

OECD Two Pillar Solution: Designed to Prevent the Offshoring of High Tech Production to the Global South

By Abdul Muheet Chowdhary*

ABSTRACT

The Organisation for Economic Co-operation and Development (OECD) Two Pillar solution is a tool of the developed countries designed to: a) prevent Multinational Enterprises (MNEs) in frontier technologies like clean energy, computing, semiconductors, etc. from offshoring production to developing countries, and b) minimize Global North MNEs' taxable profits in developing countries. The recent exemption of the United States' MNEs from certain aspects of the OECD Global Minimum Tax further strengthens these objectives. South Centre Member States and other developing countries should resist pressures to adopt the Two Pillar solution and make informed, evidence-based decisions, while considering the benefits of other simpler and more beneficial alternatives.

KEYWORDS: Organisation for Economic Co-operation and Development (OECD), Two Pillar Solution, Multinational Enterprises (MNEs), Global Minimum Tax, Side by Side Agreement, Pillar One, Pillar Two, Subject to Tax Rule, Amount A, Amount B, Offshoring, High-tech Production

La solution à deux piliers de l'Organisation de coopération et de développement économiques (OCDE) est un instrument des pays développés conçu pour: a) empêcher les entreprises multinationales (EMN) actives dans les technologies de pointe telles que les énergies propres, l'informatique, les semi-conducteurs, etc. de délocaliser leur production vers les pays en développement, et b) minimiser les bénéfices imposables des EMN du Nord dans les pays en développement. La récente exemption des EMN des États-Unis concernant certains aspects de la taxe minimale mondiale de l'OCDE renforce encore davantage ces objectifs. Les États membres du South Centre et d'autres pays en développement devraient résister aux pressions visant à adopter la solution à deux piliers et prendre des décisions éclairées et fondées sur des preuves, tout en tenant compte des avantages d'autres alternatives plus simples et bénéfiques.

MOTS-CLÉS: L'Organisation de coopération et de développement économiques (OCDE), La Solution à deux piliers, Les entreprises multinationales (EMN), La Taxe minimale mondiale, L' Accord parallèle, Le Premier pilier, Le Deuxième pilier, La Règle d'assujettissement à l'impôt, Le Montant A, Le Montant B, La délocalisation, La production high-tech

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KEY MESSAGES

- The OECD Global Minimum Tax is primarily meant to disincentivize offshoring of high tech production to the Global South.
- The OECD Pillar One is designed to minimize taxable profits of Global North MNEs in market jurisdictions.
- The early finalization of the UN Framework Convention on International Tax Cooperation is essential to end the arbitrariness and inequities of the OECD-led initiative, and provide developing countries higher revenues and stability in the context of a fairer and more inclusive international tax system.

La solución de dos pilares de la Organización para la Cooperación y el Desarrollo Económicos (OCDE) es una herramienta de los países desarrollados diseñada para: a) impedir que las empresas multinacionales (EMN) en tecnologías punteras, como la energía limpia, la informática, los semiconductores, etc., deslocalicen su producción hacia países en desarrollo, y b) minimizar los beneficios impositivos de las EMN del Norte Global en los países en desarrollo. La reciente exención de las EMN de Estados Unidos respecto a ciertos aspectos del Impuesto Mínimo Global de la OCDE refuerza aún más estos objetivos. Los Estados miembros del South Centre y otros países en desarrollo deberían resistir las presiones para adoptar la solución de dos pilares y tomar decisiones informadas y basadas en evidencias, considerando al mismo tiempo los beneficios de otras alternativas más simples y ventajosas.

PALABRAS CLAVES: La Organización para la Cooperación y el Desarrollo Económicos (OCDE), La Solución de Dos Pilares, Las empresas multinacionales (EMN), El Impuesto Mínimo Global, El Acuerdo Paralelo, El Pilar Uno, El Pilar Dos, La Norma de Sujeción al Impuesto, El Importe A, El Importe B, La deslocalización, La producción de alta tecnología

