BUSINESS at OECD

Statement to Ambassadors and OECD Leadership

Role of Business in Lifelong Opportunities – *People First Policies to Bridge Divides*

Monday, 13 January 2020 – Annual Consultation with OECD Leadership & Ambassadors

Setting the scene

History has seen many examples of technology evolution that has created vast opportunities for people:

- *From monks to artificial writing*: "Information Age 1.0", i.e. the printing press, reduced the cost of disseminating information by about 1,000 times. "Information Age 2.0", i.e. the commercial introduction of the microchip in 1971, lowered the cost of information by about 10 million times (1).
- *From horses to automatic transportation:* In 1894, New York's 100,000 horses produced around 2.5m pounds of manure a day, causing various illnesses. In London the Times newspaper predicted that "in 50 years, every street in London will be buried under nine feet of manure". The situation alleviated with Ford inventing mass manufacturing of motor cars, and electric trams and buses appearing on the roads (2).
- *From hand washing to washing robots*: In 1900, just 5% of married women worked; by 2000 already 61% did. A key factor behind this increase was that technology freed up time spent on housework. While in 1900 the average household spent 58 hours/week on housework (e.g. laundry and cleaning), in 1975 this dropped to only 18 hours thanks to technological progress. This also came along with a shrinking gender wage gap (3).
- *From bank clerks to automated teller machines (ATMs):* By reducing the cost of running a branch, ATMs allowed banks to open more branches in response to customer demand: The number of urban bank branches rose by 43%, leading to an increase in employment. Instead of destroying jobs, ATMs changed employees' work mix, from routine tasks towards sales and customer service, and created more demands for technical and IT skills in maintaining and deploying ATMs (4).

As the last example illustrates, new technology requires sufficient re- and up-skilling of employees and a commitment to lifelong learning. Today, considering the rapid digitalization of our economy, "78% of executives indicate that updating the school and education curriculum to match the economy's needs would provide them with the skilled employees they require. This sentiment is particularly strong in emerging markets, rising to 79% […] in Latin America and 86% in Africa"(5).

Against this background, this year starts with an important call from global business to the OECD: it is imperative that *Business at OECD* and the OECD work together to deliver a positive narrative on people-first policies for globalization in the digital age. This is especially important as media negativity is frightening the most vulnerable into inactivity just when the opposite is required. The unique value underpinning the OECD brand should be used to highlight critical evidence showing lifelong learning will benefit all (with required policies in place).

The economic context reveals reasons for decisive action. The OECD projects global growth to be just 2.9% in 2019, the weakest rate since the global financial crisis. This underlines a steady deterioration of growth outcomes amidst high policy uncertainty, with now 57% of firms globally citing uncertainty as a key concern, compared to only 29% at the beginning of 2018, and exceptionally weak trade and investment flows (6). At the same time, we are witnessing unprecedented transformation due to digital technologies, with business spending on digital transformation expected to reach a staggering $1.25 trillion in 2019 (7).

Our recommendations are a focused selection of suggested solutions to empower people and bridge divides.

While we chose to focus on three overarching areas for our consultation, we underline that we are actively involved in and strongly support other OECD activities not specifically mentioned in this paper. We look forward to our strengthened collaboration with the Organization across Directorates, their related bodies, and our business committees in all the countries that actively liaise with them.

Please note that **references and endnotes** are available on a dedicated page on our website under **this link.**

Section 1:* The value open markets bring to people: *focusing on trade, investment/tax & development.

From spices to software, from additives to aviation – the liberalization of trade and investment has been a success story in developed and developing countries. Businesses embracing opportunities of open markets bring new innovative solutions to our societies, create better jobs and working conditions, provide poorer households with better access to goods and services, strengthen research and education, connect people across the globe, and foster efficiency in a resource-scarce world. Open trade and investment regimes benefit citizens over the long term, and require domestic policies to prepare people for change, with better skills and more opportunities for economic participation.

Box 1: Illustration of benefits from open trade and investment regimes (8)

Addressing poverty – from 1990 to 2015, the extreme poverty rate dropped an average of a percentage point per year – from nearly 36% to 10%.

Raising incomes and improving overall working conditions – Average wages of exporters 6% above that of non-exporters (US).

Creating jobs – Share of workforce involved in export production: US (10%), France (20%), Germany (30%), Ireland (47%).

