Business Standard

Global minimum tax will make developing nations less attractive: UN report

The proposed reforms, planned for 2023 or 2024, aim to discourage multinationals from shifting profits to low-tax countries

BS Web Team | Geneva June 09, 2022 Last Updated at 17:31 IST

Representative image

The proposed introduction of a global minimum corporate tax of 15 per cent on the foreign profits of the largest multinational enterprises (MNEs) has major implications for international investment and investment policy, according to the UNCTAD World Investment Report on Thursday.

For developing countries, such a tax will reduce the effectiveness of low tax rates and fiscal incentives to attract investment, says the report.

The report, "International tax reforms and sustainable investment", provides a guide for policymakers to navigate the complex new tax rules and to adjust their investment strategies.

The proposed reforms, planned for 2023 or 2024, aim to discourage multinationals from shifting profits to low-tax countries.

According to the report, key implications are:

1. Increased tax revenues from multinationals for most countries
2. Higher taxes on foreign profits of multinationals
3. Potential downward pressure on new investment by multinationals
4. Reduced effectiveness of low tax rates and fiscal incentives to attract investment

"While the tax reforms are going to increase revenue collection for developing countries, from an investment attraction perspective they entail both opportunities and challenges," said UNCTAD Secretary-General Rebeca Grynspan.

"Developing countries face constraints in their responses to the reforms, because of a lack of technical capacity to deal with the complexity of the tax changes, and because of investment treaty commitments that could hinder effective fiscal policy action. The international community has the obligation to help," she added.

According to the UN report, the tax rates on the foreign profits of multinationals will increase. Foreign affiliates that pay tax rates below the minimum on profits reported in host countries will be subject to a top-up. Also, multinationals will reduce profit shifting and pay host-country rates on a larger profit base.

The estimated rise in the effective tax rates faced by multinationals is conservatively estimated at 2 percentage points, the report said. This corresponds to an increase in tax revenues paid by multinationals to host countries of about 15% – closer to 20% for large firms that are directly affected by the reforms.

FDI flows may be hindered by risk aversion

June 9, 2022 | 8:30 pm

THE foreign direct investment (FDI) market will be beset by risk aversion in light of the war between Ukraine and Russia, the United Nations Conference on Trade and Development (UNCTAD) said.

UNCTAD said in its World Investment Report, carrying the title "International Tax Reforms and Sustainable Investment," that developing countries need help from the international community as FDI flows dry up.

In 2021, the report said global FDI flows improved 64% to $1.58 trillion, driven by a surge in merger and acquisition (M&A) activity and an increase in international projects.

"UNCTAD foresees that the growth momentum of 2021 cannot be sustained and that global FDI flows in 2022 will likely move on a downward trajectory, at best remaining flat. However, even if flows should remain relatively stable in value terms, new project activity is likely to suffer more from investor uncertainty," the report said.

"The need for investment in productive capacity, in the Sustainable Development Goals (SDGs) and in climate change mitigation and adaptation is enormous. Current investment trends in these areas are not unanimously positive. It is important that we act now. Even though countries face very alarming immediate problems stemming from the cost-of-living crisis, it is important we are able to invest in the long term," UNCTAD Secretary-General Rebeca Grynspan said.

UNCTAD said that the business and investment climate has changed due to the war, which caused food and fuel prices to rise and dried up financing.

"Signs of weakness are already emerging this year. Preliminary data for the first quarter shows greenfield project announcements down 21% globally, cross-border M&A activity down 13% and international project finance deals down 4%," UNCTAD said.

"Asia, which receives 40% of global FDI, saw flows rise in 2021 for the third straight year to an all-time high of $619 billion. FDI in China grew 21% and in Southeast Asia by 44% but South Asia went the other way, falling 26% as flows to India shrank to $45 billion," it added.

UNCTAD said international SDG investment rose 70% in 2021 to $371 billion.

