

THE ROLE OF TAXES LESS SUBSIDIES ON PRODUCTS IN PROMOTING ECONOMIC GROWTH - THE CASE OF VIETNAM

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Abstract: *This paper examines the role of taxes less subsidies on products (TLS) in fostering economic growth, focusing on Vietnam from 2010 to 2023. As a key fiscal indicator, TLS reflects the net effect of taxation and subsidies on goods and services, thereby shaping incentives and resource allocation. Empirical findings reveal that TLS exerts a negative impact on economic growth, indicating that current fiscal practices may constrain rather than promote development. The study recommends recalibrating tax structures, reducing distortive subsidies, and channeling fiscal resources toward digital infrastructure and innovation. Strengthening tax administration through digitalization and aligning policies with international standards are emphasized as vital steps to ensure sustainable growth in Vietnam's evolving economy.*

• Keywords: taxes less subsidies on products, economic growth, Vietnam.

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1. Introduction

Taxes less subsidies on production (TLS) includes taxes payable less subsidies receivable on goods or services produced as outputs including other taxes or subsidies on production such as those payable on the labour, machinery, buildings or other assets used in production. This indicator is expressed in current prices, meaning no adjustment has been made to account for price changes over time. This series is expressed in local currency units. Taxes less subsidies on products represents a fundamental component in the system of national accounts, reflecting the net fiscal burden imposed on goods and services after accounting for both taxation and government support. In essence, this indicator captures the extent to which a government extracts value through indirect taxes-such as value-added tax, excise duties, and import tariffs-while simultaneously offsetting part of this burden by providing subsidies to producers or consumers. By influencing relative prices, production incentives, and household consumption, TLS plays a pivotal role in shaping resource allocation and aggregate demand, thereby affecting economic growth trajectories.

The relevance of analyzing TLS is underscored by its dual function: it constitutes an integral element of gross domestic product (GDP) measurement, and it also serves as a key lever of fiscal policy. An excessive reliance on product

taxes without adequate balancing mechanisms can distort market efficiency, suppress investment, and burden households, while insufficient taxation may weaken fiscal sustainability. Conversely, carefully designed subsidies may promote innovation, encourage priority sectors, or cushion vulnerable groups, but they also risk creating dependency and fiscal imbalances if mismanaged. Thus, the interplay between taxation and subsidies directly determines not only short-term economic stability but also long-term growth prospects.

In the context of Vietnam, the examination of TLS carries particular significance. As the country transitions from a resource-driven to a knowledge-based economy, fiscal instruments need to be recalibrated to foster competitiveness, stimulate domestic demand, and align with global trade commitments. Understanding the role of TLS enables policymakers to identify optimal strategies that balance efficiency, equity, and sustainability. This study, therefore, provides both theoretical and empirical insights into how TLS influences economic growth, offering valuable implications for the design of fiscal policies aimed at accelerating Vietnam's development path while ensuring macroeconomic stability.

It may be noted that the exposition proceeds in a carefully sequenced manner. After the opening remarks, a critical synthesis of prior scholarship is provided; thereafter, the construction of the dataset

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and the analytical framework is delineated with precision. In the ensuing section, the evidence is reported and interpreted, yielding results that are discussed in light of the study's objectives. The closing section then articulates policy-oriented recommendations intended to catalyze Vietnam's economic expansion in the forthcoming period.

2. Literature review

The topic of the relationship of taxes to economic growth has attracted the attention of many researchers. Engen & Skinner (1996) exerted that tax reforms were sometimes touted as having strong macroeconomic growth effects. Using three approaches, the authors considered the impact of a major tax reform - a 5 percentage point cut in marginal tax rates - on long-term growth rates. The first approach was to examine the historical record of the U.S. economy to evaluate whether tax cuts had been associated with economic growth. The second was to consider the evidence on taxation and growth for a large sample of countries. And finally, the authors used evidence from microlevel studies of labor supply investment demand, and productivity growth. Empirical results suggested modest effects, on the order of 0.2 to 0.3 percentage point differences in growth rates in response to a major tax reform. Nevertheless, even such small effects could have a large cumulative impact on living standards.

Another notable study, Kim (1998) presented an endogenous growth model comprising of financial, human and physical capital and incorporating major features of a general tax system. Technology and preference parameter values in the model were chosen to fit the actual growth experiences of the United States and a rapidly growing East Asian NIC. Using the calibrated model, the author assessed the role of differences in taxes and other variables in explaining the difference in growth rates. The main findings were: (i) the difference in tax systems across countries explained a significant proportion (around 30%) of the difference in growth rates; (ii) the difference in preferences explained at most 4%; and (iii) differences in labor income tax, debt-equity ratio and inflation could be important in explaining the growth difference. Further, the author evaluated the contribution of the monetary factor to the growth rate gap, and the growth effect of US tax reforms.

