

# Research on the International Coordination Mechanism of Transfer Pricing Strategy of Multinational Enterprises under the Reconstruction of Global Value Chain

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**Abstract:** In the context of global value chain reconstruction, multinational enterprises' business environment and strategic layout have undergone profound changes. As a key strategy for multinational enterprises to optimize their global interests, the complexity and obscurity of transfer pricing strategies are increasing, which poses significant challenges to international tax coordination. This paper analyzes the international coordination mechanisms of transfer pricing strategies for multinational enterprises within global value chain reconstruction. First, it analyzes the characteristics of global value chain reconstruction and its impact on the transfer pricing strategy of multinational enterprises. It reveals the new trend and means of profit transfer by multinational enterprises using transfer pricing. Second, it analyzes the effectiveness and shortcomings of the existing international coordination mechanism in dealing with the transfer pricing problems. Based on the current international economic landscape and the development trends of multinational enterprises, this paper proposes several specific recommendations to enhance the international coordination mechanism. These include strengthening the formulation and improvement of international tax rules, fostering cooperation and information sharing among the tax authorities of various countries, and promoting multilateral tax collection and mutual assistance. This study aims to establish a fair, effective international coordination mechanism that reduces the tax advantages eroded by multinational enterprises' transfer pricing and fosters the healthy and stable development of the global economy.

**Keywords:** Global value chain reconstruction; Multinational enterprises; Transfer pricing strategy; International coordination mechanism.

## 1. The Impact of Global Value Chain Reconstruction on the Transfer Pricing of Multinational Enterprises

### 1.1. The Characteristics and Trends of Global Value Chain Reconstruction

The reconstruction of the global value chain is an important phenomenon in the evolution of the world economic structure, showing many remarkable characteristics and trends [1].

Production layout demonstrates regionalization and localization trends. Previously, multinational enterprises distributed production links globally to reduce costs. However, with the growth of trade protectionism, rising transportation costs, and the consideration of supply chain security, multinational enterprises began to return some production links to their own countries or areas close to the consumer market, forming a regional production network. For example, some developed countries encourage manufacturing return by promoting local production. As shown in Figure 1:

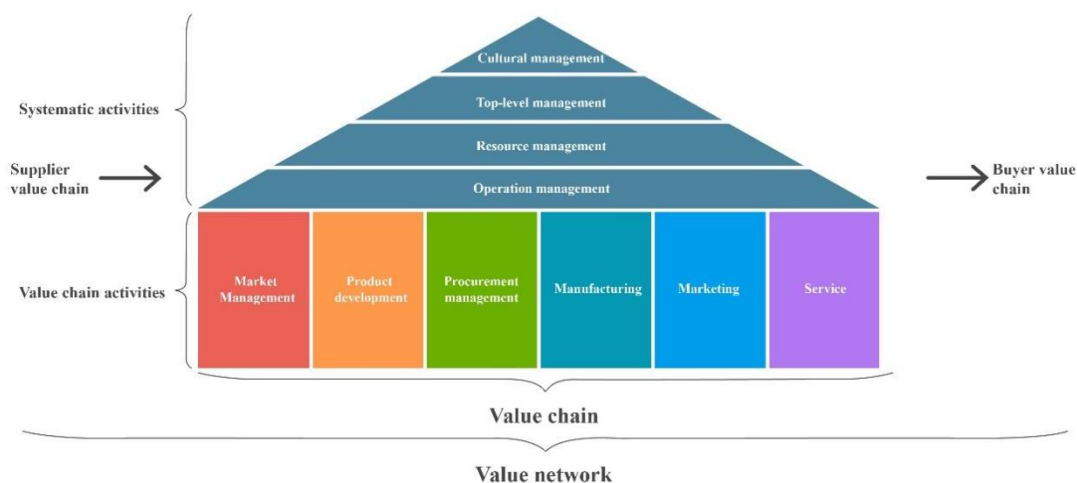


Figure 1. Global value chain reconstruction

Technological innovation has become the key driving force of value chain reconstruction [2]. The wide application of emerging technologies such as digital technology, artificial

intelligence, and big data has changed the traditional mode of production and trade. On the one hand, technological innovation improves production efficiency and reduces

production costs. On the other hand, it has also spawned new industries and business models, such as cross-border e-commerce and the sharing economy. These emerging industries and business models are playing an increasingly important role in the global value chain, which has promoted the upgrading and reconstruction of the value chain. The governance model of the global value chain is also changing. The traditional hierarchical governance model dominated by multinational companies has gradually changed to a more diversified, networked governance model. In the new governance model, the involvement of small and medium-sized enterprises, suppliers, customers, and other stakeholders has been continuously enhanced, creating a more intricate value creation and distribution system.

