

Improvement of customs and tariff regulation as a factor of sustainable development

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Abstract. The paper discusses the role of prices and customs tools in maintaining a competitive environment, reveals their interaction in the economic mechanism of Russia. The need for more and more complete satisfaction of social needs underlies the competitive struggle between countries for limited global resources. One of the ways of this struggle is international trade, by which each country should strive to export as many goods as possible with high consumer properties, requiring to use highly skilled labor, enabling to maximize economic benefits. Meantime, it becomes necessary to regulate the imports of foreign-made goods by establishing customs duties on the imports of the manufacturing industry. In modern conditions, customs duties often become a tool of political struggle. In this context, the purpose of the paper is to develop ways to improve the economic mechanism of Russia through prices and customs duties, and to develop their interaction, focusing on creating equal competitive conditions for the sale of domestic and imported products with the help of prices and customs duties. Research methods include analysis and synthesis, induction and deduction, systemic, logical. The result of the study is a set of specific measures to improve customs and tariff regulation, including a formula for an equal price for imported and domestic products. Equal competitive conditions for domestic and imported products are the key to sustainable economic development.

Keywords: Price · Customs tools · Duty · Interaction · Competition.

1. Introduction

Recently, the conditions of international trade have changed significantly – stable ties between countries are weakening, distancing from multilateral agreements is growing (Zeneli and Czinkota, 2019). Sanctions begin to prevail in relations between states. Even the traditional tools for regulating international trade, operating within the framework of the World Trade Organization (WTO), are increasingly turning from economic to political (Hufbauer and Jung, 2019). In this regard, a problem arises: is it necessary to regulate foreign trade in these conditions? How to implement this regulation – within the framework of the WTO agreements or via bilateral agreements? At the same time, it should be noted that the main instrument for regulating foreign trade – customs duties – does not change.

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Under these conditions, the most important task is to develop the academic foundations for the formation of customs duties, seeking to maximize the socio-economic benefits from foreign trade, increasing the competitiveness of the economy.

The development of the academic theory of international trade is currently opposed by other theories, in particular, the theory by A. Smith and D. Ricardo, stating that countries should export goods that they produce cheaper, and import goods that are more expensive to produce. This theory ignores the difference in the quality of labor required to produce manufactured goods and commodities. At the same time, in other works, D. Ricardo noted: the labor of skilled workers improves the consumer properties of goods (Ricardo, 2008).

Following the theory by A. Smith and D. Ricardo in the practice of international trade provided advantages for more developed countries. For Russia, following this theory during the period of transition from a planned to a market economy ultimately led to the excessive openness of the national market and the gradual degradation of the economy. The introduction of duty-free trade with other countries in the first months of the reforms and the subsequent maintenance of low customs duties led to the bankruptcy of many manufacturing enterprises.

A study of Canada's "new" gains from trade liberalization with the US confirms that an increase in import diversity is offset by a loss in domestic production diversity and vice versa (Hsieh et al, 2020). These circumstances must be accounted for when developing customs and tariff regulation.

2. Materials and Method

The purpose of this paper is to present the authors' vision of improving the interaction between customs duties and prices in the context of a steady increase in world prices given the inability of existing customs tariffs to provide the necessary level of competition and to stimulate economic growth. The research methodology is based on the principles of scientific objectivity and a systematic approach, based on general academic methods, including analysis and synthesis, induction and deduction, systemic, logical. Reference and analytical materials were used in this study to identify topical problems and trends in customs and tariff regulation. The reliability of the academic provisions of the study was facilitated by an extensive factual database of state and international institutions.

3. Results

It follows from economic theory that prices and customs duties closely interact in improving the efficiency of the national economy. Customs duty is a surcharge to the price of goods imported from another country to be sold on the importer's domestic market in order to ensure the equal profitability of the use of domestic and similar imported goods, that is, equal competitive conditions for the sale of domestic and similar imported goods on the domestic market (Novikov et al., 2020).

Building value-added chains has formed the dependence of many countries on the supply of raw stock and components, products of manufacturing industries, made their economies sensitive to trade wars and sanctions, as manifested in the growth of world prices (Fig. 1) and national prices (Jaravel and O'Connell, 2020). Exporters face the need to develop new pricing strategies (Dolgova, 2020).

World prices change depending on the pace of development of countries – the largest exporters and importers of particular goods. Thus, the dynamics of world steel prices is determined by the domestic policy of China, the leader in its production and export (Shaibakova and Novoselov, 2017). The tightening of the lockdown in Shanghai due to a new outbreak of coronavirus led to an increase in world steel prices on the London Metal Exchange from March 21 to April 4 by 0.6% to \$870/t (The London Metal Exchange, 2022a). Prices for palladium (London Metal Exchange, 2022b), platinum (London Metal Exchange, 2022c), non-ferrous metals, on the contrary, decreased during this period, since China is their largest consumer (Milkin, 2022).

