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Pathways to International Tax Governance: Has the German G20 Presidency Made a Difference?

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The article provides an overview over recent developments in the field of global tax cooperation, with a specific focus on the activities of the G20 under the German presidency. It argues that Germany has mostly limited itself to following-up on previous initiatives, rather than presenting new initiatives concerning the international tax governance structure. Progress has been achieved with regard to fighting tax avoidance by multinational corporations and exchanging information between tax authorities. However, these changes are insufficient to address spillovers arising from mismatches between public finance and public service delivery. Developing countries in particular are challenged to manage such spillovers under the current international tax system.

Introduction

At their summit in Hamburg in July 2017, the G20 leaders issued a declaration that pledges to "continue our work for a globally fair and modern international tax system" (G20 2017, 7). But has the German G20 presidency be conducive to such an ambitious goal?

To answer this question, the present article analyzes recent developments in the international tax agenda. The G20 plays a central role in shaping the agenda in this area, but does so in close cooperation with other international organizations, most notably the OECD. Against this background, the article puts activities under the German G20 presidency in a broader context of international tax competition and cooperation. Based on this discussion, it lays out pathways for a future global tax governance structure and the challenges of upcoming G20 presidencies.

In the wake of the financial crisis of 2008–2009, the international debate on tax fairness and global tax regime modernization has focused above all on three distinctive though interrelated issues (Hearson 2017): the widespread avoidance of tax payments by multinational corporations (MNCs) through different mechanisms of base erosion and profit-shifting (BEPS); the evasion of taxes by rich individuals and criminal associations through illicit capital flows; and the worldwide race to the bottom in capital taxation through the lowering of statutory tax rates and the granting of tax exemptions.

This article holds that under the German presidency the G20 has been following up on previous initiatives with regard to tax avoidance (BEPS),

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initiated under the leadership of the UK and Germany in 2012. In this context, the G20 continues to rely on another international organization, the OECD, to make progress on international tax cooperation. The process, it should be pointed out, has not received important new impulses (Büttner and Thiemann 2017). As regards tax evasion, Germany has achieved progress on the automatic exchange of information for tax purposes, but has maintained its reservations on the subject of transparency and public access to information. Finally, on the topic of ruinous tax competition, G20 activities have been limited and no major initiatives have been launched. This could be the result of recent political developments, as will be discussed in more detail below.

Germany's emphasis on including Africa in the respective policy processes of the global tax agenda should be seen as an innovative element of its G20 presidency. This is in line with recent efforts by donors and international organizations to step up capacity development in the field of domestic revenue mobilization, with a specific view on Africa.

Based on these observations, we find that additional institution building at an international scale would be required to achieve the fair and modern tax system envisioned by the G20 leaders. Reforms should aim at improving the *fiscal equivalence* (Olson 1969) of public service delivery and public finance, leading to an internalization of spillover effects between economic actors produced by the global tax system. In this context, it is pivotal to strengthen those multilateral approaches that allow developing countries to broaden their participation in international tax matters, as these countries suffer most (in relative terms) from unfair or illegal tax practices (Cobham and Janský 2017).

The article is organized in the following way: "Contextual Dynamics of International Tax Cooperation" section sets the stage by discussing relevant contextual factors that emerge from different conceptual approaches to the issue of international tax cooperation. "Taking Stock: Recent Trends in International Tax Cooperation" section describes recent developments in global tax cooperation in more detail and discusses the role of the German G20 presidency. "Actors, Roles and Further Activities" section gives an overview over actors and roles involved in this process. "Pathways to a New Governance Structure?" section identifies the emerging pathways to a new international tax governance structure and discusses the adequacy and sustainability of policy solutions as they present themselves today. The last section concludes.

Contextual Dynamics of International Tax Cooperation

What contextual dynamics on the national and global level influenced agenda-setting and policy achievements of the German G20 presidency? Competition and cooperation is examined here among nation-states as the two basic drivers of policy change in international taxation.

