DO DOUBLE TAX TREATIES PROMOTE ECONOMIC GROWTH? EVIDENCE FROM AFRICA

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dx.doi.org/10.18374/JIFE-20-3.2

ABSTRACT

This study is the first to examine the effects of double tax treaties (DTTs) on economic growth in Africa. The Generalised Method of Moments (GMM) results show that DTTs are significantly related to economic growth. The presence of double tax treaties in these countries brings about positive and increased growth. The findings suggest that African governments which wish to promote growth and FDI should sign more DTTs in spite of recent criticisms on how tax treaties are not beneficial to developing countries.

***Keywords**: Economic Growth, Double Tax Treaties, Africa*

1. INTRODUCTION

A plethora of studies has tried to analyse the relationship between economic growth and FDI (e.g Alfaro et al., 2004; Apergis et al., 2007; Carkovic and Levine, 2005, etc). This research will be the first to investigate the relationship between tax treaties and FDI and include economic growth. This is a different methodological approach which is being used to try to determine whether DTTs are promoting FDI via the Growth nexus. The standard empirical growth model will be augmented by adding tax treaties and FDI. The main contribution of this study is that while it will try to confirm whether tax treaties do promote investment or not via an existing proven model, it will also be the first to show empirically that tax treaties impact the economic growth of the host developing countries. The tax treaty issue in developing African countries is currently being debated internationally (Hearson, 2017; ActionAid, 2018; IMF, 2014).

The main objective of several developing countries was to induce a boost in the level of inward investment at the time of signing these treaties. On one hand, there is the perception that DTTs will open the door for international economic flows and draw foreign capital. It is a known fact that policymakers from both developed and developing countries have as one of their aims to boost FDI due to the associated benefits. Nevertheless, despite the expectations of the former, the empirical findings on the impact of DTTs on investment are far from being conclusive (Blonigen et al., 2011; Davies et al., 2009; Baker, 2014).

The benefits of tax treaties are being questioned by NGOs such as Tax Justice Network and Action Aid in their most recent reports and research. The OECD (2013) is worried about misuse of these treaties by multinationals. Therefore, this research will bring a strong original contribution to the literature by proving that DTTs do promote FDI. The purpose of this paper is to make an addition to the existing literature as most studies so far try to determine the foreign investment effects of double tax treaties (Sauvant & Sachs 2009, Davies et al 2010, Lejour 2014, Barthel et al 2009) and no study has tried to focus entirely on the African countries in its sample and this will help to reduce any bias that may occur when developing and developed countries are in the same regression (Al-Obaidan, 2002; Schneider, 2005). This research will furthermore bridge this gap and will do and hence contribute to knowledge on the impact of tax treaties. Moreover, this research will use the ActionAid Tax Treaties Dataset which was made publicly available in 2016 (Hearson, 2016).