

Fostering Private Sector-led Economic Growth and Development

Discussion Paper for the Consultation with the OECD Liaison Committee

18 January 2012

Introduction

1. The global economic recovery is almost at a halt against a profound lack of market confidence: OECD growth has weakened (forecasts for 2012 have been slashed from 2.3% to only 1.6%), the euro area is slipping into a recession, trade growth has weakened significantly, and long-term unemployment has become a serious social issue in many countries. The global economy is currently gripped by acute uncertainty. Such times necessitate emergency policy responses, decisive actions and strong global co-operation.
2. Meanwhile, with hundreds of millions of people poor, and billions lacking adequate access to basic infrastructure, greater action must be taken to foster development and to transform developing countries into prosperous and competitive economies.
3. While immediate economic and longer-term development challenges require different types of policy responses, governments should focus more on the role played by the private sector in terms of trade, investment and job creation to promote both private sector-led economic growth and development. This is particularly important where public resources are scarce. For both growth and development, the private sector role needs to be promoted by closer co-operation among governments (notably at G20 level) to remove impediments to growth and development, and to prevent the introduction of any protectionist measures which tend to arise as a response to domestic economic difficulties.
4. The OECD has much to contribute in addressing both current economic challenges and longer-term development issues. The Organisation should seek opportunities to contribute timely and targeted policy guidance to governments for strengthening the policy environment in order to help revive economic growth in OECD countries. At the same time, the OECD should work to cultivate closer dialogue and share lessons learnt with developing countries through the OECD Development Strategy on the role the private sector can play.
5. While not an exhaustive list of issues, in this paper BIAC addresses several elements that need to be emphasised in the OECD's policy work, including: financial markets; employment creation; governance; open markets for trade and investment; green growth; taxation; and competition.

Challenges and Opportunities for...

...reviving economic recovery...

6. The economic recovery has significantly deteriorated and the world economy is facing the risk of another recession unless appropriate policy actions are taken. The European sovereign debt crisis has become a global concern, undermining business confidence and threatening the global financial system. The agreement reached on 8-9 December 2011 to increase fiscal discipline in the European Union (EU) represents an important step towards building a well-functioning and more stable EU, but is not sufficient. There is a need to overcome political differences and introduce more vigorous and decisive measures among all EU members in order to regain market confidence. This must include a clearer definition of the role to be played by the European Central Bank.
7. *Implementation* of political agreements is essential. Delay in taking necessary political actions and stagnation in implementing reforms have already led to serious contagion within and even beyond the euro zone. The G20 Action Plan on Growth and Jobs, agreed in Cannes in November 2011, must be implemented in order to regain sustained business confidence; this must be done in a concerted, transparent and timely manner.
8. While it is imperative to ensure greater policy co-ordination among leading economies (notably at G20 and EU level), the pace and scope of fiscal consolidation should be addressed carefully on a country-by-country level. Counter-cyclical measures should be considered for some economies. Private sector dynamism is a tool which boosts potential growth and whose role will be facilitated by structural reform measures that cut red tape, encourage private sector investment, and provide incentives for banks to lend money.

...and fostering development.

9. While the world is gripped by the immediate problems facing the global economy mentioned above, this should not detract from the global action needed to strengthen development. The OECD Development Strategy and the 2011 High-Level Forum on Aid Effectiveness held in Busan have the potential to play a key role in contributing to higher, more inclusive, sustainable growth for developing countries.
10. Aid remains essential, but it is clear that aid alone cannot bring about strong, sustainable and balanced growth in developing countries. The 2010 G20 Seoul Summit sent a strong signal to governments and the private sector on the importance of the role of the private sector in development. BIAC encourages the OECD Strategy for Development to place due emphasis on the mobilisation of the foreign and domestic private sector in order to boost investment in infrastructure, agriculture, and many other economic sectors.
11. Business will only invest or create jobs (especially in sectors with high value-added and in sectors where most jobs of high quality are created) if it is confident that it will see a return on its investment. Unfortunately lack of confidence is often the case in many developing countries. To unlock the full potential of the private sector in developing countries, the OECD Development Strategy should advise that it is essential to first and foremost establish an attractive and predictable enabling business environment. This entails certain elemental

conditions such as peace and stability, rule of law, effective public governance, open markets for trade and investment, adequate infrastructure systems, and many other policy issues as described in the following pages. Public-private co-operation and dialogue at local, national and international levels is a fundamental prerequisite for this enabling business environment¹.

