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Debunking Myths of Economic Growth: The Political Economy of VAT Reform in the Asia-Pacific

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Abstract

This article examines the effects of Indonesia's proposed Value-Added Tax (VAT) increase policy, which would raise the tax rate from 11% to 12% starting in January 2025. This policy aims to increase state revenue, reduce the budget deficit, and fund national priority initiatives, including infrastructure development, reducing food dependency, and poverty alleviation. This article demonstrates the efficacy of VAT reform in boosting economic growth through a comparison with Asia-Pacific nations, such as China, Singapore, Japan, and Taiwan. The study's findings suggest that increasing the VAT may enhance state revenue but also reduce people's purchasing power and exacerbate social inequality, particularly in rural areas. To mitigate the effects and improve the effectiveness of policy implementation, this study also identifies best practices from other countries, such as China's incremental changes and Singapore's digitalization of the tax system, which can be applied in Indonesia. This article suggests that Indonesia's VAT increase will generate state revenue but disproportionately burden lower-income populations and deepen inequality unless accompanied by compensatory social protection mechanisms and progressive reforms informed by comparative experiences in the Asia-Pacific region.

Keywords: VAT Increase, Economic Growth, Tax to GDP Ratio, VAT Policy Reform, Asia-Pacific Studies

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I. INTRODUCTION

After the election of Prabowo Subianto as President of the Republic of Indonesia and Gibran Rakabuming Raka as Vice President, announced on 20 March 2024, it became the hope of 284 million Indonesians. The primary objective of the new government is to enhance the independence of tax agencies and increase state revenues through the establishment of the State Revenue Agency (Badan Penerimaan Negara). The establishment of this agency is expected to increase the tax-to-GDP ratio by 23%. As of December 2024, Indonesia's tax-to-GDP ratio stood at 9.5%.[2]

The policies set by the government have become a public discussion, one of which has become a polemic, is the increase in Value Added Tax or VAT by 12 per cent, which has been stipulated in Article 7 Paragraph 1 of Law Number 7 of 2021, drafted during the administration of former President Jokowi, which was implemented on 1 January 2025. This policy was taken as an effort to increase state revenues, especially after the COVID-19 pandemic, to meet the needs and fiscal budget of the new government.

In addition, the VAT tax increase policy is motivated by fiscal optimization to support 17 priority government programs which concentrate on food, energy, and water self-sufficiency, poverty eradication, health service guarantees, education and science, defence and security, acceleration of development of the Indonesian Capital City, and also other programs related to the national economy. Meanwhile, based on a press conference delivered by the Minister of Finance of the Republic of Indonesia, Sri Mulyani, on 14 August 2024, she stated that the state deficit in July 2024 was IDR 93.4 trillion, equivalent to 0.41 percent of the 2024 GDP target.

Based on the background description above, the author attempts to compile several questions that may serve as a basis for argumentation, including the following: How does the increase in Value Added Tax (VAT) impact economic growth in Indonesia, and to what extent does this policy affect economic growth? Following up on the question, what lessons can be learned from the VAT policy reform in Asia-Pacific Countries (China, Singapore, Japan, and Taiwan) to support Indonesia's economic growth in facing the challenges of the VAT increase?

At every level of production or distribution, the value added to products and services is subject to a consumption-based tax known as a value-added tax, or VAT. VAT has been the subject of extensive research on various aspects, including its design, effectiveness, equity implications, and impact on economic behaviour, as it is a significant source of government revenue in countries worldwide. The most prevalent type of general indirect tax in use today is the Value Added Tax (VAT), also known as the Goods and Services Tax (GST) in specific fiscal systems.

The current indirect taxes, such as those practiced by Malaysia and India, are being actively studied or are planned for implementation. VAT is used in all six countries

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[2] For more details about the tax-to-GDP ratio of Indonesia and other countries in the world, please see: CEIC Data, 'Indonesia Tax Revenue: % of GDP, 2014 – 2025', 2025, https://www.ceicdata.com/en/indicator/ indonesia/tax-revenue--of-gdp.

in ASEAN and the neighbouring Pacific region.[3] In a historical context, the idea of value-added tax (VAT) was first proposed by Wilhelm von Siemens, a German businessman. The idea was put forward in 1918, which he called 'refinement' or referred to as improving the German cascading turnover tax.. In addition, the term VAT was coined by an economist from the USA, T. S. Adams, who wrote about VAT in 1921; he proposed the VAT invoice credit method as an alternative to business income tax.[4] VAT was implemented in France in 1954 and has been adopted by more than 160 countries worldwide. Furthermore, in 1967, the European Economic Community (EEC) adopted VAT as a standard sales tax. [5]

Most OECD countries rely on VAT as their second or third most significant source of revenue, following income and social security taxes. According to the most recent OECD data[6], consumption taxes are the largest source of tax revenue for OECD countries. Consumption taxes account for 32.3% of countries' total tax collections. This is hardly surprising, given that all OECD nations (except the United States) have relatively high Value Added Tax (VAT) rates. Between 1965 and 2009, VAT income as a share of overall tax revenue climbed from an unweighted average of 1.8% to 19.2% across the OECD. [7]

The implementation of Value Added Tax (VAT) is based on its efficiency in reducing tax evasion compared to traditional sales taxes, as well as its ability to generate substantial revenue.[8] Furthermore, their study concluded that Value Added Tax (VAT) generally improves tax efficiency and revenue mobilization, with benefits varying across countries based on factors such as income levels, openness, and administrative capacity. At the same time, regional dynamics, agricultural dependency, and federal governance structures influence its implementation.[9] Meanwhile, Bird and Gendron[10] emphasized that the implementation of VAT is often motivated by fiscal pressures and the need for tax modernization in developing countries.[11]

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[3] CEIC Data, 'Indonesia Tax Revenue: % of GDP, 2014 – 2024'; Jonathan Baldry, 'Added Taxes in the ASEAN-Pacific Region', *Malaysian Management Journal* 8, no. 2 (2004): 87–101.

[4] Thomas S. Adams, 'Fundamental Problems of Federal Income Taxation', *The Quarterly Journal of Economics* 35, no. 4 (1921): 527.

[5] The Second Council Directive of April 11 1967, provided the details for the new system (by, for example, outlining concepts such as taxable transaction and place of supply) but gave Member States considerable scope to determine the content of their domestic VATs with the freedom to determine their own VAT rate structure and exemptions: Second Council Directive 67/228/EEC of April 11 1967 on the Harmonisation of Legislation of Member States Concerning Turnover Taxes–Structure and Procedures for Application of the Common System of Value Added Tax (1967).

[6] OECD, *Consumption Tax Trends 2024: VAT/GST and Excise, Core Design Features and Trends* (OECD Publishing, 2024), https://doi.org/10.1787/dcd4dd36-en.

