BUSINESSatOECD

THE BUSINESS AND INDUSTRY ADVISORY COMMITTEE

Business at OECD (BIAC) Statement to Ministers

Core business recommendations for open economies and inclusive societies

June 2017

Business at OECD (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 Business at OECD, national business and employers federations and their members provide expertise to the OECD and governments for competitive economies, better business, and better lives.

Introduction

Across OECD countries, the value and impact of globalization is being debated. An increasingly critical perception, coupled with uncertainty over the impact of rapid technological change, has come to define the business and political environment. This development clearly demands a forward looking policy response that will drive long-term prosperity in OECD countries and beyond.[1]

The weight of evidence shows that open economies, built on global value chains, investment and the mobility of innovative ideas and people create jobs and improve lives for the many. Business recognizes the need to improve the process and perception of globalization, and to seize the opportunities and benefits presented by the digital transformation. In the longer term, societies are able to support economic openness only when accompanied by appropriate domestic policies to prepare people for change and disruption with better skills and better opportunities for economic participation.

In an open world, protecting the environment and managing essential resources such as water, land and the oceans, are shared responsibilities, and business should be seen as a solutions partner. The OECD can provide important evidence and analysis to support the implementation of the Paris Climate Agreement and this work should continue to have priority.

The twin challenges facing policymakers are clear: the need to strengthen growth and the need to boost economic participation. Action on these fronts, within the framework of sustainable development, will improve both the practice and perception of globalization. To help in this endeavour Business at OECD offers practical recommendations for ministers to consider.

1. Support a better business environment and map competitiveness

Last year, OECD ministers committed to “promote measures to ensure a level playing field for business by assessing factors affecting the well-functioning of markets.”[2] Yet despite this commitment governments seem increasingly reluctant to engage in reform that would strengthen the productivity and resilience of our economies. In fact, the pace of structural reform has slowed over the past two years and is now back to pre-financial crisis levels.[3] At the same time, barriers to domestic and international markets have increased, and these factors combined threaten to further undermine the competitiveness of our economies.

To reverse this trend, and to support urgently needed reforms, the OECD should compile and publish annually a new ***Better Business Index***. The Index should include indicators on: the regulatory environment and cooperation across borders, openness to investment, policies for innovation, tax certainty, access to

[1] Business at OECD (2016), Business Statement to OECD Ambassadors: A world open for trade, investment and innovation.
[2] Meeting of the Council at Ministerial Level, 1-2 June 2016: Declaration on enhancing productivity for inclusive growth
[3] OECD (2017), Economic Policy Reforms 2017: Going for Growth, OECD Publishing, Paris.

skills and education, the quality of infrastructure, and other criteria that support sustainable private sector growth. Clearly, only the OECD is equipped to develop such an index with its broad cross-disciplinary expertise.

The guidance this measure could give governments is urgently needed. Businesses' ability to innovate and create jobs depends on efficient and proportional regulation, in both product and labour markets, to foster competition and competitiveness. Excessive non-wage labour costs or overly strict employment protection legislation should not become barriers to job creation. Neither should regulation unnecessarily inhibit firm creation or exit.

Underpinning this is the need for greater country commitment to good regulatory practice and international regulatory co-operation, especially as only one-third of OECD countries have an explicit policy in this area.[4] Ultimately, governments should aim to follow the principle of proportionality across the whole legislative and regulatory lifecycle. The *Better Business Index* would help reinforce the connections between these issues and promote action to strengthen growth.

2. Create the conditions to benefit from trade and investment on a level playing field

Business at OECD points to the vital role of multilateral institutions such as the OECD and the WTO to ensure better governance for our economies and international trade. 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. The OECD also offers essential knowledge about the importance of global value chains for productivity and growth in our economies. Yet the trend in government action has been the reverse with 145 new trade-restrictive measures applied in G-20 countries between October 2015 and May 2016.[5]

Rising protectionist action, especially growing non-tariff barriers, coupled with anti-trade rhetoric pose a serious threat to goods and services as they pass through global value chains.[6] This risks undermining the contribution of trade and investment to job creation, domestic growth, and innovation.

