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Features Of Transfer Pricing At The Modern Stage

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Abstract

This article examines transfer pricing with a focus on the OECD guidelines. The results show that transfer pricing regulations contribute to FDI inflows, especially in developing economies.

Keywords: Transfer pricing, FDI, OECD, investment attractiveness, Uzbekistan, economic growth, tax regulation

A distinctive feature of transfer pricing as a key factor influencing the investment attractiveness of both developed and developing economies lies in the fact that developing countries face a dual challenge: preventing tax evasion while creating a favorable business environment for attracting foreign direct investment (FDI). Transfer pricing regulation directly affects the predictability, transparency, and fairness of a country’s tax system, which are critical factors for investors when making capital allocation decisions. Countries with well-developed transfer pricing rules that align with international standards, such as the OECD guidelines, are more likely to attract investment by offering a degree of certainty and reducing the risk of tax disputes.

Furthermore, countries that do not implement comprehensive and transparent transfer pricing regulations risk losing significant tax revenues, which may weaken governments’ fiscal capacity and deter potential investors. Therefore, the adoption and implementation of clear transfer pricing regulations are critically important for promoting sustainable economic growth, especially in emerging markets.

Transfer pricing (TP) refers to the setting of prices for transactions between related parties within multinational corporations (MNCs) operating across different jurisdictions. Transfer pricing practices have become significantly more important in the international business and tax environment due to their direct impact on the distribution of taxable profits and the tax rights of individual countries. Historically, transfer pricing was primarily used for internal financial management; however, it has attracted global attention due to its role in tax avoidance strategies, where MNCs exploit differences in tax rates between countries. The OECD Transfer Pricing Guidelines (2022) have played an important role in defining the principles governing these transactions, particularly the arm's length principle, which aims to ensure that prices between related parties are set in a manner consistent with prices that would be agreed upon by independent parties under comparable conditions. The growth of global trade, along with the movement of intangible assets and digital goods, has made transfer pricing a key element in global tax policy discussions.

As business globalization affects transfer pricing, it has become an important element in addressing Base Erosion and Profit Shifting (BEPS) shortcomings. The OECD is taking active steps to standardize and regulate transfer pricing practices to prevent profit shifting to low-tax jurisdictions. Consequently, transfer pricing has a significant impact on tax revenues, especially in developing countries, where multinational companies may use aggressive tax strategies to shift profits, leading to the erosion of the host country's tax base. This phenomenon has led to increased attention to strengthening regulatory frameworks to combat tax evasion while maintaining an attractive environment for foreign investment.

The main objective of this article is to analyze the global application of transfer pricing rules and assess their impact on attracting foreign investment. By focusing on the role of internationally recognized transfer pricing rules, the article aims to identify how effective these rules are in ensuring tax fairness and investment competitiveness. The study will compare the experience of developed and developing economies in applying transfer pricing rules, with particular attention to OECD recommendations and their relevance to national tax systems.

Despite the widespread adoption of transfer pricing guidelines, there is a significant gap in understanding how these rules affect investment flows, especially in developing countries. The research problem consists of assessing the impact of transfer pricing rules on investment attractiveness and identifying potential challenges that countries face in their effective implementation.

The analysis shows that a key aspect is the balance between tax control and environmental predictability for investors. The works of Pinskaya, Alaverdyan, and Milogolov (2018) demonstrate that implementing OECD standards increases transparency and reduces capital flight risks. The OECD Guidelines (2017, 2022) indicate that the arm's length principle and APA mechanisms reduce tax uncertainty. Studies by Zdanowicz, Pak, and Sullivan (2015) confirm that transfer pricing controls limit aggressive tax planning. The work of Gorda and Gorda (2018) shows that effective TP methods contribute to capital retention and stability of investment flows. Taken together, the literature confirms that transfer pricing simultaneously performs a fiscal function and shapes conditions for investment predictability.

