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The BRICs and International Tax Governance: The Case of Automatic Exchange of Information

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ABSTRACT

This article investigates the BRICs' involvement in the adoption of Automatic Exchange of Information (AEol) by the G20 and the Organisation for Economic Cooperation and Development (OECD) as a major breakthrough in the global fight against tax evasion. Our main questions concern the BRICs' willingness to accept AEol, and their agreement to the Western-dominated OECD as its institutional forum. First, we examine the domestic drivers for BRICs' participation, as their statist model of capitalism reveals strong disincentives to join this regime and the fact that the budgetary consequences of the global financial crisis were less severe than in Western states. We argue that their agreement on AEol results more from their persistent balance-of-payments vulnerability to illicit capital than from fiscal weakness, while also discussing the possibilities for mock compliance. Second, we review the role the non-reciprocal US foreign account tax compliance act (FATCA) in shaping the BRICs' preference for a multilateral AEol-regime centred around the OECD's Common Reporting Standard (CRS). Last, we show that the BRICs' acceptance of the OECD resulted from pragmatic interests and receiving ownership over the process, together with the absence of coercive mechanisms within the CRS-regime that could fundamentally undermine their sovereignty in this domain.

KEYWORDS

BRICs; international tax governance; automatic exchange of information; FATCA; OECD

Introduction

This article investigates the position of Brazil, Russia, India and China (BRICs) in international taxation governance. More precisely, we examine how the BRIC governments have been involved in the development of the new global norm of automatic exchange of information (AEol). In 2012-13 the Group of 20 (G20) embraced AEol as an effective way to deal with tax evasion by high net-worth individuals and curb the harmful impact of tax havens on national treasuries. The new international norm of AEol signifies a fundamental break with previous practices for tracking private wealth in the foreign accounts of these individuals, who often make use of bank secrecy provisions offered by off-shore financial centres (OFC) to hide capital income from their national tax authorities in non-declared accounts. While the preceding norm – 'exchange of information on request' (EIoR) – obliged foreign financial institutions and tax authorities to share these data only under specific circumstances, AEol forces tax authorities and financial institutions to deliver such information on a routine basis.

If the new norm is implemented correctly, tax authorities will receive all the necessary information on foreign bank accounts owned by their residents and the amount of income through these accounts. In this way, AEol allows the government to apply the preferred 'residence principle' to taxing natural persons, according to which individuals are supposed to pay taxes on their worldwide

income in the state where they reside (Genschel and Schwarz 2011). It is one of the most effective ways to promote transparency and ensure adequate taxation of foreign-earned income, testifying to the G20's declaration in 2009 that 'the era of banking secrecy is over' (G20 2009). After endorsing AEol in 2012–13, the G20 leaders called on the Organisation for Economic Cooperation and Development (OECD) to develop a multilateral framework and standard for universal application. By April 2018, 102 jurisdictions had already committed to implementing the OECD's new Common Reporting Standard (CRS) based on the principle of AEol, with over 2700 exchange relations activated [Figure 1](#).

Developing a deeper understanding of the role and position of the BRIC countries in the emergence of the CRS regime speaks to several issues that have received inadequate attention in the IPE literature on international tax governance. One of the key findings of this literature is that the United States played a central role in the rise of the CRS by forcing OFCs and bank secrecy jurisdictions to sign bilateral Foreign Account Compliance Act (FATCA) agreements. These bilateral FATCA agreements, which the United States could impose by exploiting its structural power in global finance (see below), obliged OFCs and their financial corporations to collect and share information on financial accounts of US residents and foreign entities with significant US ownership with US tax authorities (Eccleston and Gray 2014, Emmenegger 2015, Hakelberg 2016a, 2016b). The literature remains vague about the precise channel through which these *bilateral* agreements culminated in the G20's call for a *multilateral* AEol regime to be monitored by a Western-dominated organisation. Scholars who have examined this issue have emphasised how FATCA pushed European Union (EU) countries to consolidate their position regarding AEol and led to calls by OFCs for a new global standard for international tax cooperation to minimise compliance costs for their banks (see especially Hakelberg 2015, 2016a, 2016b). Evidently, achieving a G20 agreement on AEol and granting the OECD an authoritative role in the multilateral regime was only possible by getting the BRIC countries on board. Yet, notwithstanding their increasing importance as rising powers and G20 members, there is an unfortunate lack of in-depth studies of their position in international tax governance – and in the AEol regime in particular – in the IPE literature

Our case, nonetheless, raises several interesting and hitherto unresolved issues that have important implications for our broader understanding of the interests and incentives of the BRICs to engage

Figure 1. The BRICs' automatic exchange network in the CRS-regime. Source: (OECD 2015a).

with and become embedded in Western-oriented structures of global economic governance. First, it is remarkable that state-led economies with relatively high-levels of corruption have agreed to implement a far-reaching institutional and legal infrastructure to promote international transparency on domestic and foreign financial accounts, especially given the relatively meagre additional fiscal revenues that the BRICs can expect to gain from the entire multilateral effort. Therefore, their preferences in participating in the multilateral CRS regime need to be problematised and examined rather than merely presumed. We do this by engaging with the comparative capitalism literature on the BRICs' statist model of capitalism (especially Nölke *et al.* 2015), which provides valuable insights into their domestic political economy position regarding AEol. Drawing on this literature, we argue below that, in contrast to Western OECD governments, a central motivation results from their persistent balance-of-payments vulnerability to illicit capital outflows instead of fiscal weakness. Although participation in the multilateral AEol regime supports them in their fight against illegal capital flight and complements their available tools to control capital outflows, we discuss the risk of 'mock compliance' regarding the implementation of the CRS as a result of the close links between public authorities and private domestic capital, and the partial complicity of political elites in these illicit outflows.

Second, it remains unclear how the BRICs' incentives to engage in AEol translated into their acceptance of a multilateral regime centred around a Western-oriented international organisation (the OECD) in which they are not formal members. Here, the precise role of FATCA in pushing the BRICs to embrace a multilateral standard needs to be more clearly identified than previous analyses in the IPE literature have managed to achieve: while there is a link between FATCA and the consolidation of EU preferences and policy vis-à-vis a multilateral AEol-regime, there is no *a priori* reason why entering into bilateral FATCA agreements with the United States has pushed the BRICs to participate in a multilateral regime that significantly increases adjustment costs for their state-owned banks relative to the situation in which only bilateral FATCA agreements would have to be implemented. We posit that there were two separate motivations behind their endorsement of the OECD-centred CRS regime: on the one hand, the CRS contained more explicit legal guarantees of reciprocity than BRIC governments could safeguard in their bilaterals with the United States; on the other, they welcomed the OECD's technical expertise in global tax governance and could command sufficient ownership within the CRS regime through their membership of the G20 and the OECD's outreach association the 'Global Forum on Transparency and Exchange of Information for Tax Purposes'. By examining the BRIC countries' preferences and interests regarding AEol, our analysis complements existing accounts of the central role of FATCA in promoting multilateral institutional change towards the OECD's CRS regime. Nevertheless, we argue that the BRICs' move from FATCA to their endorsement of a multilateral AEol regime is less straightforward than previous scholarship on international tax governance has suggested (Grinberg 2012, Heiberg 2012, Eccleston and Gray 2014, Kudrle 2014, Emmenegger 2015, Hakelberg 2015, Vlcek 2016).

