“Strengthened OECD standards and enhanced international co-operation could help forge a more level playing field in international markets so that the benefits of globalisation can be shared by all.”

Angel Gurría, OECD Secretary-General
Towards strengthened global standards and international co-operation

Globalisation has become associated with difficulties for less-skilled workers, inequality and a general sense that it is not working for large sections of society, in both advanced and emerging economies. There is much to be done with domestic policy to improve outcomes, but 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 a commitment by countries participating in globalised markets 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.

The 2017 edition of the OECD Business and Finance Outlook focuses on ways to enhance “fairness”, in the sense of strengthening global governance, to ensure a level playing field in trade, investment and corporate behaviour, through the setting and better enforcement of global standards. It provides a brief review of important developments contributing to post-war globalisation and covers a number of policy domains. These include, exchange rates and capital account management, financial regulation since the recent financial crisis, the rising weight of state-owned enterprises in the global economy, competition policy to deal with international cartels, the cost of raising capital, responsible business conduct and bribery and corruption.

IN THE OUTLOOK

Overview of globalisation and the role of international governance

Globalisation and the level playing field

The internationalisation of state-owned enterprises

Protecting and promoting competition in a global marketplace

Moving towards a more responsible globalisation

The Outlook is complemented by a sister publication, the OECD Business and Finance Scoreboard 2017.

The Scoreboard contains indicators and data that support analysis of developments in the financial markets and corporate sector.
To set the scene for this discussion, the Outlook examines two issues:
- The impact of the greater role of emerging markets on world trade;
- The effects of this and technological advances on labour markets, and the “hollowing out” of the middle class in advanced countries.

First, with respect to trade, evidence shows that post-2001 there is a 15% to 18% rise on average of all bilateral exports (not just those with emerging markets) due to the increased overall size of the world market. Second, as economic theory would predict, wage growth and employment for low-skilled workers in advanced economies were affected as developing-economy workforces began to be integrated into global value chains. Labour market mobility in advanced economies in particular has been limited—impacted workers are not moving to new locations and industries. Those suffering from the “downside” of more trade openness and related technological change have been unable to adjust adequately to the new environment.

Conventional economic wisdom has always called for active labour market policies and retraining. While some of these measures have been employed, they have tended to be piecemeal and inadequate to the task, so more needs to be done.

Evidence presented in the Outlook shows that globalisation, in particular growing trade and investment flows and the increased involvement of emerging markets in the world economy, has brought benefits to all countries. This is quite different from saying that the gains are also shared evenly. The great surges in income inequality post-WWII seem to have occurred after two significant globalisation movements and, in recent years, there is strong evidence of a “hollowing out” of the middle class in advanced countries related to trade and technology. This suggests the need for a debate on the issue of globalisation and fairness in the distribution of gains from trade and international investment. This complex issue needs to move beyond generalisations about “openness” towards providing more detailed (“granular”) evidence on the diverse factors at work.

The extraordinary success some large emerging economies have had in pulling millions of people out of poverty in the past couple of decades is one of the most positive aspects of globalisation. This has also had many benefits for advanced economies, such as cheaper imported consumer goods and increased exports to newly-industrialising nations. Evidence is also presented to show that in recent years the sheer scale of these successes, in conjunction with other related developments such as digitalisation, technology and innovation, is adversely affecting some low-skill and middle-class jobs in advanced countries.

In a sense, the whole process of globalisation is being put to the test and raises questions about the balance between traditional domestic policies and the need for stronger global level-playing-field rules for cross-border activities.

On the domestic policy side, advanced economies have not done enough with respect to infrastructure investment, structural reforms, safety nets, worker retraining, education, and kick-start adjustment support for trade-exposed workers. These aspects at least have the advantage that sovereign governments can take decisions to do more. There is no such authority for the international governance of the cross-border activities of private companies and state-owned enterprises. Developed and emerging economies have not done enough to promote a level playing field.

This Outlook focuses mainly on these cross-border issues, the combined effects of which have neither been adequately researched nor addressed in effective policy action.

Better global governance is urgently required

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Conventional economic wisdom has always called for active labour market policies and retraining. While some of these measures have been employed, they have tended to be piecemeal and inadequate to the task, so more needs to be done.
Figure 1. Share of world merchandise exports of selected economies, 1960-2015

Source: International Monetary Fund, OECD calculations.

