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Foreign Direct Investments and Tax Policy Current Evaluations for OECD Countries

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Abstract

Today, foreign direct investments (FDI) have become indispensable tools for countries for reasons such as technology transfer, employment creation, promotion of international trade, economic development and support for development, as well as the capital they provide to the economy. Countries that want to benefit from the blessings of foreign capital aim to attract FDI to their countries by using different instruments. One of the tools frequently used for this purpose is tax policies. In this study, we have examined the relationship between foreign direct investments and taxation at the theoretical and empirical level. FDI flows in the recent years and corporate tax rates of OECD countries, which hold a significant portion of global capital, have been compared. It has been observed that OECD countries have made significant taxation regulations to attract foreign investment.

Keywords: foreign direct investment (FDI), tax policy, multinational company, corporate income tax (CIT), OECD countries.

INTRODUCTION

Foreign direct investment (FDI) is a type of cross-border investment in which an investor residing in one economy exerts a significant influence over an enterprise located in a different economy. In other words, they are long-term investments made by companies residing in one country by establishing a company from scratch in another country or by becoming a shareholder of an existing company with a share of more than 10% in order to establish a permanent interest (DEIK, 2014). Foreign direct investment was an activity that took place mostly among developed countries until the 1990s. One of the important reasons for this situation is the negative perspective of developing countries towards international investors and investments in general. Ideas such as that foreign investments will endanger the dominance of developing countries, that it is a tool of colonialism, and that it will replace domestic companies if adequate measures are not taken, have created obstacles for developing countries to benefit from this resource sufficiently. Debt crises experienced by developing countries at the end of the 1980s caused the negative approaches towards foreign investments to change. Developing countries needed extra financing other than loans/grants due to the debt crisis they experienced, and they started to develop incentive policies to attract FDIs to their countries by giving up their negative ideas against foreign direct investments (DPT, 2000).

Today, foreign direct investments play an important role in international economic integration as they create stable and long-lasting links between economies. These investments are indispensable tools for technology transfer between countries, promoting international trade through access to foreign markets, economic development and employment (OECD, 2022). In addition to providing physical resources in the form of capital inflows to the economy, FDIs also offer opportunities such as providing management and audit understanding, business skills and corporate infrastructure. However, the entry and advantages of such investments do not arise spontaneously. Increasing globalization, economic crises and the pandemic process in recent years force countries to compete more in this regard. In order to ensure investment flow and

subsequently benefit from the advantages of these foreign investments, countries must have certain characteristics and develop various policies that support investments. One of the most important policies in that aspect is, of course, tax policies.

In this study, firstly, the relationship between FDI and tax policies has been evaluated in the light of both theoretical and empirical studies (1). In the second section of the first part, up-to-date data on FDI flows in recent years have been presented both at the global level and in OECD countries (2). In the second section of the second part, tax rates applied at the corporate level in OECD countries have been examined (2.1). In the conclusion part of the study, comments on the subject are given.

1. FDI AND TAX POLICY RELATIONSHIP

In general, the characteristics that the host country must have in order to attract foreign direct investments are grouped under three headings. These are political and economic determinants and policies aimed at facilitating trade. Political determinants consist of international agreements on FDI, trade policies, privatization policies, rules on entry and exit to markets, political, economic, social stability and tax policies. Economic determinants are market size, per capita income, physical infrastructure, access to regional and global markets and labor costs. Trade facilitation policies include investment incentives, social opportunities, post-investment services, investment promotions, and extra costs (UNCTAD, 1998:91). Tax policies, which are among the political determinants, have an important position among the tools used to attract FDIs to the desired country or region. In a global economy, corporate tax policies in particular can affect many aspects of the global investment climate. Where a particular investment will be made (investment location), how much will be invested (investment scale), how much tax is paid on the income from the investment and where that tax is paid (profit shift), and how countries compete in designing tax systems to attract investment (tax competition) is extremely important (UNCTAD, 2022:103). Apart from corporate income tax, personal income tax rates can also affect managers' preferences regarding the location of the regional headquarters and their ideas about employing foreign workers (UNCTAD, 1998: 98).

