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Tax Policy in East Asia and the Pacific

A Regional Overview and Future Directions

Panayiotis Nicolaides

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Conceptual framework

We take a broad view of tax policy in EAP and consider three key interrelated determinants of effectiveness:

1. **WB current and past tax advice** — what has the WB advised on, and how does this align with tax revenue outcomes?
2. **Taxation trends and inequality patterns** — how have tax revenues evolved, and what was the role of taxation for making growth inclusive?
3. **Structural characteristics** — are there features in EAP economies that limit tax potential?

We draw conclusions by putting together three novel datasets, one for each dimension, and by looking for patterns across them.

To the extent that we can identify patterns in these three areas, we can draw conclusions on how to reorient the WB's tax strategy in EAP to be more effective.

Taking stock of tax advice in EAP

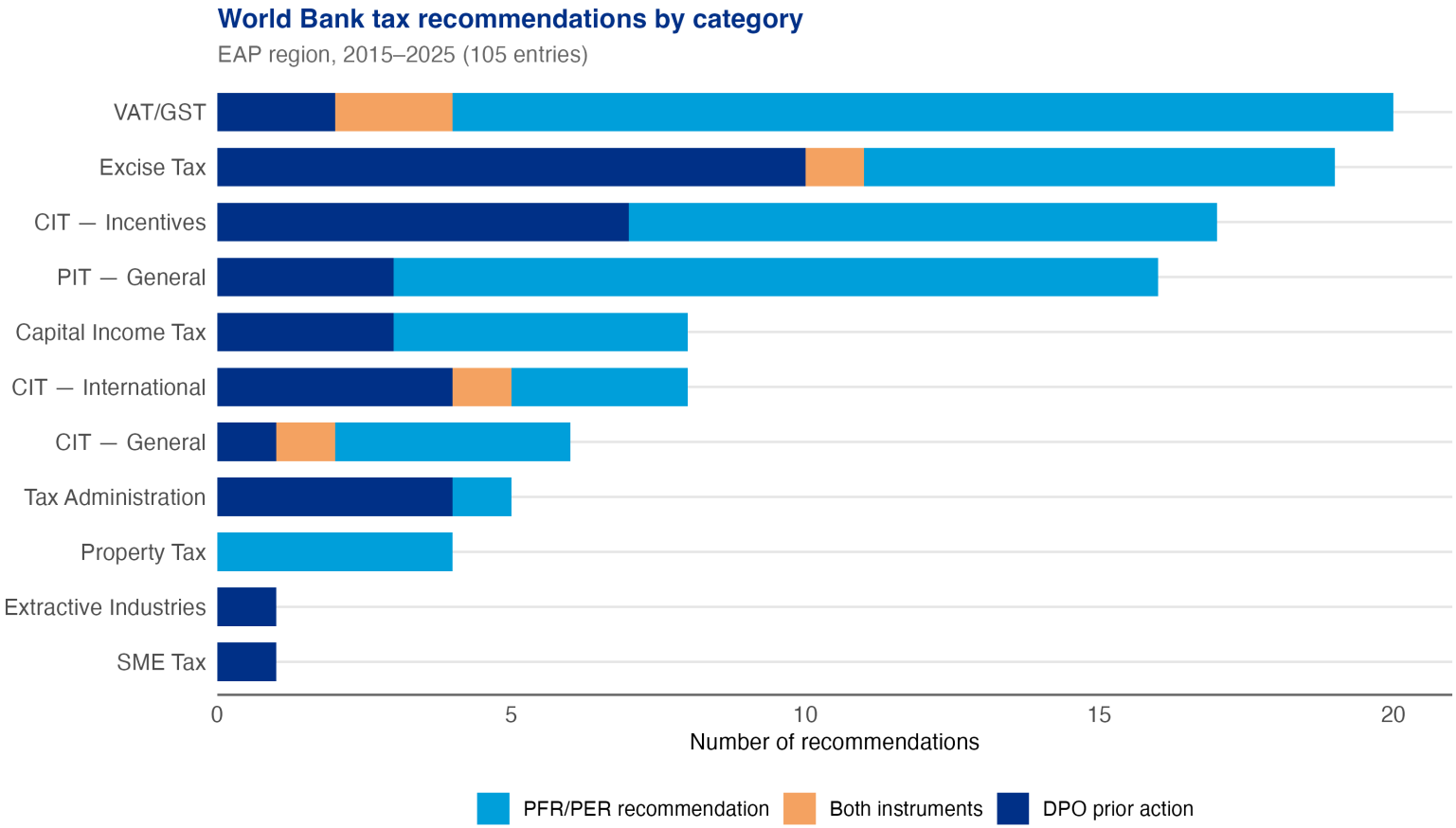
WB PFR/DPO recommendations, 2015–2025

We collect and categorize all (105) DPOs/PFRs recommendations from FY2015 to FY2025.

We classify them by tax instrument and by country, and plot patterns.

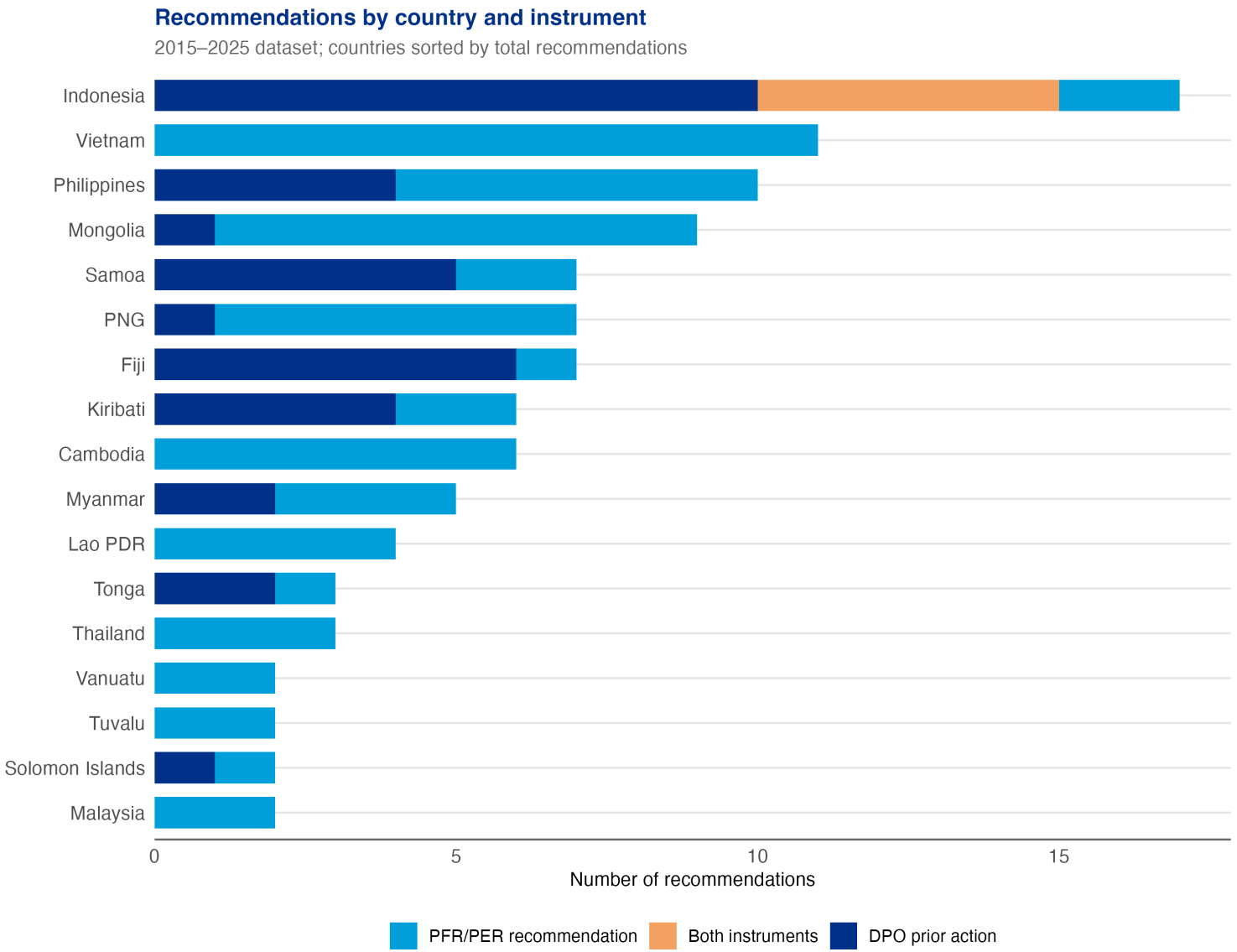
We compare 59 Prior Actions to the broader portfolio of tax advice in other regions.

