



Business and Industry Advisory Committee to the **OECD**

Comité Consultatif Economique et Industriel Auprès de l' **OCDE**

**INNOVATION AND GLOBAL  
SUSTAINABLE GROWTH**

**A Statement by the Chairman of BIAC**

*Presented to the G8 Summit in Genova  
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BIAC is the organisation representing the private sector at the OECD, which has strong substantive links with the G7/G8 process.

# **INNOVATION AND GLOBAL SUSTAINABLE GROWTH**

## **A Statement by the Chairman of BIAC**

### **THE MAIN MESSAGES**

- **Economic growth and trade are the main instruments in the fight against poverty.**
- **In Doha we expect Ministers to support the launch of a new WTO round of negotiations on trade liberalisation.**

**It is vital that the GATT/WTO system, which for fifty years has made a major contribution to economic growth and improved living standards around the world, remains strong and that it be adjusted and improved in the context of today's dynamic global marketplace.**

- **Well targeted and effective assistance is also a key component of widening economic opportunities.**

**Therefore, BIAC strongly supports the promotion of global action programs by the G8 for fighting poverty in less developed countries through instruments such as debt relief, investment programs, a global health fund for Africa, and assistance for widening access to education.**

- **We invite the G8 countries to show leadership in moving towards these objectives. Let us get the global market economy and economic co-operation moving again.**

### **1. The Global Scenario from the BIAC perspective**

We believe that we have entered a phase of challenging opportunities for global sustainable development all over the planet. Big challenges and opportunities mean big risks. The business sector has been and continues to be ready to face global challenges and risks to create as many winners as possible.

While global needs, such as lifting billions of people out of poverty and husbanding the earth's resources, call for enormous concerted effort, their satisfaction is, to a remarkable degree, in the hands of those actively engaged in the market economy where wealth is created.

The present scenario is characterised by technological innovations of an extraordinary range never experienced before (ICTs, biotechnology, energy, new materials), able to drive a sustained growth in productivity and, if rightly managed, wealth creation, higher living standards and quality of life.

Effective technological innovation must advance in parallel with societal innovation (education, human and social rights, democracy, good governance). Without the proper public policy, the diffusion of technology can produce gaps (such as a digital divide) instead of taking advantage of great opportunities in front of us.

To maximise the benefits, economic mechanisms must work on a global scale in an open market environment. Protectionism and regulatory mismanagement are the main risks. The business sector is clearly operating with a global perspective. **Today, there are thousands of international companies, and their number increases every year.**

Dozens of codes of conduct have been introduced. Last year, through a close co-operation between the OECD, BIAC and TUAC, and with the contribution of civil society representatives, the OECD ministerial has approved a revision of the Guidelines for Multinational Enterprises. The Guidelines are being implemented. A convention for combating bribery in international business transaction has been ratified.

**But, on the governmental side of the equation, there is not yet a real global environment in which business can operate.** There is a strong need for global rules for investment policies, as well as transparent rules for labour and capital markets, and public governance.

At present, BIAC is contributing to the OECD activities promulgating good **global governance** for both the government and business sectors, based upon the elements of **sustainable growth, including economic progress, careful management of the Earth's resources, and human development.** This requires a well **focused partnership between government and private sector.** The business community of the OECD area, and specially of the G8 countries, has a very strong interest and much expertise to contribute. We expect that governments of the G8, using the OECD product, will work closely with the business community to ensure that political decisions are concrete and effective.

Globalisation, which is a powerful engine of progress, implies world-wide co-ordination and the adoption of better practices, especially in the most critical areas, which includes poverty reduction and addressing issues such as unbalanced regional development, healthcare, education and labour, a digital divide and environmental problems, together with the need to promote free trade and investment environment at global level. It requires the redefinition of the role of some international institutions and the provision of new forms of global governance.

**BIAC appreciates the leadership of the G8, in co-operation with the OECD, in promoting transparent global rules for trade and investment. BIAC strongly supports the promotion of global action programs by the G8 for fighting poverty in less developed countries through instruments such as debt relief, investment programs, a global health fund for Africa, and assistance for widening access to education.**

We now turn to the specific items on the G8 agenda.