Figure 2. Share of gross fixed capital formation of selected economies, 1960-2015

However, in addition to improved domestic labour market adjustment and macro policies, what is needed is
globalisation that operates according to a common set of rules and principles. This has been the relatively
neglected area where not enough progress has been made. Without this, countries and companies acting
in their own self-interest may use tactics and policies to distort the outcomes of greater openness in their
favour. In so doing, they risk retaliation and interfere with market-based economic adjustments, block the
path of firms to improved productivity growth and exacerbate effects on trade- and technology-exposed
workers. Thus, the net gains from openness will be smaller than they might have been and may not be
shared according to productivity-based economic merit. Left unaddressed, the burden on domestic policy
is unnecessarily increased.

Notes: This figure shows changes in employment shares between 2000 and 2015. The data include all persons aged 15-65 who
reported employment in the sample reference year, excluding those employed by the army. Occupations are first assigned by
International Standard Classification of Occupations (ISCO) categories that are consistent over the whole period. These occupations
are then grouped into three broad categories by wage levels as in Goos et al. (2014).
Company insights on globalisation

The ability of the world to grow with stable and rising living standards for all depends on productivity growth which makes it possible for all participants in the economy to be better rewarded over time. Macro enabling factors such as infrastructure investment are available to all players, but not all firms succeed in taking advantage of them to drive innovation and growth. The business and finance aspects of the current economic situation require a closer look at companies. Why some firms succeed and others fail, and whether there are enough of the former and an appropriate exit of the latter, is critical for understanding the impact of globalisation on those most exposed to greater integration with the rest of the world.

Based on a large global sample of companies, the Outlook presents OECD empirical research which is consistent with the new firm-based trade and productivity theories. This is a process whereby the most successful (cash-flow-generative) firms invest more in technology (via research and development), attract higher skilled labour, and expand through increased foreign sales. This, in turn, generates further economies of scale and innovations. The evidence shows that it is precisely the companies that succeed the most in raising productivity through entry to foreign markets and innovation that are associated with better returns, and rising value added and wages per worker. Companies that do not innovate and/or compete well globally see declining returns and falling average value added and wages for their workers. These pressures occur within industries, rather than between them. While all industries are affected in this way, evidence from the vast “Materials” and “Industrials” sectors shows them to be amongst the clearest examples of this phenomenon.

Figure 4. Company productivity levels versus international sales by productivity growth decile, 2002-2016

Note: RHS stands for Right Hand Scale
Source: Bloomberg, OECD calculations.
Openness promotes opportunities for business. But the governance of trade, international investment and competition has not advanced enough to foster better outcomes. Empirical evidence in the Outlook shows how an uneven playing field can block economies of scale, misallocate resources and undermine fair competition. The Outlook then discusses global governance issues (the “rules” and “norms”) in relation to eight contributing factors: exchange rate and capital account management; financial regulation; subsidies for (and the governance of) state-owned enterprises; collusion in the form of cross-border cartels; higher costs of underwriting new equity and bond financing resulting from the way fees are charged by global financial firms; barriers to trade in financial services that have unintended consequences preventing insurance and pension funds from doing an adequate job; responsible business conduct in global supply chains; and bribery and corruption in international investment.

ISSUE 1: 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 shift 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 Outlook presents empirical evidence on the extent of over- and under-valuation which suggests the issue is quite complex. Based on purchasing power parity, the real exchange rate is overvalued for most advanced countries (above the level justified by real living standards), is more neutral for China following recent weakness (despite heavy intervention to resist appreciation in earlier years), while other emerging economies such as India appear undervalued. Depending on their level of development, some economies may wish to resist moving into overvaluation territory (as advanced countries tried to do in early post-WWII years). The exchange rate effects in a gravity model of exports are found to be not that strong. Exchange rates may, however, be less important than a tradable-goods-pricing strategy focused on winning and maintaining market share. With government backing, profit margins of state-owned enterprises, for example, can be used to offset changes in costs and the exchange rate. Subsidies and other cost-reduction factors may also help in this regard.

The evidence from a gravity model of exports is much clearer for the capital account management policies that often accompany managed exchange rate regimes. Since 2001, when the vast Asian market became better integrated into expanding global value chains, openness with respect to investment and the capital account has become more important in supporting bilateral trade. This evidence relates both to foreign direct investment (FDI) and banking and portfolio flows. In terms of better level-playing-field rules in this area, 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.

