

COMPARATIVE STUDY: TAX SYSTEMS IN SIX ARAB COUNTRIES

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Prepared by: Firas Jaber - Iyad al-Riyahi

9

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The Arab NGO Network for Development (ANND) is a regional network, working in 12 Arab countries with nine national networks (with an extended membership of 250 CSOs from different backgrounds) and 23 NGO members. ANND was established in 1997 and its headquarters are located in Beirut, Lebanon since 2001. ANND work covers three main areas: Development Policies in the region, Social and economic reform agendas and the role of international and regional organizations and Economic and trade liberalization policies and their social and economic implications

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This paper is one in a series of papers published by the Arab NGO Network for development (ANND) as part of its work on monitoring IFIs' policies in the Arab region.

This work falls within ANND's aims of strengthening the analysis and research on public policies in the Arab region, in addition to supporting the process of building a strong role for civil society in developing alternatives, specifically on the economic and social fronts, based on choices that are rooted in the local and national priorities and needs.

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This study is based on a two-year research project carried out by the Arab NGO Network for Development (ANND), in collaboration with several national organizations and institutions.

During the first phase, ANND collaborated with the Social and Economic Policies Monitor (al-Marsad) in occupied Palestine to issue a report that includes analyzing the tax regimes in four Arab countries (Palestine, Lebanon, Jordan and Morocco).

The second phase involved case studies of tax systems in Tunisia and Egypt, in collaboration with the Tunisian Forum for Economic and Social Rights and the Egyptian Center for Social and Economic Rights (ECESR), respectively.

The third phase included the preparation of a comparative report on the tax systems of the six aforementioned countries.

Introduction

The people of the Arab region have suffered from a lack of equal opportunity and inherent inequality as well as from marginalization and exclusion stemming from social and geographic causes, resulting in a system of rule and administration established through the reproduction of socio-economic injustice. The revolutions witnessed by some countries in the region, and the instability and crisis in others are in part a demonstration of the people's rejection of the momentous socio-economic disparities resulting from unjust socio-economic policies imposed by regimes for decades.

The situation was intensified by the implementation of deregulation and sweeping privatization deals, often in compliance with the recommendations of international financial institutions to the region's governments. While these policies may have contributed to positive economic growth rates in countries like Egypt, Tunisia and Morocco, they did not produce positive results overall. In fact, they drowned Arab countries with debt and stripped them of their productive capacities and added-value production. For the majority of Arab people the promised growth did not materialize. On the contrary, disparities increased dramatically and growth has only benefited the elite. This has led to the widening in the gap between the rich and the poor in the region.

In fact, the growing social disparity, inequality, marginalization, and exclusion in the Arab region left a scar on several areas of development, including health and education, added to cases of abject poverty and unemployment. While statistics show the improvement of indicators and access in regards to health and education services, the declining quality of these services must be addressed. This created islands of poverty and unemployment in the center and the peripheries, in the midst of deepening social protection difficulties. It also established a distorted legal environment that favors some businessmen and investors, without a clear strategy regarding the role of the private sector and foreign capital.

Some demands put forth by the revolutions – sustenance, work, and education – under the slogan of social justice were a clear reflection of the social and economic crisis in Arab countries. A common characteristic is the absence of social protection and insurance systems, which are only available on a small scale and even where they do exist, they do not cover the requirements of decent living. Development in the Arab region is geared towards the elite, and not to the wider population. In most situations, this leads to increasing the gap between rich and the poor. .

The drawbacks of external financing and debt require an effective mobilization of local resources, in addition to strengthening the capacities of local production to be able to employ and produce, creating added-value.

Tax policies are considered one of the most important issues in the redistribution and mobilization of local resources and could correct some of the economic imbalances arising from the presence of special privileges for a particular social segment inside Arab societies.

Regarding the six countries under discussion, there seems to be several common features to their economies and state administrations. First, the large and significant volume of external support provided to these states in order for them to fulfill their various obligations and spending within the general budget. This support functions primarily as a condition of social, economic, and political policies imposed on Arab countries, which we would argue are at the expense of these countries' poor citizens.

Second, the large size of external debt and its accumulating interests are restraining the possibility of launching a self-reliant development plan in the Arab region, due to the interests taking up a significant portion of the budget. This poses a danger to the concept of sustainable development for future generations as well, who will ultimately be the ones paying the price. In addition, loans and debts are imposing further socio-economic constraints in countries such as Jordan, Egypt, Palestine, Lebanon, Tunisia, and Morocco, especially due to the huge reduction in social spending, and the lifting of subsidies on basic goods and fuel. This leads to an increased burden on the poor through imposing high tax rates, which in turn leads to the creation of more poverty.

In other words, external grants and loans are intended to help revive state economies and allow them to spend in order to reinvigorate the economy and create economic growth. However, our work shows that they ultimately lead to exactly the opposite.

The Tax System

The tax system is core to the social contract and represents a powerful tool to reduce inequalities and control socio-economic disparities by providing social services and fair economic opportunities through public spending. Taxes provide financial assets to reinforce the state's treasury, which utilizes tax revenues to implement social development programs and provide public services for citizens. Thus, it allows citizens to contribute to government spending according to their relative capacity, by offering a percentage of their income under the guidance and protection of the government.

