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"The Readiness of ASEAN Countries in Facing CAFTA"

Universitas Ahmad Dahlan

University of Nueva Caceres

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CONTENTS

IMPACT OF ASEAN CHINA FREE TRADE AGREEMENT (CAFTA) ON TAX REVENUE IN INDONESIA

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ABSTRACT

CAFTA agreement which was implemented in 2010 has impacted onon the economy of Indonesia, including the Indonesian tax revenue. When viewed from the standpoint of state revenue from import duty and import ValueAddedTax (VAT), implementation of ASEAN-China free trade does not cause significant problems. State revenue from import duty has decreased, but the decrease was compensated by an increase in import VAT, income tax article 22 of the import and luxury sales due to rising value of Indonesian imports from China. Until 2010, Indonesia is still experiencing a trade deficit with China.Budgetdeficitcan beovercomewith products of Indonesia should be able to compete with Chinese products, which leadingwithlow price. To reduce the cost of products of Indonesia, the government can implement tax incentives for industrial policy which operates in Indonesia's superior products and the industry employs many workers.

INTRODUCTION

CAFTA agreement that has been running for about 1.5 years has a major impact on the economy of Indonesia. Indonesia's import value from China for 2010 reached 20.424 billion U.S. dollars, up 45.86 percent over the previous year. Ministry of Commerce noted, Indonesia's exports to China in 2010 amounted to 15.692 million U.S. dollars (Suarakarya-online.com, March 24, 2011). This conditionindicatesthat in 2010, Indonesia is experiencinga trade deficitwithChina. Indonesia-China trade deficit has been marked since 2008 with a deficit of 3.61 billion U.S. dollars. Since the occurrence of free trade, Indonesia's trade surplus to China declined significantly due to the growth of Indonesian exports to China are not comparable with the growth of imports from that country (Sutrisno, 2010 in http://neuroemotico.blogspot.com/2010/06).

In addition to impact on the trade deficit, the implementation of CAFTA agreement also resulted in decreased production and sales (Tjahajana, 2011 in Suarakarya-online.com, March 24, 2011). Ministry of Industry survey conducted in October-December 2010 showed that the majority of 420 sample companies claimed there was a decrease in production and sales in the last year (Suarakarya-online.com, March 24, 2011). Increasing the volume of imports of finished goods from China into the causes of decline in production of the national industrial sector. As a result, many national companies that closed down, so theimpactalsoon the amount oflabor.

ImpactofCAFTAis so greaton the Indonesian economyalso affect thetax revenueinIndonesia. Thefree tradeagreementsimpact on thetariffsof imported goods, whichmeans theacceptance ofimport dutieshas decreased. Conversely, whenviewed from theVAT(Value added Tax) imports, PPnBM(sales tax luxury goods) importsand Income Tax(Income Tax) of Article 22, the revenue derived from these threetypes oftaxrevenuehas increased, due to the highvalue of importsfromChina. Sothe question iswhether theCAFTAagreementthatappliesin the countriesof China-ASEAN impact ontax revenuesinIndonesia?

DISSCUSSION

There areparties whoagreeandsomedisagreewith theparticipation of Indonesia atthe freetrade agreement.Parties whoagreesaid thatthere is a great opportunity for Indonesia to increase exports to China and ASEAN countries considering that Indonesia has many resources compared to other countries. Indonesia has a superior product in the form of rubber, coal, textiles, paper, palm oil or *crude palm oil* (CPO), and bird's nest, which, if managed properly can compete with foreign products. In contrast, the contra-party said that the implementation of the ASEAN-China free trade will impact on the changing patterns of existing businesses from entrepreneurs to become traders and will manynationalandlocalindustriesis bankrupt. Iftradeis moreprofitablebecause ofthe priceof imported goodscheaperresulted inmanynationalandlocalindustriesthatwent bankruptand eventuallymovedintomerchant(Republika, 4/1/2010).

Implementation of CAFTA agreement also impacts on tax revenues in Indonesia. This is because the traffic flow of trade originating from the participating countries freely in and out only with tariff barriers to a maximum of 5 percent. In 2010, the duty tariff were further reduced to 0 percent. Indonesia has made apolicy of gradual reduction in tariffs to below 10 percent since 1998, except for sugar and rice. As a result, government revenues from import duty decreased. Directorate General of Customs and Excise estimates the potential revenue lost from import duties due to the implementation of the Asean free trade agreement with China to reach Rp15 trillion (Kompas, December 17, 2009). Meanwhile, the Ministry of Finance estimates that the import duty revenue will fall 8.5 percent, from Rp18, 1 trillion (2009) to Rp16, 5 billion (2010) (Mulyani, 2010Bisnis Indonesia March 10, 2010).

Ministry of Finance show the data until the second week of 2010, the implementation of China-ASEAN free trade has caused a decline in revenue of 1.4 percent import duty. Till the date of February 12, 2010, import duty receipts reached Rp2 trillion, down slightly from achieving the same period in 2009 which amounted to Rp2,03 trillion (Tempo, February 22, 2010).

