Below is the origional article as accessed on http://www.thejakartapost.com/news/2018/09/06/government-to-increase-import-tax-for-1147-consumer-goods.html at 15 November 2018.

Government to increase import tax for 1,147 consumer goods

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The Jakarta Post

Jakarta | Thu, September 6, 2018 | 10:38 am

Finance Minister Sri Mulyani Indrawati (JP/Anton Hermansyah)

The government announced on Wednesday a new finance regulation that would impose a higher tax on 1,147 imported consumer goods that were deemed non-essential or had domestic equivalents.

Finance Minister Sri Mulyani Indrawati said in Jakarta on Wednesday that the regulation aimed to control imports of consumer goods that had little impact on productive business activities.

The new regulation, which is to replace Ministerial Regulation No. 34/2017 next week, imposes an import tax of 10 percent from the previous from 2.5 percent on imported personal care products like shampoo, soap and cosmetics, along with 215 other consumer goods.

The regulation also raises the import tax from 7.5 to 10 percent for 210 goods, including luxury items like supercars. Import tax of 7.5 percent, a hike from the current 2.5 percent, is to be imposed on 719 other imported goods and products, including audio speakers and swimwear.

Meanwhile, the new regulation maintains a tax of 2.5 percent for 57 imported goods deemed essential to supporting domestic industries.

The ministry's customs and excise directorate general recorded a 16.46 percent year-on-year (yoy) increase to $15.77 billion in consumer goods imports for August.

The government's move to curb imports is part of a concerted effort to reduce the swollen current account deficit, which has been deemed one of the major triggers of the negative market sentiment that has contributed to the steep rupiah depreciation. (bbn)

Topics :
withholding-import-tax-rates, consumer-goods, Sri-Mulyani-Indrawati, announcement

Commentary on: Indonesia Increases Tariff on Consumer Goods

The article reports on Indonesian government's new policy which increases the tariff (a tax imposed on imported goods and services) on selected consumer goods in order to control the countries depreciating currency, Rupiah (IDR) and increasing current account deficit. The government has increased tariff from 2.5% to 10% on non-essential imports like cosmetics while maintaining it at 2.5% on essential raw materials.

