Business at OECD

THE BUSINESS AND INDUSTRY ADVISORY COMMITTEE

Business at OECD (BIAC)

2017 Business Climate Survey

Key messages:

- The business climate has generally improved since 2015 with fewer respondents describing it as ‘weak’ or ‘very weak’ - down from 33% to just 8% today.

- However a majority of the leading business federations in OECD countries report no significant improvement in the enabling conditions for private investment in the past year.

- Uncertainty over both the political and regulatory environment continue to be major obstacles to a better climate for trade and investment and are the most important factors affecting cross-border investment decisions, outside of changes in demand.

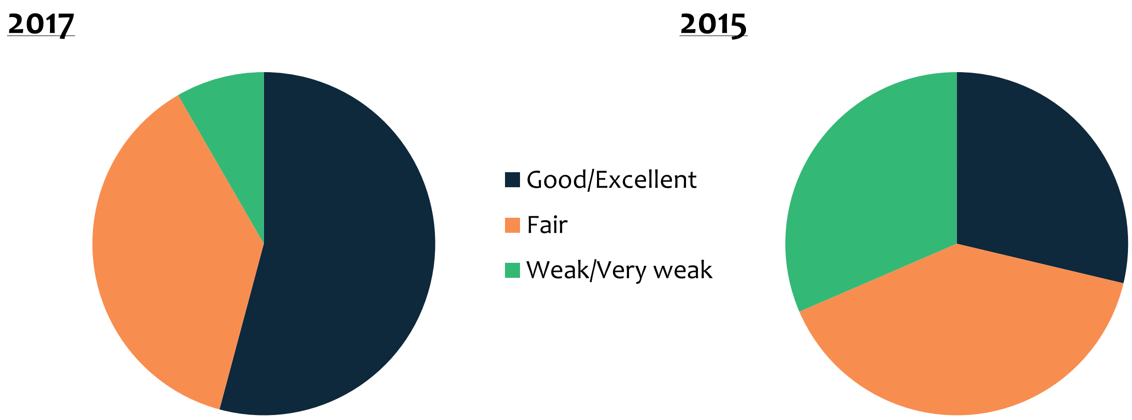
- Innovation policies (including R&D) and human capital (including skills and education) are the top structural reform priorities for business today.

- The impact of non-tariff barriers on international trade remains significant, and is rated the most important factor affecting international trade.

THE GENERAL BUSINESS CLIMATE

"Business sentiment has improved since 2015 with over half of respondents describing the business climate in their country as either good or excellent"

Figure 1: comparison of responses to the question: "*How would you rate the business climate in your country at present?*" from 2017 and 2015



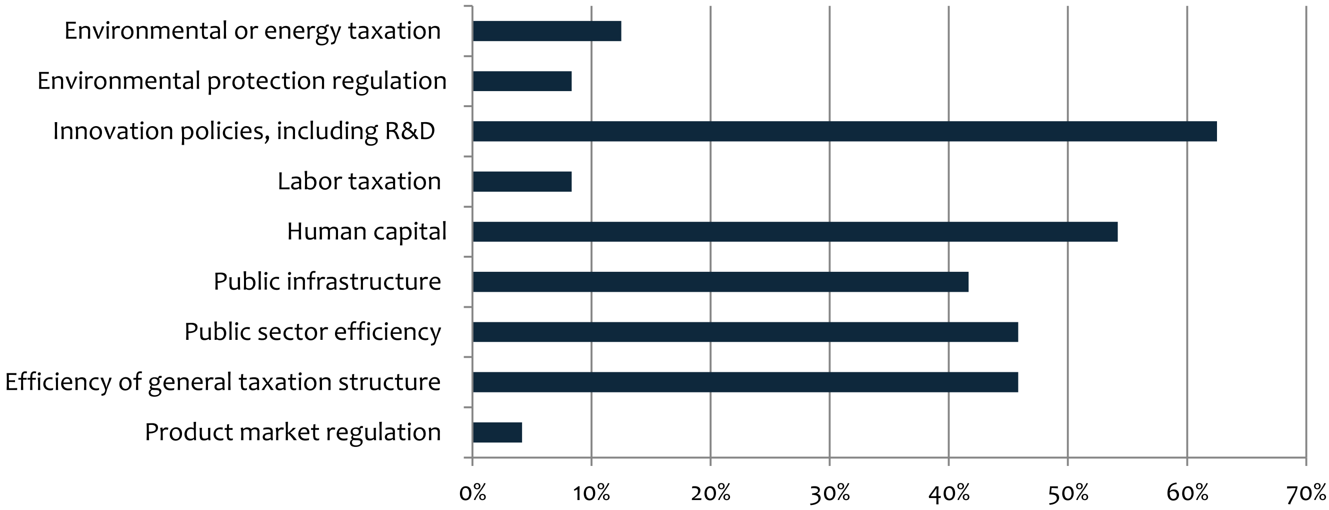
Highlights:

