

DO INSTITUTIONAL AND POLITICAL REFORMS MATTER TO CUSTOMS COLLECTION? EVIDENCE FROM INDONESIA

Achmad Rifa'i

Universitas Gadjah Mada, Yogyakarta, 55281

E-mail: achmadrifai186@gmail.com

INFORMASI ARTIKEL

Tanggal masuk
[12-03-2019]

Revisi
[02-05-2019]

Tanggal terima
[14-05-2019]

ABSTRACT

Sustainable development requires resources that are not small, particularly in the funding aspect. The government has tried to maintain the state revenue as by giving efforts to become a sovereign state through financing strategic projects funded by state revenues. Customs and Excise are one of the main components that are a source of development funding. Several issues related to reform in the government sector were carried out to improve the management of the country in order to increase customs and excise revenues. This research aims to analyze the issue of reform which has become the vigorous action from the government in collecting customs and excise. Error Correction Model (ECM) was employed for this research. Based on empirical results revealed that several institutional and political reform proxies are playing an important role in increasing customs and excise revenues. In addition, several issues for further research in the future are delivered to complete the analysis.

Keywords: Customs and Excises, Institution, Politics, ECM

ABSTRAK

Pembangunan ekonomi yang berkelanjutan membutuhkan sumber daya yang tidak sedikit terutama dari segi pendanaan. Pemerintah selalu berusaha menjaga pos penerimaan negara sebagai bentuk usaha menjadi negara yang berdaulat melalui pembiayaan proyek-proyek strategis yang didanai penerimaan negara. Bea dan cukai merupakan salah satu komponen utama yang menjadi sumber pendanaan pembangunan. Beberapa isu terkait reformasi di bidang pemerintahan dilakukan untuk meningkatkan pengelolaan negara termasuk dalam rangka meningkatkan penerimaan bea dan cukai. Penelitian ini fokus untuk menganalisis isu reformasi yang menjadi semangat pemerintah dalam melakukan pemungutan bea dan cukai. Model yang digunakan dalam penelitian ini adalah Error Correction Model (ECM). Berdasarkan hasil empiris menunjukkan bahwa beberapa proksi reformasi kelembagaan dan politik berperan penting dalam meningkatkan penerimaan bea dan cukai. Selain itu, beberapa isu untuk penelitian lebih lanjut di masa depan disampaikan untuk menyempurnakan analisis.

Kata Kunci: Bea dan Cukai, Kelembagaan, Politik, ECM

1. INTRODUCTION

State revenue has always been an important issue to be discussed in order to achieve sovereignty, especially the ability to finance state expenditures which has a multiplier effect on economic growth (Ndiaye, 2017). There is improving awareness among policy makers that domestic revenues should become the main source of financing in a development while international assistance, such as Foreign Direct Investment (FDI), plays an important role as a support. A sovereign state is a necessity that has always been the goal of every leader in the world. To obtain such sovereignty, a large effort is required especially in terms of revenue so that the state is able to finance expenditure independently.

Several revenue posts are the mainstay particularly from the tax sector. Furthermore, there is one aspect which also simultaneously describes economic interaction with other countries through international trade. These components are import and export duties. In addition, excise tax revenue is also one relied upon because of its existence. The existence also limits the production of certain goods and imposes levies based on the Law. However, from an economic standpoint, goods subject to excise tax can contribute to state revenues and absorb a lot of labor.

The high revenue from customs and excise has implications for increasingly large state budget allocations. It makes

the development in various sectors such as health and education infrastructure can be achieved. Acceptance that goes into the state treasury is an indicator of state capacity, state formation, and power relations in a society (John, 2006). Thus, the role of customs and excise is very vital in the economy, especially in promoting economic growth (Jelilov and Abdulrahman, 2017). On the other hand, developing countries still experience many obstacles in maximizing revenue from the tax sector including customs and excise. This results in the realization of customs and excise receipts sometimes is not in accordance with the targets previously set. Various causes that become obstacles are, corruption, institutions, complicated administration, and political conditions (Fjeldstad, 2014). In Indonesia, levies on customs and excise are carried out by the Directorate of General of Customs and Excise under the Ministry of Finance of the Republic of Indonesia. Furthermore, any levies collected by the Director of General of Customs and Excise will go directly to the state treasury and be managed as fiscal revenues which are then allocated to various planned development programs. The ability of the Directorate of General of Customs and Excise to collect their fees, in the past few years, should be appreciated because they were able to achieve a realization that exceeded the target. The amount of customs and excise collected can be seen from the graph below.

