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Towards an Asian Narrative on Tax Justice and Financial Transparency

A Roundtable by
Centre for Budget and Governance Accountability
and Financial Transparency Coalition

October 29-30, 2018 | India Habitat Centre, New Delhi

Concept Note

The financialisation of the global economic system and the expansion of the role played by the financial sector since the 1970s led to significant structural changes in the way national and international markets function, impacting growth patterns as well as income and wealth distribution. Concurrently, countries moved to implement market liberalisation reforms like deregulation of capital and exchange controls, lowering of trade and tariff barriers, privatisation of industries and services, and reduced tax rates and lower public spending. Together, these neoliberal reforms have effectively diminished the role of the state in being able to raise and mobilise domestic revenue to realise human rights.

Asia's developmental experience has been heavily marred with stark income and wealth inequality, where the top 1 percent of the population in countries like India, Indonesia, Russia and Thailand owns more than half the wealth pool of the country. Income inequality in the region has increased between countries, with corruption and misappropriation of state assets being major drivers of inequality. Further, low tax-GDP ratios in countries across Asia continue to constrain policy interventions for sustainable development and resolving inequality. Asian countries have some of the lowest tax-GDP ratios in the world, well below the levels of the European Union, the Americas, Africa and the Middle East.¹ Personal income taxes account for less than 2 percent of GDP in Asia compared to 8 percent of GDP in developed countries.² Moreover, Asian economies offer vast tax exemptions and tax holidays to multi-national corporations (MNCs) and big businesses, and engage in a fierce 'race to the bottom' with regard to their corporate tax rates. Coupled with this, there is high dependence on indirect taxes levied on consumption, resulting in regressive tax systems in a majority of developing Asian countries, which impact women, the poor and the marginalised disproportionately.

As a consequence of the dominance of finance capital, a far more serious problem plaguing developing countries is the loss of revenue and weakening sovereignty through illicit financial flows. These flows result from activities like tax abuse by MNCs and the global elite, corruption, crime, trade misinvoicing, abusive transfer pricing and abuse of loopholes in domestic and international tax laws. This issue has been exacerbated, especially for developing countries, through unregulated financial markets that created complicated channels of financial secrecy. At the heart of such financial secrecy afforded to MNCs, big businesses and the rich, lie tax havens³ and an efficient industry of tax lawyers, bankers and accountants facilitating anonymity and illicit financial flows.

Global political momentum has put forth questions of financing development at the forefront of development debates, especially in developing countries. The 2030 Agenda for Sustainable Development, or the Sustainable Development Goals (SDGs), lays out an ambitious agenda comprising 17 goals and 169 associated targets, including but not limited to ending poverty, hunger and inequality. Financing the targets set forth in the SDGs however, remains a significant concern.

¹ Martinez-Vazquez, Jorge. 2011. Taxation in Asia. Asian Development Bank.

² United Nations Economic and Social Commission for Asia and the Pacific. 2017. Taxing for Shared Prosperity: Policy Brief No. 46

³ Tax havens are countries or jurisdictions that offer extremely low tax rates, secrecy in various forms and escape from financial regulations, criminal laws and corporate governance rules.

Though the estimates of financing needs vary greatly, developing countries need an investment of \$3.3 to \$4.5 trillion annually to realize the SDGs. Current investment stands at \$1.4 trillion – revealing a financing gap of \$1.9 - \$3.1 trillion a year.⁴ Asia and the Pacific as a region would require an annual investment of \$1 trillion to achieve the SDGs.⁵

One of the most significant constraints faced in Asia's context is that the geopolitics of knowledge generation, distribution and access is in the hands of supranational institutions based out of the Global North. In the aftermath of the East Asian financial crisis, the G7 countries formed the Financial Stability Forum to protect the global financial system from further crises, thus assuming the role of designing transnational regulations and governance processes. The global financial crisis of 2007-08 witnessed a similar response, with OECD and G20 countries leading the efforts in designing the rules of global finance, systematically excluding developing countries from being able to form the international financial agenda that affects them directly. There has also been a consistent lack of engagement of these issues on the part of Asian countries despite high-profile investigative leaks like Paradise Papers, Panama Papers, Swiss Leaks and others implicating Asian elites, Asian tax havens and wealth management centres.

In the absence of a democratic intergovernmental global tax body, there is a need to approach cooperation on tax matters and financial transparency from an Asian perspective. The secretariat of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) had proposed the setting up of the Asia-Pacific Tax Forum for Sustainable Development in 2016,⁶ but the Forum is yet to be approved by the UNESCAP General Assembly and established.

In this context, Centre for Budget and Governance Accountability (CBGA) and Financial Transparency Coalition (FTC) are organising a two-day round table with academics, researchers and civil society groups, titled 'Towards an Asian Narrative on Tax Justice and Financial Transparency' in New Delhi on October 29-30, 2018. The Round Table will elicit the perspectives of these key actors from across a number of Asian countries on issues of tax justice and financial transparency. It will explore the complementarities between academic and policy researchers, and civil society actors based out of different countries. The Round Table will discuss the possibilities and broad contours of collaboration among academics and civil society organisations in the coming years.