Our analysis and conclusions also have broader implication for the IPE and international relations literatures on the position of the BRICs in the contemporary global political economy and multilateral system. It supports the view of scholars who are sceptical about the extent to which they aim to contest western-oriented liberal institutions and practices of global economic governance, in that '[t]hey do not differ from other powers, past and present, in wishing to extract as many benefits as possible from their engagement with the international order while giving up as little decision-making autonomy as possible' (Kahler 2013, p. 712). The BRICs have become major stakeholders in the existing international economic order, acting as rule-takers rather than rule-makers in those issue-areas in which they have not developed adequate technical expertise. At the same time, we concur with scholars who have noted that 'their [statist] domestic structures put them at odds with the liberal policy content of Western-sponsored institutions' (Stephenson 2014, p. 914; see also Nölke *et al.* 2015). However, as our case study illustrates, the need to secure a level playing-field with the OECD countries and ownership underpins their participation in newly established western-sponsored regimes, especially as the lack of international and domestic enforcement

enables mock compliance in ways that make participation more tolerable for key domestic political constituencies.

As such, our study on AEol as a key innovation in global taxation governance also provides a contribution to the growing literature on the role of rising powers in the contemporary context of deepening regime complexity (Raustalia and Victor 2004, Orsini *et al.* 2013). The BRIC countries have come to accept the OECD-centred regime complex for taxation without being OECD members (Lesage and van de Graaf 2015). This was made possible through a number of governance innovations that secured a degree of BRICs' control over the process, without the need to become full-fledged OECD members. Most BRICs are not willing to adopt entire the OECD *acquis*, whereas several incumbents are not ready to see the OECD's group identity fundamentally change (see, for example, Clifton and Díaz-Fuentes 2015, Lesage & van de Graaf 2015).

Our paper is structured as follows. In the next section we discuss the rise of AEol as a global norm from FATCA towards the OECD's CRS, emphasising its significant departure from previous practices and highlighting several missing elements in the literature to understand the BRICs' position in the process. In the subsequent section we argue from a comparative capitalism perspective that their preferences for AEol are more ambiguous than the literature has acknowledged, identifying domestic political economy reasons that are distinct from those of the OECD countries (see also Muzaka and Serrano, this issue). In the final section we explain the institutional dimension. This includes the linkages between FATCA and the OECD's CRS regime from the perspective of the BRICs as well as the latter countries' institutional choices.

The Rise of AEol in International Tax Governance

At its 2009 London Summit, the G20 mandated the OECD – the most prominent multilateral forum for international taxation governance since the 1960s – to design a regime for the international exchange of information on foreign financial accounts in order to put an end to tax evasion practices. The initial OECD response was twofold. First, it adopted an amended version of the multilateral convention on Mutual Administrative Assistance on Tax Matters. This convention, first devised in 1988, stipulated core requirements of bilateral information exchange agreements, covered a broad range of taxes and allowed for joint tax investigations (Kudrle 2014). More importantly, it contained new rules for the exchange of information and was opened up for non-OECD countries, providing a multilateral basis for the new information exchange regime. The second effort concerned its list of uncooperative tax havens, an instrument established in the wake of its harmful tax competition project in 2000. The OECD specified in 2009 that, to be compliant, tax havens would have to sign twelve tax information exchange agreements (TIEAs) or double taxation treaties with an information exchange clause. Tax havens on the list had resisted signing those TIEAs before 2009. The G20, however, threatened economic sanctions against them. As a result of the blacklisting efforts, more than 800 tax treaties have been signed since 2009, the majority of which targeted uncooperative jurisdictions (Johannessen 2014, Palan and Wigan 2014). There are no jurisdictions left listed as uncooperative (OECD 2016b).

These agreements, though, were based on EoR, which is a fundamentally inadequate method for curtailing tax evasion. While preferable to no information exchange at all, EoR does not pierce the veil of banking secrecy and offshore companies. Generally, a tax administration would have to know in advance the name of the citizen it wants to request information about, in which jurisdiction his/her account is located and at which financial institution it is held in order to offer a well-grounded reason to request information. Otherwise the request might be labelled as a fishing expedition (Grinberg 2012). Tax administrations are typically unable to offer these data, because this is exactly the kind of information they are looking for in the first place. Given the intrinsic limitation of EoR as a standard for information exchange, the G20 countries officially backed the adoption of AEol in 2013 and mandated the OECD to design a new standard based on it. This resulted in a new regime that introduced a uniform standard for AEol – the CRS – and would be open to all signatories

of the above-mentioned multilateral convention. In this regime, states can either choose to automatically share information by signing bilateral tax information exchange agreements or to step into a new framework by signing a multilateral competent authority agreement (MCAA). As of 2016, 87 states had signed the MCAA; 53 states pledged to start sharing information in 2017, while 34 others followed suit in 2018. All the BRIC countries have committed to sharing information under the CRS, signed the MCAA and voluntarily subjected themselves to the Global Forum's peer review process to assess its adequate implementation (OECD 2016c). Notably, all the major OFCs and bank secrecy jurisdictions agreed to participate in the CRS regime.

How can the relatively swift multilateral endorsement of the CRS be explained? There seems to be a consensus that the FATCA acted as a catalyst for the multilateral shift to AEol (Grinberg 2012, 2016, Sawyer 2014, Hakelberg 2016a). This is also acknowledged by the OECD itself (OECD 2015a). In 2010, the US government introduced FATCA in response to the UBS offshore banking scandal, which revealed that many US citizens held secret Swiss bank accounts without reporting or paying the prevailing US taxes on these accounts. FATCA compels foreign financial institutions (FFIs) to collect and share information on the value – and income – of accounts held by US citizens or by foreign entities in which US citizens have a substantial interest or share, regardless of location (Palan and Wigan 2014). It also obliges US citizens to report information on certain foreign financial accounts and offshore assets, and attach it to their income tax return. FATCA is a remarkable piece of legislation: it unilaterally demands compliance of financial institutions over which the US holds no direct jurisdiction. In order to accomplish this, the US government imposes a penalty for non-compliance in the form of a 30 per cent withholding tax on US-based financial activities, such as payments from US sources and proceeds from US investments, from non-complying FFIs (Grinberg 2012). Given the centrality of the US financial system and the US dollar in the world economy, the threat of penalty pushed OFCs and bank secrecy jurisdictions to sign bilateral FATCA agreements with the US government in order to avoid their banks' and financial institutions' de facto loss of access to US financial markets and US dollar liquidity. As IPE scholars of international tax governance have argued, the success of FATCA therefore reflects the extraordinary structural power of the United States in global finance (e.g. Eccleston and Gray 2014, Palan and Wigan 2014, Emmenegger 2015, Hakelberg 2016a).

