

WHY DO WE CHARGE CUSTOMS DUTIES? By Jonathan Hore

Taxes can be used for various reasons, including but not limited to redistributing wealth, providing essential goods and services to citizens and residents of a country and reducing public spending to control inflation. They can also be used as a way of prohibiting the importation of goods into a country. The reasons are varied and they depend on the circumstances. In today's article, I want to address why countries charge Customs duties on the importation of goods yet economists worldwide advocate for the removal of tariffs and non-tariff barriers as they hinder international trade, consequently lowering the living standards of the world. In this article, words importing the masculine shall be deemed to include the feminine.

SOURCE OF REVENUE

Customs duties (referred to as 'duties' in this article) are a major source of government revenue. One must understand that duties are charged at the point of importation of goods into Botswana from countries other than those in the Southern African Customs Union (SACU). What this means is that if a company imports clothes from the USA, those clothes will suffer duties at the time that they are cleared into Botswana. The duties charged are one of the sources of government revenue, which it uses to provide what economists refer to as the public good. Well, the public good includes goods and services which are demanded by the public and which can only be provided by government such as public education, water, roads, health services, among others.

When presenting the 2016/2017 national budget, the Minister of Finance and Economic Development, Dr K Matambo stated that SACU duties constituted Botswana's second source of revenue, after diamonds. That statement made me change my view regarding the importance of duties; in fact, I now recognise them as a major contributor to revenue. Of course, the SACU duties appear to be dwindling and they may no longer be the second source of government revenue as I sit typing on this old Dell laptop of mine.

ANTI-DUMPING STRATEGY

Duties can be used as strategy to deter the dumping of inferior quality products in a country. Whilst economists are not in favour of tariffs, it is widely accepted that some countries produce goods of a poor quality and then try to push them into other countries, especially the developing nations. For example, if the Finance minister is aware that cars imported from a certain part of the world suffer rapid wear and tear than those manufactured from the rest of the world, he may then impose an anti-dumping duty based on the origin of the cars. What is required is to identify the Customs tariff code and then have a specification of the country of origin, together with a higher Customs tariff/duty code. For example, cars from any other part of the world outside SACU may suffer duties at 25% whilst those from the other part of the world may suffer duties at say 55%, just to avoid dumping of the cars in Botswana. To be honest, dumping costs the receiving country twice; first in the sense that the citizens and residents use money on poor quality goods and secondly through after-effects of the goods such as air pollutions, creation of unwanted scrap etc.

PROTECTING LOCAL INDUSTRY

I do not want to start a debate but I am fully aware that economists defend free markets with all their strength. The logic behind defending free markets is that using duties to protect local industry does not do citizens or residents of a country any good as they end up consuming poor quality goods as the duties make imported goods unrealistically more expensive. However, it is also accepted that using duties to increase the price of imports can

also save the local industry from a competition perspective. The simple fact that the goods become more expensive means that the country consumes less of those goods and if the tariffs are very high, people may completely shun the goods as they become unreasonably expensive. But I guess there is not much of a harm in increasing import duties if it can be ascertained that this benefits the local industry. I know I am starting but you can't shoot me for thinking. What I have a bit of a challenge with is the total ban of goods as you take away the options completely. When the duties are high, those who can afford still consume those goods and that drives the economy. On the other hand, government benefits in that it collects more taxes from those goods. However, a total ban takes out the other alternative and only gives the consumer one or a limited range to choose from. Further, government loses out on taxes that it could possibly have collected. If you didn't know, South Africa does not allow the importation of used vehicles as a way of protecting local industry. But the big question is what about the low income earner? Can they afford to walk into a garage and drive out a brand new car? Thanks for answering yourself. You saved me dear. After all, I am about to faint from typing.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax Whatsapp group, send me a text on the cell number below.