67% of advice targeted consumption and corporate taxes



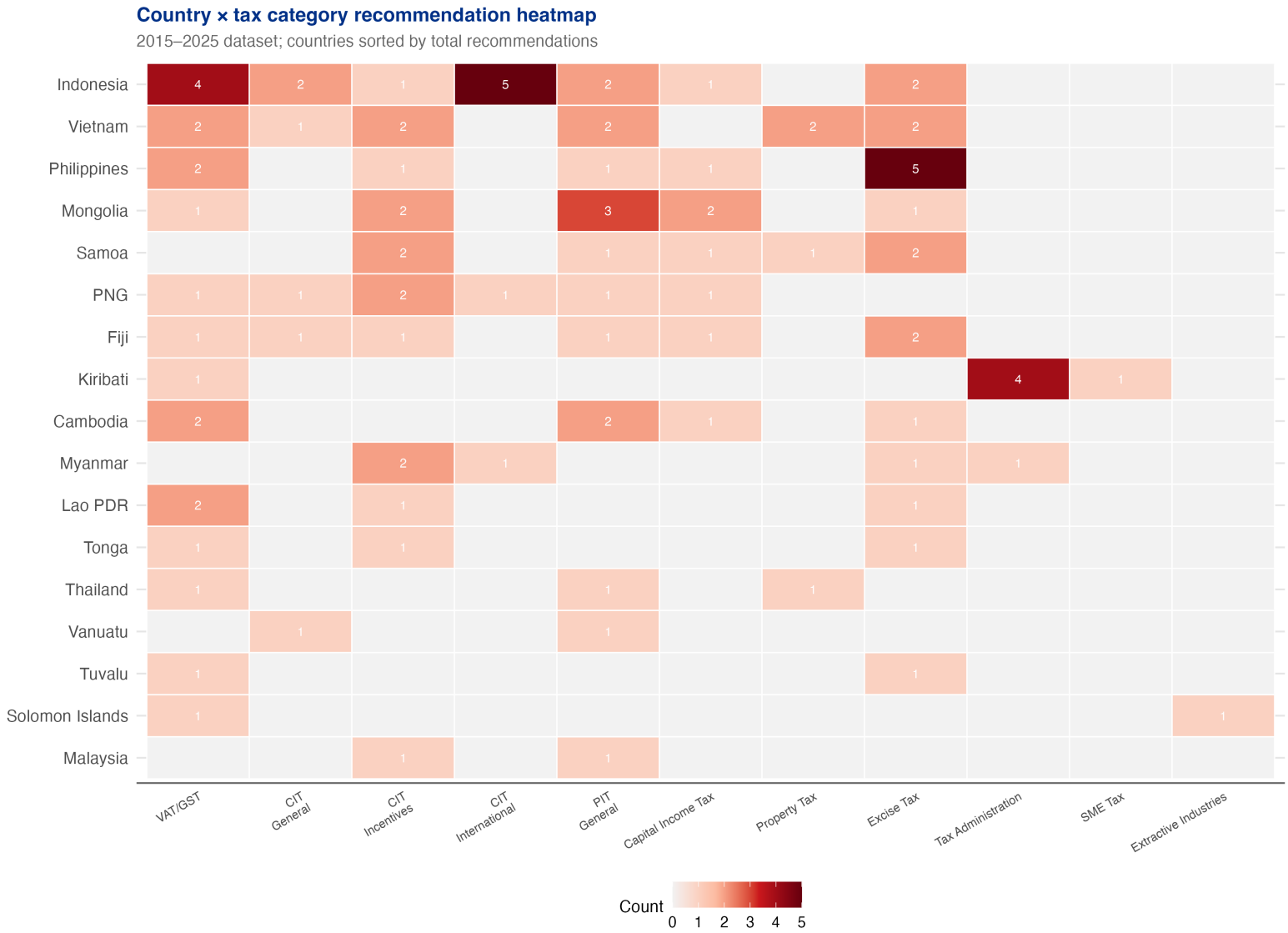
Source: OPCS DPAD + World Bank PFR/PER database. Author's analysis.

Country breakdown by PFR/PER and DPO recommendations



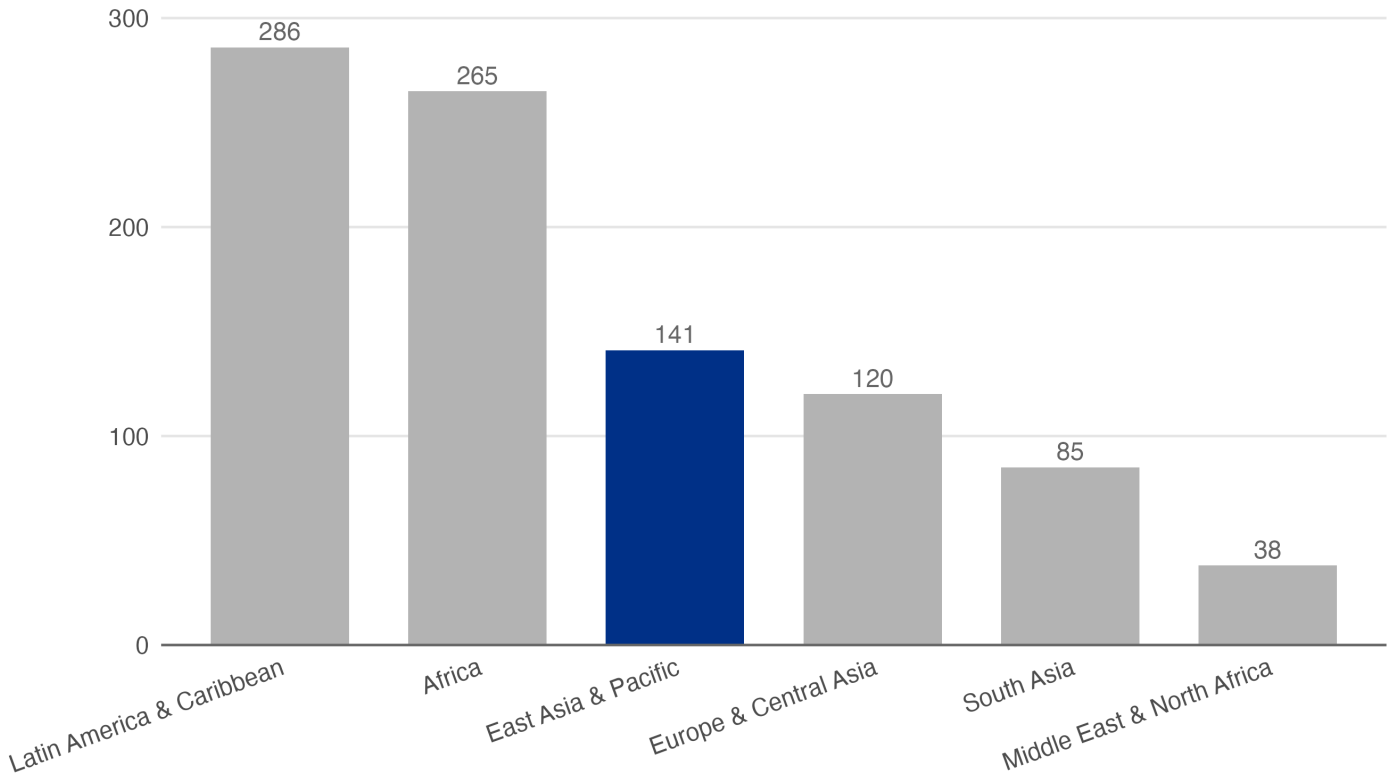
Source: OPCS DPAD + World Bank PFR/PER database. Author's analysis.

