

# THE CUSTOMS SERVICE OF RUSSIA

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## DEVELOPMENT OF A RUSSIAN CUSTOMS SERVICE IN THE CONDITIONS OF MARKET UNCERTAINTY

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***Abstract.** The development of the customs service of Russia under uncertainty of commodity markets is considered. Based on a statistical analysis, a lagging performance of the customs system of the Russian Federation from advanced countries is shown. The author's understanding of foreign economic processes of the global economy, which has the quality of high uncertainty is given. It is concluded that in order to improve an efficiency of customs an evolution of customs service from a predominantly imperative model to a predominantly service model is required.*

***Keywords.** Commodity markets, customs services, economic uncertainty, customs models.*

The system of customs authorities in Russia lags significantly behind the leading Western countries. For instance, the Logistic Performance Index (LPI) surveys conducted by World Bank includes such dimension as an efficiency of the clearance process by border control agencies, including Customs. The Logistic Performance Index is a key indicator of customs service organization and a useful interactive benchmarking tool. In 2018 LPI of Russia was 2,76, so it is 75th position across 160 countries (table 1).

Table 1 – Logistic Performance Index of selected countries [1]

Country	Year			
	2012	2014	2018	
			LPI rank	LPI score
Sweden	3,85	3,96	4,05	2
Singapore	4,13	4,00	4,00	7
Belgium	3,98	4,04	4,04	3
USA	3,93	3,92	3,89	14
Ukraine	2,86	2,98	2,83	66
<b>Russian Federation</b>	<b>2,58</b>	<b>2,69</b>	<b>2,76</b>	<b>75</b>
Zimbabwe	2,55	2,34	2,12	152
Afghanistan	2,30	2,07	1,95	160

The same unfavorable situation is observed by World Bank in The Doing Business project where the ease of doing business index is calculated. For the purpose of the article among ten subindices, the indicator «Trading Across Borders» is important. Russia is ranked 90 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings (01.01.2019) (table 2) [1].

Table 2 – Indicator «Trading Across Borders» in USA and RF

Indicator	2018
Doing Business Index, the indicator Trading Across Borders, USA	36
Doing Business Index, the indicator Trading Across Borders, RF	99

One of the most important directions to improve a quality of customs service is the correct choice of the management model of the Federal Customs Service (FCS). Moreover, we consider the FCS as a public state institution. We believe that there is a need to investigate the necessity of implementation a governance model called the discretionary approach.

The discretionary model of economic management is usually opposed by the management model, which is based on the rule of a reasonable approach to the choice of instruments for influencing an economic situation in a country, and the nature of an impact of these instruments on management object. Often, the management model (based on the rules of a reasonable approach) finds its

embodiment in the model of automatic stabilizers, when they are implemented in a fiscal policy of the state.

An extensive theoretical and empirical material accumulated by scientists concerning problems of evaluating an effectiveness of the customs institute is distinguished by the lack of analysis of methodological foundations of the theory of efficiency of both customs processes and its results from the point of view of public interests. Conflict issues that arise are also ignored. A process of understanding the nature of the conflict needs further theoretical understanding not only as a negative phenomenon, but also as a source of development of the institution of customs.

These contradictions are also found between governing bodies of various countries, whose foreign economic activity participants move their goods across customs borders. Of course, each country protects its own interests by imposing restrictions on both residents and non-residents.

Determining the effectiveness of customs service is not just establishing its total economic potential. It is important to show a mechanism of benefits distribution, taking into account a balance of economic interests. Any single transaction for servicing a participant of foreign trade activities while crossing goods across the customs border is the result of a customs compromise. It pursues a personal benefit of some participants, an interest of society, taking into account a competition, some rules of conduct of participants in foreign trade activity etc.

A state tries to develop effective customs mechanisms in order to influence an economic situation in a country. A set of tools can be very different, it is carefully prescribed in customs codes, regulations and procedures. A feature of modern customs service is that these tools and mechanisms fit into the set of tools of automatic regulators.

The toolkit of customs policy and its potential capabilities remain almost the same in nature, regardless of whether they are implemented in practice on the basis of the rules of a reasonable approach or reasonableness of the rules for implementing the customs policy. In the second case, this corresponds to the discretionary model of customs services.

The customs compromise can be described as an imposed state undertaken by an institution of customs service. In this model, there is no position or situation satisfying each player. Therefore, the contradictions of relations are not so much resolved with the formation and emergence of qualitatively new moments in the customs institute itself, but rather are forcibly reproduced at the same qualitative level. These relationships are complemented by ethical, social, religious and others relationships. Thus, the institute of customs service falls into a state of inefficient equilibrium (the so-called "customs institutional trap").

The modern global economy possesses a quality of uncertainty. If the very uncertainty of the world market can still be qualitatively described, then quantifying the measure of uncertainty is already quite problematic. The theory of cycles cannot give a satisfactory description of the existing fluctuations, high volatility and uncertainty of the world market. And such methods as, for example, the method of expert evaluations, the Delphi method, the brainstorming method, the Pattern system, the round-table method, usually give forecasts that have characteristics of subjectivity and often biased estimates. At the present time, both economic and customs policies are implemented in conditions of complete uncertainty of the world market.

However, the world market always includes a certain amount of information, receiving the so-called information capacity.