[7] OECD, *Consumption Tax Trends 2012: VAT/GST and Excise Rates, Trends and Administration Issues* (OECD Publishing, 2012), 65.

[8] Michael Keen and Ben Lockwood, 'The Value Added Tax: Its Causes and Consequences', *Journal of Development Economics* 92, no. 2 (2010): 138–51.

[9] Keen and Lockwood, 'The Value Added Tax: Its Causes and Consequences'.

[10] Richard Bird and Pierre-Pascal Gendron, *The VAT in Developing and Transitional Countries* (Cambridge University Press, 2007).

[11] Bird and Gendron, *The VAT in Developing and Transitional Countries*.

The discussion on how VAT affects economic growth has been a long debate. Some argue that by encouraging investment and consumption, Value Added Tax (VAT) can increase economic growth. Others argue that VAT can hinder growth by increasing the cost of living and inhibiting production. There is conflicting empirical data on this topic.[12] Furthermore, Rioja & Velev[13], in their study "Value Added Tax and Economic Growth: Evidence from OECD Countries," provide empirical evidence suggesting that VAT can hurt economic growth by increasing production costs and reducing competitiveness.[14]

Other studies have found that VAT has a considerable negative impact on economic growth in emerging nations, primarily due to the reduction in productivity and the shifting of the tax burden from producers to consumers.[15] Adereti *et al.*[16] empirically evaluated the effect of Value Added Tax (VAT) on GDP between 1994 and 2008.[17] In addition, Yusuf *et al.*[18] concluded that VAT, domestic investment, and trade openness have a positive and significant impact on Nigeria's GDP; in the long run, a 1% increase in VAT contributes to a 3.99% increase in GDP, indicating its potential to mobilize revenue sustainably if well designed and implemented.[19]

The influence of Value Added Tax (VAT) hikes on economic growth in Indonesia and a few other Asia-Pacific nations (China, Singapore, Japan, and Taiwan) is examined in this paper using a comparative case study methodology. The goal of the study is to identify similarities and trends in the implementation of policies, economic outcomes, and socioeconomic effects across these countries. A thorough analysis of numerical data and contextual insights is ensured via a mixed-methods approach that combines quantitative and qualitative investigations. Therefore, the research utilizes both primary and secondary data sources, for instance, based on economic indicators from reliable sources, including the World Bank, OECD, IMF, and national statistical agencies, such as GDP growth rates, tax-to-GDP ratios, poverty rates, inflation rates, and unemployment rates.

Secondly, by utilizing government papers and policy documents, including an evaluation of fiscal changes and VAT laws in Indonesia and comparative nations. Then, compare with historical and contemporary datasets, including Trade balances, sectoral growth rates, and patterns in public spending from 2010 to 2024. Hence, this

[12] Felix Rioja and Neven Valev, 'Does One Size Fit All?: A Reexamination of the Finance and Growth Relationship', *Journal of Development Economics* 74, no. 2 (2004): 429–47.

[13] Rioja and Valev, 'Does One Size Fit All?: A Reexamination of the Finance and Growth Relationship'.

[14] Rioja and Valev, 'Does One Size Fit All?: A Reexamination of the Finance and Growth Relationship'.

[15] Seyed Hossein Ghaffarian Kolahi and Zaleha Bt Mohd Noor, 'The Effect of Value Add Tax on Economic Growth and Its Sources in Developing Countries', *International Journal of Economics and Finance* 8, no. 1 (2015): 217.

[16] S. A. Adereti et al., 'Value-Added Tax and Nigeria's Economic Growth', *European Journal of Humanities and Social Sciences* 10, no. 1 (2013): 456–71.

[17] Adereti et al., 'Value-Added Tax and Nigeria's Economic Growth'.

[18] Hammed Agboola Yusuf et al., 'Causality between VAT and Economic Growth in Nigeria: An ARDL Bounds Testing Approach', *Journal of Emerging Economies and Islamic Research* 6, no. 1 (2018): 55–67.

[19] Yusuf et al., 'Causality between VAT and Economic Growth in Nigeria: An ARDL Bounds Testing Approach', 55.

acknowledges certain limitations, including the consistency and accessibility of data across nations and time periods, as well as variations in economic contexts and governance systems that could restrict the direct applicability of the findings. Although correlations are studied, it remains challenging to establish causation in observational data.

II. BEYOND DEVELOPMENT LEVELS AND THE DILEMMA OF VAT INCREASE AND ECONOMIC GROWTH

A central critique often levied against comparative political economy is the assumption that only "like" countries—those at similar stages of development—can be meaningfully compared. While Indonesia is a lower-middle-income developing nation, Japan, Singapore, and Taiwan are high-income, technologically advanced economies. This very contrast is not a flaw, but rather the core analytical strength of this study. Drawing from Peter Evans[20] concept of "*developmental states*" and Amsden's[21] thesis on "*late industrialization*," this article argues that the trajectory of economic growth in the Asia-Pacific is not linear but shaped by state capacity, institutional design, and strategic fiscal intervention—factors that transcend GDP per capita.

Indonesia's current VAT policy shift—from 11% to 12% in 2025—is not merely a revenue-raising mechanism but a critical juncture in its state-building process. It reflects a broader ambition to emulate the fiscal modernization seen in its regional peers. Nevertheless, unlike direct comparisons based solely on income levels, this study adopts a "*most different systems, similar outcomes*" logic.[22] Despite divergent starting points, all four economies—Indonesia, China, Japan, Singapore, and Taiwan—have relied on state-led development models where taxation is not just a fiscal tool but a political instrument of transformation.

Singapore, for instance, uses its Goods and Services Tax (GST) not only to fund public services but to steer social behavior—encouraging savings and discouraging consumption, consistent with its productivist welfare regime.[23] Japan's consumption tax, introduced in 1989, was part of a broader fiscal restructuring aimed at addressing aging and debt, illustrating how VAT can serve as a crisis-response mechanism in advanced economies. Taiwan, despite its export-led model, maintains a relatively low 5% VAT, prioritizing competitiveness and social stability over revenue maximization. China, meanwhile, has used gradual VAT reforms since 1994 to dismantle fragmented

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[20] Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton University Press, 2012), https://www.jstor.org/stable/j.ctt7t0sr.

[21] Alice Hoffenberg Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (Oxford Academic, 1992), https://doi.org/10.1093/0195076036.001.0001.

[22] Todd Landman, *Issues and Methods in Comparative Politics: An Introduction*, 3rd edn (Routledge, 2008), https://doi.org/10.4324/9780203929780.

[23] Ian Holliday, 'Productivist Welfare Capitalism: Social Policy in East Asia', *Political Studies* 48, no. 4 (2000): 706–23.

local taxes and consolidate central fiscal authority—mirroring Indonesia's current ambition to establish a National Revenue Agency (Badan Penerimaan Negara).

