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.
I. INTRODUCTION: REVIVING GLOBAL INVESTMENT

The world economy still has not broken free from the legacy of the 2008-09 financial and economic crisis. Both trade and investment – key cylinders of the engine of economic growth – continue to perform sluggishly and have not regained their pre-crisis levels. Nearly half of respondents to a BIAC survey of 27 leading national business organizations around the world reported that enabling conditions for private investment have weakened in their countries in the past 1-2 years. Persistently high unemployment and weak demand across a number of OECD economies raise concerns about a protracted period of stagnation and low productivity, while some emerging markets (such as China) are adjusting to a ‘new normal’ of relatively lower growth.

However, macroeconomic policy levers have played a key role – and must continue to do so – in setting the stage for short- to medium-term growth, with green shoots taking hold in some regions and sectors. Countries now have an opportunity to unlock the great potential for private sector-led growth and investment. Policymakers must foster widespread confidence and undertake the productivity-enhancing structural reforms that will deliver stronger, more sustainable and more inclusive growth in the longer-term. Further reform towards current best practice could raise the long-term level of GDP per capita by up to 10% on average across OECD countries. We are encouraged by the agreement of G20 leaders in Brisbane in 2014 to significantly lift G20 GDP by 2018, and we urge Turkey and China to carry forward this agenda in their respective G20 Presidencies in 2015 and 2016.

It is evident however that the successful implementation of reforms will likely remain elusive so long as there is low public trust in government and the potential of competitive markets. Great uncertainty concerning geopolitical and policy risks, burdensome regulation, and high costs to business, are reasons for a considerable reluctance by many companies to take on the risks inherent to investment. Drawing on its cutting edge knowledge and evidence, and through its new Trust Agenda, the OECD should make a compelling case for growth. The OECD should contribute to the recognition that, with the right conditions in place, business is a dynamic force for the success of our economies and the wellbeing of citizens.

The fact that effective reforms can be achieved should be a key lesson that countries should take from the OECD’s New Approaches to Economic Challenges (NAEC) initiative. For instance, those reforms that reduce regulatory barriers to domestic competition, trade, and FDI, are found to deliver strong income gains for households at the low end of the income distribution and help to narrow

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3 G20 leaders set an ambitious goal to lift G20 GDP by more than 2% above the trajectory in the October 2013 IMF World Economic Outlook baseline by 2018. This could add more than USD 2 trillion to the global economy and potentially millions more jobs.
income inequality.\textsuperscript{5} Indeed, as evidenced in the OECD Going for Growth 2015 report, a number of pro-growth structural reforms reduce wage dispersion and/or household income inequality.\textsuperscript{6} Environmental policies that are flexible and neutral with respect to technological choices and that minimize barriers to competition can also achieve environmental goals without causing harm to economy-wide productivity.\textsuperscript{7}

The OECD is at the forefront in providing the instruments, tools, evidence and advice that OECD and non-OECD countries alike can use to address the focus of this year’s OECD Ministerial Council Meeting (MCM): “Unlocking Investment for Sustainable Growth and Jobs”. In contribution to this objective, this BIAC paper provides the OECD and Ministers with the advice of the private sector. Our five overarching recommendations are:

1. **Address investment protectionism and build the enabling environment for investment, at local levels and across borders, including a predictable, consistent and proportionate international tax regime.**

2. **Develop evidence on behind-the-border barriers to trade, including restrictions on cross-border data flows, forced-localization and performance requirements, and on public procurement, as well as contradictory or redundant cross-border regulatory regimes affecting services, and show their negative effects on job creation and growth.**

3. **Create integrated policies across sectors that foster innovation and support sustainable growth and employment in the digital economy.**

4. **Support alignment of policies to foster innovation and investment opportunities for the transition to a low-carbon economy.**

5. **Provide the policy conditions and dialogue processes to mobilize private investment and financing in developing countries.**

### II. INVESTMENT, INNOVATION AND THE BUSINESS CLIMATE

**Enhance the business climate to enable investment**

A truly pro-investment business climate extends far beyond specific investment promotion and facilitation programs. The mobilization of domestic and foreign investment requires, among others, the rule of law and effective dispute settlement, the protection of property rights, good public and


corporate governance, sound and coherent legislation across different layers of administration, as well as assurance of fair and non-discriminatory treatment between all types of investors – foreign, domestic, private, and state-owned enterprises (SOEs). In this respect, in domestic and global markets, it should be ensured that private enterprises and SOEs compete on a level playing field.

