BUSINESSatOECD

Statement to OECD Ministerial Council Meeting May 2019

Top 10 business priorities

Maximizing Digital Tools to Benefit Society

Introduction

It is a seminal year for the OECD on digital. The 2019 March OECD Going Digital Summit and Ministerial Council Meeting signal the need for action. As the B20 Tokyo Summit highlighted in its Joint Recommendation "Society 5.0 for Sustainable Development Goals (SDGs)", we need to ensure that the digital transformation continues to deliver economic and social prosperity to all.[1] This requires a whole-of-government and truly multi-stakeholder approach, a step-change across many points on the policy agenda, which builds further trust in business and delivers increased value to society.

The OECD *Going Digital* Integrated Policy Framework and the supporting Going Digital Toolkit furnish comprehensive policy guidance to positively advance the digital transformation**.** It is in this context that our paper identifies concrete areas of business action. We have prioritized 10 priority policy areas critical to fostering a leading and constructive role for business in the digital economy, highlighting the leading role of the OECD in this field.

Business plays a key role in utilizing digitalization to foster economic growth, innovation, and better lives

It is clear that digitalization offers unprecedented opportunities to raise efficiency and productivity, enable creativity and innovation, and increase competition and consumer welfare, while fostering social and economic progress.

The pace and scale of the digital transformation is unprecedented, with estimates showing it may occur at 10 times the speed and at 300 times the magnitude of the first industrial revolution, or roughly with 3,000 times the impact[2], highlighting the need to put the right policy measures in place to maximize economic growth potential.

While there will be challenges, most recent studies suggest that the potential benefits of digitalization will prevail. For example, recent survey results[3] show that by 2022 net job creation may be around 58 million as a result of digitalization (while 75 million jobs may be displaced by new technology, 133 million new roles may emerge in parallel). Moreover, the expected economic impact of digital technologies is highly positive, underlined by estimates[4] that the Internet of Things (IoT) will add between $2.7 trillion and $6.2 trillion to the global economy annually by 2025. According to PwC's Global Artificial Intelligence (AI) Study, AI could contribute up to $15.7 trillion to the global economy by 2030 – due to increased productivity and consumption side effects.

In this context, businesses have a key role to play in ensuring that economies reap the greatest benefits from the digital enhancements to the means of doing business and making our economies more efficient and productive, while maintaining safety, security and privacy of data. Already today prominent examples underline how businesses leverage digital technology to drive sustainable developments and to empower employees. Among these some examples[5]:

[1] B20 Tokyo Summit Joint Recommendations (15 March 2019), Society 5.0 for SDGs.
[2] Dobbs, R., Manyika, J., and Woetzel, J., (2015), The four global forces breaking all the trends, McKinsey Global Institute.
[3] World Economic Forum (2018), The Future Jobs Report, Centre for the New Economy and Society.
[4] OECD (2016), OECD Science, Technology and Innovation Outlook, OECD Publishing, Paris.
[5] Further examples of business innovations which are contributing to the SDGs can be found in "B20 Tokyo Summit: Tangible Examples by Business".