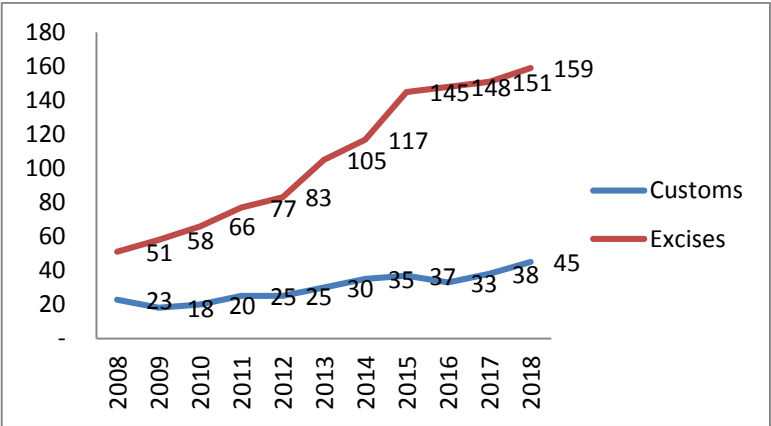


Figure 1. Customs and Excises Revenues 2008-2018 (Trillion)

Source: Statistics of Economy and Finance (SEKI) BI and Ministry of Finance (processed)

Figure 1 indicates that in the last 10 years, customs and excise revenues continued to increase consistently. Only in 2010 and 2016 there was a decrease in customs revenue. Nonetheless, overall Indonesian customs and excise revenues consistently experience increases. In simple terms, the increase in customs and excise implies that there have been improvements from various sides, especially in terms of government institutions. In this case, it is the Director of General of Customs and Excise which is implementing regulations and also supported by economic conditions that continue to develop towards better direction, administrative simplification, and clean and efficient staffing in collecting.

The Directorate of General of Customs and Excise is the main institution representing the government in implementing the Law and Regulation of the Minister of Finance. This

institutional role in the economy is vital. Bureaucracy, administration, and legal certainty are some aspects that are fundamental issues, especially in developing countries. The implications of these aspects are reflected in the level of corruption and efficiency of the bureaucracy which is then widely considered as the main obstacle in economic development (Yang, 2008). Thus, the government must take an active role to continue in improving all aspects related to this matter. The role of the government in terms of institutions is the implementation of bureaucratic reforms which have been a passion in organizing state activities since the 1997 crisis. Therefore, government institutions, especially the Ministry of Finance, which is the country's lifeblood, are always counted as the spearhead of economic activity. The reforms are illustrated through the timeline as follows.

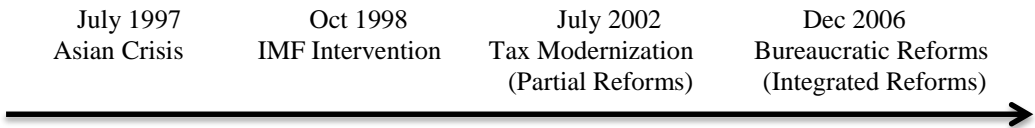


Figure 2. Timeline of Bureaucratic Reforms

Source: (Wihantoro et al, 2015)

Bureaucratic reform is a massive leap for government administration, particularly in vital sectors such as the

Director General of Customs and Excise. The implications of this bureaucratic reform can be seen from state revenues in

the customs and excise sector which continue to increase from year to year, especially after a comprehensive integrated bureaucratic reform since 2006. However, data from customs and excise revenues 2008-2018 reveals implicitly that the proportion of excise tax revenues is always far above the customs revenues. Even so, from the proportion of the duty itself, it turns out that the proportion of import duty is greater than the export duty, meaning that import activities are still higher than export activities in Indonesia.

It gives an alarm to the government that the existence of goods with certain characteristics subject to excise such as cigarettes and alcoholic products become the backbone of state revenues. The supervision of these goods must be increased in addition to not only maintain limited circulation but also to avoid illegal goods are sold in the market, causing loss of potential tax revenues and reducing supervision of the circulation of the goods. On the other hand, supervision of imported goods is also a concern in addition to maintain revenues through import duties which also limits the circulation of foreign products domesticall so that domestic products are able to compete.

On the other hand, the government must continue to encourage domestic export activities to increase the receipt of export duties so that income from the customs sector will increase. This will also make the domestic industry more independent because it is able to produce products that are able to compete not only in the domestic market but also in the international market. The existence of companies that employ a lot of labor must also be supported. Besides being able to become a net of poverty and unemployment, such companies are able to contribute high tax revenues to the state treasury. Therefore, the government

must be seriously to safeguard the political and democratic climate and continue to improve the role of institutions in the customs and excise sector to become a sovereign country through sustainable state revenues.

Bureaucratic and institutional reforms that form the basis and enthusiasm of the government are very interesting issues to be further analyzed, especially their influence on the customs and excise revenues. In addition, the system of democracy and the political climate in Indonesia are thought to play a role in providing stimulation for more productive economic activities. Legal certainty and the level of corruption that are usually the barrier of economic growth also become inseparable aspects, especially related to the collection of economic actors. Thus, further analysis needs to be carried out to see empirically the impact of institutional and political reforms on customs and excise revenues in Indonesia.

