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E-COMMERCE TAXATION IN CENTRAL ASIA: CURRENT STATE AND OPPORTUNITY FOR REFORM

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Summary

1. Performs a comparative analysis of current state of e-commerce tax regulation in the broad economic and tax governance contexts and identifies a large gap between Kazakhstan and the other three: Kyrgyzstan, Tajikistan and Uzbekistan.
2. Gap is observed at the levels of their tax administration capacities, the sizes of their digital services markets, and the development of their e-commerce infrastructures
3. **Key recommendation is the introduction of the digital services tax based on the harmonized regional model (International Tax Cooperation)**
4. Optimal for finding a balance between the goals of mobilizing urgently needed tax revenues for financing the post-COVID-19 recovery and creating certain conditions for foreign digital platforms operating inside these economies.
5. **Attracting foreign platforms into local economies is critical for the digital transformation of SMEs**, and it could partly compensate for their losses due to COVID-19 restrictions

Three tax challenges of digitalization for Central Asia in COVID-19

1. The reform of international tax rules applying to Big Data consumer facing businesses without any physical presence in market countries, such as e-commerce platforms and internet search engines.
2. The reform of domestic VAT systems for taxing consumption of digital services supplied from abroad to local customers (B2C) and to local businesses (B2B).
3. Tax regulation of digital platforms in the shadow economy.

Attracting foreign platforms into local economies is critical for the digital transformation of SMEs

- The paper explains that according to IMF, Asian companies participating in e-commerce show 30% higher in TFP and 50% higher in export rate, which implies an importance for the creation of domestic finance platforms in CA, a necessary condition for economic diversification and innovation-led sustainable growth.
- Switching to digital channels of distribution could help SMEs increase diversification in domestic and foreign supply chains by entering to new international markets. However, fintech markets including e-commerce platforms in CA are still in its infancy.
- Severe **lack of economic diversification** in CA also could have been caused by lack of diversification in both domestic and foreign value-added intra-regional supply chains for intermediate and final goods & services due to under-developed homegrown e-commerce platforms for SMEs' cross-border transactions.

Creating more homegrown e-commerce platforms for the digital transformation of SMEs in CA

- In the absence of local players, rather than relying heavily on foreign expertise, CA countries need to create more homegrown e-commerce platforms by bolstering financial, regulatory, and technology infrastructure.
- There exist domestic e-commerce platforms such as KazTAG - Kaspi.kz in Kazakhstan and Osonol.uz in Uzbekistan to realize potential growth of international trade in digitally deliverable services (DDS), especially for boosting intra-regional trade and promoting regional economic cooperation and integration.
- More than 8.5 million people in Kazakhstan use the application Kaspi.kz monthly and for the third year in a row it has been taking the first place in the ranking of the largest Kazakhstani trading Internet platforms by TOP KAZ Retail E-Commerce 2020.

Enhancing e-commerce platforms and reforming tax policies

- Growing mobile and broadband use, and internet penetration in CA can be leveraged for growth of e-commerce and other digital financing solutions.
- The volume of digital payments in Kazakhstan increased more than 2 times in 2019 and e-commerce also exhibit steady expansion led by Kazakhstan and Uzbekistan.
- Kazakhstan as a regional leader in e-commerce, it needs to put more resources to further develop digital infrastructure to provide more enhanced platforms and reform tax policies at domestic and regional level, in such a way of promoting economic regional cooperation, economic diversity and innovation-led sustainable growth.

Hub for DRM and ITC at ADB

- ADB held the Tax Week Virtual Training last week to highlight actions that can be taken in enhancing **domestic resource mobilization** (DRM) and strengthening **international tax cooperation** (ITC).
- Actions include building universally acceptable tax solutions; improving tax yields in a fair and equitable manner; and addressing aggressive tax planning and tax evasion.