

DIRECTIONS FOR IMPROVING THE CUSTOMS MECHANISM IN UKRAINE AFTER THE WAR ON THE WAY TO SUSTAINABLE DEVELOPMENT

Studies have been conducted on whether the basic functions of the customs and tariff mechanism changed during martial law and whether the priority of the functions of the customs and tariff mechanism was determined during the war. It is proved that the impact of customs tariffs on the sustainable development of Ukraine is essential, looking at the super-large import component of most Ukrainian goods, as well as the significant effect of imported goods on the domestic market during the downtime of their production. During the war, there are destructive processes associated with the impossibility, in most cases of competing in the market of finished products worldwide. Most of the finished products in Ukraine went to domestic consumption during the war, contrary to global development and globalization trends. A hypothesis has been put forward that these destructive processes are mostly due to the lack of working capital of Ukrainian enterprises during the state of war, and the increase in the cost of the logistics component, which is part of the tax base for imports. Even though the Ukrainian market is increasingly open to foreign manufacturers, it is a complex and long-term competition between Ukrainian and foreign producers in both domestic and foreign markets. One of the most significant factors of influence is customs tariffs, and VAT is one of the most significant burdens on imports. With the help of comparison, a possible reduction in the burden on Ukrainian enterprises during import and export was analyzed, and possible tools were identified that would create new jobs or reinvest earned business funds in the country's economy. The tools were found when conducting a comparative analysis of the customs tariff mechanism before and during the war in Ukraine, considering the goals of sustainable development. Quantitative and qualitative impact to selected macroeconomic indicators of Ukraine after implementing deferred payment for VAT in import of goods analyzed. The qualitative impact was analyzed to show us the result of calls on surveys to understand business attitudes, and interests according to the implementation of deferred payment for VAT in import of goods in Ukraine.

Keywords: customs duties, customs tariffs, customs tariff mechanism, sustainable development, sustainable development of Ukraine.

Introduction. Directions for improving the customs mechanism in Ukraine on the path to sustainable development were a significant issue even before the war for achieving 17 sustainable development goals. Customs mechanism in Ukraine influences most of all for achieving the following goals: no poverty, zero hunger, decent work and economic growth. Ukraine for 2021 has made progress in the fight against poverty and had a positive result.

The attack by Russia on Ukraine on February 24, 2022, made its adjustments and its imprint on the economy of the entire country. Many Ukrainians were left without housing, work, or means of subsistence. More than 1.5 million Ukrainians have requested temporary protection in the European Union. In April 2022, the Ukrainian economy is counting losses and doing everything possible to survive. For this, the state of Ukraine is taking significant measures; some of them are related to the tariff regulation of import-export operations. The speed of recovery of the Ukrainian economy will depend primarily on the rate of recovery of Ukrainian business. Maximum loyalty to the business can provide an opportunity for recovery in a short time. Customs tariffs are an essential part of the study since they are one of the first to influence the development of the economy. Customs tariffs before the war in Ukraine were not low, namely, 20 % VAT, duty, and excise duty differ depending on the country of origin of the goods and HS code.

During the war, small and medium-sized businesses were given relief when importing, which we cannot say about big business or business related to excise goods. The detail is also essential that at the end of 2021, Russia was Ukraine's third largest trading partner. According to Ukrainian statistics, trade with Russia in 2021 accounted for 6.9 % of total trade. These percentages are also significant because in 2022, at least 6.9 % of total trade will need to be both imported from other markets and exported to other markets, which can be a difficult task for Ukrainian enterprises and will take time. From 2014 to 2021, Russia has dropped from 1st place to 3rd. According to the

required eight years, we can understand there will not be a quick replacement for other markets.

This study is important, since customs payments are one of the first that an enterprise makes, even before it has managed to earn money from selling products. It is also one of the first costs for those who produce goods in Ukraine from imported raw materials. It is also the amount that affects the cost of the final product.

The situation in logistics aggravates the situation and significantly raises the cost of goods, which cannot but affect the Ukrainian economy. Analysis of the most suitable customs mechanism can give a chance to develop those businesses that lack quite a bit to start, create new jobs, and move towards sustainable development goals.

