Better Policies Series

FIXING GLOBALISATION: TIME TO MAKE IT WORK FOR ALL

April 2017

OECD
BETTER POLICIES FOR BETTER LIVES

This document is part of the "Better Policies Series". Under the guidance of Gabriela Ramos and Juan Yermo, Elsa Pilichowski and Isabell Koske coordinated the publication. Main contributors: Geoff Barnard and Ángel Alonso Arroba. Isabelle Renaud provided production and administrative support.

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Foreword

Much of the current discontent in our societies can be traced back to the global economic crisis, and while that was a complex event, some of the policies associated with globalisation played a role in bringing it about. Also, while evidence suggests that globalisation alone played only a small role in increasing income inequality in OECD economies over the past few decades, collectively we may have paid insufficient attention to how globalisation and technological change have interacted to leave a large number of people experiencing stagnant living standards or worse.

It is scant comfort to those displaced from their jobs and living in the worst-affected areas that GDP is higher than it would have been without trade liberalisation. While we have been striving to strengthen policies to fight growing inequalities of income and opportunities, we may have underestimated the importance of other factors that determine well-being and social mobility, such as inequality of wealth, and social networks and how they affect people's decision-making power. Moreover, it has become increasingly clear that many of our citizens not only feel aggrieved by the outcomes of globalisation, they also consider that some of the processes by which it is advanced are fundamentally flawed.

The OECD can support national governments and the international policy dialogue to advance a fairer and more inclusive globalisation, to ensure that the benefits are more widely shared, and that the rules of the game are more ambitious, economically, socially and environmentally, and are also more enforceable. Through its research and the work of its committees, the OECD can help to advance the international dialogue, while at the same time delving further into the distributional impacts of economic integration and the accompanying process of digitalisation. The cross-disciplinary, cross-policy analysis within the OECD's horizontal project on digitalisation will provide a roadmap for OECD member and partner countries to thrive in the digital era and avoid policy failures. The OECD's peer review processes can help draw lessons from the experience of OECD countries that have been relatively successful in achieving inclusive growth in a globalising and digitalised world, as well as from countries with less successful outcomes. The OECD can also be instrumental in developing tools to identify the specific impact of reforms on different income groups, and in identifying a better narrative on globalisation and digitalisation to help governments better communicate with citizens.

The OECD also has much to contribute in the area of global standards. The OECD has developed some 270 legal instruments since its creation in 1961, with more intense standard-setting activity in the period since 2000. A number of OECD standards have become global, recognised for their innovative features, evidence-based approach and strong peer-review mechanisms. Several address issues related to levelling the global playing field and ensuring good outcomes from globalisation for all, such as the OECD/G20 Base Erosion and Profit Shifting package, the G20/OECD Principles of Corporate Governance, the OECD Anti-Bribery Convention and the OECD Guidelines for Multinational Enterprises.

It is time for better globalisation, more inclusive globalisation, globalisation that regains its ultimate sense of improving all people's lives. The OECD stands ready to support governments in this endeavour. Together, we can design, implement and deliver better policies for better lives in a globalised world.

Angel Gurría
Secretary-General, OECD

Key messages

- Recent years have seen a remarkable backlash against globalisation, driven at least partly by a growing dissatisfaction with its outcomes.

- While globalisation has helped increase the size of the global economic pie and lift over a billion people out of poverty, not everybody has benefitted equally, and some people have suffered. Despite a reduction in global inequality, within many countries the problem has increased over the past decades, especially among the advanced economies. Inequality of wealth has increased even faster than income inequality in much of the OECD, hampering social mobility.

- In addition, there are concerns about some of the processes through which globalisation has been advanced, with many citizens feeling that there is too little transparency and engagement with all relevant stakeholders, with too many conflicts of interests between policy-makers and multinational firms, and sometimes even outright corruption or malfeasance.

- There is thus an urgent need to fix globalisation. A starting point is to see globalisation not as an end in itself, but as a means to an end, namely more well-being and better lives.

- The OECD's work on the productivity-inclusiveness nexus makes a strong case for complementing advances in globalisation by policies to ensure that the benefits of trade, investment and digitalisation are more widely and more equally distributed and that all feel they contribute to the dynamic environment created by these forces. Key policy tools include social protection and labour market activation policies, measures to ensure healthy financial markets, and strategic investments in education, skills, health, innovation and physical infrastructure. Fixing globalisation will also require addressing regional imbalances or "the geography of discontent".

- Addressing the rising concentration of wealth may mean making fuller and more effective use of tax systems, ensuring they are sufficiently progressive. It may also mean investigating whether certain aspects of the economic system are delivering rising wealth concentration, with a view to mitigating such mechanisms *ex ante*. Examples include rising financialisation, the strong increase in house prices in many countries, the entrenchment of powerful interest groups, and "winner-take-most" dynamics in some industries, including network, financial and digital industries to the detriment especially of small and medium-sized enterprises. Policy responses to these tendencies might include stronger competition policy, more effective corporate governance rules, and a more decisive fight against tax evasion and avoidance as well as against bribery and corruption.

- Addressing the frustration about globalisation also requires putting the underlying processes on a more legitimate footing. This calls for strengthening the democratic debate, and allowing for greater engagement with stakeholders in the policy-making process on trade, cross-border investment, migration and international standards.

- An important aspect of strengthening the perceived legitimacy of economic globalisation is to reinforce civic engagement and make a more persuasive case for economic integration. Sometimes, the segments of the population who might be expected to have the most to gain from globalisation, such as the young or recent immigrants, are the least engaged in the political process, which can cause their interests to be side-lined by more politically-engaged groups.

- While many of the policy tools to improve the outcomes of globalisation and how citizens perceive them lie in national policies, international cooperation and global standards have a major role to play, especially in areas such as tax, corruption, corporate governance, responsible business conduct, and competition policy. To this end, international standard setting needs to more vigorously promote an inclusive form of globalisation, by both widening the scope of standards and strengthening their implementation.

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1 Introduction

Recent years have seen a remarkable backlash against globalisation. The costs of increased openness and connectivity – including the consequences of trade and investment liberalisation – are weighted as never before against the benefits, with many voices advocating a slowdown or even a reversal of the global integration that has characterised the past three decades. While there are many economic, social and political reasons for this backlash, there is sufficient evidence showing that globalisation is leaving many people behind, particularly in the lower half of the income distribution, and especially in advanced countries. This backlash suggests that we need to act quickly to fix globalisation and make sure that its benefits are more equally shared. The consequences of a potential reversal of global integration could be dramatic: increased protectionism resulting in a net loss of wealth and opportunities and dangerous inward-looking policies that would put at risk many of the benefits achieved in the past decades.

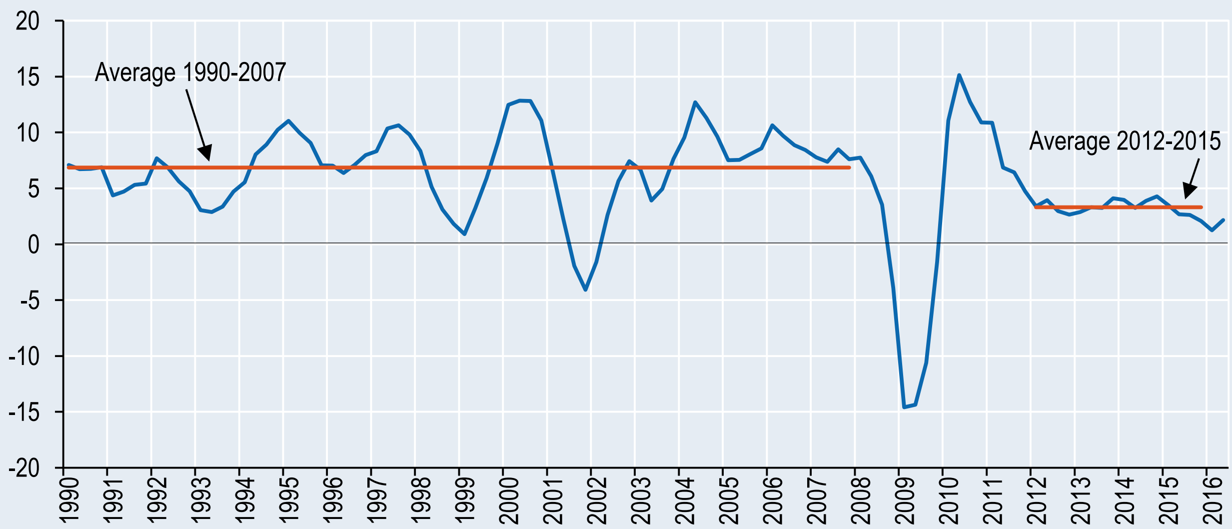
Globalisation is not a new phenomenon, but its pace over recent decades is unprecedented

Globalisation, the economic integration of different countries through growing freedom of movement across national boundaries of goods, services, capital and people, has been ongoing for centuries. But it has proceeded in waves, with the period since the late 1980s being the latest and probably the fastest forward surge. The ratio of global trade to world gross domestic product (GDP) doubled between 1990 and 2015, from 30% to around 60%. Foreign direct investment (FDI) flows rose strongly too, from less than 0.5% of world GDP in the early 1980s to about 2.5% over the last ten years. And the flow of people across borders picked up markedly. The increase in the number of international migrants averaged about 1 million per year in the period 1960-80, but rose to about 5 million per year since 2000. OECD data for inflows of foreign nationals into selected OECD countries and Russia show an increase from just under 5 million in 2004 to nearly 7 million in 2014.

During this period, there were three major factors that accelerated the pace of global economic integration. First, many Central and Eastern European countries made the transition from planned to market economies. Second, China became increasingly integrated into the world economy at the same time as it enjoyed an extraordinary and unprecedented period of growth. Firms set up new value chains to serve this market and also expanded by relocating parts of their production chain, aided

FIGURE 1.1. **GLOBAL TRADE FLOWS HAVE SLOWED DOWN AFTER THE CRISIS**

Year-on-year percentage change of trade in goods and services in USD at 2010 prices



Source: Economic Outlook Database.

by rapid technological progress that reduced transport and communication costs. Third, over the 1990s and 2000s, trade and investment liberalisation was pursued by most advanced and emerging economies, via multilateral, regional and unilateral actions.