经济合作与发展组织 (OECD) 的双支柱方案是发达国家设计的一种工具, 旨在: a) 防止清洁能源、计算、半导体等前沿技术领域的跨国企业 (MNEs) 将生产转移至发展中国家; b) 最大限度降低全球北方跨国企业在发展中国家的应税利润。美国跨国企业近期获得的OECD全球最低税部分豁免, 进一步强化了上述目标。南方中心成员国及其他发展中国家应抵制采纳双支柱方案的压力, 在权衡其他更简便、更有利替代方案的益处时, 作出基于充分信息和证据的决策。

关键词: 经济合作与发展组织 (OECD), 双支柱方案, 跨国企业 (MNEs), 全球最低税, 并行协议, 支柱一, 支柱二, 应税规则, 金额A, 金额B, 离岸外包, 高科技生产

Introduction

The recent [Side by Side Agreement](#) modified the Organisation for Economic Co-operation and Development (OECD) Global Minimum Tax (GMT) to exempt the United States' Multinational Enterprises (MNEs) from some of its rules. It can be seen as the culmination of a project began by the US – and supported by other developed countries – to disincentivise the offshoring of production and jobs to developing countries, especially in high technology areas like clean energy, computing and semiconductors, by neutralizing their tax incentives. This was from the very beginning the key objective of the GMT, also known as 'Pillar Two', even though its proponents promoted it with a different narrative.

However, even if the MNEs re-shored production to the Global North, they would still rely on the Global South's large markets

to sell their goods and services. The South would still have the right to tax the profits obtained by these companies from their countries. Thus, as a secondary objective, Pillar One has been designed to reduce these taxable profits in market jurisdictions as much as possible.

This Policy Brief shows how the four components of the OECD Two Pillar Solution – Amount A, Amount B, the Subject to Tax Rule and the Global Minimum Tax – have been designed to achieve that fundamental objective. This analysis builds on the South Centre's detailed research over the years and on analysing the possible economic impact of the Two Pillar solution on the Centre's 55 Member States and other developing countries. The Policy Brief is thus meant to help the Member States of the South Centre and other developing countries to take informed decisions as they consider whether to adopt the Two Pillar solution with a clear understanding of what it is meant to achieve.

I. Pillar Two: Designed to Prevent the Offshoring of High-Tech Production to Developing Countries

The GMT was initiated after President Donald Trump took office in 2016 and turned his wrath against US companies that offshored jobs to developing countries. This led to the passage of the US Tax Cuts and Jobs Act (TCJA) in 2017 which contained the Global Intangible Low Taxed Income (GILTI) and the Base Erosion Anti-Abuse Tax (BEAT). Both provisions essentially sought to have the US tax low-taxed profits of its subsidiaries in other countries, and were squarely targeted at China's Special Economic Zones (SEZs) along with tax havens like Ireland and Puerto Rico which are often used by some US multinationals to shift profits. The objectives were to firstly incentivize tax avoiding US MNEs to repatriate profits onshore and secondly to attack and neutralize tax incentives, particularly profit based tax incentives like tax holidays, which are widely used across the developing world to attract foreign investment and transfer of technology. One observer termed the policy a "Made in America Tax Plan".¹

The US sought to get the rest of the world to follow along by transforming the domestic law provisions into international standards. It did this through the OECD Inclusive Framework (IF) which led to the design of Pillar Two. GILTI became the basis of the Income Inclusion Rule (IIR) and BEAT became the basis of the Under Taxed Profits Rule (UTPR).²

The narrative by the OECD of the GMT addressing "the continued risk of profit shifting"³ was utterly misleading since the GMT only applied to profits declared in the jurisdiction. Thus, if an MNE shifted profits out of a country then it would continue to pay zero in tax under the GMT. This meant that even if a

1 Michael P. Devereux, "'Made in America' Tax Reform?", Oxford University Centre for Business Taxation, 4 May 2021. Available from <https://oxfordtax.sbs.ox.ac.uk/article/made-in-america>.

2 Veronica Grondona et al., *National Measures on Taxing the Digital Economy*, Research Paper, No. 111 (Geneva, South Centre, 2020). Available from <https://www.southcentre.int/wp-content/uploads/2020/05/RP-111.pdf>.

3 Organisation for Economic Co-operation and Development (OECD), "Addressing the Tax Challenges of the Digitalisation of the Economy – Policy Note", 23 January 2019.

developing country introduced the GMT, if tax avoiding MNEs shifted profits out, then the country would continue to collect low or no taxes.