"But most of the recovery growth came in renewable energy and energy efficiency, where project values reached more than three times the pre-pandemic level. While the 2021 recovery in value terms is positive, investment activity in most SDG-related sectors in developing economies, as measured by project numbers, remained below pre-pandemic levels," the report said.

UNCTAD said that the proposed minimum tax of 15% on the foreign profits of the largest multinational enterprises planned for 2023 or 2024 will have major implications for international investment and investment policy.

In October, more than 130 countries decided to implement a corporate tax rate of at least 15% to ensure that big companies pay a fairer share of tax.

"While the tax reforms are going to increase revenue collection for developing countries, from an investment attraction perspective they entail both opportunities and challenges," Ms. Grynspan said.

"Developing countries face constraints in their responses to the reforms, because of a lack of technical capacity to deal with the complexity of the tax changes, and because of investment treaty commitments that could hinder effective fiscal policy action. The international community has the obligation to help," she added. — **Revin Mikhael D. Ochave**

Global minimum tax still a head-scratcher for developing countries

Policy-makers and free zones developers are unfazed by the OECD-sponsored reform

Place in the sun: the Jamaican government is offering zero corporate income tax for the development of its new Caymanas free zone

Jacopo Dettoni

June 21, 2022

In a meeting with prospect investors, Jamaican industry minister Aubyn Hill eloquently conveyed his vision for a new free zone in Caymanas, Kingston. A smirk appeared on his face as he d

“I ... te income tax,” Mr Hill said on June 1... e that 136 countries, including J

H... ntries towards the OECD-sponsored r... reform, they cannot help seeing fi... n strategies.

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Policy-makers across the globe have resorted to tax cuts to lure foreign businesses as competition for investment went global in the past 40 years. The world's weighted average statutory corporate income tax (CIT) rate has declined from 46.5% in 1980 to 25.4% in 2021, according to figures from the Tax Foundation.

Developing countries in particular have raced to lower national CIT rates to boost their investment appeal. The global minimum tax reform now puts them between a rock and a hard place.

"From a resource mobilisation perspective typical of a finance minister, the reform may be seen as a good base to stop the race to the bottom," Bogolo Joy Kenewendo, an economist and former minister of investment of Botswana, tells **fDi**, on the sidelines of AICE2022, the annual gathering of free zones organised by the World Free Zones Organisation in Jamaica in June 13-17.

"However, from an investment promotion perspective, tax incentives are the tools we use to attract investment. OECD countries, in particular G20 countries, have already gone through that development phase and built their industries. They no longer need that race to the bottom, but what about countries that see this as a viable tool?"

The OECD proposal is built on two main pillars. The first proposes to re-allocate some taxing rights over multinational enterprises from their home countries to the markets where they have business activities and earn profits, regardless of whether firms have a physical presence there. The second introduces a global minimum corporate tax rate set at 15%, which will apply to companies with revenue above €750m and is estimated to generate around $150bn in additional global tax revenues annually.

Free zones

Developing countries often resort to fiscal incentives to offset structural weaknesses that would otherwise sink their hopes of landing big ticket investments. Free zones are a case in point. They have flourished on their unique combination of fiscal incentives, customs facilitations and plug-
a… e zones in 2019, 89% of which were
l…

A… vide provide for fiscal incentives, such
a… or the application of a reduced tax
r…

"… to offset the inherent inefficiencies
a… high energy costs, deficient
i… n costs," Cesare Zingone, the CEO of
Zeta Group Real Estate, a developer of free zones in Central America, tells **fDi**.

"Therefore an equal minimum tax would increase compliance costs, place developing countries at a competitive disadvantage, and finally favour the relocation of companies to wealthy, developed nations. However if the minimum global tax were to be implemented, it would be imperative for developing countries to implement other compensatory measures, such as reducing social security costs on labour, property taxes or import duties."

