Study Guide

for the

Organization for Economic Co-Operation and Development

Topic Area:

Fostering Economic Resilience in the Era of Global Financial Fragmentation: Circumventing Systemic Risks and Building on Regional Cooperation

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1. Welcoming Letter

Esteemed Delegates,

We would like to officially welcome you to the 15th anniversary edition of RhodesMRC. It is the time of the year when you are called to assume the role of ambassadors and permanent representatives of your countries in the Organization for Economic Cooperation and Development, a committee whose role, although only advisory, is crucial to today's rapidly evolving global economy.

This document, although meticulously prepared to familiarize you with an overview of our agenda, is not enough to describe all the complex and constantly changing issues of global affairs. Personal preparation is highly expected and required to contribute even more to the Organization's discussions. This study guide aims to draw attention to details that are important so that a new wave of economic collaboration and development may occur.

While the Global economy has been relatively stable for a rather long time, right now several phenomena occur that put this stability at risk. These risks are the ones that mandated the meeting of the senior members of the OECD in Session on 8-12 October. As the mandate of the Committee calls upon its members to work through global economic issues and advise for their solution, each member must delve deeply into their country policy as not every member state agrees on what constitutes a solution.

Currently, each party's interests are at stake, and the extent to which a possible economic collapse is imminent remains a matter of debate. Considering the above, we call upon you, ambassadors, to bring your solutions to the fore. On behalf of the board, we will be at your disposal for every inquiry during the preparation phase and during the sessions of the conference.

Welcome aboard.

Dimitrios EVANGELOU, *Chairperson*

Konstantina EMMANOUILIDI, *Secretary General*

Marithea SPILIOPOULOU, *Rapporteur*

2. Introduction to the Committee

The Organization for Economic Cooperation and Development was established in 1961, with its predecessor, the Organization for European Economic Cooperation, being founded in 1948. The Organization consists of 38 member states, primarily from Europe and the Americas, as well as four observers: China, South Africa, the European Union, and India. The role of the Organization is mainly advisory; however, this is the reason that the OECD can cover and discuss a wide range of topics. The main Mandate of the OECD is outlined in its founding Convention of 1960, particularly in Articles 1 and 2. More specifically, in Article 1, it is stated that the OECD's purpose is to promote policies that:

1. Achieve sustainable economic growth and employment.
2. Promote financial stability
3. Foster world trade expansion on a multilateral, non-discriminatory basis

On the other hand, Article 2 lists OECD's key functions, including economic policy coordination, trade facilitation, and regulatory cooperation. Furthermore, the Organization's mandate is regularly expanded via decisions and recommendations made from the main decision-making organ, the Council of the OECD. Examples include the OECD Anti-Bribery Convention and the OECD Principles for Corporate Governance.

3. Introduction to the Topic Area

In today's day and age, the global financial landscape is undergoing a lot of rigorous and dangerous changes. It is evident that the model of the economy that was created after the Second World War and flourished until the beginning of the 21st century is now under duress. States seem increasingly inclined to distance themselves from global trade, instead focusing on more regional organizations and alliances to meet their needs through imports and gain economic advantages through exports.

Moreover, it is noted that the global market is becoming a battlefield used by States and other actors to advance geopolitical interests.[1] These interests are promoted via the application of soft influence like the one that is used in trade wars. The latter represents a way to force enemy nations into geopolitical concessions through threatening their economies by enforcing sanctions, tariffs and embargoes regarding necessary goods.[2]

This way the global economy has become more fractured than ever[3], with States focusing more and more on trade with partners that align with their geopolitical interests.

This financial decentralization needs to be managed if the global economy is to be saved from another financial crisis.

[1] Lee, Jae Woo, and Ashadun Nobi. 2017. "State and Network Structures of Stock Markets around the Global Financial Crisis." *Computational Economics* 51 (2): 195–210. https://doi.org/10.1007/s10614-017-9672-x.

[2] KRISTOUFEK, LADISLAV. 2012. "FRACTAL MARKETS HYPOTHESIS and the GLOBAL FINANCIAL CRISIS: SCALING, INVESTMENT HORIZONS and LIQUIDITY." *Advances in Complex Systems* 15 (06): 1250065. https://doi.org/10.1142/s0219525912500658.

[3] Samal, Areejit, Sunil Kumar, Yasharth Yadav, and Anirban Chakraborti. 2021. "Network-Centric Indicators for Fragility in Global Financial Indices." *Frontiers in Physics* 8 (February). https://doi.org/10.3389/fphy.2020.624373.

4. Glossary

- **External Shocks**[4]

"*External Shocks*" refer to unexpected events that are not of national origin but greatly affect the performance of a country's economy. Such events include geopolitical tensions, energy price spikes, pandemics or global financial crises.

- **Monetary Policy**[5]

"Monetary Policy" refers to the way central banks employ different tools such as interest rates and money supply to achieve macroeconomic goals, and specifically, price stability, economic growth and employment. Within the OECD context, emphasis is placed on transparency, coordination and credibility among member states.

- **Monetary Policy Tightening**[6]

"*Monetary Policy Tightening*" are the actions that central banks take to reduce the potential for inflation or other economic problems. Such restrictions include reducing money supply or the rise of interest rates.

- **Fiscal Policy**[7]

"Fiscal policy" concerns the way governments manage taxation and public spending to influence economic activity. When examining the OECD, the action takes place by setting rules and frameworks, promoting counter-cyclical spending, and assessing the role of these policies in reducing inequalities, supporting green transition and financing social protection systems.

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[4] Reed, E., 2024 Economic Shocks: Definition and Examples, Economic shocks: Definition and examples. Available at: https://smartasset.com/financial-advisor/economic-shock

[5] Cautero, R., 2023. Monetary Policy: Definition, Types, Examples & Tools. [online] SmartAsset. Available at: https://smartasset.com/investing/monetary-policy#q=monetary%20policy%20definition

[6] Hayes, A., 2023. Tight Monetary Policy: What it is, How it Works, Examples. [online] Investopedia. Available at: https://www.investopedia.com/terms/t/tightmonetarypolicy.asp

[7] Tamplin, T., 2023. Fiscal Policy: Definition, Types, Objectives, and Tools. [online] Finance Strategists. Available at: https://www.financestrategists.com/wealth-management/macroeconomics/fiscal-policy/

- **Foreign Direct Investment (FDI)**[8]

Foreign Direct Investment refers to cross-border investment whether it is by a firm or an individual into a business in another country than the one of the fund's origins. Typically, these investments are made with some sort of intent or in exchange for management influence. The OECD sets the framework regarding the environment of FDI activities.

- **Regional Trade Agreements (RTAs)**[9]

RTAs are trade pacts between countries of a specific region, that aim to reduce barriers and thereby promote economic integration. OECD examines the effects of such agreements on market access, trade flows and global value chains.

- **Global Value Chains (GVCs)**[10]

GVCs refer to the procedure where different stages of product manufacturing or provision of services occur in different countries. OECD sees GVCs as a way towards economic resilience, sustainability and inclusivity.