- Competition refers to those policies that seek to maximize one's own benefits as opposed to the benefits of others. With regard to taxation, competition between countries is often perceived as a zero-sum or even negative-sum game, though some sources stress the importance of generalized efficiency gains and lower capital costs (see Clausing 2016; Genschel, Lierse, and Seelkopf 2016). Competition takes place to attract foreign direct investments and to protect a country's tax base (Basinger and Hallerberg 2004). Key unilateral policy instruments are lowering tax rates, defining the tax base (including the granting of tax holidays, etc.) and preventing cross-border asset shifting to avoid tax arbitrage (Genschel and Schwarz 2011).

- Cooperation refers to those policies that aim to maximize mutual gains in what is typically perceived as a positive-sum game. In tax matters, cooperation refers to policies that seek to define common standards to avoid moral hazard behavior by countries, companies or individuals, for instance with regard to the exchange of information, reporting standards for MNCs, or specific tax rates. Cooperation can take place in the form of nonbinding soft laws and norm-diffusion, or as rule-making and institution-building through binding bilateral and multilateral treaties (Christians 2007).

Theories of tax competition can be used to explain the general downward trend of tax rates on capital since the 1980 s (Hakelberg and Rixen 2017). In a setting defined by global competition for mobile tax bases, governments would be willing to engage in cooperation only to avoid excessive losses from a ruinous race to the bottom. Preference would be given to bilateral forms of cooperation (double taxation or investment treaties), where governments would keep a higher degree of control over the distribution of costs and benefits (Rixen 2011). Cooperation would further be undermined by moral hazard behavior and political influence of tax havens, companies and wealthy individuals that seek to free-ride on any attempts by third countries to protect their tax bases (Webb 2004). Factors shaping the relative position of individual countries would include country size as well as domestic institutional and budget restrictions (Genschel and Schwarz 2011).

In line with this model, cooperation on tax matters in recent years has been motivated above all by increased revenue needs of governments after the world economic crisis of 2009. In 2017, however, the perspective of globalized tax competition has regained strength as a consequence of two major political developments: the inauguration of Donald Trump as the 45th President of the United States, on January 20th, and the official invocation of Article 50 of the EU treaty by the British government, on March 29th (the so-called "Brexit"). These developments have been widely interpreted as discouraging any initiative to deepen international cooperation in tax matters. Initial signals pointed to a new round of unilateral action, as both governments contemplated radical changes to their tax regimes, above all significant cuts to corporate income tax rates. At the time of writing, however, none of these ideas has been put into practice.

A specific case refers to situations where the threat of sanctions by a powerful nation forces third countries benefitting from moral hazard behavior to comply with the rules set unilaterally by that power. This has been the case, for instance, with the Foreign Account Tax Compliance Act (FATCA) issued by the United States in 2010, which led to a series of bilateral agreements on the automatic exchange[1] of information with US tax authorities (Hakelberg 2016).

[1]*The term 'exchange' may be somewhat misleading in this context, though, as the US has been quite reluctant to share tax information with foreign tax authorities (Hakelberg & Schaub, 2017). As a matter of fact, the US has signed the protocol of the Amended Convention on Mutual Administrative Assistance in Tax Matters in 2010, but has not ratified the convention and is not likely to do so in the foreseeable future. See http://www.oecd.org/tax/exchange-of-tax-information/Status_of_convention.pdf, accessed 15.11.2017; Knobel and Meinzer (2017).*

Another line of academic reasoning explores the conditions that make *co-operation* among states more likely. In this context, higher degrees of homogeneity and symmetric power distributions have been identified as factors that facilitate cooperation (Rota-Graziosi 2016), due to lower transaction costs for the parties involved. Following this argument, *club governance structures* such as those underlying the OECD, the G20, the G7 and the EU provide an institutional setting that would, in principle, be better suited for cooperation in tax matters than an encompassing governance structure such as the United Nations or the WTO (Christians 2016). Or, put the other way round, "in an asymmetric multi-country setting, tax cooperation is likely to be difficult and fragile" (Genschel and Schwarz 2011, 355). According to this approach, cooperation would be more likely in those cases where measures tackle competition strategies deemed illicit and involving free-riding and moral hazard, such as, for instance, secrecy rules of tax havens.

