

Role of Tobacco Industries in the National Economy

Desi Purnama Wulandari

*Faculty of Public Health, Universitas Airlangga, Mulyorejo, Surabaya, Indonesia
e-mail: desipurnama14@gmail.com*

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Abstract: The tobacco industry widely covers the primary raw material sector including tobacco leaves, cloves and the cigarette processing sub-industries. The role of the tobacco commodity is prominent in the national economy as a source of state revenue from excise tax. The value of the tax revenues from year to year continues to increase. The increase in the tobacco excise tax is due to the policy of increasing the retail price of tobacco and thus, the cost of tobacco excise. The purpose of this study is to find out how big the influence of the tobacco industry is on the national economy. This paper uses analytical methods paired with a qualitative methodology. The results have concluded that the tobacco industry on the one side plays a role in the national economy and on the other hand, has a negative impact on public health and the environment. The government's assertiveness to protect people against the negative impact of cigarettes is needed through measures to increase cigarette prices, increase the cigarette taxes, and to further the cigarette promotion restrictions in cigarette advertisements and sponsorship activities involving young people. The conclusion is that the government should seek other solutions to improve the national economy aside from cigarette taxes.

1 INTRODUCTION

Tobacco is one of the agricultural commodities that has a high economic value, even aside from the products produced from processed tobacco. The development of the tobacco processing industry that has occurred in Indonesia is inseparable from the consumption of tobacco products. The demand for high-tobacco processed products is gives a boost to the tobacco processing industry because of the desire for continued production and the subsequent profits. The dependence of the tobacco processing industry on the domestic market makes the tobacco processing industry relatively stable, especially concerning the main raw materials used by the industry. The price of the raw materials, especially tobacco, is not affected by the price in the world market.

The small and medium scale elements of the cigarette industry can suffer losses due to the decrease in cigarette consumption by the community due to FCTC regulations (Framework Convention on Tobacco Control). These regulations aim to protect the current and future generations from the health, social, environmental, and economic consequences of tobacco consumption and exposure to second-hand smoke. Not only does the tobacco

industry have a negative impact, but so does the tobacco farming sector as the main provider of cigarette production input. The phenomenon of the tobacco processing industry is interesting to examine in relation to how its role in the economy comes face to face with health issues in Indonesia.

2 METHODS

The methods in this study were the qualitative approach, executed by collecting secondary data, i.e. data obtained from an agency related to the research focus. The purpose of this research study was to know how big the influence of tobacco industry in relation to the national economy. This is as well as the economic impact of the tobacco processing industry on other sectors of the economy.

3 RESULT

3.1 The Tobacco Industry to the Indonesia's Economy

The tobacco industry in relation to Indonesia's economy is very influential. In Figure 1, the income

of farmers per hectare in the central cigarette industry and their income from tobacco has amounted to Rp 48 million. The average income of most tobacco farmers in 2012 amounted to Rp 57 million and in 2013, this amounted to Rp 54 million.

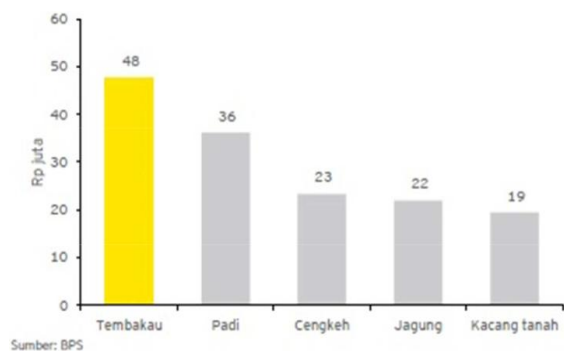


Figure 1: Income of farmers per hectare in cigarette industry centre in 2013

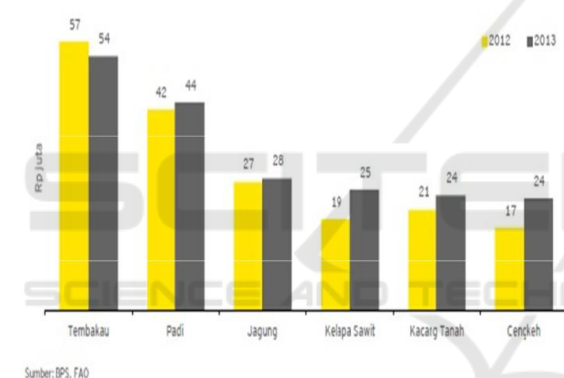


Figure 2: Farmers' income (Rp million / ha) - national average

3.2 Growth of cigarette industry in Indonesia.

The average annual growth of cigarette sales is estimated to be 5.4% over the last 6 years (2009-2014). It is estimated that the value of cigarette sales reached 276 trillion in 2014, of which 113 trillion was excise. The average growth rate of cigarette sales is 14.6% higher than other industries. This has increased the average price of cigarettes per year (2009-2014) by 8.7%.