Country × tax category recommendation heatmap



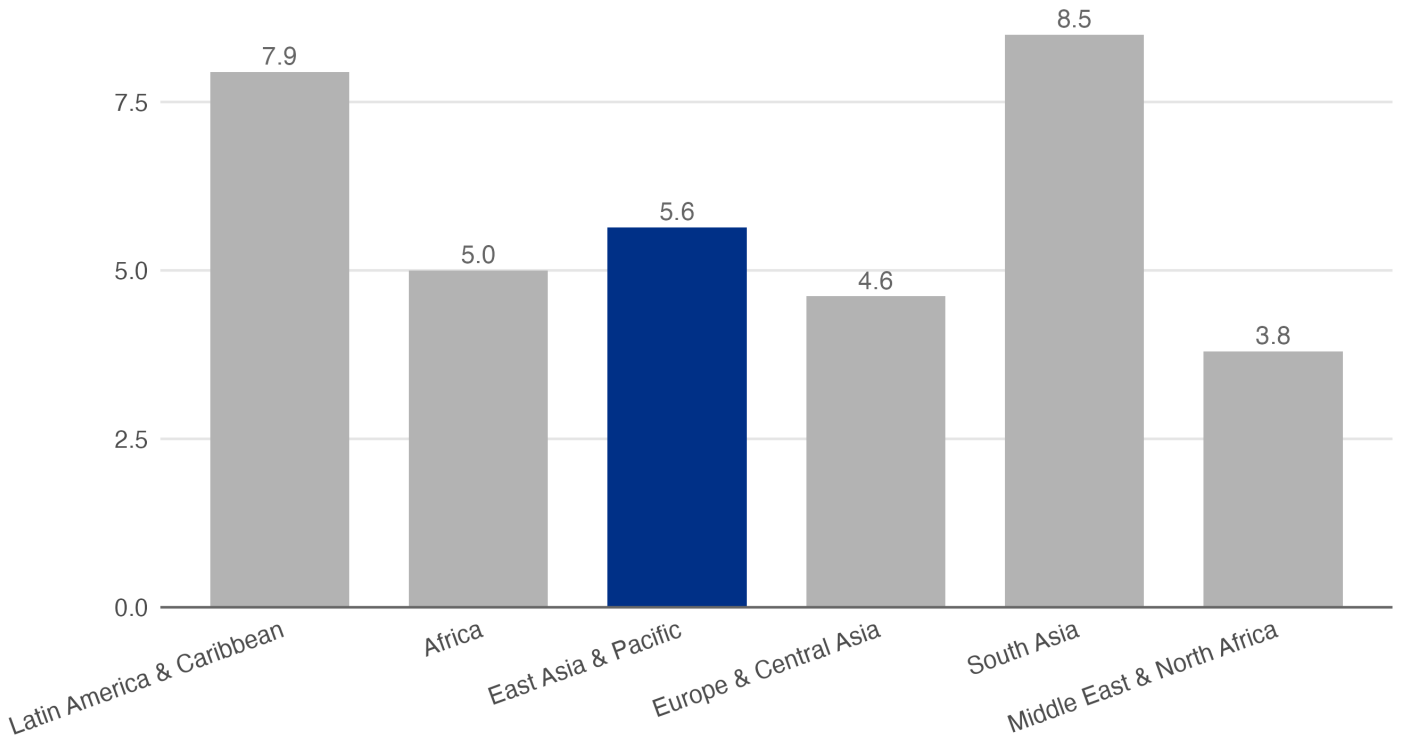
Source: OPCS DPAD + World Bank PFR/PER database. Author's analysis.

DPF advice compared to other regions



Notes: tax-themed DPF prior actions across all WB regions, FY2004–FY2024. Tax themes: 111 Fiscal Sustainability, 114 Tax Policy, 115 Subnational Fiscal Policies, 412 Domestic Revenue Administration. EAP highlighted in WB blue. Source: WB OPCS DPAD database (FY24 vintage).

Tax DPF prior actions per country with active DPF engagement

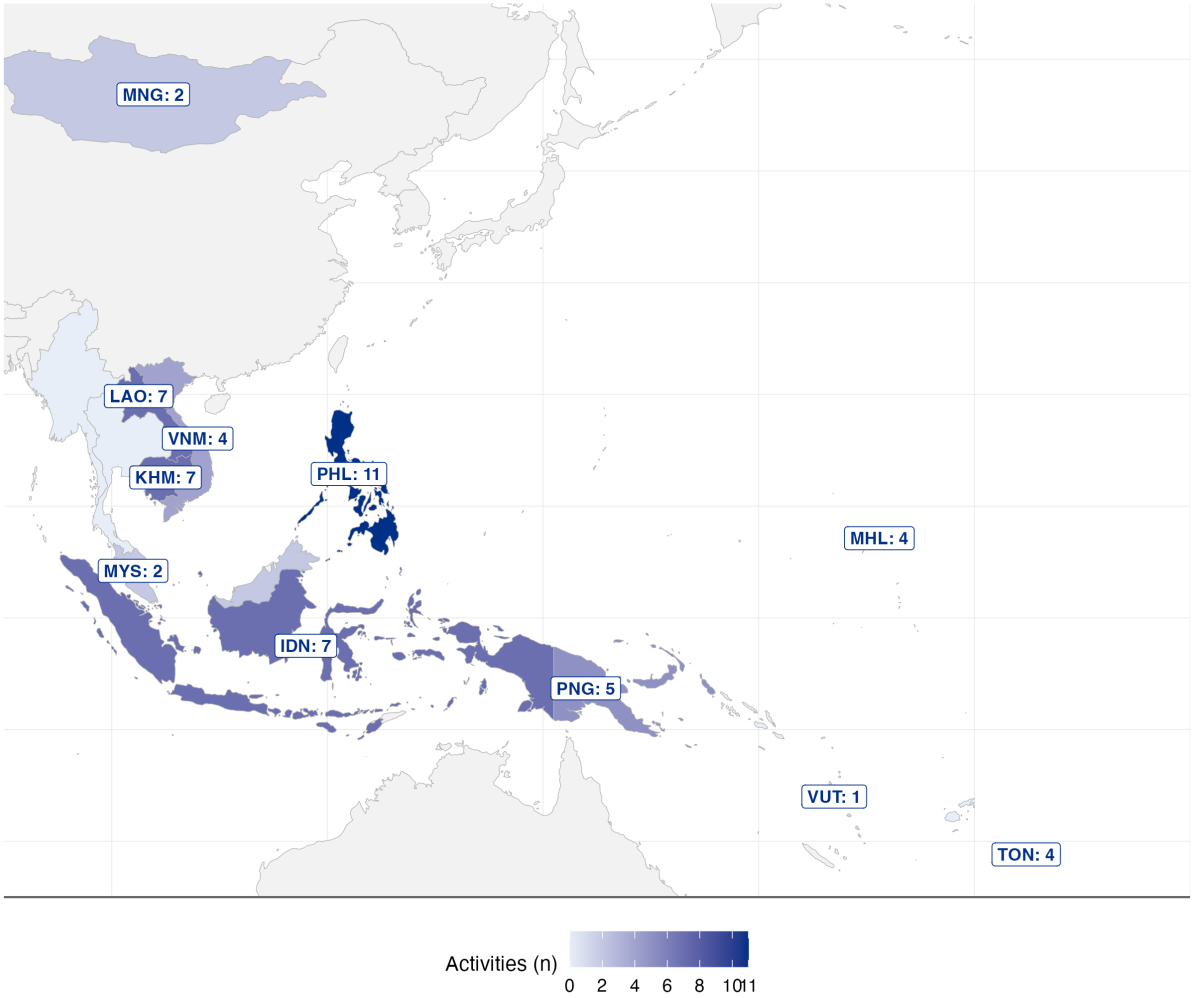


Notes: tax-themed DPF prior actions per country with active DPF engagement, FY2004–FY2024. Tax themes: 111 Fiscal Sustainability, 114 Tax Policy, 115 Subnational Fiscal Policies, 412 Domestic Revenue Administration. EAP highlighted in WB blue. Per-country normalisation uses the count of distinct countries in each region with at least one DPF prior action of any kind in the window. Source: WB OPCS DPAD database (FY24 vintage).

11 EAP countries with active engagements as of FY2025

WB tax engagements in EAP, 2026

Activity count per country across the three pillars (Closing Policy Gap, Closing Compliance Gap, Reducing Cost of Compliance). 11 EAP countries with active en



Source: Internal WB engagement pipeline, 2026.

Country overview

Country	Total	Lending	ASA	Policy	Compliance
Philippines	11	2	9	7	3
Lao PDR	7	1	6	3	3
Cambodia	7	1	6	4	2
Indonesia	7	0	7	4	3
Papua New Guinea	5	1	4	3	1
Viet Nam	4	0	4	1	3
Tonga	4	1	3	2	1
Marshall Islands	4	0	4	1	2
Mongolia	2	0	2	2	0
Malaysia	2	0	2	1	1
Vanuatu	1	0	1	1	0
Total	**54**	**5**	**49**	**29**	**19**

Findings:

- WB tax advise was active across EAP, with 10 countries receiving DPF advice and 17 receiving PFR/PER advice.
- Advice has focused on consumption and corporate taxes, with less attention to direct personal taxation.
- Significant variation in the number of recommendations across countries; some receive many, others none despite similar tax patterns.
- We don’t seem to take a regional view on issues; country advice prevails.

Reflection: To what extent do recommendations reflect WB advice capacity, country comfort and political economy, compared to the structural conditions and tax needs of EAP economies?

Tax revenue trajectories (or, what was the impact of tax advice?)