The dynamics of world prices is largely determined by the regulation of exports and imports in some countries. The introduction of a 25% duty by the United States on steel imports from China in 2018 led to an increase in regional prices relative to the global average (Results of 2019 in the ferrous metallurgy, 2019). In 2019, the US imposed higher import duties on a wide range of Chinese goods, as

well as increased previously imposed duties. China's response has contributed to increased trade policy uncertainty and companies rethinking their business strategies (Benguria et al., 2022). The restriction of wheat exports by India in May 2022 accelerated the growth of world prices: on the Chicago Mercantile Exchange, prices for food wheat increased by 2% in one day (from \$396/t to \$400/t) (The Barchart, 2022). A study (Song et al, 2022) shows that global oil prices are more affected by the policy uncertainty risk than a geopolitical risk. Both tariff wars (imposition of customs duties, quotas, tariff escalation) and non-tariff wars (voluntary state restrictions, licensing, quotas, etc.) are currently going on in the world oil market (Zhang et al., 2021).

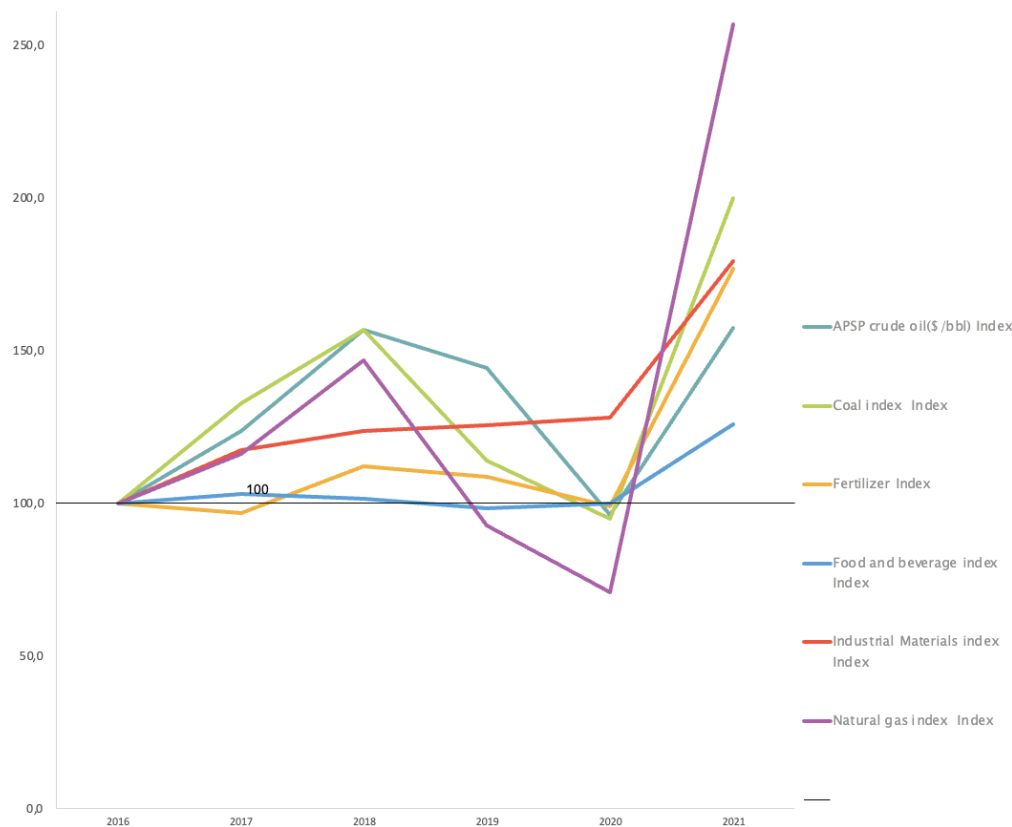


Fig. 1. Dynamics of world price indices for the main groups of goods. Compiled by the authors according to the IMF (The International Monetary Fund, 2022).

Under these conditions, the Russian economy needs to create a competitive environment in the domestic market in the trade of foreign goods. Currently, import customs duties in Russia are set at a level at which they do not affect the formation of a competitive environment (Fig. 2).

The current customs and pricing policy, in addition to stimulating profit-making by foreign capital by supplying products with a high share of value added to a country, simultaneously creates conditions for the supply of low-quality goods. The consumption of low-quality products does not contribute to a more complete satisfaction of social needs, worsens the national health and reduces the national competitiveness in international trade.

In a period of crisis on world markets and falling prices for Russian exports, the ruble depreciates against the dollar and other currencies, which leads to an increase in prices for imported goods. As a result, domestic prices for goods and incomes of exporters are rising, and real incomes of the population are falling, consumer demand is declining, and domestic manufacturing is stagnating.

Thus, the use of non-competitive, non-market prices that do not stimulate the development of domestic manufacturing and more complete satisfaction of social needs, as well as the establishment

of low customs duty rates, did not allow the formation of an economic mechanism for the effective development of domestic manufacturing.

