7. CONCLUSION

In this part of the study, I compare the conclusions of the two case studies in the light of the key research questions outlined in the first chapter. Are there clear similarities between the tax reforms in Indonesia and Vietnam, or are they very different and why? What conclusions can we draw from this in the light of the applied modified model discussed in chapter 4? First I shall discuss the key findings of the case studies using the model as a guide. As discussed in chapter 4, the model covers many different aspects of a tax reform. My key findings reflect the different aspects of the model.

Figure 3. Proposed Model for Research

![Proposed Model for Research](image-url)

1. Definition of Tax

2. International Influences

3. Crisis
   - Geopolitical
   - Fiscal
   - Economic

4. State structure
   - Culture of Public Institutions
     - Role of individuals within state structure or political representations
     - Tax administration
     - Political access
   - Political Representation
     - Political party & electoral system
     - System of interest representation
     - Party control
   - Government Role
     - Foreign advisers commissioned by the government

5. Context
   - Domestic economic context
   - Government policies
   - Fiscal policies

6. Balance of Class and Interest Group Pressure
   - Wide range of interest groups, including groups that do not have access through political representation or state structures

7. Political Response (symbolic or non-symbolic)
   - Change of level of taxation
   - Change taxation system
   - Change distribution of tax burden
Definition of Tax

The overarching theme of the model is a broad definition of tax. Once a broad approach is adopted, the overall findings of both case studies change significantly. In a narrow legal definition, the changes as a result of tax reform could be seen as significant. Companies and individuals are subject to different tax rates, based on a different tax base, and their overall tax burden may change (the overall amount of tax they pay as a percentage of their income). In both Indonesia and Vietnam the tax rates for foreign companies were reduced. Indonesian domestic companies and individuals saw the top tax rates drop to 35%, although the tax base changed and in many cases was widened. Those who were subject to the relevant tax reforms saw changes to their tax position, but certain aspects did not change. Bribery in the form of additional fees payable to tax officials formed, and forms, a major part of the tax burden. Companies and individuals may negotiate tax incentives on an informal basis to change their tax position and this process continues despite legal changes. As with formal incentives, informal incentives are likely to disproportionately benefit large companies, both domestic and foreign. These practices help to explain the reaction or lack thereof of taxpayers to the legal tax reforms.

Now that it is clear that tax reforms have only limited influence on the true tax burden of those within the tax net, it is valid to ask how relevant were these tax reforms? If the true burden consists of large payments that are outside the scope of the legislation, what conclusions can be drawn? Or on the other hand, if tax is still negotiated for those who were protected by their rulers, how meaningful is tax reform? The reality in both cases is that tax revenue increased significantly after the introduction of the reforms. So they did achieve their aims of increasing tax revenue. But in terms of providing a realistic picture of the impact it had on tax payers, one has to look a lot further.

International Influences

International influences are visible in both case studies. In the Indonesian case, foreign advisers, mainly from the US (or trained in the US) pushed hard for simplicity in tax laws. This approach fitted well with their training in neo-liberal economics. Moreover, they had witnessed an American tax system so focussed on equity that it resulted in thousands of exceptions, exemptions, deductions, write-offs and special rates designed, among other things, to accommodate taxpayers’ varying ability to pay. This was the opposite of the simplicity and transparency most economists, during that time period, strived for when designing an ideal tax system. And although they could not convince the US Government to see their wisdom, they most certainly took it with them to Indonesia. The HIID advisers did exactly that, designing an ideal tax system. They provided their independent views about ideals and goals based on widely accepted economic theories. In other words, international advisers sought to teach local policy makers the appropriate ways of reforming their tax system. The advisers opposed specific incentives, particularly for foreign investors, and their views were supported by internal surveys amongst the business community. Unfortunately, part of their proposals turned out to be politically unrealistic once the
bureaucracy and the Indonesian government started to discuss them internally. But they still managed to have a set of simplistic tax laws accepted and ratified by the President of Indonesia. Anything too complex or sensitive was diplomatically left to be dealt with in further implementing regulations, and for some of these the Indonesian taxpayers are still waiting.