Thus, the comparison is not based on economic parity but on a shared developmental logic: the use of indirect taxation as a lever for state capacity building, economic restructuring, and social engineering. As Amsden[24] reminds us, late industrializers do not follow the same path as early developers; they leapfrog through strategic policy imitation and adaptation. Indonesia is not seeking to become Japan or Singapore overnight. However, it is learning from their institutional pathways—particularly in how they managed public resistance, phased reforms, and digitalized tax systems.

This comparative lens allows us to debunk the myth that economic growth automatically follows tax increases. Instead, growth depends on how the state collects, administers, and allocates tax revenue—a function that is influenced by political will, bureaucratic efficiency, and social legitimacy. The myth lies not in the potential of VAT to raise revenue, but in the assumption that revenue alone translates into development. As the cases show, without institutional maturity, even high VAT rates yield low developmental returns.

The debate over Value-Added Tax (VAT) and economic growth has long been dominated by macroeconomic models that treat tax policy as a neutral, technical instrument. Mainstream literature, such as Keen & Lockwood[25], emphasizes VAT's efficiency in reducing evasion and boosting revenue, while critics like Rioja & Valev[26] warn of its regressive impact on growth.

Besides, greater political stability and less polarization enhance VAT collection efficiency. A one standard deviation improvement in the stability of political regimes and the fluidity of political participation can raise the VAT collection efficiency by 3.1% and 3.6%, respectively.[27] However, these studies often neglect the political economy context—the interplay between state institutions, elite interests, and public trust—that determines whether a VAT hike becomes a tool of development or a source of social friction.

This article moves beyond this dichotomy by integrating development theory with comparative fiscal sociology. It draws on Migdal's[28] "state-in-society" framework, which posits that state power is not absolute but negotiated through everyday practices, including tax compliance. In Indonesia, where the tax-to-GDP ratio remains at a mere 9.5%[29], the state's fiscal reach is weak, not due to cultural resistance but rather because of institutional fragmentation and elite capture. The proposed VAT increase is thus not

[24] Amsden, *Asia's Next Giant: South Korea and Late Industrialization*.
[25] Keen and Lockwood, 'The Value Added Tax: Its Causes and Consequences'.
[26] Rioja and Valev, 'Does One Size Fit All?: A Reexamination of the Finance and Growth Relationship'.
[27] Joshua Aizenman and Yothin Jinjarak, 'The Collection Efficiency of the Value Added Tax: Theory and International Evidence', *The Journal of International Trade & Economic Development* 17, no. 3 (2008): 391–410.
[28] Joel S. Migdal, *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World* (Princeton University Press, 1988).
[29] CEIC Data, 'Indonesia Tax Revenue: % of GDP, 2014 – 2024'.

just a budgetary policy but a project of state consolidation—an attempt to reclaim authority over revenue collection from overlapping bureaucracies and local fiefdoms.

The methodology follows a qualitative comparative case study design, analysing Indonesia alongside China, Singapore, Japan, and Taiwan—not for statistical generalization, but for theoretical insight. The selection is purposive: these economies represent different models of state intervention in development. China exemplifies gradualist, centralized reform; Singapore, technocratic efficiency; Japan, crisis-driven adaptation; and Taiwan, export-oriented pragmatism. Indonesia, caught between aspiration and implementation, offers a critical test case.

Data are drawn from the OECD, IMF, World Bank, and national statistical agencies; however, the analysis prioritizes narrative coherence over data density. Rather than presenting tables of VAT rates, which are readily available elsewhere, this study focuses on how each country managed the political risks of tax reform. For example, Singapore introduced GST in 1994 at 3%, then increased it in small increments (4% in 2003, 5% in 2007, 7% in 2018, 8% in 2023, 9% in 2024), always coupling hikes with targeted cash transfers to low-income households. This policy "*compensate and communicate*" strategy ensured public acceptance.

In contrast, Indonesia's abrupt jump from 10% to 11% in 2022 and now to 12% in 2025—without a clear social safety net—risks eroding public trust. As the Executive Director of the Indonesian Textile Association noted in early 2025, the government responded "*a bit late*" to public concerns, suggesting a top-down, technocratic approach that was disconnected from social realities.[30]

The methodological contribution lies in shifting the unit of analysis from tax rates to institutional processes. How is VAT administered? Who benefits from exemptions? How is public resistance managed? These questions sit at the intersection of economics and politics, where development truly unfolds.

The government of the Republic of Indonesia's move to increase the VAT tax has sparked debates among policymakers, academics, the general public, and business actors. The reason for the budget deficit is one of the key factors in determining whether to increase the VAT. Secondly, this is due to the effort to make adjustments with member countries of the Organisation for Economic Co-operation and Development (OECD), which have an average VAT rate of 15%.

According to the OECD[31] report, the development of VAT rates in the OECD can be divided into four significant periods. The average standard VAT rate increased gradually from 15.6% in 1975 to 18.1% in 2000. During the second decade, from 2000 to 2008, the standard VAT rate remained steady in most nations, with 26 of the 37 member states implementing VAT, maintaining rates between 15% and 22%.

[30] Ni Luh Anggela, 'Respons Pengusaha Setelah Pemerintah Ubah Kebijakan PPN 12%', *Bisnis.Com*, 1 January 2025, https://ekonomi.bisnis.com/read/20250101/9/1828216/respons-pengusaha-setelah-pemerintah-ubah-kebijakan-ppn-12.

[31] OECD, *Consumption Tax Trends 2024: VAT/GST and Excise, Core Design Features and Trends*.

As of 1 January 2008, only four countries had standard rates above 22% (Denmark, Iceland, Norway, and Sweden).[32] In 2024, standard VAT rates in OECD countries climbed slightly to 19.3% on average, up from 19.1% in 2023 and 19.2% in 2022. Three OECD countries raised their standard VAT rates: Turkey (from 18% to 20% in 2023) and Estonia (from 20% to 22% in 2024).

The 2025 fiscal policy sets Indonesia's state revenue at 12.08–12.77 percent of GDP, state spending at 14.21–15.22 percent, primary balance at 0.07–minus 0.40 percent, and deficit at 2.13–2.45 percent of GDP, assuming a 12 percent increase in VAT. The third reason is that implementing a 12 percent VAT is expected to reduce the country's reliance on foreign debt and maintain long-term economic stability.

III. INDONESIA'S ECONOMIC CONDITION

According to the report presented by Bank Indonesia, Indonesia's foreign debt reached $414.3 billion in July 2024, representing a 4.1% annual growth. The allocation of foreign debt includes managing several budget items, including the Government Administration, Defense, and Compulsory Social Security sectors (18.9%); Education Services (16.8%); Construction (13.6%); Financial Services and Insurance (9.4%); and the Health Services and Social Activities Sector (20.9%).[33] One of the dilemmas that arises is that the increase in VAT will not be precisely targeted, as the government does not yet have a clear priority scale for managing VAT tax funds to meet the community's needs. This policy can limit the quality of public services and also the basic needs of the community. It needs to be seen critically that Indonesia's fiscal allocation is burdened by high foreign debt, which, as of January 2024, was recorded at $ 405.7 billion, with an average annual growth rate of 0.04%.

