Key instruments crucial to mitigating risk in international investment decisions are currently under attack. We need the

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[5] OECD-WTO-UNCTAD (November 2014) "Reports on G20 Trade and Investment Measures (Mid-May 2014 to Mid-October 2014)".

OECD's advice and leadership now more than ever to provide governments with objective fact-based analysis, and to foster constructive dialogue among member and non-member countries.

The developments in some countries that have decided to terminate their bilateral investment treaties (BITs) are particularly concerning. Even more disturbing is the fact that other countries might follow these examples. That could lead to an unravelling of a crucial element of the open international investment climate, and would have a direct effect on the willingness of companies to invest across borders, with negative impacts for the investment flows and development of countries. BITs are moreover important for strengthening the rule of law.

Equally worrying are misunderstandings and misrepresentations in the current debate about Investor-State Dispute Settlement (ISDS), which have caused an uptick in concern from policymakers about ensuring access to ISDS for investors and their investments. A review of the facts about investment protection obligations and ISDS demonstrates that ISDS is indeed a vital part of investment protection, providing for a neutral mechanism of dispute resolution in cases of breaches of investment treaties. For investors, ISDS affords promise of a fair, unbiased resolution for disputes. The OECD and its Freedom of Investment Roundtable would be an ideal forum to analyze and highlight the role of ISDS in investment treaties and international agreements, both existing ones and those that are currently being negotiated.

### *Investment frameworks*

Most fundamentally, both OECD and non-OECD countries need to do more to foster enabling investment frameworks. Take for example China, where it is increasingly clear from the country's current economic slowdown that fundamental reforms are needed to secure investment and growth that is sustainable in the longer-term.[6] Consider also the enormous investment and financing needs facing developing countries, particularly for infrastructure, where attractive enabling environments need to be coupled with mechanisms to enhance private financing if sustainable development goals are ever to be truly achieved.[7]

BIAC is therefore actively contributing to the update of the OECD Policy Framework for Investment, which has served as a key instrument for improving investment conditions. Taking a comprehensive approach to investment, the update should be used as an opportunity to reflect new developments while ensuring that internationally recognized rights are protected. It should also ensure that the overarching objective remains focused on addressing investment and fostering open markets. Fundamental principles such as of rule of law, good governance, competition, the fight against corruption, transparency, non-discrimination and investment protection, should remain duly highlighted as paramount for investment and global development.

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[6] BIAC (2014) "Priorities for China-OECD Cooperation: BIAC Discussion Paper".
[7] BIAC (2014) "Private Sector Perspectives on Private Financing for Sustainable Development".

### *International taxation and investment*

Stable, transparent tax regimes are an important element of an enabling investment framework. The OECD G20 work on Base Erosion and Profit Shifting (BEPS) can serve the crucial goal of increasing cross-border trade and investment by improving the international tax system. However, it is essential that the BEPS project not be pursued to the extent that it negatively affects cross-border trade and investment by greatly increasing uncertainty (e.g. by new and unclear rules on Permanent Establishments), double taxation (e.g. by more subjective rules on transfer pricing) and consecutive legal disputes, as well as compliance burdens (including extensive reporting requirements for enterprises). This balance in the project is absolutely critical.

### *Responsible business conduct*

BIAC considers responsible business conduct, as promoted by the OECD Guidelines for Multinational Enterprises (MNE Guidelines), an essential part of an open investment environment and in the best interest of business. While observance by enterprises is voluntary, BIAC actively engages in the implementation of the MNE Guidelines as well as multiple awareness-raising activities, and strongly supports OECD outreach efforts to ensure a global level playing field. With the shift of weight in the world economy, it is more important than ever to expand the geographical coverage of the Guidelines. Individual sector-related initiatives under the pro-active agenda of the MNE Guidelines need to be coordinated, taking into account the overarching criteria for such projects. We also underline the importance of advocating for public and private sector action in the global fight against corruption.