2. LITERATURE REVIEW

There is a lot of research related to customs and excise revenues. However, the independent variables used vary widely. Not many previous studies used proxy for institutional and political reform to be analyzed. Some of the studies that are referred to are as follows. Modern countries have many functions to run. At its core is the role of its development, which seeks to improve the lives of its citizens and future generations in an inclusive, responsive, responsible, and sustainable manner. The ability of countries to meaningfully fulfill this role requires institutional capacity (Sherani, 2017). A large amount of academic literature related to institutional theory over the past four decades has linked weak institutional quality and poor governance with lower private

investment, lower state revenues, lower economic growth, worse development outcomes, and inequality higher, among other correlations.

In addition, formal institutional regulations are very important because they will create incentives that shape a behavior. Many aid interventions have failed because they do not take into account the governance and institutional problems. It is now widely accepted that institutions play an important role in reducing and growing poverty. Influential empirical evidence has become important in demonstrating the relationship between institutions and growth in particular (Joshi and Carter, 2015).

Over the past two centuries, state revenues have not only increased dramatically in levels and volumes but their structure has also changed from the large dependence on customs revenues in the early 19th century to a stronger emphasis on income taxation in the 20th century (Andersson, 2018). From these studies democratic political factors make the ability of the government to levy to be reduced because the public at large has different preferences so that not all existing regulations can be applied at every level of society.

The main dilemma in customs management, especially over the past two decades is to balance the need for trade facilitation as a process of simplification, standardization and integration of documents and procedures in the international supply chain, at one, and level of control and intervention, Facing this dilemma, customs clearance significantly changing its role and position in the international supply chain (Biljan and Trajkov, 2012).

The institutional and political aspects that are happening in a country have many influences on economic growth. With a clean and efficient institutional condition, it will encourage bureaucratic

service faster so that state officials, in this case the government, can carry out various policies quickly and precisely according to the needs in the field. On the other hand, a conducive and stable political situation will make producers and investors have incentives in the form of legal certainty, simple administration, and good conditions for people's purchasing power so that economic activities will be stimulated (Princen, 2016). Furthermore, countries with democratic systems are more vulnerable to issues that occur in the society (Andersson, 2018). Therefore, the government must encourage a stable and democratic economic, social, cultural and legal climate. This is certainly implemented through good institutional and political conditions.

Reforms in the customs and excise sector are seen as very important. On the other hand, based on meetings between OECD countries, the World Bank, and the World Economic Forum, there are clear differences between rich and poor countries in their ability to carry out customs reform (Peterson, 2017). In particular, the efforts of less developed countries to increase customs duties are hampered by an inadequate infrastructure and a weak regulatory environment. Further efforts are needed to determine the most important factors for countries to successfully carry out customs reform and the extent to which these reforms result in increasing trade and economic growth.

The institutional role in supporting increased state revenues is crucial. Countries that began small and gradual reforms in economic institutions grew faster. Economic and political institutional reforms were triggered by the crisis of low growth and low investment. The order of reforms seems important for investment even though it is not important for growth. Countries

that start with reforms in economic institutions invest more, while those who start with political reform invest less (Kilishi, 2017). The results also show that countries that embark on political reform only grow slower and invest less. It is therefore recommended that countries that have not started any reforms must begin reforming economic institutions. Furthermore, those who start with political reform must also pay attention that is comparable to the reform of economic institutions.

By continuing to improve the institutional role, the opportunity to commit corruption that is a barrier to development can be reduced and eventually closed, especially in the customs and excise sector which is vulnerable to corruption. It is because it concentrates much of the free power in the customs and excise agents who make high-economic decisions. For the company, it provides an opportunity for customs officials to take rent from the company. However, the presence of communication technology offers the possibility to limit the strength of this policy by reducing direct interactions between companies and customs officials (Laajaj et al, 2017).

Reformation plays an important role in the economy of any country by improving the state revenue system. The government needs to increase revenue to fulfill social obligations (Munene and Nduru, 2016). Understanding the power behind institutional change is a significant challenge in political economy. While the prevalence of strong executive constraints has increased over time. From a theoretical perspective, leaders with a power base have far weaker reform motives. Empirically, it is found that tenacious leadership traits tend

not to adopt strong executive constraints (Besley et al., 2016).

During the current reform period, it turns out that the condition of the bureaucracy has not undergone many fundamental changes. There are at least two complex aspects that occur in governance, namely: first, managerial aspects related to governance of all processes of technical procedures that are running in the organizational structure based on the main tasks and functions to achieve predetermined performance goals; and second, human resources aspects that concern the capacity and capabilities of the apparatus in charge of relying on the main tasks and functions in the organization along with their respons

3. DATA AND METHODOLOGY

Two main data sources are used in this study. They are from The International Country Risk Guide (ICRG) which is used as an independent variable, and from Bank Indonesia for Economic and Financial Statistics and the Ministry of Finance which is used as a dependent variable. ICRG is a credible and independent international institution and has the main objective of indexing certain indicators in a country.

Government, socioeconomic and investment variables are in the form of a scale of 0-12; legal variables, corruption, ethnicity, and democracy are in the form of a scale of 0-6; and bureaucratic variables are in the form of a scale of 0-4. The higher the scale, the better the variable and vice versa. The time series used are from year of 1985-2016. The dependent variable consists of total customs and excise receipts. However, the total revenue from both is a single unit of work carried out by the same state institution so that it will be easier to make estimation.

