The Tax harmonization in open regionalism; The European model.

Mouloud MELIKAOUI (a)
Bordj- Bou-Arrirudj University- Algeria

Abstract: This research examines the subject of alternative regionalism or open regionalism and reality within the multilateral trading system, based on growing liberalization of trade, and the problem of compatibility between them, as well as the limits of economic policy harmonization in the framework of Open regionalism, special tax harmonization, in the light of economic and tax disparities of the Member States, with an overview of the European tax harmonization and limits.

The Study concluded: (*)

Keywords: Open regionalism, European Union, tax harmonization, Customs fees, tax treaties, Exchange of tax information.

Jel Classification Codes: E62, F3, O19.

Introduction:

Very recently, the International Relations are globally and economically in particular well known by the uprisings of numerous and successive developments as well as many phenomena that affected differently all economic fields the most outstanding of which, and that is considered a real economic transformation phenomenon, is the one related to the economic blocs which is not actually founded on the principles and goals of the traditional economic integration. Despite that the economic blocs had been created for a long period of time ago, they represent mostly the modern time in many aspects: evolution, structure, nature, goals and the influence on the continuity of the new world trade system.

The economic alternative blocs (Open regionalism) are seen as an influential component to the most important actions in International Relations. When speaking about these blocs, our thought shouldn’t be confined in the different forms that the favored conduct undertakes concerning custom,

eMail: (*) melikaouim@yahoo.fr
yet the real meaning is canceling all custom and non-customs barriers in the commercial exchange, and imposing a unified custom tariff on the imported goods as well as attempting to reach a harmonization to economic policies.

The last decade witnessed the return of regional blocs widespread and most countries joined many blocs at the same time, blocs through which more than third of the world trade is dealt with 84 regional blocs are made during the 1990’s, the most important of which are: Southern Eastern Asia and the Pacific (APEC), North America Free Trade Area (NAFTA) besides the European union in its current form. Among the most prominent characteristics of the open regionalism the shortening of the protection equipment on one hand, and aiming at the increase of export averages to the world markets without any distinction on the other hand. The open regionalism is based on the acceptance that should be approved by the developing countries toward the participation of some developed countries in their blocs, which is used to be unfamiliar in the traditional economic blocs founded on blocs between developed countries (north-north) and between developing countries (south-south).

The activation of the economic integration throughout the open regionalism requires a full harmonization to the member states economic policies especially the Tax systems and policies.

It is however different in the alternative regionalism comparing to the classic regional economic integration, as countries fluctuate in the economic progress what makes these countries own fiscal systems inequality with a dissimilarity in tax rules, which means that there are limits and barriers to the Tax harmonization in the alternative regionalism. Accordingly, the next could be emerged:

What are the limits and mechanisms of Tax harmonization under the relatively open regionalism, in the European model in particular?

This question bisects to the following partial interrogations:
- What is the open regionalism and what is its reality in the light of the new world commercial order?
- What are the prominent leading models of the open regionalism?
- What is it meant by the Tax harmonization and what are fields in which it is carried out in the light of the open regionalism?

Goals of the paper:

This study aims fundamentally at revealing the following points:
- Identifying the alternative or the open regionalism as a recently created concept, and showing its characteristics;
- Accentuating the harmony and the discrepancy between the open regionalism principles and the new world commercial order;
- Showing the important limits and obstacles of the harmonization of economic Tax policies under the open regionalism and particularly in the EU.

Methodology of research:

In view of covering the entire subject and answering the main question, we have adopted the analytic descriptive method through treating the different theoretical sides of the concept of both the open regionalism and the new world commercial order as well as to the Tax harmonization with a full analysis to these concepts. Also, we have followed the historical method through discussing the historical evolution of the EU as a model of the open regionalism in its modern makeup.

First: the previous studies

1-“A New Open Regionalism in the Asia Pacific, 2004”¹, by Ross Garnault.

Garnault discussed the theoretical frame to the concept of the open regionalism or the alternative regionalism and its reality under the new world commercial order (WTO) ; and the
important problems in incarnating this concept. He also gave some suggestions to set off the concept of the alternative regionalism and achieving harmony with the new world commercial order such as harmonizing the financial and Tax motives to the international investment between the member states.

2-“Open Regionalism in a World of Continental Trade Blocs” by Shang-Jin Wei and Jeffrey Frankel. The two researchers discussed the concept of the open regionalism and the most important problems issued in the practical application either for customer or for the producer or governments. They also spotted the light on the famous theoretical studies made in the relationship between the open or the alternative regionalism and the new world commercial order like Krugman 1991, in which he confirmed that the more economic blocs are available the most crumbled is the new world commercial order. Wei and Frankel see the necessity of imposing a unified custom tariff by all member states towards non member states, and canceling or reducing this tariff inside the bloc.