- **Free Trade Zones (FTZs)**[11]

FTZs are designated areas within national borders where goods can be imported, manufactured, handled or re-exported with minimal customs and taxation burdens. In the OECD context, FTZs facilitate investments, economic diversification and job creation while preventing illicit trade or profit shifting.

[8] Hayes, A., 2023. Foreign Direct Investment (FDI): What it is, Types, Advantages, and Disadvantages. [online] Investopedia. Available at: https://www.investopedia.com/terms/f/fdi.asp

[9] World Bank, 2023. Regional Trade Agreements. [online] World Bank. Available at: https://www.worldbank.org/en/topic/regional-integration/brief/regional-trade-agreements

[10] Seric, A. and Tong, Y.S., 2021. What are global value chains and why do they matter? [online] UNIDO Industrial Analytics Platform. Available at: https://iap.unido.org/articles/what-are-global-value-chains-and-why-do-they-matter

[11] OECD, 2024. Free Trade Zones. [online] OECD. Available at: https://www.oecd.org/en/topics/free-trade-zones.html

5. Legal Framework

5.1. International Legal Framework

Marrakesh Agreement Establishing the World Trade Organization[12]

The Marrakesh Agreement Establishing the World Trade Organization, signed in 1994, is the foundational Treaty of the WTO, setting the legal and institutional framework for global trade. Encompassing key multilateral agreements such as GATT 1994, GATS, and TRIPS, it aims to promote trade liberalization, transparency, and dispute resolution among member states. In the context of global fragmentation, its relevance lies in highlighting the challenges facing the multilateral trading system as regional and bilateral alternatives proliferate.

Basel III[13]

Basel III is a regulatory framework developed by the Basel Committee on Banking Supervision to enhance banks' resilience. It sets strict requirements for capital adequacy and liquidity so that banks maintain sufficient financial safeguards to resist economic crises and prevent systemic crises. Through those measures, Basel III's goal is to create a prudent risk management system and to contribute to a more stable and secure global banking system.

The General Agreement on Tariffs and Trade[14]

The General Agreement on Tariffs and Trade, initially established in 1947 and updated in 1994, serves as the foundational multilateral treaty governing international trade in goods. It aims to reduce tariffs and other trade barriers while promoting fair competition. GATT's principles, such as Most Favored Nation (MFN) and national treatment, underpin the global trading system. Despite the establishment of the WTO, GATT remains a core legal

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[12] World Trade Organization (WTO), 1994. The Marrakesh Agreement Establishing the World Trade Organization. [online] WTO. Available at: https://www.wto.org/english/docs_e/legal_e/04-wto_e.html

[13] Bank for International Settlements, Basel III: A global regulatory framework for more resilient banks and banking systems, Switzerland, Last modified in June, 2011 https://www.bis.org/publ/bcbs189.pdf.

[14] World Trade Organization (WTO), 1994. *General Agreement on Tariffs and Trade (GATT 1994)*. [online] WTO. Available at: https://www.wto.org/english/docs_e/legal_e/gatt47_01_e.html

framework, especially relevant when analyzing the pressures of global fragmentation on multilateral trade norms.

Preferential Trade Agreements

Preferential Trade Agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)[15], the United States-Mexico-Canada Agreement (USMCA)[16], the Regional Comprehensive Economic Partnership (RCEP)[17], and the African Continental Free Trade Area (AfCFTA)[18] illustrate a growing trend toward regionalism in global trade. These agreements establish deeper integration among select economies, often going beyond World Trade Organization (WTO) rules and, while they enhance regional cooperation, they also contribute to global fragmentation by creating parallel legal frameworks and diverging standards outside the multilateral system.

5.2 European Legal Framework

Markets in Financial Instruments Directive II (MiFID II)[19]

MiFID II aims to enhance transparency, protect investors, and consolidate trade practices across the European Union. It introduces comprehensive reporting requirements and rigorous rules concerning investment. Through those, it ensures that all market participants

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[15] Government of Canada, 2018. *Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)*. [online] Available at: https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/index.aspx

[16] Office of the United States Trade Representative (USTR), 2020. *Agreement between the United States of America, the United Mexican States, and Canada (USMCA)*. [online] Available at: https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement

[17] Association of Southeast Asian Nations (ASEAN), 2020. *Regional Comprehensive Economic Partnership (RCEP)*. [online] Available at: https://asean.org/our-communities/economic-community/integration-in-asean/rcep/

[18] African Union, 2018. African Continental Free Trade Area (AfCFTA) Agreement. [online] Available at: https://au-afcfta.org/

[19] European Union, “Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories”, EUR- Lex, 2024, Last modified on December 24, 2024. http://data.europa.eu/eli/reg/2012/648/2024-12-24.

operate under consistent and fair standards. Therefore, this promotion of competition and integration within member states' markets alleviates systemic risks.

European Market Infrastructure Regulation (EMIR)[20]

EMIR regulates the derivative markets within the European Union by focusing on the enhancement of financial stability and the reduction of systemic risks. It enforces strict reporting policies concerning trade and foresees risk mitigation requirements. All in all, the provision's scope is the increase of market transparency by reinforcing supervision and guaranteeing more solid risk management.

EU Trade and Association Agreements

The European Union itself has a comprehensive network of trade and association agreements with countries and regions worldwide. Encompassing various forms such as Free Trade Agreements (FTAs), Association Agreements (AAs), and Economic Partnership Agreements (EPAs), each tailored to the specific relationship between the EU and its partners, they aim to facilitate trade, promote economic integration, and strengthen political and economic ties. Notable examples include EU-Canada Comprehensive Economic and Trade Agreement (CETA)[21], EU-Japan Economic Partnership Agreement[22], EU-South Korea Free Trade Agreement[23], EU-Central America Association Agreement[24] and the EU-Ukraine Association Agreement.[25]

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[20] European Union, 2012. Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR). [online] EUR-Lex. Available at: https://eur-lex.europa.eu/eli/reg/2012/648/oj

[21] European Commission, 2017. EU-Canada Comprehensive Economic and Trade Agreement (CETA). [online] Available at: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/canada_en

[22] European Commission, 2019. EU-Japan Economic Partnership Agreement. [online] Available at: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/japan_en

[23] European Commission, 2011. EU-South Korea Free Trade Agreement. [online] Available at: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/south-korea_en

[24] European Commission, 2013. EU-Central America Association Agreement. [online] Available at: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/central-america_en

[25] European Commission, 2017. EU-Ukraine Association Agreement. [online] Available at: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/ukraine_en

6. Main discussion of the Topic

6.1. Global Financial Fragmentation

6.1.1. “Trade Wars”

Currently, a new form of fight for supremacy has emerged, “trade wars”. This is a name given to a modern and more subtle kind of aggression, where two countries, instead of engaging in actual conflict, impose restrictions on their trade by enforcing sanctions, tariffs and quotas on the products that they can import or export to each other. While, on the one hand, this constitutes a way to apply pressure without resorting to violence, the consequences of these moves affect diplomatic ties, global markets and even the stability of Nations.

