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Committee on Macroeconomic Policy, Poverty Reduction and  
Financing for Development

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### Strengthening regional tax cooperation in Asia and the Pacific

## Strengthening regional tax cooperation in Asia and the Pacific

### Note by the secretariat

#### *Summary*

As global economic ties extend beyond national borders, taxation, previously a predominantly domestic policy matter, is increasingly becoming a multilateral policy challenge. Widespread tax avoidance and evasion by multinational corporations and wealthy individuals has extended beyond national borders to pose a common challenge to countries worldwide. Meanwhile the emergence of the digital economy and new business models has raised new questions about the core principles of taxation. Shoring up measures against tax base erosion and ensuring a fair allocation of tax revenues across countries would be vital for financing sustainable development and effectively pursuing the Sustainable Development Goals in the Asia-Pacific region.

In this context, the international community has kickstarted a new round of international tax cooperation to reform the existing international tax regime and address these challenges. Global platforms for tax cooperation have been established or strengthened for this purpose, and there is increasing collaboration among these global platforms and between these platforms and regional tax cooperation bodies and stakeholders.

However, Asia and the Pacific is not yet fully prepared for broad-based regional tax cooperation. To date such efforts have been limited mainly to the subregional level, with existing tax cooperation platforms constrained by inadequate capacity and funding, and broader collaboration among them minimal. There is significant room for strengthened regional tax cooperation to better support developing countries and contribute to global tax cooperation and reform initiatives. The United Nations system, and the Economic and Social Commission for Asia and the Pacific in particular, has a pivotal role to play in promoting and facilitating efforts on this front.

The current document provides background information on pertinent issues and a discussion of the status of regional tax cooperation. The Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development may wish to provide guidance to the secretariat so that it can implement additional initiatives to support broad-based tax dialogue and cooperation in Asia and the

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\* ESCAP/CMPF/2019/L.1.

Pacific, facilitate collaboration among existing subregional platforms and key stakeholders, and strengthen the region's participation in and contribution to international tax cooperation through the United Nations system. To this end, the Committee may wish to consider forming a working group, which would report to it, to explore actionable opportunities for strengthening tax cooperation in the Asia-Pacific region, in close consultation with existing subregional tax cooperation platforms and key stakeholders.

## I. Introduction

1. As global economic ties extend beyond national borders, taxation, previously a predominantly domestic policy matter, is increasingly becoming a multilateral policy challenge. Widespread tax avoidance and evasion by multinational corporations and wealthy individuals has extended beyond national borders to pose a common challenge to countries worldwide.<sup>1</sup> Meanwhile the emergence of the digital economy and new business models has raised new questions about the core principles of taxation. Shoring up measures against tax base erosion and ensuring a fair allocation of tax revenues across countries would be vital for financing sustainable development and effectively pursuing the Sustainable Development Goals in the Asia-Pacific region.

2. In 2015, in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, participants committed to scaling up international tax cooperation to address common challenges.<sup>2</sup> More recently, the Secretary-General stated that a concerted global effort by the international community is crucial and pledged the support of the United Nations system to this course.<sup>3</sup>

3. The Asia-Pacific region is at the forefront of this issue. The region not only accounts for a large proportion of illicit financial flows worldwide, which are a main source and indicator of tax evasion, but is also exposed to the high risks of tax competition and tax base erosion given the strong economic ties of countries within the region and the region's deep integration into global value chains.

4. Given the growth in the region in the digital economy, old principles and modalities to determine the taxing right of sovereign jurisdictions are increasingly becoming ineffective. Urgent actions and strengthened international cooperation are needed to establish an up-to-date international tax regime, preferably on a multilateral basis, to address these challenges and to ensure a fair allocation of tax revenues across country borders. Regional coordination to build consensus on key issues, regional inputs to global tax cooperation and reform initiatives, regional solutions that are tailored to the needs and constraints of local countries, as well as technical and capacity support closer to the ground would be crucial in this process.

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<sup>1</sup> Tax avoidance refers to actions to reduce the tax burden of a company or individual through legal exploitation of tax laws or rules, as opposed to tax evasion which refers to actions that are illegal.

<sup>2</sup> General Assembly resolution 69/313, annex, para. 27.

<sup>3</sup> See António Guterres, Secretary-General of the United Nations, "Secretary-General's remarks to the China-Africa Cooperation Summit", Beijing, 3 September 2018.

5. However, the region is not yet fully prepared for broad-based regional tax cooperation. There is significant room for improvement among countries in the region in terms of their participation in major international tax cooperation and reform initiatives and in their capability to analyse, implement and contribute to new international taxation norms and standards, which could have profound implications for their fiscal and economic policies and development prospects.

6. Unlike Latin America or Africa, Asia and the Pacific is still a major developing region that lacks a region-wide tax body for policy dialogue, consensus building and tailored technical support. Its existing subregional tax cooperation mechanisms have yet to develop institutions and capacities in this direction, and the cooperation between different subregions on tax matters has been minimal. In particular, the smaller and least developed countries of the region remain underrepresented and inadequately supported in various regional and international tax cooperation platforms and lack an intermediary channel to effectively articulate their voices, needs and concerns at the global level.

7. The present document contains a discussion of the salient features of reinvigorated international tax cooperation in the recent years and the rationales behind it. It also contains an analysis of the current gaps in regional tax cooperation and in the region's participation in major global tax cooperation and reform initiatives with a view to supporting developing countries in the global debate and reforms.

8. Section II of the present document provides a brief history of the global tax governance system and the rationales behind reinvigorated efforts to strengthen international tax cooperation. Section III contains an overview of major ongoing international taxation reforms and related global tax cooperation platforms, as well as existing regional tax cooperation mechanisms in Asia and the Pacific. Section IV includes a discussion of the gaps and potentials of regional tax cooperation in Asia and the Pacific from the perspective of developing countries. Section V contains suggestions of issues that the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development may wish to consider.

## **II. Global tax governance and reinvigorated international tax cooperation**

9. The current global tax governance framework originated in the need to clearly define and divide tax bases on capital and labour across country borders and to minimize distortions, frictions and loopholes in tax systems in an age of surging international trade and deepening economic ties across country borders. The 1920s and 1930s saw the birth of the contemporary international tax regime, when the League of Nations developed formal guidelines for the allocation of taxing rights between states.<sup>4</sup> These guidelines were a response to the key challenges of that time, such as the double taxation problem, defined as when the same tax source (base) is targeted by multiple sovereign jurisdictions, as well as the problem of tax avoidance and evasion, when companies or individuals evade their tax burdens by leveraging opportunities opened by international trade and the transnational mobility of capital.