ISSUE 2: Financial regulation and risk
Inconsistent financial regulations are driving risks into new areas. There has been huge progress in improving the quality and quantity of bank capital, and new Basel regulations have helped to deal with liquidity and funding problems that emerged in the crisis. But two anomalies remain. One derives from differences in the role of banks versus capital markets in different jurisdictions that leads to competitiveness and considerations other than financial stability in writing regulatory rules in practice. The other is more technical in nature, and stems from persisting with the Basel II idea that allowing banks to use internal risk models to calculate capital weightings is permissible. It is shown that the Basel risk weighting system gives banks scope to have different leverage for the same capital rule in different banks and jurisdictions in contrast to the goal of a level playing field. On average, the ratio of risk-weighted asset to which the capital rule applies for global systemically important banks was driven down (i.e. leverage up) from 50% in 2003 to 34% by 2008. The aftermath of the crisis has seen deleveraging and a sharp pulling back of capital from cross-border activities in most advanced countries as re-regulation proceeds.
Figure 5. Five-year rolling real exchange rate valuation for selected economies, 1990-2015

Note: The overvaluation and undervaluation exchange rate measure is derived from the Rodrick (2008) model. It is an exchange rate measure based on domestic price level adjusted for the Balassa-Samuelson effect. Whenever UNDERVAL exceeds unity, it indicates that the exchange rate is set such that goods produced at home are relatively cheap in US dollar terms: the currency is undervalued. When UNDERVAL is below unity, the currency is overvalued. Selected countries included in the chart are OECD countries or G20 members. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: International Monetary Fund, OECD calculations.
The attempt (by “shadow banks” and countries previously dependent on cross-border banking flows) to deal with the effects of regulatory reform and bank business model changes in advanced countries may increase contagion risk between sectors. For advanced countries, empirical evidence in the Outlook shows improvement in this regard only in the United States, with contagion risk between banks and shadow banks largely unchanged post-2008 in Europe and the United Kingdom, and some mixed evidence in Japan and Australia. Increased contagion is most extreme in emerging markets, where the use of off-balance sheet special purpose vehicles (particularly so-called wealth management products managed by banks) has contributed to the emergence of two-way contagion risk between the riskiness of banks and shadow banks (significant even at the 1% level). This was not statistically identifiable prior to 2008. The Outlook discusses broad principles that would serve to level the regulatory playing field.
Distortions resulting from subsidies and other advantages tend to be greater when state-owned enterprises (SOEs) are involved. Unlike exchange management, these supports, where present, are pointed to particular industries and enterprises, often motivated by strategic interests. 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, has raised concerns about unfair practices that make for an uneven playing field and contribute to excess capacity in some industries. This, in turn, exerts downward pressure on margins and the return on equity (ROE) versus the cost of capital (COK) more generally. In advanced economies, ROE versus the COK for a large selection of private and SOEs move in line, but have declined from the 8% to 10% range in 2005 to 4% to 6% more recently. ROE minus the COK for emerging economy companies on the same basis have fallen from 4% to 6% to -1% to 1%.

Where excess capacity has emerged, concerns also arise about the difficulty of reducing production potential and facilitating the exit of inefficient firms in the SOE sector. Company data show the high levels of debt of emerging economy SOEs. Since fixed costs are high, this indebtedness gives rise to incentives to produce and export more in order to reduce variable costs. The Outlook provides evidence on the exporting of excess capacity. Industrial policies based on infant-industry protection and state aid need to be carefully calibrated if they aim to correct market failures; otherwise they will undermine competitive neutrality and weaken incentives for the entry of more productive firms and the exit of inefficient ones. Such policies can lead to trade and investment tensions, including barriers to cross-border FDI flows, when unfair support is suspected. Rules to ensure a level playing field for private versus SOE competition remain necessary. The OECD has published an extensive body of guidance on SOE governance and ownership practices which is designed to deal directly with many of these issues.