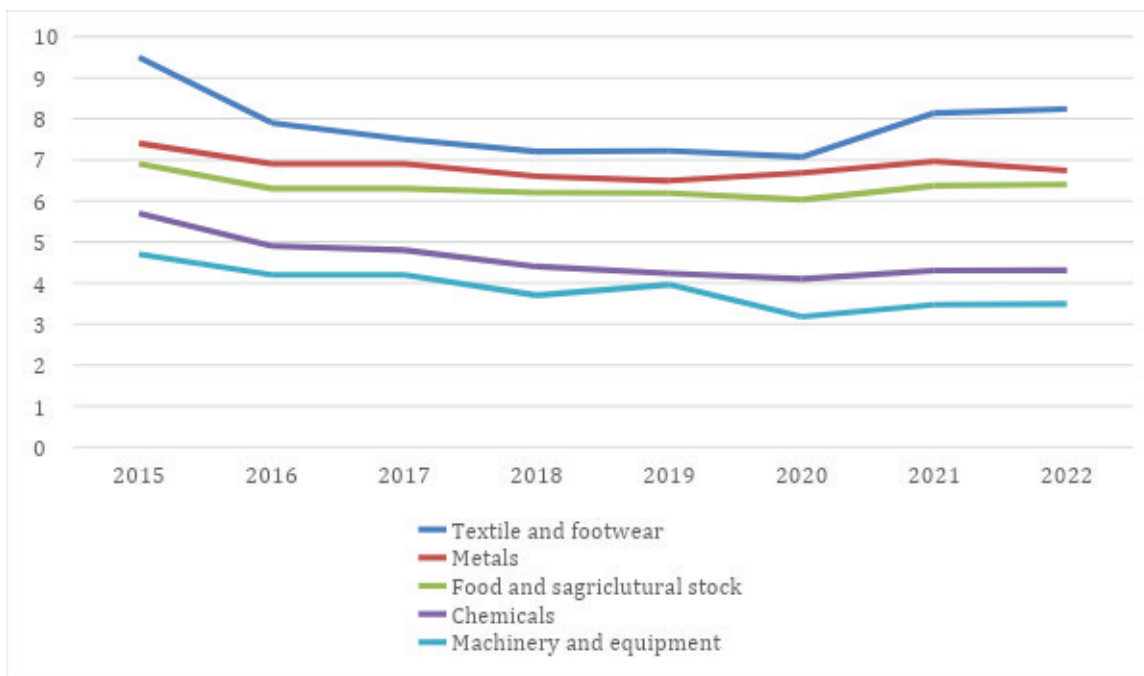


Fig. 2. Estimation of the weighted average tariff in 2015-2022 by the main groups of imports (%). Compiled by the authors based on the data from the Russian Ministry of Finance (The Ministry of finance of the Russian Federation, 2022).

Under these conditions, the question arises of adjusting the economic mechanism, the main tools for improving it being prices and customs duties.

It is necessary to increase customs tariff rates, revise customs policy, develop and adopt an official methodology for setting customs tariff rates that provide an equal competitive environment in domestic markets for domestic and imported goods, use for this purpose the groundwork available in scientific organizations (Eurasian Economic Commission, 2021; Novikov et al., 2020).

It is necessary to concentrate the resources of the state and private companies on the reconstruction and development in Russia of the sectors with a high share of added value, requiring highly skilled labor to meet the primary needs of society.

Also, it is appropriate to actively use the governmental opportunities to enhance economic management, expand government regulation and price controls to create a competitive environment, remove barriers and allow new manufacturers to enter the market.

When developing equal prices for domestic and imported products, one should proceed from the principle of their equality in the importer's domestic market. When exporting products, at the expense of customs duties it is necessary to ensure the equal profitability of the sale of products on the domestic and foreign markets. The equal price is calculated according to the formula for determining prices by types of industrial and technical products, taking into account the economic effect from the use of imported and domestic products or equal profit when delivering products to the domestic market and the world market.

4. Discussion

Sustainable development is impossible without competition. To improve it, it is necessary to establish customs duties at a level that ensures the formation of such prices on the domestic market that create

equal profitability in the consumption of imported and domestic products. In this case, duties allow the domestic consumers to sell the newly created value.

When evaluating the benefits from national manufacturing or imports of products, it is necessary to start with a comparison of the newly created value and the consumer's gain from the use of imported goods. For an objective assessment of the newly created value, it is advisable to take into account the value added at the previous stages of manufacturing the final product. Thus, the added value in the making of metal should be accounted for in the machinery and equipment made from it. The effect of the consumption of imported products instead of domestic products should be determined by the value of the customs duty, which helps to equalize their prices.

With zero customs duties, the newly created value contained in the imported goods is sold on the domestic market, and may be subsequently exported. Using tariff protection, all losses of consumers of imported products go to the state budget in the form of import duties. The country will receive an additional benefit by directing these revenues to finance R&D and increase the production output of goods with a higher share of value added.

The level of export duties should equalize the profitability of supplying products to the world and national markets.

5. Conclusion

Thus, the study shows that sustainable development is impossible without the formation of an equally competitive environment in domestic markets for domestic and imported products.

In turn, to create such an environment, it is necessary to maintain equal profitability of prices for domestic and imported products through customs duties and at the same time stimulate the development of domestic manufacturing on the basis of accelerated scientific and technological progress and reducing prices.

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