Declining business confidence in a more challenging global trade and investment environment
Key findings

- Our survey indicates a clear deterioration of the overall business climate, with the share of respondents who consider the business climate as either ‘excellent’ or ‘good’ falling from 54% in 2017 and 2018 to only 41% in 2019, while 16% of respondents consider the situation as ‘weak’ or ‘very weak’.

- A particular concern is the slight deterioration in the enabling environment for trade and investment over the past 12 months, with now more than a quarter of respondents reporting a weakening. Less than half of our members expect at least a moderate increase in exports over the coming 12 months, while investment is considered to be trending sideways at best.

- Survey participants are increasingly concerned about regulatory and political uncertainty (-13% and -33%), the tax environment (-21%) and a weakening of global demand (-38%) as key reasons holding back investment. An increasingly challenging global trading environment, regulatory uncertainty and a slowdown in global growth are reported as key factors weighing negatively on companies’ export outlook.

- China’s economy (54%), growth in Europe, policy uncertainty and Brexit (all 46%) are considered as key downside risks to global economic growth in the coming 12 month, while the slow pace of structural reform implementation (33%) remains a concern for long-term economic growth prospects.


Policy messages

- There is a clear need to address the persisting global trade tensions and to avoid protectionism by reinforcing the global rules based international trade and investment system through fostering multilateral dialogue.

- While international conflicts may persist, there are good opportunities for improving the domestic investment climate in many countries by increasing public investment in infrastructure, improving corporate taxation and supporting innovation, and human capital formation, more broadly.

- 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 one of the top priorities for the OECD.

- Against the background of a slowdown in global growth and heightened uncertainty, more vigorous structural reform ambition is required across economies to boost long-term trend growth.
1. THE OVERALL BUSINESS CLIMATE

“We see a clear deterioration of the overall business climate, with the share of respondents who consider the business climate as either ‘excellent’ or ‘good’ falling from 54% in 2017 and 2018 to only 41% in 2019.”

Figure 1: Snapshot view of current business climate in industry and services

<table>
<thead>
<tr>
<th>Year</th>
<th>Excellent</th>
<th>Good</th>
<th>Fair</th>
<th>Weak</th>
<th>Very weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>8</td>
<td>33</td>
<td>42</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td>54</td>
<td>21</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td>50</td>
<td>38</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

*average of responses, in %

Source: Business at OECD member federations

Highlights:

- Only 41% of respondents rate their country’s business climate as either ‘excellent’ or ‘good’, in 2019.

- This is in stark contrast with the previous two years, where still a majority of respondents had a predominately positive view on the overall business climate (average of 54%).

- Of the countries surveyed, 16% of the total, i.e. four countries, rate the business climate in their country as ‘weak’ or ‘very weak’.

- The deterioration in members’ view on the business climate, as well as the greater divergence in responses, may relate to greater uncertainty about the global economic and political environment.
2. CHANGES IN TRADE AND INVESTMENT ENVIRONMENT

“The enabling environment for trade and investment has slightly deteriorated over the past 12 months, with now more respondents reporting a weakening rather than an improvement.”

Figure 2: Perceived change in enabling conditions for private investment over the past 12 months

<table>
<thead>
<tr>
<th>Year</th>
<th>Improved</th>
<th>Remained Stable</th>
<th>Weakened</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>13</td>
<td>58</td>
<td>29</td>
</tr>
<tr>
<td>2018</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>2017</td>
<td>21</td>
<td>63</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: Business at OECD member federations

Figure 3: Perceived change in enabling conditions for exports over the past 12 months

<table>
<thead>
<tr>
<th>Year</th>
<th>Improved</th>
<th>Remained Stable</th>
<th>Weakened</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>17</td>
<td>58</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: Business at OECD member federations

Highlights:

- More than a quarter of respondents report a weakening of the enabling conditions for private investment and exports in their countries over the last 12 months.

- This implies that the share of participants reporting a deterioration is now greater than that of those who report an improvement in the enabling conditions (29% vs. 13% for investment and 25% vs. 17% for exports).

