Executive summary

There is a growing perception that globalisation is not working for large sections of society, in both advanced and emerging economies, and that it is driving inequality and hurting less-skilled workers. While much needs to be done with domestic policy to improve outcomes, there is also a strong need for better alignment of domestic and international policies and a more level playing field in the cross-border activities of businesses. This requires countries participating in globalised markets to commit to a common set of transparent principles that are consistent with mutually-beneficial competition, trade and international investment. But the governance of trade, international investment and competition has not advanced enough at the global level to foster better outcomes. This *Outlook* provides empirical evidence on how an uneven playing field can block economies of scale, misallocate resources and undermine fair competition. It also discusses global governance issues (the "rules" and "norms") in a number of policy domains.

Exchange rate and capital account management

Whether undertaken by advanced or emerging economies, exchange rate targeting supported by capital account management, and/or the setting of traded goods prices for market share (with state support), distorts relative prices. These practices have the potential to prevent gains in foreign sales of firms from one country in favour of those of another, and therefore to block company paths to higher productivity via economies of scale. The OECD Codes of Liberalisation are designed to make capital account management policies more transparent and provide a framework for moving towards more openness in the longer run, while still allowing for different stages of economic development.

Financial regulation and risk

Inconsistent financial regulations are driving risks into new areas. There has been huge progress in regulatory reform concerning banks but two anomalies remain, counter to the goal of a level playing field. One derives from differences in the role of banks versus capital markets in different jurisdictions, which leads to competitiveness and considerations other than financial stability in writing regulatory rules in practice. The other relates to the Basel risk-weighting system which gives banks scope to have different leverage for the same capital rule in different banks and jurisdictions. Overall, efforts to deal with the effects of regulatory reform and bank business model changes may lead to a rise in contagion risk; this is being monitored by the Financial Stability Board and other international organisations.

State-owned enterprises and excess capacity

Distortions resulting from subsidies and other advantages accorded to state-owned enterprises (SOEs) tend to be greater than for private companies. SOEs have grown as a share of key world industrial sectors and most are domiciled in Asia. Importantly, they include very large financial companies which play a key role in funding other SOEs across most business sectors and sometimes on favourable terms. This and other forms of government support raise concerns about unfair practices and lead to excess capacity in some industries. Rules to ensure a level playing field for private versus SOE competition remain necessary. The OECD has published several guidelines for SOE governance and ownership best practices which are designed to deal directly with many of these issues.

Cross-border cartels

Collusion through cross-border cartels can deny consumers the benefits of competition between multinational enterprises and ultimately pass them instead to the owners of shares through higher prices to profits. The extent of this overcharging is significant. Two hundred and forty cross-border cartels were detected and fined between 1990 and 2015, affecting USD 7.5 trillion in sales. The need to address the issue of cross-border cartels and overcharging goes hand in hand with other considerations bearing on the level playing field. OECD instruments on bid rigging, dealing with hard-core cartels and the way to enhance co-operation between competition agencies are all designed to deal with these issues.

High costs in underwriting and the cost of capital

Equity finance is preferable to debt for a long-term focus on investment projects and yet, since the crisis, corporate debt issuance has been enormous (particularly from emerging markets) and equity initial public offerings (IPOs) have fallen off. While the one lead underwriter model has given way to consortiums of banks and more cross-border involvement in underwriting for corporate issuance, high levels of fees and parallel pricing appear to have increased. In the case of IPOs of less than USD 100 million, the average cost is 9 to 11% of the transaction. This means that for every 10 IPOs, the market value on an entire new company accrues to fees. This increases the cost of equity and works against long-term productive investment. Reinforcing competitive conditions in these markets could lead to better outcomes.

Cross-border barriers to trade in financial services

Direct barriers to trade in financial services (like other trade restrictions) work against a well-functioning global economy. This *Outlook* provides three examples: the benefits of international reinsurance, domestic rules and regulations for pension funds that encourage them towards a home-country bias, and Brexit. In regard to Brexit, commitments under the OECD Codes of Liberalisation provide ample room for a pragmatic approach to the United Kingdom's exit from the European Union.

Responsible business conduct in global supply chains

Responsible business conduct (RBC) is concerned with social and moral issues as well as global business outcomes in the context of supply chain management and its

perceived impact on affected communities. Sustainable supply chains and better company financial performance can go hand in hand – a "win-win" outcome. Due-diligence strategies in supply chain management have strong potential to improve trust and reduce social and environmental disruptions to trade and international investment flows that block firm-level paths to better productivity and sustainable growth. OECD instruments relating to multinational enterprises and supply chain due diligence are well suited to this task.

Bribery and corruption

Bribery of foreign officials and corruption distort the allocation of resources and undermine the benefits of globalisation, causing economic rents to be diverted to private benefits (including to dictators and military leaders) rather than being invested in technology, education and training, and quality infrastructure in the host country. Greater adherence to, and enforcement of, the OECD Anti-Bribery Convention would help to increase the number of less corrupt foreign investment destinations, thereby helping to level the playing field and promote sustainable growth. Stricter enforcement would help to improve the face of globalisation in the world economy.

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