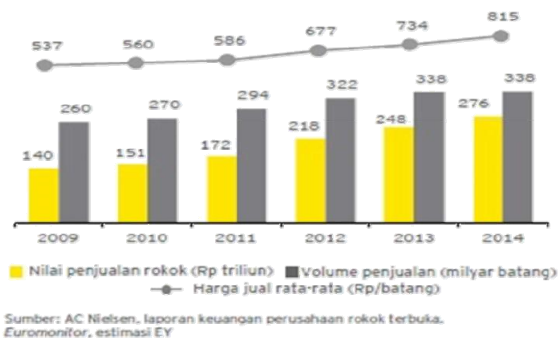


Figure 3: Cigarette sales (2009-2014)

3.3 Contribution of cigarette industry to tax revenue

Indonesia's tobacco industry through CHT (Excise on Tobacco Products) for the last 5 years has accounted for an average of 9.2% of the total tax revenue or Rp 443 trillion in the period 2010-2014. This makes excise tax one of the main contributors towards state income from taxes. 9.8% of the total tax revenue in 2014 came from tobacco taxes. The highest excise increase occurred in 2012 by 23.6%.

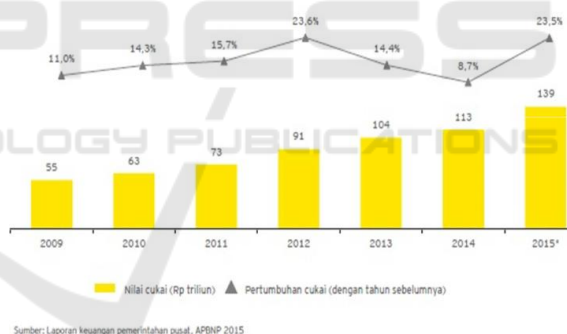


Figure 4: Excise and growth

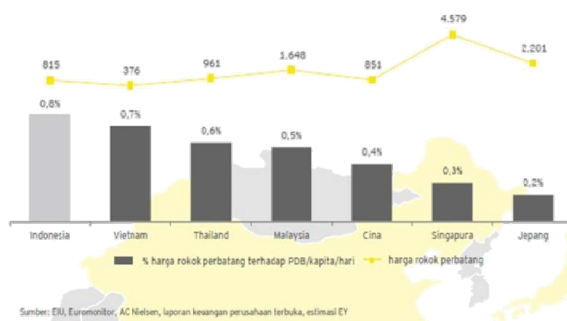


Figure 5: Comparison of cigarette prices with other countries.

The estimated value of the contribution of the tobacco industry to traditional traders in 2014 amounted to Rp 206 trillion. Meanwhile, sales of cigarettes to the total sales value of FMCG in 2014 reached 43.7%. (Figure 6)

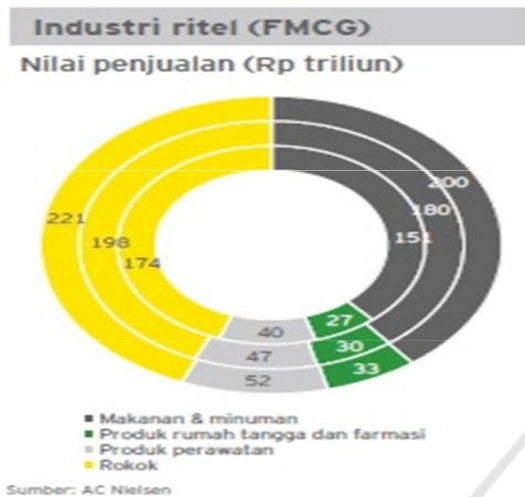


Figure 6: Total sales value of FMCG

4 DISCUSSION

Some of the phenomena associated with the tobacco sector and tobacco industry in Indonesia are 1) that the tobacco production has declined an average of 5.98% per year, 2) that the consumption of cigarettes increases with population and income, 3) that the tobacco and cigarette industry sector accounts for about 7% of domestic revenues, but exhausts more than the foreign exchange, 4) dislikes the absorptive sector of labour in other sectors, which is a considerable multiplier output of the sector and 5) that the tobacco sector has a strong thrust against the downstream sectors, and the cigarette industry sector strongly pushes the downstream sector (Hadi and Friyanto, 2008).

The large number of cigarette excise taxes as a source of state income has become a pro-contra debate over the call for tobacco farmers to switch to other farm enterprises on the land that is owned. As a raw material for the tobacco industry, the need for tobacco will probably never cease, so there must be a development effort to open up new avenues. In addition to these direct economic benefits, the indirect economic benefits are also very large in the retail sector, associated with kiosks, and the upstream industries of cigarettes such as paper mill auxiliary materials and others. In the process of

developing tobacco cultivation, there is the fertilizer industry, pesticides, herbicides, and others. The restriction and cessation of tobacco plantations will have a chain impact on the tobacco industry, other component suppliers from different industries, industrial workers, wholesalers and retailers who will all suffer huge losses.

5 CONCLUSION

In Indonesia, the tobacco industry is faced with a difficult situation. On one side, it plays a role in the national economy and on the other side, it has a negative impact on public health and the environment. The role of tobacco in the national economy can be seen from the contributions of the cigarette industry towards the tax revenue of Indonesia.

Indonesia is a country that serves as a cigarette market for national and global cigarette producers, due to its large population, high population growth rate, and population participation rate, especially in relation to young smokers. Indonesia's cigarette industry is mostly owned by large and foreign investors, so that the value added is enjoyed by the big and foreign investors, while the Indonesian people only receive the negative impacts from cigarettes.

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