

## **BIAC Submission to the 50th anniversary OECD Council Meeting at Ministerial Level (MCM)**

*Paris, 25-26 May 2011*

### **Introduction**

1. The global economy is facing considerable uncertainty. The recent global financial and economic crises have left many countries with high fiscal deficits, low growth and persistently high unemployment. Additional risks are associated with protectionism, commodity price surges, and uncertainty in the global financial system. Meanwhile, a number of persistent global issues – such as poverty, gender inequality, societal ageing, climate change, and insecurity relating to water, food and energy – require co-ordinated policy action.
2. Despite these uncertainties, there exists much opportunity: many countries have the potential to move towards strong, sustainable and balanced economic growth.
3. In order to seize this potential, co-operation between the public and private sector is essential to allocate necessary resources efficiently and spur necessary reforms in areas such as financial regulation, employment, trade regimes, investment policies, and so on. Policymakers should therefore concentrate on creating an enabling policy environment for private sector-led economic growth.
4. The OECD has a central role to play in this effort, by recommending policy reforms and by promoting OECD instruments and norms on a global level. But to maintain its effectiveness, the OECD must adapt to a rapidly changing global economic context. The Organisation should continue to enhance its contributions to the G20 by significantly strengthening relations with G20 members from outside the OECD, and with other international organisations. The OECD should continue to transform itself into a global hub for policymaking, where its solid evidence-based analysis, peer reviews and exchange of best practices should increasingly involve countries from outside the OECD.
5. This BIAC statement presents the OECD business community perspectives and recommendations to policymakers relating to many of the risks, challenges and opportunities mentioned above, focusing particularly on growth and development.

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## Fostering a Pro-Growth Policy Agenda

### Growth and Jobs

6. Faced with accumulated debts and fiscal deficits, many governments are facing slow economic growth and persistent high unemployment. The combination of high unemployment and increased long-term “structural unemployment” threatens economic recovery by reducing household income and consumer confidence, and by eroding the skills that will be needed for growth. Strict budget constraints necessitate increased focus on implementation of targeted, efficient and effective active labour market and social policies, as well as to frameworks that support private sector job creation.

In this regard, we encourage policymakers to take the following points into consideration:

7. **Foster a clear and predictable policy environment that enables global private sector investment, and thus private sector job creation.** Policy uncertainty (for example, relating to investment and trade liberalisation, taxation, and financial services) contributes to inhibiting private sector investment and private sector job creation. This current period of uncertainty means that investors are unwilling to put their capital at risk, banks are unwilling to lend, consumers are unwilling to spend, and companies are unwilling to expand and hire. Investment and entrepreneurial activity best thrive in the context of: trade and investment policies that eliminate protectionism; employment policies that promote labour market flexibility and raise productivity; education policies that increase access for all to quality education and training; effective competition policy; policies that foster innovation and green growth; financial regulation which encourages responsible risk-taking; and effective public governance.
8. **Labour market institutions and social policies should support job creation and growth, and activate people into work.** Persistent high unemployment, and in particular high rates of youth unemployment, remains a critical challenge for many countries. While there is no one-size-fits-all approach, generally, labour market and social policy approaches should be guided by three principles:

[1] they should activate individuals into work including through effective approaches supporting part-time and temporary work, and flexible working patterns;

[2] they should be inclusive – including the most vulnerable groups; and

[3] they should support sustainable economic growth and private sector job creation.

The sustainability of social benefit systems and delivery of essential public services, especially in times of crisis and fiscal consolidation, require that labour market and social policies be effectively linked with broader economic and structural policies. Labour market institutions must balance short-term measures with long-term goals to

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reduce unemployment, raise labour market participation and support economic growth. All actors – business, government, academic institutions, job search agencies and the social partners – have roles to play. Co-operation and dialogue are fundamental to achieving effective, efficient and positive labour market and social policy outcomes, and to enhancing opportunity for economic and social advancement and mobility among all groups.

