

Abstract

This thesis analyses the potential for international cooperation in the issue of corporate tax rates. Using newly created dataset we study the relationship between the foreign direct investments and corporate tax rates in order to confirm that countries benefit from competing in setting their tax rates. Lowering one's corporate tax rate pays off in increased FDI. Furthermore, under the assumption that competitive behavior is individually rational, we analyze through the use of coherent country clusters the extent of competition within selected clusters, as compared to the situation on the global level. We find that the degree of competitive behavior is lower within coherent block of countries than globally. Thus, there seems to be less mutually harmful competition within coherent clusters of countries, mainly in EU 15, OECD and ASEAN, than on the global level.