

CHAPTER 1

INTRODUCTION

1.1 Object Review

Illegal imports are the activity of importing goods into a country without permission or violating applicable regulations. Illegal imports can harm the country economically and socially. This is caused by various factors, such as customs evasion, circulation of counterfeit goods, and illicit trade.

Indonesia, as a developing country with large economic potential, faces significant challenges related to the losses caused by illegal imports to the optimization of state revenues. Illegal imports, which involve goods crossing borders without permits or other violations of import regulations, have become a serious problem that is detrimental to the Indonesian economy. This research aims to analyze the losses caused by illegal imports to the Indonesian government's efforts to optimize state revenues.

As one of the countries in Southeast Asia that has a developing economy and abundant natural resource potential. To achieve sustainable economic growth and meet the needs of its people, the Indonesian government relies heavily on revenues from the export and import sectors. Imports, as one of the main components of international trade, play an important role in supporting economic growth and state income.

However, along with the increase in international trade, the problem of illegal imports or unauthorized imports has become a serious threat to optimizing state revenues in Indonesia. Illegal imports refer to practices that involve sending goods across borders without permission, evasion of taxes and customs, forgery of documents, or other violations of applicable import regulations. This illegal import can result in various significant losses, both from an economic and fiscal perspective.

The quick digitalization process that's taking place is increasing the request for digital or ICT products. The restrictions of a nation in satisfying the request encourage the nation concerned to import (Indrajaya et al., 2023).

1.2 Research Background

Illegal imports pose a significant threat to economic stability and the optimization of state revenues. When goods enter a country without complying with customs regulations and avoiding tariffs and taxes, this results in huge economic losses. The background to this research aims to provide an overview of critical problems surrounding the impact of illegal imports on state revenues and outline the need for effective strategic analysis to overcome these problems.

Illegal imports, which include activities such as smuggling, counterfeit goods, inaccurate value reporting, and trade in prohibited goods, have a detrimental impact on a country's economic health. These activities hinder the government's ability to collect revenue, enforce trade policies, and protect domestic industry. Economic losses resulting from illegal imports can have far-reaching consequences, affecting employment opportunities, local businesses, and the country's overall financial stability.

Illegal imports pose a significant threat to a country's economic health, state revenue optimization, and overall well-being. An in-depth strategy analysis is crucial to understand the multifaceted aspects of this problem and to formulate and implement effective policies and measures. By doing so, governments can reduce economic losses, protect domestic industries, and ensure the safety and security of their citizens. This research background highlights the urgency of addressing this issue and serves as a foundation for further study in this critical area.

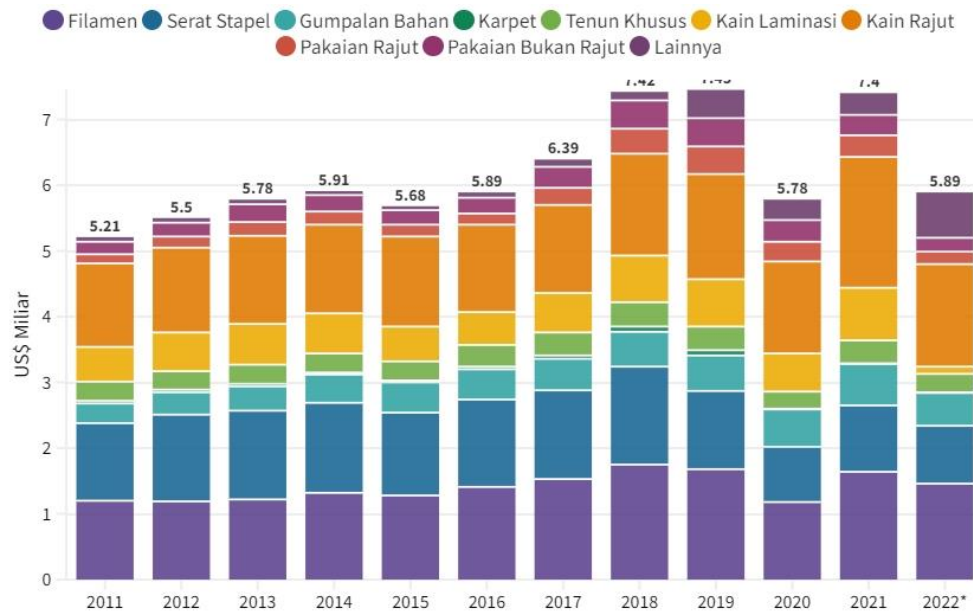


Figure 1.1 Classification of Textile Imports to Indonesia (2012-2022)