- Over half of respondents, 54%, were positive about the current business climate in their country. Most of these, 50% of all respondents, rate the business climate as 'good.'
- Of the 24 countries surveyed only two, 8% of the total, rate the business climate in their country 'weak' or 'very weak.'
- This is an improvement on the 2015 results where 33% of respondents felt the business climate to be 'weak' or 'very weak.'
- 37.5% of respondents rate their country's business climate 'fair' which remains in line with the 34% of respondents who rated it 'fair' in 2015.

STRUCTURAL REFORM PRIORITIES

"Innovation, human capital and greater efficiency in the public sector and in taxation are the top reform priorities"

Figure 2: responses to the question: "what are top structural reform priorities in your country at present?"



Highlights:

- 62% of respondents chose 'innovation policies, including R&D' as one of their top three reform priorities for 2017 while over half, 54%, chose 'human capital.'

- The 'efficiency of taxation,' the 'efficiency of the public sector' and 'public infrastructure' all received similar numbers of responses as reform priorities.

What does this mean for policy?

- To improve economic performance and economic participation governments should focus on embedding STEM, promoting lifelong learning and linking job transition with training, including Vocational Education and Training (VET) and effective employment services.

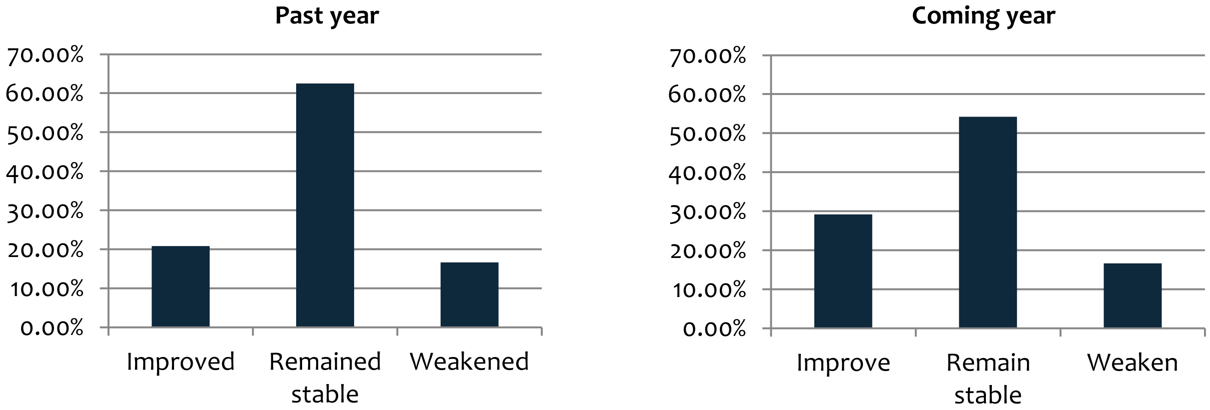
- Competencies such as creativity, critical thinking, communication, and collaboration, as well as qualities such as leadership and resilience are also major determinants of individual success and should be embedded all the way into tertiary education.