## **2. Rethinking the Fight against Poverty: Widening Economic Opportunities**<sup>1</sup>

The essence of any strategy to reduce and eliminate poverty is to extend opportunities for sustained development. Assistance to the poor is certainly an integral part of development, but, in the absence of a self-sustaining national development effort, it can only be a palliative.

Notwithstanding the purposeful scepticism of some, decisive **development** and graduation of entire countries from poverty to high income and human development has been possible in the last fifty years in significant regions of the World (southern Europe, eastern Asia, now eastern Europe). Successful development has always been accompanied by strong **economic growth** sustained over the long term. While outside aid may have played a helpful role, it is the combination of coherent economic and social policies at home, with good governance, and strong trade linkages with the rest of the world which underpin sustained growth. Growth can be impelled by macroeconomic management alone in the short term, but, over the long term, **only innovation and structural change bring sustained growth.**

### **2.1 Aid, debt relief and the fight against poverty in less developed areas**

Assessment: Development aid can make a positive contribution to less developed countries' ability to embark on a sustained growth and development path, when it is juxtaposed with a policy environment in the receiving countries that is conducive to the development of the market economy. But, in the absence of good governance and economic reform, debt relief and subsequent aid is not likely to enhance countries' ability to take off decisively into self-sustained growth.

Recommendations: Business welcomes coordinated efforts of donor countries for untying of development aid, and looks forward to their meaningful implementation. BIAC particularly welcomes the effort made by the Italian Government to move beyond the multilateral commitment taken at the G8 Cologne Summit through the unilateral decision to remit 100 per cent of the 'post-cut-off-date' commercial and aid credits.

**On international aid for education:** BIAC considers it valuable to participate with the public sector in promoting an Education Fund Initiative for less developed countries, in particular with the objective of diffusing information and communication technologies and Internet at all levels of schools, to form new ranks of teachers and to develop professional schools related to new skills requested in the new Internet scenario.

**On the Global Health Fund:** BIAC believes that a Global Health Fund could make a substantial positive contribution to the global fight against the spread of HIV/AIDS, TB and malaria. Such an initiative could strengthen the ability of the poorest countries to access health care prevention strategies and treatment, and the private sector looks forward to participating in partnerships with governments and international organisations to seek solutions to the access challenge. Private sector participation in this Fund should be cross-sectoral, i.e., not be limited to drugs or devices, but should be extended to the practicalities of

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<sup>1</sup> This section draws heavily on *the BIAC Discussion Paper on Innovation and Global Sustainable Growth* presented to the OECD Council meeting at Ministerial level held in May 2001. The full text of this paper can be found at the Web page:

[http://www.biac.org/DOCS/Innovation\\_and\\_Global\\_Sustainable\\_GrowthFIN.pdf](http://www.biac.org/DOCS/Innovation_and_Global_Sustainable_GrowthFIN.pdf)

delivering health care in poor countries. In order to maximise the potential for success of this most urgent initiative, BIAC believes that administration of the Fund should emphasise efficiency, accountability and respect of international agreements.

## 2.2 Innovation and Sustainable Growth

Assessment: Recently, much attention has focused on a 'new economy' driven by technological innovation, which could also be a way for less developed countries to leapfrog development status.

Analyses carried out at the OECD and BIAC show that it is basically the **juxtaposition** of good indicators on **ICT-readiness, labour market adaptability and regulatory framework**, that tends to be associated with either good or improving performance in the growth of productivity and output in the OECD countries.

Intuitively, e-readiness and technology absorption should be seen as an ingredient of development within a broader context of good regulatory conditions. However, many developing countries maintain monopolies in telecommunications, Internet service provision, etc., which stifle access to digital technologies.