This tension manifests itself when, in the context of trade relations, a state accuses a trade partner of unfair practices like extreme subsidies for domestic products and the accused country counters with tariffs on imports, pushes for sanctions and enforces limitations on the number of exported products. The goal is to unofficially stop trade with the other nation by making said trade more expensive and thus unprofitable. However, the accusing state, trying to maintain its sovereignty, integrity and high-trading profile, commonly counters with tariffs of its own, creating an endless cycle until one of the two economies can’t handle the consequences and collapses.

On the other hand, trade wars need to also be studied as a geopolitical phenomenon. It is evident that sometimes States and other actors impose trade restrictions on others to force them into geopolitical concessions. A great example is the imposing of sanctions by the United States and the European Union to Russia, in retaliation to their attack against Ukraine. By limiting Russia’s access to global financial markets and key technologies, these measures have not only hurt its economy but also reshaped international alliances and trade partnerships.

Another aspect that needs to be evaluated appropriately is the way that such moves affect each industry. Some industries like agriculture might benefit from State protectionism.

However, most industries, due to their reliance on trade, face severe problems when their ability to acquire resources is hindered. And when industries suffer, consumers feel the impact in raising prices of basic goods and services[26]. If these conflicts drag on, unemployment can hit export-dependent industries, adding to economic instability.[27]

To conclude, trade wars are a modern form of power struggle where economic measures replace military action. While they can be strategic tools, their effects go far beyond national borders, shaking up trade, economic stability, and global relations.[28] As the world becomes more connected, countries must carefully consider whether these economic battles are worth the price they pay.[29]

Some examples of trade wars include the recent tension between the United States and China going forward from 2018 when the U.S. imposed tariffs on billions of dollars' worth of Chinese imports, citing unfair trade practices. China hit back with its own tariffs on American goods. This prolonged economic battle has sent shockwaves through global supply chains, increased production costs, and fueled uncertainty in international markets. Even though negotiations have taken place, tensions persist, showing just how long-lasting these disputes can be.

6.1.2. Economic Blocks

Financial Fragmentation doesn't just mean that States start distancing themselves individually. There are many instances where groups of States decide to form economic

[26]Kollewe, Julia, Heather Stewart, Richard Partington, and Kalyeena Makortoff. 2025. "UK Private Sector Shrinks as Export Orders Slump; State Borrowing Nearly £15bn above Official Forecast – as It Happened." The Guardian. The Guardian. April 23, 2025. https://www.theguardian.com/business/live/2025/apr/23/uk-annual-borrowing-15bn-above-official-forecast-stocks-rise-trump-rows-back-on-fed-attack-powell-dollar-china-trade-deal-hopes-business-live.ad

[27]Ranasinghe, Dhara. 2025. "Morning Bid: A Brighter Day?" *Reuters*, April 23, 2025. https://www.reuters.com/markets/us/global-markets-view-usa-2025-04-23/.

[28] Schneider, Howard. 2025. "Fed at a Policy, Political Crossroads Poses Global Risks." *Reuters*, April 23, 2025.
https://www.reuters.com/business/finance/fed-policy-political-crossroads-poses-global-risks-2025-04-23/.cons

[29]Cohen, Jared. 2023. "The Rise of Geopolitical Swing States." Goldman Sachs. May 15, 2023. https://www.goldmansachs.com/intelligence/pages/the-rise-of-geopolitical-swing-states.html.

alliances, known as economic blocks. The objective of the formation of the block is to increase the flow of goods, services, capital and labor, depending on the type and stage of the agreement.[30] Ultimately, this increases the economic power of member countries, stimulates economic growth, and encourages more efficient resource allocation. Although the formation of economic blocs, such as the European Union and the USMCA, have led to the creation of trade between members, in the same way it is also more difficult for countries outside the bloc to trade.[31]

There are different types of economic blocs that are defined based on the level of economic integration, such as monetary union, customs union, economic union, preferential trade areas, and free trade and common market areas.

As the cooperation between the members of each block grows stronger, they tend to develop deeper trade relationships among their members. These often include the easing of tariffs, the elimination of trade barriers, and even the creation of common economic policies. Over time, this leads to an increasingly insular approach, where countries in a bloc prioritize trading with each other rather than with external markets. This regional focus primarily leads to the fragmentation of the global market and the creation of more localized economic spheres, which tend to prefer trading within themselves, thereby weakening global economic integration and disconnecting the worldwide economy.

6.1.3. Financial Decentralization

Since the end of the previous century and even more so after the beginning of the current one, the global economy was focused on one thing and one thing alone: Globalization. This seems not to be the case nowadays as the modern financial system breaks away from the traditional globalization model and towards the creation and evolution of more regional forms of finance like China's "Asian Infrastructure Investment Bank" or even forms of finance with no physical existence at all like the blockchain.

[30] Olivera, M., 2022. What and what are the main economic blocks in the world? [online] CEMERI. Available at: https://cemeri.org/en/enciclopedia/e-principales-bloque-economomico-mundo-av

[31] Ibid.

This transfer of fiscal responsibilities from central governments to lower levels of government (regional, municipal, or local) can offer benefits like improved efficiency, accountability, and responsiveness to local needs. Indeed, it limits bureaucracy and the need for a centralized plan, but functions effectively only when proper legal and fiscal frameworks are set in stone[32], when local governments have strong institutional capacity[33], when equitable redistribution mechanisms are in place[34] and, ultimately, when transparency permeates the system.[35]

However, it can also lead to tensions as states or other entities limit their contact with the global economy[36] and has been the subject vociferous criticism from top global financial institutions like the International Monetary Fund or the World Bank. Naturally, this doesn't come off as a surprise, because the above conditions are quite often not met, rendering decentralized systems susceptible to coordination challenges, fiscal imbalances and politicization, which in turn hamper efficiency and the realization of the desired result.

6.2. Systemic Financial Risks

In today's global economic order, all countries and financial systems are interlinked so that disturbances in one sector or region can fast and easily spread across borders and markets and put into place crises of a wider scale. The 2008 global financial crisis magnified the need to understand and deal with systemic financial risks.

Consideration of the systemic financial risks consists of three major points: macroeconomic stability, the coordination of fiscal and monetary policies, and the safeguarding of free and

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[32] International Monetary Fund, 2015. Public Financial Management and Its Emerging Architecture. Chapter 2: Developing Legal Frameworks to Promote Fiscal Responsibility: Design Matters. IMF eLibrary. Available at: https://www.elibrary.imf.org/display/book/9781475531091/ch002.xml

[33] Kim, J. and Dougherty, S. (eds.), 2020. Local Public Finance and Capacity Building in Asia: Issues and Challenges. OECD Fiscal Federalism Studies. OECD Publishing, Paris. Available at: https://doi.org/10.1787/a944b17e-en

[34] Goerl, C.-A. and Seiferling, M., 2014. Income Inequality, Fiscal Decentralization and Transfer Dependency. IMF Working Paper No. 14/64. International Monetary Fund. Available at: https://www.elibrary.imf.org/view/journals/001/2014/064/article-A001-en.xml

[35] Ayee, J.R.A., 2021. Decentralization and Citizens' Participation in Local Governance: Does Trust and Transparency Matter? – An Empirical Study. Forum for Development Studies, 48(2), pp. 271–295. Available at: https://www.tandfonline.com/doi/full/10.1080/08039410.2021.1872698

[36] Financial Times. 2025. "Transcript: Lessons from the Recent US Treasuries Sell-Off." @FinancialTimes. Financial Times. April 23, 2025. https://www.ft.com/content/9d31fefe-e309-44ae-85f7-b003de3a6333.

fair market conditions. This is the basis to understand how these risks arise, how they have implications for the world or local economy, and what policy measures must be used to handle and combat against them.