Indeed, recent activities at the international level, in particular with regard to BEPS and the automatic exchange of information under the Common Reporting Standard (CRS) show that cooperation seems to follow the path outlined above (Büttner and Thiemann 2017).

First, the BEPS project was initially prepared by the OECD's Committee on Fiscal Affairs (CFA), which was for that purpose extended to forty-four countries, including the eight non-OECD G20 countries and two OECD Accession Countries. Only later, participation was extended to developing countries. The actions it comprises aim at reducing corporate tax evasion through measures addressing "harmful tax practices using preferential tax regimes and tax rulings, transfer pricing, tax treaty abuse, tax challenges of the digital economy, the effects of hybrid mismatch arrangements, base erosion via interest deductions and other financial payments, the permanent establishment definitions, and improving dispute resolution mechanisms" (G20 2017, 25–26). Four of these, which deal with the taxation of intellectual property, the avoidance of treaty shopping, country-by-country reporting of MNCs internal relationships and transfer price documentation, and the facilitation of Mutual Agreement Procedures (MAPs) for dispute resolution, are considered "minimum standards."[2]

BEPS measures are designed to be implemented above all by changing domestic laws and bilateral treaty provisions. In the context of bilateral negotiations, power asymmetries evidently play a major role. A recent study by Braun and Zagler (2017) shows that the signing of bilateral double tax agreements (DTAs) between developed and developing countries is statistically associated with increased flows of aid. DTAs usually mean that developing countries as capital importers cease taxation rights to developed countries as capital exporters. Findings by Braun and Zagler (2017) suggest that short-term compensations are paid in exchange for longer-term benefits accruing to the capital exporter.

Second, regarding the automatic exchange of information, countries will report and exchange information on financial accounts between each other through the CRS. Both, individual and corporate accounts will have to be reported (OECD 2017b). The standard is based largely on the US's FATCA. The implementation and collection of the necessary information, however,

[2]*Minimum standards are standards all countries participating in the BEPS initiative are expected to commit to. For an overview over the history and contents of the BEPS project, see Picciotto (2017). For a recent account of implementation activities, see OECD (2017a).*

poses a hurdle for many developing countries facing resource constraints, and is on that account criticized by some observers (for instance, see Draper and Krogman 2017; Fowler 2016).

A third line of thinking, promoted by authors such as Piketty (2014) and Zucman (2015), would stress the link of higher levels of wealth and capital taxation in the fight against income inequality. This narrative of tax justice has nurtured the global public debate on tax evasion and tax avoidance (ICRICT 2016; van Apeldoorn 2016; Hakelberg and Rixen 2017). Cooperation under this approach would take place above all in the realm of norm diffusion and should lead to higher degrees of tax harmonization and higher statutory tax rates worldwide. The European Commission's 2016 proposal for a common (consolidated) corporate tax base, recently endorsed by the European Council in September 2017 (European Economic and Social Committee 2017), explicitly refers to the principle of fairness as a key motivation of tax harmonization (European Commission 2016a, 2016b). However, it should also be clear that further efforts for tax harmonization and concerted tax rate hikes are not likely at the international level in the near future (Milanovic 2016).

Recent global developments have stressed the need for a closer alignment of the international development and tax agendas. First of all, the adoption of the 2030 Agenda by the UN in 2015 implied an explicit need for funding of the Agenda's ambitious 17 Sustainable Development Goals (SDGs). The estimates on the resources necessary for implementing the SDGs vary, but figures are huge. For instance, UNCTAD (2014) identifies a financing gap in SDG-relevant sectors of 2.5 trillion USD annually. The Addis Ababa Action Agenda (AAAA), adopted at the 3rd UN Financing for Development Conference in 2015 as an action plan for financing the SDGs, refers to tax policy, both domestic and global, as an important means to generate the necessary funds for the implementation of the 2030 Agenda.

