BUSINESS at OECD
THE BUSINESS AND INDUSTRY ADVISORY COMMITTEE

Business at OECD (BIAC)

2018 Economic Policy Survey: a contribution to *Going for Growth*

Key messages:

- The business climate remains broadly positive in 2018 with over half (53%) of respondents giving a positive assessment. However, business confidence is more polarized than twelve months ago with a quarter (25%) of respondents saying the climate is 'weak,' up from only 8% in 2017.

- 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 and only a fifth expect it to improve in the next twelve months.

- Human capital (including skills and education), innovation policies (including R&D), taxation, public sector efficiency, and infrastructure are the top domestic structural reform priorities for business today. Regarding taxation, business is mostly concerned with distortions and fragmentation in the system.

- A lack of political will, and a lack of political or policy consistency, are considered the biggest obstacles to the successful implementation of pro-growth reforms.

THE GENERAL BUSINESS CLIMATE

"While still broadly positive, business sentiment is more mixed in 2018, with over half of respondents describing the business climate in their country as good while a quarter now describe it as weak"

Figure 1: comparison of responses to the question: "*How would you rate the business climate in your country at present?*" from 2018 and 2017

2017 **2018**

Highlights:

- Over half of respondents (53%) were positive about the current business climate in their country and rated it as 'good.'

- Of the 28 countries surveyed seven (25% of the total) rated the business climate in their country as 'weak.'

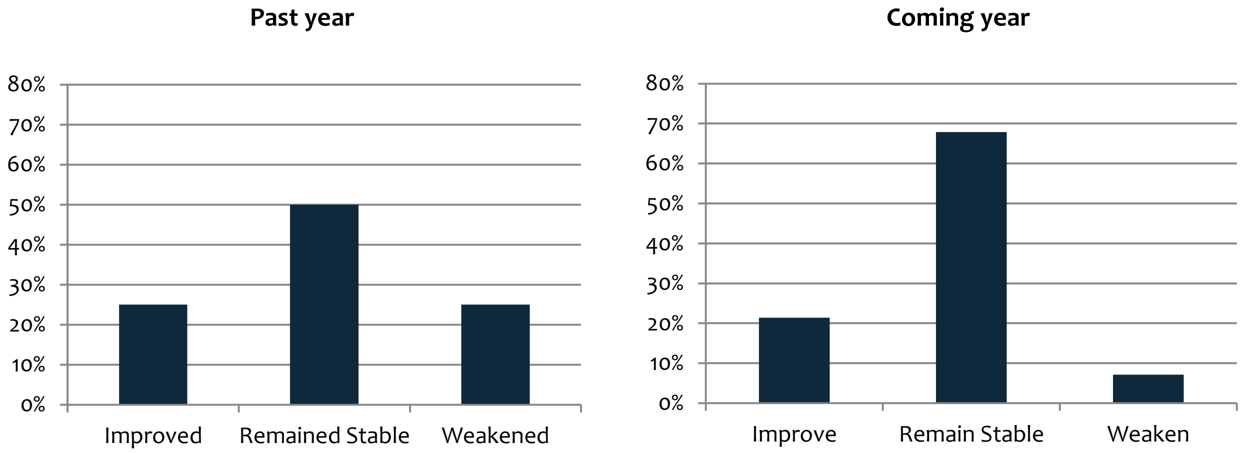
- This is a significant change from 2017 where only 8% of respondents rated the climate as 'weak' but it remains an improvement on 2015 when 34% rated it 'weak.'

- Only 21% of respondents rated the business climate in their country as 'fair', which is fewer than in both 2017, when 37.5% did, and in 2015, when 34% did.

THE INVESTMENT ENVIRONMENT

"Businesses are not seeing improvements in the enabling environment for private investment, which remains lacklustre, and many countries can move from stable to better"

Figure 2: responses to questions about changes in 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 50% reported a stable environment.

- For changes in the past year, positive and negative responses were balanced with 25% respondents reporting improvement and 25% reporting weakening.

- Looking ahead at the coming year, the large majority (68% of respondents) expect the investment environment to remain stable. Only around a fifth of respondents expect it to improve in the next twelve months.