## **1.2. The Changes of Transfer Pricing Strategy of Multinational Enterprises under the Reconstruction of Global Value Chain**

The reconstruction of the global value chain has a far-reaching impact on the transfer pricing of multinational enterprises. Due to the regionalization and localization of production layout, the transfer pricing of multinational enterprises pays more attention to regional profit distribution. As some production links flow back to this country or areas close to the consumer market, multinational enterprises need to distribute profits reasonably in the region to meet the tax requirements of different countries and regions. For example, multinational companies may adjust their internal transaction prices to keep profits in areas with lower taxes, thus reducing the overall tax burden.

Moreover, technological innovation has brought new challenges and opportunities to the transfer pricing of multinational enterprises [3]. On the one hand, the application of emerging technologies continuously increases the value of intangible assets of multinational enterprises, such as patents, trademarks, and software. The pricing of these intangible assets is often subjective and uncertain, which provides more operating space for multinational enterprises to carry out transfer pricing. On the other hand, the growth of the digital economy complicates multinational enterprises' business models and obscures transactions, making it harder for tax authorities to oversee transfer pricing. With the diversification and networking of the global value chain governance model, the transfer pricing strategy of multinational enterprises pays more attention to cooperation and coordination with stakeholders. Multinational enterprises need to establish closer cooperation with suppliers and customers within the new governance model to create value. Therefore, multinational companies need to consider stakeholders' interests when formulating transfer pricing strategies to achieve a win-win situation [4].

## **2. Necessity and Challenges of Transfer Pricing and International Coordination for Multinational Enterprises**

### **2.1. The Necessity of International Coordination**

From the perspective of tax fairness, multinational companies transfer their profits to low-tax countries or regions through transfer pricing, which leads to the loss of tax revenue in high-tax countries and undermines the principle of

tax fairness. Enterprises in different countries face different tax burdens, which is not conducive to forming a fair, competitive market environment. International coordination can ensure that multinational enterprises distribute profits reasonably globally and avoid unfair taxation.

International coordination helps to safeguard countries' tax sovereignty. As economic globalization progresses, multinational enterprises engage in business activities that transcend national boundaries. Consequently, tax authorities in various countries encounter numerous challenges in taxing and managing issues of information asymmetry and conflicts of jurisdiction. Countries can strengthen cooperation, share information, jointly crack down on multinational enterprises' profit transfer, and safeguard their tax sovereignty through international coordination [5].

### **2.2. Challenges to International Coordination**

First, the differences in tax systems among countries are a major obstacle to international coordination. Different countries have varying tax policies, rates, and tax collection and management methods, making it challenging to achieve consensus on unified transfer pricing rules. For example, some countries adopt the principle of territoriality, while others adopt the principle of personality, which increases the difficulty of international coordination [6].

Second, the complexity and diversity of multinational enterprises have brought challenges to international coordination. Multinational enterprises include a complex organizational structure and many businesses involving many countries and regions. They can use the differences in tax policies in different countries to transfer profits through complex trading arrangements. In international coordination, it is necessary to deal with all kinds of complex situations of multinational enterprises and formulate targeted and operable rules.

In addition, the uncertainty of the international political and economic situation also affects the international coordination process. Trade protectionism and geopolitical conflicts may lead to a decline in countries' willingness to cooperate and increase the difficulty of international coordination. In addition, some countries may hesitate to engage in international coordination due to their own interests, which has obstructed establishing and enhancing the international coordination mechanism.