A clear, transparent and predictable policy framework and an effective cross-government approach, aimed at fostering both domestic and foreign investment, are fundamental for investment. This is recognized by the newly-updated OECD Policy Framework for Investment (PFI), which provides an important checklist of key policy issues across a range of different areas for consideration by governments in creating an enabling investment environment. Active efforts in OECD and non-OECD countries alike should now be a priority to ensure implementation of the PFI, notably as part of the post-2015 development agenda and complementing already existing OECD outreach efforts in other areas.

Creating a favorable and competitive environment for entrepreneurship and the growth of small- and medium-sized enterprises (SMEs) is particularly important, recognizing that their ideas, products, and services require investment in order to scale-up and reach new markets through their participation in global value chains. In this context, policies are needed to develop relevant skills and competencies without sidestepping the undeniable business and economic case in promoting, attracting, and retaining female talent in business.8

Internationally-agreed principles, such as the OECD Declaration on International Investment and Multinational Enterprises and the OECD Anti-Bribery Convention also make an important contribution to enhancing trust and reducing risks in markets. While governments have a primary responsibility to protect internationally recognized fundamental rights and to improve the functioning of markets, business is expected to act responsibly. BIAC recognizes that responsible business conduct is an essential part of an open investment environment and considers responsible business conduct, as promoted by the OECD Guidelines for Multinational Enterprises, in the best interest of business. Furthermore, clear and effective frameworks for good corporate governance are important to enable business to grow and create sustainable value while upholding investor confidence in capital markets. BIAC also underlines the importance of enhanced dialogue between public authorities and the private sector for fighting both the supply side and demand side of corruption. Genuine anti-bribery implementation efforts and effective compliance measures should be encouraged and rewarded.

Mitigate risks and address barriers to cross-border investment and sustainable growth

As the pace of globalization accelerates, Foreign Direct Investment (FDI) is vital for economies and their participation in global value chains. Pro-investment policies and well-established rule-of-law
systems are essential for attracting additional FDI. Yet regulations in many major OECD and non-OECD countries restrict FDI.\(^9\) **Governments must recognize the significant costs to growth and employment caused by protectionism, red tape, and barriers to markets.** They need to be addressed as a priority. As part of its core mission, BIAC encourages the OECD to continue work that spurs governments to eliminate these barriers and protectionist policies.

When making foreign investment decisions, companies often have to take into account significant economic and political risks. **Foreign investors require assurances** that they will be treated fairly and equitably before investing significant capital in a host country. In order to reduce uncertainty, international investment agreements have been designed to confirm basic standards of treatment and create safeguards that reduce risks for investors while facilitating the settlement of investment disputes through well-designed neutral and non-political international arbitration proceedings. These safeguards need to be preserved. For instance:

- **Bilateral investment treaties (BITs)** and other international investment agreements lay down important principles of international trade and investment that must be adhered to. BITs and their FTA investment chapter equivalents have been recognized as a key factor in helping countries attract foreign direct investment. The fact that some countries have decided to terminate their BITs is particularly concerning. Even more disturbing is that other countries might follow suit, or at least seek material changes to their existing agreements, thereby eroding a crucial element of an open and predictable investment climate. This could have a detrimental effect on the inclination of companies to invest across borders, with negative impacts for growth and development.