Furthermore, the surge of cross-border migration and refugee numbers in Europe, which started in 2013 and found its peak in fall of 2015, and the domestic political agitation that followed from it, also had very direct effects on the focus of Germany's G20 Presidency (Luckhurst 2016). Facing the causes of migration and flight, i.e. fighting poverty and state fragility in the countries of origin, became a key element of the public discourse to address widespread concerns within society. And although only a comparably small share of refugees coming to Germany originated in sub-Saharan African countries, a focus was placed on development programs in Africa as means to combat causes of migration. In 2016–2017, Germany's Ministry of Economic Cooperation and Development thus presented its own, somewhat ill-named "Marshall-Plan" with Africa, and launched the G20 Africa Partnership, which prominently includes the so-called "Compacts with Africa." In June 2017, it hosted the G20 Africa Partnership Conference in Berlin to visibly underline the centrality of this initiative. The fact that tax evasion and illicit financial flows are considered a huge impediment to investment in Africa (Mbeki et al. 2015) assigns tax policy an important role in G20 discussions on African development.

Taking Stock: Recent Trends in International Tax Cooperation

In general terms, the current international tax cooperation agenda has been shaped and driven above all by the main economic powers of the G20 and the OECD. Starting after the global financial crisis of 2008, the G20 recognized that to establish a stable global financial system and to give states the power to regulate their economies, a new set of global rules on tax policy was required. After having declared "the era of banking secrecy [to be] over" (G20 2009), the G20 called on international organizations to develop feasible programs to address the most pressing problems of corporate and individual tax evasion. The efforts culminated in the Tax Annex of the 2013 St Petersburg G20 Leader's Declaration. In the Annex, the G20 committed itself to a rapid implementation of the G20/OECD BEPS Action Plan and the CRS. While these two projects address tax dodging by corporations and individuals through cross-border shifting of profits, income and wealth, there is no comparable initiative toward international cooperation on harmful tax competition between countries.

In the G20, tax policy has traditionally been discussed in the Finance Track. Under the Turkish G20 Presidency in 2014–2015, however, the G20's Development Working Group (DWG) made Domestic Resource Mobilization (DRM) a key priority. This resulted in strengthening programs by different actors to increase tax capacity in developing countries in general, but also in a greater focus to include more and more developing countries in the flagship projects of BEPS and CRS.

BEPS

The BEPS Action Plan, developed by the OECD, was published in October 2015. In the same year, the G20 committed to an Inclusive Framework for BEPS, which was endorsed in 2016 under the Chinese G20 Presidency. At the present time, the Inclusive Framework is joined by 108 jurisdictions overall. The last action point of the BEPS Action Plan was the development of a multilateral convention to flexibly extend DTAs by tax-treaty related BEPS measures (MC-BEPS). This multilateral convention was published just before the start of the German G20 Presidency and was signed by 68 jurisdictions in June 2017.

While this important step toward the implementation of the BEPS project has been based on previous initiatives, the G20 during the German Presidency has also prepared for slight further adjustments of the project. The two main initiatives were a renewed focus on the topic of the tax challenges of the digital economy, and the deepening of the work on tax certainty.

At the Finance Ministers' meeting in Baden-Baden in March 2017, a report on the implications of digitalization for taxation was commissioned to be delivered by the OECD Task Force on the Digital Economy (TFDE). The renewed initiative follows up on Action Point 1 of the BEPS Action Plan on the tax challenges of the digital economy. The plan describes taxation of the digital economy as a subsidiary problem in the general complex of BEPS, while "[t]he options analyzed [...] to address the broader direct tax challenges [...] would require substantial changes to key international tax standards and would require further work" (OECD 2015, 137). Although initially it was planned to publish a new report only in 2020, the process was sped up under the German G20 presidency, and an interim report is expected for 2018.