Whether through increased economic development, through innovation, or through improving the health of the population, modern **biotechnology** represents another constellation of key technologies contributing to sustainable development. It offers the prospect of significant steps forward in mankind's efforts to tackle a multitude of problems, ranging from illness and diseases that levy a phenomenal social and economic cost, to critical nutritional and environmental challenges. Their inhibitors have their collective thumb on the windpipe of billions.

Recommendations: The simple logic stream - **innovation raises productivity which raises living standards** - should be the starting point of all policy deliberations.

Regarding ICT-readiness, the establishment of competitive markets for telecommunications and other IT infrastructure is the first priority for affordable access to high quality infrastructure. G8 should highlight the successful experience of those developing countries which enable competition in ICT-markets.

Regarding new biological technologies, governments should strengthen international co-operation and information sharing, especially among inter-governmental organisations, on the full range of applications. They should undertake analyses of feasibility, effectiveness, costs and benefits of the various policy under discussions, including processed food labelling. Government and industry should work together to ensure that significant capacity building is undertaken in developing countries in the area of biotechnology. This capacity building should be directed at regulation as well as domestic development and use of modern biotechnology to address domestic concerns.

### 2.3 Trade and Investment Framework

Assessment: No country has been able to develop rapidly without strong **international economic linkages**. New technologies and innovation are in effect a vehicle for inserting new and **competing business models** in the existing market structure and shifting resources to higher productivity activities. For this, innovation needs to be backed up by a high-quality regulatory framework. Where that is lacking, **regulatory reform** is necessary. Widening the reach of **international trade and investment** is the most effective, if not the only practical way of opening sectors to competition, and spreading this innovation-led economic evolution.

A common plea today from the lesser developed world is “give us trade not aid” and, while there is still a need for aid, the billions of people who live in poverty will never exit that state unless they are able to participate in the market-based system. Participation in world trade and investment brings those instruments and institutions necessary for the proper functioning of an economy with them and they place pressures for the reform of many other institutions to complete an enabling policy mosaic.

**Cross-border investment** is another powerful vehicle for the transmission of innovation between countries and is often closely linked with trade flows. Trade and investment activities also can have a positive impact on the **environment** as they both promote a more efficient allocation of resources at the same time that they contribute to economic growth. This growth should in turn lead to increased **social welfare** and a reinforced demand for improved environmental policies. International investment in innovation is an essential element in upgrading not only the performance of local economies, but also in improving social and environmental sustainability globally.

Benefiting from trade and investment linkages for development requires a strong global system for the **protection of intellectual property rights (IPR)**. IPR protection is a market-based mechanism for disseminating knowledge. Tolerance of lax, theft-enabling IPR regimes for purposes of short-term political expediency can only damage the propensity to invest in new knowledge.

Recommendations: Global commitment to these aspirations is best effected by a **recommitment to** the market-based economy through **the world trading system** with its roster of previous agreements and on-going negotiations as well as the commencement of a new Round. The successful launching of a new WTO Round with a broad based and balanced agenda is a prime objective of BIAC. This includes advancement of the built-in WTO agenda on services and agriculture, and continued implementation of WTO existing agreements and commitments.

Securing the support and participation of developing countries in the rules based global trading system is critical to the preparation and success of a new Round. In this respect we recognise that capacity building and extended phase-in may be necessary for some disciplines in some countries. In this context, with respect to trade and labour standards, the international business community believes that labour matters are most appropriately addressed within the context of the ILO, the competent body to deal with the conditions of work, and we urge acknowledgement of the achievement of the ILO in developing and promulgating the Declaration of Fundamental Principles and Rights at Work and its follow-up.

To ensure a symbiotic dynamic between investment and innovation functions, two elements in the policy framework are necessary: **A transparent set of investment rules** (multilateral, regional, bilateral) which provide greater certainty and stability for both investors and beneficiaries of investment and, at the local level, **a stable policy environment** that enables, not inhibits innovation and growth -- a key element in attracting FDI. A good policy environment includes non-discrimination, national treatment, sound financial and shareholder governance; efficient and transparent administration, as well as a fair, predictable system of taxation.

