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The Impact of Globalization on Tax Policy of South-East Asian Countries

Increasing involvement of South-East Asian countries into a single global market space and broadening of their international economic ties has led to the fact that tax policies of their governments has ceased to be determined only by their national interests and internal needs of social and economic development. With deepening process of globalization the impact of external factors on the tax policy of the governments of this region has become more intensive. Now, external factors along with internal ones have determined the main trends of development of the tax systems in this region. This fact has become apparent since the last quarter of the twentieth century because broadening of global economic processes affected the taxation as well. Acute rivalry of various counties for attracting foreign capital, for markets and for sources of raw materials has given rise to global tax competition. As a result the tax rates throughout the world have significantly fallen. The starting point of this process was launched by radical fiscal reforms that took place in the 1980s in the USA, UK, France and Japan. The conceptual basis for these reforms was the theory of "supply-side economics", which regards a significant reduction of corporate income tax rates as a means of encouraging and enhancing business activities.

The impact of globalization on tax policy of the Southeast Asian countries is manifest, first of all, in the most advanced economies of the region, namely in Indonesia, Malaysia, Thailand, the Philippines, Brunei Darussalam, and especially in Singapore. But it affects the less developed countries as well – Vietnam, Myanmar, Cambodia and Laos. Economic strategy of all these countries aims at active attraction of foreign investments and it has attached importance to the competitiveness of their economies, significant component of which is formed by tax competitiveness. In this regard, the functions of the tax systems of Southeast Asian countries include not only mobilization of financial resources and regulation of domestic social and economic processes, but providing competitiveness of the economy by means of fiscal tools.

The main spaces of the most apparent impact of globalization are direct taxation (primarily income taxation) and indirect taxation.

I. Direct Taxation – Income Taxation

The impact of global economic processes on tax policy of Southeast Asian countries began to be felt in the late twentieth century, when liberal fiscal regimes were introduced in the U.S.A. and other industrialized states.

In 1984 the government of Indonesia had carried out the reform of income taxation. The tax on company profits has been reduced from graduated rates of 20 per cent, 30 per cent and 45 per cent of taxable income to rates of 15 per cent, 25 per cent and 35 per cent. Personal income tax rates in the range of 5–50 per cent

of taxable income were cancelled and individuals were to pay the income tax at corporate tax rates [2, 1984, No. 3, P.133].

In 1986 the government of Thailand had reduced the corporate tax rate from 40 per cent to 35 per cent of taxable income for companies, not listed on the local stock exchange. In 1991 the same tax rate was reduced to 30 per cent [1, 1991, No. 4, P.14–15; 2, 1986, No. 9, P.417–418].

The government of Singapore for several years progressively lowered the corporate tax rate: from 40 per cent of taxable income in 1947–1987 to 33 per cent in 1988, 32 per cent in 1990, 31 per cent in 1991, 30 per cent in1992 and 27 per cent in 1993–1995 (this rate was one of the lowest in the East). The scale of individual income tax rates has significantly changed: in 1981 the tax rates ranged from 4 per cent to 55 per cent of taxable income, in 1982–1984 – 4-45 per cent, in 1985–1987 – 4-40 per cent, in 1988–1993 – 3,5-33 per cent, in 1994– 2,5-30 per cent [2, 1981, No. 6, P.252; 1984, No. 5, P.205; 1988, No. 12, P.544; 1993, No. 5, P. 281–282].

In Malaysia the income tax of legal entities was reduced from 40 per cent of taxable income in 1988 (this rate has remained since 1947) to 35 per cent in 1989, to 34 per cent in 1993, 32 per cent in 1994 and 30 per cent in 1995. The individual income tax rates were converted and set in the range of 6-55 per cent of taxable income in 1984, 4-35 per cent in 1992, 2-34 per cent in 1993–1994 and 0-32 per cent in 1995 [2, 1985, No. 3, P.129; 1994, No. 2, P.94; 1995, No. 5, P.227, 231; 6, 1988, P.M-16; 1995, P.M-24].

21st century shows very intensive global process of reducing corporate income tax rates which has provided competitiveness to national economies. The global average corporate tax rates have declined from 32.69 per cent in 1999 to 27.47 per cent in 2006, 25,51 per cent in 2009 and 23.62 per cent in 2016 and have provided competitiveness of many economies under conditions of acute rivalry between countries in trade and investment processes. (It is interesting that corporate tax rate in the United States has not changed and remained at the level of almost 40 per cent, that is the highest in the world) [3; 7, P.15]. The fall of corporate tax rates is going throughout the world, but intensity of this process is different in various regions (see Table 1).

Table 1

Regions of the world: average corporate income tax rates, 2006–2016, (per cent)

Regions	2006	2010	2016	Decrease, 2006–2016 (%)
Europe	23,7	21,46	20,48	-3,22
Asia	**28,99**	**23,96**	**21,92**	**-7,07**
Africa	30,82	28,38	27,46	-3,36
North America	38,05	35,5	33,25	-4,80
Latin America	29,07	27,52	27,28	-1,78
Oceania	30,6	29,0	26,0	-4,6

Source: [3]

As follows from the indicators in Table 1, "advanced detachment" of the process of declining of tax rates is observed in European countries. They influence the situation in other parts of the world, especially in Southeast Asian countries, which have extensive trade and investment relations with these states. As a result substantial changes have occurred in the sphere of corporate taxation of this region (see Table 2). Additional impetus for reducing corporate income tax rates in the Southeast Asian countries was provided by the global economic crisis of 2008–2009 and the adoption of two regional legal acts. The first of them was the Plan of creating /the Economic Community of the ASEAN member states for 2008–2015 (adopted in 2007) and the second one was the Plan for creating the Economic Community of the ASEAN member states for 2016–2025 (adopted in 2015).