<sup>4</sup> Sunita Jogarajan, *Double Taxation and the League of Nations* (Cambridge, Cambridge University Press, 2018).

10. The League of Nations' guidelines marked the first coordinated action across countries worldwide to establish an international tax regime as part of the global governance architecture. However, due to the complex and contentious nature of international taxation issues, a binding multilateral agreement was not achieved. Instead, a fragmented regime comprising a network of bilateral agreements was adopted.<sup>5</sup> This system and these guidelines were later inherited by the Organization for Economic Cooperation and Development (OECD). Today, an extensive web of more than 3,000 tax treaties form the foundation of the global tax governance system.<sup>6</sup>

11. Despite the fact that it was reasonably successful in the decades following its birth, this global tax governance system proved inadequate to address two important problems: the persistence of tax havens and tax competition.<sup>7</sup> These two problems increased in prominence when the competition between States for a shared tax base of mobile and transnational capital and wealth intensified, as a result of further integration in the global economy.

12. The resulting negative impacts, such as mutual erosion of tax bases and increased tax regressivity,<sup>8</sup> as well as a race to the bottom,<sup>9</sup> have long been noticed by experts.<sup>10</sup> Yet, the inherent inertia of the system and the sheer political, technical and financial commitment needed to change such a complex framework have hindered necessary reforms.

13. One opportunity came with the global financial and economic crisis of 2008. The fiscal pressure created by an urgent need to respond to the crisis, together with the shifts in public sentiment in support of global governance reforms and greater fairness in taxation, provided an opening and strong impetus for Governments around the world to implement joint multilateral initiatives for solutions for the shared tax challenges.

14. With this broad political consensus, the thrust of this reinvigorated international tax cooperation is mainly concentrated on three fronts: first, reforming the existing international tax regime to minimize the worst forms of tax avoidance and evasion by corporations and wealthy individuals; second, exploring alternative tax regimes and solutions to address new challenges posed by the emergence of the digital economy and the persistent problem of tax competition; and third, international coordination on technical and capacity support for developing countries.

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<sup>5</sup> Thomas Rixen, *Political Economy of International Tax Governance* (Basingstoke, Palgrave Macmillan UK, 2008).

<sup>6</sup> According to the International Bureau of Fiscal Documentation.

<sup>7</sup> Rasmus Corlin Christensen and Martin Hearson, "The new politics of global tax governance: taking stock a decade after the financial crisis", *Review of International Political Economy Journal*, vol. 26, No. 5 (June 2019).

<sup>8</sup> Regressivity is a concept describing the allocation of tax burdens across different income groups. A tax or tax system is more regressive when the tax burden falls more on the shoulders of the poor; it is deemed more progressive when the opposite happens.

<sup>9</sup> This refers to the phenomenon when governments are compelled to reduce tax rates or provide tax incentives to encourage business and promote investments, and enter into a downward spiral of tax base erosion.

<sup>10</sup> See Reuven S. Avi-Yonah, "Globalization, tax competition, and the fiscal crisis of the welfare state", *Harvard Law Review*, vol. 113, No. 7, pp.1573–1676; and Wallace E. Oates, *Fiscal Federalism* (New York, Harcourt Brace Jovanovich, 1972).

## A. Addressing tax avoidance and evasion by corporations and wealthy individuals

15. The issue of aggressive tax planning by multinational enterprises and wealthy individuals has been a key focus of major international tax reform initiatives in the past decade. In the current international tax regime, multinational enterprises can employ a wide range of techniques to exploit gaps and mismatches in tax rules to avoid paying taxes or artificially shift their profits from high-tax sovereign jurisdictions to low-tax ones, resulting in double non-taxation<sup>11</sup> or undertaxation. For wealthy individuals, the transnational mobility of capital has also provided them with opportunities to artificially shift their income and wealth to low-tax countries, in addition to the benefits they may already get from corporate tax planning as business owners or shareholders.

16. The scale of the challenge is quite large and extensive. A conservative estimate by the OECD<sup>12</sup> suggests that the total revenue losses due to base erosion and profit shifting<sup>13</sup> in corporate income tax worldwide could be between 4 to 10 per cent of the global corporate income tax revenue, equivalent to \$100 billion to \$240 billion annually. At the same time, the hidden private wealth in tax havens is estimated to be at least \$7.6 trillion, or 8 per cent of the total household financial assets worldwide, and growing fast.<sup>14</sup>

17. The adverse implications of such practices for developing countries are considerable. On the one hand, corporate income tax accounts for a larger share of their total public revenue. For instance, in developing countries in the region, corporate income tax was 21 per cent of total tax revenues in 2016; this figure was only 12 per cent in OECD countries.<sup>15</sup> At the same time, the capital drain resulting from tax avoidance and evasion by wealthy individuals and the negative impacts on the overall fairness and efficiency of tax systems could also prove more damaging to developing countries, even when they are not as dependent on personal income or wealth taxes for revenues.

18. The international nature of tax planning requires a collective response, especially when unilateral and uncoordinated actions by countries will not suffice and may actually make matters worse. At the global level, multilateral efforts on norm setting to reform the existing international tax regime and minimize tax avoidance and evasion have been led in parallel by countries that belong to the Group of 20, OECD and the United Nations.

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<sup>11</sup> A situation where a tax base, such as profit, is not taxed by any sovereign jurisdiction.

<sup>12</sup> OECD, *Report to G20 Development Working Group on the impact of BEPS in Low Income Countries* (Paris, 2014).

<sup>13</sup> An OECD term for corporate tax avoidance and evasion through cross-border channels.

<sup>14</sup> Gabriel Zucman, *The Hidden Wealth of Nations: The Scourge of Tax Havens* (Chicago, University of Chicago Press, 2015).

<sup>15</sup> Economic and Social Commission for Asia and the Pacific (ESCAP), *Financing for Development in Asia and the Pacific: Highlights in the Context of the Addis Ababa Action Agenda* (ST/ESCAP/2832). Available at [www.unescap.org/resources/financing-development-asia-and-pacific-highlights-context-addis-ababa-action-agenda](http://www.unescap.org/resources/financing-development-asia-and-pacific-highlights-context-addis-ababa-action-agenda).

19. The two main reform initiatives led by the Group of 20 and OECD are the Base Erosion and Profit Shifting Project and the Global Forum on Transparency and Exchange of Information for Tax Purposes.