What does this mean for policy?

- In a lacklustre investment environment, business looks to the OECD for a more forceful defense of the value of an open international environment for trade and investment.

- Improved domestic competitiveness must go hand in hand with an international level playing field that supports the development, and effective functioning, of global value chains.

- In this context, core OECD work in support of trade and investment liberalization is more important than ever.

THE POLITICAL LANDSCAPE FOR REFORM

"Political leadership and commitment are critical to successful pro-growth reforms, when lacking they are seen as the biggest obstacles by business"

Figure 3: responses to the question: "*What is the biggest obstacle to successful pro-growth reforms in your country?*"

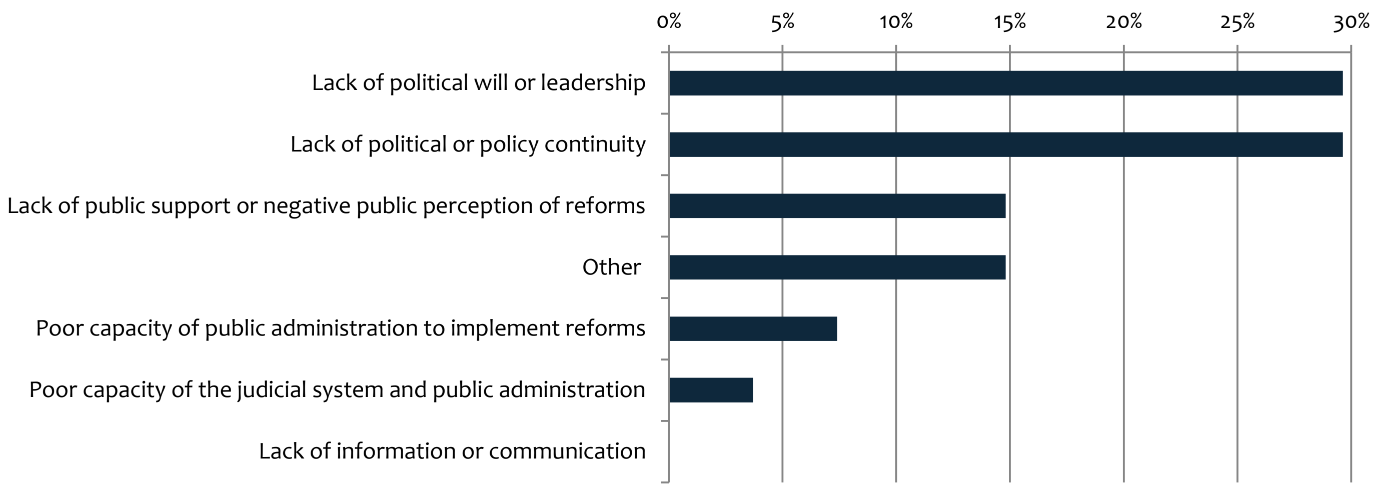
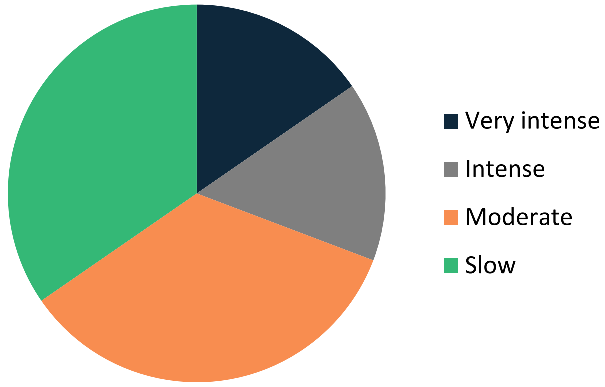


Figure 4: responses to the question: "*How would you rate the intensity of policy reform in your country in the past twelve months?*"