- **Canadian banks** partner with Fintechs to provide the innovative products and services Canadians want. Through initiatives such as Tap & Pay, mobile banking, chat bots available around the clock and robo-advisors, banking has become more accessible and convenient for Canadian consumers. Canadians in both urban and rural communities are saving money and time with the development of new secure banking technologies that will continue to proliferate in the coming years.
- **Deutsche Telekom** runs with **"Teachtoday"** an initiative for the promotion of safe and competent media use. It offers help to children, parents and grandparents, as well as educational professionals with materials and tips for teaching, parenting and growing up in a world where digital media and its competent use becomes ever more important.
- **FOSS** is a specialized engineering company that provides analysis instruments and connected support services for food manufacturers, which helps to improve food safety. The company relies on cross-country data flows to run its global business, with main production, research and development facilities in Denmark and China, and a sales and service network in 30 countries.
- **Hearing aid manufacturers** – digital technology and the transmission of data across borders plays an integral part in hearing aid manufacturers' ability to supply the optimal product to the consumer to maximize health and life quality. In particular, data are necessary to fit the device to precisely match the ears of the individual consumer, which involves pre- and post-purchase customization for the customer (scanning, precise 3D-modelling of the inner ear, specialization, shipping, and calibration).
- **IBM** empowers employees with a **"Watson AI career coach"** on their smartphones that recommends logical career paths and next step job opportunities, and the necessary learning and development experiences to get there.
- **Microsoft** has launched an **AI for Good** initiative, which is a 5 year $115 million commitment to encourage and support development of AI solutions to address global challenges in accessibility, sustainability, for the earth, and Humanitarian Action.
- **Profuturo (Telefonica foundation)** is one of the biggest digital literacy projects in the world aiming at bringing 25 million children in the developing world education and digital skills by 2030.
- **Smart energy systems** – With the installation of a smart meter, hundreds of millions of homes will gain access to a key component of a domestic smart energy system and an interface with the smart grid. Beyond smart meters, IoT solutions will be used to improve heating, ventilation and air conditioning consumption and lower energy usage, monthly expenses and greenhouse gas emissions (examples include a Learning Thermostat and smart plugs, light switches and lighting systems).
- **"Women's health"** is a special program aimed at creating an integrated system for early diagnosis and prevention of the incidence of breast cancer in Russia. The program includes the creation of a unified system for diagnosing breast cancer on the basis of city and regional medical institutions with the possibility of remote consultations.

All stakeholders need to work together across all areas to shape the digital transformation. Business recognizes that there are also certain areas where timely solutions to global challenges are essential. For example, in areas such as international taxation and digitalization, online privacy and cybersecurity coordinated actions are necessary, and we will work with the OECD to reach understanding and consensus.

10 priority areas for business to be able to leverage digital technology to drive sustainable development

Maximizing the potential of digitalization so that its benefits can be deployed in ways that will benefit everyone, in an inclusive manner requires enabling policy frameworks. Governments at all levels of development must get pro-growth policies right. Priority areas include:

1. Market openness / trade and investment

Open markets, free trade, and a predictable level playing field are crucial for business. Digitalization has significantly reduced the cost of engaging in international trade, facilitated the co-ordination of global value chains (GVCs), helped diffuse ideas and technologies, increased competition, and connected a greater number of businesses and consumers globally. Without open markets, the benefits of digital technology are unlikely to be sufficiently shared across countries. In fact, national restraints on access to data and forcing localization of data processing cause greater divides and reduced competitiveness between countries with varying degrees of digital sophistication.

Recommendations:

- *Highlight the benefits of multilateralism, and provide thoughts on how to improve the global liberal trading system for the 21st century.*
- *Pursue trade and investment policies in a coherent, global approach and not in isolation, including by updating our understanding of how digitalization impacts trade flows and interlinkages with international investment patterns.*
- *Work together with the relevant OECD committees to develop standards on cross-border data flows and inform trade policy-makers about the value of such flow and the societal and economic impact associated with different and incompatible policy approaches to cross-border data flow regulation and data localization requirements. This can be an importance resource for World Trade Organization (WTO) e-Commerce negotiations.*
- *Enhance trade facilitation measures to support cross-border economic activities in the digital economy.*
- *Reinforce cross-committee work to further analyze market-distorting subsidies and other forms of government support provided to and by state-owned enterprises (SOEs). Continue leadership on excess capacity in key industrial sectors, quantify the negative impact of forced technology transfer on trade and investment, and provide policy-makers with an understanding of the trade and investment costs of regulatory divergence.*

2. Trust and data governance

Digitalization requires appropriate policy frameworks for the governance of data, data protection and cyber security, all critical issues, which must be addressed to harness the benefits of data driven economies. The OECD Privacy Guidelines, Guidance for Digital Security Risk and the new Guidance for Artificial Intelligence, developed through a multi-stakeholder process, underpin OECD as the leading policy institution for these critical fields.