- At the same time, investors need an effective, swift and independent way to implement and enforce commitments in international investment agreements. **Investor-State Dispute Settlement (ISDS)** fulfils that role, by ensuring fair and equitable treatment, access to impartial arbitration and free transfer of capital. As such, it is providing a public good and helps states to attract investment. ISDS constitutes an independent, high-quality legal instrument, which is generally used as an option of last resort in rare cases where no other effective remedy is available. But in these cases, it is indispensable.

As BITs and ISDS are crucial to mitigating risk in international markets, BIAC sees a core role for the OECD to lead and to provide fact-based and objective analysis in these areas, foster open, transparent and non-discriminatory investment policies, facilitate unbiased policy monitoring, and help shape a better understanding about the issues that are at stake.

\(^9\) According to the OECD FDI regulatory restrictiveness index (September 2013), 12 OECD member countries and 4 OECD key partners (China, Brazil, India and Indonesia) have levels of FDI restrictiveness above OECD average. Further information available here: [http://www.oecd.org/investment/fdindex.htm](http://www.oecd.org/investment/fdindex.htm)
Stable, transparent and consistent tax regimes are important for an enabling environment fostering cross-border trade and investment. Proposals delivered through the G20-mandated work on Base Erosion and Profit Shifting (BEPS) can be consistent with the broad goal to facilitate such trade and investment, but only if proportionate and coherent solutions are delivered through a strong international consensus. These proposals should be as focused as possible in order to avoid detrimental effects on cross-border trade and investment. BIAC is concerned that several of the proposals currently under discussion could increase uncertainty (e.g. new and insufficiently clear rules on Permanent Establishments), double taxation (e.g. more subjective transfer pricing principles), and legal disputes. BIAC is also concerned that insufficiently-focused rules may create significant compliance burdens with costs for taxpayers and tax administrations alike. Furthermore, developing robust and widely supported dispute resolution mechanisms for a fair and predictable application of newly agreed standards will give countries confidence that their tax and revenue bases can be protected from the unilateral actions of other countries, and will help to mitigate double taxation and its damaging effect on trade and investment.

Financing investment is critical for the success of our economies and societies. Businesses of all sizes need to be able to access not only credit, but also depend in many cases on sophisticated financial services and risk hedging solutions. This not only calls for improving financial access and awareness among entrepreneurs, but also necessitates more informed and better coordination of financial regulatory approaches. There is an immediate opportunity for substantial improvement in international financial regulatory coherence between different jurisdictions, built on a principles-based process for cross-border regulatory consultations. But also inside jurisdictions, where financial regulations in recent years have sought to increase financial stability, significantly more attention needs to be paid to their unintended impacts and cumulative effects on investment and economic growth.

Invest in innovation to foster productive societies and sustainable economies
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. STI policies that recognize the global nature of the digital economy enable governments and business working together to lay the groundwork for sustainable economic growth in the future.

For instance, 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. Policies that empower the development and delivery of 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 encourage innovation in this important field.

Updating the OECD Innovation Strategy provides a prime opportunity for governments to better
support industries that invest in innovation, research and development, and breakthrough technologies. There is great promise in the potential for basic research to deliver products and services that will create new employment, strengthen growth, and improve the wellbeing of our societies. But in addition to investing in R&D, faster technological development and diffusion plays an important role in enhancing economy-wide productivity. Developments in bio- and nanotechnologies, information communications technologies (ICT), Internet-based innovation, and mobile technologies, also call for better coherence of policies across national government ministries and also internationally, as burdensome and duplicative regulations can slow down or hamper the delivery of new products.

Policies that relate to knowledge based capital (KBC) should uphold intellectual property rights, encourage firms to drive job creation and give industry confidence to invest in the creation of new products and processes. Successful government actions are those that develop KBC and avoid restrictions on cross-border data flows – including localization requirements – and instead achieve balance in allowing for the cross-border flow of data while addressing data privacy and security matters in a proportional and well-defined manner.

Reliable rules and effective enforcement of intellectual property rights are critical in both OECD member and non-member countries. Patents, copyrights, trademarks and trade secrets all require strong protections if they are to encourage innovation.