9. **Boost employability of individuals.** To equip individuals with the skills they need to work in a rapidly changing labour market, curricula should focus on key competencies, such as literacy and numeracy, as well as the development of “21st Century Skills” such as creativity, critical thinking, collaboration, and communication. In addition, there needs to be a greater rebalancing of curricula in favour of science, technology, engineering and mathematics (STEM). Graduates in these disciplines are already in short supply in many countries. Policymakers should also ensure that high quality vocational education and training (VET) systems with strong labour market orientation are expanded, with greater participation by young people and vulnerable social groups, and with more opportunities for transfer into tertiary level academic education and vice-versa. Building upon the G20 Training Strategy, Ministers should encourage the pursuit of the OECD Skills Strategy. The Skills Strategy has the potential to explore skills development in greater depth, bringing together the OECD’s collective expertise in the fields of education, employment, finance, taxation, innovation, development, and beyond.

## Green Growth

10. BIAC has been actively involved in the development of the OECD Green Growth Strategy, recognising the important role the OECD can play by carrying out fact-based analysis to address “greening” and “growth” in a balanced and mutually reinforcing manner. At the same time, green growth challenges should not be viewed in isolation as they are interrelated with other global challenges, such as food and energy security, water, health, and poverty eradication and sustainable development more broadly. BIAC has encouraged the OECD to make use of its economic focus and multi-disciplinary nature, and look for win-win solutions across the economy, while making the Strategy relevant for both OECD and non-member economies.

We encourage the OECD to highlight the following key points in their final recommendations addressed to Ministers:

11. **Recognise the central role of the private sector:** The private sector is committed to playing a pro-active role in the pursuit of green growth and is instrumental in providing practical solutions. In order for green growth to realise its full potential, it needs to go hand in hand with creating business opportunities and fostering entrepreneurship. We therefore recommend putting due emphasis on how to create the right policy framework so that the investments needed to address green growth challenges are made. Open markets remain crucial for growth and for the development and diffusion of technologies at the global level. In this context, due attention needs to be paid to the liberalisation of trade in environmental goods and services.

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**12. Highlight the importance of innovation as one of the key recommendations:**

Innovation is the core of transforming the economy. Work on the Innovation Strategy should therefore be a major cornerstone of OECD's work on green growth. For advanced, currently non-commercial technologies, it will be essential for governments to establish enabling regulatory frameworks and to develop essential infrastructure in a timely fashion. While highlighting the crucial role of fostering innovation across all sectors and continuing work in this area, the spread of technologies is equally important for green growth at the global level. In this regard, the OECD could make an important contribution by analysing the role of voluntary collaborative mechanisms and partnerships that foster the spread of technology while recognising the crucial role of IPR as an enabler of innovation and the deployment of technology.

**13. Emphasise the need for a coherent mix of policy instruments:** We encourage the OECD to highlight the complexity of the policy framework, recognising that green growth requires a mix of policy measures that collectively support growth while guiding economic activity towards lower environmental impact. Policy measures need to be selected as appropriate to the specific circumstances, focusing on the result to be achieved. In addition to cost-effective market-based instruments, we urge the OECD to underline the positive role that voluntary approaches and partnerships can play in the overall policy mix, which should include pro-active bottom-up initiatives in addition to top-down approaches.

**14. Work towards greening of the economy as a whole:** Different sectors rely on each other. The objective of green growth should therefore be to green all sectors and jobs. Jobs and technologies should not be divided into "green" and "non-green", bearing in mind that they are intrinsically linked. Some countries may consider different solutions according to their particular circumstances. The OECD could play an important role by providing objective analysis of job implications as well as skills challenges to be addressed in the context of green growth.

**15. Put additional emphasis on the global dimension of green growth:** Green growth requires efforts at the global level, and the final outcome of the Strategy needs to be of value to both OECD and non-OECD countries. Due attention needs to be given to how green growth interacts with development priorities, and major non-member economies need to be closely involved. In this context, BIAC was pleased to contribute to the organisation of the first Green Manufacturing Summit, organised by the Confederation of Indian Industry (CII) in New Delhi in March 2011 and hopes that similar events can be organised in other major non-member economies.