One of the leading theories on foreign direct investment is Dunning's OLI model. In this theory, companies need to have the advantages of ownership, location and internalization at the same time in order to make a decision to invest abroad. Property benefits consist of patents, trademarks and firm value. This helps firms to compete easily in the host country. Location-specific benefits include any advantage that arises from the location of the host country. Rather than producing domestically and exporting to another country, it is more profitable for the firm to produce and sell in the host country. Firms get rid of trade barriers such as tariffs, quotas or shipping cost. It is easier for them to reach the market. Internalization, on the other hand, is the situation in which the assets that will provide a competitive advantage to the company are desired to be kept within the company instead of granting licenses or patents (Brima, 2015: 125). In principle, tax policies can significantly affect these three main motivations of foreign investments. Changes in tax regimes and differences between countries are extremely important for the development and distribution of FDI (Hajkova *et al.*, 2006:7). Multinational companies, which are the most important actors of foreign direct investments, have different reactions to direct or indirect taxes imposed by host countries than other companies. First, because these companies operate in more than one location, they have more flexibility in the location of their investments and are likely to be more sensitive to different tax policies. Second, multinational companies take the opportunity to manipulate cross- border costs and revenues in ways that provide benefits such as paying less or avoiding national taxes (including import duties) or maximizing subsidies and grants. Third, because of their competitive advantage, MNCs can generate higher economic rent than non-MNCs and have greater opportunities for comprehensive tax planning. Fourth, especially large multinational corporations can be a vehicle for transferring their local governments' tax-related corporate knowledge and experience to host countries. Therefore, in cases where foreign investors dominate certain sectors of the economy in host countries, it may be necessary to make some changes in current tax practices and policies (Dunning and Lundan, 2008: 610). Considering that investments in different locations are equally profitable, investors tend to choose the location with lower tax rates. Even if the profitability of investments differs between locations, investors may prefer a country with lower tax rates. This situation is called the distorting effect of tax on investment allocation. The average effective tax rates are decisive in the evaluation of the location effect of the tax (UNCTAD, 2022: 103).

Early studies investigating the relationship between tax policies and FDI attempted to assess whether a generous tax policy could compensate for other barriers to the business environment and thus attract multinational companies. Since the 1980s, it has been researched what type of tax instruments that have the greatest impact on the location selection of multinational companies should be, and special attention has been paid to the motivations and tax behaviors of multinational companies (Morisset and Pirnia, 1999:3). The first study to empirically measure the effects of tax policies on FDI was conducted for the United States and revealed that foreign investment is strongly influenced by local tax policies (Hartman,