While concurring with the depiction of FATCA as a 'game changer' in international tax governance, we believe that the literature fails to provide a sufficiently comprehensive picture of how FATCA agreements culminated in the OECD's multilateral CRS regime. Two separate channels have been suggested in the literature. First, as Hakelberg (2015) has convincingly shown, bilateral FATCA agreements between the United States and EU member states allowed the latter to close important loopholes in its 2005 Savings Directive, which had already installed a regime for AEol (albeit less extensive) between its member states yet offered opt-outs for Austria, Belgium and Luxembourg. Given that these countries were signatories of the EU's 2011 Directive for Enhanced Cooperation (DAC) in the field of taxation and this contained a 'most favoured nation' clause, the remaining opt-out members (Austria and Luxembourg) were obliged to extend AEol to other member states once they had granted it to the US via a FATCA agreement. These FATCA agreements stressed the need for a coherent intra-EU AEol system, consolidating the EU's position regarding the desirability of a multilateral extension of the standard towards non-EU countries. Second, the G20's embracement of AEol in the wake of proliferating FATCA agreements led OFCs and financial institutions to become advocates of a globally uniform application of AEol to ensure a level playing-field and minimise compliance costs associated with multiple standards (Eccleston and Gray 2014, Hakelberg 2016a, 2016b). Since FATCA regulations operate worldwide, the potential for capital flight to non-complying jurisdictions was also reduced. As such, FATCA provided a 'focal point' that other countries could use 'to overcome collective action problems by coordinating their strategies and directing them against [non-complying] OFCs' (Emmenegger 2017, p. 26).

By focusing on FATCA's role in encouraging the EU and OFCs to embrace a multilateral AEol regime, scholars of international tax governance have ignored the position of the BRIC countries

in enabling the G20 – as key members of the forum – to endorse AEol as the new standard for international tax cooperation. One reason for this neglect might be the prevailing interpretation that cooperation based on AEol did not give rise to distributive conflicts between the G20 members and was therefore in their collective interest. As Grinberg (2016, p. 158) argues,

the combination of unilateral US coercive pressure and multilateral co-ordination towards a global standard for information-exchange succeeded because the underlying issue was an enforcement measure in which the interests among major economic powers were generally aligned and the benefits from agreement were non-rival.

Benefits are believed to be non-rival because ‘two jurisdictions do not assert overlapping taxing rights over the same income of the same tax payer’: taking into account that the bulk of the world’s offshore wealth is owned by residents of the G20 countries,

[i]nformation made available to any one of these jurisdictions about the offshore assets or income of a resident taxpayer does not limit the ability to provide information to another jurisdiction about the income or assets of its taxpayers. (Grinberg 2016, p. 164–5)

Nevertheless, as we will argue in the next section, there are reasons to believe that the incentives of the BRIC countries to participate in a multilateral AEol regime significantly differed from those of the OECD members of the G20: the former were not confronted with a sharp deterioration of their public finances in the wake of the global financial crisis and experienced less need to track down their residents’ offshore accounts to collect additional capital income tax revenues. Moreover, political elites in the BRICs have profited from many of their economies’ extractive institutions, raising questions about their interest in redistributive taxation. Although the benefits of AEol in terms of additional revenues are possibly not as great for the BRICs as for OECD governments, high levels of public ownership in their domestic banking system imply that compliance costs of implementing the new standard on a multilateral basis are arguably higher than for OECD countries whose financial institutions are largely privately-owned. By examining the domestic political economy of the BRICs’ state-permeated economies from a comparative capitalism perspective, we therefore problematise the interests of the BRICs in AEol and identify distinctive incentives for their participation into the CRS regime.

The BRICs and the Domestic Political Economy of AEol

In order to explain the rise of AEol as a global norm, scholars of international tax governance have largely focused on the renewed incentives of Western OECD governments in the wake of the global financial crisis to curb international tax evasion by their residents. A common interpretation is that ‘the global financial crisis opened a window of opportunity for improved cooperation [in international tax governance] because the financial sector was blamed for the crisis and several states faced unprecedented public deficits’ (Genschel and Schwarz 2011, Eccleston 2012, Rixen 2013, Lesage et al. 2014, Emmenegger 2015, Pogge and Mehta 2016). When US and European banks had to be saved from bankruptcy using taxpayer money, their politicians raised objections about bail-outs at a time when many were in the business of helping companies and individuals to avoid and evade taxes, including through their own branches in tax havens. The crisis also put pressure on Western governments to find new sources of tax revenues as bank bailouts and countercyclical fiscal stabilisation policies in the aftermath of the crisis generated a huge increase in public deficits and debt levels. In order to bring these deficits back to normal levels, governments adopted harsh austerity measures that have largely affected the lower and middle classes: one study found that a consolidation of one per cent of GDP is, on average, associated with an increase in income inequality of around 0.4–0.7 percent over the following two years (Woo *et al.* 2013). As a result, public debates in most OECD countries intensified on the issue of international tax evasion, the abuse of ‘unfair’ opportunities for international tax arbitrage by wealthy individuals and

multinational corporations, and the need to spread the burden of fiscal consolidation more evenly across society.

The BRIC countries suffered from a different kind of crisis. From a comparative capitalism perspective, the effects of the global financial crisis on a country's economy and the response by its government can be expected to be shaped by the domestic institutions of its national model of capitalism. In recent years, a research programme emerged that aims to bring the BRIC countries and other emerging markets into the orbit of the comparative capitalism literature (e.g. McNally 2012, Schmalz and Ebenau 2012, Becker 2014, Buhr and Frankenberger 2014). An interesting example is the exploration by Nölke *et al.* (2015), who argue that the BRICs share a common institutional model. While significant institutional differences obviously exist between their models of capitalism, Nölke *et al.* (2015) note that they all remain in a continuous catch-up process based on strategic integration in the world economy and guided by 'close cooperation between various state and domestic business coalitions at the national and sub-national level which gives rise to the notion of a rather fragmented, yet dynamic state-permeated market economy' (p. 543). A strong presence of state-owned enterprises (SOEs) in the domestic political economy is a common feature: apart from the many firms where the government acts as a minority shareholder, SOEs (fully owned or with majority state control) still contribute a large portion of GDP (respectively 30 per cent, 13.1 per cent and 29.7 per cent in Brazil, India and China in 2010) and represent a major portion of total stock market capitalisation (respectively 34 per cent, 41 per cent and 70 per cent).