Recommendations:

- *Differentiate between personal and non-personal data and balance data protection and personal privacy and the business imperative for today's global commerce with national security and public safety.*
- *Promote and look into developing international cyber security norms to enable trust, including through the OECD Global Forum on Digital Security and Prosperity.*

- *Enhance interoperability of privacy frameworks to support cross-border data flows, thereby enabling data analytics across sectors for societal benefit such as health.*
- *Enable individuals, based on open technical solutions to get and maintain the sovereignty to decide when and how the data of that individual is being processed.*
- *Prioritize OECD work on digitalization in science and innovation policy, with specific action to help governments implement coordinated national strategies for privacy and data integrity, public-private collaboration, and incentive structures for research and entrepreneurship.*

3. Skills and Education

Rapid digitalization increases the demand for skilled workers, functioning in knowledgeable, cogent societies, thus making education and lifelong learning a key priority. Strong literacy and numeracy, combined with skills such as critical thinking and creativity, and character qualities such as ethics and leadership are necessary for all to navigate job requirements of a digital economy and to support economic and social mobility, paying special attention to disadvantaged groups, aging populations and gender equality.

Recommendations:

- *Adapt school curricula, qualify teachers and provide the technological tools necessary to ensure that pupils acquire digital skills from a very young age onwards and to reflect modern knowledge areas (e.g. data science in mathematics, biotech, computer science, cleantech).*
- *Enhance collaboration between business, governments and academia to help people acquire the competencies and skills and character qualities, required for tomorrow's jobs, and build frameworks to support on-the-job training such as apprenticeships. This includes adequate support funds for displaced workers, which may help avoid growing discontent which is generating destabilizing populism.*
- *Ensure effective financing mechanisms for life-long learning systems.*
- *Utilize learning technology, including but not limited to adaptive systems, which can extend the reach and lower the costs for training, and raise productivity.*
- *Continue OECD work on providing long-term, cross-country data measuring the performance of education and skills systems.*

4. Labor Market

The digital transformation calls for a forward looking, inclusive, whole-of-government approach to employment policy and a practical and productive social dialogue. The new OECD Jobs Strategy comes at a critical moment when digital technology and new business models bring both opportunities and challenges for individuals and firms, our economies and communities; its recommendations should support individuals in face of this change, facilitating transition to new forms of employment. [6]

Recommendations:

- *Ensure employment frameworks promote diverse forms of work and facilitate transitions between different forms of employment.*
- *Reform social protection systems to ensure appropriate coverage of all forms of work – it should be the objective that all types of contracts should be possible and have access to social protection.*
- *Ensure that frameworks promote workforce diversity and gender equality including commitment from top leadership in both the private and public sectors.*
- *Respect and promote the value and context of social dialogue and other labor relations systems.*

[6] *Business at OECD* (December 2018), Statement addressing the new OECD Jobs Strategy: The New OECD Jobs Strategy - Guidance for a Successful Digital Transformation of Work.

5. *Tax*

There is increasing discussion at the global level focused on whether the digitalization of the economy should result in fundamental changes to the international tax system. Elements of the international tax system are under review in light of new business models and pressure for uncoordinated unilateral action is growing. Unilateral actions can severely impede growth, restrict cross-border trade, and increase administrative and compliance burdens as well as costs.

The OECD is globally recognized as the only forum where international consensus that could stop or reverse this trend can be reached.

Tax is also an area where digitalization has the potential to deliver great benefits, for example by enabling tax administrations to provide better service and reduce the costs of compliance for both governments and taxpayers.