3-“European Tax Harmonization: Myth or Reality, 2004” by Bouchiouane Mohammed. The researcher discussed the important attempts of the Tax harmonization in the EU as a model of the open or the open regionalism having the global tendency in the economic policy especially harmonizing taxes on companies, taxes on individuals’ incomes on saving revenues as well as taxes on the added value. He also handled the current risks and the future stakes of the European harmonization.

4-“The Tax Harmonization and its Application Effect in the Arab Economic Integration, 2011” by Amro Mohammed Youcef Mohammed. He showed how economic blocs were founded focusing on the concept of the new (alternative) regionalism and its important stamps that differentiate it from the traditional economic integration. He also talked about the role of the fiscal harmonization in setting off these blocs (traditional) and the effect on the Arab economic integration.

These studies didn’t remarkably handle the Tax harmonization limits in the light of the alternative or open regionalism, besides most of these studies concentrate on Tax harmonization fields in the traditional economic integration (old regionalism).

Second : The alternative (open) regionalism. The geographical measure as a prerequisite condition to the regional economic integration process becomes more confined on the interpretation of cooperation and connection between countries on a side, and on its coping with structural changes in the world order on the other side especially with the development of globalization. From this point of view, new regional studies showed up called alternative or open regionalism and which aren’t set on geography but namely on cooperation regardless the other components such as geography, religion, language, culture, nationality and progress or tardiness level.

1- Definition of the alternative (open) regionalism. The concept of alternative (open) regionalism was first tackled during the negotiations of creating the cooperation organization between Southern Eastern Asia and Pacific countries (APEC) in 1989s, and in spite of the wild interest in the alternative regionalism, researchers didn’t agree on a unified concept* due to their difference in analyzing phenomena that affect regional cooperation on one hand, and to the flexibility and the permanent evolution of the concept on the other hand.

The FMI expert Jeffry Frankel defines the open regionalism as: “alternative modern regional arrangements to the classic model of integration resulted from the outcomes and development of the economic globalization; it endeavors to reducing custom and non customs in non member states imports, and in which member states in the bloc commit to liberate trade; and
the commercial liberation degree between the member states differs of that in the non member states in the bloc”.

Furthermore, the economist Nesadurai defines the open regionalism as 6: “The policies that show plurality in characteristics that allow the participant countries to activating the world trade throughout the widespread of regional conventions between member states to back up development in member states, that’s why such kind of regionalism is called developmental regionalism”.

Soderbaum defines open regionalism as 7: “A set of values, policies and strategies which endeavor to launch cooperation between countries in order to create development and preserving security and peace in the region. It is usually related to certain goals and programs that integrated countries aim at its achievement through a determined strategy that may end up by founding a regional organization as the world witnesses today a new wave of regionalism whose the roots go back to the end of the 1980’s and that it was known by big qualitative and quantitative changes comparing to the previous historical eras”.

Henri Reganult sees that it is 8: “A new dynamism to the classic economic integration that intends to annul all custom and non-custom barriers between member states, and used as a channel to carry out the appropriate policies to reach the deep economic integration, and to orient approaches and to apply rules to harmonize internal policies of member states in the different fields like trade, investment and competition”.

As for Spindler, the open regionalism 9 “indicates the growth of the societal integration between the dissimilar countries in language, culture, religion and the economic progress or tardiness level, this is the result of uprising socio-economic interaction yielded regionally by globalization”.

2-The open regionalism properties of that of the traditional regional integration.

The traditional regional blocs were characterized by the prevalence of the commercial motives set on protectionism, ergo, it seems different from the open regionalism from many sides such as 10. In time when the old regionalism is founded on substituting imports and retreating of the world economy, the open regionalism is set on tending to the export and the integration in the world economy. In the shade of the old regionalism, political planning and decisions were adopted in consigning resources, but in the open regionalism consigning resources depends on the market forces. Also, The old regionalism is pushed by governmental efforts while the open regionalism is pushed by the private sector. In addition, The integration in the old regionalism is confined on industrial products, in the open regionalism however this integration comprises all goods, services and investments.

Moreover, The old regionalism dealt with the custom barriers, whereas the open regionalism is based on the deep integration. Furthermore, The old regionalism had a discriminative treatment with less developed countries, while equality for all countries is what distinguishes the open regionalism with choosing different periods of time to adapt. also The old regionalism comprises a territory of neighboring countries entitled with a remarkable harmony and rapprochement in economic, social and cultural scales, as for the open regionalism, it includes one territory or more nearby with each other and contain different countries economically, socially and culturally taking into account that privacy is allowed. The alternative regional blocs assert the importance of the foreign investment to the regional blocs as a substantial engine in liberating trade as an ultimate target to settle a regional bloc, and to achieve world competition in trade. Finally, Most of the alternative arrangements of the integration have a common particularity which is incarnated in the fact that the countries concerned could be part of many regional blocs at the same time, Let’s take the USA for instance; it is a member in North American Free Trade Accord (NAFTA) and member in (APEC) or the organization of Asia and the Pacific Economic Cooperation.
3- Factors of more leaning toward the open regionalism.