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⁴ United Nations Conference on Trade and Development. 2014. World Investment Report

⁵ United Nations Development Programme. 2015. Governance for Sustainable Development

⁶ United Nations Economic and Social Commission for Asia and the Pacific. 2016. The Asia-Pacific Tax Forum for Sustainable Development: A Proposal

Agenda

October 29 (Monday)

9:30 – 10:00 Welcome and Introductions

10:00 – 11:45 Plenary Session: Reflections on the state of the field

The financialisation of the global economic system since the 1970s and the adoption of a neoliberal development model by Asian countries resulted in a diminished role of the state in raising domestic resources to finance development and realise human rights. The neoliberal order compelled countries across the globe to reduce their direct tax rates significantly. Developing countries have been faced with the challenge of weak tax administrations, which are under-resourced and under-staffed. Nations from the Global South have also been systematically excluded from framing norms on international taxation, resulting in a skewed international financial system that works to benefit rich, developed countries. This exclusion has also led to a disproportional impact on the Southern regions due to illicit financial flows, leading to lopsided and regressive national tax systems. This session will focus on mapping major issues, constraints and geopolitics influencing the policy landscape on tax justice and financial transparency in Asia.

11:45 – 12:15 Coffee / Tea

12:15 – 1:30 Breakout Session: Reflections on the state of the field

Building on the discussion from the previous session, breakout groups will take stock of the landscape of tax justice and financial transparency in Asia's context. They will identify the presence and role of different actors including (but not limited to) past and emerging movements, campaigns, civil society organisations, academics, intergovernmental and multilateral coordinating platforms, enablers of financial secrecy (professionals and structures that aid in generating illicit finance), and blockers of democratic tax cooperation.

1:30 – 2:30 Lunch

2:30 – 3:15 Plenary Session: Report back from the groups

Breakout groups will report back in Plenary on the discussion from the pre-lunch session.

3:15 – 5:15 Plenary Session: How can taxation address rising inequality in Asia?

Asia is marred with stark income and wealth inequality. The top 1 per cent of the population in countries like India, Indonesia, Russia and Thailand owns more than half the wealth pool of the country. However, Asia has the lowest average tax-GDP ratio in the world, below the levels of the European Union, the Americas,

Africa and the Middle East. Developing Asia is heavily dependent on indirect taxes on consumption like the Value Added Tax and the Goods and Services Tax. Such regressive tax systems disproportionately harm the poor and the marginalised, as public services programs end up being funded by the same people they had set out to benefit. This plenary session will examine the interlinkages between tax policy with the Financing for Development agenda in order to reduce socio-economic inequality, as well as the role we envisage for various actors to play towards addressing rising inequality in Asia.

(Including a 15-minute break for coffee/tea)

5:15 – 5:30 Wrap-up of Day One

7:00 Onwards Networking Dinner

October 30 (Tuesday)

9:30 – 11:15 Plenary Session: Is illicit wealth finding safe harbour in Asia's new tax havens?

Tax havens – jurisdictions or regions that offer financial secrecy and an escape from tax and financial regulation – lie at the heart of increasing economic inequality. Estimates suggest that multinational corporations and the rich hold about \$8.7 trillion or 11.5 per cent of the world's GDP in tax havens. Recent studies indicate that Asia-Pacific as a region is rapidly becoming a suitable destination for parking offshore wealth. In 2017, Asia-Pacific offshore financial centres held about 18 per cent of global offshore wealth. As projected offshore wealth created globally will largely result from Asia-Pacific in the next five years, Asia-Pacific offshore centres are expected to receive most of this newly created wealth. This is also due to the fact that there is significant geopolitical pressure on tax havens in Europe and the Caribbean to comply with global financial transparency norms. The session will discuss the channels of IFFs and the rise of tax havens and offshore financial centres in Asia-Pacific along with broad strategies and possible interventions to counter this regional trend.

11:15 – 11:45 Coffee / Tea

11:45 – 1:30 Breakout Session: Mobilising public opinion and shaping partnerships, alliances and networks

The financial crisis of 2007-08 and its fallouts led to the popular recognition of the fault lines in the global financial system. A palpable tax transparency and justice movement that began about two decades ago, has since expanded

through the globe, and has managed to include various actors striving toward tax justice as well as development justice – including civil society, academia, media, national governments and multilateral norm-shaping bodies. Although the movement has secured significant progress in furthering transparency and justice, the momentum has remained lopsided. Developing regions of the world have been excluded from norm shaping while simultaneously being compelled to implement norms they played no part in designing, thus necessitating public pressure through partnerships and networks to ensure justice in the Global South. This session will have smaller groups discussing various strategies that should be pushed to lend momentum to the tax justice and transparency movement, which will then be presented in the Plenary.

1:30 – 2:30

Lunch

2:30 – 4:30

Plenary Session: The next decade of tax justice and financial transparency – Aspirations and landmarks

The tax justice and financial transparency movement has a noteworthy agenda chalked out for itself in the coming decade. Asia faces unique challenges of low tax-GDP ratios, tax competition, unfair trade and investment treaties and little regional cooperation on tax matter. The generation, distribution of and access to knowledge on tax is in the hands of supranational institutions based out of the Global North. There is also a need for intergovernmental cooperation between Asian countries in order to align issues of domestic resource mobilisation, combatting illicit financial flows and global governance. This session will map collaborative strategies to expand and sustain the movement on tax justice and financial transparency in Asia; including a dialogue on the need to establish a tax cooperation forum in Asia-Pacific.

(Including a 15-minute break for coffee/tea)

4:30 – 5:00

Summing up



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