Regardless of the OECD's global minimum tax push, fiscal incentives continue to feature at the heart of the offer of some of the world's biggest free zones under development. Among others, in Guatemala, developer Pacific Investment is developing 1200 hectares of land for the new Michatoya SEZ, which promises no CIT for 10 years; Indonesia has just named the island of Natuna Regency in the South China Sea as a SEZ, offering zero CIT for 10 years; Iraq is launching three SEZs to trigger development, also offering zero CIT for the duration of the project.

If policy-makers and zones developers seem unfazed by the global minimum tax reform, the OECD is equally unfazed.

"SEZs don't seem to have done much to prepare for this. The reality is that this is happening, and they will have to get ready for this to come," Pascal Saint-Amans tells **fDi**, oozing his confidence in the fact that once the EU and US approve the reform, a domino effect will prompt all the countries that endorsed the reform to fall in line.

However, the road for the OECD remains uphill. In the EU, Hungary has vetoed a key vote on June 17 to approve the reform.

Back in Caymanas, Mr Hill continued to mingle with prospect investors, pushing the CIT exemption as the icing on the cake for the package on offer. As with any other policy-maker in developing economies, he is taking his chances at the policy-making table — and so is the OECD.

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Developing countries could lose out on tax revenues due to capacity and legal constraints on the implementation of needed reforms

The proposed introduction of a minimum tax of 15% on the foreign profits of the largest multinational enterprises (MNEs) has major implications for international investment and investment policy, according to the UNCTAD World Investment Report 2022 published on 9 June.

The report entitled “International tax reforms and sustainable investment“ provides a guide for policymakers to navigate the complex new tax rules and to adjust their investment strategies.

The proposed reforms, planned for 2023 or 2024, aim to discourage multinationals from shifting profits to low-tax countries. Key implications are:

Increased tax revenues from multinationals for most countries.

Higher taxes on foreign profits of multinationals.

Potential downward pressure on new investment by multinationals.

Reduced effectiveness of low tax rates and fiscal incentives to attract investment.

Urgent need for investment promotion agencies (IPAs) and special economic zones (SEZs) to review investment attraction strategies.

“While the tax reforms are going to increase revenue collection for developing countries, from an investment attraction perspective they entail both opportunities and challenges,” said UNCTAD Secretary-General Rebeca Grynspan.

She added: “Developing countries face constraints in their responses to the reforms, because of a lack of technical capacity to deal with the complexity of the tax changes, and because of investment treaty commitments that could hinder effective fiscal policy action. The international community has the obligation to help.”

Impact in countries

Tax rates on the foreign profits of multinationals will increase. Foreign affiliates that pay tax rates below the minimum on profits reported in host countries will be subject to a top-up. Also, multinationals will reduce profit shifting and pay host-country rates on a larger profit base.

The estimated rise in the effective tax rates faced by multinationals is conservatively estimated at 2 percentage points. This corresponds to an increase in tax revenues paid by multinationals to host countries of about 15% – closer to 20% for large firms that are directly affected by the reforms.

Both developed economies and developing economies are expected to benefit substantially from increased revenue collection. Offshore financial centers stand to lose a substantial part of revenues collected from foreign affiliates.

For smaller developing countries – which generally have lower rates – the application of the top-

How

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UNCTAD estimates that cross-border investment in productive assets could decline by 2%.

Policy implications

The planned reforms will have major implications for national investment policymakers and investment promotion institutions, and for their standard toolkits. Fiscal incentives are widely used for investment promotion, including as part of the value proposition of most special economic zones.

...national investment policymakers and negotiators of international investment agreements ...) need to consider the potential constraints that IIA commitments may place on the ...ementation of key provisions of the reforms.

...en developing) host countries are prevented by IIAs provisions from applying top-up taxes ...moving incentives, the tax increase to the minimum will accrue to (mostly developed) ...e countries. Host countries would lose out on tax revenues without providing any benefit to ...tors.