1982). In many studies covering the years 1980-2000 for various country groups, they obtained results showing that tax policies affect FDI at significant levels (Simmons, 2000; Gropp and Kostial,2000; Edminston *et al.*, 2003; Quere *et al.*, 2001). In a study investigating the sensitivity of international foreign investments, in which the USA has majority shares, to the tax policies of the host countries, it was found that the investments in export markets rather than the domestic market were more sensitive to the tax policies of the host countries, and this sensitivity was higher in developing countries than developed countries (Mutti and Grubert, 2004: 337-358). In a study conducted for OECD countries, it was found that high corporate tax rates deter FDI inflows and corporate tax rates are important in directing FDI flows even if it is a country with a high market potential (Quere *et al.*, 2005: 598). In a different study, which claims that corporate tax has a non-negligible effect on FDI's location selection, it is stated that many countries focus only on taxation on FDI and neglect other policies, resulting in a significantly erroneous estimation of tax elasticity (Hajkova *et al.*, 2006). Using data on the location choices of Japanese firms between 1990 and 2000, regional differences in tax rates were compared to reveal the imbalance between developed and developing countries. It has been revealed that the special tax saving provisions signed between Japan and the host developing country may change the minds of Japanese firms about the location choices (Azemar and Delios, 2008: 85-108). Gödör and Nistor (2012) found strong relationships between fiscal policies and FDI in their study for 6 EU member states. They emphasized that it is not correct to reduce the competition between countries to corporate tax competition for FDI. It has been understood that the low corporate tax rate is not sufficient to attract FDI in cases such as unpredictability, lack of transparency, fiscal uncertainties, tax avoidance and tax evasion in fiscal policies. However, it has been concluded that using the income from a high corporate tax to improve and regulate the investment environment may be an incentive for FDI. The effect of monetary and fiscal policies on FDI flows in Romania was investigated and it was concluded that monetary factors are more effective than financial factors in the long run. In order to improve the investment climate in Romania, it is concluded that it is beneficial to regulate the non-financial factors first and only in this way, financial incentives can have an impact on attracting FDI and therefore on economic growth (Radulescu and Druica, 2014: 106). In a different study focusing on tax incentives, it was stated that although tax incentives are an important tool to attract FDI flow to the country, the application of tax incentives together with non-tax factors would be more effective (Munongo *et al.*, 2017: 152-168). For EU countries, the effect of both effective and statutory corporate tax rates on FDI was investigated between 2004 and 2011, and it was found that tax rates had a statistically insignificant effect on FDI (Hunady and Orviska, 2014: 249). In the study conducted for six Southeast European countries, it was understood that the most important factors for FDI flow were market size, economic growth, wages, and the effect of corporate tax rate on FDI flow was insignificant. It was stated that the effect of tax on FDI flows would be significant in developed economies that have a stable and institutional framework (Kersan, 2015: 119). In a different study conducted for EU countries, it was investigated how foreign direct investments were affected by corporate tax rates before and after the 2008 crisis, and it was determined that a 1% increase in corporate tax decreased foreign direct investments by 79.5 USD before the crisis, while it decreased by 381 dollars after the crisis (Giray *et al.*, 2016: 44). Between 1980 and 2014, the relationship between fiscal policies, FDI and macro stability of nine European economies was examined and it was argued that for the long-term economic stability of these countries, it is necessary to encourage FDI and to implement countercyclical fiscal policies. It was concluded that countercyclical fiscal policies and increased FDI inflows positively affected macro stability (Albulescu and Ianc, 2016: 131-146). In a study investigating how FDI in the finance sector is affected by tax and legal regulations while determining locations, the researchers focused on financial institutions established by multinational companies in 83 host countries. They stated that the taxes of the host country have a negative effect on the location selection of the companies, and that the legal regulations related to the sector also have a significant impact on that selection. In addition, it has been seen that the countries that make tax or legal arrangements have taken other rival countries into action in this regard (Merz *et al.*, 2017: 14-26). In the study covering the years 1982-2018 for Turkiye, it was determined that the corporate tax rate did not affect FDI. It has been concluded that other economic and political factors are more effective on FDI in Turkiye (Ela and Yurtkuran, 2020: 76). In a study conducted for G20 countries, it was emphasized that tax reductions and additional subsidies should be used to encourage green FDI. It has been emphasized that these policies are extremely important to minimize emissions and accelerate economic growth (Tripathy *et al.*, 2022). In a study covering the years 1980-2020 in South Africa, the relationship between FDI and fiscal policy instruments was examined and showed that tax revenues and government debts were positively related to FDI in the long run. In the short run, it was found that FDI is in a negative relationship with all variables (Pamba, 2022,11).

2. OVERVIEW OF FDI AND TAXATION IN THE OECD

In recent years, the global economy has faced a series of negative situations. Inflation is higher than it has been in the last few decades. Tightening financial conditions in most regions, the Russia-Ukraine war and

the ongoing effects of the COVID 19 pandemic continue to put pressure on the global economy (IMF, 2022). Of course, these negative conditions in the global economy also affect foreign direct investments. Global FDI flows, which remained at an extremely low level in 2020, increased by 64 percent in 2021 to reach $1.58 trillion. The reason for this recovery is the rise in merger and acquisition markets and rapid growth in international project finance. But the global environment for international trade and cross-border investment has changed dramatically in 2022. The war in Ukraine, the ongoing effects of the pandemic, in addition to the food, fuel and financial crises experienced in many countries of the world, have created significant barriers to foreign direct investments. Due to these negative developments, a significant decrease is expected in global FDI flows in 2022. Preliminary data for the first quarter of 2022 show that the number of zero projects fell by 21 percent and international project financing agreements by 4 percent (UNCTAD, 2022).