Since the 2008-09 economic crisis, trade and investment flows have slowed down. The slowdown in trade has been particularly marked over the last two years (Figure 1.1). Cross-border investment has been more erratic, with a surge in 2015, but still only to levels that were well below pre-crisis peaks. And the pickup in 2015 was, to an important degree, the reflection of a small number of international mergers to move corporate headquarters in order to reap tax advantages. At the same time, little progress has been made in multilateral trade negotiations, and there is a continuing growth in new forms of murky protectionism (now affecting 5% of global exports). Many countries are turning their attention to regional and plurilateral initiatives as alternative ways of opening markets further, although the most recent "mega-initiatives" are also facing strong headwinds from a deeply sceptical public.

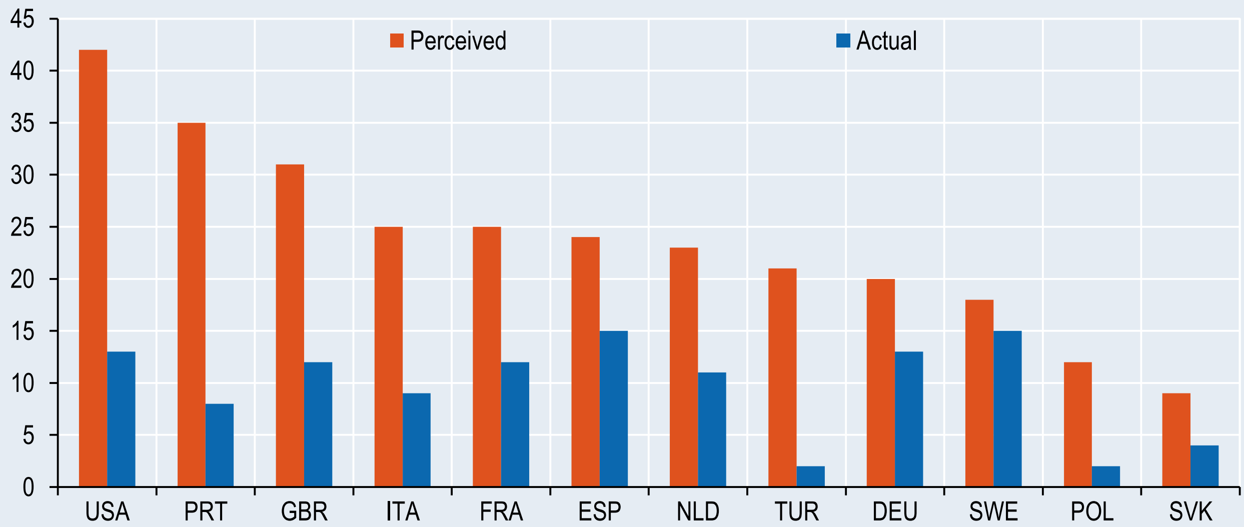
However, another aspect of globalisation – migration – has continued to advance, notably with the spike in refugees and asylum-seekers in 2015. As migration is a more visible manifestation of globalisation, people may exaggerate the overall pace of globalisation in recent years. Citizens in OECD countries typically greatly overestimate the number of immigrants coming in (Figure 1.2). Even with the latest increase in global migration flows, the numbers of migrants in relation to the population of destination countries are still well below the peaks of the early 1900s. Also, flows of people across national borders remain far more regulated than flows of goods, services, capital and information.

Something is wrong

Globalisation has helped increase the size of the global economic pie. It has produced more aggregated global wealth, lifted more than a billion people out of extreme poverty (Figure 1.3) and provided one of the strongest convergences in per-capita incomes between countries in the world's history. Millions have joined the ranks of the middle class in emerging and developing countries. Globalisation has also encouraged the transfer of technologies, ideas and know-how across borders. Its benefits extend beyond purely economic gains, including the spread of liberal democracy, a larger resort to multilateralism to solve global problems, and greater exposure to cultural diversity.

FIGURE 1.2. **PEOPLE TEND TO OVERESTIMATE THE NUMBER OF IMMIGRANTS IN THEIR COUNTRY**

Estimated and actual share of immigrants in the population, 2011

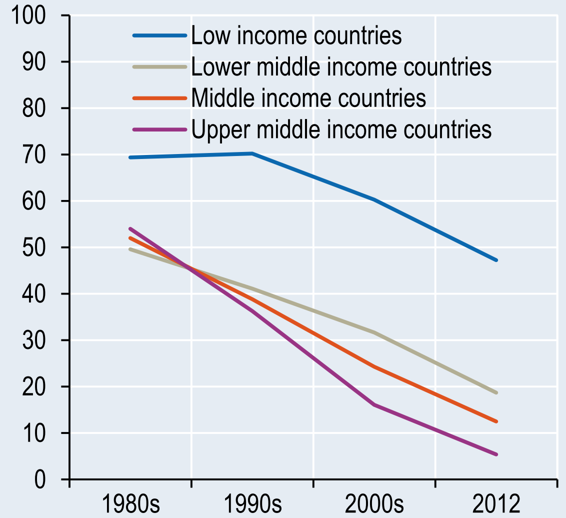


Note: Respondents were asked to estimate, on a scale of 0 to 100, the percentage of the population in their country that was born abroad. The actual number of migrants for Turkey is for the year 2000.

Sources: OECD (2013), International Migration Outlook 2013, OECD Publishing, Paris; Transatlantic Trends (2013), Transatlantic Trends: Key Findings 2013.

FIGURE 1.3. **GLOBALISATION HAS COINCIDED WITH A SUBSTANTIAL FALL IN EXTREME POVERTY**

% of the population living on less than USD 1.90 a day (2011 PPP)



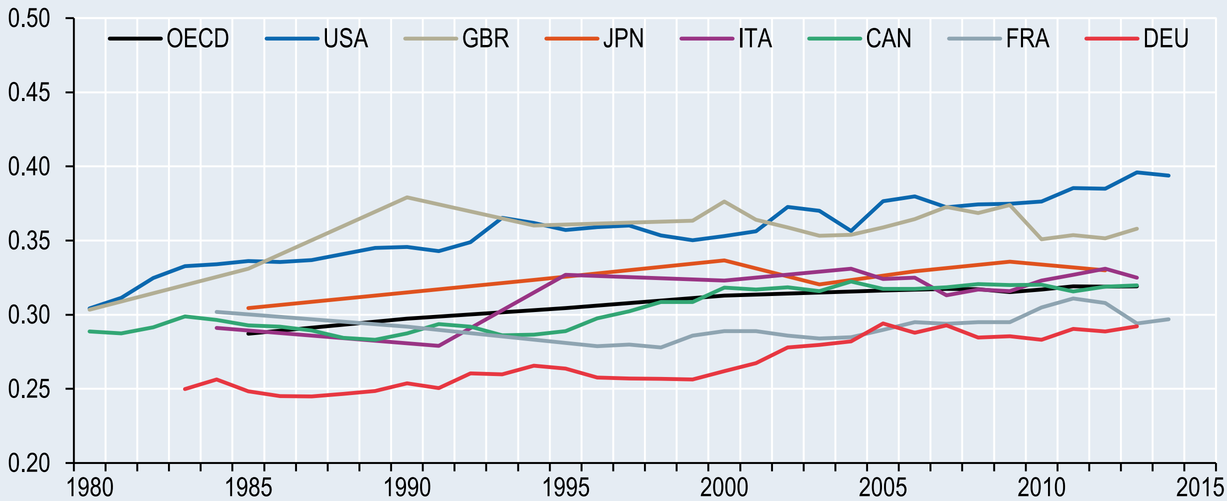
Source: World Bank (2016), World Development Indicators Database.

But aggregates do not provide the full picture. Despite the reduction in global inequality since 1990, inequality within many countries has increased, especially among the advanced economies (Figure 1.4). Many people feel that they are worse off as a result of global dynamics. They feel left behind, with the size of the pie growing, but their share actually getting smaller. They attribute the increase in inequalities within countries to globalisation. They are confronted with insecurity and change. They perceive that their well-being and job security has been compromised by the outsourcing of jobs to other countries and the arrival of migrants (Figure 1.5). They lack the means and skills to adapt to a changing economy characterised by disruptive technological change. They associate globalisation with many factors: forced liberalisation and a race to the bottom on corporate tax rates and labour, environmental and consumer protection standards; detachment between finance and the real economy; curtailment of cultural diversity; depletion of the planet's resources and climate change; and a growing concentration of gains in the hands of some multinationals and wealthy individuals who can also bend the political process to their own interests.

