

# Financing for Development After Addis Ababa?

## *Mainstreaming Taxation for State-Building as Korea's Strategy for the Sustainable Development Goals*

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# The Points of Departure

- Financing for development (FfD) after the Addis Ababa Action Agenda (AAAA) for the 2030 agenda for sustainable development
- Taxation and state-building as a fundamental factor for FfD
- How to secure the tax collection and its flows to the government tax authorities?
- Northeast Asian donors' contributions to tax reforms in developing countries; particularly, Korea's good practices embedded in the developmental state context

# Historical Evolution of Financing Development: From Monterey to Addis Ababa

## Monterey Consensus (2002)

- Key source: **Domestic sources of developing countries (tax reforms)**
- Mobilization of international sources (ODA, FDI, etc.)
- Aid for trade
- Financial/technical cooperation
- Foreign debt
- Reforming international institutions for promoting the participation of developing countries

## Addis Ababa Action Agenda (2015)

- Global Framework for Financing Development Post-2015
- 7 major action agendas:
  - Domestic public resources; domestic and international private business and finance; international development cooperation; international trade as an engine for development; debt and debt sustainability; addressing systemic issues; science, technology, innovation and capacity building
- **Addis Tax Initiative:** domestic governments as ultimate responsibility holders for development financing

# Typology of Development Financing

## Innovative finance for development

(air flight solidarity tax, global lottery tax, etc.)

### International resources

Public  
(ODA, OOF)

Private  
(FDI, Remittance)

### Domestic resources

**Public**  
**(Taxation)**

Private  
(Saving)

# Domestic Taxation as a Key Solution for Developmental States in Northeast Asia

**Taxation as  
the new  
frontier for  
state-building  
in developing  
countries**

- **Taxes underwrite the capacity of states to carry out their goals (Tilly, Brautigam, Fukuyama).**
  - Forming one of the central arenas for the conduct of state-society relations
  - Shaping the balance between accumulation and redistribution that gives states their social character
  - Without the ability to raise revenues effectively, states limited in the extent to which they can provide security, meet basic needs or foster economic development
- **Two principal areas of taxation**
  - Progress in representative democracy: The rise of a social contract based on bargaining around tax
  - Progress in the strength of state capacity: Bolstering the legitimacy of states; enhancing accountability between the state and its citizens
- **The political economy of taxation as the central role in building and sustaining the power of states & shaping their ties to society**

# Korea's Good Practices of Taxation and State-Building

## Post-Colonial period beyond 1945

- **Reforming Japan's colonial taxation system via the enactment of new tax laws in 1949**
  - Modernizing taxation by enacting laws of income tax, corporate tax, and succession tax

## Period of the developmental state

- **1960s (Park's regime): Tax reforms for rapid economic growth (1961)**
  - Destroying the past tax law; constructing new taxation systems for economic growth
  - Streamlining the tax administration; emphasizing savings and investment; enhancing the capacity of local governments; flexible taxation for fiscal demands
- **Establishing the National Tax Service in 1966 & tax reform in 1967**
  - Reforming corporate tax and income tax for the sake of firms
  - Tax reduction for key industries that had been strategically supported by the state
  - Controlling the excessive investment to real estates
  - Reforming customs law to protect domestic industries

# Korea's Good Practices of Taxation and State-Building

**Period of the  
Yushin regime  
In the 1970s**

- **The advent of the strong state via the Yushin regime in the 1970s**
  - Increasing the indirect tax against purchasing luxurious items
  - Newly enacting unjust enrichment tax
  - Strengthening the existing law for controlling the excessive investment to real estates
  - Conducting tax benefits or tax reduction in various fields
  - Expanding tax reduction for low-income classes
- **Manipulating taxation for justifying the illegitimate regime**
- **Strengthening the power of the state against society**

# Concluding Remarks: Tasks Ahead

## Strategic use of taxation as foreign aid

- Tax reforms as a central tool for restoring the statehood in developing countries
- Mainstreaming taxation for state-building as a necessary component for development financing in the 2030 agenda for sustainable development

## Korean way? Or Regional cooperation in Northeast Asia?

- Knowledge sharing with the Korean experience for taxation and state building in developing countries?
- Combining Korean, Japanese, and Chinese taxation as Northeast Asian solutions: the launching of a joint project