Summary Report

The OECD, together with the Business and Industry Advisory Committee to the OECD, organized on 4-5 March 2013 the OECD International Business Dialogue 2013. More than 100 participants from the business community —representing a variety of sectors and business models— as well as delegates from OECD member countries and representatives from international organizations engaged in this Dialogue to identify the most urgent Barriers to 21st Century Commerce. This summary report resumes key aspects of the Dialogue and an associated business survey. The agenda and biographies of panelists can be found at www.oecd.org/tad/tradedev/internationalbusinessdialogue2013.htm.

Introduction

The OECD, in close cooperation with the Business and Industry Advisory Committee to the OECD (BIAC), organized its International Business Dialogue 2013, which took place on 4-5 March at the OECD’s headquarters in Paris.

In an economic climate characterised by a fragile recovery, substantial structural challenges, high levels of uncertainty and looming protectionism, a key issue on policy makers’ agenda is fostering business activity in order to boost sustainable and inclusive growth and employment.

Yet barriers to international trade and investment persist and are taking new forms. Timely and robust policy-making requires a profound understanding of these developments. The objective of the OECD International Business Dialogue was to allow policy makers to learn from companies’ hands-on-experience in international markets and to hear what the business community identifies as the most challenging Barriers to 21st Century Commerce.

OECD member states, international organizations and numerous private firms — representing the perspectives of blue chip multinational companies as well as dynamic and internationally active small and medium-sized enterprises responded to the invitation of the OECD Secretariat and BIAC and participated in the Dialogue. The event was structured in 6 different sessions, each with a specific focus:

- **Old wine in new skins?** New forms of business obstacles
- **SMEs:** Integrating into global markets
- **Obtaining inputs:** Sourcing raw materials, labour, skills and information
- **Producing your good or service:** Obstacles to operating for, or in, foreign markets
- **Reaching your end user:** Issues in logistics, customs, or the virtual market places
- **Outlook:** What policies can best address today’s barriers to international business activity

In parallel, an online survey was conducted to reach firms that could not attend the event and seek their assessment and comments. In total, 67 firms of various sizes participated in this business survey. Much of the participation came from small and medium-sized enterprises (SMEs) with less than 100 employees. At the same time, almost a third of the respondents were from large firms with more than 10,000 employees (Figure 1).

Most firms that participated in the survey operate in transport, storage and communication; or manufacturing. Other companies conduct business in financial services; mining and quarrying; wholesale and retail trade; construction; or public administration and services (Figure 2).
Geographically, all continents are represented in the survey (Figure 3). Interestingly, 40% of the firms identified themselves as “global”. Many European and Central Asian firms took part in the survey and the remaining companies have, to relatively equal shares, their home markets in Africa, East Asia and Pacific, North America, Latin America and the Caribbean, Middle East and North Africa, or South Asia.

When asked about the major geographic area for doing business outside their home markets, a third of the firms answered that they operate worldwide (Figure 4). Europe and Central Asia were also identified as major foreign destinations as was East Asia and the Pacific. Otherwise, approximately 10% of the remaining companies identified, respectively, one of the other regions as their main foreign market - with the exception of Africa that was only been named by 4% of participating companies as major foreign destination.

Firms were asked about their perspectives on obstacles to international business activity, to which degree these barriers are different throughout the various steps of operation, and whether some barriers are quantitatively and qualitatively new compared to more traditional business impediments. The results of the survey are depicted below, together with a summary of the discussions during the different sessions of the International Business Dialogue.

Opening

Participants at the Dialogue were welcomed by Trudy Witbreuk, Head of Development Division in OECD’s Trade and Agriculture Directorate and opening remarks were made by Charles Heeter, Chairman of BIAC and Managing Director of the Global Public Policy Program at Deloitte Touche Tohmatsu.

Mr. Heeter underlined the importance of open markets and free trade as critical elements for economic dynamism and growth, in particular in the context of a global economy that continues to be weak and unstable. In his remarks he emphasised the work of the OECD and the WTO on indicators for trade in value-added, which is important for at least three reasons: First, new evidence on trade in value added and global value chains undermines the mercantilist “exports are good, imports are bad” mentality that is still rampant. Second, this work allows a

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1 See www.oecd.org/industry/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm
more nuanced picture of global trade in services. Third, it highlights the disruptive effect not only of barriers at the border but also of barriers behind the border.