I. Macroeconomic Stability

Macroeconomic stability is one of the foundations of a resilient financial system. Key economic indicators such as inflation rates and employment figures are not merely statistical outputs but serve as diagnostic instruments that show the interplay between supply and demand, monetary policy, and market expectations. However, when these indicators show irregularities or differ significantly from long-term numbers and practices, they seem like early warnings of systemic vulnerability.[37] Such inconsistencies may indicate imbalances that could evolve into financial instability. Therefore, they trouble investors' expectations, while more importantly, implementing policy measures becomes extremely challenging to sustain economic growth.[38]

Furthermore, the interconnection of national financial systems with global supply chains and capital markets introduces contemporary adversities in combating systemic risks. This interrelationship appears to render regional financial systems more sensitive to external shocks originating from geopolitical stresses, sudden changes in commodity prices, or natural disasters. Thus, those events tend to transform regional disruptions into global crises. Even economies with well-considered policies become susceptible to such spillover effects from other regions.[39]

Especially, emerging markets and developing economies, which are mostly reliant on external financing, are particularly endangered by these shocks. Consequently, their

[37] OECD," Fiscal Risks, Fiscal Sustainability and Rethinking Fiscal Rules", 6-11. Last modified on June 4, 2024. https://one.oecd.org/document/GOV/SBO%282024%2910/en/pdf.
[38] Ibid, 19-20.

[39] OECD," *OECD Economic Outlook"* volume 2023 Issue 1, no. 113, (2023): 36-45. https://doi.org/10.1787/ce188438-en.

structural overdependence on foreign capital flows and less comprehensive financial regulatory mechanisms easily intensifies the impact of the external disturbances.[40]

II. Coordination of Fiscal and Monetary Policies

Coordination between fiscal and monetary policies is both a challenge and opportunity in addressing systemic financial risks. These two policies have traditionally operated in different ways, under different mandates and operating frameworks. However, recent crises have shown that the independent functioning of these policies can increase economic volatility. Consequently, it is believed that a necessary additional step toward the stabilization of the financial system and the stimulation of economic activity is their conjugation.[41]

An effective synchronization ensures that fiscal measures are combined with the appropriate monetary policies. For example, when inflation arises, a combination of fiscal restraint and monetary tightening is very much required to restore stability.[42] The global financial crisis of 2008 served as a great lesson in showcasing how uncoordinated policy responses could be detrimental, since it displayed that disproportionate application of these policies can significantly exacerbate economic downturns.[43]

These experiences have led policymakers to reconsider their approaches. They have increasingly recognized that dialogue between central banks and fiscal authorities is not only a procedural matter but also an important strategy for economic governance. Hence, the need for structural reforms and an updated legal framework to facilitate real-time data sharing and coordinated joint decision-making has been greatly magnified. Such

[40] Horrocks, Paul. et al. *"Unlocking local currency financing in emerging markets and developing economies: What role can donors, development finance institutions and multilateral development banks play?"* no. 117, (2025): 14-21. https://doi.org/10.1787/bc84fde7-en.

[41] OECD, *"Systemic Financial Risk"*, (2012):8-9. http://dx.doi.org/10.1787/9789264167711-en.

[42] Lawson Jeremy et al. *"Financial Market Stability in the European Union: Enhancing Regulation and Supervision"*, no. 670, (2009): 28-33. https://doi.org/10.1787/226578225340.

[43] White, William R. *"Credit Crises and the Shortcomings of Traditional Policy Responses"*, no. 971, (2012):13-17 https://doi.org/10.1787/5k97gkd582vb-en.

coordinated frameworks could provide immediate solutions to pressing economic concerns while also generating resilience against future shocks.[44]

III. Facing Threats to the Free and Fair Market

Developing a free and fair market is pivotal for ensuring sustainable economic growth and stability. The existence of market imbalances, due to monopolistic practices, regulatory arbitrage, or supervisory gaps, creates distortions in risk pricing and capital allocation. Such systemic risks illustrate how local imbalances can trigger a domino effect that escalates into broader financial instability if they remain unsupervised and unregulated. The very essence of a free and fair market is founded, in this sense, upon transparency and resilience, which stand as its very two cornerstones, capable of absorbing shocks before they can build into a fully blown financial crisis.

Furthermore, regulatory gaps are a systemic vulnerability that undermines market efficiency due to the rapid pace of financial innovation. This creates opportunities for regulatory arbitrage, where market participants exploit inconsistencies between legal frameworks in different jurisdictions. Such gaps can lead to a misallocation of resources, where excessive risk-taking is not counterbalanced by adequate supervision. In addition, malpractice such as fraud introduces further distortions by creating unfair competition.[45]

Policymakers need a comprehensive approach that interlinks increased regulatory oversight with increased transparency to protect the integrity of the financial markets. This requires a framework that provides both quantitative and qualitative analyses of market conduct so that regulators are equipped with real-time monitoring systems able to process high-frequency data to identify early warning signals of market distress. In addition, cross-border regulatory cooperation will emerge as a necessity to harmonize standards

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[44] Horrocks, Paul. et al. *"Unlocking local currency financing in emerging markets and developing economies: What role can donors, development finance institutions and multilateral development banks play?"* no. 117, (2025): 54-56 https://doi.org/10.1787/bc84fde7-en.

[45] Malcom, Edey and Hviding, Ketil. *"An Assessment of Financial Reform in OECD Countries",* no.154, (1995): 19-21. https://doi.org/10.1787/515737261523.

across jurisdictions[46], minimizing opportunities for regulatory arbitrage and ushering a more stable and integrated global financial system.

Competitive market structures in fostering economic resilience are vital. By revising antitrust laws and strengthening regulatory agencies, fair market competition is enhanced, elevating efficiency in market performance when facing external shocks. Moreover, the adoption of proper practices in corporate governance can further encourage transparency and accountability, reinforcing market discipline in the private sector.[47] These policy measures are aimed at balancing risk-taking and risk management and at enhancing market regional resilience.

Ultimately, an integrated policy approach that combines enhanced regulation, institutional reform, and real-time market monitoring is essential to safeguard the ideals of a free and fair market. This strategy not only confronts the existing systemic risks, but also prepares financial systems to prevent and combat future shocks arising from market imbalances or external disturbances.