## **3. Analysis of the Existing International Coordination Mechanism of Transfer Pricing**

### **3.1. The Coordination Rules and Practices of Major International Organizations**

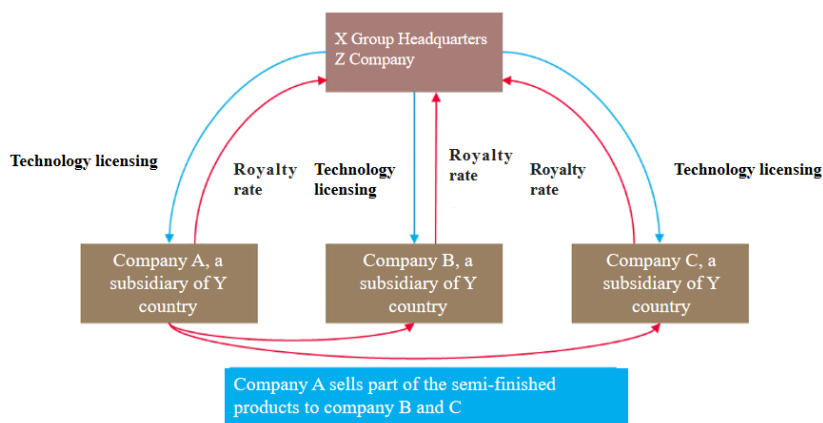
OECD plays a core role in the international coordination of transfer pricing of multinational enterprises. The OECD Transfer Pricing Guidelines for Multinational Enterprise and Tax Administrations is the world's most widely used transfer pricing guidance document. Based on the principle of independent transaction, this guide provides tax authorities and multinational enterprises with methods and standards for determining reasonable transfer prices, including traditional transaction methods such as comparable uncontrolled price method, resale price method, cost additive process method, and profit methods such as profit division method and transaction net profit method. In practice, the OECD actively

encourages countries to adopt its guidelines. Many countries refer to or even directly adopt the contents of OECD guidelines when formulating their transfer pricing regulations. In addition, the OECD monitors the implementation of the guidelines by countries through peer review to promote the consistency of transfer pricing management among countries [7].

The United Nations Conference on Trade and Development (UNCTAD) pays attention to the interests of developing countries in the transfer pricing of multinational enterprises. The UN has issued the Practical Manual on Transfer Pricing for Developing Countries, which takes into account the special situation and needs of developing countries, such as difficulties in obtaining data and limited collection and management capabilities, on the basis of the OECD guidelines. It provides more targeted transfer pricing management suggestions for developing countries and helps them to better cope with the profit transfer behavior of multinational enterprises.

### 3.2. Transfer Pricing Clauses in Bilateral and Multilateral Tax Treaties

Bilateral tax treaties are an important way to coordinate tax jurisdiction and avoid double taxation among countries. Among them, the transfer pricing clause usually stipulates the principles and procedures that both contracting parties should follow when dealing with the transfer pricing problem of multinational enterprises. Generally speaking, bilateral tax treaties will clarify the principle of independent transaction as the basis for determining the transfer price, and stipulate the mutual agreement procedure (MAP). When one contracting state thinks that the other enterprise's transfer pricing does not conform to the principle of independent transaction, the tax authorities of both parties can negotiate through MAP to resolve the dispute. The bilateral tax treaties signed by China with many countries contain transfer pricing clauses and MAP provisions. Through MAP, the tax authorities of China and other contracting countries can communicate and negotiate on the transfer pricing of multinational enterprises to avoid double taxation and tax disputes. The relationship diagram of bilateral tax treaties is shown in Figure 2.



**Figure 2.** The relationship diagram of bilateral tax treaties

In recent years, the role of multilateral tax treaties in the transfer pricing coordination of multinational enterprises has been gradually enhanced. For example, the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) was issued. The Multilateral Instrument (MLI) aims to collaboratively modify existing bilateral tax treaties to address various issues, including enhancing transfer pricing rules. It offers a unified platform for all countries, fostering coordination and cooperation on tax matters, particularly about transfer pricing.

### 3.3. Domestic Transfer Pricing Regulations and Regulatory Practices in Various Countries

For instance, the United States has a well-established legal system for transfer pricing. Section 482 of the United States Internal Revenue Code stipulates that the transfer pricing of multinational enterprises should follow the principle of independent transaction and specifies in detail the applicable conditions and calculation methods of various transfer pricing methods. U.S. tax authorities have the ability and resources to monitor the transfer pricing practices of multinational corporations through strict audit and investigation procedures. At the same time, the United States actively participates in international cooperation and shares information and experiences with other countries.

Many developing countries are constantly improving their transfer pricing laws and regulations. In recent years, India has strengthened the transfer pricing regulation for multinational enterprises, revised the relevant laws and regulations, and improved the adjustment processes for transfer pricing. However, developing countries face challenges in their regulatory practice, such as difficulty obtaining data and a shortage of professionals. Many developing countries have increased their collaboration with international organizations and other nations to tackle these challenges and enhance their regulatory capacity.