This was subsequently verified by the OECD's own data, seen in Figure 1, which showed that only 2.4% of profits taxable under the GMT are located in lower middle income countries, and only 0.2% located in low income countries. By contrast, 80% of the taxable profits are in tax havens, euphemistically called 'investment hubs', leading to civil society organizations terming the GMT a "Tax Havens Rewards Program".⁴

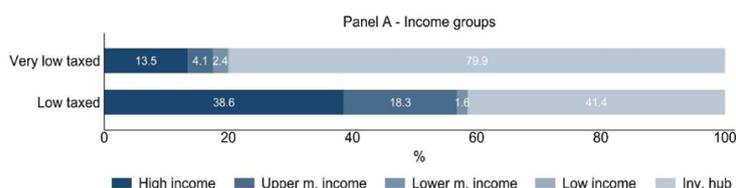


Figure 1: Global very low-taxed profit by income group and ETR group

Source: [OECD Taxation Working Papers No. 67, "Effective tax rates of MNEs: New evidence on global low-taxed profit" \(2023\)](#)

To help its Member States and other developing countries respond appropriately, the South Centre brought out a Policy Brief containing a more detailed analysis of the GMT's implications along with options to respond.⁵

The true objective of the GMT from the very beginning was to multilateralize the US' strategic objectives - also shared by other developed countries - of reducing the offshoring of jobs to developing countries by neutralizing their tax incentives. The developed countries were especially concerned in preventing MNEs in *frontier* technologies like clean energy, robotics, etc. from offshoring since this meant that those developing countries where this production would take place would gradually acquire the technical know-how to begin unaided manufacturing of these things themselves, and thus move up the value chain.

Towards this end, an intensive blitzkrieg was launched by the OECD and some other Northern institutions such as the International Monetary Fund (IMF), World Bank, etc. of providing "capacity building and technical assistance" to developing countries to help "reform" - meaning remove - their tax incentives to comply with the GMT. These institutions even sought to elevate this political narrative of the developed countries to the level of high-level "Principles" and through the Platform for Collaboration on Tax which produced a set of "[Tax Incentives Principles](#)"

4 Dominik Gross, "The global tax rate is now a tax haven rewards programme, and Switzerland wants in first", Tax Justice Network, 6 April 2023. Available from <https://taxjustice.net/2023/04/06/the-global-tax-rate-is-now-a-tax-haven-rewards-programme-and-switzerland-wants-in-first/>.

5 Emmanuel Eze et al., "The GloBE Rules: Challenges for Developing Countries and Smart Policy Options to Protect Their Tax Base", Tax Cooperation Policy Brief, No. 35 (Geneva, South Centre, 2023). Available from <https://www.southcentre.int/tax-cooperation-policy-brief-no-35-18-august-2023/>.

which broadly parroted the above objectives.⁶

Indeed, developing countries had, over the years, given away precious fiscal space through harmful tax incentives that had questionable efficacy in bringing in foreign investment. However, the intention behind this GMT initiative was not borne out of a concern for developing countries' revenue losses through such wasteful incentives; rather, as mentioned, to curtail the inflow of foreign direct investment, especially in high-technology sectors.

Having largely succeeded in neutralizing profit-based tax incentives like tax holidays, the developed countries then through the OECD IF sought to keep only one tax incentive remaining on the table - industrial subsidies, given the fancy title of "refundable tax credits". The GMT was then updated accordingly.

What this essentially implied was that a country could not give a tax exemption to attract investment but could only give subsidies. Needless to say, this made it easier for developed countries to attract investment compared to developing countries who did not have the cash to give such subsidies. To give a single example, Ireland's research and development tax credit cost the government about EUR 1.4 billion in 2023, with the majority of claims concentrated among a small group of large foreign MNEs.⁷

Of prime importance to the developed countries, especially the OECD's Member States, was to maintain technological superiority, especially in new and emerging areas like clean energy, artificial intelligence and robotics. They were particularly concerned with the growing capabilities of countries such as China, India and Vietnam, to name a few. These countries were also better placed to give industrial subsidies compared to other developing countries.