Policy Recommendations and the OECD's Role

Financial Markets

12. As the sovereign debt crisis continues to impact on financial institutions, it is essential to restore a strong banking system for reviving economic growth. With a wide range of OECD governments expected to encounter major difficulties to fund themselves in 2012, and with high risks of contagion beyond the euro area, collective and decisive political leadership of the euro zone and beyond will be necessary to tackle the sovereign debt crisis in a credible, transparent way. Building on the initial success of G20 co-operation at the onset of the crisis to stimulate economies, concerted G20 efforts must continue to avert a deeper global crisis.
13. In proposing any new regulations, there needs to be greater focus on the cumulative impact of different financial sector reforms when implemented together and in combination with other policy regulations. In addition, local variations and additional requirements in individual countries would lead to competitive distortions and undermine growth (for example, the financial transactions tax proposed in some jurisdictions would result in less credit, competitive distortions, extra burdens for consumers, and lower growth). Furthermore, the Basel III framework will in its current form hinder investments in and trade with developing countries due to its unintended effects on long-term export finance and short-term trade finance.
14. The OECD can play an important role by analysing the possible cumulative impacts of different financial sector regulations and by stressing the need for greater policy coherence. This sort of political message could be valuable in helping to restore market confidence. Meanwhile, the OECD Development Strategy also has an important role to play by emphasising the importance of financial inclusion, domestic stock exchanges and bond markets, and capital market information flows.

Employment Creation

15. Persistent high unemployment in many OECD countries, and in particular among youth, makes it imperative that job creation and enhancing employability of all individuals remain top policy priorities. Confidence to invest and create sustainable jobs requires that governments deliver clear and pragmatic national strategies for growth and job creation. These strategies must include effective active labour market and social policies, taking into

¹ More specifically, aid should be directed towards improving the overall enabling environment, should incentivise innovative capacity for development, and should be used to leverage private sector investment in specific sectors and areas (using public-private partnerships wherever appropriate) such that the private sector may eventually be able to take over certain projects and responsibilities.

account global and national macroeconomic considerations, which are supported by engagement between labour, finance, education, and other ministries, and dialogue with the social partners. In countries with persistent high unemployment, targeted short-term measures to support unemployed and stimulate job creation may continue to be necessary.

16. It is critical to maximise employment options for all groups, through frameworks that support the positive uptake of flexible forms of employment, including part time and temporary work. Labour market policy and social benefit systems must be effectively linked to maximise the benefit and opportunity, which flexible approaches to work can provide. Policies to enhance economic opportunity for women and migrants, older workers and disabled are needed, especially in light of dynamic labour markets and changing demographics. The OECD Jobs Strategy continues to provide an important framework for addressing employment challenges in the ongoing crisis.
17. Similarly, the OECD should place greater emphasis on analysing education's contribution to economic growth so that policymakers are well informed on optimising value for money when investing in different parts of education and training systems and when considering which incentives to use and in which cases.
18. In the longer-term, the OECD Skills Strategy has the potential to make valuable analysis and advice to policymakers for anticipating, updating and upgrading education and skills and to match them better with the current and future needs of the labour market. It should also involve emerging and developing countries as early as possible in order to boost its inclusiveness and global relevance, recognising that improving human resources is an essential condition for private sector-led development in developing countries. Meanwhile, the OECD Development Strategy should emphasise the importance of improving access to quality education and including women in the workforce, which would help to drive innovation and foster competitive societies.

Governance

19. Effective public governance is crucial for economic growth, especially where failure to urgently reduce the current political uncertainty could jeopardise the already weak growth and employment prospects for 2012. OECD's activities should therefore encourage policy makers to target the areas that are perceived as burdensome by business and where changes would lead to enhanced business productivity and thereby economic growth. Furthermore, achieving appropriate regulatory systems requires the involvement of more stakeholders, including business, and OECD should thus further advance the implementation of the Venice Initiative².
20. Regulatory efforts will only be effective if the design of policies is followed up by full implementation at the national and sub-national level as well as among all affected companies in order to obtain a level playing field. OECD should thus establish mechanisms in order to evaluate the success of implementation as well as all dimensions of enforcement.

² The Venice Initiative calls upon the OECD to explore the potential for dialogue on best practices of public sector reform with civil society organisations, allowing for an exchange on public sector reforms in times of fiscal pressure, and on the search for sources of sustainable growth.

Independent scrutiny, regulatory impact assessment and ex-post evaluation are essential to obtain efficient new regulation, but also periodic impact assessment on existing legislation can lead to improved regulatory frameworks.