At the same meeting in Baden-Baden, a report on tax certainty (IMF and OECD 2017) was delivered to the G20 Finance Ministers. Tax certainty is identified as crucial to encourage investment, also in developing countries. With the changes in domestic legislation that BEPS brings about, uncertainty on future tax payments is increasing. The report is mostly concerned with the perspective of OECD and G20 countries, though acknowledging that "the issues faced and many of the responses needed are likely to be different in developing countries" (IMF and OECD 2017, 5). Moreover, uncertainty is mostly conceived from a business perspective, while tax administrations and budget authorities are faced with large uncertainty on their revenue streams as well (Monkam et al. 2017).

It can be expected that both these topics remain on the G20's agenda and will be part of further evolutions of the BEPS project. To address the needs of developing countries to implement the BEPS package and related developing-country specific issues, the G20 has called the Platform for Collaboration on Tax, which is a joint platform by the IMF, the OECD, the World Bank, and the UN, to develop eight toolkits to specific problems and challenges. After the first toolkit on Tax Incentives was already released in 2015, public consultations for toolkits on Transfer Pricing Comparables and on Indirect Transfer of Assets have been launched this year. More toolkits on Transfer Pricing Documentation, Treaty Negotiation, BEPS Risk Assessments, Base Eroding Payments, and Supply Chain Restructuring are yet to be delivered. It remains to be seen whether these toolkits successfully address developing countries' concerns surrounding their special needs around BEPS-related problems.

Automatic Exchange of Tax-Related Information

While most of the G20's progress in advancing international tax cooperation is often perceived to have happened through the BEPS package, the exchange of tax-related information on financial accounts between countries is no less important. The G20 also committed to implement a reporting standard and pursue exchanges in the Tax Annex to the St Petersburg Declaration in 2013. The CRS was endorsed in 2014, and from September 2017 on, the first 50 countries commenced to exchange information, with 50 more to follow in 2018.

The CRS was developed and is supervised by the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes. The Global Forum has 146 member countries as of today. It provides technical assistance that aims at helping developing economies in particular to implement the requirements of the CRS. The Forum furthermore monitors compliance by members with its tax transparency standards, of which the CRS is one element. Assessments are organized as a two-staged peer-review process. At the first stage, the legal framework of member countries is analyzed with regard to those elements necessary for the international exchange of information. At the second stage, the practical implementation of the legal rules is examined. While it is envisioned that the second-stage peer review should be an in-depth examination including onsite visits, most second-stage reviews are currently carried out in a fast-track review procedure.

The Forum was asked by G20 Leaders in July 2016 to compile a list of noncompliant countries for the 2017 summit. The leaders also—remarkably—declared that "defensive measures will be considered against listed jurisdictions." To date, only ten jurisdictions underwent the second-stage review of de facto implementation of the transparency standards, and only eight jurisdictions were found not to be fully compliant with the standards.[3] In the 2017 Hamburg Leaders' Declaration, no measures against these jurisdictions were announced. However, the same formulation ("measures will be considered") was reused.

The United States, with FATCA in place, have not yet signed CRS, and are hence not exchanging information with other countries. The Forum still lists it as "largely compliant" with transparency standards (see Knobel and Meinzer 2017).

Actors, Roles and Further Activities

In its two leading initiatives on tax cooperation, the BEPS project and the automatic exchange of information, the G20 has relied largely on the OECD as main source and implementing partner. This is not uncontroversial, given that the OECD is often considered a club of rich industrialized countries. As these projects have been the core of the global tax agenda, this has taken room for action from other central actors—foremost the UN Committee of Experts on International Cooperation in Tax Matters—but also the IMF Fiscal Affairs Department and the World Bank Group. A developing countries' initiative to upgrade the UN tax committee to a fully-fledged intergovernmental body has been thwarted due to staunch resistance of several industrialized countries at the 3rd UN Financing for Development Conference in 2015 in Addis Ababa.