- Business also wants governments to promote entrepreneurship and provide additional support for innovation and R&D.

THE INVESTMENT ENVIRONMENT

"The environment for private investment has been relatively stable with slightly more respondents expecting improvements in the coming year than reported improvements in the past year"

Figure 3: responses to questions about the enabling conditions for private investment in the past year and in the coming year



Highlights:

- When describing how the enabling conditions for private investment have changed over the past year the majority of respondents, 62% reported a stable environment.
- Positive and negative responses were fairly balanced with 5 respondents citing improvement and 4 citing weakening.
- Looking ahead at the coming year there was greater positivity with 29% of respondents expecting the enabling conditions to improve.
- Just over half of respondents, 54%, expect the enabling conditions for private investment to remain stable in the coming year.

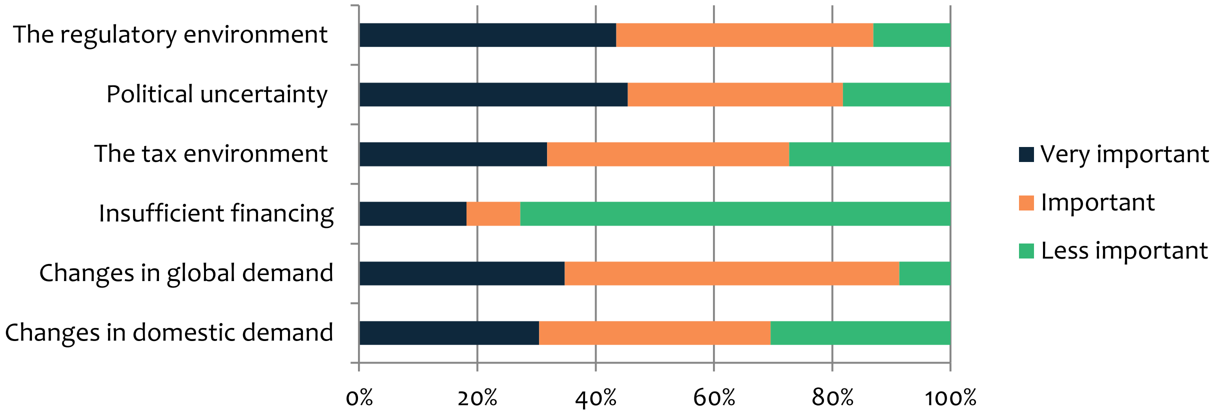
What does this mean for policy?

- The lack of improvement in the enabling conditions for private investment highlights the need for the OECD to deepen its measurement of the business environment.
- A new 'Better Business Index' should be compiled and published regularly to draw together indicators on: regulation, openness to investment, innovation policies, tax certainty, access to skills and education, infrastructure quality, and other criteria that support sustainable private sector growth.

DRIVERS OF TRADE AND INVESTMENT PERFORMANCE

"Regulatory and political uncertainty remain key drivers of cross-border investment decisions while the availability of external finance is less of a concern"

Figure 4: responses to the question "In the past six months, what were the most important factors affecting cross-border investment decisions in your country?"



Highlights:

- Beyond changes in global demand, 'the regulatory environment' was cited as the most important driver of cross-border investment decisions and 42% of respondents cited it as 'very important.'