Mr. Heeter (left) stressed the relevance of the OECD’s projects on trade facilitation, measurement of services trade restrictiveness, trade and jobs, as well as on investment and regulatory reform. Against this backdrop, he welcomed the International Business Dialogue as an opportunity to bring business experts and policy makers together and as an input for future analysis, research and co-operation between the private sector and their governments.

Session 1: Old wine in new skins? New forms of business obstacles

The first session of the International Business Dialogue was dedicated to whether new obstacles to trade have emerged, to which degree they differ from more traditional barriers, and if there are substantial differences across industries. This question was posed to respondents of the online survey. Most respondents reported no perceived changes in recent years (Figure 5). Others, however, reported an increase in the amount of regulation, higher regulatory fragmentation, worsened infrastructure or framework conditions and higher national security requirements. Interestingly, an equal number of respondents reported seeing positive trends in liberalisation and deterioration in the global economic environment.2

These views were reflected throughout the day and a half of the discussions held at the Dialogue itself. Concerns over regulation and behind-the-border measures figured prominently throughout each session. However, more ‘old-fashioned’ issues such as tariffs, quotas and local content requirements were also raised.

A key theme throughout the very lively debate was that the question of new forms of obstacles can only be answered recognizing the fundamental change that global commerce has undergone. Today firms operate using complex supply networks. They apply efficient cross-border strategies to gain access to inputs and to reach their customers more and more outside their traditional home markets. Production, scattered across markets and increasingly integrated into global value chains, has altered the geography of trade and investment, bringing developed and developing countries closer together. Consequently, business models are dramatically different compared to a decade ago, relying today to a substantial and increasing part on foreign content in the production of goods and services.

Foreign component shares in products, which in turn are often re-exported, have, in many cases, doubled in the past ten years. The fierce global competition firms face in their up- and downstream markets boosts innovation and productivity. Thus, in order to grow and to

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2 Other issues noted were more burdens in the international movement of people and taxes.
expand, firms have to be able to access inputs and to move their goods and service across borders with minimum difficulties. They need to have the ability to change their supply networks quickly to react to changing technologies, markets and framework conditions and it is up to policy makers to approach policy development with such business models in mind.

Whereas participants acknowledged that governments are often aware of the importance of an open trading system and multilateral cooperation, there was a broad consensus that much remains to be done.

For instance, little progress can be recorded when it comes to the implementation of commitments by the G20, and levels of implementation have been particularly low when it comes to trade policy. At the same time, participants pointed out that more than 100 new trade protectionist measures have been introduced by G20 countries since the beginning of the financial crisis.

One of the major aspects in this regard, and an issue that was repeatedly addressed by the representatives of firms and business associations during the discussion, was “localization barriers” to business activity. This refers to the growing tendency of governments to require foreign companies to localise part of their investments, production, procurements and other activities as a condition of doing business in a country. Some governments require long standing local contracts; other present new and more complex requirements that leave companies few options on how to perform their activities in a specific country. For instance, some of the new requirements impact information flows of a firm and oblige it to physically locate data within the country. Regulations can require that a specific share of services inputs be provided by local suppliers or that joint-ventures with local firms are mandatory.

Another field of concern is competition with state-owned enterprises (SOEs). Some SOEs can enjoy a wide range of financial and other advantages as a result of the link with their governments. For instance, service sector SOEs in the domain of banking, insurance and other financial services, postal or transportation services are often subsidised and protected. In some instances, SOEs may not face the same regulatory requirements or the same level of regulatory enforcement as their private competitors. Many SOEs are slow in terms of innovation and face management-related inefficiencies or problems of corruption. Yet, with the competitive tailwind from their governments they cannot only undercut the ability of private companies to deal with key components of their global supply networks in the SOE’s home country, but in third markets as well. A particular focus during the discussion was directed to the growing number of internationally active SOEs from BRIICS countries. A sector that received considerable attention during the discussion was renewable energies, which is experiencing an explosion of antidumping cases. As participants noted, the OECD’s work on state-owned enterprises, competitive neutrality or anticorruption provides valuable insights in this regard and they invited the OECD to extend its work on SOEs.