**16.** The future challenge will be to identify specific win-win opportunities for practical steps towards green growth across all sectors, both in the OECD and beyond. The analysis of best-practice examples across the economy where practical results have been achieved should be encouraged. We also recommend continuing efforts to foster dialogue among policy makers, business, stakeholders and experts in OECD and non-member countries, including in the run-up to Rio+20, and would be pleased

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to play an active role in this area. Business should be considered an essential part of the solution.

## Trade and Jobs

17. BIAC has contributed to the work of the OECD project on trade and jobs, as we believe that there is a need for a documentation of the relationship on how increased trade might affect job creation. Sound analysis of such a link would allow policymakers to design policies that can efficiently seize the benefits of trade while ensuring that these benefits are widely shared. In this context, BIAC highlights the following considerations to policymakers:
18. **Further liberalisation and adjustment measures are required.** OECD work on trade and jobs will be important to efforts encouraging further liberalisation of trade in goods and services. At the same time, the OECD should identify the need for complementary policy measures to facilitate the adjustment to new trade patterns and to develop new skills and opportunities to those affected by the transition.
19. **Keeping markets open is a key priority.** Open markets matter. This is the cornerstone for economic growth and jobs. Governments must be urged to conclude the WTO Doha Round of trade negotiations this year. They should avoid protectionism in all its forms, refrain from the use of non-tariff barriers to trade and agree on a truly global level playing field for export credit arrangements. This includes establishing clearer rules for the use of export restrictions that impede global supply of, and trade in, products.
20. **Cost-efficient value chains generate growth and can lead to job creation.** The removal of trade barriers reduces the costs to business along the value chains of production, which will increase demand and generate trade. Elimination of trade barriers also facilitates access to more efficient input and new technologies. The improvement of existing production processes will allow goods and services industries to undertake more innovative or higher-value-added activities. With the right policies in place this could lead to high-quality job creation.
21. **Labour mobility is a prerequisite.** Labour mobility is key to realising the positive impacts that open markets have for job creation.
22. The OECD has an important role to play. The OECD, with its economic expertise and multi-disciplinary approach, is well-positioned to support governments by clarifying how trade, labour market policies, social policy instruments etc., interact. This will contribute to coherent policy suggestions that could help maintain existing jobs and potentially alleviate unemployment.

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## Global Development Policies

23. Tackling global challenges requires international concerted efforts among *all* countries, not just the world's most developed economies. However, in addition to addressing these global challenges, many developing economies are also burdened with severe domestic challenges such as persistent poverty, corruption, political instability, burdensome bureaucracy, ageing infrastructures, and so on. Aid flows will continue to play a strong part in addressing these domestic challenges, but aid alone will not bring about the required changes that are needed to boost strong, sustainable and balanced growth in these countries. **The required gearshift in development will only happen as a result of also increasingly mobilising the foreign and domestic private sectors** in order to boost their investment in infrastructure, agriculture, and other economic sectors. This will also empower societies in these countries to foster their own approaches to development, taking into account their respective national circumstances.
24. **As a first step, there has to be a predictable enabling policy framework in place that would foster stability, inspire market confidence and attract private sector investment.** This entails: rule of law; clear, predictable and transparent legislative frameworks; open competitive markets for trade and investment; fiscal transparency; human resources development; good governance; anti-corruption; fair competition policy; and so on. Bringing together both public and private sectors, such as via public-private partnerships and leveraging aid for attracting private investment, will be essential in order to generate the necessary financing for development while reducing risks for investors.
25. **Further to the G20 Seoul Summit's Multi-Year Action Plan on Development, BIAC welcomes and encourages OECD focus on development policy that goes beyond aid, which should become a more horizontal theme across all OECD activities.** In the development context, BIAC would like to herein highlight: taxation and domestic resource mobilisation; good governance and anti-corruption; competitive neutrality and state-owned enterprises; corporate responsibility for multinational enterprises; and gender equality and women's economic empowerment.