Access to goods and services of low-income households – From 1980 to 2014 the prices of TVs and microwaves went down by 73% and 93% respectively. Meanwhile the quality improved.

Yet, protectionist rhetoric and action continue to undermine the achievements from open economies in OECD countries and beyond. For example, the negative impact of US-China trade tensions has been estimated in 2019 to have the potential to reduce global GDP by 0.6% in the following 2-3 years (9). Protectionist actions include the misuse of industrial policy instruments and national security measures to disguise the protection of inefficient local industries from competition, nationalize global value chains or convey strategic competitive advantages to "national champions" and SOEs. In the case of export credits, a changing environment has placed increasing pressure on the OECD Arrangement on Officially Supported Export Credits and in some cases undermined its ability to fulfil its purpose (10, 11). Clearly, market openness should remain the name of the game – but this must be a two-way street between trade and investment partners – and a level playing field should be guaranteed.

The potential to significantly advance our societies through further liberalization of trade and investment initiatives is substantial, including through further liberalization of services, public procurement and digital trade, as cross-border data flows already make a larger contribution to global GDP than goods trade – and further OECD evidence-based work on key issues including forced localization, cross-border data barriers, privacy and security remains highly valuable (12).

Trade and investment also play a major role in increasing income levels in developing countries, supplying host countries with capital and infrastructure and knowledge, contributing to a diversification of the host economy and enhancing the skills base. But this potential relies on polices that ensure predictable, transparent, efficient and non-discriminating trade and investment conditions, and effective intellectual property conditions. It also requires foreign investment protection instruments, adherence to the rule of law and improved multilateral resolution procedures sufficient to promote efficient dispute resolution. The functioning of the multilateral rules based trade and investment system is key, which among others requires a well-functioning and effective WTO.

Clear, stable, transparent tax policies and tax administration, with the flexibility to address rapidly evolving digitalized business models, are another key element of an open trade and investment regime. In this context, the current OECD/G20 Inclusive Framework on BEPS discussions on taxation of the digitalizing economy must strive for broad and deep agreement between countries to ensure that any new international consensus is stable, long lasting and truly multilateral with the OECD in the lead. Policies and guidance should be at the appropriate level to accommodate evolving business models. Critically, any new guidance should mitigate unilateral measures and ensure against further impediments that may lead to double or multiple taxation and a greater number of cross border tax disputes (with the caseload of mutual agreement procedures already at almost 7000 cases at the end of 2018) (13, 14).

Further elimination of barriers to trade, investment and entrepreneurship must be pursued at national, regional and local level by streamlining bureaucratic proceedings and reducing administrative overlaps. Cross-border regulatory fragmentation leads to major increases in compliance costs, as also highlighted by a 2018 *Business at OECD* and IFAC survey (15), suggesting that regulatory divergence in the financial sector alone costs businesses more than USD 780 billion.

At the same time, trade and investment liberalization must reconcile with other evidence-based policies and policy objectives, including towards the achievement of the sustainable development goals (SDGs), and in particular towards tackling climate change and achieving higher resource efficiency. Open trade and investment must also go hand-in-hand with responsible business conduct. *Business at OECD* considers responsible business conduct as promoted by the OECD Guidelines for Multinational Enterprises as an essential part of an open investment climate and important for ensuring trust in business.

Bearing in mind that there are significant investment needs in OECD countries, in developing countries alone the United Nations (UN) estimates that the gap in financing to achieve the SDGs is $ 2.5 – 3 trillion per year (16). Meeting the 2030 Agenda hence requires mobilizing private cross-border investment flows, fostering public-private alliances and advocating free capital flows and open markets more forcefully. For example, evidence suggests that reforms liberalizing FDI restrictions by about 10% could increase bilateral FDI stocks by 2.1% on average (17). In addition, building the local supply network helps to further increase local resilience and growth, skills and empowerment, complementing the FDI elements. A well-functioning market economy is a key factor, along with the liberalization of trade and investment, in achieving the economic success of developed and developing countries.

The OECD's new initiative on FDI Qualities is an important project in this regard. It has the potential to demonstrate and promote the benefits of an open investment climate by strengthening the understanding of how the benefits of FDI go beyond the supply of capital and help promote the role of business in meeting goals of the 2030 agenda. For example, the report notes that across countries, foreign firms are twice as productive as domestic ones, resulting in higher wages by 50% on average. However, we believe that the indicators should be supplemented with additional analysis, reflecting the contribution of FDI to sustainable development more broadly, and complemented with effective tools for businesses and policymakers to fully harness the benefits of investment.