... tax revenue implications for developing countries of constraints posed by international ...tment agreements are a major cause for concern," the report notes, adding that the ...national community, in parallel with or as part of the negotiations of the tax reforms, should ...ate the constraints that are placing developing countries at a disadvantage.

"We need to vastly scale up technical assistance to support implementation of the reforms, and ...e need a multilateral solution to remove implementation constraints posed by IIAs. As a stop-gap measure, we need a mechanism to return top-up revenues raised by developed home countries that should have accrued to developing host countries," the report says.

Meanwhile, the report shows that global foreign direct investment recovered to pre-pandemic levels in 2021 but uncertainty looms in 2022.

About UNCTAD

The United Nations Conference on Trade and Development (UNCTAD) is the UN's leading institution dealing with trade and development. It is a permanent intergovernmental body established by the United Nations General Assembly in 1964.

UNCTAD is part of the UN Secretariat and has a membership of 195 countries, one of the largest in the UN system.

UNCTAD supports developing countries to access the benefits of a globalized economy more fairly and effectively. We provide economic and trade analysis, facilitates consensus-building and offer technical assistance to help developing countries use trade, investment, finance and technology for inclusive and sustainable development.

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Impact of a global minimum tax on FDI

Redacción Opportimes 9 junio, 2022

Photo: CoStar.

The introduction of a 15% global minimum tax on the foreign profits of the largest multinational companies proposed in the context of the G20/OCDE Base Erosion and Profit Shifting (BEPS) project has important implications for international investments and investment policies.

With this, according to a report by the United Nations Conference on Trade and Development (UNCTAD), BEPS Pillar II is expected to discourage multinational companies from transferring profits to countries with low taxes and reduce tax competition between countries.

Other objectives are to stabilize international tax rules and reduce tax uncertainty, create a more level playing field for companies and avoid the

Statutory corporate income tax (CIT) rates have fallen over the last three decades in a race to the bottom to attract international investment.

They now hover around 25% in both developed and developing countries.

Also, according to UNCTAD, the effective tax rates (ETR) on the declared profits of foreign affiliates tend to be lower, less than 20% on average, mainly due to the tax incentives offered by countries. hosts.

Global minimum tax

Multinational companies often pay significantly less tax on their foreign income because they can shift some of their profits to low-tax jurisdictions.

As a result, the real tax rates faced by multinational companies on their foreign income are around 15%, significantly lower than the general rate.

This is captured by a new metric introduced in an UNCATD report, the FDI Level ETR, which reflects the average taxes paid by multinationals on all of their FDI income, including transferred earnings.

Pillar II will increase the corporate income tax faced by multinational companies on their foreign earnings.

First, multinational companies will reduce profit shifting, since they will have less to gain from it and will pay the tax rates of the host country.

Second, foreign affiliates that pay an ETR below the minimum on reported earnings in host countries will be subject to additional tax.

Redacción OPPORTIMES

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#multinational companies #OECD #profits
#Sustainable Development Goals #tax revenues
#taxes #UNCTAD

TAX REFORMS / FDI IMPLICATIONS COMMENTARY

Global Minimum Tax: Developing Countries Could Lose Out on Tax Revenues, says UNCTAD

Plans for a minimum tax on profits of multinationals will have major implications for investment policy, the UNCTAD's World Investment Report 2022 has warned. Developing countries could lose out on tax revenues due to capacity and legal constraints on the implementation of needed reforms.

By SPECIAL CORRESPONDENT June 11, 2022 6 minutes

Long Story, Cut Short

- The global minimum tax was agreed in October 2021 between 136 (now 137) of the 141 countries who are members of the OECD/G20 inclusive framework on tax base erosion and profit shifting, capping years of negotiations.
- The proposed reforms, planned for 2023 or 2024, aim to discourage multinationals from shifting profits to low-tax countries.
- The global minimum tax rate will apply to overseas profits of multinational firms with 750 million euros ($868 million) in sales globally.