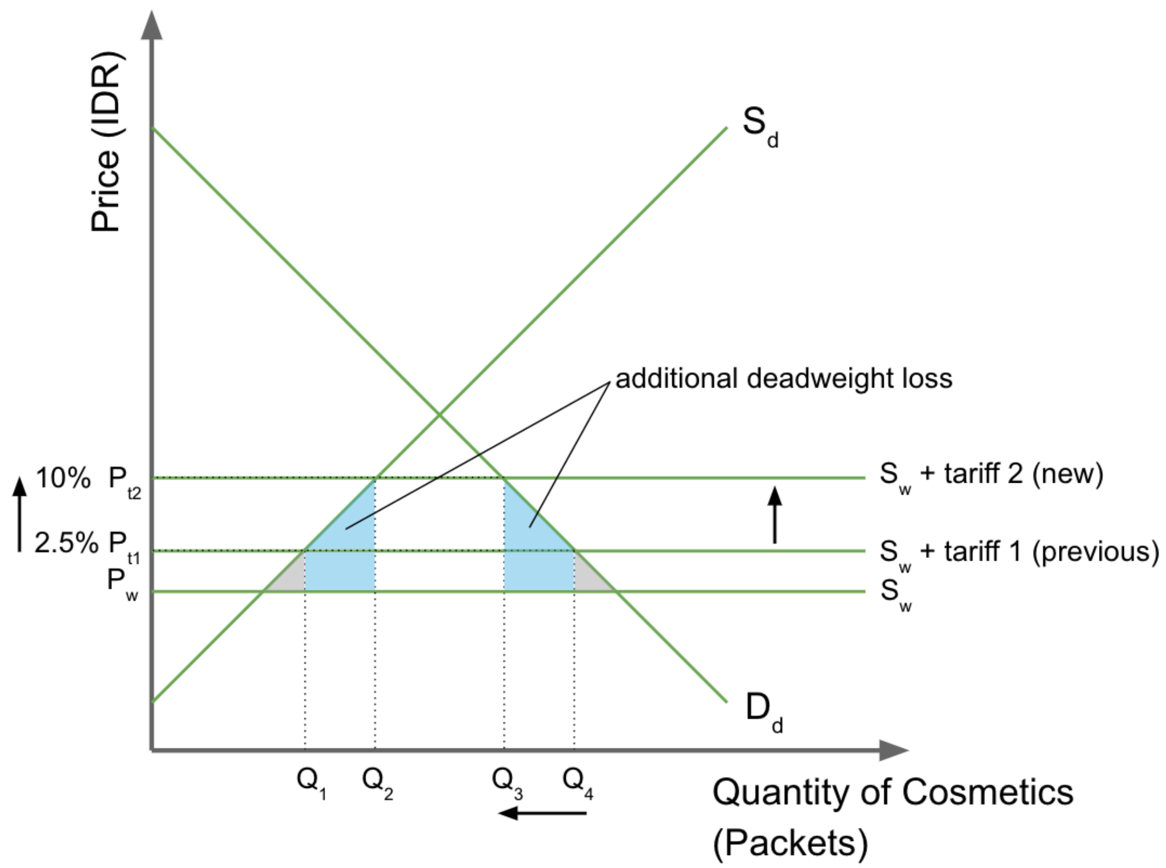

Figure 1: Increase in tariff on cosmetics

As Indonesia already imposes a tariff on these consumer goods, an increase in tariff would shift the world supply curve even higher than before to S_w + tariff 2 resulting in an increase in price from P_{t1} to P_{t2} and a decrease in quantity demanded from Q_4 to Q_3.

The consumers will be affected negatively as there will be an increase in price and a decrease in quantity available resulting in a decrease in consumer surplus. However, since the tariffs has only been imposed on non-essential goods, the change would only present a minor inconvenience for the consumers. Foreign firms which export these goods to Indonesia will also be negatively affected as the affected goods are mostly non-essential goods and hence a high elasticity of demand therefore, an increase in price due to tariffs would result in a decrease in producer revenue for the foreign firms as the quantity imported decrease from Q_4 - Q_1 to only Q_3 - Q_2. Domestic firms would arguably benefit the most with this policy as the domestic demand fulfilled by domestic firms would increase from Q_1 to Q_2 in addition to a price increase which would increase the domestic producer revenue from Q_1P_{t1} to Q_2P_{t2}. Also, being a developing country, Indonesia's manufacturing industry is infant. A temporary boost in producer revenue would allow them to develop and become more competitive in the international market for non-essential goods like cosmetics. The government would also benefit as they would earn increased tariff revenue because the increase in price is likely to be proportionally more than the decrease in quantity changing tariff revenue from $(Q_4 - Q_2)(P_{t1} - P_w)$ to a likely higher $(Q_3 - Q_2)(P_{t2} - P_w)$.

On a macro scale, the policy would also result in an increase in aggregate demand due to a decrease in the import component of it. This would cause a decrease in Indonesia's structural unemployment. However, additional deadweight loss would also be created (indicated by light blue) on top of what existed previously as the inefficient firms will now produce more and foreign firms would be left with unutilized resources causing a global misallocation of resources.

The decrease in imports would also result in a decrease in current account deficit as the economies outflows to abroad decrease.