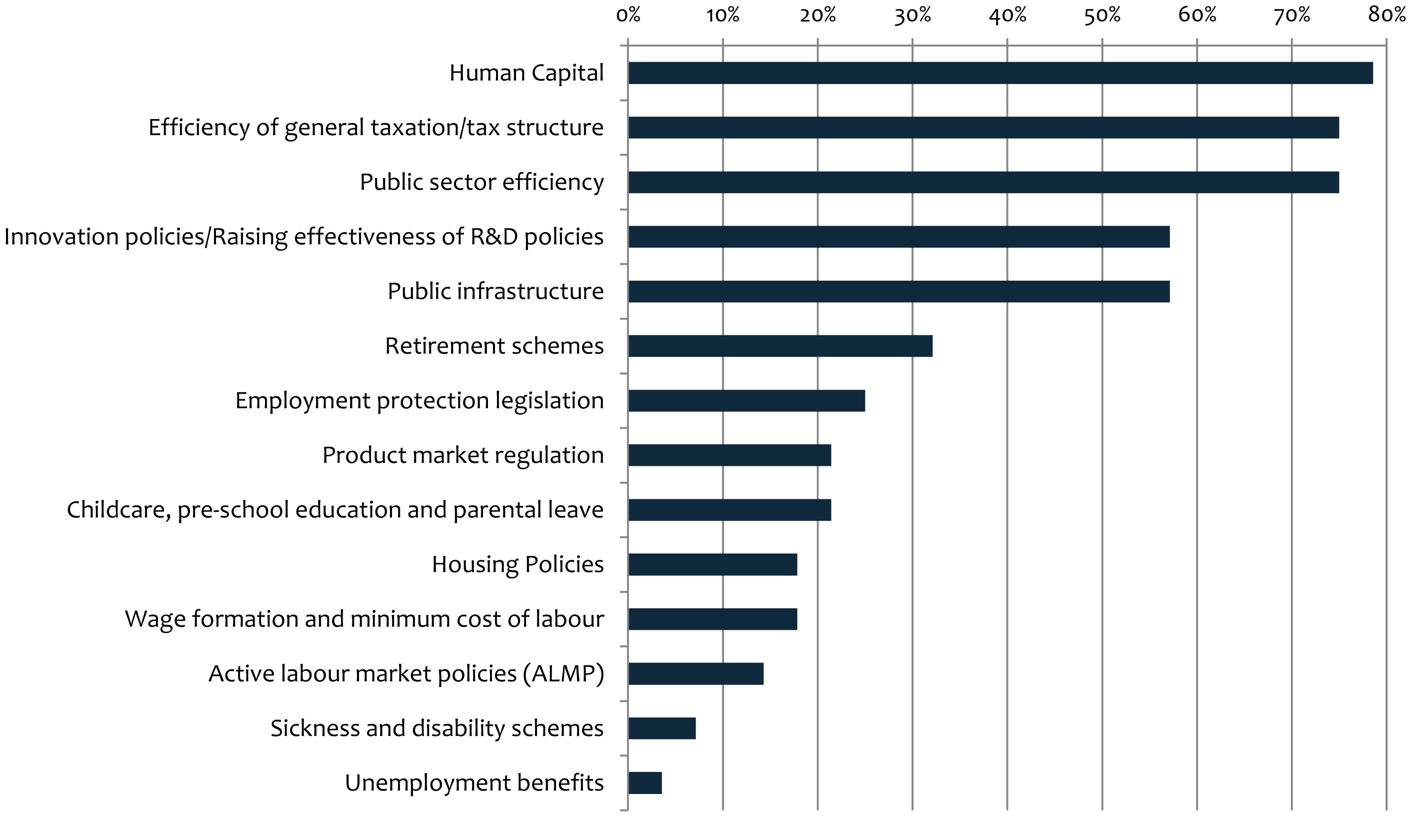
"Today, reform intensity varies with an even split of a third of countries experiencing slow reform activity, a third experiencing moderate activities and a third experiencing either intense or very intense reform programs"

DOMESTIC STRUCTURAL REFORM PRIORITIES

This survey builds on previous *Business at OECD* surveys conducted in 2016 and 2014. Its main aim is to contribute to the OECD's flagship *Going for Growth* report by supporting the development of country-specific structural reform priorities.

To make this input as effective as possible the reform categories used for our survey are matched to those used by the OECD when they formulate the *Going for Growth* recommendations. They are developed in consultation with the OECD Economics Department.

