

Does technical assistance weaken tax competition?

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This paper explores the relationship between technical assistance and tax competition, and finds that technical assistance can be made voluntarily, without altruism or moral obligation, since technical assistance can weaken tax competition. Technical assistance is provided by a country with high productivity to help in the production of public goods in a country with low productivity. This technical assistance would lower the marginal cost of public goods in the recipient country. This effect would lead to the recipient country raising its tax rate and the donor country too would then increase its tax rate in response to this change. Moreover, weakened tax competition is always "welfare-improving" for the recipient country, and can be "welfare-improving" for the donor country as well. When this is the case, the donor country provides technical assistance voluntarily, without considering altruism or moral obligation. However, if there is no tax competition, technical assistance is not voluntary.