The open regionalism recent widespread is due to many factors amongst 11:

First, A number of the countries throughout the world get fear that Europe turns to an invincible fortress, less open to the world in the frame of the unified European market, which will diminish their efforts and enthusiasm to proceed multilateral trade liberation, it’s therefore that many European countries particularly those developing and having a transforming economy have pressed on submitting join requests. Second, The US political change from an antagonist to regional blocs into a supporter and more a participant in these blocs, especially after having announced the creation of NAFTA.

Third, The USSR disassociation and the shift of the European Middle Eastern countries (PECO) from an economy based on planning into countries that rely on the market forces. Fourth, The abandon of the majority of developing countries to policies of imports substitution and adopting more open policies to the exterior. Finally, The awareness of the countries, particularly the developing ones that the adherence to the economic alternative blocs is a means to a full integration in the world economy and to the direct foreign investment attraction in the era of the so-called economic globalization.

4- The main models of the open regional blocs:

4-1- Asia and the Pacific Economic Congress (APEC) 12: it was created in 1989 and involves a number of the developed and developing countries from North and South America, Asia, Europe, Africa and Oceania and whose number has reached 21 states exhibited in the following: USA, Canada and Mexico from North America; Peru and Chile from South America; from Asia: Japan, China, Hong Kong, Indonesia, Malaysia, Brunei, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam; from Europe there is only Russia; from Oceania both Australia and New Zealand and finally Guinea from Africa.

This bloc is considered as a model to multilateral blocs throughout the variety of member states from the six continents, besides; it comprises member states in other economic blocs such as USA, Canada and Mexico.

4-2- North America Free Trade Area (NAFTA): this bloc contains USA and Canada whose economy is developed in addition to Mexico whose economy is progressing. It has been created in 1994 but with unequal parts, as for Mexico the partnership with Northern powerful parts aims at achieving internal goals in the economic and political scale and bringing more investment and technology. And for USA, it aspires to pursue its international commercial policy and to attempt to set up a parallel bloc to the European uprising power. For Canada, it endeavors not to remain isolated in its nearby territory and take advantage of its relative budget in some domains 13.

4-3- The European Union (EU): the integration elements in the EU experience includes the full unity elements like liberating the commercial exchange inside the Union and moving the production factors as well as unifying economic, monetary and Tax policies between member states 14.

The EU buildup was confined in the beginning on countries with high harmonized economics then it goes beyond this to endeavor to connect cooperation and partnership networks with less developing partners. In this context, we notice the EU attempts to extend to the south (Middle Eastern Europe countries and Southern Mediterranean shore countries).

Third: the EU as a model of the open regionalism.

The current EU is considered one of the prominent leading model of the open regionalism as it comprises its main properties. The EU is compound of 28 countries with different progress level, besides the increasing focus on the open partnership with all world countries, as well as the
difference in language, culture and economic history between the Union countries (capitalist west countries, and middles and east European countries with transitional course).

1- The EU from Rome Treaty to Maastricht Treaty**.

Rome treaty signed in 25th March, 1957 the major launch to the establishment of the big European economic structure which was first shaped by the same six member states in the European group of coal and steel. This treaty drew up the accomplishment of the customs union incarnated actually in 1969. In 1973, the first expansion to the north took place through the approval of the UK, The Irish Republic and The kingdom of Denmark membership. In March 1981, it was the time for the second expansion of the EU, this time however is an expansion to the South of Europe in which Greece has become a full member in the European economic group.

In 1986, the European group has its third expansion always to the European South throughout the full membership of both Spain and Portugal to the European group. In February 1992, the EU member states signed the economic and monetary treaty (the Treaty of Maastricht). It scheduled the fluctuation of funds between these states and the realization of cooperation in the economic and monetary and financial domains.16

2- The EU from Maastricht Treaty to the Constitutional Treaty.

During this period, the fourth EU expansion took place but towards middle and northern Europe by the adherence of Austria, Finland and Sweden in 1995, so that the member states’ number became 15 countries. In this period, the financial liberation organization was established and was adopted subsequently in the summit of Barcelona in June 2002 in view of constructing a limitless financial square through which funds are flown inside the European unified financial zone.