Figure 5: responses to the question: "*Choose the top five general policy areas where reform is needed to support growth in your country*"



Highlights:

- 78% of respondents chose 'human capital' as one of their top five reform areas in 2018.

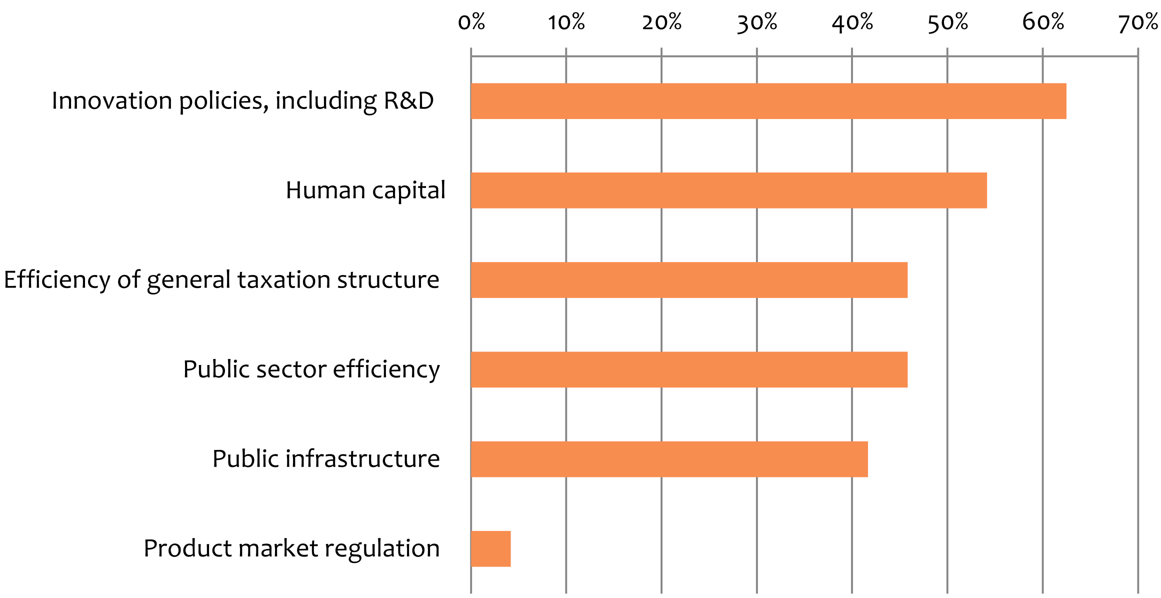
- 75% of respondents chose 'efficiency of general taxation' and 'public sector efficiency' as one of their top five reform areas in 2018.

- 'Innovation policies/raising the effectiveness of R&D policies' and 'public infrastructure' were the remaining reform areas chosen by more than half of respondents, with 57% citing each as one of their top five priorities.

COMPARISON TO 2017 PRIORITIES

"Domestic structural reform priorities for business in 2018 are an evolution – rather than a revolution – from priorities in 2017"

Figure 6: 2017 responses to the question: "What are the top structural reform priorities in your country at present?"