Table 1
Descriptive Statistics

Variable	Mean	Max	Min	Std. Dev
Customs	46553,46	182943,8	141,100	55011,96
Government	7,2304	10,750	4,8750	1,2990
Socioeconomics	5,5403	8,5833	2,0000	1,8335
Investment	6,8697	9,1250	4,0000	1,5398
Corruption	1,9934	3,8333	0,0000	1,1865
Law	2,8059	4,7500	2,0000	0,8026
Ethnicity	2,0572	3,0000	1,0000	0,5935
Democracy	3,7799	5,0000	1,0000	1,0422
Bureaucracy	1,6067	3,0000	0,0000	0,9055

Source: processed (2019)

Furthermore, to estimate the independent variables on the dependent variable, an econometric model is used, namely Error Correction Model (ECM) which refers to the study of Andersson (2018). The choice of this model is intended to further analyze the relationship among variables which will then achieve equilibrium in the long term as indicated by the occurrence of co-integration among variables. Furthermore, there are conditions that must first be met in using the ECM model, that is, all estimated variables are not stationary at the level. Based on the results of stationarity test using Augmented Dicky-Fuller (ADF), all tested variables are at the first difference level (see Appendix 1), so that in the next stage the ECM model can be used to estimate.

In simple terms, the independent variables used in the study consist of institutional and political reforms which are then used to represent the two variables. The variables institutional reform use government index, corruption, law, and bureaucracy proxy, while the political variables use the proxy index of democracy, socio-economy, ethnicity, and investment. Thus, the basic model used is as follows.

$$\begin{aligned} \text{Cust} &= f(\text{Ins}, \text{Pol}) & (1) \\ \Delta\text{Cust}/\Delta\text{Ins} &< 0 \\ \Delta\text{Cust}/\Delta\text{Pol} &< 0 \end{aligned}$$

Where: Cust is customs and excises revenue; Ins is a proxy for variable institutional reform; and Pol is a proxy for variable political reform.

From the basic model (1) then transformed into the ECM model as follows.

$$\begin{aligned} \text{DCust} &= \alpha_0 + \alpha_1 \text{Dins} + \alpha_2 \text{DPol} + \\ &\quad \alpha_3 \text{DIns}(-1) + \alpha_4 \text{DPol}(-1) \\ &\quad + \alpha_5 \text{ECT} & (2) \end{aligned}$$

$$\begin{aligned} \text{Where: } \text{DCust} &= \text{Cust} - \text{Cust}(-1) \\ \text{DIns} &= \text{Ins} - \text{Ins}(-1) \\ \text{DPol} &= \text{Pol} - \text{Pol}(-1) \\ \text{ECT} &= \text{Ins}(-1) + \text{Pol}(-1) \\ &\quad - \text{Cust}(-1) \end{aligned}$$

4. ESTIMATION RESULTS AND DISCUSSION

4.1 Estimation Results

In the first stage, as mentioned in section 3, the first condition for estimating using the ECM model is ensuring that there is no stationary data at the level. To determine the level of stationarity, this study uses the ADF test. The test will simply show the results of stationarity tests on each variable studied. All data must be at the first level of difference for then can be continued at

the estimation stage. By using the spurious regression problem, ECM model can be overcome by using the right difference variable in the model. Valid

ECM models indicate co-integration or long-term relationships among variables. The following are the estimated results using the ECM model.

Table 2
Estimation Results using Error Correction Model (ECM)

Variable	Coefficient	Standard Error	Probability
Democracy	-0.175207	0.229057	0.0528
Ethnicity	0.386573	0.419974	0.3678
Law	-0.301252	0.397520	0.0570
Investment	0.585314	0.491273	0.2468
Government	-0.948453	0.345905	0.0122
Socioeconomics	-0.475826	0.363789	0.2050
Corruption	-0.182085	0.093939	0.0661
Bureaucracy	0.180190	0.159356	0.0709
ECT(-1)	-0.267387	0.074273	0.0017
R-squared	0,594477		
Adj R-squared	0,420681		
Durbin-Watson	2,383092		
Prob(F-statistic)	0,009675		

Source: processed (2019)

Based on the estimation results above, it reveals that there are five variables which individually influence the dependent variable, namely the index of democracy, law, government, corruption, and bureaucracy. Meanwhile, the other three variables, namely ethnic, investment, and socioeconomic indicates no effect. Furthermore, the estimation results also indicate that the ECT (-1) value is -0.267387 with a probability that is significantly below 1%. Thus, from the ECM model estimated there will be co-integration between variables in the long run at a rate of 26%. Significant F-statistic values also indicate that the estimated model is appropriate because it shows the relationship between the independent variables and the dependent. This finding is also reinforced by the Adjusted R-squared value of 0.420681 which means 42% of the independent

variables affect the dependent variable while the rest are influenced by variables outside the model.

