Trade, geopolitics and taxation - how they intertwine

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One of the bases for the intellectual disconnect in our earlier discussions is the apparent obscurity of the connections between trade, geopolitics and taxation which leads to an image of international tax as a 'technical' and 'advanced' subject.

A simple schema might make everything more transparent.

Halford Mackinder said there are 4 roles for tax policy:
a) encourage an activity,
b) discourage an activity,
c) make a political statement and
d) raise revenue.

An important issue is to identify that tax policy does not have to be called 'tax'. The EU has used the phrase 'state aid' to avoid countries evading transparency in their tax policy by renaming tax funding by another name. Free state funding is no different than a formal tax subsidy by another name. In the UK most state aid is effected through the tax legislation but it need not be so. These funds come out of tax revenue in the first place.[2] EU state aid rules seek to prevent any distortion of the market that might affect negatively other EU countries/companies. It is not concerned if member policies harm the US or African countries/companies etc.

What is the power of tax policy? Michael Hudson has shown that all the wealth stolen by the Russian oligarchs could have been recovered by the Russian state using tax policy. Michael Brenner stated that the top 1% extracted the larger part of 3 trillion dollars from the poor and middle class;
"Since 1973, more than 90% of the increase in U.S. GDP has gone to the top 4% of the U.S. population. If distribution rates among income levels had been constant since 1973, roughly $3

[1] IFA is International Fiscal Association see ifa.nl

[2] " 'State aid is defined in the EU's foundational treaty as any state spending that potentially distorts trade between member states. The measures must be selective (so country-wide tax measures are exempt but specific tax advantages to a subset of businesses are not)..." (*State Aid Rules after Brexit*, 2020)

trillion dollars of income among the top 10% (the majority going to the top 1%) would be in the pockets of the other 90%.' [3]

If tax policy can recover many billions of assets stolen by Russian oligarchs, and if tax policy can divert US$ 3 trillion from the US poor and middle class towards the top1%, then clearly tax policy could recover much of the billions stolen from Africa. It is of course in the interest of Western powers to conceal these options from Africans, particularly from African tax professionals. Africans in general and African tax professionals specifically must be persuaded that there is nothing that can be done.

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Consider an imaginary world much like our own but where there is a currency war. One country A has the dominant currency while the other countries B- F want out, thinking that country A is using its reserve currency status to bully others. They wish to create a new currency arrangement which is a challenge because 'money' serves two purposes: A is as a means of exchange, and B is as a store of value. As an interim measure they adopt gold say as BOTH. This has some complications because gold is heavy and cumbersome. For exchange purposes, they use 'rights to gold', a form of depository receipt, so that one need not carry actual specie for trade.

We are country H. We are poor but have a lot of gold in the ground. Demand for actual gold has skyrocketed as has the price.

If we do nothing, foreign countries will send their mining companies into our country and extract our gold and smugglers will illicitly transfer it out of our borders. The mining companies will declare that the cost of production is so high that though the price of gold is 100 units their cost of production is 90 unitsand their profit is only 10 units on which they pay 20% tax = 2 units. Of course, the smugglers decline to leave their calling cards.

What could we have done?
We could have:
i) banned all export of gold as a national asset and insisted that all gold be held in our reserves. We will allow foreign companies to sell a percentage as 'depositary receipts' but not the actual gold. Remaining stocks belong to our central bank/ federal reserve.
ii) if there is an upstream industry of high value such as ICT equipment where the gold though essential is only 1% of the value of the final product, we could seek to encourage that industry where we have a local comparative advantage (access to gold). Here the industry turns 15 units of gold into 1,500 units of international sales. Not only do we want that increased revenue we want that new industry. To encourage rapid growth in that industry we allow tax deferral for several years if you invest your profit in the acquisition of more plant, so that there will be increased investment in production facilities. In my view tax holidays are absurd and create moral hazard.

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[3] 'The difference in GINI scores between the United States and Sweden is 19%. Those numbers tell us that if we had the same score as Sweden, roughly $3 trillion would have been transferred from the upper brackets to the middle and lower brackets.' (Brenner, 2017) Brenner adds: 'The difference in GINI scores between the United States and Sweden is 19%. Those numbers tell us that if we had the same score as Sweden, roughly $3 trillion would have been transferred from the upper brackets to the middle and lower brackets.'

> *Believe it or not, the UK offers 150 units (for SME this can 230 units) in tax rebate for every 100 units spent on research and development. The UK decided that it wished to play an important global role in the new technologies. This is an international matter as the idea is to attract foreign entrepreneurs and foreign businesses to the UK as well as to develop home grown talent - the result was:*
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> > *'As of April 2021, unicorns headquartered in the United Kingdom accounted for over 39 percent of all unicorns in Europe. '*

https://www.statista.com/statistics/1094258/share-of-unicorns-europe-by-country/#:~:text=As%20of%20April%202021%2C%20unicorns,of%20all%20unicorns%20in%20Europe.)
That is far ahead of all other European countries. [4]

iii) if we are concerned about the manipulation of prices and costs and the illegal collaboration by our citizens with foreigners we can introduce flat rate rent charges for all gold mining companies.

iv) if we wish to encourage the use of local expertise and the development of greater local expertise we could introduce a foreign expat tax of 35% or more on top of their expat salary. If we wish to be really aggressive like the French, we could allow the tax paid on local salaries to go towards the rent charge. In effect the more locals you employ the lower your rent.

v) UK is attracting unicorns from all other European countries. This is vicious competition and it helps to have a navy or an army. I cannot imagine Denmark trying this on Germany, France, or the UK!

