BIAC Business Climate Survey 2015

3 June 2015
1. Executive Summary

The world economy is still coping with the aftermath of the 2008-09 financial and economic crisis. Both trade and investment continue to perform weakly and have not regained their pre-crisis levels. High unemployment and weak demand persist across a number of OECD economies. Some emerging markets are adjusting to relatively lower growth.

Faced with this troubling post-crisis environment, the BIAC Economic Policy Committee carried out a survey in March to April 2015 of BIAC national member and observer organizations – the “BIAC Business Climate Survey”. It examines business perspectives on what may be holding back investment and jobs, and their views on what can be done to remedy the situation.

The aggregate survey results are synthesized in the following pages for the benefit of discussions at the OECD Ministerial Council Meeting (MCM) on 3-4 June 2015. The raw data has already been shared confidentially with the OECD Economics Department for its preparation of the forthcoming OECD Economic Outlook, due to be released on 3 June 2015.

Key findings from the BIAC Business Climate Survey 2015 include:

- **Current perceptions of countries’ business climates differ significantly.** Relatively equal numbers of respondents reported that their business climates were either “excellent” or “good”, “fair”, or “weak” or “very weak”, revealing a highly uneven global landscape for business investment. Respondents who perceive their business climates to be weak or very weak tend to come mainly from major emerging economies and some European countries. Respondents who perceive their business climates to be excellent or good tend to come from major OECD economies, but also some European countries that have either weathered the crisis well or undertaken significant pro-growth reforms since 2008-09.

- Notwithstanding the varying perceptions of current business climates, there appears to have been **a worsening or standstill of the investment conditions in over two-thirds of participating countries** over the past 1-2 years. In the coming year, the enabling conditions for private investment are expected to remain unchanged in nearly two-thirds of participating countries.

- Respondents report that investment is being constrained by a number of factors. In particular, **the level of taxation and other costs to business, policy uncertainty, regulatory burden, and insufficient global and domestic demand** deserve close attention. Business organizations in some countries also report that a special focus on **insufficient financing** is needed.

- Several factors are holding back employment, their relative importance being dependent on specific country contexts. However, **by far the greatest perceived constraint to employment is inadequate or insufficient skills.**

- Many business respondents call for their governments to **reduce taxes and/or reform tax systems; reduce and/or simplify regulation; and enhance trust and confidence in markets and policymaking** in order to unlock investment in their countries.
**II. Main Findings**

*The perceptions of national business climates differ significantly*

The uneven pace of post-crisis economic recovery is strikingly apparent in the BIAC survey results. When respondents were asked to rate the business climate in their respective countries at present,” 33% selected “excellent” or “good”, 30% selected “fair”, and 37% selected “weak” or “very weak” (see Figure 1).

National business organizations perceiving weak or very weak business climates in their countries included a number of respondents from some European countries as well as major emerging economies. Respondents who perceive their business climates to be excellent or good tend to come from major OECD economies, plus some European countries that have either weathered the crisis well or undertaken significant pro-growth reforms.

*Figure 1: How would you rate the business climate in your country at present?*

*Nearly half of respondents report worsening investment conditions in the past 1-2 years...*

BIAC survey results also show that one third of respondents consider that the enabling conditions for private investment in their respective countries have improved in the past 1 to 2 years. However, almost half of respondents (48%) perceive that the enabling conditions for private investment in their country had weakened and 19% believe that nothing has changed.

*...and nearly two-thirds do not expect conditions to improve over the coming year*

A large majority (63%) of business respondents expect the enabling conditions for private investment in their respective countries to remain stable over the coming 12 months (Figure 2). While this suggests that investment conditions should in most countries not worsen in the short-
term (only 15% of respondents consider that to be the case), it does not signal a widespread improvement in the current global investment environment unless new and decisive actions are taken. Indeed, most of the 22% of respondents who point to a likely improvement in investment conditions are located in peripheral European countries that particularly suffered during the 2008-09 crisis and thus underwent significant reform agendas.

**Figure 2: Over the coming year, do you expect the enabling conditions for private investment in your country to improve, to remain stable or to weaken?**

![Figure 2: Pie chart showing the percentage of respondents' expectations for investment conditions](image)

**Investment is being held back by a number of factors…**

As reflected in Figure 3, constraints to business investment in the current economic environment include insufficient domestic and global demand, inadequate financing, restrictive or burdensome regulations, taxation and other costs to business, as well as policy and regulatory uncertainties. All of these factors are considered by business respondents as “important” or “very important” constraints to investment, albeit to varying degrees.

**...including in particular policy uncertainty, taxes and other costs to business, and burdensome regulation…**

Policy uncertainty is considered a “very important” drag on investment, cited by 44% of business respondents, followed closely by taxation and other costs to business (41%), and restrictive or burdensome regulation (37%).

**...as well as insufficient demand**

However, when one also looks at which factors are ranked as “important” (in addition to “very important”), taxes and other costs to business are reported as the top constraint overall – holding 90% of country responses. This is followed by 74% of responses attributed to policy uncertainty and 70% to restrictive or burdensome regulation. In addition, 70% of responses are also attributed to insufficient global demand, followed by 63% to domestic demand.
Insufficient financing is not considered a major constraint to investment in most countries, but is of acute concern in some countries

Insufficient financing is considered to be a very important or important constraint to investment (Figure 3) by only 52% of business responses. Thus in aggregate terms it appears to be of lesser significance than the other factors presented in Figure 3. However, a more detailed examination of individual responses reveals that insufficient financing matters greatly for some countries, including for some European countries that suffered most since the 2008-09 crisis, as well as some major emerging economies. In fact, some of the business respondents from these countries identified insufficient financing as the only “very important” constraint facing their national business climates. A country-by-country approach to understanding investment financing needs is therefore essential and should not be overlooked by a focus only at the aggregate level.

