

THEORETICAL REVIEW OF THE IMPACT OF CUSTOMS DUTIES REVENUE ON ECONOMIC GROWTH

Dalkitsi Eleni¹

Received: 22.03.2024, Accepted: 30.03.2024

Abstract

The focus of this research paper is to explore the complex correlation between revenue generated from customs duties and the growth of an economy. By examining theoretical frameworks and analyzing empirical evidence from different contexts, this study aims to shed light on the intricate nature of this relationship. Through a meticulous review of existing literature, the research uncovers both the direct and indirect pathways through which customs duties revenue impacts the trajectory of economic growth. Through the integration of findings from a range of studies this study brings attention to the intricate consequences of customs duties revenue on crucial economic metrics such as the growth of GDP, trade dynamics, investment trends, and the effectiveness of fiscal policies. It delves into the ways in which disparities in tariff configurations, trade openness, and institutional frameworks influence the impact of customs duties revenue on economic expansion in various nations and regions. In addition, the paper delves into the possible compromises and policy considerations linked to the dependence on customs duties as a means of government revenue. It emphasizes the significance of maintaining a balance between generating income and promoting overall economic growth, especially in the face of globalization and changing trade patterns.

Keywords: *Economic Growth; Public Revenue; Role of State*

JEL Codes: *B12, H25, B50*

Introduction

In general, customs duties play a critical role in collecting public revenue, maintaining a level playing field for businesses, and are used to shape economic policy, as well as build an international trading environment that encourages foreign direct investment (Viner, 2014). The proportionate tax and customs burden may lead to greater inequalities (Tanchev, 2021), while at the same time, other studies, show how important the unhindered opening of the economy is in important sectors (e.g. tourism), without distorted tax burdens (Bozhkova, 2022). Generally, international

¹ PhD Student at the Faculty of Economics, South-West University "Neofit Rilski", Blagoevgrad, E-mail: elenadalkitsi@gmail.com, ORCID ID: 0009-0004-8249-8996

trade is developing a dynamic in the Balkans and customs duties can be a disincentive (Kyurova, 2017).

In many developing countries, import duties and related customs charges constitute a significant proportion of national revenues, making the role of customs services purely revenue-collecting. On the other hand, developed countries with a relatively limited dependence on imports as the main source of government revenue, focus significantly on trade facilitation and border protection processes, with an emphasis on imposing import and export bans and restrictions (Kadyrkulov & Mozer, 2018). In this context, the current trends in the liberalization of world trade in connection with the global concern about international terrorism have highlighted trade facilitation and border security as key priorities of the customs administration (Shome, & Shome, 2021). Thus, the reform and modernization of customs services are the main pursuits of states today, so that they operate at the optimal level of effectiveness, efficiency, service and professional integrity (Colesky & Raath, 2015)

Indirect taxation pertains to taxes imposed on expenditures or outlays, with the potential to transfer the burden of taxation, either partially or entirely, to another party. A prime illustration of an indirect tax is customs duty, which encompasses both export and import duties, although the focus is typically placed on the latter in nations where imports hold greater significance. Export duty refers to the taxation of goods sent to foreign countries, whereas import duty involves the taxation of goods entering a country from abroad.

The imposition of taxes serves various purposes, such as regulating the production and consumption of specific goods and services, protecting emerging industries, controlling business activities, managing inflation, and addressing income disparities. However, the increased taxation on imported goods and services has had an impact on the production levels of these items within our country, prompting local industrialists to focus on manufacturing them. This is particularly evident in the case of dairy products, textiles, materials, and food and drinks, where high import duties have encouraged investment in domestic industries, leading to a ripple effect on employment and national economic growth. Additionally, excise duties, which are a type of tax based on the value of manufactured goods, are administered by the government (Akhor & Ekundayo, 2016).