The business community has identified areas for immediate action including on digital trade, trade in services, and movement of business persons. [7] Building on previous work on forced localization, which showed that both trade and domestic growth is damaged by restrictive measures, new OECD analysis should focus on these new barriers.

[4] OECD (2015), Regulatory Policy Outlook, p16.
[5] http://www.oecd.org/daf/inv/investment-policy/15th-G20-Report.pdf
[6] Growing non-tariff barriers include: data localization, restrictions in the movement of business people, and protectionist policies in trade in services
[7] Business at OECD (BIAC), Business Priorities on Trade, 2017

In this context, the OECD *Policy Framework for Investment* is of fundamental importance and we urge governments to follow its guidance with greater determination. The rigorous and expeditious implementation of the framework will determine if governments succeed in creating an investment environment that fosters sustainable growth and the OECD should ensure that monitoring implementation is a top priority. The OECD *Codes of Liberalization of Capital Movements*, now being updated, should guide all governments to remove restrictive measures.

At the same time business is committed to playing a pro-active role for the widespread and effective implementation of the OECD *Guidelines for Multinational Enterprises* and OECD *Anti-Bribery Convention*. We also support additional outreach efforts to non-adhering countries to ensure a global level playing field. Governments should work collaboratively on anti-corruption addressing both the supply and demand sides. To support action here the OECD should kick-start new demand-side work and develop a coherent strategy to encourage companies to invest in well-functioning compliance systems and to support voluntary self-disclosure.

3. For growth and investment, ensure good governance and predictable tax policies

The G20/OECD project on Base Erosion and Profit Shifting (BEPS) advanced international tax rules to address emerging global business models. Governments must now ensure clear, consistent implementation of the BEPS Recommendations which, in the context of the Inclusive Framework, engages countries beyond OECD and G20 Membership.

As the OECD develops work on tax and growth it is important to recognize the outcome of the new OECD/G20 *Business Survey on Tax Certainty*. This demonstrated that tax policy is a key element for investment decisions, but is not the only factor. Macroeconomic stability, labor market policy, a skilled workforce, and good governance are just as important and should be considered together in trade and investment matters.

Governments should also see through and promote valuable work on cooperative compliance approaches. These approaches lead to a positive culture of tax compliance, ensure stable revenue streams for governments and provide certainty for business regarding tax positions.

Business at OECD supports the critical importance of good corporate governance for the success of companies in domestic and international markets. We encourage the OECD to work closely with business on the implementation of the G20/OECD *Corporate Governance Principles* in OECD and non-OECD countries to foster growth, ensure that capital is sufficiently allocated, and create sustainable value, while emphasizing that growth should be pursued in an ethically conscious manner.

We also encourage the OECD to work closely with business on the implementation of the OECD *Guidelines on the Corporate Governance of State-Owned Enterprises*, given the growing importance of SOEs in international trade and investment.

4. Increase participation by promoting the skills and competencies to thrive in the digital era

Increasing economic participation is essential to spreading the benefits of globalization. Both governments and business must work together to ensure access to quality education, across early, tertiary and higher, and skills while developing a culture of lifelong learning.

More than ever the quality of their workforce and the demand for digital skills determines the competitiveness of businesses of all sizes.[8] To spread the benefits of the digital transformation, underpinning competitiveness, we urge governments to mainstream science, technology, engineering and maths (STEM) early on in their education systems, particularly technology and engineering that are typically crowded out by older, less relevant disciplines.[9] Building on the findings of the 2016 *BIAC Workshop on Gender Equality and Skills* governments should also address cultural stereotypes impacting the choice to study and work in STEM fields and promote women in STEM in particular. Competencies such as creativity, critical thinking, communication, and collaboration, as well as qualities such as leadership and resilience are also major determinants of success and should be embedded all the way into tertiary education.[10]

Encouraging the development of partnerships between business and educational institutions should also be a priority for governments. A major initiative in this respect is the Global Apprenticeship Network (GAN), developed in response to the G20 priorities on apprenticeships and skills, which mobilizes companies and establishes national networks for training and job creation for young people.[11] Governments should ensure that the regulatory environment in their countries supports business efforts to develop sustainable programs for apprenticeships and youth employment.