Okoth (2023) aimed to investigate the potential effectiveness of tax incentives and subsidies in

enhancing economic development and growth among developing economies. This study used secondary data from World Bank, IMF, and OECD reports for a target period of 2010 - 2022 to examine how tax incentives affect economic development in emerging economies with a focus on Indonesia, Kenya, Malaysia, and Türkiye. The researcher performed a panel data regression analysis using the generalized estimating equations approach. The P-value approach used by the researcher assesses the relevance of the study's variables, for which the p-value is set at 0.05. The study obtained positive and significant effects of subsidies on investments and economic growth. Incentives on taxes on production, sales, and transfers and taxes on profits and capital gained registered a non-significant positive effect on investment; however, the effects were insignificant and negative for economic growth.

A discussion on the impact of other kinds of taxes on economic growth, Johansson et al. (2008) investigated the design of tax structures to promote economic growth. It suggested a "tax and growth" ranking of taxes, confirming results from earlier literature but providing a more detailed disaggregation of taxes. Corporate taxes were found to be most harmful for growth, followed by personal income taxes, and then consumption taxes. Recurrent taxes on immovable property appeared to have the least impact. A revenue neutral growth-oriented tax reform would, therefore, be to shift part of the revenue base from income taxes to less distortive taxes such as recurrent taxes on immovable property or consumption. The paper broke new ground by using data on industrial sectors and individual firms to show how redesigning taxation within each of the broad tax categories could in some cases ensure sizeable efficiency gains.

Another evidence of the negative impact of taxes on growth, Tsenes & Thomakos (2017) empirically examined the potential relationship between the size of the government in Greece-as approached by indirect taxes and subsidies-and economic growth. Empirical results suggested that a negative relationship did exist between taxes and growth, confirming a large part of the existing literature. The authors estimated a variety of models that illustrate how and when policymakers could take action in order to boost growth and end the downward spiral in the Greek

economy. Tax-based fiscal action arised as the most efficient strategy, targeting the disposable income of the Greek household by reducing taxation and boosting employment. Most importantly, according to the paper's analysis, the government's budget constraints were not threatened and fiscal prudence was not to be derailed, a prerequisite under the signed memoranda of understanding and bailout programs.

For the tax study literature to assess the state of knowledge about the relationship among taxes, related factors, and economic growth as well as the use of tax incentives to influence business locations, see Buss (2001). Although tax studies have become increasingly sophisticated, especially during the past decade, they have tended to yield conflicting results regarding whether taxes matter. Some studies focus on costs and benefits of tax incentives, but few look to see whether public monies could have been better spent or whether tax incentives were economically justified. Tax studies offer little guidance to policy makers concerned about fine-tuning tax rates or tax offerings and effectively employing tax incentives as economic development tools.

The review of prior scholarship has revealed that investigating the impact of taxes less subsidies on products (TLS) on economic growth is both theoretically justified and empirically relevant. It was further observed that earlier studies often overlooked complementary macroeconomic drivers. To address this empirical gap, the present research deliberately incorporates distinct independent variables-namely foreign direct investment, global trade, and gross fixed capital formation-ensuring conceptual novelty while avoiding redundancy, thereby contributing a more comprehensive framework to the existing literature.

3. Methodology and research data

This study uses annual time series data of Vietnam from 2010 to 2023, including Gross domestic product (billion USD), Foreign direct investment, net inflows (BoP, current billion USD), Global Trade (billion USD), Gross fixed capital formation (current billion USD) and Taxes less subsidies on products (constant billion LCU). The set of data was collected from the World Bank's World Development Indicators to discover the effect of Taxes less subsidies on products

on economic growth. Table 1 below reports the description of the variables used in the study.

Table 1. Variables, Measurement and Data Sources

Variables name	Symbols	Variables measurement
Economic growth	GDP	Gross domestic product (current billion US\$)
Foreign direct investment	FDI	Foreign direct investment, net inflows (BoP, current billion US\$)
Global trade	GT	Sum of Exports and Imports of goods and services (BoP, current billion US\$)
Gross fixed capital formation	GFCF	Gross fixed capital formation (current billion US\$)
Taxes less subsidies on products	TAX	Taxes less subsidies on products (constant billion LCU)

Source: Authors' summary.