The decline of import duty due to the China-ASEAN free trade coupled with the increased acceptance of other countries, namely from VAT (Value added Tax) import. This is due to more and more goods that enter, the more import VAT received. In fact, since January 2010, import VAT continues to show good growth (Utomo, 2010 in Suara Karya. March 26, 2010). Import VAT receipts is expected to increase from Rp66,3 trillion (2009) to Rp102,2 trillion (2010) (Mulyani, 2010 in Harian Kompas. January 21, 2010). Although eventually the government reduced import VAT revenue target in 2010, which previously amounted to Rp102,2 trillion, to Rp82,5 billion, a drop of Rp19,7 trillion (19.3 percent). When compared with the realization of the import VAT receipts in 2009, the government set targets in the draft budget 2010 is still higher. The realization of the import VAT receipts in 2009 amounting to Rp66.3 trillion or 80.4 percent of the targets set in the 2009 Budget. The data indicated the Ministry of Finance until January 2010, receipt of Value Added Tax (VAT) Imports rose 37.3 percent from Rp 6 trillion to Rp 8.24 trillion.

Besides affecting the import duty and VAT on imports, the China-ASEAN free trade also have an impact on other tax revenues, namely Income Tax Article 22 of the import and luxury sales tax. Until January 2010, the Income Tax section 22 of imports rose by 29.9 percent from Rp1.92 trillion to Rp 2.5 trillion. Increasing acceptance of the tax is due the increasing number of goods coming into Indonesia.

For the Luxury Sales Tax (PPnBM) rose 120.7 percent from Rp215.49 billion to Rp475.48 billion for the period January 2010 (Tempo, February 22, 2010). Increased revenue from taxes because of too many kinds of electronic products originating from China to Indonesia, which portion is estimated at 36 percent. These electronic products including luxury goods group that subject to luxury sales tax.

Increased government revenue from import taxes associated with post-agreement China-ASEAN free trade due to the increased value of Indonesian imports from China. Indonesia's import value from China for 2010 reached 20.424 billion U.S. dollars, up 45.86 percent over the previous year. Imports from China are dominated by products toys that reached 73 percent when compared with total imports of toys from around the world. Portion of furniture products by 54 percent and 36 percent for electronic (Suarakarya-online.com, March 24, 2011).

Rising value of Indonesian imports from China are also balanced by the rising value of Indonesian exports to China, which during the year 2010 reached 15.692 million U.S. dollars, rose by 34 percent. But the increase in export value is still not comparable to the increase in value of its imports. Consequently, until the year 2010, Indonesia is still experiencing a trade deficit with China. China's products more and more into Indonesia, which if left unchecked will destroy the industry of Indonesia.BeforeCAFTAimplemented,a lot ofChineseproductsinIndonesia's domesticmarket. Data from the Central Statistics Agency (BPS) shows that the flood of cheap Chinese products causing the market share of textile industry and related products (TPT) of Indonesia fell from 57 percent in 2005 to 23 percent in 2008 (Harian Ekonomi Neraca Industri, February 18, 2010).

China can freely sell the product to Indonesia for daring to offer a much cheaper price compared to products from Indonesia. Prices are cheap and many Chinese products circulating in Indonesia has benefited merchants. Gains derived by a seller of Chinese products on average increased 20.1 percent. This is because the price of Chinese products are much cheaper. This condition is contrary to the domestic products are made withrelatively the same quality but sold at higher prices, making domestic products could not compete. This resulted in a change in the pattern of existing businesses from entrepreneurs to become traders. If trade is more profitable because of the price of imported goods cheaper, a lot of national and local industry out of business until it moved into merchant (Republika, 4/1/2010).

The reduced number of national and local industry will have an impact on the decrease in the amount of labor. As a result, many workers who do not earn revenue, which ultimately impact the income tax revenue. In addition, the small number of industries likely to impact the decline in potential tax revenue derived from the industrial sector. Therefore, if the industrial sector decreased would result in state revenues can not be maximal.

In order for CAFTA agreement is still to provide maximum value for Indonesia, the government needs to make policies that can be beneficial for national and local industrial sector. Policies that can be taken by the government of the tax is to provide tax incentives for industrial sector which operates in Indonesia's superior products and which can absorb a lot of labor. The incentive is to reduce production costs so that their products become cheaper. Products are cheap and with proper management will make Indonesian products can compete with foreign products, especially products from China.

CONCLUSION

Based on these explanations can be concluded that when viewed from the perspective of state revenue from import duty and import VAT, implementation of ASEAN-China free trade does not cause significant problems. Although the revenue from import duties has decreased, but the decrease was compensated by an increase in import VAT, income tax article 22 of the import and luxury sales tax. In addition, the proportion of trade between Indonesia, ASEAN and China only 20 percent of it so that Indonesia is still open opportunities to maximize revenues from import duties Indonesia's trade with countries other than China and ASEAN.

However, state revenues from tax revenue will be more leverage if the CAFTA agreement has a positive impact for Indonesia, that is increased Indonesia's trade balance. For Indonesian products to compete with Chinese products, the prices of Indonesian products should be lowered, that is by lowering costs.Policiesthatcan betakenbygovernmentsto reduce production costs by implementing tax incentives for industries that move on superior products and the industry which employs many workers.

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