Recommendations:

- *Strive for broad and deep agreement between countries to ensure any new international consensus is stable, lasting, and truly multilateral. This requires a clear articulation and acceptance of principled reasons for modifying current international norms.*
- *Key reforms should:* [7]
    - *be based on long-standing and well-founded underlying principles of international taxation,*
    - *not ring-fence the digital economy,*
    - *respect the Ottawa Taxation Framework principles (including neutrality, efficiency, certainty, simplicity, effectiveness, fairness, flexibility and proportionality),*
    - *reduce instances of double taxation,*
    - *minimize the administrative burden on taxpayers and tax administrations, and be developed through inclusive consultation with all businesses and other stakeholders.*
- *Extend the WTO moratorium on taxation of digital commerce.*

6. *Regulatory policy and competition*

The private sector relies on governments to set a predictable and impact-sensitive regulatory and policy environment so that individual businesses can compete, innovate, adopt, and deploy new technologies and business practices in ways that can lead to inclusive growth. Digitalization and increasing connectedness through globalization intensify the need for better international regulatory cooperation.

Digitalization increasingly offers consumer benefits, including increased convenience, customization and control. In this context, governments should adequately balance the potential risks and benefits of consumer facing digital goods and services – including in areas such as customer preferences and convenience, data privacy and cybersecurity threats, limitations on interoperability, the need for lifetime product support, complex supply chains and liability regimes, and product safety.

As there may be multiple signs that competitive dynamics in the digitalizing economy are changing, competition authorities should rightly act to prevent the improper acquisition or abuse of market power in this context, noting that we look to the OECD for further analysis on emerging issues for example related to exclusive data access. However, competition authorities should also be cautious not to attribute current societal concerns about perceived market concentration to the wrong cause, and it is important that concentration ratios are not an end-point for any evaluation of potential competitive harm. Competition policies should also be mindful of new needs for cooperation within industry and

[7] *Business at OECD* (January 2019), Business Principles for Addressing the Tax Challenges of the Digitalizing Economy.

between industry and science to further the digital transformation and therefore avoid multi-level competition procedures.

Recommendations:

- *Review competition policies, building on existing core principles. Ensure competition policy is not abused for protectionist or political purposes.*
- *Ensure that new rules are clear, robust, evidence-based and supported by a relevant impact assessment.*
- *Ensure that OECD future work on consumer policy will help businesses and consumers to adapt to and seize the benefits of digitalization and new technologies.*
- *Continue examining digital business models and their impact on consumers to better understand consumer policy implications, including those related to AI, the Internet of Things (IoT), and addressing the cross-border enforcement challenges arising out of globalized markets facilitated by digital technologies.*
- *Lead the way in fostering greater international regulatory cooperation built on a strong rules-based trading and investment system.*

7. Good governance/responsible business conduct

Digital technology has a significant impact on business models, with new technologies and processes bearing the potential to offer great benefits in supporting transparency, integrity and responsible conduct, in both business and government.

Recommendations:

- *Deepen knowledge as to how digital can help combat corruption, particularly in relation to public procurement.*
- *Further OECD work is needed to explore the impact of technology on corporate governance.*
- *Increase OECD focus on blockchain, and distributed ledger technology, with one important application of such technology in supply chains where additional transparency can support due diligence efforts.*

8. Health

The transformation of care delivery mechanisms, enabled by digital health, can, in the right policy environment allow health and social care systems to adopt a more person-centered approach, and lead to better health outcomes. This transformation is critical if health and care systems are to foster a productive workforce and hence contribute to countries' economic growth and well-being.

