

International Taxation and Regional Cooperation: Challenges and Opportunities for Asia

A Conference by

Centre for Budget and Governance Accountability and Financial Transparency Coalition

Concept Note

Asia has seen remarkable economic growth in the recent years and the region has witnessed almost a doubling of its real income per capita since the 1990s.¹ However, low tax-GDP ratios in many Asian countries continue to limit fiscal space, thereby constraining policy interventions for sustainable development in many of these countries. The overall taxation rates in Asia at a regional scale are among the lowest in the world, below the tax levels in the European Union, the Americas, Africa and the Middle East.² At the same time, domestic resource mobilisation is increasingly critical for addressing social exclusion and curbing inequality.

A number of Asian countries also have high levels of dependence on indirect taxes – with the VAT / GST rates averaging at around 12.5 per cent in the Asia-Pacific region³ – which have been shown to disproportionately affect the poor. In addition, developing Asian economies often engage in aggressive tax competition in order to create the perception of a conducive climate to attract foreign investment; this is often reflected in ‘tax holidays’, tax incentives, and corporate tax exemptions. Such practices, also referred to as a ‘race to the bottom’, have together impeded the mobilisation of adequate resources for social policy interventions in many Asian countries.

While national tax policies are central to raising domestic revenue, the shadow financial system is increasingly limiting the ability of governments to raise revenue on their own. An efficient industry of tax lawyers, bankers, and accountants is making it ever easier to hide money. Whether it is through anonymous companies and tax havens, or through the lack of regular communication between authorities across borders, illicit financial flows – money that is illegally earned, transferred or utilized – amounted to \$3,048.3 billion in Asia from 2004 to 2013. China, India, Malaysia, Thailand and Indonesia are among the top ten countries in the world contributing to IFFs.⁴

There is an urgent need for coordination and cooperation between Asian countries on matters of international taxation and global finance rule-setting. 2015 witnessed important steps forward on multilateralism and international taxation with the Financing for Development Conference (FfD),

¹ Mujeri, Mustafa. 2015. *Financing Development Gaps in the Countries with Special Needs in the Asia-Pacific Region*

² Martinez-Vazquez, Jorge and Asian Development Bank. 2011. *Taxation in Asia*

³ KPMG International. 2013. *Asia Pacific Indirect Tax Country Guide*

⁴ Global Financial Integrity. 2015. *Illicit Financial Flows from Developing Countries: 2004-2013*

adoption of Sustainable Development Goals (SDGs) and COP21. Besides the discussions pertaining to FfD and SDGs, illicit financial flows have also featured in some regional spaces such as the launch of the High Level Panel Report on Illicit Financial Flows from Africa. However, the design of global bodies currently setting the rules such as the OECD and the G20 has led to a systematic exclusion of developing countries from making the rules of global finance that affect them directly. The absence of an inclusive and global tax body also contributes to disparities between developed and developing countries.

This has raised questions regarding regional coordination between Asian countries on matters of taxation. While the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) is initiating discussions towards setting up of an Asia-Pacific forum for cooperation on tax matters,⁵ it would be useful to learn the experiences of the African Tax Administration Forum (ATAF) and the Inter-American Centre of Tax Administrators (CIAT). It would be pertinent to discuss the challenges and opportunities for regional cooperation in Asia taking into account the specific contexts in some of the countries in the region. It would also be worthwhile to explore possible ways in which civil society organizations and independent think tanks in the region can contribute towards emerging processes.

In such a context, Centre for Budget and Governance Accountability (CBGA) and Financial Transparency Coalition (FTC) are planning to organise a two-day Conference '**International Taxation and Regional Cooperation: Challenges and Opportunities for Asia**' in **New Delhi** on **March 29-30, 2016**.

The Conference aims to further the discourse on international taxation policies and regional cooperation in the Asian context. The Conference would focus on some of the emerging issues and developments pertaining to:

- Automatic exchange of financial information,
- Country-by-country reporting requirements for MNCs,
- International institutional architecture on tax and global finance, and
- Opportunities for and challenges to strengthening regional cooperation in Asia.

The Conference would bring together academics and technical experts on these issues from a number of countries, and senior representatives of tax authorities from select regions in order to strengthen regional cooperation on international taxation and curbing illicit finance.

(For more information on the conference, please write to us at neeti@cbgaindia.org)

⁵ United Nations Economic and Social Commission on Asia and the Pacific. 2015. *Report of the Committee on Macroeconomic Policy, Poverty and Reduction and Inclusive Development on its Third Session*