With respect to OECD work on **export credits and the environment**: BIAC fully supports the premise that the environmental risk related to project exports is an integral part of the financial risk that is assessed by Export Credit Agencies. However, a balance must be achieved between all involved parties - that is the host countries' governments and buyers, ECA's, sponsors, exporters and financial institutions - in order to create a beneficial outcome for all participants in the process. We believe that the present draft OECD Recommendation on Export Credits and the Environment represents a reasonable compromise between all parties, and that reopening the OECD negotiations on this issue would not lead to a more comprehensive text but would postpone a solution in this area.

## **2.4 Environmental Sustainability and Growth**

Assessment: Experience clearly indicates that innovation can contribute to breaking the link between economic growth and environmental degradation. Upgrading technology is a prerequisite for more effective use of resources and thus improving environmental performance, which becomes all the more important in view of a rapidly growing world population. In most cases, newer technologies and processes are both more efficient and less polluting than the technology they replace, allowing increased production using less material and causing less pollution. At the same time, environmental performance often presents business opportunities that enhance firm-level efficiency.

The spread of innovative approaches around the world, in particular among developing countries, which to a large extent happens through foreign direct investment, will be crucial for environmental improvements worldwide. Given the right global framework conditions, business, through free trade, is spreading the technologies, skills, and processes that are required for sustainable development.

Economic growth generates additional resources for environmental protection. Increased trade and investment also promote opportunities for countries and companies to exchange more environmentally efficient technologies, share good practices, and contribute to environmental capacity building, particularly in developing countries.

Recommendations: Among global environmental challenges the **climate** issue has implications for every aspect of commercial activity. Industry needs an internationally agreed framework for action on climate change that encourages innovation and transfer of climate-friendly technologies and know how to the developing world. It would be counter productive for governments to engage in a process that would not involve all nations that ratified the UNFCCC. Business believes that the negotiations of an international framework must include the active participation of all G8 governments.

**On Food safety:** Food safety is one of the issues which presently challenge the political sustainability of innovation in a market economy. Food safety is addressed in a number of international forums, including Codex Alimentarius, Food and Agriculture Organisation, and World Health Organisation. As the recent OECD Conference in Bangkok highlighted, there is a need for further transparency by these forums. The OECD is in a good position to undertake the economic cost/benefit analysis of proposed policies on food safety.

## 2.5 Knowledge Society and Education

Assessment: The digital revolution and Internet are transforming all organisations, jobs and activities. Their diffusion on a global scale is reaching an unprecedented speed. This is not a pure technological change, like other technological breakthroughs in the past, because it has a profound impact on the whole of society. The final result will be the development of a Knowledge Society where information and knowledge are the building blocks. A Knowledge Society is really a global society.

The principal economic resources will no longer be traditional raw materials or physical resources, but human intelligence and skills. Young nations will increasingly challenge the traditionally developed, but ageing regions in these respects: the case of India is already a clear example. Investments are becoming less and less on fixed assets and more and more on intangible assets, such as education, skills, science and technology. The organisation work is under a radical modification, from lifelong jobs to lifelong employability through a permanent learning process.

A principal challenge at hand is the rapidity of diffusion of basic ICT technologies and the prevention of a digital divide which can exacerbate unemployment and of poverty problems. But digital opportunities open the way to full employment and creation of new wealth, better quality of living and the main efforts should be focused in speeding up this process, permitting an effective diffusion of new technologies and skill preparation in all countries.

Recommendations: It is necessary to maximise access to information and communication technologies in all countries and to all levels of people, investing in infrastructures, eliminating the obstacles that are limiting this process, promoting the diffusion of best practices among less developed regions, investing in the formation of teachers and in ICT based online education systems closely related to new skills and jobs.

**On the Dot.force:** Business appreciates the G8's Dot.force effort and is interested in working with governments to enhance digital opportunities in less developed countries. Looking forward in this area, there is a need for an higher level of certainty and predictability as well as an effective policy framework in order to allow foreign business to participate in local economies of developing countries in a meaningful way. *The Global Action Plan on Electronic Commerce*<sup>2</sup> provides some of that framework.