In contrast, the Vietnamese tax reform was guided by those operating within the government framework, who were all too aware of the political and practical realities of the tax reform proposals. The Chinese influence was significant. It is important to stress that the Chinese adopted the “one-stop shop” approach to foreign investment, rather than just a specific tax reform. Unlike Indonesia, China had very limited foreign investment in the 1970s and early 1980s; it had to adopt a radical approach to lure foreign investment into its communist economy. Its foreign investment laws provided a comprehensive vehicle for foreign investors; rather than having to deal with a myriad of government agencies and regulations, the new legislation introduced in the late 1970s and early 1980s provided an easy entrance into the Chinese market. The Vietnamese copied the model for exactly the same reasons as the Chinese had initiated it. The Vietnamese believed that copying the model would result in copying the Chinese success in attracting foreign investment. It was a great tool to encourage foreign investment flowing into its economy and provided the necessary legal basis for foreigners to operate in Vietnam. The Chinese policy-makers included tax holidays, tax incentives, and reduced corporate tax rates in their FIL. They felt that it was important to provide these incentives to attract foreign investment. The Vietnamese adopted the same view, maybe in light of China being a major competitor for foreign funds. Sweden’s influence was limited; the impact of its cooperation program with Vietnam was yet to be fully realised by the time the profit tax was introduced. While the visit to Sweden by Vietnamese tax policy-makers in 1989 did influence their thinking, it is not possible to identify specific features that could be seen as copied from the Swedish tax system or a specifically Swedish approach to taxation.

**The economic context**

The economic context of the tax reforms is an important trigger for reform rather than the crucial factor during the reform itself. The closed economy in Vietnam explained the need for foreign investment and therefore for an attractive package for foreigners willing to pour their hard currency into the country. Indonesia had already a significant foreign investment flow and did not have to provide such treatment. Both countries wanted to simplify the system as a way to attract investment. In socialist Vietnam, domestic companies were not seen as a serious source of future revenue that needed encouragement using tax incentives (although this changed, as demonstrated by the 2005 tax law changes). The profit tax clearly favour heavy industries compared to services companies, which was in line with the communist emphasis on heavy industry and a virtually non-existent services sector. In Indonesia, private companies were treated equally to their foreign counterparts, reflecting the government’s desire to encourage private sector development. During the reforms themselves, both governments seemed heavily influenced by the need to ensure their support bases would be protected. They aimed to increase revenue and
therefore targeted those parts of the economy that would secure that. However, they steered away from particular measures if it seemed they would jeopardise the government’s rule. An exception here is the lack of detail in the Vietnamese FIL, with the law simply stating that taxable income was turnover minus deductions, not specifying deductions. That seems more an oversight by the communist policy-makers rather than a deliberate postponement of delicate matters. Their communist economics training would not have given them the tools to understand the complexities surrounding tax deductions.

Crisis
In both case studies, a looming shortage of revenue triggered policy-makers into action. It is interesting, though, that in both countries the tax reforms commenced before a crisis was at hand. In other words, policy-makers were well aware of more serious problems arising if the then-current fiscal problems weren’t addressed. It was not the crisis itself that triggered reform but the prospect of a possible crisis that put the reform in motion. A solid revenue basis is the backbone of any government. Declining revenue threatens the stability of those in power. This was the reason why high level political support for reform a relatively easy process. In addition, in both case studies, the ruling governments were providing informal financial incentives to key supporters of their regime and the tax reforms did not change that. In Indonesia, Suharto’s cronies would make attractive tax arrangements, whilst in Vietnam SOEs would obtain favourable loans from state banks.