The BRIC countries' model of capitalism is not, of course, only based on state interventionism, nor that these manifestations have faded completely in the OECD. Nevertheless, because intervention remains much more prevalent, there are at least four reasons why we believe that their preferences for AEol in the aftermath of the global financial crisis was less evident than for most OECD countries.

First, the crisis had less 'fiscal impact' on the BRICs' public balances. As they put in place more stringent financial regulations and various controls over private cross-border capital flows, their banks were more domestically oriented and less exposed to US and European financial markets than US and European banks. So, in contrast to many OECD governments, they did not have to bail out their banks. Moreover, counter-cyclical fiscal deficit spending was less pronounced in the BRICs. They supported growth by encouraging state-dominated banks to increase lending to the non-financial sector – especially to the SOEs – to boost corporate and infrastructural investment spending rather than by engaging in counter-cyclical deficit spending.¹ In contrast to OECD welfare states, the BRICs rely more on targeted taxation than on high levels of tax collection and massive transfers and redistribution: most notably, their revenues from taxes on income, profits and capital gains (IPC) are much lower than the OECD average (Table 1). Like the East Asian developmental states, government intervention in the BRIC countries takes place predominantly in the form of an active industrial policy based on stringent regulation of product and capital markets, price controls in these markets (and related subsidies) as well as government ownership (Musacchio and Lazzarini 2014, Nölke *et al.* 2015). So, while their fiscal needs were not as deep as those of OECD governments, the revenues from additional capital income tax collection as a result of AEol could be expected to be significantly lower for them than for the latter.

Second, the adjustment burden of implementing a multilateral AEol is significantly higher for the BRICs governments, given that their banking system is largely state-owned and they were less able to deflect the costs of compliance to the private financial sector: government ownership of the banking system (as a percentage of total assets) approximates 50 per cent in Brazil, China and Russia and reaches almost 75 per cent in India (Jaeger 2011). Moreover, their banks are mostly oriented towards the domestic market and less dependent on attracting foreign savings to fund their balance sheets and boost profits. As Table 2 shows, the BRICs do not have highly-ranked global financial centres – with perhaps the partial exception of Hong Kong as China's offshore and mostly autonomous financial centre – so potential 'reputation costs' due to non-participation in a multilateral AEol regime would have been minimal. The implementation of an adequate infrastructure to adopt a multilateral AEol standard is thus a highly cumbersome enterprise for the BRICs'

Table 1. Fiscal indicators in the BRICS.

	2007	2008	2009	2010	2011	2012
OECD Average						
Total Tax	35,47%	34,86%	34,47%	34,60%	35,13%	35,85%
IPC Tax	13,36%	13,06%	12,36%	12,43%	12,79%	13,27%
Public deficit	0,46%	-1,66%	-5,85%	-5,99%	-4,03%	-3,56%
Public debt	49,56%	54,62%	63,45%	68,41%	72,41%	75,68%
Brazil						
Total Tax	32,72%	33,03%	32,22%	32,22%	33,11%	33,19%
IPC Tax	7,09%	7,54%	7,04%	6,66%	7,18%	6,82%
Public deficit	-2,74%	-1,53%	-3,19%	-2,72%	-2,47%	-2,57%
Public debt	63,796	61,913	65,039	63,029	61,226	63,537
China						
Total Tax	17,11%	17,16%	17,07%	18,17%	18,98%	20,97%
IPC Tax	4,49%	4,72%	4,44%	4,39%	4,83%	5,09%
Public deficit	2,94%	1,25%	0,11%	1,45%	1,47%	1,26%
Public debt	34,64%	31,59%	36,12%	36,01%	35,60%	37,05%
India						
Total Tax	17,64%	16,47%	15,28%	15,71%	NA	NA
IPC Tax	NA	NA	NA	NA	NA	NA
Public deficit	-4,41%	-9,96%	-9,75%	-8,40%	-8,12%	-7,44%
Public debt	74,03%	74,54%	72,53%	67,46%	68,10%	67,45%

Source: ICTD Database.

state-dominated and domestically-oriented banking systems. In this regard, it is important to note that the compliance costs ensuing from the OECD's CRS regime are much higher than those following from bilateral FATCA agreements with the US. In contrast to these FATCA agreements, the CRS does not include a US\$ 50,000 threshold, subjecting all the financial accounts owned by foreign residents to potential review and reporting. 'Combined with the fact that the review has to be done with multiple reportable jurisdictions (rather than just US accounts under FATCA)', this means that 'financial institutions will have to collect and remit significantly more accounts under the CRS than under FATCA' and that 'financial institutions that have implemented manual review processes for FATCA will not be able to use the same procedures for CRS' (Kinsley *et al.* 2015). In short, it is unlikely that BRIC banks favoured a multilateral standard to minimise compliance costs.

Third, a key feature of the domestic political economy of the BRICs is strong ties between political and economic elites and their involvement in many of its extractive institutions. An important distinction between these contemporary models of state capitalism and the older varieties is that coordination of economic activity frequently occurs via 'reciprocal models of trust between individual members of these (competition-driven) state-business coalitions, based on informal personal relations, family ties, and shared social (elite) backgrounds' rather than under the guidance of an all-powerful, centralised bureaucracy (Nölke *et al.* 2015). This has culminated in highly developed patrimonial systems that have generated a variety of incentives for long-term clientelist collaboration between political and economic elites. Such networks feature prominently in autocratic states such as

Table 2. Ranking and rating of BRIC global financial centres (Long Finance GFCI and Xinhua-Dow Jones index).

	GFCI 1 rank (rating) 2007	Xinhua-Dow Jones rank 2014	GFCI 20 rank (rating) 2020
Hong Kong	3 (684)	4	4 (748)
Shanghai	24 (576)	6	16 (700)
Shenzhen	–	15	22 (691)
Rio De Janeiro	–	15	54 (623)
Sao Paulo	–	22	48 (51)
Beijing	36 (513)	11	26 (683)
Moscow	45 (421)	23	84 (538)
Mumbai	39 (460)	20	75 (598)

Source: Long Finance, Xinhua (<http://www.longfinance.net/global-financial-centres-index-20/1037-gfci-20.html>; <http://www.longfinance.net/programmes/financial-centre-futures/fcf-publications.html>). Based on Huotari and Hanemann (2014).