To strengthen the findings that indicate a long-term relationship between variables, this study also adds a co-integration test using the Johansen co-integration test. Co-integration is a long-term relationship among variables that although individually are not stationary, but a linear combination among these variables can become a standard. co-integration tests can be used to determine whether two or more economic variables or financial variables have a long-term balance relationship. If the data variables are stationary, it means that the variables are co-integrated or have a long-term relationship. The co-integration test results using Johansen co-integration are as follows.

Table 3
Result of Johansen Co-integration Test

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistics	0.05 Critical Value	Probability
None*	0.985535	428.1965	197.3709	0.0000
At most 1*	0.943587	301.1150	159.5297	0.0000
At most 2*	0.895448	214.8632	125.6154	0.0000
At most 3*	0.781680	147.1211	95.75366	0.0000
At most 4*	0.718041	101.4673	69.81889	0.0000
At most 5*	0.623599	63.48751	47.85613	0.0009
At most 6*	0.557644	34.17446	29.79707	0.0147
At most 7	0.268930	9.705237	15.49471	0.3041
At most 8	0.010209	0.307851	3.841466	0.5790

Trace Indicates 7 co-integrating eqn(s) at the level 0.05 level

*denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

The co-integration test results in Table 3 further reinforce the findings of previous estimation using the ECM model that in the long run there is a relationship between variables and co-integrated. This is based on the Trace Statistics value which is greater than the Critical Value. In addition, the value of Eigenvalue also shows the same thing, the value is greater than the probability.

Based on the estimation results using the ECM model and cointegration test, the chosen model shows there is a relationship between the independent variables and the dependent variable. Next, based on the estimation results, they will be discussed, interpreted and linked to the issues that occur in the field as well as supported by relevant researches.

4.2 Discussion

Based on the estimation results using the ECM model (Table 2), democratic proxies show a negative and significant relationship at the level of 10% towards customs and excise revenues with a coefficient of 0.1752017. It means that each increase in the democracy index by 1 point receives revenue and excise increases by 17 points.

Many previous studies showed that democracy has a positive and significant effect on state revenues, especially from the taxation sector. However, previous research has been carried out in developed countries such as Europe and the United States (Andersson, 2018). The role of democracy in the country is very important in educating citizens to be free in determining the continuity of their lives, including those related to the taxation sector, like customs and excise. An employee who collects customs and excise realizes that the work he does will greatly affect the sustainability of the government. Meanwhile from the side that is levied on excise, he considers what is done as a form of contribution to the country. This is very much influenced by factors in the number of residents in developed countries who are educated so that they realize the importance of the role of excise tax on the state.

In contrast, in developing countries such as Indonesia, found that that a high level of democracy is specifically needed in countries rich in natural resources to make the contribution of natural resources contribute to higher domestic income including in terms of excise revenues and no longer a barrier

to a sustainable state revenue system (Ehrhart, 2011). On the other hand, the level of democratic education of the people who are still less educated in terms of politics and democracy causes a low awareness of the contribution of the state. Some of the contributing focuses are taxes, duties and excise. The employees and the public can cheat each other or even collude. This is a joint task, including the government and non-government sectors, to improve intelligent and constructive democracy education.

The next proxy that affects the customs and excise revenues is law with a coefficient of 0.301252. An increase in the legal index by 1 point causes customs and excise revenues to drop 30 points. Transmission that can be an argument here is related to the efforts to eradicate the practice of collusion, corruption and nepotism. Law is the last tool used by the government if something happens outside the authority deliberately carried out by individuals both from the government and non government. The increase in this index means that the practice activities that violate many authorities are carried out and has implications for the reduction of levies on customs and excise.

The public sector is always a concern for those who want to commit fraud. Therefore, Prabowo and Cooper (2016) suggested that bureaucratic reforms in relevant institutions be followed by rationalization and comprehensive socialization so that habits aimed at seeking personal gain would fade and eventually disappear. All of that needs to be executed seriously together with all relevant stakeholders so that the supporting pillars will further strengthen the foundations of the actors in them supported by various substantive actions in a sustainable manner.

Government proxies have a positive and significant effect with a coefficient of 0.948453, which means that an increase in index of 1 point causes customs and excise revenues to increase by 98 points. However, this proxy is one of the core proxies. The role of government is extremely important in making regulations and implementation. Furthermore, several other studies such as (Joshi and Carter, 2015), (Yusriadi, 2018), (Kilishi, 2017), (Sherani, 2017), (Chirot et al, 2015), and (Robinson, 2015) explain that the government holds the main key in implementing reforms in all fields. However, the institutional reforms that have been carried out must continue to be maintained and evaluated every certain period of time to see whether the reforms implemented so far are in line with the same objectives as well as to continue to be improved if there are still gaps that can still be developed in the future.