Beyond this perception about the outcomes of globalisation, there seems to be a manifest dissatisfaction with the legitimacy of some of the processes through which it is delivered. Policy-makers seem to have failed to explain convincingly the benefits associated with international economic integration. Also, the Internet, an important element of the latest wave of globalisation, may have contributed to the backlash against globalisation in some advanced economies, by, on the one hand, making the inequalities more visible, and, on the other, by creating opportunities for rapid and widespread diffusion of biased information. The increasing tendency for people to get their information from non-mainstream news sources and to seek out "echo-chamber" communities with people of similar views may have helped to

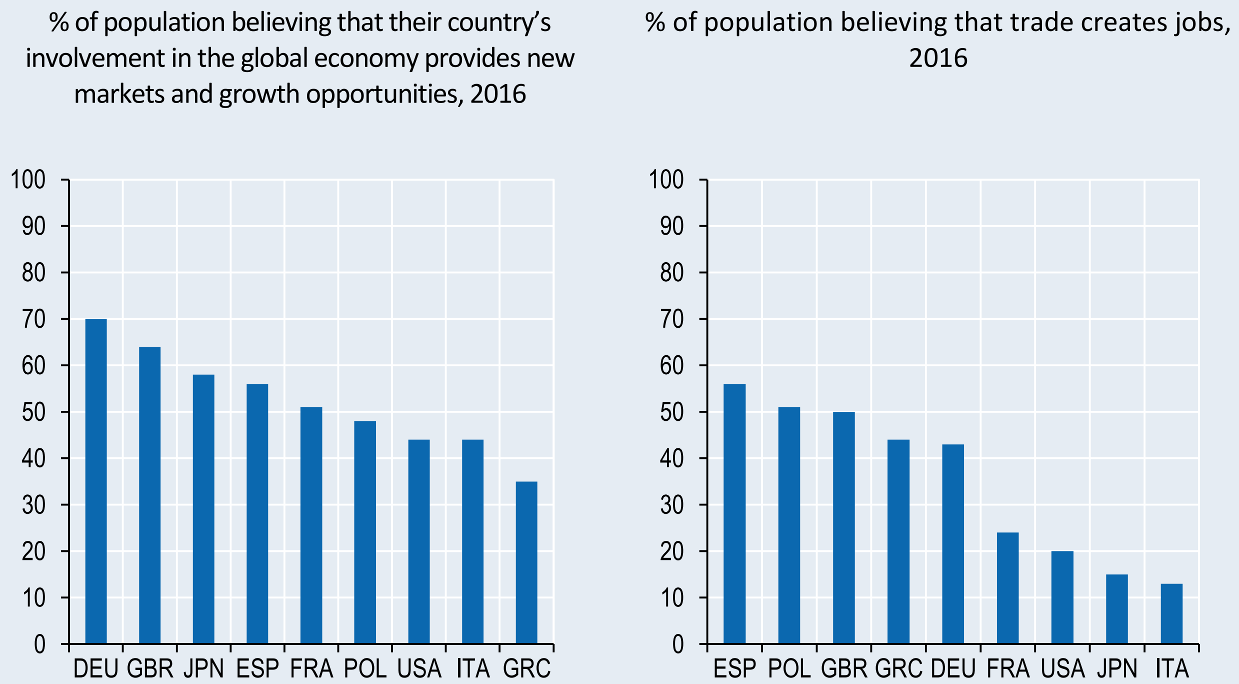
FIGURE 1.4. **INEQUALITY HAS INCREASED IN MANY COUNTRIES**

Gini coefficient, from 0 (most equal) to 1 (most unequal)



Source: OECD Income Distribution and Poverty Database.

Figure 1.5. **Not that many people have positive views on globalisation**



Source: PewResearchCenter, Spring 2016 Global Attitudes Survey.

undermine the influence of objective expertise and contributed to the creation of a "post-truth" or "post-fact" world. In such a world, it is harder for evidence-based reasoning to get traction.

We urgently need to fix globalisation, but we don't fully know how to do so

Globalisation should be seen as a means to an end – more well-being, better lives – not as an end in itself. The benefits unleashed by further integration, particularly over the past 30 years, show that globalisation has the ability to make our economies and societies wealthier and more prosperous. However, there is no automatic trickle-down economics with globalisation. Without the right accompanying policies, globalisation does not deliver improved well-being across the population.

But we can't pretend that we have all the answers. The first lesson to draw from the current situation is that we need to acknowledge our limitations, continuously improve our analysis and listen more attentively to people's concerns. The OECD's New Approaches to Economic Challenges initiative has helped to put a greater focus of economic analysis on well-being. It provides for policy analysis that helps understand the global economy as a complex adaptive system with spill-overs, systemic risks and network effects, as well as the links between the financial sector and the real economy.

Tackling rising inequalities and delivering inclusive growth should be at the core of the international policy agenda. To a great degree, the backlash against globalisation is a response to the fact that many social gaps in our societies are widening. The OECD's Inclusive Growth Initiative is looking at this challenge. The OECD also has major ongoing work on education and skills, job quality, inclusive governance, and social safety nets that help understand complex interactions and add to the core body of existing work in almost all relevant policy fields.

But much more needs to be done to achieve more inclusive globalisation. We need to improve policies and implement them at national and local levels to accompany economic openness, and we need to improve international standards. It is now time to:

- Improve our understanding of people's perceptions of globalisation and counter those perceptions with deepened research and analysis on the distribution of wealth, income and opportunities, as well as on social mobility across social groups, generations and geography. The goal is to create better policies for inclusive globalisation, to enhance our capacity to communicate on the benefits of trade and investment and to deliver better evidence and analysis on those who are left behind.

- Acknowledge that the intensity of globalisation coupled with rapid technological change (digitalisation in particular) has led to major disruption in some sectors and regions and contributed to widening gaps in incomes and employment opportunities.

- Recognise that productivity-enhancing domestic policies and policies to deepen human capital via education and training, while essential, are not enough. We also need to reinforce safety nets and strengthen social and labour market policies to ensure that the gains from globalisation are sufficiently shared. The goal is to not only protect those who are affected, but to empower them to thrive in a rapidly changing context.

- Assess the real implications of rapid digitalisation for jobs and societal well-being, creating the necessary policy environment to adapt and use digital technologies to their full potential. We also need to tackle the dark side of the digital economy.

- Rethink trade and investment, adapting our frameworks to the realities of a less physical economy, while responding at the same time to accusations that deals are made behind closed doors in a way that most benefits those who make them. If we are to pursue further liberalisation, we need to ensure that it benefits everyone and that it is done transparently, engaging all relevant stakeholders.

- Tackle the challenges of an increasingly finance-based economy that is more and more divorced from the real economy. We may also need to go beyond our focus on responsible business conduct and explore in greater depth the social and environmental responsibility of firms.

- Better understand and address factors leading to growing global market rents in some sectors, as well as wealth concentration, to ensure more equitable outcomes for all.

- Ensure that our governance frameworks are adequate to keep pace with globalisation. This may require not only more and better global standards to meet the needs of rapidly changing societies, but also better-functioning international fora and institutions, to ensure that our international architecture is prepared to respond to truly global challenges. One somewhat paradoxical conclusion to be drawn from the current economic and political environment may be that globalisation of the economy has created a backlash because it has not been accompanied by enough globalisation in rule-making and governance.

2 Successes and failures of globalisation

While the last three decades have seen just the latest in a series of advancements in global integration, the advancement over this period was probably the fastest so far. Globalisation has both positive and negative aspects. The free movement of goods, capital and people leads to higher aggregate wealth, lower prices, a greater variety of products and services, higher wages and more jobs. However, beneficial effects at the aggregate level do not necessarily trickle down equally, and some people may even suffer from globalisation, in terms of job losses, reduced wages and lower labour and consumer-protection standards. Moreover, higher aggregate growth may be associated with deteriorating environmental quality. Beyond these negative effects of globalisation, there is also a perceived lack of legitimacy in the way that it has been taken forward, with critics pointing to capture by powerful corporations and financial institutions.

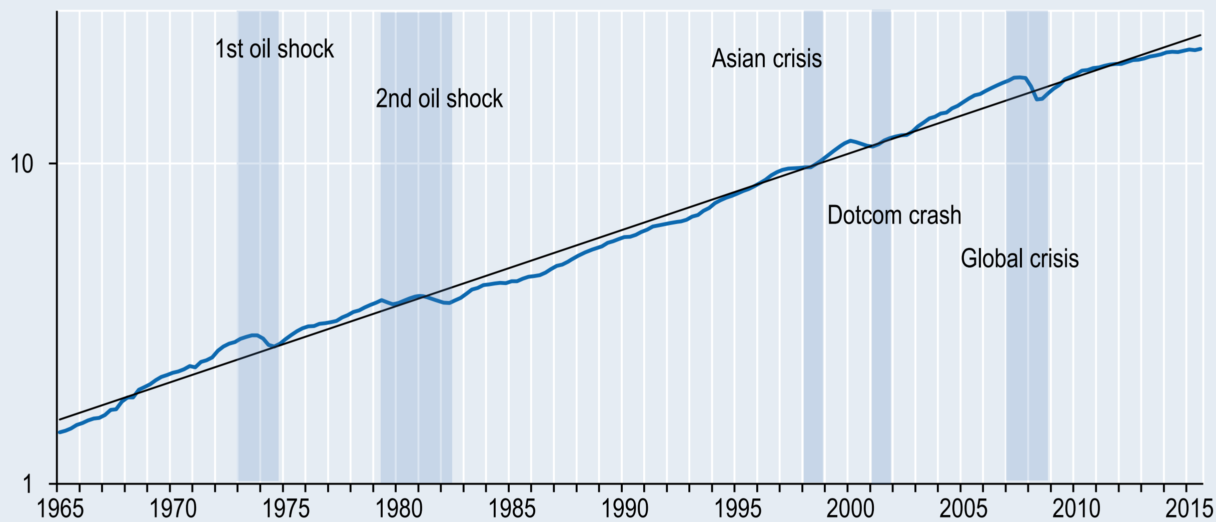
Globalisation has good sides

The economic arguments in favour of open markets for trade and investment are well established. Basic economic theory, going back to Adam Smith in the 18th century, shows that trade spurs mutually beneficial specialisation, allowing higher overall economic output than when countries are closed to trade. The argument for investment, and indeed for flows of labour, is analogous: if factors are allowed to flow to equalise returns, overall output is maximised. In fact, times of low world growth generally have been times when economic integration was slowing down or had reversed, rather than when it was moving forward (Figure 2.1). This holds true also for the most recent worsening of global economic growth, as well as for the 2008-09 crisis period. The latest OECD Economic Outlook suggests that about half of the slowdown in total factor productivity growth in OECD economies from the pre-crisis period to the last eight years could be unwound, if the pre-crisis trend of rising trade intensity of GDP were restored.