The United Nations High-Level Panel on Financing for Development indicates that taxes are considered an important and fundamental source of revenue for the state to spend on social services:

«Financing an adequate level of public expenditure, including on social safety nets, while limiting budget deficits implies raising substantial revenue from taxation. Tax revenue (supplemented in lower-income countries by foreign aid) needs to be sufficient to permit spending to be financed without either imposing the inflation tax, which falls disproportionately on the poor, or curtailing investment by the private sector. Many developing countries will have to undertake tax reform in order to raise tax revenue to the levels required. A value added tax has been found useful in many countries, because it spreads the burden of taxation over a broad tax base, although care may be needed to prevent an unfair share of the burden falling on the poor.

«Experience has shown that even the most admirable tax structure on paper is of little value if incompetently or corruptly administered. This points both to the need to simplify the tax system wherever possible and to the importance of building a transparent, accountable and corruption-free tax administration. Section 5 of this report urges that the international community create an International Tax Organization that would help countries achieve

these objectives, as well as reduce the scope for tax avoidance and evasion on income sources that have a transnational element. That would broaden the tax base and thus permit lower marginal tax rates, helping to limit the disincentivizing effects while making taxation more progressive.»⁽¹⁾

This trend set by the United Nations regarding the imposition of indirect taxes is inconsistent with the latest recommendations of the International Monetary Fund, who changed the direction of the trend by recommending the imposition of taxes on wealth only once and periodical taxing on real estate property in order to correct the economic imbalance, increase growth, increase state revenues, and to overcome the sovereign debt crisis.

A common set of features have been identified in the six countries (Egypt, Jordan, Morocco, Palestine, Lebanon, and Tunisia), including tax evasion and avoidance practiced by many wealthy people and multinational corporations, the prevalence of the informal economy, and the adoption of indirect taxes by authorities and their promotion by IFIs, let alone tax competition and other factors.

The management of the economy in these countries is also similar. For example, the size of foreign assistance they receive is very large and so is the size of foreign debt and accrued interest. Such challenges provide Arab countries alike with limited opportunity for self-reliant development, due, to a large extent, to debt servicing, which carves out a large part of the budget.

Tax justice contributes to political, social, and economic stability, as well as to the achievement of development and the reduction of poverty. A democratic participatory discussion of taxes, who will pay them, at what rate, and the manner in which the government will spend these financial resources on services and development projects, will lead to the achievement of social stability and reduce the strain resulting from unjust distribution policies.

One of the pillars of managing national state economies is setting a tax system to provide financial support to the state treasury in the aim of achieving and implementing public services for citizens and the establishment of the role of the state. Thus, citizens would participate in government expenditures,

(1) United Nations, Executive summary of the report of the High-level Panel on Financing for Development, 2000, <http://www.un.org/esa/ffd/a55-1000.pdf>.

each according to their relative ability, through paying a proportion of the income they enjoy under the care and protection of the government.

Tax systems have a pivotal role in the general state budget, since they represent a large portion of citizen expenses and a larger portion of state treasury revenues. A tax system could achieve social justice or it could be a deterrent to it. It is through the tax system that policy makers could determine who bears the cost of the larger tax and who deserves to be exempt. It can also determine the volume of revenue that the state aims to collect and which transactions are subject to taxation. These are all decisions that impact the lives of citizens, the ability of the state to finance its treasury, and the availability of public treasury revenues to spend on basic services. The tax system could play an important role in the promotion of industries and investment, as well as its role in achieving economic growth. More significantly, a tax policy would provide the resources and conditions needed to achieve development and social justice.⁽²⁾

As the deficit in the state budgets of several Arab countries accumulates, Arab governments are resorting to taxes as a last resort to finance this deficit. Although the official rhetoric continues to promise to expand the tax base and impose higher taxes on the rich, the opposite usually occurs. This rhetoric is currently used to deceive the people and absorb their anger, while continuing to increase tax burdens through imposing higher fees (VAT, GST).

Citizens' obligation to pay taxes is linked to a great extent to three main themes. The first relates to citizens' understanding of tax systems and laws. The second is related to the degree of justice in the system or law, from the perspective of the citizen. The third theme is related to citizens' awareness of the utility of paying taxes, such as access to critical public services and the government's efficiency in utilizing the taxes to impact well-being in general.

(2) ECESR, Tax Justice in Egypt: A study on taxation policies in Egypt and opportunities for justice, under publication.

Problems Facing Arab Tax Systems

This section addresses the problems facing Arab tax systems in Palestine, Jordan, Lebanon, Morocco, Tunisia, and Egypt, and their impact on Arab citizens' opinions on taxation, on one hand, and the efficiency of tax systems, on the other. The most significant issues are tax justice, tax evasion, the size of tax pressure on companies, and the size of tax revenue as a share of GDP.

Evasion of taxes by many wealthy individuals and corporations:

Tax evasion is a global problem with many negative repercussions on state economies. These problems are multiplied in countries witnessing political instability and the spread of corruption, preventing the availability of real and useful financing for the most critical programs such as health, education, and social protection programs.