Another area of concern with regard to 21st century barriers to international commerce is the growing regulation related to cross-border data flows. With rapid growth of technologies and the spread of the internet, more and more businesses rely on cross-border flows of data for their day-to-day operations. However, some countries are seeking to restrict data flows across their borders for a range of reasons. In some cases the restrictions are justified by public policy concerns but in others, the objective is to favour domestic business interests. Hence, there is room for designing rules that can reduce the negative impact of some policies on data cross-border flows, without significantly raising the costs for businesses. In particular, excessive requirements
on data storage and flows can undercut business models based on global supply networks and are thus slowing the introduction of innovation and possibly related spill-over.

In a broader sense, regulation in general and a lack of harmonised rules were mentioned as important areas of concern - for operations in developed and developing countries alike. In the context of relatively low average tariffs, regulation behind the border was said to be an urgent issue, sometimes representing 90% of trade costs. Against this backdrop, participants invited the OECD to closely follow current negotiations for Free Trade Agreements, such as an EU-US Agreement or the Japan-EU Agreement, and to assess potential benefits (and risks) in terms of regulatory standards and harmonisation.

The session concluded with a plea from the Dialogue’s participants to policy makers to break the deadlock of the Doha negotiations and to find new approaches to foster multilateral trade negotiations. At the same time, some discussants expressed doubts as to whether a WTO narrative can continue to be global and whether current policy tools are still applicable in today’s global context.

Session 2: Small and Medium Sized Enterprises: Integrating into global markets

Small and medium sized enterprises (SMEs) represent a vital part of business activity – in terms of shares of firms, innovation, growth and employment. SMEs bring variety to markets and often adapt quicker to trends and changes in consumer preferences than their larger counterparts. The interconnectedness of the global economy and recent technological progress have allowed SMEs to more easily operate outside their home markets and to benefit from economies of scale, even within niche markets.

The fragmentation of production is bringing new opportunities for SMES to provide specific tasks along value chains and to integrate into regional or global production networks. New technologies present powerful tools for the internationalisation of SMEs – sometimes very small microenterprises with a handful or less of employees – thereby boosting their performance and increasing their longevity compared to firms that do not benefit from online connectedness. Even though it is true that most of today’s SMEs still do not engage in international business activity, the internet has already changed the game by enabling the emergence of the micro-multinational: SMEs serving consumers in multiple markets. The objective of the Dialogue’s Session 2 was to identify obstacles specific to SMEs and impediments to increasing their role in international markets.

Whereas many SMES have a strong potential to serve foreign markets and integrate in international value chains, or both, much of this potential remains untapped. The participants of the Dialogue saw limited access to financial

The OECD’s work on global value chains and trade in value added, SOEs, trade facilitation and the measurement of barriers to trade in services received a highly positive feedback and participants suggested that the organisation’s future work extends and deepens analyses in these areas.

3 To read more about OECD work on SOEs, trade facilitation and other relevant trade issues, see www.oecd.org/trade
services and capital markets as one major barrier to the international development of SMES. For instance, it took one participant’s firm more than one year to open a bank account in the foreign country.

Brian Bieron (eBay, left) and Yılmaz Argüden (ARGE Consulting & BIAC)

The bureaucratic, regulatory and technical burdens of doing business in a foreign market represent a substantial barrier for SMEs. Whereas this is true for all firms regardless of their size, related fixed or variable costs of entry and operating weigh particularly heavily on SMEs. Since many SME projects abroad are small in terms of volume, the costs of learning and adaptation to rules, standards and requirements at and behind the border, act as effective barriers to trade. Coupled with the uncertainty and risk related to entering into new markets, these costs can be prohibitive to the internationalisation of an SME’s business model. However, as participants noted, relatively simple measures can go a long way to ease the burden for SMEs with international ambitions, such as raised and harmonised de minimis levels (i.e. the monetary level below which an importer is exempted from customs duty and paperwork requirements) and VAT registration thresholds. There was also a call for governments to support partnerships between postal operators and express carriers for the development of the type of delivery services SMEs and their customers demand.