## Taxation and Domestic Resource Mobilisation

26. An important advancement in the development agenda over the past twenty years has been the insight that tax, and a functioning tax system, are increasingly recognised as key factors in allowing developing countries to build a strong civil society. Tackling this challenge will require international concerted efforts among *all* countries, developed and developing alike, while business has an important role to play as well. Domestic resource mobilisation, as it relates to taxation, must be based on the development of competitive, transparent and predictable tax systems. In this respect, BIAC highlights the following considerations to policymakers:

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27. **Development activities related to tax should include active engagement of developing countries in dialogue towards adoption of international tax standards by developing countries.** Adoption of accepted international tax standards by developing countries will contribute to predictable and more certain investment environments and is an important part of capacity building for tax administrations.
28. **Capacity building for tax administration/revenue institutions is an important and fundamental infrastructure development for developing countries to move from aid to sustainable revenue.** This is critical for local development. It enables countries to benefit from investment and local economic activity in the country. It is a basis to develop the public infrastructure and services and a social benefit system in a sustainable way, and the transformation from informal to formal economies.
29. **Good governance is a prerequisite for successful capacity building for revenue institutions.** Transparency and accountability must apply also to governments in this respect, and corruption must be eradicated. To help facilitate this, aid should be allocated to provide support for the technological infrastructure for a modern tax administration including both hardware and software.
30. **Raising tax revenues from FDI also requires that the developing country has a supportive regulatory/investment environment to attract and support sustainable business activity.**
31. **It is necessary to put in place sensible assessment of the role of transparency/disclosure in driving development as it relates to international business taxation.** The OECD work related to “country by country reporting” must have a clear development objective, and must work towards one common global standard. The various initiatives for extractive industries should be tested and evaluated before consideration of whether any wider steps are appropriate.
32. **Transparency should also be considered in the context of how it may contribute more to the integrity, efficiency and effectiveness of tax collection on the part of revenue authorities.**
33. The OECD Global Forum on Information Exchange and Transparency, which comprises 90+ countries, is an important forum through its analysis and peer review mechanism, for addressing issues related to transparency and exchange of information as it relates to taxation. **Business strongly supports this model and approach, and encourages OECD to consider how this model may be applied to other areas of key OECD work on tax including transfer pricing.**

## Good Governance and Anti-Corruption

34. Good governance is 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. Moreover, where governance is

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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 and should go hand in hand with good governance. In this context, BIAC wishes to highlight the following points:

35. **Good governance should support open competitive markets for trade and investment.** Cornerstones of effective governance consist of transparency, accountability, comprehensive stakeholder consultations, credible risk assessment, clear communication, access to information, administrative simplification, and efficiently managed resources.
36. **Public-private co-operation is necessary to cut red tape.** Helping governments in developing countries to cut red tape is specifically a task for the OECD. To this end a shared responsibility and a close co-operation between government and business is needed. Simplification of existing regulation should focus on areas that are burdensome to business and it should address changes that business needs to enhance productivity and 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 could lead to improved regulatory frameworks.
37. **Engage business in the development of regulatory frameworks.** This will help governments to better understand emerging business models and the impact of legal environments on business activity. In particular, public-private partnerships can bring together both sectors to leverage resources, expertise and efficiency. This makes government actions more effective and efficient and supports economic growth and development.
38. **Stepping up the fight against corruption and bribery will help spur private sector-led economic growth in both developed and emerging countries,** which further generates trade and investment. Especially the fight against transnational bribery of foreign public officials in international business is important, and both governments and the private sector have central roles to play.
39. **BIAC encourages companies to make use of the 2009 OECD Recommendation for Further Combating Bribery of Foreign Public Officials and its Good Practice Guidance on Internal Controls, Ethics and Compliance, which are important tools to counter-act bribery.** Many companies have already engaged actively by applying compliance programmes, but challenges exist – especially to small and medium-sized companies – and must be taken into account.
40. **Governments have an important role to play by providing appropriate anti-corruption and bribery frameworks that at the same time ensure a level playing field among companies.** Companies from different countries must enjoy the same operating conditions, which could be achieved by more non-adhering governments joining the OECD Anti-Bribery Convention and its related instruments. Furthermore, governments already adhering to the OECD instruments should ensure strict

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implementation and effective enforcement of these instruments, and governments must also address the demand side of bribery.