**BIAC's top investment recommendations to the OECD for 2015:**

- **Undertake an ambitious, proactive investment program, and confirm the OECD's leading role in ensuring that markets liberalize to welcome new foreign investment and maintain that openness with a view to boost economic growth and job creation. The detrimental impacts of barriers to markets, including digital platforms, on the productivity of our economies should be better understood.**

- **Provide fact-based analysis on BITs and ISDS, highlighting the important role they play in creating an open investment environment and providing protection for investors.**

- **Use the OECD Policy Framework for Investment (PFI) update to make an unrelenting case for reforms that enhance countries' enabling environments for investment. Place key aspects of the PFI into the heart of UN-led discussions for a Post-2015 Development Agenda for sustainable development.**

- **Ensure that the fundamental tax principles addressed in the OECD/G20 project on BEPS will continue to support, and not impede, cross-border trade and investment.**

- **Scale-up joint activities with major emerging economies in the areas of investment and responsible business conduct – particularly China which will celebrate its 20th anniversary of cooperation with the OECD in 2015, but also other major emerging markets and regions (e.g. Middle East and North Africa, Southeast Asia, Latin America, and Eurasia).**

- **Promote, in the context of the OECD MNE Guidelines, a common understanding of the nature of the National Contact Point (NCP) as essentially a *mediation* procedure, to help ensure broad-based support by the business community.**

## II. Innovation

Innovation is the driving force for enhanced productivity and growth in our economies and societies. The global science, technology, and innovation (STI) landscape, including the digital economy, continues to change at breakneck speed. It impacts common global interests and national priorities with greater breadth and depth than ever before. Increasingly, STI policies enable governments and business working together to lay the groundwork for sustainable economic growth in future, and to help address national, regional, and global priorities.

Government policies play a pivotal role in ensuring the right conditions are met for business to invest in R&D for a wide array of technological areas – from pharmaceutical innovation to progress in nanotechnologies, and from telecommunications to e-mobility solutions. Research and development into these areas is costly, risky, and time-consuming: businesses therefore need an environment that will ensure optimal conditions for conducting research and reaping the benefits that it generates.

Some examples:

- Information communications technologies (ICTs) in *health* are increasingly important in light of the growing burden of chronic diseases – today's largest killers across OECD economies – and ageing populations. ICTs can provide increased quality of care and efficiency, reduced operating costs, new approaches to prevention, and entirely new modes of care. OECD work on e-health, security and privacy should aim to ensure that obstacles to not impede innovation in this important field.

- Innovation in the *food and agricultural* sector is paramount to global food security. Cooperation between public and private sectors is essential to provide all actors along the food chain with the innovative tools and practices they need to achieve productivity targets, produce quality food, minimize food loss, and ensure sustainable stewardship of land, water, and other natural resources.

- Innovation is also one of the primary drivers for *greening growth* and addressing major environmental challenges. It should be given continued attention in global discussions on climate change, including the COP 21 Summit in 2015, where recent progress made by major emitting countries is welcome. Greening growth requires major progress in the development of new technologies, better use of existing knowledge and technologies across sectors and geographical boundaries, and increased international public-private cooperation. Intellectual property protection, together with other enabling factors, encourages and supports innovation and the development, dissemination, and deployment of new technologies. The broad range of energy technologies and the range of measures to improve the urban environment must also be considered, both to enable green growth and to ensure a reliable supply of energy accessible to all – indispensable for growth and development.

BIAC welcomes the current update of the OECD Innovation Strategy. Its renewed focus on implementation is particularly appropriate for business and governments to jointly translate technological progress into solutions that enhance the lives of populations. Relations should be strengthened among businesses, universities, and research centers. A successful innovation strategy requires an overall innovation-friendly policy framework, which must support development of intellectual assets, value creation and economic growth.