Concluding, systemic risks represent a challenge that demands coordinated policy responses and functional and effective institutional frameworks. Each of these aspects is vital for preventing as well as confronting the risks likely to destabilize regional and global financial systems. Indeed, the financial markets continue to evolve; therefore, policies are challenged to be robust, on the one hand, but also flexible enough to adapt to innovation with prudence. All in all, the goal is to build financial systems that are resilient and secure.

[46] OECD. "Open finance policy considerations", No. 36, (2023): 24-26. https://doi.org/10.1787/19ef3608-en.

[47] OECD *"OECD Due Diligence Guidance for Responsible Business Conduct"* 76. Last modified on May 31, 2018. Retrieved on March 29, 2025. https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf

6.3. Economic resilience

6.3.1. Diversification of Economies and Supply Chains

In today's interconnected global economy, diversification of both national economies and supply chains has emerged as an essential strategy for sustainable growth and resilience. Hence, it is without a doubt that the OECD countries recognize that the diversification of economies and supply chains isn't a matter of choice, but one of necessity. Recent crises, including the COVID-19 pandemic, geopolitical tensions, technological advances, and natural disasters, have exposed the potentiality of overload in some industries or areas.[48] Such challenges have made it clear that OECD countries must rethink their economic models and supply chains, implementing diversified strategies to substantiate resilience and ensure long-term prosperity.

Economic diversification, in its true sense, involves broadening economic activities away from a concentrated group of industries or export bases. For OECD countries, this means restraining reliance on dominating sectors and keeping a balanced portfolio of economic activity including manufacturing, services, digital industries, and green technologies. In the aspect of benefits, diversification increases the economic resilience of economies to withstand external shocks. Economies centered on one commodity or sector—like energy exports or tourism—are most vulnerable to market fluctuations.[49] In the case of the decline of global demand or price decrease, these economies are insanely vulnerable to a new economic crisis. A diversified economy can, however, withstand these shocks because growth in one sector balances out contraction in another while keeping performance stable.

Apart from resilience, diversification also encourages innovation and long-term development.[50] By the establishment of several industries, countries create conditions

[48] OECD. "OECD Economic Outlook, Volume 2024 Issue 2." OECD, 2024. https://www.oecd.org/en/publications/2024/12/oecd-economic-outlook-volume-2024-issue-2_67bb8fac.html

[49] Halil Ozekicioglu et al., "Are OECD Countries Converging in Export Diversification? Evidence from PANIC-Fourier Panel Unit Root Test," *Sustainability* 17, no. 2 (January 14, 2025): 606–6, https://doi.org/10.3390/su17020606.

[50] Aathira Prasad et al., "Global Economic Diversification Index 2024 Exploring the Impact of Digital Trade on Economic Diversification in Par Tnership With," 2024,

where ideas and technologies meet to spark creativity and productivity. This is particularly important for OECD members in pursuit of greener and more digital economies. Apart from substantiating environmental goals, diversification also makes countries more competitive globally by having them at the forefront of emerging industries. OECD's focus on green growth and digital change provides a valuable roadmap for member nations to develop visionary policies.[51]

Another significant advantage of diversification is the creation of employment opportunities in a wide range of industries. With constantly altering demographics and the evolving nature of work, OECD countries must make their labor markets inclusive and flexible. Diversification helps achieve this by generating employment in both established and emerging sectors. Investment in education, vocational training, and lifelong learning—long advocated by the OECD—is central to equipping workers with the skills to thrive in a diversified economy.[52]

For successful economic diversification, it is important for the OECD member states to formulate strategies that are comprehensive and combine good policies with selective investments. Central to this are the horizontal policies that provide a setting for all sectors. It requires macroeconomic stability consolidation, improvement in regulatory frameworks and fair competition, and human capital investment.[53]

Additionally, regarding the creation of an adequate labor force to enable various economic activities, the OECD's focus on skills development and inclusive education can be highly enlightening. This must not, however, create market distortions or unsustainable fiscal risks. The OECD good governance and market integrity principles are a key source of orientation for sound industrial policies. Furthermore, foreign direct investment (FDI) is also highly

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https://economicdiversification.com/wp-content/uploads/2024/02/Global-Economic-Diversification-Index-2024_Full-report.pdf.

[51] Independent Evaluation Group, 2016. Economic Diversification: Lessons from Selected World Bank Group Evaluations. [online] Available at: https://ieg.worldbankgroup.org/sites/default/files/Data/reports/EconomicDiversification.pdf

[52] OECD, 2024. Job Creation and Local Economic Development 2024. [online] OECD Publishing. Available at: https://www.oecd.org/en/publications/job-creation-and-local-economic-development-2024_83325127-en.html

[53] OECD, 2019. Aid for Trade at a Glance 2019: Economic Diversification and Empowerment. OECD Publishing, Paris. Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2019/07/aid-for-trade-at-a-glance-2019_ba8be1e9/18ea27d8-en.pdf

important in ensuring successful diversification.[54] Not only does it draw capital, but also technological expertise, soft skills, and access to new markets. By fostering transparent and business-friendly environments, OECD member countries can attract quality investments which can be used to achieve their diversification goals. Finally, OECD investment policy guidelines and good practice provide member states with effective instruments to enhance their investment climate.

Parallel to economic diversification, supply chain diversification is now a priority of equal importance, since they can prevent the escalation of localized disruption becoming a systemic failure.[55] Having numerous suppliers in different places can enable companies to be protected against the risk of natural disasters, geopolitical turmoil, or epidemics. It also enhances the capacity of companies to react swiftly to shifting consumer demand, regulations, and market conditions by spreading sourcing and manufacturing across regions. The OECD's promotion of open markets and reduced trade barriers promotes the establishment of flexible, diversified supply chains.[56]

In addition, one should not disregard that technology also plays a key role. Advancements like blockchain, artificial intelligence, and advanced analytics improve supply chain visibility, enabling proactive risk management.[57] OECD countries, with their focus on digital policies, are well-positioned to leverage these technologies. Similarly, investments in digital literacy and smart infrastructure empower businesses to build more nimble and transparent supply networks. Moreover, redundant logistics arrangements contribute to supply chain resilience. Having multiple modes of transport and logistics suppliers allows companies to stay in business when major routes are disrupted. Investment in resilient infrastructure, as advocated by the OECD, is necessary to facilitate this diversification.

[54] "The Role of Incentives in Investment Promotion," OECD, 2025, https://www.oecd.org/en/publications/the-role-of-incentives-in-investment-promotion_e3338264-en.html.

[55] Organization for Economic Co-operation and Development (OECD), 2023. Global Trade and Supply Chains: The Role of Trade Policy in Building Resilient Supply Chains. [online] OECD Publishing. Available at: https://www.oecd.org/trade/topics/trade-and-supply-chains/

[56] Ibid

[57] Organization for Economic Co-operation and Development (OECD), Strengthening the Resilience of Global Supply Chains through Technology and Infrastructure. Paris: OECD Publishing. Available at: https://www.oecd.org/industry/strengthening-resilient-supply-chains.htm

However, the successful implementation of these strategies does not come unchallenged. Diversification requires intense planning, cooperation, and up-front investments. OECD countries can surmount these obstacles through public-private partnerships and targeted incentives. Policy frameworks must be more adaptable to evolving global conditions. In that case, OECD discussion forums and peer learning can help member states refine their strategies and align with international norms.