From advice to outcomes

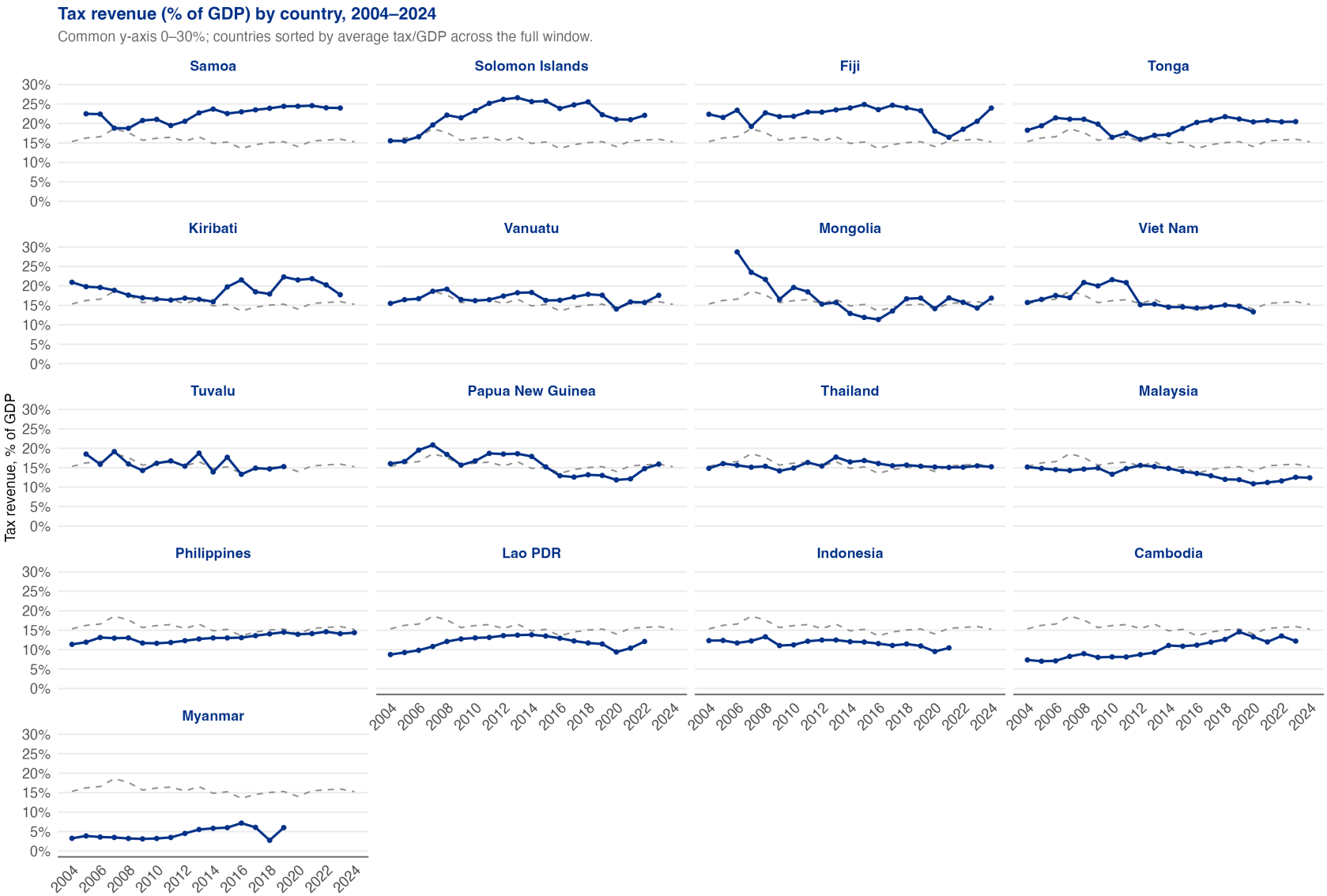
We plot tax-to-GDP ratios over the past 20 years.

We check Prior Action alignment with realised tax revenue at country and instrument level.

Two patterns:

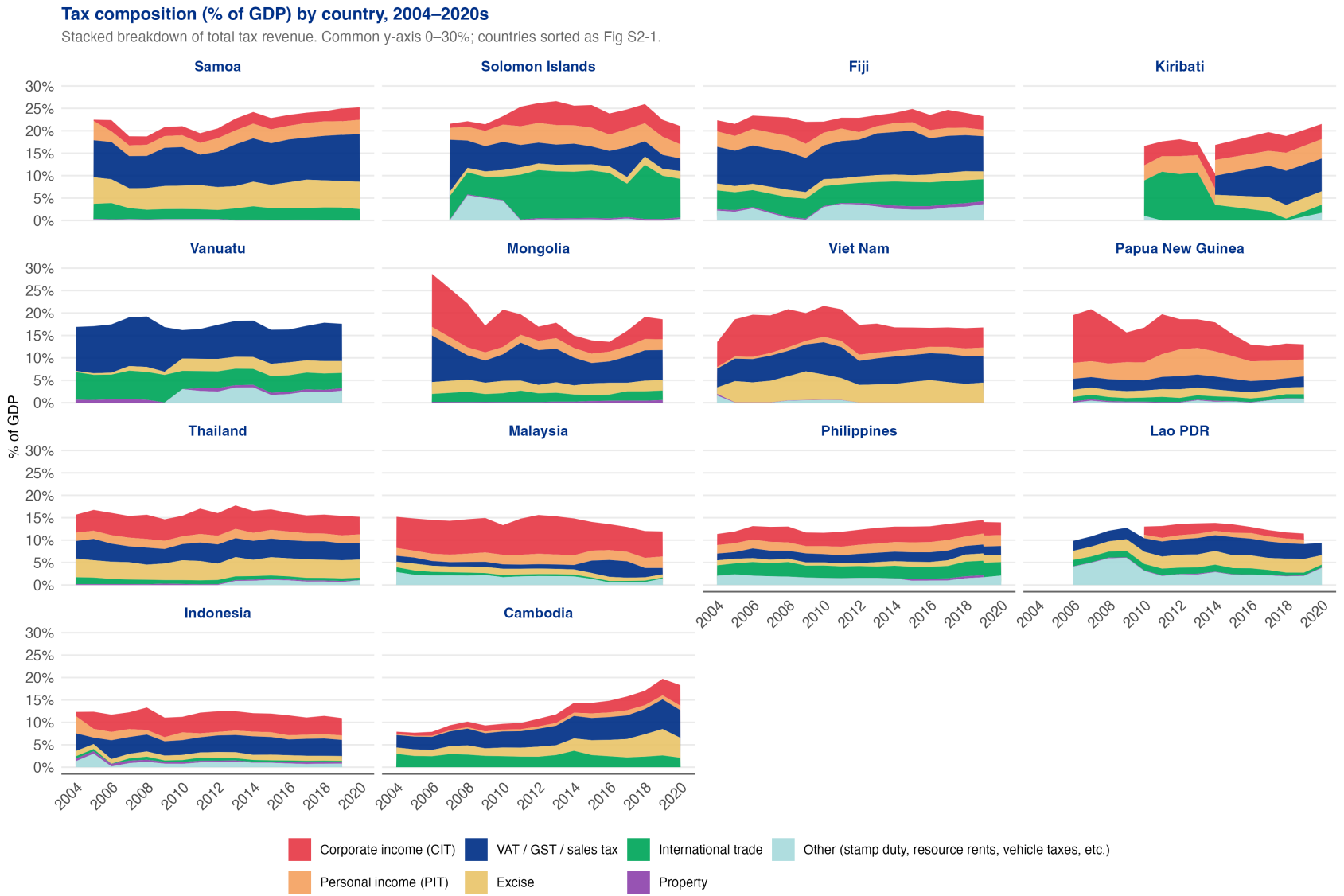
- Tax/GDP has not moved in EAP, despite high growth.
- Some Prior Actions misaligned with realised tax revenue at country level.