**Enhance access to high quality education**

Addressing the challenges of unemployment, low productivity and inequality depends to a large extent on increasing the employability of individuals. BIAC therefore welcomes the focus of the 2015 OECD Skills Outlook “Youth, Skills and Employability”. Access for all people to quality education, including women, immigrants and the elderly, from early childhood education through to continuing adult education, is a critical factor for lifelong employability in OECD and non-OECD countries alike.

In order to increase the relevance and contribution of education systems to labor markets and societies, many countries can benefit from greater cooperation between employers, education policymakers and education institutions. This should include, among others, examining future skills needs, updating curricula, fostering work-based learning opportunities, expanding and refining vocational education and training (VET) systems, and identifying new opportunities for innovation in education (such as new teaching practices and the use of new learning technologies).

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III. INVESTMENT AND A GREENER ECONOMY

Align policies to facilitate the transition to a low-carbon economy

Transformational change in infrastructure, including in the energy, transport and building sectors, will require large-scale private sector engagement and investment. This clearly demonstrates that issues such as climate change policies cannot be considered in isolation, but need to be viewed in a broader policy context, with an enabling investment framework at its center. All countries should benefit from a climate agreement that improves conditions for innovation, trade and investment to facilitate worldwide adoption of climate-friendly solutions.

Given the often vast scale and long-term nature of investments required to address climate change, effective, consistent and predictable policies are critical.

Both public and private investments are important for the transformation to a greener economy. With governments facing tight fiscal constraints, it is essential to use scarce resources most effectively and target them to mobilize the private sector. Mechanisms should be in place that leverage private sector finance and investment and taking into account risk/return considerations to ensure low-carbon investments come forward. Due attention should be given to activities across value chains, as many industries produce intermediate inputs and services necessary for environmentally-friendly solutions.

Aligning domestic policies is key to ensure consistency across policy objectives and across different levels of government. As a multidisciplinary organization, the OECD has a unique role in providing unique insights and assist countries in achieving consistency among policies. Climate change can be effectively addressed if interactions are correctly understood and policies are consistent.

In addition, an international framework which invites all large emitting countries to adopt effective climate-related policies based on each country's circumstances will be key to achieving real progress. This will also help mitigate effects on industrial competitiveness. The Paris Agreement must commit all large emitting economies to the measurement, monitoring and reporting of their pledged activities to reduce greenhouse gas emissions. It must provide a clear framework for international action which reflects long-term objectives to address global warming and creates a global playing field. Potential investors seek a clear and reliable signal through a long term agreement that protects competitiveness and accelerates the deployment of existing and new low-carbon technologies. Close cooperation with the business community is essential to deliver the scale of investment required.

While there are differing views on the effectiveness of different climate policy instruments, which include carbon pricing, tax incentives, regulation, and industry-led proactive approaches, there is a basic need for business everywhere to operate in a stable and predictable policy environment. We also underline that effective policy instruments differ according to national circumstances. Countries which price environmental externalities need to do so in a credible way, acknowledging the
challenges involved in setting the “right” price, and paying due attention to the use of revenue and competitiveness impacts in a global environment. Existing mechanisms and legislation need to be taken into account to avoid market distortions for businesses already working with national or regional carbon pricing systems.

We encourage the OECD to actively contribute to the upcoming Paris conference by providing fact-based analysis of the economic effectiveness and environmental efficiency of policy options and help ensure policy coherence to reach a global agreement that takes into account the interactions with other policy fields, global challenges as well as major development goals.

**Foster policy coherence to address the water-food-energy-climate nexus**

The world population is expected to rise to 9.6 billion people by 2050. By the same date, food demand is expected to increase by 60% (over the 2005-07 base), energy demand by 80%, water demand by 55%, and greenhouse gas emissions by 50% (over the 2012 base). Compounded to these projections is the fact that they are inherently interconnected. For example, the agricultural system needs to step-up production to meet increasing and changing demand for food, while also minimizing its impact on energy and water consumption (the sector is responsible for around 70% of global water consumption), as well as reducing its land use and greenhouse gas emissions.