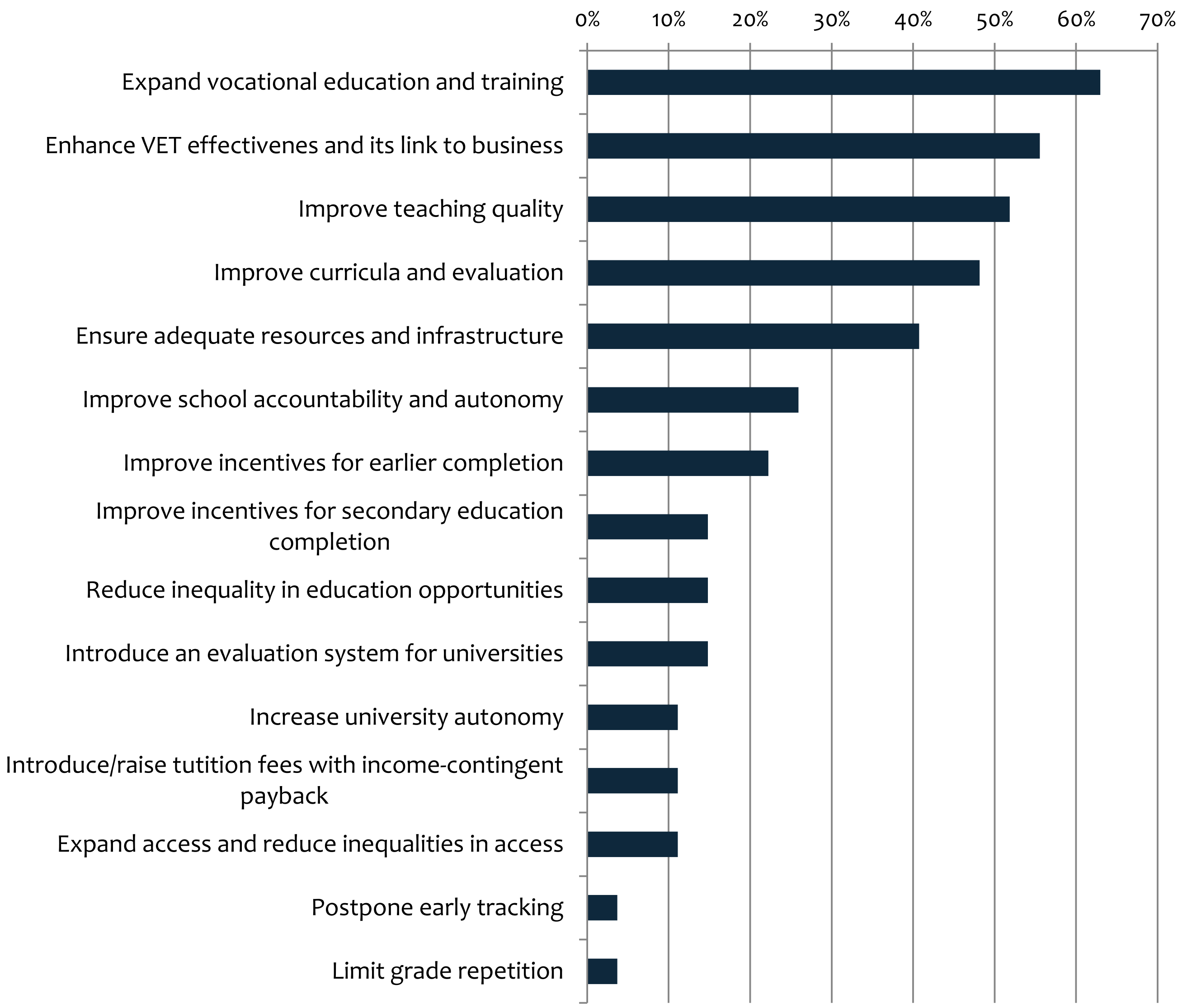


Highlights:

- The top five structural reform priorities cited by respondents in 2018 remain the same as in 2017, while the order of importance has changed slightly.
- 'Human capital' rose in prominence from 2017 when it was cited by 54% as a top structural reform priority to become the most cited area.
- While being overtaken by some other issues 'innovation policies, including R&D' has remained very stable in terms to of total percentage of respondents citing it as a priority – 62% in 2017 and 57% in 2018.

REFORMS TO IMPROVE HUMAN CAPITAL

Figure 7: responses to the question: "Choose the top four reforms that would most improve 'human capital' in your country"