Notes: G-SIB stands for Global Systemically Important Bank. The sample includes 129 large global banks over the period 2001-2016. All G-SIBs listed by the Financial Stability Board (2016) are included. Based on Sarin and Summers (2016), the six US G-SIBs, the fifty largest US banks by 2016 assets, the fifty-five largest banks in the world ranked by market capitalisation (including European, Japanese and Australian G-SIBs) and eighteen listed domestic systemically important European banks identified by the European Banking Authority. Following Ayadi et al. (2015), banks considered as systemic in this paper are the ones identifiable in the list of banks which are directly supervised by the ECB, non-Euro area EBA stress tested and Swiss banks with more than €30 billion. Chinese banks are excluded from the sample as state ownership involves different issues than for the ones relevant for the other banks considered in this paper. Financial statement data are collected from SNL Financials and Bloomberg. For consistency purposes, financial statements reported under GAAP accounting standards are adjusted to be comparable with IFRS basis.

Source: SNL Financials, Bloomberg, OECD calculations.

ISSUE 3: State-owned enterprises and excess capacity
Figure 8. Listed state-owned enterprises by sector in advanced and emerging economies, average 2002-2016

Note: These figures relate to listed companies where government holds 20% or more of the shares (for the most part, a lot more and often over 50%). Averages refer to the annual percent market cap shares over the period 2002-2016. Companies were drawn from a total pool of the 11 000 largest listed companies in the world and allocated to advanced or emerging economies.

Source: Bloomberg, OECD calculations.

Figure 9. Return on equity minus the cost of capital for private non-financial companies versus state-owned enterprises in advanced and emerging economies, 2002-2016

Source: Bloomberg, OECD calculations.
Competition between multinational firms drives out inefficiencies and creates economies of scale. This helps to reduce prices and pass on the benefits of globalisation to consumers. However, collusion through cross-border cartels can deny consumers these benefits and pass them instead, through higher prices, to profits and ultimately to the owners of shares. This overcharging hurts consumers and hits low-income families hardest in what they pay for necessities in areas such as banking, pharmaceuticals, retail services, transport, and white goods. This is no small matter. Two hundred and forty cross-border cartels were detected and fined between 1990 and 2015, affecting USD 7.5 trillion in sales. Average overcharging amounted to 20% of sales, and, for some essential commodities, such as pharmaceuticals, was at times much higher.

In a sense, the import competition-exposed worker is hit twice: via employment and wage remuneration while paying higher prices for essential goods and services. 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—consumers as well as companies need to be treated fairly. The cross-border activities of SOEs also fall into the competition policy domain, intersecting with corporate governance issues, if competitive neutrality is to be maintained. 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.

Figure 10. Cumulative cross-border cartel detection and fines

The activities of some global firms that adversely affect the ability of others to grow illustrates that it is not only government support that undermines competitive outcomes. Equity finance is well-suited to long-term risk taking on investment projects (where a failure does not leave a firm with an unsupported debt burden). Yet, since the crisis, corporate debt issuance has been enormous (particularly from emerging markets) and equity initial public offerings (IPOs) have fallen off. This has been associated with US, UK and European investment banks losing market share, primarily to Chinese banks. 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. The median underwriting fee for US IPOs is 7%, and this has risen to 8% in Japan and China, doubling in the case of the latter. These high fees, which constitute more than 60% of the total cost, are a neglected aspect of the explanation for falling IPO issuance. 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.)
Figure 11. Market share of investment banks in underwriting, pre-crisis versus post-crisis

Origin of the bank:
- United States
- United Kingdom
- China
- Japan
- Europe (excluding United Kingdom)
- Asia (excluding China and Japan)
- Rest of the world

Source: Thomson Reuters, OECD calculations.
Figure 12. Underwriting fees as a percentage of total proceeds, median values, 2000-2016

Note: There are no observations on Chinese IPOs for 2013.
Source: Thomson Reuters, OECD calculations.

ISSUE 6: 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. The Outlook provides three examples. First, the benefits of international reinsurance in terms of being able to absorb the burden of large-scale catastrophe losses may not be realised where (unwarranted) regulatory impediments are placed on insurance companies' ability to transfer these risks within international markets. This is because global pooling is critical to reinsurance. Second, domestic rules and regulations for pension funds that encourage them towards a home-country bias increase the difficulty of achieving funding targets and reduce diversification benefits. Finally, with respect to Brexit, the City of London is an agglomeration that serves the global financial system from which economies of scale and scope (internal to the location) are derived. Commitments under the OECD Codes of Liberalisation provide ample room for a pragmatic approach to the United Kingdom’s exit from Europe.