In addition, the VAT increase policy still ignores substantive matters, especially efforts to reduce the poverty rate. The increase in VAT is feared to lead to a rise in the prices of essential goods and services, affecting people's consumption and purchasing power. The number of people living in poverty in March 2024 was 25.22 million. The percentage of urban poor people in March 2024 was 11.64 million, or 7.09 percent. Meanwhile, the number of poor rural people was 13.58 million. The percentage of urban poor people in March 2024 was 11.64 million, or 7.09 percent. Meanwhile, the number of poor rural people was 13.58 million. The Poverty Line in March 2024 was recorded at IDR 582,932 per capita/month, with the composition of the food poverty line at IDR 433,906 (74.44%) and the non-food poverty line at IDR 149,026 (25.56%).

According to Indonesia's regional distribution, Java Island has the most significant number of poor people, specifically 13.24 million, comprising 7.22% in urban areas and 11.32% in rural areas. Meanwhile, the highest percentage of poverty was recorded in the Maluku and Papua regions, where the poor population in rural areas

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[32] OECD, *Consumption Tax Trends 2024: VAT/GST and Excise, Core Design Features and Trends*.
[33] Yusuf et al., 'Causality between VAT and Economic Growth in Nigeria: An ARDL Bounds Testing Approach', 55.

reached 26.32% and in urban areas 6.16%. On the other hand, Kalimantan has the lowest poverty rates, specifically 4.27% in urban areas and 6.61% in rural areas. The disparity between urban and rural areas is quite significant on all islands. In Sumatra, the percentage of people living in poverty in rural areas (10.05%) is higher than in urban areas (7.68%). A similar pattern is also observed in Bali, Nusa Tenggara, Sulawesi, and Java. These data show that the challenges of poverty in Indonesia are still concentrated in rural areas, with Maluku-Papua as the region with the most severe poverty rates.

The increase in VAT to 12 percent has raised concerns among businesspeople. The existence of a fiscal policy that is not well-coordinated at the cabinet and presidential levels could be dangerous. One of the views expressed by the Executive Director of the Indonesian Textile Association (API), Danang Girindrawardana, was that the steps taken by the Head of State ahead of the implementation of a 12% VAT on 1 January 2025, showed that the government had heard the complaints of the public and businesspeople. "... although it is a bit late because goods could have already increased," Danang told Bisnis on Wednesday (1/1/2025).[34] On the other hand, the VAT increase policy must be assessed objectively in light of Indonesia's economic conditions.

Indonesia's economic indicators from 2019 to 2028 using data from the IMF. With GDP growth in PPP rising from 3,331.6 billion USD in 2019 to 6,171.7 billion USD in 2028, the Indonesian economy is generally on the rise. This is also evident in nominal GDP, which grew steadily over the same period, from $1,119.5 billion to $2,093.5 billion USD. This expansion reflects the rising purchasing power and the increasing strength of the Indonesian economy internationally.

PPP and nominal GDP per capita also increased significantly, suggesting that people's welfare has increased. Aside from 2020, when the COVID-19 pandemic caused a 2.1% contraction, Indonesia's real GDP growth rate has been steady, averaging 5% per year. Following that, there was a robust recovery, and growth resumed its favourable trajectory. Inflation in Indonesia is under control; it peaked in 2022 at 4.2% and then stabilized below 2.5% in the years that followed. Due to improvements in the labour market, Indonesia's unemployment rate also significantly decreased, going from 7.1% in 2020 to 5.1% in 2028.

After reaching a peak of 37.9% in 2021, Indonesia's government debt as a percentage of GDP began to decline, likely due to fiscal policies aimed at mitigating the effects of the pandemic. In 2028, this figure fell to 35.4%, indicating improved budgetary management. All things considered, these figures demonstrate that the nation's economy has successfully recovered from the pandemic's effects and is exhibiting sustainable growth, characterized by controlled inflation, declining unemployment, and more effective debt management. Meanwhile, Indonesia's GDP per capita, expressed in nominal US dollars, represents the average economic income per person in nominal

[34] The content of the interview can be seen in the media interview reviewed in the Bisnis.com article entitled "Entrepreneurs' Response after the Government Changes the 12% VAT Policy" Click here for more details: Anggela, 'Respons Pengusaha Setelah Pemerintah Ubah Kebijakan PPN 12%'.

terms, without accounting for variations in purchasing power across nations, which is crucial for assessing the standard of living of its citizens worldwide.

Indonesia's nominal GDP per capita shows an increasing trend from USD 4,194.1 in 2019 to USD 7,228.3 in 2028. The data illustrate that the average income per person has increased by approximately 72.3% over nearly a decade. However, this increase is not linear. In 2020, nominal GDP per capita fell to USD 3,931.0, reflecting the impact of the COVID-19 pandemic, which weakened economic activity. After that, nominal GDP per capita recovered with stable growth, supported by the post-COVID-19 economic recovery and nominal GDP growth. The increase in nominal GDP per capita indicates an overall improvement in the economy, which should also improve people's living standards. However, wealth distribution and inflation remain factors that must be considered in a more in-depth analysis.

Indonesia's exports and imports of goods and services in 2018 remained stable at around 20% of GDP, with no significant fluctuations. However, in 2019, Indonesia's leading commodity exports began to decline gradually, reaching below 20% of GDP by the end of the year; the decline in exports was likely influenced by increasing global uncertainty, including the trade war between the United States and China and the slowdown in the worldwide economy. Meanwhile, in 2020, the COVID-19 pandemic caused significant disruptions in international trade. Indonesia's commodity exports plunged sharply to around 15% of GDP due to disruptions to the global supply chain and weakening international demand. At the same time, Indonesia's imports also fell significantly as domestic economic activity declined due to mobility restrictions and lockdowns in many countries.

In 2021, Indonesia experienced a significant export recovery, returning to pre-pandemic levels and accounting for more than 20% of its GDP. This recovery is supported by increasing demand for Indonesian commodities in the global market, especially from countries that have optimally vaccinated their populations and reopened their economies. Indonesian imports are also slowly recovering, driven by increased domestic consumption and the need for raw materials to support domestic production activities. The surge in commodity prices in the second half of 2021, triggered by supply chain disruptions and high demand for energy and raw materials, also boosted trade performance. In 2022, Indonesia's commodity exports reached 25% of the country's GDP. This surge was mainly driven by a sharp increase in global commodity prices due to geopolitical tensions, including international conflicts (which occurred in Eastern Europe) and the energy crisis that exacerbated the global supply imbalance.