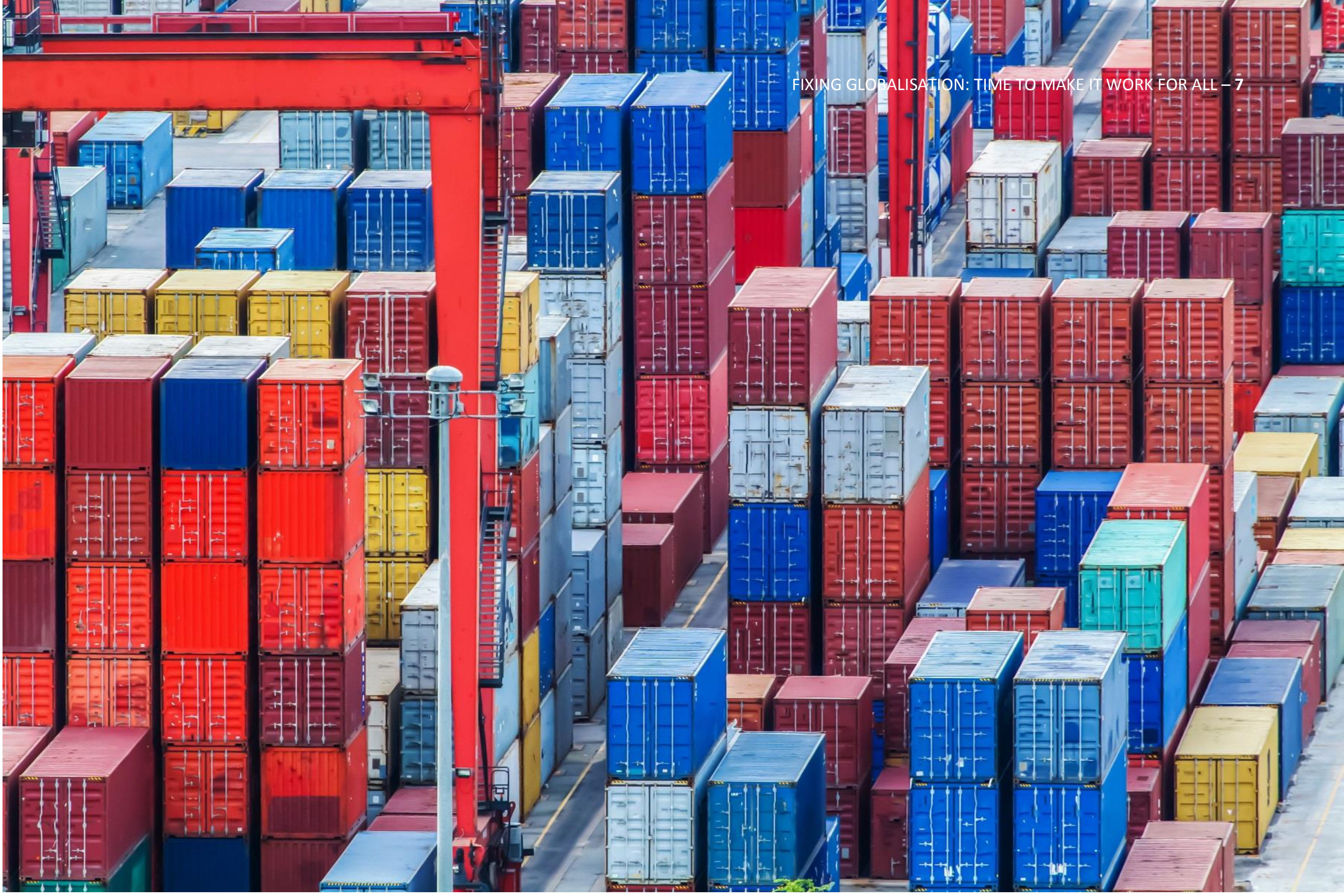
More recent theoretical work, as well as long experience with globalisation and its effects, point to a number of additional benefits. Trade provides gains for households through reduced prices and increased choice. Such benefits are enjoyed not only for traded goods like cars, running shoes and computers, but also for services, including tourism. Also, open

FIGURE 2.1. **BAD ECONOMIC PERFORMANCE AND BACKLASHES IN ECONOMIC INTEGRATION SEEM TO GO TOGETHER**

Global trade volume, trillion USD at 2010 prices, logarithmic scale



Source: Haugh, D., et al. (2016), "Cardiac Arrest or Dizzy Spell: Why is World Trade So Weak and What can Policy Do About It?", OECD Economic Policy Papers*, No. 18, OECD Publishing, Paris.*



economies grow faster than closed economies, and salaries and working conditions are almost always better in companies that trade than in those that do not. Open trade is a key pathway for the diffusion of new technologies, knowledge and competition, which are central to achieving productivity gains and improving well-being. Without trade, both imports and exports, new growth and employment opportunities are stifled. Many of these benefits of trade flow through a vibrant entrepreneurial landscape, which brings income to small business owners and their employees.

The results of the OECD-led International Collaborative Initiative on Trade and Employment and the OECD's large body of work on global value chains (GVCs) have highlighted how different aspects of trade, including outsourcing and offshoring, play a pivotal role in boosting growth and creating high-value high-paying jobs. During the period from 1970 to 2000, manufacturing workers in open economies benefitted from pay rates that were significantly higher than those in closed economies. In Chile, for example, workers in the most open sectors earned on average 25% more in 2008 than those in low-openness sectors. Moreover, studies for Germany, Italy, the United Kingdom and the United States demonstrate that offshoring of intermediate goods either has no impact or, if anything, has a positive effect on both employment and wages. The number of jobs potentially displaced by new trade and investment opening is dwarfed by the number of jobs that already depend on the operations of established foreign affiliates and on exports of value-added in GVCs. In a broad sample of open and closed economies around the world, examined over a 30-year period, open economies significantly outperformed relatively closed economies in working conditions, including fatal accidents and life expectancy. Labour rights were also found to be generally better respected in the more open economies. In Japan, trade contributed to a reduction in the number of hours worked, and in Chile it interacted with unionisation in the export sectors to raise wages for workers.

OECD analysis suggests that if G20 economies reduced trade barriers, they could generate more jobs, higher real wages and increased exports. Depending on the country, a reduction in trade barriers by 50% is estimated to lead to a 0.3%-3.3% rise in jobs for lower-skilled workers and a 0.9%-3.9% rise for higher-skilled workers. Real wages would increase by 1.8%-8.0% for lower-skilled workers and by 0.8%-8.1% for higher-skilled workers, again depending on the country. Exports could increase by up to 20% in the long run in some G20 countries and by more than 10% in the euro area, where trade barriers are already very low.

Like trade, foreign direct investment (FDI) can also be a channel to transfer technology and know-how, accelerate structural transformation, stimulate private sector development (particularly small and medium-sized enterprises) through linkages with multinationals, and contribute to employment creation. Important questions are how income that is generated from FDI is distributed and how much of that income "sticks" within the host economy. Generally, labour compensation is found to be more "sticky" than profits, because profits may accrue to the foreign parent. New OECD analysis indicates that the value added of foreign-owned firms embodied in their exports from host economies consists (sometimes significantly) more of labour compensation than of profits.

As for cross-border movements of people, evidence points, on balance, to beneficial effects of migration for both "sending" and "receiving" economies, as well as for the migrants themselves. The latest OECD International Migration Outlook shows that in almost all OECD countries, migrants contribute more than they take in social benefits (contrary to general perceptions among the host country population). They are productive members of society who work, set up businesses and have innovative ideas and relatively high levels of aspiration. A recent Eurostat analysis of immigrants to the European Union showed that second-generation immigrants had higher tertiary education attainment rates than those with a native background. Migrants boost the working age population and typically fill critical gaps in the labour force (e.g. in care for the elderly). Over the past ten years, they accounted for 47% of the increase in the US workforce and 70% in Europe. They also fill jobs in both fast-growing and declining sectors of the economy.

The latest period of rapid globalisation has been one of strong convergence in per-capita incomes between countries, thereby reducing income inequality across countries and global poverty rates. The share of the world's population living with less than PPP USD 1.90 per day declined from around 35% in 1990 to less than 11% in 2013, lifting more than a billion people out of extreme poverty. Strong economic growth has also created better material living conditions for people in many emerging and developing countries, giving rise to a new middle class.

The impacts of globalisation on the environment are not straightforward. Global fragmentation of production can be a positive force for progressive companies to export best practices and environmental standards and be agents for change across countries. Also, OECD research shows that by increasing demand for environmental products and technologies, environmental policy can be used together with trade policy to support pollution-reduction efforts, not just domestically but also abroad.

The benefits of globalisation plausibly extend beyond purely economic gains, important as these have been. The process of global economic integration, based on a mixed-economy model, has been simultaneous with a spread of liberal democracy and a declining propensity to resort to military means to achieve economic or political aims. In addition, globalisation has increased people's exposure to cultural diversity and improved their access to more varied media sources. The development currently in process of joint responses to global challenges (e.g. tackling climate change and achieving the UN Sustainable Development Goals) should also be seen as part of the benefits of globalisation.

But it also has bad sides

Just as basic economic theory indicates efficiency gains from economic integration among countries, so it also predicts that not all agents automatically gain from that process. In simple two-factor models of trade, for example, the returns to one of the factors generally decline when the economy is opened to trade. Analogously, an inflow of foreign capital (or labour) will be expected, other things equal, to reduce the domestic profit (wage) rate. Theory predicts that the overall output gains make it possible to compensate losers and leave no one worse off, but there is no guarantee that this will happen. Moreover, when allowance is made for the fact that factors are not freely mobile (e.g. a worker displaced from a manufacturing job because of competition from a foreign company may not immediately find new work and may never regain the wage rate of the lost job), it is to be expected that the number of people losing out from globalisation may be quite large.

There is at least some evidence that large sections of the middle classes in advanced countries have not experienced gains in their real incomes over the past 25 years or so. Most attempts to disentangle the role of globalisation from other factors suggest that technological change rather than trade is the main reason for this stagnation of middle-class incomes. But technological progress and economic integration are not neatly separable processes, being mutually reinforcing. Recent OECD research shows that the dispersion in wages has increased in recent years, and that globalisation and digitalisation are strengthening the link between wage and productivity dispersion. This is the result of widening differences between (generally larger) frontier firms, well adapted to the global economy, and (generally smaller) laggards. Moreover, it seems that wage and productivity dispersion may be more severe at the bottom of the distribution. Finally, in some economies, the distribution of the gains from expanding cross-border trade and investment has been skewed in favour of more skilled, better educated and wealthier individuals. In fact, early research indicates that recently, the polarisation of labour demand is starting to hollow out the middle class and those with average skills.