In analyzing the effect of taxes less subsidies on products on Vietnam's economic growth, this study applies Robust Least Squares with M-estimation to ensure reliable inference under data irregularities. The empirical model is specified as:

$$D(GDP_t) = \beta_0 + \beta_1 D(FDI_t) + \beta_2 D(GT_t) + \beta_3 D(GFCF_t) + \beta_4 D(TAX_t) + u_t,$$

Where α_i , β_i , γ_i , δ_i , θ_i are, respectively, the regression coefficients, u_t is the residuals, that have a simultaneous association, and without association with explanatory variables and lags of residuals. Unlike Ordinary Least Squares, which is highly sensitive to outliers, M-estimation minimizes a modified loss function. The Huber function behaves quadratically for small residuals but linearly for large ones, while the Tukey bisquare function progressively down-weights extreme values. These weighting mechanisms reduce the leverage of extraordinary shocks and measurement errors, which are pervasive in transitional economies such as Vietnam. Consequently, parameter estimates derived through M-estimation are both efficient and robust, thereby providing policymakers with credible insights into the fiscal-growth nexus.

4. Empirical results

Table 2 below presents the descriptive statistics of all variables used in this study, it shows that GDP, FDI, GT, GFCF and TAX are all normally distributed according to Jarque-Bera test.

Table 2. Descriptive summary

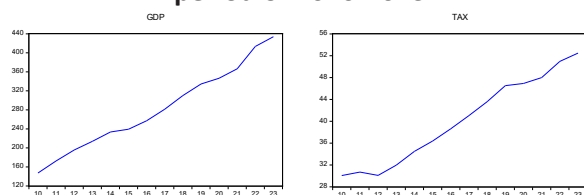
	GDP	FDI	TRADE	GFCF	TAX
Mean	281.7943	12.84843	439.8486	85.26027	40.13124
Median	269.2248	13.35000	411.7333	81.39736	39.83487
Maximum	433.8577	18.50000	756.2398	130.6247	52.49138
Minimum	147.2012	7.430000	167.7260	51.75547	30.06885
Std. Dev.	88.68967	3.886651	192.7983	27.08389	8.027244

	GDP	FDI	TRADE	GFCF	TAX
Skewness	0.222447	-0.083354	0.261189	0.308763	0.094256
Kurtosis	1.966331	1.530226	1.799449	1.788964	1.574018
Jarque-Bera	0.738734	1.276350	0.999950	1.077968	1.206894
Probability	0.691172	0.528256	0.606546	0.583341	0.546923
Sum	3945.120	179.8780	6157.880	1193.644	561.8374
Sum Sq. Dev.	102256.1	196.3787	483225.4	9535.980	837.6765
Observations	14	14	14	14	14

Source: Summarized by the author

The visualization of macroeconomic indicators such as Gross Domestic Product (GDP) and Taxes less subsidies on products (TLS) for Vietnam during the period 2010-2023 serves as an essential analytical tool to provide both descriptive insights and preliminary interpretations of economic dynamics as in Figure 1. By illustrating these variables through graphical representation, it becomes possible to capture long-term patterns, highlight cyclical fluctuations, and detect structural shifts that may not be immediately evident in raw numerical data. A preliminary inspection of the graphs reveals a steadily upward trajectory of GDP, reflecting the country's sustained growth momentum driven by industrialization, international integration, and domestic demand expansion. In parallel, TLS also exhibits a general increase over the same period, albeit with more visible variations that mirror adjustments in fiscal policy, changes in tax structures, and subsidy reforms. The co-movement of these two indicators suggests a close linkage between Vietnam's growth process and the role of fiscal instruments, thereby justifying deeper econometric analysis in subsequent stages of the study.

Figure 1. Line graph of GDP and TAX during the period of 2010-2023



Source: Executed by the author

Research variables are tested the stationary property before being put into estimation procedure. The Augmented Dickey-Fuller (ADF) test reveals that all time series are non-stationary, however they all become stationary thanks to first-order differencing. The estimated Robust Least Squares with M-estimation result for first-order differencing variables is shown in Table 3.

Table 3. Regression estimation with dependence variable of D(GDP)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
D(FDI)	7.239440	0.888644	8.146612	0.0000
D(GT)	-0.044443	0.024041	-1.848639	0.0645
D(GFCF)	2.444207	0.416001	5.875487	0.0000
D(TAX)	-1.703950	0.817653	-2.083952	0.0372
C	7.427533	1.397537	5.314729	0.0000

Source: Summarized by the author

Table 3 indicates that, the empirical results of the relationship are presented as follows:

$$D(GDP_t) = 7.43 + 7.24 * D(FDI_t) - 0.04 * D(GT_t) + 2.44 * D(GFCF_t) - 1.70 * D(TAX_t) + u_t$$

The regression results show that foreign direct investment during the study period is strongly promoting economic growth. Gross fixed capital formation is also a factor contributing to economic growth. However, international trade is showing a negative impact at a small level on economic growth. Finally, taxes less subsidies on products also shows an impact hindering economic growth. This result is consistent with the results in studies by Engen & Skinner (1996), Tsenes & Thomakos (2017), Okoth (2023).