TAX IMPLICATIONS Both developed economies and developing economies are expected to benefit substantially from increased revenue collection. Offshore financial centres stand to lose a substantial part of revenues collected from foreign affiliates. CHRISTINE ROY / UNSPLASH

TAGS

Organisations: Organisation for Economic Co-operation and Development, UNCTAD

EXTERNAL LINKS

- World Investment Report 2022
- BEPS on OECD

The proposed global minimum tax may be a great idea that has found widespread currency, but is likely to come at a cost. The proposed introduction of a minimum tax of 15% on the foreign profits of the largest multinational enterprises (MNEs) has major implications for international investment and investment policy, UNCTAD has said in a report.

The 2022 edition of UNCTAD's annual World Investment Report, published on 9 June, is subtitled 'International tax reforms and sustainable investment', and provides a guide for policymakers to navigate the complex new tax rules and to adjust their investment strategies. Chapter II of report, titled ' The Impact of a Global Minumum Tax on FDI, serves as a warning on the collateral damage such a tax can cause.

If and when enforced, the global minimum tax will work well in many countries, and won't in many others. The word of caution was underlined in the press release that accompanied the release of the report. UNCTAD Secretary-General Rebeca Grynspan was quoted as saying: "Developing countries face constraints in their responses to the reforms, because of a lack of technical capacity to deal with the complexity of the tax changes, and because of investment treaty commitments that could hinder effective fiscal policy action. The international community has the obligation to help."

ADDITIONAL REVENUES The OECD, which has steered the negotiations, estimates the minimum tax will generate $150 billion in additional global tax revenues annually. JASON LEUNG / UNSPLASH

How the GMT will affect countries

The proposed reforms, planned for 2023 or 2024, aim to discourage multinationals from shifting profits to low-tax countries. According to UNCTAD, the key implications include:

- Increased tax revenues from multinationals for most countries.
- Higher taxes on foreign profits of multinationals.
- Potential downward pressure on new investment by multinationals.
- Reduced effectiveness of low tax rates and fiscal incentives to attract investment.
- Urgent need for investment promotion agencies (IPAs) and special economic zones (SEZs) to review investment attraction strategies.

These can broadly be seen as:

- Tax rates on the foreign profits of multinationals will increase. Foreign affiliates that pay tax rates below the minimum on profits reported in host countries will be subject to a top-up. Also, multinationals will reduce profit shifting and pay host-country rates on a larger profit base.
- The estimated rise in the effective tax rates faced by multinationals is conservatively estimated at 2 percentage points. This corresponds to an increase in tax revenues paid by multinationals to host countries of about 15% – closer to 20% for large firms that are directly affected by the reforms.
- Both developed economies and developing economies are expected to benefit substantially from increased revenue collection. Offshore financial centres stand to lose a substantial part of revenues collected from foreign affiliates.
- For smaller developing countries – which generally have lower rates – the application of the top-up tax could make a major difference in revenue collection.

> *Developing countries face constraints in their responses to the reforms, because of a lack of technical capacity to deal with the complexity of the tax changes, and because of investment treaty commitments that could hinder effective fiscal policy action. The international community has the obligation to help.*

— Rebeca Grynspan / Secretary-General / UNCTAD

The agreement on GMT

The global minimum tax was agreed in October 2021 between 136 (now 137) of the 141 countries who are members of the Organisation for Economic Cooperation and Development (OECD)/G20 inclusive framework on tax base erosion and profit shifting (BEPS), capping years of negotiations.

The global minimum tax rate will apply to overseas profits of multinational firms with 750 million euros ($868 million) in sales globally. Governments can still set whatever local corporate tax rate they want, but if companies pay lower rates in a particular country, their home governments could "top up" their taxes to the 15% minimum, eliminating the advantage of shifting profits.

