Level Playing Field? Developing Economies, International Tax and Globalization

The level of economic inequality we get to witness today is truly outrageous and intolerable. Even in times of kings and other undemocratic rulers who enjoyed almost unlimited power, none of them accumulated such a huge proportion of national and global wealth as Jeff Bezos or Warren Buffett. The facts are truly disturbing: just a few of the richest people on the planet control more wealth than poorest 50% of the world's population. Only a small proportion of wealth of the superrich would be enough to end extreme poverty today.

In recent years the importance of redistributive function of tax has been discussed broadly in many countries. In particular, a conversation about importance of progressive income tax scale and taxing wealth at least as much as regular income is ongoing non-stop. However, tax can play an important role in reducing economic inequality on several more levels.

The international corporate tax system in place until recently was created almost 80 years ago, in times when the economy was industrial and immobile. International tax rules of that time reflected that, and then stayed in place for good eighty years, being applied to completely different economic reality. It took several international scandals, dozens of resonant press publications and even street protests for a change to happen.

Attention of the international community was drawn to shockingly small tax bills of multinational enterprises (MNEs) and to the fact that they, without breaking any laws at all, were capable to use "aggressive tax planning" techniques, structuring their business in a way that will attract less tax burden globally. To do so, they used differences in tax regimes to their advantage, maximizing their tax benefits and minimizing total tax liability.

The Organization for Economic Coordination and Development (OECD) calls these practices used by MNEs Base Erosion and Profit Shifting (BEPS) and conservatively estimates tax revenue losses associated with them at USD 240 billion annually which equals to 10% of global corporate income tax revenues. This results in several highly undesirable social outcomes:

- *Underfunding of public services*

In most countries tax revenues are used to fund public services such as public education, public healthcare system, pensions etc. Due to artificial movements of profits to "low tax" jurisdictions many countries around the world struggle to provide an adequate level of welfare to their citizens.

- *Potential funding of illegal activities*

In many cases “aggressive tax planning” means funds being taken out of the legal financial system and becoming untraceable due to secrecy provisions. One of potential dangers is such funds being used for illegal activities.

- *Increasing inequality*

If not taxed at a corporate level, MNEs profits are likely to end up at bank accounts of corporate management i.e. the wealthiest 1%, thus increasing existing social inequality even further.

The OECD has been working on this problem for a number of years, and in 2013 it started the BEPS project aiming to prevent MNEs from tax dodging via implementation of the 15 BEPS Actions adjusting existing international tax system to digital economy. In 2015 the final reports for all the actions were delivered, and in 2020 BEPS 2.0 was presented to general public. In my research project I would like to investigate how latest international corporate tax policy developments affect African countries and their ability to achieve Sustainable Development Goals. I aim to answer the following research question: are the tax policies developed by the OECD biased towards defending financial interests of developed economies?

In the first part of my work I will explore Africa-specific issues of taxation, from informality to taxing extractive industry, from transfer pricing to quality of tax administration. I will then investigate effects of such issues on continent’s development and level of economic inequality, suggesting policies that will assist Africa’s economic growth, while taking historical and cultural specifics into account. This will highlight current fiscal difficulties and economic realities of African countries and serve as a context for part two.

The second part of my research will be dedicated to influence of international tax policies, mainly developed by the OECD, on the Global South. Being historically a union of the richest economies in the world, the OECD is still biased towards protecting financial interests of developed jurisdictions, even though it is trying to change – at least on paper. Several steps were made by the Organization recently that were supposed to demonstrate its move towards inclusivity and truly representing developed and developing countries on equal footing. Example of such step is creation of the Inclusive Framework uniting 137 jurisdictions and designed as a platform for an open conversation on tax matters inclusive to developing world. However, if we take a closer look at tax policy recommendations produced by the Organization – in particular at BEPS 2.0 - we might find out that quite often they still treat unequals equally and are designed with western jurisdictions in mind, failing to adjust to realities of developing economies (size, structure of the economy, the functional role they play in tax avoidance strategies of multinational corporations, quality of institutions, costs of participating in OECD negotiations, etc.). The net effect of such policies is still most likely to be redistribution of financial resources to developed countries from developing ones, hence increasing economic inequality even further. I plan to use legal, economic and value-chain analysis to test my hypotheses. Most data I plan to use are available publicly (general macroeconomic / tax statistics, existing research, etc.), but I also plan to perform a series of in-depth interviews with tax policy practitioners.

Finally, I will perform legal analysis and develop recommendations for adjusting OECD tax policies in a way that will ensure their meaningful and adequate application to African economies and more equitable distribution of wealth between the jurisdictions.

It is well known amongst the economists that the quality of public administration is the best predictor of country's success, and just demonstrating continuous GDP growth is not enough for ending extreme poverty: active redistribution of resources and tackling inequality is needed to meet that goal. By executing this research project, I hope to demonstrate that more inclusive international tax policies can play a significant role in building healthier systems of public finance in Africa, contributing to continent's prosperity and independence.