With the Turkish G20 Presidency, the focus of G20 tax policies was, however, slightly extended to domestic revenue (or resource) mobilization through initiatives of the G20 Development Working Group. In line with the adoption of the 2030 Agenda for Sustainable Development, improving domestic tax collection was identified as an important means to finance sustainable development. These developments have brought the three large international organizations—IMF, World Bank and the UN—back on the agenda, as strengthening national tax capacities is also closer to their core activities. Through the Platform for Collaboration on Tax, all four organizations work together on a common approach to align strategies of capacity development with respect to domestic tax collection and adoption of global standards (World Bank 2016). A first workshop on external support in strengthening tax capacity in developing countries was held in May 2017.

Additional initiatives of capacity development, such as Tax Inspectors without Borders (TIWB), Tax Administration Diagnostic Assessment Tool (TADAT), or the Addis Tax Initiative (ATI), have been welcomed, but not explicitly supported by the G20. This changed under the German G20 Presidency, who in direct follow-up to its G20 Africa Conference, also chaired an ATI Tax and Development Conference in Berlin in June 2017. The ATI had been launched at the 3rd UN Financing for Development Conference in 2015 and intends to support the funding of the SDGs of the 2030 Agenda through enhancing DRM in developing countries. Participating donor countries have pledged to double their contributions to tax-related technical cooperation programs by 2020. Germany has been a founding country of the ATI, and leveraged its G20 Presidency to support

[3] *These are: Anguilla, Curaçao, Indonesia, Jamaica, Marshall Islands, St. Maarten, Turkey (all partially compliant), and Trinidad and Tobago (non-compliant).*

the initiative further. At the Berlin conference, the first ATI Monitoring Report[4] was released.

The alignment of tax-related initiatives and Africa policies of the G20 under the German Presidency is also documented by the launch of the Africa Academy for Tax and Financial Crime Investigation at the G20 Africa Partnership Conference. It is part of the OECD's International Academy for Tax and Financial Crime Investigation. Up to now, it is confined to training programs on fighting tax crimes in Kenya. In the medium term, it aims at sharing best practices among African countries in fighting illicit financial flows, but also corruption and money laundering. The impact of such an academy also lies in the network effects that it can create among tax officials of African governments as well as those of OECD countries.

To sum up, the OECD is still shaping the international tax cooperation agenda, and is as such entrusted by the G20, the key body for concerted action in this field. The other major international organizations, UN, IMF and World Bank, are more strongly involved with capacity development and training programs for domestic tax officials. However, there are many overlaps, and a growing number of individual initiatives led or supported by some organizations, or all of these (for instance, see IMF, OECD, UN, and WBG 2016). The overall picture is thus one of growing levels of cooperation, with a body of rules and standards promoted above all by the capital exporting countries of the global North through the G20 and the OECD, and a much more diverse landscape of rule implementation, involving other international and regional organizations, bilateral donors and a large number of nongovernmental organizations. What, then, are the prospects for international tax governance?

Pathways to a New Governance Structure?

Governance has been defined as "an effort to craft order, thereby mitigate conflict and realize mutual gains" (Williamson 2000, 599). In their introductory chapter to "Global Tax Governance," Dietsch and Rixen (2016, 3) relate the notion of global tax governance to "the set of institutions governing issues of taxation that involve cross-border transactions or have other international implications." Many scholars and international observers argue that the current international tax system is not conducive to the effective mitigation of conflict and realization of mutual gains. But why is this the case?

As shown in "Contextual Dynamics of International Tax Cooperation" section, above, researchers identify several factors driving unfair tax competition and limited tax cooperation. Some studies explore the impact of capital or corporate income taxation by individual governments on public revenues, investment flows, etc. in third countries (McGauran 2013; IMF (International Monetary Fund) 2014; Cnossen 2016; van de Poel 2016). The underlying political economy is sometimes modeled in game-theoretic terms, with national governments as primary players (Rixen 2008). From a normative perspective, scholars explore how globalization undermines the fiscal sovereignty of nations (van Apeldoorn 2016). Hence, with rather few exceptions (for instance, see Seabrooke and Wigan 2016; Webb 2004)

[4] *https://www.addistaxinitiative.net/documents/Addis-Tax-Initiative_Monitoring-Report_2015_EN.pdf, accessed on 12.12.2017.*

international tax governance is approached as a structure (or set of structures) shaped and dominated by states and their clubs.

