

## Opening Remarks by Mr. Vitor Gaspar, Director, Fiscal Affairs Department

### 8<sup>th</sup> IMF-Japan High-Level Tax Conference for Asian Countries Tokyo, Japan March 22, 2017

It is my great pleasure to welcome you to the 8<sup>th</sup> IMF-Japan High-Level Tax Conference for Asian Countries, organized by the Fiscal Affairs Department of the IMF and the Japanese Ministry of Finance.

Let me start by thanking our co-host, the Ministry of Finance, for its generous support to the conference. I would also like to thank my colleagues in the Fiscal Affairs Department and in the IMF's Regional Office for Asia and the Pacific for their very hard work in making this conference possible. Particular thanks are due to the delegates from Australia, Hong Kong, and Singapore for volunteering to participate in the conference to share their experiences with other participants. I also welcome representatives of the Asian Development Bank and the OECD, regular participants in this event. And I would like to offer an especially warm welcome to representatives from the United Nations, who join us for the first time. We look forward to welcoming you many more times in the future!

The debates over the next two days are of central importance. The global economy is undergoing major transformations. Productivity has slowed, technology is changing at an ever accelerating pace. These transformations create new demands on public policies. Fiscal policy is called to support sustainable and inclusive growth. At the same time, the high degree of uncertainty and stretched government balance sheets require a better management of risks. In other words, fiscal policy has the difficult task of achieving more and better within a very constrained envelope.

In my intervention this morning, I would like to focus on two of these transformations. In particular, I will discuss the role of tax policy in raising productivity. I will also say a few words on technological change and, in particular, digitalization.

Fiscal policy can help raise total factor productivity and growth by supporting efforts to push out the technology frontier. Tax policy can play an important role in stimulating innovation through its effects on research and development, technology transfer and entrepreneurship. These policies were the focus of our **April 2016 Fiscal Monitor**. Drawing on this work, one of the conference sessions will look at what tax policy can and cannot do in this area, highlighting recent developments.

Fiscal policy contributes to efficiency by narrowing the productivity gap between firms. This is precisely the focus of a chapter in the forthcoming the **April 2017 Fiscal Monitor**. Our analysis shows that countries can get very large productivity gains. These come from reducing the barriers that prevent capital and labor being allocated to the firms where they are most productive. The chapter provides evidence that countries can raise productivity by upgrading the design of the tax system, to ensure that firms' decisions are made for business reasons and not for tax reasons.

The analysis shows large gains for productivity and growth from a well-designed tax system. It also acknowledges that the design of domestic tax policy needs to be mindful of potential cross-country spillover effects. With this in mind, international taxation will be discussed from both the tax policy and tax administration perspectives in a session this afternoon. From the Fund's side, we will explain how we are integrating our work on international taxation into the IMF's surveillance activities. We will also report on our work on extractive industries.

We are also delighted to again have participation from the OECD and the United Nations to discuss their important and innovative work in the area of international taxation. We will also have a session aimed at facilitating a dialogue between participants and the business community, centering on how to balance between countering tax avoidance and providing a business-friendly environment. Cross-country spillovers are also an important part of the debate around recent proposals in the United States to move to a destination based cash flow tax, which will be the subject of one of the conference sessions.

For those of you who are attending the Bank-Fund Spring Meetings next month, let me also mention that on April 24<sup>th</sup>, we will be holding our now-traditional IMF-World Bank event on international tax issues of concern to non-G20/OECD countries. The focus this time will be on tax competition issues. We anticipate a lively discussion!

Let me now turn to the second topic I wanted to mention this morning. We all know that technological advances are already having a profound effect on the operation of tax systems. There are many new opportunities, but also many challenges. This is an area in which FAD is currently very active. We have a major project supported by the Gates Foundation now underway. At the Spring Meetings, we will be holding a Conference on Digital Revolutions in Public Finances. The Fiscal Forum is devoted to the same questions. A book will follow later in the year.

Digitalization is profoundly affecting the information base on which tax systems are built. It is also affecting the ways of doing business. Digitalization has therefore strong implications for the design of tax policy, tax administration, and spending instruments. These are of relevance not only for advanced economies. To the contrary. We have seen examples of

technological leapfrogging that point to great scope for progress in lower income countries. I very much hope that discussions during the conference will help us understand how to shape in the most effective way the revolutions that digitalization are sure to create in the field of public finances.

Let me conclude.

We are very fortunate to welcome today participants from 18 countries and jurisdictions. This is the largest group we have ever had in the Japan Tax Conference. We have a wonderful program over the next two days. I am confident that you will leave here informed, enthused, and with a strengthened network of contacts to draw on in your vital work ahead. I wish you all good luck in your work. Thank you!