



BIAC

THE VOICE OF
BUSINESS AT THE OECD

10 Business Recommendations for Productivity, Prosperity, and Inclusive Growth

*BIAC Statement to the OECD
Ministerial Council Meeting 2016*

BIAC speaks for business at the OECD. Established in 1962, we stand for policies that enable businesses of all sizes to contribute to growth, economic development, and prosperity. Through BIAC, national business and employers federations and their members provide expertise to the OECD and governments for competitive economies, better business, and better lives.

TAKING DECISIVE ACTION FOR REFORM

Entrepreneurship is central to productive economies and inclusive growth. With the appropriate policies in place, businesses are encouraged to invest, trade, innovate, and create jobs. Yet companies of all sizes continue to encounter significant policy uncertainties and regulatory burdens that constrain their business activities. Expectations for global economic growth in 2016 have been downgraded to a five-year low¹, sparking concerns that countries at risk of slowdown may resort to protectionist and interventionist measures. Facing this period of great vulnerability, we encourage the OECD to promote consistent and evidence-based policies that support the competitiveness of our economies and contribute to more robust and inclusive growth.

Recognizing that monetary and fiscal policies have their limits, governments and their administrations must implement structural policies that will lead to an era of greater growth built on private investment, competition, and more productivity. While the specific policies vary by country, priority areas include sound and well-coordinated regulatory processes, effective competition policy, long-term investment in infrastructure, skills development, more flexible product and labor markets, investment-friendly tax regimes, and support for R&D, among others. Recognizing the slowdown in the pace of implementation in recent years, we encourage the OECD to work with countries and business communities to build the case for structural reform – essential to achieving the G20’s additional 2% growth scenario by 2018 and ensuring that such growth is more inclusive. We also encourage governments to work with the OECD to build a comprehensive and internationally comparable database on productivity to better identify the productivity-enhancing impacts of reforms.

10 BUSINESS RECOMMENDATIONS FOR PRODUCTIVITY, PROSPERITY, AND INCLUSIVE GROWTH²

1. CREATE THE POLICY CONDITIONS CONDUCIVE TO INVESTMENT

Domestic and foreign investment is indispensable to productive and inclusive growth in advanced and emerging markets alike. Without investment, the Sustainable Development Goals and commitments to implementing the Paris Agreement on Climate Change cannot be achieved. Without investment, serious unemployment in many countries, including for youth, cannot be overcome. This is why we urge policymakers to fully implement and promote the updated *OECD Policy Framework for Investment (PFI)* to build conducive investment environments, with due attention to the rule of law, well-functioning dispute settlement, the adequate and effective protection of property rights – including intellectual property rights (IPR) – and assurances of fair and non-discriminatory treatment of all investors, including state-owned

¹ OECD (2016) Interim Economic Outlook, February 2016.

² This BIAC paper to the OECD Ministerial Council Meeting puts forth policy recommendations drawn from a comprehensive BIAC statement “**Policy Choices for Productive Economies**”, which was discussed with the OECD Secretariat and Ambassadors in January 2016, and is available online at: <http://biac.org/wp-content/uploads/2016/01/2016-BIAC-Statement-to-Ambassadors1.pdf>

enterprises (SOEs). As SOEs increase their international investment, it is important for the OECD and governments to counter distortions to competition and ensure a level playing field in global markets.

2. ADDRESS BARRIERS TO CROSS-BORDER TRADE AND INVESTMENT

Based on OECD analysis, governments should do more to promote open markets for trade and investment, and should communicate their benefits more forcefully, notably in the areas of trade facilitation, trade in services, and freedom of investment. Trade and investment agreements that provide enforceable commitments by governments to private investors are critical to this end. International investment agreements (IIAs), including an efficient and effective Investor-State Dispute Settlement (ISDS) mechanism, provide legal protection for investors. Implementation of the OECD's G20-mandated work on base erosion and profits shifting (BEPS) should reflect the consensus reached during the project to achieve consistency between different jurisdictions, and should take further steps to resolve disputes between tax authorities, thereby fostering cross-border trade and investment. OECD work addressing forced localization, including data localization, is vital as we encourage policies that address security and privacy concerns in the least trade-distorting manner.

3. ESTABLISH AN EFFECTIVE PROCESS FOR REGULATORY POLICY AND INTERNATIONAL COORDINATION

Businesses need stable, transparent, predictable, and consistent legal frameworks. Effective regulatory consultation processes, well-conducted impact assessments, and a strong involvement of relevant stakeholders in independent evaluation are essential. The impact of the 2012 OECD *Recommendation on Regulatory Policy and Governance* and the recent OECD *Regulatory Policy Outlook* will depend on proper implementation of good regulatory practices. They will also serve to combat corruption, where we would welcome additional OECD efforts to address the demand side of bribery, support and recognize voluntary anti-bribery efforts by firms, and incentivize self-reporting. For lower income countries in particular, an effective regulatory environment contributes to greater formalization of the economy, serving to broaden governments' tax base and sources of revenue. Regulatory cooperation between countries – such as through harmonization and mutual recognition of technical regulations and standards – will contribute greatly to the facilitation of cross-border trade and investment. Continued OECD work to estimate the costs incurred by diverging national regulations would be valuable in this regard.