FDI inflows to the OECD area increased by 28% compared to the second half of 2021 and amounted to 488 billion USD. After a 59% increase in the first quarter of 2022, these flows fell 38% in the second quarter, mostly due to movements in internal debt, while equity inflows and reinvestment gains increased. The United States was the main FDI recipient worldwide and it was followed by China and Brazil respectively. Additionally, the United States was the largest investor worldwide, followed by the Netherlands and Australia. Completed cross-border M&A activity in advanced economies showed a falling tendency. The value of completed transactions fell by 15% in advanced economies and 16% in emerging markets and emerging economies in the first half of 2022 and continued on this way in the third quarter(OECD,October 2022). Countries such as Australia, Germany, Mexico, Spain and Sweden each experienced more than US$15 billion increase in FDI inflows compared to the previous period. In contrast, FDI inflows decreased by USD 100 billion in the United States (as a result of a serious decline in cross-border M&A activity) and fell to negative levels in Belgium and Ireland. The increases in Mexico can be attributed to higher reinvestment earnings, while the recovery in Australia reflects equity inflows and intra-company debt movements. Internal debt was also a major factor in the increase in inflows in Germany and Spain. FDI flows into European countries increased from extremely low levels recorded in the second half of 2021, mainly due to the withdrawal of investment from the Netherlands and the United Kingdom (OECD, October 2022).

Figure 1 Includes FDI inflows in selected regions between 2007 and 2021.

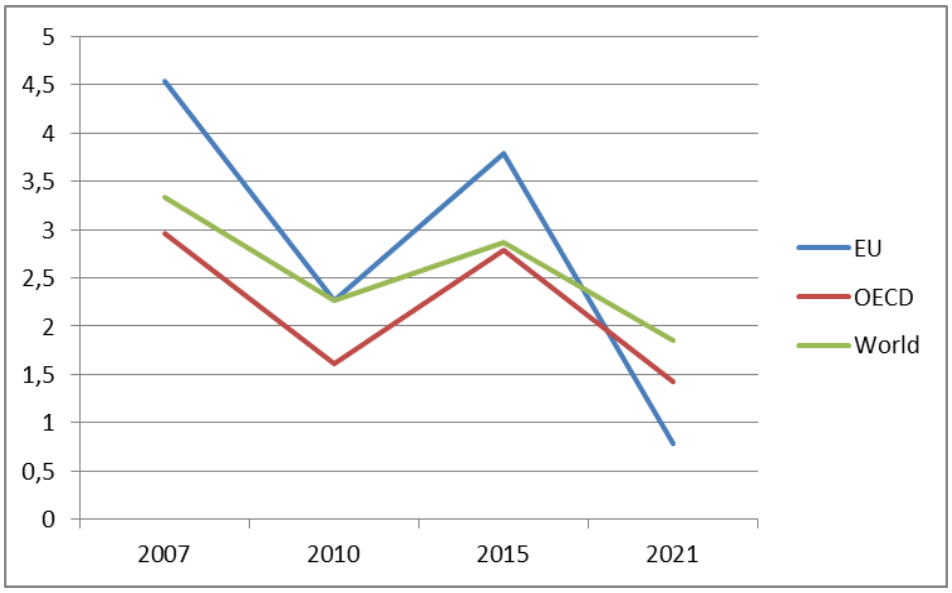

Figure 1: FDI inflows for selected area (As a share of GDP)

Source: OECD (2022), FDI flows (indicator). doi: 10.1787/99f6e393-en (Accessed on 21 November 2022)

As can be seen from Figure 1, there is a decrease in FDI flows in general, both in OECD countries, in the Eurozone and around the world, compared to the past. Especially in the Euro zone, this decrease is more evident as of 2020.

FDI flows in selected years of OECD countries are given in the Table 1.