Source: Badan Pusat Statistik (2012-2022)

Imports of textile products to Indonesia were observed to experience quite ups and downs in the 2012-2022 period. This high level of imports is thought to be one of the triggers for widespread layoffs in the domestic textile industry. This is because local companies have to compete fiercely with the large number of imported textile products. On the other hand, demand for exports from abroad, especially the United States and Europe, is declining. This is the impact of weakening purchasing power in the two regions due to the threat of economic recession. For this reason, the government plans to implement a limited ban (lartas) on imported textile products. In this way, the stability of the textile industry in Indonesia can be maintained and protected. (Proporsi Kredit UMKM, 2023).

Table 1.1 Imports of Indonesian Textiles and Textile Goods (2013-2022)

TAHUN	VARIABLE	
	Volume	GDP
	Ton	(US\$)
2013	1.960.935,2	8.472.698.027
2014	2.068.508,9	8.565.987.601
2015	1.980.490,6	7.975.941.876
2016	2.153.443,3	8.159.870.717
2017	2.289.500	8.803.678.381
2018	2.563.391,6	10.016.884.178
2019	2.368.828,3	9.372.661.032
2020	1.822.521,1	7.200.537.765
2021	2.207.196,2	9.426.220.937
2022	2.159.855,9	10.126.601.413

Source: Badan Pusat Statistik (2013-2022)

According to data from the Badan Pusat Statistik (BPS), during the 2013-2022 period the volume of imported textiles and textile goods entering Indonesia reached an average of 2.16 million tonnes per year, with an average import value of US\$8.8 billion per year.

Many previous studies have been conducted discussing the volume of illegal imports. Previous study about Exchange Rate On Illegal Import (Adi, 2017; Harnani et al., 2022; Rahmawati, 2014) shows that Exchange Rate variable has a positive and significant effect on imports in the short term. Previous study about Gross Domestic Profit On Illegal Import (Adi, 2017; Rahmadani et al., 2022; Rahmawati, 2014) the influence of Gross Domestic Profit on illegal imports has a significant positive effect. Previous study about Inflation On Illegal Import (Firdaus & Septiani, 2022; Ulfa & Abbas, 2018; Wang, 2023) there are differences in results regarding the influence of inflation on illegal imports, In (Ulfa & Abbas, 2018; Wang, 2023) research they agree that inflation has a significantly and positive effect, while (Firdaus & Septiani, 2022) they conclude that inflation has a negative and significant effect.

1.2 Problem Formulation

1. How does the exchange rate affect on illegal imports of used clothing on Indonesia?
2. How does Gross Domestic Product affect on illegal imports of used clothing on Indonesia?
3. Can Human Development Index have a significant influence on illegal imports of used clothing on Indonesia?
4. Can inflation have a significant influence on illegal imports of used clothing on Indonesia?

1.3 Research Objectives

1. Find out the effect of the exchange rate on illegal imports of used clothing on Indonesia
2. Find out the effect of Gross Domestic Product on illegal imports of used clothing on Indonesia
3. Knowing the Human Development Index can have a significant influence on illegal imports of used clothing on Indonesia
4. Know that inflation can have a significant influence on illegal imports of used clothing on Indonesia

1.4 Research Benefit

Research Benefits for the Study on Strategy Analysis of a Country's Economic Losses Due to Illegal Imports Threatening State Revenue Optimization:
Teoritical Benefit

1. Enhanced Economic Stability

Conducting a strategy analysis to address the economic losses caused by illegal imports can lead to enhanced economic stability within the country. By curbing the negative impact of illegal imports, the government can maintain a

more predictable economic environment, reducing uncertainties for businesses and investors.

2. Increased State Revenue

One of the primary benefits of this research is the potential to increase state revenue. Through a better understanding of the dynamics and vulnerabilities related to illegal imports, governments can implement more effective measures to collect customs duties, taxes, and tariffs, thereby optimizing state revenue.

3. Legal and Regulatory Reforms

The research findings can lead to essential legal and regulatory reforms that strengthen the country's trade and customs operations. This, in turn, could lead to more efficient and transparent trade processes, benefiting both the government and the business community.

4. Practical Benefit in Economy Study Policies

The practical advantage of delving into economic policies is evident as it equips policymakers with the necessary insights to formulate strategies that not only stabilize the economy but also stimulate sustainable growth, and enhance the overall prosperity of the nation, As well as expanding insight in the APS field.