Thus, to bring in an additional layer of control, the developed countries through the OECD IF modified the GMT to bring in the notion that refundable tax credits must be "qualified" - meaning approved - by the countries implementing the GMT through a peer review process. The objective was to use this process to monitor and screen different tax incentives being provided by developing countries and to potentially use this to slow down the technological rise of those countries. If a tax incentive regime was deemed nonqualified, it would mean higher top up taxes under the mechanics of the GMT and thus discourage the MNE from operating in that jurisdiction. Highly complex measures were put in place to prevent countries from refunding these taxes to the MNEs in other ways.

Side by Side Agreement

The UTPR, modelled on the US' BEAT, was included in the GMT

6 See also the South Centre's inputs on the Principles: <https://www.southcentre.int/sc-inputs-on-tax-incentives-principles-february-2025/>.

7 Tax Notes, "Foreign MNEs Drive Ireland's R&D Tax Credit Spend", 9 January 2026. Available from <https://www.taxnotes.com/tax-notes-today-international/corporate-taxation/foreign-mnes-drive-irelands-rd-tax-credit-spend/2026/01/09/7tvmb/>.

to prevent a situation where an MNE avoided taxes by having its Ultimate Parent Entity in a low tax jurisdiction. This meant that if a country like the US gave its MNEs tax incentives and they had an Effective Tax Rate (ETR) below 15%, it could be collected by another jurisdiction where the MNE had assets and employees. The European Union passed [a Directive](#) making it mandatory for all European countries to introduce the GMT, including the UTPR. This led to significant friction between the US and Europe which was finally resolved through the “[Side by Side](#)” Agreement first announced by the Group of Seven (G7) in June 2025 and then passed through the OECD IF in January 2026 under which US MNEs would be essentially exempt from both the UTPR and the IIR.

The detailed implications of the Side-by-Side Agreement are not the focus of this document. The key takeaway is that the Agreement reinforces the strategic objectives of the US by essentially giving US MNEs a competitive advantage by allowing them to enjoy low tax rates below 15% (as calculated under GMT rules) and by safeguarding US industrial subsidies by more favorable treatment of US non-refundable tax credits within the GMT through the ‘substance based tax incentive safe harbour’. Further, consistent with the US’ goal of incentivizing re-shoring of jobs, the Agreement’s treatment of subsidies such as research and development (R&D) tax credits implies that foreign companies (e.g. from Europe) can invest in the US, obtain R&D tax credits, have an ETR below 15% and be shielded from the UTPR. As per a [Statement by the US Treasury](#), “the agreement protects the value of the U.S. R&D credit and other Congressionally approved incentives for investment and job creation in the United States, fulfilling the shared goal of U.S. leadership in innovation and technological advancement.”

As a result of incorporating all these new elements, the GMT is today more than 1,000 pages long comprising of the Model Rules, hundreds of pages of commentary and administrative guidance, and hundreds of pages more of examples, all of which have put in place an incredibly complex framework that is fundamentally designed to enhance mainly the US’ share in the value chain to the detriment of other countries, including those in the Global South.

Subject to Tax Rule

Pillar Two initially only consisted of the IIR and UTPR and had no benefits whatsoever for developing countries. “Qualified” Domestic Minimum Top Up Taxes were brought in at the last minute to prevent developing countries from introducing a raft of Alternative Minimum Taxes (AMTs), particularly those based on turnover.

Thus, while the Pillar Two negotiations were going on, developing countries pushed for a “Subject to Tax Rule” (STTR) to ensure that Pillar Two had at least some benefits for them.

Recognizing that they were hobbled by unfair tax treaties⁸ with
⁸ The South Centre has analyzed the imbalanced tax treaties of its Member States with OECD countries. Results available here: <https://www.southcentre.int/geneva-graduate-institute-and-south-centre-report-september-2024/>.

developed countries, the STTR sought to apply the GMT’s essential principle of “if you don’t tax it then I will” to items of income covered by a tax treaty.