In 2005, the Tax Justice Network issued a report entitled «Tax Us if You Can,» which estimated that countries lose around \$225 billion due to the weakness of tax systems and tax avoidance by individuals and companies, in addition to capital flight.⁽³⁾

Around one third of global assets are made up of foreign assets, which avoid efficient taxation systems. Moreover, more than half of global trade is involved in tax evasion. Developing countries lose more revenue than the annual aid flow they receive. Foreign funds and assets by some individuals are estimated at \$11.5 trillion, with a yearly loss of tax revenue on these assets estimated at almost \$250 billion. This is five times the amount needed to achieve the UN's Millennium Development Goal (MDG) aiming to reduce

(3) Lebanon Anti-Bribery Network, «Lebanese tax sector: Current reality, finance ministry reforms, and basic steps to activate the sector,» 2010.

poverty rates by 2015, as estimated by the World Bank in 2002.⁽⁴⁾

These funds could also be devoted to allow the global infrastructure to withstand climate change. In 2007, the World Bank approved the estimates by Global Financial Integrity (GFI), which said that the global flow of revenue resulting from criminal activities, corruption, and tax evasion is between \$1 trillion and \$1.6 trillion per year. Half of this amount comes from developing countries and economies in transition. In its latest study, GFI estimated that the volume of annual cross-border flow from developing countries only is between \$950 billion and \$1.1 trillion annually.⁽⁵⁾

The largest global financial centers, such as London and New York, and countries, such as Switzerland and Singapore, are providing distinctive facilities to attract foreign capital. As the corrupt strip their countries of financial assets, transferring them to those financial centers, they prevent developing countries from investing local capital and deprive their governments from much needed tax revenue. Thus, capital is prevented from trickling from rich to poor countries, as some traditional economic theories suggest, and the flow is directed in the other direction. Countries that miss out on tax revenues become more dependent on external assistance. Recent studies have shown that Sub Saharan Africa, for example, is a net creditor to all other countries in the world. Its estimated foreign assets from capital flight exceed its foreign debt. The difference here is that while assets are controlled by the private sector, the debt is the public debt of African countries and their people.⁽⁶⁾

These and other studies demonstrate that the global south, with the Arab world as an inherent component, is receiving aid and grants to finance a deficit, which is originally the result of its exploitation by foreign countries. This became clear in the recent global financial crisis. The huge amounts of money in some Arab countries' sovereign funds were utilized to rescue several economies. But they were never used to achieve a balanced development inside the societies exporting this wealth.

(4) Ibid.

(5) Ibid.

(6) Ibid.

Arab Tax Evasion

The size of tax evasion in the Arab region is explained by the lack of clear legal mechanisms and a regular and fair tax system, as well as by complicated political problems and the presence of lax regulations that overlook evasion at times, particularly in relation to foreign investment. The ouster of some Arab regimes – in Yemen, Egypt, and Tunisia – revealed the magnitude of funds smuggled abroad. However, some countries are still facing serious problems in identifying the size of such deposits in foreign banks, not to mention the long and arduous procedures for their retrieval, as several European countries decided to put a freeze on the accounts/revenue.

Tax evasion is a situation where taxpayers are able to avoid paying their due taxes, fully or partially. This avoidance can occur when taxpayers are able to avoid being taxed or paying their taxes, without violating the law. Illegal evasion is when taxpayers do not pay their taxes through fraud, forgery, or violating legal provisions. In the first case, some taxpayers exploit loopholes in tax legislations to avoid being taxed altogether or in part. An example is progressive taxation of large corporations (in the case of Lebanon), where companies deliberately divide their activities into smaller ventures, which act as a single company, but are legally considered to be separate entities, thus falling into lower taxation brackets.⁽⁷⁾

In Palestine's case as well, large service corporations resort to these types of loopholes, in addition to registering as foreign companies to benefit from the tax exemptions in the investment law.

Morocco, on the other hand, is characterized by various shapes of tax evasion, leading to the loss of huge revenues, estimated by some at 30% of professional trade and industry profits. Some contractors resort to accelerated depreciation, to avoid fiscal regulations, which is known as evasion by

(7) Ibid.

accounting. Others exploit the tax administration's lack of capacity to monitor and investigate incomes, and hide the maximum possible amount of their profits and real revenues in order to pay the lowest tax possible. This is in addition to the inability to monitor high sea fishing licenses, where major sales in the Canary Islands or in the high seas are made without being declared. Moreover, a section of large contractors (companies) transformed the real estate sector into a haven for capital wishing to evade or reduce taxes, by virtue of the incentives to invest in this sector, especially in the social aspect.⁽⁸⁾

Based on the above, the dilemma of limited financial resources available to authorities and tax evasion are a result of several issues, which could be summarized as follows:

First: The failure to implement a tax law that reflects economic justice between citizens could be one of the main factors for tax evasion. It also represents the main parameter for the government's financial resources, which is reflected through the lack of a fair and progressive tax system that is supposed to transfer the larger tax burden to those with higher incomes.