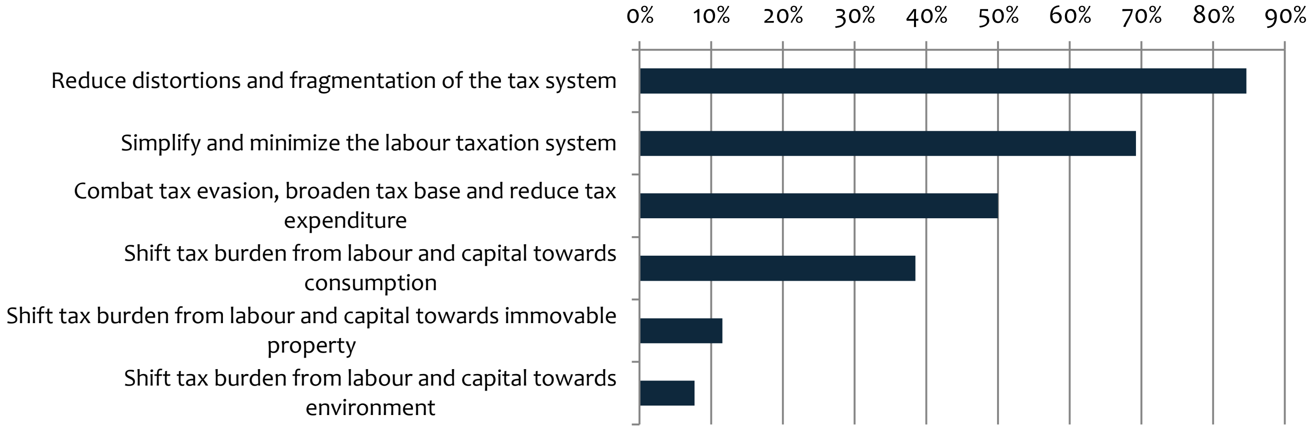
Highlights:

- Expanding, enhancing, and increasing the business links of vocational education and training were the most commonly cited reforms that would most improve human capital.
- A focus on ensuring high teacher quality and curriculum reform were also highly cited with around 50% of respondents placing these two reform in their top five priorities.
- 40% of respondents chose 'ensure adequate resources and infrastructure' as a top four priority for improving human capital.

REFORMS TO IMPROVE PUBLIC ADMINISTRATION – TAXATION AND PUBLIC SECTOR EFFICIENCY

"Simplicity, transparency and certainty are the key attributes businesses want from the tax system"

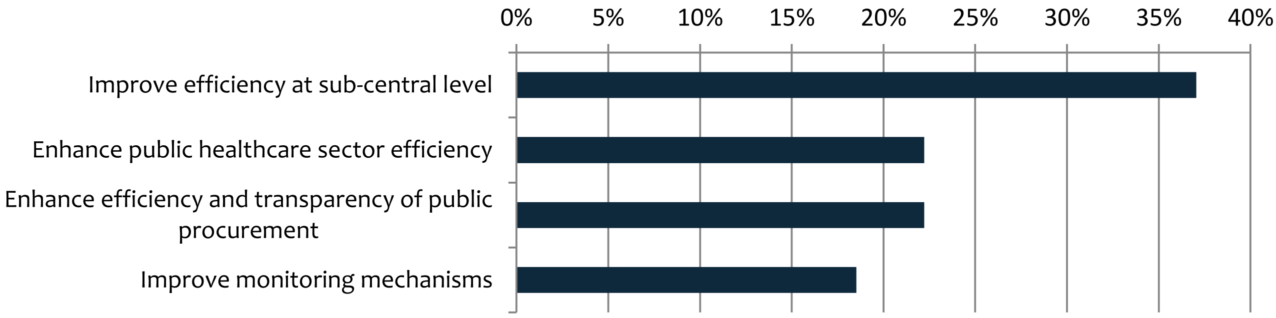
Figure 8: responses to the question: *"Choose the top three reforms that would most improve 'efficiency of general taxation/tax structure' in your country"*



Highlights:

- 85% of respondents chose 'reducing distortions and fragmentation' as one of their top three reforms to improve the tax system in their country.

Figure 9: responses to the question: *"Choose one reform that would most improve 'public sector efficiency' in your country"*