In December 2021, the OECD published detailed rules to assist in the implementation of the landmark reform. The Pillar Two model rules provide governments a precise template for taking forward the two-pillar solution to address the tax challenges arising from digitalisation and globalisation of the economy agreed in October 2021 by 137 countries and jurisdictions under the OECD/G20 Inclusive Framework on BEPS.

The rules define the scope and set out the mechanism for the Global Anti-Base Erosion (GloBE) rules under Pillar Two, which will introduce a global minimum corporate tax rate set at 15%. The minimum tax will apply to MNEs with revenue above EUR 750 million and is estimated to generate around USD 150 billion in additional global tax revenues annually.

The GloBE rules provide for a co-ordinated system of taxation intended to ensure large MNE groups pay this minimum level of tax on income arising in each of the jurisdictions in which they operate. The rules create a “top-up tax” to be applied on profits in any jurisdiction whenever the effective tax rate, determined on a jurisdictional basis, is below the minimum 15% rate.

LOOKING FOR PROFITS Taxing rights on more than $125 billion of profit will be additionally shifted to the countries where they are earned from the low tax countries where they are currently booked. WILFRIED POHNKE//PIXABAY

Policy implications of the GMT

The flipside of increased tax revenues is the potential downward pressure on the volume of investment that the increase in tax on foreign direct investment activities will exert. UNCTAD estimates that cross-border investment in productive assets could decline by 2%.

International investment policymakers and negotiators of international investment agreements (IIAs) need to consider the potential constraints that IIA commitments may place on the implementation of key provisions of the reforms.

If (often developing) host countries are prevented by IIAs provisions from applying top-up taxes or removing incentives, the tax increase to the minimum will accrue to (mostly developed) home countries. Host countries would lose out on tax revenues without providing any benefit to investors.

"The tax revenue implications for developing countries of constraints posed by international investment agreements are a major cause for concern," the report noted, adding that the international community, in parallel with or as part of the negotiations of the tax reforms, should alleviate the constraints that are placing developing countries at a disadvantage.

"We need to vastly scale up technical assistance to support implementation of the reforms, and we need a multilateral solution to remove implementation constraints posed by IIAs. As a stop-gap measure, we need a mechanism to return top-up revenues raised by developed home countries that should have accrued to developing host countries," the report said.

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PAY UP NOW Tax abuse by multinationals and avoidance by rich individuals costs countries around the world $427bn a year in lost revenues, according to research by the Tax Justice Network campaign group. THE NEW YORK PUBLIC LIBRARY / UNSPLASH

The earlier warnings

Loopholes in the GMT have alreadty been pointed out. In February, the International Institute of Sustainable Development (IISD) had outlined:

- Firstly, offshore investment centres such as the Cayman Islands, Bermuda, or the British Virgin Islands will have no reason to continue to offer reduced or zero income tax rates to multinational companies. Some countries are already planning to change their headline corporate tax rate. This could make them less attractive for MNEs, possibly leading to a “reshoring” of taxable profit to other countries.
- Secondly, developing countries may find that the global minimum tax could actually lead to tax revenue being lost to other jurisdictions. Developing countries are typically not considered tax havens, given that they often have relatively high headline corporate income tax rates. But after decades of giving tax exemptions to specific sectors, investors, or regions, the effective tax rate paid by many large companies can be quite low. Under global minimum tax rules, which set a 15% minimum benchmark, developing countries whose tax incentives lead to an effective tax rate below 15% may find themselves in effect giving up tax revenues to the jurisdiction where the MNE is based. Because the jurisdiction where the MNE is based will be collecting the minimum tax itself, developing country governments might not even be aware that this is happening.

In December last year, the World Inequality Report published by the World Inequality Lab had called for raising the threshold to 25 per cent.

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15% global minimum tax means higher tax revenues for host country, but a decline in cross-border investments

TNN | Jun 9, 2022, 09.49 PM IST

MUMBAI: The proposed minimum 15% global tax rate for Multinational Enterprises (MNEs) to be introduced from 2023 or 2024 will lead to an increase in tax revenues for both developed and developing economies.