Crucially, private investment and innovative solutions are needed to address the challenges of food, energy, and water security as well as climate change. Successfully meeting new demands will only be possible through the sustainable intensification of agricultural production, access to affordable energy and the exploitation of a range of energy technologies, and investment in the provision, maintenance and renewal of water and wastewater infrastructures to deliver safe, affordable drinking water and sanitation to all, as well as to support the water and wastewater needs of commercial and industrial development, energy and food production. Above all, efforts to increase research, development and deployment should be strengthened.

The interlinkages and competing demands for water, energy and food in a world of climate uncertainty call for a coordinated policy approach across governments. The Intergovernmental Panel on Climate Change (IPCC) Assessment Reports contribute a wealth of data on many aspects of the food-water-energy-climate nexus. Furthering this important knowledge, the OECD should continue and strengthen its work with the IEA and OECD NEA to generate evidence and advise countries on

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14 Ibid.
15 Ibid.
16 UN Water (2013) “Water for Food Factsheet”.

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appropriate policies, with attention to possible trade-offs and synergies. In this context, BIAC welcomes plans for an OECD Council Recommendation on Water in 2016 and looks forward to contributing private sector expertise to other aspects of the nexus.

IV. TRADE, INVESTMENT, AND DEVELOPMENT

Address barriers to trade
Trade and investment are inextricably linked given the importance of intermediate goods and inter-company trade flows to produce final goods and services. Notwithstanding several international commitments by governments, new restrictions that affect trade and investment have been introduced since the 2008 crisis in ways that are difficult to combat.\(^\text{17}\) Localization barriers to trade and cross-border data flow and storage restrictions are prime examples of the detrimental government policies adopted domestically that must be addressed to enable trade, job creation, and growth. Rapid ratification of the Bali package is crucial for countries and investors alike to keep the multilateral system alive. To achieve its full implementation and to overcome potential roadblocks in future, we support and encourage the OECD to continue and deepen its work on trade in services, trade in value added, and global value chains.

One overarching issue that affects all forms of cross-border business is the lack of international regulatory cooperation, such as in product standards or in the performance of services. As successive GATT rounds and the WTO effectively reduced a variety of “at the border” trade barriers such as tariffs, import licensing and other forms of trade restraints, the OECD would make a profound contribution to global trade and investment by continuing and deepening its work on international regulatory cooperation in different industry sectors.

Work on trade in services through the initial Services Trade Restrictiveness Index (STRI) launched by the OECD last year should continue and broaden its scope to include non-OECD countries. It should support recent joint efforts with the WTO to highlight the role of services in international trade. Deeper analytical work in this field is crucial to achieve trade liberalization in services, which comprise a considerable part of the total share of trade globally. Governments and businesses need fact-based analysis to support open markets and multilateral trading systems.

Post-2015 Development Agenda
Sustainable development is at a critical juncture. On the one hand, the international development community is forging a bold new set of goals and targets, to be launched later this year, that will shape the development of economies and societies for decades to come. However, unless urgent action is taken to mobilize the necessary private investment to make sustainable development a reality, global efforts will fall short of expectations. In doing so, it should be recognized that a

\(^{17}\) OECD-WTO-UNCTAD (November 2014) “Reports on G20 Trade and Investment Measures (Mid-May 2014 to Mid-October 2014).
reasonable and reliable risk-return perspective is essential. To achieve truly sustainable development, BIAC points to the following 3 recommendations:

- **Improve the business environment through policy reforms.** Improving the business climate in OECD and non-OECD countries alike is not only good for business, but also essential for sustainable development. This is all the more necessary when one considers that in Africa, for example, the number of young people is estimated to double by 2045 and its labor force could reach 1 billion strong by 2040, surpassing China and India, but this calls for creating millions more jobs every year to tackle chronic youth unemployment and informality.\(^{18}\) Despite being the growth markets of the future, many developing countries are held back because their policy environments present too many risks for potential investors and entrepreneurs. Well-designed policies, including predictable and non-discriminatory rules for investment, consistent taxation, and rule of law, can build the market confidence that will spur countries’ growth and development. The OECD, a global source of advice on structural reforms and provider of instruments and tools to help policymakers (such as the Policy Framework for Investment), should play a key role in the implementation of the post-2015 development framework. BIAC recognizes the great importance of responsible business conduct and the value of the OECD MNE Guidelines as an integral part of successful development.

- **Develop mechanisms to mobilize greater private financing into developing countries.** Investment shortages are holding back development: the estimated annual shortfall in global infrastructure debt and equity investment is at least USD 1 trillion\(^{19}\); the total unmet need for credit by all formal and informal micro-enterprises and SMEs in emerging and developing markets stood at USD 2.1 to 2.5 trillion in 2010\(^{20}\); and additional investment requirements for climate-related goals and targets are estimated to be in the order of several trillion dollars per year.\(^{21}\) Aid, while vital for a number of developing countries, cannot singlehandedly bridge the enormous financing gaps that exist, and thus the private sector is needed more than ever. Legal certainty and risk mitigation are key for private sector involvement, as well as for public-private partnerships.

We welcome steps by the OECD Development Assistance Committee (DAC) to modernize its measures of development finance, which should make an important contribution to the

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\(^{19}\) World Economic Forum (2014) “Infrastructure Investment Policy Blueprint”.


ongoing UN-led Financing for Development process. BIAC underlines four key priorities for this work: (i) maintain focus on improving the enabling environment in countries; (ii) ensure that aid money does not crowd-out, but rather complements, commercial finance; (iii) encourage coordination among donors, export credit agencies and development finance institutions to allocate resources efficiently; and (iv) incentivize the use of credit guarantees to boost private sector confidence to invest in infrastructure.\textsuperscript{22} Also, export credits should be available in a technology-neutral manner, especially in the field of energy infrastructures.

- **Improve public-private dialogue for development.** True dialogue between public and private sectors cannot be taken for granted in developing countries, where business organizations – if they exist – can face severe resource and capacity constraints. All avenues for consultation and interaction with the private sector – both domestic and foreign – need to be pursued. The *Global Partnership for Effective Development Cooperation*, supported by the OECD and UNDP, presents a unique platform for dialogue and sharing of good practices. For instance, its efforts to measure the quality of public-private dialogue in developing countries could usefully put peer pressure on countries to make improvements. The Global Partnership would benefit from a focused and coordinated work program to realize its full potential.

V. CONCLUSIONS

More investment for sustainable growth, jobs, and development hinges on reasonable and reliable risk-return scenarios for companies in domestic and foreign markets. However, a BIAC survey of its membership reveals the widespread impression in the global business community that the post-crisis investment climate is all too often characterized by policy uncertainty, regulatory burden, and a rise in protectionism.\textsuperscript{23} It is unsurprising therefore that many companies are presently reluctant to take on the risks inherent to investment.

Decisive steps are necessary to support and strengthen business confidence in markets. This BIAC statement has drawn the attention of the OECD and Ministers to five overarching recommendations towards this objective. Among many measures, the freedom of investment and a level playing field in markets should be centerpiece, together with measures that address the behind-the-border barriers to trade. Furthermore, integrated policies are needed that foster innovation and investment for the transition to an increasingly digital and low-carbon economy. Serious efforts to mobilize private investment will largely determine the success of the Post-2015 sustainable development agenda.

The OECD is well-equipped to support a principles-based international approach for policy cooperation for investment. In doing so, BIAC sees a core role for the OECD to lead and provide fact-based and objective analysis on measures to mitigate risk in international markets and unlock investment.

\textsuperscript{23} BIAC (2015) BIAC Business Climate Survey 2015.