The EU fifth expansion occurred in May 1st in 2004 by going up to Eastern Europe after the agreement of the adherence of ten European countries, some of which had been part of the late USSR such as : Lithuania, Latvia, Estonia, the other in Eastern Europe such as: Poland, Hungary, Slovenia, Czech, Slovakia, Malta and Cyprus 17.

In 2007, in accordance with the constitutional treaty in Lisbon, Bulgaria and Romania joined the EU to become a 27 member states union18 EU27. In January 22nd, 2012, the Croatian people positively voted to the adherence of Croatia to the EU. In July 1st 2013, Croatia has officially joined the EU to be 28 member states EU28.

3- The main characteristics of the open regionalism in the European model.

3-1- The difference in the progress level between the Western Europe countries and those of middle and Eastern ones (PECO).

The EU includes currently 28 member states, categorized into three groups according their progress level based on some economic indicators such as the GDP, the economic infrastructure and the livelihood condition19. The first group called also the large member states comprises Germany, France, The UK, Italy and Spain. The second group called the Medium member states includes Netherlands, Poland, Belgium, Sweden, Austria, Greece, Denmark, Finland, Ireland, Portugal, Czech Republic and Romania. The third group is called the Small member states; it includes Hungary, Slovakia, Slovenia, Bulgaria, Lithuania, Latvia, Cyprus, Estonia, Luxembourg, Malta and Croatia.

The EU expansion toward Middle and Eastern Europe (PECO) the poor and developing might increase the difference and divergence as the economic infrastructure of the newly adhered countries are not as good as those in the other EU member states. They rely fundamentally on agriculture while industry is still in reconstruction. Industry in Germany for instance contributes with 23.7% in the GDP of 2010. In Malta, it contributes with 15.8% in the GDP. In addition, a reduction in the GDP per capita in PECO countries comparing to the other member states of the EU.
The Middle Eastern Europe states witness a retard in growth with 2%\textsuperscript{20} regarding to the growth average in the other EU states.

3-2- The EU participation system with the extern world.

The EU calls the integration attempts outside the European continent: the European affiliation system or the European incomplete membership system. It undertakes the participation conventions instruments to carry out the EU policies in establishing new continental economic structures that may comprise other continents beside Europe such as Africa (The European Mediterranean cooperation), Asia (The Europe – Gulf cooperation), South America\textsuperscript{21}. In July 2013, The EU initiates a set of negotiations with USA to establish a free trade area FTA EU28-USA making with this the biggest commercial area in the world. It’s been signed also a convention free trade area between the EU and Canada FTA EU28-CANADA in October 18\textsuperscript{th}, 2013 as an incarnation to negotiations launched in May, 2009.

3-3- increasing the size of foreign direct investment between member states.

Among the most important properties of the open regionalism there is the focus on the foreign direct investment FDI as an engine to moving trade forward and as an ultimate goal to settle a regional bloc. In the frame of the fifth expansion of the EU, relations between PECO states and the other EU member states were characterized by the increase of the foreign direct investment by the later to the PECO states to shorten the differences in growth. The transformation in economics of PECO states seduced the foreign investors of this area; during the period of 1990-2002, these countries share of the world flows of the foreign direct investment reached 3.3%. The quick mutation known by these countries for more than twenty years encouraged the flow of a tremendous foreign investment, whose the source is mostly the other EU member states; the three bigger investors are\textsuperscript{22}: Germany 30%, USA 25%, France 10%. The foreign direct investment over passed at least 3 billion dollars in 1990 and more than 140 billion dollars in 2002. It reached in 2007 between the EU member states around 600 billion Euros\textsuperscript{23}.

3-4- Other aspects of the open regionalism in the European model.

- The difference in language between the EU member states, as there are around 24 official languages in 28 countries;
- The multiplication of the EU goals, as it doesn’t aim only at getting more commercial advantages but also at economic, political, financial and social goals;
- The multiplication of the integration features: the economic integration, the monetary integration and the financial integration (the financial regionalism); and even a social integration throughout the adoption of a social mutual policies;
- The multiplication the domains of the European integration, they include the investment sector and the increasing liberation of trade as well as the encouragement of competition and tending to free economy based on the market liberty.

4-The EU position as a model of the open regionalism in the new world commercial order.

The EU constitutes the biggest internal market in the world; it represents the third population after both China and India with 7.3% of the world population. It is considered the main source of goods all around the globe as well as an important commercial partner with the less developed countries with what help the growth of these countries as it is considered one of the major importers of the agricultural products of these countries.