Table 1: FDI inflows in selected OECD countries (As a share of GDP)

	2012	2015	2018	2021
Australia	3,7	2,4	4,7	1,8
Austria	1	0,3	1,2	1,2
Belgium	17,9	-5,2	5	3,8
Canada	2,4	2,8	2,2	3
Chile	11,9	8,7	2,6	4,6
Colombia	4,1	4,2	3,4	3,1
Czech Rep	3,8	2,6	4,4	2,1
Denmark	0,2	1,3	0,5	1,4
Estonia	6,8	2,6	5	2,7
Finland	1,6	0,9	-0,8	3
France	0,6	1,9	1,5	0,5
Germany	0,8	0,9	1,8	0,7
Greece	0,7	0,6	1,9	2,7
Hungary	11,3	-11,6	4	3
Ireland	21,7	74,7	-3,2	3,2
Italy	0	1,1	1,8	0,4
Israel	3,5	3,8	5,8	6,1
Japan	0	-0,1	0,2	0,5
Korea	0,9	0,2	0,8	0,9
Latvia	4	2,7	2,8	13,7
Lithuania	1,9	2,5	1,8	3,1
Lux.	4,7	75,6	-36,5	-10,4
Mexico	1,8	3	2,8	2,5
Netherlan	2,4	21,4	9,5	-8
Poland	2,5	2,7	2,8	3,7
Portugal	3,8	4,6	3	3,2
Spain	1,9	0,7	4	0,7
Sweden	3	1,7	0,7	4,3
Switzerland		10,1	-13	4,6
Turkiye	1,6	2,2	1,6	1,5
UK	2,1	1,3	3,1	0,9
USA	1,3	2,7	1	1,7

Source: OECD(2022), OECD International Direct Investment Statistics 2021, OECD Publishing, Paris, p.14

In Table 1, FDI flows in selected OECD countries between 2012 and 2021 are given as a percentage of GDP. While some OECD countries had an advantageous position in terms of foreign direct investments until 2015, they experienced significantly decreasing FDI flows after this date. Among these countries there are economies such as Netherland, Luxembourg, Ireland, Hungary. It can be said that Turkey exhibits a relatively more stable performance in terms of FDI. The turbulent processes of FDI flows in most of the countries in a short period of time suggests that FDI flows are affected by a large number of economic and political factors, and their mobility is also very high.

In the OECD area, FDI inflows increased by 75% to USD 809 billion, 5% up on prepandemic levels. FDI inflows in the OECD area generated 45% of FDI inflows in global terms in 2021, a slightly lower average than in 2018- 2019 (51%). The increase over 2020 was mostly driven by rebounds in inward FDI flows in the United States (USD 382 billion), supported by record earnings reinvestment and increased equity inflows that included large M&A deals. However, increases were recorded in many other OECD countries, notably in Canada (USD 60 billion), Switzerland (USD 37 billion) and Japan (USD 25 billion). On the other hand, FDI flows into EU27 countries decreased by 30%, triggered by decline in Ireland, Germany and Luxembourg, down from top levels recorded in 2020. Disinvestments were also experienced for the third successive year in the Netherlands(OECD, April 2022: 2).

2.1. Tax Rates Affecting FDI in OECD Countries

The tax regime is also a factor when making investment plans, and while tax incentives are often far from the most important factor, they have traditionally been one of the most common policy tools for attracting and retaining foreign investment. The pandemic has highlighted the prominence of incentives and tax relief efforts as part of the economic recovery and resilience packages around the world (UNCTAD, 2022:76). Corporate Income Tax (CIT) rates have gradually declined worldwide since the 1980s, as countries increasingly enter into tax competition to encourage

investment. Regardless of their size or level of development, it is observed that corporate tax rates have decreased in all geographical regions and in a significant majority of economies compared to the past. While the worldwide CIT rate was 39.3 percent in 1980, the average CIT rate is 22.7 percent today. By 2021, the number of countries applying a CIT rate of 30% or more is less than one-third of all countries in the world. The largest turndown has happened in developed regions, where the average CIT rate more than halved between 1980 and 2021 (from 41.8 percent to 19.9 percent) (UNCTAD, 2022: 77).