Russia and China (Buhr and Frankenger 2014). Party elites in China were able to maintain both their political power and economic interests by transforming themselves into a new dominant economic class, enabling them to turn bureaucratic privileges into economic advantages (Dickson 2007, Li and Shaw 2013). Under Putin, top Kremlin staffers and senior ministers have been appointed to the boards of various SOEs, taking an active interest in their progress and profits. As such, '[p]rivate and corporate interests are behind most of Moscow's major policy decisions, as Russia is ruled by people who largely own it' (Trenin 2007, p. 95, see also Dawisha 2014). While Brazil and India have democratic political institutions, they also share a type of capitalism that relies on clans as a mode of social coordination that is supported by multi-party clientelism (Nölke 2010, May *et al.* 2019). So, even though the BRICs suffer from high levels of wealth inequality that has increased sharply over the past 15 years (Table 3), the determination of their political elites to improve structures of redistributive taxation through AEol can therefore be called into question.

Finally, they have – to different degrees – restricted the openness of their financial systems, making their economies less prone to international tax arbitrage by wealthy residents. The third column of Table 4 contains the Chinn-Ito index of financial openness (developed by Chinn and Ito 2006), which measures their degree of capital account openness by codifying the tabulation of restrictions on cross-border financial transactions reported in the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions. The index for the OECD's advanced market economies averaged 1 between 2004 and 2014, so the much lower value for the BRICs reflects the far higher degree of legal restrictions on cross-border capital flows throughout this period. They are less restricted in their use of various capital controls to curb financial outflows towards offshore bank accounts than the OECD's advanced market economies, which remain entirely subscribed to the norm of free capital mobility or – as in the EU countries – even have legal prohibitions against the use of capital account restrictions. The BRICs, by contrast, believe that 'the persistence of financial globalisation collides with state-capitalist preferences to minimise risk and to preserve economic stability' (Nölke *et al.* 2015, p. 22; see also Dierckx 2013). So, while for the advanced market economies AEol is the only strategy available to inhibit their residents from moving capital offshore to evade taxes, it is part of a broader menu of options available to BRIC politicians to curb tax-related capital outflows.

These observations do not suggest that the BRICs do not have anything to benefit from a multi-lateral AEol regime. As Table 4 also shows, they belong to the top 7 countries with highest average illicit capital flows in the developing world: estimates suggest that since 2009 illegal outflows from the BRICs amounted to almost 50 per cent of the developing world's aggregate illegal outflows. Trade misinvoicing by firms is commonly the preferred method to circumvent legal restrictions on international financial transactions (see Kar 2010, 2014, Kar and Freitas 2012, 2013, Kar and Spanjers 2015, for country case studies on Brazil, Russia, China and India). In this way, BRIC firms are able to illicitly transfer capital to a foreign country either by over-invoicing imports or by under-invoicing exports to foreign subsidiaries, which often reside in offshore financial centres and use incorrect invoices to settle international transactions with foreign firms. From the perspective of BRICs governments, the main short- to medium-term threat to domestic political-economic stability is their persistent balance-of-payments vulnerability rather than fiscal weakness: excessive capital outflows risk

Table 3. Wealth share of the top decile in the BRICs.

	Share in the top decile			Change in top decile share		
	2000	2007	2014	2000–2007	2007–2014	2000–2014
China	48.6%	56.1%	64.0%	rapid rise	rapid rise	rapid rise
India	65.9%	72.3%	74.0%	rapid rise	rise	rapid rise
Russia	77.1%	75.4%	84.8%	fall	rapid rise	rapid rise
Brazil	69.4%	68.8%	73.3%	flat	rapid rise	rise
South Africa	72.2%	69.0%	71.7%	fall	rise	flat

Source: Davies *et al.* (2015).

Table 4 . Illicit capital flows from developing countries in billions of US dollar.

Rank	Country	Chinn-Ito Index	2005	2007	2009	2011	2013	2004–2013
1	China	0.16	82.5	107.4	138.9	133.8	258.6	1392.3
2	Russia	0.50	53.3	81.2	125.1	183.5	120.3	1049.8
3	Mexico	0.70	35.4	46.4	38.4	63.3	77.6	528.4
4	India	0.16	20.3	34.5	29.2	85.6	83.0	510.3
5	Malaysia	0.34	35.3	36.5	34.4	50.2	48.3	418.5
6	Brazil	0.54	17.2	16.4	22.1	31.1	28.2	226.7
7	South Africa	0.16	13.6	27.3	29.6	23.0	17.4	209.2
8	Thailand	0.26	11.9	10.3	14.7	27.4	33.0	191.8
9	Indonesia	0.61	13.3	18.4	20.5	18.3	14.6	180.7
10	Nigeria	0.30	17.9	19.3	26.4	18.3	26.7	178.0
Total BRICS			186.9	266.9	344.8	457.0	507.6	3388.2
BRICS as % of total			35.6%	38.2%	46.2%	45.3%	46.6%	43.2%
Developing world total			524.6	699.1	747.0	1007.7	1090.1	7847.9

Source: Kar and Spanjers (2015), Chinn and Ito (2006).

undermining the state's control over domestic banking credit to the non-financial sector. These risks can be particularly challenging for Brazil and India, which are dependent on a net influx of private capital to finance persistent current account deficits (averaging, respectively, 3.6 per cent and 3.0 per cent between 2010 and 2014). However, the accumulation of current account surpluses and massive foreign exchange reserves did not entirely shield China and Russia from destabilising capital outflows. Increasing capital flight since 2014 forced the People's Bank of China to sell more than US\$ 1 trillion in foreign exchange reserves in order to defend its exchange rate peg in the face of accelerating financial outflows, potentially undercutting its ability to pursue monetary expansion and prevent a 'hard landing' of the domestic economy.

Here, it is important to highlight differences between the BRICS and OECD countries in terms of illicit capital outflows to tax havens and OFCs. Given that the latter have all embraced the neoliberal norm of free capital mobility, it is not illegal for a citizen to open up a bank account on a tax haven; it is only illegal if he/she does not declare the capital income on that bank account to his/her tax authorities in order to evade capital income taxes. Capital outflows from the BRIC countries to tax havens and OFCs, on the other hand, are illegal and illicit *by definition* if these flows consist of evasion of capital controls based on techniques like trade misinvoicing. The problem is that legal restrictions on capital outflows can be notoriously leaky, as the above data testify. In this regard, participating in a multilateral AEol-regime can be considered an effective instrument that is complementary to the existing toolkit to curb illicit capital outflows: AEol enables tax authorities to track down these outflows and functions as a deterrent for capital control evasion by increasing the risk of getting caught. Although CRS rules stipulate that the data obtained through the AE should be used confidentially and can only be used for tax purposes (personal interview, May 2018), it should be noted that the evasion of legal restrictions on capital outflows based on trade misinvoicing *also* amounts to tax evasion by leading to an underreporting of corporate profits.