We believe that health merits a strong focus in the revised Innovation Strategy. The fight against chronic diseases – cancer, cardiovascular diseases, respiratory illnesses, diabetes, and brain disorders – requires a holistic approach to innovation. These diseases are also considerable sources of productivity losses and high costs to society. Innovation in prevention is a powerful way to address these diseases, where industry-driven efforts have shown how behavior change, community initiatives, and partnerships with governments can stimulate lifestyle changes to enhance health. If health prevention should be effective, empowering populations to make better decisions on health prevention must be a priority, rather than solely relying on corrective or fiscal approaches that try to change consumer preferences. A concerted approach thus requires regulatory convergence, dialogue between public and private researchers, and a whole-of-government approach towards health.

### *Innovation and the digital economy*

Information communications technology (ICT), Internet-based innovation, and mobile technologies, have extraordinary potential across sectors to positively address economic and social challenges and to raise living standards. The dynamic, cross-sectoral impact of the Internet and the use of ICTs has increased their importance and relevance to advancements in many non-ICT fields, such as healthcare, education, transportation, finance, culture, the environment, agriculture, and energy. It also provides possibilities for businesses to make their multinational operations more efficient and effective through smarter forms of communication. Leveraging the benefits of ICT and the Internet as critical productivity tools and platforms for innovation, entrepreneurship, e-commerce and lifelong learning, should be a central element of policies across sectors and disciplines. The digital economy cannot be ring-fenced – it is now an essential infrastructure of the real economy.

ICT ecosystems depend on a set of logistical, technical and policy/regulatory frameworks, necessary to foster and support digital prosperity. These include: infrastructure, data flows, investment, innovation, intellectual capital, and integration.[8] We strongly recommend that OECD work related to the digital economy consider these key elements in its analysis.

Investment in R&D and development of innovative products and services requires an appropriate regulatory framework, with a strong focus on enabling digital innovation. This will only be possible if the impact on innovation is thoroughly assessed and addressed when considering a new legislative proposal. In this respect, the 'Innovation Principle' has to be taken into account into the policymaking process.

The promise of Big Data and advanced analytics to facilitate solutions in such fields as healthcare, environment, and energy conservation, among others, is becoming a reality – but the benefits cannot be fully realized without creating an atmosphere of trust online. Thus, the OECD must focus *both* on facilitating data flows as well as addressing the potential risks of new uses of such data through developing approaches to privacy, security, and the rule of law. These approaches should be aimed at optimizing the opportunity of users to leverage the benefits of emerging technologies while at the same time maintaining a safe, secure, and trusted on-line environment where legitimate businesses can flourish. Consumer protection on-line is also a concern for business, and we welcome the current revision of the OECD Guidelines for Consumer Protection in the Context of Electronic Commerce.

### *Intellectual property, privacy and security*

As is highlighted in the OECD Policy Framework for Investment (PFI) currently under review, and the horizontal project on Knowledge Based Capital (KBC), intellectual property (IP) rights give businesses an incentive to invest in research and development, fostering the creation of innovative products and processes. They also give their holders the confidence to share new technologies and information through, for instance, joint ventures and licensing agreements. In this way, successful innovations are in time diffused within and across economies, bringing greater knowledge, higher productivity and growth.

The OECD has highlighted the importance of Global Value Chains (GVCs) and KBC for the productivity of our economies and we welcome the ongoing research on data-driven innovation. In this context, it is fundamental that governments should avoid restrictions on cross-border data flows (such as forced data localization requirements) that negate the competitive advantages that technology can deliver to business and consumers. Possible limitations on data flows related to privacy, security, and/or trade secrets concerns should be developed in a proportional manner that does not unduly hamper the ability of organizations and individuals to realize the opportunities of data-driven growth and innovation.

[8] APEC (2008) Digital Prosperity Checklist.

International standards addressing cyber security issues are available or under development. Making use of these standards and specifications ensures global competitiveness of industry and at the same time makes state-of-the-art security technologies available, increasing trust in networks and digital infrastructures.