We argue that a key factor of international tax governance is the spillovers created by mismatches of public service delivery and the payment of taxes. The Olson concept of *fiscal equivalence*, refers to a situation where there is "a match between those who receive the benefits of a collective good and those who pay for it" (Olson 1969, 483). Without fiscal equivalence, spillover effects are generated that lead to an inefficient supply of public goods. As a guiding principle, fiscal equivalence (or "fiscal correspondence", see Oates 1972, 2005) was subsequently used to discuss the most efficient distribution of responsibilities between different levels of government (Schakel 2010; Weingast 2014; Acemoglu, García-Jimeno, and Robinson 2015).

It is important to understand that fiscal equivalence is a matter of regulation that applies to international tax governance as well. In fiscal federalism theory, hard budget constraints combined with a clear distribution of competences among government levels are a precondition for effective competition for investments and human resources between governmental units (Weingast, 2006). Tax systems enter on both sides of the equation. On the one hand, they provide governments with the revenues needed to deliver goods and services required by citizens and companies. In this sense, they are part of the fiscal contract that shapes the public service portfolio. On the other hand, tax systems are part of the general governance system, i.e., the set of rules and regulations that allows (or, in some cases, inhibits) markets to work properly (Buchanan 1967; Barro and Sala-i-Martin 1992). In both dimensions, fiscal equivalence increases the chances for tax systems to reflect collective choices.

As most other public policy areas, tax systems will never be guided by the principle of fiscal equivalence alone, since they have to account for other factors as well (in particular, economies of scale and scope as well as transaction costs in public service delivery). However, in a context of market globalization, a tax governance structure based primarily on national market regulations and bilateral agreements is evidently in conflict with the principle of fiscal equivalence. Those economic actors who are regularly engaged in cross-border transactions—above all, capital owners and multinational corporations—will be able to routinely benefit from spillovers created by the mismatch of public service delivery and public finance. In contrast, governments as well as workers and employees tend to be negatively affected by such spillovers (Genschel and Seelkopf 2016).

Hence, a key question any reform of the global tax system has to address is: Does it allow for an internalization of spillover effects, and thus, for an improved implementation of the principle of fiscal equivalence? This question clearly goes beyond the realms of governmental competition and international cooperation typically discussed in the international taxation literature (see Clausing 2016). Rather, it invokes a notion of a *global* collective order capable of regulating markets from a *global* common good perspective. Such a system should be able to provide at least three kinds of services:

- A multilateral approach to the collection and sharing of tax-related information, including information on the beneficial ownership of assets, to

fight tax evasion and tax avoidance patterns arising from information asymmetries;
- A common corporate tax base beyond nonbinding "codes of conduct" to increase tax certainty and avoid spillovers arising from regulation gaps in cross-border transactions;
- A common system of standards and monitoring mechanisms on tax expenditure to fight moral hazard behaviour by individual jurisdictions.

Recent changes in the international tax governance structure have largely focused on an expansion of rather specific multilateral solutions built into a generalized club-governance structure. This refers above all to the inclusive framework and the multilateral instrument set up for the implementation of BEPS action plans. However, maintaining separate entity accounting and the arm's length principle as key features of international taxation has also meant keeping an international tax governance structure based on bilateral treaties between sovereign states (Biondi 2017; Ylönen and Teivainen 2017). As a result of these reforms, those countries whose revenues are most severely affected by tax avoidance and tax evasion—i.e. the low- and lower middle-income countries of the Global South (see Cobham and Janský 2017)—are particularly challenged by the task of strengthening fiscal equivalence.

Yet, the inclusive framework and the multilateral instrument are not the only recent innovations in international tax cooperation. Important progress has also been achieved regarding the automatic exchange of information among tax authorities, as mentioned above. Following Hakelberg and Rixen (2017), this has already changed the capacity of OECD governments to address fiscal spillovers, leading to increases in statutory tax rates on portfolio capital income as opposed to corporate profits. It remains doubtful, though, that this is also true for developing countries, as they are presently much less involved in information exchange.