Second: In Palestine, salaries and wages make up more than half of the government's budget expenditures, and the rest is spent on other expenses. This means that the taxes paid by citizens are not reflected on citizens' lives directly or indirectly in terms of services, public or private. Indeed, the government fails to provide services that citizens aspire to have in lieu of paying their income appropriate taxes

Third: Failure to acknowledge the social dimensions that individuals in the society endure is a grave concern for citizens and leads to a lack of commitment to paying taxes in general. It also indicates the government's failure to address the various social conditions of citizens, which reflects negatively on the society as a whole. The absence of justice in the distribution of the tax burden between citizens of different social and economic statuses adversely affects citizens' ability to provide themselves with the basic elements of their day-to-day life. It also increases the material gaps between individuals in society, rather than creating a state of harmony under which the welfare of citizens and the society as a whole is improved.⁽⁹⁾

(8) Jamal Bin Dahman, «The situation of the tax system (Morocco),» in *The Situation of Tax Systems (Morocco, Jordan, Lebanon, Palestine, ANND and the Social and Economic Policies Monitor*, 2013.

(9) Ahmad Qabaja, «Taxes in Palestine: The rich escape and new burdens on the poor,» Bisan

Table 1: Proportion of tax revenue from GDP (2012)⁽¹⁰⁾

Country	Proportion
Morocco	24.5%
Tunisia	20.8%
Lebanon	15.6%
Jordan	15.3%
Egypt	13.2%

There seems to be a great discrepancy in tax revenues among the countries under consideration. The highest proportion is in Morocco (24.5%) and the lowest is in Egypt (13.2%), while the rates in some European countries are as high as 43% in France, 32% in Spain, and 42% in Finland.⁽¹¹⁾

A common feature is the aggravating deficit in the budgets of countries like Lebanon, Jordan, Palestine, and Morocco, which is an important factor leading to the frailty of government spending on development programs. The other issue is that the economies of these countries are flooded with foreign loans and a high indebtedness rate to local and global banks and funds. This drowns the governments in attempts to control the increasing public debt.

This is due to several factors, mainly the absence of a strong state or authority. On the other hand, the majority of tax spending is not felt by citizens through improved services or programs, as it is used to cover the salaries of government employees and officials. The failure to introduce a tax law that reflects relative economic justice between citizens could be one of the main factors for tax evasion. «The head of the [Egyptian] tax authority announced that the current tax system is unfair, biased towards the rich, encourages tax evasion, and does not give the poor their rights. He suggested a progressive tax system so that the middle class would not bear the greater portion of tax resources...On the other hand, the economy is held hostage to fragile

Center for Research and Development and PNGO, 2012.

(10) World Bank data, last accessed 10/4/2014, http://data.albankaldawli.org/indicator/GC.TAX.TOTL.GD.ZS/countries?order=wbapi_data_value_2012+wbapi_data_value+wbapi_data_value-last&sort=asc (Arabic), <http://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS/countries> (English)

(11) Economic and Social Council, Morocco, «The Moroccan Tax System: Economic Development and Social Cohesion.» 2012.

and unstable sectors, such as: loans and foreign «aid» from the Arab Gulf countries and the US (limiting the autonomy of political decision-making), remittances by Egyptian workers abroad, and tourism.»⁽¹²⁾

One of the main problems facing the countries under consideration in this report is tax evasion in its various forms. Evasion is normally practiced by companies and individuals in higher income brackets. Tax evasion is relatively less practiced among those with a limited income since their whole income is subject to taxation from the source and they pay indirect taxes on consumption.

Experts and official sources estimate the size of tax evasion in Palestine to be between 30% and 40%. In Jordan, «the total value of tax evasion was estimated to be between JD650 million and JD800 million annually, or 3.5% of the GDP. The Banks Association called for an end to this evasion and the expansion of the tax base to include merchants and owners of private establishments and businesses, instead of increasing burdens on wage earners. A study by USAID recommended «focusing the efforts of tax authorities on individuals, small companies, and the shadow economy.» In Jordan as well, tax losses from the parallel economy are estimated at JD1 billion annually.»⁽¹³⁾

Table 2: Size of Tax Evasion in Arab countries

Country	Size of Evasion	%
Palestine	50%	Of total tax
Jordan	JD800 million	3.5% of GDP
Morocco	5-6 billion Dirhams	Of GDP
Lebanon	70%	Of total tax
Tunisia	50%	Of total tax
Egypt	LE350 billion (\$50 billion)	Of GDP

Note: The figures in the table were collected by researchers from various sources.

(12) al-Taher al-Moez, Economic Update, Kanaan Online, <https://kanaanonline.org/ebulletin-ar/?p=15801>, 12/4/2014.

(13) Ibid.

Tax revenue and collection by the state

The studies on the six Arab countries indicate an increase in the balance of collection of direct and indirect taxes, in particular those related to individuals. It is noted that there is a direct correlation between the reduction in customs revenue as a result of tariff reductions and the increase in taxes, in that customs revenue and tax collection are two primary sources that finance expenditures, especially in light of the significant reduction in investment expenditure that results in high returns to the balance sheet.