### *Skills*

The Internet is also an important platform for entrepreneurship and employment opportunities. Digital applications provide new possibilities for learning, and in this respect we welcome an OECD Secretariat proposal for a regular summit of the global education industry to enhance public-private cooperation in this area.[9] At the same time, the opportunities generated by the digital economy require that individuals hold new skills – unfortunately lacking in many countries.[10] To reap the full benefits of increasingly digital economies and societies in future, greater focus needs to be put on enhancing the relevance of education systems. This means not only reforming curricula where needed, but also stepping-up teaching quality.

### *OECD leadership on the innovation front*

OECD analysis and policy guidance will be ever more important for effective policies that support innovation and a flourishing digital economy. We point to the OECD Internet Policy Making Principles as a key reference point for global multi-stakeholder discussions on the digital economy, and Internet governance. The recently revised OECD Privacy Guidelines and Security Guidelines (currently under revision) likewise have long served as critical instruments in these fields for business and governments in changing global technology and communications landscapes. BIAC looks forward to the OECD Ministerial Meetings on Technology and on the Digital Economy as key opportunities to advance policies and best practice for investment and innovation in the digital economy in the OECD area and other major markets.

**BIAC's top innovation recommendations to the OECD for 2015:**

- **Advance work to promote the OECD Internet Policy Making Principles as a key reference point in analysis and dialogue related to digital economy policy and Internet governance.**
- **Step up OECD outreach to non-Member economies and non-ICT sectors related to OECD work on the digital economy, including their engagement in the 2016 OECD Ministerial on the Digital Economy.**

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[9] Discussions are currently underway in the OECD Centre for Educational Research and Innovation (CERI) Governing Board.

[10] The OECD Survey of Adult Skills (2013) revealed that, in many countries, large proportions of the population have no experience with, or lack the basic skills needed to use ICTs for many everyday tasks.

- **Continue analysis on how education and training systems can better emphasize digital skills to foster greater employability.**

- **Ensure technological innovation in the field of health is a key output of the updated Innovation Strategy.**

## *III. Entrepreneurship*

### *Entrepreneurship is a powerful driver for growth and jobs*

SMEs and start-ups are important drivers of innovation, job creation, and local and global economies. They are vital engines for the much needed growth across the OECD, accounting for 99% of all firms in OECD countries, and 50-75% of value added across OECD countries. At the same time, large companies are also entrepreneurs, willing to take risk, innovate, and create new businesses in their goal to serve new markets. In many cases, start-ups are the result of technologies and initiatives that stem from the innovative work of larger companies. It is also often the case that SMEs follow larger companies into markets through engaging in global value chains.

Companies compete in an international context and navigate through complex regulations, financial resources, and information. The challenge can be particularly acute for SMEs, which may only have limited resources. Small businesses need government policies that facilitate competitiveness, international development, and innovation through the transfer of know-how, access to suitable finance, and active networks among foreign and domestic firms. In this context, governments should also press ahead to implement the WTO Trade Facilitation Agreement, which would help SMEs to engage in global value chains.

### *The growth potential of SMEs and entrepreneurs*

Effective policies for SMEs should first and foremost involve horizontal government action. The top priority should be designing smarter regulation to help SMEs enter, stay, and thrive in markets. Big or small, businesses need to comply with new or existing government regulations that carry significant fixed operational costs. These regulations are designed to guarantee the fair operation of markets, promote business development, and warrant a level playing field. However, costs related to financial management, record keeping, employment regulations and tax payments can affect SMEs more acutely as they lack the financial and human resources to identify and adjust to existing and new regulatory obligations. The OECD could have a role to identify best practices and show governments how to implement them so SMEs can participate effectively in the economy.

Furthermore, a series of complementary policies across government sectors is necessary to ensure SMEs are well supported. These include taxation policies that encourage SME growth and trade policies that enable the participation of SMEs in global value chains, among others. Developing and matching skills to current and future market needs on the one hand, combined with greater flexibility in labor markets balanced with appropriate employment and social benefits on the other, will be pivotal to the propensity of entrepreneurs and SMEs to hire. These measures, which will require joint action across education and labor ministries, should seek to significantly alleviate youth unemployment. Skills specifically for entrepreneurship should also be nurtured, such as legal, managerial, financial, and technological skills necessary to set up and run a successful business.[11] This calls for supporting entrepreneurship education at all levels, promoting the image of entrepreneurship, and instilling teachers with an entrepreneurial spirit.