State structures
Vietnam’s bureaucracy, established during many centuries of Chinese occupation, saw many of its bureaucrats well educated and well equipped to fulfil their positions. After a history of foreign rulers, the Vietnamese bureaucracy took great pride in determining its own policies. They may have been inspired by other countries, but no foreign advisers had a determining voice as, for example, HIID had in Indonesia. The Vietnamese bureaucracy determined its own policies, carefully examining advice and examples from other countries. But in the background was always the Party, and no bureaucrat would go against the Party line. It helped that many in high positions were Party members and carefully selected and scrutinised. Protecting the status quo is in the mind of any bureaucrat. Who within the group exercises influence and control was often not clear to outsiders and difficult to guess even for those who followed Vietnamese politics for a long time. The behaviour of Vietnamese bureaucrats was clearly shaped by the institutions they worked in, as outlined in the various forms of institutionalism. The result was that Vietnamese bureaucrats felt strong ownership of their policies and reforms. But once the new tax laws (for foreign companies and domestic companies) were approved and implemented, it became clear that, due to ignorance, they too lacked the details required to provide clarity for taxpayers. Deductions were not specified and taxation by negotiation continued. Moreover, lower levels of government did provide plenty of problems for companies as they often did not accept the overriding powers of central legislation, extorting additional fees from companies.
Ruled by the Dutch for a long time, Indonesia had remained remarkably open to foreign influences and advice. Indonesia’s bureaucracy was large, with multiple overlapping layers of administration filled with poorly educated bureaucrats, particularly at the time of the reforms in the late 1970s and early 1980s. This put Minister Wardhana in a difficult position: with a lack of capacity within the ministry, where could he go? He turned to an organisation that had embedded itself within his ministry since the 1960s: HIID. The team rolled in and overwhelmed their Indonesian counterparts. They made a raft of suggestions to Wardhana, but rarely involved senior Indonesian bureaucrats. Wardhana had room to manoeuvre, but that had its limitations: no reform would be tolerated if it jeopardised the ruling regime. Wardhana, within the limitations of Suharto-era politics, was satisfied with the HIID recommendations. It was no surprise that this view was not shared by the Indonesian bureaucrats. They felt no ownership, and accused the reform team of producing a set of theoretical tax laws that lacked the reality of the Indonesian context. Parliament rubberstamped the legislation rather than thoroughly debating it. The implementation was difficult with no implementing guidelines, as they hadn’t been developed, and little ownership in the bureaucracy. Despite these obstacles, the new tax laws achieved their goal: they did raise government revenue significantly.

**Balance of Class and Interest Group Pressure**

Amidst the tax reforms, some interest groups surface. As we saw in chapters 3 and 4, governments are pressured by a range of interest groups, but in non-democratic societies the rules are different from democracies. The key element in both case studies is protecting the status quo of those in power. Interest groups are heard if they assist governments staying in power. The press is not sufficiently independent from their ruling governments to provide an independent voice of and for the public. Civil servants in Indonesia were an important pillar of the regime and Suharto was cautious in introducing measures that would upset them too much. Foreign investors were desperately needed in cash-strapped Vietnam and therefore they received privileged treatment. The same cannot be said for the foreign investors’ domestic counterparts who clearly did not enjoy such status and did not play such an important role in raising government revenue and/or government support. The majority of the Vietnamese population, the farmers, were not included in the tax reform and not subject to profit tax. Domestic private companies were at the heart of the domestic corporate tax reform, but they kept a low profile given the sensitivities surrounding private sector development in a socialist economy. Then there were interest groups that informally received privileged treatments due to their connections to the government. Maybe formally the new tax laws were not granting them any incentives, but in reality they did receive them. This applied to the inner circles of the Suharto regime as well as to the SOEs in Vietnam.

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158 Over the last 20 years, the Indonesian Ministry of Finance, including the Director General Tax, has made much progress in improving the educational levels of its civil servants. These days many have overseas tertiary degrees from reputable international institutions. Unfortunately, most other ministries do not have the same level of higher education amongst their bureaucrats.

159 I am fully aware that the reduction in scope for additional revenue for tax officials was as much if not more of a concern to those implementing the legislation.
This confirms the limited, though useful, ideas in interest group theories as described by Risse-Kappen (Risse-Kappen 1996). Interest groups in non-democratic countries do have influence, but they are not the independent groups envisaged. So this approach is relevant as long as it is clear that interest groups in countries like Indonesia and Vietnam are very much linked to elites rather than issues.