According to the theory (Claude Elwood Shannon, Ralph Hartley), this information capacity of the global commodity market is characterized by information entropy, quantified as the logarithm of the number of states available for the system. Thus, the value of informational entropy, relating to the entire system of the world market, in the analyzed period of 2014–2018 reaches its maximum value, since the modern world commodity market is completely uncertain. This uncertainty is also reinforced by exogenous factors for the global commodity market, namely, uncertainty of political markets.

Our investigation in Internet (search in Google, the keywords “uncertainty of commodity markets”) showed more than 687,000 results as for 28.10.2019. In most cases, the uncertainty of commodity markets is not quantified. A priori, it is believed

that it is extremely volatile in many ways.

The uncertainty is reinforced by imbalances in the structure of commodity export-import. Thus, mineral products in Russian exports is 64.8%. In imports, 44.6% are accounted for machinery, equipment and vehicles (data at end of 2018).

At the same time, the measure of uncertainty increases due to the difficulty to forecast Russian monetary policy, because through the issue mechanism it leads to devaluation of wealth, which is presented in monetary form. This it can be observed an underestimation the worth of revenues almost for all subjects of the national economy.

Statistics of Bank of Russia show a rather significant increase in the money supply (national definition) (table 3) [2].

Table 3 – The dynamic of money supply in RF, billion rubles

Indicator	Date, year			Growth rate, 01.09.2019- 01.01.2016, %
	01.01.2016	01.01.2018	01.09.2019	
Money supply (national definition)	36 179,7	42 440,5	47 585,3	131,5

To ensure a stability of the ruble, the Bank of Russia cannot fail to redeem the exporters' revenues coming to the foreign exchange market, because its task is to achieve the optimal ratio of supply and demand of currencies. Moreover, the Bank of Russia is obliged to prevent abrupt and sudden changes, because the influence for modern economy is unpredictable both in depth and in strength of the impacts. Therefore, we can talk about a certain "trap" when, the more efficient sale of resources on the foreign market is, the more incomes are withdrawn from the country's population.

The Shannon-Hartley model of uncertainty takes into account factors which reflect alternative conditions on the world market for goods classified as sensitive products. For this goal, a specific list of goods is used, the Customs Union Commission makes a decision to change the rate of import duty (for the listed goods)

only by consensus. We noted extensiveness of this list. For example, the enlarged code "Cattle meat, fresh or chilled" includes 13 items, the code "Cattle meat, frozen" covers 18 items.

The list of sensitive products determines the state of the world market and its impact on the Russian economy. An export is also characterized by sensitive goods, the impact of which mainly extends to formation of the revenue of the Russian budget. Obviously, a role of factors is very different (taking into account the volumetric limitations of the article, we do not consider a measure of the intensity of influence on the economic environment). As an essential phenomenon, it is assumed that each commodity item of export is considered in this general integral set of sensitive goods. In this set, it is necessary to highlight such consolidated commodity items as natural and liquefied gas, timber, lumber, grain, oil, oil products, diamonds, and weapons.

There are 16 goods, a role of which is significant in budget formation and is also characterized by an uncertainty of these markets under influence of unpredictable fluctuations in political markets. A significant share in the formation of uncertainty is created by the volatility in commodity markets, manifested in multidirectional price movements. In this case, a possible state of commodity markets can be determined by increase in prices, a relatively stable price level and its reduction.

The world market that directly affects a state of the Russian economy is characterized by information entropy, calculated mathematically as a logarithm of a number of possible states of the world market. To simplify, we assume that each state is equally likely, and each state does not depend on a state of other product groups in the world market.

In the case, the number of equally probable world market conditions will be:  
 $N = (481 + 16) \times 3 = 1491$  conditions.

The information entropy characterizing the measure of uncertainty of the world market is given by:

$$s = k \log_2 N \tag{1}$$

where:

$s$  – information entropy, can take the maximum possible value, which will characterize the system as the most indefinite. If the value is the smallest possible, then this system is assumed to be strictly certain and determined;

$N$  – a possible number of equiprobable states of the global commodity market, affecting the Russian economy;

«2» – a base of the logarithm, allowing you to encode the system with binary codes.

A modern stage of the Russian economy and its assessment from position of certainty  $s$  can be quantified by a value equal to 10,542. This value of information entropy characterizes the global commodity market in which the Russian economy carries out foreign economic activity as uncertain [3].

#### Conclusion.

The Federal Customs Service of the Russian Federation is not able to reduce uncertainty only by methods of customs policy. The customs policy integrated in the state economic system, on the basis of the concept of a reasonable approach, cannot by its tools prevent a growth of crisis phenomena.

Therefore, we associate an increase in an efficiency of customs with a development of customs service, its evolution from a predominantly imperative model to a primarily service one.

The modern model of customs services for participants in foreign economic activity so far cannot be exclusively imperative or exclusively service, in which dispositive customs rules prevail.

The institute of imperative service customs is a transitional stage to service customs. On one hand, customs service bodies will be imperative bodies for now. On the other hand, these are bodies that are called upon to provide service to participants of foreign economic activity, which shows their dual nature and creates an existence of conflict customs situations. However, such an environment can resolve contradictions in the form of a compromise, thereby forming an objective-subjective conflict-compromise paradigm.

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