The purpose of this study is to look at the Ukrainian custom mechanism progress before the war in Ukraine and instruments of possible fast recovery of the Ukrainian economy after war toward sustainable development.

Literature review. Analysis and the pursuit of sustainable development are much more common in research than in post-war reconstruction. For example, sustainable development analysis was analyzed by such scientists as Jeffrey Sachs, Christian Kroll, Guillaume Lafortune, Grayson Fuller, Finn Woe [1], who made and analyzed the Sustainable Development Report 2021. The analysis of each country's aspirations was reviewed in detail, evaluated, and indexed for the publication of summary data on rankings and achievements. Many studies have already worked on the topic of sustainable development in a narrow field, namely T. E. T. Dantasa, E. D. de-Souzab, I. R. Destrob, G. Hamesb, C. M. T. Rodriguezb, S. R. Soaresa [2] in the context of Circular Economy and Industry 4.0, Srijita Nundy, Aritra Ghoshb, Abdelhakim Mesloubc, Ghazy Abdullah Albaqawyc, Mohammed Mashary Alnaimc [3] in Impact of COVID-19 pandemic on sustainable development, Rozhilia Lauretta, Arminda Pazob, Emerson Wagner Mainardes [4], Sustainable Development in Agriculture and its Antecedents in the context of Barriers and Consequences,

Johannes W.H. van der Waal, Thomas Thijssens, Karen Maas [5] in the context of the innovative contribution of multinational enterprises. Luis A. Gil-Alana, Robert Mudida, Eleazar Zerbo [6], Clodfelter M. [7], Gadea M.D., Gomez-Loscos A., Perez-Quiros G. [8], Bellows, J., & Miguel, E [9], Blattman, C. [10], Bohlken, A. T., & Sergenti, E. J. [11], Collier [12], Djankov, S., & Reynal-Querol [13], Einolf, C. J. [14], Herbst, J. [15], Arcand, J. L.[16] was analyzed recovery after the war in different countries.

The emergence of the country on the path of sustainable development after the war has not been analyzed by researchers, which leaves a wide field for research and analysis. Martial law in Ukraine has been extended until May 25, 2022, as of April, which means that we cannot yet draw a conclusion and draw up a complete picture of the restoration. Still, we can already calculate possible mechanisms to help businesses recover faster. Works that have explored the problem of economic recovery after Covid, as it is an additional investment, as well as a reorientation of the business.

Highlighting previously unresolved parts of the general problem shows us that the general problem is unexplored, and it is in this work that we will explore possible customs mechanisms that can help the economy recover faster.

Results. According to my previous research distinguish the following functions of the customs tariff mechanism in terms of sustainable development: ensuring national security, ensuring the socio-economic development of domestic enterprises and their competitiveness in both domestic and foreign markets, ensuring the implementation of the goals of sustainable development of the country (in this case Ukraine), ensuring the appropriate level of revenues to the

state budget (not only directly – customs duties, VAT, excise duties, but also indirectly – income tax).

Analyzing consider the extent to which the performance of these functions is possible during the war and which of them are more priority for the economy during martial law. To determine the priorities correctly, let's evaluate the consequences of the state's failure to fulfill the functions of the customs-tariff mechanism. For convenience, let's give each function a shorter name:

Security function – ensuring national security,

Protectionist function – ensuring the socio-economic development of domestic enterprises and their competitiveness in both domestic and foreign markets,

Ethics SDG function – ensuring the implementation of the goals of sustainable development of the country (in this case Ukraine),

Fiscal function – ensuring the appropriate level of revenues to the state budget (not only directly – customs duties, VAT, excise duties, but also indirectly – income tax).

Let's evaluate the consequences of failure to perform each of the functions in Table 1. Depending on the scope of the effects of not performing the function, we will assign a mark from 1 to 10 points. 1 point – insignificant influence. 10 points – significant impact. Thus, we will determine the functions with the most significant negative consequences for the country's economy. Functions that receive more points, and therefore have substantial consequences, will be given higher priority for first execution by the Customs Tariff Mechanism of Ukraine. Causal relationships will also be considered in the analysis, which will determine the most important functions that form the basis for the implementation of the remaining ones.