Political Response (symbolic or non-symbolic)

The political response was to introduce new tax legislation. In both countries the response was not about increasing tax rates, but about unifying and simplifying the tax laws. In most cases the result was a lowering of the tax rates, although that may have been accompanied by a broadening of the tax base (for example, in the case of the Indonesian ITL) and restricting deductions (for example, the fringe benefits treatment under the Indonesian ITL). With the Vietnamese profit tax, the lowering only applied to certain industries. In the case of the FIL in Vietnam, it was a comprehensive legal approach to address all the different legal aspects of foreigners investing in Vietnam. But the reality was that certain parts remained unclear, for example, the law simply stated that taxable income was turnover minus deductions, not specifying deductions. So did the FIL really help foreign investors or was it largely symbolic? Many foreign investors ‘burnt their fingers’ as they were unable to comply with unclear legislation. In addition, definitions and penalties for bribery did not change under the new legislation, making it a symbolic gesture to an extent. Having said that, revenue did increase, so the legislation reached part of its goals. The same conclusion can be drawn from Indonesia: the legislation helped fill the government’s coffers but only had limited impact on those facing the day-to-day reality of complying with both official and unofficial taxes. Life changed little for those in the position of negotiating their tax bill. For Suharto and his cronies the tax burden would not have changed at all. The above demonstrates the importance of considering both the instrumental use of tax law (which was effective to some extent with increases in revenue) and the symbolic use. For example, the tax incentives for foreign investors can be seen as largely symbolic given that few would make a profit in the early years of operation. Moreover, the model does not cover the possible ideological use of law. The tax reforms in Vietnam clearly reflect a political ideology involving hostility towards private sector development.

I now turn to the key research questions of this study.

Research questions

What factors led to the overhaul of the existing tax laws in Vietnam and Indonesia in the 1980s?

In both countries, declining revenue or the prospect of declining revenue in the future, were the key reasons to overhaul their tax systems. However, in both cases the word ‘crisis’ as used in the proposed model for research is too strong. There were key concerns, but they were looming in the (near) future rather than that there was an immediate emergency. Other factors such as

Who were the key actors involved and which groups or interests did these actors represent? And why and how were particular groups successful in influencing the reform?
In the case of Indonesia, the key actors were Minister Wardhana together with the HIID team. These actors enjoyed considerable freedom, unless the reforms involved the President, and those close to him, or were in any way a threat to his power base (civil service) and thus threatened the stability of his regime.

In Vietnam, the key players cannot be individually identified, but can generally be described as senior bureaucrats in the GDT and the MoF. The team had the freedom to pursue reform, but only within the Party’s boundaries. Since the Vietnamese tax reform team members were from the ranks of the bureaucracy, this was not a major issue. The reforms concerned, to an extent, foreign investors and private industry and neither were part of the government’s support base. To sum things up in a few words, the actors in both cases were not as independent as it may have seemed. The strings were pulled by the regimes’ rulers; they set the rules and no one would challenge them.

The groups responsible for the reform were products of their respective governments. Historically, Indonesia had relied on its so-called technocrats to guide the country’s economic policies. This group of Indonesian economists - most of them, including Minister of Finance Wardhana, trained in the US - supported economic policies that promoted free markets, encouraged investment and reduced intervention by government. Their views echoed those of the HIID advisers who had been assisting the Indonesian Ministry of Finance since the 1960s. Because the Indonesian Government had relied on foreign advisers for many years, at the time of the reform there was very limited expertise within the Indonesian bureaucracy to guide these reforms and the use of American HIID advisers was a logical choice.

In Vietnam, the government had relied on its senior bureaucrats to design its economic policies and in the case of tax reform this tradition continued. These bureaucrats represented the interests and ideology of the Vietnamese Government and therefore the Communist Party. They knew the machinations of the Party very well and how to work within that system to foster change. This explains why and how they were successful. They were also influenced by the Chinese experience as well as by the fact that China was a competitor when it came to attracting foreign investment. They gave priority to government revenues and ensured that foreign investment would be promoted. They had less interest in domestic private industry development as that was not seen as important by the government. They did not have in-depth understanding of capitalist economic principles of profit and loss trading, resulting in gaps in the FIL regarding tax deductions.

**What was the influence of the foreign advisers in the tax reforms?**

In Indonesia, this influence was very significant. Only those matters that affected the government’s interest or power base were not influenced by foreign advice. All other aspects of the reform clearly show the ideas of the HIID team. The laws reflect the ideals of simplicity as favoured by HIID economists. The foreign advisers, often working on a fly-in, fly-out, basis left before the implementation started. It then became clear that the implementing guidelines were painfully lacking, resulting in difficulties for tax administrators and tax payers. The result was that in Indonesia
senior tax administrators felt no ownership at all, if anything they felt resentment. They were not heard and then left to implement less than adequate tax laws.