41. **Recognise that voluntary sectoral and regional agreements on anti-bribery and corruption measures, established among companies themselves, can be effective instruments to discourage the supply as well as demand for bribes.** In order to solve the problem of bribe solicitation, it will not be the optimal solution to establish requirements on companies regarding the control, investigation and enforcement of anti-bribery and corruption measures throughout the supply chain, as such steps would be impossible for the companies to implement. Voluntary agreements, by contrast, will put a pressure on companies signing on to such agreements to maintain the standards of the agreement and it will make solicitation of bribes difficult. Such agreements could also be designed to include agents and intermediaries hired by companies which would reduce the risk of bribes. Governments should encourage and facilitate such agreements by providing the right framework for their establishment.
42. **Use sectoral and regional agreements as an instrument against corruption in public procurement,** provided that international development organisations offering tenders also follow the standards and require that private providers of the tender adhere to the standards.
43. **Encourage companies in emerging economies to sign up to voluntary agreements which would help ensure a global level playing field among companies.**
44. **OECD outreach and co-ordination of governance frameworks is needed.** The existing OECD co-operation with major emerging economies on the areas of governance, regulatory policy and anti-bribery should be continued and further strengthened with a view to future adherence to the OECD instruments. OECD peer reviews on these issues should also be considered in the broader context of OECD engagement with non-OECD economies. The OECD can also work to ensure global co-ordination of governance frameworks. As national economies become more integrated, co-ordinated efforts to secure rule of law, clarity and certainty of regulation and consistency in application of laws become increasingly important.

## **Competitive Neutrality and State-Owned Enterprises (SOEs)**

45. In order to promote and maintain open markets, which are conducive to economic growth and job creation, BIAC recognises that greater focus must be given to obtaining a level playing field between private companies and SOEs. SOEs from OECD member countries operate in both national and international markets. Furthermore, emerging 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.

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46. **BIAC supports the OECD initiative to work on this cutting-edge issue.** Business agrees with the proposal to develop a report on national practices to secure competitive neutrality, as it would set the stage for best practices to be shared among member countries. This report would represent an excellent starting point for the OECD that could provide the basis for general guidelines for competitive neutrality, eventually leading up to a binding OECD convention open to all.

### Corporate Responsibility for Multi-National Enterprises (MNEs)

47. BIAC recognises the importance of corporate responsibility when companies do business, and considers the OECD Guidelines for Multi-National Enterprises an important instrument in this context.
48. BIAC has therefore been closely involved in the 2010-11 update process of this OECD instrument. A number of issue areas, such as due diligence, supply chains and procedural guidance, have been at the centre of business concerns during the discussions.
49. It is the view of business that our major concerns have been addressed in a constructive way. Now BIAC would like to stress the importance of a global level playing field. To that end, the OECD should undertake determined efforts to promote convergence between the OECD Guidelines and business conduct by enterprises of non-adhering countries. BIAC can accept the text which updates the OECD Guidelines.

### Gender Equality and Women's Economic Empowerment

50. BIAC welcomes the OECD initiatives on gender, and in particular the OECD ELSA project Gender Equality in the Economy. Strengthening the economic, political and social positions of women in society is fundamental to economic and social progress. BIAC welcomes the OECD scoping paper and project on gender equality and its focus on the 3 Es (employment, education and entrepreneurship). This OECD work should link up with other OECD projects related to gender, including GENDERNET (OECD DAC Network on Gender Equality), Wikigender (an OECD Online tool on gender equality issues), and the Women's Business Forum in the OECD-Middle East and North Africa Investment Programme.
51. Recognising the importance of women's economic empowerment, BIAC would like to raise the following points:
52. **Economic empowerment of women is a key to development and economic growth.** As the repository of half of all human talent and potential, women are an underutilised and valuable resource, in developing and developed countries alike. Unleashing their talent, creativity and potential in the workplace is a virtuous circle – it not only confers significant benefits for companies, but for women themselves and for their families – to the benefit of our economies and societies as a whole. BIAC looks forward to contributing to the OECD gender equality project through engaging OECD and policy makers to highlight business initiatives to advance workplace opportunities for women.