### 3.4. Evaluation of the Effectiveness of Existing International Coordination Mechanisms

The existing international coordination mechanism has promoted the standardization and fairness of transfer pricing of multinational enterprises to a certain extent. The transfer pricing provisions in the OECD Transfer Pricing Guidelines and bilateral or multilateral tax treaties establish unified principles and methods for countries. It helps minimize discrepancies in transfer pricing management between countries and decreases the uncertainty multinational enterprises face. In addition, international organizations' supervision and peer review mechanisms have prompted countries to strengthen the supervision of transfer pricing and improve the efficiency of tax collection and management.

Due to the mutual consultation procedure, many transfer pricing disputes of multinational enterprises have been solved, avoiding double taxation and promoting the development of international trade and investment. In addition, the international coordination mechanism has improved the information sharing and cooperation between tax authorities of various countries and strengthened the crackdown on the profit transfer of multinational enterprises.

Although the existing international coordination mechanism has achieved certain results, some problems remain. First, there are still great differences in tax systems and regulatory practices among countries, which leads to differences in the understanding and application of the principle of independent trading in practice. Second, the international coordination mechanism is insufficient in dealing with the challenges in transfer pricing brought by emerging economic models and the digital economy. Accurately measuring the value of digital products and services is challenging, and traditional transfer pricing methods' applicability in the digital economy is questioned. Moreover, the implementation and binding force of the international coordination mechanism is limited. Some countries may be reluctant to fully implement international rules for their interests, which can undermine the effectiveness of the international coordination mechanism. In addition, developing countries have a relatively weak voice in international coordination mechanisms, and their specific needs and interests are not fully represented.

## **4. Implementation Guarantee and Policy Suggestions of International Coordination Mechanism**

### **4.1. Implementation of Security Measures**

#### **4.1.1. Legal Protection: Improve Relevant International Treaties and Domestic Laws and Regulations**

A sound legal system is the basis for effectively implementing the international coordination mechanism. There is a need to improve the relevant international contracts at the international level. While existing international treaties regulate transfer pricing for multinational enterprises to some extent, the rapid growth of the global economy and the ongoing innovation in business models have rendered some of these clauses less applicable to current circumstances. For example, in the field of digital economy, the way for multinational enterprises to realize profit transfer through online transactions is more subtle and complicated. The provisions of existing international treaties in this regard are relatively backward. Therefore, it is essential for the international community to collaborate in developing more comprehensive, detailed, and forward-looking treaties regarding transfer pricing for multinational enterprises. It would help to clarify the rules and standards and unify the legal applications of transfer pricing across different countries.

At the domestic level, countries should revise and improve domestic laws and regulations promptly according to international treaties and economic development. On the one hand, it is essential to ensure that domestic laws and regulations align with international treaties to prevent legal conflicts. On the other hand, improving the effectiveness and relevance of laws and regulations is essential. For instance, we should clarify the authority and procedures of tax authorities in investigating the transfer pricing practices of multinational enterprises. Additionally, we need to

standardize the burden of proof required from enterprises and enhance the efficiency and accuracy of tax authorities' law enforcement actions.

#### **4.1.2. Technical Support: Strengthen the Information Construction of Tax Collection and Management and Data Analysis**

With the rapid development of information technology, information construction and data analysis of tax collection and management are very important for implementing international coordination mechanisms. Strengthening the informatization construction of tax collection and management is conducive to the efficient collection, storage, and sharing of tax information. Tax authorities in various countries can create a unified tax collection and management information system, integrate it with enterprise financial and banking systems, and access transaction data and financial information from multinational enterprises in real time. As a result, it is convenient to discover the abnormal trading behavior of enterprises in time and improve the supervision ability of transfer pricing. Moreover, enhancing our data analysis capabilities is essential. We utilize advanced technologies, such as big data and artificial intelligence, to thoroughly mine and analyze vast amounts of tax-related data. By establishing a risk assessment model, we can accurately identify and anticipate transfer pricing risks associated with multinational enterprises. For example, by analyzing an enterprise's profit level, cost structure, and related party transaction ratio, we can judge whether the enterprise is suspected of transferring profits through transfer pricing. Additionally, data analysis can support the decision-making of tax authorities and formulate more scientific and reasonable tax policies.