On the flip side is the potential downward pressure on the volume of investments that the increased tax burden will exert, according to the United Nations Conference on Trade and Development (UNCTAD). This organisation estimates that cross-border investment in productive assets could decline by 2%.

In October 2021, 136 countries agreed that Multinational Enterprises (MNEs) will be subject to a minimum 15% global tax rate from 2023.

UNCTAD has also released its 'World Investment Report – 2022'. India's rank jumped one notch to 7th position among top

recipients of foreign direct investments (FDI) during 2021, despite lower FDI inflows. Inflows to India declined to $45 billion in 2021 from $64 billion in the previous year. However, outward FDI from India rose 43 per cent to $15.5 billion in 2021.
Under the proposed Pillar Two or global minimum tax solution, spearheaded by the Organisation for Economic Cooperation and Development (Oecd), MNEs that pay tax rates below the minimum on profits reported in host countries will be subject to a top-up. Also, this will result in MNEs reducing profit shifting and will pay host-country rates on a larger profit base, stated UNCTAD.

The estimated rise in the effective tax rates faced by multinationals is conservatively estimated at 2 percentage points. This corresponds to an increase in tax revenues paid by multinationals to host countries of about 15% – closer to 20% for large firms that are directly affected by the reforms, it added.

Both developed economies and developing economies are expected to benefit substantially from increased revenue collection. Offshore financial centres stand to lose a substantial part of revenues collected from foreign affiliates. For smaller developing countries – which generally have lower rates – the application of the top-up tax could make a major difference in revenue collection.

"While the tax reforms are going to increase revenue collection for developing countries, from an investment attraction perspective they entail both opportunities and challenges," said UNCTAD secretary-general Rebeca Grynspan.

Another likely outcome of Pillar 2 is the reduced effectiveness of low-tax rates and fiscal incentives to attract investments. There is an urgent need for investment promotion agencies and special economic zones to review investment attraction strategies.

Grynspan added: "Developing countries face constraints in their responses to the reforms, because of a lack of technical capacity to deal with the complexity of the tax changes, and because of investment treaty commitments that could hinder effective fiscal policy action. The international community has the obligation to help."

June #2 Update: UK Mexico Agreement, WTO convenes, Global tax and FDI, France FDI, Global expansion

1. UK signs Free Trade Agreement with Mexico

Britain has signed a new free trade deal with Mexico which came into force on 1 June 2022. The old deal was 20 years old

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and migrated over from the old EU agreement.

It is currently the UK's 44th largest trading partner and while UK exports are £44 billion imports are only £4 billion. Mexico is the world's 16th largest economy with a population of 150 million by 2035. Demand for imports is expected to grow by 35%.

UK has also recently started negotiating with Canada. Interestingly both Canada and Mexico are members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which Britain wants to join.

2. World Leaders meet to discuss global trade

The World Trade Organization (WTO) met at the WTO Ministerial Conference (MC12) in Geneva from 12 June to discuss global trade. Kazakhstan is co-hosting, this conference was

speakers, UK R&D startups suffer, Japan startup ecosystem

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postponed from 2020 due to the pandemic.

The British Chambers of Commerce (BCC) has urged leaders to consider small businesses and ease of exports in their discussions.

Australia, Japan and Singapore Ministers are co-convening the e-commerce talks which focused on global rules. They launched the E-commerce Capacity Building Framework to level the playing field for developing nations to participate in e-commerce. The framework will offer training, technical assistance and 'capacity-building' to support inclusion in global e-commerce.

Trade Horizons

Trade Horizons is an award-winning market entry company, assisting ambitious companies to identify, develop and grow sustainable revenues in new geographic markets. We offer support to clients in international strategy development for their global business growth, and throughout the key phases of market entry execution – Preparation, Launch and Growth. Click here to find out more.