Tax-to-GDP ratios have been broadly flat across EAP



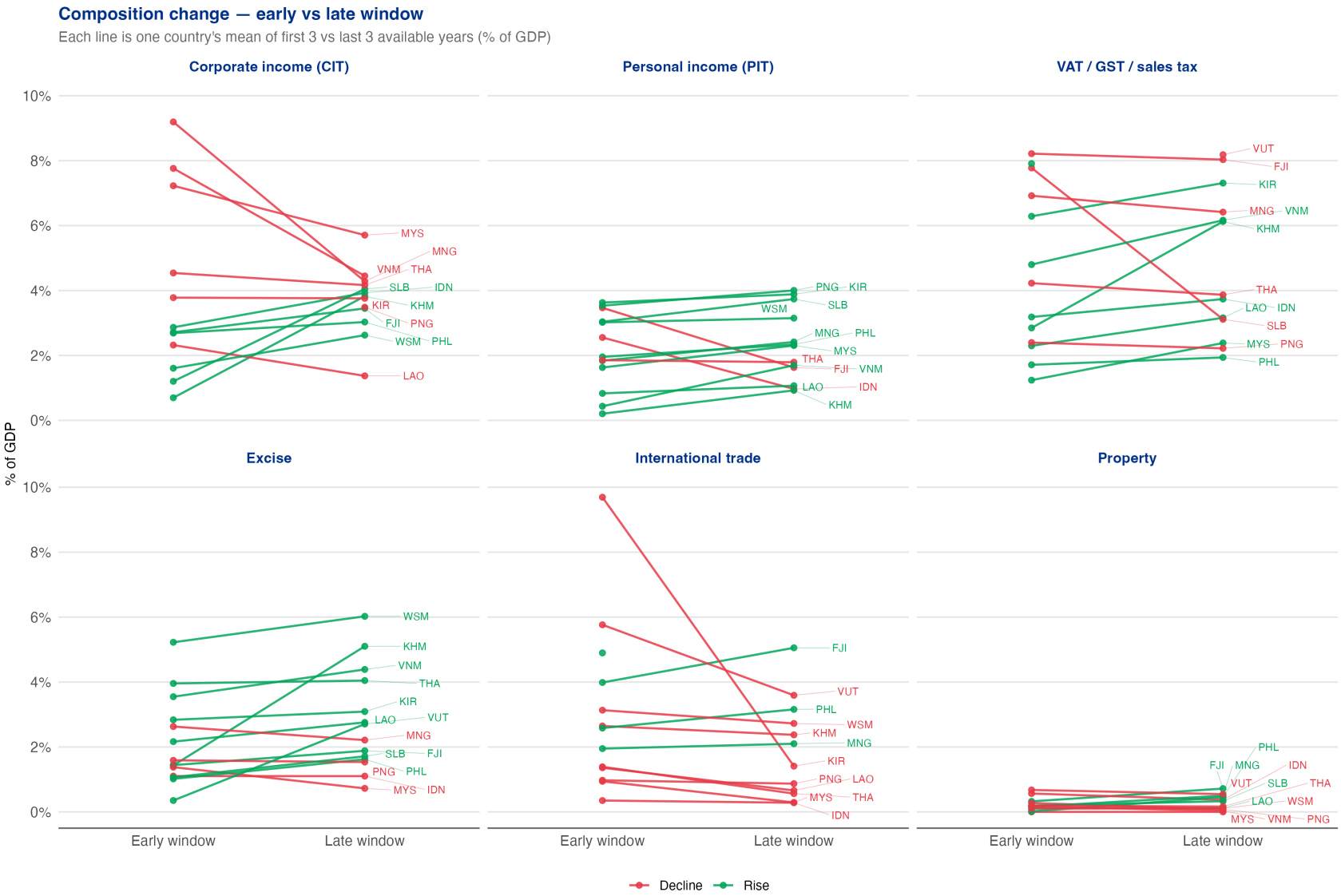
Sources: WDI (WB Data360), IMF WoRLD (via WB Data360 mirror). Dashed grey = regional median across countries with data that year.

Tax composition (% of GDP) by country, 2004–2020s



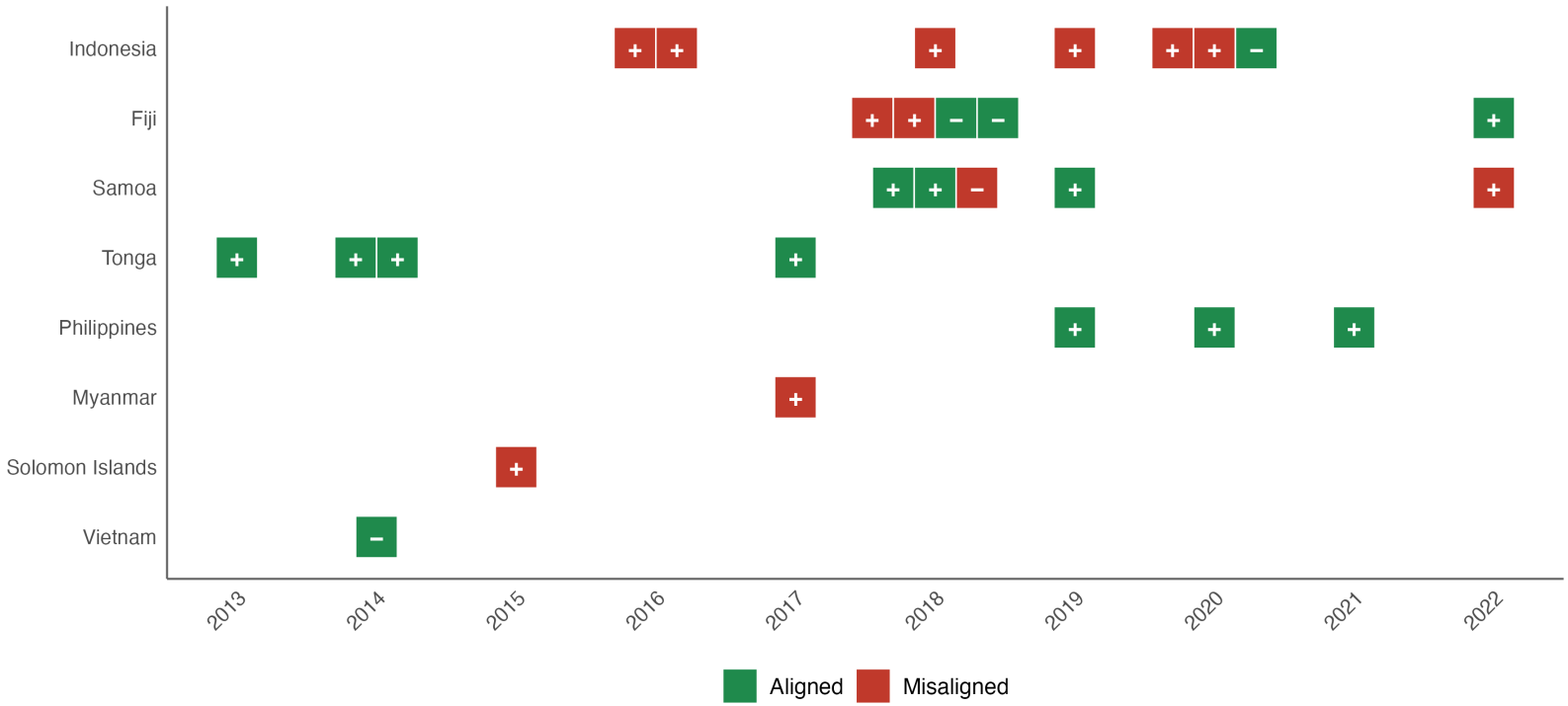
Source: IMF WoRLD via WB Data360. 'Other / unallocated' = tax_total – sum of named components. Countries without composition data (Tonga, Tuvalu, Myanmar) hidden.

Tax revenue change after reform



Source: IMF WoRLD via WB Data360. Country code = ISO-3.

Prior actions are not clearly aligned with realised tax revenue



Taxation and inequality: data and methodology exist, but not yet fully applied in EAP

What the WB has done so far on tax incidence

The framework for linking taxation and inequality is mature.

Mostly a measurement issue: Pre-tax inequality, growth incidence, top-share dynamics, and effective tax rates by income group.

EAP countries are advanced enough to develop it and underlying data exist, yet either guard them closely or lack interest on the topic.

What we did here:

For the 8 EAP economies with sufficient publicly available data — IDN, PHL, VNM, THA, MYS, LAO, MNG, PNG — we built a stylised pre-tax to post-tax decomposition.