In addition, some facts point to growing corporate concentration in recent decades, which could help explain the widening dispersion of value added per worker. Again, the role of globalisation in fostering such a rise in concentration is not clear. There is a general presumption that trade and cross-border investment strengthen rather than weaken competition, and other factors also play a role. But there are some reasons to believe that industries characterised by network externalities (such as firms in the expanding digital sector) have “winner-take-most” features, and the integration of different economies can help to allow a small number of dominant firms in each industry to emerge and earn growing rents. There is certainly a widespread perception that some multinational enterprises (MNEs) have become excessively large and powerful and, in some cases, use their power to entrench their position (e.g. pharmaceutical companies pushing for stronger protection of intellectual property rights in developing economies). Tax evasion and aggressive tax avoidance by some MNEs, together with bribery and corruption, further add to the problem.

These findings are also consistent with the fact that, despite the reduction in global inequality since 1990, inequality has increased within many countries, especially among the advanced economies. In 2012, the average income of the top 10% of earners in the OECD area increased to just under ten times that of the bottom 10%, up from around seven times in the mid-1980s. High income inequality tends to perpetuate itself, as intergenerational social mobility is lower in countries where income inequality is high (Figure 2.2). Also, while the benefits from trade tend to be diffuse and long term in nature, losses are often sharp and very concentrated on particular individuals, firms and regions. Moreover, the people most affected are often those with the least capacity to adjust on their own. Similarly, the social and economic benefits of FDI are neither automatic nor even across countries or necessarily distributed fairly in either host or originating countries.

In part because of the more concentrated losses associated with trade and FDI, there has been, at least in some sections of advanced economies, a perceived increase in employment insecurity. Many workers believe they are more likely to lose their jobs than in the past as a result of offshoring, low-paid immigrants or unfair competition from foreign-owned firms. This has some basis in reality. Most advanced economies have had substantial losses in manufacturing employment over the past few decades. Most studies suggest, however, that the bulk of this decline in manufacturing employment can be

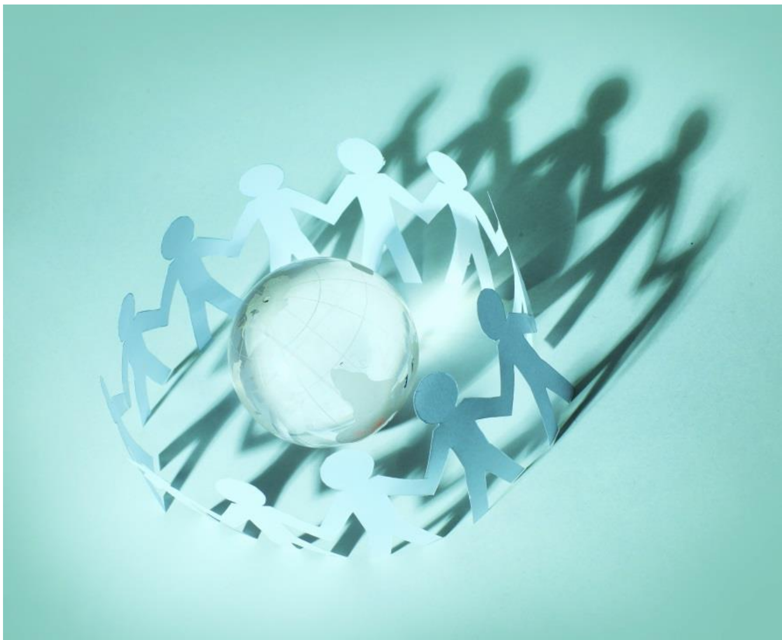
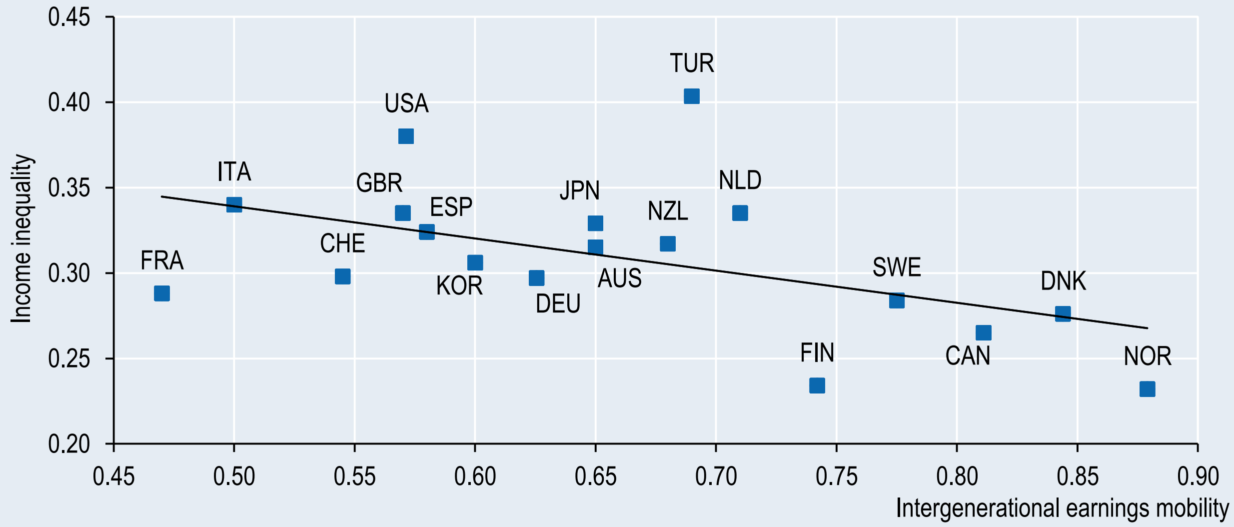


FIGURE 2.2. **HIGHER INEQUALITY MAY FUEL LOWER SOCIAL MOBILITY**

Income inequality (measured by the Gini coefficient) and intergenerational earnings mobility (measured by 1 minus the degree to which a son's earnings are correlated with that of the father)



Note: Data refer to mid to late-2000s up to 2012.

Source: OECD (forthcoming), All Different All Equal: Levelling the Playfields and Addressing Social Mobility, OECD Publishing, Paris.

attributed to technological change rather than globalisation. The perception of rising employment insecurity is also fed by new forms of relatively precarious employment in still small but visible parts of the digital economy, such as Internet platforms. Also, the concentration of losses associated with trade in particular geographical areas has, in some cases, resulted in the withering of whole communities. While this is not qualitatively new – the phenomena of dying industries and one-company towns go back decades, if not centuries – there is some evidence that it is more pronounced and widespread than in the past.

A question that has arisen about globalisation since the onset of the global financial crisis is whether the degree of international interconnectedness between financial institutions and the exponential growth in financial activity that has come with globalisation is altogether healthy. The global crisis was, to an exceptional extent, highly correlated across countries, and the financial sector was a primary conduit for the shock. The packaging of sub-prime mortgages as low-risk securities and the proliferation of financial derivatives to distribute risk through the system in unpredictable ways may have been mostly a matter of US financial institutions creating US assets. But the involvement of firms and individuals from outside the United States as investors, creditors and counterparties ensured that the crisis, when it came, was quickly spread. The world economy is still suffering from the effects of that crisis, as the large and persistent negative demand shock has had scarring effects on the supply of labour and firms' willingness to expand the capital stock. This may be an illustration of the point that, at least in the presence of domestic policy failings, a high degree of financial globalisation can have serious negative side effects. More generally, a number of mostly developing economies have had to cope with surges and reversals in cross-border capital flows, which have resulted in huge swings in real exchange rates and domestic interest rates in these countries, with negative consequences on real economic activity.

There is an inherent tension in the relationship between globalisation and some environmental outcomes, since to the extent that globalisation succeeds in boosting economic growth, it tends also to result in faster increases of environmentally harmful emissions. This tendency has been amplified by the fact that a large part of the additional growth associated with the latest wave of globalisation has taken place in economies with lower environmental standards. While OECD economies are still responsible for the bulk of cumulative carbon emissions since the Industrial Revolution, the emergence of China as a leading economy has been associated with very rapid expansion of electricity generation, much of which has been coal-fired. To a lesser extent, the same is true of India and some other major emerging economies. Also, trade itself, because of related transportation, is relatively emissions-intensive. CO_2 emissions from international shipping doubled between 1990 and 2007, and emissions from shipping and aviation for international trade, which are not subject to carbon taxes or cap-and-trade schemes, are roughly equivalent to the total emissions of Japan.

There are also concerns over the extent to which globalisation may cause a "race to the bottom" in labour standards and consumer protection, as internationally mobile capital is attracted to where compliance with such standards is least costly. Furthermore, the blurring of frontiers and the facilitation of worldwide connections that have accompanied globalisation and digitalisation, have offered opportunities for corruption, criminal networks, organised crime and even terrorist elements, while at the same time allowing more transparency and making those cases more visible. It is impossible to measure whether there is an overall worsening or improvement in the level of what is now called the "dark economy", but there is little doubt that the gaps in existing standards, as well as in enforcement and information-sharing across countries, concerning illicit trade for example, undermine faster progress on this front.

People are also dissatisfied with the processes through which globalisation was delivered

Going beyond the outcomes of globalisation, there is a perceived lack of legitimacy in the way in which it has been taken forward. Critics of the process portray it as captured by powerful corporations and financial institutions and beset by insufficient transparency and accountability to citizens. There is a widespread perception that trade and investment deals are made by global elites behind closed doors and are not sufficiently open to public scrutiny and democratic validation. There are, in particular, objections to the special supranational institutions that are sometimes created by bilateral and plurilateral trade and investment agreements. Many recent surveys and electoral outcomes suggest a growing feeling among advanced country populations that globalisation, including immigration, has moved beyond the control of national governments, with a consequent weakening of democratic debate and accountability. Similarly, there is a strong perception in many OECD economies that the global financial crisis came about in part because large financial institutions helped to create rules of the game in which profits were privatised but losses were socialised.

As doubts about the benefits of globalisation grew among advanced-country populations, the widely-held concern with what is seen as the tendency of elites (leading corporations, financial institutions, political leaders and international organisations) to defend it and downplay its drawbacks may have undermined trust in institutions and mainstream political parties. This may have been amplified by the perceived lack of transparency in the negotiation of major trade and investment deals. To this were added scandals about tax evasion and aggressive tax avoidance, fuelling a popular perception that globalisation was being used to illegitimately enrich those who were already advantaged.