Statutory tax rates have the advantage of being easy to use, but the nominal tax rate does not reflect the actual tax burden faced by firms due to the existence of different types of exemptions and relief. Average (external) tax rates based on micro or macro data have the advantage of reflecting all elements of tax law. The average tax rate (ATR) based on micro or macro data is calculated from the actual taxes paid and the effective marginal tax rate (EMTR) or effective average tax rate (EATR) tax code (Dunning and Lundan, 2008: 618). EMTRs summarize tax incentives for marginal investments, or just equivalent investments. They are hypothetical tax rates that represent the total share of capital costs, excluding economic depreciation, required to pay taxes over the life of a marginal investment. They summarize the impact of key tax provisions on investment incentives for businesses and investors when applied to economic income. These significant tax provisions include corporate income and net asset taxes (including property taxes), the difference between tax depreciation and economic depreciation, and deductions for business interest expenses. In general, a lower effective marginal tax rate means a greater incentive for investment. EATRs are considered as the indicators of the impact of taxation on the discrete choice of where to place an investment. In contrast, EMTRs are considered as the indicators of the size or scale of an investment in a particular location (Foertsch, 2022: 1).

In the table below, the statutory corporate tax rates of the OECD countries for 2021 and the effective marginal tax rates and effective average tax rates at the corporate level are given.

Table 2: 2021 OECD Overall Effective Tax Rates (in Percent)

	Statutory Corporate Tax Rate	EMTRs	EATRs
Australia	30	25,4	28,5
Austria	25	17,6	22,8
Belgium	25	10,6	21
Canada	26,2	12,8	22,3
Chile	10	9,7	9,9
Colombia	31,7	24,7	29,4
Czech Rep	19	13,9	17,5
Denmark	22	11,4	19
Estonia	20	3,4	15,7
Finland	20	12,8	17,9
France	28,4	17,3	25
Germany	29,9	19,8	26,8
Greece	24	19,3	22,6
Hungary	11,1	9,2	10,3
Ireland	12,5	12,1	14,4
Italy	27,8	12,8	22,9
Israel	23	17,4	21,3
Japan	29,7	29,5	29,6
Korea	27,5	14,8	23,8
Latvia	20	3,4	15,7
Lithuania	15	4,7	12,3
Lux.	24,9	12,3	21,7
Mexico	30	22,5	27,6
Netherlan	25	18,1	22,9
Poland	19	10,3	16,6
Portugal	31,5	-14,5	21,5
Spain	25	23	24,3
Sweden	20,1	12,5	17,6
Switzerlan	19,7	10,5	17,1
Turkiye	20	-19,6	11,7
UK	19	11,5	16,9
USA	25,8	18,3	23,5
OECD	25,7	16,7	23,1

Source: U.S. Department of the Treasury, Office of Tax Analysis

Notes: EMTRs = effective marginal tax rates; EATRs = effective average tax rates. The EMTRs and EATRs shown exclude real estate taxes and net wealth taxes on corporations.

In Table 2, it is observed that the countries with the lowest legal corporate tax rates are Chile, Hungary and Ireland. Looking at EMRTs, the lowest rates are observed in Estonia (3.4), Latvia (3.4), Lithuania (4.7), Portugal (-14.5) and Turkiye (-19.5). These results show that countries can engage in all kinds of tax competition in order to attract large investments in certain regions and their economies strongly need such investments. When comparing legal tax rates with EMRTs, the country with the least difference is Japan. The biggest difference belongs to Portugal. There is a difference of approximately 7.5% between the EMRT of the USA, which is the largest investor in the world, and the statutory tax rate. When we look at EATRs, which guides in choosing the location of investments, countries such as Chile, Hungary, Lithuania and Turkiye stand out. However, excluding Turkiye, there is no significant difference between the statutory tax rates of other countries and EATRs. It can be said that these countries prefer to implement FDI attracting policy by keeping their statutory tax rates lower than other OECD countries, instead of giving place to applications such as discounts, incentives and exceptions. As of 2021, the country with the highest FDI rate (as a share of GDP) among OECD countries is Latvia. At the same time, Latvia is among the OECD countries with the lowest effective tax rate. Although Turkiye's statutory tax rate is close to the world average, it is clear that there are many incentives, exceptions and discounts developed for investors. However, its share from global investments is relatively low when compared to investment flows in other OECD countries. It is possible to say that countries such as Mexico and Colombia do not have a strong competition with other countries at the tax level to attract FDI by looking at the tax rates they apply. However, it can be said that they receive an average share of global capital in terms of FDI flows. This situation brings to mind the idea that