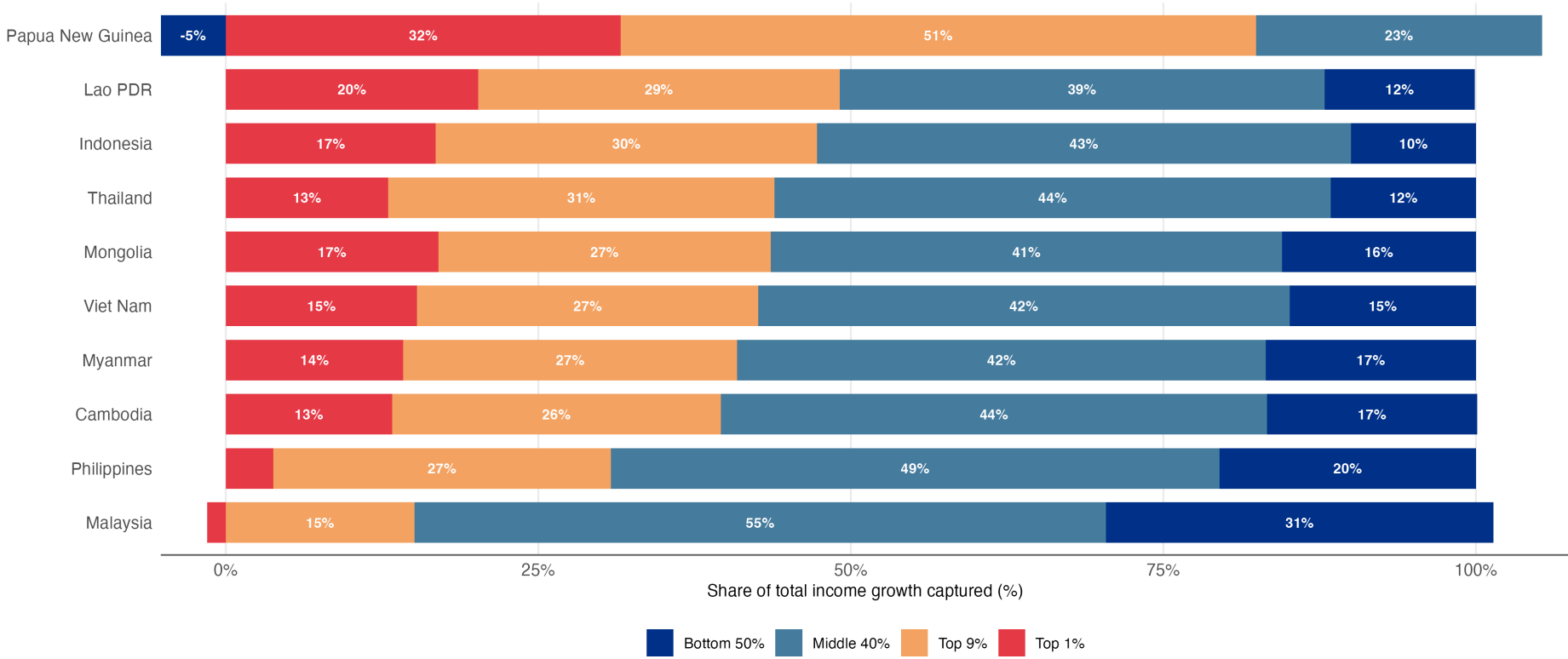
For the remaining 9 economies, even the stylised decomposition is not feasible from public data.

Key challenge: Distributional National Income Accounts (DINA) absent in all 17 EAP countries; major gap for understanding the distributional implications of growth and taxation in the region.

Top 10% has captured 40–60% of cumulative growth, 1995–2023

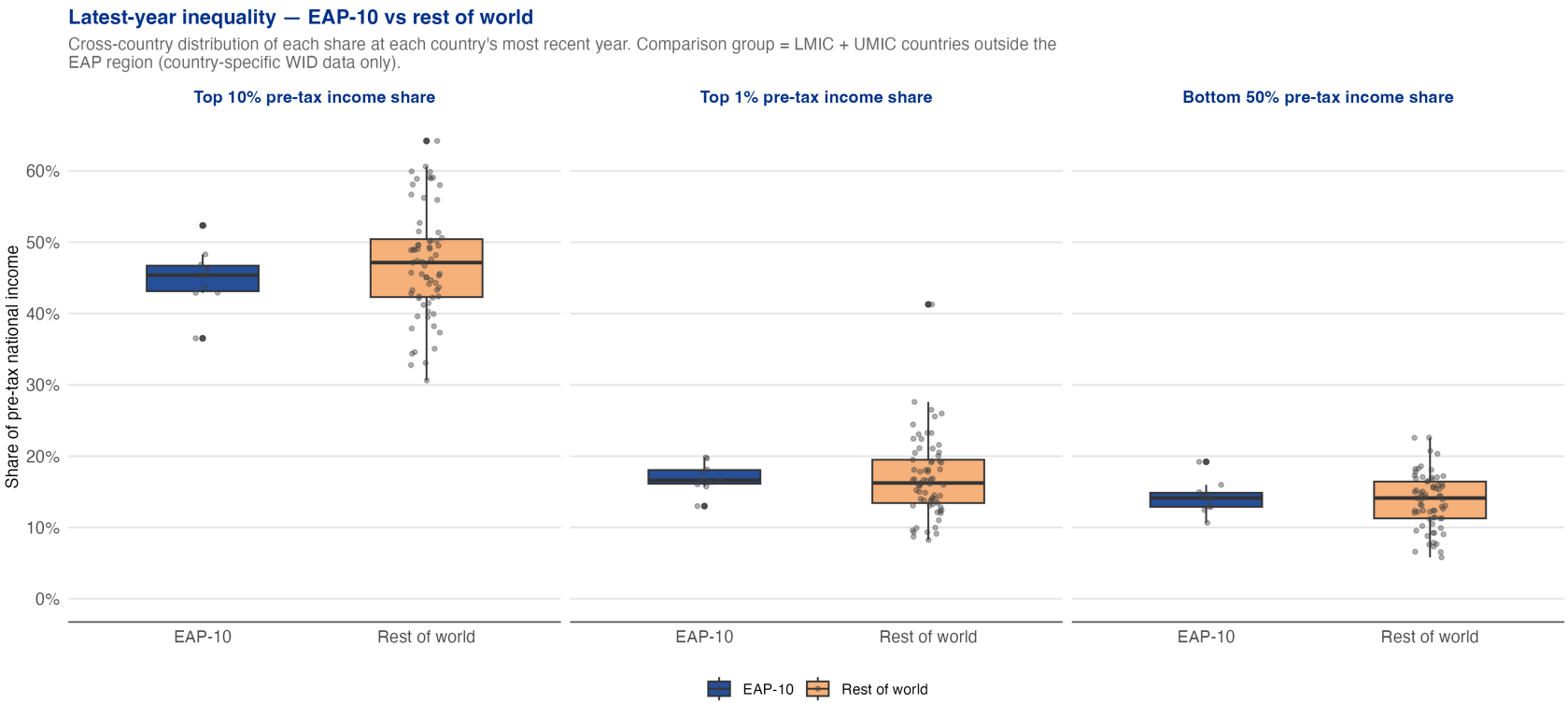
Share of national income growth captured by group, 1995–2023

Of every $1 of pre-tax national income gained per equal-split adult since 1995, the fraction captured by each (non-overlapping) percentile group: Bottom 50%, Middle 40% (P50–P90), Top 9% (P90–P99), Top 1%. Bars sum to 100%. Endpoint means: 1995–1997 vs 2021–2023. Negative shares (visible as bars extending left of 0) mean a group's average income fell.



Source: WID. Caveat: Pacific 7 (Fiji, Kiribati, Solomon Islands, Tonga, Tuvalu, Vanuatu, Samoa) are dropped from country-level inequality analysis because WID publishes only a regional aggregate for them. Effective EAP sample = 10 country-specific. See docs/PACIFIC_INEQUALITY_GAP.md.