However, in 2023, commodity prices fell drastically to levels close to those before the 2022 surge. Stabilizing global supply and easing geopolitical tensions were the primary factors contributing to this decline. As a result, exports declined sharply to below 20% of the country's GDP, reflecting its high dependence on commodity-based exports. In contrast, imports remained stable and increased slightly, indicating a strong recovery in domestic consumption. In 2024, exports began to stabilize at a lower level than their peak in 2022, around 18-19% of GDP. This stability indicates a market adjustment to more moderate commodity prices. Meanwhile, Indonesia's imports continued to increase slowly, reflecting strong domestic consumption and the need for raw materials for production. Commodity prices are stable, indicating that the global market has reached a new equilibrium following the large fluctuations of the previous two years.

Indonesia's leading economic indicators, namely headline inflation, policy rate, and real exchange rate, from 2020 to 2024. Headline inflation experienced significant fluctuations throughout this period. In early 2020, inflation was around 3%, but it gradually declined to nearly 2% by the end of 2021. However, in 2022, there was a sharp spike to a peak of around 6%. This spike likely reflects inflationary pressures stemming from external factors, such as supply chain disruptions or sudden increases in global energy prices. After reaching its peak, inflation showed a significant decline throughout 2023 and stabilized below 2% in 2024.

The policy interest rate was relatively stable at 4% from 2020 to early 2022. However, the spike in inflation in 2022 prompted the central bank to raise interest rates aggressively to 6%. This move is part of a tight monetary policy aimed at suppressing inflationary pressures. The interest rate hike will be maintained until the end of 2024, despite inflation having been successfully brought under control. This policy appears to be aimed at maintaining macroeconomic stability and preventing inflation from resurging.

Meanwhile, the real exchange rate exhibits high volatility at the beginning of the period, particularly in 2020, when it surged to nearly 110 before plummeting drastically below 95. This fluctuation reflects market instability in the early days of the COVID-19 pandemic. Since 2021, the real exchange rate has been relatively stable, ranging from 100 to 103, although it still exhibits some fluctuating movements. This stability likely reflects the success of monetary policy in controlling inflation and maintaining market confidence in the domestic currency.

IV. VAT POLICY REFORM IN ASIA-PACIFIC

The Provisional Regulations on Value Added Tax of the People's Republic of China, announced by the State Council in late 1993 and effective in 1994, constituted the first VAT regulation in China, with a standard rate of 17%. The second phase of VAT reform was introduced in 26 cities across six provinces in central China—Shanxi, Anhui, Jiangxi, Henan, Hubei, and Hunan—in 2007. Following the catastrophic Sichuan earthquake in 2008, the system quickly spread to southern China.[35] Furthermore, the goal of tax reform in China in 2008 was to provide relief to domestic enterprises amid the global financial crisis; new input credits were introduced to encourage Chinese

[35] Lorenzo Riccardi and Giorgio Riccardi, *China VAT: Regulations and Reforms.* (Springer, 2020), https://doi.org/10.1007/978-981-15-5967-9.

companies to invest in more technologically advanced areas. The simplified VAT rate was cut from 6.4% to a flat rate of 3%.[36]

In 2011, two major VAT reforms were implemented: the first was the Land VAT reform, followed by local tax reform in Shanghai, which aimed to eliminate Business Tax in favour of VAT. This policy is a pilot project aimed at addressing the issue of double taxation under the current system and promoting the growth of specific service industries in Shanghai. The pilot program was initially applied to select areas, such as transportation and numerous "*modern services*". Two significant VAT reforms were implemented in 2011: the Land VAT reform and the Shanghai local tax reform, which sought to replace the Business Tax with VAT. This pilot project aimed to promote the growth of specific service businesses in Shanghai and address the issue of double taxation under the current system.

Then, in May 2018, the Chinese government implemented more VAT reforms, including three key revisions to the VAT policy. (i) The VAT rate was cut from 17 and 11% to 16%, and 10%, but the base rate of 6% in the service sector remained intact. (ii) The annual turnover thresholds of RMB 500,000 and RMB 800,000 for small-scale VAT taxpayers in the manufacturing and trade sectors were combined and dramatically raised to RMB 5,000,000. (iii) The scope of the surplus input tax refund was increased.[37] The Standing Committee of the 14th National People's Congress (NPC) passed the Value-Added Tax (VAT) Law on 25 December 2024, and it will take effect on 1 January 2026. VAT is China's most significant tax, accounting for a substantial portion of state revenue. According to data from the Ministry of Finance, domestic VAT revenue reached over RMB 6.9 trillion in 2023, accounting for almost 38% of the total national tax collection.[38] In the first 11 months of 2024, VAT income was approximately ¥6.1 trillion, with a comparable share. VAT has a direct impact on corporate activity and consumer spending, with over 60 million taxpayers and a wide range of applications encompassing products, services, and property. Because of its broad scope, politicians and the general public are deeply concerned about the VAT legislation process.

According to the new regulation of China's Value Added Tax (VAT) Law, which took effect on 1 January 2026, there are no immediate changes to the current VAT rates. The existing rate structure is maintained, namely a standard rate of 13% for general goods and services, a lower rate of 9% for specific categories such as construction services, transportation, catering, property, certain agricultural products, and books and electronic publications, and the lowest rate of 6% for financial and insurance services, information technology, intangible assets such as trademarks and copyrights, and research and development services.[39] The new regulation also provides the government with the flexibility to adjust or add facilities related to VAT rates to support specific sectors as needed in the future. Thus, even though there is no immediate change in rates,

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[36] Riccardi and Riccardi, *China VAT: Regulations and Reforms.*, 42–43.
[37] Riccardi and Riccardi, *China VAT: Regulations and Reforms.*, 41–45.
[38] China Briefing, 'China Passes Its First Value-Added Tax Law', *China Briefing News*, 25 December 2024, https://www.china-briefing.com/news/china-passes-its-first-value-added-tax-law/.
[39] China Briefing, 'China Passes Its First Value-Added Tax Law'.

the new policy still leaves open the possibility of adjusting rates to stimulate economic activity or support specific strategic sectors. As businesses and individuals prepare for the adoption of the VAT Law in 2026, their focus will shift to the intricacies of the impending law and its implications for taxpayers. Policymakers and tax authorities will concentrate on ensuring a seamless transition to the new legal framework and maintaining stability in tax policy and compliance processes.