There has also been a growing tendency for trade and investment deals to be combined. Often, the most contentious elements of such deals are in the investment part. Some opponents argue that beneficial trade opening is used as a means to get through more contested provisions on investor protection, as negotiated deals are often voted on an all-or-nothing basis and cannot be unpicked by legislatures. The focus of objections has been the incorporation of special substantive rights for foreign investors, complemented by investor-state dispute settlement (ISDS) provisions. ISDS, which involves settlement procedures outside national justice systems, was created to protect foreign investors against expropriation of their assets by governments and was originally seen as an instrument beneficial for countries wishing to attract foreign direct investment. But it has come to be seen by many as a mechanism that affords special privileges to multinational corporations, and potentially as a device that undermines national policies and laws. Moreover, especially in agreements between advanced economies, it is widely seen as unnecessary and only tangential to the objective of freer trade.

3 Addressing the frustration over globalisation

A more progressive, more inclusive, more coherent and more integrated package of trade, investment and domestic policies is required if more open markets are to work better for more people. In addition, further economic integration will only be realised if most citizens are convinced that they will share the benefits, and if they have trust in the processes by which governments pursue them. Failure to address these concerns also risks contributing to a retreat from multilateralism and international economic co-operation more generally, with potentially widespread negative consequences for economies and societies. Moreover, if the backlash against the perceived shortcomings of trade and investment deals results in a reversal of liberalisation, some of the benefits that have already been achieved will be lost.

Stopping or reversing the process of globalisation is not the right response to people's frustration

One thing that should not be done to address the frustration over globalisation is to halt or reverse the liberalisation of trade and investment flows, which remain important drivers of growth (Figure 3.1). Rather, efforts at the international level should concentrate on avoiding new trade-restricting measures and on taking steps to roll back the protectionist measures introduced since the crisis. Greater efforts are also needed to reduce unnecessary trade costs, including by improving border and customs procedures, removing tariff and non-tariff barriers at borders, easing regulatory restrictions on trade in services, making domestic product market regulations less restrictive and reducing costly regulatory differences between countries. Impediments and distortions to cross-border investment have a similar effect to trade restrictions and also need to be avoided.

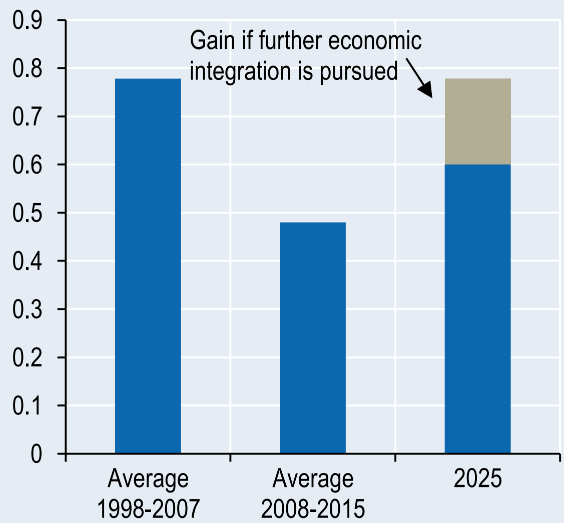
Likewise, the best way of addressing the popular backlash against increased migration is not to shut the door on the international flow of people. Rather, the policy focus should be on easing adjustment (including the integration of migrants and any dislocation caused for host country workers), compensating those who lose out and bolstering the perceived legitimacy of the process, while also improving the communication of facts.

But pointing to the good sides of globalisation will not be enough to end the frustration

The scale of the backlash against globalisation suggests that it won't be enough for governments, businesses and international organisations to find ways of more effectively making the case for globalisation. Continuing to expand the use of social media to that end and ensuring that messages are understandable to average people will help, but only to mitigate the problem of misperceptions about the effects of globalisation. It won't help address the problem that some people have really been left

FIGURE 3.1. **SCOPE REMAINS FOR ECONOMIC INTEGRATION TO YIELD SUBSTANTIAL ADDITIONAL GAINS IN REAL INCOMES**

OECD annual productivity growth, in %



Note: The productivity growth gain is based on a scenario in which world and OECD trade intensity (exports plus imports as a share of GDP) increases by 1.3 percentage points per annum (the average from 1986-2007) from 2017.

Source: OECD June 2016 Economic Outlook database; Égert, B. and P. Gal (2017), "The quantification of structural reforms in OECD countries: A new framework", OECD Journal: Economic Studies, http://dx.doi.org/10.1787/eco_studies-2016-5jg1lqspxtvk*; and OECD calculations.*

behind. In fact, when so many citizens in advanced economies are doubtful about the benefits and process of globalisation, merely reiterating that it is globally positive, or even amplifying earlier messages to that effect, risks deepening distrust in institutions and fuelling support for the anti-globalisation agenda. Instead, a successful strategy for addressing the frustration over globalisation will have to accept that even if real-world globalisation has contributed to increased material well-being for most people, it has left some people behind, has created a legitimacy deficit and a sense of powerlessness for many, and it may have worsened some environmental problems, as well as created opportunities for escaping some national rules or engaging in illicit activities.

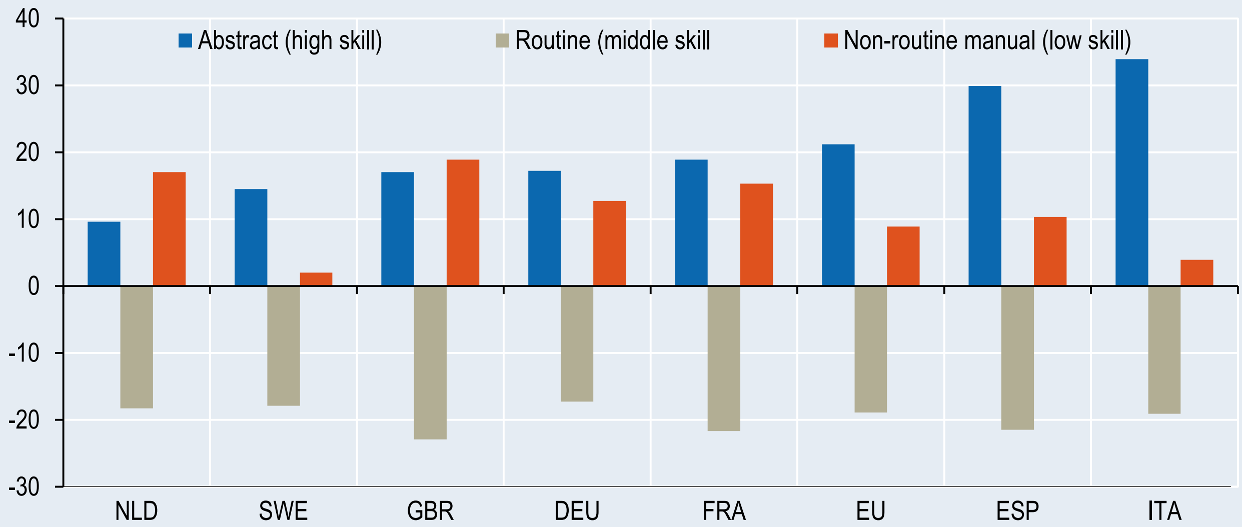
What is needed are policies to prevent people from being left behind

Since the evidence to date suggests that those who are most likely to lose out from increasing openness and technical progress are those with lower and now, to a certain extent, middle levels of education and skills, attention should be given to minimising these costs by strengthening education and skills policies. Differences in the quality of education have greater implications today than ever before, given the increased demand for highly skilled people (Figure 3.2). All advanced economies make policy efforts to encourage the acquisition of education and skills, but the stagnation of incomes among large sections of the bottom part of the income distribution in many OECD member countries suggests that these efforts have not been sufficient to allow all citizens to share in the economic growth to which globalisation has contributed.

Also, it is plausible that policies to deepen human capital, while essential, will not be enough to prevent some individuals from losing out in the adjustment to economic globalisation. In such a case, strengthened redistributive policies will be needed to ensure that gains from globalisation are sufficiently widely shared. Policies at the individual level should include an adequate social safety net and labour market activation policies. Focussing on the bottom 40%, who have fewer such opportunities, is particularly important and will require reducing the barriers they face in accessing lifelong learning, digital technologies, innovation, finance, and entrepreneurship. The experience since the crisis suggests that policy-makers in many countries also need to facilitate the mobility of labour within the economy. Such mobility can be hampered by a variety of market and policy failures, including imperfect

FIGURE 3.2. **IN A WORLD CHARACTERISED BY GLOBALISATION AND TECHNICAL PROGRESS, HAVING GOOD SKILLS IS CRUCIAL TO SUCCEED IN LIFE**

Changes in the demand for different skill categories between 1995 and 2010, in %



Note: Abstract occupations: ISCO88 12-34; routine occupations: ISCO88 41-42, 52, 71-74, 81-82 and 93; non-routine manual occupations: ISCO88 51, 83 and 91. The overall sample is restricted to workers aged 15-64, excluding employers as well as students working part-time.

Source: OECD (2015), In It Together: Why Less Inequality Benefits All, OECD Publishing, Paris.

capital markets, housing policies that result in insufficient supplies of affordable accommodation, and a lack of portability of health and/or pension benefits.

A renewed policy focus on small business, with a cross-cutting strategy to increase competitiveness across a wide population of SMEs in different sectors, could contribute to a stronger middle class. This requires continued efforts to level the playing field for these firms, in terms of access to markets, finance, skills and technology. Likewise, restarting the entrepreneurship engine, in addition to catalysing innovation, employment and productivity growth, could enable social mobility, foster inclusion for marginalised groups such as women and youth, and dampen the current backlash by these populations.