Furthermore, the EU forms a more integrated area in the economic field; it is rated the first economic power in the world with a GDP of 12260 billion Euros\textsuperscript{24}, or 25.8% of the world GDP in 2010. It exceeds the 22.9% US GDP. Also, the EU represents the first commercial power in the world with 45% of the world trade. Accordingly, it takes 16.7% of the world exports (149,1 billion Euro in May 2013) and 19.1% of the world imports in 2008, and 138.2 billion euro in May 2013,
while China achieves 12.4% of the world exports and 9.4% of imports, the USA 11.2% of world exports and 17.9% of imports, Japan with 6.8% of exports and 6.3% of imports. The EU occupies the first class in exporting services with 1094.4 billion euro in 2009.

Trade represents nowadays more than two thirds of the overall trade of the EU. Moreover, the European companies know an increasing rise in the world scale; the foreign direct investment is being incarnated into the integration and grabbing, it gave birth to European companies. In 2007, the EU seized the largest portion of the world investments; it represents 65% of the foreign direct investment abroad. The European companies represent the third among 500 companies rated the first in the world against 30% to USA and 12% to Japan.

Fourth : fields and limits of the Tax harmonization in Open regionalism.

The Tax harmonization in open regionalism constitutes the most controversial issue because of the contrast in Tax policies and systems resulted from the difference existing at the economic level. The Tax harmonization mechanisms in alternative regionalism vary according to this later and how harmonized are the other economic policies.

1- Definition of the Tax harmonization.

D. Dosser defines the Tax harmonization as25: “the attempt of overcoming the negative effect of tax on the development of the financial and economic relations, and working on getting the ideal geographic positioning to the various projects”. 

Cano Gonzalez defines the Tax harmonization26: “the process of removing the difference aspects between the Tax systems and legislations so that they become homogeneous, harmonious and close in all Tax domains”.

Moreover, Bachir Elmurr sees the Tax harmonization is27: “the determination of principles and mechanisms of the common Tax submission and the convenience of nominal organizational rates so that the actual gap becomes small to ensure the neutrality concerning the fund flows and preventing new defects in saving and investment behaviors”.

The international bureau of fiscal documentation(IBFD) defines the Tax harmonization as28: “the process of overcoming all imbalances and contradictions in the Tax systems at the different authorities”.

2- fields of the Tax harmonization in the Open regionalism.

The Tax harmonization in the open regionalism is confined in the following fields:

-The simplification and the mitigation of the structure and the Customs fees : the Tax harmonization in customs fees between the member states takes many forms including the simplification of the structure of the tariff with shrinking the rates and the lessening of using the up going rates according to the scale of goods production, as well as the overall reduction of the customs tariffs in the member states in this area.

In the case of the open regionalism known by the totalitarian tendency in the economic policies, the harmonization of the customs fees becomes so indispensable what leads to the unification of the member states customs tariffs toward the external world and simplifies the application of the rule of the national content and the source rules, in addition, no member state in the open regionalism could immerse into increasing the customs tariff from one side, because such a procedure should inevitably be subjected to the agreement of the member states. The Tax harmonization in the open regionalism includes the agreement on a number of issues amongst: the distribution of the customs outcomes fairly on the member states and the accord on the unified customs tariff average to protect the national production29.

-The bilateral tax treaties between the member states : these treaties are considered an overriding factor to stop tax imbalances, they endeavor to avoid the double taxation and fight against fraud and tax evasion, besides; it founds rules of cooperation in taxation. Generally, the
bilateral tax treaty illustrates the intention of each part in achieving the justice and equality principles in imposing tax to steer clear from the negative effects of both the double taxation and the tax evasion.\(^{30}\)

**The exchange of tax information in the alternative regionalism:** the Tax harmonization under the open regionalism requires a tight cooperation between its tax offices. This cooperation takes multiple and different forms, the most important of which is the exchange of information and expertise, the approximation of laws and concepts as well as the work methods. The Tax harmonization through the cooperation between tax administrations represents an efficient means to fight against several tax problems and challenges in the regional frame particularly the tax evasion, due to the services offered by these offices especially providing the necessary data that help the tax administration in discovering cases of tax evasion. In this regard, so many organizations, namely the organization of the economic cooperation and development (OECD) and the European Union Council, have recommended the necessity of exchanging information with the countries of tax haven in view of unveiling the companies which use refuges to the tax evasion and mitigating its tax liabilities.\(^{31}\)

**The coordination of the tax expenditure means in the open regionalism:** the suggestion made by Professor Ross Garnault about the coordination of the tax motives between the member states under the open regionalism (the case of APEC) for industries and investments.\(^{32}\) The tax coordination of tax motives comprises many issues like: the timetables of all kinds of motives, the categorization of companies in “added value” to be qualified to get tax motives (huge or small); the control and the presentation of the prerequisite reports by the administrations authorized on applying the tax motives in each country of the member states under the regionalism.