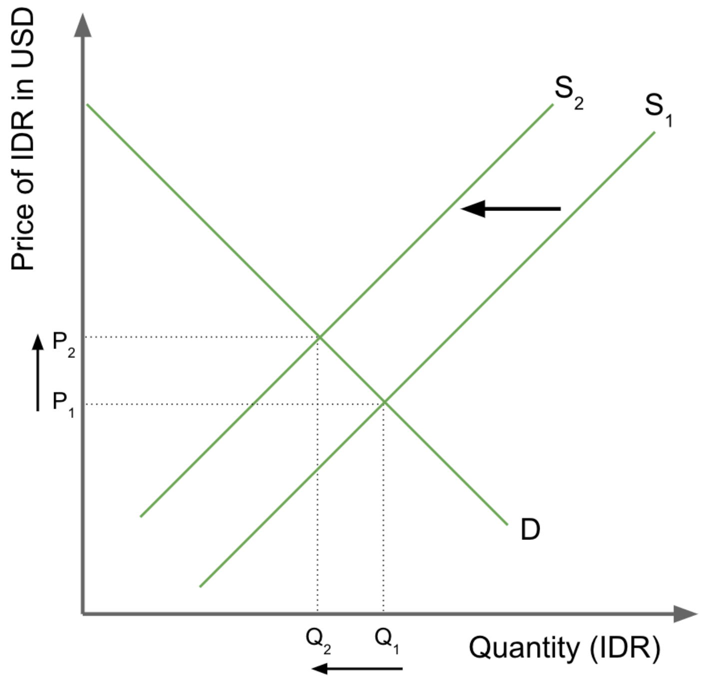

Figure 2: Decrease in supply of IDR in the foreign exchange market

Most importantly, this policy will effectively gain control on the depreciating IDR. A decrease in imports of consumer goods would decrease the supply of IDR in the foreign currency market as less IDR would now be sold in order to purchase foreign currency for imports. This would shift the IDR's supply curve inwards from S_1 to S_2 causing an increase in the price of IDR in terms of foreign currency from P_1 to P_2 appreciating its value.

However, this policy has the disadvantages of decreasing the consumer surplus. Considering this, a policy which does not affect the price of the products may be more desirable. For example, the government can grant subsidies to the same firms which the current policy has targeted for increase in tariff.

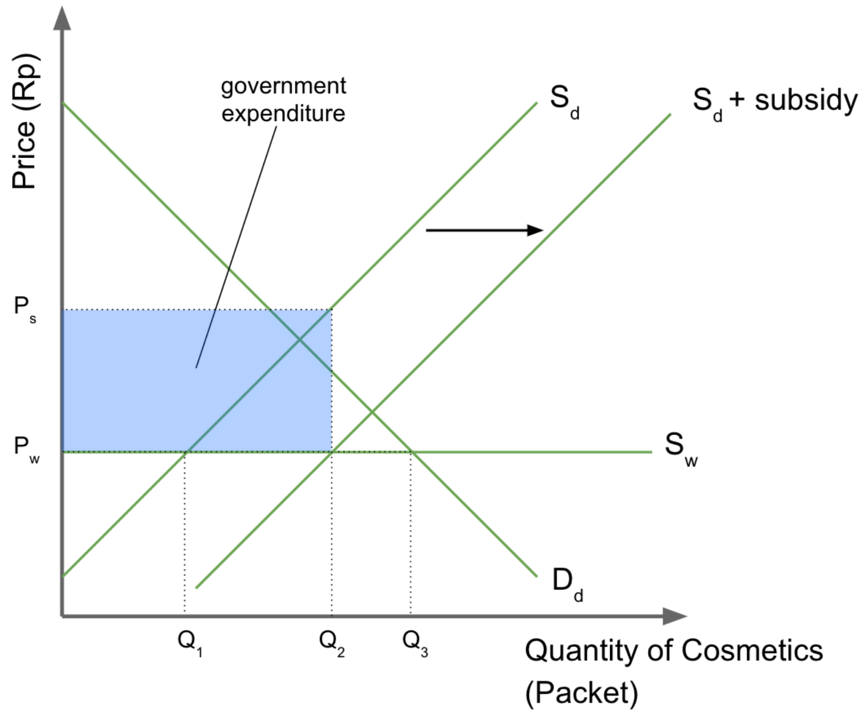

Figure 3: Alternative subsidy policy on cosmetics

Such a subsidy policy would shift indonesia's domestic supply curve from S_d to S_d + subsidy while the price remains constant at P_w. The consumer will remain unaffected as there will no change in price or quantity supplied. The domestic firms would benefit as they would experience in revenue from P_wQ_1 to P_sQ_2. Both the foreign (exporting) firms and the government would be negatively affected as the imported quantity decreases from Q_3 - Q_1 to Q_2 - Q_1 and a new government expenditure (blue rectangle) would be created.

Similar to the current policy, a subsidy policy would decrease the supply of IDR in the foreign exchange market appreciating the IDR and also result in a decrease in current account deficit as the import outflows of the economy decrease.

However, as indicated by the blue box in Figure 3, a large government expenditure would be required to sustain such a policy and since Indonesia's government debt is already very large at 28.7 % of the real GDP and increasing[1], such a policy may not be suitable due to the funding restrictions.

Word Count: 740

[1] Trading Economics. 2018. Indonesia Government Debt to GDP. https://tradingeconomics.com/indonesia/government-debt-to-gdp. Accessed 18 Nov 2018.

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