To deliver skills effectively, policies around learning should not just focus on education systems but incorporate active labour market policies (ALMPs) to link job transition with training, including Vocational Education and Training (VET) and effective employment services. New OECD analysis should help identify how investing in people and their skills can contribute to health and productivity in the workplace. This analysis, as well as the recommendations above, must also apply to Tertiary education, without which progress will be severely limited.

5. Focus on entrepreneurship

99% of firms in OECD countries, and in the membership of Business at OECD, are small and medium sized businesses (SMEs). Enabling and supporting entrepreneurship is the only way to increase their ability to participate in globalization.

---

[8] OECD (2016), Skills Matter: Further Results from the Survey of Adult Skills, OECD Publishing, Paris.
[9] http://biac.org/wp-content/uploads/2014/05/130605_BIAC_Education_Survey_PREMIUM.pdf
[10] http://biac.org/wp-content/uploads/2015/06/15-06-Synthesis-BIAC-Character-Survey1.pdf
[11] http://www.gan-global.org/

Yet, SMEs must navigate complex regulatory hurdles at home and face compliance challenges when competing internationally. To help deliver better public policy the OECD, consulting closely with business, should develop a new program that will lead to a comprehensive ***Council Recommendation on Entrepreneurship*** setting out government action in this area. Entrepreneurship and private sector investment should also be recognized as a core element for the delivery of the Sustainable Development Goals and related OECD work.

To do this effectively it should break down OECD silos and recognize that different work streams on regulation, taxation, trade and investment, and social benefits systems must be brought together as a package for action and reform.

For micro and small enterprises, everything starts with calibrating the burden of regulation and risk against the firm's innovative and output potential and this should be the primary focus of the *Recommendation*. Regulation carries disproportionate costs to SMEs in terms of financial management, record keeping, and tax regulations. Therefore, the OECD could analyse how "one-stop shops" and user-friendly e-government solutions could be created to streamline interactions between businesses and government agencies.[12]

In addition, diversifying the financing landscape, especially increasing access to risk capital, and facilitating access to global value chains should be addressed.[13] This must be informed by the OECD's *Going Digital* project and the *Recommendation* should identify the policies, both financial and non-financial, to support SMEs through the digital transformation. These policies will need to be underpinned by increased investment in physical infrastructure, such as broadband and 5G networks.

While not limited to SMEs, government support for innovation should form an important part of the *Recommendation*. We have seen significant declines in investment and innovation, particularly by SMEs, which is concerning as effective technology diffusion largely depends on company level investment. Policies and incentives should encourage pre-commercial research and development (R&D) activities which are currently a pinch-point.[14] They should also promote a culture that enables an appropriate taking and managing of risk which is critical to innovation.

Conclusion

This paper is a call to action for OECD governments. An increasingly critical public perception of globalization requires a determined response. Implementing a comprehensive competiveness agenda, that will both spur growth and increase the participation of more people, will improve the practice and perception of globalization.

[12] Business at OECD (2015), BIAC policy priorities for SMEs to drive growth.
[13] Business at OECD-B20 (2017), Financing sustainable growth for SMEs globally: the case for a coordinated G20 policy approach.
[14] Dr Jennifer Abel-Koch (KfW), Gino del Bufalo (CDP), Miguel Fernandez (ICO), Juliane Gerstenberger (KfW), Dr Vivien Lo (KfW), Blanca Navarro (ICO), Baptiste Thornary (BPI), *SME Investment and Innovation.*

This must be accompanied by better engagement with the public, especially regarding the opportunities that come with trade and investment. We encourage the OECD to deliver facts that resonate with non-technical audiences. With this input, Business at OECD, and our network of leading business organizations, is prepared to also help inform the public debate.