Table 1. Assessment of the consequences of non-fulfillment of functions by the customs-tariff mechanism

Functions	Non-execution of the function	
	one-time	on an ongoing basis
Security function	10	10
Protectionist function	5	10
Ethics SDG function	1	5
Fiscal function	1	10

Source: author's development.

Security function – ensuring national security, received 10 points since the security function should come first, as it is the country's ability to timely identify, prevent and neutralize actual and potential threats to national interests. A threat to national interests, even if there is one, is already a significant impact in terms of priority.

Protectionist function – ensuring the socio-economic development of domestic enterprises and their competitiveness in both domestic and foreign markets, received in one-time conditions 5 points and on an ongoing basis 10 points, that's mean that more competitive Ukrainian manufacturer, who sells more goods, could pay more taxes to the state, as well as to maintain the security of national interests. Since national security is paid for with taxes, and taxes are paid by businesses, this function is currently the highest priority. One-time conditions received 5 points because it is possible that this is one company that was not promoted by the customs tariff function, but it could become a big taxpayer and competitive company in the future. The probability, in this case, is considered 50/50, either yes or no.

Ethics SDG function – ensuring the implementation of the goals of sustainable development of the country (in this case Ukraine), received on one-time conditions 1 point, and on an ongoing basis took 5 points. Before choosing the direction of development in the direction of stable

development, countries grew, developed, and successfully performed their functions. The war showed that the priority of sustainable development, and the achievement of sustainable development goals, can be pushed back to fulfillment in years without significant consequences. Therefore, the issue is not a priority. An ongoing basis took 5 points because constant failure to comply will move Ukraine away from world goals, and therefore it is important to implement a development plan for Ukraine after the war, considering the goals of sustainable development.

Fiscal function – ensuring the appropriate level of revenues to the state budget (not only directly – customs duties, VAT, excise duties, but also indirectly – income tax), received on one-time conditions 1 point, and on an ongoing basis took 10 points. A one-time failure to perform a fiscal function does not bear significant consequences; a permanent inability to perform a fiscal function incurs permanent losses and, as a result, the impossibility of performing other related functions.

Defining priorities. Since one of the main functions is fiscal, and in order for enterprises to be able to pay, they must have working capital, it is important for business development to fill the budget, and as a result, the implementation of other functions of the customs tariff mechanism. Causal relationships are shown in Diagram 1.

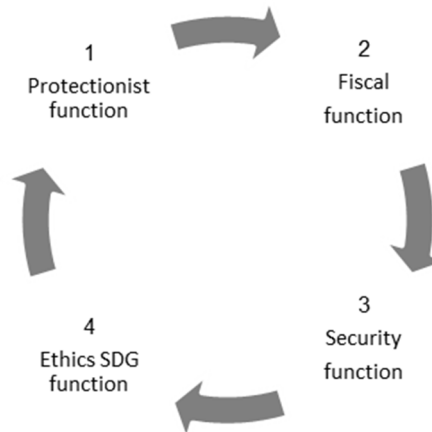


Diagram 1. Cause-and-effect relationships function of the customs-tariff mechanism in Ukraine

Source: author's development.

If the business lacks funds, if we put the fiscal function in the first place, we will not be able to give enterprises the opportunity to develop. As a result, we will not be able to rely on long-term revenues, as the business will be forced to close or evade taxes due to a lack of working capital. To help businesses, it is not necessary to remove the fiscal function but to make it possible to defer payment for Ukrainian businesses on taxes that can be charged during imports.

Let's analyze what customs-tariff mechanisms that used in April 2022 and are planned to be used after war in Ukraine. Let's analyze whether the customs-tariff mechanism performs its functions in each of the cases.

In Table 2, we will analyze what options for the customs-tariff mechanism existed before the war, operated during the war, and are planned to be used after the war.

Table 2. Options for the customs-tariff mechanism before the war, operate during the war, and are planned to be used after the war in Ukraine

Duties	before the war	operate during the war	planned to be used after the war
VAT	20 % – paid immediately	reduced for essential goods. reduced for businesses with 2 % taxation	not announced
Duty	depends on product code – paid immediately	reduced for essential goods. reduced for businesses with 2 % taxation	not announced
Excise duty	depends on product code – paid immediately	depends on product code – paid immediately (the instrument of full excise payment is used even before excise stamps are printed)	not announced

Source: author's development.