There is an ongoing debate regarding the appropriate selection of the rule that should govern the international trade. This debate is well-known as Free Trade vs. Protectionism Debate: The dispute between supporters of free trade and champions of protectionist policies remains a prominent topic in the realm of duty tariffs and financial expansion. Those in favor of free trade stress the advantages of open markets and diminished trade barriers, which encourage global economic unification and efficiency. Conversely, advocates of protectionism contend that duty taxes can be strategically employed to protect domestic industries from foreign rivalry and preserve national interests. Examining the subtleties of this argument in the context

of the Greek economy is crucial for comprehending the advantages and disadvantages of various policy approaches, as well as their potential effect on financial expansion (Ma & Lu, 2011).

Direct and Indirect Impact of Customs Duties Revenue on Economic Growth.

The relationship between duty taxes and economic growth is a critical focal point. Moreover, the intricate interplay between duty taxes and various aspects of economic development can be via various paths. Firstly, the revenue generation constitutes a substantial portion of the government's revenue, serving as a source of funding for a variety of social and developmental programs. By examining the effect of duty tax revenue on government spending and investment, it is possible to gain a better understanding of how these funds are distributed and employed to promote economic expansion, infrastructure improvement, and initiatives aimed at enhancing public welfare (Asuquo & Effiong, 2011). Stoilova (2023) supports that the excise duties seem to have no significant impact on the growth rate. The protection of the national competitiveness is critical. According to Yuleva, the concept of competitive advantages analyses the economics of company activity, mainly focusing on its ability to generate a much greater return on invested capital and to link the company's strategy with the main financial markets over an extended period of time. (Yuleva, 2019) The role of duty taxes is crucial in molding the competitiveness of domestic industries in both international and domestic markets. Evaluating the influence of duty tax rates on the dynamics of trade, export competitiveness, and the substitution of imports can offer valuable insights into the impact of modifications in duty tax policies on the economy's structure, trade trends, and the growth trajectory of significant sectors (Amendola, Dosi & Papagni, 1993).

Duty taxes often affect the investment framework as an important parameter. Understanding the impact of duty taxes on investment decisions and capital flows is a crucial factor in evaluating their influence on economic growth. By scrutinizing the effects of duty taxes on foreign direct investment (FDI) inflows, domestic capital formation, and entrepreneurial activities, we can gain valuable insights into how duty tax policies impact the investment climate and contribute to the overall productivity and growth potential of the economy. In a micro-level analysis duty tax can have a substantial impact on consumer behaviour and their purchasing power, consequently affecting the general market demand and consumption trends. To gain a comprehensive understanding of how variations in duty tax rates affect household expenses, savings, and the overall standard of living, it is necessary to examine their implications on consumer welfare, affordability, and spending patterns (Deaton, 2016). Generally, the flexibility of fiscal policy is exemplified through the utilization of customs duties revenue as a means for governments to effectively manage macroeconomic conditions. In response to shifting economic circumstances, such as trade imbalances, inflationary pressures, or

recessions, governments possess the ability to modify tariff rates. Through strategic manipulation of customs duties revenue, governments can effectively mitigate economic volatility and provide support for long-term growth objectives.

Theoretical Frameworks Explaining the Relationship Between Duty Taxes and Economic Growth.

Various theoretical frameworks give information for the relationship between duty taxes and economic growth, which are two critical aspects of the global economy. Within the broader context of international trade policy, customs duty revenue plays a crucial role, encompassing a range of theoretical foundations grounded in economic theory, political economy, and public finance. At its essence, customs duty revenue operates within the framework of international trade theory, aligning with principles like comparative advantage and strategic trade policy. Governments strategically utilize tariff rates on imported goods to navigate the intricacies of global trade dynamics and pursue various policy goals (Musgrave & Peacock, 1958). Customs duties, rooted in the principles of comparative advantage, serve the purpose of readjusting trade terms, safeguarding domestic sectors, and stimulating economic growth. Governments employ these duties to shield emerging industries from foreign competition, thus fostering the development of domestic capabilities and encouraging industrialization and diversification. While this protective approach may generate debate within the realm of free trade, it highlights the intricate relationship between trade liberalization and the importance of nurturing nascent industries (Rodriguez & Rodrik, 2000).