21. Good governance is also a fundamental aspect of supporting and redirecting global development policies. Ensuring comprehensive policy frameworks is a prerequisite for attracting private sector investment which will boost investor confidence, support sustainable business activity and thereby economic growth and private sector employment creation in developing countries.
22. Where governance is inadequate, and where there is weak rule-of-law and inefficient bureaucracy, corruption and bribery is likely to thrive, posing a serious threat to development and growth. Thus anti-corruption and anti-bribery measures are essential. The G20 has to pave the way for a global level playing-field by encouraging all countries to adhere to the OECD Anti-Bribery Convention. This is a landmark Convention, although more attention must also be given to the extortion and undue solicitations which companies face. All countries have to find solutions within their legal systems to deal with solicitation through national anti-corruption laws in order to help businesses resist solicitation³.

Open Markets for Trade and Investment

23. Trade and investment policies that eliminate protectionism and promote open and competitive markets must remain a key priority for global economic recovery and growth. Early in the crisis, G20 countries demonstrated their willingness to act collectively to prevent protectionism, and protectionism in trade was largely contained. Governments must renew their commitments, further eliminate trade and investment barriers including export restrictions, and refrain from the use of non-tariff barriers to trade. Successfully completing the Doha Development Agenda (DDA) would help restore needed confidence in the rules-based WTO system. As the current impasse in the DDA could put the WTO system at risk, governments should develop a clear path forward in the negotiations. Eliminating tariff and non-tariff trade barriers in environmental goods and services will accelerate deployment of green technologies, increase economies of scale, lower prices, encourage competition and innovation, and result in job creation. Governments must also agree on a truly global level playing field for export credit arrangements.
24. As services generate more than two thirds of the global GDP and provide over 50% of employment in major economies, further liberalisation of services trade constitutes a major economic opportunity with potentially very positive labour market implications. OECD's work on indicators for a Services Trade Restrictiveness Index (STRI) will provide policy makers with useful tools to identify barriers, improve domestic policy environments, negotiate international agreements and open up international trade in services.
25. Recognising that complementary policies are critical to the objective of "inclusive growth", the OECD, with its multi-disciplinary approach, is well-positioned to support governments by clarifying how trade, labour market policies, and social policy instruments interact. OECD

³ Note paragraph 80 of the Commentary on Combating Bribery, Bribe Solicitation and Extortion, in the OECD Guidelines for Multinational Enterprises (2011).

work on trade and jobs remains important to efforts encouraging further liberalisation of trade in goods and services and gaining public acceptance on the need for open markets.

26. Encouraging foreign investment and international trade are also central priorities for growth in developing countries, and the OECD should thus explore opportunities for innovative development financing, leveraging private finance through use of ODA, public-private partnerships, and so on. Furthermore, greater focus must be given to obtaining a level playing field between private companies and State-Owned Enterprises (SOEs), as some emerging and developing economies are utilising the SOE model for growth with little regard to concerns regarding a level playing field. Competitive neutrality between private companies and SOEs is therefore essential, both where private companies seek access to markets where SOEs have a competitive edge and where SOEs enter new markets to compete with private companies. BIAC supports the OECD's work on this cutting-edge issue and would appreciate the involvement of the OECD Investment and Trade Committees in this field.

Green Growth

27. While green growth should not be considered *the* magic bullet to get our economies back on a sustainable growth path, there is broad agreement that in the face of pressing economic and environmental challenges, “green” and “growth” must be addressed in a balanced and mutually reinforcing manner. What is needed is the implementation of green growth strategies supported by predictable and enabling policy frameworks to encourage cost-effective and market-based solutions.
28. To make a pro-active contribution to international discussions on the implementation of green growth strategies (including Rio+20), BIAC and USCIB, with the support of a range of sponsors, have launched a Green Economy Dialogue project to foster broad international understanding on directions for green growth and effective ways to achieve progress within the context of global regulatory and market frameworks (<http://www.green-dialogue.org>). A first Green Economy Dialogue conference took place in Washington, D.C. in October, followed by a major conference at the OECD in Paris in November. Two more business-led conferences are planned for 2012, one in Japan and one in Brazil, which will be hosted by our respective member and observer organisations.
29. Strategies for green growth need to foster investment, market openness, skills development, entrepreneurship, and market-based job creation. Above all, enabling frameworks for innovation across sectors are a “must” for green growth, encouraging breakthrough technologies and the spread of technologies and energy efficiency improvements to the extent possible. Green growth policies should therefore aim at fostering innovation, entrepreneurship, competitiveness and economic-environmental win-win opportunities across *all* sectors, focusing on where improvements that are both economically efficient and environmentally effective can best be achieved.
30. As green growth is required around the world, BIAC welcomes the fact that the OECD has launched new work on green growth in developing countries. As the developing world is not *one* world, it is important to take into account the different contexts in different countries and for different development projects. The uptake of green growth strategies by developing countries also requires that they provide long-term benefits to these countries.