In the customs-tariff mechanism adopted during the war, the fiscal function suffers greatly, and as a result, over time, other functions, such as national security, may suffer. In wartime, humanitarian consignments were also greatly simplified, which may in the future cause smuggling of goods, and duty-free importation of products under the guise of humanitarian

purposes into the country. During martial law, freedom for humanitarian aid must necessarily be given, but this freedom must be stopped at the end of martial law.

In table 3, we will analyze whether the customs-tariff mechanism, which was used before the war, and which is used during martial law, performs the functions.

Table 3. Performance by the customs-tariff mechanism of its functions within the framework of various approaches before the war and during martial law in Ukraine

Functions	Performance by the customs-tariff mechanism of its functions	
	customs-tariff mechanism before the war	the customs-tariff mechanism operates during the war
Security function	+	+ -
Protectionist function	+	+ -
Ethics SDG function	+	+ -
Fiscal function	+	+ -

Source: author's development.

The customs duty mechanism with concessions during martial law gives only a temporary effect. A lasting effect

after a slight recovery can be the introduction of taxes, with a deferred payment. The possibility of paying taxes for

Ukrainian enterprises after the sale of goods will make it possible to use working capital for business development and pay taxes upon profit receipt. Based on the cause-and-effect relationships shown in Diagram 1, the margin of safety that the state now provides for business development is a push for Ukrainian enterprises, which should restore most businesses that have lost working capital, and personnel and must recover. After the business is already working stably at low speeds, it is possible to introduce a deferred payment for taxes, gradually returning them to the pre-war course. An important element is to leave the possibility of deferring payments to businesses on an ongoing basis to increase opportunities for development, as is done in the

European Union. For April 2022, the European Union gives a delay of 10–14 days for customs payments without charging additional fees. In Ukraine, it is advisable to increase the number of days of delay until the time the product itself is sold, and profit is made. The customs-tariff mechanism operating during the war shows a good tendency to recover during a short duration effect. A positive effect can be observed both from the point of view of the enterprise and from the point of view of the state.

To understand the real effect on the Ukrainian economy, macroeconomics indicators were analyzed.

Criteria to select macroeconomic indicators: impact on international trade, export, import and trade balance.

Table 4. Expected presence / absence quantitative and qualitative impact to selected macroeconomic indicators of Ukraine after implementation of deferred payment for VAT in import of goods

The macroeconomic indicators	Impact	
	qualitative	quantitative
Export	+	+
Import	+	+
Trade balance	+	+

Source: author's development.

As emphasized in Table 4, the presence of quantitative and qualitative impact appears to select macroeconomic indicators of Ukraine after the implementation of deferred payment for VAT in import of goods.

A survey based on 46 companies was done to analyze the qualitative impact and understand business attitudes and interests according to the implementation of deferred payment for VAT in import of goods in Ukraine. All respondents supported the possibility of deferred payment

and additional payment in case of delay before the sale of goods in the Ukrainian market. To assess the economic effect, it was important for us to understand the exact percentage that the business is willing to pay for paying VAT after the sale of goods. Diagram 2 shows us what percentage the respondents voted for when answering the question – how much % are you willing to pay for a VAT deferral until the goods are sold.

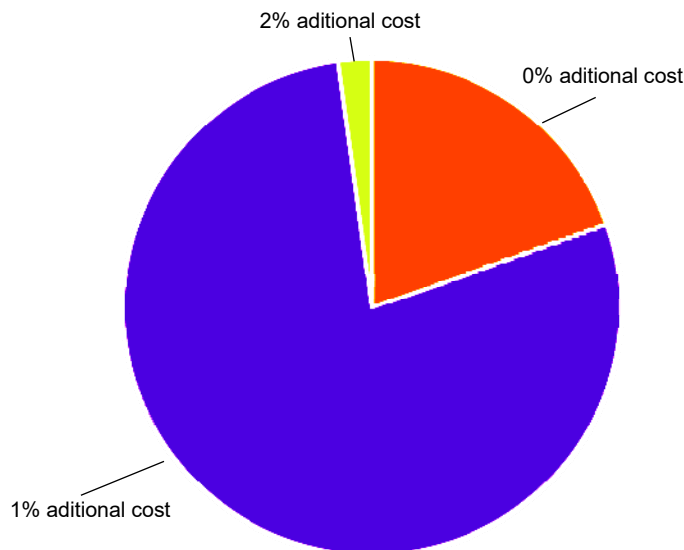


Diagram 2. The additional cost that Ukrainian companies are willing to pay in case of paying VAT after the sale of goods, in %

Source: author's development.