Recommendations:

- *Endorse the use of big data in health by promoting transnational data flows, and encourage the provision of a high-performance digital health infrastructure by setting clear targets and investment-enhancing rules for deployment of broadband and mobile connectivity. Using data to monitor healthcare quality should be leveraged more often, and working with the OECD as it implements the Council Recommendation on Health Data Governance is a critical step towards this goal.*
- *Drive the evolution of OECD policy documents towards patient-centered and outcomes-focused healthcare and social systems to allow national governments to recognize and reward innovation within their regulatory framework based on the value it brings to patients and society.*

- *Assist national governments to adopt their approval and reimbursement systems to the innovation speed and specifics of Digital Health Solutions.*
- *Encourage partnerships that leverage digital technologies and apps to help people choose and sustain healthier lifestyles. OECD work on health literacy could look into best practices in terms of multi-stakeholder partnerships design and implementation.*

9. Entrepreneurship, Small and Medium sized Enterprises (SMEs) and Innovation

Digital technologies offer vast opportunities for SMEs and entrepreneurs. E-commerce and the use of information and communications technologies (ICT) have the potential to increase the average sales of SMEs, allow them to reach new markets, and make their businesses more competitive globally – but some important policy challenges need to be addressed.

Recommendations:

- *Offer targeted support to entrepreneurs and to small and midsized businesses to help them participate in the digital economy.*
- *Deepen OECD data provision and analysis. The flagship OECD SME and Entrepreneurship Outlook is a positive step here.*
- *Strengthen the technological competence of SMEs through specialized training and access to advice, public data, and global information.*
- *Ensure policy frameworks foster private investments in ICT and communication infrastructure and, where necessary, allocate resources for investments in ICT and communication infrastructure (including cyber security frameworks), including for rural and remote areas.*
- *Promote innovation and help foster the diffusion of technology in our economies.*
- *Use digital channels to provide information regarding access to support programs.*
- *Recognize that intellectual property is a fundamental piece of the capital structure in the digital economy and that to ensure its maximal development and use, it must be granted adequate and effective legal protection and enforcement.*

10. Energy and Climate

Predictability about environmental policies is crucial to enable business investment into digital innovations related to climate change and resource efficiency, which are needed to ensure successful implementation by business.

Recommendations:

- *Prioritize solutions that would support the private sector solutions and accelerate the implementation of cleaner energy and enhanced climate protection for all in the context of the 2030 Agenda for Sustainable Development and subsequent G20 commitments to inclusive and sustainable growth.*
- *Deepen work on how the application of digital technologies can advance the transition to a circular economy by driving efficiencies in supply chains.*

Failure to fully seize the benefits will only reduce our ability to meet the ambitious social, economic and environmental goals set out by world leaders through the 2030 Agenda for Sustainable Development, including the need to provide access to the benefits of electrification, need for clean water and subsequent OECD and G20 commitments to inclusive and sustainable growth.

As global economic headwinds seem to be building, governments must act quickly to implement reforms that support the long-term success of our economies.

The role of international fora in fostering global cooperation to make the digital transformation a success

The OECD and multilateral frameworks such as the G7 and G20 have a critical role to play in driving a digital policy and regulatory agenda for inclusive growth.

- The OECD must become the 'go-to' source of policy advice for governments on getting the most from digital technology. The OECD's cross cutting evidence based approach, including on emerging issues such as AI, will be critical for global debate and cooperation with respect to digital.

- OECD's role as a standards setter is important as new technologies mature. Building evidence based policy consensus, with inputs from all stakeholders, can help build confidence and understanding and promote the adoption of new technologies; hence, the OECD guidance on Artificial Intelligence (AI) and continuing work through the OECD AI Observatory is vital.

- **Business will continue to work closely with the OECD to:**

    - *Broaden the cross-cutting evidence and rigorous analysis on digital issues, including interoperability and harmonization of technical standards.*
    - *Facilitate the implementation of the OECD Going Digital integrated policy framework and its Recommendations.*
    - *Measure and monitor the progress of the Going Digital implementation, including sharing of insights and learnings.*
    - *Enable the collection and sharing of best practices to establish an evidence base that can be used to develop future policy recommendations.*
    - *Contribute evidence to the dialogue related to the digital economy in other international fora, including the WTO, World Health Organization (WHO), and those UN bodies contributing most effectively to achieving the SDGs.*

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