A final motivation to participate can be linked to domestic anti-corruption battles in the BRICS countries, raising the spectre of domestic political exploitation of information received via AEol. According to Transparency International's corruption perceptions index, the BRICS all lie below the midpoint between 0 ('highly corrupt') and 100 ('highly clean'): Brazil, India and China scored 40 (rank 79) in 2016 and Russia 29 (rank 131). Illicit capital outflows are intrinsically connected to high levels of corruption. Records obtained by the international Consortium of Investigative Journalists (ICIJ) exposed secretive investments of top managers of Russian SOEs and close relatives of Russian high-level officials in OFCs (Sheynov 2013). Brazil has been mired in corruption scandals at SOEs, from which millions of funds were siphoned into secret bank accounts of ruling coalition politicians and business executives in Switzerland and offshore financial havens. Since president Xi Jinping launched his anti-corruption campaign in 2012, more than 100,000 people (mostly politicians and officials) have been indicted for corruption in China (The Economist 2015). Notably, Xi started his

campaign around the same time the Hurun Report was published, which contained survey results revealing that wealthy Chinese hold 19 per cent of their assets overseas (The Economist 2012). In India, Narendra Modi came to power pledging to overturn the status quo and fight endemic corruption in both the public and private sectors. One measure included a ban on the largest currency bills circulating in the economy in order to target vast amounts of untaxed money (Anand and Kumar 2016). As such, one of the benefits of AEol for the BRICs would be to collect information that could be usefully exploited by incumbent political elites as a way to boost their domestic public standing as champions of anti-corruption. While the primary purpose of the CRS is to curb international tax evasion, multiple forms of corruption are often entangled and exposing tax evasion can lead to positive spillovers by acting as a deterrent for other forms of corruption (personal interview, May 2018).

At the same time, the potential involvement of these incumbent elites in corruption and illegal capital flight makes it likely that they will aim to protect political cronies and use the AEol-obtained information only selectively to dispose of political rivals. For instance, the ICIJ also revealed that close relatives of China's top leaders have held secretive offshore companies in tax havens: confidential files included the 'details of a real estate company co-owned by current President Xi Jinping's brother-in-law and British Virgin Islands companies set up by former Premier Wen Jiabao's son and also by his son-in-law' (Guevara *et al.* 2014). This begs the question of whether the BRICs will be tempted to engage in 'mock compliance' with regard to AEol – that is, whether the legislative, administrative and regulatory infrastructure they need to establish to enable AEol will remain dormant. By drawing on Walter's (2008) study of the adoption of transnational financial regulatory standards by the East Asian countries, Woodward (2016) argues that mock compliance in the AEol regime is most likely when 'states recognise that outright defiance [...] would result in serious repercussions but where full compliance would impose significant costs on powerful domestic groups and actors'. At first sight, mock compliance seems unlikely as the BRICs do not depend on the provision of financial secrecy services and have no real reason to forsake their obligation to share information on foreign residents' bank accounts. The key risk of their mock compliance is located at the receiving end of the information exchange: their tax administration could selectively share exchanged information with the central government so as to exploit compromising information on political rivals for domestic political purposes. This would run against internationally agreed rules on AEol that preclude tax administrations from sharing exchanged information with other local authorities and using it for non-tax purposes.²

The BRICs from FATCA to the CRS

Moving on from the distinctive domestic political economy reasons for the BRICs' interest in AEol, we now examine the international level to explain why they agreed to join the multilateral CRS regime centred around a western-oriented organisation, and how their desire to participate can be linked to the bilateral FATCA agreements they were forced to close with the United States.

Fatca and the BRICs

The BRIC governments have all signed an 'intergovernmental agreement' (IGA) with the United States to comply with FATCA stipulations. There are two different IGA models: under a Model 2 IGA foreign financial institutions report directly to the US government about their US customers, whereas a Model 1 IGA allows them to report this information to their national tax authority who will then hand over the information to the IRS. Model 1 IGAs, in turn, come in two variants: Model 1a is reciprocal and obliges US financial institutions to divulge information about foreign residents of the country it is signed with, whereas Model 1b is non-reciprocal (United States Treasury Department 2017). It should be no surprise that the BRICs governments entered a Model 1a IGA with the expectation that the United States would share information on BRIC residents' US bank accounts on a reciprocal

basis. Nevertheless, many scholars and practitioners are sceptical about the extent to which these IGAs legally bind the United States to reciprocity (e.g. Christians 2013, Eccleston and Gray 2014, Hakelberg 2016a, 2016b). As the United States needs to enact new legislation in order to allow such full reciprocity, it could only 'acknowledge the need to achieve equivalent levels of reciprocal automatic information exchange' within a Model 1a FATCA IGA 'by pursuing the adoption of regulations and advocating and supporting relevant legislation to achieve such equivalent levels of reciprocal automatic exchange' (Christians 2013, p. 2). When the Obama administration included FATCA reciprocity measures in its budget proposals for 2014–2017, the US Congress refused to approve them. This left many experts suspicious about the political willingness in the United States to provide reciprocity, with some even suspecting it of attempting to become the last tax secrecy provider in the world by holding off reciprocal AEoI (Drucker 2016).

The BRIC countries have been concerned about the lack of guaranteed reciprocity, which they perceived as an act of aggressive unilateralism. Opposition to FATCA was fierce in Brazil, with members of Congress calling the law an infringement of Brazil's national sovereignty and civil rights of its citizens. A top official at India's Department of Revenue described FATCA as 'inequitable', stating that 'It's a law which is made in USA, it's law which is imposed by USA on the rest of the world. Its exchange of information which is not fully reciprocal, yet India and other countries around the world have had to sign those agreements' (Akhilesh Ranjan quoted in Panday 2011). While agreeing that countering tax evasion is important policy, a Chinese central bank official claimed that

an uncoordinated extraterritorial measure such as FATCA is unlikely to generate broadly accepted solutions with full consideration of the effects on global financial systems and the conflicts involved ... A more coordinated multilateral approach should eventually replace the unilateral approach of FATCA. (Liu Xiangmin cited in Cochrane 2014)

Russia has been one of the most vocal critics of FATCA's unilateralism and even refused to enter into a bilateral IGA with the United States. The chief of Russia's Federal Financial Monitoring Service condemned FATCA for forcing Russian financial institutions to 'become tax agents, tax informants for the US economy', warning it would 'undoubtedly present a serious risk to our economy' (Yury Chikhansin cited in D'Amora 2014). Nevertheless, even Russia eventually enacted a new law to enable its financial institutions to comply with FATCA procedures after obtaining consent from account holders and Russian tax authorities.³