Taxes less subsidies on products (TLS) can exert a detrimental effect on economic growth through several transmission channels. First, excessive reliance on product-based taxation, such as value-added tax and excise duties, raises production costs and consumer prices, thereby discouraging investment and suppressing aggregate demand. Second, when subsidies are inefficiently allocated or overly concentrated in low-productivity sectors, they create market distortions, crowd out private capital, and reduce incentives for technological upgrading. Third, frequent adjustments in tax and subsidy regimes generate uncertainty, undermining investor confidence and long-term planning. Moreover, in emerging economies such as Vietnam, limited administrative capacity may result in compliance burdens, rent-seeking behavior, and fiscal inefficiencies, further constraining growth. Collectively, these mechanisms highlight how an imbalanced configuration of TLS can hinder productivity, misallocate resources, and weaken competitiveness, thus impeding sustainable economic expansion.

5. Conclusion

The model reveals that taxes less subsidies on products has a significant negative influence on

growth during the research period of 2010-2023. Building upon the empirical findings, it becomes imperative to propose targeted policy measures that can improve the taxes less subsidies on products policy for promoting Vietnam's economic growth.

A first solution lies in the comprehensive digitalization of tax administration to enhance the efficiency and transparency of TLS collection. By adopting advanced information systems, including blockchain-enabled registries and big-data-driven monitoring platforms, governments can reduce transaction costs, minimize tax evasion, and ensure accurate revenue flows. Digital infrastructure allows for real-time reporting, automated compliance, and more effective allocation of subsidies, thereby narrowing the gap between statutory frameworks and practical enforcement. In the context of Vietnam's rapidly expanding digital economy, such innovation would not only improve fiscal sustainability but also reinforce public trust in tax policy, thus fostering broader economic dynamism.

A second imperative involves rationalizing the structure of indirect taxation embedded in TLS, with particular attention to value-added tax and excise duties. Excessive reliance on these instruments may distort consumer behavior, exacerbate inequality, and dampen productive investment. A calibrated reform should streamline tax brackets, eliminate redundant exemptions, and establish progressive rates where appropriate, ensuring both efficiency and equity. In parallel, digital monitoring tools can be employed to trace supply chains and evaluate tax burdens more precisely. Such measures are essential to strike a balance between government revenue needs and the competitiveness of domestic industries in the digital era.

A third solution emphasizes the strategic reallocation of subsidies toward innovation-driven and digitally intensive sectors, rather than perpetuating support for inefficient, resource-based industries. Subsidies should incentivize investment in digital infrastructure, renewable energy, and knowledge-based services, thereby aligning fiscal policy with long-term growth priorities. To minimize distortions, subsidy schemes must be targeted, conditional, and performance-based, supported by transparent evaluation mechanisms. By channeling subsidies toward sectors with high spillover potential, Vietnam can enhance

productivity, stimulate entrepreneurial ecosystems, and strengthen resilience against external shocks, ultimately transforming TLS into a lever that fosters sustainable economic advancement in the digital age.

A fourth approach concerns the enhancement of fiscal decentralization to improve the responsiveness and effectiveness of TLS-related policies. Empowering local governments with greater discretion over tax administration and subsidy distribution can enable policies better tailored to regional economic structures, particularly in emerging digital clusters. Advanced digital platforms can be deployed to harmonize reporting, facilitate inter-regional coordination, and prevent fiscal leakages. Decentralization also creates incentives for local authorities to foster business environments conducive to innovation and investment. When effectively regulated, this approach enhances policy adaptability, strengthens institutional accountability, and accelerates the contribution of TLS reform to national economic growth.

A fifth solution requires strengthening international tax cooperation to address cross-border challenges arising from digital trade and global value chains. As Vietnam integrates more deeply into the digital economy, issues of profit shifting, tax base erosion, and inconsistent subsidy practices become increasingly salient. Participation in global frameworks, such as the OECD Inclusive Framework on BEPS and emerging agreements on digital services taxation, can help align TLS policies with international norms. Harmonized standards would reduce regulatory arbitrage, enhance investor confidence, and stabilize fiscal revenues. Ultimately, such cooperation ensures that TLS reforms are future-oriented, globally consistent, and conducive to long-term economic growth.

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