Another reform has been the creation of the Platform for Collaboration on Tax in April 2016. The platform brings together tax-related activities by the United Nations, the World Bank, the IMF, and the OECD. It aims at supporting the implementation of standards and rules in developing countries by means of joint delivery of guidance and collaborative capacity development activities (IMF, OECD, UN, and WBG 2017).

While this initiative bears considerable potential, it remains to be seen whether each of the participating organisations will be able to bring in their specific strengths and capabilities, as resources are rather unevenly distributed among the four. In particular, the UN Committee of Experts on International Cooperation in Tax Matters, though recently strengthened in the Addis Ababa Action Agenda (United Nations 2015), faces important limitations with regard to infrastructure, human resources and representativeness in the UN system.[5]

Initiatives on a global scale have been accompanied by increasing levels of activities carried out by regional organizations, above all the Inter-American Center of Tax Administrations (Centro Interamericano de Administraciones Tributarias, CIAT) and the African Tax Administrations

[5]*Other UN bodies involved in international tax cooperation include UNDP, partnering with OECD in the "Tax Inspectors Without Borders" programme (see Saenz & Ryding, 2016 for a critical assessment), and UN-DESA through its Financing for Development Office (Trepelkov, Tonino, & Halka, 2015).*

Forum (ATAF). While CIAT has been providing tax-related services to governments in Latin America and the Caribbean since 1967, ATAF was established in 2008 and has developed into a key international player representing African tax interests ever since.

The above-mentioned changes in the international tax governance structure have been instrumental for making progress on the development of international standards and for keeping the issue high on the international agenda. It is doubtful, however, whether the current system will effectively put an end to moral hazard behavior by individual economic actors and governments.

Conclusion

During the German G20 Presidency, the main projects on the international tax agenda, BEPS and automatic exchange of information, have been progressing along the lines agreed upon in earlier initiatives. No major new projects were launched. It can be argued that this apparent lack of ambition has been caused by a realistic view on the limitations of reform due to political changes and differences in perspectives in core G20 member states. By putting the topic of tax certainty on the agenda, and discussing the implications of digitalization for taxation, the German presidency has rather discreetly prepared the ground for further evolvements.

The German G20 presidency has been successful in opening the debate on international tax cooperation to include new actors, most notably African governments. African countries have a two-fold interest in effective international rules against tax avoidance and tax evasion. On the one hand, both phenomena affect poorer countries in particular, at least in relation to their GDP and public revenue levels (Zucman 2015; Cobham and Janský 2017). On the other hand, limiting opportunities for BEPS should also lead to a reorientation of investment flows, as companies will be more inclined to move production out of jurisdictions with higher taxes and production costs (typically, the OECD countries) into low-cost and low-tax jurisdictions (Sorbe and Johansson 2017). Even though this is a complex relationship and many different causalities are at work here (Clausing 2016), it is fair to assume that most developing countries—in particular, those highly dependent on extractive industries—would be better off with lower levels of international tax avoidance and evasion.

We find current initiatives to be instrumental for the improvement of global fiscal equivalence, i.e., the match between public service delivery and public finance. However, those reforms enacted so far have been clearly insufficient. Only within the EU proposals are on the table that would really lead to a multilateral internalization of spillovers, if carried through. Beyond the EU, no such initiatives are in sight, and the countries of the Global South are specifically challenged by the current set-up of reforms. As a result, additional efforts are required, should the world in fact move toward a "globally fair and modern international tax system" (G20 2017, 7) envisioned by the G20 leaders in Hamburg. Over the last years, the G20 has been a key platform for the discussion of policy innovations in this field, but conditions for concerted action under this roof have certainly not improved recently. Still, we believe that future G20 presidencies would be well advised to keep the topic of international tax cooperation on the agenda.

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