20. The Base Erosion and Profit Shifting Project was started in 2013 and resulted in the release of the Action Plan on Base Erosion and Profit Shifting with 15 points in 2015. These comprise an extensive set of new rules and standards, as well as principles for future norm setting, to minimize international tax avoidance and evasion, under the guiding principle that profits should be taxed where the real economic activities generating the profits take place and where value is created.<sup>16</sup> The Action Plan has since entered its implementation stage and was opened to all countries in 2016 on the condition that a commitment be made to a minimum set of standards that are crucial for coordinated reforms. The Global Forum on Transparency and Exchange of Information for Tax Purposes was created in the early 2000s and was restructured in 2009 upon the request of the Group of 20 to strengthen implementation. It promotes the exchange of tax-related information across its 154 member jurisdictions and facilitates the enforcement of common standards for tax data collection, compilation and sharing.

21. In parallel, the United Nations continues to play a crucial role as the most inclusive platform for international tax cooperation as a result of its universal membership and strong commitment to leaving no one behind.<sup>17</sup> The Committee of Experts on International Cooperation in Tax Matters has been an important platform for norm setting regarding international taxation, with special attention given to developing countries. It started as an Ad Hoc Group of Experts on Tax Treaties in 1968 and was upgraded to committee status in 2005 as a direct subsidiary body of the Economic and Social Council.

22. The main norm setting work of the Committee of Experts is reviewing and updating the United Nations Model Double Taxation Convention between Developed and Developing Countries and the Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries. Since its birth, the United Nations Model Convention has been an important alternative to the Model Tax Convention on Income and on Capital of OECD. It promotes a slightly different balance between source country and residence country<sup>18</sup> taxing rights and is generally more favourable to host countries of investment.<sup>19</sup> The Committee of Experts, and the United Nations system in general, also contributes to global deliberations on international tax cooperation and international tax reform initiatives not led by the United Nations system.

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<sup>16</sup> A description of the 15 base erosion and profit shifting actions can be found at [www.oecd.org/tax/beps/beps-actions/](http://www.oecd.org/tax/beps/beps-actions/). The full Action Plan is available at [www.oecd.org/ctp/BEPSActionPlan.pdf](http://www.oecd.org/ctp/BEPSActionPlan.pdf).

<sup>17</sup> Liu Zhenmin, Under-Secretary-General for Economic and Social Affairs, “Opening remarks: panel discussion on strengthening the work of the United Nations on tax cooperation for sustainable development”, New York, 15 July 2019.

<sup>18</sup> Here the terms refer to source country of cross-border investment profits (the host country of the investment) and the residence country of the investor.

<sup>19</sup> Michael Lennard, “The purpose and current status of the United Nations tax work”, *Asia-Pacific Tax Bulletin*, vol. 14, No. 1 (February 2008).

## **B. The digital economy, tax competition and the need for more fundamental reforms**

23. The emergence of the digital economy has posed an unprecedented challenge to international taxation and has shaken the foundation of the existing international tax regime, in particular the principle that requires personal or physical presence as the legal basis for imposing taxes.

24. The new business models of digitalization, ranging from web-based services (such as online advertising, e-commerce and social media platforms) to remote employment and remote manufacturing, have allowed companies to be economically active in one sovereign jurisdiction without maintaining any physical presence. Such separation of economic activities from physical presence may leave growing shares of the economy untaxed or undertaxed under the current principle.

25. This problem is further complicated by digital intangible assets. Streaming platforms profit from managing intellectual property rights on music and movies in complicated royalty and licensing schemes across countries. Social media platforms and search engines monetize their user data by selling it to third parties for targeted advertising. Which tax jurisdiction has the right to tax the profits from digital intangibles, if a multinational enterprise manages those assets across country borders? How can the added value of data analysis be taxed most effectively, fairly and without thwarting innovation? Can the risk of multinational enterprises exploiting digital intangibles for aggressive tax planning by registering them in low-tax jurisdictions be reduced? All these questions remain unanswered.

26. Meanwhile, the long-standing issue of excessive tax competition also remains largely unaddressed. Even with the successful elimination of aggressive tax planning and checks on tax havens, the downward pressure on corporate taxes for greater competitiveness for investment continues to pose a risk of a race to the bottom. Recent unilateral developments<sup>20</sup> and temporary tax reductions introduced as incentive schemes to boost investment and economic growth further exacerbate such worries.

27. There is increasing consensus that the arm's length principle<sup>21</sup> and the allocation of taxing rights based on physical presence is inadequate to address the new challenges posed by the digital economy or concerns over tax competition. However, international debate on the issue has yet to achieve broad consensus on the direction of reform, and collective actions on this front have been limited. As more countries start to take unilateral measures to tap into the tax base of the digital economy, there is a significant risk that cooperation for multilateral solutions may not succeed when unilateral moves lock in ad hoc rules and standards, creating further distortions and making future harmonization more difficult.

28. OECD has advocated a recent push for a global solution to the growing debate over how to best tax multinational enterprises in a rapidly digitalizing economy.<sup>22</sup> This initiative, often referred to as Base Erosion and Profit Shifting 2.0, is one step forward on this front. OECD announced in January 2019 that

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<sup>20</sup> Such as the 2017 tax reform in the United States of America.

<sup>21</sup> The arm's length principle requires transactions between related parties be priced as if they were between independent entities.

<sup>22</sup> OECD, "International community makes important progress on the tax challenges of digitalisation", 29 January 2019.

members of the Inclusive Framework on Base Erosion and Profit Shifting have committed to strengthen efforts to multilaterally work towards achieving a new consensus-based long-term solution in 2020. Nevertheless, more fundamental reforms to the existing international tax regime based on broad-based consultation and cooperation would be required to achieve a systematic and long-term solution.

### **C. Cooperation on capacity-building for developing countries**

29. In the Addis Ababa Action Agenda, there is a considerable emphasis on assistance to developing countries in their efforts to strengthen tax collection and revenue mobilization. Subsequent to the adoption of the Agenda, advanced economies demonstrated growing willingness to increase their support for capacity-building on tax matters. For example, the Governments of Germany, the Netherlands, the United Kingdom of Great Britain and Northern Ireland, and the United States of America launched the Addis Tax Initiative in 2015 with a pledge to double support for technical cooperation in taxation by 2020.