Some of the discussants mentioned that specific institutional structures or government requirements can disadvantage smaller firms. An example here was tax provisions (including income tax). Large, multinational companies have structural incentives and both more knowhow and opportunities to exploit tax loopholes or cross-country differences than SMEs. This can result in regressive tax rates and thus in a competitive disadvantage for small and medium-sized firms. An aspect that was repeatedly underlined in this context was that not only marginal tax rates matter, but also the stability and hence predictability of the tax system: Instabilities, changes or irregularities produce uncertainty to which large firms can more easily adapt.

Throughout the discussion emphasis was placed on barriers to the movement of natural persons and their negative impact on SME activity. Representatives of SMEs argued that some visa or work permit requirements make it impossible to hire skilled — and much needed — foreign workers. But such requirements can also compromise the contact with potential clients and be disruptive to projects when clients cannot visit the production facilities of an SME, cannot participate in meetings in the SME’s home country or when experts from the SME cannot easily visit the partner country.

In light of these challenges, questions were raised during the Dialogue on the role governments should play in support of SMEs’ integration into global markets. On the one hand, large companies, benefiting from their scale and scope, have the capacity to provide high quality jobs and invest more in R&D for innovation and productivity. On the other hand, most governments see the necessity of fostering SMEs as they strengthen entrepreneurship, employment, innovation and productivity growth. In particular when it comes to structural issues that impede SME growth, such as regulation or weaknesses in financial markets, participants saw substantial scope for governments to boost the internationalisation of SMEs.
During the discussion some aspects were identified as being key to a dynamic and growing private sector, regardless of a company’s size. These included: Low entry and exit barriers, well defined property rights, and effective contract enforcement that is conducive to competition and private commercial transactions.

Precise recommendations from the SME business community to policy makers included propositions to create incentives for SMEs to invest in R&D, to foster capacity building and cluster development, to regularly provide market and process information, to harmonise regulation, to increase regulatory transparency, and to provide legal advice in this regard. Furthermore, SME representatives proposed governments to improve infrastructure and thus transport efficiency, to encourage the use of the digital marketplace, to identify and supply niche markets, and to generate employment incentives that are based on learning and apprenticeship in order to bridge the gap between education and employment and to tackle the lack of skills.

Positive examples and model projects that were mentioned included development centres that cooperate with SMEs to provide consulting, technical knowledge and legal advice or to help reducing bureaucratic costs. Other programmes support SMEs access to finance, provide pre-qualification for institutional capacity, foster cluster building and strengthen cooperation between SMEs to work for improved governance mechanisms and to overcome related deficiencies.

Ultimately, it remains in the hands of SMEs to invest in skills, to be at the frontier of technologies and to explore and to supply (niche) markets, also in foreign markets. But the participants of the discussion largely agreed that governments can play a decisive role to improve relevant framework conditions, to slim costs and to reduce uncertainty thus helping to boost the efficiency of the small and medium-sized firms.

Session 3: Obtaining inputs: Sourcing raw materials, labour, skills and information

Predictable and competitive access to inputs is a prerequisite for business operations in the production of both goods and services. These inputs range from commodities to labour, from skills to capital, from patents to information. When firms optimise production processes they aim to access inputs of highest quality or best cost - and these are not necessarily located in the firm’s home country. By consequent, many inputs cross borders, often several times. Trade in intermediates represents the largest share in trade of goods and services.

The objective of Session 3 was to learn from firms where the new and most relevant obstacles are when sourcing their inputs. The discussion indicated that barriers to such inputs are numerous and burdensome. They make production more costly and hurt consumers and businesses via higher prices; they hamper the international competitiveness of domestic firms; and reduce their access to the latest innovation, prolonging investment in antiquated production processes. They can create redundancies in business operations and thwart the potential of cross-border vertical specialisation. These barriers are even more disruptive than barriers to trade in final goods and services since their effects accumulate when inputs cross borders multiple times, resulting in a higher effective rate of protection.
One aspect that was repeatedly addressed throughout the discussion was the lack of intellectual property (IP) protection. Most successful and innovative companies own intangible assets in the form of firm-specific knowledge, ideas, production procedures, design, information etc. that often represent an, if not the, important aspect of the firm’s business model. Some of this intellectual property is protected under copyright, patent, trademark or trade secret regimes. When a firm decides to outsource part of its production, and to share some of its intangible assets with a supplier, it risks losing intellectual property. Thus during the discussion the lack of efficient IP protection was identified as a major obstacle to international outsourcing. For instance, when government intervention requires foreign firms to share some of its IP with local producers via compulsory licensing, this can severely undermine the competitive position of a company.

