

# Globalisation: Time to level the playing field

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**Today the debate rages about whether the decline in living standards is due to the effects of globalisation or to poor domestic policies. Both have surely played a role. But the problems often associated with globalisation (inequality, the hollowing out of the middle class, employment of less-skilled workers in advanced countries, etc.) do not originate from “openness” as such. The problem is that not all countries are open to the same degree and the playing field in the cross-border activities of businesses is not level.**

Since entering World Trade Organization (WTO) in 2001, China has quickly become the largest exporting nation in the world, with 14% of merchandise exports and 18% of manufacturing. Hong Kong (China), Singapore and Korea together export as much as the United States or Germany. Companies may also set up production abroad, closer to foreign markets. China has increasingly joined this model too, and is now responsible for 11% of world merger and acquisition (M&A) outflows in 2016. In recent years it has been switching away from M&A in oil and gas much more towards high technology companies.

In parallel, the number of state-owned enterprises (SOEs) among the Fortune Global 500 companies grew from 9.8% in 2005 to 22.8% in 2014. Most are domiciled in Asia, and the largest among them are Chinese banks. Distortions, resulting from subsidies and other advantages accorded to SOEs, often coming via cheaper finance from SOE banks, are important. But strong government ownership of shares in emerging economies is present across all industrial sectors. Emerging-

market SOEs have greatly contributed to the current excess capacity in key materials, energy and industrial sectors, contributing to a decline in the average return on equity in many sectors and countries.

No matter where firms sit in the value chain, penetration of markets by emerging economies evokes responses from companies to move further up the value chain—forcing them to restructure and enhance technology to remain competitive. If they don't take advantage of global economies of scale, they will in any case find themselves facing strong competition from other successful firms, whether at home or abroad. The fastest productivity growth companies are also those that take advantage of foreign sales—whether by exporting or by setting up subsidiaries that produce abroad to serve foreign markets.

There is nothing wrong with success in cross-border activities—provided of course that success is not based on unfair competition.

The leaps in productive potential can be enormous, but all of this requires investment, innovation and new technology. The company data shows that it makes no sense to try to separate these things out. The companies at the forefront of innovation and technology (as reflected in productivity growth) are often multinationals engaged in trade and foreign direct investment—they buy and sell business segments, set up to produce abroad and export from multiple global production bases.

The losers in this story—those workers affected by reduced hours, innovative work contracts and compressed wages—belong to companies that are scattered within their own industry. It is not that the middle class as such is being hollowed out but that these ranks are swelled by those that work for less successful companies forced to restructure or exit.

Some large emerging economies have managed to pull millions of people out of poverty—and the long-term future of every country lies with continued success in this regard. Competition too is to be welcomed. Like any sporting match, let the best teams win. But also like any sporting match, the game needs to be played with the same rulebook. If the same rules do not apply to all, then fairness is put into question. If fairness is questioned, then sustainability of open trade and investment in the global economy is also put at risk.

Openness promotes opportunities for business. But the governance of trade, international investment and competition does not use a common rule book. Without this, the size and cost of the other policies needed to protect the losers will continue to be burdensome and possibly beyond reach.

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This year's OECD Business and Finance Outlook discusses many aspects of the lopsided nature of the world economy, among them: the growing role of state-

owned enterprises (SOEs), uneven financial regulations, distorting capital account and exchange rate management, cross-border cartels that translate into benefits for companies and shareholders rather than into lower consumer prices, collusive behaviour in investment bank underwriting practices, corner-cutting responsible business conduct, and the bribery and corruption that distort international investment and misallocate resources.

We need improved rules of the game and enhanced international co-operation. OECD standards can play a leading role in shaping this conversation, and promoting a level playing field that ensures the benefits of globalisation are shared by all. This requires a commitment by economies participating in globalised markets to a common set of transparent principles that are consistent with mutually-beneficial competition, trade and international investment across a range of areas.

Originally published under the title, “For globalisation to work for all, you have to level the playing field first”, at <http://oecdinsights.org/2017/05/30/for-globalisation-to-work-for-all/>

## References

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