The OECD, as a leading source of evidence-based analysis and data can help better understand and communicate the opportunities stemming from liberalizing both trade as well as inward and outward investment. As opportunities increasingly exist in emerging markets, it is crucial that the Organization receives and establishes the appropriate means to effectively advocate for its insights also beyond its membership. The value of the OECD's work can only be realized if policy-makers are willing to put the Organization's conclusions into practice – ensuring implementation within the OECD and beyond, including in accession countries. Evidence based communication of the importance of open trade and investment at the highest levels, including at the May 2020 Ministerial Council Meeting, is therefore critical.

In the light of the foregoing analysis, Business recommendations to OECD Leadership and Ambassadors:

- Provide succinct facts and figures for non-technical audiences underlining how trade and investment continue to improve lives and bridge divides and communicate these more broadly.
- Support an ambitious trade and investment liberalizing agenda to continue to provide integrated, evidence-based and cutting-edge policy analysis, including at the Ministerial level.

    - Support reform of the international trading system and emphasize the benefits of multilateralism, for example in the areas of digital and services trade, intellectual property protection and addressing international regulatory fragmentation.
    - Ensure a global level playing field, including by reforming the Arrangement on Officially Supported Export Credits and making it accessible, transparent, predictable, market reflective and consistent framework.
- Expand the FDI Qualities project, to provide a balanced analysis of the contribution of foreign direct investment to the achievement of the SDGs both through direct and indirect impacts.
- Commit resources to scale-up OECD presence and ensure the Organization's relevance in key markets, including China, Brazil, India, Indonesia and South Africa. In this regard, we welcome the OECD's work on investment facilitation and promotion which supports helping developing countries' efforts in attracting and retaining investment.
- Foster balanced implementation of OECD standards related to responsible business conduct and increased outreach to non-member countries for a global level playing field.
- Ensure that any solution to the tax challenges of the digitalization of the economy is based on long-standing and well-founded underlying principles of international taxation, is grounded on the concept of value creation, has the flexibility to be sustainable in a rapidly evolving business and consumer environment, and avoids uncertainty from double taxation risks and ensuing tax disputes. A political compromise is needed that avoids unilateral decisions, which can create competitive disadvantages, and secures a uniform implementation at national level of the decisions adopted in the OECD.

Section 2:* How people best adapt to future opportunities; *focusing on Employability/Skills & Digital.

While open markets are a key pillar for growth and development, consideration must also be made for workers and other constituents who are affected by the pace of change, including that from the digital transformation. Policies should both foster innovation and trust in open markets and the digital economy, and importantly enable all individuals to benefit from and embrace future opportunities.

Importantly, harnessing digital opportunities and mitigating risk require holistic policies and multi-stakeholder engagement. The OECD *Going Digital* Integrated Policy Framework and Toolkit are unique policy tools that should be leveraged broadly as cross-cutting approaches to facilitate analysis and development of evidence-based policies that can support uptake and diffusion of digital technologies and help encourage economic players to embrace the transition to a full integration of physical and digital, for economic and societal benefit. However, it is a complex framework that requires coordination and collaboration across multiple government ministries. As such, the OECD should continue to work with members on its adoption and to share best practices on its practical implementation, as well as measure its progress. As the Framework also has applicability more broadly, the OECD should continue to share the framework as best policy practice in realizing the potential of digitization more broadly.

The potential of cutting edge technologies such as Artificial Intelligence (AI) to improve well-being and efficiencies across sectors is a positive development where the OECD should advance a constructive narrative as AI technologies progress. The 2019 OECD AI Guidance, and the soon to be launched OECD AI Observatory establishes OECD as a policy leader in the AI field, further affirmed by G7/G20 adoption of OECD AI principles. Given the pace of change, traditional sources of labor market information available to policymakers may not be sufficient to accurately describe the occupational and skill needs associated with AI and other emerging technologies. For this reason, *Business at OECD* is working with its Members to facilitate data sharing to broaden the OECD evidence base for effective AI policies and related Privacy, Digital Security, and Data Governance issues.