Discussants argued that innovation in the 21st century is global and that contemporary IP regulation should be global as well. Participants underlined the importance of stable and effective IP protection for international trade and investment as well as innovation and growth in the domestic arena. At the same time, some voices raised the issue that too strict and ossified IP protection can also stifle innovation and entrepreneurship, can result in a lack of transparency, lead to anticompetitive effects or result in “patent wars” that are wasteful and inefficient from a macroeconomic perspective.

Another topic that was raised during the Dialogue was the shortage of skilled labour. One participant mentioned that several thousands of positions remain unfilled in large firms due to the lack of trained workers. There appears to be a profound gap between business needs and educational outcomes and one participant estimated that in the US the number of each year’s bachelor degrees in disciplines relevant to his sector is met by a three-time higher demand from the business side. This gap can be expected to widen and participants urged policy makers to improve education, particularly in the STEM fields (science, technology, engineering and mathematics), but also to facilitate access to skilled foreign workers by softening visa and work permit requirements. The OECD’s work in the area of education received very positive feedback and participants asked for more analytical work in this regard.

Different participants mentioned the importance of free and competition-based access to rare earths, which are crucial for many of today’s technologies. They underlined the necessity of an efficient multilateral regime under the umbrella of the WTO that is able to countervail protectionist measures when it comes to raw materials, especially rare earths. The issue of SOEs was again raised in this context.

Data flows and protection were another issue of concern for various participants of the Dialogue. Multinational firms are often network-based and rely upon an efficient and secure processing of their data, often in different countries at the same time. As a consequence, regulation, when it comes to data storage and its use across borders (for instance in terms of privacy rights), should be harmonised to eliminate multiple standards and to reduce transaction costs.

The content of the discussion during the session largely overlapped with the statements of firms participating in the online survey. When asked about main obstacles in getting inputs for the production of goods and services, companies...
mentioned most often regulation, bureaucracy and red tape (Figure 6).

But customs procedures, lack of qualified labour (including too restrictive visa and work permit requirements), weak infrastructure and high transport costs were also identified as major impediments.

Other aspects that were identified by survey participants were: high tariffs; lack of IP protection; insufficient insurance markets; petrol and commodity prices; national security requirements; lack of harmonised international standards and local content requirements.4

Session 4: Producing your good or service: Obstacles to operating for, or in, foreign markets

Once a company has identified a foreign market, what are the barriers to entering and operating in these markets? How can companies deal with varying standards? What costs are associated with hiring or content requirements? In this session, participants discussed the problems they face when they attempt to operate in, or for, foreign markets.

In many cases, obtaining necessary inputs such as raw materials and intermediate goods requires some production or service operations in the foreign market. This could be a processing plant to ensure raw materials are ready for the next phase of development, or warehousing staff who organise and ship required inputs urgently needed to keep the production processes flowing. Barriers to operating in foreign markets can come from entanglements at the border when trying to move inputs in or outputs out, domestic regulation targeting foreign operators, or a lack of oversight to ensure quality standards and reliability.

These were among a few of the issues raised in session four. The difficulties and costs associated with requirements to produce some, or all, of a process locally were cited by many firms. In many cases, this complicated already complex production systems or, for firms requiring high quality assurance, created concerns for quality control. One example highlighted the difficulties arising across a production or delivery system when standards of local processes do not meet those applied across the entire chain. This was especially problematic with sensitive scientific or other technical equipment.

In many of these cases, firms found that the domestic regulatory standards were either too lax or set a different benchmarks for foreign operators. It was also noted that in many markets the necessary labour skills were unavailable to perform the task at hand, which is particularly problematic when work is required to be undertaken locally.