To conclude, diversification of supply chains and economies can create grounds for the enhancement of innovation, competitiveness, and sustainable growth. For OECD countries, this should be perceived as a forward-looking strategy for long-term prosperity. By the adoption of coordinated policies, international cooperation, and a sustained commitment to innovation, OECD members can build resilient and prosperous economies.

6.3.2. Investment Banks

Investment banks occupy a key position in the global financial order, a position elevated within the OECD context, since they serve much beyond the role of traditional banking, and are versatile catalysts of capital formation, economic expansion, and policy implementation.[58] Their diverse functions feed into the wider range of OECD initiatives, which promote economic resilience, sustainable development, and financial stability as major principles. Through underwriting, corporate counseling, market making, and their involvement in green finance, investment banks align themselves with the OECD mandate of fostering well-functioning markets and economic growth.

Essentially, investment banks function as intermediaries that bridge the gap between capital seekers and providers. Through underwriting, they absorb the initial risk of purchasing securities from issuers such as governments or corporations and selling them to investors.[59] This process is not just a transaction, but a substantial pillar of the financial system, since it enables issuers to access long-term capital necessary to execute their growth strategy. For

[58]OECD (2021) OECD Business and Finance Outlook 2021: Strengthening the Recovery – Investment and Responsible Business Conduct. Paris: OECD Publishing. Available at: https://www.oecd.org/finance/oecd-business-and-finance-outlook-26172577.html

[59] "Financial Markets," OECD, n.d., https://www.oecd.org/en/topics/policy-issues/financial-markets.html.

the OECD economies that have a high priority to be entrepreneurial and innovative, such access channels of finance are important. Through the facilitation of access to capital, investment banks aid companies scale operations, raise expenditures on research and development, and ultimately towards general goals of economic dynamism and competitiveness.

In addition to underwriting, investment banks provide sophisticated corporate advisory services that guide companies through complex strategic decisions. From handling mergers and acquisitions, reorganization of operations, or raising capital, these advisory services are all a part of the seamless operation of market economies.[60] When examining OECD member states, where corporate transparency and open market values are sought after -and highly respected when they occur-, investment banks play an important role in ensuring that corporate conduct is in accordance with economic interests and regulatory requirements. In developing and transition economies in the OECD, their advisory function also involves helping businesses adapt to liberalized markets and global investment regimes, making it easier for them to integrate into the international economic community.[61]

Besides the aforementioned key functions, investment banks serve a critical role in supporting economic growth under the auspices of the OECD through foreign direct investment (FDI). FDI is important for diversifying industries, transferring technologies, and creating jobs, as well as structuring cross-border transactions, navigating through various regulatory hurdles and matching global investors with local opportunities for capital.[62]

Investment banking and OECD goals alignment are of high strategic interest. Such investments channel money into various sectors, including creating employment, expanding trade, and achieving a sustainable development outcome, which are priorities for policymakers.

[60] Hakkon Kim, Jonathan A. Batten, and Doojin Ryu, “Financial Crisis, Bank Diversification, and Financial Stability: OECD Countries,” *International Review of Economics & Finance* 65 (January 2020): 94–104, https://doi.org/10.1016/j.iref.2019.08.009.

[61] World Bank (2019) Capital Markets for Development: The Role of Investment Banks and Institutional Investors. Washington, DC: World Bank Group. Available at: https://www.worldbank.org/en/topic/financialsector/publication/capital-markets-for-development

[62] UNCTAD (2023) *World Investment Report 2023: Investing in Sustainable Energy for All*. Geneva: United Nations Conference on Trade and Development. Available at: https://unctad.org/publication/world-investment-report-2023

In addition, the emergence of green investment banks is a testament to how climate action is changing the finance industry. For example, with the OECD addressing the notion of sustainable finance, these institutions mobilize private capital into low-carbon infrastructure through mechanisms like green bonds.[63] By this method, investment banks better align financial markets with the environmental imperatives of international agreements like the Paris Accord by taking attractive climate investments.[64]

Nevertheless, there are still some challenges. Regulatory constraints are yet another necessary evil that could diminish innovations. Also, the complexity of operations introduced by strict capital requirements and compliance burdens requires a careful approach between prudence and adaptability. The volatility in the markets brings a risk because it directly affects the revenues of investment banks due to fluctuations in economic cycles; therefore, they need to have very good risk management solutions.

Moreover, the full integration of ESG principles within the working fields of investment banking remains a continuous process.[65] Changing the culture of the organization and its analytical frameworks towards sustainability will depend on long-term commitment. But the view of the sector is upbeat despite these challenges. Investment banks are still relevant as capital-forming and policy-aligning institutions, while their increasing emphasis on green finance makes them key players in sustainable economic transition. In order for them to achieve these objectives, investment banks must embrace innovation, embed sustainability deeper into their culture, and respond to changing policy priorities. By doing so, they will continue to steer economic growth while blazing a trail for a more resilient and equitable financial future.

[63] Tony Tran, "The Role of State Investment Banks for Renewable Energy Technologies in OECD Countries -," CEEPR, March 15, 2023, https://ceepr.mit.edu/the-role-of-state-investment-banks-for-renewable-energy-technologies-in-oecd-countries/.

[64] "Green Investment Banks," OECD (OECD, 2025), https://www.oecd.org/en/publications/green-investment-banks_9789264245129-en.html.

[65] UN PRI, 2021. ESG Integration in Emerging Markets: Investment Practices and Market Views. London: United Nations Principles for Responsible Investment. Available at: https://www.unpri.org

6.3.3. Regional Economic Cooperation: Trade Zones, Agreements and Organizations

Regional economic cooperation within the OECD framework plays a crucial role in shaping global trade dynamics, fostering integration, and addressing the challenges of an interconnected world. Its member states collectively represent a significant share of global GDP, underscoring the organization's role in shaping trade policies, investment flows, and regulatory standards.

One of the driving forces behind regional economic cooperation is the multiplication of Regional Trade Agreements (RTAs) as a mechanism for facilitating and enabling trade through the reduction of tariffs and other barriers.[66] Such agreements usually come in a number of varieties such as free trade areas, customs unions, and common markets, and differ by levels of economic integration among states. Regional value chains bring strong economic performance to the countries involved in them, as low production costs ensure local business activities and enhance their competitiveness in global markets. This would mean that globalization and regional trade networks would synergize each other into interlinked input-output systems of advantages for economies engaged in such schemes.

In addition, the expanding importance of Global Value Chains (GVCs) and their integration into traditional trade models should be examined, as global trade patterns are changing. This involves understanding the impact of trading intermediate goods on intra-industry trade patterns. These transformations are of great importance when leveraging the balance between regionalism and multilateralism[67], especially in the post-COVID-19 pandemic world that is currently reassessing its supply chain resilience and tariff policy framework. COVID-19 has illustrated that economic interdependence is, in fact, a complex affair; thus, the regional integration policies should be carefully crafted by policymakers to reduce trade disruption to a minimum and maximize growth opportunities.