Table 2

Southeast Asian countries: corporate income tax rates, 1999–2016, (per cent)

Country	1999	2003	2007	2009	2011	2015	2016	Decrease 1999–2016 (%)
Cambodia	20	20	20	20	20	20	20	0
Indonesia	30	30	30	28	25	25	25	-5
Malaysia	28	28	27	25	25	25	24	-4
Myanmar	30	30	30	…	…	…	25	-5
Philippines	33	32	35	30	30	30	30	-3
Singapore	**26**	**22**	**20**	**17**	**17**	**17**	**17**	**-9**
Thailand	**30**	**30**	**30**	**30**	**30**	**20**	**20**	**-10**
Vietnam	**35**	**32**	**28**	**25**	**25**	**22**	**20**	**-15**

Source: [3; 7]

A very important factor that has influenced on the tax rates in this region is represented by strong intra-regional tax competition that is a part of global tax competition. Development of this process has led to appreciable lowering of corporate tax rates (as it is obvious in Table 2). The main cause of the intensification of tax competition is striving of every country to attract foreign direct investments. In this regard, they endeavor to create the most favorable conditions in order to obtain maximum amount of investments. In terms of tax policy this is taking the form of lowering tax rates. The first driver of tax competition process in the region was Singapore, keenly competing with Hong Kong as a financial center (the corporate tax rate in Hong Kong is 16, 5 per cent, the lowest in the region of Far East and Southeast Asia). Recently Vietnam and Thailand have followed Singapore as tax competitors. During a very short period of time the corporate income tax rates in these two countries had declined by one third.

Individual income tax rates have also declined, but only in some countries and not so dramatically as corporate tax rate (see Table 3).

Table 3

Southeast Asian countries: top marginal rates of individual income tax, 2006–2016 (per cent)

Country	2006	2008	2010	2012	2014	2016	Decrease, 2006–2016 (%)
Indonesia	35	35	30	30	30	30	-5
Malaysia	28	28	26	26	26	25	-3
Myanmar	...	...	,,,	,,,	20	25	+5
Philippines	32	32	32	32	32	32	0
Singapore	20	20	20	20	20	20	0
Thailand	37	37	37	37	35	35	-2
Vietnam	40	40	35	35	35	35	-5

Source: [5]

Due to the impact of globalization special regimes of fiscal incentives (tax holiday, reduced corporate tax rate, investment allowance, accelerated depreciation, exemption from certain taxes) had emerged in Southeast Asian countries. The matter is that these countries have embraced the experience of developed states in using tax facilities and have created and extensively used various preferential taxes to promote domestic business and to attract foreign direct investments.

Another channel through which global processes have influenced tax policy in Southeast Asian countries is agreements on avoidance of double taxation (DTA). Globalization of business leads to the fact that production of goods is not limited to the territory of one country and the tax base also extends well beyond its borders. In order to capture the income and to levy the tax on it, the country of source of income is forced to abandon part of its fiscal sovereignty and to coordinate with governments of other states terms of division of rights to tax income that has been received on its territory. All countries of Southeast Asia (except Cambodia) have concluded similar agreements: in 2016, Brunei Darussalam had 13 DTA, Laos – 12, Myanmar – 8, Indonesia – 66, Malaysia – 74, Singapore – 85, Philippines – 40, Thailand – 62, Vietnam – 71 DTA.

II. Indirect Taxation

Globalization has also influenced indirect taxation, that represents an important part of the tax systems of Southeast Asian countries and provides the state budgets with significant resources. But in contrast to income taxes developments in indirect taxes are slow. External factors have affected two spheres, namely: 1) consumer taxes and 2) foreign trade taxes.

1) Consumer taxes

The first action that revised outdated models of consumer taxes, particularly sales taxes, was held in Indonesia. On the 1st January, 1984 the government had introduced a modern value-added tax (VAT).The Philippines (1988), Thailand (1992), Cambodia (1998) and Vietnam (1999) have introduced the same tax. Singapore has similar VAT tax on goods and services (GST). In Malaysia GST was implemented only since April 1st, 2015 and it replaced the outdated sales and service tax regime. In Myanmar there is no VAT; sales tax called "commercial tax" was introduced there in 1990 and is levied as a turnover tax on goods and services (its rate ranges from 01 per cent to 8 per cent. The Myanmar government is planning to replace it with a VAT in 2018–2019. VAT rates range from 6 per cent (Malaysia), 7 per cent (Singapore) rising to 10 per cent in (Cambodia, Laos, Indonesia, Vietnam) and to 12 per cent (the highest in the region), in the Philippines. These rates are much lower than an average global rate (15.79 per cent in 2015) and European countries rates (15 per cent –20 per cent).

2) Foreign trade taxes

The impact of external factors on foreign trade taxes is exercised through integratory processes that are successfully developing in the region of South East Asia as part of the worldwide process of globalization. This leads to liberalization of foreign trade by reducing customs tariffs. In 1992 Southeast Asian countries established an ASEAN Free Trade Area (AFTA). The objective of AFTA is to widen intra-regional trade in goods and services and to enhance the region's competitiveness in the world market. Common Effective Preferential Tariff (CEPT) Agreement, signed in 1992 has become the main instrument of implementing this objective. It requires that tariff rates levied on a wide range of products traded within the region are reduced to 0–5 per cent. By 2015 there is significant progress in tariff elimination: the average regional tariff rate declined to 0,54 per cent and for six countries (Brunei Darussalam, Indonesia, Malaysia, Singapore, Thailand and the Philippines) the average rate stood at just 0,04 per cent.

Thus, the above information gives grounds to assert that in the present time global and regional integration processes have significant impact on tax policy of the Southeast Asian countries, primary on corporate income taxation.

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