The complexity of tax regimes and regulatory frameworks when dealing with many different markets was also discussed. This requires expertise and expense which made expansion within existing markets, or into new markets, difficult if not impossible. This difficulty was noted by both small and large firms alike. While the entry costs may be high, the instability of any tax or regulatory regime was noted as a much greater concern to many businesses. Firms gave examples of forgone business due to the inability to enter into multi-year contracts in the face of constantly shifting policy.

4 Further aspects that were mentioned: Lack of WTO progress; insufficient capital markets; exchange rate and currency aspects; crime, corruption and lack of rule of law; taxes; barriers to the transfer of information; raw material and resource restrictions; the current global economic context; language and differences in consumer preferences; and government favouritism.
However, not all firms felt that multiple regulatory environments or standards were necessarily a barrier. Rather examples were given of adapting business models to local conditions and remaining flexible. The necessity of working with local authorities (at the sub national level) was stressed by several participants. Examples were given of using a ‘multi-local’ approach in lieu of the traditional multinational mindset.

Courtney Fingar (fDi Magazine, left), Jérôme Bédier (Carrefour Group, middle) and Frédéric Badey (Sanofi)

Many firm representatives discussed the continued impact and serious implications of traditional barriers to business such as the high rates of tariffs on specific goods and the inability to trade some services internationally. An example was given where certain product tariff regimes created large cumulative costs across an international supply chain. Discriminatory licenses and tax regimes were noted as significant obstacles by many people in the room.

Another issue raised by participants was that of the role of FTAs. These were seen as generally beneficial, especially in light of the lack of any progress of a multilateral agreement. It was noted that some FTAs were driven by political, not economic, motives and thus provisions included in them did not have a large impact on the course of business action. However the provisions that did have an impact were more often than not a deterrent to business. Participants discussed the positive role businesses can play in the negotiations of such agreements, especially in avoiding potential inefficient or redundant provisions. Hence, there was a general call for business to be actively involved in the drafting of such agreements.

Many of the issues raised in the discussion were reflected in the responses to the online survey. When asked about major obstacles to entering into new markets, respondents noted regulation and red tape as the primary barriers. Also important were lack of rule of law and lack of qualified labour. Notable, however, is the relatively large number who indicated that they had no problems entering new markets. As discussed above, this view was reflected by some Dialogue attendees as well.

Fig. 7 Survey: Main obstacles to expanding into new markets

Session 5: Reaching your end user: Issues in logistics, customs and virtual market places

Trade facilitation is one of the most discussed issues in trade today. The growth of global supply chains and the fragmentation of the production process have increased the importance of shipping and receiving goods across borders. As noted above, over 40% of the business responding to our online survey considered the world as their ‘home’ market. Thus, most firms are dependent on logistic services, shipping and customs agents for the smooth operation of their business. The fifth session of the International Business Dialogue generated a great deal of discussion – and commiseration. Indeed, it was noted that this
panel had a ‘greater sense of urgency’ than some of the other discussions of the day.

Weak custom rules and practices are a traditional burden for international business activity. Yet, in the context of global value chains they can disrupt whole supply networks. The problems range from import licensing requirements to differences in customs documentation that impede flows of intermediate and final goods. Another matter raised was that of security. Various countries have developed programs for trusted traders, but the program requirements can differ across countries and companies must often duplicate documentation processes, which increase transaction costs. Dialogue participants argued that companies have to deal with varying customs requirements in each country, which ultimately adds to the cost of the final product. Non-harmonised customs requirements complicate companies’ operations in global supply networks and create barriers to growth, innovation and job creation.

Most participants agreed that the ingredients for a meaningful agreement on trade facilitation were already in place. There was a sense of frustration that the agreement on trade facilitation could not be finalised and many expressed the belief that such a conclusion would provide a much needed impetus to the whole Doha Round.

While transportation and customs procedures have come a long way in the past 20 years, research presented by some participants showed that many countries continue to have important delays at the border. On average, a country holds more than 60% of packages at the border and only 6% of the countries surveyed had no major problems with parcel delivery at the border.

Participants identified several important steps that need to be taken to adequately address problems in goods movement. The first was the timely release of packages and adoption of the World Customs Organization guidelines for immediate release. Participants also noted the benefits of a single window and a harmonisation of procedures. However, there was also frank acknowledgment that many customs bureaus were a source of jobs and revenue that, politically speaking, were difficult to reduce or eliminate.