Figure 3: What are the most important factors that may be constraining investment in your country at present, if any?

Several factors are constraining job creation...

As shown in Figure 4, barriers to employment include inadequate or insufficient skills, inflexible labor markets, cost of labor, and insufficient demand – each of which is considered “very important” or “important” by at least some business respondents.
...with some posing particularly acute challenges

26% of respondents report that inadequate or insufficient skills, as well as inflexible labor markets, are “very important” constraints to employment in their countries. This is significantly higher than other factors (cost of labor and insufficient demand were considered as very important constraints by only 15% of respondents). Interestingly, the individual country responses reveal that inflexible labor markets and costs of labor are generally not considered as major constraints to employment in some European countries that were especially affected by the 2008-09 crisis, perhaps reflecting progress in those countries’ labor market reforms in recent years.

Skills shortages represent the biggest employment challenge overall

When one looks at which factors are considered “important” constraints to employment (in addition to those considered “very important”), inadequate or insufficient labor supply (e.g. skills mismatch) is reported by the vast majority of respondents (89%) as the main factor holding back job creation.

Figure 4: What are the most important factors that may be constraining employment in your country at present, if any?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very important</th>
<th>Important</th>
<th>Less important</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient demand</td>
<td>15%</td>
<td>44%</td>
<td>37%</td>
<td>4%</td>
</tr>
<tr>
<td>Cost of labor</td>
<td>15%</td>
<td>44%</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>Inflexible labor market regulation</td>
<td>26%</td>
<td>30%</td>
<td>44%</td>
<td></td>
</tr>
<tr>
<td>Inadequate or insufficient labor supply</td>
<td>26%</td>
<td>63%</td>
<td>11%</td>
<td></td>
</tr>
</tbody>
</table>

Priorities for policy reform differ from country to country...

When asked what governments can do to help unlock private investment in respondents’ respective countries, answers include a number of different priorities including (among others) increasing policy predictability, simplifying regulation, reducing energy costs, improving land planning, easing access to finance, supporting infrastructure, and reforming tax systems. It is clear that national contexts matter and policy reform priorities need to be considered in a country-specific manner.
...but some priority issues receive recurrently high attention from business respondents
While conditions vary from country-to-country, the BIAC survey findings show that some policy issues frequently recur among those ranked most highly by business respondents. By far the most significant priorities for governments are: reducing taxes and/or reforming tax systems; reducing and/or simplifying regulation; and enhancing trust and confidence in markets and policymaking.

III. Conclusions

The results of the BIAC Business Climate Survey 2015 reinforce several important business messages to the OECD and governments:

• Countries’ business climates are currently in very different states of progress in their propensity to drive investment and growth. Relatively equal numbers of respondents reported that their business climates were either “excellent” or “good”, “fair”, or “weak” or “very weak”, revealing a highly uneven global landscape for business investment. Respondents who perceive their business climates to be weak or very weak tend to come mainly from major emerging economies and some European countries. Respondents who perceive their business climates to be excellent or good tend to come from major OECD economies, plus some European countries that have either weathered the crisis well or undertaken significant pro-growth reforms.

• In the past couple of years, there appears to have been a worsening or standstill of the investment conditions in over two-thirds of participating countries. In the coming year, the enabling conditions for private investment are expected to remain unchanged in just under two-thirds of participating countries. Such findings call for significant policy measures to unlock investment.¹

• Investment is being constrained by a number of factors. In particular, taxes and other costs to business, policy uncertainty, regulatory burden, and insufficient global and domestic demand deserve close attention. In some countries, a special focus on insufficient financing is also essential.

• Several constraints are holding back employment, their relative effect being dependent on specific country contexts. However, by far the greatest perceived constraint to employment overall is inadequate or insufficient skills. This suggests that investing in education and skills development is essential to meet the needs of labor markets.

¹ For a more detailed insight, please see BIAC (2015) Statement to OECD Ministerial Council Meeting “Unlocking Investment for Sustainable Growth and Jobs”.
In order to unlock investment in their countries, many business respondents call for their governments to – among others – *reduce taxes and/or reform tax systems; reduce and/or simplify regulation; and enhance trust and confidence in markets and policymaking.*

In order to improve business climates in future, particularly for investment and jobs, the OECD is well-placed to support a principles-based international approach for policy cooperation. As stated in BIAC’s Statement to the OECD Ministerial Council Meeting (2015), 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. In this respect, a number of OECD instruments, including the OECD Policy Framework for Investment (PFI), have great potential to improve investment climates.
Annex: Methodological Notes

Timeline
This survey was launched in late March 2015 and concluded in April 2015. This synthesis report was prepared during April and May 2015.

Respondents
27 national business and employer organizations from 26 countries\(^2\) participated in the survey on a voluntary basis. Only one response per organization was accepted.

While the sample size remains relatively small, it is important to consider that each participating business and employer organization represents thousands of companies across several economic sectors in their respective memberships. In completing the survey, it was expected that the individual respondents (typically chief economist or senior leadership) would ensure well-balanced and representative responses.

In the absence of a BIAC observer organisation in China, the Chairman of the BIAC China Task Force was invited to provide a response that would reflect the established views of the broader BIAC China Task Force membership. Unlike the other respondents, the China response presents solely the views of OECD-based business operating in China.

Confidentiality
In order to encourage respondents to freely put forth their respective views and priorities, it was decided to ensure the confidentiality of their responses. For the purposes of this synthesis report, the names of participating organizations and their responses have been anonymized.

Survey Structure
The survey was structured into four main parts:

1. Views on the overall business climate
2. Factors constraining investment and employment
3. What role for government?
4. Any other comments

Contact
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