With 4 out of 10 new jobs in the last decade created in highly digitized sectors, and an estimated 32% likely to face significant change due to automation (18), people must be prepared from the start to learn and embrace change throughout their lives. While advances in technology create opportunity, they may also create risk for workers – particularly low and middle skill workers – who lack transversal skills to successfully find and pursue new career pathways. We note that average spending on training for the unemployed and workers at risk of involuntary unemployment across the OECD is only 0.13% of GDP (19). The challenge of lifelong learning calls for enhanced collaboration between business, government, civil society, labor organizations and academia to help people acquire competencies, skills and character qualities required for tomorrow's jobs.

Innovative-financing mechanisms for reskilling and upskilling, including use of technologies, are needed to support workforce training and transition for all skills levels, in alignment with needs of employers. In this respect business organizations and companies are making significant investments in training including through initiatives such as GAN Global, a CEO led initiative promoting work-based learning across sectors worldwide (20). Both governments and businesses have a key role to play in creating enabling conditions to allow the individual to respond to changing circumstances.

As digitalization, global trade and demographic change impacts the way firms do business, organize production and provide services, these factors affect the way firms demand, organize and deploy work. We encourage the OECD to take a holistic view on employee engagement initiatives that underpin 21st century workplace relations. A thorough look at employee engagement initiatives is warranted to ensure that OECD policymaking guidance responds to today's context and related opportunities, given declining levels of trade union density at 16% in 2018 and coverage of collective agreements measured at 33% in 2017 (21, 22).

Business recommendations to OECD Leadership and Ambassadors:

- As part of its future work, the OECD should drive projects that:
  - Provide analysis and evidence that help improve and make more inclusive general education systems so that all children are equipped with better skills of reading, writing, mathematics, logical thinking and soft skills.
  - Encourage the use of data sources that complement traditional labor market information and advance understanding of the present and future of work, so that skill and occupational pathways can be created in a way that satisfy employer needs and promote economic opportunity for individuals.
  - Identify and documents successful cooperative models to better align education and training systems with labor market needs, and the impact of the adoption of competency-based hiring to reducing skills gaps.
  - Showcase employee engagement models that improve workplace performance and climate, and that help prepare people for future opportunities by informing early stage policymaking at the OECD about what employer relations will focus on in the coming years. Such a project should touch upon aspects related to technology, platform workers, and include a more holistic focus on social dialogue.
  - Build the evidence for implementation of the OECD AI Guidance and identify ongoing business initiatives applying AI across fields as a tool for inclusive growth.
  - Continue work on the adoption of the OECD *Going Digital* Integrated Policy Framework and Toolkit and share best practices on its practical implementation and measure its progress.
  - Establish trust in digital technologies, which includes efforts to establish digital security and privacy in ways that continue to support innovation and risk management practices that can increase trust more generally.
  - Extend OECD guidance on digital in support of effective regulatory and governance approaches beyond the OECD through work with the G7/G20, relevant International organizations and regional groupings such as Asia Pacific Economic Cooperation (APEC).
  - Share well documented practices of how we can solve economic and social challenges derived from demographic aging and bridge the growing divide between the urban and rural areas with digital solutions.
  - Advise about the best methods to stir the interest of young people in science and entrepreneurship as well as to find out solutions to reduce the gender gap in all those areas.

Section 3:* Innovative foundations for thriving societies*: Health and Environment

Responding to pressing societal challenges depend on getting science, technology and innovation policies right. Sufficiently investing in technologies and initiatives for health innovation and promotion, and innovations to help address environmental challenges is critical.

Economic evidence shows that a 10% improvement in life expectancy at birth is associated with a rise in economic growth of some 0.3-0.4 percentage points a year (23). However, the challenges healthcare systems face today call for new thinking in health policy.

For example, antibiotic-resistant infections could cause a level of economic damage similar to – and potentially worse than – that caused by the 2008 financial crisis. The cost of Non-Communicable Diseases (NCDs) could more than double in the next 20 years – to $30 trillion, and the economic burden of mental ill-health can rise up to 4% of GDP in OECD countries. OECD work could encourage looking beyond cost-containment policies into actions that enable the empowerment of populations to effectively prevent and treat illnesses.

Developing a policy framework aimed at incentivizing and driving innovation should be a key focus for the OECD. For instance, concrete initiatives to address market inefficiencies affecting investments in new antibiotics R&D are still largely absent, despite widespread agreement amongst stakeholders on the incentives needed to support appropriate patient access and sustainable investment in this field. Such incentives include, among others, increased "push" funding, as well as novel incentives such as a Market Entry Reward and Transferable Extended Exclusivity vouchers. While such schemes have been researched and discussed at length, none have been implemented to date.

