

What is needed to revive private sector-led economic growth?

Discussion Paper for the Consultation with the OECD Liaison Committee

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Introduction

1. At the Seoul G-20 Summit, G-20 Leaders recognised “the critical role of the private sector to create jobs and wealth, and the need for a policy environment that supports sustainable private sector-led investment and growth”¹. BIAC welcomes this political message, having long advocated the crucial role played by private sector entrepreneurship and investment for driving economic growth in an enabling policy environment.
2. Rebuilding market confidence is a critical task in restoring the health of our global economy. This means that business leaders must promote responsible behaviour and good business practices, while policy makers must work to improve the investment environment through structural reforms.
3. In this regard, the OECD’s distinctive interdisciplinary approach and focus on medium- to long-term structural reforms makes the Organisation ideally suited to provide guidance on strengthening the policy environment to enable sustainable private sector-led growth.
4. BIAC appreciates this opportunity to discuss this subject with OECD Ambassadors and Leadership, and in this paper we address a number of elements that need to be emphasised in the OECD’s policy work, including: [1] employment creation, [2] open, competitive markets for trade and investment, [3] innovation and green growth, [4] financial markets, and [5] effective public governance. Before doing so, it is important to briefly elaborate on the current business environment.

Current business environment

5. Slow economic growth and persistently high levels of unemployment have characterised the economic recovery, but new risks have now also emerged which could significantly impact on expectations for the recovery.

¹ The G-20 Seoul Summit Document, paragraph 50.

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6. For instance, accumulated sovereign debt issues in the euro zone are generating fear of contagion which is significantly affecting the single currency system and other European economies, bearing a negative impact on the global economy. Financial contagion must be avoided at all costs by restoring market confidence through a co-ordinated policy framework and by strengthening the EU/IMF support mechanism.
 7. In addition to the euro zone crisis, other potential risks could include further global financial market instability caused by a weak banking system, excessive liquidity, an uncertain equilibrium exchange rate, volatile commodity prices, rising inflation, and rapidly shifting international capital flows. Furthermore, there is much concern that governments might fail to reach agreement on several important global financial regulatory or governance issues.
 8. The result of all of the uncertainty caused by the issues mentioned above is a lack of market confidence, evidenced by continued weak levels of private sector investment in the economy. This in turn is perpetuating slow economic growth and high levels of unemployment.

Employment Creation

9. Employment policies should be effectively linked with the broader economic and regulatory context. Reducing persistently high unemployment rates require that policies stimulate and not impede investment, innovation, entrepreneurship and higher productivity.
10. In this context, labour market flexibility through reduction of overly rigid employment protection legislation can increase firms' capacity to hire and retain employees. At the same time, flexible approaches to work also require effective linkage of employment and social benefit systems which support job creation, and provide individuals incentive to work.
11. Private sector job creation can be further supported by the reduction of non-wage labour costs, through for example, reduction of some social security contributions and fiscal cost and more efficient health care benefit systems.
12. Increasing access for all to quality education and training, including through strengthened vocational education and training (VET) systems, should aim to develop skills and competencies necessary to meet the changing demands of the labour market and therefore enhance the employability of individuals. This would benefit from greater dialogue and co-operation among all stakeholders.

Open, Competitive Markets for Investment and Trade

13. The current fragile economic environment may tempt governments to resort to investment and trade protectionism measures. Such measures will only aggravate the global economic situation and be detrimental to the well-functioning of markets. It

is therefore crucially important that governments abstain from applying protectionism measures, including national security and emergency measures that create negative impacts on investment and trade. Clear agreement among governments on generally upholding their commitments to open, competitive markets is essential. For example, ensuring market access to raw materials is required for the trade of natural resources and agricultural commodities. Furthermore, there is a need for effective competition policy.

14. Reaching a conclusion of the WTO Doha Round negotiations before the end of 2011 must be a primary goal for governments, since it would have a substantial positive effect on the economic growth of national economies. An agreement on the Doha Round discussions would signal a common belief in open markets and restore confidence among market players, while at the same time being a cost-effective way of generating economic growth.
15. Focus should be put on how well-designed trade liberalisation can trigger the largest employment increases in national economies. An increased focus on trade in services would similarly support private sector-led economic growth and employment creation. Governments should facilitate improved conditions for trade in services, either as part of the WTO Doha Round negotiations or unilaterally.

Innovation and Green Growth

16. In the context of slow recovery, policy makers should place strong emphasis on innovation, which offers a powerful platform for greater productivity and long-term economic growth. This requires a comprehensive policy framework for fostering innovation and entrepreneurship, a whole-of-government approach, high-level political leadership as well as co-operation at the national and international levels and with the private sector. Focusing on practical steps to implement the recommendations of the Innovation Strategy in the context of a return to sustainable growth should therefore remain high on the OECD's agenda.
17. Innovation is also a fundamental requirement for achieving green growth. Green growth requires innovation in a wide range of technological and non-technological areas, progress in the deployment of key technologies as well as better use of existing knowledge and technologies across all sectors and geographical boundaries. As the economic recovery is not yet sufficiently strong, it is more important than ever to focus government and business efforts on clear win-win solutions where "green" and "growth" are mutually supportive as well as the practical and concrete steps that need to be taken that highlight how progress can be achieved. Bearing in mind that a large amount of financing will have to come from the private sector, the provision of a coherent policy framework for investment, entrepreneurship, innovation and open trade is therefore essential.
18. While in no way the only challenge addressed in the green growth context, much attention currently focuses on climate change, recognising the importance of a return to economic growth that takes into account climate concerns. Building on the

outcome of COP16, which has made some important progress, business will continue to contribute to climate solutions going forward. Business continues to actively support the development of a robust and truly inclusive post 2012 framework and underlines the importance of implementing practical solutions across the full range of emissions reductions and energy efficiency potentials. Predictability and all major emitters' participation in the post-2012 framework are indispensable to stimulate private sector investment at the global level that is conducive to growth while at the same time fostering innovation to address climate challenges.