- For investment, this implies a clear deterioration from our previous survey rounds. In 2018 responses were balanced, while in 2017 still a slight majority of respondents suggested an improving investment environment.
3. FUTURE TRADE AND INVESTMENT ENVIRONMENT

“Only less than half of our members expect at least a moderate increase in exports over the coming year, while investment is considered to be trending sideways at best.”

Figure 4: Expectations for business investment and exports over the next 12 months, compared to the last 12 months

Source: Business at OECD member federations

**Highlights:**

- Based on our survey, we would expect only a very modest increase in export growth over the next 12 months compared to the last 12 months, with less than half (46%) of our members expecting a moderate increase in their countries exports, while 29% expect no change and 25% a decrease.

- For investment, the largest share of participants (38%) expects the outlook to be unchanged, with an equal share of survey participants expecting a moderate increase and decrease (both 29%).

- For further details on our trade and investment policies, please see our recently published “Business at OECD Considerations for Trade and Investment: Priorities for future OECD work” (link).
4. DRIVERS OF INVESTMENT PERFORMANCE

“Regulatory and political uncertainty as well as a slowdown in global growth are considered key obstacles to business investment.”

Figure 5: Expected impact of different factors on the outlook for business investment

Source: Business at OECD member federations

Highlights:

- Domestic demand (+38%), access to finance (+13%) and the cost of finance (+8%) are expected to positively affect the outlook for business investment.

- However, survey participants are increasingly concerned about regulatory and political uncertainty (-13% and -33%), the tax environment (-21%) and a weakening of global demand (-38%).
5. DRIVERS OF TRADE PERFORMANCE

“An increasingly challenging global trading environment, regulatory uncertainty and a slowdown in global growth are reported to weigh negatively on companies’ export outlook.”

Figure 6: Key factors constraining the outlook for companies’ exports

Source: Business at OECD member federations

Highlights:

- Global trade tensions were cited as the number one factor that is constraining the outlook of companies’ exports.

- In addition, survey participants are strongly concerned about the impact of non-tariff barriers, regulatory uncertainty and insufficient global demand on export prospects.
6. RISKS TO GLOBAL ECONOMIC GROWTH

“The Chinese economy, growth in Europe, policy uncertainty and Brexit are regarded as key downside risks to global economic growth”

Figure 7: Key downside risks for global economic growth in the next 12 months

Source: Business at OECD member federations

Highlights:

- China’s economy (54%), growth in Europe, policy uncertainty and Brexit (all 46%) are considered as key downside risks to global economic growth in the coming 12 month, while members are also concerned about the slow pace of structural reform implementation (33%), which is especially a concern regarding long-term economic growth prospects.

- Under the category “other”, 5 out of 6 respondents referred to an escalation of trade tensions as a key downside risk. If we were to add this to the responses under “policy uncertainty”, it would constitute the largest downside risk.

- Survey participants are less concerned that weaker growth in emerging markets, an overly rapid tightening of monetary policy, or fluctuations in oil and commodity prices will derail the global economy in the near future.
7. STRUCTURAL REFORM PRIORITIES

“Greater efficiency in the public sector and in taxation, public infrastructure, human capital and innovation policies are the top reform priorities, with a strong increase in members pointing to the need for labour market reforms, compared to last year.”

Figure 8: Top structural reform priorities at present

Source: Business at OECD member federations

Highlights:

- Asked for their top 5 reform priorities for 2019, 71% of respondents choose ‘public sector efficiency’ and ‘efficiency in taxation’, followed by ‘public infrastructure’, ‘human capital’ (both 67%), and ‘innovation/R&D policies’ (58%).

- Compared to our last survey in 2018, there is a significant increase with regards to labor market policies such as ‘wage formation and minimum cost of labor’ and ‘active labor market policies’ as a structural reform priority.
Methodological note

Timeline

This survey was launched in late March 2019 and concluded in April 2019. This synthesis report was prepared in May 2019.

Respondents

24 national business and employer organizations, including all of the G7 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 five main parts:

I. Views on the overall business climate
II. Views on the enabling conditions for trade and investment
III. Views on the outlook for international trade and investment
IV. Views on key risks to global economic growth
V. Views on top structural reform priorities

Contact

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