4. ENCOURAGE ENTREPRENEURSHIP

Entrepreneurship is one of the single biggest sources of productivity, employment, and inclusiveness. Start-ups, SMEs, and large companies operate as entrepreneurs in our economies by taking risks, innovating, and creating new businesses and jobs to serve new markets. As smaller firms depend on a competitive level playing field, we support further OECD work on the benchmarking of SME performance in markets, including barriers to firm entry/exit, administrative burdens, and women's entrepreneurship. OECD analysis should include measures that promote entrepreneurship skills – such as legal, managerial, financial, and digital

skills. The critical role of digital technologies in supporting the growth of smaller firms should also be subject to further OECD work.

5. ENHANCE ACCESS TO FINANCE

The many pro-stability financial regulations introduced in recent years and their cumulative impacts have also had significant unintended consequences on the availability of bank credit, notably for SMEs. This is a constraint to the ability of companies to engage in productivity-enhancing investments. Addressing this situation calls for the proper coordination and calibration of financial regulations, as well as greater understanding of the opportunities and risks presented by alternative sources of financing. The OECD should deepen its work with the Financial Stability Board and other international bodies to examine financial regulatory regimes at national, regional, and global levels, their degree of coordination and coherence, and their consequences for economic growth. Attention should be devoted to financing SMEs in global value chains, long-term financing in infrastructure, greener financing for sustainable growth, and greater use of risk-mitigating instruments to leverage private investment into developing markets – all of which are vital for productivity and inclusiveness.

6. ENABLE INNOVATION AND THE DIGITAL ECONOMY

Innovations and their spread through our economies are vital for productivity growth and can provide fresh opportunities for firms and individuals to participate in markets and societies. Innovation is also central to sustainable development, new production processes, greener growth, and efforts to implement the Paris Agreement on Climate Change. To seize the benefits of innovation, the OECD should promote whole-of-government policy frameworks that comprise, among others: appropriate infrastructures and regulatory frameworks that support the development of innovative firms of all sizes; sustained and diversified forms of investment; adequate and effective IPR regimes in accordance with internationally-established IPR policies; initiatives for entrepreneurial skills and R&D collaboration between firms and universities; and greater access to global value chains. While addressing legitimate privacy and security concerns, better access to global value chains will also depend on the freer flow of information and data across borders, serving to quicken the spread of knowledge and innovations. The use of tax incentives may also be considered to encourage innovation as part of a predictable, efficient, and stable tax regime.

7. PROMOTE LIFELONG LEARNING

To ensure education systems adapt to rapidly changing needs and support participation in our economies and societies, the OECD should encourage governments to review their education curricula and promote high quality lifelong learning with equal attention to: advanced areas of knowledge (e.g. technology and engineering, including robotics, biotechnology, and entrepreneurship); skills (e.g. creativity, critical thinking, communication, and collaboration); and character qualities for the workplace (e.g. ethics and leadership). In parallel, strengthened teaching quality and training should be encouraged, including for vocational education and training (VET) and school management. The OECD should also be a platform for sharing good

practices for closer cooperation between education policymakers, education providers, and employers.

8. ENCOURAGE LABOR MARKET FLEXIBILITY AND RESILIENCE

Employers and employees are challenged to respond to rapid changes in technologies and markets. High barriers to labor mobility, including excessive employment protection legislation, pose a serious impediment for job creation in the 21st Century. Business calls for both flexibility enhancing reforms and accompanying measures, such as active labor market policies (ALMPs). This should enable individuals to adapt to more productive sectors and jobs in the longer-term while mitigating short-term costs of change. The forthcoming update of the 2006 *OECD Jobs Strategy* should focus on the mobility and skills adaptation for displaced workers given the growing importance of the digital economy, and the design of ALMPs to provide workers with relevant skills and support employers looking to hire young, discouraged, or long-term unemployed workers. Measures to improve gender equality in labor force participation, tackling youth unemployment, and the integration of migrants in labor markets should also be priorities.

9. SUPPORT RESPONSIBLE BUSINESS CONDUCT ACROSS ALL ECONOMIES

As 2016 marks the 40th anniversary of its *Declaration on International Investment and Multinational Enterprises*, BIAC calls on the OECD to work with business and continue to address investment and responsible business conduct in a balanced manner. The OECD should ensure that the standards of the *OECD Guidelines for Multinational Enterprises* are recognized globally and encourage additional adherence to the Declaration. BIAC also supports implementation and continued outreach related to the updated *Corporate Governance Principles* and the *OECD Anti-Bribery Convention* to create a level playing field for international business and bring key partner countries closer to OECD standards.

10. RECOGNIZE THE IMPORTANCE OF HEALTH FOR PRODUCTIVE SOCIETIES

Global health challenges are no longer single government agency topics – they are complex and involve a variety of stakeholders, including the private sector. To support economic growth, it is crucial to have healthy workforces and communities. Effective strategies for health and wellness must involve all levels of government as well as key stakeholders. The private sector plays a vital role in advancing innovation and partnerships for health promotion, disease prevention and treatment, education, and home-based care. The private sector is at the forefront of the development of new solutions that contribute to sustainable healthcare systems and reduced health inequalities, and develops technologies which provide safer and cost-effective solutions. BIAC encourages the OECD to deepen evidence-based work, support countries in developing best practices to enhance health literacy, promote healthy and active lifestyles for all ages, and to fully consider the potential for innovation to address new demographic challenges.

We encourage Ministers to closely consider BIAC's 10 Business Recommendations in the OECD's strategic directions and activities. Action in these areas is fundamental for growth that is stronger, more sustainable, and ultimately more inclusive to enable companies and people to fully participate in our economies.