Editorial Introduction

In this issue, Sirikamon Udompol from Fiscal Policy Office, Thailand, and Gareth D. Myles from the University of Adelaide's School of Economics, Australia and the Institute for Fiscal Studies, UK, jointly conducted an exploratory research titled "Tax competition when transfer price is regulated." Their research explores an important issue for many governments concerned with international trade, that is, the production location choices of multinational firms. The authors examine how governments can influence a firm's choice of investment and profit location by adjusting corporate taxation and/or transfer pricing regulations. The motivation for the government in doing so is to maximize tax revenue and, thus, expand the provision of public goods, while the firms seek to minimize taxes paid.

The authors examine this issue by constructing a theoretical model with two countries, and a multinational firm from one country with a subsidiary in another. The countries can choose to either cooperate or compete on tax policy and/or transfer pricing rules, and then the firm can sequentially decide on their production location decisions. This model builds on previous literature on corporate taxation and transfer pricing regulations, but extends it by combining the two issues into one model.

While the models do have limitations based on their assumptions, and the multinational firm has limited choices, the results from the model do suggest some policy implications for tax setting. The models find that when countries compete on setting taxes, it results in under-provision of public goods. This finding has implications for many countries (and cities) which have sought to attract investment from multinational firms by offering low corporate taxation rates. On the other hand, the paper also finds that harmonizing on transfer pricing rules may also not have the desired effect, and can lead to over-regulation. The authors suggest that countries with low tax rates should maintain lenient transfer pricing rules, while countries with more stringent transfer pricing rules should maintain higher tax rates.

The second article of this issue is "The opportunities of a path towards bioeconomy in Southeast Asia" by Pedro Sao Simao of Ernesto Sao Simao Ltd., Portugal. This article discusses potentials and opportunities of the bioeconomy growth path in the region of Southeast Asia on account of natural, social, and economic characteristics. In this article, the author defines bioeconomy as the field of economic science that studies the transition towards an economy based on sustainable and renewable resources from land, fisheries and aquaculture, where innovations in biotechnology field play a key role.

Bioeconomy is one promising way to not just help to promote the efficient and sustainable usage of natural resources, but also as a key player in reversing issues associated with exploitation and mismanagement of natural resources in the past. The nature of bioeconomy is appropriate with the development of rural economy with abundant natural resources, which creates high level of self-sufficiency in such regions. In addition, bioeconomy generates employment opportunities. The paper portrays the potentials of bioeconomy majorly in three economic sectors namely, agricultural, industrial and health sectors. Adopting bioeconomy would contribute to fulfilling the pressuring demand for food owing to population and income growth. In the industrial sector, bioeconomy plays a key role in plastics industry as around 85% of polymer plastic consumption can be replaced by bioplastics. There has already been a shift from plastic to bioplastic industry in the United States and certain parts of Europe, which also generated employment opportunities. Concerning the health sector, it is expected that all research developed or applied to new diagnosis and pharmaceuticals will use biotechnology in the near future. The contribution of the bioeconomy in the gross value added in the health sector in OECD countries is estimated to be around 259 billion USD by 2030.

Despite the Southeast Asia's huge potential in terms of natural capital, many countries have adopted an unsustainable growth model of 'grow-now-and-clean-up-later', which deals separately with economic and environmental issues. For instance, Brunei's natural capital was depleted by 40% GNI per year, while the rate was at 10% for Vietnam, Malaysia and Indonesia. Bioeconomy is one alternative path in fostering economic development in the region.

The third article, "A disaggregated analysis of public spending and economic growth in developing and high income countries," by Kritchasorn Jarupasin from Office of the National Economic and Social Development Council, Thailand, studies the growth effects of fiscal policies across a group of countries ranging in income levels. The article contributes to the existing body of literature on the effects of fiscal policy on growth by taking into the account the role of the government budget constraint, while omitting fiscal variables, which are potentially neutral.

The article draws on a data set of 75 countries and their disaggregated fiscal expenditures between 1972 and 2012. Along with domestic political and social factors which have been determined to be important to growth, the author models the impacts on growth of spending on general public services, defence, transportation and communication, education, healthcare, and social welfare.

The results from the model suggest that spending on transportation and communication is the only type of spending which fosters growth in both developing and developed countries. The data also suggests that, compared with developed countries, developing countries spend relatively more on defence, and less on healthcare and social welfare. The author also notes the non-linearity of these relationships, suggesting that governments need to keep in mind the dynamic nature of the relation between public spending and fiscal policy in their policies formulation.

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