The harmonization of tax motives imposes a set of commitments on the member states by putting a typical plan and setting legal measures (in the form of sanctions) in noncompliance; when states infringe this plan of tax motive policies throughout the use of less efforts to fulfill the necessary amendments, this would encourage the rest of the member states not to commit into this plan, the result would be the inefficiency of this plan between member states in the alternative regionalism.

3- The limits of the European Tax harmonization.

3-1- The European experience of the harmonization.

The European group realized the importance of the Tax harmonization so it worked on extending its frame to include the direct taxes especially taxes on companies’ incomes and indirect taxes mostly the VAT.

3-1-1- The indirect tax harmonization: the article 99 of the European group convention the importance of the harmonization in taxes between the member states concerning taxes on sales and the other indirect taxes in what allows the fulfillment of their interests in the world market. The process of harmonizing indirect taxes has known three stages: \(^{33}\):

- Calling off the last graduation over the tax on sales turnover;
- Imposing the added value tax instead of the successive tax on sales;
- Removing the customs barriers which prevent the movement of goods and services.

These attempts aim at the mitigation of the Tax liability coming out of the multiplication of taxes on goods and services between the member states; which gives them the competitive character in the international market and proves the importance of these bilateral and multilateral conventions in this regard.

In 1977, appeared the so-called The Sixth Directive (77/388/EEC) which is considered the main instruction because it anchored a set of rules to determine the tax utensil (the harmonization of the Tax base) of the VAT in all member states; the regional application; the subjected persons to taxation, the tax rates... The first step was to structure the harmonization of the VAT (the subject of the taxed activities), the second step was in 1993 in the frame of shifting to the unified market
when the EU decided to go further not to harmonize the Tax base only but harmonizing the VAT averages. The member states agreed a lower regular average estimated by 15% in addition to two more regular reduced averages to 5% at least. Super reduced averages could either be applied on some goods and services as there is no determined roofing to the VAT averages. The Union member states introduced the VAT Information Exchange System VIES, which permits to check the identity number the VAT by the interested (the commercial companies, the financial authorities). In January 1st, 2007, it was adopted a new instruction 2006/112/EC concerning the common system on the VAT. All the member states in the Union adopted the orientation to this system in their private national legislation.

3-1-2- attempts to harmonize the direct taxes: the attempts of harmonization involved a number of highlights such as:

-To set up a project of European convention to avoid the double taxation in order to reduce the Tax liability on European investors in between European countries;

-To reform the taxes on companies and individuals through enacting the codes which contribute in the simplification of the tax procedures and the easy determination of the tax utensil;

-The partial harmonization of the income tax through setting rules about solving certain problems in linking and estimating the tax on the income so that these rules control the fiscal administrations in the EU. Among these problems: the evacuation of the loss between the international companies that work in more than one European country; also the basis on imposing taxes on holding companies;

-To support cooperation between EU member states to halt the tax evasion between companies, and to prevent the misuse of the Tax conventions to gain illegal tax profits;

-To apply the common and unified tax rule (CCCTB) concerning the European commercial activities.

The harmonization of the income taxes remains based on the bilateral conventions and treaties to avoid the double taxation between two European countries and in the light of the convention model set by the organization of the economic cooperation and development (OECD).

3-1-3- the Tax harmonization of profits and saving incomes.

The source of the EU key concern in direct taxes field is taxing on the saving income. Ergo, the directive 2003/48/CE an administrative system to the spontaneous exchange of some information linked to paying profits. The article 02 of this directive permits the saving incomes to come under profits payments achieved in one of the member states to the real profited who are usually physical persons living in another member state subjected to taxation according to the host country legislation. The means selected to allow profits taxation in a member state (where the real profited is resident for tax purposes) is the spontaneous exchange of information between the member states concerned with these payments. In this context, the member states are ought to undertake the necessary measures to perfectly carry out the tasks of this directive (the cooperation and the exchange of bank information) via payment agencies settled on their grounds regardless the place of the beneficial loaner company.

If the real profited is living in another member state where payment agencies are made therein, the directive compels the later to contact the qualified authority of the member state to obtain the minimum of information for instance: the ID, the address of the real profited, the account number or recognizing the debt yielding to the profit and the information about paying profits.

Exceptionally and transitionally, Belgium, Luxemburg and Austria can abstain from exchanging information over the saving incomes set by this directive; they used to apply the takeout of the source system of the same incomes, the directive, yet, allows the three countries to obtain information from the other member states.
For the takeout of the source system, the directive imposes on Belgium, Luxemburg and Austria that when the real profited is living in another member state other than the one in which the takeout from source payment agency is located with 15% during the first three years of the transitional period (July 1st 2005-June 30th 2008), 20% to the following three years (July 1st 2008-June 30th 2011) and 35% starting in July 1st 2011.