30. In this context, in 2016, the Group of 20 requested four leading organizations, namely the International Monetary Fund (IMF), OECD, the United Nations and the World Bank Group, to support international tax cooperation and capacity-building, particularly to recommend mechanisms to help ensure effective implementation of technical assistance programs and recommend how countries could contribute funding for tax projects and direct technical assistance.

31. The final report by these four organizations revealed that a wide range, and a large number, of organizations and stakeholders provide capacity development support to developing countries.<sup>23</sup> The report also noted that, among these stakeholders, effective coordination on providing capacity development is largely absent. The International Tax Compact found that sometimes five different donors work on tax issues in the same country while other countries are not supported at all.<sup>24</sup> Another study, by IMF, found that 50 providers work in sub-Saharan Africa at the same time, with an average of five to six per country for a total of 208 programmes.<sup>25</sup>

32. The report noted that this complex environment created risks of duplication or fragmentation. The limited human resource and capacity of the recipient countries are often overwhelmed by the numerous programmes provided by multiple stakeholders, while the needs of some other countries are neglected. The lack of coordination and the different expertise and mandates of different stakeholders also resulted in inadequate sequencing of reforms and weak host country ownership in those programmes.

33. In response to the call for strong coordination among well-informed and results-oriented providers and strong regional cooperation and support contained in the report, the Platform for Collaboration on Tax was established in 2016 as a coordination mechanism at the global level, bringing together IMF,

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<sup>23</sup> IMF, OECD, United Nations and World Bank Group, “Enhancing the effectiveness of external support in building tax capacity in developing countries” (2016).

<sup>24</sup> Daniel Köhnen, Thorben Kundt and Christiane Schuppert, “Mapping survey: taxation and development” (Eschborn, Germany, German Agency for International Cooperation, 2010).

<sup>25</sup> IMF, OECD, United Nations and World Bank Group, “Enhancing the effectiveness of external support in building tax capacity in developing countries”.



OECD, the United Nations and the World Bank Group. The Platform for Collaboration on Tax has, so far, demonstrated a focus on coordinated capacity-building efforts and providing coherent and consistent international tax policy advice for developing countries. It also regularly monitors the capacity development activities of stakeholders and facilitates knowledge-sharing and transparency.

34. At the local level, better coordination is often achieved through or in partnership with mature regional tax cooperation bodies, such as the African Tax Administration Forum in Africa, the Inter-American Center of Tax Administrations in the Americas or the Intra-European Organization of Tax Administrations in developing Europe. In Asia and the Pacific, subregional tax cooperation platforms, like the Pacific Islands Tax Administrators Association and the Study Group on Asian Tax Administration and Research, also facilitate coordination within their respective subregions. However, their limited country coverage and the lack of collaboration between these subnational platforms mean that region-wide outreach and coordination for capacity-building remain difficult.

### **III. The landscape of international and regional tax cooperation: where does Asia-Pacific stand?**

#### **A. International tax cooperation platforms and the participation of Asia and the Pacific**

35. The United Nations system and OECD are the two main leaders in coordinating tax cooperation at the global level.

36. The Economic and Social Council, its annual special meeting on international cooperation in tax matters and the Committee of Experts on International Cooperation in Tax Matters are the main United Nations system platforms that drive the international debate on financing for development in general and international tax cooperation in particular. These platforms are tasked with monitoring international progress on financing for development and tax cooperation, facilitating intergovernmental consensus on tax matters, conducting analyses of important tax policy issues, setting norms for international taxation and supporting capacity-building on tax matters worldwide.

37. The strength of the United Nations system is its universal membership, its commitment to leaving no one behind and its special attention to developing countries' needs and constraints. This is reflected in its norm setting, policy research and capacity-building efforts on international taxation, which in general tend to prioritize the needs and interests of developing countries as host countries of investment or as exporters of resources.

38. The Group of 77 and China have long advocated for upgrading the Committee of Experts on International Cooperation in Tax Matters to intergovernmental status.<sup>26</sup> It has also played an important role in the creation of the special meeting of the Economic and Social Council on international cooperation in tax matters, which is frequently used by developing countries to articulate their voices. For example, at the 2019 session of the special meeting, the Government of India called for a platform under the auspices of

<sup>26</sup> The Government of India, in particular, is a primary contributor to the United Nations Tax Trust Fund to finance activities of the Committee of Experts on International Cooperation in Tax Matters.

the United Nations on international tax cooperation to give all countries an equal voice, while the Government of Thailand emphasized that international tax rules should be simple and practical in view of developing countries' limited resources.<sup>27</sup> However, a global intergovernmental platform with universal membership and dedicated mandate to lead international tax cooperation remains an ambition to date.

39. The Inclusive Framework on Base Erosion and Profit Shifting and the Global Forum on Transparency and Exchange of Information for Tax Purposes are the main international tax cooperation platforms led by OECD with guidance from the Group of 20. These two initiatives originated from projects within OECD and were later opened to all countries on an equal footing, reflecting an increasing emphasis on inclusiveness by the international community. Currently, the Inclusive Framework on Base Erosion and Profit Shifting has 132 members, while the Global Forum has 154 members worldwide.

40. The strength of these two platforms rests in their capacity to push forward important reform agendas and promote the adoption of new norms and practices on international taxation, supported by the leadership of the Group of 20 and OECD with their expertise and resources.

41. On the other hand, despite the commitment by these two platforms to multilateralism and inclusiveness and the progress on this front, the representation of developing countries and the level of their actual participation in the norm-setting process remain less than satisfactory. For example, only 17 developing countries from the Asia-Pacific region,<sup>28</sup> less than half of the total, are currently members of the Inclusive Framework. For the Global Forum, this figure is just slightly better at 24. Most countries that are left out are smaller and more vulnerable developing countries.

42. Importantly, most of the guiding principles of these two initiatives and the minimum standards and norms, to which commitment is required for membership, were developed by OECD. This has left a perception that developing countries' role is to some extent limited to implementation rather than norm setting. Developing countries' lack of technical capacity and resources to meaningfully contribute to the ongoing norm-setting work within the two platforms further exacerbates the divide.

43. The Platform for Collaboration on Tax is another important, but different, tax cooperation platform at the global level, which facilitates collaboration among IMF, OECD, the United Nations and the World Bank Group. It organizes regular dialogues among the four organizations and promotes joint efforts in coordinated capacity-building, providing high-quality analytical tools, policy guidance and recommendations on tax matters, and fostering informed and effective participation of all stakeholders. The table provides a snapshot of these major tax cooperation initiatives at the global level.