Financial Markets

19. Appropriate financial regulation should be predictable, clear, transparent and well-targeted, with the central objective of restoring confidence to investors while strengthening the long-term sustainability of the global financial system. It is important to therefore avoid a situation occurring where new regulations cause banks to withdraw from certain markets that are important for international trade and growth, as has been suggested by concerns whether Basel III regulation could negatively impact on trade finance.
20. A failure to reach an agreement on many important global financial regulatory or governance issues will prolong the continued lack of market confidence. International co-operation is key. The G-20 should therefore play an important role in fostering international co-operation in order to create a stronger and more sustainable financial system.

Effective Public Governance

21. Effective public governance is critical to support private sector growth. Transparency, predictability and accountability of public governance frameworks, government process, laws and regulation, contribute to business confidence to invest and create jobs.
22. Competitive business environments which support business activity are characterised by effective laws and regulation, which are established through comprehensive and results oriented stakeholder consultation and subject to credible impact and risk assessment.
23. Administrative simplification (reducing red tape) and efficiently managed public resources likewise are critical to promoting business activity, and to attracting investment locally and internationally.
24. Global co-ordination of regulatory frameworks likewise is essential, as national and regional economies become more integrated.

What role for the OECD?

25. As discussed above, countries are still struggling to encourage investment and growth. The OECD must therefore strengthen its guidance to policy makers by examining different policy approaches and in advising policy makers on best practices for creating policy frameworks conducive to economic growth. In this regard, BIAC emphasises the following specific recommendations for consideration by OECD Ambassadors:
26. **Strengthen OECD input to the G-20 through focus on structural reforms.** The Seoul G-20 statement has, for the first time in any G-20 statement, specifically highlighted the leading role that the OECD plays on structural reforms. In BIAC's view, the OECD's cross-disciplinary and evidence-based approach makes it a global leader on structural reforms analysis, but it should further demonstrate its ability to analyse and provide guidance to OECD non-member economies. This increasingly global perspective will be important in OECD's work vis-à-vis the G-20 on contributing to reviving economic growth.
27. **Work with the private sector on practical solutions for achieving green growth.** As the final report on the Green Growth Strategy is being prepared, we call upon the OECD to recognise the fundamental role of the private sector, support an enabling policy framework for business to develop practical solutions across the wide range of sectors and use the outcome of the Innovation Strategy as an important building block of the Green Growth Strategy. We recommend focusing on practical steps and implementation of concrete measures in the framework of returning to sustainable economic growth.
28. **Encourage the OECD to contribute more actively to WTO Doha Round negotiations.** OECD support for concluding the remaining negotiations in 2011 would be a major cost-effective way of reviving trade and investment flows, and the OECD is in an ideal position to perform sound analysis of the actual value in economic terms that a conclusion of the negotiations would bring to the world economy.
29. **Strengthen the OECD's engagement in the International Collaborative Initiative on Trade and Employment.** Through further stock-taking, analysis and promotion of dialogue on the ways in which trade interacts with employment, the OECD can help ensure the contribution of open markets to sustainable growth and employment. An important part of this project will be the efforts to develop enhanced communications and gain public acceptance on the need for open markets.
30. **Support OECD contributions on employment in G-20 process.** The OECD provides important comparative analysis to the range of interrelated policies necessary to support employment, including identifying costs and benefits for both short and long term employment measures. We urge OECD governments to support OECD contributions to the G-20 Labour process, including work involving OECD non-member countries.

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31. **Encourage the development of the OECD Skills Strategy.** The Strategy has much potential to help inform countries about changing labour market needs and thus the importance of carrying out certain labour market and education reforms. The proposed OECD Skills Outlook could also add a valuable forward-looking perspective to these reforms. The Strategy would be highly relevant for the ongoing G-20 focus on skills and training, as highlighted at the Seoul G-20 meeting, and would complement the work already carried out on a G-20 Training Strategy.
 32. **Call on the OECD to do more to boost the extent and visibility of its work on financial markets.** The OECD should work to better communicate the outcomes of its work on finance matters, particularly its input to the G-20. Co-operation with other international organisations, in particular, the IMF and the Financial Stability Board should be sought in order to provide a more comprehensive understanding of specific financial issues.
 33. **Emphasise effective regulatory governance and continue OECD work on reducing administrative burden and red tape.** BIAC welcomes continued OECD work on administrative simplification and improved regulatory governance, an important focus of the recent OECD Public Governance Ministerial, which support business creation and business activity.

Conclusion

34. Reviving private sector-led economic growth and reducing unemployment in 2012, as envisaged by the most recent OECD Economic Outlook², depends on the choices that governments and business make now.
35. Effective policy reform helps in restoring trust and confidence, but it needs to avoid stifling entrepreneurship and should instead enable sustainable private sector investment. Continued dialogue and co-operation between governments and the business community is therefore indispensable.
36. We consider this critical stage of economic recovery as also being a defining moment in terms of the OECD's role to contribute towards economic recovery and growth, and the OECD should continue to seek ways to strengthen its contribution to G-20 policy discussions. BIAC thus encourages Ambassadors to call on the OECD to leverage its expertise as per the listed recommendations above.

² OECD Economic Outlook 2010, p12.