these countries offer different advantages to multinational companies to attract FDI.

CONCLUSION

Foreign investment was an activity that took place mostly among developed countries until the 1990s. Globalization, technological developments, economic and political crises that accelerated with the 90s have also changed the ideas of developing countries on foreign direct investments. Today, FDIs are indispensable tools for technology transfer, promoting international trade through access to foreign markets, economic development and employment. Foreign direct investments, which are more stable than short-term portfolio investments and have the effect of increasing production capacity, are among the first preferred resources by countries. In recent years, the global economy has faced a series of negative situations. Inflation is higher than it has been in the last few decades. Tightening financial conditions in most regions, the Russia-Ukraine war and the ongoing effects of the COVID 19 pandemic continue to put pressure on the global economy. Global FDI flows, which remained at an extremely low level in 2020, increased by 64 percent in 2021 to reach $1.58 trillion. The reason for this recovery is the rise in merge and acquisition markets and rapid growth in international project finance. However, the global environment for international trade and cross-border investment has changed dramatically in 2022. In addition to the war in Ukraine, the ongoing effects of the pandemic, the food, fuel and financial crises experienced in many countries of the world have created significant barriers to foreign direct investments. Due to these negative developments, a significant decrease is expected in global FDI flows in 2022. In the OECD area, FDI inflows increased by 75% to USD 809 billion, 5% up on prepandemic levels. FDI inflows in the OECD area generated 45% of FDI inflows in global terms in 2021, a slightly lower average than in 2018-2019 (51%). The increase over 2020 was mostly driven by rebounds in inward FDI flows in the United States (USD 382 billion), supported by record earnings reinvestment and increased equity inflows that included large M&A deals. However, increases were recorded in many other OECD countries, notably in Canada (USD 60 billion), Switzerland (USD 37 billion) and Japan (USD 25 billion). On the other hand, FDI flows into EU27 countries decreased by 30%, triggered by decline in Ireland, Germany and Luxembourg, down from top levels recorded in 2020. Disinvestments were also experienced for the third successive year in the Netherlands(OECD, April 2022: 2).

There are many factors that affect FDI flows. One of these factors is tax policies. Corporate Income Tax (CIT) rates have gradually declined worldwide since the 1980s, as countries increasingly enter into tax competition to encourage investment. While in 1980 the worldwide CIT rate was 39.3 percent on average, today the average corporate tax rate is 22.7 percent. Apart from the legal tax rate, tax advantages such as discounts, incentives and exceptions are also provided for investments. Therefore, tax regulations are frequently used to attract investments to the desired region or to attract investments at the desired level. When the effective tax rates calculated at the institutional level for OECD countries are carefully examined, it is clearly seen that there are plenty of tax regulations to attract FDI. It has been concluded that countries that keep corporate tax rates lower than other countries in their tax policies at the legal level do not need much application such as incentives, exemptions and discounts. Since FDIs are highly sensitive to economic and political changes, they can change places very quickly. Therefore, tax regulations may not be sufficient in some cases. All kinds of negative developments, especially at the global level, seriously affect FDI flows. As of 2021, the country with the highest FDI rate (as a share of GDP) among OECD countries is Latvia. At the same time, Latvia has the lowest effective tax rate among OECD countries. It is possible to say by looking at the tax rates that countries such as Mexico and Colombia do not have a strong competition with other countries at the tax level to attract FDI. However, it can be said that they receive an average share of global capital in terms of FDI flows. This situation brings to mind the idea that these countries offer different advantages to international companies to attract FDI.

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