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53. **Policymakers should avoid taking a narrow regulatory approach to promoting women's economic empowerment.** Numerous initiatives, both public and private, promote gender equity in work. Many focus on women's participation in the executive level positions. However, it is important to look at career paths in a broader context, and to avoid narrow regulatory approaches.
  54. **Female and male roles are complementary** and thus women's economic empowerment requires the engagement and support and understanding of men and women alike.
  55. **Innovative and flexible approaches to work should be considered** to accommodate child care and family support needs of both women and men in the workplace.
  56. **Women's leadership development is an important part** of improving their career paths and developing role models.
  57. **Promoting entrepreneurship can be a significant pathway for women in developed and developing countries.** Training, access to finance, technological support, administrative simplification, and networking opportunities are essential to supporting women's engagement and leadership in entrepreneurial activities.
  58. **Governance matters.** Tax structures, financial regulation, education, health care and child care are essential policies to keeping women in work.

## The Future of the OECD

59. The OECD's 50th anniversary is an occasion to reflect not only on its history, but also on its future. The OECD business community offers its perspectives on strategic directions for the future of the OECD as follows:
60. **Focus on becoming a global hub for evidence-based policymaking.** More emphasis should be put on promoting the sharing of OECD countries' best policy practices beyond the OECD, while also learning from and sharing policy experiences of countries outside of the OECD area. BIAC advises greater use of Global Forums in all policy areas, broader promotion of OECD legal instruments, and development of OECD analyses/reviews with more universal applicability.
61. **Enlarge OECD membership.** The recent round of OECD enlargement has been a success, with Chile, Estonia, Israel and Slovenia having become full OECD members in 2010. Russia is still in the process of accession discussions, and its accession should be carried out with equal rigour, bearing in mind that ensuring Russia's adherence to OECD instruments and norms will yield significant benefits for both Russia and the global economy. The OECD enlargement process should further expand in coming years and the Organisation should be ready to begin accession discussions with any interested countries that are willing to accept the OECD *acquis* and fully undertake their respective accession roadmaps.

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62. **Step up OECD “Enhanced Engagement”.** The Organisation should consider how to increase emerging economies’ sense of participation, of ownership (with respect to certain OECD instruments and activities), and of equal standing compared to members. Active involvement in OECD Global Forums and committee meetings concerning the development of OECD instruments and analyses, as well as participation in peer review processes, are some options that could be increasingly explored, while also taking into account the specific needs and interests of each Enhanced Engagement country.
63. **Deepen co-operation with other international organisations and fora.** Concerted collaboration among international organisations should be encouraged, even on the same policy issues, in order to provide policymakers with the tools and evidence they require. In strengthening its efforts vis-a-vis the G20, the OECD should increasingly seek partnerships for specific projects with other international organisations in order to pool expertise and resources where appropriate.

## Conclusion

64. To pursue strong, sustainable and balanced economic growth in the aftermath of the recent financial and economic crisis, while also addressing ongoing long-term global challenges (such as poverty, environmental challenges, and water/food/energy security), Ministers need to focus on mobilising the private sector to contribute to development and to exploit new sources of growth. The key to this, however, lies in building an enabling, predictable and transparent policy environment for doing business.
65. The OECD, the global leader on analysis of and recommendations on structural policy reforms, thus has a central role to play. Nevertheless, and as suggested above, the OECD should consider how it could transform itself in order to go even further to serve the world’s policymakers and stakeholders.