The complex interplay of political economy and customs duty revenue is evident in the intricate dance of interest group politics and rent-seeking behavior. Domestic industries advocate for protection through tariffs, forcing governments to carefully navigate the fine line between economic efficiency and the preservation of local industries. In this way, tariff policies serve as a means to reconcile conflicting interests, maneuver through the complexities of domestic politics, and satisfy powerful stakeholders. (Gacanja, 2012). Customs duty revenue holds immense significance in the realm of public finance, serving as a vital source of government income. By carefully adjusting tariff rates, governments not only strengthen their fiscal reserves but also ensure a stable revenue stream in the face of economic fluctuations. Utilizing customs duties as a strategic fiscal instrument, governments effectively manage budgetary limitations, finance public expenditures, and maintain crucial services (Harberger, 1971; Musgrave & Peacock, 1958). In addition, revenue generated from customs duties plays a significant role in shaping international relations and trade negotiations, reflecting broader geopolitical imperatives. Tariff policies are utilized as tools for diplomatic maneuvering, using market access and tariff concessions to further geopolitical objectives and solidify strategic alliances. At its core, the conceptual structure of revenue generated from customs duties encompasses a complex web of economic, political, and fiscal factors. Grounded in

the foundations of international trade theory, this framework skillfully navigates the intricate landscape of domestic politics, fiscal requirements, and global dynamics, encapsulating the intricacies of modern discussions on trade policy.

Conclusion and Recommendations

To summarize, the comprehensive theoretical analysis presented in this paper underscores the complex and diverse effects of customs duties revenue on economic growth. By carefully examining a range of theoretical frameworks and models, it becomes clear that customs duties revenue has both direct and indirect impacts on economic growth, each with its own consequences and compromises. In a direct sense, customs duties revenue serves as a vital source of government funds, which can be directed towards public spending initiatives that focus on crucial areas such as infrastructure development, education, healthcare, and social welfare. These investments have the potential to stimulate economic activity, generate employment opportunities, and enhance human capital, thereby fostering sustainable economic growth. The influence of customs duties revenue extends far beyond simply generating income. It also affects the dynamics of trade, patterns of investment, flexibility in fiscal policy, overall competitiveness, and the efficiency of the economy. As a result, policymakers must take into account the wider implications of customs duties policies and find a middle ground between their revenue generation goals and the broader objectives of economic development.

In addition, the theoretical examination highlights the significance of formulating policies based on evidence and implementing strategic reforms to optimize the role of customs duties revenue in fostering economic growth. While customs duties can be utilized to safeguard domestic industries and address trade imbalances, excessive tariffs and trade barriers have the potential to impede advancements in efficiency, innovation, and long-term competitiveness. As a result, policymakers should adopt a nuanced perspective when regulating customs duties, taking into account variables such as tariff rates, trade accessibility, institutional structures, and economic circumstances. In addition, the promotion of global trade stability, predictability, and efficiency can be achieved through international collaboration and adherence to multilateral trade pacts. This, in turn, fosters sustainable economic growth. Policymakers can effectively design inclusive and sustainable development policies by comprehending the various ways in which customs duties revenue directly and indirectly affect economic growth.

REFERENCES

Akhor, S. O., & Ekundayo, O. U. (2016). The impact of indirect tax revenue on economic growth: The Nigeria experience. Igbinedion University, *Journal of Accounting*, 2(08), 62-87. DOI: 10.15408/sjie.v7i2.7341