The approach to the backlash against financial globalisation should be broadly similar to that for trade, investment and migration. It should not be denied that the rise in cross-border exposures between financial institutions has aggravated some financial stability risks, but the focus should be on the complementary policies (e.g. capital adequacy, provisioning rules, fiscal backstops, arrangements for the resolution of failing banks) rather than on restricting international capital movements, particularly among developed economies. Limitations on cross-border capital flows may sometimes be justified as a second-best prudential strategy, especially for developing economies with weak supervisory capacity and more vulnerability to swings in international movements. This is a matter of ongoing discussion, including in the context of the forthcoming review of the OECD Codes of Liberalisation of Capital Movements.

It is also crucial to further develop indicators and strengthen policies at the subnational level. The design, delivery and effectiveness of productivity and inclusion-enhancing policies depend in part on the type of region (urban, rural) and its characteristics. Adaptation of national employment and skills policies to the local level takes on particular importance in this context and must be part and parcel of policy responses to address particularly affected areas. While average levels of income may be higher in metropolitan areas, the distribution of income is also generally more unequal. Metropolitan areas tend to bring together both the highest earners and workers for many low-skilled jobs. In addition, cities tend to attract immigrants, whose skills may be undervalued in the market for various reasons, including nonrecognition of qualifications. As a result, within metropolitan areas, there are often stark inequalities generated by spatial sorting (segregation) that contribute to differences in individuals' ability to access opportunities. National policies can miss variations across regions and within cities and fail to provide effective support to ensure access to opportunity for all.

The process of globalisation has to be put on a more legitimate footing

When it comes to addressing the frustration about globalisation, the process by which economic integration is achieved can matter as much as the substance of liberalisation measures. Parliaments often vote on trade/investment deals only on an all-or-nothing basis when all details have been negotiated. One reason for designing streamlined processes of engagement and democratic approval was to avoid excessive delay in getting beneficial trade/investment agreements. But there may now be a case for reassessing the relative weights given to speed versus democratic debate, and for allowing for greater engagement with stakeholders in the policy-making process on trade, cross-border investment and international standards. Other related issues are the rules that govern lobbying and political finance and the possible weight of large and increasingly multinational companies in government decision-making, including with regard to international trade, investment, migration and taxation.

With growing opposition to the idea that liberal trade should trump concerns over labour and/or environmental standards, the question arises whether it could be worthwhile to re-examine some long-standing positions over the relationship between these objectives. There has long been resistance to allowing World Trade Organization member countries to use environmental or labour issues as grounds for trade remedies, which has led some to worry that unscrupulous companies will locate in countries with low standards and export to countries with higher standards. There is, of course, the danger that social or environmental issues could be used as convenient pretexts for protectionism, so any move in this direction should be taken cautiously.

Less controversially, bilateral and plurilateral trade agreements are increasingly including clauses on labour and/or environmental standards, and a continuation of this trend could help to assuage popular concerns. The global level playing field needs to be strengthened, with more effective rules to ensure that good standards are achieved, including in areas such as corporate governance, competition policy, responsible business conduct, environmental protection and anti-corruption. Significant progress has already been made in the areas of cross-border taxation and through the Paris Agreement on Climate Change. In both cases, however, implementation has only just begun, and additional agreements are likely to be needed.

Given the backlash against big trade and investment treaties, as shown by the reluctance to ratify the Trans-Pacific Partnership and conclude TTIP, a way forward would also be to re-examine the most contentious elements of the investment component of such deals. The cost-benefit balance on including provisions such as ISDS looks increasingly questionable, especially when both sides in the deal are advanced economies with low risk of discriminatory treatment of foreign investors and reliable judicial systems.

An important aspect of strengthening the perceived legitimacy of economic globalisation is to undermine incorrect arguments about its results. The backlash against trade and investment has benefitted from the sluggish performance of the global economy since the crisis. To an important degree, however, this malaise reflects a macroeconomic policy mix that has failed to sustain sufficient demand growth in the world economy. In a more favourable growth environment, the appeal of scapegoating foreign countries for domestic economic problems will be reduced, and it will be easier to advance the liberalisation of trade and investment. This would in turn feed the recovery of growth rates.

4 Making digitalisation a global opportunity

Reflecting easier and cheaper ways of exchanging information worldwide, digitalisation is very much part of the process of globalisation, and it is already a global phenomenon. Information is flowing within and across borders at unprecedented pace and volume, with significant impact on innovation, trade, global value chains and society as a whole. Few aspects of our lives will remain untouched by digitalisation. This offers opportunities, but also poses challenges. Governments must act quickly to help people and firms make greater use of the Internet and ensure that everyone has the opportunity to benefit from it. They also need to remove regulatory barriers to digital innovation or risk missing out on the potentially huge economic and social benefits of the digital economy.

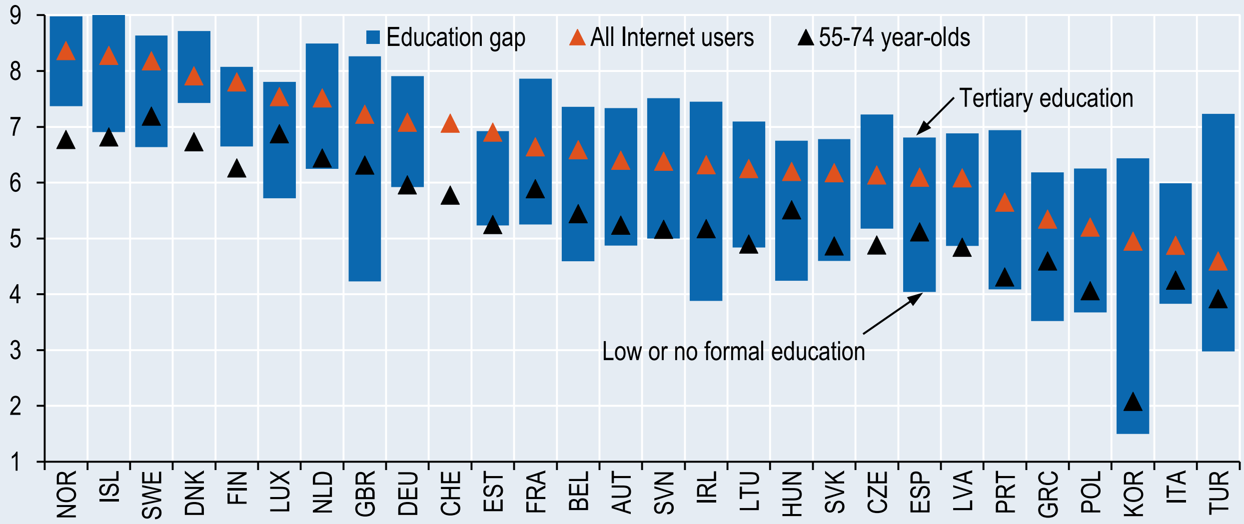
Digitalisation is a global phenomenon

Digitalisation refers to the increasingly digital (as opposed to physical) nature of many products, activities and interactions that will involve a large-scale economic and social transformation. This transformation crossed a critical threshold in 2013, with over 80% of citizens in OECD countries possessing broadband subscriptions, the majority accessing the Internet via a smartphone. In developing countries, more households own a mobile phone than have access to electricity or clean water. Nearly 70% of the bottom fifth of the population in developing countries own a mobile phone, according to the World Development Report 2016: Digital Dividends. Citizens across the developed and developing world see the Internet as vital to their future. According to the 2014 CIGI-IPSOS Global Survey on Internet Security and Trust, over 80% of Egyptians, Kenyans, Nigerians and Tunisians regard the Internet as very important for accessing important information and scientific knowledge.

But gaps remain at sectoral, geographical and societal levels. Even within OECD countries, the number of activities performed online by Internet users varies widely across countries, as well as by age and education (Figure 4.1). Small and medium-sized enterprises (SMEs) lag in their adoption of even basic digital technologies, with many potential hurdles, including the costs of ICT adoption, a lack of adequate financing, a reluctance to change and an inability to change, due to skills deficiencies.

FIGURE 4.1. **INTERNET USAGE VARIES GREATLY WITH AGE AND EDUCATIONAL ATTAINMENT**

Number of activities performed per Internet user by educational attainment and age, 2014



Note: The upper (lower) end of the blue bars represents the number of activities performed online by tertiary-educated individuals (individuals with low or no formal education).

Source: OECD (2015), OECD Science, Technology and Industry Scoreboard 2015: Innovation for growth and society, OECD Publishing, Paris, http://dx.doi.org/10.1787/888933274829.

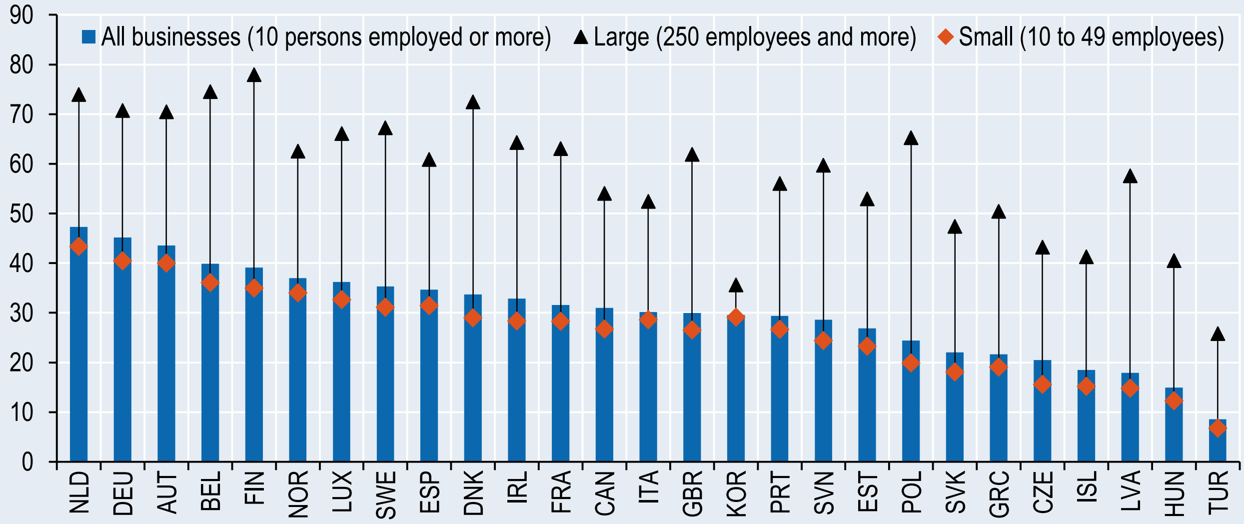
Digitalisation opens up many opportunities, but it also poses challenges

With digitalisation affecting more and more economic activities, there are legitimate concerns about its impacts on people's lives. In any analysis of digitalisation, it quickly becomes clear that every issue has a flip side: challenges and opportunities go together. For example, digitalisation is already affecting the world of work and has the potential to radically transform it. It will affect the quantity and quality of jobs available, as well as how and by whom they are carried out. On the one hand, this will bring greater productivity and flexibility for workers (for instance, the professional services platforms Upwork and Freelancer have over 35 million registered users combined) and may give under-represented groups greater opportunities to participate in the labour market. It will also offer space for new types of jobs and careers to emerge in areas that we have not even thought of. After the introduction of personal computers in the early 1980s, more than 1 500 new job titles appeared in the US labour market. On the other hand, while fears of massive unemployment caused by automation are probably exaggerated, significant changes are likely, and jobs will be lost in some areas and industries. The extent of possible change in the labour market is still unclear, but OECD evidence using the Survey of Adult Skills, a product of the Programme for the International Assessment of Adult Competencies, suggests that on average (across 21 OECD countries), 9% of jobs are at high risk of automation, and another 25% will likely experience a major retooling because of automation.