It is witnessed in the Tunisian case that «the evolution of pure fiscal resources indicates that the performance ratios of direct fiscal resources rose significantly, from 19.6% in 1987 to 44.7% in 2013. This rise was a result of an increase in the rate of income and corporate taxes rapidly. In contrast, renderings of indirect fiscal revenues are in a constant decline, reaching 55.3% in 2013, compared to 80.4% in 1987. This decline was primarily a result of reducing custom duties, which dropped from 20.9% in 1987 to 4.4% in 2013, following the signing of an agreement, dismantling customs protections with the European Union.»⁽¹⁴⁾

Reducing tariffs has a direct impact on the rise of income taxes, especially on individuals - mainly salaried employees. The situation in Egypt is similar as revenues from [customs procedures] «amounted to 20-30% of total tax revenues until 2000/2001, then fell to around 4% of total tax revenues in 2010/2011.»⁽¹⁵⁾

Table 3: Tax Load: Contribution of tax revenues to total revenues

Country	Proportion of Tax Revenues	Year
Jordan	70%	2012
Lebanon	72%	2009
Tunisia	62.2%	2014 (estimate)
Egypt	68%	2014
Palestine	70%	2013
Morocco	72%	2011

(14) Abdul Jalil Badawi, «Tunisian taxation system and its role in social justice.» Tunisian Forum for Economic and Social Rights, to be published.

(15) ECESR, op. cit.

The table indicates the high contribution of taxes to state revenues. This means, first, that several important economic sectors are not contributing to revenues. Looking more closely into tax revenues, they seem to be significantly higher for individuals, namely indirect taxes (VAT, GST), which burden the poor.

Table 4: Proportion of indirect taxes from total revenues

Country	Proportion of sales taxes/taxes on consumption	Year
Jordan	49.5%	2012 (from total revenues)
Lebanon	68.5%	2009
Tunisia	45.5%-63.6%	2009-2010
Egypt	40%	2013
Palestine	94%	2012 (includes customs)
Morocco	56.4%	2011

Note: The figures in the table were collected by researchers from various sources.

These figures indicate considerable discrepancies in the value of indirect taxes in Arab countries. When customs and import duties are added to the revenues, the figures are closer to 60-75% in most Arab countries, meaning that tax justice is essentially missing.

Indirect taxes are paid by the poor and the rich equally on consumption and are imposed on the majority of goods in most Arab countries – with the exception of Morocco and Egypt due to a special bracket for basic commodities. Therefore, the poor and limited income families pay high taxes when consuming food and other basic products. This also implies the lack of justice in tax systems in the various Arab countries under consideration.

Public Debt and Tax Increases

There is a common economic feature among Arab countries. Bilateral and multilateral trade agreements forced them to open their markets to foreign goods for competition. Countries had to reduce duties and customs on imports, which limited the state's ability to impose financial levies and led to two direct effects:

First: in the late 1990s, domestic taxation, namely indirect taxes, increased to compensate for the lost capacity to collect.

Second: Countries started borrowing and obtaining loans from domestic and foreign sources, dealing with the conditions and high interest rates that these loans entail.

The borrowing led to other indirect effects, most notably committing Arab countries to reduced spending, austerity, and reducing social assistance and services, in addition to the accumulation of debt and its servicing, subsequently draining the government's budget.

In the social sense, the opening of markets directly led to increasing the cost of living for the poor and low-income people, through increasing their taxation, both directly and indirectly. It also led to the withdrawal of funding for subsidizing goods and social services.

Last but not least, rising debt will handcuff the ability of future generations to achieve development, since the debt burden incurred by Arab governments today will be paid by future generations.

Public Debt in Arab Countries

A study done by the Lebanon Anti-Bribery Network assessed the size and distribution of public debt in Lebanon, which was estimated at \$47.35 billion in mid-2009. It amounted to 153% of the GDP by June 2009, after reaching

188% of the GDP in 2006, making it one of the largest in the world. The biggest proportion of the public budget is spent on servicing this debt. In the 2008 budget bill, debt servicing reached LL4,650 billion Lebanese Liras (LL), compared to LL4,900 billion in 2007. In 2009, debt servicing rose to LL6,040, marking an increase of LL1,390 billion from 2008.

When reviewing the report of the Lebanese Ministry of Finance on the 2009 state budget, it is indicated that the estimated deficit in the general budget reached LL4,915 billion or 10.5% of GDP, compared to LL3,017 billion in the 2008 budget proposal. This has led the Lebanese state to either increase general taxes or keep borrowing to bridge the deficit. It should be noted that 82% of returns to the Lebanese government are utilized for debt servicing, paying wages and salaries, and subsidizing the electricity, leaving only 18% for running state affairs and investment, including the state's share in financing projects funded from available financial sources.»⁽¹⁶⁾

The former analysis of the Lebanon Transparency Association (LTA) was based on the fact that the public debt rose from \$39 billion to \$55 billion (in 2013), which means that it increased by around \$16 billion in three years, which is a cause of great concern.

In Jordan, one of the main features of the state budget has been the continuous deficit between revenues and expenses, in addition to the inability of general revenues to cover debt repayment installments. Thus, successive governments introduced a so-called budget funding plan to finance the deficit, which is financed through borrowing. Historically, state budgets were dependent on assistance and loans to cover the deficit. The country has been flooded with loans ever since the eruption of the economic crisis in 1989. The Jordanian economy still suffers from the burden of this debt and its servicing, as 10% of domestic revenues are earmarked to cover the interest and premiums get rescheduled yearly.⁽¹⁷⁾

Recent data provided by the Jordanian Ministry of Finance indicated the rise of total local and foreign debts owed by Jordan by 7%, to JD10.339 billion (\$14.6) by the end of July 2012, in comparison to the previous year. The Jordanian Ministry of Planning announced that Japan would be providing loans to finance strategic projects as well as other projects associated the

(16) Lebanon Anti-Bribery Network, Ibid.