Figure 13. Share of claims paid by international insurance and reinsurance markets

ISSUE 8: Bribery and corruption

Bribery of foreign officials and corruption distort the allocation of resources and undermine the benefits of globalisation. Rent-seeking behaviour through bribery and corruption is estimated by the World Bank to be 2% to 3% of world GDP (equivalent to the size of the French economy). This wastes resources. It enables less dynamic companies to win contracts in countries with weak bribery laws and/or poor enforcement at the expense of more productive companies. Bribery and corruption cause 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. Such investment would enhance productivity growth and allow real incomes to support demand in emerging economies. An OECD empirical study shows that strong bribery laws consistent with the OECD Anti-Bribery Convention cause adherent countries to invest less in corrupt regimes and more in countries with sound property rights and accountability. A one point rise in the World Bank corruption index in the host country (within a 0-10 range) will see FDI from countries that have ratified the OECD Anti-Bribery Convention fall by between 4% and 9%. Corrupt countries therefore forego the benefits of more investment (and hence better productivity growth) from very large OECD countries that are amongst the largest FDI investors.

The Outlook also takes a first look at bribes paid by financial intermediaries that play a key role in the allocation of resources. The perception that high-level managers of financial firms from wealthy countries bribe officials from poor countries (most often inside SOEs) appears to be correct. This contributes to creating an investment climate whereby globalisation does not work for important segments of the world population. 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 could help to improve the perception of globalisation in the world economy.
Figure 14. Pension fund investment abroad and restrictions in selected economies, 2015

Notes: This chart shows the share of pension fund portfolios allocated abroad and the regulatory limit on foreign investments set up by each country. When the investment limit is 100%, this means that pension funds could invest all their portfolios in assets issued abroad in theory. There may be however a restriction on the geographical area where pension funds can invest in and a limit on foreign currency exposure.

(a) Data refer to 2014. (b) The investment limit is an overall limit for pension fund administrators that manage several funds and invest assets differently depending on the fund. (c) The share of foreign investments only refers to the share of the portfolio invested in international fixed income, international listed equity and international unlisted infrastructure by APRA regulated funds with more than four members. (d) The share of foreign investments of pension funds in the United States is a weighted average of the share of foreign investments of four large pension funds in 2014 (Illinois SRS, NYCRS, LACERA and United Nations Joint Staff Pension Fund) and of one other pension fund in 2012 (CalPERS), weighted by assets of these funds (source: OECD Annual Survey of Large Pension Funds). (e) Data refer to defined contribution plans only. (f) Data on the actual share of investments abroad comes from Bank of Japan. (g) Data only refer to the funds supervised under the Pension Funds Act. (h) Data on foreign investments come from PwC report “Beyond their Borders - Evolution of foreign investment by pension funds”. (i) Data refer to 2012. (j) Data refer to personal plans only. (k) The limit given in this chart is the most binding limit (that applies to the conservative fund and the programmed retirement fund). The limit is higher for the moderate fund (60%) and the great risk fund (70%).

Figure 15. GDP per capita and the World Bank Corruption Index, 1997-2015

Circled data points are related to Luxembourg, Norway, Switzerland, United States


Figure 16. Corruption, foreign direct investment and adherents versus non-adherents to the OECD Anti-Bribery Convention, 2000-2015

Note: The dotted line shows a linear trend while the solid line shows a quadratic one.

Source: International Monetary Fund, OECD calculations.
Conclusions

The *Outlook* provides detailed evidence that suggests that the problems (such as inequality, the hollowing out of the middle class and employment of unskilled workers in advanced countries) often associated with globalisation do not originate from economic “openness” as such. Instead, while recognising that not enough has been done with respect to domestic structural adjustment policy, the *Outlook* shows that the absence of a level playing field in a number of cross-border areas that affect trade, investment and competition outcomes is also playing an important role. This evidence warrants policy action. Levelling the playing field would help to reduce the extent of the problems to be dealt with by domestic policy. OECD standards can play a leading role in shaping this conversation, and helping to ensure a more level playing field in trade, investment and corporate behaviour so that the benefits of globalisation are shared by all. 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.
**OECD STANDARDS ON INTERNATIONAL GOVERNANCE OF BUSINESS ACTIVITIES**