Crucially, entrepreneurs and SMEs also need to be able to access loans, and increasingly, sophisticated financial services and risk hedging solutions. This not only calls for improving financial literacy among entrepreneurs, but also necessitates better coordination of financial regulatory approaches. While financial regulations in recent years have sought to increase financial stability, too little attention is paid to their potential impacts on entrepreneurship and economic growth. A welcome step in this direction is the joint initiative by the FSB, OECD and IMF to advise the G20 on the cross-border impacts of structural banking reforms (where the effects can be detrimental for the financing of our economies), and in our view this analysis should continue.[12]

### *Women's entrepreneurship*

Fostering women's entrepreneurship is the focus of a second phase of BIAC work on gender equality and is the subject a new BIAC report (to be released in conjunction with the LCM). Women increasingly succeed as high growth entrepreneurs, yet many women still face gender barrier challenges. A BIAC workshop last June on this subject highlighted that women continue to face obstacles related to, for example, access to finance, entry to relevant business networks, and culture/gender bias. But there are many successful business and government efforts underway to support, engage and globalise women-led and women-owned business. Companies are implementing programs that focus on business and entrepreneurship skills development, and engagement of women-led business in global supply chains. Digital skills education, and mobile technology platforms are being promoted by the mobile communications industries. Private sector and public leadership remains key to change – regulatory frameworks need to provide the flexibility and legal standing necessary for women to succeed as entrepreneurs. BIAC encourages continued OECD work on this issue.

[11] We are pleased that the forthcoming OECD Skills Outlook 2014 "Youth, Skills and Employability" incorporates a strong focus on entrepreneurship.

[12] FSB (2014) "Structural Banking Reforms: Cross-border consistencies and global financial stability implications".

### *What the OECD can do to encourage entrepreneurship*

**BIAC's top entrepreneurship recommendations to the OECD for 2015:**

- **Establish a horizontal approach for policy work on SMEs and entrepreneurship. We call on OECD to continue its evidence-based analysis on SMEs and entrepreneurship and to show the horizontal policies needed across government levels to fully support SMEs' participation in today's economies.**

- **Explore policies that would allow SMEs to hire. BIAC calls on the OECD to examine ways for more flexibility in labor markets, access to skilled labor, and affordable training programs.**

- **Develop a strategy for closer dialogue and joint work between the Committee on Financial Markets (CMF) and the Working Party on SMEs and Entrepreneurship (WPSMEE), with the goal to enhance cooperation and coordination between regulators of financial markets and policymakers for SME growth.**

- **Continue analysis of the main incentives for female entrepreneurs, implement programs that focus on their business and entrepreneurship skills development, examine the engagement of women-led business in global supply chains, and develop indicators regarding women's entrepreneurship.**

## *Conclusions*

The world economy still hasn't broken free from the legacy of the 2008-09 financial and economic crisis. Faced with heightened awareness of risk and uncertainty in world markets, companies, large and small, have been reluctant to invest and to expand their operations across borders. BIAC continues to urge policymakers to make private sector-led growth a top priority. To secure that growth in the longer-term, we should expect policymakers to make a firm commitment to deep-rooted structural reforms, to alleviate the regulatory burden for investors, and to fight protectionism in global markets. The G20 Leaders in 2014 set an ambitious goal to lift G20 GDP by more than 2% by 2018.[13] It is now up to the governments of the G20 and beyond to stand by these commitments and to implement reforms.

Trust is a key concern for this agenda, as also identified by the OECD Ministerial Council on many occasions. Companies need a reliable and enabling policy environment at national and global level to compete and leverage their growth potential. Business is looking to the OECD for leadership to carry forward this agenda for investment, innovation, and entrepreneurship.

[13] Above the trajectory in the October 2013 IMF *World Economic Outlook* baseline.