In Vietnam, there were no particular foreign advisers who influenced the reforms. Although China’s tax system provided guidance, no particular foreign adviser was instrumental in the reform. In Vietnam bureaucrats at central level in particular felt great ownership. During the implementation of the new legislation, it became evident that the lack of detail created many problems. It took the bureaucracy a long time to educate itself in market economics and provide the necessary implementing guidelines.

What role did international factors play in shaping the tax reform?
In Indonesia, it seems that the key actors were partially moved by international factors in shaping the outcomes of the reform. The HIID team, reflected the neo-liberal thinking that had swept much of the world of economics from the 1970s onwards. It was eager to have a simplified tax system that did not serve multiple purposes in addition to raising revenue, in line with the thinking of many economists. The team had little patience with those who argued that international competitiveness was important and therefore tax incentives should be offered. The team did not believe that such incentives were key factors. The Vietnamese reformers, by contrast, were closely watching developments in neighbouring countries, particular competitor China. In desperate need of foreign funds, they did provide incentives to compete with other countries to lure foreign investors. The reality at the time was that Indonesia had significant foreign investments pouring in. Vietnam was a new comer on the block, eager to attract foreign funds, and trying to set itself apart from its Asian neighbours, and particularly China. The case studies do not support the view that an international political community, such as IMF or the EU, influenced fiscal policymaking. During the time period of the case studies such influence was not visible in either country. This is not to say that such influences did not occur in later times. Globalisation did play a role in the reforms in Vietnam. The Vietnamese followed certain international trends mainly due to the demands of international competitiveness. The country’s need for capital influenced its economic policies, including its tax policy.

Reconsideration of the model
Following the findings discussed in the conclusion, I now reconsider the model used for the two case studies. Generally, I conclude that the model applied for the case studies is a useful tool of describing and analysing the various actors and factors influencing the tax reforms. For the case studies, it covered the key actors and factors that influenced the respective tax reforms.

When we look at the separate boxes in the model it becomes clear that having the definition of tax at the top of the model is crucial. What is included within this concept affects all parts of the model. An inclusive definition is the most important prerequisite to adequate analysis. International factors play a role, as demonstrated in the case

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160 This means that the numbering of the other boxes changes.
of Vietnam. They should remain in the model, but rather than having it in a box at the top as initially proposed in 4.5, it has moved to the right side reflecting the conclusion that it is of influence, but still subject to the constraints of particularly state structures. The cause of fiscal reform should be modified as the word ‘crisis’ seems too strong. I propose to use the word ‘causes’ instead. The box containing the ‘Context’ should move to the box on Causes (previously labelled as ‘Crisis’). As concluded above, the context is more important in the lead-up to the reform rather than influencing the reform itself. When we include the ‘Context’ under Causes, we can delete the original box 5. This allows the model to provide an in-depth context including an historical overview of the tax policies, economic policies and domestic features that all play a role in analysing the causes of reform.

In the original proposed model for research the culture of public institutions, political representation and government role are separated under the heading State Structure. I propose to continue with this separation. However when used for the case studies, it start became clear different elements less easily separated. For example, the culture of public institutions, political representation, and the government role are so intertwined in the case of Vietnam with the Party dominating bureaucracy as well as the parliament. This makes it impossible to discuss these different elements separately as may be logical for a case study in a democratic country I have added a new heading under State Structure, ‘legal environment’. What has become evident is that taxpayers’ faith in the tax legal system plays an important role in their inclination to invest in efforts to influence tax reform processes. Thus, for example, Suharto’s business colleagues knew they were protected as the enforcement of tax laws was selective at best. If they expect their compliance costs to remain high due to lack of transparency or corruption, they may be uninterested in new reforms.

What has become clear in the Vietnam case study is that state structures and a planned economy do influence one another. Thus, the ‘Context’ helps us understand how the context and the state structures influence one another. For that reason, the box on ‘Causes’ (which includes ‘Context’) is linked to the box on state structures.

The box on political response needs to be expanded. The response should include “no change at all”. For example, the tax liability for the Suharto family would not have changed. We also need to expand the types of legislation and include not only instrumental and symbolic but also ideological legislation. The latter one would cover the Vietnamese Government’s response to tax services companies more than heavy industries. The introduction of tax incentives for foreign investors in Vietnam is a good example of largely symbolic legislation. The instrumental response needs to be included too. In both cases, the new tax legislation was successfully introduced and did influence changes in the specific tax revenue generated for those taxes introduced or reformed.