In the end, if the government actively participates in supervision problems in the field, it will make output increase. This is because planning without execution is futile, but unattended execution will be even more futile because there is twice the waste, the budget that comes out and is counterproductive of what is achieved. Likewise in terms of state revenues from the customs and excise sector. Periodic supervision of the various implementation of established regulations is very important to keep the orientation of stakeholders at the field level focused.

The corruption variable proxy affects the customs and excise revenues negatively and significantly with a coefficient of 0.182085. This means that an increase in the corruption index by 1 point causes a decrease in customs and excise receipts by 18 points. This corruption proxies are closely related to

the previous proxy, namely the legal index, where higher legal index actually decreases state revenues. One of the transmissions is the practice of corruption. If the level of corruption increases, the legal index will increase in the framework of the judicial process against the perpetrators of corruption. Thus, a combination of these two proxies will cause the customs and excise collection activities to be disrupted. Another domino effect that can emerge is public unrest because of the mental deterioration of the state administrators so that public confidence decreases, including from the business world, it also decreases.

Hors (2001) explained the role of the government especially supervision in the strategic sector is crucial. One of them in the sector of administration of excise and excise is prone to play between employees and customs and excise payers. There needs to be a high level of awareness and motivation that every rupiah collected is the main funding source of economic development activities being carried out by the government. In the end, the slightest corruption will make the habit start from certain individual then group together to collude. Then, when more parties are involved, in the end the sustainability of the economic development program is threatened.

The bureaucratic proxy has a positive and significant effect on customs and excise revenues with a coefficient of 0.18019, which means that 1 point increase in the bureaucratic index results in greater revenues from customs and excise received by the state. This proxy is certainly very closely related to several previous proxies, especially the government. Furthermore, in various previous studies conducted primarily by (Massawe and Epaphra, 2017) reinforcing the findings of this study that

the role of government is very important for the sustainability of sustainable state revenues. The role of the government as a regulator as well as implementing it are two things that must support each other.

Based on five influential proxies, the institutional reform variable is represented using a proxy index of law, government, corruption, and bureaucracy, while for political reform variables only the proxy of democracy influences customs and excise receipts. Other proxies, namely ethnicity, socioeconomics and investment have no effect on customs and excise revenues.

Furthermore, from the ECT(-1) residual stationary test and the Johansen co-integration test, it is further strengthened that if the government focuses on continuing to improve proxies which empirically affect customs and excise revenues, the variable will increasingly show the magnitude of the effect on customs duties in the long run. However, basically after reforming, the next task is to continue to improve it so that the reform indicators can continue to show a good impact on Indonesia's economic development that is sustainable and inclusive. Then, it is expected that all members and layers of society can get the benefit.

5. CONCLUDING REMARK

High state revenues are things that state leaders always rely on. One of the main income in the state budget is from customs and excise. However, many factors influence the performance of customs and excise receipts. One problem that needs to be addressed is the reforms carried out by the government in the context of a more effective and efficient state administration. Based on empirical results, it is explained that the role of government is urgently important

as a regulator including in the legal sector in an effort to fight corruption and improve bureaucracy better. In addition, the democracy adopted by Indonesia contributed to the process of community thinking. In essence, political education for democracy must be the government's main concern. This can be executed through the implementation of political education and democracy in the higher education institution which is a place for the development of the identity of future generations. Hopefully, these activities will create a society that has a high sense of nationalism. Then it will make them feel that they are always in debt to the state and want to pay it by giving contributions, one of them is awareness in the taxation sector and the excise component.

6. LIMITATION OF RESEARCH AND FUTURE DIRECTION

This study employs time series data and the issue that is always faced when using the data is the availability of data, especially on each proxy used. As we know, data from ICRG only provides the latest data until 2016, even though the latest customs and excise receipt data is in 2018. In the end, this study removes variable customs and excise data in 2017 and 2018 to better suit ICRG data which only until 2016. Furthermore, in the future, more research can be developed, especially using more varied proxies to enrich the analysis.

REFERENCES

- Andersson, P. F. (2018). Democracy, Urbanization, and Tax Revenue. *Studies in Comparative International Development*, (53), 111–150.
- Besley, T., Persson, T., and Reynal-Querol, M. (2016). Resilient Leaders and Institutional Reform: Theory and Evidence.
- Biljan, J., and Trajkov, A. (2012). Risk Management and Customs Performance Improvements: The Case of the Republic of Macedonia. *Procedia Social and Behavioral Sciences*, 44, 301–313.
- Chiot, L., Duy, P., and Thanh, N. X. (2015). Institutional Reform: From Vision to Reality. *VELP Policy Discussion Paper*, (April), 13–17.
- Ehrhart, H. (2011). Assessing The Relationship between Democracy and Domestic Taxes in Developing Countries. *CERDI, Etudes et Documents*, 2009.30.
- Fjeldstad, O. (2014). Corruption in Tax Administration: Lessons from Institutional Reforms in Uganda, (January 2006).
- Hors, I. (2001). Fighting Corruption in Customs Administration: What Can We Learn From Recent Experiences? *OECD Development Centre Technical Paper*, (175).
- Jelilov, G., and Abdulrahman, S. (2017). The Impact of Tax Reforms and Economic Growth of Nigeria, (May).
- John, J. Di. (2006). The Political Economy of Taxation and Tax Reform in Developing Countries, 5.
- Joshi, A., and Carter, B. (2015). Public Sector Institutional Reform: Topic Guide. *GSDRC Applied Knowledge Service*.
- Kilishi, A. A. (2017). Institutional Reforms and Economic Outcomes in Africa. *Working Paper Series African Development Bank Group*, (264).
- Laajaj, R., Eslava, M., and Kinda, T. (2017). Corruption, Custom Reform and Firm Growth: Quasi-Experimental Evidence from Colombia. *Working Paper Development Bank of Latin America*, (25).