In combination with RTAs, Free Trade Zones (FTZs) play an important role in global supply chains by allowing importing raw materials, processing them, and exporting them without

[66] CFI Team, "Regional Trading Agreements," Corporate Finance Institute, May 6, 2022, https://corporatefinanceinstitute.com/resources/economics/regional-trading-agreements/.

[67] Yutaka Kurihara, "The Impact of Regional Trade Agreements on International Trade," *Modern Economy* 02, no. 05 (2011): 846–49, https://doi.org/10.4236/me.2011.25094.

the interference of normal customs duties. These zones attract foreign investment, catalyze industrial activity, and facilitate trade.[68] However, unchecked growth of such zones has raised numerous concerns, especially on illicit trade. Evidence has shown that FTZs have often been misused for counterfeit goods, thereby necessitating a stronger governance framework.[69] It is in this regard that the OECD has built guidelines for increasing transparency and regulatory control of these zones, thereby making a trade-off between trade liberalization and combating illegal activities.

The OECD's work extends to the discussion of regional organizations in promoting economic cooperation that is not confined to trade agreements. For instance, the Asian Development Bank, ECOWAS, and APEC are important institutions that provide money for development projects, harmonize trade policies, and maintain regional stability. These organizations assist their member countries in integrating into global value chains that reduce production costs and enhance competitiveness. Some researchers suggest that such integration has positive implications for incomes and can therefore significantly promote intra-regional trade. This, in turn, strengthens the economic advantages of well-designed trade agreements.

And these benefits are accompanied by the remaining challenges. Trade diversion, considering the situation where imports are procured not from more efficient global suppliers but from less efficient regional partners, itself diminishes the possible profit. The procedure for regulatory standard harmonization may often hurt developing economies that simply can't meet stringent requirements. The OECD pays attention to these divergences and recommends policies that are inclusive of smaller economies and support the competitiveness and sustainable development of bigger ones.

6.3.4. Reduction of Economic Dependence on Specific Markets

Reducing economic dependence on markets is a critical policy for OECD countries to foster resilience and sustainability in an increasingly integrated global economy. Overdependence

[68] "Free Trade Zones," OECD, n.d., https://www.oecd.org/en/topics/sub-issues/free-trade-zones.html.

[69] "OECD Code of Conduct for Clean Free Trade Zones – Eticos Compliance," Eticoscompliance.com (Eticos Compliance, 2019), https://www.eticoscompliance.com/oecd-code-of-conduct-for-clean-free-trade-zones/.

on a few suppliers or trading partners exposes countries to risks due to supply chain disruption, geopolitical tensions, and natural disasters.[70] Therefore, economic diversification has been defined as an important policy priority for counteracting such risks while ensuring growth in the long run. In the past, OECD member countries have pursued structural reforms and policy frameworks to diversify their economies[71], although progress has been slow at times due to various challenges, such as skills gaps in the workforce, regulatory barriers, and the stronghold of entrenched industries on their economies.

The OECD approach emphasizes the importance of a rules-based trading system internationally to open market access and dissolve concentrated dependencies. Trade policies that encourage cooperation among member states can serve to address risks arising from over-reliance on certain markets. Effective governance and targeted industrial policies are instrumental to the diversification strategy. This encompasses government support in working against market failure and channeling innovation for the purpose of production development in new sectors that make economies less vulnerable to external shocks. Studies indicate that economies that are diversified have been resilient, as evidenced by the receding Gini coefficient, and an improved capability to withstand shocks originating from fluctuations in the world economy.[72]

The key to decreasing dependence on the market is diversification of both suppliers and export destinations. The greater the number of trade partners, the more adjustment channels are facilitated that can guard against disruptions; meanwhile, investments in trade infrastructure lower the cost and allow more participation in the markets in question.[73]

[70] "TOWARDS DEMYSTIFYING TRADE DEPENDENCIES at WHAT POINT DO TRADE LINKAGES BECOME a CONCERN? OECD TRADE POLICY PAPER," 2024, https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/04/towards-demystifying-trade-dependencies_208df692/2a1a2bb9-en.pdf.

[71] Erik Wibbels, "Dependency Revisited: International Markets, Business Cycles, and Social Spending in the Developing World," *International Organization* 60, no. 02 (April 2006), https://doi.org/10.1017/s0020818306060139.

[72] IMF, 2022. *Economic Diversification: Lessons from Practice*. Washington, DC: International Monetary Fund. Available at: https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/06/14/Economic-Diversification-Lessons-From-Practice-519973

[73] Goran M. Muhamad, Almas Heshmati, and Nabaz T. Khayyat, "How to Reduce the Degree of Dependency on Natural Resources?" *Resources Policy* 72 (August 2021): 102047, https://doi.org/10.1016/j.resourpol.2021.102047.

Country case studies, such as Costa Rica, Georgia, and India, show that with strategic industrial policy, trade agreements, and entrepreneurial support, economic diversification can become a reality. For example, Costa Rica's move from agricultural industries into high-tech and eco-tourism shows that targeted reform can transform an economy.[74] Similarly, Georgia's experience emphasizes the importance of international cooperation.

Nevertheless, challenges remain significant for housing markets and cyclical structural risks that dominate the sectors. Policymakers will profile these two types of risk to set various types of interventions in place. Cyclical risks, which emanate from economic fluctuations, require counter-cyclical interventions; on the other hand, long-term institutional reforms address structural risks anchored on demographic changes or financial weaknesses. Part of the OECD's concerns on evidence-based policymaking is to emphasize that policy measures should thus be tailor-made to suit national circumstances.

In summary, dependence upon a particular market has to be reduced through a multi-pronged approach, i.e., trade diversification, effective governance, and international cooperation. Successful case study learning has taken place in OECD countries, and by understanding the structural barriers, they can build stronger economies that withstand the uncertainties of the world. In this sense, these principles seem to be a possible way ahead for the organization, along with the collaboration- and rules-based trading system.

6.4. Key Stakeholders

6.4.1. Systemic Financial Risks

The key players in addressing systemic financial risks are those with significant influence in international finance, advanced industrial economies, and leaders in economic

[74] Aathira Prasad et al., "Global Economic Diversification Index 2024 Exploring the Impact of Digital Trade on Economic Diversification in Par Tnership With," 2024, https://economicdiversification.com/wp-content/uploads/2024/02/Global-Economic-Diversification-Index-2024_Full-report.pdf.

policymaking. More specifically, on the topic of macroeconomic stability, the major countries have effective institutions that monitor economic health.

Firstly, the United States' fiscal and monetary policies help stabilize not only its domestic economy, but also affect global capital flows. Especially during the global crisis of 2008, the United States played a vital role as the "stabilizer" in the world economy.

Secondly, as one of Europe's largest economies, Germany has proved its fiscal discipline and low public debt levels. Its export-driven economy and sound public financing policy help maintain investor confidence in Europe, even during a period of crisis.