Concerning the share of incomes, the instruction compels the member states which carried out the takeout of the source to save 25% of their incomes and transferring 75% to the member state in which the real profited is living\textsuperscript{39}. In terms of the double taxation, the very instruction imposes on the member state where the profited is living to assure overcoming all the double taxation cases that might be generated in the takeout of the source. The European commission had although recognized in May 31st 2006 that the administrative cooperation between member states was not enough and affirmed the necessity of setting new strategy to fight the tax evasion in the EU.

3-2- The limits of the European Tax harmonization.

There are many factors that limit the success of the Tax harmonization process in the EU whether was it about the direct taxes or the indirect taxes. The difference in the tax systems and structures as well as in the tax pressure between the member states not to forget the difference the structure of incomes in the public balance are considered the most important limits of the European Tax harmonization, in addition to the lack of some member states the will (especially those whose tax system is preferential) to adjust their discriminating conduct.

3-2-1- The difference in the Tax cultures and the tax pressure levels:

The difference in the Tax cultures between the member states in the open regionalism complicates the process of looking for the concord between these states. In taxation, this difference makes a harsh obstacle in front of the tax harmonization. We’ll show here the main differences between the Tax systems between the member states in the alternative regionalism; the purpose is to clear up the contrast of the Tax systems and the negative effect on the Tax harmonization\textsuperscript{40}.

In the VAT, framing averages to limit the competition through the averages and obtaining a relative approximation are blocked by the continuing differences; the regular average fluctuates between 15% and 27% whereas the reduced average changes between 5% and 18% while the lowest average was used by 05 member states (Ireland, France, Italy, Spain and Luxemburg) between 2.1% and 4.8%.

In taxes on the companies’ incomes, the nominal averages shows a serious disproportion and a difference in the application ways: Germany for example imposes taxes differently on distributed gains and the reinvested gains, while some other countries don’t impose taxes on the excessive value in the contribution.

Some other countries apply graduating averages such as Ireland and the UK, and the depreciation ways are different. Regarding these differences, the Tax competition in the taxation of enterprises is hard to be measured; the European commission has accounted the actual Tax rates and clearly demonstrated differences of 30% between EU member states. In 2013, the difference in the tax on the companies’ incomes reached 26.1%, and there are obvious examples about the dumping fiscal applied by few member states resulting from the difference in rates of the Tax submission. Ireland however applies a lowest rate (10%) for the foreign companies which caused the reinstatement of some companies inside Ireland; the German policy leans on the Tax competition to make up the competitiveness in promoting wages.

Moreover, the contribution rate of direct taxes and indirect taxes varies in the general structure of incomes in the member states. In Bulgaria for instance, the direct taxes contribute with 18.9% of the Tax overall and with 54.2% for the indirect taxes; in Denmark, 62.8% for the direct taxes of the Tax overall of incomes and 35.6% for the indirect taxes. Unlike Bulgaria, the harmonization of the direct taxes affects straightly and incredibly the Danish Tax incomes.
The EU is characterized by the big difference in the global level of the Tax pressure and the obligatory takeout structure (as shown below), and the ways of executing and applying the different taxes (the rule, the exemptions…). These characteristics represent important indicators to the Tax competitiveness in Europe.

3-2-2- the recent expansions of the EU and the increase of the imbalances:

The recent expansion of the EU increases more the differences between the member states as well as imbalances. The fifth, the sixth and the seven expansions of the EU make the PECO countries in permanent need for new funds which causes the risky Tax competition between the member states. Estonia represents applies a tax instigation concerning the reinvested gains with a zero tax rates; Bulgaria and Cyprus reduced their taxes on companies from 28% in 2001 to 10% in 2013. These privileges absolutely motivate investors; the world mobile phone industry giant NOKIA studies the possibility of moving its social headquarter from Helsinki to Tallinn the capital of Estonia which is hundreds of kilometers away from Finland shores, this required the intervention of the Finnish prime minister to prevent this project from happening. Austria has also been the subject of the fiscal competition threat by Slovakia throughout the reduction of taxes on gains from 34% to 25%.3

3-2-3- Sticking to the Tax sovereignty:

The Tax harmonization is not considered necessary for everybody; satisfaction should be measured to all national leaders what guaranties the Tax harmonization. There are a lot of reasons to explain some reserves amongst: thinking of the leadership by all European national leaders. Every year, the prevailing political decision of the government is to adopt the finance code by virtue of which it develops the society through the directives of the balance known by the social consistence. Stamping money and imposing taxes, two processes undertaken by the state to oversee the national economy, express the sovereignty and the independence which is not appropriate for a state to abandon them as every political power takes their legitimacy from the economic policy instruments4.