- Massawe, J., and Epaphra, M. (2017). Corruption, Governance and Tax Revenues in Africa. *Business and Economic Horizons*, 13(November), 439–467.
- Munene, R., and Nduru, D. (2016). Effect of Tax Reforms on Revenue Collection at Customs and Border Control Department of Kenya Revenue Authority. *Journal of Business and Management*, 18(4), 61–66.
- Ndiaye, A. S. (2017). Does the Implementation of Tax-Related Reforms and Institutions-Related Reforms Offer Scope for Sustained Tax Revenue Mobilization in Senegal? *Eleventh Edition of the African Economic Conference on "Governance for Structural Transformation,"* (1978), 1–29.
- Peterson, J. (2017). An Overview of Customs Reforms to Facilitate Trade. *Journal of International Commerce and Economics*, 1–30.
- Prabowo, H. Y., and Cooper, K. (2016). Re-Understanding Corruption in The Indonesian Public Sector through Three Behavioral Lenses. *Journal of Financial Crime*, 23(4), 1028–1062.
- Princen, S. (2016). Political Economy of Tax Reforms. *Proceedings of The Workshop Directorate General for Economic and Financial Affairs European Commission*, 8022(March).
- Robinson, A. M. From Old Public Administration to the New Public Service Implications for Public Sector Reform in Developing Countries (2015).
- Setiawan, A., Domai, T., and Hadi, M. (2014). Reformasi Birokrasi pada Kantor Bea dan Cukai (Studi Pada Kantor Pengawasan dan Pelayanan Bea dan Cukai Tipe Madya Cukai Kediri). *Jurnal Administrasi Publik*, 1(20), 1174–1184.
- Sherani, S. Institutional Reforms in Pakistan The Missing Piece of the Development Puzzle (2017).
- Wihantoro, Y., Lowe, A., Cooper, S., and Manochin, M. (2015). Bureaucratic Reform in Post-Asian Crisis Indonesia: The Directorate General of Tax. *Critical Perspectives on Accounting*, 31, 44–63.
- Yang, D. (2008). Integrity for Hire: An Analysis of a Widespread Customs Reform. *The Journal of Law and Economics*, 51(1), 25–57.
- Yusriadi. (2018). Bureaucratic Reform to The Improvement of Public services Challenges for Indonesia. *Jurnal Administrasi Publik*, 6(1), 15–29.

APPENDIX 1

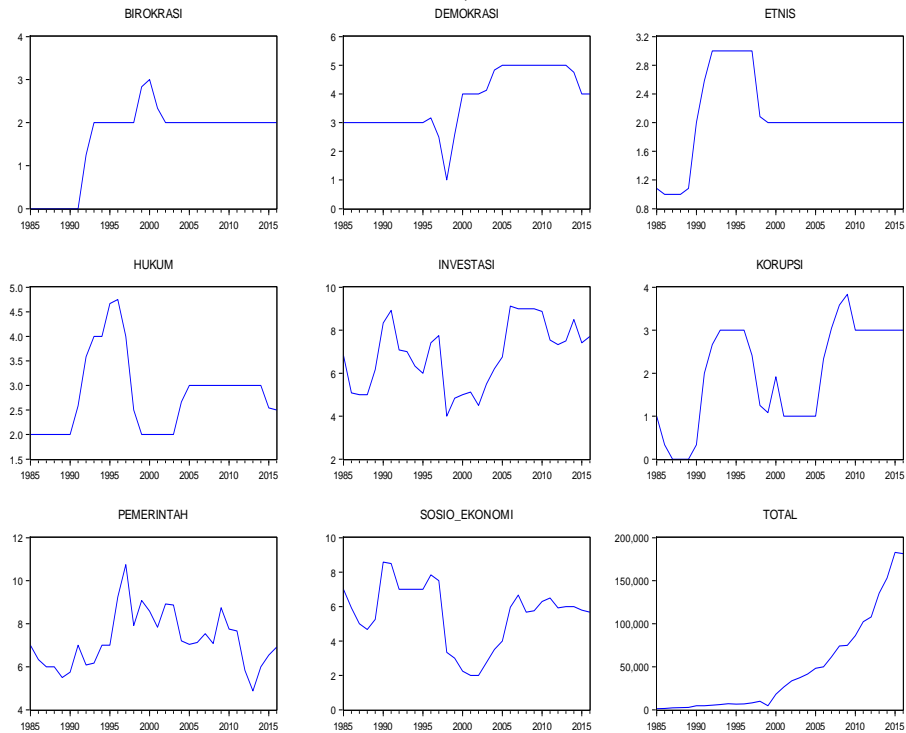
Series	Prob.	Lag	Max Lag	Obs
Bureaucracy	0,1311	7	7	24
Democracy	0,5251	0	7	31
Ethnicity	0,3541	0	7	31
Law	0,2932	4	7	27
Investment	0,2190	0	7	31
Corruption	0,5821	0	7	31
Government	0,1401	0	7	31
Socioeconomics	0,3231	0	7	31
Customs	0,7930	0	7	31