How can we explain that, despite these fundamental concerns, the BRIC governments either closed FATCA IGAs with the United States or – as in Russia's case – adopted new legislation so as to allow their financial institutions to comply with FATCA stipulations? As Emmenegger (2015, p. 478) has argued, the centrality of the US dollar to the global financial system endowed the US government with the structural power to impose FATCA agreements:

[T]here is virtually no possibility for a bank to be internationally active without repeatedly trading in US dollars, with US-based institutions, or with other banks that trade in US dollars or with US-based institutions. However, by doing so, international banks are, from the point of view of US regulatory agencies, subject to US jurisdiction. This combination of international banks' economic dependence on access to the dollar-based financial system and US regulatory bodies' ability to control access to it makes international finance structurally dependent on the United States. (see also Hakelberg 2016a, 2016b)

It is well-known that the BRIC countries are very dependent on the US dollar-based financial system: their central banks have accumulated massive foreign exchange reserves that are mostly invested in dollar-denominated assets, whereas the United States is a key consumer market for their export-oriented firms (Vermeiren 2014). As internationally-oriented BRIC banks and corporations obviously need access to the dollar-based financial system, their respective governments had to comply with FATCA regulations in order to avoid the substantial economic costs associated with non-compliance: the BRICs engage in enormous financial and trade transactions with the United States, which are mostly settled in dollars and should be reported to US financial institutions that could charge a 30 per cent withholding tax to non-compliant foreign financial institutions (Ramakrishnan *et al.* 2015).

These observations indicate that the BRICs resented being forced to comply with US tax stipulations, suggesting a distinctive link between FATCA and their endorsement of the OECD's multilateral CRS regime. By participating in the latter regime and backing it as a multilateral solution to a common problem of tax evasion, they could ward off the perception that they established a legal and administrative infrastructure to share information merely as a passive reaction to US pressure. In contrast to FATCA, the CRS regime contains legal safeguards to ensure reciprocity: participating states 'may suspend the exchange of information under this Agreement by giving notice in writing to the other [participating state] that it has determined that there is or has been significant non-compliance by the other [participating state] with this Agreement' (Section 7 of the CRS). As such, it can be argued that the BRIC countries' participation in the CRS regime followed both a 'logic of appropriateness' and 'logic of expected consequences' (March and Olsen 1998): by subscribing to the principle of reciprocal multilateralism as the normative foundation of any appropriate AEol regime, the BRICs could potentially put pressure on the United States to pursue reciprocity within its Model 1a FATCA IGAs, which contain a commitment for both parties 'to [work] with other partners and the OECD ... on adapting the terms of this Agreement to a common model for automatic exchange of information'.⁴ If the US Congress remains unwilling to enact legislation that requires US financial institutions to obtain and report reciprocal information on non-resident accounts, CRS countries that have entered into a Model 1a FATCA IGA with the United States and have not received reciprocal information pertaining to their residents' US accounts may decide to stop sharing information with the IRS. In such a scenario the legitimate use of coercion by the United States would be much more difficult.⁵

The OECD and the BRICs

At the international level, a final institutional puzzle is that the BRIC countries accepted the Western-oriented OECD as the central organisation in the multilateral AEol regime, in the absence of a true world tax organisation (Tanzi 1999). The OECD has been the world's de facto leading tax organisation, and its regulatory norms and tax conventions spread beyond OECD members. The BRICs, along with the wider Global South, have, in the past, criticised this Western-oriented organisation, denouncing it as a 'club of rich countries' whose tax conventions were disadvantageous for the developing world (Mishra 2012), and called for a global tax organisation under UN auspices. Rhetorically, the BRICs' continued support for the latter (BRICs heads of state 2016), but their involvement in the OECD and Global Forum threatens to further marginalise the role of the UN in tax matters. Their acceptance of the OECD's role in this case was based on a pragmatic recognition of its technical capacity, and the requirement that they gain a form of ownership over the process. Following their agreement on the multilateral AEol agenda, the BRICs could have demanded that the UN Committee of Experts on International Cooperation in Tax Matters, a highly technical subsidiary body to the UN Economic and Social Council (ECOSOC), be its institutional home. However, they realised this would have led to a political deadlock with the Western G20 countries, which would argue in favour of the OECD (Interview with Indian government official in London, November 2016). Furthermore, the UN probably did not have the technical capacity and expertise, nor the sufficient treaty framework to realise a multilateral AEol agreement, while the OECD could instantly offer both. It thus made sense to accept the technical role of the OECD in the case of AEol and likewise in the Base-Erosion and Profit-Shifting (BEPS) process of corporate tax reform, the other big G20/OECD tax undertaking (OECD 2015b). An OECD official working in the Global Forum confirmed this narrative, stating:

Multilateral AEol is an area where the interests of countries are all aligned (except for tax havens). I do not see this as within the traditional OECD-UN divide paradigm, or developed vs developing countries (Personal Interview, May 2018).

Another factor that convinced the BRICs to accept the OECD was that it offered them a sense of ownership. They participate in political agenda setting for the OECD through the G20, which arguably acts as a more important principal than the OECD's own Council in the case of AEol. The BRICs agreed to AEol as the global norm during the 2012 Mexican G20 presidency, and the G20 Finance Ministers explicitly tasked the OECD with the development of a new multilateral standard on AEol, in cooperation with G20 countries under the 2013 Russian presidency (G20 2013). They also secured ownership through the expanded Global Forum which is in charge of monitoring and reviewing members' implementation of information exchange (OECD 2016a). Becoming part of this increased their sense of ownership over the entire process, and more importantly made sure they were equals to the OECD countries in the review stages. While the technical drafting of the CRS happened within the OECD, this mattered relatively little to the BRICs since they could always opt not to sign if they did not agree with the final version. The implementation review is of greater political and symbolic importance. If this would be the mandate of the OECD it would mean the BRICs would have to voluntarily subject themselves to the judgment of the 'club of rich countries'. Mandating the Global Forum with this task and implementing a peer-review process enhanced the BRIC ownership and equality with the OECD countries. Their involvement in the Global Forum has continued to increase. They held rotating positions on its steering group, including the (vice)-chair(s). In 2012, the OECD Council allowed the employment of non-OECD nationals in the Global Forum. Since then, the Global Forum Secretariat has been headed by an Indian national, and a mix of staff and secondees from a wide range of nationalities are present. The Global Forum has since become a model internally for other OECD bodies that wish to overcome divisions of OECD and non-OECD countries (Personal interview, Paris, May 2018).