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<sup>27</sup> United Nations, "Corporate tax reform must focus on developing countries' needs, combating inequality, speakers tell special meeting of Economic and Social Council", press release, 29 April 2019.

<sup>28</sup> Excluding members of OECD and the Group of 20.

## A snapshot of major tax cooperation platforms at the global level

|  | <i>Main functions/mandates</i>   | <i>Membership</i>  | <i>Asia-Pacific participation</i>   | <i>Strength</i>  | <i>Limitations</i>  |
|--|--|--|---|--|---|
| <p><b>United Nations Economic and Social Council</b></p> <p>and its annual special meeting on international cooperation in tax matters</p> | <ul style="list-style-type: none"> <li>▪ Primary platform for debate and monitoring on financing for development and international tax cooperation</li> <li>▪ Intergovernmental platform for dialogue and coordination on tax matters</li> </ul>   | <p>Universal membership</p>  | <p>All Asia-Pacific countries</p>   | <ul style="list-style-type: none"> <li>▪ Universal representation</li> <li>▪ Commitment to leaving no one behind</li> <li>▪ Special attention to developing countries</li> </ul>                                   | <ul style="list-style-type: none"> <li>▪ Inadequate mandate and capacity with regard to driving major global reform agendas on international taxation</li> </ul>  |
| <p><b>Committee of Experts on International Cooperation in Tax Matters</b></p>   | <ul style="list-style-type: none"> <li>▪ Review and update the United Nations Model Double Taxation Convention between Developed and Developing Countries and the Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries</li> <li>▪ Promote dialogue on international tax cooperation</li> <li>▪ Provide capacity-building and technical assistance for developing countries</li> </ul> | <p>25 members nominated by States Members of the United Nations, but acting in their expert capacity</p> | <p>8<sup>a</sup> out of the 25 current members are from the Asia-Pacific region</p> | <ul style="list-style-type: none"> <li>▪ Balanced membership</li> <li>▪ Special attention to developing countries</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Not yet an intergovernmental body within the United Nations system, despite persistent requests by developing countries</li> <li>▪ Limited resources for operations</li> </ul> |
| <p><b>Inclusive Framework on Base Erosion and Profit Shifting</b></p>  | <ul style="list-style-type: none"> <li>▪ Develop multilateral solutions to the problem of base erosion and profit shifting</li> <li>▪ Promote coordinated reforms and implementation of new rules and standards</li> <li>▪ Provide technical and capacity-building support</li> </ul>  | <p>132 tax jurisdictions as of early 2019</p>  | <p>24 Asia-Pacific jurisdictions,<sup>b</sup> including 17 developing countries</p> | <ul style="list-style-type: none"> <li>▪ Political leadership by the Group of 20 and the Organization for Economic Cooperation and Development</li> <li>▪ Peer review and monitoring for implementation</li> </ul> | <ul style="list-style-type: none"> <li>▪ Limited representation of developing countries</li> <li>▪ Inadequate role of developing countries, especially in norm setting</li> </ul>                                       |

|  | <i>Main functions/mandates</i>  | <i>Membership</i>  | <i>Asia-Pacific participation</i>   | <i>Strength</i>   | <i>Limitations</i> |
|--|---|--|---|---|--------------------|
| <b>Global Forum on Transparency and Exchange of Information for Tax Purposes</b> | <ul style="list-style-type: none"> <li>▪ Multilateral framework for work on transparency and exchange of information for tax purposes</li> <li>▪ Implementation of standards on exchange of information on request and the automatic exchange of information</li> </ul>   | 154 tax jurisdictions as of early 2019   | 31 Asia-Pacific jurisdictions, <sup>c</sup> including 24 developing countries | <ul style="list-style-type: none"> <li>▪ Technical and capacity support for implementation</li> </ul> |                    |
| <b>Forum on Tax Administration</b>   | <ul style="list-style-type: none"> <li>▪ Forum on tax administration for tax commissioners</li> </ul>   | 53 countries as of early 2019  | 13 Asia-Pacific countries <sup>d</sup>  |   |                    |
| <b>Platform for Collaboration on Tax</b>   | <ul style="list-style-type: none"> <li>▪ Promote cooperation between the four member organizations</li> <li>▪ Coordinate capacity-building</li> <li>▪ Provide high-quality analytical tools, policy guidance and recommendations</li> <li>▪ Encourage informed and effective participation of all stakeholders</li> </ul> | <ul style="list-style-type: none"> <li>▪ International Monetary Fund</li> <li>▪ Organization for Economic Cooperation and Development</li> <li>▪ United Nations</li> <li>▪ World Bank Group</li> </ul> | Not applicable  |   |                    |

<sup>a</sup> Respectively nominated by China, India, Japan, New Zealand, the Russian Federation, Singapore, Thailand and Viet Nam.

<sup>b</sup> Armenia; Australia; Brunei Darussalam; China; Cook Islands; Georgia; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; Macau, China; Malaysia; Maldives; Mongolia; New Zealand; Pakistan; Papua New Guinea; Republic of Korea; Singapore; Sri Lanka; Thailand; Turkey; and Viet Nam.

<sup>c</sup> Armenia; Australia; Azerbaijan; Brunei Darussalam; Cambodia; China; Cook Islands; Georgia; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; Macau, China; Malaysia; Maldives; Marshall Islands; Mongolia; Nauru; New Zealand; Niue; Pakistan; Papua New Guinea; Philippines; Republic of Korea; Russian Federation; Samoa; Singapore; Thailand; Turkey; and Vanuatu.

<sup>d</sup> Australia; China; Georgia; Hong Kong, China; India; Indonesia; Japan; Malaysia; New Zealand; Republic of Korea; Russian Federation; Singapore; and Turkey.

## **B. Regional tax cooperation platforms outside Asia and the Pacific**

44. The following regional tax cooperation platforms function outside Asia and the Pacific.

45. The Association of Tax Authorities of Islamic Countries is affiliated with the Organization of Islamic Cooperation, and currently has 28 members. It was established in 2003 to facilitate improvement of tax administration and to promote sharia taxation with particular reference to zakat within Islamic countries.

46. The African Tax Administration Forum's mission is to improve the capacity of African tax administrations, advance the role of taxation in governance and state building, and develop partnerships between African countries and development partners.

47. The Commonwealth Association of Tax Administrators helps member countries by means of conferences, training programmes, publications and knowledge-sharing to develop effective tax administrations that promote sustainable development and good governance.