3. Global minimum tax spanner in the works for FDI

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The UNCTAD World Investment Report says the new global minimum tax law of 15% will have detrimental effects on developing countries. The International tax reforms and sustainable investment says that smaller developing countries which usually have lower levels of tax will be penalised due to the new law as countries will have to charge a 'top-up tax' if companies don't pay 15% which could impact foreign investment into those countries.

The new tax law is being put into place as a global standard minimum rate of 15% and is designed to stop multinational corporations from avoiding tax but could lead to an anti-competitive landscape as jurisdictions look to other ways to attract FDI.

The report estimates the negative effect on FDI to be around 2%. Access the full report here https://unctad.org/system/files/official-document/wir2022_en.pdf

4. France FDI

France has been the clear winner of recent European FDI rankings as a result of recent aggressive reforms aimed at making France more business-friendly such as lowering the corporate tax rate from 33.3% to 25%, various tax incentives for foreign investors and changes to France's notorious employee law that makes termination easier which was a large deterrent for foreign employers when considering jurisdiction.

Apparently, China is the leading Asian investor in France but is still not in the top 9 countries led by the US, Switzerland, Germany and the United Kingdom itself in sectors such as manufacturing, finance and real estate.

In 2021 France attracted 1,607 investments which was a 32% increase on 2020 and back to pre-pandemic levels.

5. You want market entry. Can you handle market entry?

Market entry can often be a closely-held aspiration for growing companies as a way to gain market share, broaden product or services portfolios and increase revenue. Many would-be international expansion candidates do not undertake research before deciding on a territory or properly investigate needs in the target country.

Distribution models are often overlooked in favour of the traditional one, and company leaders may wrongly believe because it works in the home country, it is what the market needs and wants in the new territory. However, many of the projects with this sort of strategy fail. They realise there is a similar product in the target market, that they are not differentiated enough, the price is too high, or they cannot penetrate.

Thorough market research is a must. But even if some market research is done, there may still be unknowns. Local expertise may be difficult to find or trust and ways of doing business vastly different to the status quo. A clear roadmap with tax, compliance and employment law planning is a must. There may be tax breaks or incentives for certain structures in some regions, or a focus on your industry.

With market experts in 20 regions and growing, Trade Horizons can help budding global companies evaluate their next move so you can reduce the unknowns and take an evidence-based approach to international expansion.

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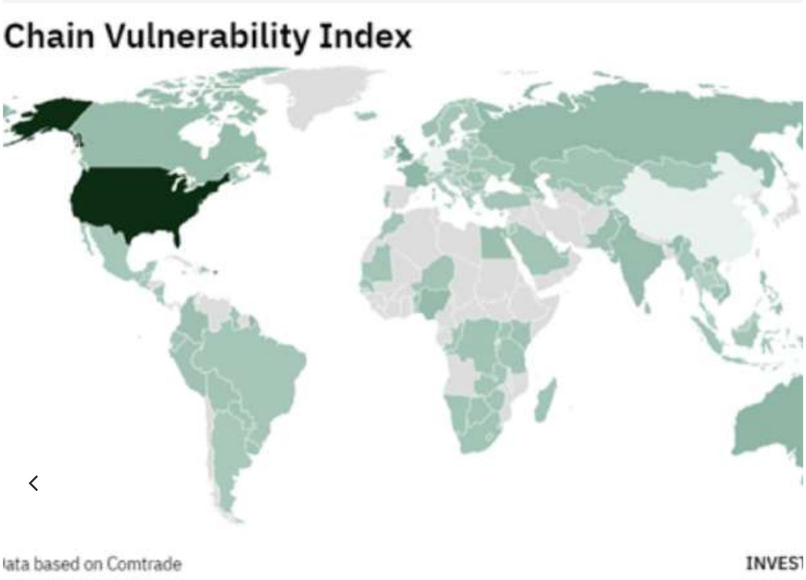

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