Latest-year inequality: EAP-10 vs rest of world

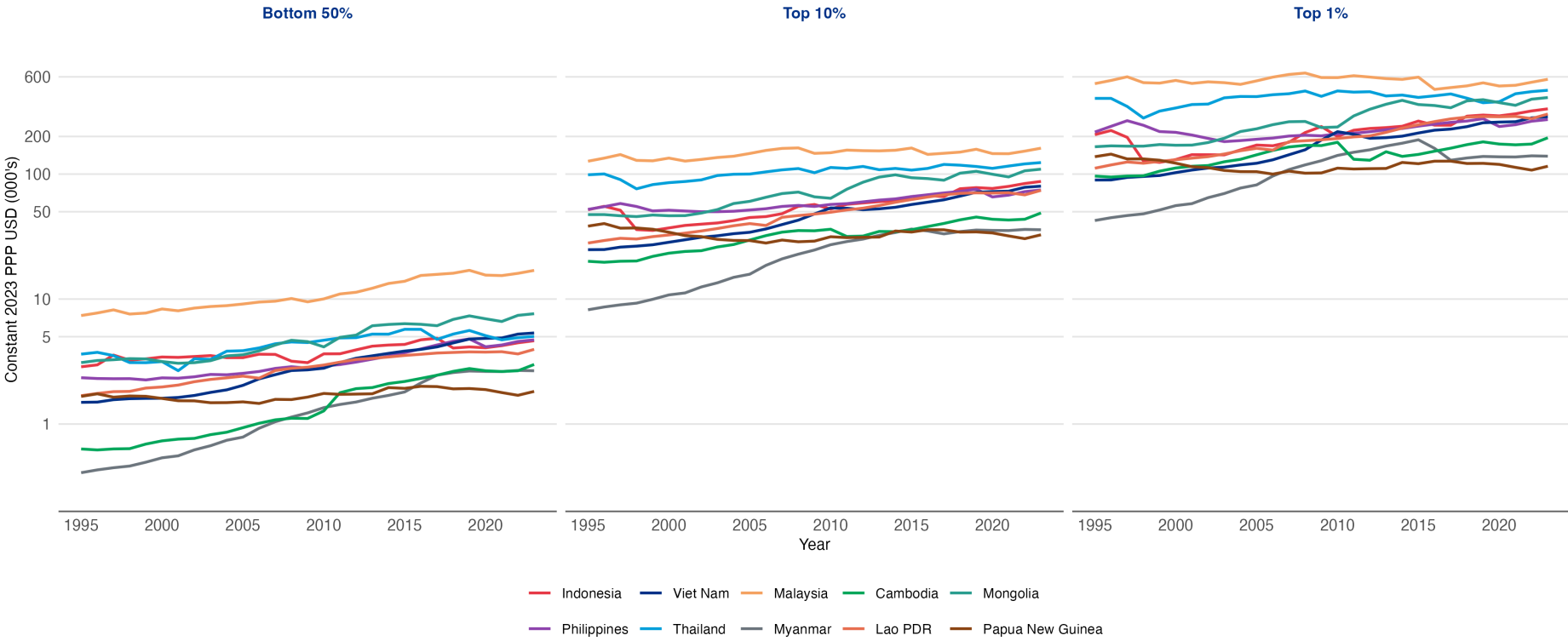


Sources: WID. Comparison group excludes the WID regional-aggregate clusters (LAC residual, Eastern Caribbean). Caveat: Pacific 7 (Fiji, Kiribati, Solomon Islands, Tonga, Tuvalu, Vanuatu, Samoa) are dropped from country-level inequality analysis because WID publishes only a regional aggregate for them. Effective EAP sample = 10 country-specific. See docs/PACIFIC_INEQUALITY_GAP.md.

Bottom incomes have grown, yet income differences have not narrowed

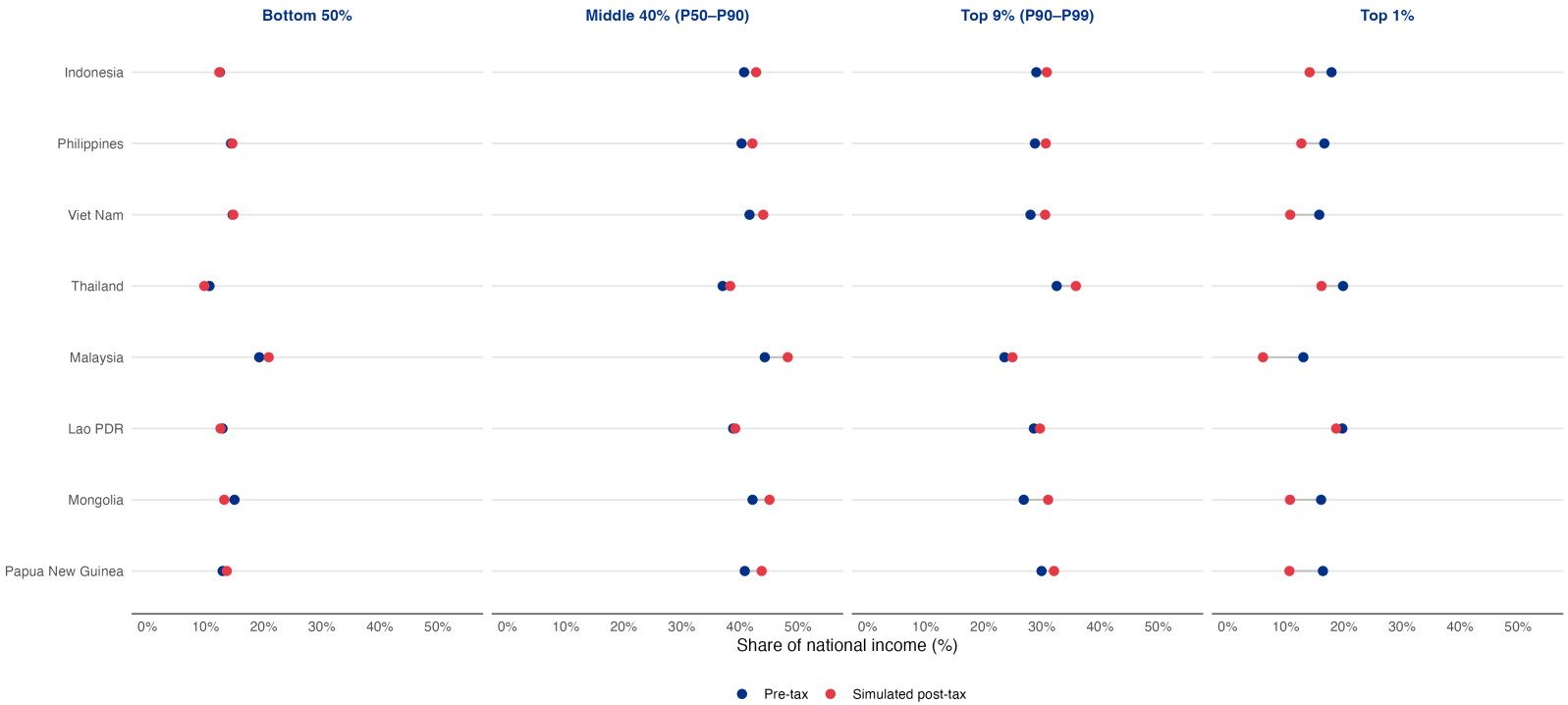
Average pre-tax national income, EAP-10

Average pre-tax income per equal-split adult, by percentile group, in thousands of constant 2023 PPP USD. Common log-scale y-axis. WID interpolation/extrapolation between household-survey vintages applies — flat or step segments often reflect imputation rather than measured changes.



Source: WID (`aptinc` and `xlcusp`). Income in constant LCU at WID reference-year prices, converted to PPP USD using xlcusp at the same reference year (2023). Caveat: Pacific 7 (Fiji, Kiribati, Solomon Islands, Tonga, Tuvalu, Vanuatu, Samoa) are dropped from country-level inequality analysis because WID publishes only a regional aggregate for them. Effective EAP sample = 10 country-specific. See docs/PACIFIC_INEQUALITY_GAP.md.

Stylised post-tax simulation — small change at the bottom 50%



Findings:

Benefits of growth captured by the top 10% and even more by the top 1% in most EAP economies, with the bottom 50% capturing only a small share of growth.

The role of taxation in redistributing income is not clear, but the stylised simulation suggests that it has plays a limited role.

We cannot answer how much consumption tax, income tax, excise tax, CIT or property each decile pays as a share of its income.

Not only fairness reasons to care about this, but also efficiency and political reasons: Citizens find it hard to consent to a tax system whose distributional consequences they cannot see.

Structural characteristics (or, are there features in EAP economies that limit tax potential?)

We put together some Structural Indicators to understand the tax potential of EAP economies

Approach

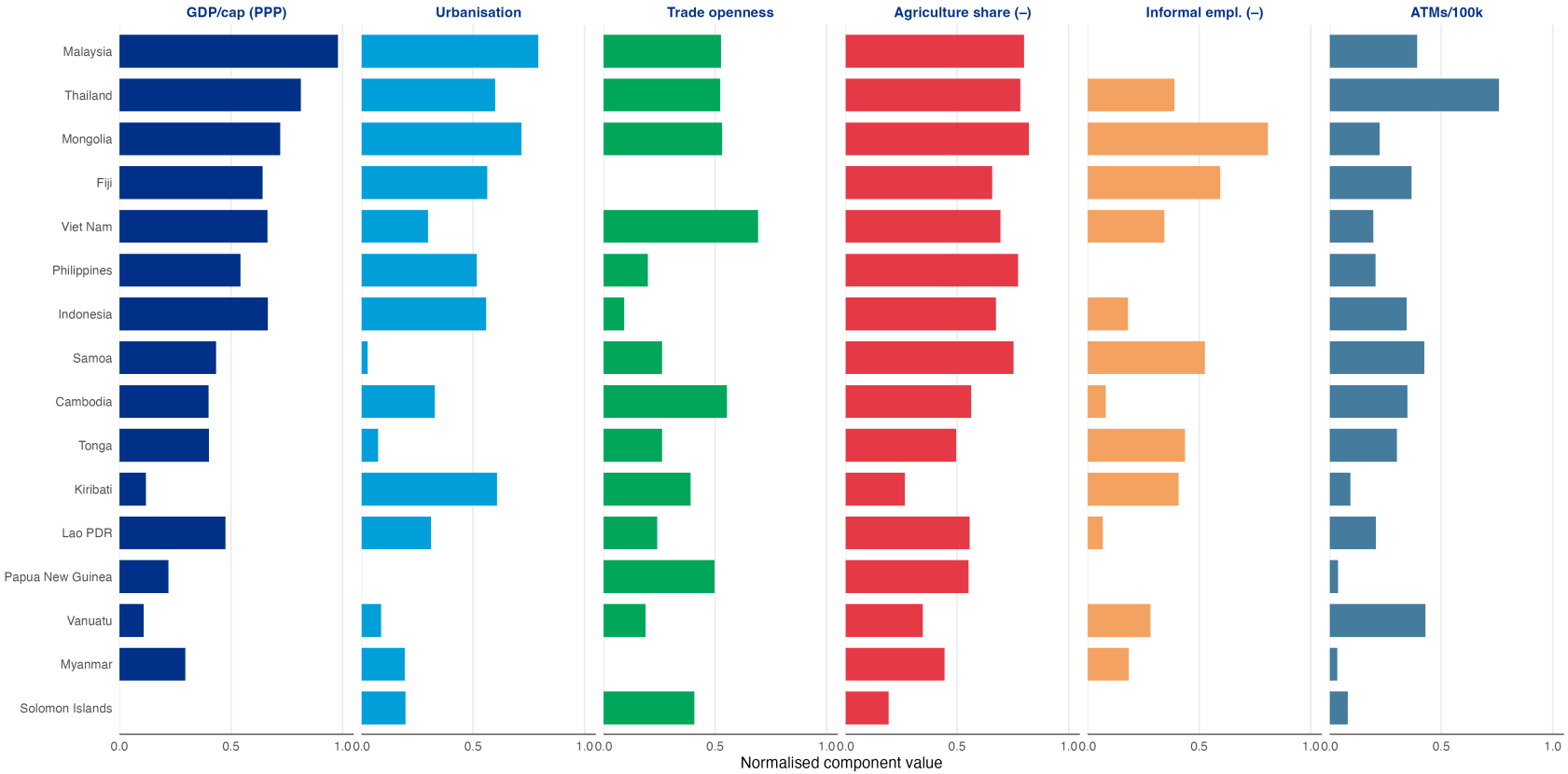
- A combined score from 6 indicators known to bound the tax base
- GDP per capita, urbanization, trade openness, agriculture share, informal employment, ATMs per 100k adults
- Equally weighted; min–max normalised on a 99-country sample
- Computed for EAP-16 against an 83-country LMIC/UMIC peer pool