Table 1 Comparison table of the VAT structure between Indonesia and the Asia-Pacific Countries

No	Aspect	Indonesia	China	Singapore	Japan	Taiwan
1	Regulation	VAT Law (PPN)	VAT Regulation under the VAT and BT Law	Goods and Services Tax Act	Consumption Tax Act	Value-Added and Non-Value-Added Business Tax Act
2	Standard Tax Rate	11%11% (as of 1 April 2022), 12% in January 2025)	13% (general); 9% (specific)	2024 GST rate change from 8% to 9%	10%	5%
3	Special Tax Rates	0% for exports; 1% for small enterprises	0% for exports; reduced rate 9%	Zero-rated for exports and international services	Reduced rates are not common	0% for exports
4	Scope of Taxable Goods/Services	Goods and most services	Goods, services, imports	Goods and services	Goods, services, and intangible assets	Goods and services
5	Exempted Goods/Services	Basic needs, education, health, and public services	Financial services, education, and healthcare	Residential properties, financial services	Educational, welfare, and public services	Education, health, and cultural services
6	Tax Exemption for	Public interest, non-profits	Small-scale taxpayers, agriculture	Diplomatic missions, specific transactions	Diplomatic missions, small businesses	Non-profits, agricultural businesses
7	Input VAT Deductibility	Allowed for taxable transactions	Allowed for most taxable items	Allowed fully for taxable supplies	Allowed for taxable supplies	Allowed specific rules apply
8	Tax Credit System	Credits excess VAT against output tax	Offset against output VAT	Input tax deduction allowed	Offset for taxable transactions	The tax credit system operates similarly
9	Application Rate for MSMEs	1% simplified regime. Small businesses are not required to collect VAT if their turnover is ≤ IDR 4.8 billion per year	3% for small-scale taxpayers. Small companies are not required to collect VAT if their turnover is ≤ RMB 5 million per year.	GST registration threshold: SGD 1 million. (VAT-inclusive turnover of taxable supplies < US$607,400)	Small businesses are exempt if revenue is low	Small-scale businesses exempt
10	Tax Refund Process	Complex, for exporters and foreign visitors	Refundable under strict criteria	Efficient system, especially for tourists	Refundable to non-residents	Tourists and specific criteria apply
11	Recent Policy Reforms	Tariff increase from 10% to 11% in 2022 (12% in January 2025)	Multiple reforms consolidating tax rates, Including Tax reform in 2019 and the implementation of Value-Added Tax (VAT), were introduced. On 25 December 2024, simplification of rates and expansion of VAT input deductibility were implemented.	Digital services tax introduced in 2020	E-invoicing reforms in 2022	Digital tax implementation for cross-border services
12	Tax Administration	Semi-digital, e-invoicing is being implemented	Advanced e-invoicing, real-time systems. Rely on the Fapiao invoice system for verification.	Highly digital and efficient,	E-invoicing prevalent	Digitalization ongoing

Sources: The results of the author's analysis of various sources of VAT regulations between Indonesia and Asia-Pacific Countries, 2024

According to an official report from China's Ministry of Finance, China's GDP reached RMB 94,974.6 billion, or approximately US$13,004.3 billion, as of the Q3 2024 economic report, showing a growth rate of 4.6% year-over-year. Despite issues in the real estate sector and sluggish consumer demand, September figures revealed that economic activity had stabilised. The industrial sector expanded by 5.8%, led by high-tech manufacturing (up 9.1%). The service sector experienced a significant recovery, with a 4.7% growth, particularly in information technology and business services. On the one hand, overall imports and exports totalled RMB 32.33 trillion or US$4.43 trillion, up 5.3% year-over-year, with exports rising 6.2%. However, export growth in September slowed to 2.4%, raising concerns about future performance amid escalating trade tensions.

Unlike other nations, Singapore refers to GST (Goods and Services Tax) rather than VAT. GST was initially established in Singapore in April 1994 to alleviate the burden of higher income tax by levying a 3% indirect tax on economic consumption. The GST policy encourages Singaporeans to save. Thus, GST has become a key aspect of the country's economy, accounting for 15% of Singapore's government revenue, which is equivalent to the value of Singapore's government income tax revenue. The Singapore government faced numerous dynamics when setting the GST rate, which was 7% in 2021 and subsequently increased to 9% between 2021 and 2025. Based on its evolution, GST in Singapore underwent two reforms: the 1994 Reform and the 2003/2004 Reform. In 1994, the GST tax rate was 3%. The GST rate was then raised to 5% in 2004 and 4% in 2003 as part of the 2003/2004 reform. Like the 1994 law, the 2003/2004 bill is part of the tax reform plan.

According to a report published by Singapore's Ministry of Finance, tax contributions to the Singapore government's budget spending are primarily allocated to public goods and infrastructure, which is significant, particularly in supporting infrastructure and the development of the business ecosystem. In the fiscal year 2023/24, the majority of government operational expenditure (57%) was spent on improving people's lives (Social Development). The next most significant chunk (31.1%) went to Defence, Home Affairs, and Foreign Affairs (Security & External Relations). The remaining 8.1% and 3.9% were utilised to expand the economy and government administration, respectively.[40] Singapore's fiscal policy refers to how the government collects and spends revenue to influence the economy. Its primary goals are to foster macroeconomic stability, encourage economic growth, and promote social fairness. This strategy is achieved by maintaining a balanced budget, investing for the future, and providing a fair and progressive fiscal system that supports social mobility.

The following outlines the budget allocation, specifically the Government Operating Expenditure for the 2023/2024 fiscal year. The allocation of Singapore government operational expenditure for the 2023/24 financial year is based on the second quarter 2024 economic survey by the Ministry of Finance. The majority of the budget, at 57%, is allocated to social development, reflecting the government's priority on education, health, housing, and social welfare sectors to improve the quality of life of the people. Furthermore, 31.1% of the budget is allocated to security and external relations, encompassing defense, national security, and diplomatic relations, underscoring the importance of national stability and international engagement.[41]

Indeed, 8.1% of the budget is allocated for economic development, encompassing investments in infrastructure, innovation, and technology to foster long-term economic growth. Meanwhile, only 3.9% of the total budget is allocated to government administration, indicating efficiency in the management of government operations. Overall, this allocation reflects the Singapore government's strategic approach to meeting the needs of the people, maintaining stability, and promoting sustainable economic growth.

Taxation is the primary source of revenue for government activities. Driving Economic and Social Goals. Singapore essentially employs a combination of direct and

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[40] Ministry of Finance of Singapore, *Analysis of Revenue and Expenditure: Financial Year 2024* (2024), https://www.mof.gov.sg/docs/librariesprovider3/budget2024/download/pdf/fy2024_analysis_of_revenue_and_expenditure.pdf.

[41] Ministry of Finance of Singapore, *Economic Survey of Singapore, Second Quarter 2024 Ministry of Finance* (2024), https://www.sgpc.gov.sg/api/file/getfile/ESS_2Q25_full%20report.pdf?path=/sgpcmedia/media_releases/mti/press_release/P-20250812-2/attachment/ESS_2Q25_full%20report.pdf.

indirect taxes to fund government spending and achieve economic and social objectives, including a thoroughly progressive tax and transfer system. Taxes, fees, and other revenue sources are the primary sources of government revenue. IRAS-managed tax collections accounted for 77.6% of the government's operational revenue in fiscal year 2023-24. Individuals and corporations pay income tax, goods and services tax (GST). The GST is a consumption tax. The tax is levied when funds are spent on products or services, including imports and exports.