Given the recent exits of private capital and expertise in antibiotic discovery and development, governments must urgently move forward with reimbursement reform and novel incentives related to Anti-Microbial Resistance, taking into account their respective delivery and financing systems. Most recently, G20 Ministers of Health requested a concrete analysis on how pull incentives could work. Based on its economic competence the OECD would probably be the best suited international organization to undertake such work.

Throughout our annual fora on health, stakeholders have pointed out that much remains to be done to encourage citizens and workers to adopt healthier behaviors to reduce risk factors – obesity, harmful alcohol drinking, and sedentary lifestyles among others – for non-communicable diseases that can be effectively prevented. Businesses undertake multiple initiatives towards this end, but more evidence is needed to identify parameters of design and implementation and criteria of efficiency in terms of behaviour change. There is a wealth of public and/or private initiatives to secure behavior change, which needs to be benchmarked to identify best practices that can be replicated and scaled up. Initiatives that work in practice should form the basis of the evidence base.

Specifically, businesses need and want proper evaluation of their initiatives, requiring independent scientific input and more systematic partnerships with academia. The OECD could undertake cross-disciplinary research to explore the effectiveness of health literacy programs to maintain and enhance citizens' health and document the return on investment from such initiatives through a scientific assessment (e.g. measured by increased productivity/reduced presenteeism and absenteeism in the workplace and reduced incidence of non-communicable disease management and treatment, including addressing mental disorders). Such evidence would increase stakeholders' readiness to engage in these partnerships.

The OECD could also help identify criteria of due process and independence when academics partner with industries to design, implement, or evaluate initiatives to reduce NCD risk factors. This project would also take into account policy coherence needed to achieve better health outcomes without creating distortions in the food and agriculture sector.

As our societies grow, people live longer and with higher incomes, our economies will need to ensure that we can meet an increased demand for goods and services in a more sustainable manner. To ensure the sustainability of natural resource use, positive and negative externalities need to be reflected to the most possible extent in market outcomes, while at the same time avoiding ill-prescribed policies and regulations. Further, increasing resource productivity is fundamental to ensure sustainable material prices and supply security for future generations. In fact, as materials management activities account for more than half of all greenhouse gas emissions (24), moving towards a more circular economy can also make a fundamental contribution to realizing climate ambitions.

In order to unleash the private sector's full innovation potential in this regard, finding ways to increase resource efficiency and address climate change must become a more viable market opportunity. As the interplay of different types of policy instruments can play an important role in determining the effectiveness of incentivizing environmental innovation, a shift is required towards a more systemic and technological neutrality approach, creating and fostering an enabling environment for industry developments – including policy and regulatory environments for technology development, transfer and diffusion. Further, as one government's national policies alone may not be sufficient to achieve a step change in environmental innovation, facilitating international co-operation in research and innovation is critically important.

Business recommendations to OECD Leadership and Ambassadors:

- As part of its future work, the OECD should drive a cross-cutting project, bringing the expertise from employment, labor, science, technology, innovation, and agriculture policy communities, which:
  - Identifies the most effective environment for nurturing and sustaining innovation and access to health technologies;
  - Evidences the contribution of medical innovation to economic growth and productivity with a focus on creating pull incentives to reward innovation and tackle issues such as Anti-Microbial Resistance;
  - Sets up a framework of engagement for academics / scientists working with industries to conduct independent scientific assessments to design, implement and evaluate the effectiveness and outcomes of partnerships and education initiatives to increase healthy lifestyles and behavioral change;
  - Develops benchmarking of best practices in partnerships and education initiatives to increase healthy lifestyles and behavioral change, in particular where those have benefited from scientific input (fostered by OECD);
  - Focuses policy recommendations on the basis of such best practices, which have proven effectiveness in real life conditions. This is a step change for the OECD, as economic modeling can be out of sync with real life effective initiatives. The latter should be prioritized rather than recommendations based solely on theoretical modeling.
- In addition, the OECD should continue and reinforce its work on supporting the development and diffusion of innovation in industries which (1) are likely to be harder to decarbonize, (2) foster the transition to a more resource efficient and circular economy, and (3) enable cross-cutting digital technologies with environmental impact.

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