Table 1. Review of Scientific Sources on Transfer Pricing and Investment Attractiveness[1]

Author(s)	Key Research Aspect	Countries Examined	Investment Attractiveness	Investment Sectors
Pinskaya M.R., Alaverdyan O.A., Milogolov N.S. (2018)	Analysis of transfer pricing rule reforms in Armenia based on OECD recommendations; balance between tax base	Armenia, Russia, OECD countries	Increased tax system transparency promotes FDI attraction while reducing capital flight risks.	Extractive industry, IT sector, finance

	protection and creating favorable conditions for investors.			
OECD (2017, 2022)	OECD Transfer Pricing Guidelines: arm's length principle, TP documentation, advance pricing agreements (APA).	OECD countries	Standardization of tax rules reduces uncertainty and increases foreign investor confidence.	Multinational business, SMEs, services, industry
Zdanowicz J., Pak S., Sullivan M. (2015)	Study of price manipulation in intra-group trade as a mechanism for illicit capital flight and tax base erosion.	USA, Brazil, global context	Strict TP regulation improves the investment climate by reducing aggressive tax planning.	International trade, commodity sectors, finance
Gorda A.S., Gorda O.S. (2018)	Comparative analysis of transfer pricing methods and international capital flight control mechanisms.	EU, India, developing countries	Effective TP methods contribute to capital retention and sustainable foreign investment inflows.	Financial markets, trade, technology

[1] *Prepared by the author*

The role of the OECD Transfer Pricing Guidelines in improving tax transparency and fairness has been fairly well studied; however, there is limited research dedicated to examining how these regulations directly influence investment attractiveness, especially in developing countries. The application of these rules in developing economies and their direct impact on FDI inflows remain an understudied area. In addition, the adaptation of these recommendations by different countries in light of local economic conditions, while maintaining international competitiveness, requires further analysis.

As part of a comparative analysis, data on FDI flows in countries with different TP regulations were examined, including developing countries and OECD countries (Figure 1). Statistical analysis used FDI indicators, changes in tax revenues, and labor market data. The results show how effective TP regulation promotes the attraction of foreign investment, especially in developing economies such as Uzbekistan.

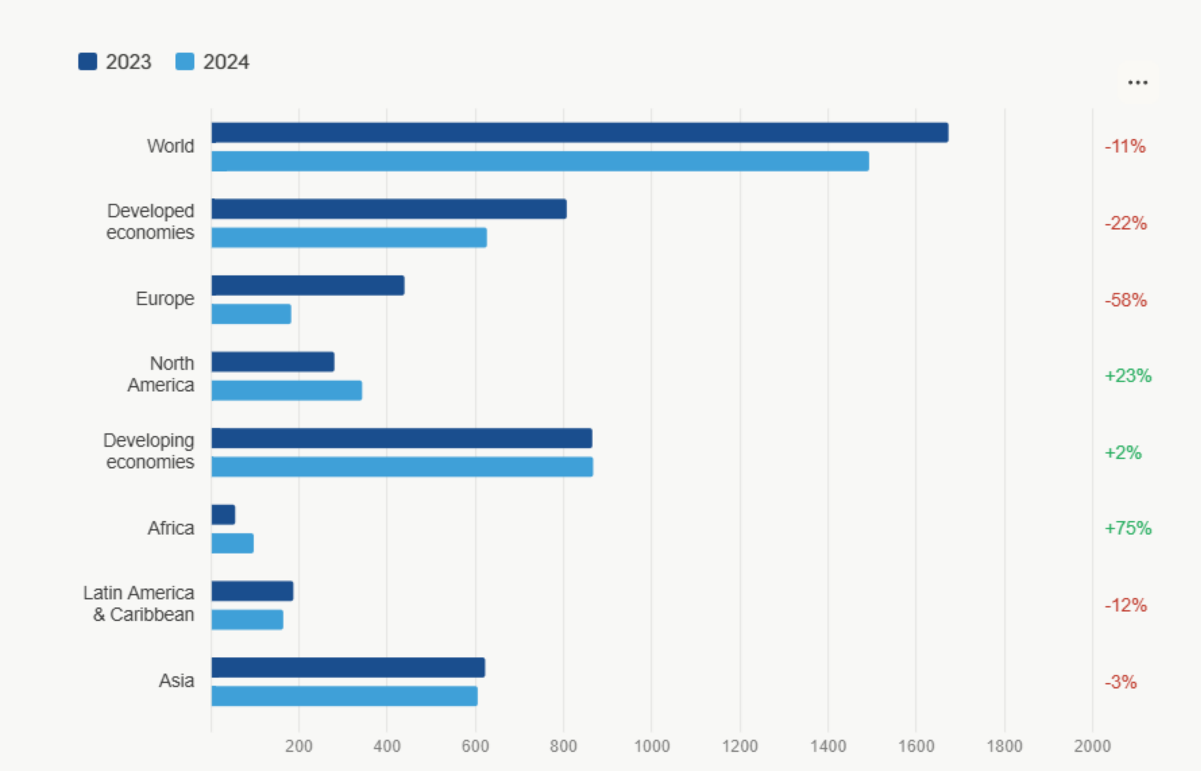
In 2024, global FDI flows grew by 1% compared to 2023, reaching USD 1,485 billion (Figure 1). However, excluding large fluctuations in certain European economies, global FDI flows declined by 9%.