We can consider bi-products.

v) if the mining of gold produced 2 bi-products X1 and X2. Both can be used to produce processed products T1 and T2 which earn 300m units in overseas sales per every 50 units of original gold. Left to 'free markets' a lot of T1 and T2 would be produced. But consider if T1 has negative consequences for the health of the people of our country while T2 generates skills and other benefits for us. We should introduce high taxes on T1 and if T2 represents potential export growth industry then we can reduce tax rates for T2.

vi) if another country E, with gold reserves is competing with us and we wish to dominate the industry we have some options. If in order to mine gold some other minerals S1 are necessary and we have access to those but country E has to import S1 from us. We can seek to invite their mining industry specialist to leave their country and come to work in ours. For every foreigner coming to our country we offer low tax rates or even tax subsidies. We can increase export taxes on S1 or restrict exports of S1 and so encourage mining executives in country E to come to our country with lower prices for S1 to do mining.

> *As it happens the US is forcing the Netherlands to stop its Dutch company ASML from selling critical chip-making equipment (S1) to China and so to lose massive sales. The US has offered tax subsidies for any foreign/German manufacturers who move to the US with their manufacturing plant, and for anyone in chip manufacturing the US is offering a share in $60 billion of free 'incentives' if they relocate to the US with the eye on TSMC of Taiwan.*

vii) Imagine that our labor costs are high and a foreign country, Z1, is producing competing products at half our price. To prevent our industries from being wiped out we may decide to

[4] (*Unicorns Guide*, 2023)

relocate their manufacturing into low labour costs countries and import the products to the US thus undercutting this competing country. This would require eliminating tax barriers to manufacturing imports from these specific countries to the US and arranging the specific repatriation of profits from these countries to our mainland at the lowest withholding rates and an understanding with the target country not to exact 'unreasonable' transfer pricing adjustments on the export of goods to our country. We would impose high taxes/tariffs and possibly absolute limits on goods from Z1. These tax policies would work hand in hand with other government sanctions and possibly threats of war, to reduce the market presence of goods from Z1. Here again, we see the mix of encouragement of competing Asian countries and discouragement of Z1 - the fundamentals of tax policy.

> *Roughly speaking, this was what happened to Japan. The initial response to Japanese competition was to effect the Plaza Accords which led to a 40% rise in the value the Yen. If the hope was that this would improve US exports and reduce manufacturing imports it was a disappointment. The rise in the value of the Yen seriously affected Japanese exports but did not lead to a rise in US manufacturing. US manufacturing jobs continued to relocate to other Asian countries as blaming Japan did not address the fundamentals of the decline in the US industry. As Bix put it in 1985: 'The militaristic and empire-first priorities of America's political leaders and corporate managers played a major role in the US industrial decline. '*[5]

viii) if we have a history of being on the receiving end of colonial predation, say former colonials used to acquire our gold for 1/20th of the true price, we can introduce transfer pricing enquiry going back initially 6 years then use discovery assessments to go back another 6 years and tax the company on the true arms-length price. In addition there could be penalties and, given the amounts involved, criminal prosecution. Michael Hudson has shown that Russia could have used the taxation system to recover ALL of the assets looted by the Russian oligarchs and bring them to their knees!

> *If France has behaved like a predator upon Niger then assessments on unpaid prior tax could raise tax assessments of truly extraordinary amounts which cannot be easily denied by France.*

vii) concept of 'negative' tax policy
In order to carry out a geo-political strategy it may be necessary to influence political opinion. Domestic opinion may be against war for example. Tax policy can be used to achieve this. As stated earlier tax policy can be used to encourage some behaviour and discourage others. One way to control opinion is to control universities. Public funding of educational institutions allowed for multiple points of view, open minded faculty, and was the basis of a liberal education. If this needs to be changed, this can be done in two steps: a) withdraw public funding from universities which will withdraw funding from critics, b) provide funding by plutocrats who maintain conditions for their funding that promotes supporters of their agenda and prohibits the presence of critics. Increasing tax funding or withdrawing tax funding is tax policy either way.

> *This was explicitly planned in the US see Lisa Duggan*[6]*. Even Yale University has accepted funding from plutocrats who insisted on the firing of the liberal-minded director of the funded institution which was carried out. This influence of plutocrats on policy in US universities including Harvard is now widespread.*

[5] (Bix, 1985, p. 8)
[6] (Duggan, 2012)

CONCLUSIONS:

We have shown that international tax policy interacts with trade and geopolitics and holds the means to correct historic injustices. Tax policy has the means to alter the future behaviour of major actors and is a crucial option and tool available to African decision-makers. African international tax professionals have an important role to play in designing and evaluating tax policy.

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