48. The Inter-American Centre of Tax Administrations promotes mutual assistance and cooperation among member countries. It develops specialized technical assistance programmes based on the needs and interests of its member countries, as well as encouraging studies, research and the exchange of experiences and best practices.

49. The Exchange and Research Centre for Leaders of Tax Administrations brings together the tax administrations of its francophone members to share experiences, develop practical guides and deliver training to improve implementation and operation of priority issues.

50. The Intra-European Organization of Tax Administrations is a forum that assists its 46 members to improve tax administration, primarily through workshops to exchange views, experiences and best practices.

## **C. Regional tax cooperation platforms in Asia and the Pacific**

51. Partly due to the economic diversity of Asia-Pacific countries, tax cooperation in the region has long been fragmented and lags behind peer developing regions such as Africa, developing Europe and Latin America. At the regional level, no dedicated and membership-based tax cooperation platform exists. Additionally, the subregional tax cooperation platforms vary significantly in institutional maturity and in capacity and are generally poorly funded. The dialogue and collaboration between different subregional tax cooperation platforms have been quite limited and on an ad hoc and informal basis.

52. The four consecutive high-level dialogues on financing for development in Asia and the Pacific organized by ESCAP between 2014 and 2017 served as a complement to this fragmented tax cooperation framework and helped to address some of the gaps. Benefiting from universal membership in ESCAP in Asia and the Pacific, these events brought together countries from different subregions for a broad-based dialogue on tax matters. The voices and ideas that emerged at these events were also communicated through the Commission's intergovernmental channels to global platforms within the United Nations system that drive the agenda on financing for development and international tax cooperation. Taken together, these sessions on average

attracted approximately 10 finance ministers and more than 150 participants, and the outcomes have informed the region's inputs to the debate leading up to the adoption of the Addis Ababa Action Agenda and the follow-up efforts. However, without further integration with the Commission's formal intergovernmental processes, the previous gains from these efforts may lose momentum. The following regional tax cooperation platforms function in Asia and the Pacific.

53. The Pacific Islands Tax Administrators Association was created in 2003 as a tax cooperation platform for 16 economies in the Pacific subregion to discuss shared tax challenges and priorities. It initially operated with assistance from the Pacific Financial Technical Assistance Centre of IMF, but it has strengthened its capacity and independence significantly over the years. In 2017, its permanent secretariat was officially opened. It is also the only Asia-Pacific member of the Network of Tax Organizations.

54. It has primarily focused on facilitating dialogue on tax matters and the exchange of policy lessons and international best practices in the subregion. It also serves as a platform for coordinating with development partners and donors on tax-related work and capacity-building in the subregion. Its secretariat is currently fully funded by its members through an annual subscription, while its capacity-building initiatives are mainly funded through partnerships with donors, international organizations and development banks.

55. The Study Group on Asian Tax Administration and Research is the oldest subregional tax cooperation platform in Asia and the Pacific and has the largest membership, at 17 members, of which 16 are ESCAP members and associate members (with Taiwan Province of China as the only non-ESCAP member). The Group covers mainly the geographic subregions of East Asia and South East Asia, but Australia, New Zealand and Papua New Guinea are also members. India became an observer in 2017.

56. The Group's task force was established in 2013 to oversee its operations. The membership of the task force<sup>29</sup> follows the hosting cycle and comprises the current, previous and upcoming hosts of the Group's annual meetings. However, the Group has yet to create a secretariat and a formal governance structure, or to secure regular funding based on membership contributions.

57. The Group's annual meetings includes a segment for heads of delegation (namely tax commissioners) and a parallel segment on capacity-building. One of the Group's priority functions is capacity-building and research to help members keep abreast of the latest international and regional developments in tax law and administration. In that regard, the Group's collaboration with leading expertise providers (such as OECD) and regional partners (such as the Asian Development Bank) has increased in recent years. In particular, the Asian Development Bank became the first permanent observer to the Group in 2017. However, the Group has yet to develop in-house capacity for training and technical assistance. Its effort to relay its members' views to international forums has also been limited, especially when it comes to United Nations platforms.

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<sup>29</sup> The current task force members are Philippines (2018 Chair), China (2019 Chair) and Indonesia (2020 Chair).

58. The Association of Southeast Asian Nations (ASEAN) Forum on Taxation was established in 2011, to provide a platform for dialogues on taxation issues in support of the integration process of the ASEAN Economic Community. It has two subforums. Sub-forum 1 on Double Taxation and Withholding Tax focuses on developing a comprehensive treaty network and a timetable for the reduction of withholding tax rates among ASEAN members. Subforum 2 on Enhancing Exchange of Views and Dialogue focuses on sharing experiences on best practices in taxation systems, developing strategies for cooperation, and building capacity support and training for tax administrations.

59. The Belt and Road Initiative Tax Administration Cooperation Mechanism is a recently established multilateral platform for tax cooperation related to the Belt and Road Initiative. It was launched in April 2019 with the objective of facilitating tax administration cooperation and creating a growth-friendly tax environment within the countries participating in the Initiative. The Mechanism consists of a Council, a secretariat, the annual Belt and Road Initiative Tax Administration Cooperation Forum, the Belt and Road Initiative Tax Administration Capacity Enhancement Group, and an Advisory Board.

60. At the inaugural Belt and Road Initiative Tax Administration Cooperation Forum, 34 tax administrations or finance departments became the founding members, among which 19 also signed up to the capacity enhancement group. Twenty-two entities, including international organizations, joined as observers. The inaugural Forum adopted the Wuzhen Action Plan (2019–2021),<sup>30</sup> and agreed on creating an annual Business and Industry Tax Dialogue back-to-back with the Forum. As indicated in the Wuzhen Action Plan, the Mechanism's main activities include promoting tax certainty, providing capacity-building and developing tax dispute resolution mechanisms.

61. Subregional intergovernmental platforms, such as the South Asian Association for Regional Cooperation (SAARC) and the Eurasian Economic Commission also facilitate tax cooperation at the subregional level. For example, members signed the SAARC Limited Multilateral Agreement on Avoidance of Double Taxation and Mutual Administrative Assistance in Tax Matters and SAARC organizes a regular meeting of tax authorities. The Consultative Committee for Tax Policy and Tax Administration of the Eurasian Economic Commission discusses tax issues related to economic integration. While the Commonwealth of Independent States has a Coordination Council of the Heads of Tax Authorities.