Note: ADF stasionerity test at level

Series	Prob.	Lag	Max Lag	Obs
Customs	0.0001	0	6	30
Government	0.0001	0	6	30
Socioeconomics	0.0099	0	6	30
invesment	0.0006	0	6	30
Corruption	0.0231	0	6	30
Law	0.0740	0	6	30
Ethniciity	0.0504	0	6	30
Democracy	0.0008	1	6	29
Bureaucracy	0.0039	1	6	29

Note: ADF stasionerity test at first difference

APPENDIX 2



Note: Data trend

APPENDIX 3

Year	Gove rnme nt	Soci oEc ono mics	Inve stme nt	Cor rupt ion	Law	Eth nic	Demo cracy	Bur eauc racy	Customs	Excises
1985	7,00	7,00	6,83	1,00	2,00	1,08	3,00	0,00	541,3	873,8
1986	6,33	5,92	5,08	0,33	2,00	1,00	3,00	0,00	674,3	879,9
1987	6,00	5,00	5,00	0,00	2,00	1,00	3,00	0,00	1.269,30	1.002,60
1988	6,00	4,67	5,00	0,00	2,00	1,00	3,00	0,00	1.441,50	1.105,40
1989	5,50	5,25	6,17	0,00	2,00	1,08	3,00	0,00	1.376,10	1.410,40
1990	5,75	8,58	8,33	0,33	2,00	2,00	3,00	0,00	2.800	1.800
1991	7,00	8,50	8,92	2,00	2,58	2,58	3,00	0,00	2.871	1.915
1992	6,08	7,00	7,08	2,67	3,58	3,00	3,00	1,25	3.223	2.242
1993	6,17	7,00	7,00	3,00	4,00	3,00	3,00	2,00	3.555	2.626
1994	7,00	7,00	6,33	3,00	4,00	3,00	3,00	2,00	3.900	3.153
1995	7,00	7,00	6,00	3,00	4,67	3,00	3,00	2,00	3.029	3.593
1996	9,25	7,83	7,42	3,00	4,75	3,00	3,17	2,00	2.579	4.263
1997	10,75	7,50	7,75	2,42	4,00	3,00	2,50	2,00	2.999	5.101
1998	7,92	3,33	4,00	1,25	2,50	2,08	1,00	2,00	2.306	7.733
1999	9,08	3,00	4,83	1,08	2,00	2,00	2,58	2,83	2.871	1.915
2000	8,58	2,25	5,00	1,92	2,00	2,00	4,00	3,00	6.697	11.287
2001	7,83	2,00	5,13	1,00	2,00	2,00	4,00	2,33	9.026	17.394
2002	8,92	2,00	4,50	1,00	2,00	2,00	4,00	2,00	10.344	23.189
2003	8,88	2,75	5,50	1,00	2,00	2,00	4,13	2,00	10.885	26.277
2004	7,21	3,50	6,21	1,00	2,67	2,00	4,83	2,00	12.444	29.173
2005	7,04	4,00	6,75	1,00	3,00	2,00	5,00	2,00	14.921	33.256
2006	7,13	5,96	9,13	2,33	3,00	2,00	5,00	2,00	12.140	37.772
2007	7,54	6,67	9,00	3,04	3,00	2,00	5,00	2,00	16.699	44.680
2008	7,08	5,67	9,00	3,58	3,00	2,00	5,00	2,00	22.800	51.300
2009	8,75	5,75	9,00	3,83	3,00	2,00	5,00	2,00	18.100	56.700
2010	7,75	6,29	8,88	3,00	3,00	2,00	5,00	2,00	20.000	66.200
2011	7,67	6,50	7,54	3,00	3,00	2,00	5,00	2,00	25.300	77.000
2012	5,83	5,92	7,33	3,00	3,00	2,00	5,00	2,00	24.738	83.267
2013	4,88	6,00	7,50	3,00	3,00	2,00	5,00	2,00	30.812	104.730
2014	6,00	6,00	8,50	3,00	3,00	2,00	4,75	2,00	35.676	117.450
2015	6,54	5,79	7,42	3,00	2,54	2,00	4,00	2,00	37.204	145.740
2016	6,92	5,67	7,71	3,00	2,50	2,00	4,00	2,00	33.372	148.091

Note: Data