The Internet has also further lowered barriers to trade. New and potentially disruptive players are transforming production processes and industries, including many that were previously little affected by globalisation. The importance of the Internet in trade will continue to rise, as new technologies such as 3D printing, the Internet of Things, big data and cloud computing continue to develop, and the trade landscape will be reshaped, with further increases in trade in services through data and maybe less traditional trade of tangible goods. Growing digital connectivity also is enabling new players to engage in physical (traditional) trade and allowing production to be managed across countries, fuelling the rise of global value chains (GVCs). SMEs are now able to be “born global”, operating as stand-alone micro-multinationals or inserting themselves into GVCs. This has important impacts on productivity. OECD work shows positive gains to multifactor productivity (MFP) growth from increasing GVC participation, and in some cases it can make the difference between growing and slowing MFP. It also implies that opportunities for SME growth will be more equally shared across the globe, but that firms that do not engage fully in the digitalisation era will be left behind.

FIGURE 4.2. **SMALL FIRMS ARE LESS WELL PLACED TO REAP THE BENEFITS OF THE DIGITAL ECONOMY**

Share of firms using customer relationship management software, 2015



Note: Data on Iceland refer to 2014; data on Canada and Korea refer to 2013.

Source: ICT Access and Usage by Businesses Database.

At the same time, trade and GVCs – indeed any Internet-based exchange, economic or social – are heavily dependent on the flow of data across borders. This raises concerns about possible intrusions of privacy and a lack of security in Internet-based interactions. The number of data-related regulatory measures, as well as the restrictiveness of those measures, has increased since 2000. Companies argue that these undermine their ability to trade and run production networks across borders, and policy-makers face challenges in finding a balance among important public policy objectives in what has emerged as a difficult issue for international trade negotiations. Moreover, some firms (especially SMEs) are less well equipped than others to deal with the privacy and security challenges that digital technologies can pose and, as a result, are slower to adopt these technologies (Figure 4.2).

Trust issues are coupled with concerns about criminality enabled by digitalisation (ranging from credit card fraud, to leaks, child pornography and activities on the Darknet). Technologies such as encryption have underpinned the growth of legitimate economic and social interactions, such as e-commerce, e-government and e-health, but they also make illegitimate activities harder to track. Security incidents appear to be increasing in sophistication, frequency and magnitude. These can affect the reputation, finances and physical assets of organisations, undermining their competitiveness and ability to innovate, and individuals too can suffer tangible and intangible harms. Security incidents can also impose significant costs on the economy as a whole, including by eroding trust, not just in affected organisations, but also across sectors.

Making digitalisation a truly global opportunity could unlock powerful new sources of growth and well-being

The challenge for policy-makers is to create the necessary policy environment for citizens and businesses (and indeed governments) to adapt and use digital technologies to their full potential. A proactive approach is required to harness the opportunities of digitalisation and mitigate the challenges. Current policy approaches, which are often reactive, feed a sentiment of angst about digitalisation that makes it harder to realise the many opportunities it offers and are damaging to the relationship of trust between governments and their citizens. We can and must do better.

Policy-makers need to update policies to the reality of the digital era, to take full advantage of its opportunities while taking proactive steps to address related challenges. Unfortunately, pro-competitive product market reforms and deregulation have been least extensive in industries where productivity divergence was more pronounced. Policy failures may thus be contributing to a lack of resource reallocation and technological diffusion, generating a widening productivity gap between firms. The question arises, therefore, whether part of the widening wage dispersion over the past 15 years or so reflects a lack of understanding of the effects of digitalisation.

Looking ahead, some of the policy directions that need to be taken are already known. For instance, at the national level, the use of digital technologies can be dampened by slow structural change, notably the lack of resource reallocation to more ICT-intensive firms. And the way individuals, organisations and markets change and interact with technology is critical. For new job opportunities to emerge, new markets must be developed, assets and resources transferred across sectors, business know-how built up and new skills developed. Policies that enable structural change are essential, along with complementary policies to facilitate workers' transitions to new jobs.

Digitalisation, like globalisation more generally, involves disruption, which means that resilient and adaptable labour markets (and sound and sustainable social safety nets) are needed to facilitate the movement of workers and capital from declining activities to growing ones. This will include equipping people with the right skills throughout their working lives, designing labour market institutions to encourage employers to seize opportunities offered by technological change, while ensuring that risks are not borne disproportionately by workers, and strengthening activation to mitigate the adjustment costs. It may also involve rethinking how to promote new forms of social dialogue and sustainably provide basic social services (health, education, pensions) to all in a world where work takes very different forms, possibly with better use of digital technologies to deliver services and ensure they reach all.

Addressing the remaining gaps in the uptake of digital technologies by households and firms requires sound telecommunication policies, with a strong focus on competition and fair access. While such policies need to be at the core of government strategies to enhance access, some groups and regions may be difficult to reach by these policies alone. This is why many governments already use national broadband strategies aimed at connecting remote areas and lagging groups, thus enabling them to benefit from the digital economy.

Improving our measurement and evidence base is also critical. For instance, better understanding and measuring of digital trade will allow better policy responses to trade challenges. Ensuring that governments can access the tools, skills and infrastructure to store and analyse big data could yield new insights for policy-making.

5 Strengthening global governance through standards

While many of the policy tools to improve the outcomes of globalisation and how citizens perceive them lie in structural national government policies, international standards also have a major role. The global economy is more interconnected than ever, and this creates an increasing need for global standards for effective co-operation and a level playing field. International standard setting urgently needs to become more ambitious, to promote more inclusive globalisation, by both widening the scope of global standards and strengthening their implementation.

International standard setting needs to adapt to the realities of today's world

International standard setting needs to account for the speed at which international environments and information technology are evolving, the emergence of new economic and social actors and the growing importance of synergies between different areas of policy-making. In this context international standard setters such as the OECD have to take a horizontal and multi-disciplinary approach to global issues, drawing links between different areas of public policy. They also need to move quickly and adopt innovative approaches to develop standards on emerging issues. One example of this has been the OECD/G20 work on developing the Base Erosion and Profit Shifting (BEPS) package, delivering agreed measures on 15 actions in just over two years and negotiating a multilateral treaty to implement the BEPS tax treaty-related measures in one year. Exploring synergies with other standard-setting groupings and organisations as well as through global and regional governance processes, such as the G20, is another key success factor.

International standard setting must also take account of different models of development and different national approaches to global challenges. In this light, shared ownership of standards is key for their success at a global level. The OECD's standard-setting process, for

instance, fosters a strong sense of ownership of the standard among the countries that developed it, through the well-established bottom-up approach, starting from the technical level with evidence-based policy analysis. Moreover the OECD’s ingrained peer review culture, based on in-depth reviews and concrete actions in response to the resulting recommendations, is a powerful tool. Such working methods require resources and political will, but they are key to effective standard setting and implementation of those standards. Creating global standards may also mean adapting to countries in different stages of development (e.g. by adjusting timelines for implementation).

Finally, given citizens’ lack of trust, being a good global standard setter and influencing the global debate requires moving away from a primary focus on development and design of standards towards greater consideration of implementation and impacts. This means establishing implementation mechanisms and systematically and effectively tracking the implementation of standards in order to evaluate their impact and assess the need for revision. A key lesson learnt from the OECD’s work with countries on regulatory quality is that implementation should be thought through at the inception phase and is as important as the rule itself. International standard setters must also ensure accountability through a greater engagement with a wider variety of stakeholders across their standard-setting activity. There is an urgent need to increase public consultation and civil society stakeholder engagement. The challenges of stakeholder engagement are particularly acute at the international level as there is a great need today for citizens to be heard in the global standard-setting agenda. In addition, in view of the growing role of regions and cities, there is also a need to involve subnational governments in standard-setting activities.

There are a number of issues on which global standards could add value

Staying ahead of the game is vital for success. One emerging issue on which global standards would add value to help make globalisation more inclusive and rebuild trust is the need to establish a level global playing field. Standards that could help in this regard include measures on co-operation for competition law enforcement, investor-state dispute settlement bodies, the interoperability of digital systems or intellectual property rights, the conformity of Internet sales and the traceability of agricultural products. Better addressing the dark sides of globalisation is another important area that could benefit from further or improved standards. Examples include standards on responsible supply chains, anti-corruption for state-owned enterprises, cybersecurity, political financing and lobbying, and illegal trade or phishing. To better harness the possibilities created by digitalisation, standards on the governance of and access to big data as well as on artificial intelligence could be useful. In addition, standards on vocational education and training, youth employment and skills, and quality jobs or global competencies would respond to the education and skills challenge posed by digitalisation and globalisation within national systems.

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