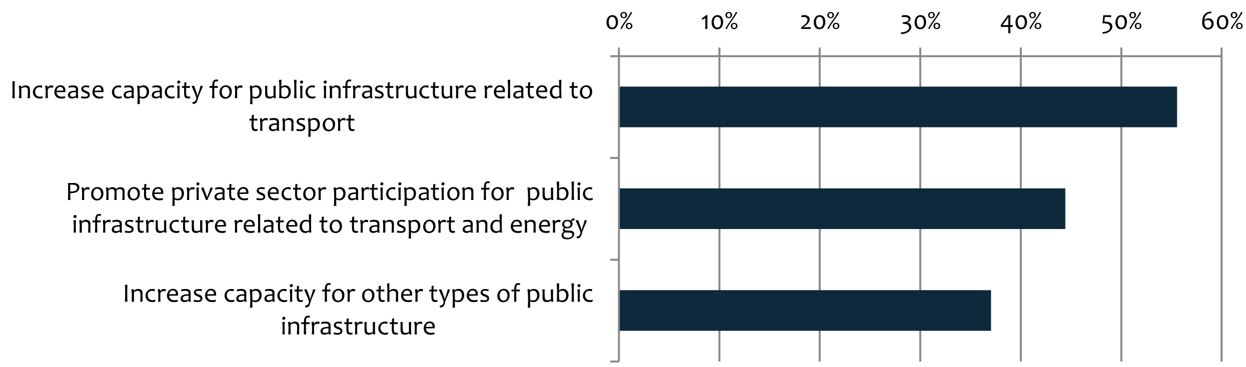


Highlights:

- Cited by 37% of respondents 'improve efficiency at sub-national level' was the most popular reform to improve public sector efficiency.

INFRASTRUCTURE AND INNOVATION – BENEFITING FROM PUBLIC PRIVATE PARTNERSHIP

Figure 10: responses to the question: "*Choose the top two reforms that would most improve 'public infrastructure' in your country*"

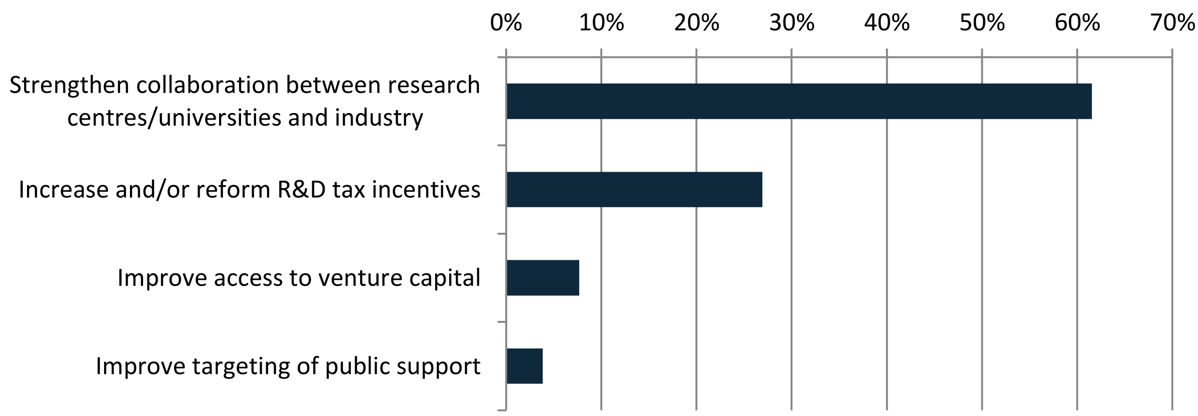


Highlights:

- Increasing the capacity of transport infrastructure is cited by 55% of respondents as one of their top two reform priorities for public infrastructure.

"Strengthening collaboration between public institutions and private companies is a core component of a successful innovation strategy"

Figure 11: responses to the question: "Choose one reform that would most improve 'innovation policies/raising effectiveness of R&D policies' in your country"



Methodological note:

Timeline

This survey was launched in late March 2018 and concluded in April 2018. This synthesis report was prepared in May 2018.

Respondents

28 national business and employer organizations from 28 OECD member and observer countries participated in the survey on a voluntary basis. Only one response per country was accepted. Each participating business and employer organization represents thousands of companies across multiple 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 private investment
III. Priorities for country level structural reform
IV. Views on reform intensity

Contact

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

BUSINESSatOECD

THE BUSINESS AND INDUSTRY ADVISORY COMMITTEE

Business at OECD (BIAC)
The Business and Industry Advisory Committee to the OECD
13-15 Chaussée De La Muette
75016 Paris
France
@BusinessAtOECD | www.biac.org

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