Expectedly, within the inequitable negotiating forum of the OECD IF, the STTR was severely restricted in scope and application. The United Nations (UN) Tax Committee then took the initiative to introduce its version of the STTR, which was passed in in 2023. The South Centre [actively supported its Member States](#) in these efforts. When the OECD IF’s version was ready for adoption, the South Centre partnered with the Group of Twenty-four (G-24); and together, the two intergovernmental bodies produced two sets of country-level revenue estimates for their 65 combined Member States on the impacts of both versions.⁹

To quote from the joint G-24/South Centre press release,

“Both studies conclude that the OECD version will deliver very limited or no revenues for the 65 Member States, since many residence jurisdictions apply nominal corporate income tax rates above 9%, meaning that the OECD STTR cannot be triggered. The OECD version also does not impact any treaty between OECD and G-24/South Centre Member States and applies only to tax treaties between G-24/South Centre Member States and other developing countries and a few non-OECD developed countries. Applying the prescribed 9% minimum rate to covered payments, only 100 treaties across 28 South Centre/G-24 Member States would qualify for enhanced revenue under the OECD STTR, with an estimated combined revenue gain of USD 55.6 million, 71% of which is concentrated in just five treaties. The Research Papers show that the main revenue benefits come from the UN version. The UN STTR, which does not specify a minimum rate, was modelled using rates of 9%, 10% and 15%. This resulted in estimated revenue gains of USD 212 million, USD 325 million, and USD 1.16 billion across 171, 210, and 317 treaties, respectively.”¹⁰

The inequitable design of the OECD IF’s STTR eventually meant that at the signing ceremony only nine jurisdictions showed up to sign the OECD STTR Multilateral Instrument (MLI), some of them arguably out of political reasons rather than genuine conviction.

II. Pillar One: Designed to Minimize Taxable Profits in Market Jurisdictions

One of the likely impacts of Pillar Two, as discussed above,

⁹ Suranjali Tandon and Chetan Rao, *Analysing the Impact of UN and OECD Subject to Tax Rule for G-24 and South Centre Member States*, Special Issue, No. 2 (South Centre and G-24, July 2025). Available from <https://www.southcentre.int/sc-g-24-special-issue-2-july-2025/>.

Faith Amaro and Sol Picciotto, *Comparison of Tax Revenue Effects of United Nations and OECD Subject to Tax Rule for G-24 and South Centre Member States*, Special Issue, No. 1 (South Centre and G-24, July 2025). Available from <https://www.southcentre.int/sc-g-24-special-issue-1-july-2025/>.

¹⁰ G-24 and South Centre, “Country-Level Revenue Estimates - A Comparative Analysis of UN and OECD Subject to Tax Rules for 65 Member States of the G-24 and South Centre”, Press Release, 23 July 2025. Available from https://www.southcentre.int/wp-content/uploads/2025/07/G-24-South-Centre-STTR_Press-release_23-July-2025.pdf.

would be to incentivize the MNEs of the North to shift production away from developing countries. However, as mentioned in the introduction, a secondary objective of the Two Pillar Solution was to minimize the taxable profits these MNEs derive from economic activities in the South. It was to this end that Pillar One was designed.

Pillar One was initiated after countries began introducing national measures to tax the digital economy in the absence of a global solution under Action 1 of the Base Erosion and Profit Shifting (BEPS) project. These measures, pioneered by India through the Equalization Levy in 2016 and followed by other countries like the United Kingdom and France, were largely based on revenues rather than profits and were kept outside of the treaty network and came to be called “Digital Services Taxes”. This incurred the wrath of the US which found them to be discriminatory and spurred efforts at the OECD to find a “globally acceptable” – in reality meaning acceptable to the US – solution.

Amount A

Tax treaties do not grant taxing rights. They restrict taxing rights. Countries do not need tax treaties to collect taxes. From a purely technical perspective, a treaty-based solution is unnecessary and countries can simply introduce domestic law measures such as Digital Service Taxes or Significant Economic Presence¹¹ to tax digital service providers operating in their jurisdictions. Issues of double taxation can be resolved by the residence state giving unilateral relief, as indeed several developed countries already have in their statutes.