Figure 1. Global FDI Trends: Annual and Quarterly Dynamics²

In Figure 1, the first chart shows global FDI trends over time. FDI is presented both as a share of GDP and in USD billions, reflecting periodic fluctuations with peaks in the mid-2000s and in 2021.

In Figure 1, the second chart shows quarterly and semi-annual trends. It reflects the volatility of investment flows, including notable declines in 2023–2024, indicating the influence of global economic instability and geopolitical factors.

Figure 2. Flows by Economic Groups and Regions (USD billions and percentage change).[3]



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure 2 highlights the global FDI decline of 11% from 2023 to 2024, with developed economies experiencing a 22% drop, particularly in Europe (-58%), indicating a weakening investment climate. At the same time, North America recorded a modest increase (+23%), while developing economies remained stable (+2%), with Asia maintaining its level. Particularly noteworthy is the 75% growth in investment in Africa, reflecting growing investment potential driven by favorable transfer pricing rules and policy reforms.

The results show that the OECD recommendations and transfer pricing frameworks significantly influence investment decisions. The global FDI decline in 2024, especially in developed economies such as Europe, is linked to tighter tax legislation and growing uncertainty in international trade. At the same time, developing economies demonstrate resilience, particularly Africa, where FDI increased by 75%, highlighting the positive impact of favorable transfer pricing policies on foreign capital inflows.

However, a direct correlation between the application of transfer pricing and investment attractiveness in developing economies, despite its impact in OECD countries, and the nuances of local adaptation of global TP frameworks, remain insufficiently studied. The problem lies in the absence of transparent TP regulations in some countries, which deters foreign investors and affects sustainable economic growth.

Transfer pricing in Uzbekistan was introduced at the legislative level relatively recently. The regulation was established with the adoption of the new edition of the Tax Code of the Republic of Uzbekistan. As of January 1, 2022, the provisions of Section VI “Tax Control in Transfer Pricing” of the Tax Code of the Republic of Uzbekistan came into force. The code for the first time systematically established norms governing the control of prices in transactions between related parties. The transfer pricing system in Uzbekistan is formed on the basis of the Tax Code and is oriented toward international OECD standards. Its key objective is to ensure a balance between protecting the tax base and creating a predictable tax environment for investors. The regulation of transfer pricing is complicated by the absence of national databases of comparable market data. The limited availability of local information reduces the accuracy of applying the arm’s length principle and increases the risk of tax uncertainty. For example, the use of foreign databases does not always reflect the specifics of regional markets and the cost structures of companies.

The development of national databases and refinement of transfer pricing rules increase the reliability of comparable analysis. The formation of a local information infrastructure allows for more precise determination of market ranges and reduces the likelihood of tax disputes. For example, the introduction of such tools enhances the predictability of the tax environment for investors.

Increased tax certainty is associated with investment activity. Improving the regulatory framework and access to relevant data can contribute to growth in FDI inflows. For example, the greatest effect is expected in capital-intensive and fast-growing sectors, including technology, renewable energy, and industrial production.

Conclusion

The study shows that transfer pricing regulation, especially in accordance with OECD recommendations, plays a significant role in shaping the investment attractiveness of both developed and developing economies. The results indicate that while OECD countries maintain stable FDI flows, developing countries, especially Africa, are seeing growth due to favorable TP frameworks. For Uzbekistan, the development of local comparable data databases and improvement of regulatory procedures

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can reduce uncertainty and strengthen the inflow of foreign direct investment. Enhancing the effectiveness of TP mechanisms in Uzbekistan is linked to the institutional strengthening of tax administration. The expansion of analytical infrastructure and the implementation of more precise comparable analysis tools can increase the predictability of the tax environment and stimulate investment in key sectors of the economy.

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