#### **4.1.3. Talent Security: Cultivate High-quality International Tax Professionals**

Skilled international tax professionals are essential for successfully implementing the international coordination mechanism. International taxation involves complex legal, economic, and technical issues, which require professionals to be equipped with solid professional knowledge and rich practical experience. Countries should enhance the training of international tax professionals by establishing relevant majors and courses in universities and vocational education while also fostering students' awareness and professional skills. It is recommended to offer ongoing training and learning opportunities for tax personnel to stay updated on the latest developments and trends in the international tax field. In addition, it is suggested that international seminars and training courses should be held to strengthen international exchange and cooperation of talents and share the experiences and practices of various countries in international tax management. Finally, we can attract professionals with international tax experience to join the tax authorities and improve the team's overall quality.

## **4.2. Policy Suggestions**

### **4.2.1. Improve the International Rules and Guidelines of Transfer Pricing**

Although the existing international rules and norms of transfer pricing provide a basic framework and guidance, there are still some shortcomings. Relevant personnel should further improve these rules and guidelines to make them more suitable for the new situation of global economic development. For example, according to the characteristics of the digital economy, we should formulate special transfer

pricing rules and clarify the value evaluation methods and profit distribution principles of digital products and services. It is essential to enhance research on emerging business models and transaction forms, update and supplement relevant regulations on time, and eliminate loopholes. It is necessary to improve the transparency and operability of international transfer pricing rules and standards. Strengthen the publicity and interpretation of rules and standards so that tax authorities of various countries and multinational enterprises can accurately understand and implement them. In addition, it is essential to implement a dynamic mechanism for adjusting rules and standards, revising and improving them in a timely manner according to the actual situation.

#### **4.2.2. Strengthen the Coordination and Guidance of Tax Policies**

The variation in tax policies across countries is a key factor contributing to the transfer pricing issue multinational enterprises face. Therefore, it is necessary to strengthen the coordination and guidance of tax policies in various countries. First, international organizations should play an active role in promoting communication and consultation among countries in formulating tax policies and reducing differences in tax policies. For instance, align the corporate income tax rates and preferential tax policies of different countries to prevent the profit shifting of multinational enterprises through transfer pricing caused by varying tax regulations. Second, we should strengthen the evaluation and supervision of tax policies of various countries. Establishing a tax policy evaluation mechanism to evaluate the rationality and effectiveness of tax policies in various countries is recommended. For the existing tax policies, timely improvement suggestions and guidance are needed. In conclusion, by strengthening the coordination and guidance of tax policies of various countries, we will create a fair and just international tax environment.

#### **4.2.3. Promote the In-depth Development of International Tax Cooperation**

International tax cooperation is an important way to solve the transfer pricing problem of multinational enterprises. Further promoting the development of international tax cooperation is conducive to strengthening information sharing and cooperation among tax authorities of various countries. It is necessary to establish a more efficient international tax information exchange mechanism, break down information barriers, and realize real-time information sharing among tax authorities in various countries. For example, by signing bilateral or multilateral information exchange agreements, the scope, methods, and procedures of information exchange are clarified to enhance the efficiency and quality of information exchange. Furthermore, we should strengthen cooperation in tax collection and management. The tax authorities of different countries can conduct joint audits and investigations to address the transfer pricing practices of multinational enterprises. Additionally, it is necessary to strengthen cooperation in settling international tax disputes, improve mutual consultation procedures and arbitration mechanisms, and solve tax disputes of multinational enterprises promptly and fairly. Finally, it will promote the in-depth development of international tax

cooperation, form a joint force of tax supervision on a global scale, and effectively curb the transfer pricing behavior of multinational enterprises.

## **5. Conclusion**

The reconstruction of the global value chain shows clear trends, such as the regionalization and localization of production layout, driven by technological innovation, and the diversification and networking of governance models. These characteristics have led multinational enterprises to adapt their transfer pricing strategies. They are now emphasizing profit distribution within regions, leveraging the opportunities created by emerging technologies, and fostering cooperation and coordination with stakeholders. It shows that multinational enterprises are constantly adjusting their business strategies to maximize profits and minimize risks in adapting to the reconstruction of global value chains.

The international coordination of transfer pricing strategies of multinational enterprises is of great necessity. From the tax fairness perspective, it will avoid the tax loss caused by the transfer pricing of multinational enterprises and maintain a fair, competitive market environment. From the perspective of safeguarding tax sovereignty, it helps countries to strengthen cooperation and jointly deal with information asymmetry and jurisdiction conflicts brought about by multinational enterprises' business activities. International coordination encounters numerous challenges, including the varying tax systems across countries, the complexity and diversity of multinational enterprises, and the unpredictable nature of the international political and economic landscape. These issues complicate efforts to establish and enhance coordination mechanisms on a global scale.

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