To analyze the quantitative impact the Ukrainian trade balance, import and export were compared with Nominal

GDP per year in UAH million. Diagram 3 shows Ukraine's foreign trade balance from 2005 to 2021 in UAH million.

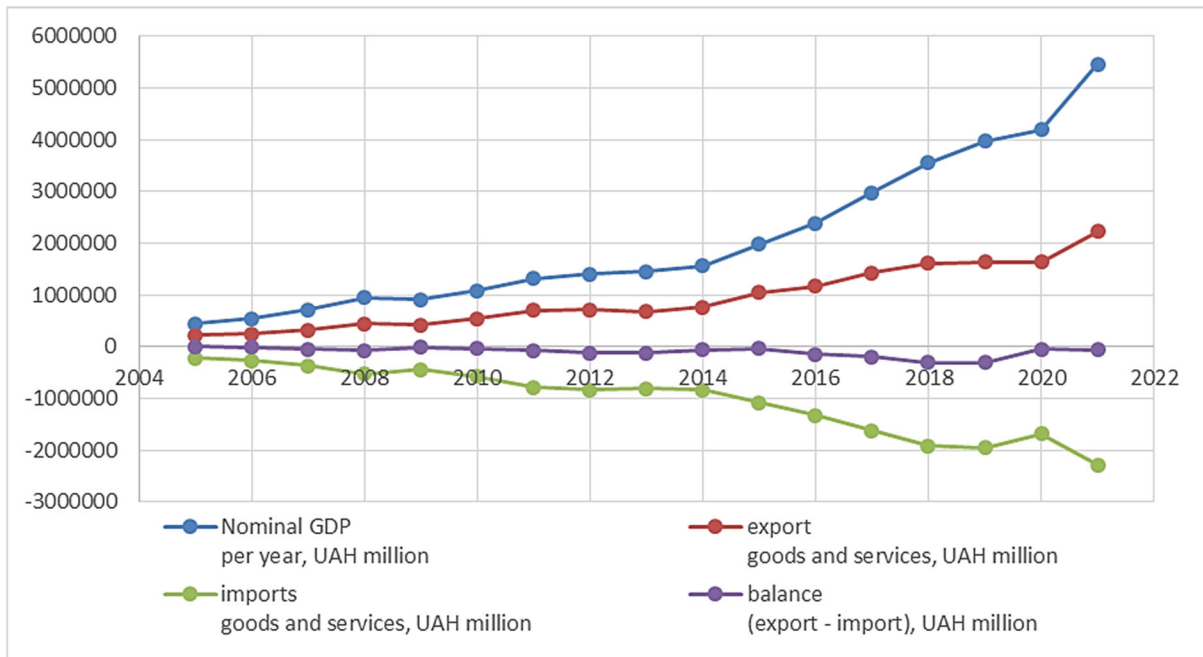


Diagram 3. Ukraine's foreign trade balance from 2005 to 2021 UAH million

Source: State Statistics Service of Ukraine data.

Based on the fact the optimal additional payment in most cases was chosen 1 %, according to Diagram 2, we will evaluate the effect of such payment on macroeconomic

indicators. VAT clearance payments for the import of goods and services were identified and shown in Diagram 4.