62. Regional tax forums that are not based on membership also provide important opportunities for dialogues and knowledge exchange on tax matters. The annual IMF-Japan High-level Tax Conference for Asian Countries and the biennial Asian Tax Authorities Symposium of the International Bureau of Fiscal Documentation, for example, serve as informal platforms for policy debate and have a reputation for technical depth. However, there is no mechanism by which ideas at these events are translated into multilateral agreements or officially channelled to major global tax cooperation platforms.

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<sup>30</sup> China, State Taxation Administration. Available at [www.chinatax.gov.cn/eng/n4260859/c5112272/5112272/files/c0ae127d146f47aab6199320e37ae1d.pdf](http://www.chinatax.gov.cn/eng/n4260859/c5112272/5112272/files/c0ae127d146f47aab6199320e37ae1d.pdf).

63. The high-level dialogues on financing for development in Asia and the Pacific organized by ESCAP annually between 2014 and 2017, in contrast, have provided a broad-based and semi-formal platform for discussion on regional tax cooperation and financing for development in general. The fourth High-level Dialogue on Financing for Development, held in 2017, in particular, made a specific effort to promote information-sharing and outreach by existing subregional tax cooperation platforms and key partners in tax cooperation and capacity-building. The Bureau of Internal Revenue of the Philippines hosted the 2017 Study Group on Asian Tax Administration and Research, which was attended by senior representatives of OECD, IMF and the Asian Development Bank. The representatives shared information on their platforms and initiatives supporting tax cooperation and related capacity-building in Asia and the Pacific.

64. However, the ad hoc nature of these events and the lack of integration with the Commission's formal intergovernmental mechanisms have constrained the level of their achievement, and there is a risk that previous gains towards broad-based and better coordinated tax cooperation in the region could be lost.

#### **IV. Gaps and the potential of international and regional tax cooperation: the developing country perspective**

65. The reinvigorated international tax cooperation and the ongoing international taxation reforms are likely to bring profound changes on many fronts: the international tax regime, the modalities governing the allocation of taxing rights and tax revenues across country borders, the manner in which countries coordinate and collaborate with each other on tax matters, and the external context for domestic tax and economic policymaking. Certainly, the process will be fraught with difficulties and uncertainties, but the progress achieved by the international community so far indicates that such a transition will likely continue to be pushed forward.

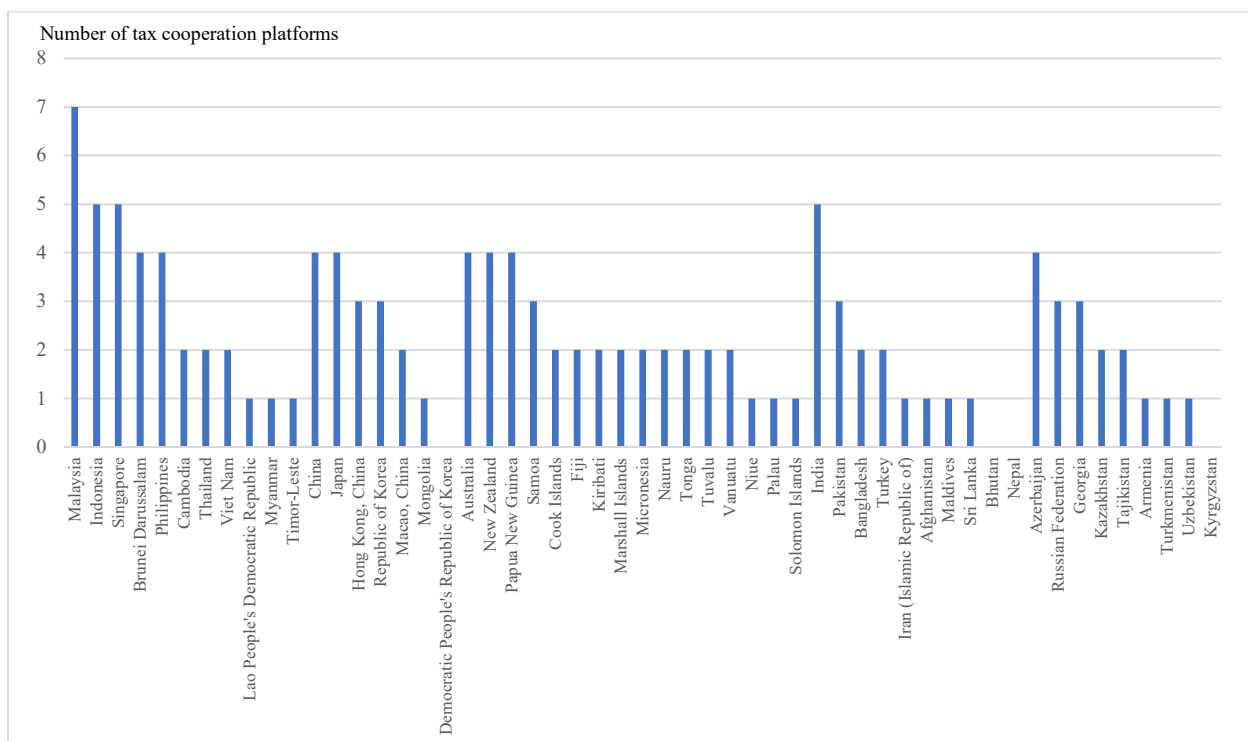
66. For developing countries, this transition poses numerous challenges. For example, developing countries face significant institutional and capacity constraints with regard to adapting to the new norms and standards for international taxation and effectively realizing the potential benefits brought by these reforms. This challenge is further exacerbated by the fact that most of these new norms and standards have been set by developed countries, so they are naturally more compatible with the legal and institutional frameworks and capacity levels of developed countries as opposed to those in developing countries. Such a mismatch, added to the already complex problems of international taxation, could render the task of implementation and compliance even more daunting and reform gains even harder to achieve for developing countries.

67. At the same time, developing countries are also inadequately represented and often do not have sufficient ability to articulate their concerns and protect their interest in the reform process, even when they are given equal footing in major tax cooperation and reform initiatives. A stock taking by ESCAP on Asia-Pacific countries' participation in 10 major international and regional tax cooperation platforms suggests that smaller and poorer developing countries tend to be much less represented, despite the strengthened effort to promote inclusiveness on platforms led by OECD and the Group of 20 in recent years (figure).



68. Even when developing countries participate in a platform on equal footing, they are more likely to focus on learning from others and on implementation, rather than on proactively driving or contributing to the reform and norm-setting agenda. This is understandable since focusing on learning may be an appropriate strategy when the knowledge and capability divide is huge, but it also reflects developing countries’ lack of preparedness to assume a more proactive role and their need for support to more effectively engage in international tax reforms.