31. While there is no one-size-fits-all strategy for green growth in developing countries, some general considerations should be taken into account. First of all, investment barriers, not always specific to green investment, have to be addressed. These can be direct protectionist barriers, or barriers relating to weak governance schemes, poor infrastructure, lack of enabling capacity, shortage of skilled labour or lack of intellectual property protection. In addition, we encourage policymakers to pay attention to how public funding can be targeted to effectively leverage private financing. Partnerships between countries and with the private sector are important. As a major engine of growth, the private sector can contribute more than just finance and investment in profitable infrastructure projects in developing countries; it can also be an important driver for skills development, innovation, capacity building and green growth, thus helping to address long-term challenges.

Taxation

32. A pro-growth tax system is an important element in the policy mix to support economic recovery and sustainable growth, with clear predictable tax systems and elimination of double taxation. International tax standards and principles, as promulgated by the OECD Model Tax Treaty and the OECD Transfer Pricing Guidelines, are crucial. To encourage cross-border trade and investment in particular, there must be certainty and stability in key areas of taxation such as permanent establishments and transfer pricing. The OECD with its expertise in both taxation and investment should ensure that tax policies are not used for protectionist purposes.

33. Concerning taxation and development, BIAC believes that the related OECD work (including contributions to the G20 in this area) is especially relevant to development policies aiming to foster sustainable economic growth and societal well-being. A number of important elements are necessary to progress in this area: capacity building, effective transfer pricing frameworks, transparency, and countering international tax evasion and exchanging information.

34. Capacity building for tax administration/revenue institutions in developing countries will allow them to reduce dependence on aid and move toward more sustainable revenue. This is the basis to develop public infrastructure and services and a social benefit system in a sustainable way and to transform an informal economy into a formal one. OECD co-operative efforts with developing countries to build capacity in the field of transfer pricing based on the Arms Length Standard is vital for investment and for the competitiveness of both business and developing country economies.

35. As a priority, business is working with the OECD and other stakeholders to provide technical assistance to help developing countries apply both the OECD Transfer Pricing Guidelines and the principles contained in the OECD Model Tax Convention. Business also welcomes the work of the Global Forum on Transparency and Information Exchange at the OECD, whose activities and multilateral co-operation for effective transparency and exchange of information are clearly in the interest of legitimate business. Business also engages the Forum of Tax Administration in this context.

Competition

36. Competition policy can be a valuable tool in helping to shape a post-crisis environment that strives to remove distortions caused by required government interventions. Competitive markets, supported by pro-competitive regulatory frameworks and competition policy which is co-ordinated with regulatory measures aimed at fostering economic stability, are essential to fostering innovation and sustainable economic growth. As OECD studies show, the strength of product market competition plays an important role in economic growth and affects economic efficiency, the allocation of resources, and can also lead to improved labour market performance.
37. Competition policy assists in: keeping markets open and transparent; ensuring incentives to responsible risk-taking (not too great and not too little) by businesses in order to promote and foster innovation; and generating empirical evidence to guide future policy action and the implementation of solutions. Effective competition policy which supports business activity and creation requires regulators and antitrust enforcers to act consistently and proportionately in accordance with due process and best practice, with respect to the objectives of effective enforcement of competition laws. Its primary objective is maintenance of business competitiveness and the efficient operation of markets with a minimum necessary level of regulatory intervention.
38. Competition policy should also be given due focus in the OECD Development Strategy. The establishment of a national competition law or policy focused on consumer welfare and economic efficiency plays an important part in the decision by a company to invest in foreign markets and is thus critical to expanding foreign direct investment. As important as the presence of a competition law, however, is the ability of a company to be confident that the application of a foreign competition law will be reliable, transparent and non-discriminatory.

Conclusion

39. Different policy measures are required to revive economic recovery and boost development. In both cases, facilitating private sector activity will be essential. To exploit the full potential of the private sector's contribution to growth and development, closer public-private co-operation across the broad range of policy areas is a prerequisite to foster an enabling business environment. This includes urgent political actions to reduce uncertainty, as well as open competitive markets, implementing structural reforms, efficient and effective governance and regulation, and removal of unnecessary impediments to growth.
40. Equipped with its cross-disciplinary expertise, evidence-based analysis, and its institutional ties with the private sector through BIAC, the OECD is particularly well-placed among international organisations to provide timely and concrete recommendations to policymakers concerning both issues of growth and development. Based on such advice, it is our hope that national policymakers at G20 level and more globally will agree upon and implement decisive actions to restore confidence and revive economic recovery, while also encouraging development. BIAC looks forward to working together with the OECD on growth and development issues on the road to the 2012 OECD Ministerial Council Meeting.