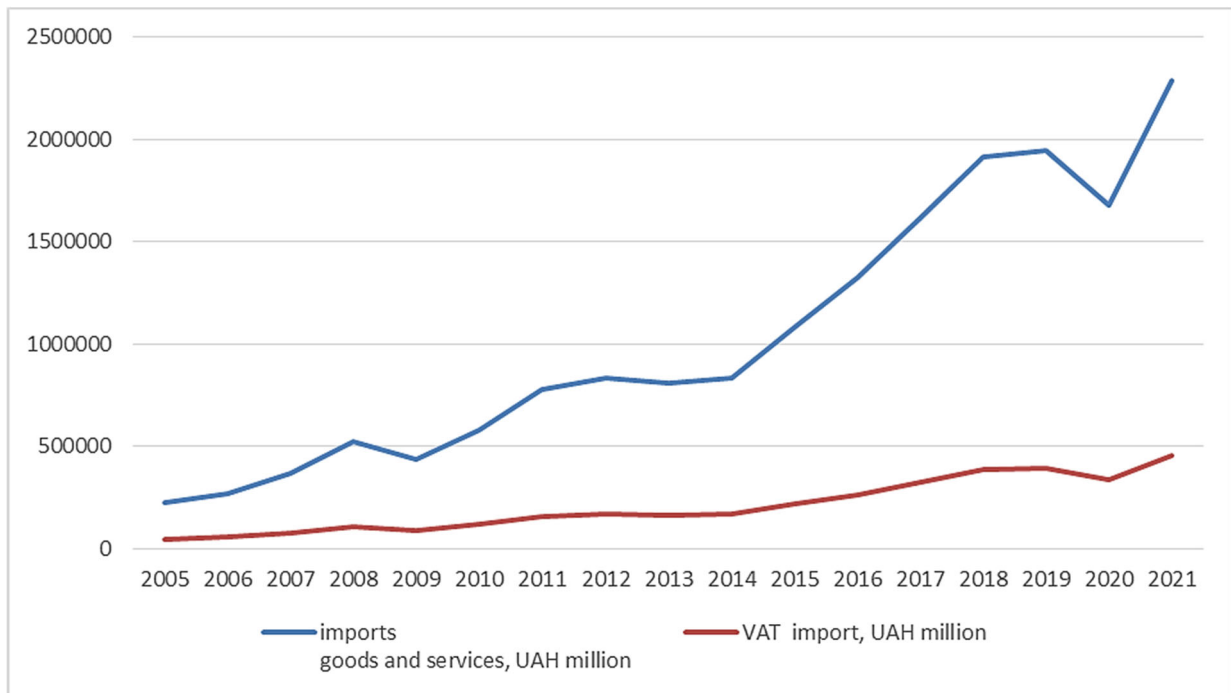


Diagram 4. VAT clearance payments for import goods and services, UAH million

Source: author's development.

As we can see in Diagram 4, the import of goods to Ukraine is growing, which shows the need to focus on an important aspect, the ability to pay VAT after selling goods. The possibility of deferred payment will give the business the opportunity to develop by investing smaller amounts in imported raw materials and imported goods, as well as bring

additional income to the budget in the short term. For forecasting, in Diagram 5 the linear forecast was used, which does not consider the decrease in imports due to military invasion. But since this is an additional payment to the existing ones, that could bring other income to the budget of Ukraine.