Property tax is levied on property owners based on the estimated rental value of their property. Stamp Duty: This tax is levied on commercial and legal documents on shares, bonds, and immovable property. Gambling Duty: This is a tax on betting, lotteries, sweepstakes, and gaming machines at non-casino establishments. The casino tax is a tax paid on casinos' gross gaming income. Various taxes imposed by the government and administered by different government agencies include Customs, Excise, and Carbon Tax, Motor Vehicle Tax, Vehicle Quota Premium, and fees (excluding Vehicle Quota Premium).

Japan's basic VAT (Consumption Tax) rate is 10.0%, which is lower than the OECD average. The average OECD VAT/GST standard rate as of 31 December 2024, was 19.3%.[42] In 2018, Japan's former standard VAT (CT) rate was 8.0%. In October 2019, it reached its present level. Since October 2019, Japan has additionally implemented a lower VAT (CT) rate of 8% for the delivery of food, specific beverages, and subscription publications. In 1989, Japan implemented VAT (CT) at a standard rate of 3.0%. Since then, the benchmark rates have been set at 3.0% for the minimum and 10.0% for the highest.

According to the *OECD Consumption Tax Trends 2024* report, Japan's VAT revenue ratio (VRR) in 2022 was 0.72 points higher than the OECD average of 0.58. Basically, VRR is a measure of the performance of increasing revenue from the VAT system. If analysed, a ratio of one would indicate a VAT system that applies a single VAT rate to all expenditures on goods and services consumed. Furthermore, Japan's VRR held steady at 0.72 between 2021 and 2022. Meanwhile, the lowest VRR was recorded in 2019 at 0.59 and reached its maximum level in 2015 at 0.73.

The VAT Revenue Ratio between Japan (JPN) and the OECD average from 1990 to 2022. The blue line represents Japan, while the black line shows the OECD average. Overall, Japan consistently has a higher VAT Revenue Ratio than the OECD average throughout the period indicated. In the early 1990s, Japan's ratio was around 0.7, remaining relatively stable until the early 2000s. The ratio then showed a slight increase until it peaked around 2017 before experiencing a sharp decline in 2020, likely influenced by the COVID-19 pandemic. However, the ratio quickly recovered in 2021 and 2022, with the latest figure recorded at 0.72.

On the other hand, the OECD average exhibits a more stable trend, characterized by a gradual increase. Starting at around 0.55 in 1990, the ratio has gradually increased to reach 0.58 in 2022. This increase reflects improvements in the efficiency of tax

[42] OECD, *Consumption Tax Trends 2024: VAT/GST and Excise, Core Design Features and Trends*.

collection in many OECD countries. The primary difference between Japan and the OECD is that Japan has a more effective VAT collection system than the OECD average. However, it is also influenced by external factors, such as the pandemic, particularly in 2020.

Japan's primarily service-oriented economy accounts for over 70% of its GDP, with the industrial sector accounting for the remainder.[43] The IMF estimated the country's per capita GDP (PPP) at $53,059 in 2024.[44] However, as of 2021, Japan has a significantly larger public debt than other wealthy countries, at approximately 260% of its GDP.[45] The majority of this debt is held domestically, with the Bank of Japan owning 45%.[46] Japan's ageing and decreasing population, which peaked at 128.5 million in 2010 and is projected to decline to 122.6 million by 2024, presents considerable economic challenges.

Japan's GDP in billion US$ PPP shows an increasing trend from $5,200.9 in 2015 to $6,908.4 in 2025, reflecting Japan's consistent economic growth despite the decline in 2020 due to the global pandemic. This trend is also reflected in Japan's GDP per capita (PPP), which increases from $40,959.3 in 2015 to $55,970.4 in 2025, indicating an increase in economic well-being per individual. However, Japan's GDP in billion US dollars shows fluctuations, with a significant decline from 2023 to 2024, followed by a slight increase in 2025. A similar trend is observed in GDP per capita (nominal), which experienced a downward trend from 2018 to 2024, followed by a slight recovery in 2025.

Japan's real GDP growth rate also changes, with a steep decrease of -4.1% in 2020 due to the pandemic, followed by a significant recovery of 2.6% in 2021, and remaining stable in the range of 1.0%-2.0% in the subsequent years. Japanese inflation during this period remains under control, with a relatively low and stable rate, except for a spike to 3.3% in 2023. Japan's unemployment rate shows significant improvement, decreasing from 3.4% in 2015 to 2.5% in 2025, reflecting improvements in labour market conditions. However, Japan's government debt-to-GDP ratio increased from 228.3% in 2015 to a peak of 257.2% in 2023 before declining again in 2024 and 2025. This decline suggests that better debt control measures have been implemented in recent years. Overall, this indicates positive economic growth in Japan, accompanied by improvements in public welfare, despite some challenges related to exchange rate stability, inflation, and fiscal sustainability.

Taiwan's tax income as a proportion of GDP was 12.2% in September 2024, according to reports. In comparison to the previous figure of 25.1% for June 2024, this is a decrease. With 199 observations, Taiwan's tax income as a percentage of GDP is

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[43] Shiraishi Shigeaki, 'Column In Fact: The Service Sector in Japan', 31 May 2024, https://www.rieti.go.jp/en/columns/a01_0364.html.

[44] International Monetary Fund, 'World Economic Outlook Database: Report for Selected Countries and Subjects', IMF.Org, October 2024, https://www.imf.org/en/Publications/WEO/weo-database/2024/October.

[45] Mitsuru Obe, 'The Money Pushers: The World Is Embracing Japan-Style Economics', *Nikkei Asia*, 2021, https://asia.nikkei.com/spotlight/the-big-story/the-money-pushers-the-world-is-embracing-japan-style-economics.

[46] Obe, 'The Money Pushers: The World Is Embracing Japan-Style Economics'.

updated every quarter and averages 13.8% from March 1975 to September 2024. The data hit a record low of 7.5% in March 2009 and a record high of 27.9% in June 2023. Taiwan stands out for its quick economic transformation from an agrarian civilization to a high-income, industrialized nation. The Taiwan Miracle is the name used to describe this economic development. The World Bank classifies it as a high-income economy. The International Monetary Fund has classified Taiwan as an advanced economy, ranking it eighth in Asia and twenty-first globally in terms of purchasing power parity.

Information services, financial services, and telecommunications services are Taiwan's top three highest-paying industries as of 2021[47]. According to the Global Entrepreneurship Index (GEI) for 2015, Taiwan's economy was the best in Asia. Many of the same economic problems that other industrialized economies face today also affect Taiwan. Taiwan's future development will need to rely on a further transition to a high-technology and service-oriented economy, given the likelihood that labour-intensive sectors will continue to move to economies with cheaper workforces, including mainland China, the Philippines, and Vietnam. Taiwan's economy employs an indirect tax structure that includes a value-added tax (VAT) and a gross business receipts tax (GBRT).