Another suggestion which received much discussion was the harmonisation of border procedures or the institution of mutual recognition procedures. This theme was repeated throughout much of the Dialogue where businesses advocated harmonisation and mutual recognition across a variety of regulatory issues. Another suggestion was to automate the border crossing process through electronic pre-clearance. This could improve transparency and reporting procedures for both shippers and country authorities. It could also lead to some much-needed improvement in data and system quality. Some businesses indicated a willingness to provide needed technical assistance to implement such processes, as it enhanced their own efficiency as well.

Another issue which came up repeatedly in the Dialogue was the need to have businesses involved in the process – and at an earlier stage. Examples were given of last-minute provisions inserted into agreements which led to a substantial increase in the cost of such agreements to business.
The work of the OECD on trade facilitation was singled out as particularly useful and relevant. A recently released study in this regard was roundly praised and the group encouraged more work of this kind.5

Session 6: Outlook: What policies can best address the barriers to international business activity?

In the final session, participants were asked to look forward and suggest ways policy could address the problems identified during the Dialogue. This session was meant to provide concrete proposals for removing barriers without undermining an efficient and supportive regulatory environment. Indeed, it was noted that the OECD is engaged in an important initiative, called New Approaches to Economic Challenges, to seek timely and adequate responses to such problems and to rethink the dynamic interactions between policy making and economic activities. This initiative will lead to more focused yet holistic policy advice to OECD member countries.

A general theme of the discussion was the practical approach industry takes when addressing the problems posed by barriers to trade. Businesses will continue to find ways around them – but at a cost of lower growth and innovation. There was a general call to include the business community throughout the regulatory development phases, especially when these regulatory developments take place within the context of international agreements. This inclusive approach, in conjunction with good policy practice, would lead to a better outcome for all involved. Participants called on policy makers to remember that globalisation is no longer a choice for business but the way companies survive.

There continue to be concerns about growing protectionism and this includes old fashion barriers such as tariffs. Businesses pointed out the potential for escalation as measures put in place during the crisis are not removed while new measures are being put in place. There was a call for greater commitments on the part of the G20 and other international organisations to monitor these activities.

Furthermore, a discussion took place concerning the need to ensure compatibility among regional trade agreements. Future agreements should be designed with a ‘best practice’ in mind while existing agreements should be brought in line to this level. Again, businesses saw themselves as having a beneficial role to play in this process.

Trade is needed to maintain private sector health, development and job creation. Thus, businesses have a large stake not only in regional agreements but also in the multilateral trading system. This includes ensuring and deepening the international services agreement.

The need for a stable trade environment has never been greater. Companies noted the difficulties of making deals which may run over multiple years when the environment in which such agreements operate may change. Stability and transparency in policy were calls heard throughout the Dialogue.

Repeatedly throughout this session, policy makers were encouraged to differentiate the politically driven from the economically driven.

The themes raised in this final session of the Dialogue were well represented in the results of the online survey. The most often identified obstacles in current international markets were noted to be: Regulation, bureaucracy and red tape; infrastructure and transport costs; customs procedures; tariffs; lack of harmonised international standards; and crime, corruption & lack of rule of law (Figure 8). Furthermore, lack of IP protection; raw material and resource restrictions; and export controls are other aspects that were cited by the survey participants.

Closing remarks

The Dialogue was closed by Deputy Secretary-General and OECD Chief Economist Pier Carlo Padoan.

In his remarks, Mr. Padoan pointed out the importance of the right policy mix in a world of open economies: The crisis has shown the limitations of traditional macroeconomic policies, creating an imperative for a suite of policies in support of each other for a complete approach to leveraging and achieving the benefits of open markets. Trade policies need to be integrated with structural reforms that support and not hinder open markets. The complexity of the global markets implies a complexity in the interaction of policy. Mr. Padoan underlined that the world economy is struggling to overcome the economic crisis it faced more than 5 years ago and it remains clear that international trade plays a pivotal role in that recovery.