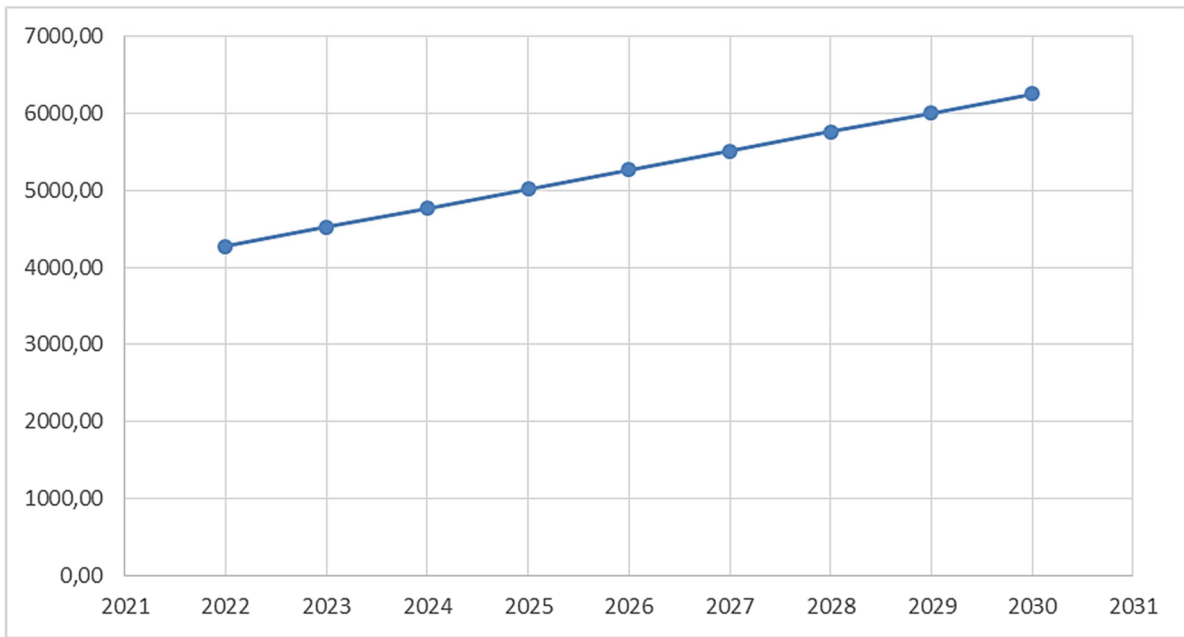


Diagram 5. Forecast for 2022–2030 of additional payment to the budget in case of implementation deferred payment for VAT, UAH million

Source: author's development.

Analyzing macroeconomic indicators, we can confidently say that this payment will have a positive economic effect in the short term, which we can see in Diagram 6,

which shows forecast 2022–2030 growth in % of GDP, additional payment to the budget in case of implementation deferred payment for VAT.