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<sup>2</sup> A statement by the Alliance for Global Business (including BIAC, GIIC, ICC, INTUG, and WITSA) prepared by Business with recommendations for Governments (2nd Edition, 1999), available at the following Web page:

<http://www.biac.org/DOCS/AP2FIN.pdf>

Most importantly, there is a need for further active participation of local players at the governmental, industry and community levels in the Dot.force. Programs must be tailored to provide solutions to pressing local problems, as this is not an exercise in technology for the sake of technology. There are many tools to carry out needs-assessments, and countries should be consulted on what their most pressing needs are. We must also be aware that less and least developed countries cannot leapfrog overnight to levels of ICT penetration of Scandinavia or the US. They should look to local/regional or other similarly situated examples of encouraging success. Moreover, governments should work to ensure market conditions that are pro-competitive and pro-private sector investment so as to develop the policy framework necessary for affordable access in the long-term. Without such market conditions private sector initiatives will never reach their full potential.

## **2.6 Good Public Governance**

Assessment: Global governance issues comprise both corporate governance as well as public governance. In relation to the latter, during the last several years the OECD has conducted a highly useful activity on Regulatory Reform, consisting of a comprehensive, detailed overview of the economy, focusing on sectors which have been traditionally sheltered from competitive pressures, from the point of view of the quality, effectiveness and economic impact of regulation. The concern to make the regulatory framework relevant for the economic activity of the population is above all a demonstration of good governance.

While the relevant method and approach may not be the same for all countries and regions outside the OECD area, developing country governments should be encouraged to adopt the notion that there is a need to examine the ensemble of regulatory structures regularly and continually from the point of view of their effectiveness and efficiency. Practices are improving continually.

**Corruption** is a particularly harmful by-product of poor governance. Corrupt practices result in substantial economic and social costs for companies, their employees and for countries in which illicit payments and extortion are frequently encountered.

Recommendations: BIAC supports the OECD activities on developing capacity for improved regulatory quality and management, including effective adoption of Regulatory Impact Assessments.

In the context of official aid and debt forgiveness, G8 countries' leadership is essential in strengthening ongoing efforts to make regulatory reform and quality an integral part of economic co-operation with aid-receiving countries, with an emphasis in removing obstacles to trade and avoiding corruption.

BIAC urges that the OECD Convention on **Combating Bribery** of Foreign Public Officials in International Business Transactions should continue to be brought into force in a manner which does not maintain or create distortions in international competition, and which provides effective mechanisms for monitoring implementation by governments of actions taken against all aspects of corruption. The work of the OECD Anti-Corruption network in outreach to the transition economies and other emerging markets can be particularly useful in this context.

### **3. Conclusion**

**For business to maximise its contribution to sustainable development, it requires, among others, open markets, stable and predictable policy framework and trade and investment rules, and policies encouraging the swift dissemination of technology.**

The G8 has within its members' collective grasp the elements of that policy mosaic . The inhibitors are known. Only conviction, courage and leadership can capitalise on the former and escape the latter.

Business is ready to co-operate and participate in your discussions to help progress towards the common objective of global sustainable growth.

In this regard, the experience of business-government dialogue developed between the OECD and BIAC over the last four decades could be a useful model for strengthening the interaction between the G8 and the private sector.

BIAC is the organisation representing the private sector at the OECD, which has strong substantive links with the G7/G8 process. Since 1962, BIAC has brought together the advice and counsel of the business communities of the member countries of the. At the OECD BIAC participates in the vital committee work of the representatives of the 30 member governments.

The private sector supports their efforts to combine macro- as well as micro-economic thinking and experience to formulate an integrated set of public policy recommendations based on facts and analysis. The policy areas discussed and debated are as basic as trade liberalisation and sustainable development and as leading edge as e-commerce taxation and biotechnology. These policy recommendations are purveyed world-wide.