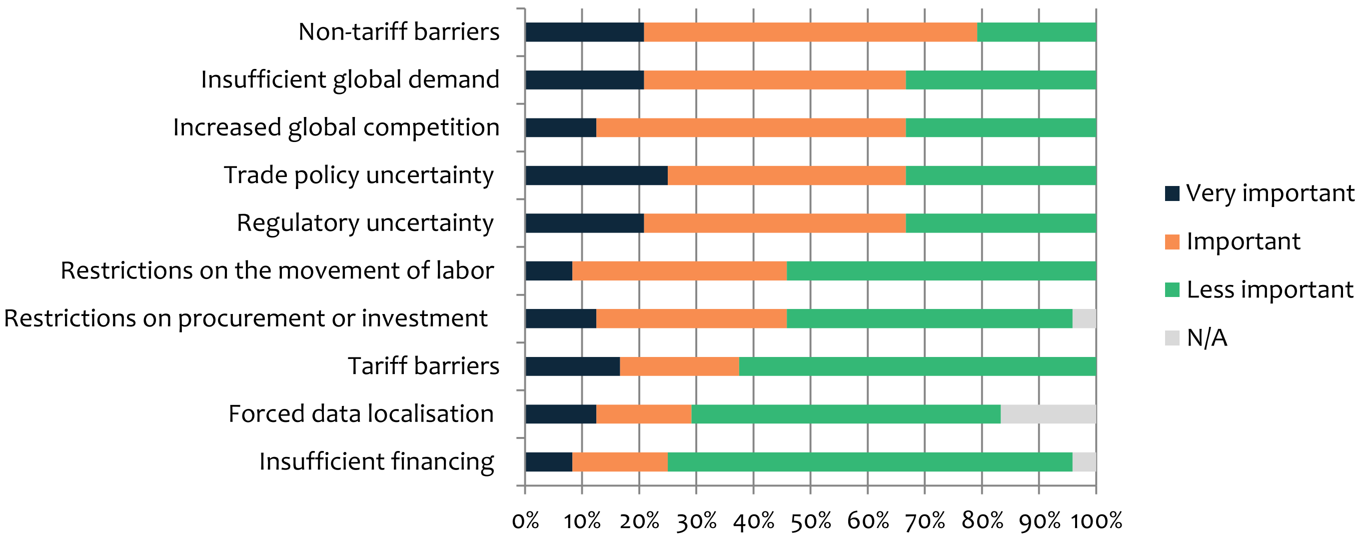
- 'Political uncertainty' and 'the tax environment' were also rated highly with 41% and 30% rating them 'very important' respectively.

What does this mean for policy?

- To better support the international investment environment we urge governments to follow the guidance of the OECD *Policy Framework for Investment* with even greater determination. Monitoring implementation should be a top priority for the OECD.
- Governments should also build on the findings of the OECD/G20 *Business Survey on Taxation* which highlighted actions to support greater tax certainty, such as by improving tax policy design, improving tax dispute prevention and resolution, and applying innovative tools to enhance certainty in tax administration.

“Non-tariff barriers and uncertainty over the regulatory and trade policy environments are the most important factors affecting international trade”

Figure 5: responses to the question “In the past six months, what were the most important factors affecting international trade in your country?”



Highlights:

- Almost 80% of respondents reported ‘non-tariff’ barriers as either ‘important’ or ‘very important’ as contrasted with only 37% who did so for ‘tariff barriers.’
- Uncertainty over both the policy and regulatory environments were also considered important with over 60% of respondents rating them ‘important’ or ‘very important.’

What does this mean for policy?

- The recent entry into force of the WTO Trade Facilitation Agreement should be seized as an opportunity to cut red tape at the border and create new jobs through global trade.
- As highlighted in Business at OECD’s Trade as a Priority for All, priority areas for immediate government action include - digital trade, trade in services, and movement of business persons where rising non-tariff barriers need to be tackled.

Methodological note

Timeline

This survey was launched in late March 2017 and concluded in April 2017. This synthesis report was prepared in May 2017.

Respondents

24 national business and employer organizations from 24 OECD member countries participated in the survey on a voluntary basis. Only one response per organization, and per country, was accepted. Each participating business and employer organization represents thousands of companies across several economic sectors in their respective countries.

In responding to the survey, it was expected that the individual respondents (typically chief economist or senior leadership) would aim for well-balanced and representative responses based on the economic situation in their country.

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:

I. Views on the overall business climate
II. Views on the enabling conditions for trade and investment
III. Factors affecting international trade and investment
IV. Views on top structural reform priorities

Contact

If you would be interested to receive further information, please contact Business at OECD Policy Manager Toby Bateman (bateman@biac.org)

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