This gives:

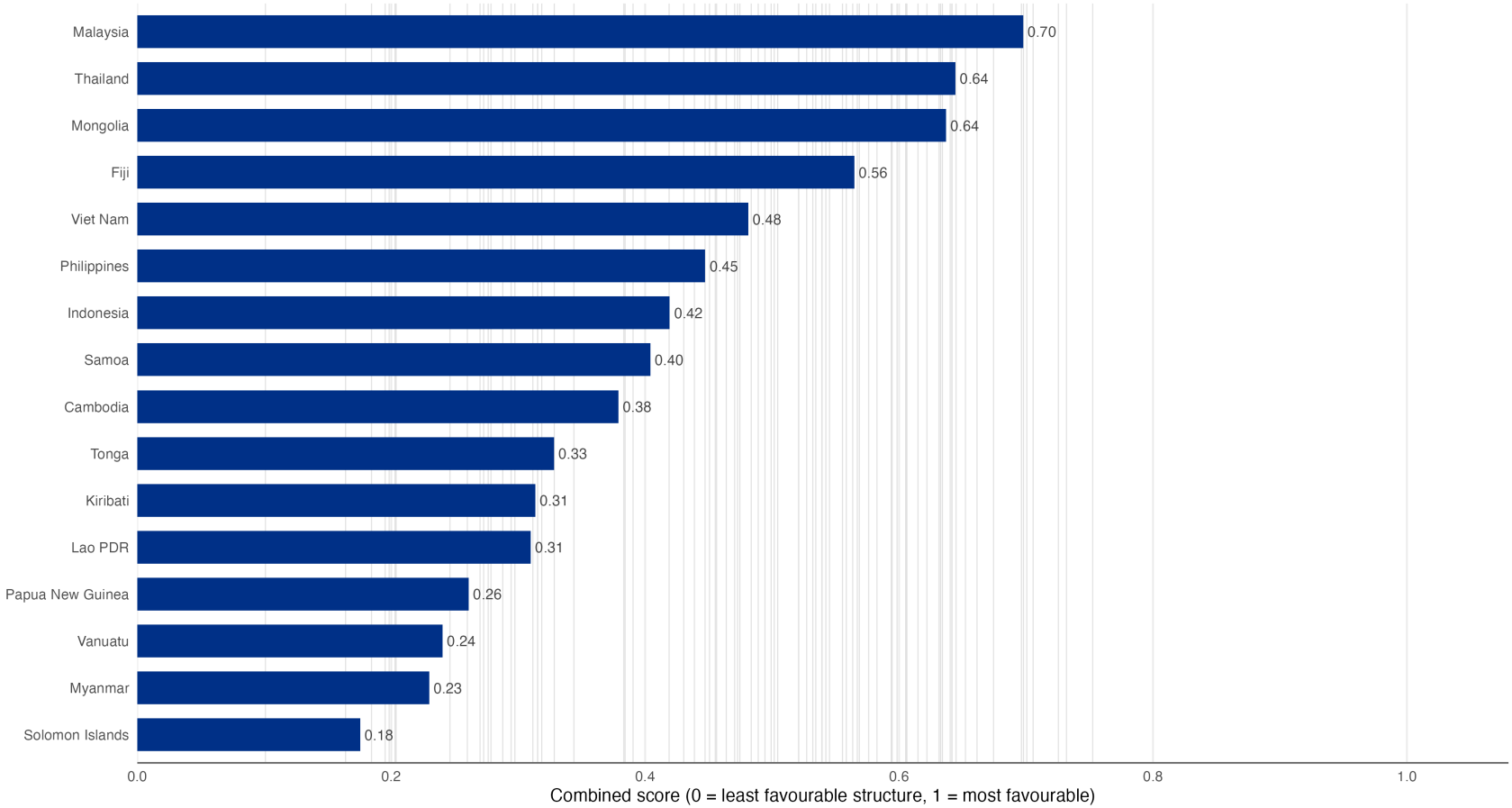
- A combined score per country to rank structural characteristics that affect tax potential
- A component view to see which dimension binds in each country

Limitations: List is indicative and not exhaustive, does not capture all relevant dimensions and does not capture the political economy of reform.

Structural indicators by country



Structural characteristics can affect revenue potential



Structural reforms that affect taxation — a direction for further work

Several EAP economies sit well below the median on the combined score.

The binding constraint differs by country: informality, agricultural employment, urbanisation, financial infrastructure.

A decade of WB advisory focused on instrument design.

Where structural characteristics bind, instrument design alone hits a ceiling — this may be one reason why the needle on tax/GDP has not moved.

Four strategy directions

1. We need to develop an awareness of what's important for the countries

Shift the question

- Not: *what can we offer that is easy to implement?*
- But: *what does this country actually need?*

- We need a list that follows country needs, not WB or country comfort.
- We should build arguments with sound, modern, data-driven economic analysis.

Structural reforms that affect taxation

- Promote reforms aware of the economic structure and fundamentals that bound revenue potential
- Informality, urbanisation, financial infrastructure, sector mix, etc.
- Where these bind, instrument design alone is not enough; we need to address the economic fundamentals in conjunction.

Important tax instruments not promoted enough in WB's EAP portfolio

- Direct taxes (PIT, property, capital) come second
- Cooperation between countries on tax information exchange
- Capital taxation and wealth taxation absent
- PIT base broadening and using third-party information

2. Monitoring in DPO cycles should be linked to tax revenue outcomes without fear of being wrong

We should develop a systematic approach to:

- Track recommended instrument's revenue trajectory
- Window: **1** / **3** / **5 years**
- Where the response is absent, feedback should be encouraged

Generating data, publications, op-eds is a crucial way of building narrative:

- Publish portfolio outcome dashboards (region or instrument level)
- Surface what worked and what did not — visibly
- Invite external peer review
- Engage with wider public more closely necessary to explain rationale of reforms and understand what works

3. Tax distributional analysis + encourage countries to build DINA

Every tax reform has large distributional implications that go unnoticed

- Stylised pre-tax vs post-tax decomposition in country reforms
- Help countries build DINA: requires expert knowledge with country cooperation
- Underlying data often exists but not fully utilized

4. Build effective tax rate estimates across the distribution

We currently don't know:

- How much tax is paid by whom
- How growth is distributed across the population
- What to do to correct this

Why this matters

- Prerequisite for any credible distributional reform conversation
- Foundation of the fiscal social contract and political stability

Key Takeaways

Key Takeaways

- High growth and stable period, but surprisingly no impact on tax/GDP
- Top 10% has captured most of the income growth in most EAP economies
- We cannot analyse fully who benefited from growth and assess the redistributional elements of taxes, but these might not have been substantial, enabling little change in real incomes of many citizens in EAP countries
- EAP economies face structural characteristics that shape their tax revenue potential; these should be identified and targeted in PAs
- We need a reorientation of WB tax engagement to tilt both us and countries towards novel measurement techniques (ETRs, DINA, targets per tax instrument) and on the identification of key structural elements in the economies that affect revenue potential