The top government body in Taiwan, the Ministry of Finance, which is part of the Executive Yuan, is responsible for implementing tax laws and overseeing the distribution and collection of taxes. Both the federal government and local governments impose taxes. The annual real GDP growth (percentage change) of five Asia-Pacific countries, namely China, Singapore, Japan, Taiwan, and Indonesia, over the period 1980 to 2025 (with projections starting from 2024). The graph illustrates the dynamics of economic growth in each country influenced by domestic and global conditions.

China stands out with very high growth rates from the early 1980s to the early 2010s, reflecting its economic transformation from a planned system to an open market economy. During this period, China's growth was often above 10% per year. However, since 2010, its growth has slowed to moderate levels, reflecting structural challenges, including an ageing population, slowing investment, and a shift in focus to domestic consumption. Projections for 2025 indicate a further slowdown, with growth expected to be below 5%.

Singapore, a small and open economy, has shown a volatile growth pattern. Growth is often affected by global economic shocks, such as the Asian Financial Crisis in 1997–98 and the Global Financial Crisis in 2008–09. During the COVID-19 pandemic (2020), Singapore experienced a sharp decline but recovered quickly in the following year. Its growth remains stable at a moderate level in the 2024–2025 projections.

Japan, as an advanced economy, shows a very different growth pattern. After a period of rapid growth following World War II, Japan entered a "Lost Decade" in the 1990s, marked by the bursting of the asset bubble. Since then, its economic growth has stagnated at a very low level, often approaching zero. This is due to a variety of structural factors, including a shrinking population, low productivity, and prolonged deflation.

Projections through 2025 indicate that Japan's growth is expected to remain low. Taiwan has shown a relatively stable growth trend with moderate to high levels. As an export-driven economy, Taiwan experienced a slowdown during the global crisis but has generally maintained healthy growth rates. Despite its slowing growth since 2010, Taiwan remains a strong competitor in the technology sector.

Compared to other countries, Indonesia, as a developing country, has interestingly exhibited a stable and consistent growth pattern, with an average positive growth rate over the last four decades. However, the impact of the Asian Financial Crisis in 1997-1998 was very significant for Indonesia, with GDP growth contracting by -15%. After the crisis, Indonesia recovered quickly and maintained a healthy growth rate, including during the COVID-19 pandemic, where its economic recovery was relatively fast compared to other countries. Projections until 2025 indicate that Indonesia will maintain moderate growth above 5%.

Overall, this graph illustrates the variations in economic structure and responses to global dynamics across different countries. China stands out in terms of high growth, although its rate has slowed down over the last decade. Singapore and Taiwan show economic resilience, although vulnerable to external shocks. Indonesia exhibits good financial stability and resilience, whereas Japan faces ongoing economic stagnation. Projections until 2025 show a general slowdown trend across countries, reflecting increasingly complex global challenges.

The central myth this article debunks is that economic growth is a mechanical outcome of fiscal policy, that raising VAT automatically leads to higher revenue, better infrastructure, and national development. The evidence from the Asia-Pacific shows otherwise. Growth is not a function of tax rates, but of how the state uses its fiscal power to build trust, reduce inequality, and strengthen institutions. In Indonesia, the 12% VAT hike may increase revenue, but without transparency, digital efficiency, and social protection, it risks becoming a regressive burden on people experiencing poverty. With 25.22 million people living below the poverty line[48] and rural poverty rates exceeding 11% in Java and 26% in Papua, a flat VAT increase will disproportionately affect those who spend a larger share of their income on taxed goods and services.

The lessons from the region are clear: successful VAT reforms are not sudden but gradual, not isolated but embedded in broader institutional transformation. China's phased reforms since 1994 were tied to industrial upgrading and the centralization of tax authority. Singapore's GST increases were paired with universal cash transfers and housing subsidies. Japan's 2019 hike to 10% was delayed for years due to fears of consumer backlash, showing that even advanced states must negotiate legitimacy. For Indonesia, the path forward is not to mimic these countries' tax rates, but to emulate their strategic patience and institutional coherence. The proposed National Revenue Agency must be more than a bureaucratic reshuffle—it must become a modern,

[48] BPS-Statistics Indonesia, 'Persentase Penduduk Miskin Maret 2024 Turun Menjadi 9,03 Persen.', 2024, https://www.bps.go.id/id/pressrelease/2024/07/01/2370/persentase-penduduk-miskin-maret-2024-turun-menjadi-9-03-persen-.html.

transparent, and accountable institution capable of enforcing compliance while protecting the vulnerable.

Moreover, the state must move beyond fiscal optimization to fiscal justice. This means exempting basic food items, expanding e-invoicing to curb evasion, and allocating VAT revenues to poverty-alleviation programs with measurable outcomes. As the data shows, Indonesia's economy is growing—projected real GDP growth remains above 5%[49]—but growth without equity is unsustainable. The accurate measure of economic growth is not in GDP figures or tax ratios, but in whether the state can transform revenue into public trust and inclusive development. The VAT hike is not the end goal, but a means to a larger end: the construction of a capable, legitimate, and responsive developmental state. That is the myth we must not only debunk—but replace with a more humane and realistic vision of progress.

V. CONCLUSION

The increase in VAT in Indonesia can increase the tax-to-GDP ratio, but the positive impact depends on the effective management of fund allocation for national priority programs. Data show that the state budget deficit, which reached IDR 93.4 trillion in 2024, can be reduced if revenue from VAT is utilized strategically. However, this policy faces significant challenges, particularly in mitigating its negative impact on low-income communities. With a poverty rate of 25.22 million people in March 2024, the increase in VAT has the potential to raise the prices of necessities, which can reduce people's purchasing power, especially in rural areas that have higher poverty rates than urban areas.

Comparative studies indicate that countries such as Singapore and Japan have successfully increased tax revenues without significantly disrupting economic stability through the digitalization of tax administration and the implementation of graduated tax rates. Meanwhile, Taiwan has demonstrated success in prioritizing investments in the high-tech and service sectors to support its export-oriented economy. To ensure the achievement of the VAT policy, Indonesia needs to implement several economic and political strategies, including optimizing the tax digitalization system to reduce leakage and increase administrative efficiency. This strategy can provide subsidies or tax incentives to vulnerable groups and strategic sectors, such as SMEs and the manufacturing industry. Then, a gradual approach to VAT rate increases is taken to reduce the direct impact on public consumption. Lastly, allocating VAT revenues transparently and prioritizing programs that focus on poverty reduction and improving public infrastructure. This strategy may be theoretically suggested and plausibly guide economic policy that is sustainably able to protect Indonesia's national interests.

[49] International Monetary Fund, 'World Economic Outlook Database: Report for Selected Countries and Subjects'.

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