3-2-4- The influence of the unanimity rule, and the European pressure groups:

The developments in the economic integration are related to the progress that could be achieved in the political performance of the member states in the alternative regionalism. The unanimity rule represents the key factor of withholding in taxation3. Furthermore, it is necessary to take into account, when thinking of the European Tax harmonization, the pressure groups which enormously influence the world political economic environment, what influences subsequently the Tax decisions in the European frame4.

3-2-5- The influence of the Tax and bank havens:

Some EU states might abstain on exchanging Tax information in the Tax harmonization because of their adoption to the banking privacy like Austria and Luxemburg3. There is also a widespread of the preferential Tax system in the EU; nearly every member state has its own preferential Tax system; these zones form a big umbrella to tax evasion4.

3-2-6- The importance of the European decisions on the state balance:

The national balance structures are more different from one country to another. Due to these important differences in the national balances structures of the member states, the Tax pressure doesn’t appear clearly and in the same extent in all these states. Ergo, the decisions in the Tax domain in Europe could be variously received by governments and officials in the member states. In fact, one decision of the EU to push prices (taxes) back to reduction, the officials would positively react toward this decision, governments however would be more cautious because their balances would be affected by this decision and vice versa in case of the increase of the averages, the governments would raise their incomes in time where the officials would endure additional taxes.
As a result to the balance structure differences, the same decision is not fully and equally respected by all the member states because of the tax weight in their general balances. Unlike Slovakia, the reduction of the tax rate on the income will have a huge effect on Denmark whose the tax on the income is estimated by 50.9% its Tax incomes in 2011 while it is only 8.8% of Slovakian overall Tax incomes. The reduction in tax rates would be encountered by a reduction in Danish tax incomes and affect less Slovakia. The following figure demonstrates the EU general balance incomes in 2011.

**Conclusion:**

The EU is considered one of the most important modern economic blocs of the open regionalism mode especially following the latest expansions toward Middle and Eastern Europe well known by the developing economies what led to the increase of the differences between the EU member states and double complicated the harmonization of policies particularly the Tax one.

Although the non-stop efforts to harmonize taxes (direct, indirect), the reality indicates that the EU has accomplished a tangible progress in harmonizing the indirect taxes (VAT). However, the EU faces some limits in the harmonization of the direct taxes due to a set of factors that restrict the success of the Tax harmonization regulation.

There are remarkable differences in the Tax structures and the levels of the European Tax pressure as well as the widespread of the Tax havens, the preferential Tax systems, the discreet bank practices and the difference in the favored ways of harmonization by the member states, besides the influence of the European pressure groups in the Tax decisions undertaken in the European scale.

The EU model remains although an overriding model in the Tax harmonization, which could be seized by the other blocs in the world and especially in the Arab economic gathering.

On the other hand, and given the constraints and limits of tax harmonization in the context of open regionalism, there are **prospects for implementation of the tax policy under this system** through:

- Emphasize the importance of the adoption of gradually harmonization for tax policy in accordance with comprehensive the tax reform leads to the creation of tax systems flexible, and tax administration able to do the harmonization properly, so as to avoid the lead tax harmonization between the states to regulate the shortcomings of the tax systems in each country;
- the light of tax and economic disparities between the Member States of the open regionalism, you must determination a transitional period for each Member State to amend their tax systems according to pre-defined strategy, Enable them to progressive adaptation with the tax harmonization;
- Expansion the basis of the contract of bilateral tax conventions between Member States, to establish a base of cooperation in the fight against double taxation;
- the application of tax policy in the context of open regionalism requires close cooperation between their services tax, this cooperation takes different forms, the most important exchange of information and experiences and approximation the legislation and terms and method of transactions in order to reduce tax evasion;
- The establishment of a central body which the authority in the management of his tax policy and it has the authority to make binding decisions, and control the application with regard to bilateral tax conventions and harmonization of tax incentives to attract foreign investment, and unify or simplify or eliminate tariffs under the will and political conviction;
- The application of tax policy harmonious in the context of open regionalism, Requires a holistic approach to other economic policies as a policy the exchange rate and monetary policy, Just as is the case in the European model.
-Appendices:

Figure n°01: the differences of the Tax incomes structure of the EU member states of 2011.


Figure n°02: the rates of the Tax pressure of the EU states of 2011.


Figure n°03: the EU general balance incomes in 2011.

Source: Eurostat, European Commission, Economy and finance, Eurostat yearbook 2012, p. 64.
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* The alternative regionalism is also called the open regionalism, the new regionalism or the continental trade blocs.

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** This treaty dictates four key principles (the financial monetary approximation): the balance deficit should be more than 3% comparing to three performing countries. - The public debt shouldn’t be more than 60% comparing to three performing countries-the inflation average shouldn’t surpass 1.5% comparing to three countries with lower averages. -The difference in long term profit average shouldn’t be more than 2% in the EU states.

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