### BRIBERY AND CORRUPTION

**Convention on Combating Bribery of Foreign Public Officials in International Business Transactions**  
*Entry into force 1999*

The Convention is a legally binding international agreement that puts the OECD at the forefront of global efforts to fight bribery of foreign public officials in international trade and investment. Parties to the Convention agree to establish the bribery of foreign public officials as a criminal offence under their laws and to investigate, prosecute and sanction this offence. The Convention is the first and only international anti-corruption instrument focused on the "supply side" of the bribery transaction – the person or entity offering, promising or giving a bribe. The 41 Parties to the Convention are collectively responsible for 64% of global FDI outflows and over 50% of world exports. They are home to 95 of the largest 100 non-financial multinational enterprises and to all of the top 60 financial multinational enterprises. The Parties’ shared commitment to the fight against foreign bribery is grounded in the recognition that no government or market economy can function effectively if it is riddled by bribery.

[www.oecd.org/corruption/anti-bribery](http://www.oecd.org/corruption/anti-bribery)

### RESPONSIBLE BUSINESS CONDUCT

**OECD Guidelines for Multinational Enterprises**  
*Adopted 1976  
Last updated 2011*

The Guidelines are addressed by governments to multinational enterprises operating in or from adhering countries and provide standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards. Their implementation is supported by a non-judicial grievance mechanism. This “specific instances” mechanism has been part of the Guidelines since 2000 and over 360 specific instances have been treated to date. The 47 countries currently adhering to the Guidelines include 14 G20 members which means that the Guidelines cover a large majority of global supply chains. The enterprises in adhering countries accounted for 75% of FDI outflows and 58% of global FDI inflows between 2010 and 2015, as well as 81% of global FDI outward stock as of end 2014.


**OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas**  
*Adopted 2011  
Last updated 2016*

The Guidance clarifies how companies can identify and better manage risks throughout the entire mineral supply chain, from miners, local exporters and mineral processors to the manufacturing and brand-name companies that use these minerals in their products. The Guidance aims to help companies respect human rights, observe applicable rules of international humanitarian law in situations of armed conflict, avoid contributing to conflict and cultivate transparent mineral supply chains and sustainable corporate engagement in the mineral sector. It is the leading industry standard for companies looking to live up to the expectations of both the international community and customers on mineral supply chain transparency and integrity.

[http://mneguidelines.oecd.org/mining.htm](http://mneguidelines.oecd.org/mining.htm)

### CAPITAL FLOWS AND FINANCE

**OECD Code of Liberalisation of Capital Movements**  
*Adopted 1961  
Update underway*

The Code is an international agreement under which adherents commit to progressively liberalise capital flows. They may lodge reservations as regards operations they are not in a position to liberalise at the time of adherence and at any time as regards short-term capital flow operations. In situations of serious balance of payment difficulties or economic and financial disturbance, adherents can also avail themselves of the derogation clauses of the Code for new restrictions on other operations. A system of notification and peer monitoring ensures transparency and mutual accountability in adherents’ policies related to capital flows.

[www.oecd.org/investment/codes.htm](http://www.oecd.org/investment/codes.htm)

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*This list does not include OECD standards relating to international taxation.*
**CORPORATE GOVERNANCE**

**G20/OECD Principles of Corporate Governance**
*Adopted 1999*
*Last updated 2015*

The Principles provide policy makers with the key legal, regulatory and institutional building blocks that help companies’ access capital markets while reassuring investors that their rights are protected. They provide recommendations in a number of critical areas such as the rights of shareholders, the functioning of the investment intermediation, stock market practices, the role of stakeholders, corporate disclosure and the responsibilities of the board of directors. They also address the quality of supervision and enforcement. The Principles are one of the Financial Stability Board’s twelve key standards for sound financial systems.


**OECD Guidelines on Corporate Governance of State-Owned Enterprises**
*Adopted 2005*
*Last updated 2015*

The Guidelines advise public authorities on how to effectively manage their responsibilities as company owners, making SOEs more efficient and transparent. They provide concrete guidance on how to ensure that SOEs do not have any undue competitive advantages when they operate in markets and establish good practices for financial and non-financial disclosure by the SOEs and their owners. From their inception in 2005, the Guidelines have served as an international benchmark for the corporatisation and commercialisation of SOEs. Increasingly they have also come to serve as a reference for international trade and investment regulators for assessing internationally active SOEs.