(17) Higher Coordination Committee for the Jordanian National Opposition, Results and Impacts of the Global Financial and Economic Crisis on the Jordanian Economy, Amman, 2010.

health and water sectors. The Kingdom's public debt – internal and external – rose by 12% by the end of June of this year; this rise is driven by the increased expansion of government guarantees to loans taken by national institutions, particularly The Jordanian Electric Power Company limited (JEPCO).

Preliminary data issued by the Ministry of Finance in mid-2012, indicated that loans taken by JEPCO and guaranteed by the government and classified as internal debt rose to JD1.630 billion by the end of June 2012. The balance of public debt reached JD15.016 billion (\$21.3 billion) in the first half of 2012, compared to JD13.402 at the end of 2011. Net public debt rose to JD10.625 billion at the end of last June, compared to JD8.915 billion in 2011. The net internal debt of independent institutions reached JD1.955 billion or 5.18% of total internal debt. External debt rose slightly to JD4.491 billion at the end of June of 2012, compared to JD4.487 billion at the end of 2011. Foreign loans from international institutions, including the World Bank, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, and the European Investment Bank, made up almost 40% of total foreign debt. Around 33% of this foreign debt came from industrialized countries, such as Japan, Germany, and France.⁽¹⁸⁾

In Morocco, a report by the Ministry of Economy and Finance indicated that foreign loans reached MD163 billion (\$20 billion), an increase from MD152 billion (\$18.5 billion) in 2009. In 2010, Rabat returned to the international market through a sovereign loan of €1 billion from the London financial markets. IFIs provided Morocco with 52% of its total external loans, which finance infrastructure projects and the EU provided 26% of those loans, which represent 20% of the \$45 billion debt. The report explained that loans owed by the public treasury do not exceed \$10 billion. The remaining debt is made up of loan guarantees to several public companies and establishments. The ratio of debt to commercial banks in the country is less than 1%.

Palestine is witnessing an increasing trend to rely on borrowing from local and foreign banks, due mainly to the reduction of foreign funding to the PNA. Current debt is close to \$4 billion as the Palestinian government is unable to repay its loans to the private sector. Most tax revenues are being used to pay the salaries of public sector employees. To a large extent, tax revenues remain under the control of the occupying forces, which use these funds to politically

(18) Al-Rai Jordan, «The Kingdom's Public Debt Exceeded 15 Billion Dinars.» 5/8/2012, <http://www.alrai.com/article/531319.html>.

extort the Palestinian government.

In Egypt, which witnessed a state of instability and regime volatility after the revolution, public debt rose to record levels. «The Central Bank of Egypt revealed that the total local public debt recorded an unprecedented level in the history of Egypt, reaching LE1,460.4 billion by the end of March 2013, including 82.9% owed by the government, 4.4% owed by public economic entities, and 12.7% by the National Investment Bank”.

«External public debt increased by \$4.4 billion, or 12.9%, to reach \$38.8 by the end of December 2012, which is about LE271.6 billion. The total debt by Egypt, internally and externally, reached LE1,732 billion (LE 1.7 trillion), which is the highest level of debt owed by Egypt in its history.»⁽¹⁹⁾

Tunisia faces the same situation, with an absence of government transparency in regard to declaring the figures of external and internal debt. However, according to estimates by an economic researcher, «total Tunisian external debt, according to Central Bank of Tunisia figures, reached 34,636.9 million Tunisian Dinars (TD). Added to local debt for 2011, estimated at TD58,612 million the total foreign and local debt would amount to TD93,248.9 million. By February 2013, Tunisian debt had exceeded €20 billion or more than TD40 billion, according to MEP Eva Joly,. Thus, the percentage of public debt, both public and private, has exceeded 150% of GDP.»⁽²⁰⁾

Figures on public debt in Arab countries demonstrate the severity of the economic crisis and the use of external and internal debt to finance state expenditures. However, debt leads to draining the state budget, since a large proportion goes into its servicing, at the expense of social and development programs.

It does not appear true that external loans will finance major development projects in these countries or lead to increased employment, fulfilling local needs, and raising productivity. The revolutions in Egypt and Tunisia revealed that the regimes utilized external debt to pay for salaries and wages and cover the expenses of various state facilities. The loans are thus used to cover the deficit in the state's general budget.

(19) Al-Nahar Egypt, «Egypt's Public Debt at Unprecedented 1.7 Trillion,» 14/7/2013, <http://www.alnaharegypt.com/t~136993>.

(20) Anis Mansouri, «Indebtedness and National Sovereignty,» Assafir al-Arabi, 20/3/2013, <http://arabi.assafir.com/article.asp?aid=752&refsite=arabi&reftype=articles&refzone=articles>.

Greater Arab Free Trade Area

In 1997, the Arab League, through its economic and social council, announced the creation of the Greater Arab Free Trade Area (GAFTA), in the aim of serving the economic interests of Arab countries and the region and in order to create a regional economic power.