Nevertheless, it was decided within the OECD to have a multi-lateral treaty-based solution. Since the essence of a tax treaty is to restrict the source jurisdiction’s taxing rights, Amount A’s scope rapidly expanded to go beyond digital services and cover almost all the income of the in-scope MNEs, subject to certain exclusions. Like for the STTR, the design of Amount A began to become increasingly constricted: fewer and fewer companies come into scope, continuous reductions to the tax base, increasing exemptions. The last straw came with the adjustment of withholding taxes into Amount A. Details of these inequities can be found in the South Centre’s numerous written submissions to the OECD.¹²

All of these significantly diminished the potential revenues from Amount A, which in any case were small to begin with since it only applied to 25% of the residual profits of a few large MNEs. In some cases, these rules could actually *reduce* the taxing rights of developing countries. This is particularly true for developing countries who had treaty networks with high withholding tax rates. One study found that South Centre Member States India, Jamaica and Viet Nam stood to lose EUR 89 million, 97 million and 7.4 million, respectively, from Amount A.¹³

11 For a detailed case-study documentation of how different South Centre Member States and other developing countries are taxing the digital economy, see: <https://www.southcentre.int/research-paper-226-12-november-2025/>.

12 A full list can be found here: <https://taxinitiative.southcentre.int/publications-submissions/>.

13 Mona Barake and Elvin Le Pouhaer, “Tax Revenue from Pillar One Amount A:

For most developing countries, the revenue benefits from Amount A were minimal when contrasted with alternatives such as Digital Service Taxes. This was subsequently empirically verified by the South Centre when it produced, along with the West African Tax Administration Forum (WATAF) and the African Tax Administration Forum (ATAF), country-level estimates for the 85 combined Member States of these three intergovernmental bodies and those of the African Union. The data showed that these Members could expect between EUR 20-34 billion from a 5% Digital Service Tax (the most commonly used approach for taxing digital services) compared to EUR 7-10 billion in revenues from Amount A.¹⁴ Figure 2 provides the data for the South Centre’s 55 Member States, who stand to gain up to EUR 34 billion from a 5% Digital Service Tax, compared to EUR 10 billion from the OECD’s Amount A. The evidence also reinforced prior similar analysis by the South Centre contrasting an earlier version of Amount A with Article 12B of the UN Model Tax Convention.¹⁵

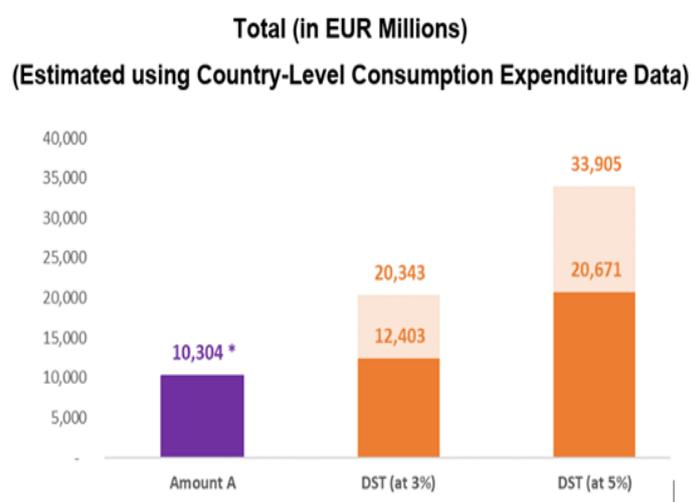


Figure 2: Tax Revenue Estimation under Amount A vs. DST Regimes for South Centre Members

Source: [South Centre, WATAF & ATAF, A Toss Up? Comparing Tax Revenues from the Amount A and Digital Service Tax Regimes for Developing Countries](#) (2024)

Amount B

Pillar One divided MNEs’ profits into normal (routine) and residual. Residual profits are excess or abnormal profits and were to be taxed under Amount A while routine, or normal profits are to be taxed under Amount B. The stated objective of Amount B, according to the OECD, was to reduce transfer pricing disputes by providing a “simplified and streamlined” approach to country-by-country estimates”, *International Tax and Public Finance* (2024). Available from <https://link.springer.com/article/10.1007/s10797-024-09859-4>.
14 Vladimir Starkov and Alexis Jin, *A Toss Up? Comparing Tax Revenues from the Amount A and Digital Service Tax Regimes for Developing Countries*, Research Paper, No. 199 (South Centre, WATAF and ATAF, 10 June 2024). Available from <https://www.southcentre.int/research-paper-199-10-june-2024/>.
15 Vladimir Starkov and Alexis Jin, *A Tough Call? Comparing Tax Revenues to Be Raised by Developing Countries from the Amount A and the UN Model Treaty Article 12B Regimes*, Research Paper, No. 156 (South Centre and Coalition for Dialogue on Africa, 1 June 2022). Available from <https://www.southcentre.int/research-paper-156-1-june-2022/>.

