> Daniel Witt:

Business Investment Needed to Achieve Global Development

As the World Economic Forum (WEF) gathers in Davos to advance its mission of "improving the state of the world," the "anti-globalisation backlash" continues. Many are challenging the well-established consensus that globalization will smooth economic shocks and lift societies out of poverty.

While the WEF's mission may be grand and somewhat ambiguous, it is reasonably aligned with the United Nations' Sustainable Development Goals (SDGs). This wide-ranging and ambitious agenda – from ending poverty, to eradicating hunger, delivering health and education, and reducing inequality around the world – was the result of a UN-led process in 2015 that involved its 190-member states and civil society organizations (CSOs) from around the world.

While there was remarkable unity and excitement around the development and adoption of the SDGs, there is far less unity and often contentious battling over their implementation, particularly in the developing world. Nevertheless, most agree that it will be a costly endeavour. The Economist estimates that it requires about US $2-$3 trillion per year for the next 15 years to achieve the SDGs. This will necessitate significant increases in private-sector investment.

Most multinational corporations (MNCs) continue to cite taxation, including unpredictable and aggressive revenue administrations, as the principal barrier to investing in less developed countries. Understandably, those countries want to be sure that their tax bases are not being eroded by predatory practices.

Developing countries rich in natural assets and talented people, but poor in government infrastructure, need help to deliver their full potential. Developing tax and customs codes and building effective revenue administrations are vital to many developing countries. It is widely recognised that international businesses, working beyond their own direct self-interest, have an important role to play. Drawing upon their global experiences, these businesses understand how taxes affect trade and investment decision making.

Bridging these concerns has been my work for the past 25 years with the International Tax and Investment Center (ITIC), a non-profit educational organisation that promotes tax and investment reforms in non-OECD countries. We offer a neutral table, similar to WEF's, for revenue administrations and businesses to meet, often for the first time, to discuss their respective needs and how these can best be met. The aim is to break down the barriers, dispel fears and misconceptions where they exist, and foster cooperative engagement. The governments of developing countries have to create an environment where business (foreign and domestic) feels welcome. And business needs to operate with the utmost transparency in order to demonstrate its commitment to the country.

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Developing countries must expand their domestic tax bases and grow their economies. This requires enhancing their revenue administration capabilities and ridding them of corruption. Positive steps forward have been made by the Revenue Authorities in Kenya and Ghana, for example, which have introduced 100% cashless systems. They have also introduced automation, including payment apps on mobile phones. As one revenue commissioner commented at a recent ITIC forum, "It's difficult for computers to ask for bribes." For small and medium-sized enterprises, paying taxes should become an easy and convenient process, which will also help shift the informal sector into the legal, tax-paying sector. This will further enhance the social contract between the people and their governments as more citizens and businesses "have skin in the game." Improving the capacity of tax and customs administrations is a win-win proposition for government budgets, business performance, and the attractiveness of investment climates.

Further economic policy and structural reforms are also needed. Developing countries must work hard to win the competition for capital investment. Open, transparent, competitive investment climates will attract foreign investment and help retain and grow domestic investment. The UNCTAD 2017 World Investment Report projects inward investment in Africa in 2017 to grow by 10 percent to almost $65bn. This includes important growth in the non-extractive sectors.

History has demonstrated that globalisation and open economies have delivered poverty relief for billions of people. This has been made possible by, among others, MNCs that have invested billions, transferred skills, increased employment, and improved the lives of hundreds of millions of people. Often MNCs account for the largest share of tax revenue that developing countries collect – in the form of wage withholding taxes, VATs, and excise taxes. Critics, however, continue to focus almost exclusively on corporate income taxes rather than the total amount of taxes that MNCs pay. These facts should be continuously communicated while nurturing the capacity of tax and customs officials to deal with tax challenges in developing countries.

These are important complexities that are unfortunately often overlooked in the "anti-globalisation backlash." Thus, it is fitting that the WEF 2018 annual meeting theme is "creating a shared future in a fractured world." The engagement and dialogue between and among diverse constituencies convened by the WEF can foster mutual understanding and trust that will unleash more investment, spur economic growth, and thereby enable a more prosperous and peaceful world.

ABOUT THE AUTHOR

Daniel A Witt, president of the International Tax and Investment Center, has played a leading role in engagement between business and governments in less developed countries on tax and investment reforms for more than 25 years.

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