First: Rules and Principles:

1. The program is a framework agreement to activate the Agreement to Facilitate and Develop Trade among Arab States to establish a Greater Arab Free Trade Area.
2. The Arab states commit to the Agreement to Facilitate and Develop Trade among Arab States by committing to establishing a Greater Arab Free Trade Area within 10 years from 1/1/1998.
3. The Economic and Social Council shall conduct a semi-annual review of the program.
4. Goods produced by Arab countries exchanged through this program shall be treated as national goods as far as the rules of origin, specifications and measurements, health and security safeguard clauses as well as local charges and taxes are concerned.
5. International rules and provisions shall be implemented for setting safeguard measures, addressing subsidies, and addressing disparities in the balance of payments resulting from the application of this program.
6. International rules and practices will be observed as far as defining and dealing with cases of dumping are concerned.
7. Customs duties and taxes with equivalent effect, which will benefit from gradual exemption, are those customs and duties with equivalent effect enforced in each state party on 1/1/1998. For the purposes of this program, these duties are the basis for calculating tariff cuts.

8. If customs duties or other equivalent fees and taxes are reduced after 1/1/1998, the lower duties will replace those set forth in paragraph 7 above.
9. According to the provisions of Articles III and VII of the Agreement to Facilitate and Develop Trade among Arab States, any two or more party states shall be able to agree among themselves to grant or exchange further advantages prior to the start of a program's time frame.⁽²¹⁾

Originally, the agreement aimed to liberalize trade between Arab countries and provide facilities for goods and products in Arab markets, where they would be treated as national goods and are subjected to the same duties and local taxes as well as given reductions on custom duties at a later stage. At a further stage, a customs union would be announced, with what it entails in terms of unifying custom duties in all member states, which means an agreement on an external unified rate for GAFTA members. It aims to create a wide exchange of goods between Arab countries, by allowing Arab goods to avoid payment of local taxes imposed on foreign goods, thus encouraging manufacturing and trade. This is in addition to the rejection of any economic text or agreement which contradicts with the Arab economic cooperation. However, this has not been committed to. International free trade agreements allow the exemption of economic blocs with minimal presence of a common free trade area,⁽²²⁾ which meant that blocs are treated as one unit and are exempted from preferential treatment provisions prohibited by the WTO.

Experts argued that this will increase inter-Arab trade and expand the volume of exports from Arab countries into Arab markets, as a result of being treated as national products and goods. This is in addition to the ability to form joint delegations to international trade and economic discussions, which would increase negotiating ability and weight, as the economic size of the Arab region will have a significant impact.

Although 17 years have passed since the announcement of GAFTA, it continues to face numerous problems, impediments, and challenges. In particular: 1) Lack of transparency and information on trade exchange, 2)

(21) Arab League, Announcement of the Greater Arab Free Trade Area: Economic and Social Council Decision 1317 D.A. 59 on 19/2/1997.

(22) Jamal al-Din Zawraq, Adel al-Tijani, «Tax coordination in regional formations: The Experience of Arab Countries,» Arab Monetary Fund, 2007.

Concern over some economic sectors in less developed Arab countries, 3) The presence of non-customs restrictions (technical, administrative, political) which impedes inter-Arab trade and fails to reinvigorate the region, 4) Absence of inter-Arab coordination on macroeconomic policies, 5) Lack of good transport and shipping routes between Arab countries, which leads to higher shipping costs.⁽²³⁾

A review of the trade balance and deficit indicates a wide trade imbalance in most Arab countries. In countries where the trade balance is in surplus, this comes mainly from the export of oil and gas.

“The total trade surplus of 16 Arab countries was about \$244 billion in 2013. However, looking into the details of types of exports from Arab countries, in comparison with imports, it is revealed that this surplus does not result from industrial, agricultural, or technological production, but from the export of oil to other countries.

“Even worse, 7 of the 16 countries (Saudi Arabia, UAE, Qatar, Kuwait, Oman, Libya, and Algeria) achieved a surplus in their trade balance, while 9 countries (Egypt, Sudan, Palestine, Jordan, Morocco, Syria, Tunisia, Lebanon, and Mauritania) are facing deficits between \$291 million and \$46 billion. However, these seven countries only produce oil for export, amounting to 70% to 98% of their total exports. For example, the value of Algeria’s imports is around \$55 billion, while its exports are around \$66 billion, leading to a surplus of \$11 billion. However, 97% of the exports were fuel products. Saudi Arabia, on the other hand, exported goods at the value of \$314 billion, but only \$52 billion came from non-petroleum exports.”⁽²⁴⁾

If the export of oil, natural gas, and their derivatives were taken out of the equation, Arab countries would suffer from a trade deficit, mainly concentrated in commercial goods. Inter-Arab trade does not exceed 12% and Arab investment in the region reaches no more than 7% of Arab foreign investments. However, the Arab world will need investments exceeding \$600 billion to achieve its developmental goals in the future.⁽²⁵⁾

(23) Intisar Wahib, *General Arab Free Trade Area: Realities - Obstacles - Prospects*, 2009.

(24) New Today, «The Arab Spring: The economy did not succeed yet,» last accessed 20/4/2014, <http://www.newtoday.ae/Arab-News/9019.html>.

(25) Masress, «Inter-Arab Trade Does Not Exceed 12% and Investments are 7%,» <http://www.masress.com/ahram/59258>.

The figures indicate huge untapped potentials in the context of inter-Arab economic cooperation, whether through inter-Arab investment, trade, or industrial and agricultural integration which would allow the development of an integrated economy in multiple domains. This also means reducing the expensive cost of importing foreign goods and replacing them with cheaper Arab products. On the other hand, increasing inter-Arab imports will launch a broader process of productivity.