- Amendola, G., Dosi, G., & Papagni, E. (1993). The dynamics of international competitiveness. *Weltwirtschaftliches Archiv*, 129(3), 451-471. <https://link.springer.com/article/10.1007/BF02707997>
- Asuquo, A. I., & Effiong, S. A. (2011). Empirical analysis of Nigerian fiscal policies and revenue generation processes. *Multidisciplinary Journal of Research Development*, 17(2), 1-11. https://www.researchgate.net/publication/339935693_EMPIRICAL_ANALYSIS_OF_NIGERIAN_FISCAL_POLICIES_AND_REVENUE_GENERATION_PROCESSES
- Bozhkova R. (2022). Re-orientation for the rural tourism destinations in Bulgaria and Greece as a result of the COVID – 19. *Entrepreneurship*, 10 (2), 62-69 DOI: 10.37708/ep.swu.v10i2.6
- Colesky, T., & Raath, R. (2015). Political will as an enabler for a customs administration to implement coordinated border management: a practical example. *World Customs Journal*, 9(2), 85-96. [https://worldcustomsjournal.org/Archives/Volume%209%2C%20Number%202%20\(September%202015\)/1784%2000%20WCJ%20v9n2%20Complete.pdf](https://worldcustomsjournal.org/Archives/Volume%209%2C%20Number%202%20(September%202015)/1784%2000%20WCJ%20v9n2%20Complete.pdf)
- Deaton, A. (2016). Measuring and understanding behavior, welfare, and poverty. *American Economic Review*, 106(6), 1221-1243. DOI: 10.1257/aer.106.6.1221
- Gacanja, E. W. (2012). Tax revenue and economic growth: an empirical case study of Kenya. Doctoral dissertation, University of Nairobi, Kenya, <http://erepository.uonbi.ac.ke:8080/xmlui/handle/123456789/9594>
- Harberger, A. C. (1971). Three basic postulates for applied welfare economics: an interpretive essay. *Journal of Economic Literature*, 9(3), 785-797. <https://www.jstor.org/stable/2720975>
- Kadyrkulov, M. A., & Mozer, S. V. (2018). Improvement of instruments of customs administration: international and legal aspect. *The WCO Revised Kyoto Convention Management Committee*. <https://customs-academy.net/?p=11868>
- Kyurova, V. (2017). Dynamics of the foreign trade of Bulgaria with Balkan countries. *Entrepreneurship*, 5(1), 47-56. <https://ep.swu.bg/index.php/archive/2017/2017-issue-1/103-dynamics-of-the-foreign-trade-of-bulgaria-with-balkan-countries>
- Ma, J., & Lu, Y. (2011). Free trade or protection: a literature review on trade barriers. *Research in World Economy*, 2(1), 69. 45. <https://www.semanticscholar.org/paper/Free-Trade-or-Protection%3A-A-Literature-Review-on-Ma-Lu/39d35c6e54f868888a879f1034ff6908fdcf77ff>
- Musgrave, R. A., & Peacock, A. T. (Eds.). (1958). *Classics in the theory of public finance*. Springer. ISSN 2662-6330, <https://doi.org/10.1007/978-1-349-23426-4>
- Rodriguez, F., & Rodrik, D. (2000). Trade policy and economic growth: a skeptic's guide to the cross-national evidence. *NBER macroeconomics annual*, 15, 261-325. <https://www.nber.org/system/files/chapters/c11058/c11058.pdf>
- Shome, P., & Shome, P. (2021). Customs Administration. *Taxation History, Theory, Law and Administration*, edition 1, chapter 36, 473-485. DOI: 10.1007/978-3-030-68214-9_36

- Stoilova, D. G. (2023). The Impact of Tax Structure on Economic Growth: New Empirical Evidence from Central and Eastern Europe. *Journal of Tax Reform*, 9(2), 181-196. <https://doi.org/10.15826/jtr.2023.9.2.136>
- Tanchev, S. (2021). How the proportional income taxation increases inequality in Bulgaria. *Journal of Tax Reform*, 7(3), 244-254. DOI: <https://doi.org/10.15826/jtr.2021.7.3.101>
- Viner, J. (2014). *The customs union issue*. Oxford University Press, USA. 34 .
<https://doi.org/10.1093/acprof:osobl/9780199756124.002.0008>
- Yuleva, R. (2019). Competitive advantages and competitive strategies of small and medium-sized enterprises. *Economics and Management*, ISSN: 2367-7600, 17 (1), 71-81, <https://em.swu.bg/images/SpisanieIkonomikaupload/Spisanieikonomika2019/COMPETITIVE%20ADVANTAGES%20AND%20COMPETITIVE%20STRATEGIES%20OF.pdf>