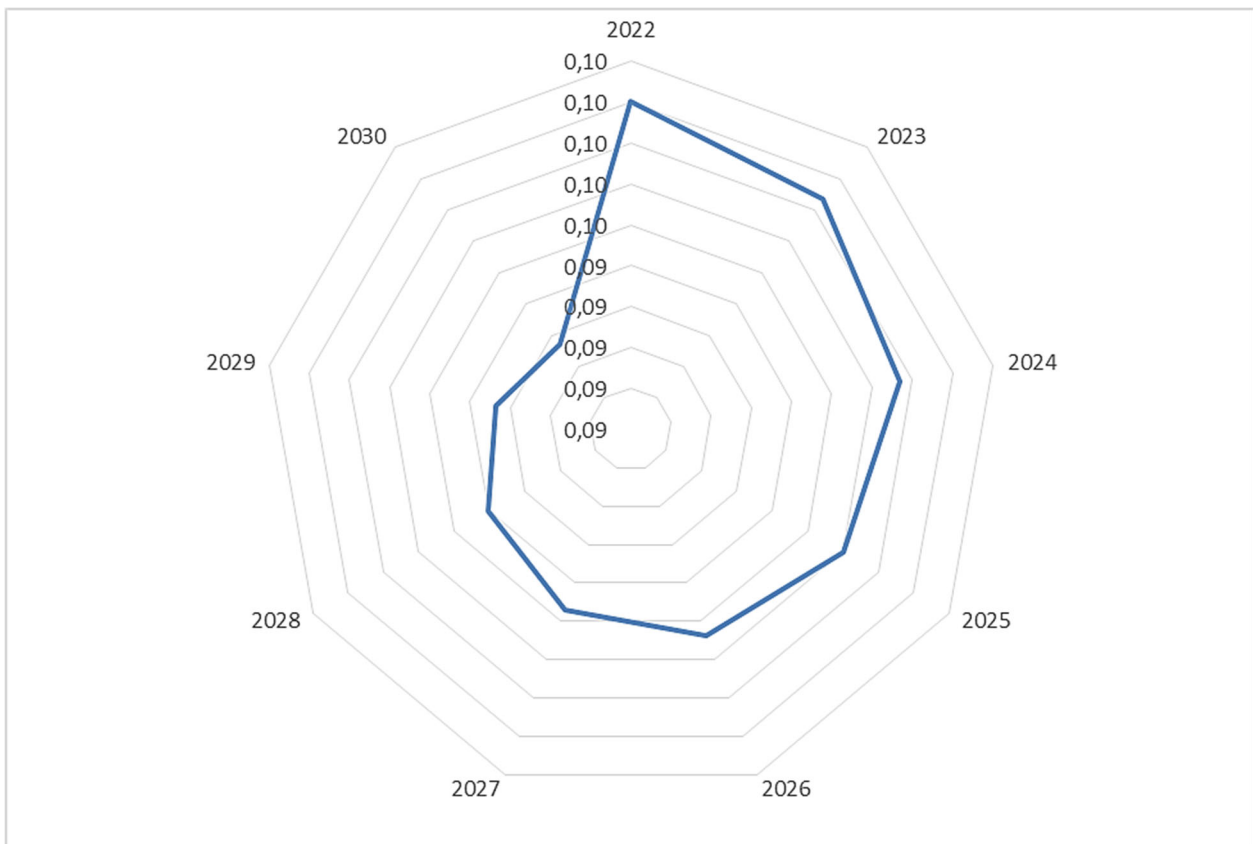


Diagram 6. Forecast for 2022–2030 % of GDP, additional payment to the budget in case of implementation deferred payment for VAT

Source: author's development.

Conclusions. Having analyzed the customs-tariff mechanism in Ukraine before the war and during martial law, we can confidently state that the directions for improving the customs mechanism in Ukraine after the war on the path to sustainable development have been determined. One of the significant advantages that can be provided to Ukrainian business is the deferral of customs payments, and there is a duty, excise, VAT, when importing goods into the territory of Ukraine. Such assistance is needed because of the small amount of working capital that Ukrainian businesses currently have and the large import component of Ukrainian goods, which affects the ability of Ukrainian enterprises to purchase raw materials. The relationship between the functions of the customs-tariff mechanism was analyzed and their priority was determined, which showed that it is the development of business and its interests in the domestic and foreign markets that keep both budget revenues and the economy of Ukraine, and therefore an important aspect is to support the interests of Ukrainian enterprises, and their ability to both support the operation of the enterprise and retain jobs. The possibility of performing functions by the customs-duty mechanism, in two modes before the war, and during the war, is analyzed. Both regimes are valid for Ukraine and are legitimate at the state level. Such an analysis makes it possible to give the desired effect and pay attention to how customs payments can be canceled without canceling. Such a tool is deferred payment, and it is already used for business in many countries, as well as in the European Union.

Sustainable development turned out to be secondary in the analysis since, during the survival of the country and business, they think less about the environment and the fulfillment of the other 17 sustainable development goals. War itself is an ecological disaster. We hope that Ukraine can return to even stable development after passing the first stages of restoring the Ukrainian economy.

Discussion. This study intended to provide directions for improving the customs mechanism in Ukraine after the war. One of the main instruments chosen was the deferment of VAT payment, which can enable Ukrainian enterprises to develop faster, invest less, and pay taxes after selling goods. It is the opportunity to clear goods before VAT is paid that can give impetus to Ukrainian small, medium, and large businesses. The weak point of the study is the inability to predict when martial law in Ukraine will end and how Ukrainian imports will develop in 2022. For the forecast, linear forecasting was used, which shows the

obvious benefits for both the state and Ukrainian enterprises, and therefore helps Ukrainian businesses develop and follow sustainable development goals.

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Є. Литвинова, асп.

Київський національний університет імені Тараса Шевченка, Київ, Україна

НАПРЯМИ УДОСКОНАЛЕННЯ МИТНОГО МЕХАНІЗМУ В УКРАЇНІ ПІСЛЯ ВІЙНИ НА ШЛЯХУ ДО СТАЛОГО РОЗВИТКУ

Досліджено, чи змінились основні функції митно-тарифного механізму під час воєнного стану, та визначено пріоритетність функцій митно-тарифного механізму впродовж війни. Доведено, що вплив митних тарифів на сталий розвиток України має суттєве значення. Висунуто гіпотезу про те, що зазначені деструктивні процеси зазвичай зумовлені саме недостатністю оборотних коштів в українських підприємств під час воєнного стану та підвищенням собівартості логістичної складової, що є частиною бази оподаткування за умови імпорту. За допомогою порівняння проаналізовано можливе зменшення навантаження на українські підприємства за імпортом й експортом та виявлено можливі інструменти, що нададуть можливість створити нові робочі місця або реінвестувати заоблені кошти. Інструменти були знайдені під час проведення компаративного аналізу митно-тарифного механізму до та під час війни в Україні з урахуванням цілей сталого розвитку.

Ключові слова: мито, митні тарифи, митно-тарифний механізм, сталий розвиток, сталий розвиток України.