Conclusion

The overarching message coming out of the Dialogue was that the international business environment has changed and that policy making needs to change along with it. Businesses showed themselves to be pragmatic – when obstacles are put in place, they often work around them. However, this leads to inefficiencies and cost escalation, reducing potential innovation, job creation and economic growth. Concerns over the growth of protectionism and the new ways it is being applied, particularly in terms of regulation, localization and IP regimes were apparent throughout the workshop.

This is not to preclude the more traditional forms of protectionism which are alive and well, creating cost barriers to international operations, especially for small and medium sized enterprises. For instance labour – both in terms of accessing and moving people – remains high on the list of concerns for the international business community.

Policymakers must acknowledge that, as the Internet and new technologies have given rise to unparalleled international opportunities for

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6 Other aspects that have been mentioned: Lack of WTO progress; language and differences in consumer preferences; government favoritism; insufficient insurance markets; lack of qualified labor; payments & capital transfer; export controls; trade secrets; lack of export credits; lack of e-documentation; price dumping; and political risk.
SMEs, there is now an urgent need to adapt practices and legislation to the conditions of these international SMEs. There is a necessity to tie incentives to capacity building and to overcome initial set up costs for these businesses.

Finally, policy makers were urged to take a holistic view in their policy development, ensuring that contradictory regulation be eliminated. They were also encouraged to work with their foreign counterparts to maximise the potential for consistency across standards and procedures. Businesses indicated their willingness, and indeed desire, to be involved in this process and to engage with policy makers in programmes such as the OECD International Business Dialogue.

Altogether, the following twelve key recommendations for policy-makers emerged during the Dialogue:

1. Conclude the multilateral Doha Round soon: There are enough points where a consensus is reachable.
2. Continue to lower tariffs, in particular peak tariffs.
3. Complete the trade facilitation agreement, speed up customs procedures, and generate a transparent and IT-based documentation environment to open bottle necks at the border.
4. Avoid “beggar-thy-neighbour” policies, such as localisation requirements or competitive devaluation.
5. Improve IP protection.
6. Harmonise or mutually recognise regulatory standards and practices across trading nations, in particular to foster trade in services.
7. Level the playing field between private and state-owned companies.
8. Facilitate the movement of natural persons, both clients and employees.
9. Ensure fair and market-based conditions when it comes to accessing raw materials and other resources.
10. Create good and non-discriminatory framework conditions for SMEs.
11. Invest in education and training.
12. Increase stability, reduce uncertainty, minimise complexity and engage in dialogue with foreign partners and the business community.

Next Steps

The information and advice received during the Dialogue will feed into the process of identifying today’s most pressing trade policy concerns. This process will also consist of working with OECD member countries and other international institutions (such as the WTO and UNCTAD), as well as searching for continued input from the business community, to quantify the impacts of these barriers and develop policy recommendations to improve efficiency and growth through co-ordination and transparency.

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“Recommendations for policy makers” – some voices from the business community as expressed in the online survey:

“Negotiate better market access opportunities, lower import duties, [improve] customs procedures... and fight corruption.”

“Harmonise trade measures to the largest possible extent.”

“Address new trade issues such as access to raw materials.”

“Bring the divergent and ever growing FTAs into a WTO scheme and harmonise the spaghetti bowl.”

“Start investment and competition negotiations in the WTO.”

“Strengthen IP rights.”

“Remove non-tariff barriers that hinder market access of SMEs...”

“Create an e-enabling business environment!”

“Minimise bureaucracy”

“Relax Immigration bureaucracy and costs (visa fees).”

“Negotiate to reduce non-tariff barriers.”

“Engage with SMEs to find out what really matters.”

“Take a more internationalist view, coordinate more with other regulators, and avoid extraterritoriality.”

“Provide clarity and certainty.”

“Discuss with global business based in your country and understand the impacts that regional and global regulation and soft law (principles, codes, and guidelines) can have on business.”

“Foster better co-operation internationally.”

“Simplify customs procedures.”

“[Create] regulations based on sound evidence.”

“Ensure stable exchange rates to encourage investors and trade.”

“Reduce differences in regulation.”

“Lower tariffs, conclude FTAs.”

“Remove trade barriers.”

“Use and promote international regulation and standards whenever possible.”

“Don’t forget the non-tariff barriers, strive for equal standards, create a level playing field.”

“End the DDA with an early harvest on trade facilitation... Be courageous!”