Last but not least, Japan had experienced decades of very low growth, leading policymakers to experiment with non-conventional means in monetary policy, such as using negative interest rates. Japan's experience illustrates both the challenges and potential tools available to manage systemic risk in a low-growth environment. Its efforts to stimulate domestic demand while avoiding inflation are a valuable lesson for other advanced economies.

On the second subtopic, past crises offered a lesson on the necessity of coordination among fiscal and monetary policies. At a European level, the Greek crisis of the early 2010s showed that the difference in fiscal discipline among member states contributed to a broader crisis. Key players in the eurozone, most notably Germany and France, are now at the forefront of initiatives to tighten fiscal rules and ensure that responsible government budgets complement monetary policy.

Japan is also exemplary in having regular cooperation between the state and the Central Bank for pursuing policies that strike a balance between fiscal motives and long-term structural reforms. Such a combination would guard against any policy inconsistencies leading to higher domestic borrowing costs and thus more domestic debt

On the last subtopic, advanced economies recognize the value of fair and free market principles to prevent distortions that can lead to systemic risks. Both the United States and the United Kingdom maintain relatively liberal market environments that foster competition and innovation, promoting the fundamentals of a free and fair market. Furthermore, Nordic countries such as Sweden, Denmark, and Finland are known for creating fair markets that are freely yet responsibly regulated. The Nordic model demonstrates that a combination of effective regulatory institutions, transparent governance, and competitive markets can enhance overall economic resilience and stability.

The European Union’s competition policy, influenced in part by the major global economies, works to prevent monopolistic practices and ensure that markets remain open and dynamic. However, Germany and France seem to be more inclined to follow the principles of a rules-based market economy, rather than a more liberal approach.

In conclusion, key stakeholders on the global financial stage, including the United States, Germany, Japan, France, the United Kingdom, and the Nordic countries, play a crucial role in maintaining macroeconomic stability, coordinating fiscal and monetary policies, and ensuring that markets remain fair and competitive. Every economy contributes to combat against systemic risk with each unique experience. Going forward, international cooperation and further reforms in both national and international policies is necessary to address the matter of systemic risks more effectively.

6.4.2. Economic Resilience

In the case of economic resilience, one can see that a vast variety of actors are involved. From governments to banking institutions, achieving economic resilience is a process that involves all. Apart from banking institutions or individual investors, economic resilience and sustainability rely on the hands of distinct blocks of action. Regional Organizations or global actors, such as the Asia-Pacific Economic Cooperation (APEC), the European Union (EU), the Eurasian Economic Union (EAEU), or Mercosur, highly affect the OECD’s decisions on economic matters. Moreover, in the evolving economic environment of our age, emerging powers should also be taken into account. Specifically, the global influence of the countries participating in the G7/G20 fora should not be neglected, as it is highly influential on the OECD’s procedures.

7. Conclusion

In an era marked by increasing financial fragmentation, geopolitical shifts, and structural economic transitions, the role of the OECD and its member states in promoting economic resilience has never been more crucial. The analysis presented throughout this study guide underscores the necessity for coordinated and forward-thinking approaches to address the complex challenges confronting the global economy. As countries confront rising protectionism, systemic financial vulnerabilities, and mounting pressure on global value chains, the OECD must lead with comprehensive strategies that not only mitigate risks but also capitalize on emerging opportunities for sustainable growth and regional cooperation.

At the core of this endeavor lies the recognition that the world's economies are more interconnected than ever before. Events in one part of the world can have far-reaching effects across continents, affecting trade flows, investment patterns, and the financial stability of nations. The experience of the 2008 financial crisis, the COVID-19 pandemic, and ongoing geopolitical tensions serve as stark reminders of the fragility of global systems. They underscore the urgent need to establish robust, adaptive, and inclusive financial and economic frameworks.

A key priority discussed in this guide is the diversification of both economies and supply chains. In a world where overreliance on single sectors, suppliers, or markets poses significant risks, strategic diversification offers a means of absorbing shocks and ensuring continuity. This is not merely a defensive posture; it also represents an opportunity to spark innovation, promote green and digital transitions, and create inclusive job markets. OECD member states must therefore continue to encourage investments in infrastructure, education, and technology that support these goals.

The role of investment banks and financial institutions also stands out as a pivotal element in achieving economic resilience. Their capacity to mobilize capital, advise on complex corporate strategies, and support green finance initiatives makes them indispensable allies in the quest for sustainable development. However, this role must be balanced against the need for prudent regulation, effective risk management, and alignment with ESG principles.

The OECD's guidelines and best practices in these areas provide a solid foundation for policy harmonization and institutional accountability.

Moreover, regional economic cooperation, as facilitated by free trade zones, regional trade agreements, and development banks, is emerging as a powerful mechanism for addressing both market inefficiencies and geopolitical fragmentation. Yet, such cooperation must be inclusive and equitable, ensuring that smaller economies are not left behind. The OECD has a unique mandate to foster dialogue, disseminate policy innovations, and build consensus across diverse economic contexts, making it a central actor in promoting mutually beneficial partnerships.

Lastly, the reduction of economic dependence on specific markets and partners is not an abandonment of globalization, but rather a recalibration of its terms. Through diversification, transparency, and resilient governance, OECD countries can redefine interdependence in a way that enhances stability while preserving openness. This approach acknowledges the benefits of international cooperation while recognizing the importance of strategic autonomy and national security.

In conclusion, fostering economic resilience in today's fragmented financial landscape demands a nuanced and multi-layered strategy. It calls for global cooperation that respects regional contexts, proactive regulation that enables innovation, and economic policies that strike a balance between growth and sustainability. The OECD, as a platform for dialogue and action, is well-positioned to lead its member states through this transition. By embracing the principles outlined in this guide, delegates can contribute to building a future that is not only economically stable but also inclusive, forward-looking, and responsive to the challenges of our time.

8. Points to be addressed

1. How can the OECD mediate geopolitical trade tensions to prevent long-term trade wars among member states and strategic partners?
2. What policies can the OECD propose to limit the negative effects of regional economic blocs on global market integration?
3. To what extent should the OECD promote regulation or standardization of decentralized financial systems such as blockchain-based finance?
4. How can OECD members enhance cross-border regulatory coordination to reduce systemic financial risks while preserving national sovereignty?
5. What reforms are needed in OECD member states to close regulatory gaps and prevent regulatory arbitrage in a rapidly digitizing financial environment?
6. How can the OECD improve early warning systems to detect macroeconomic instability in emerging and interconnected markets?
7. What specific policy mechanisms can ensure effective fiscal and monetary coordination among OECD members during crises?
8. How can the OECD support member states in developing inclusive labor markets that accommodate diversification strategies in green and digital sectors?
9. What strategies should the OECD promote to attract long-term, sustainable FDI in diversified and high-risk markets?
10. How can the OECD ensure that supply chain diversification policies account for both environmental sustainability and economic efficiency?
11. How can OECD countries effectively diversify their economies and supply chains to strengthen resilience and ensure sustainable growth?
12. How can investment banks within the OECD effectively mobilize private capital towards sustainable development while managing regulatory and market risks?

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