The majority of Arab countries are obliged by free trade agreements to reduce customs on foreign goods and imports. Reducing administrative and economic barriers and obstacles will help to expand the share of Arab products inside these countries without the need for further reductions. On the contrary, reducing local taxes and tariffs on Arab goods, in line with GAFTA, and any losses incurred in the collection of domestic taxes and duties on Arab goods will be compensated by the reciprocal redirection of exports towards Arab countries, increasing operations, and collecting taxes on wages. Thus, no duties and taxes would be imposed on the value of these products and goods.

Furthermore, such exchange could reduce the drain of foreign currency, through the introduction of Arab formulas for currency exchange. By developing investments, the sums of money will be returned to the economic cycle in Arab countries, through new investments in vital economic and strategic sectors.

Thus, working on the creation of an Arab customs union to coordinate taxes, customs, and duties and to assist Arab industrial and trade sectors could allow a clearer understanding of Arab customs and tax systems, which would increase inter-Arab trade. The involvement of Arab countries in bilateral and multilateral agreements will mean that a customs union will not cause a state to lose any revenues, since it is already committed to customs reductions. However, it would have an economic and trade impact through expanding the exchange base and Arab economic integration.

In the same spirit, a recent report issued by ESCWA noted that simply liberalizing some non-tariff barriers as well as replacing 20 per cent of the expatriate workforce with Arab nationals will double the increase of incomes, and would cut the unemployment rate by an average of more than 4 percent for all Arab countries.

Conclusion

The economic and social reality in the Arab region is burdened by numerous crises and structural problems. Looking into the tax systems in Arab countries uncovers new dimensions to the presently complex socio-economic crisis.

Alongside being important for the formation of state revenues and determining its form of spending, a tax system in the Arab world should be seen as one of the basic tools to achieve social justice through its role in the redistribution of income between citizens. Justice is based on the state's identification of vital social, economic, and developmental programs to develop its resources and society. As long as revenues remain tethered solely to the idea of public spending on wages, salaries, and state institutions, the socio-economic realities of the Arab world will remain the same. This is what many have realized after the recent revolutions in Arab countries. The economic systems remained the same and in fact deteriorated through increased foreign indebtedness, as explained in the study. Therefore, it is necessary to move towards investment expenditure, which contributes to the enhancement of public revenues.

Tax systems play a key role in the contribution of citizens to financing the activities of the state, where the idea of taxes entails contribution by citizens relative to their ability and income. Citizens are divided into two categories. The first includes natural persons and the second relates to legal persons, such as companies. The analysis and the six local studies indicated that tax collection from individuals greatly exceeds tax collection from companies, due to numerous legal flaws, in addition to corruption and the nature of the relationship between the state administration and companies.

Exemptions provided to foreign and domestic firms in various fields are not in line with developmental priorities. In fact, these exemptions sometimes occur without any consideration of developmental planning. Theoretically, policy makers believe that giving tax exemptions will lead to the revitalization of specific economic sectors for a limited period of time. They also believe that these exemptions lead to increased production and employment, which would enhance the contribution of the economic sector to the GDP. However, reality is quite different.

The second issue is that exemptions to individuals are few in general and are linked to national poverty levels. Thus, tax exemptions on individual incomes and wages are unfair and have not occurred in a long time, taking into consideration higher living costs and standards. Some tax systems remain inadequate to recognize the fundamental discrepancies in exemptions provided to individuals and those to families consisting of a number of individuals. Therefore, tax exemptions do not fit with various social norms.

Most local studies addressed the various indirect taxes faced by citizens, albeit in different forms or under different names. In general, they were a result of economic liberalization and the state's withdrawal from its role, in addition to Arab countries signing numerous agreements to open up their markets, reduce protection on local products, and allow for highly competitive foreign products. This led to a drop of revenue from customs in Arab countries to very low ceilings of 3-5% of revenue. This deficit was compensated by imposing new taxes or increasing tax rates, paid for primarily by poor and low-income people, who make up the majority of the population of Arab countries.

Tax evasion is a widespread phenomenon in most Arab countries and it is the result of two factors. The first is the ability of some taxpayers, namely companies – the study on Morocco explains in details the size of exemptions enjoyed by companies in several lucrative economic sectors – to commit tax evasion and fraud. This is in addition to some individuals who evade taxes, sometimes for lack of tax justice or the state's unfair provision of services. Many regions and social groups do pay their financial obligations to the state, through taxes and other payments, but the state fails to direct social and development programs into these regions. This creates a sentiment of injustice and pushes many to stop paying taxes.

The size of the unregulated sector (please see the study on Egypt), which operates outside economic regulations and frameworks set by the state, is a structural economic problem that is apparent in Arab countries. The size of this sector varies between 50% and 70% in some cases. However it does not pay taxes, duties, or other obligations, in addition to the lack of legal protection for workers in this sector.

Social dialogue between the various key economic and social actors and the state is completely absent in relation to tax systems and their reform. This reform includes: closing the loopholes and, most importantly, steering the taxation system towards social justice by expanding the taxpayer base, on one hand, and progressive increases in tax brackets according to wealth, income, or salary.

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