When applying the above modifications the model will be as follows:
Figure 4 Revised Model for research.

1. Causes
   - Geopolitical
   - Fiscal
   - Economic
   - Domestic economic context
   - Government policies
   - Fiscal policies

2. State Structure
   - Culture of public institutions
     - Tax administration
     - Political access
     - Role of individuals within state structure or political representations
   - Political representation
     - Political party and electoral system
     - System of interest representation
     - Party control
   - Government role
     - Foreign advisers commissioned by the government
   - Legal environment
     - Tax interpretation
     - Tax rulings
     - Tax objection and appeal mechanism
     - Tax compliance costs

3. International influences

4. Political Response
   (instrumental/symbolic/ideological)
   - Change of level of taxation
   - Change taxation system (types of legislation)
   - Change in distribution of tax burden
   - No change

5. Balance of Class and Interest Group Pressure
   - Wide range of interest including groups that do not have access through political representation or state structures
Such a revised model can be used for other tax reform case studies in both developing and developed countries. The model is adjusted to cater for some of the specifics of non-democratic countries, such as a limited role of interest groups, different electoral considerations, no independent press and no independent judicial system. A relatively high percentage of developing countries exhibit such features. It also addresses the issue of tax corruption: the payment of extra-legal fees in order to meet tax obligations (or to lower them). The issue of tax corruption is real in many countries, both developed and developing, but is often more prevalent in developing countries.

The model covers the key aspects of the reform and is detailed enough to cater for the specifics of individual cases. Ideally, I would like to see the model tested in a developed country with a well established democratic system. Are the causes of reform the same? Or is it different in democracies with no immediate revenue problems: do they introduce tax reform to impress voters rather than fill the coffers? What would be the role of interest groups in democracies and is it overrated? I am also very interested in conducting a review of existing tax reform studies in both developed and developing countries and examine whether the studies would have had different conclusions if a wider definition of tax was used.

We are now left with the most difficult question and that is, what does all the above mean? What value does my research add to the existing studies? I think the key findings that have added value for fiscal sociology are:

- Studying tax reforms without a broad definition of tax is of very limited use. Without a broad conception, a very large part of the picture is missing.
- Longer term economic planning policies rather than crisis trigger reforms.
- Discussing reforms without analysing the political reality and its institutions is inadequate.
- The political environment, is crucial in understanding the reforms. It is also important to pay attention to individual key players in the reforms, champions of change can make a significant impact.

The added value of my findings for actors in tax reform processes are these:

- If possible, and this is not always the case, aim for domestic advisers rather than foreign advisers as they often have much better understanding of the domestic policy formation and its subsequent implementation.
- Not using foreign advisers also prevents that ideological pushes, such as simplicity, clashes with reality of implementation. It also avoids clash with the political reality as delicate political issues may not be addressed by foreign advisers.
- Foreign aid should aim for key reformists from within the bureaucracy rather than from outside. It provides local solutions to local problems and gives ownership that can be carried through in the implementation. It also gives proposal a dosage of political reality that outsiders can not provide.
- Short term foreign advisers may be useful providing required high level technical advice (like HIID advisers). They are not in a position to make
lasting changes, provide comprehensive legislation, assist with the implementation of legislation, contribute to institutional changes or build local capacity. They will not assist in the process of ensuring local ownership of tax reform measures.

- If foreign advisers are required, ideally one seeks foreign advisers who have hands-on experience involving in a range of aspects of tax policy making and administration reform. Ideally people who have followed through an entire reform process from conception to full implementation. For this reason one would prefer a tax administrator with many years experience in one or two countries (a developing country preferably) rather than consultants who has advised more than 10 developing countries on how to reform their tax system as this would indicate that they have flown in and flown out and not been involved in an entire reform process. Only then may there be a role for foreigners to assist with making lasting tax reforms, assist with the implementation of legislation, contribute to institutional changes or build local capacity. The Swedish cooperation with their Vietnamese counterparts is a good example. However it will only work if sufficient capable (Swedish) tax bureaucrats are available to assist. More often than not, tax administrations struggle with their own limited resources let alone assist other countries.