**COMPETITION**

**OECD Recommendation concerning Effective Action against Hard Core Cartels**
*Adopted 1998*

The Recommendation sets out a common approach to cartels. This is important because of the market power, waste and inefficiency in international trade that cartels create. This Recommendation calls for adherents to ensure their competition laws effectively halt and deter hard core cartels by providing for effective sanctions, and ensuring enforcement procedures and institutions are adequate to detect and remedy hard core cartels (including powers to obtain information and impose penalties for non-compliance).


**OECD Guidelines for Fighting Bid Rigging in Public Procurement**
*Adopted 2009*

The Guidelines contain practical tools to assist governments with the detection and prevention of bid rigging, where firms conspire to raise prices or lower the quality of goods or services they provide to governments. Without established processes and a clear understanding of bidder behaviour, laws against bid rigging can be challenging to enforce. The Guidelines illustrate common bid rigging strategies, and identify aspects of goods, services or industries that facilitate collusion. They also include checklists for designing procurement processes to reduce the risks of bid rigging and for the detection of bid rigging.

[www.oecd.org/competition/guidelinesforfightingbidrigginginpublicprocurement.htm](http://www.oecd.org/competition/guidelinesforfightingbidrigginginpublicprocurement.htm)

**OECD Recommendation on Fighting Bid Rigging in Public Procurement**
*Adopted 2012*

The Recommendation contains a detailed set of practices for public procurement officials at all levels of government to follow. These measures, in addition to the Guidelines described above, include: techniques to promote competition through tender design, procedures and selection criteria, using electronic bidding systems, and encouraging awareness of the signs of collusion. These recommendations are equally applicable to local or cross-border situations.

[www.oecd.org/competition/oecdrecommendationonfightingbidrigginginpublicprocurement.htm](http://www.oecd.org/competition/oecdrecommendationonfightingbidrigginginpublicprocurement.htm)
OECD Recommendation concerning International Co-operation on Competition Investigations and Proceedings
Adopted 2014

The Recommendation calls for adherents to commit to effective international co-operation including, where appropriate and practicable, providing each other with relevant information that enables their competition authorities to investigate anticompetitive practices. The Recommendation also states that competition authorities of the adherents should support each other on a voluntary basis in their enforcement activity by providing each other with investigative assistance.


PENSIONS AND RETIREMENT SAVINGS

OECD Core Principles of Private Pension Regulation
Adopted 2009
Last updated 2016

The Principles can help countries to avoid creating artificial cross-border barriers to appropriate global asset diversification. Pension funds, insurance companies and managers of assets earmarked for retirement have the duty of managing those assets in the best interest of their members, current and future retirees. This requires using a prudent person approach and investing assets in financial instruments that are expected to provide the highest return at the lowest risk possible, that is, the highest risk-adjusted returns on a sustainable basis. The Core Principles recommend that portfolio investment should take principles related to risk diversification into account and that investing abroad should be permitted, subject to prudent management principles. Investors should build their portfolios taking into account foreign investment opportunities to improve risk diversification with the idea that investors should invest according to global market capitalisation.

www.oecd.org/finance/principles-private-pension-regulation.htm
REFERENCES


Globalisation has become associated with difficulties for less-skilled workers, inequality and a general sense that it is not working for large sections of society, in both advanced and developing economies. The 2017 OECD Business and Finance Outlook addresses some of the forces influencing economic developments that have contributed to recent surprises in elections and referendums. The common theme of these surprises has been voter discontent with globalisation and immigration that are perceived to be causes of unemployment and/or falling living standards for substantial parts of society.

This booklet reproduces highlights from the third edition of the OECD Business and Finance Outlook which focuses on ways to enhance “fairness”, in the sense of strengthening global governance, to ensure a level playing field in trade, investment and corporate behaviour, through the setting and better enforcement of global standards. Policy domains covered include exchange rates and capital account management, financial regulation since the recent financial crisis, the rising weight of state-owned enterprises in the global economy, competition policy to deal with international cartels, the cost of raising capital, responsible business conduct and bribery and corruption.

Find the OECD Business and Finance Outlook online at www.oecd.org/daf/oecd-business-finance-outlook.htm