**Representation of Asia-Pacific countries in international and regional tax cooperation platforms**



*Note:* The surveyed platforms include ASEAN Forum on Taxation; Association of Tax Authorities of Islamic Countries; Committee of Experts on International Cooperation in Tax Matters; Commonwealth Association of Tax Administrators; Global Forum on Transparency and Exchange of Information for Tax Purposes; Forum on Tax Administration; Inclusive Framework on Base Erosion and Profit Sharing; International Tax Compact; Pacific Islands Tax Administrators Association; and Study Group on Asian Tax Administration and Research.

69. For greater effectiveness and fairness in the ongoing international taxation reforms and to ensure that no country is left behind, actions could be taken on three fronts in the areas of international tax cooperation platforms, technical assistance and capacity support, and preparation for reforms and multilateral cooperation.

70. First, international tax cooperation platforms should pay special attention to the unique needs and capacity constraints of developing countries, beyond procedural equal footing, to ensure that developing countries will be heard and can influence decisions on norm setting. If such a platform is not feasible at the global level, an alternative option is to strengthen regional platforms to act as intermediaries, to solicit and consolidate ideas from developing countries and convey them as well-developed inputs and a united voice to global platforms.

71. Second, a simultaneous strengthening of technical assistance and capacity support for developing countries is key to enable developing countries to participate more proactively in existing international tax cooperation and reform initiatives. Such capacity-building should not be limited to the dissemination of international best practices and common standards. Instead, more effort should be devoted to country-specific support, understanding the unique constraints of developing countries and solutions tailored to local priorities and context. Regional tax bodies equipped with the necessary expertise and reliable funding have the potential to play a key role while seeking collaboration with international and national partners.

72. Third, adequate preparation for the new round of reforms and multilateral cooperation to address new challenges is needed (for example, taxation of the digital economy), in order to provide developing countries with a greater opportunity to participate in norm setting from the beginning. Given the implication of these reforms on the allocation of taxing rights and tax revenues across countries, efforts to inform developing countries *ex ante* and to conduct broad-based consultations through inclusive platforms before decisions are made would be very important.

73. Regional tax cooperation platforms in Asia and the Pacific are not yet up to such tasks, but there are opportunities. With regard to country representation and regional voice at global tax cooperation platforms, the Commission's universal membership and existing intergovernmental mechanisms could be further leveraged to better support subregions where dedicated tax cooperation platforms have yet to emerge and member States which have yet to join major international tax cooperation initiatives. The most recent initiative by the United Nations system to enhance support for international tax cooperation also creates greater space for ESCAP to serve as an intermediary within the United Nations system to solicit and relay regional voices and ideas on tax matters to global processes.<sup>31</sup> Past experiences with the high-level dialogues on financing for development in Asia and the Pacific illustrate the potential in this area, and the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development, after its restructuring to add financing for development in its mandate, is ideally positioned to carry forward this effort.

74. Strengthened capacities of subregional tax cooperation platforms and broader collaboration between them would also be desirable. However, such cooperation should be motivated and guided by the actual needs of the member countries of these platforms, and the development of in-house expertise for more close-quarter and tailor-made capacity support and technical assistance would also take significant time and commitment. Fostering collaboration between subregional platforms could be an easily achieved objective, and the observer status of the secretariat of the Pacific Islands Tax Administrators Association with the Study Group on Asian Tax Administration and Research marks a good start. The Commission's region-wide platforms are also well-suited for this purpose.

75. The fourth High-level Dialogue on Financing for Development in Asia and the Pacific, held in 2017, is an example of how to leverage ESCAP platforms for better information-sharing and outreach by major stakeholders that are driving international tax cooperation and reforms and play a leading

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<sup>31</sup> Liu Zhenmin, Under-Secretary-General for Economic and Social Affairs, "Opening remarks: panel discussion on strengthening the work of the United Nations on tax cooperation for sustainable development", New York, 15 July 2019.

role in capacity support for developing countries on tax matters. There is great potential for ESCAP to become an effective enabler for partners and stakeholders to reach out to Asia-Pacific countries on tax cooperation and capacity-building and for enhanced region-wide coordination and collaboration on this front.

## V. Issues for consideration by the Committee

76. While it is beyond the scope of the current document to provide an assessment of the likely future of tax cooperation in the Asia-Pacific region or prescribe solutions, efforts in following general directions could be desirable:

(a) Strengthened representation of and support for Asia-Pacific developing countries which have yet to be included in major international tax cooperation and reform initiatives or have yet to receive adequate capacity support;

(b) Increased efforts to solicit regional voices and ideas on priorities and gaps in international tax cooperation and reform and to communicate these regional inputs to global tax cooperation platforms, especially those within the United Nations system;

(c) Strengthened information-sharing, knowledge exchange and region-wide coordination among different subregional tax cooperation platforms and major partners and stakeholders working on tax matters;

(d) Strengthened coordination of capacity-building efforts on tax matters in the region and enhanced ability of subregional tax cooperation platforms for close-quarter capacity support and technical assistance.

77. As the regional arm of the United Nations system in Asia and the Pacific, ESCAP, in accordance with the Addis Ababa Action Agenda, is encouraged to mobilize its expertise and existing mechanisms and work in close collaboration with regional banks and organizations to support the Agenda on thematic aspects. In this context and given its universal membership and existing broad-based platforms, ESCAP is ideally positioned to take the initiative in supporting regional tax cooperation, in particular to chart out the regional needs, priorities and potential mechanisms for this course through broad consultations and close collaboration with member States, partners and stakeholders.

78. In this vein, the Committee may wish to consider taking the following actions:

(a) Recognizing the essential role of regional tax cooperation in dealing with the emerging challenges of international taxation, with a view to supporting the Addis Ababa Action Agenda and the means of implementation of sustainable development;

(b) Recognizing the importance of close collaboration between all partners and stakeholders working on tax matters in the Asia-Pacific region.

79. The Committee may wish to request the secretariat to continue to support regional dialogue and cooperation on tax matters leveraging its existing platforms and mechanisms; to set up a working group to develop proposals for strengthening regional tax cooperation, with special attention to developing countries in the region, through broad consultations and close collaboration with member States, partners and stakeholders; and to report on the progress in these areas to the Committee at its third session, to be held in 2021, and to the Commission at its seventy-eighth session, to be held in 2022.