in-country baseline marketing and distribution activities. It was presented as a “simple” solution for “low capacity” jurisdictions in developing countries. However, in reality it was part of the project to minimize taxable profits of Global North MNEs operating in the Global South.

Like every part of the Two Pillar solution, Amount B is highly complex and detailed. The problems and inequities of Amount B can be found in the South Centre’s written submissions on the matter.¹⁶ The essential takeaway from these submissions is that the Amount B pricing matrix, in the name of “simplicity”, generates unjustifiably low taxable profits in developing countries. Further, it has the danger of classifying potentially high value activities as low value activities and generating low profits even for those.

This was empirically confirmed by the South Centre, which brought out a Policy Brief¹⁷ which drew on evidence from Indian distributors that broadly confirmed the afore-mentioned risk. The Policy Brief also provided a guide to help other developing countries make informed decisions on the adoption of Amount B. Subsequently, Amount B has seen minimal adoption. Developed countries expressed their surprise on this during the negotiations of the UN Framework Convention on International Tax Cooperation (UN FCITC) to which Nigeria responded that it was not attractive to many African countries, and that Nigeria’s own impact assessment showed that “we were better off wi-

¹⁶ See the South Centre’s Comments on Pillar One – Amount B in [January](#) and [August](#) 2023.

¹⁷ Chetan Rao *et al.*, “Determining the Upper Bound of the Scoping Criteria for Amount B in the OECD/G20 Two-Pillar Solution: A Policy Guide for Developing Jurisdictions”, Tax Cooperation Policy Brief, No. 39 (Geneva, South Centre, 2024). Available from <https://www.southcentre.int/tax-cooperation-policy-brief-no-39-20-november-2024/>.

thout Amount B.”¹⁸

Conclusion

The OECD Two Pillar solution is a tool of the developed countries designed to: a) prevent MNEs in frontier technologies like clean energy, computing, semiconductors, etc. from offshoring production to developing countries, and b) minimize Global North MNEs’ taxable profits in developing countries. The Two Pillar Solution now faces several political challenges due to increased US opposition, European skepticism, minimal adoption by developing countries and, most of all, the option offered by the proposed UN FCITC. In response, the OECD has greatly intensified pressures on developing countries to adopt the Two Pillar solution and other OECD standards. The recent Side by Side Agreement will also likely be used to claim victory on the adoption of the Global Minimum Tax and to accelerate implementation of the remaining components.

Developing countries should therefore remain vigilant against such pressures and continue to make informed, evidence-based decisions on adopting the OECD standards, while considering the benefits of other simpler and more beneficial alternatives. This scenario makes it evident the importance of the timely finalization and early coming into effect of the UN FCITC which can end the arbitrariness and the inequities of the OECD-led initiative, and provide developing countries higher revenues and stability in the context of a fairer and more inclusive international tax system.

¹⁸ See at 41:10: <https://webtv.un.org/en/asset/k1x/k1x1l1yro8>.

PREVIOUS SOUTH CENTRE TAX COOPERATION POLICY BRIEFS

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Determining the Upper Bound of the Scoping Criteria for Amount B in the OECD/G20 Two-Pillar Solution: A Policy Guide for Developing Jurisdictions by Chetan Rao, Ruchika Sharma, and Dr. Vijit Patel

No. 40, 19 December 2024

Towards a UN Protocol for Taxing Cross-Border Services in a Digitalized Economy by Abdul Muheet Chowdhary, Anne Wanyathi Maina and Kolawole Omole

The South Centre is the intergovernmental organization of developing countries that helps developing countries to combine their efforts and expertise to promote their common interests in the international arena. The South Centre was established by an Intergovernmental Agreement which came into force on 31 July 1995. Its headquarters is in Geneva, Switzerland.

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