Finally, one motivation for the BRICs to participate in the OECD's CRS regime could be that its monitoring process does not pose a real threat to their national sovereignty as it lacks an adequate enforcement mechanism. Indeed, as Grinberg (2016, p. 166) notes,

a coercive mechanism imposed by multiple sovereigns still needs to be established to ensure compliance – as opposed to nominal commitment – to a multiple automatic information exchange system that provides benefits to multiple sovereigns ... As long as the United States is the only country exercising coercive authority to ensure compliance, defection from the emerging regime remains a possibility.

Since the CRS requires 'the reporting obligations to be translated into domestic law' and 'the introduction of a framework to enforce compliance with those obligations', national authorities remain fully responsible for the adequate implementation of AEol. At the international level, the CRS regime therefore provides a facilitating context for domestic incentives to mock compliance identified in the previous section.

Conclusion

In this article, we examined the position of the BRICs countries in the emergence of the multilateral OECD-centred CRS regime, which consolidated reciprocal AEol as the new norm for global tax cooperation in the struggle against tax evasion by wealthy individuals. The IPE literature on global tax governance has ignored the pivotal role of the BRICs in the emergence of this regime, even though as key members of the G20 they were indispensable in forging a new international consensus on the importance of AEol and mandating the Western-oriented OECD to develop a multilateral standard on AEol. Scholars have focused on the crucial role of FATCA in consolidating the EU position on AEol and shifting the preferences of OFCs and foreign financial institutions towards a global standard as a way to minimise their compliance costs. The participation of the BRICs does not appear to be puzzling for these scholars, as the gains of AEol are believed to be non-rival: benefits for the Western G20 countries in terms of increased fiscal revenues ensuing from AEol did not reduce the benefits for the BRICs.

By drawing on comparative capitalism scholarship on the BRICs' domestic political economy, we have problematised their preferences for AEol by pointing to incentives that were distinctive

compared to those of OECD members. Domestically, the global financial crisis had much less impact on the BRIC governments' fiscal balances and public debt levels, making the fight against the evasion of capital income taxes much less pressing than for OECD governments. Moreover, the compliance costs of a multilateral AEol regime were higher for the BRICs, as their banking systems are largely state-owned, making it more difficult to deflect these costs to the private financial sector. Nevertheless, they are more vulnerable to illicit capital outflows, which create pressures on their balance-of-payments and can have negative effects on domestic credit flows. In this regard, participation in a multilateral AEol regime should be seen as complementary to the set of capital controls available to them: it could become a key instrument to track down capital that has circumvented these controls, reducing the attractiveness of illicit capital flight and alleviating the pressure on their balance-of-payments. Furthermore, AEol could be a useful tool to boost the domestic public standing of incumbent political elites by assisting them in their battle against black money and corruption, which is an endemic feature of their state-permeated capitalism. Internationally, the BRICs have been pragmatic in their acceptance of the OECD's technical expertise in international tax governance, while the risk of being subjected to the biased judgment of the 'club of rich countries' was attenuated by securing a sufficient level of ownership over the process through their membership of the G20 and the OECD's Global Forum. Importantly, their endorsement of the CRS regime's reciprocal multilateralism as the only acceptable standard for AEol could also be seen as a normative strategy to push the United States to uphold its promise to secure reciprocity in its FATCA IGAs.

Our examination of the BRICs' position in the emergence of the CRS regime also raises several concerns about the effectiveness of the multilateral AEol standard and the regime of global tax governance in promoting global tax justice. One reason why the BRICs – which do not particularly stand out as advocates of transparency in their domestic and foreign economic policies – agreed to participate could be that there are plenty of opportunities for mock compliance within the regime. Domestically, incumbent political elites can attempt to selectively use the financial data received via the CRS by pressing charges only against political rivals and shielding their political cronies against potentially compromising information. Internationally, the CRS regime lacks a coercive mechanism to ensure compliance. Its main enforcement mechanism resides at the national level: BRIC countries have the responsibility to implement a legal framework to make sure their financial institutions comply with the obligations of the CRS, making it likely that their tax authorities and financial institutions will adopt a wait-and-see approach with respect to AEol. Finally, while the BRICs see themselves at the political forefront of the developing world and may continue to rhetorically endorse an inclusive UN tax body, their position on international taxation towards developing countries may start to resemble that of the OECD countries as their economic importance continues to grow. As such, the OECD may continue to co-opt the BRICs and vice versa. This can either happen through ad-hoc OECD-plus arrangements, such as the Global Forum, or eventually through full OECD membership (Clifton & Díaz-Fuentes 2015). Brazil's official membership request in May 2017 is an interesting new turn of events in this area (Reuters 2017). These developments would fundamentally transform the OECD's role in the world and will most likely render the UN even more irrelevant as a global tax organisation.

These conclusions speak to central issues that have occupied debates in the broader IPE literature on the implications of the rise of the BRICs for the western-promoted institutions of global economic governance. While their statist domestic political economy can conflict with the liberal tenets of these institutions, our case study showed that the BRICs aimed to extract as many benefits as possible from their engagement with newly established institutions without fundamentally relinquishing their national sovereignty.

Notes

1. China's macroeconomic stimulus, for instance, was largely funded by an extraordinary expansion of banking credit since 2009: credit to the non-financial sector skyrocketed to more than 240 per cent of GDP in 2015.

Since 2007 the ratio in Brazil, Russia and South Africa increased by, respectively, 36 per cent, 50 per cent and 16 per cent, reaching 140 per cent, 92 per cent and 122 per cent of GDP in 2015. Only in India credit to the non-financial sector grew at about the same pace as GDP throughout this period, oscillating around 127 per cent of GDP (Figure 1).

2. The OECD itself does not look at the information or how it is used, because of its confidential nature. As such, the accountability lies solely with the national tax administration. However, it is also important to recognise that there is a learning curve towards handling the enormous amounts of newly acquired data that must not be confused with mock compliance (Personal interview, May 2018).
3. Federal Law No. 173-FZ 'Concerning Special Considerations Relating to the Conduct of Financial Operations with Foreign Citizens and Legal Entities, the Introduction of Amendments to the Administrative Offences Code of the Russian Federation and the Annulment of Certain Provisions of Legislative Acts of the Russian Federation.'
4. See <https://www.treasury.gov/press-center/press-releases/Documents/reciprocal.pdf>.
5. For China an additional benefit of the CRS regime's safeguard reciprocity was that it creates a 'level-playing-field' for Hong Kong, whose status as global financial center had to be protected from asymmetric compliance costs. OFCs such as Hong Kong have been under such close scrutiny since the 2000s, so there was very little opportunity for undetected non-compliance with respect to AEOI. By participating in the reciprocal CRS regime together with Western OECD countries, these OFCs could maintain a level playing field and avoid asymmetric compliance costs.

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